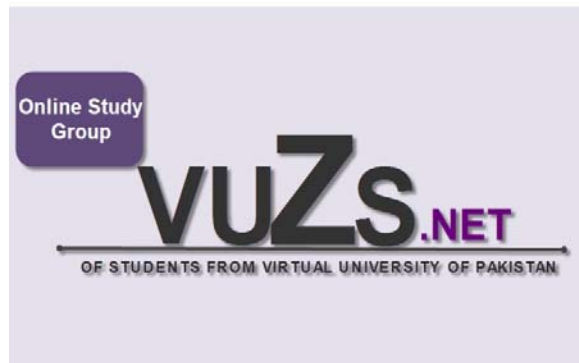


vuzs_banking@googlegroups.com

Credit Analysis & Risk Management
FIN625
Lesson 01-45
Solved by vuZs Team
Mehreen Humayun
www.vuzs.net
vuzs_banking@googlegroups.com



Which of the following components is NOT associated to financial risks?

Profitability
Capital expenditure
Liquidity
People management

Which of the following policies reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes?

Constituent policies
Regulatory policies
Remuneration policies
Distributive policies

LECTURE – 06

Remuneration policies that reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes.

Which of the following is legally empowered to collect credit information?

Government of Pakistan
Institute of Bankers Pakistan
Credit Information Bureau
Central Board of Revenue, Pakistan

LECTURE – 04

The CIB is legally empowered to collect credit information. The member financial institutions are bound to share their credit information with the CIB.

Claims on individuals belong to which of the following portfolios?

Investment

Mehreen Humayun
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Retail

Project

Market

LECTURE – 14

Claims on individuals belong to the retail portfolio.

The organizational structure of risk analysis is usually based on a five-level organizational model. Which of the following is NOT a level in this model?

Division manager

Associates

Group leader

Specialists

Ref:

The organizational structure of risk analysis is usually based on a five-level organizational model

Level 1 executive (chief risk officer)

Level 2 division manager

Level 3 head of department (HD)

Level 4 group leader (GL)

Level 5 specialists Risk.

Which of the following requires the assessment of the borrower's credit standing?

Credit approval process

Management

Basel II

Government

LECTURE – 15

Basel II requires the assessment of the borrower's credit standing.

Which of the following is the credit rating of a self-governing entity, i.e. a country?

Consumer credit rating

Sovereign credit rating

Corporate credit rating

Personal credit rating

LECTURE – 04

A sovereign credit rating is the credit rating of a sovereign entity, i.e. a country.

Which of the following can result from an incorrect performance of the credit approval process?

Substantive errors

Procedural errors

Cognitive errors

Non-cognitive errors

LECTURE – 12

Procedural errors can result from an incorrect performance of the credit approval process.

Which of the following risks encompasses the entire spectrum of risks arising from the economic, political and social environments of a foreign country that may have potential consequences for foreigners' debt and equity investments in that country?

Credit or default risk

Transfer risk

Systematic risk

Country or sovereign risk

LECTURE – 07

Country or sovereign risk encompasses the entire spectrum of risks arising from the economic, political and social environments of a foreign country that may have potential consequences for foreigners' debt and equity investments in that country.

How many approaches do Basel II provide to determine the capital requirement?

Five

Four

Three

Two

LECTURE – 14

Basel II provides two approaches to determine the capital requirement:

1. A standardized approach and
2. An internal ratings-based approach (IRB approach).

All of the following are the major causes of serious banking problems, EXCEPT:

Lax credit standards for borrowers

Lax credit standards for counterparties

Poor portfolio risk management

Having attention to varying economic circumstances

LECTURE – 05

The major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of a bank's counterparties.

The level of risk is determined by the particular arrangements for settlement. All of the following are the factors included in such arrangements that have a bearing on credit risk EXCEPT:

The timing of the exchange of value

The payment/settlement finality
The role of intermediaries and clearing houses

Spontaneous foreign investment

LECTURE – 05

The level of risk is determined by the particular arrangements for settlement. Factors in such arrangements that have a bearing on credit risk include: the timing of the exchange of value; payment/settlement finality; and the role of intermediaries and clearing houses.

Which of the following statements is TRUE for risk?

It is a venture undertaken without regard to possible loss or injury

It is the state of being certain that adverse effects will not be caused
It is conformance to the degree of excellence of a product or service
It is the perfect knowledge that has complete security from errors

Ref:

Risk, peril, danger: a venture undertaken without regard to possible loss or injury.

The level of exposure has an immediate impact on which of the following?

Loss given default
Probability of default
Exposure at default
Maturity

LECTURE – 14

The level of exposure has an immediate impact on the exposure at default (EAD).

Which of the following is the first step in the risk management process?

Select the appropriate techniques for handling losses

Identify potential losses

Implement and administer the program
Evaluate potential losses

Risk Management Process

- Identify potential losses
- Evaluate potential losses
- Select the appropriate risk management technique
- Implement and monitor the risk management program.

Banks have new possibilities to manage credit concentrations and other portfolio issues including all of the following mechanisms EXCEPT:

Loan sales
Credit derivatives
Securitization programs
Primary loan markets

LECTURE – 10

Banks have new possibilities to manage credit concentrations and other portfolio issues. These include such mechanisms as loan sales, credit derivatives, securitization programs and other secondary loan markets.

As part of their ongoing activities, whose responsibility is to assess the system in place at individual bank to identify, measure, monitor and control credit risk?

Top level managers
Low level managers
Middle level managers

Supervisors

LECTURE – 11

Supervisors should require that banks have an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management.

Which of the following is TRUE for potential future exposures?

These should be calculated over multiple space horizons
These should be calculated over single time horizon
These should be calculated over single space horizon

These should be calculated over multiple time horizons

LECTURE – 08

Potential future exposures should therefore be calculated over multiple time horizons.

Which of the following components is NOT associated to financial risks?

Profitability
Capital expenditure
Liquidity

People management

The level of exposure has an immediate impact on which of the following?

Loss given default
Probability of default

Exposure at default

Maturity

LECTURE – 14

The level of exposure has an immediate impact on the exposure at default (EAD).

Which of the following is a statistical method of assessing the credit risk of a loan applicant?

Identity score

Ipsative score
Standard score

Credit score

Ref:

Credit scoring, also known as FICO scoring, is a statistical method of assessing the credit risk of a loan applicant.

Which of the following holds your credit history, such as your first bank account, any credit cards you have, or any applications for finance you may have made?

The Treasury Bureau
Bureau of Administration
Credit Reference Agency
Bureau of Diplomatic Security

LECTURE – 02

A credit bureau (U.S.) or credit reference agency (UK) is a company that provides consumer credit information on individual borrowers.

Loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes, are examples of which of the following?

Simple credit-granting activities
Complex credit-granting activities
Unchallenging credit-granting activities
Standard credit-granting activities

LECTURE – 07

Banks must develop a clear understanding of the credit risks involved in more complex credit-granting activities (for example, loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes).

How many approaches do Basel II provide to determine the capital requirement?

Five
Four
Three

Two

LECTURE – 14

Basel II provides two approaches to determine the capital requirement:

1. A standardized approach and
2. An internal ratings-based approach (IRB approach).

Who, among the following, should also consider the relationships between credit risk and other risks?

