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## Question 1

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**Question Type: MultipleChoice**

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\_\_\_\_\_ Strategy consists of buying a bond with maturity longer than the investment horizon (for investor)  
or buying a long-maturity bond with short-term funding through repo (for speculator).

### Options:

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- A- Barbell, Ladder and Butterfly
- B- Yield Spread Anticipation
- C- Rate Anticipation with Maturity Mismatch
- D- Riding the yield curve

### Answer:

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D

## Question 2

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**Question Type: MultipleChoice**

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Provisioning Coverage Ratio (PCR) is essentially the ratio of provisioning to \_\_\_\_\_ and indicates the extent of funds a bank has kept aside to cover loan losses.

**Options:**

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A- total loan portfolio

B- gross non-performing assets

C- total assets

**Answer:**

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B

## Question 3

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**Question Type: MultipleChoice**

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Step up upon feature will lead to

**Options:**

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- A- no change as step is not linked to issuers rating
- B- positive basis because the bond holder is compensated
- C- negative basis given that the bondholder is not compensated
- D- Will lead to a change only if there is a linkage to the issuer's rating

**Answer:**

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B

## Question 4

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**Question Type: MultipleChoice**

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Which of the following is NOT a conceptual definition of credit risk on which credit models are based?

**Options:**

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- A- Default Mode Paradigm

**B-** Value-at-Risk paradigm

**C-** Mark-to-Market Paradigm

**Answer:**

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B

## Question 5

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**Question Type:** MultipleChoice

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Statement 1: The Yields on the MBS PTCs are normally higher than the yields on the corporate bonds of similar ratings.

Statement 2: The reason for difference in yields on the corporate bonds and similarly rated PTCs is on account of the optionality in the PTC, the unfamiliarity of the structure and uncertainties in respect of legal and structural issues.

Which of the above statements is correct?

**Options:**

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**A-** None of the statements

- B- Both the statements
- C- Only Statement 2 is correct
- D- Only Statement 1 is correct

**Answer:**

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D

## Question 6

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**Question Type:** MultipleChoice

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Stand by letter of credits are typically taken as credit enhancement for\_\_\_\_\_

**Options:**

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- A- Commercial Paper
- B- Long term Bond issues
- C- Long term debenture issues
- D- Bank debt

**Answer:**

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D

## Question 7

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**Question Type:** MultipleChoice

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Bank A has an imaginary portfolio of USD 1000 Million distributed towards following four entities:

Company W	USD 200 Million,	Rated AA
Company X	USD 300 Million,	Rated A
Company Y	USD 300 Million,	Rated AA
Company Z	USD 200 Million,	Rated BBB

Bank A is stipulated to maintain a capital adequacy ratio of 11% on its risk weighted assets. It is being stipulated that the ratings for all the four entities is expected to be downgraded by 1 notch each. Estimate the amount of new capital required for Bank A?

**Options:**

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A- USD 93.5 Million

B- USD 38.5 Million

C- USD 55 Million

D- USD 850 Million

**Answer:**

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B

## Question 8

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**Question Type:** MultipleChoice

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Which of the following is not an importance of the sovereign rating?

A: To arrive at cost of lending to a country

B: To set lower floor for the rating of the corporate and banks of the countries on international scale.

C: For determining the risk levels for international investment portfolios

**Options:**

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- A- Only A and C
- B- Only B
- C- Only A and B
- D- None of the three

**Answer:**

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B

## Question 9

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**Question Type:** MultipleChoice

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In a weakening economy, which of the following is least accurate?

**Options:**

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- A- Interest costs go up and create refunding risk for those who have bonds maturing which need to be rolled over.
- B- Interest costs go up and create rate risk for have bonds maturing which need to be rolled over.
- C- None of the other options.

**D-** Interest costs go up and create funding risk for those who have borrowing plans lined up.

**Answer:**

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D

## Question 10

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**Question Type: MultipleChoice**

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Based on the Moody's KMV model which of the following is not correct?

A: Growth variables are important for default analysis. rapid growth will lead to lower probability of default and rapid decline will lead to higher probability of default.

B: Activity ratios are relevant for default analysis. A large stock of inventories relative to sales will lead to a higher probability of default.

**Options:**

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**A-** Only Statement A is correct

**B-** Both the statements are correct

**C-** None of the statements is correct

**D-** Only Statement B is correct

**Answer:**

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D

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