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 complexity Which results in a larger capital cushion.
(a) Quantitative approach
(b) Qualitative approach
(c) Risk management approach
(d) Business model approach

Q3. The restructured Asset can be upgraded to Standard Asset subject to satisfactory performance during the time period of ___
(a) Six months after the date when the first payment of interest or principal, whichever is earlier fails
(b) one year after the date when the first payment of interest or principal, whichever is earlier fails
(c) Nine Months after the date when the first payment of interest or principal, whichever is earlier fails
(d) Four months after the date when the first payment of interest or principal, whichever is earlier fails

Q4. Basel II Accord assigns regulatory capital with the Bank's Risk Profit. The Basel II Accord rests on three pillars. The second pillar doesn't deal with Which of the following?
(a) Ensure soundness and integrity of the bank's internal processes to assess the adequacy of capital
(b) Disclosure to be made on a half-yearly basis
(c) Ensure maintenance of minimum capital with PCA for the shortfall
(d) Prescribe differential capital, where necessary i.e. where the internal processes are slack.

Q5. Which of the following loans are not covered under the 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(Domestic)
(c) EEFC
(d) NRE

Q8. Exporters other than 100% Export Oriented Unit can deposit___% of export proceeds can be deposited to Exchange Earners Foreign Currency account?
(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. Advance remittance for the import of goods into India is to be allowed after obtaining a guarantee from an International bank of repute situated outside India or guarantee of an AD in India against the counter-guarantee of an international bank when the amount of advance remittance exceeds:
(a) US $ 10,000
(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-1
(d) Form A-4

Q14. When a currency is costlier in forward, it is known as?
(a) At the premium
(b) At discount
(c) At par
(d) At Inflation

Q15. Cancellation of purchase contract shall be at which rates?
(a) TT Buying rate
(b) TT Selling rate
(c) Forward rate
(d) Tom rate

Directions (16-19) : On Aug 5, an exporter in India, submits a pound sterling 65000, 2 months usance bill drawn under a letter of credit, on an importer in London. The normal transit period is 25 days. The inter-bank currency rates are as under:
Spot rate :
1 Pound Sterling = Rs.75.0000 5000
August forward margin = 0.3500 / 0.4000
September forward margin= 0.6000 / 0.7000
October forward margin= 0.8500 / 0.9000
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 the following statements regarding Value at Risk choose the correct ones.
1. It predicts the worst-case loss at a specific confidence level over a certain period of time, under Normal Trading Conditions.
2. It Considers the volatility of prices and correlation of prices concerning all other assets/liabilities in the portfolio.
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) None of the above

Directions (22-25) : On Mar 10, 2022, the Kolkata branch of XXX bank entered into the following foreign currency sale and purchase transactions:
(1) With Mr. M for sale of USD 7000 to be delivered on Mar 10.
(2) With Mr. N for purchase of USD 5000 to be delivered on Mar 11.
(3) With Mr. O for purchase of USD 3000 to be delivered on Mar14 (Mar 12 and 13 being bank holidays)
(4) With Mr. P for sale of USD 6000 to be delivered on March 31.
The inter-bank foreign currency rates on Mar 10, 2022 are as under:
Cash rate or ready rate USD = Rs.75.50/60, Tom rate Rs.75.55/65, Spot rate Rs.75.60/70
and one month forward rate Rs.75.80/ 85.
From the above information, Calculate the following:

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,Rs 466800
(d) Rs.75.85, Rs. 455100

Directions (26-30) : An exporter approaches XYZ bank for pre-shipment loan with estimated sales of Rs.,150 lakh. The bank sanctions a limit of Rs.75 lakh, with following margins: Pre-shipment loan on FOB value — 25%; Foreign Demand Bill -10%; Foreign usance bilis —20%.The exporter gets an order for USD 75,000 (CIF) to Florida in U.S. On 1.1.2022 when the USD/INR rate was Rs.63.50 per USD, the exporter approached the Bank for releasing pre-shipment loan (PCL) , which is released.
On 31.3.2022, the firm submitted export documents, drawn on sight basis for USD 70000 as full and final shipment. The bank purchased the documents at Rs.63.85, adjusted the (PCL) outstanding and credited the balance amount to the firm's account, after recovering interest for Normal Transit Period (NTP) . The documents were realized on 30.4.2022 after deduction of foreign bank charges of USD 450. The outstanding post shipment advance was adjusted by the bank against the bill. Bank charged interest for pre-shipment loan @ 7.5% up to 90 days and, @ 8.5% for 90 days up to 180 days. For Post shipment credit, the Bank charged interest @ 8% for demand bills and @8.5% for usance (DA) documents up to 90 days and @ 9.50% thereafter and on all over dues, interest @ 11%.