Agents
Banks

Partners

Government

LECTURE – 05

Banks should also consider the relationships between credit risk and other risks.

Which of the following exposures include foreign exchange and financial derivative contracts?

Liquidity sensitive

Profitability sensitive

Market sensitive

Debt sensitive

LECTURE – 12

Market-sensitive exposures include foreign exchange and financial derivative contracts.

Which of the following is the one way for a bank to deal with credit risk?

Charge all borrowers from the same industry an average rate or interest for that industry

Avoid making loans to borrowers from a broad spectrum and to specialize geographically and in specific industries

Add a mark-up to the cost of funds for a specific borrower based on the borrower's credit history

All loans within the conforming loan limit at the time of origination will continue to be deemed

Ref:

All loans that were within the conforming loan limit at the time of origination will continue to be deemed within the conforming loan limit during the remaining lives of such loans, regardless of whether the loan limit for any subsequent year declines to a level below the limit at the time of origination.

Which of the following risks encompasses the entire spectrum of risks arising from the economic, political and social environments of a foreign country that may have potential consequences for foreigners' debt and equity investments in that country?

Credit or default risk

Transfer risk

Systematic risk

Country or sovereign risk

LECTURE – 07

Country or sovereign risk encompasses the entire spectrum of risks arising from the economic, political and social environments of a foreign country that may have potential consequences for foreigners' debt and equity investments in that country.

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Which of the following statements is TRUE for exposure limits?

It is a statistical method of assessing the credit risk of a loan applicant

It is an individual's payment history that is supplied by a Credit Bureau

It ensures that the bank's credit-granting activities are adequately diversified

It is the risk that counter-party may not meet one's obligation in a contract

LECTURE – 08

Limits should also be established for particular industries or economic sectors, geographic regions and specific products. Such limits are needed in all areas of the bank's activities that involve credit risk. These limits will help to ensure that the bank's credit-granting activities are adequately diversified.

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Which of the following is an important way to reduce credit risks, especially in Inter-bank transaction?

Netting agreements

Workplace agreements

Interagency agreements

Option agreements

LECTURE – 07

Netting agreements are an important way to reduce credit risks, especially in Inter-bank transactions.

The level of exposure has an immediate impact on which of the following?

Loss given default

Probability of default

Exposure at default

Maturity

LECTURE – 14

The level of exposure has an immediate impact on the exposure at default (EAD).

Which of the following should ensure that granting of credit exceeding certain predetermined levels receive prompt management attention?

Multi-user systems

Limit systems

Drain back systems

Embedded systems

LECTURE – 11

Limit systems should ensure that granting of credit exceeding certain predetermined levels receive prompt management attention.

Which of the following strategies should reflect the bank's tolerance for risk and level of profitability, the bank expects to achieve for incurring various credit risks?

The intensive strategy

The integration strategy

The credit risk strategy

The diversification strategy

LECTURE – 05

The board of directors should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Which of the following statements is TRUE for exposure limits?

It is a statistical method of assessing the credit risk of a loan applicant

It is an individual's payment history that is supplied by a Credit Bureau

It ensures that the bank's credit-granting activities are adequately diversified

It is the risk that counter-party may not meet one's obligation in a contract

LECTURE – 08

Limits should also be established for particular industries or economic sectors, geographic regions and specific products. Such limits are needed in all areas of the bank's activities that involve credit risk. These limits will help to ensure that the bank's credit-granting activities are adequately diversified.

The introduction of mostly automated credit decisions particularly entails a considerable change in the user interface in which of the following applications?

Operations

Sales

Productions

Quality

LECTURE – 15

Changes in processes, in particular the introduction of mostly automated credit decisions, entail a considerable change in the user interface in sales applications.

The ways through which banks avoid association with individuals involved in fraudulent activities and other crimes include all of the following, EXCEPT:

They ask for references from known parties

They access credit registries

They keep the individuals responsible for managing a company at distance

They check their personal references and financial condition

LECTURE – 07

In particular, strict policies must be in place to avoid association with individuals involved in fraudulent activities and other crimes. This can be achieved through a number of ways, including asking for references from known parties, accessing credit

registries, and becoming familiar with individuals responsible for managing a company and checking their personal references and financial condition.

Which of the following is the one way for a bank to deal with credit risk?

Charge all borrowers from the same industry an average rate or interest for that industry

Avoid making loans to borrowers from a broad spectrum and to specialize geographically and in specific industries

Add a mark-up to the cost of funds for a specific borrower based on the borrower's credit history

All loans within the conforming loan limit at the time of origination will continue to be deemed

Ref:

All loans that were within the conforming loan limit at the time of origination will continue to be deemed within the conforming loan limit during the remaining lives of such loans, regardless of whether the loan limit for any subsequent year declines to a level below the limit at the time of origination.

Which of the following is affected by the collateralized portion as well as the cost of selling the collateral?

Loss given default

Probability of default

Exposure at default

Maturity

LECTURE – 13

The loss given default is affected by the collateralized portion as well as the cost of selling the collateral.

Which of the following statements is TRUE for credit administration?

It is a statistical method of assessing the credit risk of a loan applicant

It is a critical element in maintaining the safety and soundness of a bank

It ensure that the bank's credit-granting activities are adequately diversified

It is the risk that counter-party may not meet one's obligation in a contract

LECTURE – 09

Credit administration is a critical element in maintaining the safety and soundness of a bank.

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How many approaches do Basel II provide to determine the capital requirement?

Five

Four

Three

Two

LECTURE – 14

Basel II provides two approaches to determine the capital requirement:

1. A standardized approach and
2. An internal ratings-based approach (IRB approach).

Which of the following exposures include margin and collateral agreements with periodic margin calls, liquidity back-up lines, commitments and some letters of credit, and some unwind provisions of securitizations?

Liquidity sensitive

Profitability sensitive

Market sensitive

Debt sensitive

LECTURE – 12

Liquidity-sensitive exposures include margin and collateral agreements with periodic margin calls, liquidity back-up lines, commitments and some letters of credit, and some unwind provisions of securitizations.

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Which of the following terms is also called credit history or credit score?

Credit reputation

Credit risk

Credit repair

Credit union

LECTURE – 03

The term "credit reputation" can either be used synonymous to credit history or to credit score.

How many factors should be taken into account in the segmentation of credit approval processes?

Three

Four

Five

Six

LECTURE – 13

Thus, four factors should be taken into account in the segmentation of credit approval processes:

1. Type of borrower
2. Source of cash flows
3. Value and type of collateral
4. Amount and type of claim

Which of the following risks encompasses the entire spectrum of risks arising from the economic, political and social environments of a foreign country that may have potential consequences for foreigners' debt and equity investments in that country?

- Credit or default risk
- Transfer risk
- Systematic risk

Country or sovereign risk

LECTURE – 07

Country or sovereign risk encompasses the entire spectrum of risks arising from the economic, political and social environments of a foreign country that may have potential consequences for foreigners' debt and equity investments in that country.

Which of the following policies reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes?

- Constituent policies
- Regulatory policies

Remuneration policies

- Distributive policies

LECTURE – 06

Remuneration policies that reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes.

Which of the following is TRUE regarding the Credit Information Bureau (CIB)?

