TEACH YOURSELF - CAIIB

MCQS –BOOK ON CAIIB -II

(RECALLED & EXPECTED QUESTIONS)

BANK FINANCIAL MANAGEMNET

(CAIIB COPULSORY PAPER -2)

(For 10.12.2017 Examination)

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Preface

Dear Friends,

The Globalization has opened up World Economy & the distances between Buyer & Seller are reduced considerably. The other effect which is witnessed in this scenario is banking. Hitherto, to maintain Bank account /to operate account, the customer had to visit Branch frequently. This is now reduced as Customer can open account Online, get Statement of account online & request for Cheque book on line. He has to visit Bank branch only for submitting KYC Documents & other documents.

Indian Banking is in its most exciting phases. The impact of liberalization has been wide spread and has thrown up both challenges and opportunities for bankers. Ever increasing competition is a part of professional life and the banker who is ahead of his peers in terms of knowledge skill, technology and quick response will be the winner.

Banking/Financial sector in our country is witnessing a sea change and banker's business has become more complex & difficult in this driven era of knowledge & technology. There are mass retirements happening due to superannuation & many new recruits are joining the Bank. More than 60% staff strength is newly recruited in last five to six years.
An official working in the Banking sector has to keep pace with Updated knowledge, skills & attitude, as the same is required everywhere. Employees play vital role in Banking/service organizations and they need to be transformed into Knowledge Assets to remain competitive in the dynamic environment and it is more so with Banks as they are very service sensitive. Thus it is imperative for the bank staff to serve the clientele with updated information of bank's products & services to accomplish corporate objectives.

This book titled **"TEACH YOUR SELF – CAIIB : MCQs Book"** is first version has many unique features to its credit & consists of all topics/latest syllabus required for CAIIB examination with clear concept & simple language with latest changes during 2017-18 (as per IIBF/ JAIIB exams. requirement) also included. This Book is divided into Six Modules namely A, B, C,D, Memory based questions & Test your self based on latest IIBF syllabus for CAIIB examination and each Module is divided into various chapters as per latest syllabus of CAIIB for exam. Dec. 2017. It has been seen that last so many years in CAIIB/IIBF Examination, nearly 75-85% questions are very general in nature and in this regard this book is of immense use. **Generally 60-65% theory based (knowledge Testing / conceptual grasp) and 35-40% case study / problem solving/Analytical /Logical exposition**.**Each module separate case studies/case lets/analytical problems are given based on concept and memory based as per latest syllabus. This book is only 161 page books for last 48 hours practice to get more than 60% marks and also very helpful in solving all types of questions**. The book is prepared based on last more than 15 years of experience and pattern of questions asked in the examination. It is quickest book both for revision and fresh preparations to get good scores.

All possible care is taken to provide error free information, however, readers may note that the information given herein is merely for guidance/reference and they need to refer the relevant circulars & Manuals for full details.

I express my sincere thanks to friends/colleagues for their support in encouraging the idea and contributing the required resources for release of this **TEACH YOUR SELF – MCQs Book**.

I solicit your views on the content and quality of the topics for further improvement.

I wish you all the Success and hope the study material will help in achieving the goal.

Date: 07.12.2017

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About the Author

Mr. Sanjay Kumar Trivedy (Native: Motihari, Bihar), Presently working as Chief Manager (Scale-IV) in Canara Bank, Shrigonda branch in Ahmednagar distt. of Maharashtra state. He Joined Canara Bank as DRO/PO (AEO) on 10.03.1997 and and worked in various places, starting from Maujgarh branch (1997-2000), Near Abohar(Punjab), Sirsa Main- Haryana (2000-2004), BMC, Jalandhar (2004-2006) Toiladungari, Sakchi, Jamshedpur(2006-2009), Jhalak near Chaibasa (2009-2011), J B Nagar, Andheri East , Mumbai (2011-2013) and then Faculty as well as College in charge (Principal) in Regional Staff Training College, Mumbai (2013-2016), Govt.Link Cell, Nagpur (01.05.2016 to 15.07.2017), Itwari Branch, Nagpur (17.07.2017 to 15.09.2017) and then Shrigonda Branch (Since 16.09.2017….).He won more than 200 awards in various fields of Banking by his Bank – Canara Bank, which includes twice gold coin for CASA mobilization. His best achievement was as an officer/AEO, he converted his Section: Agril Finance into Hi-tech Agril. Branch at BMC, Jalandhar and while working in Jhalak branch near Chaibasa (Jharkhand), won twice best rural banker award from NABARD during 2009-10 &2010-11 in SHG credit linkage & Farmers Club Formation. During this journey started from 1997 to till date he worked in almost all area of Banking.

Mr. Sanjay Kumar Trivedy is M.Sc. (Agril), CAIIB, PGDCA, MBA, MBA (Finance),Diploma (IIBF) in Rural Banking, Treasury, Investment and Risk Management, Commodity Derivatives for Bankers, Advanced Wealth Management, Certificate (IIBF) in Trade Finance, Certificate in Anti-Money Laundering / Know Your Customer, Certificate Examination in SME Finance for Bankers, Certificate Examination in Customer Service & Banking Codes and Standards, Certificate Examination in CAIIB - Elective Subjects (Retail Banking & Human Resource Management) & Certificate Examination in Microfinance

Mr. Sanjay Kumar Trivedy has teaching experience of more than 16 years, from Sirsa Main Branch (2000-2004) , he started teaching to his colleagues/staff and in this long journey he has given good results both in Promotion test as well as JAIIB /CAIIB examination. He has taken IIBF-JAIIB & CAIIB classes at Mumbai. He has compiled/authored more than 20 books in last three years related banking - JAIIB, CAIIB, Book on Promotion Test (all cadres), Interview , Drishti (Current Banking Topics –Interview book for Scale iv & above), Group Discussion, Certificate course on Customer Service & BCSBI, AML& KYC, MSME Finance for Bankers, Book on Abroad Posting, Confirmation Test for PO, Banking & Technology and many more books on day today banking and many more in the offing.

Mr. Sanjay Kumar Trivedy is working in a mission mode to reduce knowledge gap among bankers with objective to provide educational support free of cost to all in general and bankers in particular with objective to empower Banker colleagues specially young banker who join the bank in last more than one decade for their better productivity, Sense of satisfaction, Customer delight with ultimate increase of quality banking business for their organisations.

He can be only contacted through e-mail: sktiibf@gmail.com & whatsapp no. : 9987519725

The best way to find yourself is to lose yourself in the service of others - Mahatma Gandhi

BANK FINANCIAL MANAGEMENT - INDEX

There are certain breakthrough moments when you began to think & See the field differently

(Please send Memory based questions on sktrivedycan@gmail.com; sktrivedyiibf@gmail.com)

1. ABOUT CAIIB EXAMINATION

OBJECTIVE :

CAIIB aims at providing advanced knowledge necessary for better decision making covering Treasury Management, Risk Management, Balance Sheet Management, Credit Management, International Banking, Economic Analysis etc.

ELIGIBILITY :

Candidates must have completed JAIIB or PART-1 of the Associate Examination, and their membership subscription should not be in arrears.

SUBJECTS OF EXAMINATION :

I. Compulsory Paper

1. Advanced Bank Management
2. Bank Financial Management

II. Elective Papers (Candidates to choose any one of their Choice)

1. Corporate Banking
2. Rural Banking
3. International Banking
4. Retail Banking
5. Co-operative Banking
6. Financial advising
7. Human Resources Management
8. Information Technology
9. Risk Management
10. Central Banking
11. Treasury Management

There is no exemption in any of the above subject/s for prior qualification/s.

The Institute has introduced electives to give opportunities for candidates to specialize in the vertical of their choice. Candidates may choose the elective in the area they are currently working or in the area they would like to work in future. It is suggested that the candidates may choose the elective in the area they are currently working and later move to other elective as this will enable appropriate skills / build up for handling different banking verticals.

PASSING CRITERIA :

1. Minimum marks for pass in the subject are 50 out of 100.
2. Candidates securing at least 45 marks in each subject with an aggregate of 50% marks in all subjects of examination in a single attempt will also be declared as having completed the Examination.
3. Candidates will be allowed to retain credits for the subject they have passed in a attempt till the expiry of the time limit for passing the examination as mentioned below:

TIME LIMIT FOR PASSING THE EXAMINATION :

1. Candidates will be required to pass the examination within a time limit of 2 years (i.e. 4 consecutive attempts).
2. Candidates not able to pass examination within stipulated time period of two years are required to re-enroll themselves afresh. Such candidates will not be granted credit/s for subject/s passed, if any, earlier.
3. Time limit of 2 years will start from the date of application for First attempt. Attempts will be counted irrespective of whether a candidate appears at any examination or otherwise.

EXAMINATION FEES :

Description	Fee
First attempt fee	Rs. 2,700/ Plus convenience charges and Taxes as applicable
2nd attempt fee	Rs. 1,000/ Plus convenience charges and Taxes as applicable
3rd attempt fee	Rs. 1,000/ Plus convenience charges and Taxes as applicable
4th attempt fee	Rs. 1,000/- Plus convenience charges and Taxes as applicable

Please Note : Candidates are required to Register for every attempt separately As a measure to streamline the traffic for registration, Institute will charge regular examination fee to candidates who registers for the examination during the regular open period fro registration. **For the extended days of registration, late fee of Rs.200 plus taxes, will be charged in addition to regular examination fee.** This extended days of registration, also gives candidates addition opportunity to register for the examination, having missed the regular open period of registration. The fee once paid will **NOT** be refunded or adjusted on any account.

MEDIUM OF EXAMINATION :

Candidates are allowed to attempt the examination either in Hindi or English, and should clearly fill in their choice of medium at the time of registration of application. In any case change of medium will not be allowed at a later stage.

PATTERN OF EXAMINATION :

(i) Question Paper will contain 100 objective type multiple choice questions for 100 marks including questions based on case studies / case lets. The Institute may however vary the number of questions to be asked for a subject. Generally 60-65% theory based (knowledge Testing / conceptual grasp) and 35-40% case study / problem solving/Analytical /Logical exposition.

(ii) The examination will be held in Online Mode only

(iii) There will NOT be negative marking for wrong answers.

(iv) Questions for the examination will be asked for :

(i) Knowledge testing (iv) Problem solving

(ii) Conceptual grasp (v) Case analysis

(iii) Analytical / logical exposition

DURATION OF EXAMINATION :

The duration of the examination will be of 2 hours. **PERIODICITY AND EXAMINATION CENTRES :**

a) Examination will be conducted on pre-announced dates published on IIBF Web Site. Institute conducts examination on half yearly basis, however periodicity of the examination may be changed depending upon the requirement of banking industry.

b) List of Examination centers will be available on the website. (Institute will conduct examination in those centers where there are 20 or more candidates.)

"CLASS OF PASS" CRITERIA :

1. The Institute will consider the FIRST PHYSICAL ATTEMPT of the candidate at the examination as first attempt for awarding class. In other words, the candidate should not have attempted any of the subject/s pertaining to the concerned examination any time in the past and has to pass all the subject as per the passing criteria and secure prescribed marks for awarding class. Candidates re-enrolling for the examination after exhausting all permissible attempts as per the time limit rule will not be considered for awarding class.
2. First Class : 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT
3. First Class with Distinction: 70% or more marks in aggregate and 60 or more marks in each subject in the FIRST PHYSICAL ATTEMPT.

PROCEDURE FOR APPLYING FOR EXAMINATION :

Application for examination should be registered online from the Institute's website www.iibf.org.in. The schedule of examination and dates for registration will be published on IIBF website.

STUDY MATERIAL / COURSEWARE :

The Institute has developed a courseware to cover the syllabus. The courseware(book) for the subject/s will be available at outlets of publisher/s. Please visit IIBF website www.iibf.org.in under the menu "Exam Related" for details of book/s and address of publisher/s outlets. Candidates are advised to make full use of the courseware. However, as banking and finance fields are dynamic, rules and regulations witness rapid changes. Therefore, the courseware should not be considered as the only source of information while preparing for the examinations. Candidates are advised to go through the updates put on the IIBF website from time to time and go through Master Circulars/ Master Directions issued by RBI and publications of IIBF like IIBF Vision, Bank Quest, etc. All these sources are important from the examination point of view. Candidates are also to visit the websites of organizations like RBI, SEBI, BIS, IRDAI, FEDAI etc. besides going through other books & publications covering the subject / exam concerned etc. Questions based on current developments relating to the subject / exam may also be asked. **Cut-off Date of Guidelines / Important Developments for Examinations :**

The Institute has a practice of asking questions in each exam about the recent developments / guidelines issued by the regulator(s) in order to test if the candidates keep themselves abreast of the current developments. However, there could be changes in the developments / guidelines from the date the question papers are prepared and the dates of the actual examinations.

In order to address these issues effectively, it has been decided that:

(i) In respect of the examinations to be conducted by the Institute for the period February to July of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December will only be considered for the purpose of inclusion in the question papers".

(ii) In respect of the examinations to be conducted by the Institute for the period August to January of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June will only be considered for the purpose of inclusion in the question papers.

The table given below further clarifies the situation.

Particulars	Cut-off Date of Guidelines / Important Developments for Examination/s
or the examinations to be conducted by the Institute for the period February 2017 to July 2017	31st December 2016
For the examinations to be conducted by the Institute for the period August 2017 to January 2018	30th June 2017

TYPES OF QUESTIONS

100 Objective Type Multiple Choice Questions - carrying 100 marks – 120 minutes and question will be based on Knowledge Testing, Conceptual Grasp, Analytical / Logical Exposition, Problem Solving & Case Analysis.

Type of Questions – Basically four types of Multiple Choice Questions asked in Exam of Which Type – A : Knowledge/Concept based Straight

Questions (40-50 QUES - 0.5 MARKS EACH) ; Type – B : Problems & Solutions (15-20 QUES - 1.0 MARKS EACH); Type – C : Applied theory based Questions (15-20 QUES - 2.0 MARKS EACH) ; Type – D : Case Study & Case-lets based Questions (10-15 QUES - 2.0 MARKS EACH)

QUESTIONS MODELS : TYPES OF QUESTIONS

Type – A : MULTIPLE CHOICE – QUESTIONS & ANSWERS

The Best Method for assessing working capital limit used by the bank for seasonal Industries is :

1. Operating Cycle Method, 2. Projected Networking Method, 3. Projected Turn over Method & 4. Cash Budget Method

Type – B : MULTIPLE CHOICE – PROBLEMS & SOLUTIONS

Mr. Ram Kumar is having overdraft account with Canara bank upto Rs.100,000. The present Debit Balance in the account was Rs. 80550.00. The bank has received attachment order from Income tax deptt. For Rs. 16,200.00. What can the bank do in this situation ?

- Unless the bank is a debtor, there can be no attachment and an unutilized overdraft account does not render the bank a debtor (but creditor) & hence can not attach.

Type – C : MULTIPLE CHOICE – APPLIED THEORY – QUES. & ANS

Financial Institution wish to have the money lent by them repaid in time. Secured advances sanctioned by banks possess what kind of security ?

- Secured Advances have impersonal security i.e. Tangible Security

Type –D : MULTIPLE CHOICE – CASE STUDIES & CASE LETS (PROBLEMS & SOLUTIONS)

Economic development of a country to a large extent depends upon Agril. & Industrial sectors. Development of agril. Depends upon irrigation facilities while industrial development on availability of power,good transport and fast communication facilities. All these are called infrastructure. Read the caselet & explain which industries constitute infrastructure ?

a. Energy, Transport & Communication
b. Irrigation, construction of bridges & dams over Rivers & stable govt. at Centre.
c. Availability of Funds for PMEGP , SJSRY & Indira Awas Yojana

CAIIB EXAMINATION –DEC 2017

Examination DATE	TIME	SUBJECTS
03/12/2017 Sunday	ONLINE - Will be given in the admit Letter	Advanced Bank Management
10/12/2017 Sunday	ONLINE - Will be given in the admit Letter	Bank Financial Management
17/12/2017 Sunday	ONLINE - Will be given in the admit Letter	Corporate Banking Rural Banking International Banking Retail Banking Co-operative Banking Financial Advising Human Resources Management Information Technology Risk Management Central Banking Treasury Management

2. SYLLABUS: CAIIB COMPULSORY PAPER – II

BANK FINANCIAL MANAGEMENT

SYLLABUS:

The details of the prescribed syllabus which is indicative are furnished in the booklet. However, keeping in view the professional nature of examinations, all matters falling within the realm of the subject concerned will have to be studied by the candidate as questions can be asked on all relevant matters under the subject. Candidates appearing for the examination should particularly prepare themselves for answering questions that may be asked on the latest developments taking place under the various subject/s of the said examination although those topics may not have been specifically included in the syllabus. The Institute also reserves to itself the right to vary the syllabus / rules / fee structure from time to time. Any alterations made will be notified from time to time. Further, questions based on current developments in banking and finance may be asked. Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by the Institute

MODULE - A: International Banking

Forex Business; factors determining exchange rates, Direct and indirect quotations, spot / forward rates, premium and discount, cross rates. Basics of forex derivatives; forward exchange rate contracts, Options, Swaps. Correspondent banking, NRI accounts

Documentary letters of Credit - UCPDC 600, various facilities to exporters and importers. Risks in foreign trade, role of ECGC, types of insurance and guarantee covers or ECGC. Role of Exim Bank - Role of RBI and exchange control - Regulations in India, Role and rules of FEDAI - Role of FEMA and its rules

MODULE - B: Risk Management

Risk-Concept - Risk in Banks - Risk Management Framework - Organisational Structure - Risk Identification - Risk Measurement / - Sensitivity - Basis Point Value (BPV) - Duration Downside Potential - Value at Risk, Back Testing - Stress Testing - Risk Monitoring and Control - Risk Reporting

Market Risk identification, Measurement and management / credit risk - rating methodology, risk weights, eligible collateral for mitigation, guarantees; credit ratings, transition matrices, default probabilities, Credit risk spreads, risk migration and credit metrics, Counterparty risk. Credit exposures, recovery rates, risk mitigation techniques, - / Operational and integrated Risk Management - Risk management and capital Management – 'Basel Norms - Current guidelines on risk management

MODULE - C: Treasury Management

Concepts and function; instruments in the treasury market, development of new financial products, control and supervision of treasury management, linkage of domestic operations with foreign operations. Interest rate risk, interest rate futures

Mix / Pricing of Assets, Liabilities - On-Balance Sheet Investment and Funding Strategies - Stock options, debt instruments, bond portfolio strategy, risk control and hedging instruments. Investments - Treasury bills, money market instruments such as CDs, CPs, IBPs Securitisation and Forfaiting; refinance and rediscounting facilities.

Derivatives - Credit Default Swaps / Options

MODULE - D : Balance Sheet Management

Prudential norms-Capital Adequacy. Implementation of 'Basel Norms guidelines : RBI guidelines. Banks Balance Sheet - Components of assets / Liabilities / ALM Implementation - RBI Guidelines - Gap Analysis - Mechanics, Assumptions, and Limitations - Illustrations of Actual Gap Reports - The Relationship Between Gap and Income Statement - Funding Liquidity - Trading / Managing Liquidity - Contingency Funding - Business Strategies : Profit and profitability analysis, Asset Classification - provisioning - effect of NPA on profitability, Shareholder value maximization & EVA- profit planning-measures to improve profitability. Disclosure guidelines.

3. MODULE A :INTERNATIONAL BANKING

TEST YOUR SELF : MCQ ON INTERNATIONAL BANKING

1. Foreign Exchange Management Act (FEMA) is administered by:
(a) RBI (b) Govt. of India (c) SEBI (d) Both (a) & (b) (d) All of these

2. A license to deal in foreign exchange to authorized dealers is issued by :
(a) DGFT (b) FEDAI (c) RBI (d) EXIM Bank(e) both (a) & (c)

3. All foreign exchange transactions in India are governed by :
(a) Foreign Exchange Regulation Act, 1973 (b) Reserve Bank of India Act, 1934
(d) Foreign Exchange Management Act, 1999 (e) Banking Regulation Act,1949

4. Restricted money changers are the firms/ organizations 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
(e) either (a) or (b) above

5_ Full fledged money changers are the firms/ organizations 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 sale and purchase of foreign currency notes, coins, travellers' cheques to I from the public
(e) either (a) or (b) above

6. Forward transaction in foreign exchange means a transaction :
(a) that is to be settled on the same day
(b) in which delivery of foreign exchange takes place on the second working day of the contract
(c) in which delivery of foreign exchange takes place on the next working day of the contract
(d) in which delivery of foreign exchange takes place beyond second working day of the contract
(e) in which delivery of foreign exchange takes place after at least 90 days beyond the day of the contract

7. Forex transactions are classified according to date of-deal and date of delivery. Which of the following is not correct regarding type of exchange transaction?
(a) cash: which is to be settled on the same day
(b) spot: delivery of foreign exchange takes place on the second working day of the contract
(c) TOM: delivery of foreign exchange takes place on the next working day of the contract
(d) Forward: delivery of foreign exchange takes place beyond second working day of the contract
(e) None of these

8. For the purpose of foreign exchange transactions, foreign banks maintain accounts with ADs in India in Indian rupees. In their mutual communications, Ads in India refer to such accounts as _______________ accounts.
(a) Loro (b) FCNR (c) Vostro (d) Nostro (e) Escrow

9. Account of a bank in India with a foreign correspondent bank abroad in foreign currency is called:
(a) Loro (b) FCNR (c) Vostro (d) Nostro (e) Escrow

10. Which of the following is not correct regarding classification of correspondent accounts?
(a) Nostro: Our account with you (b) Vostro: Your account with us
(c) Lore: Their account with them (d) None of these

11. Bank of India maintains Nostro account with Citibank in New York. Bank of Baroda also maintains Nostro account with Citibank New York. If Bank of India wants to transfer funds from its Nostro a/c to Nostro a/c of BoB, then account of BoB is called as :
(a) Nostro (b) Vostro (c) Loro (d) Kerb (e) None of these

EXCHANGE RATES

12. When Foreign currency is fixed and value of home currency is variable, it is called:
(a) Direct Rate (b) Indirect Rate (c) Cross Rate (d) Variable Rate (e) None of these

13_ When home currency is fixed and value of foreign currency is variable, it is is called:
(a) Direct Rate (b) Indirect Rate (c) Cross Rate (d) Variable Rate (e) None of these

14_ In India, which type of rate is applied?
(a) Direct Rate (b) Indirect Rate (c) fixed rate (d) Variable Rate (e) None of these

15. In India, exchange rates are decided by whom?
(a) RBI (b) FEDAI (c) IBA (d) market forces (e) None of these

16. The quotation US $ 1 = Rs. 44.40 - Rs. 44.50 is:

(a) average rate (b) indirect rate (c) direct rate (d) cross rate (e) none of these

17. When Nostro account of the bank is credited before the payment to the tenderer of foreign exchange, which of the following rates will be applied?

(a) TT Buying Rate (b) Bills Buying Rate (c) TT Selling Rate (d) Bills Selling Rate

18. When Nostro account of the bank is credited later than the payment to the tenderer of foreign exchange, which of the following rates will be applied?

(a) TT Buying Rate (b) Bills Buying Rate (c) TT Selling Rate (d) Bills Selling Rate

19. When there is outward remittance and handling of import bills is involved, which of the following rates will be applied?

(a) TT Buying Rate (b) Bills Buying Rate (c) TT Selling Rate (d) Bills Selling Rate

20. When there is sale of foreign exchange, but import bills are not handled, which rate will be applied?

(a) Clean Selling Rate (b) Cheque Selling Rate (c) TT Selling Rate (d) Bills Selling Rate

21. Why exchange rate for purchase or sale of foreign currency are most unfavourable?

(a) Holding cost of currency is high (b) Bank does not get any exchange commission

(c) Bank runs the risk of counterfeit currency (d) Both (a) & (c) (e) All of these

22. The difference between buying and selling rate quoted by an Authorised Dealer is called:

(a) Dealer's Margin (b) Dealer's spread (c) Dealer's commission (d) None of these

23. A customer wants to subscribe to a magazine published in Paris. The exchange rate for draft will be :

(a) TT buying (b) TT selling (c) Bills selling (d) Bills buying (e) none of these

24. Your non-resident customer presents a draft in foreign currency for which cover has already been provided in Nostro account. The rate of exchange to be applied to the transaction will be :

(a) TT buying *(b)* Bills selling (c) Bills buying (d) TT selling (e) none of these

25. Your importer customer has to retire his import bill. The rate of exchange to be applied will be:

(a) Bills buying (b) TT selling (c) Bills selling (d) TT buying (e) none of these

26. You had negotiated an export bill of your customer in May,2009. This bill has been returned by the overseas buyer for some reasons and the AD has to debit his customer's account with Indian rupees. The rate to be applied will be :

(a) Bills buying (b) TT selling (c) TT buying (d) Bills selling (e) none of these

27. On which of the following TT buying rate will not be applied?

(a) Payment of DD drawn on the paying bank (b) cancellation of outward TT, MT

(c) Conversion of proceeds of instruments sent for collection (d) purchase of foreign DD drawn abroad

28. On which of the following TT Selling rate will not be applied?

(a) crystallization of overdue export bills (b) crystallization of over dile import bills

(c) Issue of foreign DD/MT (d) cancellation of outward TT/MT (e) Both (b) & (d)

LETTER OF CREDIT

29. Letters of credit transactions subject to provisions of :

(a) exchange control manual of RBI (b) UCPDC, 600 (c) UCPDC,500

(d) Foreign Trade Policy, 2009 (e) 1NCOTERMS

30. Full form of UCPDC is:

(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

31. For letter of credit transactions in international trade, under UCPDC (ICC publication 600) branches of a bank in different countries are considered :

(a) another bank (b) units of the same bank (c) associate banks

(d) either (a) or (b) as per choice of beneficiary (e) either (a) or (c) as per choice of negotiating bank

32. If a credit does not indicate whether it is revocable or irrevocable, as per UCPDC, 600, it will be treated as :

(a) irrevocable (b) revocable (c) either revocable or irrevocable as per choice of beneficiary

(d) either revocable or irrevocable as per choice of applicant of the credit

(e) either (a) or (b) as per mutual consent of beneficiary and advising bank

33. If a letter of credit and UCPDC have contradictory provisions which of the following statements will be true ' in this regard:

(a) Provisions of UCPDC will prevail over those of Credit

(b) Provisions of Credit will prevail over those of UCPDC

(c) Better of the provisions of UCPDC or Credit as applicable to beneficiary will prevail

(d) Better of the provisions of UCPDC or Credit as applicable to applicant of Credit will prevail

(e) It being a disputed matter the matter will have to be referred to ICC,Paris

34. Which of the following feature(s) do/does not apply to a 'Transferable Credit'?

(a) Transferable L/C is one which is expressly written to be 'Transferable'.

(b) Transferable VC can be transferred only once but can be transferred to more than one parties.
(c) In a 'Transferable Credit' the first beneficiary has the right to substitute his own invoice(s) and draft for those of the second beneficiary.
(d) Transfer of such Credit by second beneficiary back to first beneficiary is not permitted

35. A 'Revolving Credit' means a letter of credit :
(a) which is available for use in any country
(b) covering many shipments up to a particular period of time or a particular amount or both
(c) which can be easily transferred by the beneficiary to his suppliers
(d) which allows the beneficiary packing credit in foreign currency

36. A 'Red Clause' LC is one in which :
(a) the beneficiary can avail pre-shipment finance up to the amount specified in LC.
(b) negotiation is restricted to a particular bank (c) all clauses are compulsorily printed in red
(d) there are certain restrictive clauses as to period of shipment / negotiation of bills etc

37. A 'Back to Back' letter of credit is :
(a) one on the strength of which another bank's guarantee is obtained
(b) a second set of fresh LC opened in favour of second beneficiary on the strength of original LC
(c) one backed by the government guarantee
(d) a set of two LCs printed on the back of each other (e) none of these

38. A 'Green Clause' letter of credit is an extension of: (a) transferable credit (b) confirmed irrevocable credit (c) red clause credit (d) revolving credit (e) all of the above

39. A 'Claused bill of lading' means bill of lading :
(a) containing special clauses as required under letter of credit
(b) with a clause that shipping company has a right to increase freight
(c) giving the importer right to refuse payment of freight if goods are damaged on board
(d) indicating defective condition / packing of goods (e) any one or more of the above

40. The expiry of a letter of credit is 15.07.2009. The last date of shipment mentioned in the LC is 30.06.2009. The shipment was actually made on 17.06.2009 and documents were presented on 15.07.2009. Choose the best option out of the following 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
(e) none of the above

41. PNB received a letter of credit Opened by a bank in Germany. It is not in a position to verify the apparent authenticity of L/C. Which of the following is true with reference to the L/C as per UCPDC,600 ?
(a) PNB must advise the credit to the beneficiary without disclosing the facts
(b) PNB may elect not to advise the credit and must so inform the issuing bank without delay
(c) PNB may elect to advise the credit to the beneficiary without recourse
(d) either (b) or (c) (e) either (a) or (b)

42. A letter of credit was issued on 1.8.2009. The bill of lading presented on 10.8.2009 under LIC was dated 25.07.2009. The LIC is silent on this aspect. AD should :
(a) accept the bill of lading, if otherwise in order (b) not accept a document dated prior to date of L/C
(c) refer the matter to the applicant of UC (d) refer the matter to issuing bank (e) none of these

43. A manufacturer exporter will prefer:
a) Transferable LC b) Irrevocable LC c) Irrevocable Confirmed LC d) Revocable LC

44. As per UCPDC 600, the words "about" or "approximately" used in connection with the amount of the credit or the quantity or the unit price stated in the credit are to be construed as allowing a tolerance not to exceed ________ % more or less than the amount, the quantity or the unit price to which they refer.
(a) 10% (b) 5% (c) 1% (d) No variation is allowed

45. In a set of documents submitted under letter of credit the date of shipment is 30. 3.2009 whereas the insurance policy is dated 3.4.2009. In this case :
(a) we may accept the documents provided necessary cover has been provided in the policy effective from date of shipment.
(b) we must refuse the documents as it is a discrepancy
(c) the date of insurance policy must be changed to be prior to the date of shipment
(d) either (b) or (c) (e) none of the above

46. The beneficiary of an irrevocable letter of credit which was advised by us requests us to add our confirmation. Under the circumstances :
(a) confirmation is added at the request of opening bank and will be done only as per the arrangement.

(b) we may do so as confirmation is usual course of business only and there is no commitment of the bank which adds the confirmation.
(c) we must add our confirmation as it was advised by us
(d) we should decline it as no confirmation is necessary on the irrevocable letter of credit and only a revocable letter of credit needs confirmation.
(e) we may do so only after obtaining indemnity from the issuing bank.

47. Our bank opened an irrevocable letter of credit and our correspondent bank abroad negotiated the bills under this LC and got the reimbursement. When the documents were presented to our importer customer, he refused to pay on the plea that goods were not as per the contract. In this case :
(a) we will verify the goods and take them into our possession
(b) we cannot recover the money from the negotiating bank because as per UCPDC we deal in documents and not in goods and will proceed to recover the amount from the importer.
(c) we will request the correspondent bank to pay back the money.
(d) either (a) or (b) (e) none of the above.

48. A letter of credit was opened by us stipulating for 'clean on board bill of lading'. While scrutinizing documents under the UC we find that the notation 'some packages torn' appears on the bill of lading. We should :
(a) accept the bill of lading as it is as per terms of UC
(b) try to rectify the irregularity with the shipping agent
(c) wait until the ship arrives and verify the goods
(d) immediately on receipt of documents, inform the negotiating bank by telex that documents are discrepant and they are held at the risk and responsibility of the negotiating bank
(e) either (b) or (c)

49. A letter of credit is opened in US dollars. The insurance document can be in :
(a) US dollars only if not otherwise stipulated in the Credit. (b) in any freely convertible currency
(c) in Indian rupees only (d) in US dollars only (e) either (b) or (c)

50. As per UCPDC 600, if there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least ______________ value of the goods.
(a) 110% of CIF value (b)110% of FOB value (c)100% of FOB value (d) 100% of CIF value (e) None

51. An UC calls for commercial invoice not exceeding US $ 2,00,000. As per UCPDC, 600, the invoice can be for : (a) US $ 2,00,000 (b) Upto US $ 2,20,000 (c) Upto US $ 2,10,000
(d) Upto $ 2,02,000 (e) none of the above.

52. Bank of Tokyo advised an UC to the beneficiary in India through BOB. It intends to advise an amendment through SBI. Under UCPDC :
(a) it is choice of issuing bank to select any bank for advising amendment.
(b) it has to advise amendment only through BOB
(c) it has to advise amendment through RBI only. (d) either (a) or (c) (e) none of these.

53. If a credit contains conditions without stating document(s) to be presented in compliance therewith, what should the bank do?
(a) have to seek clarification from opening bank (b) disregard the conditions as not stated
(c) obtain documents in their discretion which appear to satisfy these conditions.
(d) either (a) or (c) (e) none of the above

54. An L/C was available for shipment by monthly instalments of ready made garments from India. The shipment for March,2009 was not effected within the time available for that instalment. In this case, as per UCPDC:
(a) beneficiary of L/C can ship two instalments together in Apri1,2009
(b) the credit ceases to be available for that and subsequent insalment unless otherwise stipulated in the credit
(c) even earlier instalments will not be covered under L/C
(d) either (a) or (c) (e) the matter be referred to RBI

55. Under UCPDC 600, what is maximum number of days allowed for examination of documents by issuing bank and negotiating bank?:
(a) 5 banking days each (b) 5 days each (c) 7 banking days in total (d) 7 banking days

56. As per Article 36 of UCPDC 600, (Force Majeure clause) a bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes or lockouts or any other causes beyond its control. Which of these items has been added in UCPDC 600?:
(a) acts of terrorism (b) wars (c) riots (d) Both (a) & (b) (e) None of these

57. If 'about' or 'approximately' is not written with the quantity of, goods, a tolerance of more or less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the credit

(a) 1% (b) 5% (c)10% (d) Nil (e) None of these

58. If in a letter of credit, word about is written with the date for the submission of documents for negotiation, then up to which date documents can be submitted for negotiation?