Q26. Calculate the Provision for credit loss which the bank can grant to the exporter against the given export order, If profit margin is 10% and insurance and freight cost is 12%.

Q27. Calculate the maximum amount of post-shipment advance that banks can grant for foreign bills purchased and for the bill submitted by the exporter.

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 risk
(d) None of the above

Q32. The risk that is of adverse variance of the mark and to market value of change in market prices of interest rate instruments, equities, is known as:
(a) Price Risk
(b) Market Risk
(c) Translation Risk
(d) Both a & b

Q33. Which among the following statement is not included in Tier- II Capital?
(i) Redeemable Cumulative Preference shares,
(ii) Revaluation of reserves at a discount of 55%,
(iii) General Provisions & Loss that are reserves up to 1.25 % of RWAs
(iv) Hybrid debts (say bonds) & Subordinate debts that are (Long term Unsecured loans) limited to 50% of Tier –I Capital.
(a) Both I & ii
(b) Only (iii) & (iv)
(c) Only (iv)
(d) None of the above

Q34. Which among the following statements is incorrect?
(a) Balance Sheet exposures can also become fund-based exposures based on certain contingencies.
(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) Corporate finance 18%

Q38. The securitization include Asset-backed securities through an underlying pool of assets such as:
(a) Credit card receivables
(b) Home equity loans
(c) Credit derivatives
(d) All of the above

Q39. Which among the following does the tier-1 of core capital consist?
(a) Equity
(b) Disclosed Reserves
(c) (a) and (b) both,
(d) None of these

Q40. BCBS committee meets _ times in a year. and presently, there are __ number of members in the committee.
(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 cr

Q43. Calculate the amount of risk-weighted assets for investment in govt. securities:
(a) Rs. 5000 cr
(b) Rs. 2500 cr
(c) Rs. 1000 cr
(d) Nil

Q44. Rearrange the Steps in RMF in the correct order(ascending order) .
1) Authorization of Information System
2) Assessment of Security Controls
3) Categorization of Information Systems.
4) Implementation of Security Controls
5) Selection of Security Controls
6) Monitoring All Security Controls
(a) 5-4-6-1-2-3
(b) 3-5-4-2-1-6.
(c) 1-2-3-4-5-6
(d) 3-5-4-1-2-6

Q45. Which of the following is not one of the Basel framework's ways of calculating credit risk?
(a) Value at Risk
(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.
The paid-up capital and reserves of Bank M are Rs.700 cr and capital funds as calculated as per Basel III are Rs.900 cr. Guidelines issued by RBI to banks when they invest in equity of other banks and financial institutions are,
1. Max investment in equity can be up to 10% of their capital funds.
2. Investment should not be more than 5% of the investee bank's equity capital.
3. Investment in the subsidiary company can be up to 10% of paid-up capital and reserves
4. 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.
Based on the above information, answer the following questions:

Q48. The maximum amount that Bank-M can invest in equity issued by Bank-X is Rs _________(Cr.)

Q49. The maximum amount that Bank-M can invest in equity of its subsidiary company is Rs _________(Cr.)

Q50. The maximum amount that Bank-S can lend against equity shares issued by Bank-Y is Rs _________(Cr.)

Q51. The Foreign currency position closed with a trade going in the opposite direction 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 Index Bonds.
(d) Inflation Indexed Bonds

Q55. Which of the following statements is true about an over-the-counter (OTC) product?
(a) It is traded on a centralized trading platform
(b) It is subject to the same regulations as exchange-traded products
(c) It is settled through a direct agreement between two parties
(d) It can only be negotiated through public exchanges

Q56. Which of the following statements is true regarding index-linked bonds?
(a) Index-linked bonds offer a fixed rate of return.
(b) Index-linked bonds have a fixed maturity date.
(c) The coupon payments on index-linked bonds are linked to a specific index.
(d) The principal amount of index-linked bonds does not change.