It is a department of Federal Reserve of USA

It is a private rating agency of Columbia

It is a public sector credit bureau of Pakistan

It is a private enterprise in Africa

LECTURE – 04

The Credit Information Bureau (CIB) is a public sector credit bureau of Pakistan.

Which of the following strategies should reflect the bank's tolerance for risk and level of profitability, the bank expects to achieve for incurring various credit risks?

- The intensive strategy
- The integration strategy

The credit risk strategy

- The diversification strategy

LECTURE – 05

The board of directors should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The

strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Which of the following statements is TRUE for exposure limits?

It is a statistical method of assessing the credit risk of a loan applicant

It is an individual's payment history that is supplied by a Credit Bureau

It ensures that the bank's credit-granting activities are adequately diversified

It is the risk that counter-party may not meet one's obligation in a contract

LECTURE – 08

Limits should also be established for particular industries or economic sectors, geographic regions and specific products. Such limits are needed in all areas of the bank's activities that involve credit risk. These limits will help to ensure that the bank's credit-granting activities are adequately diversified.

Which of the following organizations often determines the process design in the risk analysis units?

Operational organization

Sales organization

Production organization

Learning organization

LECTURE – 13

The sales organization often determines the process design in the risk analysis units.

All of the following are synonyms for adverse credit history, EXCEPT:

Poor credit history

Non-status credit history

Impaired credit history

First-rate credit history

LECTURE – 03

Adverse credit history also called sub-prime credit history, non-status credit history, impaired credit history, poor credit history, and bad credit history, is a negative credit rating.

Which of the following is an important way to reduce credit risks, especially in Inter-bank transaction?

Netting agreements

Workplace agreements

Interagency agreements

Option agreements

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LECTURE – 07

Netting agreements are an important way to reduce credit risks, especially in Inter-bank transactions.

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Which of the following exposures include margin and collateral agreements with periodic margin calls, liquidity back-up lines, commitments and some letters of credit, and some unwind provisions of securitizations?

Liquidity sensitive

Profitability sensitive

Market sensitive

Debt sensitive

LECTURE – 12

Liquidity-sensitive exposures include margin and collateral agreements with periodic margin calls, liquidity back-up lines, commitments and some letters of credit, and some unwind provisions of securitizations.

Which of the following is the process of assessing risks and taking steps to either eliminate or to reduce them (as far as is reasonably practicable) by introducing control measures?

Strategic management

Operations management

Risk management

Credit management

Risk management is the process of assessing risks and taking steps to either eliminate or to reduce them by introducing control measures. Its purpose is to generate ideas and promote good practice for those involved in the business of risk management.

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Which of the following risks focuses more specifically on a borrower's capacity to obtain the foreign exchange necessary to service its cross-border debt and other contractual obligations?

Credit or default risk

Transfer risk

Country or sovereign risk

Systematic risk

LECTURE – 07

Transfer risk focuses more specifically on a borrower's capacity to obtain the foreign exchange necessary to service its cross-border debt and other contractual obligations.

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Which of the following exposures include foreign exchange and financial derivative contracts?

Liquidity sensitive
Profitability sensitive

Market sensitive

Debt sensitive

LECTURE – 12

Market-sensitive exposures include foreign exchange and financial derivative contracts.

To maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters is the goal of which of the following?

Operational risk management

Credit risk management

Commodity risk management

Quantitative risk management

LECTURE – 05

The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Which of the following audits should also be used to identify areas of weakness in the credit administration process, policies and procedures as well as any exceptions to policies, procedures and limits?

External audits of the credit risk

Internal audits of the credit risk

Financial audits of the credit risk

Performance audits of the credit risk

LECTURE – 11

Internal audits of the credit risk processes should be conducted on a periodic basis to determine that credit activities are in compliance with the bank's credit policies and procedures, that credits are authorized within the guidelines established by the bank's board of directors and that the existence, quality and value of individual credits are accurately being reported to senior management.

Who, among the following, should take particular note of whether bank management recognizes problem credits at an early stage and takes the appropriate actions?

Top level managers

Low level managers

Middle level managers

Supervisors

LECTURE – 11

Supervisors should take particular note of whether bank management recognises problem credits at an early stage and takes the appropriate actions.

Which of the following statements is TRUE for credit administration?

It is a statistical method of assessing the credit risk of a loan applicant

It is a critical element in maintaining the safety and soundness of a bank

It ensure that the bank's credit-granting activities are adequately diversified

It is the risk that counter-party may not meet one's obligation in a contract

LECTURE – 09

Credit administration is a critical element in maintaining the safety and soundness of a bank.

Which of the following instruments are viewed as relatively sophisticated instruments, requiring some effort by both the bank and the customer to ensure that the contract is well understood by the customer?

Derivative function

Financial derivative

Linear derivative

Non-linear derivative

LECTURE – 12

Most market-sensitive instruments, such as financial derivatives, are viewed as relatively sophisticated instruments, requiring some effort by both the bank and the customer to ensure that the contract is well understood by the customer.

Which of the following can result from an incorrect performance of the credit approval process?

Substantive errors

Procedural errors

Cognitive errors

Non-cognitive errors

LECTURE – 12

Procedural errors can result from an incorrect performance of the credit approval process.

How many process components are there in the credit review?

One

Two

Three

Four

LECTURE – 17

The credit review basically consists of two process components:

1. Standardized models of data evaluation
2. Documentation and evaluation of other credit assessment factors

Which of the following is an important way to reduce credit risks, especially in Inter-bank transaction?

Netting agreements

Workplace agreements

Interagency agreements

Option agreements

LECTURE – 07

Netting agreements are an important way to reduce credit risks, especially in Inter-bank transactions.

In addition to individual borrower data, many cases will require general information on the economic situation of a region or an industry to allow a comprehensive assessment of credit application; here, the bank can make use of which of the following?

Higher sources

Internal sources

External sources

Lower sources

LECTURE – 16

In addition to individual borrower data, many cases will require general information on the economic situation of a region or an industry to allow a comprehensive assessment of credit application; here, the bank can make use of external sources.

Which of the following exposures pose special challenges to the credit processes at banks?

Digital and light sensitive

Market and liquidity sensitive

Activity and profitability sensitive

Debt and activity sensitive

LECTURE – 12

Market and liquidity-sensitive exposures pose special challenges to the credit processes at banks.

Who, among the following, should take particular note of whether bank management recognizes problem credits at an early stage and takes the appropriate actions?

Top level managers

Low level managers

Middle level managers

Supervisors

LECTURE – 11

Supervisors should take particular note of whether bank management recognizes problem credits at an early stage and takes the appropriate actions.

Who, among the following, needs to recognize that the strategy and policies must cover many activities of the bank in which credit exposure is a significant risk?

The credit manager

The board of directors

The financial manager

The operational manager

LECTURE – 06

The board needs to recognize that the strategy and policies must cover the many activities of the bank in which credit exposure is a significant risk.

Which of the following is TRUE regarding the Credit Information Bureau (CIB)?

It is a department of Federal Reserve of USA

It is a private rating agency of Columbia

It is a public sector credit bureau of Pakistan

It is a private enterprise in Africa

LECTURE – 04

The Credit Information Bureau (CIB) is a public sector credit bureau of Pakistan.

Which of the following is the process of assessing risks and taking steps to either eliminate or to reduce them (as far as is reasonably practicable) by introducing control measures?

