# CCRA

Number: CCRA
Passing Score: 800
Time Limit: 120 min
File Version: 1

CCRA

**Exam A**

**QUESTION 1**
**Case Facts as on March 31, 2012**

Mark Construction Company (MCC) has bagged a contract for construction of a large dam and hydro power project on river Shivna in Madhya Pradesh (MP). The project is also of relevance from the irrigation perspective due to its location and as per the agreement MCC will have to undertake construction of web of canals, approach road to dam, power house and other ancillary units. MCC is promoted by Mr. Thomas Mark, who is a MP from the ruling party which recently formed government in MP. Historically, MCC has been engaged into construction of rural roads, small bridges and railway platforms on contract basis for the Government. MCC will have a separate special purpose vehicle (SPV) floated for this venture.

The hydro power project comes under the public private partnership scheme of the Government of MP, where in the private partner builds owns operates and transfers (BOOT) the hydro power plant. The detailed terms of the hydro power project agreement are as follows:

1. The construction of the dam, canals and hydro power plant shall be undertaken by the contractor. The Government of MP will have to acquire land which will submerge on construction of dam and shall rehabilitate the owners of land.

2. MCC shall have right to operate the hydro power project from date of commencement of commercial operations (DCCO) for a period of 20 years and shall transfer the project to Government thereafter. Further, SPV shall be tax exempt for a period of five years from DCCO i.e. FY17-FY21.

3. The power project is of 600 megawatts (MW) shall comprise 4 units of 150 MW each. The estimated cost of project is about INR3, 500 Million to be spent over a period of 4 year(s) the project is estimated to be commercially operational by April 1, 2016 with two units operational om same day and one unit each will be operational on April 1, 2017 and April 1, 2018.

4. Means of finance:

| Means of Finance | INR Million |
|---|---|
| Government Aid (To be classified as Equity) | 500 |
| Equity | 900 |
| Debt | 2100 |

Means of Finance INR Million
Government Aid (To be classified as Equity) 500Equity 900 Debt 2100

5. Amount if expenditure estimated in various years is as follows:

| | | | | **Funding** | | |
|---|---|---|---|---|---|---|
| Cost of Project | INR Million | | Debt | Govt Aid | Equity | Total |
| FY13 (April to march) | 700 | | 0 | 250 | 450 | 700 |
| FY14 | 1200 | | 500 | 250 | 450 | 1200 |

| | | | | | | |
|---|---|---|---|---|---|---|
| FY15 | 1200 | | 1200 | - | | 1200 |
| FY15 | 400 | | 400 | - | | 400 |

Debt shall bear a fixed rate of interest of 10% and all interest till DCCO shall be added to the principal. The expected principal along with capitalized interest is expected to be INR2, 400 Million (i.e.INR2100 Million debt plus INR300 Million capitalized interest). The repayment of the same shall be in 12 equated annual installments starting from FY17.

Brief projections for the period of FY17 to FY21 are given below:

| Particular | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|
| Revenue from Power sale | 600 | 900 | 1200 | 1320 | 1452 |
| EBITDA % | 72% | 68% | 65% | 60% | 60% |
| Interest Cost | 240.00 | 220.00 | 200.00 | 180.00 | 160.00 |
| Depreciation | 175.00 | 175.00 | 175.00 | 175.00 | 175.00 |
| PAT | 17.00 | 217.00 | 405.00 | 437.00 | 536.20 |

Developments as on March 31, 2015

The project manager for the SPV made following comments at a press conferee on March 31, 2015:

As you all are aware, we were running bang on schedule till we last met on December 21, 2014. From today we are just left with one more year to complete the project in time. However, the flash floods which struck our dam site on this March 15, 2015 have created havoc in the region. I shall not point out the loss of lives in the region as you all are well aware of those. Our project has also been badly hit due to the same and we have been assessing the damage over the last one week. After analyzing damage, we have made changes in project schedule. Now we will be making only one unit of 150 MW operational on April 1, 2016 and 1 unit each will be added in each of subsequent year(s).

