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QNO.1.(***PART A)*** Bank's risk management and other financial institution?

ANS.

1. Definition, identification, and classification of a firm's risk exposure and the source of risk (risk factor).

2. Analysis and quantification of the risk exposure, that is, understanding the relationship between and measurement of how the cash flow and value of firm are affected by a specific source (risk factor).An exposure profile relates unexpected changes in the firm's value. So far, many banks concentrate on this (passive) risk measurement step.

3. Allocation of (risk) capital to the business units as a common currency of risk that is comparable across business units and risk types and that is commensurate with the risk taken – as measured in step 2.

4.(EX ante) decision of whether a new transaction should be accepted from a portfolio perspective and consideration of whether the risk taking is compensated appropriately from a risk – return perspective.

5. Limitation of risk taking to ensure a constant risk profile by ''mitigating '' risk. This step is the actual and active management of risk and, therefore, what people commonly refer to when they use the term risk management. In order to ***''mitigate ''risk various (hedge) instruments and policies can be applied, such as, for example, (1) complete avoidance of risk, (2) reduction of risk, (3) transfer of risk to third party.***

6. Risk controlling usually encompasses the documentation and controlling of risk – management actions to ensure the achievement of the goals that have been set. Deviation between targets and actual performance are analysed to identify causes, which in turn lead to changes in the planning or the implementation process.

7. (EX post) performance evaluation in order to link risk – management actions to the overall corporate goals. Management has to develop strategic goals for various risk areas (risk strategy) that are commensurate with the ultimate firm objectives to firm profit

Q NO.1(PART B) There are four (4) ways through which banks can eliminate/avoid risk.

1.Document The Rational For Loan Upgrade

Linda Keith CPA, whose firm are dealing with business lenders in credit, says bankers should be careful to document the thinking behind their judgement that a loan should be upgraded for purpose of the allowance for loan and lease losses (ALLL). ''It's important to eliminate regulator guesswork, she says, for financial institutions to verify that guidelines for analysing a potential upgrade are ''clear.

2.Don't Be Afraid To Uncover Vulnerabilities

RMPI CONSULTING partner ***Jay Gallo***, who will discuss ''Integrating Risk Appetite, Stress Testing and Capital Planning,'' says stress testing is positive in that it enables financial institutions to gauge their potential vulnerability to exceptional but plausible adverse events.

Once the potential downside is understood, you can take steps to reduce or mitigate those risks.

3. Develop A Successful Stress Testing Framework With Three'' Knows''.

Jack Gregory and Dave Keever, senior stress testing and credit expert for ***Crowe Horwath***, say financial institution looking to prepare and manage stress test forecasts need to know three key things:

. The institution's portfolio

.The scenarios and their impact on the banks capital and liquidity

. The forecasts including what they show and why

4. Set Deadlines.

''To make the year – end ALLL as efficient as possible, it is best to get as much work done as possible prior to year end,'' ***says Mike Lubansky,*** director of consulting services at ***Sageworks.*** To do that, financial institutions should set hard deadlines for:

.Risk – rating changes

.Charge – offs

.Updating the core system to reflect the risk – rating change

.Updating the data on the impairment analyses

Q NO.3 (PART A)

What is the basis when the contract is closed out?

SOLUTION. Closed out = 80-78.15 = 1.85

<u>So therefor, closed out basis = 1.85</u>

<u>Q NO.3(PART B).</u> What is the final effective price paid by the company for the oil?

<u>SOLUTION.</u>

Effective paid price = initial price + Basis

= 75 + 1.85

= 76.85

<u>So therefor, Effective paid price by the company for the purchase of oil is = 76.85</u>

<u>Q NO.3 (PART C)</u>. They will go with commodity exchange because of the contract as they have mentioned that per barrel would be 1000 and its maturity would be 1 month as mentioned in their contract .