(a) 5 days before (b) 5 days after (c) 5 days before or 5 days after (d) None of these

59. As per UCPDC 600, if on a LC date of expiry is written as by the end of June, it means

(a) 21st to 30th June (b) 30th June (c) 21st June to 29th June if 30th June is holiday (d) None

60. Unless otherwise stated in Letter of Credit, banks will accept which type of bill of lading?

a) Charter party bill of lading b) Straight bill of lading c) Received for shipment bill of lading
d) On Board bill of lading (e) None of these

61. Under Letter of Credit part amount paid to beneficiary. While paying balance amount, Importer complains against quality of goods and request the bank not to pay the amount for bills drawn under LC. What should be done by bank?:

(a) Bank should not pay as it is a case of fraud
(b) Bank should not pay as recovery will be difficult in such circumstances
(c) Bank can suspend payment, seek clarification from exporter and make payment after being satisfied. ,M
(d) Bank has to make payment as in LC transactions, banks deal in documents and not in goods.

62. In a letter of credit, it is written that documents can be negotiated on 30th June. In this case, the documents can be negotiated up to which date?

(a) on 30th June only (b) between 25th June to 30th June (c) between 26th June to 30th June
(d) between 25th June to 5th July (e) None of these

63. A letter of credit issued on the strength of another LC is called:

(a) Back to Back Credit (b) Transferable LC (c) Red Clause LC (d) Anticipatory LC

64. A Letter of credit that carries a provision (traditionally written or typed in red ink) which allows exporter to raise pre shipment credit up to a fixed sum from the advising or paying-bank at the request of issuing bank is called:

(a) Back to Back Credit (b) Transferable LC (c) Red Clause LC (d) Anticipatory LC

NON RESIDENT ACCOUNTS

65. Who of the following can open a Non-Resident Account ?

(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) all of these (e) only (a) & (b)

66. Who is called as Resident as per FEMA 1999?:

(a) A person who stayed in India for more than 182 days in the previous financial year.
(b) A person who stayed in India for minimum 182 days in the previous financial year
(c) A person who stayed in India for more than 182 days in the previous calendar year
(d) A person who stayed in India for minimum 182 days in the previous calendar year
(e) None of these

67. An NRE term deposit account can be opened for a minimum period of :

(a) 3 years (b) 5 years (c) 10 years (d) 6 months (e) 1 year

68. As per RBI guidelines FCNR (Bank) Account can be opened in :

(a) three currencies, namely Pound sterling., US dollar & Euro
(b) only two foreign currencies namely Pound sterling or US dollars
(c) four currencies, namely Pound sterling., US dollar, Euro, Japanese Yen
(d) six currencies, namely Pound sterling., US dollar, Euro, Japanese Yen, Canadian dollar & Aus dollar
(e) None of these

69. At present rate of interest on NRE term deposit for 5 years maturity as per RBI guidelines is :

(a) not exceeding 6% (b) not exceeding 250 basis points below BPLR of the bank
(c) not exceeding 250 basis points above LIBOR for USD for 3 years maturity
(d) not exceeding LIBOR for USD for 3 years maturity plus 175 basis points
(e) not exceeding 50 basis points above LIBOR for USD for 5 years maturity

70. At present rate of interest on NRE savings bank account as per RBI guidelines is :

(a) As applicable in domestic deposits
(b) not exceeding rate applicable to NRE term deposit of one year
(c) not exceeding 50 basis points above LIBOR for USD for 6 months maturity
(d) not exceeding 50 basis points above LIBOR for USD for one year maturity
(e) not exceeding 6 months LIBOR for USD

71. When an NRE FD is made for more than 5 years, interest rate will be:

(a) as applicable for 5 years (b) as applicable for 3 years
(c) Nil as NRE FD can not be for more than 3 years. (d) 3 year or 5 year as per bank discretion

72. Minimum and maximum period for which FCNR (B) term deposits can be opened is year and ____ year.
a)1,5 (b) 1,3 (c) 1,7 (d) 3, 5 (e) none of these
73. Which type of account can be opened as NRE account?
(a) Saving (b)current (c) fixed deposit (d) Both (a) & (b) only (e) All of these
74. For converting NRE Deposit to FCNR Deposit which rate would be applicable?
a) TT Buying Rate b) TT Selling Rate c)Bill Buying Rate d) Bill Selling Rate
75. NRI is defined in which of the following Acts
a)RBI Act b)Income Tax Act c)FEMA d)PML Act (e) None of these
76. A NRI can remit up to US$ in a financial year from his NRO account on account of Sale proceeds of immovable property provided it is held for at least years.
(a) 1 million, 10 years (b) 1 lakh, 5 year (c) llakh, 5 year (d) 1 million, no restriction
77. In NRO A/c, Minimum period of term deposit is :
(a) 1 year (b) 6 months (c) 7 days (d) 15 days (e) None of these
78. Which type of account can be opened as NRO account?
(a) Saving (b)current (c) fixed deposit (d) Both (a) & (b) only (e) All of these
79. In which of the following type of deposit accounts, exchange risk is borne by bank?
(a) NRO account (b) NRE account (c) FCNR account (d) Both NRE & FCNR (e) None of these
80. If FCNR deposit is for more than 1 year, interest will be compounded at what interval?
(a) monthly (b) quarterly (c) half yearly (d) after every 180 days (e) None of these
81. In which type of accounts of NRI, joint account can be opened with resident?
(a) NRO account (b) NRE account (c) FCNR account (d) RFC (e) RFC (Domestic)
82. Which of the following type of accounts can be opened only as Fixed Deposit?
(a) NRO account (b) NRE account (c) FCNR account (d) Both NRE & FCNR (e) None of these
83. Maximum loans against NRE / FCNR deposit that can be allowed by a bank is:
(a) Rs 20 lac (b) Rs 30 lac (c) Rs 50 lac (d) Rs 100 lac (e) None of these
84. What type of exchange rate is applied when foreign currency funds from FCNR(B) account are converted to NRE Saving account:
(a) Bills Buying (b) TT Buying (c) TT Selling (d) Bills Selling (e) None of these
85. In a NRE account, which of the following can not be done by Power of attorney holder?
(a) all local payments in rupees including payments for eligible investments & Remittance outside India of current income in India of the non-resident individual account holder, net of applicable taxes to the account holder himself.
(b) repatriate outside India funds in the account other than to the non-resident individual account holder
(c) make payment by way of gift to a resident on behalf of the non-resident account holder & transfer funds from the account to another NRO account.
(d) Both (b) & (c) only (e) None of these
86. For which type of accounts, STAT 5, STAT8 returns are prepared respectively?
(a) NRE, FCNR (b) FCNR & NRE (C) NRE & NRO (d) FCNR & NRO
87. A FCNR(B) deposit has been made for one year. Interest compounding will be done at the interval of (a) monthly (b) quarterly (c) half yearly (d) after 180 days(e) No compounding
88. FCNR-B, account can not be opened in which of the following currency?
(a) Singapore Dollar (b) Hongkong Dollar (c) Canadian Dollar (d) Both (a) & (b) (e) None
89. The balance along with interest is fully repatriable in which type of accounts?:
(a) NRO account (b) NRE account (c) FCNR account (d) Both NRE & FCNR (e) None of these
90. NRE account cannot be opened in which of the following currencies?
(a) Indian Rupees (b) USD (c) Euro (d) Both (b) & (c) (e) None of these

FOREIGN CURRENCY ACCOUNTS OF RESIDENTS

91. A Non-resident account holder returned to India for permanent settlement on 1.7.2009 after spending about 2 years abroad. His Non-Resident (External) account can be converted into :
(a) Non-Resident (Ordinary) account (b) Resident account (c)Resident Foreign Currency account
(d) -(b) or (c) as per his choice (e) - (a) or (c) as per his choice
92. RFC account can be opened in which type of following accounts?
(a) Saving (b)current (c) fixed deposit (d) Both (a) & (b) only (e) Any of these
93. Who can open RFC account:
(a) NRI returning to India after staying abroad for a minimum period of 1 year.
(b) Any NRI who had opened NRE or FCNR(B) account with the bank.
(c) Any resident individual (d) All of these (e) None of these
94. My uncle gave me gift of USD 20000. In which type of following accounts it can be credited?

(a) RFC (b) RFC(Domestic) (c) EEFC (d) NRE (e) None of these 100%

95. Exporters other than 100% Export Oriented Unit can deposit ___________________ % of export proceeds to Exchange Earners Foreign Currency account:

(a) 25% (b) 50% (c) 75% (d) 100% (e) None of these

96. What type of account can be opened under EEFC scheme?:

(a) Only fixed deposit (b) Only non interest bearing current account (c) Either (a) or (b)

(d) None of these as scheme has been discontinued w.e.f. 1.11.08

EXPORT CREDIT

97. Presently rate of interest on pre-shipment credit in forex (PCFC) up to 180 days is not exceeding:

(a) 200 basis points above LIBOR (b) 100 basis points above LIBOR

(c) 150 basis points above LIBOR (d) 50 points above LIBOR (e) 350 basis points below LIBOR

98. As per current guidelines of RBI, for loans sanctioned up to 30.6.2010, rate of interest on pre-shipment credit in rupees up to 270 days should not exceed :

(a) Bank Rate plus 2.5% (b) BPLR plus 1.5% (c) BPLR minus 2.5%

(d) Bank Rate minus 2.5% (e) lower of (a) and (b)

99. As per the exchange control regulations, the payment for exports should in general be realized within a period of:

(a) 12 months from date of shipment (b) 360 days from date of packing of goods

(c) 180 days from the date of shipment (d) 270 days from date of shipment

(e) 180 days from the date of receipt of consignment by the buyer in foreign country

100. Which of the following is/are not true with regard to features of Gold Card Scheme for exporters:

(a) Only exporters whose accounts have been 'Standard' continuously for 3 years are eligible

(b) Gold Card holders will be given preference is granting packing credit in foreign currency (PCFC)

(c) Time norm for disposal of fresh applications for credit under the scheme will be 25 days

(d) Gold Card for exporters will be issued for a period of 5 years (e) none of these

101. Minimum and maximum amount up to which the Gold Credit card can be issued to exporter is Rs ________ lac and Rs lac. : (a) 100,1000 (b) 50, 500 (c) 100, 5000

(d) 20,200 (e) None of these as it is based on anticipated turnover.

102. As per the exchange control regulations, the payment for exports should in general be realized within a period of : (a) 12 months from date of shipment (b) 3 months from date of shipment

(c) 6 months from the date of shipment (d) 1 month from date of shipment

(e) 45 days form date of shipment

103. Units in a special economic zone are permitted to realise and repatriate to India the full export value of goods or software within a period of....................................... from the date of shipment.

(a) 3 months (b) 6 months (c) 180 days (d) 360 days (e) none of these as there is no time limit

104. In respect of shipments made to Indian owned warehouses abroad established with permission of RBI, export proceeds should be realized within :

(a) 6 months (b)3 months (c) 9 months (d)15 months (e) 150 days

105. RBI monitors overdue export bills-not realized within the stipulated time by calling for a half yearly statement from ADs referred to as : (a) BEF (b)XOS (c) GTE-1 (d) ST-9 (e) ENC

106.Packing credit advances mean :

advances granted to industrial units for packing of manufactured goods for sale in India

advances granted to eligible exporters for purchase/manufacture/processing/transporting/packing etc. of goods meant for export

(c) advances granted to importers to enable them to store and subsequently sell imported goods locally

(d) any one or more of the above (e) none of the above.

107. To be eligible for packing credit advances the customer :

(a) should not be in the caution list of RBI or specific approval list of ECGC

(b) must be holding importer/exporter code number allotted by DGFT

(c) should be recognised export house (d) all above (e) both (a) and (b)

108. Packing credit advances is normally allowed for :

(a) 90 days (b) 60 days (c) 360 days (d) 180 days (e) as per requirement of the exporter

109. `Normal Transit Period ' in the context of export finance means:

(a) the number of days the documents take to reach destination

(b) the gap between period taken by the ship and the documents to reach destination

(c) the number of days taken by a ship to complete a voyage

(d) the number of days fixed by FEDAI and is the average period normally involved from date of negotiation to credit to NOSTRO account.

(e) either (a)or (b)

110. For facilities granted up to 30.6.2010, rate of interest on post shipment credit in rupees upto 180 days in respect of usance bills is :
(a) 12% (b) 15% (c) not exceeding BPLR
(d) not exceeding BPLR minus 2.5% (e) not exceeding BPLR plus 1.5%
111. Refinance for export credit from RBI is available for how many days?
(a) 90 days . (b) 180 days (c) 360 days (d) 270 days (e) None of these
112. Refinance against eligible export finance is available from :
(a) RBI (b) IDBI (c) ECGC (d) Exim Bank (e) None of these
113. On PCFC refinance is available to the extent of % of outstanding PCFC.
(a) 15% (b) 50% (c) 25% (d) Nil (e) None of these
114. For facilities granted up to 30.6.2010Concessional interest rate on Post shipment credit in rupees is permitted up to:
(a) 180 days (b) 90 days (c) 270 days (d) 360 days (e) None of these

REMITTANCES

115. Which of the following is not correct regarding Liberalised Remittance Scheme?
(a) Amount can be remitted for capital as well as current account transactions
(b) Maximum amount that can be remitted in a financial year is restricted to USD 200,000
(c) Remittance for gift and donation will be within USD 200,000 permitted under LRS
(d) Bank can allow advance to a resident individual for making remittance under this scheme
(e) None of these
116_ For outward remittance for medical expenses, estimate from the doctor or hospital is required if the remittance is more than USD : (a) 1 lac (b) 5 lac (c) 10 Lac (d) none of these as it is required in all cases

117. What is the maximum amount of inward remittance that can be done by a resident individual?
(a) USD 1 Lac (b) USD 5 lac (c) USD 10 Lac (d) None as there is no limit
118. How much amount can be released for remittance abroad for education on declaration basis and withou estimate from educational institution?
(a) USD 1 Lac (b) USD 5 lac (c) USD 10 Lac (d) None as there is no limit
119. Which of the following is true?
(a) If a bank has oversold position, Bank will gain if the rate of foreign currency rises.
(b) If a bank has oversold position, Bank will gain if the rate of foreign currency declines
(c) If a bank has oversold position, Bank will lose if the rate of foreign currency declines
(d) If a bank has overbought position, Bank will gain if the rate of foreign currency declines
(e) None of these

IMPORTS

120. ADs may allow advance remittance for import of goods without any ceiling. However, if the amount of advance remittance exceeds USD50,00,000 or its equivalent it is mandatory to obtain-
(a) unconditional irrevocable stand by UC of an international bank of repute situated outside India
(b) guarantee from an international bank of repute situated outside India
(c) guarantee of an AD in India, if such guarantee is issued against counter guarantee of an international bank of repute situated outside India
(d) any one of the above (e) either (a) or (b) only
121. BEF statement containing details of remittance exceeding USD1,00,000 where evidence of import is not furnished within 6 months from date of remittance is submitted by ADs to RBI on:
(a) monthly basis by 10th of the following month
(b) quarterly basis by 15th of the month following close of quarter
(c) half yearly basis for March/ September by 15th of succeeding month
(d) half yearly basis as of June/ December by 15th of succeeding month (e) none of these
122. Crystallisation of import bill under UC means:
(a) bill is scrutinised whether it is as per UC terms or not
(b) it is ensured that currency of IJC and insurance is the same or not
(c) converting bill amount into Indian rupees and deciding customer's liability on due date in case of usance bill and on 10th day from date of receipt in case of demand bills.
(d) none of the above as the concept is gone with the termination of PSCFC
123. 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 (e) none of the above

124. Advance remittance for import of goods into India is to be allowed after obtaining guarantee from an international bank of repute situated outside India or guarantee of an AD in India against counter-guarantee of an international bank when amount of advance remittance exceeds:

(a) US $ 10,000 (b) US $ 25,000 (c) US $5,000 (d) US $ 15,000 (e) US $ 50,00,000

125. How much advance remittance is allowed for import of services without guarantee of a reputed international bank?

(a) USD 1 Lac (b) USD 5 lac (c) USD 10 Lac (d) None as there is no limit

MISCELLANEOUS

126. Which of the following types of Bill of Lading is not acceptable by a bank under LC?

(a) On Board (b) Clean (c) Charter Party (d) AN of these (e) None of these

127. Interest Subvention is available on rupee export credit at the rate of 2% for loan up to Rs
but
interest rate after subvention should not be less than 7%.

(a) Rs 3 lac (b) Rs 5 lakh (c) Rs 10 lakh (d) Rs 100 lakh (e) None of these

- 128. Interest rate charged by RBI on export refinance to banks is at the rate of :

(a) Bank Rate (b) Repo Rate (c) Reverse Repo Rate (d) Base Rate (e) None of these

129. Export Refinance is provided by RBI at the rate of __________ % of eligible outstanding export credit?

(a) 15% *(b)* 25% (c) 50% (d) 100% (e) None of these

130. R Return is submitted to RBI on which of the following dates of the month?

(a) 7^{th} and 21^{51} (b) 15^{th} & last day (c) 10^{th}, 20^{th} and last day (d) None of these

131.Overdue import demand bills and usance bills are crystalised on which dates?

(a) 10^{th} day & due date (b) 15^{th} day and 30^{th} day (c) 30^{th} day and 60^{th} *day* **(d)** 10^{th} day and 60^{th} day (e) None of these

132. Which of the following is incorrect 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 (e) All of these

<u>ANSWER TO TEST YOUR SELF</u>

1	D	2	C	3	D	4	B	5	D	6	D	7	E	8	C	9	D	10	D
11	C	12	A	13	B	14	A	15	D	16	C	17	A	18	B	19	D	20	C
21	A	22	B	23	B	24	A	25	C	26	B	27	D	28	E	29	B	30	C
31	A	32	A	33	B	34	D	35	B	36	A	37	B	38	C	39	D	40	D
41	D	42	A	43	C	44	A	45	A	46	A	47	B	48	D	49	A	50	A
51	A	52	B	53	B	54	B	55	A	56	A	57	B	58	C	59	A	60	D
61	D	62	D	63	A	64	C	65	E	66	A	67	E	68	D	69	D	70	A
71	B	72	A	73	E	74	B	75	B	76	D	77	C	78	E	79	C	80	D
81	A	82	C	83	D	84	B	85	D	86	B	87	E	88	D	89	D	90	D
91	D	92	E	93	A	94	B	95	D	96	B	97	A	98	C	99	A	100	D
101	E	102	A	103	E	104	D	105	B	106	B	107	E	108	E	109	D	110	D
111	B	112	A	113	D	114	A	115	D	116	AQ	117	D	118	A	119	B	120	D
121	D	122	C	123	C	124	E	125	B	126	C	127	E	128	B	129	A	130	B
131	A	132	C																

CASE STUDY/ PROBLEMS

Case Study -1

Calculation of bills buying rate, when exchange margin and interest is also to be taken into account:

On July 5, an exporter in India, submits a USD 50000, 2 months usance bill drawn under a letter of credit, on an importer in US. The normal transit period is 25 days. The inter-bank currency rates are as under:

Spot rate : 1 USD = Rs.65.0000 5000

July forward margin = 0.3500 / 0.4000
August forward margin = 0.6000 / 0.7000
September forward margin = 0.8500 / 0.9000
October forward margin = 0.9500 / 0.9900

The exchange margin is 0.15%. Customer wants to retain 20% of the amount in a current account opened in USA. Rate of interest is 10% p.a. Calculate tl-e following:

1. Rate to be quoted to the customer ,
2. Gross amount to be credited to customer account.
3. Amount of interest to be'deducted.

Solution : The bill dated Jul 05, has 25 transit period + 2 months' Usance (Aug and Sep). Hence the payment shall fall due on Sept 30. The exporter will be allowed the benefit of Sept forward margin since the payment is due on last day of Sept.

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 USA).

Spot rate = 65.0000
Add Sep premium = 65.0000 + 0.8500 = 65.85
Deduct margin @ 0.15% = 65.8500 — 0.09878 = 65.75122
Final rate = 65.7500 (rounded)
Gross amount due to customer = 65.7500 x 40000* = 2630000
*(20% to be retained in USA out of 50000)
Less interest @10% for 86 days = Rs.62308.53
(2630000 x 10 x 86) / (365 x 100)
Net amount payable to exporter = Rs.2567691.46

Case Study -2

Calculation of TT selling rate when exchange margin is given: On July 5, a saving bank customer in India, requests for issue a USD 10000. The inter-bank currency rates are as under:

Spot rate : 1 USD = Rs.65.0000 / 5000
July forward margin = 0.3500 / 0.4000
Bank requires an exchange margin of 0.15%.
What rate will be quoted and how much amount will be debited to customer's account.

Solution : In this case, no handling of documents is required. Hence TT selling rate shall be used. Exchange margin will be added, since for the bank, it is a sale transaction.

Spot rate selling rate = 65.5000
Add margin @ 0.15% = 65.5000 + 0.098775 = 65.598775
Final rate = 65.6000 (rounded)
Gross amount due from customer = 65.6000 x 10000 = 656000

Case Study 3

Calculation for dishonour of export bill purchased by the bank, when exchange margin is given

An export bill of USD 10000 was purchased from an exporter at the then bills buying rate of Rs.65.80. But on due date it was not paid. Now the bank has to recover the amount from the exporter.

The inter-bank currency rates are as under:
Spot rate : 1 USD = Rs.65.0000 / 5000
July forward margin = 0.3500 / 0.4000
August forward margin = 0.6000 / 0.7000
Bank requires an exchange margin of 0.20% for TT selling rate and 0.15% for bills selling rate.
What rate will be quoted and how much amount will be debited to customer's account.
What gain has been made by the customer in the transaction.

Solution : In this case, handling of import documents is not required. For recovering the amount from export customer, the TT selling rate shall be used. Exchange margin for TT selling will be added, since for the bank, it is a sale transaction.

Inter-bank spot selling rate = 65.5000
Add TT selling margin @ 0.20% = 65.5000 + 0.1310 = 65.6310
TT selling rate = 65.6310, Amount to be debited = 65.6310 x 10000 = Rs.656310
Profit to the exporter = 658000 — 656310 = Rs.1690 (amount credited when purchased less amount recovered)

Case Study 4

Calculation of rate and amount for credit of proceeds of bill sent for collection.

An export bill of USD 10000 was sent for collection which was submitted by an exporter. On July 10, the correspondent bank credited USD 9860, the proceeds of the bills, to NOSTRO account of the collecting bank, after recovering its own charges.

The inter-bank currency rates on July 10, are as under:
Spot rate : 1 USD = Rs.65.0000 / 5000

July forward margin	= 0.3500 / 0.4000	
August forward margin	= 0.6000 / 0.7000	

Bank requires an exchange margin of 0.10% for TT buying rate and 0.15% for bills buying rate.
What rate will be quoted and how much amount will be credited to customer's account.

Solution : In this case, the bill was sent for collection. On the amount realized, the TT buying rate shall be used since the amount has already been credited to NOSTRO account of the bank. There is no need to take any forward margin in to account.

Exchange margin for U buying will be deducted, since for the bank, it is a purchase transaction.

Inter-bank spot selling rate	= 65.0000	
Less TT buying margin @ 0.10% TT	= 65.0000 + 0.0650	= 65.0650
buying rate	= 65.0650	
Amount to be credited	= 65.0650 x 9860 =	Rs.641541

Case Study 5

Calculation of rate and amount for credit of proceeds of bill purchased from exporter

An export bill has been submitted by an exporter for USD 40000 for purchase on Sept 15. The other information is provided as under:

1. Inter-bank exchange rate is 66.5400 / 6000
2. October forward points = 0.5000 / 0.4500
3. Transit period is 15 days
4. Rate of interest is 10%
5. Exchange margin is 0.10%
6. Fineness of rates should be as per FEDAI Rules i.e. 0.0025

What rate will be quoted and how much amount will be credited to customer's account.

Solution : Exchange margin for TT buying will be deducted, since for the bank, it is a purchase transaction. Further interest at 10% for 15 days will be recovered. October forward discount shall be reduced.

Inter-bank spot buying rate	= Rs.66.5400
Less margin @ 0.15%	= 66.5400 - 0.06654 = 66.47346
Rate to be quoted	= 66.4725 (0.0025 fineness)
Due amount	= 66.4725 x 40000 = Rs.2658900
Less Interest@ 10% for 15 days	= Rs.10926.99
Amount to be credited	= Rs.2647973

Case Study 6

Purchase of export bill by using cross rate

An exporter tenders an export bill of Singapore Dollars 20000. At that time:

1. Inter-bank USD rate was Rs.65.5045/6070
2. Forward rate : One month, 0.2000/1500, 2 months 0.4500/3500, 3 month : 0.7000 / 6000
3. USD/SGD rate was USD1 = 1.3205 / 3225.
4. Forward rate : One month, 0.0200/0300, 2 months 0.0400/0500, 3 month : 0.0600 / 0700
5. Exchange margin is 0.10%.
6. Transit period is 25 days.
7. Interest rate is 10%

What rate will be quoted by the bank and how much amount in Indian currency, shall be credited to exporter's current account?

Solution : This involves calculation of cross rate since at the time of cancellation, the Singapore dollar / rupee rate is not available. Since it is a purchase transaction and USD forward is at a discount, one month forward discount will be taken into account.

As regards, USD/SGD, the USD is at a premium, one month forward will be taken into account, as it is a sale transaction for the bank.

Inter-bank USD rate	= Rs.65.5045	
Less one month forward discount =	Rs.00.2000	
Rate after forward discount	= Rs.65.3045	
Less exchange margin @ 0.1%	= Rs.00.0653	
Rate after exchange margin	= Rs.65.2392	
Rounded (to 0.0025)	= Rs.65.2400	
USD/SGD selling rate	= 1.3225	
Add one month premium	= 0.0300	
USD/SGD one month	= 1.3525	
SGD/Rupee rate	= 65.2400 / 1.3525 =	48.20

Amount to be credited to customer account = 48.20 x 20000= Rs.964000 Less interest for 25 days @10% = 6602.74

Net amount = Rs.957397.26

Case Study 1 : Profit or loss on a swap deal.

A bank in Delhi makes a swap deal of USD 50000 by selling spot and buying one month forward. The other information is as under:

1. Inter-bank USD rate was Rs.65.5045/6070
2. One month forward rate is quoted Rs.0.25 above the spot rate.
3. Interest rate in Delhi is 10% and in New York 5% p.a.
4. Commission on the deal is 0.5 paise per Rs.100 on sale and 0.5 paise on purchase.

Calculate the gain or loss made by the bank in this deal. **Solution :** The bank has sold spot at the market buying rate of Rs.65.5045. Accordingly, the one month forward buying will be at Rs.65.7545 (65.5045 + 0.2500).

1. Amount received on sale of USD 50000:

USD 50000 x 65.5045	= Rs.3275225.00
Less commission @ 0.5 paise	= Rs.163.76

Amount received = Rs.3275061.24
Interest earned at 10% for one month = Rs. 27292.18
Net amount received = Rs.3302353.42

2. Principal amount + interest payable in USD

Principal amount	= USD 50000
Interest @ 5% on USD 50000 for one month	= USD 208.33
Total amount	= USD 50208.33
Amount payable in Indian currency (50208.33 x 65.7545)	= Rs.3301423.63
Add commission @ 0.5 paise	= Rs.165.07
Total amount payable	= Rs.3301588.70
3. Gain (1-2)	= Rs.764.72

Case Study 2 : Booking and cancellation of a Forward Contract

A bank in Delhi entered into a forward purchase contract for USD 10000 on Aug 16, with its customer, which is due on Nov 15, at Rs.65.8050.
Bank covered itself in the inter-bank market at Rs.65.9050.
On October 10, the customer requested the bank that the date be extended to December 15.
The rates are as under:
Spot Rate Inter-bank USD rate was Rs.65.5050/6050
Spot Sep = Rs.65.6050/7050
Spot Oct = Rs.65.7050/8050 •
Spot Nov = Rs.65.8050/9050
Spot Dec = Rs.65.9050/9950
2. Exchange margin shall be 0.20% on buying and selling transactions.
Calculate the charges that would be recovered from the customer for extension of the date.
Solution : The bank will cancel the contract and then re-book the same.

1. Cancellation of the original contract

The cancellation will be at forward sale rate for delivery November at

inter-bank forward selling rate.	= Rs.65.9050
Add exchange margin @ 0.20%	= Rs.00.1318
Total	= Rs.66.0368
Rounded to 0.0025	= Rs.66.0375
Purchase of USD at original contracted rate	= Rs.65.8050
It sells by cancellation of contract	= Rs.66.0375
Loss per USD in sale	= Rs.0.2325
Loss on total USD 10000	= Rs.2325

2. Re-booking of the contract

The re-booking of forward contract will be with delivery for December 15. The forward rate for November shall be taken as December is not a complete month.

Forward rate to be taken for contract	= Rs.65.8050
Less exchange margin @ 0.20@	= Rs.00.1316
Total	= Rs.65.9366
Rounded to 0.0025	= Rs.65.9375

Hence, bank shall book a new contract at Rs.659375 and will recover Rs.2325 for cancellation of the previous contract.

CASE STUDIES

Case 1: Credits v/s contracts

Article 4, states that a credit by its nature is separate from the sale or other contract on which it is based and banks are in no way concerned with or bound by such contracts.
It also states that the issuing bank must discourage any attempt by the applicant to include the details of the contact, proforma invoice, etc, as an integral part of the LC.
Further, Article 5 of UCPDC 600, states that banks deal in documents and not in goods and services.
Even then, the applicants at times attempt to get the documents refused due to reasons, such as (i) goods not as per proforma invoice (ii) obtain stay /injunction against the opening bank to honour payment of the documents received under LC, due to the reason that the beneficiary has not sent the goods as shown, as mentioned in the contract or as given to understand.
Thus there could be a breach in the contract between the buyer and the seller, but the documents under LC could be perfectly in compliance of the terms of LC, thus making the issuing bank liable to pay / honour.
Courts, in many cases, have been putting stays /granting injunctions and stopping issuing banks to pay to the negotiating bank and

debiting applicants accounts.
While issuing banks' on their own, should not, in connivance or other wise, try to excuse itself from making payments/ honoring the documents, with such reasons, which link the discrepancies to the sale contracts or the quality of goods, the National courts/ law, being above the UCPDC, they are bound to wait for the stay /injunction to be lifted before making payment to the negotiating banks.
The recovery of the amounts of documents from the applicant is altogether a separate issue, as it is a matter of taking credit risk by the opening bank on the applicant. Thus, recovery of amount from the applicant must also not be linked to the honoring of payment to the negotiating bank.

Case 2. Case of Date of documents

Bank A issues LC dated 1.10.2009, in favour of a beneficiary in UK. The last date of shipment as per LC is 15.10.2009 and last date of negotiation 31.10.2009.
The beneficiary presents documents to **Bank B,** for negotiation on 05.10.2009, with documents evidencing shipment of goods on 30.09.2009, which sends the documents to the opening bank, asking to reimburse as per LC terms.
The opening bank, on receipt of documents notices that, the shipment was made on 30.09.2009 and the invoice was dated 2.09.2009, while the inspection certificate, analysis certificate and packing list were dated 25.09.2009
The issuing bank on receipt of documents rejected the documents, notifying discrepancy that documents were dated prior to date of credit.
Article 14 i, specifically provides that documents could be dated prior to the date of LC, but should not be dated after the date of presentation.
While, the LC is silent about the date of documents, documents presented need to be dated as per LC terms, if so provided in the LC. As such, assuming that the LC did not provide for dates of the documents, the rejection by the opening bank is not as per UCPDC.

Case 3. Partial Shipments

An LC, covering shipment of 1000 cartons consisting of 15000 pieces of shirts, (readymade garments), from Chennai port to Dubai port, provides that partial shipment is not allowed.
The beneficiary hands over 500 cartons of Shirts, to the shipping company on 15.7.2009 and another 500 cartoons on 18.7.2009. The Shipping Company issues BL for the first 500 cartons on 17.7.2009 and another BL covering 500 cartoons on 19.7.2009. Both the consignments are to be shipped by a vessel that is due to leave Chennai port on 21.7.2009. Thus the total goods under the LC , i.e. 1000 cartons, are shipped on a single vessel, but with two BLs.
The LC issuing bank, on receipt of documents drawn under the LC rejects the documents, stating the shipment is not made under one BL and as such constitutes partial shipment, which is not permitted under the LC. The issuing bank, informs the negotiating bank that goods are held at their disposal and further instructions are awaited.
As per article 31 of UCP, a presentation of documents consisting of more than one set of transport documents, covering shipment of goods on the same means of transport and has same journey, will not be considered as partial shipment, even if they indicate different dates of shipment.
As such, in the given scenario, the rejection of documents by the LC opening bank is not correct as per the Article 31 of UCP, and the bank must pay /honour the documents.

Case 4. Notice of Dishonor

The LC issuing bank on receipt of documents on 15.9.2009 (Tuesday) took two days to examine the same and referred the documents to the applicants for their acceptance on 17.9.2009 (Thursday). The applicants came up with a discrepancy in documents, on 22.9.2009 (Tuesday) evening, stating that the documents need to be rejected as the BL was not stamped with "On board" stamp and initialed by the shipping company.
The issuing bank sent a Swift message of rejection to the negotiating bank on 23.9.2009.
On receipt of Swift message from the issuing bank, informing rejection of documents and discrepancy, as informed by the applicant, the negotiating bank referred the matter back to the opening bank stating that the message of refusal and notification of discrepancy was not received within the time period of 5 working days, and as such claimed to be reimbursed as per LC teims.
Article 16 d of UCP states that the notice of refusal and discrepancy must be given latest by the closing hours of the 5 th working day from the date of presentation. In the instant case, the opening bank was correct in sending the swift message on 23.9.2009, which was 5th working day, subsequent to the date of receipt of documents.
Since, 19th and 20th were Saturday and Sunday and 21.9.2009, being a holiday in India, on account of Ramadan ID, the opening bank was right in sending the notice of refusal / discrepancy on 23.9.2009, which was in compliance with the meaning of the said article.