Development as on September 30, 2015
Post the flash floods, lot of environmentalists started raising issues of changes in environment due to construction of large number of dams. A few Public Interest Litigations (PILs) have been filed in various courts.

Honorable High Court of MP on September 27, 2015, banned construction of any dams in the region and banned permissions for new dams till next hearing scheduled on November 30, 2015. MCC in its press release has indicated that they will apply to the higher court on the matter.

As a credit analyst on March 31, 2012, which of the following sets of risks are you going to put in your credit appraisal note?

A. Off-take risk, Cost and Time over run risk, lack of management experience in such big projects.

B. Lack of management experience in large projects, Exchange rate risks, Cost and time over run risks.
C. Cost and Time over run risk, lack of management experience in such big projects.
D. Obsolete technology risk, political risks and Cost and time over run risks

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 2**
**Case Facts as on March 31, 2012**

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2. MCC shall have right to operate the hydro power project from date of commencement of commercial operations (DCCO) for a period of 20 years and shall transfer the project to Government thereafter. Further, SPV shall be tax exempt for a period of five years from DCCO i.e. FY17-FY21.

3. The power project is of 600 megawatts (MW) shall comprise 4 units of 150 MW each. The estimated cost of project is about INR3, 500 Million to be spent over a period of 4 year(s) the project is estimated to be commercially operational by April 1, 2016 with two units operational om same day and one unit each will be operational on April 1, 2017 and April 1, 2018.

4. Means of finance:

| Means of Finance | INR Million |
|---|---|
| Government Aid (To be classified as Equity) | 500 |
| Equity | 900 |
| Debt | 2100 |

Means of Finance INR Million
Government Aid (To be classified as Equity) 500Equity 900 Debt 2100

5. Amount if expenditure estimated in various years is as follows:

| | | | | Funding | | |
|---|---|---|---|---|---|---|
| Cost of Project | INR Million | | Debt | Govt Aid | Equity | Total |
| FY13 (April to march) | 700 | | 0 | 250 | 450 | 700 |
| FY14 | 1200 | | 500 | 250 | 450 | 1200 |
| FY15 | 1200 | | 1200 | - | | 1200 |
| FY15 | 400 | | 400 | - | | 400 |



Debt shall bear a fixed rate of interest of 10% and all interest till DCCO shall be added to the principal. The expected principal along with capitalized interest is expected to be INR2, 400 Million (i.e.INR2100 Million debt plus INR300 Million capitalized interest). The repayment of the same shall be in 12 equated annual installments starting from FY17.

Brief projections for the period of FY17 to FY21 are given below:

| Particular | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|
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Development as on September 30, 2015
Post the flash floods, lot of environmentalists started raising issues of changes in environment due to construction of large number of dams. A few Public Interest Litigations (PILs) have been filed in various courts.

Honorable High Court of MP on September 27, 2015, banned construction of any dams in the region and banned permissions for new dams till next hearing scheduled on November 30, 2015. MCC in its press release has indicated that they will apply to the higher court on the matter.

After the developments of March 31, 2015, assuming revenues are directly linked to the power production and the EBITDA margins remain intact for the year, as were projected, compute the revised interest coverage ratio for FY17 and FY18?

A. FY17: 0.90; FY18: 1.85
B. FY17: 1.85; FY18: 2.93
C. FY17: 0.49; FY18: 0.97
D. FY17: 1.80; FY18: 2.78

**Correct Answer:** B
**Section: (none)**
**Explanation**



**Explanation/Reference:**

**QUESTION 3**
**Case Facts as on March 31, 2012**

Mark Construction Company (MCC) has bagged a contract for construction of a large dam and hydro power project on river Shivna in Madhya Pradesh (MP). The project is also of relevance from the irrigation perspective due to its location and as per the agreement MCC will have to undertake construction of web of canals, approach road to dam, power house and other ancillary units. MCC is promoted by Mr. Thomas Mark, who is a MP from the ruling party which recently formed government in MP. Historically, MCC has been engaged into construction of rural roads, small bridges and railway platforms on contract basis for the Government. MCC will have a separate special purpose vehicle (SPV) floated for this venture.

