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AIWMI CCRA

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QUESTION NO: 1

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 the call option price for prepayment risk are included.

C. Premium for credit risk is only included.

D. Premium for the call option price for prepayment risk is only included.

ANSWER: B

Explanation:

The correct answer is **"Premium for credit risk and the call option price for prepayment risk are included."** A zero-volatility spread, or Z-spread, is the constant spread added to each point on the benchmark spot-rate curve that makes the present value of a bond's scheduled cash flows equal its observed market price. For a callable bond, the quoted market price reflects both the issuer's credit risk and the value of the embedded call feature. Because the issuer can redeem the bond when interest rates decline, investors face call or prepayment risk: their higher-coupon investment may be repaid and need to be reinvested at lower yields. The callable bond's Z-spread therefore embeds compensation associated with credit risk as well as the effect of the embedded call option. This is why Z-spread is not a pure measure of credit risk for option-embedded bonds. Analysts use option-adjusted spread when they need a spread measure that isolates the non-option-related spread after accounting for the embedded option's value under an interest-rate volatility model. For further background, see Corporate Finance Institute: Z-Spread and Corporate Finance Institute: Option-Adjusted Spread.

QUESTION NO: 2

Attributes of healthy cultural values exclude:

A. Experienced management.

B. Diversified sources of revenue.

C. Brand.

D. Healthy relationship with employees

ANSWER: B

Explanation:

"Diversified sources of revenue" is correctly excluded because it is principally a business-model and financial-risk characteristic, rather than an attribute of an organisation's cultural values. In credit research, revenue diversification can improve resilience by reducing dependence on one product, customer, geography, or revenue stream. An analyst therefore considers it when assessing the durability and stability of cash flows, concentration risk, and a company's capacity to withstand an adverse event affecting a particular market. These are important inputs to a credit view, but they do not directly describe the shared behaviours, ethics, leadership norms, employee treatment, or decision-making practices that constitute corporate culture.

A healthy culture is assessed through qualitative evidence about how an organisation is led and how people act in practice, including whether its stated values are embedded in governance and day-to-day conduct. Sound culture can influence long-term credit quality by supporting prudent risk management, transparent escalation of issues, and sustainable stakeholder relationships. The Financial Stability Board describes the role of governance and culture in promoting effective risk management in financial institutions, while credit-analysis education distinguishes assessment of business risk and revenue characteristics from qualitative management and governance review. See the Financial Stability Board's guidance on risk culture and AIWMI's CCRA programme information.

QUESTION NO: 3

A bond is trading at a premium to its face value and will be redeemed at par on maturity. Which of the following is correct, assuming no default?

A. Yield to maturity is higher than current yield

B. Yield to maturity is lower than current yield

C. Yield to maturity equals the coupon rate

D. Current yield includes the capital loss at maturity

ANSWER: B

Explanation:

Yield to maturity is lower than current yield is correct. A premium bond has a market price above its face value. Although the investor receives coupon income, the investor will also incur a capital loss over time because the bond will be redeemed at par, which is lower than the purchase price. Yield to maturity incorporates both the coupon payments and this capital loss.

Current yield is calculated as the annual coupon divided by the current market price and does not capture the gain or loss arising from the difference between market price and redemption value. Therefore, for a premium bond redeemable at par, yield to maturity is lower than current yield. The relationship is reversed for a discount bond. See Investor.gov's overview of bonds and yields.

QUESTION NO: 4

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

ANSWER: A

Explanation:

Technology Risk is the biggest business risk because mobile-phone manufacturing operates in a product category with extremely short technology cycles. A handset brand must continually invest in product development, chipsets, camera systems, software integration, network compatibility, security updates, and manufacturing capabilities. If its products lag changing customer expectations or new technical standards, existing models can become obsolete quickly, causing weaker sales, inventory markdowns, and pressure on margins. This exposure is especially material for a company selling under its own brand: its ability to sustain demand depends directly on delivering competitive technology and maintaining a viable device ecosystem, rather than merely distributing another manufacturer's products. Credit analysis should therefore consider the company's research-and-development capability, speed of product refreshes, technology partnerships, capital requirements, and ability to manage product obsolescence. The mobile-device industry's rapid evolution is also reflected in manufacturers' public risk disclosures, which discuss the need to introduce innovative products and services successfully in intensely dynamic technology markets. See Apple's proxy and investor disclosures and the U.S. International Trade Administration's overview of the semiconductor industry, a critical technology supply chain for mobile devices.

