CAIIB BFM Practice Questions (Set-1)

Q1. For computing Capital Requirements with Credit Risk, Which of the following methods is used under Basel II?

(a) Basic Indicator Approach
(b) VAR Approach
(c) Advance Measurement Approach
(d) Advanced Internal Rating Approach

Q2. ___ approach of ICAAP examines an increase in uncertainty relating to modelling and business co[redacted]

(a) Quantita[redacted]
(b) Qualitati[redacted]
(c) Risk mar[redacted]
(d) Business[redacted]

Q3. The r[redacted]atisfactory performan[redacted]

(a) Six mont[redacted]arlier fails
(b) one year[redacted]lier fails
(c) Nine Mo[redacted] earlier fails
(d) Four mo[redacted] earlier fails

Q4. Basel I[redacted]l II Accord rests on thr[redacted]

(a) Ensure s[redacted] of capital
(b) Disclosu[redacted]
(c) Ensure m[redacted]
(d) Prescrib[redacted]k.

Q5. Which [redacted] SARAFESI Act

A. NPA loan accounts amounting to less than 20% of the principal and interest.

B. Any conditional hire-purchase, sale, lease or any other contract in which no security interest has been created.

C . Rights of the unpaid seller as per the Sale of Goods Act

(a) ABC
(b) AB
(c) BC
(d) AC

Q6. A Non-Resident Account can be opened by which of the following persons?
(a) An Indian national working with a foreign shipping company with his base office in Hongkong
(b) An Indian who has gone abroad to pursue higher studies
(c) An Indian who has gone abroad for medical treatment
(d) only (a) & (b)

Q7. Sarovar received a gift from his uncle for USD 20000. He can get the amount credited in which of the following accounts?
(a) RFC
(b) RFC(Do[redacted]
(c) EEFC
(d) NRE

Q8. Exporte[redacted]eeds can be deposited t[redacted]
(a) 25%
(b) 50%
(c) 75%
(d) 100%

Q9. Which among the following statement is correct regarding a 'Revolving Credit'?
(a) That which is available for use in any country
(b) That covers many shipments up to a particular period or a particular amount or both
(c) That which may be easily transferable by the beneficiary to his suppliers
(d) That which allows the beneficiary to pack credit in foreign currency

Q10. Advan[redacted]obtaining a guarantee [redacted]of an AD in India again[redacted]of advance remittance[redacted]
(a) US $ 10,[redacted]
(b) US $ 25,000
(c) US $5,000
(d) US $ 50,00,000

Q11. ____ stands for UCPDC.
(a) Uniform Contract & Practices for Documentary Credit
(b) Universal Customs & Practices for Documentary Credit
(c) Uniform Customs & Practices for Documentary Credits
(d) Universal Customs & Provisions for Documentary Credits

Q12. Choose the incorrect statement regarding export declaration forms.
(a) GR form is used for declaration of exports other than by post where custom office not linked to EDI
(b) Export Declaration form is not required to be submitted for exports up to USD 25000.
(c) Softex form is used for declaration of export of software in physical or electronic form.
(d) None of these

Q13. Application for making payment towards imports into India has to be made to authorised dealers by importers in :
(a) ENC
(b) R-3
(c) Form A-[redacted]
(d) Form A-[redacted]

Q14. When [redacted]
(a) At the pr[redacted]
(b) At disco[redacted]
(c) At par
(d) At Inflat[redacted]

Q15. Cance[redacted]
(a) TT Buyi[redacted]
(b) TT Selli[redacted]
(c) Forward[redacted]
(d) Tom rat[redacted]

Directions [redacted] nths usance bill drawn u[redacted] 25 days. The inter-bank c[redacted]:
Spot rate :
1 Pound Ste[redacted]
August forw[redacted]
September f[redacted]
October for[redacted]
November forward margin= 0.9500 / 0.9900
The exchange margin is 0.15%. The customer wants to retain 20% of the amount in a current account opened in London. The rate of interest is 10% p.a. From the following information, Calculate the following

Q16. What shall be the Rate to be quoted to the customer?

Q17. What is the Gross amount to be credited to the customer's account?

Q18. What is the amount of Interest to be deducted?

Q19. What shall be the Net amount payable to the Exporter?

Q20. Which of the following Statements regarding Collateralised Borrowing and Lending obligations are correct :
I. It is traded in the Secondary Market.
II. It can be readily encashed at the requirement of the lender without waiting till the due date.
III. Settlements of CBLO take place through Clearing Corporation of India Ltd.
(a) I and II
(b) II and III
(c) I and III
(d) I, II, III

Q21. From [redacted]
1. It predict[redacted]**ime, under**
Normal Tr[redacted]
2. It Cons[redacted] **all other**
assets/liab[redacted]
(a) 1 only
(b) 2 only
(c) Both 1 a[redacted]
(d) None of [redacted]

Directions [redacted]he following
foreign curr[redacted]
(1) With Mr[redacted]
(2) With Mr[redacted]
(3) With Mr[redacted]nk holidays)
(4) With Mr[redacted]
The inter-ba[redacted]
Cash rate or[redacted]
and one mo[redacted]
From the ab[redacted]

Q22. Calculate the exchange rate to be used for M and the amount in Rupees to be involved.
(a) Rs.75.50, Rs.549800
(b) Rs.75.55, Rs.591100
(c) Rs.75.60, Rs 529200
(d) Rs.75.65, Rs.555800

Q23. Calculate the exchange rate to be used for N and amount in Rupees to be involved?
(a) Rs.75.50,Rs 245,674
(b) Rs.75.55,Rs.377,750
(c) Rs.75.60,Rs.191200
(d) Rs.75.65, Rs.366,650

Q24. Calculate the exchange rate to be used for O and amount in Rupees to be involved?
(a) Rs.75.50,Rs.95000
(b) Rs.75.55,Rs.91100
(c) Rs.75.60,Rs.166800
(d) Rs.75.65, Rs.155300

Q25. Calculate the exchange rate to be used for P and amount in Rupees to be involved?
(a) Rs.75.50,Rs.491000
(b) Rs.75.55,Rs. 466650
(c) Rs.75.60 [redacted]
(d) Rs.75.85 [redacted]