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Means of Finance INR Million
Government Aid (To be classified as Equity) 500Equity 900 Debt 2100

5. Amount if expenditure estimated in various years is as follows:

| | | | | Funding | | |
|---|---|---|---|---|---|---|
| Cost of Project | INR Million | | Debt | Govt Aid | Equity | Total |
| FY13 (April to march) | 700 | | 0 | 250 | 450 | 700 |
| FY14 | 1200 | | 500 | 250 | 450 | 1200 |
| FY15 | 1200 | | 1200 | - | | 1200 |
| FY15 | 400 | | 400 | - | | 400 |

Debt shall bear a fixed rate of interest of 10% and all interest till DCCO shall be added to the principal. The expected principal along with capitalized interest is expected to be INR2, 400 Million (i.e.INR2100 Million debt plus INR300 Million capitalized interest). The repayment of the same shall be in 12 equated annual installments starting from FY17.

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As a credit rating analyst on September 30, 2015, on receipt of the high court order, what rating action you will take:

A. Put ratings on rating watch.
B. Change rating outlook for long term to negative.
C. No action, wait for order if higher courts or hearing on November 30, 2015.
D. Immediately downgrade ratings of SPV.

**Correct Answer:** A
**Section: (none)**
**Explanation**



**Explanation/Reference:**

**QUESTION 4**
**Case Facts as on March 31, 2012**

Mark Construction Company (MCC) has bagged a contract for construction of a large dam and hydro power project on river Shivna in Madhya Pradesh (MP). The project is also of relevance from the irrigation perspective due to its location and as per the agreement MCC will have to undertake construction of web of canals, approach road to dam, power house and other ancillary units. MCC is promoted by Mr. Thomas Mark, who is a MP from the ruling party which recently formed government in MP. Historically, MCC has been engaged into construction of rural roads, small bridges and railway platforms on contract basis for the Government. MCC will have a separate special purpose vehicle (SPV) floated for this venture.

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Means of Finance INR Million
Government Aid (To be classified as Equity) 500Equity 900 Debt 2100

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| | | | | Funding | | |
|---|---|---|---|---|---|---|
| Cost of Project | INR Million | | Debt | Govt Aid | Equity | Total |
| FY13 (April to march) | 700 | | 0 | 250 | 450 | 700 |
| FY14 | 1200 | | 500 | 250 | 450 | 1200 |
| FY15 | 1200 | | 1200 | - | | 1200 |
| FY15 | 400 | | 400 | - | | 400 |

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On receiving the credit proposal, the banker informed the company that in FY17 the DSCR is below unity, which is not acceptable to bank. Which of the following is correct?

A. Had the cash accruals be more by INR50 Million, DSCR would have been unity. SPV can provide an implicit credit enhancement for the same from MCC.
B. Had the cash accruals be more by INR8 Million, DSCR would have been unity. SPV can provide an implicit credit enhancement for the same from MCC. C. Had the cash accruals be more by INR8 Million, DSCR would have been unity, SPV can provide an explicit credit enhancement for the same from MCC.
D. Had the cash accruals be more by INR12 Million, DSCR would have been unity. SPV can provide an explicit credit enhancement for the same from MCC.



**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 5**

Scott is a credit analyst with one of the credit rating agencies in India. He was looking in Oil and Gas Industry companies and has presented brief financials for following 4 entities:

| Particulars | A Ltd | B Ltd | C Ltd | D Ltd |
|---|---|---|---|---|
| Total Income | 2000 | 2400 | 3000 | 3500 |
| EBITDA | 500 | 550 | 650 | 460 |
| Interest | 100 | 100 | 125 | 130 |
| Total Debt | 1000 | 1400 | 1000 | 1500 |

Two credit analysts are discussing the DM-approach to credit risk modeling. They make the following statements:

**Analyst A:** A portfolio's standard deviation of credit losses can be determined by considering the standard deviation of credit losses of individual exposures in the portfolio and summing them all up.