CASE 5. Insurance

An LC calls for insurance from ware house to warehouse, and insurance to cover 110% of the invoice value.
Bank A negotiates and forwards documents, covering invoice for USD 17920.00 under a Multi model transport document (Combined Bill of Lading) dated 15.9.2009. to the opening bank, under the said LC. The insurance enclosed to the documents is for USD 20,000.00 and is dated 17.9.2009.
As per the Article 28 of UCP, the insurance must indicate the amount of insurance. It should be at least 110% , of the invoice value if the LC is silent on this requirement and must not be dated prior to the date of transport document.
In the given scenario, the insurance is dated after the date of multimodal transport document, which should be covering the voyage

of goods from the godown of the seller, and is more than the given percentage for insurance coverage, i.e. more tan 110%.
Banks would normally accept some difference in insurance coverage which could be due to rounding off of the values/cover amount, but still can be used as a discrepancy to refuse the documents. However, a document dated after the date of shipping document, is clearly a discrepancy, and requires specific approval from the applicant.

CASE STUDY ON PRE- AND POST-SHIPMENT FINANCE

Case: A textile exporter, with estimated export sales of Rs. 300 lacs during the last year and projected sales of Rs.500 lacs for the current year, approaches the bank for granting credit facilities. The bank sanctions following facilities in the account:PCL/FBP/FUBD/FBN .... Rs. 100.00 lacs Sub limits:
PCL (25 % margin on fob value) Rs. 50.00 lacs FBP (10 % margin on bill amount) Rs. 50.00 lacs FUBD (15 % margin on bill amount) Rs. 50.00 lacs FBN (nil margin) Rs. 100.00 lacs
He gets an order for USD 50,000.00 CF, for exports of textiles- dyed/hand printed, to UK, with shipment to be made by 15.9.2009.
On 2.6.2009 he approaches the bank for releasing PCL against this order of USD 50,000.00. The bank releases the PCL as per terms of sanction.
On 31.8.2009, the exporter submits export documents for USD 48,000.00, against the order for USD 50,000.00. The documents are drawn on 30 days usance (D/A) as per terms of the order. The bank discounts the documents at the days applicable rate, adjusts the PCL outstanding and credits the balance to the exporter's account, after recovering interest up to notional due date. Interest on PCL recovered separately.
st the
The documents are realized on 29.10.2009, value date 27.10.2099, after deduction of foreign bank charges of USD 250.00. The bank adjusts the outstanding post shipment advance allowed again bill on 31.8.2009.
Bank charges interest at – PCL- 8.50 % upto 180 days, and post shipment at 8.50 % upto 90 days **and.** 10.50 % thereafter. Overdue interest is charged at 14.50%.
the USD/INR rates were as under:
— 2.6.2009: Bill Buying 48.20, bill Selling 48.40.
— 31.08.2009: TT buying 47.92, Bill buying 47.85, TT selling 48.08, Bill selling 48.15., premium for 3() days was quoted as 04/06 paise. Now give answers to the following:

1. What is the amount that the bank allows as PCL to the exporter against the given export order, considering insurance and freight costs of 12%.

(i) Rs. 15,90,600 @ (ii) Rs. 2410000.00 (iii) Rs. 2120,800.00 (iv) Rs. 1815000

2. What exchange rate will the bank apply for purchase of the export bill for USD 48,000.00 tendered ' by the exporter:

(i) 47.89 (ii) 47.85 (iii) 47.91 (iv) 47.96

3. What is the amount of post shipment advance allowed by the bank under FUBD, for the bill submitted by the exporter:

(i) Rs.19,54,728 (ii) Rs 19,52,280 (iii) Rs.19,53,912 (iv) Rs.22,98,720

4. What will be the notional due date of the bill submitted by the exporter:

(i) 30.10.2009
(ii) 30.9.2009
(iii) 25.10.2009
(iv) 27.10.2009

5. Total interest on the export bill discounted, will be charged up to;

(i) notional due date 25.10.2009
(ii) value date of credit 27.10.2009
(iii) date of realisation 30.10.2009
(iv) date of credit to nostro account 29.10.2009

Ans. 1: USD 50,000.00 @ 48.20 = Rs.. 2410000.00 – less 12% for insurance and freight cost i.e Rs. 289,200 = Rs.21,20,800.00 (fob value of the order. Less margin 25% i.e. Rs.530,200.00 balance **Rs 15,90,600.00**
Ans. 2: 47.89– Bill buying rate on 31.8.2008 – 47.85 plus 4 paise premium for 30 days, this being a DA bill.

·4 USD 48,000.0[0] @ 47.96 =Rs. 23,02,080.00, less 15% margin on DA bill, i.e. Rs. 345312.00
Ans.
0850:19:i161,7su6b8m.0i0tted on 31.8.2009- drawn on 30 days DA plus normal transit period of 25 days -
31.8.2009 plus 30 days plus 25 days, i.e. total 55 days from 31.3.2009 i.e. **25.10.2009**
ADS 5: Interest is charged up to the date the funds have been credited to the banks nostro account, the effective date of credit is the

value date of credit, i.e. **27.10.2009.**

SOME MORE CASE STUDIES / CASELETS ON INTERNATIONAL BANKING

EXCHANGE RATES

Basic Concepts

Negotiation of ,Export Bills is a purchase transaction and Retirement of Import Bills is a sale transaction for the Authorised Dealer.

In purchase lower rate will be applied and in Sale higher rate will be applied. Same will be the case for forward premium

In sale transaction exchange margin will be added but in purchase transaction exchange margin will be deducted.

Case 1

On Jan 10, 2012, the Mumbai branch of popular bank entered into following foreign currency sale and purchase transactions:

(1) With Mr. A for sale of USD 2000 to be delivered on the Jan 10.
(2) With Mr. B for purchase of USD 2000 to be delivered on Jan **11.**
(3) With Mr. C for purchase of USD 2000 to be delivered on Jan 14 (Jan 12 and 13 being bank holidays)
(4) With Mr. D for sale of USD 2000 to be delivered on Feb 11.

The inter-bank foreign currency rates on Jan 10, 2012 are as under: Cash rate or ready rate USD = Rs.45.50/60, Tom rate Rs.45.55/65, Spot rate Rs.45.60/70 and one month forward rate Rs.45.80185.

On the basis of above, answer the following questions.

01 What rate will be used for the transaction with A and what amount in Rupees will be involved:
a) Rs.45.50, Rs.91000
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

02 What rate will be used for the transaction with B and what amount in Rupees will be involved:
a) Rs.45.50, Rs:91000 --
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

03 What rate will be used for the transaction with C and what amount in Rupees will be involved:
a) Rs.45.50, Rs.91000
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

02 What rate will be used for the transaction with A and what amount in Rupees will be involved:
a) Rs.45.50, Rs.91000
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

Ans. 1-c 2-b 3-c 4-d

Explanations:

1. It is a sale transaction. Hence, same day rate i.e. cash rate of Rs.45.60 will be used. The amount = 45.60 x 2000 = Rs.91200
2. It is a purchase transaction. Hence, next day rate (TOM Rate) of Rs.45.55 will be used. The amount = 45.55 x 2000 = Rs.91100
3. It is **a** purchase transaction. Hence, 3rd day rate (Spot Rate) of Rs.45.60 will be used. The holidays period will be excluded from counting. The amount = 45.60 x 2000 = Rs.91200
4. It is a forward sale transaction. Hence forward sale rate or Rs.45.85 will be used. The amount = 45.85 x 2000 = Rs.91700

Case 2

An exporter submitted an export bill of USD 100000 drawn on 120 days usance basis from date of shipment, which took place on Aug 03, 2012. The following further information is provided:

(1) The due date is Dec 01, 2012.
(2) The exchange margin is 0.20%.
(3) Spot inter-bank USD rate is Rs.45.00/05.
(4) Premium spot Nov 0.40/45
(5) Rate is quoted to nearest 0.25 paise and rupee amount to be rounded off
(6) Interest rate is 8% for period up to 180 days.

(7) Commission on bill purchase is 0.50%

Answer the following questions.

01 What is the rate at which the bill will-be purchased if it is a demand bill after adjustment of bank margin, without taking into account, the premium?

a) Rs.44.91 *b)* Rs.45.09 c) Rs.45.31 d) Rs.45.51

02 What is the rate at which the bill will-be purchased if it is a demand bill after adjustment of bank margin and the premium? -

a) Rs.44.91 b) Rs.45.09 c) Rs.45.31 d) Rs.45.51

03 What is the gross amount before application of interest and commission:

a) R5.4531000 b) Rs.4410174 c) Rs.4407908.50 d) Rs.4507909

04 What is the amount of the bill without bank commission

a) Rs.4531000 b) Rs.4410174 c) Rs.4407908.50 d) Rs.4407909

05 What amount will be credited to exporter's account:

a) Rs.4531000 b) Rs.4410174 c) Rs.4407922.50 d) Rs.4407909

Ans. 1-a 2-c 3-a 4-b 5-d Explanation :

1. Calculation of buying rate will be as under:

Spot rate Rs.45.00 (buying rate will be applied as it is purchase)

Less 0.20% margin Rs.00.09 Rate Rs.44.91

2. Calculation of rate will be as under:

Spot rate Rs.45.00 (buying rate will be applied as it is purchase)

Less 0.20% margin Rs.00.09 Rate Rs.44.91

Add premium Rs.00.40 (premium will be added as that benefit will be of the customer) Rate Rs.45.31

3. Calculation of rate will be as under:

Spot rate Rs.45.00 (buying rate will be applied as it is purchase) Less 0.20% margin Rs.00.09

Rate Rs.44.91 Add premium Rs.00.40 (premium will be added as that benefit will be of the customer)

Rate Rs.45.31 Amount in Rs. 45.31 x 100000 = 4531000

4. Calculation of rate will *be* as under:

Spot rate Rs.45.00 Less 0.20% margin Rs.00.09 Rate Rs.44.91

Add premium Rs.00.40 RateRs.45.31-- Gross Amount in Rs. 45.31 x 100000 = 4531000

Interest 120 days @ 8% Rs.120826 Amount 4531000 — 120826 = 4410174

5. Calculation of rate will be as under:

Spot rate Rs.45.00 Less 0.20% margin Rs.00.09

Rate Rs.44.91 Add premium Rs.00.40

Rate Rs.45.31 Amount in Rs. 45.31 x 100000 = 4531000

Interest 120 days @ 8% Rs.120826 Commission at 0.05% Rs.2265.50

Amount to be credited 4531000-120826 - 2265.50 = 4407908.50 (rounded to Rs.4407909).

Case 3

Your export customer has received an advance of US 10000 against export to UK, which the importer in UK has got credited to NOSTRO account of the bank in London. The current inter-bank market rate USD = 45.10/15. Bank retains a margin of 0.15% on purchase and 0.16% on sale. What amount will be credited to customers account:

a. Rs.451676.50 b. Rs.450323.50 c. Rs.451721.60 d. Rs.450278.40 Ans.1-b

Explanations:

1: It is a purchase transaction for the bank. Hence inter-bank purchase rate of Rs.45.10 will be used. Bank will deduct the purchase margin of 0.15%. Gross amount = 45.10 x 10000 = 451000:

Net amount which will be credited to customer's account = 451000 - 676.50 (0.15% margin) = 450323.50

Case 4

A customer wants to book the following forward contracts:

(1) Forward purchase of USD 50000 for delivery 3$^{1.d}$ month(2) Forward sale of USD 50000 for delivery 2nd month.

Given spot rate = 45.1000/45.1200. Premium = 1 m - 0800/0900, 2m - 1700/1900 and 3 m - 2800/2900. Exchange margin = for purchase - 0.20% and for sale - 0.25%.

01 What is the rate for forward purchase transaction:

a) 45.4233 b) 45.2705 c) 45.1795 d) 45.1700

02 What is the rate for forward sale transaction:

a) 45.4233 b) 45.3243 c) 45.4882 d) 45.3456

Ans. 1-c 2-a Explanations:

1. For purchase the spot rate = 45.1000

Add 2 m premium = 00.1700 (premium for 2 months only to be added in purchase as bill may be given on any day of 3rd month including on 1^{3t} day) Total = 45.2700

Less margin of 0.20% = 00.0905 Rate = 45.1795

2. For sale the spot rate = 45.1200 Add 2 m premium = 00.1900 (premium for full period of 2 months only to be added in sale) Total = 45.3100 Add margin of 0.25% = 00.1133 Rate = 45.4233

Case 5

Following are the Inter bank quotes on a certain date: Spot USD 1NR 44.60/65

1 month 8/10 2 month 18/20 3 month 28/30

Spot GBP USD 1.7500/7510 1month30/20 2-month50/40 3month70/60

All the above differences are for the month and fixed dates and the bank margin is 3 paise.

01 An exporter has presented an export demand bill (sight document) for USD 300000 under irrevocable letter of credit. What will be the rate at which the documents will be negotiated?

a) 44.5700 b) 44.6000 c) 44.6500 d) 44.6800

02 An Exporter has submitted 60 days usance bill for USD 25000 for purchase. At what rate the document will be purchased?

a) 44.7500 b) 44.7800 c) 44.8400 ' d) 44.8700

03 Your bank has opened a letter of credit for import at the end of 2 months for GBP 30000. At what rate, the forward exchange will be booked?

a) 78,4700 b) 78,4725 c) 78,6300 d) 78,6325

04 If the exchange margin is 3 Paise for buying as well as selling, what is the bank's spread in % on customer transaction?

a) 0.2465 b) 0.3000 c) 0.6000 d) 0.6275

05 A customer tenders export bill for GBP 10,00,000 payable 45 days from sight. The transit period is 15 days he wants to retain 10% of bill value in the foreign currency. Bank's margin is 10 paise. What will be credited to customer's account?

a) 71310030 b) 70317630 c) 70110270 d) 70018510

Ans. 1-a 2-a 3-b 4-a 5-b

Explanations:

1. It is a demand bill which means the payment is immediate upon negotiation. So, spot rate will be applied, which is USD/INR SPOT 44.60/44.65.
   Being an export bill, from bank's point of view, it is a buying transaction. Hence Buying (Bid) Rate of 44.60 (and an inter-bank rate) will be applied. To arrive at the customer rate, the margin will be deducted.
   inter Bank Rate 44.6000 Less : Margin 00.0300 Customer Rate 44.5700
2. The payment terms in this case are 60 days usance. Hence, 2 months forward rate will be applied, which will be calculated as under:
   Spot USDIINR 44.6000/44.6500 Forward 2 Months 00.1800100.2000 (small/Big> Premium >Add)
   Total 2 Months 44.7800/44.8500 Being an export bill, from bank's point of view, it is buying of FC. Hence Buying (Bid) Rate will be applied, which is 44.78. To arrive at the customer rate, exchange margin will *be* deducted. Inter Bank Rate 44.7800
   Less: Margin 00.0300
   Customer Rate 44.7500
3. The fetter of credit is for 2 months. Hence, 2 months forward rate will be a applied which will be calculated on the basis of 2 Months GBP/INR rate through a cross rate (GBP/USD and USD/INR rates).
   USD/INR SPOT 44.6000/44.6500 Forward 2 Months 00.1800/00.2000 (Small/Big-> Premium->Add)
   Total 2 Months 44.7800/44.8500 GBP/USD SPOT 1.7500/1.7510
   Forward 2 Months 0.0030/0.0020 (Big/Small-> Discount ->Less) Total 2 Months 1.7470/1.7490

It is an import transaction and from bank's point of view, it is selling. Hence selling (offer) Rate will be applied.

GBP/INR = GBPIUSD x USD /INR = 44.8500 X 1.7490 = 78.44265

This *is* an inter-bank rate. To arrive at the customer rate, exchange margin will be added.

Inter Bank Rate 78.4427 Add: Margin 00.0300 Customer Rate 78.4727 rounded to 78.4725

4. USDANIR Spot 44.6000/44.6500 inter Bank Buying Rate 44.6000
   Less: Exchange Margin 00.0300 Merchant Buying Rate 44.5700
   Inter bank Selling Rate 44.6500 Add: Exchange Margin 00.0300
   Merchant Selling Rate 44.6800
   % Spread = ((Selling Rate-Buying Rate) X 100)1 /{(Selling Rate + Buying Rate)/2}
   =((44.68-44.57)X100))/{44.68+44.57)/21 = 00.11 X 100/44.625 = 0.2465 %
5. The Bill period is 45 Days. The transit period is 15 Days.

Total period is 2 months. Hence, 2 months forward rate will be applied. 2 Months GBP/INIR rate is required for which cross-rate will be calculated.

USD/INR SPOT 44.6000/44.6500 Forward Points 2 Months 00.1800/00.2000 (Small/Big-> Premium -> Add)

Spot 2 Months 44.7800/44.8500 GBP/USD SPOT 1.7500/1.7510

Swap Points 2 months 0.0030/0.0020 (Big/Small-> Discount->Less) Outright 2 Months 1.7470/1.7490
Being an export from bank's point of view, it is Buying. Hence Buying (Bid) Rate will be applied).
GBP/INRBID = GBP/USDBID X USD/INRSID = 44.7800 X 1.7470 = 78.2307
This is an inter-bank rate. To arrive at the Customer Rate, Exchange margin will be deducted.
Inter Bank Rate 78.2307 Less: Margin 00.1000 Customer Rate 78.1307
The bill is for 10,00,000 GBP. Of this, the customer wants to retain 10% in EEFC account. Hence he would be converting 9,00,000 GBP. For 9,00,000 GBP, his account would be credit with = 78.1307 X 900000 = Rs.70317630

Case 6

An importer customer, wants to retire an import bill of Pound Sterling 100000 drawn under letter of credit opened by you, and payable on demand on Oct, 12.2012. The TT margin is 0.10%. The inter-bank rates are GBP/USD = 1.5975/1.6000 and USD/1NR = Rs.44.90/45.00. On the basis of given information, answer the following questions.

01 What rate will be quoted by the bank for this transaction in terms of GBP/INR without taking into account the TT margin:
a) Rs.71.7276 *b)* Rs.71.9085 c) Rs.72.0000 d) Rs.72.0720
02 What rate will be-quoted by the bank for this transaction in terms of GBP/1NR after taking into account the TT margin:
a) Rs.71.7276 b) Rs.71.9085 c) Rs.72.0000 d) Rs.72.0720
03 What amount will be debited to cash credit or overdraft or current account of the customer for retirement of this bill:
a) Rs.7000000 b) Rs.7207200 c) Rs.7218300 d) Rs.7222070
04 If this bill is not retired by the importer customer, the crystallization of this import bill will be on which of the following dates:
a) Oct 12, 2012 b) Oct 21, 2012 c) Oct 22, 2012 d) Nov 12, 2012
Ans. 1-c 2-d 3-b 4-c
Explanations:

1. This is a sale transaction for the bank. Bank will purchase pounds (GBP) at market selling rate and will sell the USD to the customer to purchase pounds. The rate taken will be 1.6000 and 45.00. Hence the GBP/INR = 1.6000 x 45.00 = 72.00. Further bank will add margin of 0.10% which will be 0.0720. The total rate = 72.00 + 0.720. The customer would pay = 72.072 *x* 100000 = Rs.7207200
2. This is a sale transaction for the bank. Bank will purchase pounds (GBP) at market selling rate and will sell the USD to the customer to purchase pounds. The rate taken will be 1.6000 and 45.00. Hence the GBP/INR = 1.6000 x 45.00 = 72.00. Further bank will add margin of 0.10% which will be 0.0720. The total rate = 72.00 + 0.720= 72.072.
3. This is a sale transaction for the bank. Bank will purchase pounds (GBP) at market selling rate and will sell the USD to the customer to purchase pounds. The rate taken will be 1.6000 and 45.00. Hence the GBP/1NR = 1.6000 x 45.00 = 72.00. Further bank will add margin of 0.10% which will be 0.0720. The total rate = 72.00 + 0.720. The customer would pay = 72.072 x 100000 = Rs.7207200
4. The bill is to be paid on demand Le. Oct 12, 2012. As per FEDAI rule, where the demand import bills drawn under LC are not retired on demand, these are required to be crystallized within 10 days from the date of demand. Hence the latest date by which it should be crystallized is Oct 22, 2012. (For usance import bills the crystallisation will be done on due date.

Case 7

On Apr 15, 2012, XYZ Ltd expects to receive USD 20000 within July 2012. The company wants to book a forward contract for July 2012. The USD/1NR inter-bank spot rate is Rs.45.10/20. The forward premium is 18/20 paise for May, 31/33 for June and 45/47 for July. The margin to be retained by the bank is 0.10 paise per USD.

01 What is the FC rate at which the forward contract will be booked if the margin is not taken into account:
a) Rs.45.31 *b)* Rs45.41 c) Rs.45.55 d) Rs.45.57
02 What is the FC rate at which the forward contract will be booked if the margin is taken into account
a) Rs.45.31 b) Rs45.41 c) Rs.45.55 d) Rs.45.57
Ans. 1-b 2-a
Explanations:

1. For calculating the forward, the bank will take into account the forward premium for June as amount can be *received* on any day in July including f[t] July. Thus the premium amount *is* 31 paise. The rate would be:

Spot rate = 45.10 Forward premium for June = 00.31 (premium for July will not be paid as delivery is during July) Total = 45.41

2. For calculating the forward, the bank will take into account the forward premium for June as amount can be

received on any day in July including 1[st] July. Thus the premium amount is 31 paise. The rate would be:

Spot rate	=	45.10
Forward premi	=	00.31
Total	=	45.41
Less Margin	=	00.10
Rate to be	=	45.31

Case 8

The importer requests on Sep 01, 2012 to book a forward contract for payment of an import bill of USD 50000 due for *Dec* 15, 2012. Spot rate USD/INR = 45.10/20. Forward premium for Sep 10/14 paise, Oct 22/24 paise, Nov 33/35 paise, Nov to Dec 15-12/14 paise. Bank is to charge margin of 0.20%.

01 Without taking into account the margin, the rate that will be quoted by the bank is :

a) Rs.45.2000 b) Rs.45.5500

c) Rs.45.6900 d) Rs.45.7814

01 By taking into account the margin, the rate that will be quoted by the bank is :

a) Rs.45.2000 b) Rs.45.5500

c) Rs.45.6900 d) Rs.45.7814-

Ans. 1-c 2-d

Explanations:

1. This is FC sale transaction. Hence bank will use the Spot rate = 45.20. and premium up to Dec 15, will be added. The rate would be:45.20 margin of 0.20% i.e. 0.09138 is added, the rate would be = 45.7814.

   To calculate the rate Nov premium + 0.35 + 0.14 = 45.69. When the

2. This is FC safe transaction. Hence bank will use the Spot rate = 45.20. and premium up to Dec 15, will be added. The rate would be:45.20 margin of 0.20% i.e. 0.09138 is added, the rate would be = 45.7814.

   To calculate the rate Nov premium + 0.35 + 0.14 = 45.69. When the

Case 9

Your correspondent bank in UK wants to credit Rs.50 million in its NOSTRO account maintained by you in New Delhi. The bank is ready to credit the equivalent USD in you NOSTRO account in London. The inter-bank rate is USD rate is Rs.45.10/15. If exchange margin is ignored, how much amount, the correspondent bank will credit to the NOSTRO account in London and at what rate.

a 1108647.45 b. 1107419.71 c 1107022.13 d. inadequate information to make the calculation.

Ans. 1-a

Explanations:

For the bank, it is a purchase transaction as bank is purchasing dollar and giving rupee. Hence the rate that will be applicable is Rs.45.10. The FC value of Rs.50 million = 50000000/45.10 = 1108647.45.

Case 10

M/s XYZ imported goods worth Japanese Yen (JPY) 50 million. They request to remit the amount. The USDANR rate is Rs.45.1500/1700 and USD/JPU is 91.30/50. The bank will load a margin of 0.20%.

01 What rate will be quoted (per 100 yen)?

a) Rs.49.0456 b) Rs.49.4743 c) Rs.49.5730 d) Rs.49.8712

02 What amount the importer has to pay in Indian currency?

a) Rs.2472100 b) Rs.2478500 c) Rs.2428400 d) Rs.2408300

Ans. 1-c 2-b Explanations:

1. JPY is to be sold against rupees for which no direct rate is available. It will be calculated as a cross rate. Bank need to buy JPY against USD *and* USD against rupees. Hence the following rate will be used for USD/INR 45.1700 (the market selling rate) and for USD/JPY 91.30 (the market selling rate being lower in this case).
   Rate = 45.1700/91.30 = 0.494743 and for JPY 100 the same will be Rs 49.4743 (As per FEDAI Rules, JPY is quoted as per 100 yen)
2. JPY is to be sold against rupees for which no direct rate is available. It will be calculated as a cross rate. Bank need to buy JPY against USD and USD against rupees. Hence the following rate will be used for USD/INR 45.1700 (the market selling rate) and for USD/JPY 91.30 (the market selling rate being lower in this case).
   Rate = 45.1700/91.30 = 0.494743 and for JPY 100 the same will be Rs 49.4743 (As per FEDAI Rulet, JPY is quoted as per 100 *yen).*
   To this margin of 0.20% will be added which works out to 0.0989.
   Hence the rate will be 49.4743 + .0989 = 49.5732 rounded of to 49.5730
   Total Rupee payment = 5,00,00,000 x 49.573/100= 24786500

Case 11

Bank had booked a forward purchase contract 3 months back at Rs.45.60, for delivery 3 days later for USD 10000. Due to delay in realization of export bill, the customer has requested-for cancellation of the contract and re-book it for one month fixed date or option contract beginning one month from spot date. The inter-bank spot rate is 45.2000/2200. One month forward premium is 0800/1000 paise. The TT selling and buying margin 0.20%

01 What will be the rate at which the contract will be cancelled:

a) 45.2200 b) 45.2000 c) 45.3104 d) 45.3908

02 What amount will be debited or credited to customer account being difference:

a) Rs.3202 debited b) Rs.3202 credited c) Rs.2996 credited d) Rs.2996 debited

03 At what rate, the contract would be re-booked:
a) 45.2200 b) 45.2000 c) 45.3104 d) 45.3908

Ans. 1-c 2-c 3-c Explanations:

1. The contract will be cancelled at TT selling rate i.e. 45.2200+0.20% margin i.e 0.0904 = 45.3104
   The amount at contracted rate of 45.60 = 45.60 x 10000 = 456000 The amount at cancelled rate of 45.3104=453104
   Difference = Rs.2996, which would *be* credited to customer account.
2. The contract will be cancelled at TT selling rate i.e. 45.2200+0.20% margin = 0.0904 = 45.3104
   The amount at contracted rate of 45.60 = 45.60 x10000 = 456000 The amount at cancelled rate of 45.3104=453104
   Difference = Rs.2996, which would be credited to customer account.
3. For booking of contract, the spot rate = 45.2000
   Add one month premium = 00.0800
   Total = 45.2800
   Less inter-bank margin at 0.20% = 00.0905
   Rate = 45.1895

FOREX RISK MANAGEMENT

Case- 12

international Bank successfully contracted an FCNR (B) deposit of 10 million USD for a period of 5 years. Out of these funds, the bank retains USD 4 million as deposit with a high rated US bank in its NOSTRO account and converts the remaining amount to Indian currency at prevailing USD rate = Rs.46. On the basis of the given information, answer the following questions:

01 f the foreign currency rate moves to Rs.46.50:
a) the bank.will gain Rs. 3 mio (million) b) the bank will lose Rs. 3 mio (million)
c) the bank will gain Rs.6 mio (million) d) the bank will lose Rs.6 mio (million)

02 What type of position the bank is having presently after this transaction?
a) an oversold position of USD 4 million b) an oversold position of USD 6 million c) an overbought position of USD 6 million d) an overbought position of USD 6 million

03 If the foreign currency rate moves to Rs.45.00:
a) the bank will gain Rs. 3 mio (million) b) the bank will loss Rs. 3 mio (million) c) the bank will gain Rs.6 mio (million) d) the bank will loose Rs.6 mio (million)

04 The square its position, the bank will have to undertake which of the following transaction?
a) Acquire USD assets of at least USD 6 million b) Acquire USD assets of at least USD 4 million
c) Acquire USD liabilities of at least USD 4 million d) Acquire USD liabilities of at least USD 6 million

05 If the bank decides to invest the amount received as FCNR deposit in a 3-year US govt. security at 6 months LIBOR related rate of interest, the bank faces the following type of risk?
a) foreign exchange risk b) liquidity risk c) basis risk d) no risk

Ans. 1-b 2-b 3-c 4-a 5-c

CASE STUDIES ON LETTER OF CREDIT

Case 1

M/s Exports Private Limited have received a letter of credit for export-of textile items for an amount of $ 50000 approximately. The company manufactured the goods, made the shipment and presented the documents for negotiation to the negotiating bank for a total invoice value of $ 52356. The negotiating bank refused to negotiate the document as the amount exceeded the amount of letter for credit. What is the position of exporter in the given situation:

a) Negotiating bank has all discretion to point out any discrepancy. Hence, it need not pay.
b) The discrepancy pointed out by the negotiating bank is not correct. Hence it should pay.
c) The negotiating bank should seek advice of the opening bank in such matters
d) The information given is incomplete to take a decision.

Answer:

Solution : The decision of the negotiating bank in refusing to negotiate. the documents on the basis of variation in the amount is not correct. As per Article 30 of Uniform Customs and Practices for Documentary Credits 600, the words "about" or "approximately" used in connection with the amount of the credit or the quantity or the unit price stated in the credit, are to be construed as allowing a tolerance not to exceed 10% more or 10% less, than the amount, the quantity or the unit price to which they refer.

Hence the amount stated in the invoice is well within the tolerance of 10% and objection raised by the bank is not correct.

Case 2

M/s Exports Private Limited received a letter of credit for export of certain products but the letter of credit does not state the quantity in terms of a stipulated number of packing units or individual items. The exporter manufactured the goods and presented the documents for negotiation which have been negotiated by the negotiating bank. However, the opening bank refused to honour the documents on the premise that there is variation of around 3 percent in the quantity of goods supplied. The negotiating bank demands the return of money from the exporter. What is the exporter's position in this case:

a) Once the documents have been found correct, the negotiating bank cannot ask for refunds of the money from the beneficiary
b) If the applicant refuses to pay, the beneficiary will have to return the money
c) The objection raised by the opening bank is justified and this should have been seen by the negotiating bank before hand
d) The opening bank's objection is not justified and it has to pay the documents

Answer:

Solution: The demand of the negotiating bank for refund of the money from the exporter is not justified. As per provisions of Artide 30 of Uniform Customs and Practices for documentary Credits (UCPDC-600), a tolerance not to exceed 5% more or 5% less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the, credit. In the given case, the quantity variation falls within the tolerance level. The negotiating bank, instead of seeking refund from the exporter should take up the matter with the issuing bank for payment.

Case 3

International Bank, New Delhi received a letter of credit issued by a bank in UK in favour of M/s Exports Private Limited, a customer of International Bank. The negotiation is restricted to International Bank. On the date of receipt of LC, riots took place in the locality Where the branch of the bank is located. As a result the LC could not be advised by the bank to the exporter immediately. Later on when the situation became normal the bank advised the LC to the exporter but by that time the expiry date for negotiation of documents had expired. The exporter insists on negotiation of documents by the International Bank, as delay is not on the part of the exporter but on the part of International Bank. What is the position of the International Bank vis-à-vis the exporter in the given situation:

a) International Bank is liable due to which it should negotiate the documents
b) Exporters Pvt Limited has the right to get the payment of the documents
c) International Bank is not liable
d) Given information is not enough to take any decision

Answer: c

Solution: The insistence of the exporter to negotiate the documents is not correct when the date of negotiation of the LC has expired. As per Article 36 of Uniform Customs and Practices for Documentary Credits (UCPDC 600), a bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes.or lockouts or any other causes beyond its control. A bank will not, upon resumption of its business, honour or negotiate under a credit that expired during such interruption of its business. Under the given circumstances, the bank has no obligation to negotiate the documents and make the payment since the credit has-expired. The beneficiary has to get the negotiation date extended by amendment of the LC.

Case 4

M/s Exports Private Limited have received a letter of credit in their favour for export of certain goods to UK. The date of expiry of the credit is around 31st December 2011. Since the process involved in manufacturing of goods was little longer, the exporter could present the documents for negotiation on 3rd January 2012. The documents were negotiated by the negotiating bank under reserve to which the exporter objected. In the opinion of the exporter, there is no deficiency in the documents and in the opinion of the bank, the documents have not been presented for negotiation in time. What is the position of the bank and the exporter:

a) Bank has to negotiate the documents as it gets 5 banking days to check the documents and the documents have been presented during that period.
b) The beneficiary has the right to present the documents within 5 calendar days since date is written as around Dec 31. Hence, the negotiating bank cannot refuse payment
c) The bank is not under obligation to negotiate the document as the last date for negotiation is over
d) The bank should seek instruction of the opening bank and applicant and move accordingly.

Answer:

Solution: The stand taken by the bank that the documents have been presented after expiry date, is not correct. As per Article 3 (Interpretations) of Uniform Customs and Practices for Documentary Credits (UCPDC 600), the expression 'ton or about" or similar, will *be* interpreted as a stipulation that an event is to occur during a period of five calendar days before until five calendar days after the specified date, both start and end dates included. The documents have been presented by the exporter within 3 calendar days after the specified date i.e. Dec 31, 2011. Hence, the bank should negotiate the documents if otherwise in order.