Directions [redacted] ated sales of
Rs.,150 lakh [redacted] ent loan on
FOB value – [redacted] ets an order
for USD 75,[redacted] er USD, the
exporter ap[redacted]
On 31.3.202[redacted]) as full and
final shipme[redacted] tanding and
credited the [redacted] ansit Period
(NTP) . The [redacted] of USD 450.
The outstan[redacted] ged interest
for pre-ship[redacted] st shipment
credit, the B[redacted] ments up to
90 days and [redacted]

Q26. Calcul[redacted] against the
given expo[redacted]

Q27. Calcul[redacted] for foreign
bills purch[redacted]

Q28. A concessional rate of interest is charged by banks on DP bills, from the date of purchase of the bill for how many days?
(a) 90 days
(b) 25 days
(c) 31 days
(d) Up to date of realization

Q29. When shall be the latest date for the bill to be crystallized, if the bill is unrealized for more than two months, from the date of purchase-(Excluding holidays) ?

(a) On 30.4.2022
(b) On 24.4.2022
(c) On 24.5.2022
(d) On 31.5.2022

Q30. The rate of Interest to be charged on the export bill at the time of realization, when due date is within 90 days will be _______%

Q31. Generally, the book of banking is not exposed to :
(a) liquidity risk
(b) interest rate risk
(c) credit ris [redacted]
(d) None of [redacted]

Q32. The ri [redacted] in market prices of in [redacted]
(a) Price Ris [redacted]
(b) Market [redacted]
(c) Translat [redacted]
(d) Both a [redacted]

Q33. Which [redacted]
(i) Redeema [redacted]
(ii) Revaluat [redacted]
(iii) General [redacted]
(iv) Hybrid [redacted] ited to 50%
of Tier –I Ca [redacted]
(a) Both I & [redacted]
(b) Only (iii [redacted]
(c) Only (iv) [redacted]
(d) None of [redacted]

Q34. Which [redacted]
(a) Balance [redacted] ngencies.
(b) Where the Bank initiates payment they are called contingencies given.
(c) Balance Sheet exposure shall not have Interest Risk
(d) Where the Bank is the Beneficiary, it is called as receivable contingency.

Q35.What is a potential legal risk related to bans or restrictions on the export of particular goods?
(a) The buyer is unable to receive the goods they have purchased
(b) The seller is unable to export goods that they have already produced
(c) The buyer is unable to remit funds to the seller due to the goods being banned
(d) The seller is unable to receive payment for goods that they have already exported

Q36.Which of the following factors could contribute to exchange risk for an importer?
(a) Invoicing in their home currency
(b) Strengthening of the currency in which they are invoiced
(c) Weakening of the currency from where their competitors import goods
(d) Supplying goods to the same countries as their competitors

Q37. Which among the following is not correctly recognised Business Line Beta Factors?
(a) Retail Banking and Asset Management 12%
(b) Retail Brokerage 12%
(c) Commercial Banking 15%
(d) Corpora[redacted]

Q38. The s[redacted]ol of assets such as:
(a) Credit ca[redacted]
(b) Home ec[redacted]
(c) Credit de[redacted]
(d) All of the[redacted]

Q39. Which[redacted]
(a) Equity
(b) Disclose[redacted]
(c) (a) and ([redacted]
(d) None of [redacted]

Q40. BCBS [redacted]f members in the comm[redacted]
(a) 5, 28
(b) 3, 35
(c) 6, 27
(d) 3, 45

Directions (41-43) : The assets side of the balance sheet of the International Bank provides the following information:
Fixed Assets — 600 cr, Investment in Central govt. securities — Rs. 6000 cr. In standard loan accounts, the Retail loans — Rs. 4000 cr, House Loans — Rs.
1000 cr (all individual loans above Rs. 30 lac and properly secured by mortgage) , Other loans — Rs. 8000 cr. Sub-standard secured loans — Rs. 400 cr,
sub-standard unsecured loans Rs. 100 cr, Doubtful loans Rs. 500 call DF-3 category and fully secured) and other assets Rs. 100 cr.
Based on this information, using the Standard Approach for credit risk, answer the following questions.

Q41. Calculate the amount of risk-weighted assets for retail loans:
(a) Rs. 3000 cr
(b) Rs. 2500 cr
(c) Rs. 2250 cr
(d) Zero, as retail loans are risk-free

Q42. Calculate the amount of risk-weighted assets for housing loans:
(a) Rs. 500 cr
(b) Rs. 750 cr
(c) Rs. 1000 cr
(d) Rs. 1250 [redacted]

Q43. Calcul [redacted]
(a) Rs. 5000 [redacted]
(b) Rs. 2500 [redacted]
(c) Rs. 1000 [redacted]
(d) Nil

Q44. Rearr [redacted]
1) Authoriz [redacted]
2) Assessm [redacted]
3) Categori [redacted]
4) Impleme [redacted]
5) Selection [redacted]
6) Monitor [redacted]
(a) 5-4-6-1- [redacted]
(b) 3-5-4-2- [redacted]
(c) 1-2-3-4- [redacted]
(d) 3-5-4-1- [redacted]

Q45. Which [redacted] redit risk?
(a) Value at [redacted]
(b) Standardized Approach
(c) Foundation Internal Ratings-based approach
(d) Advanced Internal Ratings-based approach

Q46. Which of the following is an example of operational risk in a business?
(a) Fluctuations in interest rates
(b) Natural disasters
(c) Misconduct by employees
(d) Changes in government regulations

Q47. For which of the following instruments Interest Rate Futures is allowed as per RBI Guidelines?
(a) 91-Day Treasury Bills
(b) 2-year, 5-year and 10-year coupon-bearing notional Government of India security
(c) Coupon bearing Government of India security.
(d) All of the above

Directions (48-50) : Bank-M is having surplus funds in its accounts so it decides to invest Rs.700 cr in the equity issued by bank X, Rs.400 cr in the capital of a subsidiary company, being promoted by the bank and Lend Rs 500 cr against fully paid up equity shares of Bank Y with a paid up equity capital of Rs.3000 cr. [redacted]
The paid-up [redacted] per Basel III
are Rs.900 c[redacted]nd financial
institutions [redacted]
1. Max inves[redacted]
2. Investme[redacted]
3. Investme[redacted]
4. The bank [redacted]num of 30%
of its own p[redacted]er is lower.
Based on th[redacted]

Q48. The m[redacted]________(Cr.)