Strategic management

Operations management

Risk management

Credit management

Risk management is the process of assessing risks and taking steps to either eliminate or to reduce them by introducing control measures. Its purpose is to generate ideas and promote good practice for those involved in the business of risk management.

Which of the following can be achieved by standardization and automation?

Risk maximization

Process maximization

Risk minimization

Process minimization

LECTURE – 14

This aspect and the risk minimization that can be achieved by standardization and automation are the rationale behind the separation of low-volume and high-volume

lending business that can often be found in the way in which credit approval processes are designed.

Which of the following is a private record keeping business that maintains information about consumers and how they use credit to pay their bills?

The Treasury Bureau
Bureau of Administration
The Credit Bureau
Bureau of Diplomatic Security

LECTURE – 02

A credit bureau (U.S.) or credit reference agency (UK) is a company that provides consumer credit information on individual borrowers. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate applied to loans.

Which of the following assesses the credit worthiness of an individual, corporation, or even a country?

Credit rating

Credit reputation
Credit history
Credit inquiry

LECTURE – 04

A credit rating assesses the credit worthiness of an individual, corporation, or even a country.

How many factors should be taken into account in the segmentation of credit approval processes?

Three
Four
Five
Six

LECTURE – 13

Thus, four factors should be taken into account in the segmentation of credit approval processes:

1. Type of borrower
2. Source of cash flows
3. Value and type of collateral
4. Amount and type of claim

The organizational structure of risk analysis is usually based on a five-level organizational model. Which of the following is NOT a level in this model?

Division manager

Associates

Group leader
Specialists

Ref:

The organizational structure of risk analysis is usually based on a five-level organizational model

Level 1 executive (chief risk officer)

Level 2 division manager

Level 3 head of department (HD)

Level 4 group leader (GL)

Level 5 specialists Risk.

The Credit Information Bureau (CIB) is a part of Banking Surveillance Department of which of the following?

State Bank of Pakistan

Government of Pakistan
Institute of Bankers Pakistan
Central Board of Revenue, Pakistan

LECTURE – 04

The Credit Information Bureau (CIB) is a public sector credit bureau of Pakistan. It was established in 1992 by the State Bank of Pakistan (SBP) under Section 25(A) of Banking Companies Ordinance-1962.

Who, among the following, needs to recognize that the strategy and policies must cover many activities of the bank in which credit exposure is a significant risk?

The credit manager

The board of directors

The financial manager

The operational manager

LECTURE – 06

The board needs to recognize that the strategy and policies must cover the many activities of the bank in which credit exposure is a significant risk.

Which of the following policies reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes?

Constituent policies

Regulatory policies

Remuneration policies

Distributive policies

LECTURE – 06

Remuneration policies that reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes.

An important element of credit risk management is the establishment of exposure limits. The banks establish these limits on which of the following?

Groups of connected counterparties

Multiple companies which are member of a group
Multinational industries of the government
Unrelated groups of borrowers

LECTURE – 11

Supervisors should consider setting prudential limits (e.g., large exposure limits) that would apply to all banks, irrespective of the quality of their credit risk management process. Such limits would include restricting bank exposures to single borrowers or groups of connected counterparties.

Which of the following should include all of the information necessary to ascertain the current financial condition of the borrower as well as sufficient information to track the decisions made and the history of the credit?

Credit score
Credit identity

Credit file

Credit administration

LECTURE – 09

The credit files should include all of the information necessary to ascertain the current financial condition of the borrower or counterparty as well as sufficient information to track the decisions made and the history of the credit.

Which of the following is TRUE for potential future exposures?

These should be calculated over multiple space horizons
These should be calculated over single time horizon
These should be calculated over single space horizon

These should be calculated over multiple time horizons

LECTURE – 08

Potential future exposures should therefore be calculated over multiple time horizons.

The credit rating of individual exposures has an immediate impact on which of the following?

Product requirement
Capital requirement
Customer requirement
Process requirement

LECTURE – 19

The credit rating of individual exposures has an immediate impact on the capital requirement.

Which of the following is the first step in the risk management process?

Select the appropriate techniques for handling losses

Identify potential losses

Implement and administer the program

Evaluate potential losses

Risk Management Process

- Identify potential losses
- Evaluate potential losses
- Select the appropriate risk management technique
- Implement and monitor the risk management program.

Which of the following is legally empowered to collect credit information?

Government of Pakistan

Institute of Bankers Pakistan

Credit Information Bureau

Central Board of Revenue, Pakistan

LECTURE – 04

The CIB is legally empowered to collect credit information. The member financial institutions are bound to share their credit information with the CIB.

Which of the following organizations often determines the process design in the risk analysis units?

Operational organization

Sales organization

Production organization

Learning organization

LECTURE – 13

The sales organization often determines the process design in the risk analysis units.

All of the following are the examples of personal collateral, EXCEPT:

Surety ship

Guarantee and letter of support

Collateral promise

Non-mutual collateral

LECTURE – 18

Examples of personal collateral are the following:

- a. surety ship
- b. guarantee and letter of support
- c. collateral promise

The level of exposure has an immediate impact on which of the following?

Loss given default

Probability of default

Exposure at default

Maturity

LECTURE – 14

The level of exposure has an immediate impact on the exposure at default (EAD).

Which of the following institutions supplies information to each creditor but does not give or deny credit?

The Treasury Bureau

The Credit Bureau

Bureau of Administration

Bureau of Diplomatic Security

Loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes, are examples of which of the following?

Simple credit-granting activities

Complex credit-granting activities

Unchallenging credit-granting activities

Standard credit-granting activities

LECTURE – 07

Banks must develop a clear understanding of the credit risks involved in more complex credit-granting activities (for example, loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes).

Which of the following should carry out an initial substantive check based on selected few relevant criteria?

Operations

Sales

Productions

Quality

LECTURE – 16

Sales should carry out an initial substantive check based on a select few relevant criteria.

Which of the following requires specific technical know how?

Interval rating

Influential rating

Financial rating

Qualitative rating

LECTURE – 17

In contrast to financial rating, which requires specific technical know-how, qualitative rating requires comprehensive knowledge of the borrower to be successful.

All of the following are the examples of personal collateral, EXCEPT:

Surety ship
Guarantee and letter of support
Collateral promise

Non-mutual collateral

LECTURE – 18

Examples of personal collateral are the following:

- a. surety ship
- b. guarantee and letter of support
- c. collateral promise

The adequacy of scope of information should be reviewed on a periodic basis by all of the following, EXCEPT:

Business line managers
Senior management
Surplus line managers
Board of directors

LECTURE – 10

The adequacy of scope of information should be reviewed on a periodic basis by business line managers, senior management and the board of directors to ensure that it is sufficient to the complexity of the business.

How many approaches do Basel II provide to determine the capital requirement?

Five
Four
Three
Two

LECTURE – 14

Basel II provides two approaches to determine the capital requirement:

1. A standardized approach and
2. An internal ratings-based approach (IRB approach).

The organizational structure of risk analysis is usually based on a five-level organizational model. Which of the following is NOT a level in this model?