Case 5

Popular Bank issued an LC of USD 50000 on Jan 05, 2012, in favors of John and John of London. The last date for shipment is Jan 15 and last date for negotiation is Jan 31, 2012. The goods were shipped on Jan 02, 2012 and documents were presented for shipment by the beneficiary for negotiation to South Hall Bank on Jan 14, 2012, which were negotiated on Jan 16, 2012. When the documents were sent to Popular Bank for reimbursement by the South Hall Bank, the opening bank found the following discrepancies:

1. The date of shipment as Jan 02, 2012 while the date of LC was Jan 05, 2012.
2. The date of invoice was Jan 03, 2012 and date of packing list and inspection certificate was Dec 31, 2011. The opening bank returned the documents to the negotiating bank.

a) The return is not justified due to which the negotiating bank should send the documents back to opening bank for payment
b) The return is justified, as the date of LC is subsequent to date of documents
c) The return is justified, as the date of different documents is different
d) The opening bank should seek opinion of the applicant and then take decision

Answer: a

Solution: The discrepancies pointed out by the opening bank are not justified. As per Article 14 of UCPDC 600, *the* documents under an LC can be dated prior to the date of LC but these should not be dated later than the date of presentation. Further, Data in **a** document, when read in context with the credit, the document itself and international standard banking practice, need not be identical to, **but** must not conflict with, data in that document, any other stipulated document or the credit. Therefore, if the documents do not carry any other discrepancy, the opening bank or the applicant cannot refuse payment, on this basis.

Case 6

An LC provides for shipment of 500 pieces of trousers in 200 cartons. It also provides that partial shipment is not allowed. The beneficiary hands over 100 cartons to the shipping company on Jul 10 *and* another 100 cartons on Jul 16. Two bills of fading with dates Jul 10 and Jul 16, are issued. The cartons are to be carried in a single vessel to sail on Jul 20.

The documents are negotiated by the negotiating bank but these are returned back by the opening bank, stating that the LC did not permit partial shipment:

a) Opening bank cannot be forced to pay because the part shipment is not permitted
.b) Opening bank should pay, as it is not partial shipment, since vessel is one
c) By negotiating defective documents, the negotiating bank has made mistake, hence it cannot force the
- opening bank to reimburse

d) Negotiating bank has made mistake. It should recover the payment from the beneficiary

Answer:

Solution: As per Article 31 of UCPDC 600, documents with 2 or more sets of transport documents covering shipment of goods on the same means of transport and same journey, are not considered partial shipment. Hence, the stand taken by the opening bank is not correct.

Case 7

Universal Bank (the issuing bank) received the documents under LC from Popular Bank (the negotiating bank) on Dec 22 (Tuesday). **It** took one day to check the documents and forwarded the documents for acceptance by the applicant. On Dec 29, the applicant pointed out that the insurance policy was in a currency different from the one as mentioned in LC. (Dec 25 was a holiday due to Xmas and Dec 27 was Sunday). The opening bank immediately informed the negotiating bank about this discrepancy by way of an Email and sought directions for disposal of the documents. The negotiating bank pointed out that the opening bank could convey the objection if any, within 5 days and not later, due to which it should make the payment:

a) Observation made by the negotiating bank is not correct. It has received the objection in time.
b) Observation made by the negotiating bank is correct. Opening bank has conveyed the objection 2 days late.
c) Observation made by the negotiating bank is not correct. It should convey this to the beneficiary and recover the amount
d) Loss would be to the account of applicant, as he took more than 5 days.

Answer: a

Solution: As per Article 16 of UCPDC, the issuing bank gets 5 banking days to determine whether the documents carry discrepancy or not. Dec 25 being Xmas holiday and Dec 27 being Sunday (which are to be excluded from counting), the issuing bank conveyed the discrepancy within 5 banking days. Hence negotiating bank cannot refute the claim of the opening bank.

EXPORT FINANCE

Case- 8

An exporter approaches the popular bank for pre-shipment loan with estimated sales of Rs.100 lakh. The bank sanctions a limit of Rs.50 lakh, with following margins: Pre-shipment loan on FOB value — 25%; Foreign Demand Bill -10%; Foreign usance bilis —20%.

The firm gets an order for **USD 50,000** (CIF) to Australia. On 1.1.2011 when the USD/INR rate was Rs.43.50 per **USD,** the firm approached the Bank for releasing pre-shipment loan (PCL), which is released.

On 31.3.2011, the firm submitted export documents, drawn on sight basis for USD 45,000 as full and final shipment. The bank purchased the documents at Rs.43.85, 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 30.4.2011 after deduction of foreign bank charges of USD 450. The bank adjusted the outstanding post shipment advance. against the bill. Bank charged interest for pre-shipment loan @ 7% up to 90 days and, @ 8% over 90 days up to 180 days. For Post shipment credit, the Bank charged interest @ 7% for demand bills and @7.5% for usance (D/A) documents up to 90 days and @ 8.50% thereafter and on all over dues, interest @ 10%.

01 What is the amount that the Bank can allow as PCL to the exporter against the given export order, considering the profit margin of **10% and** insurance and freight cost of 12%?

a) Rs.2200000 b) Rs.1650000 c) R6.1485000 d) Rs.1291950

02 What is the amount of post shipment advance that can be allowed by the Bank under foreign bills purchased, for the bill submitted by the exporter?

a) Rs.19,80,000 b) Rs.17,75,925 c) Rs.19,73,250 d) Rs.21,92,500

03 What will be the period for which the Bank charges concessional interest on DP bills, from date of purchase of the bill?

a) 90 days b) 25 days c) 31 days d) Up to date of realization

04 in the above case, when should the bill be crystallized (latest date), if the bill remains unrealized for over two months, from the date of purchase (ignore holidays)?

a) On 30.4.2011 b) On 24.4.2011 c) On 24.5.2011 d) On 31.5.2011

05 What rate of interest will be applicable for charging interest on the export bill at the time of realization, for *the* days beyond Normal Due Date (NDD)?

a) 8% *b) 7%* c) 7.5% d) 10%

Ans. 1-d 2-c 3-b 4-c 5-d Explanations:

1. FOB value =

CIF Value i.e. 50000x43.5 =		2175000
Deduct Insurance & freight 12% of 2175000	=	261000
Balance	=	1914000
Deduct profit margin 10% of 1914000	=	191400
Balance	=	1722600
Less Margin 25%	=	430650
PCL	=	1291950

2. 45000 x 43.85 = 1973250
3. Concessional rate will be charged for normal transit period of 25 days and there after overdue interest will be charged.
4. Crystallisation will be done when the bill becomes overdue after 25 days of normal transit period. Date of overdue will be 25.4.2011. if bill remains overdue, it will be crystalised within 30 days i.e. up to 24.5.2011.
5. Rate of interest will be 10% as the overdue interest is stated as 10% in the question.

4. MODULE B : RISK MANAGEMENT

TEST YOURSELF : MCQ ON RISK MANAGEMENT, RISK & BANKING BUSINESS

1. Risk is defined as uncertainties resulting in:

a) Adverse outcome, adverse in relation to planned objectives or expectations
b) Adverse variation of profitability or outright losses (financial risk)
c) Both (a) & (b) d) None of these

2. Financial Risk is defined as

a) Uncertainties in cash flow b) Variations in net cash flow
c) Uncertainties resulting in outright losses
d) Uncertainties resulting in adverse variation of profitability e) Both (c) & (d)

3. Uncertainties in cash inflows and / or outflows create uncertainties in:

a) net cash flow b) profits c) Both (a) & (b) d) none of these

4_ Which of the following is not correct?

a) Lower risk implies lower variability in net cash flow
b) Higher variability in net cash flow may result in higher profits or higher losses
c) Higher risk would imply higher upside and downside potential
d) Zero risk would imply no variation in net cash flow e) None of these

5. Return on zero risk investment would be ----as compared to other opportunities available in the market ; a) high ,b) low c) medium d) higher or low depending upon type of investment Strategic risk is a type of : a) exchange risk b) liquidity risk c) interest rate risk d) operational risk e) none of these

6. Investment in RBI bonds at 6.5% interest rate with a maturity of 5 years is investment.

a) zero risk b) lower risk c) medium risk d) high risk

7. The capital requirement of a business would be lower when there is :

a) lower variation in net cash flow b) lower risk
c) lower possibility of loss d) all of these e) none of these

The key driver in managing a business is seeking enhancement in –
a) Return on investment b) Risk Management capability
c) risk adjusted return on capital d) all of these e) None of these
8. Risk adjusted return on investment is:
a) Netting risk in a business or investment against the return from this
b) Managing risk on investments
c) Managing-return on investment through risk management
d) Adjusting return on investment against the risk
11.An investment will be more preferred and higher will be the reward to investors when:
a) RAROC is higher b) RAROC **is** lower c) RAROC is one d) none of these
12.The banking book is generally not exposed to : a) liquidity risk b) interest rate risk c) credit risk
d) operational risk e) None of these
13.Which of the following is / are characteristics of the assets held in Trading Book?
a) They are normally not held until maturity
b) They are normally held until maturity and accrual system of accounting is applied
c) Mark to market system is followed d) Both (a) & (c) e) Both (b) & (c)
14.Trading book is mainly exposed to
a) Market Risk b) Market Liquidity Risk c) Credit Risk
d) Operational Risk e) All of these
15.The transactions relating to guarantees, letters of credit, committed or back up credit lines form part of a) Banking Book b) Trading Book, c) Off Balance Sheet Exposures d) All of these
16.The liquidity risk of banks arises from :
a) Funding of long term assets by short term liabilities
b) Funding of short term assets by long term liabilities
c) Funding of long term liabilities by short term assets
d) None of these
17. Funding liquidity risk is defined as:
a) Excess of liabilities over assets
b) Excess of long term liabilities over long term assets
c) Excess of short term liabilities over short term assets
d) Inability to obtain funds to meet cash flow obligations
18. Liquidity risk in banks manifest in different dimensions. Which of the
a) Funding risk arises from the need to replace net outflows withdrawal / non renewal of deposits
b) Time risk arises from the need to compensate for non receipt funds e.g. NPA
c) Call risk arises due to crystallization of contingent liabilities
d) Both (a) & (b) e) None of these
19.Where an asset maturing in two years at a fixed by a liability
risk will be: a) Basis risk b) Yield curve riskc) Gap risk d) embedded option Risk
20.The risk of adverse variance of the mark to market value of change in market prices of interest rate instruments, equities, is called: a) Price Risk b) Market Risk c) Translation Risk d) Both a & b
21.In the financial market bond prices and yields are
a) inversely related b) directly related ,
c) inversely or directly related depending on type of bond d) none of these
22.When a bank is unable to conclude a large transaction in a particular instrument near the current market price, it is called as a) Market risk b) Market Liquidity risk c) Default risk d) counter party risk
23.Potential of a bank borrower or counterparty to fail to meet its obligations according to agreed terms is called: a) credit risk b) default risk c) market liquidity d) market risk e) either (a) or (b)
24.The risk related to non performance of the trading partners due to counter party's refusal
and or inability to perform is called ------risk : a) Liquidity, b) Operational , c) Counter Party , d) None
25. Country risk is an example of
a) Market risk b) Credit risk c) Operational risk d) Liquidity risk
The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events is called as risk
a) legal b) compliance c) Fraud d) Operational
26. Which of the following is not a operational risk?
a) Compliance risk b) Transaction risk c) Legal Risk

d) Counter party risk e) System risk

27. Strategic Risk and Reputation Risk fall in the category of

a) Market risk b) credit risk c) Operational risk d) none of these

Risk arising from fraud, failed business processes and inability to maintain business continuity : a) Transaction risk b) compliance risk c) credit risk d) none of these

28. Risk of legal or regulatory sanction, financial loss or reputation loss that a bank may suffer as a result of its failure to comply with any or all of the applicable laws, regulations etc. is called as:

a) Transaction risk b) Compliance risk, c) legal risk d) Systems risk

31.Risk arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes is called:

a) Reputation risk b) Strategic risk c) Operational risk d) Management risk

32. Reputation Risk which arises from negative public opinion may result in:

a) exposing an institution to litigation b) financial loss

c) decline in customer base d) all of these e) none of these

33.Risk associated with a portfolio is always less than the weighted average of risks of individual items in the portfolio due to

a) Diversification of risks
b) The fact that all accounts in a portfolio will not behave in unidirectional manner
c) The fact that risks in all the accounts in a portfolio will not materialize simultaneously,
d) Both (a) & (b) only e) All of these

34.Aggregated risk of the organizations as a whole is called:

a) Transaction risk b) Portfolio risk c) Total risk d) None of these

ANSWER : TEST YOUR SELF – RISK AND BANKING BUSINESS

1	A	2	E	3	C	4	E	5	B	6	E	7	A	8	D	9	C	10	A
11	A	12	E	13	D	14	E	15	C	16	A	17	D	18	E	19	C	20	D
21	A	22	B	23	E	24	C	25	B	26	D	27	D	28	D	29	A	30	B
31	B	32	D	33	E	34	B												

TEST YOURSELF : MCQ ON MARKET RISK

1) Risk may be defined as:
a) Uncertainties resulting in adverse outcome
b) Adversity may be in connection with planned objective or expectation
c) When there is an adverse situation in terms of profitability is called financial risk
d) All the above

2) Which of the following Risk Factors may affect the Business adversity
a) Sales volume and sales price b) Purchase Price
c) Administrative expenses d) All these

3) The features of Zero Risk are:
a) It does not have any uncertainty with it
b) There is no variation in net cash flow
c) Return on such investment would be lower d) All these

4) Which of the following instruments do not contain Zero Risk?
a) Investment in Shares
b) Investment in Bonds and Debentures
c) Investment in Term Deposits
d) Investment in Government Bonds

5) Which of the following statements is not correct?
a) Large variation in net cash flows happens in the Business with higher Risk.
b) Capital requirement would be lesser in higher Risk Business
c) The profit potential would be lower in a Business with a lower Risk
d) Lower the variation in net cash flow lower the Risk

6) What is Risk Adjusted Returns on investment?
a) It is the process where a Risk in a Business or investment, is netted against the returns from it. ,
b) Higher the Risk Adjusted Return on capital higher is the reward for investors.
c) The investors would have more performance for such investments d) All these

7) A Bank may face the following Risk:

a) Balance Sheet Risk b) Transaction Risk c) Operating and Liquidity Risk
d) All these
8) The factors contributing to Balance Sheet Risk are:
a) Mismatch between the currency b) Maturity and interest rate pattern
c) Structure of Assets and Liabilities d) All these
9) The Balance Sheet Risk may result in:
a) Interest rate mismatch Risk b) Liquidity Risk
c) Foreign Exchange Risk d) All these
10) Which of the following is not a Transaction Risk?
a) Mismatch in Assets, and Liabilities portfolio b) Credit Risk
c) Price Risk d) Instrument Risk
11) The features price Risk are:
a) It includes the risks of loss due to the change in value of Assets and Liabilities
b) It also includes market risk due to fluctuations in price of Assets in the market.
c) This may happen on account of Issuer Risk which depends on the financial strength of the issuer d) All these
12) Which of the following contributes to Instrument Risk?
a) The nature of hybrid instruments in the market.
b) Fluctuations in the market conditions
c) The prices of various instruments may react differently from one another d) All these
13) Which of the following is not market liquidity Risk?
a) Lack of liquidity of an instrument or Asset in time.
b) The financial strength of an instrument.
c) The loss may occur due to fluctuations in the market price at the times of liquidating.
d) All these
14) Which of the following may affect the yield on Assets?
a) Commodity prices b) Interest rates c) Exchange rates d) All these
15) The operating and liquidity risk may be on account of:
a) Failure of execute or settle a transaction
b) Adverse changes in the cash flows of transactions
e) (a) and (b) both d) None of these
16) The objectives of Risk management are:
a) Survival of an organization b) Earning stability
c) Efficiency in operations d) All these
17) Which of the followings is not an objective of Risk management?
a) Uninterrupted operations b) Higher deposit growth
c) Continued growth d) Creating good image
18) What is Risk management?
a) It is the process of identifying and controlling the Risk
b) The process includes measurement of Risk
c) Monitor and control of Risk is also an important aspect of Risk management. d) fill
19) The major components of Risk management are:
a) Risk identification b) Risk measurement c) Risk control d) All these
20) Payment and Settlement Risk may be on account of:
a) Payments and collections b) Funds transfer c) Clearing and settlement
d) All these
21) Risk in trading securities may arise from the following activities:
a) Foreign exchange transactions b) Equity holding
c) Lending and Repos d) All these
22) Which of the followings is not an agency service of the Bank?
a) Extending credit cards b) Escrow c) Depository Receipts d) Securities fending
23) What is the Off Balance Sheet Risk?
a) It is contingent in nature.
b) It can occur on account of issue of guarantees committed credit lines and issue of letter of credit.
c) Bank's commitment may happen on account of failure to meet, payment obligations
d) All the above
24) The significance of contingent liability is:

a) It adds to the Revenue generation of the Bank
b) Banks may also have Contingencies Receivables
c) The Bank is obliged to meet the commitment only on account of failure to meet the obligation by the person on whose behalf bank has commitment d) All these
25) Derivative Risks are Off Balance Sheet and include the following:
a) Swaps b) Futures c) Forward contracts d) All these
26) What kinds of Risks Off Balance Sheet exposure may have?
a) Liquidity Risk b) Interest Risk c) Market Risk d) All these
27) Which of the following statements is correct?
a) Contingency exposure may become fund based exposure.
b) It can be a part of Banking Boa ˉor Trading Book
c) It may include credit Risk d) All these
28) Which of the following statements is not correct?
a) Off Balance Sheet exposures may become fund based exposure base0 OAF ceitoin contingencies.
b) Where Bank provides payment they are known as contingencies given.
c) Off Balance Sheet exposure may not have Interest Risk
d) Where Bank is the Beneficiary, it is known as receivable contingencies.
29) The feature of liquidity risk are:
a) It may arise from funding of long term assets by short term liabilities
b) The liabilities are subject to Refinance Risk
c) Funding liquidity is inability to obtain funds to meet cash flow obligations **d)** All these
30) Which of the following statements is correct?
a) The funding Risk may arise from the need to replace net outflows due to unanticipated withdrawals of deposit.
b) Time risk arises when performing Assets turn into non-performing Assets
c) Call Risk arises due to crystallization of contingent liabilities d) All these
31) The features of Interest Rate Risk are:
a) It is an exposure of Bank's financial condition to adverse movements in interest rates.
b) It has direct effect on Net Interest Margin.
c) It may also affect the market value of Equity d) All these
32) Which of the followings is not a mismatch Risk?
a) Holding Assets and Liabilities with different maturity dates and amount
b) Adverse movement in Interest Rate
c) When liability is repriced on a maturity date and this causes variation in the Interest Rate
d) All the above
33) What is Yield Curve Risk?
a) When two different instruments maturing at different time horizon for pricing Assets and Liabilities.
b) There may not be parallel movement in the Interest Rates of both of the instruments.
c) Non parallel movement in the Yield Curve may affect the Net Interest Income
d) All the above
34) Which of the following statements is correct regarding Yield Curve Risk?
a) When Interest Rates are floating Banks may price Assets and Liabilities on different instruments such as Treasury Bills, Call Money Rates, MIBOR etc.
b) A Bank needs to evaluate the movement in Yield Curves and impact of the curve on portfolio value and income
c) If a liability is raised through 91 days T Bill and is used to fund on Asset for 364 days it could be a Yield Curve Risk d) All these
35) The features of Basis Risk are:
a) When interest rates of different Assets, Liabilities and Off Balance Sheet items change in different magnitudes it is called Basis Risk.
b) When Interest Rates of Asses rise in different magnitudes as compared to interest rate on corresponding liability which may result in variation Net Interest Income, it would be known as Basis Risk.
c) The Basis Risk is quite visible in a Volatile Interest Rate Scenario. d) All these
36) Which of the followings is not correct regarding the Basis Risk?
a) When a variation in the market interest rate effects Net Interest Income to expand it will have unfavorable basis shifts.
b) When interest rate movement causes Net Interest Income to contract the basis would have moved against the Bank.
c) The loan portfolio is funded out of a composite liability portfolio, this causes higher degree of Basis Risk d) None of these
37) The features of Embedded Option Risk are:

a) When a Bank is exposed to Risk due to prepayment of a loan and premature withdrawal of term deposit it is called Embedded Option Risk.
b) This can be experienced in volatile situations.
c) The greater the magnitude of changes in interest rate the higher will be the Embedded Option Risk. d) All these

38) Which of the following statements is not correct regarding Embedded Option Risk?
a) This results in reduction of projected cash flow,
b) It does not affect the Bank's income.
c) The risk may arise due to premature exercise of call/put options.
d) The withdrawals of deposits before maturity date would also cause Embedded Option Risk.

39) What is Reinvestment Risk?
a) When Interest Rate at which the future cash flows can be reinvested are uncertain it is called Reinvestment Risk.
b) Any mismatch in cash flows will expose a Bank.
c) Since the market interest rates move in different directions, it will have variation in net interest income d) All these

40) The features of Net Interest position Risk are:
a) When there are more earning Assets than paying liabilities, interest rate may arise if market interest rates adjust downwards.
b) It may result in reduction in Net Interest Income.
c) It will have an impact on the economic value of Bank's Assets d) All these

41) What are the features of Price Risk?
a) When Assets are sold before their maturities it may result in Price Risk.
b) The Price Risk is closely associated with the Banks Trading Volume.
c) Bank may create such Trading investments out of short term movements in interest rates
d) All the above

42) Which of the following statements is not correct?
a) The Bond prices and yields are directly related.
b) Market Risk may apply for Pricing Risk for the Assets held in the Trading Book.
c) The Market Risk may also apply to foreign currency Risk d) None of these

43) What is Forex Risk?
a) A risk which may arise due to adverse exchange rate movements is called Forex Risk.
b) This occurs on account of an open position in spot or forward contracts.
e) It is applicable on an individual foreign currency. d) All these

44) A Counterparty Risk is:
a) It arises due to non-performance of the Trading partners where counterparty may refuse to perform.
b) It is treated as transient Financial Risk.
c) It is more associated with Trading. d) All these

45) The features of Country Risk are:
a) When a Risk arises due to imposition of restrictions by a country and a borrower is not able to perform the promise.
b) The Risk arises due to external factor.
c) A counterparty has no control on such Risk. d) All these

46) An Operational Risk can be defined as:
a) A risk resulting from lack of internal controls or systems is an Operational Risk.
b) Transaction Risk is also a part of Operational Risk.
c) Compliance Risk is also included in Operational Risk. d) All these

47) Which of the following statements is not correct?
a) Strategic Risk is the part of Operational Risk.
b) Any Risk which is not categorized as market risk may be Operational Risk.
c) Scope to Operational Risk is very wide.
d) Operational Risk may also arise due to external factors.

48) Which of the followings is not Operational Risk?
a) Fraud Risk
b) Adverse movement in Foreign Exchange Risk.
c) Communication Risk d) Documentation Risk

49) A Transaction Risk is:
a) Risk arising from fraud either internal or external.
b) It may be on account of failed Business processes.

c) When a Business is not able to maintain the continuity, it is known as Transaction Risk.
d) All the above
50) Which of the following statements is not correct?
a) Failed internal process is Transaction Risk.
b) When a Bank fails to comply with regulatory requirements, it may face Compliance Risk.
c) Compliance Risk is also known as Integrity Risk.
d) Reputation Risk is not the Operational Risk.
51) The non-compliance of the following may cause Compliance Risk:
a) Standards of good practice b) Codes of conduct
c) Compliance of applicable loans d) All these
52) Strategic Risk can be defined:
a) A Risk arising from adverse business decisions.
b) It is a function of compatibility of organizations strategic goals.
c) This is measured from resources deployed to reach goals and quality of implementation
d) All the above
53) Strategic Risk may arise due to:
a) Improper implementation of decisions
b) Lack of monitoring and control
c) Lack of responsiveness to industry changes . d) All these
54) The consequences of Reputation Risk may be:
a) Negative public opinion b) Decline in customer base
c) Financial loss to the organization d) All these
55) Which of the following statements is correct?
a) Since a Business have variations in cash flows which results in Risk.
b) The Risk in a Business may be measured by using standard deviation of past performance.
c) Standard deviation of risk may range from zero to one. d) All these
56) Financial Risk can be defined as:
a) Uncertainties in cash flow.
b) Uncertainties resulting in adverse variation of profitability.
c) A risk which may resulting outright losses.
d) Variations in Net Cash Flows.
57) Strategic Risk can be classified as:
a) Operational Risk b) Interest Rate Risk c) Forex Risk
d) None of these
58) Portfolio Risk is less than weighted average of individual Risks in the portfolio due to:
a) Diversification effect
b) Individual Risk do not materialize in an unidirectional manner
c) (a) and (b) both d) None of these
59) If a Bank funds its Assets from a pool of composite liabilities, it may face the following risk in addition to Credit and Operational Risk:
a) Basis Risk b) Mismatch Risk c) Liquidity Risk d) All these
60) When a Bank sanctions a loan to a large Borrower, which of the following risks it may not face?
a) Liquidity Risk b) Market Risk c) Credit Risk d) Operational Risk
61) The Risk mitigation measures may result in:
a) Reducing downside variability
b) Reducing upside potential
c) (a) and (b) both d) None of the above
62) If a depositor deposits in post office time deposit scheme, it is:
a) Zero Risk Investment b) Low Risk Investment c) Reasonable Risk Investment
d) High Risk Investment
63) If a Borrower repay a pre matured loan, a Bank may have the following Interest Rate Risk: a) Yield curve Risk b) Embedded Option Risk c) Basis Risk
d) Mismatch Risk
64) If a daily volatility of a stock is one percent what is the approximate volatility for 10 days? a) 3% b) 10% c) 1% d) 4%
65) Capital charge component of pricing Account for:

a) Internal generation of capital b) Cost of capital c) (a) and (b) both
d) Loss Premium

66) Which of the following financial instruments are included in trading transactions?
a) Debt securities b) Equity c) Forex instruments d) All these

671 Which of the following a Trading Book of a Bank does not consist?
a) Cash Reserve with RBI
b) Derivatives held for trading
c) Positions in financial instruments arising from matched market making.
d) Hedging positions

68) A Bank's Trading Book exposure may arise on account of the following :
a) Adverse changes in the interest rate.
b) Currency exchange rate unfavourable movements.
c) Market liquidity d) All these

69) Which of the following may be adversely affected due to Trading Book Risk?
a) Bank's Earnings b) Net Interest Margin c) Bank's Capital d) All these

70) The features of Earnings of market portfolio are:
a) Profit and loss arising from transactions.
b) The profit and loss between two dates is the variation of the market value.
c) Any decline in value results in a market loss. d) All these

71) What is Trading Liquidity?
a) It is ability to liquidate positions without affecting market prices.
b) Without attracting the attention of other market participants.
c) (a) and (b) both d) None of these

72) Liquidation Risk result in:
a) Average change in market price.
b) Inability to liquidate position at a fair market price.
c) Inability to liquidate position at any price. d) All these

73) Which of the following statements is correct?
a) Assets Liquidation Risk is a situation where a specific Asset faces lack of trading liquidity
b) Market Liquidation Risk is a situation where liquidity crunch is general
c) The above (b) affects trading liquidity adversity d) All these

74) The features of Credit Risk are:
a) Credit Risk of debt instruments is indicated by credit rating.
b) It indicates the Risk level associated with the debt instrument.
c) Lower the Risk level, lower is the spread over Risk Free Rate d) All these

75) The consequences of Credit Risk are:
a) When Rating of a financial instruments is lowered, the spread over the Risk Free Rate increases.
b) The price of the instruments is declined.
c) Where a default in payment of either the principal or interest occurs, market price of financial instruments deteriorates. d) All these

76) Which of the following statements is not correct?
a) Credit Risk may arise on account of default of the Issuer/Borrower.
b) Rating migration may not cause Credit Risk.
c) Deterioration of the credit quality of the instrument have adverse impact on the price of financial instrument d) None of these

77) Derivatives are:
a) Over the counter instruments.
b) They are not liquid as market instruments.
c) Banks hold derivatives until maturity. d) All these

78) Which of the following is not a derivative instrument?
a) Interest Rate Swap b) T. Bill c) Currency Swap d) Options

79) Which of the following statements is correct regarding Derivative?
a) Mark to market value of a derivative depends on market movements.
b) It is the present value of all future flows at market rates.
c) Hold to maturity risk is also known as counterparty risk d) All these

80) The current credit risk can be defined as:
a) It is a risk exposure in the current liquidation value.

b) Value of financial instrument varies depending upon market factors.
c) Credit risk amount varies with the change in the value d) All these
81) What is Settlement Risk?
a) In a financial market transaction one party pays money and receives the instruments.
b) The counterparty receives the money and parts with the instrument.
c) If any of the above transacting parties defaults it is known settlement risk.
d) All the above
82) Which of the following is true regarding settlement risk?
a) It is a systematic Risk.
b) There is much emphasis now a days on Risk free settlement.
c) In India we have now real time gross settlement system. d) All these
83) Which of the followings Market Risk Management Division does not consist?
a) Risk Management Committee
b) Asset Liability Management Committee
c) The Asset Liability Management Support Group d) All these
84) Which of the following are the responsibilities of Risk Management Committee?
a) Deciding prudential limits.
b) Evaluating Risk measurement models
c) Setting guidelines for market risk management. d) All these
85) What is sensitivity?
a) It indicates deviation of market price due to unit movement of a single market parameter.
b) If the liquidity in the market increases it would result in increased demand.
c) The increased demand may increase market price. d) All these
86) The market parameters which parameters which derive market value are:
a) Demand Supply Position b) Interest Rate c) Inflation d) All these
87) Which of the following is relevant to the measurement of sensitivity?
a) This indicates the degree of risk associated with the portfolio against the changes in interest rate.
b) It does not consider the impact of other parameters.
c) Sensitivity is more appropriate measurement to measure impact of interest rate changes
d) All the above
88) What is Basic Point Value?
a) It indicates the change in value due to one basis change in market yield.
b) It is a risk measurement tool.
c) Higher the Basic Point value, higher is the risk associated with the instrument.
d) All the above
89) Which of the following is not relevant regarding Basis Point value?
a) This helps to calculate profit or loss for a given change of yield.
b) Basis Point value does not change with the remaining maturity.
c) It may decline with time.
d) It can be zero on the day of maturity.
90) Which of the following is significant regarding Duration?
a) This concept was introduced by Frederick Mc Cauley.
b) It was proposed in 1938.
c) It describes bond's price sensitivity to yield change with a simple number.
d) All the above
91) Which of the following is correct regarding Duration?
a) The longer the duration of a security the greater will be the price sensitivity.
b) Bond price changes can be measured by using modified duration.
c) It is discounted by one period yield to maturity. d) All these
92) The Relationship of modified duration can be defined as:
a) % change in price + (-) modified duration multiplied by yield change.
b) Yield change
c) Change in market price and change in interest d) None of these
93) What is Downside Risk?
a) It is a comprehensive measure of risk as it integrates sensitivity and volatility with the adverse effect of uncertainty.
b) This is the most reliable model.
c) Downside potential only captures possible losses ignoring profit potential. d) All these

94) What is Value at Risk?

a) It can be defined as the loss amount accumulated over a certain period that is not exceeded in more than a certain percentage of all time.

b) It is defined as the predicted worst case loss at a specific confidence level over a certain period of time assuming normal trading conditions.

c) Value at Risk model relies on a model of random changes. d) All these

95) A bank is having one day value at risk of Rs. 10 crore with 99 per cent confidence level what does it signify?

a) There is only one change in 100 that daily loss will more than 100 core under normal trading conditions.

b) There is one percent chance that the daily loss may exceed Rs. 10 crore

c) It does not estimate losses in abnormal situations d) All these

96) The features of the value at Risk are:

a) It measures potential loss in market value of a portfolio.

b) It uses estimated volatility and correlations with a given horizon.

c) It is measured with a given confidence interval. d) All these

97) The conditions for calculating value at risk are:

a) Volatility of price. b) Correlation of prices with respect of all other Assets/Liabilities in the portfolio.

c) Normal circumstances means that the value at risk can not be measured when market is under abnormal conditions d) All these

98) What is yield volatility?

a) It is degree of variance in yield.

b) This is unaffected by time and duration.

c) It rises when the yield fails. d) All these

99) The price volatility is:

a) A degree of variance in price.

b) The yield does not effect the price volatility.

c) The time and duration affect the volatility substantially. d) All these

100) Which of the following steps are involved in calculating price volatility?

a) It is multiplication of yield volatility and Basis Point Value.

b) The above (a) is then multiplied by the yield.

c) The above (b) is divided by price. d) All these

101) The approach to calculate the value at risk are: a) Covariance matrix method b) Historical simulation

c) Monte Carlo simulation d) Any of these

102) What are the basis parameters for calculating value at risk?

a) Holding period b) Confidence interval c) Historical time horizon d) All these

103) • The features of correlation approach are:

a) It can be applied only in normal distribution function.

b) It uses standard deviation estimates.

c) It is useful on providing first hand estimation. d) All these

104) Which of the following is relevant to correlation approach?

a) This depends on observed behaviour of market variables.

b) Greater frequency of small changes occurring within a standard deviation of the mean.

c) Lower frequency of changes that are quite manifest between two standard deviations.

d) All the above

105) How the historical simulation approach works?

a) The hypothetical profit and loss portfolio of current positions is estimated for everyday in the data sample.

b) The correlation among the exposures and the volatility are implicit in the historical price movements.

c) From the profit and loss values, the biggest gain and worst loss limits are determined.

d) All the above

106) The features of historical simulation approach are:

a) The approach applies the historical price movements directly.

b) 100 or more trading data is used.

c) It calculates change in the value of a position using the actual historical movements of the underlying asset. d) All these

107) What is the impact of length of historical period chosen?

a) It affects the results.