Q49. The m[redacted]npany is Rs _________(Cr[redacted]

Q50. The m[redacted]ank-Y is Rs _________(Cr[redacted]

Q51. The Fo[redacted]n is known as _
(a) Open Position
(b) Closed Position
(c) Open short
(d) Oppose position.

Q52. Notice Money refers to placement beyond overnight for periods not exceeding ____days.
(a) 10
(b) 7
(c) 14
(d) 30

Q53. _____ can manage inflation in the economy by increasing and reducing the money supply.
(a) Repurchase agreements
(b) liquidity adjustment facility (LAF)
(c) monetary policy
(d) None of the above

Q54. Which among the following are securities issued by the Government which do not have any risk?
(a) GILTS
(b) Treasury bonds
(c) Capital I [redacted]
(d) Inflation [redacted]

Q55. Which [redacted] duct?
(a) It is trad [redacted]
(b) It is subj [redacted]
(c) It is settl [redacted]
(d) It can on [redacted]

Q56. Which [redacted]
(a) Index-lin [redacted]
(b) Index-lin [redacted]
(c) The coup [redacted]
(d) The prin [redacted]

Q57. Which [redacted]
(a) Commer [redacted]
(b) Mortgag [redacted]
(c) Corporat [redacted]
(d) Certifica [redacted]

Q58. Which [redacted] erivatives?
(a) Positions of Exchange Traded products are marked to market daily
(b) The Market is illiquid
(c) The prices are determined through the market.
(d) All Trades are exchange protected.

Q59. Which among the following statement is incorrect regarding commercial paper?
(a) CP can be a substitute to working capital
(b) Interest rates are generally at par with PLR
(c) It must be compulsory in Demat format
(d) Purchase and sale of CP is effected by the depository participants

Q60. Under which of the following approaches bank banks have to hold capital for operational risk equal to a fixed percentage (alpha) ?
(a) Basic indicator approach
(b) The standard approach
(c) Advanced measurement approach
(d) None of the above

Q61. Which among the following is not the driving force of integrated treasury?
(a) Integrated cash flow management
(b) Interest [illegible]
(c) Fund uti[illegible]
(d) Risk Ma[illegible]

Q62. The di[illegible] y the bank, the profit t[illegible]
(a) Primary [illegible]
(b) Spread
(c) Foreign [illegible]
(d) Exchang[illegible]

Q63. The c[illegible] transactions is kno[illegible]
(a) Spot tra[illegible]
(b) Forward[illegible]
(c) Swap tra[illegible]
(d) Money [illegible]

Q64. A non[illegible] (NPA) [illegible] a loan or an a[illegible]
(a) Interest [illegible] ect of a term loan
(b) The acco[illegible]
(c) The bill remains overdue for more than 45 days in the case of bills purchased and discounted
(d) The installment of principal or interest thereon remains overdue for two crop seasons for long-duration crops

Q65. VaR measures the potential loss in market value under normal circumstances of a portfolio using _____.
(a) Estimated volatility
(b) Correlations
(c) Given Horizon
(d) All of the above

Q66. Higher duration implies that when there is a change in interest rates it will have larger impact on economic value when?
(a) The maturity or next repricing date of the instrument is longer
(b) The payment that occurs before maturity (e.g. coupon payments) is smaller
(c) Both of these
(d) None of these

Q67. For controlling interest rate risk which of the following strategies can be used?
(a) Nil can be insulated from the volatility of interest rates by reducing the gap to zero.
(b) If a bank [redacted] frequently
than assets. [redacted]
(c) If a bank [redacted] assets more
frequently t[redacted]
(d) Both (a)[redacted]

Q68. For as[redacted]re used?
(a) Evaluati[redacted]
(b) Managin[redacted]
(c) Continge[redacted]
(d) All the a[redacted]

Q69. What [redacted]
(a) National[redacted]
(b) Non-Per[redacted]
(c) Net Profi[redacted]
(d) None of [redacted]

Q70. Under[redacted] customer,
however, t[redacted]
Which of th[redacted]
(a) classify t[redacted]
(b) classify the account as NPA but provision is not to be made
(c) The account will be classified as per the record of recovery of each bank
(d) classify the account as NPA if the same is NPA with the leader bank

Directions (71-75) : RRR an International Bank has maintained the following balance with RBI in its CRR account for the fortnight ended Jul 12, 2022.
1st 10 days — Minimum balance of 70%
11th and 12th day — Rs. 2200 cr
The average balance required to be maintained is Rs. 1300 cr.
Based on the above information, answer the following questions:

Q71. To comply with CRR requirements, On a product basis, the CRR balance for fortnight will be Rs _________(Cr.)

Q72. During the first 10 days of the fortnight the balance maintained by the bank on a product basis will be Rs _________(Cr.)

Q73. During the 11 th and 12 th day of the fortnight the balance maintained by the bank on a product basis will be Rs _________(Cr.)

