

PREVIEW QUESTION BANK

Module Name : imb24-mg04 Banking and Financial Markets- A Risk Mangmnt Perspective-ENG
Exam Date : 18-May-2024 Batch : 09:00-12:00

Sr. No.	Client Question ID	Question Body and Alternatives	Marks	Negative Marks
Objective Question				
1	13631001	<p>'Credit risk' reflects the _____ in the quality of assets of a financial institution and consequent potential _____ to the financial institution.</p> <ol style="list-style-type: none"> 1. deterioration, gain 2. improvement, loss 3. deterioration, loss 4. gain, deterioration 		
		A1 : 1		
		A2 : 2		
		A3 : 3		
		A4 : 4		
Objective Question				
2	13631002	<p>As per KMV model, _____ the 'statistical distance', _____ is the probability of default.</p> <ol style="list-style-type: none"> 1. smaller, greater 2. larger, lower 3. smaller, lower 4. greater, smaller 		
		A1 : 1		
		A2 : 2		
		A3 : 3		
		A4 : 4		
Objective Question				
3	13631003	<p>Based on 'Pure Expectation Theory', when the overall expectation is that interest rates will fall going forward, the yield curve will _____.</p> <ol style="list-style-type: none"> 1. slope upward 2. remain flat 3. slope downward 4. Not change 		
		A1 : 1		

A2 : 2

A3 : 3

A4 : 4

Objective Question

4 13631004

If the domestic currency of a country appreciates, the firms in that country that source their components domestically will;

1. be indifferent
2. lose
3. benefit
4. freeze

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

5 13631005

If on any date, the spot exchange rate is equal to the strike price, then the option is

1. In the money
2. Out of the money
3. At the money
4. Money

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

6 13631006

'Protection Buyer' in a credit default swap wishes to _____ the risk associated with an asset (such as a loan) while 'Protection Seller' agrees to _____ that risk.

1. shed, reject
2. shed, take-on
3. take-on, shed
4. reject, shed

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

7 13631007

_____ the loss given default percentage on a loan, _____ will be the RAROC.

1. Higher, lower
2. Higher, higher
3. Lower, lower
4. Similar, greater

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

8 13631008

Eliminating liquidity risk requires the financial institution to hold assets that are highly _____, hence potential _____ in interest income.

1. priced, increase
2. liquid, increase
3. priced, reduction
4. liquid, reduction

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

9 13631009

All open positions in the futures exchange are governed by _____ mechanisms, to eliminate the risk of defaults (by participants) devolving on the _____.

1. monitoring, exchange
2. monitoring, participants
3. margining, exchange
4. margining, participants

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

10 13631010

A Swap transaction comprises two foreign exchange transaction with _____ settlement dates and _____ trade date.

1. same, .same
2. same, different
3. different, same
4. different, .different

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

11 13631011

If USD 1.00 costs INR 50.00, then in the Indian foreign exchange market the 'indirect quote' will be:

1. INR/USD 50.00
2. INR/USD 0.02
3. USD/INR 50.00
4. USD/INR 0.02

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

12 13631012

Long-term debt in the balance sheet are not translated at the current exchange rate under _____ method of translation.

1. Current/Non-Current
2. Monetary/Non-Monetary
3. Temporal
4. Current Rate

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

13 13631013

Securitization enables financial institutions to _____ their long term loans and the associated risks to entities whose _____ are long term in nature.

- 1. transfer, assets
- 2. transfer, liabilities
- 3. sell, assets
- 4. sell, liabilities

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

14 13631014

Basel III attempted to address the _____ arbitrage' enjoyed by the _____ banking system.

- 1. Speculative, shadow
- 2. Regulatory, shadow
- 3. Speculative, traditional
- 4. Regulatory, traditional

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

15 13631015

Advanced Measurement Approach to operational risk requires the Bank to define _____ loss events in every _____ of the bank.

- 1. potential, transaction
- 2. definite, business
- 3. potential, business
- 4. definite, transaction

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

16 13631016

'Basis Risk' refers to risk arising from cost of _____ and yield on _____ being linked to different _____ rates.

1. assets, liabilities, interest
2. liabilities, assets, benchmark
3. liabilities, assets, interest
4. assets, liabilities, benchmark

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

17 13631017

The 'Basic Indicator Approach' to measure operational risk is suitable for _____ banks with a _____ range of business activities.

