MOCK TEST PAPER

FINAL (NEW) COURSE: GROUP – II

PAPER – 6A: RISK MANAGEMENT

*The question Paper comprises **five** case study questions. The candidates are required to answer any **four** case study questions out of five.*

CASE STUDY: 1

Arjun Limited is one of the leading pharmaceutical companies in India. It has an operational track record of near five decades. The company was promoted by one of the very reputed families of India. However, it has been facing several challenges to grow its business in the recent years. Karna Limited is also one of the leading pharmaceutical companies having operational track record of near three decades and multiple market leading products. However, it is also facing challenges to grow its business. Hence the management of Karna Limited has decided to sell its business. The management of Arjun Limited came to know about the decision of the management of Karna Limited and has decided to adopt the strategy to grow inorganically. After initial assessment, Arjun Limited believes that if it acquires Karna Limited, it could result into a better product portfolio, a wider marketing and distribution network and other synergy gains which not only would improve growth of its existing and acquired product portfolio, but would also improve profitability and consequently return on capital employed.

The management of Arjun Limited offered ₹ 10,000 crore cash to the shareholders of Karna Limited as a sales consideration. The offer was accepted by the shareholders of Karna Limited.

The transaction was funded in the following manner.

- ₹ 500 crore cash and bank balance available with Arjun Limited as on March 31, 2019
- Promoters of Arjun Limited infused equity share capital of ₹ 3,500 crore.
- Arjun Limited issued non-convertible debentures of ₹ 6,000 crore to fund the balance sales consideration.

The management of Arjun Limited had approached many leading debt mutual fund managers to subscribe the issue of non-convertible debentures.

The debentures were issued in three tranches on March 31, 2019. Debentures in each tranche carries a coupon rate of 8% p.a. payable semiannually (i.e. compounded and payable semiannually). The repayment schedule of each tranche is listed below. Debentures matures at Par

Tranche	Face Value (FV) of whole tranche	Maturity Date
1	₹ 2,000 Crore	March 31, 2023
2	₹ 2,000 Crore	March 31, 2024
3	₹ 2,000 Crore	March 31, 2025

Further, the debenture issue includes following terms

- The debentures are secured by way of charge on intangible assets of the company which are not recorded on the books of the company. The realizable value of the intangible assets is assessed at ₹1,000 crore and is expected to remain constant over a period of ten years. In the event of default, investor can sell the intangible assets, but will lose right to recover their unpaid exposure.
- Investors and issuer to have put/call option on the debentures. The notice of exercise of the option can be given at any coupon date and the company has to redeem the debentures on the next coupon date.

- Arjun Limited to obtain credit rating of the issued debentures from any recognized credit rating agency.
- Debentures to be listed on the stock exchange within one month of the allotment.

Arjun Limited made the following projections

Projected statement of profit and loss account for the year ended

(₹ Crore)

Particulars	March 31, 2019 (Before Acquisition)	March 31, 2019 (After Acquisition)	March 31, 2020	March 31, 2021	March 31,2022	March 31, 2023	March 31, 2024	March 31, 2025
Sales	2,000	2,000	3,600	4,200	4,800	5,400	6,100	6,700
PBIDT	600	600	1,080	1,260	1,440	1,620	1,830	2,010
Interest	-	-	480	480	480	480	320	160
Depreciation	50	50	100	100	100	100	100	100
PBT	550	550	500	680	860	1,040	1,410	1,750
Tax	165	165	-	-	-	-	-	-
PAT	385	385	500	680	860	1,040	1,410	1,750

Projected Balance Sheet as on

(₹ Crore)