**Analyst B:** I do not fully agree with that. Apart from individual standard deviations, one also needs to consider the correlation of the exposure with the rest of the portfolio so as to account for diversification effects. Higher correlations among credit exposures will lead to higher standard deviation of the overall portfolio.

A. Only Analyst A is correct
B. Both are correct
C. Only Analyst B is correct
D. Both are incorrect

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 6**
Scott is a credit analyst with one of the credit rating agencies in India. He was looking in Oil and Gas Industry companies and has presented brief financials for following 4 entities:

| Particulars | A Ltd | B Ltd | C Ltd | D Ltd |
|---|---|---|---|---|
| Total Income | 2000 | 2400 | 3000 | 3500 |
| EBITDA | 500 | 550 | 650 | 460 |
| Interest | 100 | 100 | 125 | 130 |
| Total Debt | 1000 | 1400 | 1000 | 1500 |

Giving equal weightage to all three ratios, determine which of the above entities should be rated highest on a relative scale.

A. C Ltd
B. A Ltd
C. D Ltd
D. B Ltd

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 7**
Scott is a credit analyst with one of the credit rating agencies in India. He was looking in Oil and Gas Industry companies and has presented brief financials for following 4 entities:

| Particulars | A Ltd | B Ltd | C Ltd | D Ltd |
|---|---|---|---|---|
| Total Income | 2000 | 2400 | 3000 | 3500 |
| EBITDA | 500 | 550 | 650 | 460 |
| Interest | 100 | 100 | 125 | 130 |
| Total Debt | 1000 | 1400 | 1000 | 1500 |

Which of the following statements is incorrect?

A. B Ltd has higher EBITDA margins as compared to C Ltd.
B. D Ltd has higher EBITDA margins as competed to B Ltd.
C. C Ltd has worst total debt to EBITDA ratio.
D. B Ltd has worst interest coverage ratio.

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**



**QUESTION 8**
Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across India. 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 ach sieving 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 |

The core spreads for FY13 as compared to FY12 have:

A. Expanded by 136 bps
B. Contracted by 327 bps
C. Contracted by 136 bps
D. Expanded by 191 bps

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 9**
Following is information related banks:

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| Particulars | FY11 | FY12 | FY13 |
|---|---|---|---|
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| 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 |

The ROTA for Auckland deteriorated from ___in FY12 to___ in FY13.

A. 0,.7%, 0,3%

B. 7%; 2%

C. 2.3%; 0.7%

D. 1.9%; 0.6%

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 10**
Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across India. 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 ach sieving 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 |

Cost to income ratio is best for which year

A. FY13
B. FY11

C. Same FY11 and FY12
D. FY12

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**
**QUESTION 11**
Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across India. 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 ach sieving 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 |
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| 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 |

Computer risk weighted assets for Auckland Ltd for FY11:

A. 10,10,000 Million
B. 13,24,500 Million

C. 11,64,500 Million
D. 11,60,000 Million

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 12**
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 India. 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 |

What is Total Income FY10 and FY12?

A. FY10: INR400 Million; FY12:INR575 Million
B. FY10: INR525.56 Million; FY12: INR755.49 Million
C. Insufficient Information to compute
D. FY10: INR656.94 Million; FY12: INR821.18 Million

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 13**
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 India. 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 Interest for FY10 and FY12?