Q74. On product basis, the balance maintained by the bank for 1st 12 days of the fortnight will be Rs ______[redacted]

Q75. The m[redacted]**of fortnight to ensure c**[redacted]

Q76. Which[redacted]
(a) EPS and [redacted]
(b) EVA pro[redacted]s
(c) (a) and ([redacted]
(d) None of [redacted]

Q77. A com[redacted]
(a) cost of e[redacted]
(b) This also[redacted]
(c) (a) and ([redacted]
(d) None of [redacted]

Q78. Banks[redacted]
(a) Total ass[redacted]
(b) Net oper[redacted]
(c) Ratio of [redacted]
(d) All of the[redacted]

Q79. Which of the following statements is correct?
(a) Profit and Profitability go together.
(b) If profits increase, profitability will also increase.
(c) Profit may increase profitability may decline
(d) All these

Q80. Which of the following indicates Profitability?
(a) Financial soundness of a Bank
(b) Sustained confidence of the Depositor;
(c) Time utilisation
(d) Both a and b

Q81. Foreign Banks maintain accounts with ADs in India for mutual communications, Ads in India refer to which of the following accounts?
(a) Loro
(b) FCNR
(c) Vostro
(d) Nostro

Q82. The quotation US $ 1 = Rs. 44.40 - Rs. 44.50 is:
(a) average rate
(b) indirect [redacted]
(c) direct ra[redacted]
(d) cross rat[redacted]

Q83. Firms[redacted]ertake__
(a) sale of fo[redacted]
(b) purchas[redacted]
(c) Issue of [redacted]
(d) Both saf[redacted]e public

Q84. The ex[redacted]ed in the LC is 30.06.20[redacted] presented on 15.07.20[redacted]
(a) The docu[redacted]
(b) The docu[redacted]f credit
(c) The docu[redacted]
(d) The docu[redacted]

Q85. DCB r[redacted]vas not in a situation t[redacted] LC as per UCPDC,600[redacted]
(a) DCB mus[redacted]
(b) DCB may select not to advise the credit and must so inform the issuing bank without delay
(c) DCB may select to advise the credit to the beneficiary without recourse
(d) either (b) or (c)

Directions (86-92) : MNM International Bank has provided the following information relating to its advance portfolio as on Jul 31, 2022: Total advances Rs.75000 cr. Gross NPA 9.5% and Net NPA 4.75%. Based on the above information, answer the following questions?

Q86. If all standard Loans were General advances, the amount of provision for standard loan accounts will be Rs _________(Cr.)

Q87. The provision on NPA accounts will be Rs ________(Cr.)

Q88. The total amount of provisions on total advances, including the standard accounts will be Rs ________(Cr.)

Q89. The amount of gross NPA will be Rs ________(Cr.)

Q90. The amount of net NPA will be Rs ________(Cr.)

Q91. The provision coverage ratio for NPA will be _______%

Q92. The m [redacted] **rovisioning coverage ra** [redacted]

Directions [redacted] reserves of Rs. 600 cr, p [redacted] r, Perpetual non-cumula [redacted] sk-weighted assets for cr [redacted] Based on th [redacted]

Q93. The a [redacted]

Q94. The a [redacted]

Q95. The a [redacted]

Q96. The c [redacted]

Q97. The a [redacted] **k will be Rs ________(Cr** [redacted]

Q98. Calcul [redacted] **credit and operational risk:**
(a) 1125 cr, 1125 cr
(b) 1600 cr, 1900 cr
(c) 1450 cr, 1200 cr
(d) 1300 cr, 1450 cr

Q99. The amount of Tier-1 capital fund required to support market risk will be Rs ________(Cr.)

Q100. The amount of Tier-2 capital fund required to support market risk will be Rs ________(Cr.)

Solutions

S1. Ans.(d)

Sol. Basel II Framework offers three distinct options for computing capital requirements for credit risk and operational risk. These options for capital computation depending on credit and operational risks are based on increasing risk sensitivity and allow banks to select an approach that is most appropriate to the stage of development of the bank's operations. For computing capital for credit risk Methods are the Standardised Approach, Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach.

For computing, the Market risk is a standardized approach (based on maturity ladder and duration baSed) and [illegible]

For computi[illegible]tandardised Approach a[illegible]

S2. Ans.(a)

Sol. A quan[illegible] the [illegible] framework. In simple w[illegible]ting to[illegible] must result in a larger c[illegible]

S3. Ans.(b)

Sol. The restructured Asset can be upgraded to Standard Asset subject to satisfactory performance during the time period of one year after the date when the first payment of interest or principal, whichever is earlier fails. However, if there is no satisfactory performance then during the period of one year after classification then the account will be downgraded and classified as per the original repayment schedule.

S4. Ans.(b)

Sol. Basel II Accord assigns regulatory capital to Bank's Risk Profit. The Basel II Accord rests on three pillars. The first pillar deals with Minimum regulatory capital requirements.

The second pillar deals with Supervisory Review

1. Evaluate risk assessment
2. Ensure soundness and integrity of the bank's internal processes to assess the adequacy of capital
3. Ensure maintenance of minimum capital with PCA for the shortfall
4. Prescribe differential capital, where necessary i.e. where the internal processes are slack.

Pillar 3: Market Discipline

1. Enhance disclosures
2. Core disclosures and supplementary disclosures
3. Disclosures should be made on a half-yearly basis.

S5. Ans.(a)
Sol. The provisions of this Act apply to outstanding loans above Rs.1 lakh, which are classified as NPAs. The SARFAESI Act isn't applicable for:
A. The NPA loan accounts amount to less than 20% of the principal and interest.
B. Money or security issued under the Indian Contract Act or the Sale of Goods Act, 1930.
Any rights of the unpaid seller under Section 47 of the Sale of Goods Act, 1930.
C. Any conditional hire-purchase, sale, lease or any other contract in which no security interest has been created.
D. Any properties that are not liable to attachment or sale under Section 60 of the Code of Civil Procedure, 1908.

S6. Ans.(d)
Sol. A non-r [redacted] eserve Bank of India (RB [redacted] y account. A non-residen [redacted] India.

S7. Ans.(b)
Sol. Any ind [redacted] of 1 year or more is elig [redacted] s in foreign currency, th [redacted] on interest accrued on t [redacted] atriate fund for a bonafi [redacted]

S8. Ans.(d)
Sol. Exchan [redacted] gn currency with an Aut [redacted] ange. It is a facility prov [redacted] cent of their foreign exch [redacted] vert foreign exchange in [redacted] gn exchange earnings ca [redacted] the accruals in the accou [redacted] st day of the succeeding [redacted] purposes or forward con [redacted]

S9. Ans.(b)
Sol. A revolving letter of credit is one type of letter of credit wherein a single letter of credit covers multiple transactions for a long period. It is generally used for regular shipments of the same commodity between the same buyer (importer) and the seller (exporter) . It can be issued only once for a certain period of several transactions.