Q57. Which among the following is not regarded as a credit substitute?
(a) Commercial paper
(b) Mortgage loan
(c) Corporate bond
(d) Certificate of Deposit

Q58. Which among the following statement is incorrect regarding exchange-traded derivatives?
(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 arbitrage
(c) Fund utilization
(d) Risk Management.

Q62. The difference between buying and selling rates of the foreign currency done by the bank, the profit through this is known has __
(a) Primary source of income
(b) Spread
(c) Foreign Income
(d) Exchange rate profit

Q63. The combination of two forward transactions is known as ___
(a) Spot trades
(b) Forward trade
(c) Swap trade
(d) Money market trade

Q64. A nonperforming asset (NPA) is a loan or an advance where;
(a) Interest and/or installment of principal remain overdue for more than 45 days in respect of a term loan
(b) The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC)
(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 expects that interest rate will increase, it will widen the gap by liabilities more frequently than assets.
(c) If a bank expects that interest rates will increase, it will widen the gap by repricing the assets more frequently than liabilities.
(d) Both (a) & (c)

Q68. For assessing and managing Bank liquidity which of the following dimensions are used?
(a) Evaluating Net Funding Requirements
(b) Managing Market Access
(c) Contingency Planning
(d) All the above

Q69. What does the NPA stand for in the context of banking?
(a) National Pension Agency
(b) Non-Performing Asset
(c) Net Profit Analysis
(d) None of the above

Q70. 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.
Which of the following actions needs to be taken by other banks?
(a) classify the account as NPA
(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 ________(Cr.)

Q75. The minimum balance need to be maintained by the bank on 13th and 14th day of fortnight to ensure compliance of CRR will be Rs ________(Cr.)

Q76. Which of the following statements is correct?
(a) EPS and ROE are price return functions
(b) EVA provides more refined barometer of value addition after defraying the cost of funds
(c) (a) and (b) both
(d) None of these

Q77. A complication in the calculation of EVA is due to?
(a) cost of equity needs to be calculated to arrive at the cost of capital
(b) This also needs a credible operating profit after a good number of adjustments
(c) (a) and (b) both
(d) None of these

Q78. Banks can measure Productivity in terms of:
(a) Total assets per employee
(b) Net operating profit per employee
(c) Ratio of establishment expenses to working funds
(d) All of the above

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 rate
(c) direct rate
(d) cross rate

Q83. Firms/ organizations who are restricted money changers are authorized to undertake_
(a) sale of foreign currency notes, coins and travellers' cheques to the public
(b) purchase of foreign currency notes, coins and travellers' cheques from the public
(c) Issue of letters of credit for their importer customers
(d) Both safe and purchase of foreign currency notes, coins, travellers' cheques to/from the public

Q84. The expiry of a letter of credit is 15.07.2022. The last date of shipment mentioned in the LC is 30.06.2022. The shipment was actually made on 17.06.2022 and documents were presented on 15.07.2022. Which of the following is correct as per provisions of UCPDC, 600?
(a) The documents should have been presented within 7 days from date of shipment
(b) The documents can be accepted as they are presented within the validity of the letter of credit
(c) The documents should have been presented within 15 days from date of shipment
(d) The documents should have been presented within 21 days from date of shipment

Q85. DCB received a letter of credit Opened by a bank in Amsterdam. However, it was not in a situation to verify the apparent authenticity of LC. Choose the correct advice for LC as per UCPDC,600?
(a) DCB must advise the credit to the beneficiary without disclosing the facts
(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 minimum amount of provisions to be maintained by the bank to meet the provisioning coverage ratio of 70% will be Rs ________(Cr.)

Directions (93-100) : A MNO an International Bank has paid up capital of Rs. 400 cr, free reserves of Rs. 600 cr, provisions and contingencies reserves Rs. 600 cr, revaluation reserve of Rs. 700 cr, Perpetual non-cumulative preference shares of Rs. 700 cr, and subordinated debt of Rs. 600 cr. The risk-weighted assets for credit and operational risk are Rs. 25000 cr and for-market risk Rs. 7000 cr.
Based on the given information :

Q93. The amount of Tier-1 capital will be Rs ________(Cr.)

Q94. The amount of Tier-2 capital will be Rs ________(Cr.)