A. Insufficient Information to compute
B. FY10: INR50.53 Million; FY12:INR81.38 Million
C. FY10: INR161.71 Million; FY12: INR252.27 Million
D. FY10: INR17.47 Million; FY12:INR782.03 Million

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 14**
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: Sincespreads are calculated to know the level of credit risk in the bound, 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 YTMs:

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

There is an 8.75% risky bond with a maturity of 2.75% year(s). Its current price is INR102.31, which corresponds to YTM of 8.52%. Compute Yield Spread from the information provided in the vignette:

A. 0.13%
B. 0.00%
C. 0.36%
D. 0.27%



**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 15**
The following information pertains to bonds:

| Bond | Initial Maturity | Spread from G-Sec (bps) | | |
|---|---|---|---|---|
| | | January 2013 | April 2013 | July 2013 |
| Bond A | 10 Years | 94 | 97 | 89 |
| Bond B | 10 Years | 102 | 103 | 93 |
| Bond C | 10 Years | 370 | 530 | 560 |
| Bond D | 10 Years | 115 | 130 | 110 |
| Bond E | 10 Years | 10 | 15 | 7 |

Further following information is available about a particular bond 'Bond F'

There is a 10.25% risky bond with a maturity of 2.25% year(s) its current price is INR105.31, which corresponds to YTM of 9.22%. The following are the benchmark YTMs.

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



From the time January 2013 to April 2013, what can you predict about the market conditions, assuming the G-Sec has not changed?

A. There has been credit spread compression, which means the spreads have declines, which can be lead indicator of oncoming economy stress.
B. There has been widening of credit spread, which means the spreads have increased, which can be lead indicator of oncoming economy stress.
C. There has been widening of credit spread, which means the spreads have increased, which can be lead indicator of oncoming economy stress.
D. There has been credit spread compression, which means the spreads have declines, which can be lead indicator of oncoming economy boom.

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 16**
The following information pertains to bonds:

| Bond | Initial Maturity | Spread from G-Sec (bps) | | |
|---|---|---|---|---|
| | | January 2013 | April 2013 | July 2013 |
| Bond A | 10 Years | 94 | 97 | 89 |
| Bond B | 10 Years | 102 | 103 | 93 |
| Bond C | 10 Years | 370 | 530 | 560 |
| Bond D | 10 Years | 115 | 130 | 110 |
| Bond E | 10 Years | 10 | 15 | 7 |

Further following information is available about a particular bond 'Bond F'

There is a 10.25% risky bond with a maturity of 2.25% year(s) its current price is INR105.31, which corresponds to YTM of 9.22%. The following are the benchmark YTMs.

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



Following are the relevance of Industry Analysis:

Statement 1: Evaluating Industry risk is the first and foremost step for top down approach of analysis.

Statement 2: Industry Analysis is relevant for analyzing the industry life cycle, which is highly important from the perspective of an investor or lender.

State which is/are correct?

A. Both are incorrect
B. Both are correct
C. Only Statement 2 is correct
D. Only Statement 1 is correct

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 17**
If XYZ Ltd. incurs (with purchase and installation of machinery) using cash, which of the following ratios will remain unchanged, if all other things remain constant?

A. None of the three
B. Asset Turnover ratio
C. Current Ratio
D. Quick Ratio

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 18**
Mr. Gopi, while teaching the CCRA course to students described Altman's Model and stated that following variables do exist for Altman's Model:

1. total debt/total assets,
2. retained earnings/total assets.
3. earnings before interest and taxes/total assets,
4. market value equity/book value of total liabilities,
5. sales/total assets

Exactly how many variables are incorrectly identified?

A. Exactly Four
B. Exactly One
C. Exactly Two
D. Exactly Three

**Correct Answer:** A
**Section: (none)**
**Explanation**
**Explanation/Reference:**
Reference: https://www.investopedia.com/terms/a/altman.asp

**QUESTION 19**
In Steepening short term rates ______relative to long term rate

A. falls
B. rises

C. is independent of each other
D. remains constant

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: https://www.analystforum.com/forums/cfa-forums/cfa-level-ii-forum/91348766

**QUESTION 20**
If you yield curve is humped and the medium rates drop, what will happen to the yield curve?

A. It will move from negative to positive
B. It will shift up in a uniform fashion
C. It will become steeper
D. It will flatten

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 21**
Which of the following statement is false?

