

Chapter 6 : Credit Risk

Multiple Choice Questions

Question 1.

In case of....., repayment tenor is greater than equal to 15 years or more?

- A. Real estate construction loans
- B. Cash credit
- C. Demand loans
- D. Term loans

Question 2.

Which of the following are not covered under the wholesale segment of the bank?

- A. Investment banking
- B. Corporate lending
- C. Sales & trading
- D. Mergers & acquisitions
- E. Personal loan
- F. None of the above

Question 3.

Which type of facility/assistance is provided by banks to enable a company to buy the goods to be exported

- A. Packing credit
- B. Letter of undertaking
- C. Leasing
- D. Forfaiting

Question 4.

.....are the small tickets retail loans where the underlying asset is hypothecated to the lender with a tenor of 4-5 years that matches the life of underlying assets?

- A. Housing loan
- B. Agriculture & allied service loans
- C. Credit Card loans
- D. Student's education loan

Question 5.

Which of the following are not the external factors affecting the credit of a bank?

- A. Ignoring the purpose for which the customer sought a loan.
- B. Poor Quality or Liberal Credit Appraisal while granting the loan.
- C. Excessive lending to a particular industry is subject to cyclical fluctuations.
- D. Absence of effective recovery mechanism.
- E. All of the above

Question 6.

Compute expected loss from the following

Default- 5%

Amount of Exposure -200 lakhs

Recovery rate- 40%

Options are:

- A. 6 lakh
- B. 4.8 lakh
- C. 8 lakh
- D. 4 lakh

Question 7.

Which of the following is/are the segments that are being catered by the bank?

- A. Wealth management
- B. Wholesale segment
- C. Retail segment
- D. All of the above

Question 8.

Which is the most critical of all risk for bank/financial institutions & whose management is most crucial for the survival of any bank/FI.

- A. Third-party risk
- B. Collateral risk
- C. Counterparty risk
- D. None of the above

Question 9.

Which of the following are not the decisions for a trade-off between risk & return in credit risk?

- A. Acceptance or rejection of the customer's request.
- B. How much compensation should be added while pricing the product?
- C. How much should Credit Risk be accepted in return for an increase in sales or business in case of banking?
- D. How will the bank advertise its products?
- E. None of the above
- F. All of the above.

Question 10.

Which of the following statements is false?

- A. The historical method of risk identification involves identifying types of risk credit, market, operational, and liquidity.
- B. Basel II was a pillar model that provided ,guidance and recommendations on the banking rule and the regulations.
- C. Credit risk management, for retail financing is done on-a case to case basis with greater emphasis on each of the 5 C's of credit and in-depth due diligence on account of large amounts and complexities.
- D. One should not hesitate to, ask for the nature of the business the borrower is dealing with
- E. None of the above.

Question 11.

Which component of credit risk is measured by the internal rating assigned to the Borrower and assesses the likelihood that the Borrower will default on its debt obligations.

- A. Probability of default
- B. Loss Given default
- C. Expected loss
- D. Exposure at default

Question 12.

.....is that way of risk mitigation where a bank has recourse to cash or buyers' assets in order to recover money owing to it.

- A. Non-funded credit risk mitigation
- B. Funded credit risk mitigation
- C. Diversification
- D. Third party guarantee

Question 13.

It is important to formulate suitable assumptions for projections basis i.e., historical experience/ business model/industry while conducting.....

- A. Credit loss estimation
- B. Credit risk rating
- C. Credit risk Quantification
- D. Credit risk due diligence of a borrower

Question 14.

Which of the following Instruments considered to have a moderate risk of default regarding timely payment of a financial obligation?

- A. AA
- B. BB
- C. A3
- D. B

Question 15.

When borrowers deposit collateral in the form of an asset against the loans, advances, debt, or credit lines, banks face the following issues?

- A. Liquidity issue
- B. Distress sale
- C. Legal issues
- D. All of the above

Question 16.

Consider the following data for XYZ Ltd. which has approached SBI for working capital financing. you are required to compute maximum permissible bank finance as per the third method of Tandon committee.

Current asset = 500 crores, out of which core current asset = 60 crores

Current liability (including bank borrowings = 20 crores) = 50 crores

- A. 345 crores
- B. 280 crores
- C. 245 crores
- D. 180 crores
- E. None of the above

Question 17.

Which of the following Instruments considered to have a adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.?

- A. BBB
- B. AA
- C. A
- D. BB

Question 18.

Which of the following is not true?

- A. Credit Risk analysis from bond holders point of view will be an umbrella covering credit risk of other financial institutions.
- B. Recovery risk is one of the components of credit risk.
- C. Wholesale financing is one of the types of credit facilities.
- D. None of the above

Question 19.

Which of the following Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry low credit risk

- A. AA
- B. A1
- C. A2
- D. A3

Question 20.

which of the following statements is true?

- A. Banks structure small ticket /simple transactions so that partial recourse is available to the lender in case of default by the borrower.
- B. The rating agencies may apply "+" (plus) or "-"(minus) signs for ratings from AA to D to reflect the company's comparative standing.
- C. Data on characteristics of retailers and corporate obligors can be used to estimate their respective probability of defaults.
- D. None of the above

Question 21.

The following essential elements are to be kept in mind after the loan is approved & disbursed as per the credit criteria of borrowers?

- A. Cover
- B. Repayment track
- C. Sector updates
- D. All of the above

Question 22.

Calculate expected loss if -

PD = 2%, EAD = 300 lakhs & recovery rate = 80%

- A. 4.8 lakhs
- B. 1.2 lakhs
- C. 1.74 lakhs
- D. Cannot be computed

Question 23.

Which of the following Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk?

- A. AA
- B. A1
- C. A2
- D. A3

Question 24.

Under method, lender may tighten the norms of lending including the amount to be lend.

- A. Credit insurance
- B. Tightening
- C. Diversification
- D. Risk-based pricing