b) If period chosen is too short it may not establish relationships between the various assets and within each asset class.
c) If the period is too long it may be too stale to predict the future. d) All these
108) The advantages of historical simulation approach are:
a) It does not require the user to make any explicit assumptions about correlations and the dynamics of risk factors.
b) The simulation follows every historical move.
c) (a) and (b) both d) None of these
109) What is Monte Carlo simulation approach?
a) It can deal with any pattern of market movements.
b) It has higher efficiency.
c) Once the particular distribution is identified, the simulation can take care of scientific treatment. (d) All the above
110) The features of Monte Carlo simulation are:
a) It calculates the change in the value of portfolio
b) It uses a sample of randomly generated price scenario.
c) The user make certain assumptions d) All these
111) What are the assumptions required to be made in Monte Carlo simulation approach?
a) Correlation between Risk Factors b) Market structure
c) Volatility of Risk factors d) All these
112) Why value at risk is useful?
a) It translates portfolio exposures.
b) It aggregates and reports multi product multi market exposures into one number.
c) It meets external Risk management disclosure and expectation. d) All these
113) Which of the following is not an advantage of value at risk?
a) It is not a worst case scenario.
b) It is an important component of current best practices in Risk management.
c) It has a value as a probabilistic measure of potential losses. (d) None
114) Which of the following statements is correct regarding value at Risk?
a) It is used for decisions as to what business to do and what not to do.
b) It can not substitute sound management judgment and internal control methods.
c) It is used to measure and manage market Risks in trading and investment portfolio.
d) All the above
115) The features of volatility measurement are:
a) Value at Risk uses past data to compute volatility.
b) Arithmetic moving average from historical time series data is used to estimate volatility.
c) Exponential moving average method may also be used to estimate volatility.
d) All the above
116) What is Back Testing?
a) It is a process where model based value at Risk is compared with the actual performance of the portfolio.
b) The Testing is used to assess the accuracy of existing models.
c) It requires comparison with actual performance on a continuous basis for a given period. (d) All the above
117) What is Stress Testing?
a) It is used to determine possible changes in the market value of a portfolio which could arise due to non-normal movement in one or more market parameters.
b) This involves identifying market parameters to stress, quantum of stress an determine time frame. c)The above parameters are used on portfolio. d) All these
118) Which of the following techniques stress testing covers?
a) Simple sensitivity analysis b) Scenario analysis c) Extreme value theory, d) All these
119) The simple sensitivity test is:
a) A simple sensitivity test isolates the short term impact on a portfolio's value.
b) It works on predefined moves in a particular market risk factor_
c) (a) and (b) of the above d) None of these
120) What is scenario analysis?
a) It analyses the shocks which may affect number of market risk factors if an extreme even occurs.
b) It assesses potential consequences of a firm.
c) It can be based on historical event or hypothetical event. d) All these
121) The features of Extreme Value Theory are:

a) It is the statistical theory on the behaviour of the tails (very high and low potential values) of probability distribution.
b) It is more flexible.
c) It helps in better capture the risk of loss in extreme but possible circumstances.
d) All the above
122) The features of a good stress test are:
a) Be relevant to current position.
b) It considers changes in all relevant market rates.
c) Consider market liquidity d) All these
123) In which of the following manners the stress tests are used?
a) To manage funding risk. (b) Set limits for traders.
c) To determine capital changes on trading desk position d) All these
124) The steps to monitor and control the Risk include: a) Policy guidelines limiting roles and authority.
b) Guidelines on portfolio size and mix.
c) Systems and procedures to capture all risks. d) All these
125) What is relevant to limits and triggers?
a) Sensitivity and value at Risk limits of trading portfolios are measured daily.
b) Approved management triggers or stop loss for all mark to market risk taking activities.
c) Fixing appropriate market risk limits for basis risk. d) All these
126) Which of the following is to be avoided to manage risk of trading liquidity?
a) In frequently traded instruments.
b) Instruments with unusual tenors
c) One side liquidity in the market. d) All these
127) Risk mitigation is:
a) Reduction in market risk which is achieved by adapting strategies that eliminate volatility of portfolio.
b) Risk mitigation measures reduce upside potential or profit potential.
c) The risk mitigation strategies which involve counterparty will always be associated with counterparty risk. d) All these
128) Which of the following statements is correct regarding correlation measures?
a) Prices of two financial instruments which have perfect negative correlation would move exactly in opposite directions.
b) If financial instruments have negative correlation and it is not perfect prices would move in opposite direction but not be 'exact.
c)The price volatility will be considerably low. d) All these
129) If a portfolio have fixed rate bond and an interest rate swap with long on variable rate of interest. What would be the consequences?
a) As market interest rates move up the portfolio will suffer loses on Bond.
b) The Bond price would come down due to upward movement in interest rates.
c) Swap valuation will increase. d) All these
130) The features of an option are:
a) It, is a method to hedge market risks.
b) An option provides a right and not obligation.
c) The cost involved in an option is called option premium. d) All these
131) Which of the following statements is correct regarding option?
a) A long position on call option confers a right to buy the underlying instrument.
b) A pre determined price is called strike rate/price.
c) A long position on put option confers a right to sell the underlying instruments.
d) All the above
132) A Bank expects fall in price of a security if it sells in the market. The bank may face the following Risk:
a) Asset Liquidation Risk b) Market Risk c) Operational Risk d) All these
133) An 8 year 8% semi annual bond has a basis point value of Rs. 125. The yield on the bond has increased by 5 basis points. What would be the effect?
a) A loss of Rs. 625 b) A loss of Rs. 1000 c) A profit of Rs. 625 d) None
134) 1 day value at risk of a portfolio is Rs. 500.000 with 95 percent confidence level. In a period of 6 months (125 working days) how many times the loss on the portfolio may ¯exceed Rs. 500000:
a) 4 days b) 5 days c) 6 days d) 7 days
135) A Bank suffers loss due to adverse market movements of a security. The security was held beyond defeasance period. The Bank may suffer the following risk:
a) Market Risk b) Operational Risk c) Market Liquidation Risk d) Credit Risk

136) A security which was rated A plus migrates to A rating. The risk will be:
a) Market Risk b) Credit Risk c) Market Liquidation Risk. d) Operational Risk

137) A Bond which have remaining maturity of 5 years is presently yielding 6%. Its modified duration is 5 years. What would be its Mc Cauley's duration?
a) 5.05% b) 3.77% c) 5.30% d) 6.00%

138) The stress testing is needed for the following reasons:
a) It helps calibrating value at Risk model:
b) It assesses Risk due to abnormal movement of market parameters.
c) It is an additional Risk measurement tool.
d) It is more accurate than value at Risk method.

TEST YOURSELF : MCQ ON CREDIT RISK

139) The features of Credit Risk are:
a) It arises from lending activities of a Bank.
b) When Borrower does not pay either interest or principal as and when due for payment.
c) If the loan is demand loan, the Borrower fails to make payment as and when demanded.
d) All the above

140) The Credit Risk may arise from:
a) Direct lending
b) Not crystallization of liability under the guarantees
c) In case of securities if settlement is not affected d) All these

141) What is default Risk?
a) It is the potential failure of a Borrower to make promised payments.
b) -In case of default a fraction of the obligation is paid, it is called recovery rate.
c) The default may be partly or wholly. d) All these

142) The features of credit spread Risk are:
a) The risk may be due to worsening in credit quality.
b) This may result in widening of credit spread.
c) This is known as credit spread Risk or down grade Risk. d) All these

143) Which of the following statements is not correct?
a) Loans are usually marked to market.
b) Capital market portfolios are marked to market.
c) Default Risk and down grade Risk are transaction level Risks.
d) Risk associated with credit portfolio as whole is termed portfolio Risk.

144) Portfolio Risk has following components:
a) Systematic as instrinsic Risk b) Concentration Risk
c) (a) and (b) both d) None of these

145) The Systematic Risk is:
a) When portfolio Risk is reduced due to diversification.
b) When portfolios are diversified among the various market segments the risk is reduced to a minimum level. c) This is known as systematic Risk d) All these

146) The concentration Risk is:
a) When portfolios are concentrated in form of a particular segment it gets concentration Risk
b) If the particular segment does not perform well the portfolio will have concentration Risk.
c) This happens only when portfolio is not diversified and it has more weightage in respect of a particular industry d) All these

147) Which of the followings is relevant to systematic Risk?
a) The Risk is associated with the economy.
b) If the economy does nto perform well, the portfolio will be affected.
c) When economy stagnates, the credit portfolio of Bank does not perform well.
d) All the above

148) What is Risk diversification?
a) The diversification takes place across the Trade and Borrowers.
b) Diversification occurs at the Borrower and geographical level both.
c) The theory applies to diversification is that different firms do not default at the same time.
d) All the above

149) Risk measurement consists of:

a) Measurement of Risk through credit rating.
b) Quantifying the Risk by estimating expected loan losses.
c) Estimating unexpected loan losses. d) All these
150) The features of credit Rating are:
a) It is a process to assess the capability of a Borrower to honour its financial commitments in future.
b) The process helps in deciding the price of loans and advances.
c) Defaults in credit portfolio of a Bank may also be estimated. d) All these
151) The guidelines of RBI on credit Rating are:
a) The Banks should apply credit Rating to the Borrower accounts and classify categorywise.
b) To develop and maintain necessary data on defaults of Borrowers.
c) The Bank may estimate expected defaults, expected contribution art;t requirements to maintain the portfolio. d) All these
152) Credit Rating models differentiate the Borrowers in terms of degree of stability:
a) The Sales volume b) Net profit c) Revenue generation d) All these
153) Which of the followings is not correct?
a) The profitability has direct affect on Rating.
b) A highly profitable firm may have higher level of uncertainties in revenue generation.
c) Less profitable firm may have more stable revenue generation.
d) Stability in revenue generation is an important aspect in developing a credit Rating model.
154) What is Rating Migration?
a) It indicates change in the Rating of a Borrower over a period of time.
b) The Rating model used does not change.
c) It is useful when migration of large number of accounts of similar rating is observed.
d) All the above
155) Which of the following factors, a Rating model takes in the account?
a) The Risk drivers in the various areas have *been* included in the model.
b) The model meet the market standards.
c) (a) and (b) both d) None of the above
156) The popular credit Rating models
a) The Altman's Z score b) J.P. Morgan c) Credit Swiss d) All these
157) The instruments of credit Risk management transaction level are:
a) Risk Analysis Process b) Credit Appraisal Process
c) Credit Audit and Loan Review d) All these
158) The efficiency of credit Risk management can be improved by:
a) Identifying the credit quality of Borrowers objectively.
b) Increasing default analysis
c) Providing early warning signals for deterioration in credit Risk of Borrowers.
d) All the above
159) Bank's loan policy document should contain:
a) Loan Review Mechanism
b) Rating Standards and Benchmarks
c) Credit Approval Mechanism d) All these
160) To limit the credit Risk prudential limits may be specified in respect of:
a) Financial and profitability b) Credit exposure
c) Maturity profile of the loan book d) All these
161) What is Risk pricing?
a) It stresses on Risk based pricing of loans.
b) It helps in generation of adequate Risk adjusted return on Capital
c) The credit spread should take into account the expected loss rates and charges on Capital d)All the above
162) The features of Risk return pricing strategy are:
a) Borrowers with weak financial position should be priced high.
b) Pricing of credit Risk should take into account the probability of default.
c) The pricing should be linked to credit Rating. d) All these
163) Which of the following activities are important for monitoring and control of rreri' -tAk? ¨*a)¯Identification* of portfolio credit weakness.
b) Measurement of specific risk associated with individual credit exposure.

c) Evaluate exposure distribution over Rating categories. d) All these
164) Which of the following is not an activity to monitor and control the Risk?
a) To set exposure limits to contain concentration Risk.
b) Deciding Risk pricing to individual Borrowers.
c) To follow value at Risk model.
d) To fix quantitative ceilings on aggregate exposure in specified Rating categories.
165) Which of the followings are important to maintain portfolio quality?
a) Quantitative ceilings on aggregate exposure.
b) Rating wise distribution of Borrowers in various industries.
c) Monitoring of exposure performance. d) All these
166) Which of the followings is relevant to maintain the quality of the portfolio's
a) To undertake portfolio reviews stress tests and scenario analysis.
b) To introduce discriminatory time schedule for review of Borrowers.
c) (a) and (b) both d) None of these
167) The external credit Risk factors are:
a) State of the economy b) Wide fluctuations in equity price
c) Foreign Exchange rate d) All these
168) The new and emerging opportunities for credit expansion are:
a) Pass through certificate b) Syndicated loans
c) Project finance d) All these
169) Which of the followings new products have different risks:
a) Secondary loan trading b) Securitisation
c) Credit derivatives d) All these
170) The objective of Loan Review Mechanism are:
a) Identifying loans with credit weaknesses and initiate timely action.
b) To evaluate portfolio quality.
c) To ensure adequate provision for loss assets d) All these
171) Which of the following is relevant to Loan Review Mechanism?
a) To ensure compliance of loan policies and procedures
b) To supply information on credit Administration
c) (a) and (b) both d) None of these
172) The Loan Review Mechanism should focus on:
a) Accuracy and timely credit Ratings.
b) Compliance of internal systems and procedures
c) Post sanction monitoring and follow-up d) All these
173) The Loan Review Mechanism should not focus on:
a) Sufficiency of loan documentation
b) Extent of deposits held with the Bank by a Borrower
c) Portfolio quality. d) Suggesting improvements in portfolio quality.
174) The quality of credit decisions should be evaluated with reasonable time say:
a) 1 month b) 2 months c) 3 to 6 months d) once in a half year
175) The features of credit Risk mitigation are:
a) It is a process through which credit Risk is reduced.
b) Credit review mechanism techniques reduce credit Risk.
c) Advantage of Risk mitigation must be weighed against the Risk acquired.
d) All the above
176) How the credit Risk can be mitigated?
a) Exposure collateralized by first priority claim.
b) Buying a credit derivative to offset credit Risk.
c) Asset securitization can also be used to reduce the credit Risk. d) All these
177) The process of securitization is:
a) It is a process where financial securities are issued against the cash flow generated from a pool of Assets.
b) A special purpose vehicle is created for the purpose
c) Special purpose vehicle issues financial securities to service interest and payments.
d) All the above
178) The securitization include Asset backed securities like:
a) Mortgage loans b) Currency swaps c) Credit derivatives d) All these

179) Which of the followings is correct regarding securitization?
a) The oriainated Bank transfers the ownership of such Assets to the securitized company_
b)The original Bank transfers credit Risk to the investors.
c)The securitized company may raise resources from the market d) All the above
180) What are credit derivatives?
a) When credit Risk from Assets are unbundled into a commodity and traded in the market they are called credit derivatives. b) Credit derivatives transfer risk in the credit Assets without transferring underlying Asset, c)They are Off Balance Sheet financial instruments. d) All these
181) The motives for credit derivatives for protection buyers are:
a) Transferring credit Risk without transferring the Credit Asset.
b) Hedging against credit Risks. -
c) Better portfolio management by diversification. d) All these
182) Motives for credit derivatives for protection sellers are:
a) Yield enhancement b) Speculation c) Diversification of credit Risk, d) All these
183) The credit linked notes are:
a) They are Off Balance Sheet items.
b) They convert credit derivatives into Capital market instruments.
c) Special separate company formed for this purpose can raise money from the market by issuing credit linked notes. d) All these
184) Which of the followings is not a credit Risk?
a) Default Risk b) Credit Spread Risk c) Intrinsic Risk d) Basis Risk
185) Risk of a portfolio with over exposure in steel sector will be:
a) more than systematic Risk b) equal to intrinsic Risk
c) Less than intrinsic Risk d) None of these
186) Which of the following statements is correct?
a) Credit Risk measurement is based on credit Rating.
b) Effective monitoring and control is needed to control lending Risk.
c) Loan Review Mechanism is an effective tool for constantly evaluating the quality of loans. d)All the above
187) The Risk that arises due to worsening of credit quality is:
a) Intrinsic Risk b) Credit Spread Risk
c) Portfolio Risk d) Counterparty Risk
188) Which of the following skills are necessary for effective management of credit portfolio?
a) Knowledge of credit Rating models.
b) To maintain necessary data on defaults of Borrowers rating category wise.
c) Both (a) and (b) d) None of these
189) Which of the following models combines five financial ratios using reported accounting information and equity values to produce an objective measure of Borrowers financial position?
a) Altman's Z score b) Credit Metrics c) Credit Risk Plus d) All these
190) A transaction where financial securities are issued against eh cash flow generated from a pool of Assets is called: a) Securitisation b) Credit Default Swaps c) Credit Linked Notes d) Total Return Swaps
191) Under the process of securitization the Rights of original lender are transformed in form of: a) Securitised company b) Investors c) Special purpose vehicle d) None
192) The features of total return swaps are:
a) The protection buyer swaps with the protection seller total actual return on an asset in return for premium.
b) The premium is arrived at by adding a spread to a reference rate like LIBOR.
e) The protection seller is able to synthetically create an exposure to the reference asset without actually lending to it. d) All these

TEST YOURSELF : MCQ ON OPERATIONAL RISK

193)The operational Risk may arise on account of failed or inadequate:
a) internal processes b) people and systems c) external events d) All
194)Operational Risk on account of people oriented causes may include:
a) negligence b) incompetence c) insufficient training d) All these
195)The Transaction Based Causes in the operational Risk may include:
a) Business volume fluctuation b) Organisational Complexity
c) Product Complexity d) All these
196)Operational control based causes will include the following:

a) Inadequate segregation of duties
b) Lack of management supervision
c) Inadequate procedures
d) All these

197)Technology oriented causes under operational Risk will not include the following:
a) Poor technology
b) Lack of management supervision
c) Lack of automation
d) Poor design development

198) Effect based operational Risk may include the following:
a) Legal Liability
b) Regulatory compliance and taxation penalties
c) Restitution
d) All these

199) The following events may result in operational Risk:
a) Internal Fraud
b) External Fraud
c) Employment practices and work place safety
d) All these

200) Operational Risk may arise on account of the following events:
a) Damage to physical Assets
b) Business disruption
c) Execution delivery and process management
d) All these

201) How many principles of Basel II document are relevant to organization level?
a) 10 b) 3 c) 7 d) 2

202) The operational Risk management policy should cover the following:
a) Operational Risk management structure
b) Role and Responsibilities
c) Operational Risk management processes
d) All these

203) The process of operational Risk management include:
a) Identification of Risk/control.
b) Implementation of Qualitative Approach to assess operational Risk_
c) To analyse operational Risk profile
d) All these

204) Which of the following activities are relevant to operational Risk control practices?
a) Collection of operational Risk data.
b) Adequate feedback mechanism
c) Management and control of large exposures
d) All these

205) The operational Risk can be measured through:
a) the Basic indicator approach
b) the Standardised approach
c) Advanced measurement approach
d) All these

206) The Feature of Basic Indicator Approach are:
a) A Bank must hold capital for operational Risk.
b) The amount of Capital should be equal to 15% of positive annual gross income.
c) Gross income is defined as net interest income plus net non-interest income
d) All the above

207) Under the standardized approach, Banks divide their business activities into following Business lines: a) 2b) 8 c) 10 d) 12

208) What is the process of Standardised Approach?
a) Gross income is a broad indicator under each business line_
b) Gross income serves as a scale of Business operations.
c) The capital charge for each business line is calculated by multiplying gross income by a factor assigned to that business line.
d) All these

209) Which of the following Business lines, Beta Factor is 18%?
a) Corporate Finance
b) Trading and Sales
c) Payments and Settlement
d) All these

210) Which of the followings is correct regarding Business Line Beta Factors?
a) Retail Banking and Asset Management 12%
b) Retail Brokerage 12%
c) Commercial Banking 15%
d) All these

211) The steps involved in operating profiling are:
a) Identification and quantification of operational Risks.
b) Identification of Risk concentration.
c) Formulation of Bank's strategy for operational Risk management
d) All these

212) Which of the followings is relevant for estimation of level of operational Risk'?
a) Probability of occurrence
b) Potential financial impact
c) Impact of internal controls
d) All these

213) Estimated impact of internal control depends on:
a) Historical effectiveness of internal controls.
b) Estimated impact of internal controls on Risks.

c) The above is estimated as fraction in relation to total control which is valued at 100% All the above
214) Estimated level of operational Risk will be calculated as:
a) Estimated probability of occurrence
b) Multiply (a) by estimated potential financial impact.
c) Multiply (b) by estimated impact of internal controls
d) All the above steps are considered
215) How operational Risk mitigation could be achieved?
a) Insurance cover may minimize the Risk.
b) Capital Allowance under insurance is available.
c) Qualitative approach in operational frame work would also be useful. d) All these
216) What is scenario analysis?
a) It involves expert opinion in conjunction with external data.
b) It evaluates exposure to high severity events.
c) The Approach uses the knowledge and experience of Risk Management experts.
d) All the above
217) Scenario analysis should be used:
a) To assess the impact of deviations from the correlation assumptions.
b) To evaluate potential losses arising from multiple simultaneous operational Risk loss events. c) Both (a) and (b) d) Only (a)
218) Integrated Risk Management is:
a) To manage all risks that are associated with all the activities in an organization
b) The ultimate impact of all the activities lies on Revenue generation.
c) The sum total of all risk impacts is a crucial factor. d) All these
219) In a Bank integrated Risk includes:
a) Liquidity Risk b) Interest Rate Risk c) Market and Credit Risk d) All these
220) Which of the following is relevant to integrated Risk?
a) Total Risks of an organization are also the net effect of all Risks associated with an organization.
b) Net effect of all Risks may not be the same due to diversification effect of Risks.
c) Integrated Risk implies coordinated approach across various Risks. d) All these
221) Which of the following is correct regarding integrated Risk?
a) Risks add to instability
b) Higher the Risk more is instability
c) Risk adjusted returns on capital assumes importance in integrated Risk management
d) All the above
222) The significance of integrated Risk management is:
a) It integrates organizations internal and external business processes.
b) It applies Standard Risk Terminology.
e) It facilitates reporting which helps in taking optional Risk decisions.
d) All the above
223) The features of integrated approach for Risk management are:
a) The process of supervising risk exposure gets centralized
b) Organization can decide how best to transfer Risk
c) It is an ongoing Business process d) All these
224) Which of the following is not an advantage of integrated Risk management?
a) Day to day operational activities are not designed
b) It facilitates greater transparency for the investors.
c) Revenue and earnings are enhanced.
d) It controls downward Risk potential.
225) The Business challenges to manage integrated Risk are: a) Globalization of market.
b) Concern about business continuity and operational reliability
c) Fast technological changes d) All these
226) Which of the following are limitations in identifying the issues in integrated Risk management? a) Cultural limitations b) Business unit boundaries
c) (a) and (b) of the above d) None of these
227) What is the utility of integrated Risk management for a Bank?
a) It helps a Bank to relate capital reserves more effectively.
b) It helps in quantifying the amount of capital required to absorb unexpected losses.

c) It contributes to better business performance. d) All these

228) Risk Adjusted Rate of capital can be determined:
a) By dividing a unit's net income by its economic capital
b) It can be achieved by producing a profitability which is common across the Business units. c) Both (a) and (b) d) None of these

229) The Risk Adjusted Rate of capital can also be used to:
a) Evaluate pricing decisions
b) Product profitability
c) Differential between relationships that makes money for an institution and for those do not. d) All the above

230) The integrated Risk management process consists of:
a) Integration of Risk management strategy
b) Assigning Accountability to the concerned executive
c) Development of Risk management system d) All these

231) The process of integrated Risk limits will be helpful in:
a) Communication Risk appetite in the organization
b) Maintenance of overall exposure at acceptable level
c) Affecting delegation of authority d) All these

232) The impact of Basel II recommendations on integrated Risk management would be:
a) Significant reduction in capital requirement
b) Lower capital charges
c) Compliance with expected standards of identifying measuring and controlling Risk
d) All the above

233) Which of the followings is not operational Risk?
a) Defaults b) External Events , c) People and Systems
d) Inadequate internal processes

234) Which of the followings Basel II recommended for:
a) Cause Based Classification b) Event Based Classification
c) Effect Based Classification d) All these

235) The advantages of integrated Risk framework are:
a) It relates Capital and Reserves more effectively to their actual level of Risk exposure.
b) To evaluate pricing decisions
c) To evaluate product profitability d) To affect Risk Transfer decisions

236) Measurement of operational Risk for the purpose of capital allocation can be done through:
a) Basic Indicator Approach b) Standardised Approach
c) Advanced Measurement Approach d) Any of these

237) A general approach for estimating the level of operational Risk can be based on:
a) Estimated profitability of concurrence b) Estimated potential financial impact
c) Estimated impact of internal controls d) All these

238) A proper management of operational Risk would result in:
a) Lesser Risk Capital . b) Competitive edge c) (a) and (b) both
d) None of these

239) Given the following information, what would be level of operational Risk?
Probability of occurrence = 4, Potential financial impact = 4, Impact of internal controls = 0%
a) 4 b) 2 c) 0 d) 3

240) What is the Beta factor for corporate finance under standardized approach?
a) 15% b) 18% C) 12% d) 10%

241) Systematic Risk is the Risk of:
a) Failure of a Bank
b) Failure of entire Banking system
c) Failure of two Banks simultaneously
d) Where a group of Banks fail due to inter-relation effect.

242) The Central Bank Governors of G-10 countries participate in the Basel committee on Banking supervision. The members are
a) 13 b) 12 c) 11 d) 10

243) 1988 Capital Accord Framework accounted for:
a) Credit Risk b) Market Risk c) Defined capital component d) All these

244) The purpose of Back Testing is: a) To test a model b) To compare model results and actual performance, c) To record performance d) All these

245) Under Basel II Capital requirements under the accord is:
a) The maximum capital that is required to be maintained
b) Minimum capital to be maintained
c) Both (a) and (b) d) None of these
246) Which of the following impacts regulatory framework has on Risk management of Banks?
a) It devices constraints and guidelines which promote Risk management practices
b) The regulations stimulates development
c) It also enhances the Risk management process of Banks d) All these
247) Regulations on Risk management are also helpful in:
a) Defining Risk in a better way
b) Creating better methodologies for measuring Risk
c) Both (a) and (b) d) None of these
248) Which of the followings is the basic concept for imposing regulatory measures for Risk management?
a) Capital adequacy principle and Risk based capital
b) Bank's profitability c) Bank's Business performance d) All these
249) The regulatory measures on Risk management focus on:
a) Promoting sound business and supervisory practices.
b) Controlling and monitoring of systematic Risk
c) Protecting interest of depositor's d) All these
250) What is the Systemic Risk?
a) It is the Risk of failure of whole Banking system.
b) Individual Bank's of failure is one of the major sources of systematic Risk.
c) This takes place when there are high inter-relations between Banks through mutual lending and borrowing d) All these
251) A need for Regulations on Risk management is more important due to:
.a) The process of deregulation increased the competition which enhances more Risk. b) Competition also promoted globalization
c) Risk controls are necessary for maintaining level playing field. d) All these
252) The Regulations on Risk management at international level have been taken up by:
a) World Bank b) Basel Committee on Banking supervision
c) Both (a) and (b) d) None of these
253) Basel Committee on Banking supervision works under:
a) ADB b) Bank for International Settlement c) World Bank
d) International Finance Corporation
254) The modus operandies of Basic committee on Banking supervision are:
a) It is instrumental in standardizing bank regulations across jurisdictions.
b) It defines the role of regulations
c) The committee meets 4 times in the year d) All these
255) When was the Basel accord took place in post deregulation era:
a) 1988 b) 1991 c) 1975 d) 1972
256) 1988 Basel Accord was enforced in:
a) G-10 Countries in 1992 b) Asian Countries in 1991
c) At International Level in 1988 d) none of these
257) Which of the following tier-1 of core capital consists?
a) Equity b) Disclosed Reserves c) (a) and (b) both, d) None of these
258) Tier-2 or supplementary capital consists:
a) Undisclosed Reserves b) Assets Revaluation Reserve
c) General Provisions d) All these
259) Which of the followings is not included in tier-2 capital of a Bank?
a) Reserves for bad and doubtful debts b) Paid up capital
e) Hybrid capital instrument d) Subordinated Debt
260)" The amendment in 1988 Basel Accord in 1996 basically focused on:
a) Explicit capital cushion for the price Risk to which Banks are exposed
b) Tier-I capital c) Both (a) and (b) d) None of these
261) 1996 Basel Accord amendment was implemented in:
a) 1996 b) 1998 c) 1997 d) 2000
262) The salient features of 1996 Basel Accord are:

a) To allow banks to use proprietary in house models for measurement of market Risk
b) Banks must compute value at Risk daily
c) Banks to use back testing d) All these
263) Which of the followings is not the feature of 1996 Basel Accord?
a) Tier-3 capital by issuing short term subordinated debt
b) Amendment to Tier-1 capital
c) To implement standardized approach using the Building Block Approach
d) Banks to segregate trading book and mark to market portfolios.
264) Which of the followings are basic principles of Basel Accord to control International supervisory coverage?
a) No foreign Bank should escape supervision
b) Supervision should be adequate
c) Both (a) and (b) d) None of these
265) The 1988 Basel Accord was revised keeping in view the following objectives:
a) To strengthen the international Banking system.
b) To adopt strong Risk management practices.
c) To maintain consistency in capital adequacy practices d) All these
266) The Revised Basel II Accord has been released on:
a) 26.6.2004 b) 1.12.2003 c) 15.3.2002 d) None of these
267) The main features of revised Basel II Accord are:
a) More Risk sensitive capital requirement.
b) Risk treatment on securitization ,c) It provides different options for determining capital requirement for credit and operational Risk. d) All these
268) Which of the followings is not true regarding revised Basel II Accord?
a) Capital requirement under new Accord is the minimum
b) Capital requirement includes liquidity Risk
c) It promotes stronger Risk management practices d) All these
269) Minimum capital requirement is:
a) Capital for Credit Risk b) Capital for Market Risk
c) Capital for Operational Risk d) All these
270) Capital for credit Risk should be measured based on following Approaches:
a) Standardized Approach
b) Internal Rating Based Foundation Approach
c) Internal Rating based Advanced Approach d) All these
271) Capital of market Risk be measured through:
a) Maturity Method b) Duration Method c) Internal Models Method d)All these
272) Capital for operational Risk can be measured by adopting:
a) Basic Indicator Approach b) Standardised Approach

c) Advanced Measurements Approach d) All these
273) Supervisory Revenue process under Basel II Accord consists:
a) Risk Assessment Evaluation
b) Maintenance of minimum capital
c) Ensuring soundness and integrity of Bank's internal process to assess capital adequacy d) All the above
274) According to Basel II Revised Accord Market discipline focuses on:
a) More disclosures b) Core disclosures and supplementary disclosure
c) Half yearly disclosures d) All these
275) According to revised Basel II Accord, capital requirement will be determined:
a) Minimum Capital Ratio (8%)
b) Above (a) should be multiplied by credit Risk plus market Risk plus operational Risk. c) Only (a) of the above d) All these
276) Capital charge for credit Risk under standardized approach has the following features:
a) It has fixed Risk weights corresponding to each supervisory category
b) Banks to use external credit assessments to enhance Risk sensitivity.
c) The Risk weights are differentiated based on external credit assessment
d) All the above
277) The Standardised Approach to capital charge for credit Risk focuses on: a) Loans considered as past due should have a Risk weight of 150 per cent.b) Uniform weight of 57 per cent on specified portfolios

c) Lower Risk weights for retail exposures d) All these

278) The features of Internal Rating Based Approach are:

a) It is innovative approach to measure capital requirement for credit Risk

b) It complies the capital requirement of each exposure directly before computing the Risk weighted assets

c) Capital charges are computed based on probability of default, loss given the default and exposure at default d) All these

279) The conditions under internal rating based approach are:

a) **It** does not allow individual Bank to determine the elements for calculation of capital requirement.

b) Capital charges are determined through the combinations of quantitative inputs

c) It stresses on Banks internal assessment of key Risk drivers as primary inputs to the capital calculations d) All these

280) Under Internal Rating Based Approach the Risk weights are calculated on the following parameters:

a) Probability of default by Borrower over a given time horizon.

b) Loss exposure if default occurs.

c) Remaining economic maturity of the exposure d) All these

281) According to revised Basel II Accord the supervisory review process should focus on:a) Sound Capital Assessment b) Proper Monitoring and Reporting

c) Frequent Internal Control Review d) All these

282) The principle 2 of supervisory review process of Basel 11 Accord specifies on:

a) The supervisors should ensure compliance of regulatory capital ratios.

b) Supervisors should initiate appropriate action if the results are not satisfied.

c) Both (a) and (b) d) None of these

283) Effective supervision can be achieved through:

a) On site inspections b) off site review

c) review of work done by external auditors d) All these

284) How many principles supervisory review process have under Basel II Accord?

a) 2 b) 3 c) 4 d) 8

285) The disclosure norms under market discipline should focus on:

a) Disclosure will defined on legal authority and accounting standards of each country.

b) Disclosure norms should match with internal financial reporting standards

c) Both (a) and (b) d) None of these

286) Capital charge for credit Risk requires inputs under Advanced Internal Rating Based Approach. The inputs are provided by:

a) Bank b) Supervisor c) Basel committee on Banking Supervision d)-All these

287) Basel **I** was modified to link the Risk with capital because:

a) Credit Risk assessment under Basel I was not risk sensitive

b) It promotes financial decision making on the basis of regulatory constraints

c) It did not recognize the role of credit Risk mitigant d) All these

288) The Basel 11 Accord is based on following pillars:

a) Minimum Capital requirement b) Supervisory Review Process

c) Market Discipline d) All these

289) Which of the followings is most relevant to Risk management process in Banks?

a) Supervision of large Borrowed Accounts b) Asset Liability Management

c) Management of non-performing Assets d) All these

ANSWER : TEST YOUR SELF – MARKET RISK , CREDIT RISK AND OPERATIONAL RISK

1	D	2	D	3	D	4	A	5	B	6	D	7	D	8	D	9	D	10	A
11	D	12	D	13	B	14	D	15	C	16	D	17	B	18	D	19	D	20	D
21	D	22	A	23	D	24	D	25	D	26	D	27	D	28	C	29	D	30	D
31	D	32	B	33	D	34	D	35	D	36	A	37	D	38	B	39	D	40	D
41	D	42	D	43	D	44	D	45	D	46	D	47	A	48	B	49	D	50	A
51	D	52	D	53	D	54	D	55	D	56	B	57	D	58	C	59	A	60	B
61	A	62	A	63	B	64	A	65	C	66	D	67	A	68	D	69	D	70	D
71	C	72	D	73	D	74	D	75	D	76	B	77	D	78	B	79	D	80	D

81	D	82	D	83	D	84	D	85	D	86	D	87	D	88	D	89	B	90	D
91	D	92	A	93	D	94	D	95	D	96	D	97	D	98	D	99	D	100	D
101	D	102	D	103	D	104	D	105	D	106	D	107	D	108	C	109	D	110	D
111	D	112	D	113	A	114	D	115	D	116	D	117	D	118	D	119	C	120	D
121	D	122	D	123	D	124	D	125	D	126	D	127	D	128	D	129	D	130	D
131	D	132	A	133	A	134	C	135	C	136	B	137	C	138	B	139	D	140	D
141	D	142	D	143	A	144	C	145	D	146	D	147	D	148	D	149	D	150	D
151	D	152	D	153	A	154	D	155	C	156	D	157	D	158	D	159	D	160	D
161	D	162	D	163	D	164	B	165	D	166	C	167	D	168	D	169	D	170	D
171	C	172	D	173	B	174	C	175	D	176	D	177	D	178	D	179	D	180	D
181	D	182	D	183	B	184	D	185	A	186	D	187	B	188	A	189	A	190	A
191	A	192	D	193	D	194	D	199	D	200	D	201	C	202	D	203	D	204	D
205	D	206	D	207	B	208	D	209	D	210	D	211	D	212	D	213	D	214	D
215	D	216	D	217	C	218	A	219	D	220	D	221	D	222	D	223	D	224	A
225	D	226	C	227	D	228	A	229	D	230	D	231	D	232	D	233	A	234	B
235	A	236	D	237	D	238	C	239	A	240	B	241	B	242	A	243	D	244	B
245	A	246	D	247	C	248	A	249	D	250	A	251	D	252	B	253	B	254	D
255	A	256	A	257	C	258	D	259	B	260	A	261	B	262	D	263	B	264	C
265	D	266	A	267	D	268	B	269	D	270	D	271	D	272	D	273	D	274	D
275	B	276	D	277	D	278	D	279	D	280	D	281	D	282	C	283	D	284	C
285	A	286	A	287	D	288	D	289	B										

CASE STUDIES / CASELETS ON RISK MANAGEMENT

Case Study on regulatory adjustments under Basel III

Bank-B has to make regulatory adjustment of Rs.300 cr. This amount relates to deferred tax assets.

