QUESTIONS ON CAPITAL ADEQUACY

99. Each of the following is a function of capital except

A) acquiring the necessary premises to provide financial services.

B) protecting the insurance fund and the taxpayers.

C) assuring the highest possible return on equity for the shareholders.

D) protecting uninsured depositors in the event of insolvency and liquidation.

E) absorbing losses in a manner that allows the FI to continue as a going concern.

Answer: C

What is the impact on economic capital of a 25 basis point decrease in interest rates if the FI is holding a year, fixed-rate, 11 percent annual coupon bond selling at a par value of $100,000?

A) A decrease of $250.

B) An increase of $250.

C) An increase of $2,024.

D) A decrease of $1,959.

E) No impact on capital since the book value is unchanged.

Answer: C

102. From a regulatory perspective, what is the impact on book value capital of a 25 basis point decrease in interest rates if the FI is holding a year, fixed-rate, 11 percent annual coupon $100,000 par value bond?

A) A decrease of $250.

B) An increase of $250.

C) An increase of $2,023.

D) A decrease of $1,959.

E) No impact on capital since the book value is unchanged.

Answer: E

106. Retained earnings

A) are not included in equity because they are accumulations of past earnings.

B) are included in equity because they could have been paid out in the form of dividends.

C) are included in equity since they are a special set–aside that adjusts with adjustments in the market value of assets.

D) are not included in equity since they are a special set–aside that adjusts with adjustments in the market value of liabilities.

E) are not included in equity since they are a contra–asset entry to the balance sheet.

Answer: B

107. Loan loss reserves are

A) not included in equity because they are accumulations of past earnings.

B) included in equity because they were not paid out in the form of dividends.

C) included in equity since they are a special setaside that adjusts with adjustments in the market value of assets.

D) not included in equity since they are a special setaside that adjusts with adjustments in the market value of liabilities.

E) not included in equity since they are a contraasset entry to the balance sheet.

Answer: C

115. Simulate Bank has 2 million shares of stock that currently are trading at $40 per share. The shares have a par value of $2.00, and the bank's balance sheet shows a surplus value of $36,000,000, retained earnings of $56,000,000, and loans loss reserve of $9,000,000. What is the value of the bank's market to book ratio?

A) 2.00

B) 0.83

C) 1.31

D) 0.76

E) 1.20

Answer: D

118. Bank regulators set minimum capital standards to

A) inhibit rapid growth rate of bank assets.

B) protect shareholders from managerial fraud or incompetence.

C) protect creditors from decreases in asset values.

D) force banks to follow socially desirable policies.

E) make work for regulators.

Answer: C

122. The Basle capital requirements are based upon the premise that

A) banks with riskier assets should have higher capital ratios.

B) banks with riskier assets should have lower capital ratios.

C) banks with riskier assets should have lower absolute amounts of capital.

D) banks with riskier assets should have higher absolute amounts of capital.

E) there is no relationship between asset risk and capital.

Answer: D

Use the following to answer questions 126-129:



126. If the bank has capital of $50 million, what is the leverage ratio?

A) 5.00 percent

B) 8.33 percent

C) 25.0 percent

D) 50.0 percent

E) None of the above

Answer: A

127. What is the amount of risk-adjusted assets?

A) $1,000 million

B) $720 million

C) $900 million

D) $600 million

E) $700 million

Answer: B

128. What is the ratio of capital to risk-adjusted assets?

A) 5.00 percent

B) 5.56 percent

C) 7.94 percent

D) 8.33 percent

E) 6.25 percent

Answer: C



























