Total No. of Questions: 6

Total No. of Printed Pages:2

## Enrollment No.....



## Faculty of Management End Sem (Odd) Examination Dec-2017 MS5EF04 Risk Management in Banks

Programme: MBA Branch/Specialisation: Management / Finance

**Maximum Marks: 60** 

**Duration: 3 Hrs.** 

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d.

- A bank suffers loss due to adverse market movement of a security. 1 Q.1 i. The security was however held beyond the defeasance period. What is the type of the risk that the bank has suffered? (a) Market Risk (b) Operational Risk (c) Market Liquidation Risk (d) Credit Risk Interest rate risk is a type of 1 (a) Credit risk (b) Market risk (c) Operational risk (d) All of these A transaction where financial securities are issued against the cash 1 flow generated from a pool of assets is called (b) Credit Default Swaps (a) Securitization (d) Total Return Swaps (c) Credit Linked Notes Banks need liquidity to: 1 (a) Meet deposit withdrawal (b) Fund loan demands (d) None of these (c) Both of them Suppose a bank is holding a portfolio of long maturity assets and has financed it with short maturity liability. Which of the risk is most obvious: (a) Default risk (b) Operational risk (d) None of these (c) Liquidity risk 1
  - Full form of SPOR

- (a) Sound Principles of Operational Risk
- (b) Systematic Practice of Operational Risk
- (c) Sound Practice of Operational Risk
- (d) None of these

P.T.O.

	vii.	VaR is	1	
		(a) Potential worst case loss at a specific confidence level over a certain period of time.		
		(b) Potential worst case loss over indefinite period of time.		
		(c) Potential for gain over a selected period.		
		(d) None of these		
	viii.	Interest rate risk is not faced by:	1	
		(a) Borrowers (b) Ordinary Shareholders		
		(c) Lenders (d) Debenture holders		
	ix.	Fall in interest rate cause the rate causes the bond prices also to		
		fall.		
	х.	(a) False (b) True (c) Difficult to say (d) None of them Under Basel II, Capital requirement under the accord is	1	
		(a) The maximum Capital that is required to be maintained		
		(b) The minimum Capital that is required to be maintained		
		(c) The capital as specified by the regulatory authority is required to be maintained		
		(d) None of the above		
Q.2	i.	What do you mean by risk?	2	
	ii.	What do you mean by risk control?	3	
	iii.	What is risk management? Whether risk management process is meant for presentation of future risk for reducing the risk already	5	
		happened? Explain		
OR	iv.	Explain the need for assets liability management (ALM) in a bank and discuss the pillars on which the ALM process rests.	5	
Q.3	i.	Explain Team credit derivatives.	2	
	ii.	What is capital adequacy ratio (CAR) for bank as prescribed by	8	
		reserve bank of India? Discuss the statutory requirement in		
		relation to the capital adequacy as required by banking regulation		
		act.		
OR	iii.	What is the role of "credit" risk management committee in a	8	
		bank? Identity the Departments that are working under the		
		supervision of this committee and discuss their functions.		

Q.4	i.	Explain Sound principles of operational risk management (SPOR) measurement.	3
	ii.	What is operational risk management? Why is it important for a bank?	7
OR	iii.	Discuss the forms of operational risk and also explain the causes for significant increase in operational risk.	7
Q.5	i.	Explain "value at risk" model.	4
	ii.	What is liquidity risk and how is it different from other risk? Explain two different measures of finding out the liquidity risk.	6
OR	iii.	What is "market risk"? Discuss the components of market risk & Explain the models used to festinate market risk.	
Q.6		Attempt any two:	
	i.	Explain methods of managing risk.	5
	ii.	What is risk Exposure analysis?	5
	iii.	Explain capital adequacy norms, prudential norms exposure norms.	5

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## MS5EF04 Risk Management in Banks

## **Marking Scheme**

Q.1	i.	A bank suffers loss due to adverse market movement of a security. The security was however held beyond the defeasance period. What is the type of the risk that the bank has suffered?  (b) Operational Risk	1
	ii.	Interest rate risk is a type of (b) Market risk	1
	iii.	A transaction where financial securities are issued against the cash flow generated from a pool of assets is called	1
	iv.	<ul><li>(a) Securitization</li><li>Banks need liquidity to:</li><li>(c) Both of them</li></ul>	1
	V.	Suppose a bank is holding a portfolio of long maturity assets and has financed it with short maturity liability. Which of the risk is most obvious:  (c) Liquidity risk	1
	vi.	Full form of SPOR	1
	vii.	<ul><li>(a) Sound Principles of Operational Risk</li><li>VaR is</li><li>(a) Potential worst case loss at a specific confidence level over a</li></ul>	1
		certain period of time.	
	viii.	Interest rate risk is not faced by:	1
		(d) Debenture holders	
	ix.	Fall in interest rate cause the rate causes the bond prices also to fall.  (a) False	1
	х.	Under Basel II, Capital requirement under the accord is  (c) The capital as specified by the regulatory authority is required to be maintained	1
Q.2	i.	Explanation of risk	2
	ii.	Meaning of risk control	3
	iii.	Risk management – 2 marks	5
		Use of risk management process for current as well as future point wise explanation – 3 marks	
OR	iv.	Need for assets liability management (ALM) $-2.5$ marks Pillars on which the ALM process $-2.5$ marks	5

Q.3	i.	Credit derivatives	2
	ii.	Meaning of capital adequacy ratio (CAR) as per RBI – 4 marks Statutory requirement – 4 points (1 mark * $4 = 4$ marks)	8
OR	iii.	Role of "credit" risk management committee – 2 marks	8
		Departments + function working under this committee point-wise $-6$ points (1 mark * $6 = 6$ marks)	
Q.4	i.	Sound principles - 3 points 1 mark each (1 mark * 3 = 3 marks)	3
	ii.	Meaning of operational risk management – 2 marks	7
		Importance – 5 marks	
OR	iii.	Forms of operational risk – 3 marks	7
		Causes for increase – 4 marks	
Q.5	i.	Meaning "value at risk" model.	4
	ii.	Meaning of liquidity risk – 2 marks	6
		Points of difference – 2 marks	
		Measures of finding out the liquidity risk − 2 marks	
OR	iii.	Meaning of "market risk" – 2 marks	6
		Components & models of market risk - 4 marks	
Q.6		Attempt any two:	
-	i.	Methods of managing risk	5
	ii.	Risk Exposure analysis	5
	iii.	Capital adequacy norms, prudential norms exposure norms.	5

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