Q95. The amount of capital fund will be Rs ________(Cr.)

Q96. The capital adequacy ratio of the bank will be ________%

Q97. The amount of minimum capital required to support credit and operational risk will be Rs ________(Cr.)

Q98. Calculate the amount of minimum Tier 1 and Tier 2 capital required to support 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 advanced approach, i.e., internal models such as VAR.
For computing, capital for operational risk methods used are Basic Indicator Approach, Standardised Approach and Advanced Measurement Approach.

S2. Ans.(a)
Sol. A quantitative approach in ICAAP must form the foundation of a bank's measurement framework. In simple words, an increase in uncertainty relating to modelling and business complexity must result in a larger capital cushion.

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-resident Indian can open three types of accounts in India as authorised by the Reserve Bank of India (RBI) . The money in the accounts can be in the form of a rupee or foreign currency account. A non-resident Indian (NRI) is an Indian citizen or a person of Indian origin residing outside India.

S7. Ans.(b)
Sol. Any individual who has returned to India after staying abroad for a continuous period of 1 year or more is eligible to open an RFC account. RFC Accounts help you maintain your savings in foreign currency, thus providing a hedge against forex fluctuation. You can also earn tax exemption on interest accrued on the declaration of Resident but Not Ordinarily Resident status. You can also repatriate fund for a bonafide purpose.

S8. Ans.(d)
Sol. Exchange Earners' Foreign Currency Account (EEFC) is an account maintained in foreign currency with an Authorised Dealer Category - I bank i.e. a bank authorized to deal in foreign exchange. It is a facility provided to the foreign exchange earners, including exporters, to credit 100 per cent of their foreign exchange earnings to the account, so that the account holders do not have to convert foreign exchange into Rupees and vice versa, thereby minimizing the transaction costs.100% foreign exchange earnings can be credited to the EEFC account subject to the condition that the sum total of the accruals in the account during a calendar month should be converted into Rupees on or before the last day of the succeeding calendar month after adjusting for utilization of the balances for approved purposes or forward commitments.

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)
Sol. GR form is a declaration that the exporter gives against each shipment that he will realize the full export proceeds. He submits the declaration in duplicate to the Customs at the time of shipment. After allowing exports, the Customs send the original to RBI and return the duplicate duly endorsed to the exporter.export of goods / software may be made without furnishing the declaration in the following cases, namely:
a) trade samples of goods and publicity material supplied free of payment;
b) personal effects of travellers, whether accompanied or unaccompanied;
c) ship's stores, trans-shipment cargo and goods supplied under the orders of Central Government or of such officers as may be appointed by the Central Government in this behalf or of the military, naval or air force authorities in India for military, naval or air force requirements;
d) by way of gift of goods accompanied by a declaration by the exporter that they are not more than five lakh rupees in value
e) aircrafts or aircraft engines and spare parts for overhauling and/or repairs abroad subject to their reimport into India after overhauling /repairs, within a period of six months from the date of their export;
f) goods imported free of cost on re-export basis;
g) the following goods which are permitted by the Development Commissioner of the Special Economic Zones, Electronic Hardware Technology Parks, Software Technology Parks or Free Trade Zones to be re-exported, namely:
h) Export Declaration form is not required to be submitted for exports up to USD 25000 till 2014, but since then its compulsory.
i) Softex form is used for declaration of export of software in physical or electronic form.

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) .
Spot rate = 75.0000
Add Oct premium = 75.0000 + 0.8500 = 75.85
Deduct margin @ 0.15% = 75.8500 — 0.11375 = 75.73625
Final rate = 75.7400 (rounded)

S17. Ans.(3938340)
Sol. Gross amount due to customer = Final rate quoted to customer * Amount of usance Bill excluding the amount to be retained in Pound Sterling.
75.7400 x 52000= 39,38,340
(20% to be retained in London out of 65000)

S18. Ans.(93872<>93873)
Sol. Interest on usance Bill is payable @10% From Aug 6 to Oct 31
Less interest @10% for 87 days = Rs 93872.761
(3938340 x 10 x 87) / (365 x 100)

S19. Ans.(3844467<>3844468)
Sol. Net amount payable to exporter = Gross Amount due to customer - Interest
3938340 - 93872.761 = Rs.3,844,467.24