Division manager
Associates
Group leader
Specialists

Ref:

The organizational structure of risk analysis is usually based on a five-level organizational model

Level 1 executive (chief risk officer)

Level 2 division manager

Level 3 head of department (HD)

Level 4 group leader (GL)

Level 5 specialists Risk.

Which of the following instruments are viewed as relatively sophisticated instruments, requiring some effort by both the bank and the customer to ensure that the contract is well understood by the customer?

Derivative function

Financial derivative

Linear derivative

Non-linear derivative

LECTURE – 12

Most market-sensitive instruments, such as financial derivatives, are viewed as relatively sophisticated instruments, requiring some effort by both the bank and the customer to ensure that the contract is well understood by the customer.

The level of risk is determined by the particular arrangements for settlement. All of the following are the factors included in such arrangements that have a bearing on credit risk EXCEPT:

The timing of the exchange of value

The payment/settlement finality

The role of intermediaries and clearing houses

Spontaneous foreign investment

LECTURE – 05

The level of risk is determined by the particular arrangements for settlement. Factors in such arrangements that have a bearing on credit risk include: the timing of the exchange of value; payment/settlement finality; and the role of intermediaries and clearing houses.

Which of the following risks focuses more specifically on a borrower's capacity to obtain the foreign exchange necessary to service its cross-border debt and other contractual obligations?

Credit or default risk

Transfer risk

Country or sovereign risk

Systematic risk

LECTURE – 07

Transfer risk focuses more specifically on a borrower's capacity to obtain the foreign exchange necessary to service its cross-border debt and other contractual obligations.

Which of the following should ensure that granting of credit exceeding certain predetermined levels receive prompt management attention?

Multi-user systems

Limit systems

Drain back systems

Embedded systems

LECTURE – 11

Limit systems should ensure that granting of credit exceeding certain predetermined levels receive prompt management attention.

Loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes, are examples of which of the following?

Simple credit-granting activities

Complex credit-granting activities

Unchallenging credit-granting activities

Standard credit-granting activities

LECTURE – 07

Banks must develop a clear understanding of the credit risks involved in more complex credit-granting activities (for example, loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes).

Which of the following should involve in identification of possible events in economic conditions that could have un-favorable effects on a bank's credit exposures and assessing the bank's ability to withstand such changes?

Software testing

Stress testing

System testing

Integration testing

LECTURE – 10

Stress testing should involve identifying possible events or future changes in economic conditions that could have un-favourable effects on a bank's credit exposures and assessing the bank's ability to withstand such changes.

The introduction of mostly automated credit decisions particularly entails a considerable change in the user interface in which of the following applications?

Operations

Sales

Productions

Quality

LECTURE – 15

Changes in processes, in particular the introduction of mostly automated credit decisions, entail a considerable change in the user interface in sales applications.

Which of the following can result from an incorrect performance of the credit approval process?

- Substantive errors
- Procedural errors**
- Cognitive errors
- Non-cognitive errors

LECTURE – 12

Procedural errors can result from an incorrect performance of the credit approval process.

All of the following are the activities covered in a credit history or credit report, EXCEPT:

- Consumer's payment patterns
- Consumer's lending patterns
- Consumer's credit balances
- Consumer's credit inquiries by debtors**

The activities covered in a credit history or credit report include, but are not limited to, a consumer's payment patterns, borrowing patterns, and credit balances, as well as credit inquiries by potential creditors.

All of the following are the major causes of serious banking problems, EXCEPT:

- Lax credit standards for borrowers
- Lax credit standards for counterparties
- Poor portfolio risk management
- Having attention to varying economic circumstances**

LECTURE – 05

The major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of a bank's counterparties.

Credit approval processes are started on behalf of which of the following?

- Credit applicant**
- Production applicant
- Price applicant
- Project applicant

LECTURE – 14

Credit approval processes are started on behalf of a credit applicant.

Which of the following risks focuses more specifically on a borrower's capacity to obtain the foreign exchange necessary to service its cross-border debt and other contractual obligations?

Credit or default risk

Transfer risk

Country or sovereign risk

Systematic risk

LECTURE – 07

Transfer risk focuses more specifically on a borrower's capacity to obtain the foreign exchange necessary to service its cross-border debt and other contractual obligations.

Which of the following is the process of assessing risks and taking steps to either eliminate or to reduce them (as far as is reasonably practicable) by introducing control measures?

Strategic management

Operations management

Risk management

Credit management

Risk management is the process of assessing risks and taking steps to either eliminate or to reduce them by introducing control measures. Its purpose is to generate ideas and promote good practice for those involved in the business of risk management.

What does AFDB stands for?

Asian Foil Deflector Beanie

African Development Bank

Apple Foil Deflector Beanie

Afghanistan Development Bank

LECTURE – 21

The African Development Bank (AFDB).

The definition of which of the following is an important pre-requisite to handle credit approval processes in a manner which is specific to the risk involved and is efficient?

Market segments

Profit segments

Loss segments

Exposure segments

LECTURE – 15

The definition of exposure segments is an important prerequisite to handle credit approval processes in a manner which is specific to the risk involved and efficient.

In practice, the credit applications show fields that help in documenting credit assessment factors. All of the following are the factors usually distinguished, EXCEPT:

Market situation

Economic situation

Project evaluation

Credit service capacity

LECTURE – 18

The credit applications show fields that help document these factors. Five categories are usually distinguished:

1. Legal situation
2. Market situation
3. Economic situation
4. Project evaluation
5. Debt service capacity

Which of the following strategies should reflect the bank's tolerance for risk and level of profitability, the bank expects to achieve for incurring various credit risks?

The intensive strategy

The integration strategy

The credit risk strategy

The diversification strategy

LECTURE – 05

The board of directors should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Which of the following organizations often determines the process design in the risk analysis units?

Operational organization

Sales organization

Production organization

Learning organization

LECTURE – 13

The sales organization often determines the process design in the risk analysis units.

Which of the following is a statistical method of assessing the credit risk of a loan applicant?

Identity score

Ipsative score

Standard score

Credit score

Credit scoring, also known as FICO scoring, is a statistical method of assessing the credit risk of a loan applicant.

Which of the following institutions supplies information to each creditor but does not give or deny credit?

The Treasury Bureau

The Credit Bureau

Bureau of Administration

Bureau of Diplomatic Security

Which of the following exposures include foreign exchange and financial derivative contracts?

Liquidity sensitive

Profitability sensitive

Market sensitive

Debt sensitive

LECTURE – 12

Market-sensitive exposures include foreign exchange and financial derivative contracts.

Which of the following describes the power to incur direct loan obligations or to make loan guarantee commitments?

Credit report

Credit authority

Credit score

Credit repair

The term “credit authority” means authority to incur direct loan obligations or to incur primary loan guarantee commitments.

Which of the following should include all of the information necessary to ascertain the current financial condition of the borrower as well as sufficient information to track the decisions made and the history of the credit?

Credit score

Credit identity

Credit file

Credit administration

LECTURE – 09

The credit files should include all of the information necessary to ascertain the current financial condition of the borrower or counterparty as well as sufficient information to track the decisions made and the history of the credit.

As an exception, what will be the conversion factor applied to commitments that are unconditionally cancelable, or that effectively provide for automatic cancellation, due to deterioration in a borrower’s creditworthiness, at any time by the bank without prior notice, as proposed in the June 1999 Consultative Paper?