Particulars	March 31, 2019 (A) Before Acquisition)	March 31, 2019 (After Acquisition)	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023	March 31, 2024	March 31, 2025
Non-current Assets								
Fixed Assets	1,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Goodwill	-	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Current Assets								
Receivables	500	3,000	3,150	3,300	3,500	3,600	3,700	3,800
Inventory	500	1,000	1,050	1,100	1,200	1,300	1,400	1,500
Cash and Bank	500	-	500	1,180	2,040	1,080	490	240
Total Assets	**3,000**	**13,500**	**14,200**	**15,080**	**16,240**	**15,480**	**15,090**	**15,040**
Equities and Liabilities								
Equities								
Share Capital & Reserves	2,000	5,500	6,000	6,680	7,540	8,580	9,990	11,740
Non-current Liabilities								
Non-convertible debentures		6,000	6,000	6,000	6,000	4,000	2,000	-
Current Liabilities								
Trade Payable	1,000	2,000	2,200	2,400	2,700	2,900	3,100	3,300
Total Equities and Liabilities	**3,000**	**13,500**	**14,200**	**15,080**	**16,240**	**15,480**	**15,090**	**15,040**

Assumptions - No dividend, Annual capex requirement = annual depreciation

MICRA, one of the leading credit rating agency has assigned credit rating of 'AA' to the debenture issue.

Below is the historical default probability of various rating scale of MICRA

Rating Scale	Default probability over		
	1 year	3 year	6 year
AAA	0.00%	0.00%	0.02%
AA	0.01%	0.12%	0.18%
A	0.18%	2.07%	2.89%
BBB	0.93%	3.91%	5.08%

Descriptive Questions

1.1 Assume you are a credit analyst in a Debt Mutual fund. How would you do the credit due diligence for recommending the subscription of the debenture issue? (Mention any six aspects and justify it with the facts of the case) **(7 Marks)**

1.2 Market interest rate increased to 11% after 1 year for the debentures having similar credit risk profile. What action would investor/issuer take to optimize its return on capital given no transaction cost? Mention the risks that issuer will face immediately after exercise of the call/put option by investor/issuer?

(2 Marks)

1.3 Calculate the Debt Service Coverage Ratio (DSCR) considering opening Cash Balance and Free Cash Flow available for all the year in which debenture repayment is scheduled. In which year the risk of default is maximum? **(6 Marks)**

Multiple Choice Questions

Choose the most appropriate answer from the answer options.

1.4 Arjun Limited's assessment that the new product portfolio will help them to achieve long term desired growth carries which type of risk?

(A) Operational Risk

(B) Assumption Risk

(C) Strategic Risk

(D) Model Risk

1.5 ABC mutual fund is likely to face following risk on account of subscribing to the issue of listed debentures of Arjun Limited, except one…………..

(A) Credit Risk

(B) Operational Risk

(C) Interest Rate Risk

(D) Market Risk

1.6 Credit Rating assigned to the debenture issued by Arjun Limited represents……….

(A) High Safety

(B) Adequate Safety

(C) Good Safety

(D) Moderate Safety

1.7 Given the long-term cash generating ability of the acquired business, what Arjun Limited could do to avoid liquidity/refinancing risk?

(A) Remove Put option from the terms of debenture issue

(B) Partially fund its working capital requirement through working capital finance

(C) Longer term-debt repayment schedule to match the cash flow generated from the acquired assets

(D) All of these

1.8 If the company decides to issue foreign currency denominated bonds (US Dollars) it will be exposing itself to_______ risk but will benefit in terms of ________.

(A) Interest rate risk/ lower transaction cost

(B) Foreign currency fluctuation risk/ lower interest rates

(C) Country risk/ longer maturity terms

(D) Liquidity risk/ lower interest rates **(5 x 2 Marks = 10 Marks)**

CASE STUDY: 2

XYZ limited is an Airline company in India. It is only the company whose books was positive till last quarter in terms of profits. Cash Flow was positive and was building cash reserve to face any challenges. Its share price was at highest & its market capitalisation is on all time high. It was full-service network carrier operating domestic & internationally.

Due to heavy demand in airline traffic and old aircrafts, it has ordered many new aircraft and was replacing old aircraft with the new one. It has borrowed funds for new aircraft for which instalment is due in September,20.