S20. Ans.(d)
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)
Sol. It is a purchase transaction. Here the settlement has to take place on 3rd day (The holidays period will be excluded from counting) Hence (Spot Rate) of Rs.75.60 will be used. The amount = 75.60 x 3000 = Rs.166,800

S25. Ans.(d)
Sol. Sale has to be taken place to R on March 31, Hence It is a forward sale transaction. Forward sale rate or Rs.75.85 will be used. The amount = 75.85 x 6000 = Rs.455,100

S26. Ans.(2828925**)**
Sol. FOB value = CIF Value i.e. 75000x63.5 = 47,62,500
Deduct Insurance & freight 12% of 4762500 = 571500
Balance = 4762500-571500= 4191000
Deduct profit margin 10% of 4191000 = 419100
Balance = 37,71,900
Less Margin 25% = 942975
PCL = 28,28,925

S27. Ans.(4469500**)**
Sol. The post shipment advance which bank can grant is: On 31.3.2022, the firm submitted export documents, drawn on sight basis for USD 70,000 as full and final shipment. The bank purchased the documents at Rs.63.85, adjusted the (PCL) outstanding and credited the balance amount to 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 maintaining adequate reserves and by borrowing from other banks or the central bank if necessary.
- Interest rate risk refers to the risk that changes in interest rates may adversely affect a bank's profitability or the value of its assets and liabilities. Banks manage interest rate risk by matching the maturities of their assets and liabilities and by using interest rate derivatives.
- Credit risk refers to the risk of default by borrowers or counterparties. Banks manage credit risk by conducting thorough credit analysis and by diversifying their portfolios.

Therefore, it is not accurate to say that the book of banking is not exposed to any of these risks, as all three are common risks faced by banks.

S32. Ans.(d)
Sol. The risk that is of adverse variance of the mark and to market value of change in market prices of interest rate instruments, equities, is known as Market/Price Risk. Market risk, or systematic risk, affects the performance of the entire market. Market risk cannot be eliminated by diversification.

S33. Ans.(d)
Sol. Tier –II Capital includes the following:
• Redeemable Cumulative Preference shares, Redeemable non-cumulative Preference shares & Perpetual cumulative Preference shares,
• Revaluation of reserves that are at a discount of 55%,
• General Provisions & Loss reserves that are up to 1.25 % of RWAs
• Hybrid debts (say bonds) & Subordinate debts (Long term Unsecured loans) that is limited to 50% of Tier –I Capital.

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)

Sol. Asset-backed securities (ABSs) are those financial securities that are backed by income-generating assets like credit card receivables, home equity loans, student loans, and auto loans. ABSs are created when a company sells its loans or other debts to an issuer of the 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)
Sol. RW is 75% on housing loans for individual loans above Rs. 30 lac. RW value = 1000x75% = 750 cr

S43. Ans.(d)
Sol. On claims against the Central govt., the risk weight is zero. 6000 x 0% -= 0

S44. Ans.(b)
Sol. The correct order of steps in the RMF (Risk Management Framework) in ascending order is as follows:
1. Categorization of Information Systems: This step involves identifying the information system and its security objectives and selecting the appropriate security controls based on the system's categorization.
2. Selection of Security Controls: This step involves selecting the security controls that are most appropriate for the information system based on the system's categorization.
3. Implementation of Security Controls: This step involves implementing the selected security controls.
4. Authorization of Information System: This step involves reviewing and evaluating the implemented security controls to determine whether they are effective and whether the system is ready for authorization to operate.
5. Assessment of Security Controls: This step involves evaluating the effectiveness of the implemented security controls through regular testing and assessments.
6. Monitoring All Security Controls: This step involves continuous monitoring of the implemented security controls to ensure that they continue to be effective and to identify and respond 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 failures, and misconduct by employees.
Option (a) Fluctuations in interest rates and option (d) Changes in government regulations are examples of market risks and regulatory risks, respectively. These types of risks are not considered operational risks.
Option (b) Natural disasters are examples of external risks, but they are not considered operational risks unless they cause a disruption to the internal processes or systems of a business.
Therefore, option (c) Misconduct by employees is the correct answer as it is an example of operational risk that can result in significant losses for a business due to inadequate or failed internal processes or controls.

