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MASTER OF BUSINESS ADMINISTRATION (M.B.A.)
EXAMINATION: MAY - 2025
SEMESTER - III
Sub.: Risk Management (MFM306)

Date : 29/05/2025**Total Marks : 60****Time: 10.00am to 12.30pm**

Instructions: 1) All questions are compulsory.
 2) Figures to the right indicate full marks.

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| Q. 1. | Write Short notes on (Any Three) | (15) |
| | <ol style="list-style-type: none"> 1. Impact of risk on organizations 2. Need of risk management 3. Liquidity Risk 4. Risk Management In Insurance 5. Credit Ratings | |
| Q. 2. | Answer in detail (Any One) | (10) |
| | <ol style="list-style-type: none"> 1. Identify and describe at least three types of risks commonly faced by organizations 2. How do changes in interest rates affect the pricing of financial assets such as bonds and loans? | |
| Q. 3. | Answer in detail (Any One) | (10) |
| | <ol style="list-style-type: none"> 1. Define credit risk and explain its significance for banks. 2. Explain the concept of Enterprise Risk Management (ERM) and its significance in modern business environments. | |
| Q. 4. | Answer in detail (Any One) | (10) |
| | <ol style="list-style-type: none"> 1. How have the Basel Committee norms evolved over time to address emerging risks and challenges in the banking sector? 2. Describe methods for measuring investment returns and risks. | |
| Q. 5. | <p>NovaTrust Financial is an innovative financial services institution that has rapidly expanded its retail and commercial banking divisions along with a growing enterprise lending portfolio. Founded just over a decade ago, NovaTrust has built its reputation on leveraging cutting-edge fintech solutions. However, the institution is now facing new challenges amid increased global market volatility, regulatory shifts, and heightened credit risk exposures.</p> <p>In late 2024, NovaTrust reported a significant loss attributed to a spike in non-performing loans, combined with unexpected currency fluctuations impacting its international operations. An internal review uncovered several key shortcomings:</p> <p>Fragmented Risk Identification: Inconsistent risk categorization across business units led to underreported exposures.</p> <p>Over-Reliance on Traditional Metrics: The sole dependency on Value at Risk (VaR) models failed to capture extreme market fluctuations.</p> <p>Decentralized Reporting: Varying risk-reporting practices across divisions hampered timely decision-making.</p> <p>Ineffective Credit Underwriting: An outdated credit risk model in the small-to-medium business (SMB) segment resulted in underestimated credit defaults.</p> <p>Limited Enterprise Oversight: A lack of integrated enterprise-wide risk management (ERM) led to ineffective mitigation strategies.</p> <p>Responding to these challenges, NovaTrust Financial has decided to overhaul its risk management framework. The board has designated a new Chief Risk Officer (CRO) and is adopting a comprehensive ERM strategy that aligns with recognized standards such as ISO 31000 and Basel III guidelines. The institution's new approach focuses on integrating advanced volatility measurement techniques and enhancing its credit risk</p> | (15) |

assessment procedures across all divisions.

The company's key issues are as follows:

Holistic Risk Identification and Aggregation: There is an immediate need to create a unified process for identifying, measuring, and reporting risks across the organization.

Robust Volatility and Stress Testing: Reliance on VaR alone is proving insufficient in managing the full spectrum of market volatility. Advanced stress testing and scenario analysis are necessary.

Credit Risk Overhaul: Outdated credit risk assessment methods, particularly within the SMB lending segment, need to be replaced with more dynamic and predictive analytics.

Enterprise Integration: The absence of a centralized risk oversight committee has led to fragmented risk management practices. An integrated ERM framework is critical to improving risk visibility and responsiveness.

Questions:

1. What are the essential components of an effective Enterprise Risk Management (ERM) framework? Discuss how NovaTrust Financial can design an ERM system that ensures consistent risk identification, measurement, and reporting across its diverse business units.

2. What additional methodologies should be employed to improve the measurement of risk and volatility? How can these approaches provide a more comprehensive view of potential exposures?

3. Identify the key stages in a credit risk management process and propose strategies NovaTrust could implement to refine its credit risk evaluation and monitoring practices. How can technology improve these processes?
