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Question: 1

Which statement best captures the purpose of hedge accounting (high level)?

- A. To eliminate all market risk from the firm's balance sheet permanently
- B. To ensure hedges are always cheaper than self-insurance
- C. To better align the timing of hedge gains/losses with the hedged item's accounting impact
- D. To guarantee that all hedges generate positive cash flow

Answer: C

Question: 2

Two portfolios have the same expected return. Portfolio X has lower volatility than Portfolio Y. Which is most accurate?

- A. Portfolio X is preferred because it dominates on risk for the same return
- B. Neither can be preferred without knowing the inflation rate
- C. Portfolio Y is preferred because volatility measures only upside variability
- D. Portfolio Y is preferred because higher volatility always implies higher expected return

Answer: A

Question: 3

Which instrument most directly provides a firm with protection against rising interest rates on a future borrowing?

- A. Short position in a currency option unrelated to the loan currency
- B. Pay-fixed / receive-floating interest rate swap (or a rate cap)
- C. Receive-fixed / pay-floating interest rate swap
- D. Long position in a dividend futures contract

Answer: B

Question: 4

A commercial borrower's revenue depends heavily on a single customer. What risk driver is most directly highlighted?

- A. Basis risk in the borrower's hedges
- B. Dividend risk in the borrower's equity holdings
- C. Repo rollover risk in the interbank market
- D. Concentration risk in the borrower's cash flows

Answer: D

Question: 5

If a firm's hurdle rate for RAROC is 12%, which proposal is most attractive from a risk-adjusted perspective?

- A. RAROC 14% with moderate capital consumption
- B. RAROC 12% only if gross revenue is high
- C. RAROC 8% because growth is always prioritized
- D. RAROC 10% with very low capital consumption

Answer: A

Question: 6

Which use of risk-adjusted performance measures is most appropriate?

- A. Ignoring tail risk because average returns are what matter
- B. Replacing risk governance and controls because performance metrics are sufficient
- C. Eliminating diversification effects by allocating the same capital to all units
- D. Comparing business lines with different risk profiles on a consistent basis

Answer: D

Question: 7

Which ALM measure most directly focuses on the change in the economic value of equity under rate shocks?

- A. Loan loss provision
- B. Accounts receivable turnover
- C. Economic Value of Equity (EVE) sensitivity
- D. Sharpe ratio

Answer: C

Question: 8

Which scenario most clearly illustrates internal fraud as an operational loss category?

- A. A trader hides unauthorized positions and falsifies records to avoid detection
- B. A currency forward moves against the hedger due to FX volatility
- C. Bond prices fall after a rate hike
- D. A borrower misses a loan payment due to job loss

Answer: A

Question: 9

Which statement best describes the primary economic role of financial markets?

- A. To eliminate uncertainty by guaranteeing stable asset prices
- B. To facilitate capital allocation and risk transfer between participants
- C. To replace all financial intermediaries with government agencies
- D. To ensure all investors earn the same return

Answer: B

Question: 10

A bank begins preparing for climate risk disclosure mandates. Which disclosure theme is most consistent with common climate disclosure frameworks?

- A. Only daily trading profits from carbon credit desks
- B. Only details of employee travel emissions, with no financial risk context
- C. Governance and oversight of climate-related risks, plus risk management and relevant metrics
- D. Only a statement that "the bank supports sustainability" with no risk details

Answer: C

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