S47. Ans.(d)
Sol. RBI allowed Interest rate futures (IRFs) , deriving value from the following recognised stock exchanges:
• 91-Day Treasury Bills;
• 2-year, 5-year and 10-year coupon-bearing notional Government of India security;
and
• Coupon bearing Government of India security.
Further relaxations allowed on eligibility for exchange-traded IRFs were done by changing the residual maturity in June 2015.

S48. Ans.(90**)**
Sol. As per RBI Guidelines Max investment in equity can be up to 10% of their capital funds.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 money is borrowed or lend for period between 2 days and 14 days it is called as 'Notice Money'. And 'Term Money' means the borrowing/lending of funds that is for period exceeding 14 days.

S53. Ans.(b)
Sol. A liquidity adjustment facility (LAF) is referred to a tool that is used in monetary policy, mainly by the Reserve Bank of India (RBI) which allows banks to borrow money via repurchase agreements (repos) or to make loans to the RBI through reverse repo agreements. This type of arrangement is effective in managing liquidity pressures and assuring basic stability in the financial markets.

S54. Ans.(a)
Sol. Government bonds which are in U.K., India, and several other Commonwealth countries are called as gilts. Gilts are equivalent to the U.S. Treasury securities in their respective countries. The term gilt is generally used informally in order to describe any bond which has a very low risk of default and a correspondingly low rate of return.

S55. Ans.(c)
Sol. An over the counter (OTC) product is a financial instrument that is traded directly between two parties without going through an exchange or a centralized trading platform. Option A and D are incorrect because OTC products are not traded on public exchanges, and they are not subject to the same regulations as exchange-traded products. Option B is incorrect because OTC products are not subject to the same regulations as exchange-traded products, but they may be subject to other regulations or requirements. Option C is the correct answer because settlement of OTC 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)
Sol. Exchange-traded derivatives are popular due to the advantages they have over over-the-counter (OTC) derivatives. The advantages also include standardization, liquidity, and elimination of default risk. An exchange-traded derivative is a financial contract which is listed and traded on a regulated exchange. In other words, these are the derivatives which are traded in a regulated environment.

S59. Ans.(b)
Sol. Commercial paper is a form of unsecured, short-term debt generally issued by companies in order to finance their payrolls, payables, inventories, and other short-term liabilities. It is generally issued at a discount from face value and reflects prevailing market interest rates.

S60. Ans.(a)
Sol. Banks in India, At the minimum, must adopt Basic indicator approach immediately while computing capital for operational risk. Under this method, banks must hold capital for operational risk equal to a fixed percentage (alpha) of a single indicator that has currently been proposed to be "gross income". This approach is viable for all banks irrespective of their level of sophistication.

S61. Ans.(c)
Sol. Integrated Treasury, under banking, means integration of money market, securities market and foreign exchange operations. The driving force of Integrated Treasury are:
• Integrated Cash Flow Management • Interest Arbitrage • Access to global resources • Corporate demand for high-end services, and • Risk Management

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

S66. Ans.(c)
Sol. Higher duration implies that when there is a change in interest rates it will have
larger impact on economic value when the maturity or next repricing date of the instrument is longer or when the payment that occurs before maturity (e.g. coupon payments) is smaller.

S67. Ans.(d)
Sol. Net interest income (NII) is the difference between the interest income a bank earns from its lending activities and the interest it pays to depositors. Net interest income = Interest earned - interest paid. NII can be insulated from the volatility of interest rates by reducing the gap to zero. If a bank expects that interest rate would increase, it will widen the gap by repricing the assets more frequently than liabilities.

S68. Ans.(d)
Sol. Bank liquidity is assessed using Liquidity coverage ratio. Bank Liquidity is assessed based on Evaluating Net Funding Requirements, Managing Market Access, Contingency Planning.