Suddenly there arise a pandemic situation of virus in the country & across globe where virus had infected millions of people across globe & taken death of almost lakh of people. There was no medicine to cure such pandemic problem.

Due to spread of virus, all the airline was shut. It remained shut for almost 3 months. During these 3 months, Airline company revenue was almost Nil while it has to incur huge cost on salary payment. Its share price plunges suddenly by 40%. It had downsized its team of employees, delayed payment of staff and maintenance, deferred lease payment of aircrafts. However due to downsizing many talented employees left the company. Change the structure of Employee salary with 30% variable & balance fixed and gave employees leave without salary. Also, all its recoverable amounts from customers remained outstanding & it is facing cash crunch.

Now after 3 months, airlines have started working. However, it is going to take at least couple of years to come back to 50% of what they were before spread of pandemic both domestic & international operations.

If you recall the previous instance of 9/11 and what happened subsequent to that, it took a lot of time for the aviation industry to come back. It is not only how fast XYZ starts its normal operations but even after that visas not being allowed, travel not being allowed, airlines not being allowed. Even after all these are allowed, there will be apprehension. The first is the economic aspect.

Will people travel, either for leisure or on business? The answer is clearly no. It will take a long time for this to happen. Then the question is of people going out to destinations and being apprehensive. How many flights will you operate?

Also, a plane on the ground costs the airline enormously with 50% of them have been taken on lease. So even while they are on the ground the lease rentals are being paid. It is not only employees who are being unproductive but also the machines. So, both men and machines are taking a heavy toll.

Now when the flights are put back into operation, the concept of social distancing is be imposed by government on XYZ. It is only flying one-third of capacity & due to it fares are very high to sustain its operations.

India being a price-sensitive market. It is again witnessing era of the 1940s and the 1950s where only the elite could afford to travel.

Analyst believe that company will take at least take 5-6 years to revive itself.

Another important aspect which has come due to this pandemic situation is that lot of people have found alternative means of working, especially with videoconferencing & other digital platforms. So, it is going to be a major change as travelling will be less & will impact air traffic.

Descriptive Questions

2.1 Explain type of risks which XYZ limited is facing apart from Pandemic situation. **(8 Marks)**

2.2 In what ways Enterprise Risk Management can be classified. Explain with reference to above case study. **(4 Marks)**

2.3 According to Paul Hopkins, risk is divided in what categories. Explain with reference to above case study. **(3 Marks)**

Multiple Choice Questions

Choose the most appropriate answer from the answer options.

2.4 XYZ limited is facing with what kind of Risk.

(A) Operational Risk

(B) Uncontrollable Risk

(C) Financial Risk

(D) Liquidity Risk

2.5 The aim of XYZ ltd in such pandemic situation would be to:

(A) Maintain unsystematic risk at the desired level

(B) Maintain systematic risk at the desired level

(C) Cost to be kept minimum

(D) Both (A) & (B) of the above

2.6 Which of the following statement is false?

(A) Risk caused by Internal factors arises during the ordinary course of business is to be borne by Company.

(B) Risk caused by External factors arises during the ordinary course of business are not integrally related to business.

(C) Risk caused by outright default due to inability or unwillingness by customer to pay or honour its commitment is credit risk.

(D) Risk where change in market interest rate might adversely effect the Net Interest Income Earning is financial risk.

2.7 Risk consequences currently faced by XYZ limited:

(A) Insignificant

(B) Minor

(C) Catastrophic

(D) Moderate

2.8 Which are the risks which XYZ limited is faces while facing Pandemic situation of virus:

(A) Human Resources risk in terms of poor morale & talent retention

(B) Operational risk in terms of inability to replace old aircraft with new ones

(C) Finance & accounts risk in terms of negative cash flow

(D) All the above **(5 x 2 Marks = 10 Marks)**

CASE STUDY: 3

SELFIE Ltd. is a lifestyle product company head-quartered in New Delhi. The company was established in the year 1863 by Mr. Khalid Topiwala. The company's business model is to manufacture and sell lifestyle products and accessories targeted towards young population.