0%

10%

20%

30%

As an exception, a 0% conversion factor will be applied to commitments that are unconditionally cancellable, or that effectively provide for automatic cancellation, due to deterioration in a borrower's creditworthiness, at any time by the bank without prior notice.

Which of the following statements is TRUE for credit administration?

It is a statistical method of assessing the credit risk of a loan applicant

It is a critical element in maintaining the safety and soundness of a bank

It ensure that the bank's credit-granting activities are adequately diversified

It is the risk that counter-party may not meet one's obligation in a contract

LECTURE – 09

Credit administration is a critical element in maintaining the safety and soundness of a bank.

Which of the following should be defined and weighted specifically for each segment in plausibility check?

Risk

Profit

Criteria

Market

What will be the credit conversion factor for commitments with original maturity over one year as proposed in the June 1999 Consultative Paper?

Continue to be 60%

Continue to be 50%

Continue to be 40%

Continue to be 30%

LECTURE – 22

The credit conversion factor for commitments with original maturity over one year will continue to be 50%.

All of the following are the examples of personal collateral, EXCEPT:

Surety ship

Guarantee and letter of support

Collateral promise

Non-mutual collateral

LECTURE – 18

Examples of personal collateral are the following:

a. surety ship

b. guarantee and letter of support

c. collateral promise

How many process components are there in the credit review?

One

Two

Three

Four

LECTURE – 17

The credit review basically consists of two process components:

1. Standardized models of data evaluation
2. Documentation and evaluation of other credit assessment factors

Which of the following, for groups of companies, should be designed in a manner, specific to the risk involved, efficient and should aim to focus the review on actual risk-bearer?

Credit score

Credit approval

Credit history

Credit administration

LECTURE – 14

Credit approval for groups of companies should be designed in a manner which is specific to the risk involved and efficient and should aim to focus the review on the actual risk-bearer, that (natural or legal) person whose legal and economic situation ultimately determines the ability to fulfill the obligations under the credit agreement.

Which of the following policies reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes?

Constituent policies

Remuneration policies

Distributive policies

LECTURE – 06

Remuneration policies that reward unacceptable behavior such as generating short-term profits while deviating from credit policies or exceeding established limits, weaken the bank's credit processes.

How many approaches do Basel II provide to determine the capital requirement?

Five

Four

Three

Two

LECTURE – 14

Basel II provides two approaches to determine the capital requirement:

1. A standardized approach and
2. An internal ratings-based approach (IRB approach).

Which of the following is the one way for a bank to deal with credit risk?

Charge all borrowers from the same industry an average rate or interest for that industry

Avoid making loans to borrowers from a broad spectrum and to specialize geographically and in specific industries

Add a mark-up to the cost of funds for a specific borrower based on the borrower's credit history

All loans within the conforming loan limit at the time of origination will continue to be deemed

All loans that were within the conforming loan limit at the time of origination will continue to be deemed within the conforming loan limit during the remaining lives of such loans, regardless of whether the loan limit for any subsequent year declines to a level below the limit at the time of origination.

Question # 8 of 15

Which of the following is a critical element in maintaining the safety and soundness of a bank?

Credit authority

Credit report

Credit administration

Credit score

LECTURE – 09

Credit administration is a critical element in maintaining the safety and soundness of a bank.

Claims on individuals belong to which of the following portfolios?

Select correct option:

Investment

Retail

Project

Market

LECTURE – 14

Claims on individuals belong to the retail portfolio.

All of the following are the activities covered in a credit history or credit report, EXCEPT:

Consumer's payment patterns

Consumer's lending patterns

Consumer's credit balances

Consumer's credit inquiries by debtors

The activities covered in a credit history or credit report include, but are not limited to, a consumer's payment patterns, borrowing patterns, and credit balances, as well as credit inquiries by potential creditors.

The strong legal position resulting from which of the following collateral, may warrant special treatment of the relevant forms of finance?

Equity and leasing finance

Mortgage and equity finance

Mortgage and leasing finance

Venture capital and equity finance

LECTURE – 13

Mortgage finance and leasing are those forms of finance which often give the lender a substantial degree of control over the asset being financed. The strong legal position resulting from such collateral may warrant special treatment of the relevant forms of finance.

All of the following are synonyms for adverse credit history, EXCEPT:

Poor credit history

Non-status credit history

Impaired credit history

First-rate credit history

LECTURE – 03

Adverse credit history also called sub-prime credit history, non-status credit history, impaired credit history, poor credit history, and bad credit history, is a negative credit rating.

Which of the following terms is also called credit history or credit score?

Credit reputation

Credit risk

Credit repair

Credit union

LECTURE – 03

The term "credit reputation" can either be used synonymous to credit history or to credit score.

Which of the following is referred to as knockout criteria?

Yellow criteria

Red criteria

Green criteria

Black criteria

LECTURE – 16

Red criteria, which, if fulfilled, lead to an outright rejection of the exposure (also referred to as knock-out criteria).

The organizational structure of risk analysis is usually based on a five-level organizational model. Which of the following is NOT a level in this model?

Division manager

Associates

Group leader

Specialists

The organizational structure of risk analysis is usually based on a five-level organizational model

Level 1 executive (chief risk officer)

Level 2 division manager

Level 3 head of department (HD)

Level 4 group leader (GL)

Level 5 specialists Risk.

All of the following are models for the standardized evaluation of credit assessment data, EXCEPT:

Heuristic models

Locust models

Causal models

Hybrid models

LECTURE – 17

Standardized Models of Data Evaluation (Rating Models)

These models can basically be divided into heuristic models, empirical statistical models, and causal models.

Which of the following maps into a risk weight lower than that which applies to an unrated claim?

High quality credit assessment

Low quality assessment

Moderate quality credit assessment

Weak quality assessment

LECTURE – 23

A high quality credit assessment (one which maps into a risk weight lower than that which applies to an unrated claim).

Which of the following is essential as effective measure for potential future exposure?

Elimination of meaningful limits

Establishment of meaningful limits

Establishment of insignificant limits

Elimination of significant limits

LECTURE – 08

Effective measures of potential future exposure are essential for the establishment of meaningful limits.

Which of the following institutions supplies information to each creditor but does not give or deny credit?

The Treasury Bureau

The Credit Bureau

Bureau of Administration

Bureau of Diplomatic Security

In practice, the credit applications show fields that help in documenting credit assessment factors. All of the following are the factors usually distinguished, EXCEPT:

Market situation

Economic situation

Project evaluation

Credit service capacity

LECTURE – 18

The credit applications show fields that help document these factors. Five categories are usually distinguished:

1. Legal situation

2. Market situation

3. Economic situation

4. Project evaluation

5. Debt service capacity

What does EBRD stands for?

Ecuador Bank for Reconstruction and Development

European Bank for Reconstruction and Development

Egypt Bank for Reconstruction and Development

Ethiopia Bank for Reconstruction and Development

LECTURE – 21

The European Bank for Reconstruction and Development (EBRD).