S69. Ans.(b)
Sol. Non-Performing Asset

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 th day (2200 x 2 = Rs. 4400 cr) Total for 1st 12 days = 9100+ 4400= 13500 cr

S75. Ans.(2350)
Sol. Total balance to be maintained (1300 *14= 18200 cr
less balance already maintained = Rs.
13500 = 4700 cr. Hence for 2 days, the average balance = 4700/2 = 2350 cr

S76. Ans.(b)
Sol. EPS (Earnings per share) and ROE (Return on Equity) are not price return functions, but rather measures of a company's profitability and return on investment for shareholders.
EVA (Economic Value Added) , on the other hand, is a measure of a company's financial performance that takes into account the cost of capital. EVA is calculated by deducting the cost of capital from a company's net operating profit after tax. It is a refined barometer of value addition because it considers the cost of funds, which is an important factor in determining a company's profitability and true value.
Therefore, option (b) is the correct answer as it correctly describes EVA as a refined barometer of value addition after defraying the cost of funds. Option (a) is incorrect because EPS and ROE are not price return functions, and option (c) is incorrect because only option (b) is correct. Option (d) is also incorrect because option (b) is correct.
EVA = Net Operating Profit After Tax – (Operating Assets* Cost of Capital)

S77. Ans.(c)
Sol. EVA (Economic Value Added) is a performance measure normally used to assess the performance 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 the amount your business gains. It is a number that remains when you subtract expenses from your revenue. You can find profit by looking at your business's income statement.While Profitability measures your business's profits and helps you determine your success or failure. It is not an absolute number. Instead, it looks at what your business's profits mean in the form of percentages or decimals. profitability is used to determine whether your business is yielding enough profit to sustain and grow. Many a case, companies may have increasing Profit , while profitability may decline.There are a few different profitability ratios you can use that measure aspects of your business's success:
Profit margin ratio
Gross margin ratio
Return on investment ratio

S80. Ans.(d)
Sol. Profitability determines whether Banks profit are healthy or not. It indicates Financial soundness of a Bank which in turn promotes Sustained confidence of the Depositor.

S81. Ans.(c)
Sol. A Vostro account is an account a correspondent bank holds on behalf of another bank. These accounts are an essential aspect of correspondent banking in which the bank holding the funds acts as a custodian for or manages the account of a foreign counterpart. Therefore, Foreign Banks maintain accounts with ADs in India for mutual communications, Ads in India refer to the Vostro account.

S82. Ans.(c)
Sol. Direct Rate is where the cost of one unit of foreign currency is given in units of local 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 Bank) verifies the authenticity of the LC and forwards it to the exporter.

S86. Ans.(271<>272**)**
Sol. Total advances= 75000 cr , Gross NPA 9.5% = 7125 cr. = 75000 — 7125 = 67875 cr.
Provision for general advances at 0.4% = 67875 x 0.4% = 271.50 cr

S87. Ans.(3562<>3563**)**
Sol. Total Provision on NPA = Gross NPA 9.5% - net NPA 4.75% = 4.75% i.e. 75000 x 4.75% = 3562.5cr.

S88. Ans.(3834**)**
Sol. Total Provision on NPA = Gross NPA 9.5% - net NPA 4.75% = 4.75% i.e. 75000 x4.75 % = 3562.5 cr.
Provision on standard accounts Rs.271.5 cr.
Hence total provision = 3834 cr.

S89. Ans.(7125**)**
Sol. Total Advances 75000, Gross NPA 9.5%
= 75000*9.5% = Rs 7125 cr

S90. Ans.(3375**)**
Sol. Total Advances 75000, Net NPA 4.5%
= 75000*4.5% = Rs 3375 cr

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 Tier-2 capital = Perpetual non-cumulative preference shares + Subordinated debt + Revaluation reserve = Rs. 700 cr + Rs. 600 cr + Rs. 700 cr = Rs. 2000 cr

S95. Ans.(3600**)**
Capital fund = Paid-up capital + Free reserves + Provisions and contingencies reserves + Revaluation reserve + Perpetual non-cumulative preference shares + Subordinated debt Capital fund = 400 + 600 + 600 + 700 + 700 + 600 = 3600 cr

S96. Ans.(6<>7**)**
Sol. Capital Adequacy ratio= Total capital funds/ Total risk weighted Asets
= 2912.5/47000= 6.20%

S97. Ans.(2250**)**
Sol. Minimum capital required for credit and operational risk = 25000*9%= 2250 cr
9% as per Basel Norms guidelines.

S98. Ans.(a)
Sol. Banks are required to maintain a minimum Pillar 1 Capital to Risk- weighted Assets Ratio (CRAR) of 9% on an on-going basis .
Minimum Tier I capital to support credit and operational Risk= (25000*4.5%= 1125cr) . Since Tier II Capital cannot be more than Tier I capital (25000× 4.5% = 1125 cr)

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