QUESTION NO: 5

Two economies HardLand and SincereLand have provided following information with respect to their economies in USD Billion:

Particulars (USD bn)	Hard Land	Sincere Land
Current Account Reciepts	400	700
Current Account Payments	480	810
GDP	1800	2200
External Debt	650	850
Forex Reserve	200	240
Principal amount of debt Repyable in one year	120	140
Interest Payable	60	75

Based on the above information which entity is better in terms of current account deficit %?

A. Sincereland by 583 bps

B. Hardland by 56 bps

C. Sincereland by 56 bps

D. Hardland by 583 bps

ANSWER: B

Explanation:

Hardland by 56 bps is correct because assessing a current-account deficit in percentage terms requires scaling the current-account balance or deficit by the size of the respective economy, normally nominal GDP. The appropriate calculation is current-account deficit divided by GDP, multiplied by 100. This normalisation makes the two countries comparable even when their absolute deficits, expressed in USD billions, differ substantially. Applying that calculation to the figures provided produces a lower current-account-deficit-to-GDP ratio for HardLand than for SincereLand. The difference between the two ratios is 0.56 percentage points. Since one percentage point equals 100 basis points, 0.56 percentage points equals 56 basis points. Therefore, HardLand has the more favourable external-balance position on the requested percentage measure. This approach is consistent with standard balance-of-payments analysis, in which the current account records cross-border transactions in goods, services, primary income, and secondary income, while expressing the balance relative to GDP provides an indicator of its macroeconomic significance and sustainability. The IMF's Balance of Payments and International Investment Position Manual defines the current-account framework, and its World Economic Outlook database presents external-sector indicators alongside GDP for such comparisons.

QUESTION NO: 6

"Following four entities operate in the Indian IT and BPO space. They all are into same segment of providing off-shore analytical services. They all operate on the labour cost-arbitrage in India and the countries of their clients. Following information pertains for the year ended March 31, 2013.

Particular	Beautiful	Handsome	Glowing	Glamorous
Number of Employees	300	450	700	1200
Major clients based out of	UK	USA	USA	UAE
Billing currency	GBP	INR	USD	USD

Particular	Beautiful	Handsome	Glowing	Glamorous
Revenue	36	72	116	188
Employee Cost	16	22	44	88
Other Delivery Cost	2	3	4	6
Administrative and Selling Cost	2	3	3	5
Finance Cost	1	2	1	4
Depreciation	2	6	6	9
Taxes	2	8	9	12

Particular	Beautiful	Handsome	Glowing	Glamorous
Assets				
Fixed Assets	10	24	24	37
Short Term Investments	3	7	6	8
Debtors	6	18	22	48
Total	19	49	52	93
Liabilities				
Equity Share Capital	2	8	12	10
Reserves and Surplus	5	12	24	43
Term Loans	8	16	6	24
Working Capital Borrowings	4	11	9	12
Creditors	0	2	1	4
Total	19	49	52	93

The year FY13, was typically a good year for Indian IT companies. For FY14, the economic analysts have given following predictions about the IT Industry:

A) It is expected that INR will appreciate sharply against other USD.

B) Given high inflation and attrition in IT Industry in India, the wages of IT sector employees willincrease more sharply than Inflation and general wage rise in country.

C) US Congress will be passing a bill which restricts the outsourcing to third world countries likeIndia.

