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Question 1

Question Type: MultipleChoice

Which option best shall not be used as a source of information for the credit risk assessment?

Options:

- A- Annual Report
- B- Reports issued by brokerages on companies
- C- Analyst Presentations
- D- Concall transcripts

Answer:

A

Question 2

Question Type: MultipleChoice

During FY13, Small Bazar, a leading retail company has sold three of its prime properties for a sum of USD 24 Million. The same had a carrying value of USD 30 Million.

Analyst had considered the same as operating income and considered it to be part of operating expenses.

However, she realized her mistake and recorded the loss as non-operating loss. Which of the following ratio will not change despite the correction?

- A) EBITDA Margins
- B) Interest Coverage
- C) PAT Margins
- D) Gross Profit Margin

Options:

- A- B, C & D
- B- A, B & C
- C- B, C

D- All Ratios will change

Answer:

B

Question 3

Question Type: MultipleChoice

"Following four entities operate in the Indian IT and BPO space. They all are into same segment of providing off-shore analytical services. They all operate on the labour cost-arbitrage in India and the countries of their clients. Following information pertains for the year ended March 31, 2013.

| Particular | Beautiful | Handsome | Glowing | Glamorous |
|----------------------------|-----------|----------|---------|-----------|
| Number of Employees | 300 | 450 | 700 | 1200 |
| Major clients based out of | UK | USA | USA | UAE |
| Billing currency | GBP | INR | USD | USD |

| Particular | Beautiful | Handsome | Glowing | Glamorous |
|---------------------------------|-----------|----------|---------|-----------|
| Revenue | 36 | 72 | 116 | 188 |
| Employee Cost | 16 | 22 | 44 | 88 |
| Other Delivery Cost | 2 | 3 | 4 | 6 |
| Administrative and Selling Cost | 2 | 3 | 3 | 5 |
| Finance Cost | 1 | 2 | 1 | 4 |
| Depreciation | 2 | 6 | 6 | 9 |
| Taxes | 2 | 8 | 9 | 12 |

| Particular | Beautiful | Handsome | Glowing | Glamorous |
|----------------------------|-----------|----------|---------|-----------|
| Assets | | | | |
| Fixed Assets | 10 | 24 | 24 | 37 |
| Short Term Investments | 3 | 7 | 6 | 8 |
| Debtors | 6 | 18 | 22 | 48 |
| Total | 19 | 49 | 52 | 93 |
| Liabilities | | | | |
| Equity Share Capital | 2 | 8 | 12 | 10 |
| Reserves and Surplus | 5 | 12 | 24 | 43 |
| Term Loans | 8 | 16 | 6 | 24 |
| Working Capital Borrowings | 4 | 11 | 9 | 12 |
| Creditors | 0 | 2 | 1 | 4 |
| Total | 19 | 49 | 52 | 93 |

The year FY13, was typically a good year for Indian IT companies. For FY14, the economic analysts have given following predictions about the IT Industry:

- A) It is expected that INR will appreciate sharply against other USD.
- B) Given high inflation and attrition in IT Industry in India, the wages of IT sector employees will increase more sharply than Inflation and general wage rise in country.
- C) US Congress will be passing a bill which restricts the outsourcing to third world countries like India.

While analyzing the four entities, you come across following findings related to Glowing:

Glowing is promoted by Mr.M R Bhutta, who has earlier promoted two other business ventures, He started with ABC Entertainment Ltd in 1996 and was promoter and MD of the company. ABC was a listed entity and

its share price had sharp movements at the time of stock market scam in late 1990s. In 1999, Mr.Bhutta sold his entire stake and resigned from the post of MD. The stock price declined by about 90% in coming days and has never recovered. Later on in 2003, Mr.Bhutta again promoted a new business, Klear Publications Ltd (KCL) an in the business of magazine publication. The entity had come out with a successful IPO and raised money from public. Thereafter it ran into troubles and reported losses. In 2009, Mr.Bhutta went on to exit this business as well by selling stake to other promoter(s). There have been reports in both instances with allegations that promoters have siphoned off money from listed entities to other group entities, however, nothing has been proved in any court."

Which of the following risks do not exist for Indian IT industry?