The main product includes:- digital and analog wrist watches, compact music players, mobile accessories and eye wear.

Influenced by the rapid growth and high margins of SELFIE Ltd., another player Facelift Ltd. entered the market in the year 1885 producing similar products in the life style segment. However, Facelift Ltd. targets its products to teenagers and young women.

Since, 2008 equity shares of both SELFIE Ltd. and Facelift Ltd. are being traded on Leading Stock Exchanges.

The financial data of the companies are as follows:

₹ in Crores

Particulars	SELFIE Ltd.	Facelift Ltd.
Fixed Assets	35	24
Inventory	14.50	13.19
Trade Creditors	6.95	4.95
Trade Debtors	5.25	5.25
Total Debt – Short Term	9.5	5

SELFIE Ltd. pays dividend on a regular basis, whereas Facelift Ltd. retains profits into the business and maintain a zero- dividend policy.

SELFIE Ltd. follows a conservative approach and makes cautious decisions. It also launches products in a phased manner.

Facelift Ltd. follows an aggressive approach and takes bold decisions. It launches multiple new products in one go without taking into consideration the cannibalization effect they may have.

Both the companies have started operations in various other countries including Japan. The revenue from Japan operations are significant part of revenues for Facelift Ltd.

Mr. Black is a new trainee in the Risk Management department, and he has identified the following risks at SELFIE Ltd.

a. Inadequate safety mechanisms at production area resulting in life threatening accidents.

b. Extensive capacity expansion and capex plans for doubling production lines. Capex may result in huge financial commitments. A detailed report has pointed out probability of overcapacity.

c. Turmoil in the currency exchange rates effects prices of raw materials. There is a risk of failure to address this challenge effectively.

d. Fierce competition from Facelift Ltd may result in negative business growth.

Mr. Smith, a renowned stock analyst is skeptical of ineffective and unethical practices by Management of Selfie Ltd. and does not advice his clients to invest in the company.

Year End Prices (December) of Equity stock and Dividends for SELFIE Ltd. for the years 2014 to 2020 are listed below. The actual yearly return on Equity stock of Facelift Ltd. are also mentioned.

Consider the year beginning in January and ending in December.

Year	SELFIE Ltd		Facelift Ltd
	Year End Price (Per Equity Share) ₹	Dividend ₹	Actual annual Return on Equity Share (January – December)
2014	28.50	0.14	3%
2015	26.80	0.15	4%
2016	29.60	0.17	4.3%
2017	31.40	0.17	5%
2018	34.50	0.19	4.1%
2019	37.25	0.22	6%
2020	38.10	0.25	6.2%

Average risk-free rate from 1994 to 2000 is 2.8%.

Anuj is forecasting the performance of both companies for the year 2021. He is specifically concerned about the risks which the companies are exposed to in Japan. Due to recent turmoil in the currency market, Japanese Government has imposed a currency control mechanism which prevents outflow of Japanese Yen.

A local company in Japan has filed a lawsuit against Facelift Ltd. for infringement of Intellectual Property Rights. The outcome of the lawsuit is uncertain.

The media is flooded with news of trade concerns between China and USA. The experts believe that it may affect Indian industry and economy adversely.

Anuj divides the performance of Japanese Economy into three categories and accordingly the performance of Facelift Ltd.

Major Concerns in the Indian economy like declining GDP may be a challenge for industries. The overall market Indices like Sensex has shown neutral to moderate appreciation in the last 2 years.

The political parties are raising populist agenda which are not very much inclined towards up-liftment of economic condition in the economy.

Multiple Choice Questions

Choose the most appropriate from the answer options:

3.1 The standard deviation of annual return on equity stock of Facelift Ltd. during six year period (2014-2019) is__________.

