

THE INSTITUTE OF BANKERS PAKISTAN
ISQ Examination (Winter-2011)
Advance Risk Management
Associateship

- Q.1** In the following questions, please tick the right option or options. (Each correct tick carries 1 mark)
- Q.2** In the following statements write 'T' or 'F' in the boxes before them indicating whether they are true or false, and provide a *brief explanation* underneath for the option you exercise. (Each correct indication carries 01 mark and each correct explanation carries 01 mark)
- Q.3** A) Define operational risk.
- Q.3** B) Give examples of THREE types of operational risks that a bank may be faced with.
- Q.3** C) Explain TWO ways in which banks can mitigate operational risk.
- Q.4** A) What is the difference between mark-to market and market risk?
- Q.4** B) In your opinion should market risk be reported to the Board of Directors?
- Q.4** C) What is Market Risk and how is it calculated?
- Q.5** ABC bank has received a SWIFT message from its correspondent XYZ bank to pay USD 1 million to MNO Corporation, a client of ABC bank, and claim reimbursement from the account specified there-in.
- A) What can be the purposes of this transaction?
- B) What type of risk is being faced by ABC bank?
- C) How can ABC bank secure this transaction?
- Q.6** An inverted yield curve occurs when short-term interest rates exceed long-term rates.
- A) What indication does an inverted yield curve provide?
- B) What are the implications of an inverted yield curve on:
- i. Banks
 - ii. Consumers
 - iii. Equity Investors
 - iv. Fixed-income Investors

- Q.7** ‘Concentration’ is a red flag for risk managers. Discuss in what way concentration measured in various banking activities and what are prudent risk management guidelines to avoid concentration.
- Q.8** With the rise in interest rates, the credit crunch, the rise in non-performing loan portfolio and the increased rate of customer default, the banks in Pakistan have all but withdrawn from lending to the consumer sector, with the exception of a few banks. Comment on the type of risks faced by the banks in that sector and what could have been alternate risk management strategies than all out withdrawal.
- Q.9** Risk management in many cases uses the concept of ‘Limits’ to contain risk exposures. It is widely agreed that comprehensive risk limit system must be consistent with the bank’s philosophy, to help in effectively managing risk as well banks capital position.

Discuss the type of ‘Limits’ and the areas of business in which this concept is applicable. Discuss the salient features of a good mechanism for monitoring limits.