Concentrations occur when, among other things, a bank's portfolio contains a high level of direct or indirect credits to all of the following EXCEPT:

A single counterparty

A group of unrelated counterparties

A particular industry or economic sector

A type of credit facility

LECTURE – 10

Concentrations occur when, among other things, a bank's portfolio contains a high level of direct or indirect credits to

- (i) a single counterparty,
- (ii) a group of connected counterparties,
- (iii) a particular industry or economic sector,
- (iv) a geographic region,
- (v) an individual foreign country or a group of countries whose economies are strongly interrelated,
- (vi) a type of credit facility, or
- (vii) a type of security.

Which of the following terms is also called credit history or credit score?

Credit reputation

- Credit risk
- Credit repair
- Credit union

LECTURE – 03

The term "credit reputation" can either be used synonymous to credit history or to credit score.

Who, among the following, should take particular note of whether bank management recognizes problem credits at an early stage and takes the appropriate actions?

- Top level managers
- Low level managers
- Middle level managers

Supervisors

LECTURE – 11

Supervisors should take particular note of whether bank management recognises problem credits at an early stage and takes the appropriate actions.

Which of the following is legally empowered to collect credit information?

- Government of Pakistan
- Institute of Bankers Pakistan
- Credit Information Bureau**
- Central Board of Revenue, Pakistan

LECTURE – 04

The CIB is legally empowered to collect credit information. The member financial institutions are bound to share their credit information with the CIB.

Which of the following components is NOT associated to financial risks?

- Profitability

Capital expenditure

Liquidity

People management

Which of the following instruments are viewed as relatively sophisticated instruments, requiring some effort by both the bank and the customer to ensure that the contract is well understood by the customer?

Derivative function

Financial derivative

Linear derivative

Non-linear derivative

LECTURE – 12

Most market-sensitive instruments, such as financial derivatives, are viewed as relatively sophisticated instruments, requiring some effort by both the bank and the customer to ensure that the contract is well understood by the customer.

Who, among the following, needs to recognize that the strategy and policies must cover many activities of the bank in which credit exposure is a significant risk?

The credit manager

The board of directors

The financial manager

The operational manager

LECTURE – 06

The board needs to recognize that the strategy and policies must cover the many activities of the bank in which credit exposure is a significant risk.

Both the basic approach and the advanced Internal Ratings Based (IRB) approach require the calculation of which of the following claim/pool of claims?

Loss given default

Exposure at default

Probability of default

Maturity

LECTURE – 19

Both the basic approach and the advanced IRB approach require the calculation of the probability of default (PD) of a claim/a pool of claims.

What does ADB stand for?

Asian Desktop Bus

Apple Dictionary of Biography

Asian Development Bank

Antonio Development Bank

LECTURE – 21

The Asian Development Bank (ADB).

All of the following are synonyms for adverse credit history, EXCEPT:

- Poor credit history
- Non-status credit history
- Impaired credit history
- First-rate credit history**

LECTURE – 03

Adverse credit history also called sub-prime credit history, non-status credit history, impaired credit history, poor credit history, and bad credit history, is a negative credit rating.

All of the following are the activities covered in a credit history or credit report, EXCEPT:

- Consumer's payment patterns
- Consumer's lending patterns
- Consumer's credit balances
- Consumer's credit inquiries by debtors**

LECTURE – 02

The activities covered in a credit history or credit report include, but are not limited to, a consumer's payment patterns, borrowing patterns, and credit balances, as well as credit inquiries by potential creditors.

Which of the following processes should be conducted on a periodic basis to determine that credit activities are in compliance with the bank's credit policies and procedures?

- External audits of the credit risk
- Internal audits of the credit risk**
- Financial audits of the credit risk
- Performance audits of the credit risk

LECTURE – 11

Internal audits of the credit risk processes should be conducted on a periodic basis to determine that credit activities are in compliance with the bank's credit policies and procedures, that credits are authorized within the guidelines established by the bank's board of directors and that the existence, quality and value of individual credits are accurately being reported to senior management.

Who, among the following should consider setting prudential limits to restrict bank exposures to single borrower or groups of connected counterparties?

- Top level managers
 - Supervisors**
 - Lower level managers
 - Middle level managers
- LECTURE – 06

Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counterparties.

In addition to individual borrower data, many cases will require general information on the economic situation of a region or an industry to allow a comprehensive assessment of credit application; here, the bank can make use of which of the following?

Higher sources
Internal sources
External sources

Lower sources

LECTURE – 16

In addition to individual borrower data, many cases will require general information on the economic situation of a region or an industry to allow a comprehensive assessment of credit application; here, the bank can make use of external sources.

Banks have new possibilities to manage credit concentrations and other portfolio issues including all of the following mechanisms EXCEPT:

Loan sales
Credit derivatives
Securitization programs
Primary loan markets

LECTURE – 10

Banks have new possibilities to manage credit concentrations and other portfolio issues. These include such mechanisms as loan sales, credit derivatives, securitization programs and other secondary loan markets.

Which of the following is an important tool in monitoring and controlling credit risk?

Holistic rating
Interval rating
Internal risk rating

Analytical rating

LECTURE – 09

Internal risk ratings are an important tool in monitoring and controlling credit risk.

What does EBRD stands for?

Ecuador Bank for Reconstruction and Development
European Bank for Reconstruction and Development

Egypt Bank for Reconstruction and Development
Ethiopia Bank for Reconstruction and Development

LECTURE – 21

The European Bank for Reconstruction and Development (EBRD).

Claims on individuals belong to which of the following portfolios?

Investment

Retail

Project

Market

LECTURE – 14

Claims on individuals belong to the retail portfolio.

Which of the following exposures include margin and collateral agreements with periodic margin calls, liquidity back-up lines, commitments and some letters of credit, and some unwind provisions of securitizations?

Liquidity sensitive

Profitability sensitive

Market sensitive

Debt sensitive

LECTURE – 12

Liquidity-sensitive exposures include margin and collateral agreements with periodic margin calls, liquidity back-up lines, commitments and some letters of credit, and some unwind provisions of securitizations.

Both the basic approach and the advanced Internal Ratings Based (IRB) approach require the calculation of which of the following claim/pool of claims?

Loss given default

Exposure at default

Probability of default

Maturity

LECTURE – 19

Both the basic approach and the advanced IRB approach require the calculation of the probability of default (PD) of a claim/a pool of claims.

Which of the following describes the power to incur direct loan obligations or to make loan guarantee commitments?

Credit report

Credit authority

Credit score

Credit repair

The term “credit authority” means authority to incur direct loan obligations or to incur primary loan guarantee commitments.

Loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes, are examples of which of the following?

Simple credit-granting activities

Complex credit-granting activities

Unchallenging credit-granting activities

Standard credit-granting activities

LECTURE – 07

Banks must develop a clear understanding of the credit risks involved in more complex credit-granting activities (for example, loans to certain industry sectors, asset securitization, customer-written options, credit derivatives, credit-linked notes).

Which of the following is the process of assessing risks and taking steps to either eliminate or to reduce them (as far as is reasonably practicable) by introducing control measures?

Select correct option:

Strategic management

Operations management

Risk management

Credit management

Risk management is the process of assessing risks and taking steps to either eliminate or to reduce them by introducing control measures. Its purpose is to generate ideas and promote good practice for those involved in the business of risk management.

Under which of the following insurance should pay for high severity losses; small losses can be budgeted out of the person's income?

Uncertainty principle

Large loss principle

Dependency inversion principle

Design principles

LECTURE – 36

Under the large loss principle, insurance should pay for high severity losses; small losses can be budgeted out of the person's income.

