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GARP 2016-FRR

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Topic Break Down

Topic	No. of Questions
Topic 1, Volume A	99
Topic 2, Volume B	100
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QUESTION NO: 1

Which of the following statements about a bank's behavior regarding Risk Adjusted Return on Capital (RAROC) is correct?

I. A bank should always seek to maximize their overall RAROC.

II. A bank should consider investing in a business even with negative RAROC if it increases the RAROC of

the bank as a whole.

III. A bank should minimize its overall RAROC by controlling the absolute and relative amount of risk of its businesses.

IV. A bank should maximize its RAROC by always investing in a new business that maximizes the RAROC for that business unit.

A. I and II

B. II and IV

C. I, II and III

D. II, III, and IV

E. A bank should always seek to maximize their overall RAROC.

II. A bank should consider investing in a business even with negative RAROC if it increases the RAROC of
the bank as a whole.

III. A bank should minimize its overall RAROC by controlling the absolute and relative amount of risk of its businesses.

IV. A bank should maximize its RAROC by always investing in a new business that maximizes the RAROC for that business unit.

ANSWER: A

QUESTION NO: 2

Which one of the following four factors typically drives the pricing of wholesale products?

A. Marketing considerations

B. Prevailing market price

C. Long-term competitiveness

D. Overall risk exposure

ANSWER: B

QUESTION NO: 3

Mega Bank holds a $250 million mortgage loan portfolio, which reprices every 5 years at LIBOR + 10%. The bank also has $150 million in deposits that reprices every month at LIBOR + 3%. What is the amount of Mega Bank's rate sensitive liabilities?

A. $100 million

B. $150 million

C. $200 million

D. $250 million

ANSWER: B

QUESTION NO: 4

Which one of the following four statements regarding counterparty credit risk is INCORRECT?

A. Counterparty credit risk refers to the inability to realize gains in a contract with a counterparty due to its default.

B. The exposure at default is variable due to fluctuations in swap valuations.

C. The exposure at default can be negatively correlated to probability of default.

D. Dynamic collateral provisions often increase counterparty risk considerably.

ANSWER: B

QUESTION NO: 5

Which one of the four following statements about technology systems for managing operational risk event data is incorrect?

A. Operational risk event databases are always integrated with the other components of the operational risk management program.

B. Operational risk loss event data collection software can be internally developed.

C. Operational risk event databases are independent elements of the operational risk management framework.

D. The implementation of a new operational risk event loss database has to incorporate an analysis of the advantages and disadvantages of external systems.

ANSWER: A

QUESTION NO: 6

According to Basel II what constitutes Tier 2 capital?

A. Debt that is not subordinated to equity and innovative capital products that would count as Tier 1 capital and excluding perpetual non-cumulative preference shares.

B. Debt that is subordinate to equity.

C. Equity capital and debt together.

D. Core capital excluding undisclosed reserves and general reserves that the bank may make against its expected loan losses.

ANSWER: A

QUESTION NO: 7

In analyzing the historical performance of a financial product, you are concerned about "fat tails", the probability of extreme returns compared to realized returns. Which of the following measures should you use to determine if the product return distribution of the product has "fat tails"?

A. Mean

B. Standard deviation

C. Skewness

D. Kurtosis

ANSWER: D

QUESTION NO: 8

Using a forward transaction, Omega Bank buys 100 metric tones of aluminum for delivery in six-months' time. However, after two months, the bank becomes concerned with the potential fluctuations in aluminum prices and wants to hedge its potential exposure against a possible decline in aluminum prices. Which one of the following four strategies could the bank use to offset the risk from its current exposure to aluminum as it sets the price for selling the commodity in four-months' time?

A. Sell an aluminum futures contract

B. Buy an aluminum futures contract

C. Sell an aluminum forward contract

D. Buy an aluminum forward contract

ANSWER: A

QUESTION NO: 9

To quantify the aggregate average loss for the credit portfolio and its possible constituent subportfolios, a credit portfolio manager should use the following metric:

A. Credit VaR

B. Expected loss

C. Unexpected loss

D. Factor sensitivity

ANSWER: B

QUESTION NO: 10

Which one of the following statements correctly identifies risks in foreign exchange forwards?

A. Short-term forward price fluctuations are driven by changes in the spot exchange rate, since most inter-country interest rates differentials are significant, and the effect of compounding is large for short periods of time.

B. Short-term forward price fluctuations are driven by changes in the spot exchange rate, since most inter-country interest rates differentials are small, and the effect of compounding is small for short periods of time.

C. Long-term forward price fluctuations are driven by changes in the spot exchange rate, since most inter-country interest rates differentials are small, and the effect of compounding is large for short periods of time.

D. Long-term forward price fluctuations are driven by changes in the spot exchange rate, since most inter-country interest rates differentials are significant, and the effect of compounding is small for short periods of time.

ANSWER: B

QUESTION NO: 11

Typically, which one of the following four option risk measures will be used to determine the number of options to use to hedge the underlying position?

A. Vega

B. Rho

C. Delta

D. Theta

ANSWER: C

QUESTION NO: 12

Which one of the following four attributes would likely help a trader using exchange-traded options to establish a leveraged position?

A. Higher degrees of exposure at less cash cost

B. Unlimited losses for long option positions

C. Option positions have the same credit risks as a margined long forward.

D. Option positions have the same cash risks as a margined short futures purchase.

ANSWER: A

QUESTION NO: 13

When trading exotic options, one needs to consider the following risks:

I. Spot foreign exchange risks

II. Forward foreign exchange risks

III. Plain vanilla options risks

IV. Option-specific risks

A. I, III

B. II, III, IV

C. I, II, IV

D. I, II, III, IV

E. Spot foreign exchange risks

II. Forward foreign exchange risks

III. Plain vanilla options risks

IV. Option-specific risks

ANSWER: D

QUESTION NO: 14

Which one of the following four model types would assign an obligor to an obligor class based on the risk characteristics of the borrower at the time the loan was originated and estimate the default probability based on the past default rate of the members of that particular class?

A. Dynamic models

B. Causal models

C. Historical frequency models

D. Credit rating models

ANSWER: C

QUESTION NO: 15

A bank considers issuing new capital to increase its Tier 1 capital levels. Which of the following financial

instruments would most likely to be considered?

A. Long-term and callable debt convertible to equity

B. Convertible preferred shares

C. Short-term callable debt

D. Short-term debt convertible to non-cumulative preferred shares

ANSWER: B