A. DEF Ltd. has received a speculative grade rating as its outstanding rating is B+
B. Non-Convertible debenture of PQR Ltd. has a speculative rating since its outstanding rating is C



C. ABC Ltd. short term is BBB- for its commercial paper

D. XYZ has an investment grade rating as his outstanding rating is A1

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 22**
Which of the following is not one of the C in the 5 C Model?

A. Capacity
B. Capital
C. Covenants
D. Conditions

**Correct Answer:** C
**Section: (none)**
**Explanation**



**Explanation/Reference:**
Reference: https://www.investopedia.com/terms/f/five-c-credit.asp

**QUESTION 23**
Z spreads in Callable bonds include:

A. Does not include premium for credit risk and call option price for prepayment risk.
B. Premium for credit risk and call option price for prepayment risk in included.
C. Premium for credit risk is only included.
D. Premium for call option price for prepayment risk os only included.

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: https://books.google.com.pk/books?id=WTvNAgAAQBAJ&pg=PA224&lpg=PA224&dq=credit+Z+spreads+in+Callable+bonds+include+Premium+for+credit+risk+and+call+option+price+for+prepayment+risk+in+included&source=bl&ots=cdWVJiWQSC&sig=d9Y2vg5dyIZIrlBT7tmKRihUg2M&hl=en&sa=X&ved=2ahUKEwiUqN2I_93eAhXMA8AKHSb1B7gQ6AEwCXoECAcQAQ#v=onepage&q=credit%20Z%20spreads%20in%20Callable%20bonds%20include%20Premium%20for%20credit%20risk%20and%20call%20option%20price%20for%20prepayment%20risk%20in%20included&f=false

**QUESTION 24**
Risk in CDS price is reflective of

A. increase in probability of default
B. increase in interest rates
C. decrease in probability of default
D. increase in recovery rates

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 25**
Which of the following is a factor considered while evaluating resources profile for rating of bank?

A. Size and growth of deposits
B. All of the three
C. Deposit composition & stickiness
D. Geographic distribution of deposits

**Correct Answer:** B
**Section: (none)**
**Explanation**
**Explanation/Reference:**

**QUESTION 26**
Which of the following are types of bank guarantee?

A. Deferred and Term
B. Financial and Performance
C. Usance and Sight

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference https://www.hdfcbank.com/sme/trade-services/letters-of-credit-and-bank-guarantees

**QUESTION 27**

Mr. A shares details of two bonds as follows:

| Particulars | Bond X | Bond Y |
|---|---|---|
| Yeild to Maturity | 7% | 9% |
| Maturity | 2.25 Years | 4.75 years |
| Number of coupons in the year | 1 | 1 |

Term Structure:

| | |
|---|---|
| 1 Year | 6.8% |
| 2 Year | 7.2% |
| 3 Year | 7.8% |
| 4 Year | 8.6% |
| 5 Year | 9.2% |
| 6 Year | 9.9% |

Determine the interpolated spread for Bond X and Bond Y?

A. Bond X: 80 bps
   Bond Y: Negative
B. Bond X: 35 bps
   Bond Y: 5 bps
C. Bond X: 65 bpsBond Y: Nil
D. Bond X: 20 bps
   Bond Y: 20 bps

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 28**
Attributes of healthy cultural values exclude:

A. Experienced management.

B. Diversified sources of revenue.
C. Brand.
D. Healthy relationship with employees

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 29**
For considering the assignment of probabilities, which of the following aspects are taken into account?

A. Economic cycle – bearish phase or boom
B. All of the other options
C. The date of valuation of assets on the financials
D. The nature and age of assets

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 30**
Project 1: Company X has a sugar mill at Philadelphia and is replicating same at Toronto.
Project 2: Company Y has a sugar mill at Philadelphia and is increasing capacity from 100000 MT to 140000 MT per annum.

