



Subject: Basel

Chapter: Unit 1, 2, 3 & 4

Category: Assignment

1. Bank Macatawa has a \$150 million exposure to Holland Metals Co. The exposure is secured by \$125 million of collateral consisting of AA+ -rated bonds. Holland Metals Co. is unrated. The collateral risk weight is 20%. Bank Macatawa assumes an adjustment to the exposure of +15% to allow for possible increases in the exposure and allows for a 25% change in the value of the collateral.

Calculate the Risk-weighted assets for the exposure.

2. Assume a bank has an internal loss multiplier (ILM) equal to 0.541 and a business indicator (BI) equal to 750 million. What is the standardized approach operational risk capital requirement for this bank?

3. Suppose a bank has a portfolio of five derivatives with two counterparties, as described in the following table:

- (1) Determine which values may be netted against each other,
- (2) Calculate the NRR,
- (3) Calculate the CEA.

Counterparty	Type	Maturity	Notional	Market value	Add-on factor
1	Interest rate	2	100	-5	0.5%
1	Interest rate	3	100	0	0.5%
1	Foreign exch.	2	200	10	5%
2	Equity option	6	100	0	10%
2	Wheat option	0.5	300	-10	10%

4. The first two principles (among eleven in total) are the fundamental principles. Principle One requests the establishment of a strong risk management culture. Principle Two requests the development and implementation of an operational risk management framework (ORMF). Among the following responsibilities, each is the responsibility of senior management EXCEPT which is the responsibility of the Board of Directors?

- A. Establishes and maintains robust challenge mechanisms and effective issue-resolution processes
- B. Translates the ORMF into specific policies and procedures that can be implemented and verified within the different business units
- C. To ensure implementation of the ORMF recruits experienced, technical staff and ensures sufficient level of operational risk training
- D. Reviews and approves the ORMF (at regular intervals) to ensure that the bank has is managing (and has identified) the operational risks arising from external market changes and other environmental factors.

5. Principle Six (6) among the Principles for Sound Management of Operation Risk advises that "Senior management should ensure the identification and assessment of the operational risk inherent in all material products, activities, processes and systems to make sure the inherent risks and incentives are well understood." Among the tools promoted, the following four are discussed:

- I. Losses in excess of a threshold are subjected to an exhaustive root cause analysis by the first line of defense, which in turn is subject to an independent review and challenge by the second line of defense
- II. These metrics and/or statistics are used to monitor the main drivers of exposure associated with key risks. They also provide insight into the status of operational processes, which may in turn provide insight into operational weaknesses, failures, and potential loss. They are often paired with escalation triggers to warn when risk levels approach or exceed thresholds or limits and prompt mitigation plans
- III. This tool identifies the key steps and risk points in business activities and organisational functions. It can reveal individual risks, risk interdependencies, and areas of control or risk management weakness. It can also help prioritize subsequent management action
- IV. A process of obtaining expert opinion of business line and risk managers to identify potential operational risk events and assess their potential outcome. This is an effective tool to consider potential sources of significant operational risk and the need for additional risk management controls or mitigation solutions. However, given its subjectivity, a robust governance framework is essential to ensure the integrity and consistency of the process

Which of the following correctly MATCHES the name of a tool to its corresponding DESCRIPTION above?

- A. I = Internal loss data; II = Key Risk Indicators (KRIs); III = Business Process Mapping; IV= Scenario Analysis
- B. I = Internal loss data; II = Scenario Analysis; III = Key Risk Indicators (KRIs); IV= Business Process Mapping
- C. I = External loss data; II = Scenario Analysis; III = Key Risk Indicators (KRIs); IV= Business Process Mapping
- D. I = External loss data; II = Business Process Mapping; III = Scenario Analysis; IV= Key Risk Indicators (KRIs)

6. Principle Nine (9) of the Principles for Sound Management of Operation Risk concerns Control and Mitigation and advises that "Banks should have a strong control environment that utilizes policies, processes and systems; appropriate internal controls; and appropriate risk mitigation and/or transfer strategies." In regard to the Committee's suggestions for managing technology risk and outsourcing risk, which of the following statements is TRUE?

- A. In most cases, outsourcing should be avoided because it introduces uncontrollable risks
- B. Risk transfer tools are a replacement (aka, substitute) for internal operational risk control
- C. The need for insurance against operational loss events is a red flag which indicates insufficient internal controls
- D. The use of technology related products, activities, processes and delivery channels exposes a bank to strategic, operational, and reputational risks and the possibility of material financial loss.

7. Mention 2 reasons that led to the creation of Basel I accords? Also state the limitations of basel .

8. Define Operational risk. What comes under operational risk management of banks?

9. Name a few risks faced by the bank and explain each of them in brief.

10. Regulators have proposed several approaches to determining a bank's operational risk exposure. One approach which would allow bank each bank to use it's own internal loss data to calculate the capital charge is the:

- A. Advanced measurement approach
- B. Proprietary risk approach
- C. Internal factor approach
- D. Basic indicator approach

11. Under Basel II, regulatory capital charge for operational risk can be calculated using:

- A. Market Discipline Approach (MDA)
- B. Minimum Capital Requirements Approach (MCRA)
- C. Reputational Risk Approach (RRA)
- D. Basic Indicator Approach (BIA)

12. Assess the risk that a digital bank is exposed in its business. (Give examples and explain).

13. Detail the Basel II and Basel III along with its impact on a Bank. Why Basel III was recommended by the Basel Committee.

14. According to Basel II what disclosures should be made by banks?

15. List the items included in Tier 1 and Tier 2 capital according to Basel III.