(A) 4.2%

(B) 2.5%

(C) 6.15%

(D) 1.06%

3.2 The Co- Efficient Of Variation of annual return on equity stock of Facelift Ltd. during six year period (2014-2019) shall be approximately________.

(A) 0.230

(B) 0.250

(C) 0.315

(D) 0.210

3.3 Which of the following risks is the cause of concern for Mr. Smith?

(A) Process Risk

(B) Governance Risk

(C) Safety Risk

(D) Country Risk

3.4 If the Value at Risk (VaR) at 95% Confidence is ₹ 2,000, then VaR at 99% Confidence will be closest to……………

(A) ₹ 2,824

(B) ₹ 2,924

(C) ₹ 2,895

(D) ₹ 1,920

3.5 Adoption of Aggressive Approach by Facelift Ltd. expose itself to ________.

(A) Market Risk

(B) Financial Risk

(C) Operational Risk

(D) Country Risk **(5 x 2 Marks = 10 Marks)**

Descriptive Questions

3.6 Discuss the major types of Country Risks which an MNC is exposed. Which of these risks is faced by Facelift Ltd in Japan. **(5 Marks)**

3.7 Prepare a Report that can be submitted to the Board by Mr. Black covering Grading/ Bucketing of the risks identified. **(5 Marks)**

3.8 Explain the meaning of SWOT analysis and identify the SWOT of SELFIE Ltd. **(5 Marks)**

CASE STUDY: 4

Go Where Ltd is a listed company having its registered office in Kolkata. It provides online pre-booked cab facility across major cities like Kolkata, Mumbai and Bangalore. Customers can book cabs as per their requirement subject to minimum chargeability of 5 hours. The booking is also accepted on real time basis subject to availability of the cabs. However it is suggested to make one day prior booking to ensure its confirmation especially during peak season.

Revenue Model of the Company:

For cabs with seating capacity of 4 person (excluding driver), it is charged on per km basis of ₹ 10 subject to minimum amount of ₹ 1000 for 5 hours. In case of Sedan and SUV cabs (Seating Capacity greater than 4), it is charged at the rate of ₹ 13 per km subject to minimum amount of ₹ 1500 for 5 hours.

Staffing Policy of the Company:

In order to provide best services, the company ensures that all its drivers are professionally trained. It pays them (Total 200 drivers) with a monthly fixed salary of ₹ 25,000 along with a variable pay of ₹ 150 per trip.

Following is the comparative extract of its audited profit and loss account for the year ended 31st March 2020–

₹

Particulars	31st March 2019	31st March 2020
Revenue from Operations	3,45,18,000	1,13,26,500
Other Income	83,15,000	35,57,000
Total Income	**4,28,33,000**	**1,48,83,500**
Expenses		
Cost of Material Consumed	79,86,400	22,79,500
Employee Benefit Expense	1,04,13,050	89,57,900
Finance Cost	67,50,000	78,45,000
Other Expenses	18,55,000	37,43,000
Total Expense	**2,70,04,450**	**2,28,25,400**
Profit Before Tax	**1,58,28,550**	**(79,41,900)**

There has been drastic fall in the revenue of the company for the year ended 31st March 2020. With increasing competition, there has been significant loss of market share. A new competitor has entered the market with the concept of Self Drive Cars which provide the customers with the cab without drivers. Further the existing major market players like Oola and Uberia are able to erode the customer base of 'Go Where' with the introduction of their new schemes of providing instant cabs for the whole day at much competitive prices as compared to the company concerned.

The Other Income of the company arises from short term capital gains from its investment in Stock Market and Mutual Funds. The company has invested majorly in two different Mutual Fund schemes- The one is IDIDI Mutual Fund giving an average return of 9% with the standard deviation of 7% and the other is HDBC Mutual Fund giving an average return of 7% with the standard deviation of 4%. However, the risk free return over the time period was 3%.

The company proposes to purchase some new model cars that had come into the market for increasing mileage efficiency.