What type of projects are Project 1 and Project 2?

A. Project 1: Diversification; Project 2: Forward Integration
B. Project 1: Expansion; Project 2: Forward Integration

C. Project 1: Diversification; Project 2: Expansion
D. Project 1: Expansion; Project 2: Expansion

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 31**
Which of the following may lead to the deterioration in credit profile of a bank?

Statement 1. Bank's Capital adequacy falling below regulatory requirement.
Statement 2. Rise in Slippage ratio

A. None of the statement is correct
B. Both statement 1 and 2 are correct
C. Statement 1 is correct
D. Statement 2 is correct

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 32**
Which of the following statements concerning having a CEO serve as chairman of the board is most accurate? Having a CEO also serve as chairman is considered:

A. poor corporate governance practice as having the CEO server as chairman is an inherent conflict when determining management compensation.
B. good corporate governance practice as the CEO is the best person to provide the board with information about the company's strategy and operations.
C. cannot be determined
D. poor corporate governance practice as having the CEO and chairman serve as separate positions ensures a properly-functioning board.

**Correct Answer:** D
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 33**
A holder of which of the following types of bonds is least likely to suffer from rising interest rates?

A. Floating rate bonds
B. Fixed rate bond
C. Zero-coupon bonds

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: https://www.nuveen.com/fixed-income-strategies-for-low-and-rising-rates

**QUESTION 34**
The most important metric for a bank is the Net Interest Income (NII) which is the difference between____income and____expense.

A. Interest; Total
B. Interest; Fee
C. Interest; Interest
D. Total; Total



**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: https://economictimes.indiatimes.com/definition/net-interest-income-nii

**QUESTION 35**
Based on the common size statement analysis which of the following statement regarding employee cost is correct?

| Particulars (USD Million) | YE FY14 | YE FY15 |
|---|---|---|
| SALES | 2800 | 3800 |
| Employee Cost | 1200 | 1400 |
| Power and Establishment Cost | 160 | 180 |
| Depreciation | 26 | 31 |
| Interest | 25 | 37 |
| Taxes | 200 | 240 |

A. The employee cost is expected to contribute 8% to decrease in PAT in FY15
B. The employee cost is expected to contribute 7% to decrease in PAT in FY15
C. The employee cost is expected to contribute 6% to decrease in PAT in FY15
D. The employee cost is expected to contribute 5% to decrease in PAT in FY15

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 36**
Butterfly strategy is a combination of

A. Ladder and Barbell on the same market sides B.
Barbell and Bullet on the opposite market sides



C. Barbell and Bullet on the same market sides
D. Ladder and barbell on the opposite market sides

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference:
https://books.google.com.pk/books?id=WTvNAgAAQBAJ&pg=PA213&lpg=PA213&dq=Butterfly+strategy+is+a+combination+of+Barbell+and+Bullet+on
+the+opposite+market+sides&source=bl&ots=cdWVJkVMRG&sig=XIB-
7YqySq5YDEUmEWusH5JCsjY&hl=en&sa=X&ved=2ahUKEwj3_pCrxN7eAhVkK8AKHYuDCwUQ6AEwBnoECAUQAQ#v=onepage&q=Butterfly%20strategy%20i
s
%20a%20combination%20of%20Barbell%20and%20Bullet%20on%20the%20opposite%20market%20sides&f=false

**QUESTION 37**
Awesome Mobile Ltd is a leading mobile seller who manufactures mobile phone under own brand Awesome. Which of the following is the biggest business risk for Awesome?

A. Technology Risk
B. Branding risk
C. Raw material price risk
D. Competition

**Correct Answer:** C
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 38**
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.