S10. Ans.(d)
Sol. In cases where the importer (other than a Public Sector Company or a Department/Undertaking of the Government of India/State Government/s) is unable to obtain bank guarantee from overseas suppliers and the AD Category – I bank is satisfied about the track record and bonafides of the importer,

the requirement of the bank guarantee / standby Letter of Credit may not be insisted upon for advance remittances up to USD 5,000,000 (US Dollar five million) . AD Category – I banks may frame their own internal guidelines to deal with such cases as per a suitable policy framed by the bank's Board of Directors.

S11. Ans.(c)
Sol. The UCP 600 ("Uniform Customs & Practice for Documentary Credits") is the official publication that is issued by the International Chamber of Commerce (ICC) . It contains 39 articles on issuing and using Letters of Credit, that apply to 175 countries across the world, constituting USD 1tn of trade per year.

S12. Ans.(b[redacted]
Sol. GR form [redacted] alize the full export proc[redacted]ment. After allowing ex[redacted]orsed to the exporter.ex[redacted]e following cases, name[redacted]
a) trade sam[redacted]
b) personal [redacted]
c) ship's sto[redacted]ernment or of such offic[redacted]litary, naval or air force [redacted]
d) by way o[redacted]re than five lakh rupees [redacted]
e) aircrafts [redacted]ject to their reimport in[redacted]late of their export;
f) goods imp[redacted]
g) the follow[redacted]al Economic Zones, Elect[redacted]Zones to be re-exported[redacted]
h) Export D[redacted]ll 2014, but since then it[redacted]
i) Softex for[redacted]

S13. Ans.(c)
Sol. Form A-1 is the application form for remittance for imports into India. Importers need to fill this form and submit it to the authorized dealer (AD) to make payment towards their imports. The AD is a bank authorized by the Reserve Bank of India (RBI) to deal in foreign exchange transactions. The form requires the importer to provide details such as the name of the beneficiary, the country of the beneficiary, the purpose of the remittance, and the amount to be remitted.

S14. Ans.(a)
Sol. When profits from arbitrage occur because of the price differences in the two countries, its called geographic arbitrage. When the forward currency exchange rate happens to be higher than the spot rate, then the currency is said to be at a premium.

S15. Ans.(b)
Sol. Cancellation of contracts are always done at opposite rates. Purchase contracts are cancelled at TT selling rate and Sales contract are cancelled at TT Purchase rate.

S16. Ans.(75<>76)
Sol. The bill dated Aug 05, has 25 transit period + 2 months' Usance (Sep and oct) . Hence the payment shall fall due on Oct 31. The exporter will be allowed the benefit of Oct forward margin since the payment is due on last day of Oct.
Further, interest will be recovered from the customer from the date of discount to date of realization on the amount to be credited to his account (i.e. 80% of the bill amount, as the balance is to be retained in London) [redacted]
Spot rate = [redacted]
Add Oct pre[redacted]
Deduct mar[redacted]
Final rate = [redacted]

S17. Ans.(3[redacted]
Sol. Gross a[redacted]ill excluding
the amount [redacted]
75.7400 x 5[redacted]
(20% to be [redacted]

S18. Ans.(9[redacted]
Sol. Interest[redacted]
Less interes[redacted]
(3938340 x [redacted]

S19. Ans.(3[redacted]
Sol. Net am[redacted]
3938340 - 9[redacted]

S20. Ans.(d[redacted]
Sol. Treasury Product includes Collateralised Borrowing and Lending obligations. It is a money Market repo instrument launched by Clearing Corporation of India Ltd. It is used by Banks, Primary Dealers, Insurance companies, mutual funds, and other financial institutions that cannot access the Call money market. Because CBLO is actively traded in the secondary market, the lender can sell and encash the CBLO at any time without having to wait until the due date. The borrower can also pay off the CBLO at any time by acquiring it on the open market. CCIL is in charge of all settlements.

S21. Ans.(c)
Sol. VaR is defined as the predicted worst-case loss at a specific confidence level over a certain period of time assuming 'Normal Trading Conditions', ignoring the losses in abnormal situations.

It uses estimated volatility (rate or price move) and correlations (how rates or prices move about each other) , for a given horizon (longer the time horizon, more is the VaR) measured with a given confidence interval.

S22. Ans.(c)
Sol. It is a sale transaction to M. Hence, same day rate i.e. cash rate of Rs.75.60 will be used. The amount = 75.60 x 7000 = Rs. 529,200

S23. Ans.(b)
Sol. It is a purchase transaction. Hence, next day rate (TOM Rate) of Rs.75.55 will be used. The amount = 75.55 x 5000 = Rs.377,750

S24. Ans.(c [redacted]
Sol. It is a p [redacted] days period
will be exclu [redacted] 5.60 x 3000
= Rs.166,80 [redacted]

S25. Ans.(d [redacted]
Sol. Sale ha [redacted] orward sale
rate or Rs.7 [redacted]

S26. Ans.(2 [redacted]
Sol. FOB val [redacted]
Deduct Insu [redacted]
Balance = 4 [redacted]
Deduct prof [redacted]
Balance = 3 [redacted]
Less Margin [redacted]
PCL = 28,28 [redacted]

S27. Ans.(4 [redacted]
Sol. The po [redacted] itted export
documents, [redacted] rchased the
documents [redacted] o the firm's
account, 70000 x 63.85 = 44,69,500

S28. Ans.(b)
Sol. Concessional rate of interest shall be charged for normal transit period of 25 days and there after overdue interest will be charged.

S29. Ans.(c)
Sol. Crystallisation is done when the bill becomes overdue after 25 days of normal transit period. The documents were presented on 31.3.3022 and realized on 30.4.2021 after deduction of foreign bank charges. Date of overdue will be 25.4.2022 of Normal transit period. if bill remains overdue, it will be crystalised within 30 days i.e. up to 24.5.2022.

S30. Ans.(8<>9)

Sol. Rate of Interest charged on export bill would be @8.5% for usance (DA) documents up to 90 days and @ 9.50% thereafter and on all over dues beyond the normal due date, interest @ 11%.