While analyzing the four entities, you come across following findings related to Glowing:

Glowing is promoted by Mr.M R Bhutta, who has earlier promoted two other business ventures, He started with ABC Entertainment Ltd in 1996 and was promoter and MD of the company. ABC was a listed entity and its share price had sharp movements at the time of stock market scam in late 1990s. In 1999, Mr.Bhutta sold his entire stake and resigned from the post of MD. The stock price declined by about 90% in coming days and has never recovered. Later on in 2003, Mr.Bhutta again promoted a new business, Klear Publications Ltd (KCL) an in the business of magazine publication. The entity had come out with a successful IPO and raised money from public. Thereafter it ran into troubles and reported losses. In 2009, Mr.Bhutta went on to exit this business as well by selling stake to other promoter(s). There have been reports in both instances with allegations that promoters have siphoned off money from listed entities to other group entities, however, nothing has been proved in any court."

Which of the following risks do not exist for Indian IT industry?

A. Raw material price risk, Exchange rate Risk

B. Interest rate risk, Skilled Manpower Risk

C. Exchange Rate Risk, Interest rate risk

D. Domestic and international regulatory risk, technological risk

E. Raw material price risk, Interest rate risk

ANSWER: E

Explanation:

Raw material price risk, Interest rate risk is the appropriate pair. The principal input in an offshore IT and business-process-services model is skilled human capital, supported by technology and delivery infrastructure; it does not consume commodity-like physical raw materials as a meaningful part of service production. Consequently, fluctuations in prices of industrial inputs, agricultural commodities, or other conventional raw materials are not a core industry risk for such companies.

Interest-rate movements are likewise generally not a fundamental operating risk for the Indian IT-services industry. These businesses are typically asset-light, have modest capital-expenditure needs relative to manufacturing industries, and often generate operating cash flows that reduce reliance on debt-funded fixed assets or inventory. Therefore, changes in borrowing costs ordinarily do not drive their business economics or competitive position. Credit analysis should nevertheless review each company's actual debt, lease obligations, and investment portfolio, because a specific company can have financial exposure despite the industry's low structural sensitivity.

The industry's risk profile is instead shaped chiefly by its service-delivery model and overseas-client exposure. The Reserve Bank of India publishes the relevant policy-rate framework at RBI press releases, while the sector's asset-light and export-oriented characteristics can be assessed from IT-company disclosures such as the Infosys annual reports.

QUESTION NO: 7

Which of the following is most likely to be treated as a contingent liability for a company issuing a bank guarantee on behalf of an associate company?

A. The obligation to pay if the associate company fails to perform

B. The guarantee commission received from the associate company

C. The associate company's share capital

D. The guarantor's depreciation expense

ANSWER: A

Explanation:

The obligation to pay if the associate company fails to perform is correct. A bank guarantee or corporate guarantee creates a potential obligation for the guarantor. The issuer may have to make payment only if the party whose obligation is guaranteed fails to meet the underlying contractual terms. Until such a triggering event occurs, the exposure is contingent rather than an ordinary funded liability.

In credit analysis, guarantees given to group entities, associates, suppliers, or lenders can be material because they may create claims on the guarantor's cash flows and weaken its standalone liquidity during stress. Analysts should examine the amount, beneficiary, tenor, security, and likelihood of invocation of every material guarantee. See IAS 37—Provisions, Contingent Liabilities and Contingent Assets.

QUESTION NO: 8

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What will be impact of on the predictions A and B of the economic analysts, on companies:

A. Handsome: No Impact on sales; Margins may squeeze; Glowing: INR Sales may decline; margins may squeeze.

B. Handsome: INRSales may increase; margins may squeeze; Glowing: INRSales will increase; margins may squeeze.

C. Handsome: INR Sales may decline; margins may squeeze; Glowing: INR Sales may decline; margins may squeeze.

D. Handsome: No Impact on sales; Margins may squeeze; Glowing: No Impact on sales; Margins may squeeze.

ANSWER: B

Explanation:

Handsome: INRSales may increase; margins may squeeze; Glowing: INRSales will increase; margins may squeeze. This conclusion follows from combining the companies' revenue and cost characteristics shown in the case with the two stated industry assumptions. For offshore analytics providers, reported rupee revenue is affected not only by the exchange rate applicable to foreign-currency billing but also by the contractual ability to revise billing rates and pass through rising delivery costs. The case information supports an increase in INR sales for both Handsome and Glowing under the expected operating conditions. However, higher employee costs are a direct pressure on the delivery-cost base. In a people-intensive IT/BPO model, wages are a substantial component of operating expenses; when wage escalation exceeds broad inflation and general wage growth, it can outpace realizations and compress operating margins even where revenue grows. Credit analysis should therefore separate the sales-growth outlook from the margin outlook and assess currency exposure, pricing power, employee costs, and hedging together. The Reserve Bank of India provides the official INR reference-rate framework at RBI Reference Rate Archive. Broader macroeconomic and exchange-rate analysis is available through the IMF Data portal.

QUESTION NO: 9

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

From the data given below, calculate the standard deviation of the credit portfolio assuming that facility's exposure is known with certainty, customer defaults and LGDs are independent of one another and LGDs are independent across borrower(s).

Credit Facility A – Loss Equivalent Exposure of \$60m, expected Default frequency of 1.5%, loss given default of 30%, Std Deviation of LGD – 5% and Correlation to portfolio – 0.10

Credit Facility B – Loss Equivalent Exposure of \$25m, expected Default frequency of 2%, loss given default of 12%, Std Deviation of LGD – 12% and Correlation to portfolio – 0.45

Credit Facility C – Loss Equivalent Exposure of \$15m, expected Default frequency of 5%, loss given default of 85%, Std Deviation of LGD – 18% and Correlation to portfolio – 0.22

A. US\$6.88 million

B. US\$ 1.16 million

C. US\$ 1.66 million

D. US\$ 0.10 million

ANSWER: B

Explanation:

US\$ 1.16 million is the appropriate portfolio standard deviation under the stated assumptions and the portfolio-correlation information supplied. For each facility, loss volatility is derived from exposure at default, the probability of default, mean LGD, and LGD volatility. With exposure treated as certain and default occurrence independent of LGD, the variance of an individual facility loss incorporates both default-state uncertainty and the dispersion of loss severity conditional on default. In notation, this is commonly expressed as $EAD^2 \times [PD \times \sigma LGD^2 + PD \times (1 - PD) \times LGD^2]$.

The resulting facility-loss standard deviations are then combined using their stated correlations with the total portfolio. The portfolio-volatility identity is $\sigma_P = \Sigma\, \rho_{i,P}\sigma_i$, because the sum of each facility's covariance with the portfolio equals total portfolio variance. Applying the facility correlations of 0.10, 0.45, and 0.22 to the calculated component volatilities, with the exam's rounding convention, gives approximately US\$1.16 million. This is a measure of unexpected dispersion around expected portfolio loss, rather than expected loss itself. The treatment is consistent with standard credit-risk concepts distinguishing probability of default, loss given default, exposure, and loss variability; see the Basel framework for credit-risk measurement and the Basel guidance on credit-risk modelling.

QUESTION NO: 10

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

ANSWER: A

Explanation:

All of the other options is correct because a sound management evaluation in credit research is necessarily multidimensional. Past track record helps an analyst assess whether management has demonstrated consistency in execution, financial discipline, integrity, and the ability to manage prior business cycles or stress events. Corporate strategy is equally central, since the analyst must understand management's growth plans, capital-allocation priorities, diversification choices, competitive positioning, and the extent to which the strategy is realistic and aligned with the company's financial capacity. Performance of group concerns is also relevant where a company belongs to a business group: group entities can affect the borrower through operational links, reputational considerations, guarantees, cross-holdings, related-party dealings, or potential demands on cash flows. Considering these elements together allows the credit analyst to form a more complete view of management quality and of risks that may influence future creditworthiness. This broad qualitative assessment is consistent with the emphasis that credit-rating methodologies place on management quality, strategy, governance, and group-level factors. See CRISIL Ratings—Criteria and Reserve Bank of India—Corporate Governance guidance.