Board has decided to take few decisions in order to make current business model more viable in the competitive circumstances-

- In order to reduce fixed payment to drivers, the board is of the opinion to change the current policy from ₹ 25,000 per month to ₹ 15,000 per month with escalation in variable pay to ₹ 200 per trip. It is estimated that due to this change, around 60 employees will leave the company and in order to replace them, the company will hire new drivers for whom professional training will be conducted costing ₹ 1,75,000. The board is expecting a total number of 35,000 trips in the next year.
- The new model cars that will be purchased for ₹ 2,75,00,000 having a useful life of 12 years will be diesel engine cars. The petrol cost exceeds diesel cost per litre by ₹ 3.50. There will be total of 25 new diesel cars that are being proposed for purchase in the next year. Each car will give a mileage of 15 kms per litre with an average of 5,00,000 kms per year. If the company purchase petrol engine car, a total of 30 cars can be purchased with the same amount giving an average mileage of 12 kms per litre and same useful life with an average of 6,00,000 kms per year. The average cost of diesel for the next 12 years is estimated to be ₹ 70 per litre. All the cabs will be having a seating capacity of 4 persons and will be charged at the rate of ₹ 10 per km.
- The board is planning to incur advertisement expenditure of ₹ 10,00,000 in the current year which in turn is expected to increase the revenue of the company by ₹ 3,00,000 over the period of 5 years.
- Also, the board is in the favour of developing a new application software suitable for smart phones and tablets with an estimated budget of ₹ 15,00,000.

Multiple Choice Questions

Choose the most appropriate answer from the following

4.1 The expected sales growth rate of the company for the year ended 31st March 2023 is expected to be-

(A) 2.51%

(B) 2.65%

(C) 7.95%

(D) None of the above

4.2 Using a Discount Factors upto two decimals at the Rate of 8%, the NPV of the decision to incur advertisement expenditure approximately shall be________.

(A) ₹ 12,00,000 Positive

(B) ₹ 2,00,000 Negative

(C) ₹ 12,00,000 Negative

(D) ₹ 2,00,000 Positive

4.3 Out of the two mutual funds that the company has invested in, which of the two gave a better return relative to the amount of underlying investment risk-

(A) IDIDI Mutual Fund

(B) HDBC Mutual Fund

(C) Both a and b

(D) None of the above

4.4 The beta of the stock of Go Where Ltd is 0.75. This indicates-

(A) Its excess return is expected to outperform the benchmark by 75% in up markets and underperform in down markets.

(B) Its excess return is expected to outperform the benchmark by 25% in up markets and underperform in down markets.

(C) Its excess return is expected to underperform the benchmark by 75% in up markets and outperform during down markets.

(D) Its excess return is expected to underperform the benchmark by 25% in up markets and outperform during down markets.

4.5 The Net Benefit obtained by the company due to change in the payment policy to its drivers is-

(A) ₹ 2,50,000

(B) ₹ 75,000

(C) – ₹ 2,50,000

(D) – ₹ 75,000 **(5 x 2 Marks = 10 Marks)**

Descriptive Questions

4.6 Suppose you have been appointed as an auditor of Go Where Ltd to conduct an audit of Internal Controls over Financial Reporting. Explain the circumstances that may cause risk for reliable financial reporting to the company. Also enlist the statutory provisions related to risk management disclosures applicable to the company. **(8 Marks)**

4.7 Evaluate whether the proposal of the board to purchase diesel cars is justified, ignoring time value of money and tax implications. What other non-financial factors should be considered before taking such investment decisions. **(7 Marks)**

CASE STUDY: 5

XYZ Limited, a listed company and is in the business of manufacturing automobile components and main input constituent is high quality Steel (a part of which is imported). In addition to catering domestic market it also exports its product western countries. Due to stiff competition from the producers of automobile components of neighboring country China it has started following liberalized credit policy for its buyers.