S31. Ans.(d)

Sol. The book of banking refers to the collection of financial assets held by a bank, including loans, securities, and other investments. Banks are exposed to various risks associated with their book of banking, including liquidity risk, interest rate risk, and credit risk, among others.

- Liquidity risk refers to the risk that a bank may not be able to meet its financial obligations when they become due, due to a shortage of cash or liquid assets. Banks manage liquidity risk by maintain[redacted]if necessary.
- Interest [redacted]ect a bank's profitabi[redacted]atching the maturiti[redacted]
- Credit ri[redacted]redit risk by conducti[redacted]

Therefore, i[redacted] risks, as all three are co[redacted]

S32. Ans.(d[redacted]

Sol. The risk[redacted]ket prices of interest rat[redacted]ematic risk, affects the p[redacted]cation.

S33. Ans.(d[redacted]

Sol. Tier –II[redacted]

• Redeemab[redacted]e shares & Perpetual c[redacted]

• Revaluatio[redacted]

• General Pr[redacted]

• Hybrid deb[redacted]d to 50% of Tier –I Capit[redacted]

S34. Ans.(c)

Sol. Off-balance sheet exposures means the activities that are effectively assets or liabilities of a company but does not appear on the company's balance sheet. In other words the activities that do not involve loans and deposits but generate fee income to the banks.

S35. Ans.(b)

Sol. The seller is unable to export goods that they have already produced. If a ban or restriction on the export of particular goods is implemented, the seller may no longer be able to sell their goods to the intended buyer, resulting in a loss of revenue.

S36. Ans.(b)

Sol. Strengthening of the currency in which they are invoiced. If the currency of the country from which an importer is purchasing goods strengthens relative to their home currency, it will become more expensive for the importer to purchase those goods. This creates an exchange risk for the importer.

S37. Ans.(a)

Sol.

Values of betas — Table 1

	Business lines	Beta factors
β_1	Corporate finance	18%
β_2	Trading and sales	18%
β_3	Retail banking	12%
β_4	Commercial banking	15%
β_5	Payment and settlement	18%
β_6	Agency services	15%
β_7	Asset management	12%
β_8	Retail brokerage	12%

S38. Ans.(d [redacted]

Sol. Asset-b [redacted] -generating assets like c [redacted] are created when a com [redacted] loan, a financial institution which then packages them into a portfolio in order to sell to investors.

S39. Ans.(c)

Sol. Tier 1 capital refers to the core capital that is held in a bank's reserves and is used to fund business activities for the bank's clients. It mainly contains common stock, as well as disclosed reserves and certain other assets. Along with the Tier 2 capital, the size of a bank's Tier 1 capital reserves is also used as a measure of the institution's financial strength.

S40. Ans.(d)

Sol. The Basel Committee contains 45 members from 28 jurisdictions, which consists of central banks and authorities that has formal responsibility for the supervision of banking business. The committee also has eight observers that include central banks, supervisory groups, international organisations and other bodies. The Basel Committee mainly meets three times every year. However, the Chair can decide to hold additional or fewer meetings as necessary.

S41. Ans.(a)

Sol. RW is 75% on retail loans. RW value = 4000 x 75% = 3000

S42. Ans.(b[redacted]

Sol. RW is 7[redacted]% = 750 cr

S43. Ans.(d[redacted]

Sol. On clai[redacted]

S44. Ans.(b[redacted]

Sol. The co[redacted] order is as follows:

1. Categori[redacted] system and its secu[redacted]he system's categori[redacted]
2. Selection [redacted]at are most appropr[redacted]
3. Impleme[redacted]ed security controls[redacted]
4. Authoriz[redacted]mplemented security[redacted]is ready for authoriz[redacted]
5. Assessm[redacted]mplemented security[redacted]
6. Monitori[redacted]mplemented security[redacted] to any new threats or vulnerabilities.

This order ensures that the RMF process is carried out in a logical and systematic manner, starting with categorization and selection of security controls, followed by implementation, authorization, assessment, and monitoring. This approach helps to ensure that information systems are secure, and any risks or vulnerabilities are identified and addressed appropriately.

S45. Ans.(a)

Sol. Basel II also gives banks better ways to assess capital needs based on credit risk, taking into account the risk profile and individual characteristics of each asset category. The following are the two main approaches: Internal ratings-based approach (Foundation Internal Ratings-based method and Advanced Internal Ratings-based approach) , and the standardised approach.

Under the standardised approach of Credit Risk, banks shall measure the credit Risk on the basis of ratings from External Credit Rating Agencies to quantify required capital for credit risk.
Under the internal ratings-based approach of credit risk, Banks may use their inputs for calculating risk-weighted assets from credit exposures to retail, corporate, financial institution and sovereign borrowers, under supervisory approval. Under foundation IRB, banks model only the probability of default and in Advanced IRB banks can calculate Loss given default and exposure and exposure at default levels,

S46. Ans.(c)
Sol. Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Examples of operational risks include fraud, errors, system failu[redacted]
Option (a) [redacted]ulations are examples o[redacted] considered operational [redacted]
Option (b) [redacted] operational risks unless [redacted]
Therefore, o[redacted] operational risk that can [redacted]rocesses or controls.

S47. Ans.(d[redacted]
Sol. RBI all[redacted]nised stock exchanges:
• 91-Day Tr[redacted]
• 2-year, 5-y[redacted]
and
• Coupon be[redacted]
Further rela[redacted]the residual maturity in [redacted]

S48. Ans.(9[redacted]
Sol. As per [redacted]ls.Maximum amount Bank-S can invest in equity issued by Bank-X : Capital funds of Bank S = 900 cr. Max investment = 10% of 900 = 90 cr

S49. Ans.(70)
Sol. As per RBI Guidelines, Investment in subsidiary company can be up to 10% of paid-up capital and reserves. Maximum amount Bank-S can invest in equity of subsidiary company : Paid up capital + reserves of Bank S = 700 cr. Max investment = 10% of Rs.700 cr = Rs.70 cr.

