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QUESTION 1

AlphaBank's management is evaluating how changes in its business environment could materially impact risk categories. As a result, bank's management decides to implement the structure, which facilitates the discussion in an integrative context, spanning market, credit, and operational risk factors, and encourages transparency and communication between risk disciplines. Which one of the following four approaches should the management choose to achieve this strategic goal?

- A. Regulatory risk management approach
- B. Enterprise risk management approach
- C. Scenario-based risk management approach
- D. Taxonomy-based risk management approach

Correct Answer: B

QUESTION 2

Floating rate bonds typically have _____ duration which means they have _____ sensitivity to interest rate changes.

- A. long, small
- B. long, high
- C. short, high
- D. short, small

Correct Answer: D

QUESTION 3

Alpha Bank determined that Delta Industrial Machinery Corporation has 2% change of default on a one-year no-payment of USD \$1 million, including interest and principal repayment. The bank charges 3% interest rate spread to firms in the machinery industry, and the risk-free interest rate is 6%. Alpha Bank receives both interest and principal payments once at the end the year. Delta can only default at the end of the year. If Delta defaults, the bank expects to lose 50% of its promised payment. Hence, the loss rate in this case will be

- A. 1%
- B. 3%
- C. 5%
- D. 10%

Correct Answer: A

QUESTION 4

According to Basel II what constitutes Tier 3 capital?

- A. Subordinated debt issues that pay interest.
- B. Debt capital that can only be used to support market risk in the trading book of the bank.
- C. Preference shares that confer on issuers the right to defer payment of a fixed dividend.
- D. Hybrid debt capital instruments that are similar to equity.

Correct Answer: B

QUESTION 5

After entering the securitization business, Delta Bank increases its cash efficiency by selling off the lower risk portions of the portfolio credit risk. This process ___ return on equity for the bank, because the cash generated by the risk-transfer and the overall ___ of the bank's exposure to the risk.

- A. Increases; increase;
- B. Increases; reduction;
- C. Decreases; increase;
- D. Decreases; reduction;

Correct Answer: B

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