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**QUESTION 1**

To manage its credit portfolio, Beta Bank can directly sell the following portfolio elements:

- A. Bonds
 - II. Marketable loans
 - III. Credit card loans
- B. I
 - C. II
 - D. I, II
 - E. II, III

Correct Answer: C

QUESTION 2

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

- A. 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.
- B. I and II
 - C. II and IV
 - D. I, II and III
 - E. II, III, and IV

Correct Answer: A

QUESTION 3

To protect the oranges harvest price level, a farmer needs to take a hedge position. Provided that he produces the amount he hedged, which one of the following four strategies will allow the farmer to accomplish his goal?



- A. Going short on oranges futures contracts
- B. Going long on oranges futures contracts
- C. Entering into a customized forward contract with the bank
- D. Negotiating a credit line facility

Correct Answer: A

QUESTION 4

To reduce the variability of net interest income, Gamma Bank can swap positions that make its duration gap equal to

- A. 0
- B. 1
- C. -1
- D. 0.5

Correct Answer: A

QUESTION 5

A credit portfolio manager analyzes a large retail credit portfolio. Which of the following factors will represent typical disadvantages of market-linked credit risk drivers?

A. Need to supply a large number of input parameters to the model II. Slow computation speed due to higher simulation complexity III. Non-linear nature of the model applicable to a specific type of credit portfolios IV. Need to estimate a large number of unknown variable and use approximations

- B. I
- C. I, II
- D. II, III
- E. III, IV

Correct Answer: B

QUESTION 6

Which one of the following four statements about economic capital of a bank is correct?

- A. Economic capital measures how the economy is doing compared to the bank.
- B. Economic capital reflects the possible losses that could occur based on the bank's own estimates of the risks it is taking.



- C. Economic capital is determined by rules imposed by an external authority.
- D. Economic capital is the present value of the earnings generated by the bank in the future.

Correct Answer: B

QUESTION 7

BetaFin has decided to use the hybrid RCSA approach because it believes that it fits its operational framework. Which of the following could be reasons to use the hybrid RCSA method?

- A. BetaFin has previously created series of RCSA workshops, and the results of these workshops can be used to design the questionnaires.
- II. BetaFin believes that using the questionnaire approach should be more useful.
- III. BetaFin had used the questionnaire approach successfully for certain businesses and the workshop approach for others.
- IV. BetaFin had already implemented a sophisticated RCSA IT-system.

B. I and II

C. I and III

D. III and IV

E. II, III, and IV

Correct Answer: B

QUESTION 8

Which one of the following four formulas correctly identifies the expected loss for all credit instruments?

- A. Expected Loss = Probability of Default x Loss Given Default x Exposure at Default
- B. Expected Loss = Probability of Default x Loss Given Default + Exposure at Default
- C. Expected Loss = Probability of Default x Loss Given Default - Exposure at Default
- D. Expected Loss = Probability of Default x Loss Given Default / Exposure at Default

Correct Answer: A

QUESTION 9

A bank customer expecting to pay its Brazilian supplier BRL 100 million asks Alpha Bank to buy Australian dollars and sell Brazilian reals. Alpha bank does not hold reals so it asks for a quote to buy Brazilian reals in the market. The market rate is 100. The bank quotes a selling rate of 101 to its customer and sells the reals at this quoted price. Then the bank immediately buys the real at the market rate and completes foreign exchange matched transaction. What is the financial



impact of this transaction for Alpha bank?

- A. This transaction leaves the bank a profit of AUD 10,101.
- B. This transaction leaves the bank a profit of BRL 10,101.
- C. This transaction leaves the bank a loss of AUD 10,101.
- D. This transaction leaves the bank a loss of BRL 10,101.

Correct Answer: A

QUESTION 10

Normally, commercial banking can be viewed as a fixed income carry trade since

- A. Short-term floating-rate deposits are used to fund long-term fixed rate loans.
- B. Short-term fixed rate deposits are used to fund long-term floating rate loans.
- C. Short-term fixed-rate deposits are used to fund short-term floating rate loans.
- D. Short-term floating-rate deposits are used to fund short-term floating rate loans.

Correct Answer: A

QUESTION 11

An endowment asset manager with a focus on long/short equity strategies is evaluating the risks of an equity portfolio. Which of the following risk types does the asset manager need to consider when evaluating her diversified equity portfolio?

- A. Company-specific projected earnings and earnings risk II. Aggregate earnings expectations
- III. Market liquidity
- IV. Individual asset volatility
- B. I
- C. I, IV
- D. II, III
- E. I, II, IV

Correct Answer: C

QUESTION 12

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

Correct Answer: B

QUESTION 13

Which of the following are the most common methods to increase liquidity in stressed conditions?

- A. Selling or securitizing assets.
- II. Obtaining additional credit lines.
- III. Securing a better credit rating.

- B. I
- C. I, II
- D. I, II, III
- E. II, III

Correct Answer: B

QUESTION 14

A trader for EtaBank wants to take a leveraged position in Collateralized Debt Obligations. These CDOs can be used in a repurchase transaction at a 20% haircut. Starting with \$100 worth of CDOs, which one of the following four positions would completely utilize the available leverage?

- A. The trader can buy \$100 in CDOs, and repo the CDOs to get back \$100, less interest.
- B. The trader can buy \$100 in CDOs, and repo the CDOs to get back \$80, less interest.
- C. The trader can buy \$100 in CDOs, and repo the CDOs to get back \$60, plus interest.
- D. The trader can buy \$100 in CDOs, and repo the CDOs to get back \$20, plus interest.

Correct Answer: B

QUESTION 15

Which of the following reports have been suggested by the FDIC that banks should produce in addition to the usual



probabilistic analysis and stress tests in order to gauge liquidity issues?

A. Cash flow gaps

II. Funding availability

III. Critical assumptions used in credit projections

B. I, II

C. I, II, III

D. I

E. I, III

Correct Answer: B

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