1. small, wide
2. large, wide
3. small, simple
4. large, simple

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

18 13631018

As a result of Basel III guidelines, regulated Banks will find that their cost of capital will _____ and consequently lending rates will _____.

1. go-down.....go-down
2. go-up.....go-up
3. go-up.....go-down
4. go-down.....go-up

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

19 13631019

An independent Central Bank is insulated from _____ pressures hence more likely to work on _____ objectives such as price stability, stable exchange rate, etc.

- 1. economic, long-term
- 2. economic, short-term
- 3. political, long-term
- 4. political, short-term

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

20 13631020

Solvency risk relates to the risk of a financial institution not having adequate _____ to cope with sudden _____ in the value of its assets.

- 1. cash flows, decline
- 2. capital, increase
- 3. cash flow, increase
- 4. capital, decline

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

21 13631021

From a liquidity perspective, time deposits are less risky for the following reasons:

1. Time deposits have a specific maturity date
2. Closure prior to the maturity date is permitted for time deposits
3. In most cases, penalty will be imposed for premature closure of time deposits
4. Penalty waived on premature closure of time deposits

Select all that apply.

1. Only 1
2. Only 2
3. Both 2 and 3
4. Both 3 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

22 13631022

Early warning of likely default could be indicated by which of the following:

1. Delays in repayment of loan (principal or interest) by the borrower
2. Significant increase in credit turnover in the borrower's bank account
3. Significant decrease in debit turnover in the borrower's bank account
4. Actual financial performance vs financial projections

Select all that apply.

1. Both 1 and 3
2. 1, 3 and 4
3. 1, 2 and 4
4. 2, 3 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

23 13631023

_____ variability in the exchange rate between two currencies implies _____ foreign exchange risk.

- 1. high, low
- 2. high, high
- 3. low, high
- 4. low, low

Select all that apply.

- 1. Both 1 and 3
- 2. Both 2 and 4
- 3. Both 2 and 3
- 4. Both 3 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

24 I3631024

Investors in a securitization portfolio receive cash flows whenever:

- 1. Borrowers meet their periodic loan repayment obligations
- 2. Borrowers pre-pay/pre-close their loans
- 3. Servicing agent fulfills the periodic loan repayment obligations
- 4. Servicing agent (the Originator) make good the loss by invoking the available credit enhancement

Select all that apply.

- 1. Both 1 and 3
- 2. 1, 3 and 4
- 3. 1, 2 and 4
- 4. 2, 3 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

25 I3631025

In asset securitization, the Special Purpose Vehicle (SPV) performs which of the following functions:

1. Fund the receivables
2. Manage the securitization portfolio
3. Issue the asset backed securities to investors
4. Trade in the asset backed securities

Select all that apply.

1. Both 1 and 3
2. Both 2 and 4
3. Both 3 and 4
4. Both 2 and 3

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

26 13631026

Central banks have mandated that financial institutions that come out unfavourably in the stress test should do the following:

1. Pay higher dividends
2. Ensure higher plough-back
3. Rework their business plan
4. Increase the size of their assets portfolio

Select all that apply.

1. Both 2 and 3
2. Both 2 and 4
3. Both 3 and 4
4. Both 1 and 3

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

27 13631027

In an RMBS transaction, credit (default) risk is eliminated using which of the following:

1. Cash collaterals provided by the borrowers (home owners)
2. 'Subordinated' structure
3. Credit derivatives such as CDS
4. Options and Futures

Select all that apply.

1. Both 1 and 3
2. Both 2 and 4
3. Both 3 and 4
4. Both 2 and 3

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

28 13631028

Net Demand and Time Liabilities (NDTL) would be the sum of:

1. Positive Net Inter Bank Liabilities (NIBL)
2. Long Term liabilities
3. Current and Savings Account
4. Time Deposits
5. Negative Net Inter Bank Liabilities (NIBL)

Select all that apply.

1. Both 2 and 3
2. 1, 3 and 4
3. 1, 2 and 4
4. 2, 3 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

29 13631029

Which of the following would be classified as risk sensitive assets or as risk sensitive liabilities in the balance sheet of a financial institution?

1. Home mortgages
2. Investment in bonds
3. Cash
4. Commercial loans
5. Off-balance sheet asset

Select all that apply.

1. Both 2 and 3
2. 1, 3 and 4
3. 1, 2 and 4
4. 2, 3 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

30 13631030

Assets that can be securitized are evaluated for which of the following attributes:

1. Homogeneity of the assets in the portfolio
2. Average size of the receivables
3. Maximum size of the receivables
4. Quality of the underlying assets
5. Maturity composition of the assets

Select all that apply.

