Lending

The sample questions are related to the JAIBP Stage 2 course "***Lending***". The students are advised to thoroughly read the exam guidelines and the syllabus guide for this course before start studying for the paper. The questions are shared to give an idea to the student about the paper format and types of questions. For further information visit the IBP website www.ibp.org.pk

Multiple Choice Questions

Each MCQ carry one and half mark.

Q1. The planning stage where the institution deal with stress situations is known as

A. Recovery planning
B. Risk measurement
C. Risk Evolution
D. Contingency planning (Answer)

Q2. A business wholly owned by a person not requiring any formal procedure to commence business is called?

A. Completeness concept
B. Faithful representation concept
C. Objectivity concept (Answer)
D. Duality concept.

Q3. A major Problem associated with credit sales is verifiable financial information.

A. Private Limited Company
B. Sole Proprietorship (Answer)
C. Public Limited Company
D. Partnership

Constructed Response Question

Each CRQ carry five marks.

Question:

A). What is Risk Management? List down any four objectives of Risk Management.
(3 Marks)

B). What are two main financial risks? Briefly explain the significance of these risks in managing the bank's risk. **(2 Marks)**

Answer

Part-A

The goal of Risk Management is to optimize risk-reward relationship.

Main risk management objectives are:

1. Survival of organization.
2. Operational efficiency.
3. Uninterrupted Operation.
4. Identifying and achieving acceptable risk level.
5. Earning Stability.
6. Continued and sustained Growth.

Part-B

Two main financial risks are:

1. Credit Risk arises due to an uncertainty in obligor's ability to meet its obligations in accordance with agreed upon terms. It is considered as the highest form of risk.
2. Market Risk is defined as the risk of losses in on and off balance sheet positions arising from movements in market prices.

Extended Response Question

Each ERQ carry ten marks.

Question:

A). Explain Risk and Risk Management in a banking organization? **(2 Marks)**
B). Is integration of risk interrelationship across the bank beneficial? Why/ Why not? **(2 Marks)**
C). Briefly describe components of Credit Risk Management? **(2 Marks)**
D). What are the responsibilities of board on Credit Risk Management? **(4 Marks)**

Answer

Part-A:

Risk in Banking Organization

It is possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings/ capital or may result in imposition of constraints on bank's ability to meet its business objectives.

Risk Management in Banking Organization

A discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling.

Part-B:

Integration of Risk Management

- **i.** Risks must not be viewed and assessed in isolation, because a single transaction might have a number of risks and can trigger other risks.
- **ii.** Since interaction of various risks could result in diminution or increase in risk, the risk management process should recognize and reflect risk interactions in all business activities as appropriate.
- **iii.** While assessing and managing risk the management should have an overall view of risks the institution is exposed to.
- **iv.** This requires having a structure in place to look at risk interrelationships across the organization.

Part-C:

A typical Credit risk management framework in a financial institution may be broadly categorized into following main components.

i. **Board and senior Management's Oversight**

It is the overall responsibility of bank's Board to approve bank's credit risk strategy and significant policies relating to credit risk and its management which should be based on the bank's overall business strategy. To keep it current, the overall strategy has to be reviewed by the board, preferably annually.

ii. **Organizational structure**

To maintain bank's overall credit risk exposure within the parameters set by BOD, the importance of a sound risk management structure is second to none. While the banks may choose different structures, it is important that such structure should be commensurate with institution's size, complexity and diversification of its activities. It must facilitate effective management oversight and proper execution of credit risk management and control processes.

iii. Systems and procedures for identification, acceptance, measurement, monitoring and control risks.

iv. Systems and procedures relating to risk identification, MIS, monitoring of loan/ investment portfolio quality and early warning.

Part-D:

The responsibilities of the Board with regard to credit risk management shall include:

i. Delineate bank's overall risk tolerance in relation to credit risk.

ii. Ensure that bank's overall credit risk exposure is maintained at prudent levels and consistent with the available capital.

iii. Ensure that top management as well as individuals responsible for credit risk management possess sound expertise and knowledge to accomplish the risk management function.

iv. Ensure that the bank implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of credit risk.

v. Ensure that appropriate plans and procedures for credit risk management are in place.