Under which of the following accident victims cannot sue at all, regardless of the amount of the claim?

Pure no-fault plan

Modified no-fault plan

Add-on plan

Choice no-fault plan

LECTURE – 38

Under a pure no-fault plan, accident victims cannot sue at all, regardless of the amount of the claim.

Which of the following is used as the highest layer in credit approval processes?

Source of cash flows
Value and type of collateral

Type of borrower

Amount and type of claim

LECTURE – 13

In general, type of borrower is used as the highest layer in credit approval processes.

Which of the following are the firms that specialize in providing advice to clients about investing in securities, but do not offer the trading services that are provided by dealers?

Financial Advisers

Sale Operators

Board of Directors

Production Managers

LECTURE – 30

Advisers are firms that specialize in providing advice to clients about investing in securities, but do not offer the trading services that are provided by dealers.

Which of the following incorporates not only economic data but also qualitative information concerning the borrower?

Credit approval

Credit review

Credit score

Credit history

LECTURE – 16

The credit review incorporates not only economic data but also qualitative information concerning the borrower.

Which of the following maps into a risk weight lower than that which applies to an unrated claim?

High quality credit assessment

Low quality assessment

Moderate quality credit assessment

Weak quality assessment

LECTURE – 23

A high quality credit assessment is the one which maps into a risk weight lower than that which applies to an unrated claim.

Who supports a pragmatic approach of mutual recognition for internationally active banks as a key basis for international supervisory co-operation?

The supervisor

The shareholder

The committee

The manager

LECTURE – 29

The Committee supports a pragmatic approach of mutual recognition for internationally active banks as a key basis for international supervisory co-operation.

Which of the following are the firms that are registered with securities regulators to buy or sell securities on behalf of clients?

Buyers

Customers

Dealers

Patrons

LECTURE – 30

Dealers are firms that are registered with securities regulators to buy or sell securities on behalf of clients.

Securitization exposures, as described in Basel Accord, can include but are not restricted to all of the following, EXCEPT:

Asset-backed securities

Credit enhancements

Liquidity facilities

Profitability rate

LECTURE – 27

Banks are required to hold regulatory capital against all of their securitization exposures, including those arising from the provision of credit risk mitigates to a securitization transaction, investments in asset-backed securities, retention of a subordinated tranche, and extension of a liquidity facility or credit enhancement.

Which of the following can be statistically calculated using a measure of dispersion, such as the standard deviation?

Objective risk

Subjective risk

Sovereign risk

Operational risk

LECTURE – 31

Objective risk is defined as the relative variation of actual loss from expected loss, it can be statistically calculated using a measure of dispersion, such as the standard deviation.

Although the treatments of collateral, netting and credit derivatives and guarantees are based on similar concepts, which of the following are different?

Quality weighting schemes

Risk weighting schemes

Explicit weighting schemes

Temporal weighting schemes

LECTURE – 24

Although the treatments of collateral, netting and credit derivatives and guarantees are based on similar concepts, the risk weighting schemes are different.

Which of the following is the one way for a bank to deal with credit risk?

Charge all borrowers from the same industry an average rate or interest for that industry

Avoid making loans to borrowers from a broad spectrum and to specialize geographically and in specific industries

Add a mark-up to the cost of funds for a specific borrower based on the borrower's credit history

All loans within the conforming loan limit at the time of origination will continue to be deemed

All loans that were within the conforming loan limit at the time of origination will continue to be deemed within the conforming loan limit during the remaining lives of such loans, regardless of whether the loan limit for any subsequent year declines to a level below the limit at the time of origination.

Which of the following is the process that identifies loss exposures faced by an organization and selects the most appropriate techniques for treating such exposures?

Knowledge management

Risk management

Operations management

Quality management

LECTURE – 32

Risk Management is a process that identifies loss exposures faced by an organization and selects the most appropriate techniques for treating such exposures.

Generally, collaterals can be divided into how many types?

One

Two

Three

Four

LECTURE – 18

Collateral is generally divided into personal and physical collateral.

Banks have new possibilities to manage credit concentrations and other portfolio issues including all of the following mechanisms EXCEPT:

Loan sales

Credit derivatives

Securitization programs

Primary loan markets

Of the following who is an insurer in which the salesperson is an employee of the insurer, not an independent contractor?

- Exclusive agent
- Independent agent
- General agent
- Direct writer**

Which of the following is the first step in the risk management process?

- Select the appropriate techniques for handling losses
- Identify potential losses**
- Implement and administer the program
- Evaluate potential losses

Which of the following refers to life insurance that is sold by mutual savings banks, over the phone or through web sites?

- Savings Bank Life Insurance**
- Auto Insurance
- Crime Insurance
- Liability Insurance

Which of the following should ensure that granting of credit exceeding certain predetermined levels receive prompt management attention?

- Multi-user systems
- Limit systems**
- Drain back systems
- Embedded systems

Which of the following strategies should reflect the bank's tolerance for risk and level of profitability, the bank expects to achieve for incurring various credit risks?

- The intensive strategy
- The integration strategy
- The credit risk strategy**
- The diversification strategy

The introduction of mostly automated credit decisions particularly entails a considerable change in the user interface in which of the following applications?

- Operations
- Sales**
- Productions
- Quality

Which of the following is the first step in the risk management process?

Select the appropriate techniques for handling losses

Identify potential losses

Implement and administer the program

Evaluate potential losses

All of the following are the forms of crime insurance coverage, EXCEPT:

Commercial crime coverage form (discovery version and loss-sustained version)

Commercial crime policy (discovery version and loss-sustained version)

General crime coverage form (discovery version and loss-sustained version)

Government crime policy (discovery version and loss-sustained version)

Which of the following is the one way for a bank to deal with credit risk?

Charge all borrowers from the same industry an average rate or interest for that industry

Avoid making loans to borrowers from a broad spectrum and to specialize geographically and in specific industries

Add a mark-up to the cost of funds for a specific borrower based on the borrower's credit history

All loans within the conforming loan limit at the time of origination will continue to be deemed

Which of the following should be defined and weighted specifically for each segment in plausibility check?

Risk

Profit

Criteria

Market

The ways through which banks avoid association with individuals involved in fraudulent activities and other crimes include all of the following, EXCEPT:

They ask for references from known parties

They access credit registries

They keep the individuals responsible for managing a company at distance

They check their personal references and financial condition

Which of the following is the uncertainty in earnings due to misconduct by employees, computer errors, flooding, lightning strikes and other similar events?

Capital risk

Liquidity risk

vuzs_banking@googlegroups.com

Operational risk
Interest rate risk

Which of the following is the risk of loss due to the failure of internal processes?

Off-balance-sheet risk
Firm-specific credit risk
Systematic credit risk
Operational risk

Which of the following is referred to as knockout criteria?

Yellow criteria
Red criteria
Green criteria
Black criteria

Which of the following concern the amount of surplus capital of insurance companies included in the capital of the consolidated group?

Qualitative disclosures
Quantitative disclosures
Incidental disclosures
Accidental disclosures

www.vuzs.net
vuzs_banking@googlegroups.com

vuzs_banking@googlegroups.com

Mehreen Humayun
www.vuzs.net