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11 ANALYSIS OF FINANCIAL INSTITUTIONS

1. Systemic risk in financial services is least likely to:
   (A) concern the co-movement of an institution's asset values with the overall market.
   (B) have consequences for the economy as a whole.
   (C) be caused by interdependencies in the financial system.

2. Which of the following statements regarding Property and Casualty insurance institutions is most likely correct?
   (A) The priority in the selection of assets should be liquidity.
   (B) Due to the uncertainty of payout timings and levels, the institution will usually invest in high-risk, longer term assets
   (C) The suitability of assets held can be analyzed by observing the status of the assets in the fair value hierarchy. A majority of level 3 reported values indicates an appropriate asset base

3. Which of the following is least likely a reason for the establishment of global and regional regulatory bodies?
   (A) To increase global opportunities for regulatory arbitrage.
   (B) To increase harmonization or regulatory rules.
   (C) To minimize systemic risk.

4. When using the fair value hierarchy as defined by IFRS and US GAAP, a financial asset valuation performed by discounting future cash-flows at a discount rate would most likely be classified as a:
   (A) level 1 valuation
   (B) level 2 valuation
   (C) level 3 valuation

5. Which of the following statements is least likely correct? Financial institutions differ from other companies:
   (A) due to their activities giving rise to systemic risk.
   (B) due to their balance sheet containing assets that are often measured at fair value.
   (C) due to their assets being predominantly tangible.

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6. John Gittens is reviewing his firm's guidance for the application of the CAMELS framework and notices the following two statements:

Statement 1: "The mission of a banking entity will affect the way its assets and liabilities are managed, and hence this qualitative impact is usually addressed within the management capabilities section of the CAMELS approach."

Statement 2: "The corporate culture may lead to excessive risk taking, or even a high level of risk aversion, and this aspect is not covered in a typical CAMELS analysis."

Regarding the two statements made by Gittens, statement 1 is most likely:

(A) incorrect, and statement 2 is most likely correct

(B) correct and statement 2 is most likely correct

(C) incorrect and statement 2 is most likely incorrect

7. Important attributes that the CAMELS approach to assessing bank soundness does not address are most likely to include:

(A) competitive environment, mission, and support by government.

(B) management capabilities, asset quality, and capital adequacy.

(C) earnings, liquidity, and sensitivity to market risk.

8. When assessing capital adequacy using risk-weighted assets, cash will most likely:

(A) not be included in risk-weighted assets.

(B) be weighted at 100%.

(C) be weighted over 100%.

9. Compared to manufacturing or merchandising companies, financial institutions are most likely to have higher direct exposures to:

(A) market risk, credit risk, liquidity risk, and interest rate risk.

(B) inflationary risk, business risk, exchange rate risk, and legal risk.

(C) operational risk, process risk, political risk, and compliance risk.

10. Compared to a life and health (L&H) insurance company, it is most likely that a property and casualty (P&C) insurer's:

(A) policies will be longer term.

(B) policies' final cost will typically be known within a year of an insured event.

(C) claims will be more predictable.

11. It would be least accurate to state that the Basel Committee:

(A) develops international regulatory framework for banks.

(B) has legal authority to enforce compliance with supervision and accountability standards.

(C) monitors adoption and implementation of standards in member jurisdictions.

12. Which of the following factors is least likely to be considered during a CAMELS analysis of a financial institution?
    (A) Accuracy of accounting estimates
    (B) Estimation methods used for the fair value of assets
    (C) Levels of government support

13. Under the Basel III Regulatory Framework, the Net Stable Funding Ratio (NSFR) is most likely to be calculated as:
    (A) required stable funding ÷ expected cash outflows.
    (B) available stable funding ÷ required stable funding.
    (C) highly liquid assets ÷ available stable funding.

14. Gert Fonn, CFA, extracted the following information on the regulatory capital and total assets for JJK Inc., a U.S. commercial bank he is considering as an investment. Fonn weights cash at 0%, performing loans at 100% and non-performing loans at 150% when calculating risk-weighted assets, and only considers investing in institutions with a tier 1 capital ratio over 15%. However, he is concerned that JJK has classified $85m of non-performing loans as performing loans.

	2018		2018
Regulatory Capital	$('000)		$('000)
Common Equity Tier 1 Capital	80,438	Cash	165,754
Additional Tier 1 Capital	14,294	Performing loans	235,631
Tier 2 Capital	22,395	Non-performing loans	158,654

Using the information in the table, which of the following conclusions is Fonn most likely to make?
    (A) JJK's current tier 1 capital ratio meets Fonn's criteria even if the $85m of non-performing loans were reclassified
    (B) JJK's current tier 1 capital ratio does not meet Fonn's criteria
    (C) JJK's current tier 1 capital ratio meets Fonn's criteria, but would not if the $85m of non-performing loans were reclassified

15. Which of the following statements comparing Property and Casualty insurers to Life and Health insurers is least likely correct?
    (A) The calculation of Property and Casualty insurers minimum capital requirements is more likely to factor in exposure to interest rate risk.
    (B) Life and Health insurers typically face more predictable claims than Property and Casualty insurers
    (C) Property and Casualty insurers typically require a higher equity cushion and hence can have higher capital requirements

16. Basel III regulation that aims to prevent banks from assuming so much leverage that they are unable to withstand loan losses is most correctly described as the:
    (A) minimum liquidity requirement.
    (B) minimum capital requirement.
    (C) stable funding requirement.

17. When analyzing a bank, important attributes that the CAMELS approach to assessing bank soundness does not address are most likely to include:
    (A) sensitivity to market risk, liquidity, and earnings.
    (B) capital adequacy, asset quality, management capabilities.
    (C) corporate culture, exposure to currencies, and segment information.

18. When analyzing insurance companies, the combined ratio is most likely to:
    (A) suggest a soft market when it is low.
    (B) equal net premiums earned divided by total insurance expenses.
    (C) indicate an underwriting loss when it is higher than 100%.

19. The following extract shows data prepared by OWB, a financial institution conducting a review of its BASEL III compliance from 2016 to 2018. All data has been prepared in accordance with BASEL III requirements.

	2016	2017	2018
	$m	$m	$m
Net Outflows (30 days of stress level cash flows)	70,363	79,454	111,547
Available Stable Funding	337,964	347,945	298,045
Required Stable funding	327,043	287,953	247,876
High Quality Liquid Assets	82,334	87,677	109,654

Using the data extracted from OWB, which of the following statements is most likely correct?
    (A) The number of days of stress level cash flows that OWB can withstand has steadily increased over the period.
    (B) The liquidity coverage ratio meets the standard BASEL III requirements in each of the three years.
    (C) The net stable funding ratio was highest in 2017

20. The CAMELS approach to analyzing a bank considers:
    (A) capacity, appetite for risk, monetary assets, evidence, legislative factors, and structure.
    (B) capital adequacy, asset quality, management, earnings, liquidity, and sensitivity.
    (C) character, ability to pay, market exposure, efficiency, liabilities, and stability.