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

**Correct Answer:** D
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: https://books.google.com.pk/books?id=g8XgCwAAQBAJ&pg=PA67&lpg=PA67&dq=Activity+ratios+are+relevant+for+default+analysis.+A+large+stock+of+inventories+relative+to+sales+will+lead+to+a+higher+probability+of+default&source=bl&ots=Q-6qbboNbl&sig=iKGUJsn0wKNSv-F7pZ5B_GElw5E&hl=en&sa=X&ved=2ahUKEwjsruKZwd7eAhUqB8AKHQFGAtAQ6AEwC3oECAsQAQ#v=onepage&q=Activity%20ratios%20are%20relevant%20for%20default%20analysis.%20A%20large%20stock%20of%20inventories%20relative%20to%20sales%20will%20lead%20to%20a%20higher%20probability%20of%20default&f=false

**QUESTION 39**
In a weakening economy, which of the following is least accurate?

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 borowing plans lined up.

**Correct Answer:** D
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 40**
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

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

**Correct Answer:** B
**Section: (none)**
**Explanation**
**Explanation/Reference:**

**QUESTION 41**
Stand by letter of credits are typically taken as credit enhancement for___________

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

**Correct Answer:** D
**Section: (none)**
**Explanation**

**Explanation/Reference:**

Reference: https://www.investopedia.com/terms/s/standbyletterofcredit.asp

**QUESTION 42**
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?

A. None of the statements
B. Both the statements
C. Only Statement 2 is correct
D. Only Statement 1 is correct

**Correct Answer:** D
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: https://books.google.com.pk/books?id=WTvNAgAAQBAJ&pg=PA305&lpg=PA305&dq=The+Yields+on+the+MBS+PTCs+are+normally+higher+than+the+yields+on+the+corporate+bonds+of+similar+ratings&source=bl&ots=cdWVJkUPUC&sig=LXN-pawMofH61opTbPnHkHoNc0I&hl=en&sa=X&ved=2ahUKEwiSldjpwd7eAhUMDsAKHbneBtsQ6AEwAHoECAkQAQ#v=onepage&q=The%20Yields%20on%20the%20MBS%20PTCs%20are%20normally%20higher%20than%20the%20yields%20on%20the%20corporate%20bonds%20of%20similar%20ratings&f=false

**QUESTION 43**
Which of the following is NOT a conceptual definition of credit risk on which credit models are based?

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

**Correct Answer:** B
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: http://www.bulentsenver.com/yeditepe/pdf/Credit%20Risk%20Modelling%20BIS49.pdf (page 9)

**QUESTION 44**
Which of the following is false in case of credit enhancements?

A. It reduces the default risk of the borrowing entity for the lender, thereby deteriorating the overall credit worthiness of the borrower
B. Credit enhancement could be implicit or explicit
C. Credit enhancement is a mechanism whereby external cash flows is extended by an entity which has a stringer credit profile, so that it benefits the fund raising entity

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 45**
Short term rates are determined by____________

A. All of the other options
B. Liquidity position caused by seasonal demand supply for credit
C. Foreign portfolio investment inflows and outflows
D. Bunching of tax and government payments

**Correct Answer:** A
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 46**
Which of the following factor is considered while undertaking management evaluation?

A. All of the other options
B. Corporate Strategy
C. Performance of group concerns
D. Past track record

**Correct Answer:** D
**Section: (none)**
**Explanation**

**Explanation/Reference:**

**QUESTION 47**
__________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).

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

**Correct Answer:** D
**Section: (none)**
**Explanation**

**Explanation/Reference:**
Reference: https://books.google.com.pk/books?id=WTvNAgAAQBAJ&pg=PA276&lpg=PA276&dq=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&source=bl&ots=cdWVJkURVE&sig=zdiI1Gm3sNJnB6zDJ82OkMAAtk&hl=en&sa=X&ved=2ahUKEwiYoNDOwt7eAhUFDsAKHWG8BvcQ6AEwAHoECAkQAQ#v=onepage&q=Strategy%20consists%20of%20buying%20a%20bond%20with%20maturity%20longer%20than%20the%20investment%20horizon%20(for%20investor)%20or%20buying%20a%20long-maturity%20bond%20with%20short-term%20funding%20through%20repo&f=false