

01	☒ A	☐ B	☐ C	☐ D	☐ E
02	☐ A	☐ B	☐ C	☒ D	☐ E
03	☐ A	☒ B	☐ C	☐ D	☐ E
04	☐ A	☐ B	☐ C	☐ D	☒ E
05	☐ A	☐ B	☐ C	☐ D	☒ E
06	☒ A	☐ B	☐ C	☐ D	☐ E
07	☐ A	☐ B	☐ C	☐ D	☒ E
08	☐ A	☐ B	☐ C	☐ D	☒ E
09	☐ A	☐ B	☐ C	☒ D	☐ E
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14	☐ A	☐ B	☐ C	☐ D	☒ E
15	☐ A	☐ B	☐ C	☐ D	☒ E
16	☐ A	☐ B	☐ C	☒ D	☐ E
17	☐ A	☐ B	☐ C	☒ D	☐ E
18	☐ A	☐ B	☐ C	☒ D	☐ E
19	☐ A	☐ B	☐ C	☐ D	☒ E
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22	☒ A	☐ B	☐ C	☐ D	☐ E
23	☐ A	☐ B	☐ C	☐ D	☒ E
24	☒ A	☐ B	☐ C	☐ D	☐ E
25	☐ A	☐ B	☐ C	☐ D	☒ E
26	☐ A	☐ B	☒ C	☐ D	☐ E

27	☐ A	☒ B	☐ C	☐ D	☐ E
28	☐ A	☐ B	☐ C	☒ D	☐ E
29	☐ A	☐ B	☐ C	☒ D	☐ E
30	☒ A	☐ B	☐ C	☐ D	☐ E
31	☐ A	☒ B	☐ C	☐ D	☐ E
32	☐ A	☐ B	☐ C	☐ D	☒ E
33	☒ A	☐ B	☐ C	☐ D	☐ E
34	☒ A	☐ B	☐ C	☐ D	☐ E
35	☐ A	☐ B	☐ C	☒ D	☐ E
36	☐ A	☐ B	☐ C	☒ D	☐ E
37	☐ A	☒ B	☐ C	☐ D	☐ E
38	☐ A	☒ B	☐ C	☐ D	☐ E
39	☐ A	☒ B	☐ C	☐ D	☐ E

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QUESTION 1 SINGLE CHOICE

An analyst is reviewing the credit risk profile of a commercial bank. Which of the following indicators is most directly associated with the bank's asset quality?

- ☐ A Return on average assets (ROAA)
- ☐ B Tier 1 capital ratio
- ☒ C Ratio of nonperforming loans (NPLs) to total loans
- ☐ D Net interest margin (NIM)

ANSWER C

WHY Nonperforming loans as a share of total loans is the standard indicator of asset quality in banking. ROAA and NIM measure profitability, while the Tier 1 ratio measures capital adequacy, not asset quality.

QUESTION 2 SINGLE CHOICE

Under Moody's bank rating methodology, which factor is considered when assessing a bank's Business Profile?

- ☒ A Market position, franchise value, and diversification of revenue streams
- ☐ B Level of Tier 1 capital relative to risk-weighted assets
- ☐ C Historical loan-loss provisions and charge-off trends
- ☐ D Composition and stability of the deposit funding base

ANSWER A

WHY The Business Profile factor captures franchise strength, market position, business diversification, and revenue stability. Capital ratios relate to Capital Adequacy, while loan losses relate to Asset Quality, and deposits to Funding Structure, which are separate scoring factors in Moody's bank methodology.

QUESTION 3 SINGLE CHOICE

A bank funds itself primarily through short-term wholesale funding rather than stable customer deposits. Which type of risk does this funding profile most directly elevate?

- ☐ A Credit risk
- ☒ B Liquidity risk
- ☐ C Operational risk
- ☐ D Market risk

ANSWER B

WHY Heavy reliance on short-term wholesale funding exposes a bank to liquidity risk because those sources can dry up quickly during stress. Credit, operational, and market risks are not directly heightened by the funding mix in the same way.

QUESTION 4 SINGLE CHOICE

Which managed fund characteristic is most directly associated with principal preservation rather than capital growth?

- ☐ A Equity-focused portfolio with high active share
- ☒ B Money market fund investing in short-dated, high-quality instruments
- ☐ C Balanced fund with 60/40 equity/fixed income allocation
- ☐ D Emerging-markets equity fund

ANSWER B

WHY Money market funds invest in short-dated, high-quality instruments and aim to preserve principal while maintaining liquidity. The other options involve equity exposure and capital growth objectives.

QUESTION 5 SINGLE CHOICE

When evaluating managed fund performance, the Sharpe ratio measures the excess return of a portfolio per unit of which type of risk?

- ☒ **A** Total risk (standard deviation of returns)
- ☐ **B** Downside risk only
- ☐ **C** Tracking error versus a benchmark
- ☐ **D** Specific (idiosyncratic) risk

ANSWER A

WHY The Sharpe ratio uses the portfolio's total risk, measured by standard deviation, in the denominator. Downside-risk-adjusted measures (such as the Sortino ratio), tracking error, and idiosyncratic risk are distinct concepts.

QUESTION 6 MULTIPLE CHOICE

Which of the following are commonly examined indicators of credit risk for a commercial bank? (Choose two.)

- ☒ **A** Ratio of nonperforming loans to total loans
- ☒ **B** Ratio of loan-loss provisions to net charge-offs and average loans
- ☐ **C** Net interest margin
- ☐ **D** Cost-to-income ratio

ANSWER A • B

WHY The NPL ratio and the loan-loss provision ratio are direct indicators of credit risk and asset quality. Net interest margin measures profitability from interest-rate spreads, and cost-to-income ratio measures operating efficiency, neither of which is a primary credit-risk indicator.

QUESTION 7 SINGLE CHOICE

The Common Equity Tier 1 (CET1) capital ratio is calculated as CET1 capital divided by which denominator?

- ☐ A Total assets
- ☒ B Risk-weighted assets (RWA)
- ☐ C Total liabilities and equity
- ☐ D Total exposure at default (EAD)

ANSWER B

WHY Regulatory capital ratios such as CET1, Tier 1, and Total Capital are calculated against risk-weighted assets. Total assets, total liabilities and equity, and exposure at default are not the correct denominators.

QUESTION 8 SINGLE CHOICE

Under Moody's managed fund assessment methodology, which factor is most directly associated with a fund's exposure to market price fluctuations?

- ☐ A Asset liquidity
- ☒ B Market risk / exposure to equity, interest rate, and credit spread movements
- ☐ C Manager tenure
- ☐ D Fee structure

ANSWER B

WHY Market risk explicitly captures sensitivity to movements in equity prices, interest rates, and credit spreads. Liquidity, manager tenure, and fee structure are separate rating factors in the framework.

QUESTION 9

SINGLE CHOICE

A bank reports a cost-to-income ratio of 95%. Which interpretation is most accurate?

- ☐ A The bank generates \$95 of operating income for every \$100 of operating expenses.
- ☒ B The bank's operating expenses consume 95% of its operating income, indicating weak efficiency.
- ☐ C The bank's net income equals 95% of its gross income.
- ☐ D The bank is highly profitable relative to peers.

ANSWER B

WHY Cost-to-income ratio = operating expenses / operating income. A reading of 95% means expenses consume 95% of income, leaving very thin operating profit and signaling poor efficiency. The other statements misstate the ratio's meaning.