



2016-FRR^{Q&As}

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QUESTION 1

A corporate bond was trading with 2% probability of default and 60% loss given default. Due to the credit crisis the probability of default increased to 10% and the loss given default increased to 100%. Assuming that the risk premium remained the same how did the credit spread change?

- A. Increased by 1120 basis points
- B. Increased by 880 basis points
- C. Increased by 1000 basis points
- D. Decreased by 880 basis points

Correct Answer: B

QUESTION 2

Which one of the following four option types has two strike prices?

- A. Asian options
- B. American options
- C. Range options
- D. Shout options

Correct Answer: D

QUESTION 3

Which one of the four following statements about a minimal loss threshold in operational loss data collection is incorrect?

- A. A company can have differing operational loss data collection and reporting thresholds for different departments.
- B. The operational loss data collection program has to capture all losses regardless of their size.
- C. Setting an operational loss data collection threshold depends on the risk appetite of the firm and regulatory requirements it needs to meet.
- D. The operational loss data collection program must include all material losses that are above minimal gross loss threshold.

Correct Answer: B

QUESTION 4



Which one of the following statements regarding collateralized mortgage obligations (CMO) is incorrect?

- A. CMOs have senior tranches which are considered short-term, low-risk instruments by banks
- B. CMOs are asset-backed securities that have pools of collateralized debt obligations (CDOs) as underlying collateral.
- C. CMOs are generally less risky investment than CDOs.
- D. CMOs are pools of mortgages that are divided according to the timing of cash flows.

Correct Answer: B

QUESTION 5

Mega Bank has \$100 million in deposits on which it pays 3% interest, and \$20 million in equity on which it pays no interest. The loan portfolio of \$120 million earns an average rate of 10%. If the rates remain the same and Mega Bank is able to earn the same net interest income in perpetuity at a 5% discount rate, what will the present value of this holding be?

- A. \$100 million
- B. \$150 million
- C. \$180 million
- D. \$200 million

Correct Answer: C

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