RBI rules relating to regulatory adjustment under Basel III provide that adjustments are to be phased-in to the extent of 20% as on 1.4.2013 from Common Equity Tier 1 only. The complete phase-in is to be done by March 31, 2017. During this transition period, the remainder not deducted from Common Equity Tier 1 / Additional Tier 1 / Tier 2 capital will continue to be subject to treatments given under Basel II capital adequacy framework.

Based on above information, answer the following questions:

01 If the deduction amount is taken off from Common Equity Tier I under Basel III, what amount will be deducted from CET1?

a: Rs.300 cr
b: Rs.240 cr
c: Rs.60 cr
d: Rs.20 cr

02 What amount will be deducted from Tier 1 capital as per these rules ?

a: Rs.300 cr
b: Rs.240 cr
c: Rs.60 cr
d: Rs.20 cr

Answers : 1-c 2-b

Explanation:

Que-1 As per RBI guidelines, only 20% amount is to be reduced from CETI.. Hence amount to be deducted = 300 x 20% = 60 cr.

Que-2 As per RBI guidelines, 20% i.e. Rs.60 cr, is to be reduced from CE 1. (300 x 20% = 60 cr). The remaining amount is to be deduced as per the existing treatment rules i.e. rules under Basel IL Under Basel II, the amount of DTA is to be reduced from Tier I capital. Hence the remaining amount (300 - 60 = 240) is to be reduced from Tier I capital).

Case study on Capital Conservation Buffer in Basel - III

Bank-A earned a net profit after tax and provisions of Rs.3000 and Bank-B of Rs.1200 cr. Common Equity Tier I capital ratio of Bank-A is 6.75% after including the current period retained profits. This ratio for Bank-B is 7%. Both the banks propose to mobilize fresh capital through public issue and to make the issue attractive, want to pay highest dividend.

RBI rules reardin4 CCR provide as under:

Ratio after including the current periods retained earnings	Minimum Capital ConservationRatios (expressed as a percentage of earnings)
5.5% - 6.125%	100%
>6.125% - 6.75%	80%
>6.75% - 7.375%	60%
>7.375% - 8.0%	40%
>8.0%	0%

Based on the given information, answer the following questions:

01 What is the amount of net profit which the Bank-A is required not to distribute to ensure compliance of Basel III prescription.

a: Rs.3000 cr b: Rs.2400 cr c: Rs.1600 cr d: Rs.600 cr

02 What is the maximum -amount which the Bank-A can distribute as dividend to ensure compliance of Basel III prescription.

a: Rs.3000 cr b: Rs.2400 cr c: Rs.1600 cr d: Rs.600 cr

03 What is the amount of net profit which the Bank-B is required not to distribute to ensure compliance of Basel III prescription.

a: Rs.1200 cr b: Rs.720 cr c: Rs.480 crd: Rs.240 cr

04 What is the maximum amount which the Bank-A can distribute as dividend to ensure compliance of Basel III prescription.

a: Rs.1200 cr b: Rs.720 cr c: Rs.480 crd: Rs.240 cr

Answers : 1-b 2-d 3-b 4-c

Explanation: Que-1. Ratio of Bank-A is 6.75% due to which it is required to conserve 80% of its earning. Hence amount to be conserved = 3000 x 80% = 2400 cr. The max amount that can be distributed = 3000 — 2400 =, Rs.600 cr.
Que-2. Ratio of Bank-A is 6.75% due to which it is required to conserve 80% of its earning. Hence amount to be conserved = 3000 x 80% = 2400 cr. The max amount that can be distributed = 3000 — 2400 = Rs.600 cr.
Que-3. Ratio of Bank-B is 7% due to which it is required to conserve 60% of its earning. Hence amount to be conserved = 1200 x 60% = 720 cr. The max amount that can be distributed = 1200 — 720 = Rs.480 cr. Que-4. Ratio of Bank-B is 7% due to which it is required to conserve 60% of its earning. Hence amount to be conserved = 1200 x 60% = 720 cr. The max amount that can be distributed = 1200 — 720 = Rs.480 cr.

Case Study on Credit Risk Mitigation as per Basel HI Popular Bar k granted a corporate loan of Rs.10 cr to XYZ Limited repayable over 3 years. The credit rating of the company is A. The value of collateral in the account is Rs.10 cr in the form of unrated Bonds issued by another bank with a residual maturity of 3 years.
As per RBI guidelines, risk weight of loan to A rated borrower is 50%. The haircut on such bonds is 6% and the haircut for such exposure is zero. Based on this information, answer the following questions.

01 What is the value of collateral security after prescribed haircut.

a: Rs.10 cr b: Rs.9.40 cr c: Rs.0.60 cr d: Rs.0.30 cr

02 What is the value of net exposure after credit risk mitigation taking into account the collateral security with prescribed haircut.

a: Rs.10 cr b: Rs.9.40 cr c: Rs.0.60 cr d: Rs.0.30 cr

03 What is the value of risk weight assets after credit risk mitigation based on the collateral security.

a: Rs.10 cr b: Rs.9.40 cr c: Rs.0.60 cr d: Rs.0.30 cr

Answers : 1-b 2-c 3-d

Explanation :

The following formula is used for calculation of Exposure amount for collateralised transactions:

E = Max{ 0, [Ex (1 + He)—Cx(1 — Hc— HFX)] I

Where,

E = Exposure value after risk mitigation

E = Current value of the exposure

He = Haircut appropriate to the exposure

C = Current value of the collateral received

He = Haircut appropriate to the collateral

HFX = Haircut appropriate for currency mismatch between the collateral and exposure

Que-1. As per RBI guidelines, the risk weight for such loans is 50%. The heir cut for such exposure is zero. The hair cut of collateral being 6%, the value of collateral = 9.40 cr (10 cr — 0.60 cr). Hence, the net exposure = Rs.0.60 cr. With 50% risk weight the value of RWA = 0.60 cr x 50% = Rs.0.30 cr.

Que-2. As per RBI guidelines, the risk weight for such loans is 50%. The heir cut for such exposure is zero. The hair cut of collateral being 6%, the value of collateral = 9.40 cr (10 cr — 0.60 cr). Hence, the net exposure = Rs.0.60 cr. With 50% risk weight the value of RWA = 0.60 cr x 50% = Rs.0.30 cr.

Que-3. As per RBI guidelines, the risk weight for such loans is 50%. The heir cut for such exposure is zero. The hair cut of collateral being 6%, the value of collateral = 9.40 cr (10 cr — 0.60 cr). Hence, the net exposure = Rs.0.60 cr. With 50% risk weight the value of RWA = 0.60 cr x 50% = Rs.0.30 cr.

Calculation of Admissible Additional Tier 1 and Tier 2 capital as per Basel III Universal bank calculated the ca ital ad uacy ratios as under:

Common Equity Tier 1. Ratio	8.5% of risk weighted assets

Capital conservation buffer	2.5% of risk weighted assets
PNCPS / PDI	3.5% of risk weighted assets
Tier 2 capital issued by bank	2.5% of risk weighted assets
Total capital available	17% of risk weighted assets

As per Basel III rules of RBI, for the purpose of reporting Tier 1 capital and CRAR, any excess Additional Tier 1 (AT1) capital and Tier 2 (12) capital will be recognised in the same proportion as that applicable towards minimum capital requirements. At min 9% total capital, the max AT1 can be 1.5% and 12 can be max 2%. On the basis of given information, answer the following questions:

01 What is the amount of total CE I. capital:
a: 9% b: 10% c: 11% d: 12%

02 What is the amount of PNCPS / PDI eligible for Tier1?
a: 3% b: 2.5% c: 2.125% d: 1.375%

03 What is the amount of PNCPS / PDI not eligible for Tier I?
a: 3% b: 2.5% c: 2.125% d: 1.375%

04 What is the amount of Tier 2 eligible for CRAR?
a: 2% b: 2.5% c: 2.833% d: 0.333%

05 What is the amount of PNCPS / PDI eligible for Tier2?
a: 2% b: 2.5% c: 2.833% d: 0.333%

06 What is the amount of PNCPS / PDI not eligible for Tier 2 capital?
a: 1.375% b: 1.042% c: 2.125% d: 0.333%

07 What is the total amount of eligible capital?
a: 17% b: 16.43% c: 15.96% d: 14.13%

Answers : 1-c 2-c 3-c 4-c 5-d 6-b 7-c

Explanation

Que-1 : Total CET1 = CETI. + CCB = 8.5% + 2.5% = 11% **Que-2 :** PNCPS / PDI eligible for Tier 1 = 1.5 / 6 x 8.5 = 2.125% **Que-3 :** PNCPS / PDI not eligible for Tier 1 = 3.5 - 2.125 = 1.375% **Que-4 :** Tier 2 eligible for CRAR = 2 / 6 x 8.5 = 2.833% **Que-5 :** PNCPS / PDI eligible for Tier 2 = 2.833 - 2.5 = 0.333% **Que-6:** PNCPS / PDI not eligible for Tier 2 = 1.375 - 0.333 = 1.042%

Que-7 : Total CE I. = CET1 + CCB = 8.5% + 2.5% = 11%

PNCPS / PDI eligible for Tier 1 = 1.5 / 6 x 8.5 = 2.125%

PNCPS / PDI not eligible for Tier 1 = 3.5 - 2.125 = 1.375%

Tier 2 eligible for CRAR = 2 / 6 x 8.5 = 2.833%

PNCPS / PDI eligible for Tier 2 = 2.833 - 2.5 = 0.333%

PNCPS / PDI not eligible for Tier 2 = 1.375 - 0.333 = 1.042%

Total capital available :

= CETI. + AT1 + T2 = 11% + 2.125 + 2.833 = 15.958 or 15.96%

Case study on calculation of eligible amount of profits earned after previous financial year, for inclusion in Capital Fund under Basel III.

Bank-A had capital adequacy ratio of 11.33% as on March 31, 2016 and risk weighted assets of Rs.50000 cr. Bank paid annual average dividend of Rs.200 crore during the previous 3 years. In the current year, bank earned a net profit of Rs.100 cr in the first quarter (Jun 2016) and Rs.130 cr in the 2nd quarter (Sep 2016).

On the basis of given information, answer the following questions:

01 What is the amount of profit eligible for inclusion in capital fund at the end of 2nd quarter.

a Rs.230 cr b Rs.200 cr c Rs.130 cr d Rs.100 cr

02 Out of the following, the capital fund increase will be represented by increase in ...

a Common Equity Tier-1 capital b Additional Tier-1 capital c Tier-2 capital d Capital conservation buffer

03 If the level of risk weighted assets remains at Rs.54000 cr as on Sept 30, 2016, what is the capital adequacy ratio of the bank as on :30.09.16?

a 11.33% b 11.57% C 11.:77% d 11.98%

Answers : 2-A, 3-B

Solution:

01 Profit eligible for inclusion in capital fund at end of Sep 2016

Eligible profits EP_t= {NPt - 0.25 D (EP_t stands for eligible profit up to the quarter. t varies from 1 to 4. NP_t stands for net profit up to quarter t and D is average annual dividend paid during last 3 years)

EP_t= - 0.25 D = 230 — 0.25 200 x 2 = 230 — 100 = 130 cr

02 The current year profit, if taken to be included in capital fund shall become part of Common Equity Tier-1 capital, as per RBI guidelines.

03 If the level of risk weighted assets is Rs.54000 cr as on Sept 30, 2016, the capital adequacy ratio of the bank as on 30.09.16: Existing capital = Rs.6118 cr (54000/11.33)
New capital = 6118 + 130 = 6248.
CAR = 6248 / 54000 x 100 = 11.57%

Case study on calculation of amount investment by banks in instruments issued by other banks as per Basel III guidelines of RBI

Bank-Z has surplus funds and plans to:

1. invest Rs.500 cr in the equity issued by bank X
2. invest Rs.200 cr in the capital of a subsidiary company, being promoted by the bank.
3. Lend Rs.400 cr against fully paid up equity shares of Bank Y with a paid up equity capital of Rs.1000 cr.

The paid-up capital and reserves of Bank Z are Rs.400 cr and its capital funds as calculated as per Basel III are Rs.600 cr.

On the basis of given information, answer the following questions:

RBI guidelines : When banks invest in equity of other banks and financial institutions, they have to comply with the following:

1. Max investment in equity can be up to 10% of their capital funds.
2. Investment should not be more than 5% of investee bank's equity capital.
3. Investment in 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 max 30% of its own paid up capital and reserves or 30% of paid up capital of the company, whichever is lower.

On the basis of given information, answer the following questions:

01 What is the maximum amount that Bank-Z can invest in equity issued by Bank-X?

a Rs.500 cr b Rs.120 cr c Rs.60 cr d Rs.40 cr

02 What is the maximum amount that Bank-Z can invest in equity of its subsidiary company?

a Rs.200 cr b Rs.120 cr c Rs.60 cr d Rs.40 cr

03 What is the maximum amount that Bank-Z can lend against equity shares issued by Bank-Y?

a Rs.400 cr b Rs.120 cr c Rs.60 cr d Rs.40 cr

Answers : 1-C, 2-D, 3-B Solution:

01 - Maximum amount Bank-Z can invest in equity issued by Bank-X: Capital funds of Bank Z = 600 cr. Max investment = 10% of 600 = 60 cr

2: Maximum amount Bank-Z can invest in equity of subsidiary company Paid up capital + reserves of Bank Z = 400 cr. Max investment = 10% of Rs.400 cr = Rs.40 cr.

3.Max amount Bank-Z can lend against equity shares issued by Bank-X: Paid up capital + reserves of Bank Z = 400. 30% of 400 = 120 cr Paid up capital of Bank X = 1000. 30 of 1000 = 300 cr. Hence maximum investment can be Rs.120 cr.

Case study on Role of Supervisor under Pillar-2 of Basel III

Under Pillar-2 of Bagel III, there are 4 principles of Supervisory Review. Based on these principles, answer the following questions:

01 Supervisor should have the ability to require the banks to hold capital in excess of minimum required capital as per:

a Principle-1 b Principle-2 c Principle-3 d Principle-4

02 Supervisor should review and evaluate a bank's compliance with the regulatory capital, as per :

a Principle-1 b Principle-2 c Principle-3 d Principle-4

03 Supervisor should seek to intervene at an early stage to prevent capital from falling below the minimum regulatory level as per:

a Principle-1, b Principle-2 c Principle-3 d Principle-4

Answers : 1-C, 2-B, 3-D

Solutions:

Under Pillar-2 of Basel III, there are 4 principles of Supervisory Review as under:

Principle-1 : Banks should have a process to make internal assessment of its capital requirements

Principle-2 : Supervisor should review and evaluate a bank's compliance with the regulatory capital

Principle-3 : Supervisor should have the ability to require the banks to hold capital in excess of minimum required capital

Principle-4 : Supervisor should seek to intervene at an early stage to prevent capital from falling below the minimum regulatory level:

Case study on Calculation of Capital Ratios as per Basel III

Popular Bank Ltd has provided following information as on 31.03.16 (amount in crores of rupees)

Open position in foreign currency	200
Term loan to an Indian corporate with A rating	300
Staff loans fully secured as per bank policy	1500
Loans guaranteed by CGTMSE	1600
Housing loans guaranteed by CRGFLIG	100
Individual house loans amount < 30 lac, LW 75%	2000
Retail loans	1000
Other loans	600
Cash with other banks with CAR of 9%	300
Credit cards issued by the bank	200
	7800

Amount of Additional Tier-1 @1.5% 45.15

Based on this information, answer the following questions:

01 What is the amount of risk weight of assets in respect of incividual home loans:

a 2030 b 1000 c 703 d zero

02 What is the amount of risk weight of assets in respect of loans to Indian corporates:

a 30) b 375 c 60 d 150

03 What is the capital ratio requirement for credit cards?

a 9% b 11.25% c 6.75% d 4.50%

04 What is the amount of total risk weight of all assets?

a 7800 b 3010 c 5030 d 6040

05 Wiat is the amount of total capital requirement?

a 270.90 b 165.55 c 45.15 d . 60.20

06 What is the required amount of Common Equity Tier-1 capital?

a 270.90 b 165.55 c 45.15 d 60.20

Answers : l-c, 2-d, 3-b, 4-b, 5-a, 6-b

Open position in foreign currency	NO	100%	200
Term loan to an Indian corporate with A rating	300	50%	150
Staff loans fully secured as per bank policy	1500	20%	300
Loans guaranteed by CGTMSE	1600	0%	0
Housing loans guaranteed by CRGFLIG	100	0%	0
Individual house loans amount < 30 lac, LTV 75%	2000	35%	700
Retail loans	1000	75%	750
Other loans	600	100%	600
Cash with other banks with CAR of 9%	300	20%	60
Credit cards issued by the bank	200	125%	250
	7800		3010

Amount of capital funds @ 9% 270.9

Amount of Common Equity Tier-1 @5.5% 165.55

Amount of Tier-2 capita @2% 60.2

Amount of capital for credit cards : 9% X 125% = 11.25%

Case study on Capital Conservation Buffer in Basel III

The following information relating to 5 different banks is avaiiable:

Bank	Common Equity Tier-1 Ratio	Net profit after tax and provisions (Rs.cr)
Bank-A	5.75%	800
Bank-B	6.5%	1200
Bank-C	6.8%	600
Bank-D	7.75%	1700
Bank-E	8.1%	1100

RBI rules regarding CCR provide as under:

Ratio after including the current periods	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
5.5% - 6.125%	100%
>6.125% - 6.75%	80%
>6.75% - 7.375%	60%
>7.375% - 8.0%	40%
>8.0%	0%

Based on the given information, answer the following questions:

01 What is the amount of net profit which the Bank-A is required not to distribute to ensure compliance of Basel III prescription.

a: Rs.800 cr b: Rs.640 cr c: Rs.480 cr d: Rs.320 cr

02 What is the maximum amount which the Bank-B can distribute as dividend to ensure compliance of Basel III prescription.

a: Rs.300 cr b: Rs.240 cr c: Rs.160 cr d: Rs.60 cr

03 What is the amount of net profit which the Bank-C is required not to distribute to ensure compliance of Basel III prescription.

a: Rs.600 cr b: Rs.360 cr Rs.240 cr d: Rs.120 cr

04 What is the maximum amount which the Bank-D can distribute as dividend to ensure compliance of Basel III prescription.

a: Rs.1700 cr b: Rs.1520 cr c: Rs.1280 cr d: Rs.1020 cr

05 What is the maximum amount which the Bank-E can distribute as dividend to ensure compliance of Basel III prescription.

a: Rs.1:.00 cr b: Rs.880 cr c: Rs.660 crd: Rs.440 cr

06 What is the maximum amount which these Banks can distribute as dividend to ensure compliance of Basel III prescription.

a: Rs.3200 cr b: Rs.2980 cr Rs.2600 cr d: Rs.2440 cr

Answers : 1-a 2-b 3-c 4-d 5-a 6-c

Explanation:

Que-1. Ratio of Bank-A is 5.75% due to which it is required to conserve 100% of its earning. Hence amount to be conserved = 800 x 100% = 800 cr. The max amount that can be distributed = Nil.

Que-2. Ratio of Bank-B is 6.5% due to which it is required to conserve 80% of its earning. Hence amount to be conserved = 1200 x 80% = 960 cr. The max amount that can be distributed = 1200 — 960 = Rs.240 cr. **Que-3.** Ratio of Bank-C is 6.8% due to which it is required to conserve 60% of its earning. Hence amount to be conserved = 600 x 60% = 360 cr. The max amount that can be distributed = 600 — 360 = Rs.240 cr. **Que-4.** Ratio of Bank-D is 7.75% due to which it is required to conserve 40% of its earning. Hence amount to be conserved = 1700 x 40% = 680 cr. The max amount that can be distributed = 1700 — 680 = Rs.1020 cr. **Que-5.** Ratio of Bank-E is 8.1% due to which it is required to conserve 0% of its earning. Hence amount to be conserved = 1100 x 0% = 0 cr. The max amount that can be distributed = 1100 cr.

Que-6. 240 + 240 + 1020 + 1100 = 2600

SOME MORE CASE STUDIES

Case Studies on Risk Identification

Case No: 1

A Gujarat based cooperative bank permitted loans amounting to Rs.1500 cr to the group companies of M/s Patel and Shah Limited, against overpriced shares of group companies. The following modus operandi was followed by the bank in disbursing these loans:

The bank will issue pay orders to the borrower without having any real cash balance in their account or without ensuring funding requirements as necessary in case of pre-paid instruments. M/s Patel and Shah Limited was having an account with bank B at a branch in Ahmedabad. Bank B discounted the pay order issued by the cooperative bank amounting to Rs.112 cr and presented these through clearing house. But *the* cooperative Bank failed to honour the pay order due to lack of fund. Resultantly, the pay orders were dishonoured. The clearing house regulator put embargo on the cooperative Bank. Bank B is still to recover Rs.90 cr form M/s Patel and Shah Limited out of total of Rs.112 cr.

Later on the investigations revealed that on the day of failure to make payment by the cooperative Bank, 65% of the pay orders discounted by Bank B belonged to the cooperative Bank.

Bank B now hold its manager responsible for inadequate management control.

It is also found that around 65% of total loans given by the said cooperative Bank were restricted to 12 entities.

The collapse of the said cooperative Bank had a chain reaction in other cooperative banks.

Based on the above facts, answer the following questions:

01 Bank B's loss of Rs.90 *or* in discounting the pay orders is falls under: a) credit risk
'b) operational risk
c) market risk
d) combination of credit risk and operational risk

02 Cooperative Bank's outstanding loans to M/s Patel and Shah Limited group was more than 38% of their capital funds. Such high exposure to a single group by a bank is against the regulatory guidelines to avoid: **a)** concentration risk b) systematic risk
c) funding risk d) reputation risk

03 RBI is hesitant, for the time being to put embargo or ordered liquidation of the said cooperative Bank, as it could lead to possible:
a) legal risk b) systemic risk
c) counterparty risk d) liquidity risk

04 As per existing guidelines of RBI, the cooperative Bank was required to disclose their exposure to capital market under the heading of:
a) segment reporting
b) transaction with related parties
c) exposure to sensitive sectors
d) maturity pattern of assets and liabilities

Ans- 1-d 2-a 3-b 4-c

Explanations:

Qua-1: Credit risk because it involves borrowing. Operational risk because of staff negligence.

Que-2: Major portion of the advances relate to one group.

Que-3: Systemic risk means the risk of failure of a banking system due to failure of a major bank.

Que-4: Banks are submitting information to RBI on sensitive sector advances such as capital market exposure, commodity exposure etc.

CASE STUDIES ON ASSET LIABILITY MANAGEMENT

Case-1

As per RBI guidelines on ALM, capital and reserves are to be placed in over 5 years bucket, Savings Bank and Current Deposits may be classified into volatile and core portions. Savings Bank (10%) and Current (15%) Deposits are generally withdrawable on demand. This portion may be treated as volatile. While volatile portion can be placed in the time bucket 14 days, the core portion may be placed in over 1-3 years bucket. The term deposits are to be placed respective maturity buckets.

Capital — Rs. 1180 cr, Reserves — Rs. 12000 cr, Current account — Rs. 1000 cr, Saving Bank — Rs. 4000 cr, Term deposits 1 month maturity bucket — Rs. 400 cr, 1 to less than 3 months maturity bucket Rs. 800 cr, 3 months to less than 6 months maturity bucket — Rs. 1200 cr, 6 months to less than 12 maturity bucket Rs. 2000 cr, 1 year to less than 3 years maturity bucket — Rs. 1200 cr, 3 years to less than 5 years maturity bucket — Rs. 600 cr and above 5 years maturity bucket — Rs. 800 cr. Borrowing from RBI — Rs. 400 cr.

Based on the given information, answer the following questions:

01 What is the amount of current account deposit that can be placed in 14 days bucket:

a) Rs. 100 cr b) Rs. 150 cr c) Rs. 200 cr d) Nil

02 What is the amount of saving bank deposit that can be placed in 14 days bucket:

a) Rs. 100 cr b) Rs. 200 cr c) Rs. 300 cr d) Rs. 400 cr

03 What is the amount of current account deposit that can be placed in 1-3 years bucket:

a) Rs. 100 cr b) Rs. 400 cr c) Rs. 800 cr d) Rs. 900 cr

04 What is the amount of saving bank deposit that can be placed in 1-3 years bucket:

a) Rs. 4000 cr b) Rs. 3600 cr c) Rs. 3200 cr d) Rs. 3000 cr

05 What is the total of amount of term deposit that will be placed in various maturity buckets up to less than 12 months;

a) Rs. 2400 cr b) Rs. 2800 cr c) Rs. 3200 cr d) Rs. 4400 cr

Answers: 1-b 2-d 3-d 4-b 5-d

Explanations:

Que-1: Volatile portion of 15% to be placed in this bucket. Hence = 1000 x 15% = 150 cr **Que-2:** Volatile portion of 10% to be placed in this bucket. Hence = 4000 x 10% = 400 cr **Que-3:** Non-volatile portion of 90% to be placed in this bucket. Hence = 1000 x 90% = 900 cr **Que-4:** Non-volatile portion of 90% to be placed in this bucket. Hence = 4000 x 90% = 3600 cr **Que-5:** 400+800+1200+2000 = 4400 cr

Case-2

International Bank has following assets and liabilities in its balance-sheet as on Mar 31, 2010:

Capital — Rs. 4000 cr, Reserves — Rs. 24000 cr, Current accounts — Rs. 120000 cr, Saving *Bank* accounts — Rs. 120000 cr, Term deposits — Rs. 120000 cr, Borrowing from RBI — Rs. 12000 cr, cash balances — Rs. 27600 cr, balances with other banks — Rs. 60000cr, investment in securities — Rs. 60000 cr, bills payable — Rs. 80000 cr, cash credit — Rs. 80000 cr, term loans — Rs. 80000 cr and fixed assets — Rs. 12400 cr. Total assets and total liabilities = Rs. 400000 cr. The term loans have fixed rate of interest. Based on this information, answer the following questions.

01 What is the amount of interest rate sensitive assets:

a) Rs. 252000 b) Rs. 320000 c) Rs. 360000 d) Rs. 400000

02 What is the amount of interest rate sensitive liabilities:

a) Rs. 252000 b) Rs. 320000 c) Rs. 360000 d) Rs. 400000

03 In this case, how much and what type of gap in rate sensitive assets and liabilities, the bank is having: — -

a) Rs. 108000 cr, Negative gap b) Rs. 108000 cr, Positive gap

c) Rs. 120000 cr, negative gap d) Information is inadequate

04 What is the amount of Tier-1 capital of the *bank:*

a) Rs. 4000 cr b) Rs. 24000 cr c) Rs. 28000 cr d) Inadequate information

Answers: 1-c 2-a 3-b 4-c

Explanations:

Que-1: Assets other than cash and other assets are rate sensitive. Hence 400000 — 27600 **Q**

que-2: Liabilities other than capital, reserves and current accounts are rate sensitive 400000 4000 — 24000 –120000 = Rs. 252000 cr

Que-3: Interest sensitive assets are more than interest sensitive liabilities i.e. 360000 Hence, there is positive gap.

Que-4: Tier-1 capital comprises reserves and capital. Hence 4000 + 24000 = 28000 cr

Case-3

The bank-wise maturity profile of select deposit category of banks in %age terms of select maturity buckets, as on Mar 31, 2010 is as under: (figures in %age)

Liability/Asset	(PSU Banks	Old Private Banks	New Pvt Banks	[Foreign Banks
Deposits	100	100	100	100
Up to 1 year	33	54	52	44
Over 1 yr to 3 years	37	33	44	44
Over 3 year to 5 years	13	6	3	4

Over 5 years	17	7	1	8

On the basis of given information, answer the following questions:

01 There is decline in rate of interest of 2% for a period up to 1. year. The bank group which will gain most is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

02 There is decline in rate of interest of 2% for a period up to 1 year. The bank group which will gain least is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

03 There is increase in rate of interest of 1% for deposit with a period above 1 *year* to 5 *years.* The bank group which will be most affected adiersely is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

04 There is increase in rate of interest of 1% for deposit with a period above 1 year to 5 years. The bank group which will be list affected adversely is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

05 The *bank* group which is more relying on long term deposits above 3 years:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

Answers: 1-b 2-a 3-a 4-b _5-a

Explanations:

Que-1: Old private banks are dependent up to 54% deposits in up to 1 year category. Hence they gain most. **Que-2:** Public sector banks have the lowest amount of deposit in this category 33%. Hence they gain least. **Que-3:** PSU banks have 50% of their deposit in this category, which is highest in all the 4 bank groups. Hence they are affected most.

Que-4: Old private banks have 39% of their deposits in this category which lowest. Hence they are least affect. **Que-5:** PSU banks are having 30% of their deposits in this category, which is highest.

Case- 4

The bank-wise maturity profile of borrowing of banks in %age terms of select maturity buckets as on Mar 31, 2010 is as under☹ Figures in %age)

Liability/Asset	PSU Banks	Old Private Banks	New Pvt Banks	Foreign Banks
Deposits	100	100	100	100
Up to 1 year	81	84	51	84
Over 1 yr to 3 years	15	3	45	11
Over 3 year to 5 years	2	6	2	3
Over 5 years	2	7	2	2

on the basis of given information, answer the following questions

01 There is increase in rate of interest of 2% for a period over 5 years. The bank group which Will lose most is: a) PSU Banks b) Old Private Banks c) New Private Banks d) Foreign Banks

02 There is increase in rate of interest of 2% for a period over 1 year up to 3 years. The bank group which will lose most is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

03 *There* is decrease in rate of interest of 0.5% for a period of over 3 years to 5 years. The bank group which will *gain* most is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

04 There is decrease in rate of interest of 0.5% for a period of up to 1 year. The bank group which will gain least is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

05 The bank group which is depending most on over 3 *years'* borrowing is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

Answers: 1-b 2-c 3-b 4-c 5-b

Explanations:

Que-1: Old private banks carry the largest %age borrowing of 7% in this bucket. Hence highest cost increase. **Que-2:** New private banks carry the largest %age borrowing of 45% in this bucket. Hence highest cost increase.

Que-3: Old private banks carry the largest %age borrowing of 6% in this bucket. Hence highest cost decrease. **Que-4:** New private banks carry the smallest %age borrowing of 51% in this bucket. Hence lowest cost decline.

Que-5: Old private banks carry the largest %age borrowing of 13% in this bucket.

Case- 5

The bank-wise maturity profile of select loans and advances banks in %age terms of select maturity buckets as on Mar 31, 2010 is as under: (figures in %age)

Liability/Asset	PSU Banks	Old Private Banks	New Pvt Banks	Foreign Banks
Deposits	100	100	100	100
Up to 1 year	39	42	42	54
Over 1 yr to 3 years	37	32	31	18
Over 3 year to 5 years	11	6	12	4
Over 5 years	13	20	15	24

01 There is increase in rate of interest of 0.5% for a period up to 1 year. The bank group which will gain most is:
a) PSU Banks b) Old Private Banks
c) New Private Banks V Foreign Banks

02 There is increase in rate of interest of 0.5% for a period up to 1 year. The bank group which will gain least is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

03 There is decrease in rate of interest of 1.5% for a period of above 1 year to 3 years. The bank group which will lose least is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

04 There is *decrease* in rate of interest of 1.5% for a period of above 1 year to 3 years. *The* bank group which will lose most is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

05 If there is upward movement in interest rare scenario for loans, the bank group having highest %age of loans due for repricing for up to one year term is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks

Answers: 1-d 2-a 3-d *4-a* **5-d**

Explanations:

Que-1: Foreign banks carry the largest %age loans and advances of 54% in this bucket. Hence highest interest increase on loans.