Recently Board announced the appointment of AG as the company's first lead independent director. Despite opposition by few shareholders, the management offered justifications for the new structure to be more independent and investor friendly. Investors liked the idea and the announcement brought positive sentiments to the falling stock prices which increased to ₹ 75.10, the next day of the announcement. It proved that investors were optimistic about the future of the company and expected better financial results. AG was actually appointed and responsible to response to the present state of affairs of the company. The company had been actually witnessing and struggling in the months to address certain corporate governance challenges. Proxy advisory firm, XYZ, raised alarms and questioned executive compensation package in the years of falling performance. A small shareholder filed a law suit against Board of Directors misuse of corporate funds.

RG, the present Chairman and CEO, was working with the company since last sixteen years and was a close family friend of promoters. His leadership style being democratic was liked and praised by everyone. He was often found meeting people at all levels within the organisation and called for trying new things. His philosophy diminished conflicts and tensions in pursuit of goal setting and achieving. He believes that as long as dividend is paid to shareholders and earnings per share increases, the market values the stock. In the last AGM, he said "The recent decline in financial performance is taken as a publicity stunt by few self interested groups. The company is on its way towards bright future ahead".

Further, about the risk management policy of the company CEO quoted following two statements:

"The risk we are ready to assume is keeping in view our corporate goals and essential strategies."

"Further the boundary of risk that ABC Ltd. considers acceptable shall be based on its capability to manage the risk identified in risk assessment process."

The Income Statement Summary of ABC Limited for last three years:

Particulars	Year 2016-17	Year 2017-18	Year 2018-19
Revenue (₹ Crores)	13938	13696	13373
Expenses (₹ Crores)	9608	9420	9119
Operating Income (₹ Crores)	4330	4276	4254
Stock Price (₹)	65.64	61.00	58.4

Shareholding pattern at the end of Year 2018-19:

Type of Shareholder	Percentage Stake
Promoters	51.60
Mutual Funds	7.25
Domestic Financial Institutions and Banks	24.75
Foreign Institutional Investors (TTC plc)	10.40
Corporate Bodies	4.60
Individuals	1.40
Total	**100**

Descriptive Questions

5.1 On his appointment, what risks AG will identify related to Company's activities? Draw out a framework to manage these risks. **(6 Marks)**

5.2 Other than risks covered above identify the other two major risks ABC Ltd. is facing. **(2 Marks)**

5.3 What do the statements (in italics) quoted by CEO indicates. **(2 Marks)**

5.4 What type of major Risk being faced by TTC plc for investment in ABC Ltd. Explain the process to manage the same risk. **(5 Marks)**

Multiple Choice Questions

5.5 Which of the following is called Governance Risk?

(A) Risk of control failure, management override, deliberate acts of omission

(B) Ineffective and unethical management of a company by its executives and managerial levels

(C) Inability of management to meet its process related objectives

(D) Management interference in day to day operations.

5.6 Which of the following is not an index for Country Risk Analysis?

(A) Democracy Index

(B) Global Peace Index

(C) Human Perception Index

(D) Gini Coefficient

5.7 For successful ______________ it is necessary that the risk management program should look at the big picture and identify not only short term risk factors but also long term factors impacting the entire value chain of business activities and connected communities.

(A) Stakeholder Risk Management

(B) Country Risk Management

(C) Shareholder Risk Management

(D) Enterprise Risk Management

5.8 OECD Guidelines for corporate governance does not include:

(A) Disclosures and Transparency

(B) Equitable treatment of Debenture holders

(C) Responsibilities of the board

(D) Institutional investors, stock markets and other intermediaries

5.9 Opportunities under Risk and Opportunity Disclosure in the Annual Report of an energy company would not include:

(A) Value realization of by-products by exploring new areas

(B) Creating differentiation through acceleration of new product development

(C) Securing raw material supplies

(D) Oversupply of Crude Oil due to collapsing demand on account of coronavirus-related global lockdowns. **(5 x 2 Marks = 10 Marks)**