Options:

- A- Raw material price risk, Exchange rate Risk
- B- Interest rate risk, Skilled Manpower Risk
- C- Exchange Rate Risk, Interest rate risk
- D- Domestic and international regulatory risk, technological risk

Answer:

B

Question 4

Question Type: MultipleChoice

Satish Dhawan, a veteran fixed income trader is conducting interviews for the post of a junior

fixed income trader. He interviewed four candidates Adam, Balkrishnan, Catherine and Deepak and following are the answers to his questions.

Question 1: Tell something about Option Adjusted Spread

Adam: OAS is applicable only to bond which do not have any options attached to it. It is for the plain bonds.

Balkishna: In bonds with embedded options, AS reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

Catherine: Since spreads are calculated to know the level of credit risk in the bond, OAS is difference between in the Z spread and price of a call option for a callable bond.

Deepark: For callable bond OAS will be lower than Z Spread.

Question 2: This is a spread that must be added to the benchmark zero rate curve in a parallel shift so that the sum of the risky bond's discounted cash flows equals its current market price. Which Spread I am talking about?

Adam: Z Spread

Balkrishna: Nominal Spread

Catherine: Option Adjusted Spread

Deepark: Asset Swap Spread

Question 3: What do you know about Interpolated spread and yield spread?

Adam: Yield spread is the difference between the YTM of a risky bond and the YTM of an on-the-run treasury benchmark bond whose maturity is closest, but not identical to that of risky bond. Interpolated spread is the spread between the YTM of risky bond and the YTM of same maturity treasury benchmark, which is interpolated from the two nearest on-the-run treasury securities.

Balkrishna: Interpolated spread is preferred to yield spread because the latter has the maturity mismatch, which leads to error if the yield curve is not flat and the benchmark security changes over time, leading to inconsistency.

Catherine: Interpolated spread takes account the shape of the benchmark yield curve and therefore better

than yield spread.

Deepak: Both Interpolated Spread and Yield Spread rely on YTM which suffers from drawbacks and inconsistencies such as the assumption of flat yield curve and reinvestment at YTM itself.

Then Satish gave following information related to the benchmark YTM's:

| Maturity(yrs) | 1 | 2 | 3 | 4 | 5 |
|---------------|------|------|------|------|------|
| YTM | 8.22 | 8.52 | 8.88 | 8.98 | 9.02 |

There is a 10.25% risky bond with a maturity of 4.75 year(s). Its current price is INR105.31, which corresponds

to YTM of 9.22%. Compute Interpolated Spread from the information provided in the vignette:

Options:

- A- 0.20%
- B- 0.21%
- C- 0.24%
- D- 0.22%

Answer:

C

Question 5

Question Type: MultipleChoice

Ms. Mary Brown is a credit rating analyst. She had prepared a detailed report on one of her client, FlyHigh

Airlines Ltd, a company operating chartered aircrafts in Indi

a. As she was heading for a meeting with her superior on the matter, coffee spilled over her set of prepared paper(s). As she was getting late for meeting, instead of preparing entire set she could recollect few numbers from her memory and reconstructed following partial financial table:

| Period Ended | FY10 | FY11 | FY12 |
|----------------------------|--------|--------|--------|
| Working Results | | | |
| Total Income | | | |
| EBITDA | | | |
| Interest | | | |
| Depreciation | 20.00 | 25.00 | 30.00 |
| Effective Tax Rate | 20% | 24% | 25% |
| PBT | | | |
| PAT | | | |
| Financial Position | | | |
| Net Worth | 370.00 | 430.00 | 535.67 |
| Total Debt | 743.00 | | |
| Ratios | | | |
| Growth | | | |
| Growth in Total Income (%) | | 25% | 15% |
| Growth in EBITDA (%) | | 30% | 20% |
| Growth in PAT (%) | | 20% | |
| Profitability | | | |
| EBITDA Margins | | 32% | |
| PAT Margins | | | |
| RONW | | | |
| Solvency | | | |
| Overall Gearing Ratio | | 2.2 | |
| Interest coverage ratio | 3.2 | | 3.1 |
| Total Debt / EBITDA | | 4.5 | 5.2 |

Compute growth in PAT for FY12?