Que-2: PSU banks carry the smallest %age loans and advances of 39% in this bucket. Hence lowest interest increase on loans.

Que-3: Foreign banks carry the smallest %age loans and advances of 18% in this bucket. Hence lowest interest decrease on loans.

Que-4: PSU banks carry the highest %age loans and advances of 37% in this bucket. Hence highest loss of interest.

Que-5: Foreign banks having the largest %age of 54% in this category.

Case- 6

The bank-wise maturity profile of select investments of banks in %age terms of select maturity buckets as on Mar 31, 2010 is as under : (Figures in %age)

Liability/Asset	PSU Banks	Old Pvt Banks	New Pvt Banks	Foreign Banks
Investments	100	100	100	100
Up **to 1** year	13	14	53	45
Over 1 yr to 3 year	16	13	42	34

Over 3 year to 5 year	22	9	2	5
Over 5 year	49	64	3	16

01 There is decrease in average yield of 0.75% for up to 1 year maturity. The bank group which will lose most is:
a) PSU Banks *b)* Old Private Banks
c) New Private Banks d) Foreign Banks
02 There is decrease in average yield of 0.75% for over 5 years maturity. The bank group which will lose least is :
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks
03 --There is increase in average yield of 1.05% for over 5 years maturity. —The bank group which will gain-most is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks
04 There is increase in average yield of 1.05% for over 5 years maturity. The bank group which will gain least is:
a) PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks
05 Assume that most of the investment comprise investment in govt. bonds and have negligible investments in shares and debentures. There is increase in market rate of interest of 1%. The highest diminution in the value of investment will be faced by in the over 5 year category:
a) • PSU Banks b) Old Private Banks
c) New Private Banks d) Foreign Banks 7
Ans. 1-c 2-c 3-b • 4-c 5-b
Explanations**:**

Que-1: New private banks have **the** highest i.e. 53%age of their investment in_ Phis category. Hence they will loose **the most**

Que-2: New private banks have the lowest %age of 3% in this category. Hence, their loss will be lowest.

Que3: Old private banks have the highest %age of 64% in this category. Hence, they gain most.

Que-4: New private banks have the lowest %age of 3% in this group. So they gain least.

Que-5: Old private banks have largest i.e. 64% of their investment in this category. The diminution (decline) in **value will** *be* highest in their case.

CASE STUDIES: INTEREST RATE RISK MANAGEMENT

Case- I

International Bank has come out with a policy for its branches for acceptance of deposits and granting of advances. its branches have taken deposits and allowed loans as under:

01 One of its branches accepted a deposit of Rs.10 lac which is to double in 10 years. These funds have been invested by the bank in a 3 year bond carrying interest rate of 13%. Which of the following kind of risk the bank is facing:
a) yield curve risk b) embedded option risk
c) basis risk d) reinvestment risk

02 The deposits as well as advance are linked by the bank to floating rate. The bank has been facing: a) real interest rate risk b) basis risk
0) reinvestment risk d) volatility risk

03 A branch has given a loan out of deposits at floating rate. The rate of interest on deposit has been linked by the bank with 91 days treasury bill rate and for the loan it is linked to 364 days treasury bill rate. The risk from such situation is called"
a) gap or mismatch risk b) interest risk
c) yield curve risk d) basis risk

04 The bank has advised its branches that while sanctioning a term loans, they must put a condition that premature payment will not be accepted in any circumstances. By putting this condition, the bank has avoided which type of interest rate risk?
a) yield curve risk b) Embedded option risk
c) Mismatch risk d) Basis risk

05 The depositors at times, have the tendency to withdraw the deposits before maturity, which leads to
a) yield curve risk **b)** embedded option risk
c) basis risk d) reinvestment risk

Ans. 1-d 2-b 3-c 4-b 5-b
Explanations:

Que-1: The bank has accepted a deposit with a maturity of 10 years, but the investment has to be rolled over after 3 year and will pose the reinvestment risk.

Que-2: Where the interest rate of different assets and liabilities may change in different magnitudes such interest rate risk, is called basis risk.

Que-3: Where the interest rates on deposit and advance can vary and not necessarily identically, the yield curve risk arises.

Que-4: Embedded option risk is the risk associated with the right given to the borrower to pre-pay their loans or right given to their depositors, to withdraw the deposit before maturity.

Que-5: Embedded option risk is the risk associated with the right given to the borrower to pre-pay their loans or right given to their depositors, to withdraw the deposit before maturity.

Case 2

Mumbai branch of Popular Bank granted term loan of Rs. 2 cr to a reputed corporate client for 6 years at 2% + Base rate. Presently, the *base* rate of the bank is 10%. The loan will be repaid by the company in 20 equal quarterly installments with a moratorium period of 6 months. The loan has been funded by the bank out of fixed deposit @ 7% fixed rate of interest, of equal amount, with a maturity period of 4 years. The CRR and SLR are to be ignored fbr the purpose of any calculations.

01 In this case, the loan *is* carrying floating rate and deposit is carrying fixed rate. If rate of interest is reduced during the first 4 years i.e. during the period of FDR, what type of risk, the bank is exposed to:

a) Funding risk b) Embedded option risk c) Basis risk • d) Gap or mismatch

02 The rate of interest at the and of 4 years on loan and on the fresh deposit to be raised for funding this loan can be different. This is called:

a) Reinvestment risk b) Embedded option risk c) Basis risk d) Gap or mismatch

03 With quarterly repayment of the loan, the repayment amount have to be deployed by the bank elsewhere and the rate of interest may not *be* at par with the interest being charged on the loan. Due to this, the bank is exposed to:

a) Reinvestment risk b) Embedded option risk c) Basis risk d) Gap or mismatch

04 There is a possibility that the company may pre-pay the loan or the depositor may withdraw the deposit pre-maturely. Due to this, the bank is exposed to:.

a) Reinvestment risk b) Embedded option risk c) Basis risk d) Gap or mismatch

05 Which of the following other risk is not associated with this transaction:

a) Liquidity risk b) Market risk Credit risk d) Operational risk

Answers: 1-c 2-d 3-a 4-b 5-b

1. **Explanations:** If change in interest rate is of different magnitude, for an asset and its funding liability, such risk is called basis risk.
2. The gap or mismatch risk arises when cost of funding does not match the return on funds and bank finds it difficult to fund the investment gainfully.
3. Reinvestment risk is the risk on account of lack of opportunities to invest the funds at the acceptable rate of return.
4. Embedded risk represents a situation where the counter party is given the option to terminate the transaction before the fixed price of the contract.
5. Market risk is associated with the trading book items. Hence market risk is not associated with this transaction. Other risks are possible.

Case -3

Basic Principles

If Rate sensitive assets are more than Rate sensitive liabilities, there is a positive gap and if Rate Senstivie liabilities are more than Rate sensitive assets, *there* is negative gap.

If there is negative gap Nll increases if there is decline in interest rate and if there is positive gap, Nil increases if there is increase in interest rates.

The international Bank, provides following data regarding rate sensitive assets and liabilities of the bank as on 31St Mar 2010. The Nil **sp**read in percentage terms for the bank is **1.5%.**

Time of buckets	Assets	Liability	Gap	Cumulative gap
1-28 days	800	1000	-200	-200
29 days to 3 months	650	550	100	-100
3-6 months	2700	3150	-450	-550
6-12 months	450	600	-150	-700
1-3 years	150	300	-150	-850
3-5 years	450	200	250	-600
Over 5 years—	1000	200	800	200
Non-sensitive	300	500	-200	0
Total	6500	6500	0	

Using the details given above, answer the following questions.

01 if interest rate falls by 25 bps, in the first time bucket, the likely impact on the NII for the bank shall be :

a) +15.50 cr b) +0.50 cr

c) Overall impact will be nil

d) +0.05 or

02 In terms of extant RBI guidelines on ALM, the maximum non-sensitive assets, a bank can have in percentage to total assets is.

a) 25% b) 10%

c) no such restriction by RBI

d) 20% ¯03 The total rate sensitive assets for the banks is Rs.

a) 6500 b) 6200

c) 6300 d) 6000

04 In rising interest scenario, the bank will have a impact of interest rate changes on NU:

a) favourable b) adverse

c) insufficient input d) neutral

Ans. 1-b 2-c 3-b 4-a

Explanation:
Que-1: 200 x 0.25% = 0.50 cr i.e. gain of 0.5 crore. When gap is negative bank gains when interest rate goes down
Que-2: There is no such ceiling prescription of RBI.
Que-3: 6500--300 = 6200
Que-4: Rate sensitive 6200 and liabilities 6000. Bank is asset sensitive. Hence in a rising scenario, the bank gains and in declining, the bank loses.

Case-4

The International Bank, provides following data regarding rate sensitive assets and liabilities of the bank as on 31st Mar 2010. The Nil spread in percentage terms for the bank is 2.00%

Time of buckets	Assets	Liability	Gap	Cumulative gap
1-28 days	2100	2400	-300	- -300
29 days to 3 months	2400	2200	200	-100
3-6 months	3100	3700	-600	-700
6-12 months	1200	1400	-200	-900
1-3 years	300	500	-200	-1100
3-5 years	800	300	500	-600
Over 5 years	900	100	800	200
Non-sensitive	800	1000	-200	0
Total	11600	11600	0	

01 If interest rate falls by 30 bps, in the time bucket (3-6 months), the likely impact on the Nil for the bank shall be :
a) +18.00 cr b) +9.00 cr
c) -18.00 cr d) +1.80 cr
02 In terms of extant RBI guidelines on ALM, the maximum non-sensitive assets, a bank can have in percentage to total assets is.
a) 15% b) 5%
c) 1% d) no such restriction by RBI
03 The total rate sensitive assets for the banks is Rs.
a) 11600 b) 11300
c) 11100 d) 10800
04 The declining interest scenario, the bank will have a impact of interest rate changes on Nil:
a) favourable b) adverse
c) insufficient input d) neutral
Ans. 1-d 2-d 3-d 4-b
Explanation:
Que-1: 600 x 0.30% = 1.80 cr
Que-2: There is no such restriction imposed by RBI.
Que-3: 11600-800 = 10800
Que-4: Rate sensitive 10800 and liabilities 10600. Bank is-asset sensitive. Hence in a rising scenario, the bank gains and in declining, the bank loses.

Case-5

International Bank has the following re-pricing assets and liabilities:
Call money - Rs. 300 cr
Cash credit loans — Rs. 240 a
Cash in hand — Rs. 200 cr
Saving Bank — Rs. 300 cr
Fixed Deposits — Rs. 300 cr
Current deposits — Rs. 250 a
On the basis of above information, answer the following questions:
01 What is the adjusted gap in re-pricing assets and liabilities:
a) Rs. 540 cr b) Rs. 600 cr
c) Rs. 60 cr negative d) Rs. 60 cr positive
02 What is the change in net interest income, if interest falls by 2% points across the board i.e. for all assets and liabilities:
a) Improves *by* Rs. 1.20 cr
b) Declines by Rs. **1.20** cr
c) Changes by Rs. 1 cr
d) There is no change
03 **if the interest rates on** assets and liabilities increase by 2%, what is the change in net interest income:
a) Improves by Rs. 120 cr
b) Declines by Rs. 1.20 cr
c) Change by Rs. 1 cr

d) There is no change

04 If interest rate falls on call money by 1%, on cash credit by 0.6%, on saving bank by 0.2% and on FD by 1%, what Is change in net interest income:

a) Improves by Rs. 0/2 cr
b) Declines by Rs. 0.82 cr
c) Declines by Rs. 0.84 cr
d) Declines by Rs. 0.96 cr

05 If interest rate increases on call money by 0.5%, on cash credit by 1%, on saving bank by 0.1% and on FD by 0.8%, what is change in net interest income:

a) Improves by Rs. t05 cr
b) Declines by Rs. 0.90 cr
c) Declines by Rs. 1.25 cr
d) Declines by Rs. 1.20 cr

Answers: 1-c 2-a 3-b 4-c 5d

Explanations:

Que-1: (SB+FD) **-** (Call money +CC) = (300+300) — (300+240) = Rs. 60 cr (assets are less than liabilities Hence negative gap). The cash in hand and current account deposits are not subject to re-pricing as these are not interest bearing, hence these have been ignored.

Que-2: There is negative gap (interest bearing liabilities more) of Rs. 60 cr [(300+300) — (300+240)1, which means the interest cost declines @2% on this negative gap, which leads to increase in Nil. Hence it is Rs. 60 cr x 2% = Rs. 1.20 cr.

Que-3: There is negative gap of Rs. 60 cr [(300+300) — (300+240)1, which means that the interest cost increases @2% on this negative gap which leads to decline in Nil. Hence it is Rs. 60 cr x 2% = Rs. 1.20 **Cr.**

Que-4: Fall in interest income in case of assets = (Call -300 x 1% = 3 cr) + (Cash credit -240 x 0.6% = 1.44) = Rs. 4.44cr.
Fall in interest expenses in case of liabilities (SB -300 x0.2 = 0.60 cr) + (300 xl% = 3.00 cr) = 3.60cr Net fall in interest income = 4.44 er — 3.60 cr = 0.84 cr

Que-5: Increase in interest amount in case of assets = (Call -300 x 0.5% = 1.50 cr) + (Cash credit -240 x 1% =2.40) = Rs. 3.90 cr.
Increase in interest amount in case of liabilities (SB -300 x 0.1 = 0.30 cr) + (300 x 0.8% = 2.40 cr) = 2.70 cr
Net improvement = 3.90 cr — 2.70 cr = 1.20 cr.

Case- 6

International Bank has the following re-pricing assets and liabilities:

Call money	- Rs. 500 cr
Cash credit loans	— Rs. 400 cr
Cash in hand	— Rs. 100 cr
Saving Bank	— Rs:500 a
Fixed **Deposits**	— Rs. 500 a
Current deposits	— Rs. 200 cr

There is reduction in rate of interest by 0.5% in call rates, 1% for cash credit, 0.1% for saving bank and 0.8% for FD.

On the basis of above information, answer the following questions:

01 What is the adjusted gap in re-pricing assets and liabilities: a) Rs. 200 cr positive b) Rs. 200 a negative c) Rs. 100 cr positive d) Rs. 100 cr negative

02 Taking into account, the change in interest rate, calculate the amount of re-pricing assets as per the standard gap method in re-pricing assets and liabilities:

a) Rs. 700 a *b) Rs.* 650 cr —
c) Rs. 600 cr d) Inadequate information

03 Taking into account, the change in interest rate, calculate the amount of repricing liabilities as per the standard gap method in repricing assets and liabilities:

a) Rs. 450 cr b) Rs. 400 cr
c) Rs. 300 cr d) Insufficient information

04 What is the standard gap of the bank in repricing assets and liabilities:

a) Rs. 150 cr negative b) Rs. 175 cr positive
c) Rs. 200 cr positive d) Rs. 250 cr negative

01:d 02:b 03:a 04:c

Explanations**:**

Que-1: Adjusted gap = (Call money +CC) –(SB-r-FD) = (500+400) — (500+500) = (-) Rs. 100 cr (assets are less than liabilities — Hence negative gap). The cash in hand and current account deposits are not subject to re-pricing, hence these have been ignored.

Que-2: Call money 500x0.5 = Its. 250 cr + Cash credit 400x1 = 400 cr; Total = 650 cr

Que-3: SB 500 x 0.1 = 50 *cr +* FD 500 x 0.8 = 400 cr; Total = 450 *cr*

Que-4: Assets — Call money 500x0.5 = 250 cr + Cash credit 400 x 1 = 400 cr Total = 650 **Cr**
Liabilities — SB 500x0.1 = 50cr + **FD** 500x0.8 = 400 cr Total = 450 cr
Net change = 650-450 = Rs. 200 cr positive

Case-7

International Bank raised funds by way of 91 days term deposit at 6% rate of interest. It has following options to invest these funds:

(a) 91 days treasury bills @ 8%

(b) 91 days floating rate loan @ 8% with monthly re-pricing

(c) 3 years term loan @ 8%

01 If bank makes investment in 91 days treasury bills @ 8% and during the 91 days period, there is 1% increase in interest rate, what will be change in the net interest income, on reinvestment after 91 days?

a) 1% b) 0.5%

c) No change

d) Inadequate information to take decision

02 If bank invests the *funds* in 91 *days* floating rate loan @ 8% with monthly repricing and there is interest rate rise, what will be impact on net interest income of the bank:

a) NIT will increase *b)* NII will decrease

c) No change in NII d) Information is inadequate

03 If bank invests the funds in 91 days floating rate loan @ 8% with monthly repricing and *there* is interest rate fall, what will be impact on net interest income of the bank:

a) NIT will increase b) NII will decrease

c) No change in NII d) Information is inadequate

04 If bank invests these funds in a 3 years term loan @ 8%, what will be impact on net interest income of the bank, if there is increase in interest rates:

a) NII will increase b) NII will decrease

c) No change in NII d) Information is inadequate

05 If bank invests these funds in a 3 years term loan @ 8%, what will be impact on net interest income of the bank, if there is fall in interest rates:

a) NII will increase b) NII will decrease

c) No change in NH d) Information is inadequate

Answers: 1-c 2-a 3-b 4-b . 5-a

Que-1: Existing cost of deposit = 6% Existing interest on loans = 8%. NII = 8-6 = 2%

New cost of deposit= 6+1 = 7%. New return on treasury bills = 8+1 = 9%. NII = 9-7 = 2%

Hence no change in NII. It will continue to be 2%.

Que-2: Bank is asset sensitive because change in rate of interest on loan will take place twice in 91 days period due to monthly repricing of the loan while the deposit rate will not change during this period. Hence if interest rate increases, the interest income will increase and the NII will increase.

Que-3: Bank is asset sensitive because change in rate of interest on loan will take place twice in 91 days period due to monthly repricing of the loan while the deposit rate will not change during this period. Hence if interest rate falls, the interest income will decline and the **NII** will decline.

Que-4: Bank is liability sensitive because change in rate of interest on deposit will take place after each period of 91 days, as deposits have to be rolled over. On the other hand, the interest on loan will not change during this period. Hence if interest rate increases, the cost of deposits to the bank will increase and there will be no change in interest income. Hence NIT will decrease.

Que-5: Bank is liability sensitive because change in rate of interest on deposit will take place after each period of 91 days, as deposits have to be rolled over. On the other hand, the interest on loan will norchange during this period. Hence if interest rate falls, the cost of deposits to the bank will decrease and there will be no change in interest income. Hence NII will increase.

Case —8

International Bank raised funds by way of 182 days term deposit at 7% rate of interest. It has following options to invest these funds:

(a) 182 days treasury bills @ 9%

(b) 182 days commercial paper at floating rate of @ 9% with monthly re-pricing 7(C) 3 years term loan.@ 9%

01 If bank makes investment in 182 days treasury bills @ 9% and during the 182 days period, there is 1% increase in interest rate, what will be change in the net interest income, on reinvestment after 182 days?

a) 2% b) 1% c) 0,5% d) No change

02 If bank invests the funds in 182 days floating rate commercial paper @ 9% with monthly repricing and there is interest rate rise, what will be impact on net interest income of the bank:

a) NIT will increase *b)* NH will decrease

c) No change in NII d) Information is inadequate

03 If bank invests the funds in 182 days. floating rate commercial paper @ 9% with monthly repricing and there is interest rate fall, what will *be* impact on net interest income of the bank:

a) Nil will increase b) NII will decrease

c) No change in NH d) Information is inadequate

04 If bank invests these *funds in* a 3 years term loan @ $9^0/0$, what will be impact on net interest . income of the bank, if there is increase in interest rates:

a) NIT will increase b) NII will decrease

c) No change in NII d) Information is inadequate

05 If bank invests these funds in a 3 years term loan @ 9%, what will be impact on net interest income of the bank, if there is fall in interest rates**:**

a) NII will increase b) **NII** will decrease

c) No change in NII d) Information is inadequate

A n s w e r s : 1 - d 2 - a 3 - b 4 - b 5 - a

Explanations:

Que-1: Existing cost of deposit = 7% Existing interest on loans = 9%. NII = 9-7 = 2%
New cost of deposit= 7+1 = 8%. New return on treasury bills = 9+1 = 10%. **NII =** 10-8 = 2% Hence no change in NII. It will continue to be 2%.

Que-2: Bank is asset sensitive because change in rate of interest on loan will take place five times during 182 days period due to monthly repricing of the commercial paper while the deposit rate will not change during this period. Hence if interest rate increases, the interest income will increase and the NIX will increase.

Que-3: Bank is asset sensitive because change in rate of interest on loan will take place 5 times during the 91 days period due to monthly repricing of the commercial paper while the deposit rate will not change during this period. Hence if interest rate falls, the interest income will decline and the NIT will decline.

Que-4: Bank is liability sensitive because change in rate of interest on deposit will take place after each period of 182 days, as deposits have to be rolled over during this period to fund the loan. On the other hand, the interest on loan will-not change during this period. Hence if interest rate increases, the cost of deposits to the bank will increase and there will be no change in interest income. Hence NIT will decrease.

Que-5: Bank is liability sensitive because change in rate of interest on deposit will take place after each period of 182 days, as deposits have to be rolled over. On the other hand, the interest on loan will not change during this period. Hence if interest rate fall, the cost of deposits to the bank will decrease and there will be no change in interest income. Hence NII will increase.

Case 9

1. X purchased 20000 shares at Rs. 50 per share (total amount Rs 10 lac) with his own capital plus borrowing from market (his borrowing limit being 9 times of *his* capital. Hence ratio = 1:9). in a few days, there is 2% decline in the value of shares, which reduced the value of his portfolio to Rs. 980000 and also the amount of his capital by Rs. 20000 (leaving capital of Rs. 80000).
2. In the light of reduction in capital of Rs. 80000, he is required to liquidate the holding by Rs. 2 lac (10 times of reduced capital) to pay the excessive borrowing (due to reduced capital). But the market expects further fail in the value of this stock due to which the investment has become illiquid. In such circumstances, he can liquidate the holding at a loss only, which will further deplete his capital, which would force him for further liquidation of his holding for keeping the borrowing in permissible limit of 9 times of capital.
3. In case the liquidity position of the market suffers, it will further drive the share price down, which would result in losses. On the basis of this information, answer the following questions?

01 The risk of adverse movement In the price of shares has reduced the capital. This is called:
a) Price risk b)_Asset liquidity risk
c) Market liquidity risk d) Liquidation risk

02 For a specific security, as in the above case, when the liquidity in the market is reduced, it is called:
a) Price risk . b) Asset liquidity risk
c) Market liquidity risk d) Liquidation risk

03 In case the liquidity position of the market suffers, it will further drive the share price down, which would result in losses. This is called:
a) Price risk b) Asset liquidity risk
c) Market liquidity risk d) Liquidation risk

Answers: **2-b 3-c**

Explanations:

1. The risk of adyerse movement in the price is called price risk
2. The risk of reduced liquidity in the market for a specific security is called asset liquidity risk
3. In case the liquidity position of the market suffers, it will further drive the share price down, which would result in losses. This is called market liquidity risk.

BANK FINANCIAL MANAGEMENT
CASE STUDIES ON VOLATILITY, BPV, DURATION, VaR

Basic Principles
Steps for calculating Mean, Variance, Volatility

1. Divide total of observations with number of observations. This will give mean.
2. For calculating variance, for each observation deviation is calculated from mean. Then square of each deviation is calculated. The sum of squared deviation is divided by number of observations. This will give variance.
3. The volatility is square root of variance. It is also called Standard Deviation
4. Lower the Standard Deviation to Mean ratio lower the risk_
5. The risk associated with a portfolio is lesser than risk associated with individual components of portfolio.

Case — 1

You have the following information available regarding closing stock price movement of share price of ABC Limited for 12 months period ended December 2009:
On the basis of above information answer the following questions:

Month	**Closing Price**	**Month**	**Closing Price**	**Month**	**Closing Price**

Jan	20	May	24	Sept.	76
Feb	22	Jun	34	Oct.	90
Mar	38	July	46	Nov.	42
April	20	Aug	82	Dec	102

01 What is the mean price (average price) of this stock for the observation period?

a) Rs.51'.37 b) Rs.53.17

c) Rs.55.79 d) Rs.56.22

02 The variance of the selected data (for 12 months) will be approximately....

a) 974.15 b) 986.12

c) 997.16

d) inadequate information to calculate

03 The volatility (i.e. standard deviation) of this stock for these 12 months period is:

a) 34.67 b) 33.41

c) 32.39 d) 31.21

Ans. 1-b 2-a 3-d

Explanations: -

Que-1: The average comes to Rs.53.17 (total of all values/12) = 638/12= 53.17

Que-2: For calculating variance, for each observation deviation is calculated from mean. Then square of each deviation is calculated. The sum of squared deviation is divided by number of observations. This will give variance.

Que-3: The volatility is square root of variance.

Case 2

The stock price of Infosys Limited has shown the following closing prices at the end of each month for the year ended December 2009:

Month	Closing price -	Month	Closing price	Month	Closing price
January	265	May	345	Sept	512
February	276	June	267	October	324
March	390	July	415	Nov	285
April	312	August	421	December	302

On the bas's of above information answer the following questions.

01 What is the mean price (average price) of this stock for the observation period?

a) Rs.342.83 b) Rs.351.22 .

c) Rs.355.84 d) Rs.356.29

02 The variance of the selected data (for 12 months) will *be* approximately ....

a) 5431.09 b) 5587.78

c) 5743.56 d) 5887.06

03 *The* volatility (i.e. standard deviation) of this stock for these 12 months period is :

a) 74.54 b) 76.73

c) 82.93 d) 91.52

Ans. 1-a 2-d 3-b

Explanations:

Que-1: The average comes to Rs.342.83 (total of all values/12)= 4114/12 = 342.83

Que-2: For calculating variance, for each observation deviation is calculated from mean. Then square of each deviation is calculated. The sum of squared deviation is divided by number of observations. This will give variance..

Que-3: The volatility is square root of variance.

Case-3

International Bank analyzed the Operating Profits of 5 regions for last 5 years. The Standard Deviation and Standard Deviation to Mean for the 5 Years are gwen in the following table.

Name of Zones	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Mean (average)	Standard Deviation (S.D)	S.D. To Mean
Jaipur	10	3	4	8	11	36	7.20	3.56	0.46
Chandigarh	3	8	1	6	4	22	4.40	2.70	0.61
Bangalore	12	8	9	2	4	35	7.00	4.00	0.57
Lucknow	6	9	2	3	5	25	5.00	2.74	0.55
Patna	7	12	5	8	6	38	7.60	2.70	0.36
Total of Zones	38	40	21	27	30	156	31.20	7.85	

From the above data, answer the following questions assuming that the bank's credit exposure is at equal levels for each zone:

01 From business risk point of view, the performance of the zone which is subjected to maximum risk exposure appears to be

a) Jaipur b) Patna

c) Chandigarh d) Lucknow

02 From business risk point of view, the performance of the zone which is subjected least risk exposure appears to be
a) Bangalore b) Patna
c) Chandigarh d) Lucknow
03 The ratio of Standard Deviation to Mean for all zones put together for ABC Bank Limited is
a) 7.85 b) 31.20
c) 0.516 d) 0.25
04 The Zones having wide variance of results from year to year is .
a) Jaipur b) Lucknow
c) Chandigarh d) Bangalore
Ans. 1-c 2-b 3-d 4-d
Explanations:
Que-1: The zone having highest standard deviation to mean ratio, is exposed to more risk, compared to other zones.
Que-2: The zone having lowest standard deviation to mean ratio, is exposed to least risk, compared to other zones.
Que-3: SD/Mean = 7.85131.20 = 0.25
Que-4: The variation range for this zone is highest. The lowest was 2 in 4th year and highest was 12 in the Ist year.

Case - 4

Mumbai branch of Popular Bank has following cash flow from its loan portfolio from different segments:

Cash flow	Year1	Year2	Year3	Total	Mean	Standard deviation	SD/ Mean
Corporate	40	31	36	107	35.66667	4.50925	0.1264
MSE	20	28	19	67	22.33333	4.932883	0.2209
Retail	15	17	17	49	16.33333	1.154701	0.0707
Personal	5	8	6	19	6.333333	1.527525	0.2415
Total	80	84	78	242	80.66667	3.05505	0.0379

01 The risk associated-with cash flow in case of corporate business segment (measured by way of ratio of standard deviation to mean) is:
a) 35.66% b) 4.50%
c) 12.64% d) 3.79%
02 The highest risk in all the 4 segments of business, in the above case in terms of cash flows, is in case of: a) Corporate business b) MSE business
c) Retail business d) Personal business
03 The lowest risk in all the 4 segments of business, in the above case in terms of cash flows is in case of a) Corporate business b) MSE business
c) Retail business d) Personal business
04 The variation in net cash flows arising out of all the business line is:
a) Unidirectional *b)* Not unidirectional
c) Very volatile
d) Adequate information is not available
05 The overall risk, to the portfolio at the branch is and the variation in different segments ranges between :
a) 3.79%, 3.79% to 24.12%
b) 3.79%, 7.07% to 24.12%
c) 7.07%, 7.07% to 24.12%
d) 7.07%, 3.79% to 24.12%
Answers: 1-c 2-d 3-c 4-b 5-b Explanations:
1. The ratio of standard deviation to mean is 0.1264 or 12.64% in case of corporate business in the above case.
2. The highest variation of 0.2412 or 24.12% is in respect of personal business and the lowest *in* case of retail segment where it is 7.07% only. For the overall portfolio this is 3.79% **only.**
3. The highest variation of 0.2412 or 24.12% is in respect of personal business and the lowest in case of retail segment where it is 7.07% only. For the overall portfolio this is 3.79% **only.**
4. The net cash flows are not unidirectional because in case of retail., these are regularly increasing. In case of MSE segment, the variation is quite wide. So is the position with corporate segment.
5. From the given information, it is observed that for the overall portfolio the risk is 3.79% and the range is 7.07% to 24.12%

Case - 5

International Bank analyzed and Operating Prof ts of 5 regions for last 5 years. The Standard Deviation and Standard Deviation to Mean for the 5 years are green in the following table.

Name of	' Year	Year	Year	Year	Year	Total	Mean	Standard	S.D.

Zones	1	2	3	4	5		(average)	Deviation (S.D)	To Mean_,
Jaipur	16	21	18	20	24	99	19.8	3.03	0.15
Chandigarh	9	19	5	12	5	50	10.0	5.83	0.58
Bangalore	13	15	17	18	19	82	16.4	2.41	0.15
Lucknow	16	14•	13	16	14	73	14.6	1.34	0.09
Patna	12	21	19	12	17	81	16.2	4.09	0.25
Total of Zones	66	90	72	78	69	385	77.0	8.94	

From the above data, answer the following questions assuming that the bank's cred t exposure is ¯at equal levels for each zone:

01 From business risk point of view, the performance of the zone which is subjected to maximum risk exposure appears to be
a) Jaipur b) Patna
c) Chandigarh d) Lucknow

02 From business risk point of view, the performance of the zone which is subjected least risk exposure appears to *be*
a) Bangalore b) Patna
c) Chandigarh d) Lucknow

03 The ratio of Standard Deviation to Mean for all zones put together for ABC Bank Limited is
a) 8.94 b) 77.0
c) 0.32 d) 0.12

04 The Zones having wide variance of results from year to year is
a) Jaipur b) Lucknow
c) Chandigarh d) Bangalore

Ans. 1-c 2-d 3-d 4-d

Explanations:

Que-1: The zone having highest standard deviation to mean ratio, is exposed to more risk, compared to other zones.

Que-2: The zone having lowest standard deviation to mean ratio, is exposed to least risk, compared to other zones.

Que-3: SD/Mean = 8.94/77.00 = 0.12

Que-4: The variation range for this zone is highest. The lowest was 5 in 3^{n1} year and highest was 19 in the 2^{nd} year.

