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QUESTION 1

Operational risk team for a large international bank is implementing business continuity planning (BCP). Which of the following BCP activities fall within the definition of operational risk and represent Basel II Accord's operational risk categories:

- A. Damage to Physical Assets
 - II. Business Disruption and System Failures
 - III. Social Distancing Requirements
 - IV. Potential for Extreme Losses
- B. I and II
- C. III
- D. I and IV
- E. III and IV

Correct Answer: A

QUESTION 2

Alpha Bank determined that Delta Industrial Machinery Corporation has 2% change of default on a one-year no-payment of USD \$1 million, including interest and principal repayment. The bank charges 3% interest rate spread to firms in the machinery industry, and the risk-free interest rate is 6%. Alpha Bank receives both interest and principal payments once at the end the year. Delta can only default at the end of the year. If Delta defaults, the bank expects to lose 50% of its promised payment. What may happen to the Delta's initial credit parameter and the value of its loan if the machinery industry experiences adverse structural changes?

- A. Probability of default and loss at default may decrease simultaneously, while duration rises causing the loan value to decrease.
- B. Probability of default and loss at default may decrease simultaneously, while duration falls causing the loan value to decrease.
- C. Probability of default and loss at default may increase simultaneously, while duration rises causing the loan value to decrease.
- D. Probability of default and loss at default may increase simultaneously, while duration falls causing the loan value to decrease.

Correct Answer: D

QUESTION 3

Which one of the following four statements about equity indices is INCORRECT?



- A. Equity indices are numerical calculations that reflect the performance of hypothetical equity portfolios.
- B. Equity indices do not trade in cash form, rather, they are meant to track the overall performance of an equity market.
- C. Capitalization-weighted equity indices are not generally considered better to track the performance of an overall market.
- D. Price-weighted equity indices give greater weight to shares trading at high prices.

Correct Answer: C

QUESTION 4

To protect the oranges harvest price level, a farmer needs to take a hedge position. Provided that he produces the amount he hedged, which one of the following four strategies will allow the farmer to accomplish his goal?

- A. Going short on oranges futures contracts
- B. Going long on oranges futures contracts
- C. Entering into a customized forward contract with the bank
- D. Negotiating a credit line facility

Correct Answer: A

QUESTION 5

A corporate bond gives a yield of 6%. A same maturity government bond yields 2%. The probability of the corporate bond defaulting is 2.5%. In case of default, investors expect to lose 60% of their investment. The risk premium in the credit spread is:

- A. 1.5%
- B. 4.5%
- C. 2.5%
- D. 0.5%

Correct Answer: C

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