Options:

- A- 25%
- B- 19%
- C- 22%
- D- 21%

Answer:

A

Question 6

Question Type: MultipleChoice

Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across Indi

a. The bank has been in business since 1971 and has about 40% branches in rural areas and about 75% of all branches are in

Western India. On the basis of the size, Auckland Ltd will be ranked at number 31 amongst 40 banks in India.

Although top management has appointment period of 5 years, generally they retire on achieving age of 60 years with an average tenure of only 2 years at the top job.

Profit and Loss Account

| Particulars | FY11 | FY12 | FY13 |
|--|----------------|----------------|----------------|
| Interest on advances bills | 124,000 | 182,000 | 283,000 |
| Interest on investments | 15,000 | 18,000 | 14,000 |
| Interest on balances with Banking Regulator and other inter-bank funds | 1,100 | 1,000 | 1,700 |
| Other interest income | 40,000 | 49,000 | 54,000 |
| Other Income | 80,000 | 95,000 | 99,000 |
| Total Income | 260,100 | 345,000 | 451,700 |
| Interest expenses | 105,000 | 148,000 | 235,000 |
| Operating expenses | 23,000 | 28,000 | 32,000 |
| Total expenditure | 128,000 | 176,000 | 267,000 |
| Operating Profit | 155,100 | 197,000 | 216,700 |
| Provisions | 72,000 | 102,000 | 174,000 |
| Profit before tax | 83,100 | 95,000 | 42,700 |
| Tax | 16,600 | 19,000 | 8,500 |
| Profit after Tax | 66,500 | 76,000 | 34,200 |

Balance Sheet

| Assets | March 31 2011 | March 31 2012 | March 31 2013 |
|--|------------------|------------------|------------------|
| Cash and Balances with Reserve Bank of India | 120,000 | 420,000 | 770,000 |
| Balances with Banks and Money at Call and Short Notice | 745,000 | 789,000 | 1194,000 |
| Investments | 598,000 | 689,000 | 1139,000 |
| Advances | 1432,000 | 1709,000 | 2485,000 |
| Fixed Assets | 223,000 | 234,000 | 245,000 |
| Other Assets | 567,000 | 670,000 | 970,000 |
| TOTAL | 3685,000 | 4511,000 | 6803,000 |

| Liabilities | March 31 2011 | March 31 2012 | March 31 2013 |
|----------------------------------|------------------|------------------|------------------|
| Capital | 31,000 | 31,000 | 42,000 |
| Reserves and Surplus | 294,000 | 370,000 | 1154,000 |
| Deposits | 2100,000 | 2120,000 | 2450,000 |
| Borrowings | 960,000 | 1590,000 | 2657,000 |
| Other Liabilities and Provisions | 300,000 | 400,000 | 500,000 |
| TOTAL | 3685,000 | 4511,000 | 6803,000 |

The rating wise break-up of assets for FY11 is as follows:

| Rating | FY11 |
|--------------|-----------------|
| AAA | 120,000 |
| AA | 530,000 |
| A | 220,000 |
| BBB | 150,000 |
| BB and below | 310,000 |
| Unrated | 102,000 |
| Total | 1432,000 |

During which year amongst the three, was the overall financial profile of bank most string?

Options:

- A- No change in three years
- B- FY13
- C- FY11
- D- FY12

Answer:

B

Question 7

Question Type: MultipleChoice

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

Options:

- 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:

D

Question 8

Question Type: MultipleChoice

Which option best is NOT a conceptual definition of credit risk on which credit models are based?

Options:

- A- Default Mode Paradigm
- B- Value-at-Risk paradigm
- C- Mark-to-Market Paradigm

Answer:

B

Question 9

Question Type: MultipleChoice

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| PAT | | | |
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| Growth in PAT (%) | | 20% | |
| Profitability | | | |
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| PAT Margins | | | |
| RONW | | | |
| Solvency | | | |
| Overall Gearing Ratio | | 2.2 | |
| Interest coverage ratio | 3.2 | | 3.1 |
| Total Debt / EBITDA | | 4.5 | 5.2 |

PAT margins are highest in which of the years?

Options:

A- FY12

B- FY11

C- FY10

D- Equal in FY10 and FY12

Answer:

A



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