1. Both 1 and 3
2. 1, 2, 3 and 4
3. 1, 2, 4 and 5
4. 2, 3, 4 and 5

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

31 13631031

Banking Industry worldwide is highly regulated for which of the following reasons:

1. Banks are a channel to implement monetary policy
2. Banks own high level of fixed assets
3. Banks hold a major portion of public savings
4. Banks operate with low equity capital
5. Banks intermediate funds between savers and borrowers

Select all that apply.

1. Both 2 and 3
2. 2, 3 and 4
3. 1, 3 and 5
4. 1, 2 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

32 13631032

Pillar- 1 under Basel II covers which of the following risks:

1. Liquidity risk
2. Operational risk
3. Credit risk
4. Solvency risk
5. Market risk

Select all that apply.

1. Both 2 and 4
2. 2, 3 and 5
3. 1, 3 and 4
4. 1, 2 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

33 13631033

Operational risk in a financial institution could result from:

1. Breakdown in the institution's information technology platform
2. Exponential increase in non-performing loans
3. Terrorist attack on the institution's fixed assets
4. Increase in fixed assets
5. Inadequate internal processes

Select all that apply.

1. Both 2 and 5
2. 2, 3 and 4
3. 1, 3 and 5
4. 1, 2 and 4

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

34 13631034

In the context of Risk Weighted Assets, rank order the following in ascending order of risk-weight:

- A. Unsecured loans given by a bank
- B. Cash
- C. Mortgage loans
- D. Investment in government securities (Treasury Bonds)
- E. Investment in corporate bonds issued by AAA rated firms

1. B --> C --> D --> A --> E
2. B --> D --> C --> E --> A
3. D --> C --> E --> B --> A
4. E --> D --> B --> A --> C

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

35 13631035

To hedge against a loan of CCU 100 million that the firm wishes to take three months from now, its CFO is like to use the futures market. Place the following actions in the correct sequence in order to help him hedge the risk:

- (a) Borrow CCU 100 million in the spot market three months from now;
- (b) Sell CCU 100 million in the futures market now;
- (c) Buy CCU 100 million in the futures market three months from now.

- 1. a --> c --> b
- 2. c --> b --> a
- 3. b --> a --> c
- 4. a --> b --> c

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

36 13631036

Net Worth of a Bank is CCU 100 million. The Board of Directors of the Bank has decreed that loan losses attributable to any industry sector cannot exceed 20% of the Bank's Net Worth. If the expected loss percentage in a specific sector due to loan default is 50%, the maximum loan to that sector by the Bank can be _____.

- 1. CCU 20.00 million
- 2. CCU 30.00 million
- 3. CCU 40.00 million
- 4. CCU 10.00 million

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

37 13631037

Please go through the summarized balance sheet of a Bank given below and compute the Tier-II Capital that should be considered to estimate the Capital Adequacy Ratio of the Bank.

Assets	Risk Weight	
Investment in Treasury & Municipal Bonds	500	5%
Investment in Corporate Bonds	700	100%
Commercial Loans (Unsecured)	1000	100%
Mortgage Loans	900	60%
Fixed Assets	600	0%
Cash	100	0%
TOTAL ASSETS	3800	

Liabilities

Equity Capital	55
Retained Earnings	125
Provision for Bad Loans	150
Subordinated Debt	50
Customer Deposits	3420
TOTAL LIABILITIES	3800

Off-Balance Sheet Items

RW	CF		
Letter of Credit Issued	1000	100%	50%
Foreign Exchange Contracts	1000	100%	15%
Interest Rate Swaps	500	100%	10%

1. 200

2. 180

- 3. 150
- 4. Need more information

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

38 | 13631038

Data for the last two years interest rate for a 15 day (fortnight) deposit is:

- (a) Mean value of 6%
- (b) Standard deviation of 0.60%
- (c) 26 fortnights in a year

Estimate the likely interest rate range (maximum and minimum) for a 15 day deposit commencing the coming fortnight at 95% (two sigma) confidence level.

- 1. 6.432 - 6.292
- 2. 6.325 - 5.597
- 3. 6.235 - 5.765
- 4. 6.142 - 5.553

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

39 | 13631039

The average return on a Portfolio of loan is 22% and the standard deviation is 35%. There is another loan that gives a return of 28% with a standard deviation of 42%. If the correlation coefficient is 0.27 and equal weightage on the new portfolio, calculate the return and risk for the 'New Portfolio'.