S50. Ans.(210)
Sol. As per RBI Guidelines, The bank can hold as owner, mortgagee or pledgee, the shares of another company maximum of 30% of its own paid up capital and reserves or 30% of paid up capital of the

company, whichever is lower.Max amount Bank-S can lend against equity shares issued by Bank-B: Paid up capital + reserves of Bank S= 30% of 700 = 210 cr. Paid up capital of Bank Y = 30 % of 3000 = 900 cr. Hence maximum investment can be Rs.210 cr

S51. Ans.(a)
Sol. The Foreign currency position closed with a trade going in the opposite direction is known as open position. It is a trade which has been established, but that has not yet been closed out with an opposing trade going on. If an investor have 300 shares of a stock, they still have an open position in that stock until it is been sold.

S52. Ans.(c)
Sol. Where [redacted] d as 'Notice Money'. And [redacted] ing 14 days.

S53. Ans.(b [redacted]
Sol. A liquid [redacted] y, mainly by the Reserve [redacted] agreements (repos) or t [redacted] angement is effective in [redacted] ts.

S54. Ans.(a [redacted]
Sol. Govern [redacted] es are called as gilts. Gilts [redacted] term gilt is generally us [redacted] efault and a correspondi [redacted]

S55. Ans.(c [redacted]
Sol. An ove [redacted] etween two parties with [redacted] A and D are incorrect be [redacted] bject to the same regula [redacted] ucts are not subject to t [redacted] ct to other regulations [redacted] products is typically done through a direct agreement between the two parties involved, such as through a wire transfer or other electronic means.

S56. Ans.(c)
Sol. The coupon payments on index-linked bonds are linked to a specific index.
Index-linked bonds, also known as inflation-linked bonds, are fixed-income securities where the coupon payments are linked to a specific index, such as the Consumer Price Index (CPI) . The interest rate on index-linked bonds is adjusted based on changes in the index, which can help protect investors from inflation.
Option A is incorrect because index-linked bonds do not offer a fixed rate of return. The interest rate on these bonds is adjusted based on changes in the index.

Option B is incorrect because index-linked bonds do not have a fixed maturity date. These bonds can have a variety of maturities, just like traditional bonds.
Option D is incorrect because the principal amount of index-linked bonds can change based on changes in the index. The principal amount is adjusted periodically to reflect changes in the inflation rate, which can help protect investors from inflation.

S57. Ans.(b)
Sol. Credit substitutes are instruments that can be used as an alternative to borrowing from banks or other financial institutions. They are usually issued in the capital market and can be traded like any other security. Examples of credit substitutes include commercial paper, corporate bonds, and certificates of deposit.

S58. Ans.(b[redacted]
Sol. Exchan[redacted]the-counter (OTC) deriv[redacted]n of default risk. An exc[redacted] a regulated exchange. In[redacted]nment.

S59. Ans.(b[redacted]
Sol. Comme[redacted]nies in order to finance th[redacted]lly issued at a discount f[redacted]

S60. Ans.(a[redacted]
Sol. Banks[redacted]iately while computing c[redacted]rational risk equal to a fi[redacted]to be "gross income". Th[redacted]

S61. Ans.(c[redacted]
Sol. Integra[redacted]market and foreign exch[redacted]
• Integrated[redacted]• Corporate demand for[redacted]

S62. Ans.(b)
Sol. Buying and selling foreign currency is a major source of income for the banks. The difference between 'buying and selling rates - called 'spread' - is the profit for the bank.

S63. Ans.(c)
Sol. The primary transactions in foreign exchange markets are spot and forward transactions. A combination of both spot and forward transactions or any combination of two forward transactions is known as a swap. A swap transaction is also said as the exchange of cash flows. Buying USD (with Rupees) under the spot market and selling the same amount of USD under the forward market, or vice versa, determines a USD/INR swap.

S64. Ans.(b)
Sol. 'Out of Order' Status An account should be treated as 'out of order' if the outstanding balance remains continuously more than the sanctioned limit/drawing power In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

S65. Ans.(d)
Sol. Value at Risk (VaR) V is defined as the predicted worst-case loss at a specific confidence level over a certain period assuming 'Normal Trading Conditions'. VaR measures the potential loss in market value under norm [redacted] move) and correlations [redacted] me horizon, the more is [redacted]

S66. Ans.(c [redacted]
Sol. Higher [redacted]
larger impa [redacted] ent is longer or when the [redacted]

S67. Ans.(d [redacted]
Sol. Net int [redacted] rns from its lending acti [redacted] ed - interest paid. NII ca [redacted] o. If a bank expects that [redacted] e frequently than liabiliti [redacted]

S68. Ans.(d [redacted]
Sol. Bank li [redacted] ed based on Evaluating N [redacted]

S69. Ans.(b [redacted]
Sol. Non-Pe [redacted]

S70. Ans.(c)
Sol. consortium refers to several lending institutions that group together to jointly finance a single borrower. Under a Consortium agreement, when an advance is granted by three banks to a customer, However the customer account becomes NPA with one of the banks then the rest of the banks may classify as per record of recovery of each bank.

S71. Ans.(18200**)**
Sol. Fortnight means a period of 14 Days.
1300 x 14 = 18200 cr

S72. Ans.(9100**)**
Sol. 1 st 10 days CRR requirement is 70% of the required Rs. 1300 cr i.e. 910 cr (1300 x 70%) . Hence total balance for 10 days = 910 x 10 = 9100 cr

S73. Ans.(4400**)**
Sol. As given in the above case, 11th and 12th days it maintained 2200 cr
2200 x 2 = Rs. 4400 cr

S74. Ans.(13500**)**
Sol. 1st 10 days: (1300 x 70%) = 910 cr × 10 = 9100 cr
11 th and 12 [redacted] r

S75. Ans.(2 [redacted]
Sol. Total ba [redacted]
less balance [redacted]
13500 = 47 [redacted]

S76. Ans.(b [redacted]
Sol. EPS (Ea [redacted], but rather
measures of [redacted]
EVA (Econo [redacted] erformance
that takes i [redacted] pital from a
company's r [redacted] it considers
the cost of f [redacted] true value.
Therefore, o [redacted] eter of value
addition aft [redacted] re not price
return func [redacted] (d) is also
incorrect be [redacted]
EVA = Net O [redacted]

S77. Ans.(c [redacted]
Sol. EVA (Ec [redacted] erformance
of business divisions, in which a finance charge is deducted from the profits to indicate the usage of assets. This finance charge represents the cost of capital in monetary terms (derived by multiplying the operating assets by the cost of capital) . EVA is calculated as below.
EVA = Net Operating Profit After Tax – (Operating Assets* Cost of Capital)
There is a complication in calculation of EVA as the Cost of equity needs to be calculated to arrive at the cost of capital
also for calculating Net operating profit there needs to be several adjustments.

S78. Ans.(d)
Sol. Banks can measure productivity in various ways, and each metric provides a different aspect of performance.

Total assets per employee is a measure of how efficiently a bank is utilizing its human resources to generate revenue. It calculates the amount of assets managed by each employee, which is an indicator of the bank's efficiency in managing its resources.
Net operating profit per employee is a measure of how efficiently a bank is using its employees to generate profit. This metric reflects the bank's ability to generate revenue and control its expenses.
The ratio of establishment expenses to working funds is a measure of how well a bank is controlling its overhead costs. This metric calculates the percentage of establishment expenses relative to the amount of working funds the bank has. A lower ratio indicates that the bank is operating efficiently and minimizing its overhead costs.

S79. Ans.(c)
Sol. Profit is [redacted] ct expenses
from your [redacted] ement.While
Profitability [redacted] ure. It is not
an absolute [redacted] percentages
or decimals [redacted] gh profit to
sustain and [redacted] ability may
decline.The [redacted] r business's
success:
Profit margi [redacted]
Gross margi [redacted]
Return on i [redacted]

S80. Ans.(d [redacted]
Sol. Profita [redacted] l soundness
of a Bank w [redacted]

S81. Ans.(c [redacted]
Sol. A Vostr [redacted] bank. These
accounts are [redacted] unds acts as
a custodian [redacted] ks maintain
accounts wi [redacted] ount.

S82. Ans.(c [redacted]
Sol. Direct [redacted] al currency, whereas indirect quotation is where the cost of one unit of local currency is given in units of foreign currency.The quotation US $ 1 = Rs. 44.40 is example of direct rate and Rs 46.80= Us $1 is an example of Indirect rate.

S83. Ans.(b)
Sol. Money changing business can be undertaken by entities authorised by the Reserve Bank under Section 10 of the Foreign Exchange Management Act, 1999 for select registered companies as Full Fledged Money Changers (FFMC) to undertake purchase of foreign exchange and sale of foreign exchange for specific purposes viz. private and business travel abroad. Restricted money changers are authorized to undertake the purchase of foreign currency notes, coins and travellers' cheques from the public.

S84. Ans.(d)
Sol. Some letters of credit require a presentation period of seven days, some 15, etc. If the letter of credit does not state a presentation date, the exporter has 21 days according to UCP Article 14c.

S85. Ans.(d)
Sol. DCB when received a letter of credit Opened by a bank in Amsterdam. However, as was not in a situation to verify the apparent authenticity of LC it may select not to advise the credit and must so inform the issuing bank without delay or it may advise the credit to the beneficiary without recourse.
After the parties agree on the contract and the use of an LC, the importer requests an LC in favor of the exporter from the Issuing Bank. The Issuing Bank sends the LC to the Advising Bank. The Advising Bank (Confirming [redacted]

S86. Ans.(2 [redacted]
Sol. Total [redacted]
Provision [redacted]

S87. Ans.(3 [redacted]
Sol. Total [redacted] = 3562.5cr.

S88. Ans.(3 [redacted]
Sol. Total [redacted] = 3562.5 cr.
Provision [redacted]
Hence total [redacted]

S89. Ans.(7 [redacted]
Sol. Total [redacted]
= 75000* [redacted]

S90. Ans.(3 [redacted]
Sol. Total [redacted]
= 75000* [redacted]

S91. Ans.(53<>54**)**
Sol. Provisioning Coverage Ratio= Total provision on N P A / G r o s s N P A
= 3834/7125= 53.81%

S92. Ans.(4987<>4988**)**
Sol. Minimum amount of provisions to be maintained by the bank to meet the provisioning coverage ratio of 70%= Gross NPA*70%= 7125*70% = 4987.5 Cr

S93. Ans.(1700**)**
Sol. The elements of Tier I capital include:

Paid-up capital (ordinary shares) , statutory reserves, and other disclosed free reserves, if any; Perpetual Non-cumulative Preference Shares (PNCPS) eligible for inclusion as Tier I capital - subject to laws in force from time to time; Innovative Perpetual Debt Instruments (IPDI) ; and Capital reserves representing surplus arising out of sale proceeds of assets.
Tier-1 = Paid up Capital + Free Reserves + Perpetual non-cumulative preference shares = 400+600+700 cr = 1700 cr.

S94. Ans.(2000**)**
Sol. Tier 2 is designated as the second or supplementary layer of a bank's capital and is composed of items such as revaluation reserves, hybrid instruments, and subordinated term debt. It is considered less secure than Tier 1 capital—the other form of a bank's capital—because it's more difficult to liquidate T [redacted] ted debt + Revaluation [redacted]

S95. Ans.(3 [redacted]
Capital fund [redacted] Revaluation reserve + Pe [redacted] 400 + 600 + 600 + 700 + [redacted]

S96. Ans.(6 [redacted]
Sol. Capital [redacted]
= 2912.5/47 [redacted]

S97. Ans.(2 [redacted]
Sol. Minimu [redacted]
9% as per B [redacted]

S98. Ans.(a [redacted]
Sol. Banks a [redacted] atio (CRAR) of 9% on an [redacted]
Minimum T [redacted] Since Tier II Capital cann [redacted]

S99. Ans.(575**)**
Sol. Minimum Tier I capital for market risk = Total Tier I capital - Risk weighted Tier I capital for credit and operational risk
1700-1125= 575 cr

S100. Ans.(87<>88**)**
Sol. Minimum Tier II capital for market risk = Total Tier II capital – Risk-weighted Tier II capital for credit and operational risk
1212.5-1125= 87.5 cr