- 1. Return=26 ; Risk=31.28
- 2. Return=26 ; Risk=29.77
- 3. Return=25 ; Risk=29.17
- 4. Return=25 ; Risk=30.75

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

40 13631040

Please go through the summarized balance sheet of a Bank given below and answer the questions that follow:

Assets		Risk Weight	Liabilities	
Investment in Treasury & Municipal Bonds	500	5%	Equity Capital	
Investment in Corporate Bonds	700	100%	Retained Earnings	
Commercial Loans (Unsecured)	1000	100%	Provision for Bad Loans	
Mortgage Loans	900	60%	Subordinated Debt	
Fixed Assets	600	0%	Customer Deposits	3
Cash	100	0%	TOTAL LIABILITIES	3
TOTAL ASSETS	3800			

Off-Balance Sheet Items		Risk Weights	Conversion Factor
Letter of Credit Issued	1000	100%	50%
Foreign Exchange Contracts	1000	100%	15%
Interest Rate Swaps	500	100%	10%

Compute the Capital Adequacy Ratio based on the above information.

1. 12.82%
2. 12.14%
3. 11.67%
4. 11.15%

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

41 13631041

A US firm has exported goods to a Utopian importer worth CCU 100,000 today for which the payment is due 90 days hence.

Based on the rates prevailing today:

- CCU/USD spot rate: 0.5750
- CCU/USD 90 day Forward Rate: 0.5720
- CCU 90-day interest rate 5.70% per annum
- USD 90-day interest rate: 3.60% per annum

How much USD cash flow can the US firm realize today using the money market hedge?

1. 57208
2. 56692
3. 57589
4. 56976

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

42 13631042

Based on the balance sheet data below for the Bank of Utopia, analyze the interest rate risk pertaining to assets and liabilities whose maturity is one year or less:

Liabilities		Assets	
1.0 Equity Capital	200	1.0 Consumer Loans	2175
Retained Earnings	500	< 1 yr	1050
		1 to 2 years	400
2.0 Inter-bank Borrowings	875	> 2yrs	725
(<u>< 1 year</u>)		2.0 Home Mortgages	770

The Treasurer wishes to evaluate the impact on the Bank's net interest income, should interest rate be reduced by 0.75%. Based on past data, the Treasurer believes that:

- At least 35% of the fixed rate, home mortgages will be 'pre-closed' when the interest rate falls by 0.75%
- 25% of the Current and Savings Account (transaction accounts) are also rate sensitive

Estimate the impact on the bank's net interest income, based on the above information.

1. Increase by 1706250
2. Increase by 2362500
3. Reduce by 236250
4. Reduce by 1706250

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

43 13631043

Forward contract are risky because they:

1. Are subject to lack of liquidity
2. Are subject to default risk
3. Hedge a portfolio
4. Both (1) and (2) are true

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

44 13631044

The advantage of forward contracts over futures contracts is that they:

- 1. Are standardized
- 2. Have lower default risk
- 3. Are more flexible
- 4. Both (1) and (2) are true

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

45 13631045

To say that forward market lacks liquidity means that

- 1. Forward contracts usually result in losses
- 2. Forward contracts cannot be turned into cash
- 3. It may be difficult to make the transaction
- 4. Forward contracts cannot be sold for cash

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

46 13631046

A person who agrees to buy an asset at a future date has gone.

- 1. Long
- 2. Short
- 3. Back
- 4. Ahead

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

47 13631047

Tier-1 capital consists of

1. shareholder's equity and retained earnings
2. shareholder's equity and liabilities
3. shareholder's equity and reserves
4. shareholder's equity and short term liabilities and retained earnings

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

48 13631048

An option allowing the holder to buy an asset in the future is a

1. put option
2. call option
3. swap
4. premium

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

49 13631049

The option price will ceterius paribus be negatively related to the volatility of the cash price of the underlying

1. The statement is true
2. The statement is false
3. The statement is partially true
4. The statement is partially false

A1 : 1

A2 : 2

A3 : 3

A4 : 4

Objective Question

50 13631050

_____ is a statistic that is used in risk management to predict the greatest possible losses over a specific time frame.

1. Capital Adequacy Ratio
2. Value at risk
3. Current Asset Ratio
4. Liquidity Ratio

A1 : 1

A2 : 2

A3 : 3

A4 : 4