Case- 6

International Bank an investment in bonds as under, on Sept 30, 2009:

	Face value Rs.	Yield %	Price (Rs.)	Cost (Rs.)
7% Gol Bond 2016	100000	7.12	108.40	108400
9% Gol Loan 2018	100000	7.34	124.00	124000

Due to change in yield of these securities, the yield and price changed as under as on Mar 31, 2010:

7% Gol Bond 2016	100000	7.32	105.80	105800
9% Gal Loan 2018	100000	7.65	120.50	120500

On the basis of above information, answer the following questions:

01 What is change in basis point value for each basis point increase in yield for 7% Gol bonds during this period?
a) 14.5 paise b) 13.1 paise c) 12.5 paise d) 12.34 paise

02 What is the change in basis point value for each basis point increase in yield for 9% Gal bonds during this period?
a) 10.02 paise b) 11 paise c) 11.29 paise d) 11.90 paise

03 If there is increase in yield by 100 basis points during this period, what will be the price of 7% Gal bonds.
a) Rs.95.20 *b)* Rs.93.90 c) Rs.92.10 d) no change will take place

04 If there is increase in yield by 100 basis points during this period, what will be the price of 9% Gal bonds.
a) Rs.112.71 ¯¯¯*b)* Rs.111.96 c) Rs.111.12 d) Rs.110.87

05 The bank decides to sell the 7% Gol bonds on Mar 31, 2010 itself, to stop the loss. How much it will lose on this sale transaction?
a) Rs.1210 b) Rs.1670 c) Rs.2400 d) Rs.2600

06 The bank decides to sell the 9% Gol bonds on Mar 31, 2010 itself, to stop the loss. How much it will lose on this sale transaction?
a) Rs.3500 b) Rs.3100 c) Rs.2800 d) Rs.2600

Ans. 1-a 2-c 3-b 4-a 5-d 6-a

Explanations:

Que-1: (108.40-105.80)/ (7.32-7.12) = Rs.2.90/20 = 14.5 paise
Que-2: (124-120.50)/(7.65-7.34)= Rs.3.50/31 = 11.29 paise
Que-3: Change for one basis points = (108.40-105.80)1(7.32-7.12) = Rs.2.90/20 = 14.5 paise. Change for 100 basis points = 14.5p x 100 = Rs.14.50. Hence value after change = 108.40 -14.50 = Rs.93.90
Que-4: Change for one basis points = (124-120.50) /(7.65-7.34)= Rs.3.50/31= 11.29 paise. Change for 100 basis points = 11.29 x100 = Rs.11.29. Hence changed value = 12.40-11.29 = Rs.112.71
Que-5: 108400 -105800 = 2600
Que-6: 124000-120500 = 3500

Case - 7

International bank *an* investment in bonds as under, on Seat 30.2009:

	Face . value Rs.	Yield %	Price (Rs.)	Cost (Rs.)
9% Gol Bond 2016	200000 -	-8.40	107.60	215200
11%' Go! Loan 2018	200000	8:80	110.50	221000

Due to *change* in yield of these securities, the yield and price changed as under as on Mar 31, 2010:

9% Gol Bond 2016	200000	8.20	109.80	219600
11% Gol Loan 2018	200000	8.60	113.30	226600

01 What is change in basis paint value for each basis point increase in yield for 9% Gal bonds during this period?
a) 12 paise b) 11 paise
c) 10 paise d) no change
02 What is the change in basis point value for each basis point increase in yield for 11% Gal bonds during this period?
a) 12 paise b) 13 paise
e) 14 paise d) no change
03 If there is increase in yield by 100 basis points during this period, what will be the price of 9% Gol bonds.
a) Rs.118.60 b) Rs.116.90
c) Rs.114.80 d) no change
04 If there is decrease in yield by 100 basis points during this period, what will be the price of 11% Gol bonds.
a) Rs.105.20 b) Rs.109.90
c) Rs.119.10 d) Rs.124.50
05 Due to expected adverse change, the bank decides to sell the 9% Gol bonds on Mar 31, 2010 itself, to make the profit. How much profit it will be able to make on this sale?
a) Rs.4200 b) Rs.4000
c) Rs.3800 d) Rs.3750
06 Due to expected adverse change, the bank decides to sell the 11% Gol bonds on Mar 31, 2010 itself, to make the profit How much profit it will be able to make on this sale?
a) Rs.4210 b) Rs.4670 c) Rs.5400 d) Rs.5600
Ans. 1-b 2-c 3-a 4-d 5-a 6-d
Explanations:
Que-1: (109.80-107.60)/ (8.40-8_20) = Rs.2.20/20 = 11 paise
Que-2: (113.30-110.50)/(8.80-8.60)= Rs.2.80/20 = 14 paise
Que-3: Change for one basis points = (109.80-107.60)1(8.40-8.20) = Rs.2.20/20 = 11 paise. Change for 100 basis points = 11 x 100 = Rs.11.00. Hence value after change = 107.60+ 11.00 = Rs.118.60
Que-4: Change for one basis points = (113.30-110.50) /(8.80-8.60)= Rs.2.80/20=14 paise. Change for 100 basis points = 14 x100 = Rs.14.00. Hence changed value = 110.50-14.00 = Rs.124.50
Que-5: 219600 —215200 = 4200
Que-6: 226600-221000 = 5600

Case 8

Popular Bank made an investment in govt. bonds worth Rs. 5 cr. The maturity period of the bonds is 5 years, the face value is Rs. 100 and the coupon rate is 8%. The bond has a market yield of 10% and the price is Rs. 92.00. Due to change in interest rates, the market yield changes to 9.90% and the market value to Rs. 92,50.
01 Based on the above information, please calculate the basis point value of the bond:
a) 0.02 b) 0.05 c) 0.10 d) 0.20
02 What will be the change in value of investment, for the total investment of Rs. 5 cr for per basis point in the yield:
a) Rs. 25000 b) Rs. 20000 c) Rs. 15000 d) Rs. 10000
03 If there is 0.10% change in the yield, what will *be* change in the value of the bond on an investment of Rs. 5 *cr:*
a) 100000 6) 200000 c) 250000 d) 500000
Answers: 1-b 2-a 3-c Explanations:
1. Change in price of bond = 0.50. Change in yield 10 basis points. Per basis

point change = 0.50/.10 = Rs. 0,05

2. Change in price of bond = 0.50. Change in yield 10 basis points. Per basis point change = 0.50/.10 = Rs. 0.05 OR Per Rs. 1 Cr = Rs. 5000

3. Change in price of bond = 0.50. Change in yield 10 basis points.
Per basis point change = 0.50/.10 = Rs. 0.05 OR Per Rs. 1 cr = Rs. 5000
For total investment the change per basis point is = 50000000 x 0.05 = 25000
If per basis point change, the value change is Rs. 25000, for 10 points it will be 25000 x 10 = 250000

Case 9

Popular Bank want to invest Rs. 1 lac. It has option to make investment in the following two securities. The cted return is also iven:

Cash flow	Year **1**	Year 2	Year 3	Year 4	Year 5	Total
Investment 1	8000	8000	8000	8000	8000	40000
Investment 2	5000	7000	14000	6000	12000	44000

01 If time value of money is not taken into account, the rate of return on these investments is:
a) 8% and 8% b) 8% and 8.5%
c) 8% and 8.8% d) 8.5% and 8.8%

02 Out of these 2 investment, which one would be more preferable for the bank:
a) Investment 1 because it provides stable return
b) Investment 2 because it provides higher return
c) Investment 1 or 2 at judgement of the bank based on risk
d) Inadequate information is given. Decision not possible

03 If return from both the investments is taken as equal taking into account the risk associated with volatility, what is the risk adjusted rate of return and what is the risk premium:
a) 8.8%,8% b) 8%, 8.8% e) 8.8%, 0.8% d) 8, 0.8%

Answers: 1-c 2-a 3-d Explanations:

1. Investment 1 = Average return = 40000/5 = 8000. Rate of return 8000/1 lac = 8%
Investment 2 = Average return = 44000/5 = 8800. Rate of return 8000/1 lac = 8.8%

2. Investment 1 provides stable return which is risk free, while Investment 2 provides volatile return, which is risk prone. Hence, overall investment 1 is better.

3. The gap of return will be the risk premium i.e. 8.8% - 8% = 0.8%. The risk adjusted rate of return will be 8%.

Case -10

The dealer at Popular Bank purchased 5000 shares of a public sector undertaking at Rs. 200 per shares totaling Rs. 10,00,000. If the price change is 1%, there will be impact of Rs. 10000. The price change can go up to 4%. That may result into a loss of Rs. 93040.

03. In this transaction, the stock price is *known* as:
a) Market factor b) Market factor sensitivity c) Volatility d) Defeasance period

02 What is the market factor sensitivity:
a) 5000 shares b) *Rs.* 200 per shares c) Rs. 10 lac d) Rs. 10000

03 The price change can go up to 4%. This means the daily ________________ is 4%:
a) Defeasance factor b) Market factor c) Volatility d) Value at risk

04 The defeasance period in this transaction is:
a) One day b) 2 days c) 4 days d) 7 days

05 What is the value at risk (VaR) in this transaction:
a) Rs. 93040 b) Rs. 100000 c) Rs. 105900 d) Rs. 120000

Answers: 1-a 2-d 3-c 4-a 5-a Explanations:

1. The stock price is known as market factor.
2. Rs. 10000 is the market factor sensitivity as with 1% change, the effect would be Rs. 10000.
3. This is called volatility i.e. daily fluctuation.
4. The defeasance period represents the daily fluctuation period.

Case - 11

The VaR of a Govt. of India bond security is 0.70%. The current yield is 8.10%.

01 In the worst case scenario, the prospective:
a) buyer of the security can expect, the yield to fall to 7.40% by next day
b) buyer of the security can expect, the yield to rise to 8.80% by next day
c) seller of the security can expect, the yield to fall to 7.40% by next day
d) None of the above

02 In the worst case scenario, the prospective:
a) seller of the security can expect, the yield to fall to 7.40% by next day
b) buyer of the security can expect, the yield to rise to 8.80% by next day
c) seller of the security can expect, the yield to rise to 8.80% by next day

d) None of the above

03 In the above case, the VaR at 95% confidence means:

a) There is 5% possibility for the yield to be higher than 0.70%

b) There is 1% possibility for the yield to be lower than 0.70%

c) There is 5% possibility of adverse change being higher than 0.70%

d) Inadequate information to draw any conclusion **Answers: 1-a**

2-c 3-c Explanations:

1. VaR of 0.70% means that the maximum change in the yield can be 0.70%. Hence in a worst case scenario, the buyer of the security can expect, the yield to fall to 7.40% (8.10 — 0.70%) by next day and the seller can expect the yield to rise to 8.80% (8.10 + 0.70%).
2. VaR of 0.70% means that the maximum change in the yield can be 0.70%. Hence in a worst case scenario, the buyer of the security can expect, the yield to fall to 7.40% (8.10 — 0.70%) by next day and the seller can expect the yield to rise to 8.80% (8.10 + 0.70%).
3. At 95% confidence level, the possibility for an adverse change in yield being higher than 0.70% is only to the extent of 5%.(i.e. loss being higher than 0.70%). At 99% confidence, this possibility is to the extent of 1% only.

5. MODULE C : TREASURY MANAGEMENT

LATEST BANKING & FINANCIAL DATA

(Rs.in cr)	Mar31'17	Sep15'17
Aggregate deposits	10805150	10707370
Cash in hand/RBI	570490	531670
Investments	3043660	3334900
Bank Credit:	7881890	7781330
-Food	53930	53380
-Non-Food	7827960	7581530
Cash-Deposit Ratio	5.27	4.95
Investment-Deposit	28.14	31.09
Credit-Deposit	72.95	72.64
Money Stock		
M3 (Out of which)	12844790	12974900
a. Currency with public	1263710	1504330
b. Demand deposits-Banks	1410630	1238330
c Time Deposits - Banks	10148950	10213670
d. Other deposits with RBI	21090	18570
Sources of Money Supply		
Net Bank credit to Govt	3869090	4102890
Net Bank credit to Govt	8451430	8348940
Net Forex assets of Banks	2492010	2738900

Small Savings Interest Rates

PPF	7.8%	(01.10.17)
NSC	7.8%	(01.10.17))
Sukanya Smridhi	8.3%	(01.10.17))
Senior Citizen Saving	8.3%	(01.10.17))

Parameter	end-Sep16	end-Sep17
Dollar-spot TT (Rs.)	66.61	65.50
BSE - Sensex (points)	27866	31497
NSE - Nifty(S&P CNX)	8611	9860
Foreign reserves	37076	402247
Gold /Oz in USD)	1324	1301

Important Banking Indicators

Statutory Liquidity Ratio	20.00%	(24.06.2017)
Cash Reserve Ratio	04.00%	(15.02.2013)
Overnight LAF (of NDTL)	0.25%	
14-days term Repo(of NDTL)	0.75%	
Reverse Repo Rate	05.75%	(02.08.2017)
Repo Rate	06.00%	(02.08.2017)
MSF Rate	06.25%	(02.08.2017)
Bank Rate	06.25%	(02.08.2017)

INDIAN ECONOMY-IMPORTANT PARAMETERS

RBI's growth estimate for 2017-18 : 7.6%
GDP growth-2016-17 (revised estimate) : 7.1%
GDP@constant mkt prices (cr) : 10656925
GVA@2011-12 basic prices (cr) : 9857672
GDP projected by Govt. for 2017-18 : 16847455
Fiscal Deficit Target (2017-18) 3.2% of GDP : 546532 cr
Revenue Deficit Target (2017-18) 1.9.% 321163 cr
Wholesale Price Index : 1.5%
Money Supply (M3) expansion : 12.9%
Exports during 2016-17 : 274.0 bn
Imports during (2016-17) : 379.6 Bn
Export target - 2017-18 (in $) : 310 bn
India's share in world merchandise 1.70%
India's currency rating (S&P) : BB Postv
India's external debt (Jun 2017) US $: 485.8 Bn
Tax-GDP ratio (2014-15) : 9.93%
Apr- Aug17:Export $ 118.6 bn$ Imports : 181.7 bn
Per capita Income 2015-16 (Rs.) : 93293
Indian economy's ranking in PPP terms : 3rd
Indian economy's ranking in world in value: 10th

(PLEASE CHANGE YOUR ANSWER AT PER LATEST DATA)

TEST YOUSELF :MCQ

INTRODUCTION TO TREASURY MANAGEMENT

1. Which of the following are the functions of a Treasury?
   a) Maintaining adequate Cash Balance
   b) Deploying surplus funds
   c) Meeting fund requirement in case of short fall d) All of these
2. The significance of Treasury management in case of Banks is:
   a) To maintain CRR as per RBI guidelines
   b) To meet SLR requirements
   c) It is the function of liquidity management d) All of these
3. Treasury management was earlier classified as:
   a) A service centre b) Fund management department
   c) Investment centre d) Core Business Division
4. Which of the following activities of a Bank the Treasury management is more relevant?
   a) Deposit function b) Asset liability management
   c) (a) and (b) both d) None of these
5. Which of the following are integrated activities of Treasury management?
   a) Investment in securities b) Foreign Exchange Business
   c) (a) and (b) both d) None of these
6. The Treasury management operations mainly deals with:
   a) Short term funds flows b) Long term fund flows
   c) None of the above d) All of these
7. For which of the following activities the Treasury management also deals with the long term flows?
   a) For the purpose of SLR requirements
   5) Long term investments
   c) Investment in Treasury Bills d) All of these
8. What is integrated Treasury management services?
   a) Money Market operations b) Securities Market operations
   c) Foreign Exchange operations d) Integration of all these
9. Which of the followings has given new dimension to Treasury management operations?
   a) Financial Sector reforms b) Deregulation of interest rates
   c) Convertibility of Rupee d) All of these
10. Which of the following foreign exchange operations have been useful in Treasury management operations?
   a) Arbitrage b) Swaps c) (a) & (5) both d) None of these
11. Which of the followings are the sources of foreign currency funds for Banks?
   a) NRI deposits b) Cash Balance in EEFC Accounts
   c) External Commercial Borrowings d) All of these
12. What are The recent important development in financial market in India which have facilitated treasury management operations?
   a) Instant payment and settlement system. -
   b-). Easy transfer of funds from securities market to money market.
   c) Transfer of funds from one currency to another. d) All of these
13. Integrated Treasury management can operate:
   a) Across the sectors b) Across the currency
   c) (a) & (b) both d) None of these
14. Integrated Treasury management helps in Integrated Risk management through:
   a) use of derivatives b) Money market instruments
   c) Capital Market instruments d) All of these
15. The functions of Derivatives are:
   a) It is useful in providing flexibility to market products
   b) It is an important tool for hedging market risk
   c) (a) and (b)- both d) None of these
16. The Treasury Transactions with customers are known as:
   a) Merchant Banking Finance b) Financial Market operations

c) Money Market operations d) none of these

17. Generally, Customers use Treasury services of a Bank for the following purposes:
   a) To Hedge export receivables
   b) To raise foreign currency loans
   c) Overseas investments d) All of these

18. The driving forces of integrated Treasury management are:
   a) Integrated cash flow management **b)** Interest arbitrage
   c) Risk management d) All of these

19. The main functions of integrated Treasury management are:
   a) To meet reserve requirements
   b) Efficient Merchant Banking services
   c) International cash flow d) All of these

20. Under the Treasury management services, profits can be optimized through the combination of:
   a) Forex market b) Money market operations
   c) Securities market operations d) All of these

21. Which of the following is the function of integrated Treasury management?
   a) Asset liability management in Banks b) Risk management
   c) (a) and (b) both d) None of these

22. The Treasury management comprises of:
   a) Funds management b) Investment management
   c) Trading in forex operations d) All of these

23. Globalization is the process of:
   a) Free flow of services and goods
   b) Free capital flows among the nations
   c) A minimum regulatory intervention d) All of these

24. Which of the following statements is correct?
   a) Foreign capital flows involve direct and indirect investment which facilitates repatriation of returns.
   b) The RBI regulates the capital flows from abroad.
   c) (a) and (b) both d) None of these

25. Which of the following Departments of RBI has been renamed since January 2004?
   a) Exchange Control Department b) Foreign Exchange Department
   c) (a) and (b) both d) None of these

26. The process of globalization in India has directly influenced:
   a) Interest rate b) Exchange rate c) (a) and (b) both d) None of these

27. Which of the following organizations have supported the financial market in the recent past?
   a) Clearing Corporation of India Ltd.
   b) National Securities Depository Corporation Ltd.
   c) (a) and (b) both d) None of these

28. The growth of new institutions has helped the development of Treasury management operations by the process of:
   a) Widening and deepening the debt market.
   b) Minimizing counterparty risk
   c) (a) and (b) both d) none of these

29. Which of the following instruments have been used to hedge interest and currency risks?
   a) Swaps b) Forwards c) Options d) All of these

30. The RBI has allowed the Banks to borrow or invest in foreign currency subject to a ceiling of:
   a) 25% of their tier-I capital.
   b) US Dollar 10 Million or 50% of their tier-I capital whichever is higher
   c) (a) and (b) both d) All of these

31. Why Treasury activities are attractive?
   a) These activities operate in a market which are almost free of credit risk. .b) It needsiess capital
   c) (a) and (b) both d) None of these

32. Which of the following is not true regarding Treasury operations?
   a) The operational cost is very low.
   b) The activities can be managed by any of the staff.
   c) It trades in narrow spreads. d) All of these

33. What is spread?
   a) The difference between buying and selling rates is spread.

b) This is profit for the Bank.
c) It is a source of fee based income d) All of these

34.Which of the following is correct?
a) Banks buy foreign currency mainly from exporters.
b) Banks sell foreign currency in the Inter-Bank market
c) Banks also sell foreign currency to importers d) All of these

35. Which of the following is not correct? The Banks do not buy from Inter-Bank market.
a) Banks may use foreign currency in squaring up the foreign exchange transactions
b) Banks generally do not maintain large stock of foreign currency for merchant Banking activities.
c) The Banks prefer to buy and sell in the Inter-Bank market.

36. What is open position?
a) The overbought or oversold position at the end of the day.
b) When transactions are not backed by the proper securities
c) (a) and (b) both d) None of the above

37.The features of open position are:
a) It involves exchange risk
b) Banks maintain limited open position
c) The exchange rate may change overnight d) All of these

38.Investment opportunities available for a Bank consists of:
a) Govt. securities
b) Investment in strategic Assets such as subsidiary and associate companies
c) Corporate Debt market d) All of these

39.The Treasury profits in large quantity can be derived from the following market operations:
a) Buying and Selling b) Borrowing and Lending
c) Investment in Tradable Assets d) All of these

40. What is interest arbitrage?
a) A favourable position where interest rates are different across the overseas market.
b) The Treasury may buy or sell in the Inter-Bank market depending on the interest -rates in the Home Country and Foreign market.
c) (a) and (b) both d) none of these

41.Interest arbitrage can be done through:
a) Borrowing in money market and investment in short term securities
b) Borrowing in one currency and lending in another currency
c) (a) or (b) d) None of these

42.The features of Trading Activity are:
a) It is speculative activity.
b) The profit depends on favourable movements of price during the interval period of Buying and Selling.
c) The open position on Treasury is known as proprietary or trading position
d) All of the above

43. In which of the following conditions, the trading activity can be profitable if an investment is made in US Dollars?
a) When US Dollar is sold at higher rate.
b) When US Dollar is sold at lower rate.
c) When US Dollar price is equivalent to Rupee price. d) All of these

44.The Trading in currencies and securities are subject to the following Risks:
a) Price Risk b) Market Risk c) Exchange Risk d) Any of these

45.Banks may use Derivatives for:
a) Trading activities for treasury b) Risk management
c) (a) & (b) both d) none of these

46.The purpose of selling structured loans to corporate by treasury is:
a) Reduction in interest cost b) Minimising Exchange Risk
c) (a) and (b) both d) Any of the above

47.If a company buy a forward rate agreement to fix interest rate for an instrument, what can be the consequences?
a) The Treasury may offer a currency swap.
b) It will reduce the interest cost to the company.
c) Treasury will have a profit margin d) All of these

48.A specialized independent Bank branch for Treasury operations have the following .advantages:

a) It can act as authorized dealer.
b) It can participate in clearing and settlement system directly.
c) It can maintain own accounting system d) All of these

49.The Treasury operations may have the following departments:
a) Dealing Room b) Back office c) Middle office d) All of these

50. What is a dealing room?
a) It is a front office. b) It directly buys and sells in the market
b) The dealers are specialized in various transactions d) All of these

51.The categories of Dealers in the Dealing Room can be:
a) Chief Dealer (Incharge of the office) b) Corporate Dealer
c) Specialised Dealer d) All of these

52. Which of the following statements is correct regarding dealing room?
a) The securities dealer deals only in secondary market.
b) A dealer may also participate in the auction of government securities and Treasury Bills.
c) The primary market comprises of new issues of non govt. debt paper
d) All the above

53. The functions of Back office are:
a) It verifies and settles the deals
b) It maintains proper record of Book Keeping
c) It submits financial returns of RBI d) All of these

54.Which of the following accounts are maintained by the Back Office?
a) Nostro Account b) Security Account with RBI
c) Demat, Account with Depository participant d) All of these

55. Which of the following is foreign currency account with correspondent bank?
a) Nostro Account b) Vostro Account c) Loro Account d) All of these

56.The Treasury is required to maintain adequate margin for settlement with the
e) RBI b) Clearing corporation c) Foreign Department d) None

57.What is settlement?
a) It is the process of receipts and payments for the deals made by the dealers
b) All payments and receipts should take place on value date
c) (a) and (b) both d) None of these

58.A delay in settlement would result in:
a) Financial loss to the Bank b) Default by the Bank
c) Adverse affect on Banks reputation d) All of these

59. Middle office is responsible for:
a) It provides management information
b) It also implements risk management system
c) It monitors exposure limits and stop loss limits d) All of these

60. How the arbitrage is beneficial?
a) When the traders play in different markets simultaneously taking advantage of exchange rate or interest rate differentials
b) Profit accrue as market are imperfect
c) (a) and (b) both' d) All of these

61.A Derivative is a financial contract:
a) To buy or sell at a future date
b) The price is based on market price of an underlying Asset
c) It can be with or without obligation to exercise the contract. d) All of these

62.The underlying asset may be:
a) Financial Asset b) Real Asset c) (a) or (b) both d) None of these

63. Which of the following is not a Real Asset?
a) Commodity b) Bonds c) Metals d) Oil

64. What is Leveraging?
a) It is the process of building up large volume of Business on relatively small eapitai.
b) A difference between income and cost of funds
c) It is like spread d) None of these

65.Which of the following are tradable Assets?
a) Govt. securities b) Commercial paper c) Derivatives d) All of these

66. What is short sale?

a) When volume of sale is relatively less.

b) Selling on Asset which is yet to be purchased.

c) It is a speculation d) None of these

67.The features of a D-mat Account are:

a) It is a process of holding securities in electronic (de-materialised) form

b) Transfer of securities can be affected by credit or debit the D-mat Account directly

c) There is no physical movement of documents. d) All of these

68. What is integrated activities in the Treasury operations?

a) Use of derivatives

b) Participation in money market

c) Merchant Banking activities

d) A combination of the above

TEST YOURSELF : TREASURY PRODUCTS

1) Which of the following currency is not fully convertible?

a) USD b) EURO c) INR d) GBP

2) What are the Spot Trades?

a) It is the process of settlement where payment and receipts of funds are settled in respective currencies.

b) The settlement takes place within 2 working days from the trade date.

c) Currency may be bought or sold with settlement on the same date i.e. To day (TOD)

d) The settlement can be on the -next day he. Tomorrow (TOM)

3) Which of the following is significant about spot trade?

a) All rates quoted on the screen are for spot trade unless otherwise mentioned

b) TOD and TOM rates are generally quoted at a discount to the spot rate.

c) TOD and TOM rates are less favourable to buyer d) All these

4) What is forward contract?

a) It is a contract for purchase and sale of currency at a future date.

b) The exchange rate for a future contract is quoted on the day of contract.

c) The contract between buyer and seller is called forward contract.

d) All the above

5) Which of the following is true regarding a forward contract?

a) Treasury may have forward contracts with customers or Banks as counterparties.

b) Customers cover currency risk through forward contract.

c) Treasury may cover its customer exposure by taking reverse position in Inter-Bank market.

d) All the above

6) The features of forward rates are:

a) They are not projected on the basis of exchange rate movement in the market

b) Forward rates are decided on the basis of interest rate differential of two currencies.

c) The interest rate differential is added to the spot rate for low interest yielding currency and deducted from the spot rate for high interest yielding currency

d) All the above

7) Which of the following are True?

a) Forward rate reflects interest rate differential only in prefect markets.

b) Perfect markets are where currency is fully convertible and highly liquid.

c) When currency is not fully convertible the demand for forward contract influences the forward exchange rate d) All these

8) The features of a swap are:

a) A combination of spot and forward transactions is called a swap.

b) Buying in the spot market and selling same amount in forward market or vice-versa is swap.

c) Swap is mainly used for funding requirements_ d) All these

9) A Bank may have foreign exchange surpluses from the following sources:

a) Profit from overseas Branch operations

b) Forex Borrowing in foreign domestic market

c) Foreign currency and convertible rupee deposits with branches

d) All the above

10) A Treasury may have surplus forex from the following sources:

a) Surpluses net of Bank's ˉlending in foreign currency
b) Floating funds on account of customer transactions
c) EEFC funds maintained in current account d) All these

11) The surplus forex can be invested by a Treasury in:
a) Inter-Bank loans b) Short term investments c) Nostro Account
d) Any or all of these

12) Which of the followings are the sources for short-term investments?
a) Treasury Bills issued by foreign governments
b) Commercial paper
c) Other debt instruments issued by multi lateral institutions
d) All the above

13) What is a Nostro Account?
a) This is a current account denominated in foreign currency maintained by a Bank with the correspondent Bank in the home country of the currency.
b) Nostro Account does not attract any interest.
c) Many correspondent Banks provide automatic investment facility for funds held overnight which earn nominal interest. d) All these

14)What is Money Market?
a) It is place for raising and deploying short term resources where maturity does not exceed one year.
b) Inter-Bank market is divided as call money and term money.
c) Call money market is also overnight market where borrowed funds are repaid on the next working day.
d) Notice money market is where funds are placed beyond overnight and upto 14 days.

15) The participants in call/notice money market are:
a) The major players are Banks and primary dealers.
b) Non-Banking financial companies can only lend the surplus funds upto specified limit_
c) NBFC can not participate in this market d) Both (a) and (c)

16) Which of the followings are the features to Treasury Bills?
a) The T-Bills are issued by the RBI on behalf of central govt. for pre-determined amount.
b) The interest is by way of discount.
c) The price is determined through an auction process d) All these

17) The maturity period of T-Bills is:
a) 91 days b) 364 days c) (a) and (b) both d) None of these

18) Which of the followings is relevant to T-Bills?
a) Each issue of 91 days T-Bill is for Rs_ 500 crore and auction is conducted weekly on Wednesday.
b) Each issue of 364 days is for Rs. 1000 crore and it is auctioned fortnightly
c) The Banks park short term funds in T-Bills d) All these

19) The Benefits of T-Bills are:
a) It is Risk free investment
b) It yields interest higher than the call money market.
c) It is possible to trade T-Bill in secondary market d) All these

20) Which of the followings is correct regarding T-Bill?
a) It is in the Electronic form and held in SGL Account maintained by Banks with RBI.
b) Depository participants can also operate through SGL Account.
c) The settlement of T-Bills is through Clearing Corporation of India d) All these

21) If a T-Bill is of 91 days is priced at 99.26, what does it signify?
a) It will yield interest at 2.99%
b) This is known as implicit yield.
c) (a) and (b) both d) None of these

22) The_ features of the commercial paper are:
a) It is an unsecured money market instrument issued in the form of promissory note.
b) The highly rated corporate Borrowers can raise short term funds through this instrument.
c) It is an additional instrument to the investing community d) All these

23) -The time limit for issuing a CP is:
a) Minimum maturity 7 days b) Maximum maturity one year
c) (a) and (b) both d) None of these

24) The requirements for issuing a commercial paper are:
a) The company issuing CP should have minimum credit rating of P2.

b) Banks can invest in CP only if it is issued in D-mat form
c) The minimum amount of CP is Rs. 5 lac d) All these

25) Who issues guidelines for issue of CP?
a) RBI
b) Market practices prescribed by FIMMDA (Fixed Income and Money Market and Derivatives Association of India) c) (a) and (b) both d) None of these

26) A company issuing CP must satisfy the conditions:
a) Tangible Net worth of the company should not be less than Rs. 4 crore
b) The company should be enjoying working capital limit with Bank/financial institution
c) The Borrowal Account should be classified as standard Asset d) All these

27) How does Tangible Net Worth is arrived at?
a) Capital b) Free Reserves c) (a) + (b) — Intangible Assets if any
d) None of these

28) Which of the following is relevant about commercial paper?
a) It is issued for discounted amount i.e. less than face value
b) The price is quoted for face value
c) It is negotiable instrument d) All these

29) Which of the following statements regarding commercial paper is not correct?
a) CP is a substitute to working capital
b) Interest rates are at par with PLR
c) It should be compulsory in D-mat form
d) Purchase and sale of CP is effected through the depository participants

30) Banks prefer to invest in CP through Treasury because :
a) Credit Risk is relatively low.
b) Yield on CP is higher than inter-bank money market.
c) There is no liquidity risk d) All these

31) Which of the following- Credit Rating Agencies have been authorized by RBI for Rating?
a) ICRA b) CRISIL c) CARE and FITCH Ratings India Ltd. d) All these

32) The provisions for issue of commercial paper are:
a) Maximum period for subscription to an issue of CP is two weeks from the date of opening of issue.
b) CPs can be issued on a single date or in parts on different dates.
c) The same issue of CP should have the same date of maturity d) All these

33) The process of issue a CP involves:
a) The Bank is appointed as issuing and paying agent.
b) The Bank would assess the requirement and the extent to which the CP issue is linked with credit limit.
c) The potential investors are given a copy of IPA certificates d) All these

34) The features of certificate of Deposit are:
a) It is a debt instrument issued by Bank against deposit of funds
b) It is a negotiable instrument
c) It bears interest rate higher than regular deposits of the Bank. d) All these

35) The requirements of certificate of Deposit are:
a) Minimum amount of deposit is Rs. 1 lac
b)_ The maturity period may range from 7 days to one year
c) It is an additional source for investment to Banks and corporates d) All these

36) What is a Reverse Repo?
a) It is a contract to buy securities and then to sell them back at an agreed future date and price.
b) It provides opportunity for short term investments of surplus funds
c) (a) and (b) both d) None of these

37) What is Repo?
a) It is an instrument of borrowing funds for a short period.
b) It involves selling a security and simultaneously agreeing to repurchase it at a future date for a slightly higher price.
c) The price difference is called interest d) All these

38) The significance of Repo is:
a) It is a tool used by RBI for open market operations.
b) It affects liquidity in the system.

c) None of these d) Both (a) and (b)

39) The commercial Banks participate in Repo transactions because of:

a) To meet short fall of CRR --

b) To meet short fall in SLR

e) The interest on Repo is lower than call market d) All these

40) Repo transactions are regulated by:

a) RBI b) Securities Contracts Regulations Act c) (a) and (b) both d) None

41) Which of the following statements is correct?

a) Repo is a short term money market instrument

b) The Repo Rate and period is announced by RBI,c) (a) and (b) both d) None of these

42) What is the Repo Rate with effect from 16th Sept 2010?

a) 5% b) 5.25% C) 5.75% d) 6% e) None of these

43) What is the Reverse Repo Rate with effect from ISept 2010?

a) 4% b) 4.25% c) 4.75% d) 5% e) None of these

44) The process of Repo transaction is:

a) A Bank may sell securities to the counterparty with an agreement to repurchase the same securities after a certain period at pre determined price.

b) The bank gets cash in exchange of securities and pays back the cash after a certain period and get back the securities.

c) The difference between sale price and repurchase price is interest d) All these

45) The advantage to the counterparty under a Repo transaction is:

a) It earns interest on secured [ending.

b) It holds securities which serves the purpose of meeting SLR requirements.

c) The value of securities is higher by a margin to cover price Risk. d) All these

46) Which of the following statements is correct? .

a) The margin maintained on Repo securities is called hair cut as principal amount exchanged against securities is lower than the market value of securities

b) RBI uses Repo to control liquidity

c) Banks and primary dealers sell govt. securities to RBI and avail liquidity d) All these

47) Which of the following statements is not correct?

a) RBI uses Repo Transactions under liquidity adjustment facility

b) Liquidity is not affected through lending to Banks under a Repo Transaction.

c) Absorption of liquidity is done by accepting deposits from Banks.

d) Absorption of liquidity by accepting deposits from Banks is known as Reverse Repo.

48) Which of the following statements is correct?

a) RBI has commercial repo auctions on overnight basis.

b) Repo and Reverse Repo Rates have been pre-fixed.

c) RBI has full discretion to change the frequency of auction. d) All these

49) The process of Bill Re-discounting is:

a) Treasury will discount Bill of Exchange of short term nature which are already discounted with the banks.

b) Rediscounting is done at money market rates.

c) The rediscounting rates are negotiable between the lending Bank and borrowing Bank. d) All the above

50) The advantage to the lending Bank is:

a) The surplus funds are invested at term money rate

b) Credit Risk is low as lending Bank has recourse to the discounting Bank

c) (a) and (b) both d) None of these

51) The benefits to borrowing Bank is :

a) It is able to infuse liquidity from out of existing Assets

b) Its capital adequacy ratio is improved or rediscounted bills are added to Inter-Bank liability c) (a) and (b) both d) All these

52) Which of the followings is significant regarding government securities?

a) They are issued by Public Debt Office of RBI.

b) State govts. Issue state development Bonds.

c) Govt. securities are sold through auction conducted by RBI d) All these

53) Which of the followings is correct?

a) Interest is paid on face value of the bond at coupon rate.

b) RBI arrives at a cut off price based on bids submitted by Banks and primary dealers.

c) The price may be higher or lower than the face value d) All these

54) Price movement of Bond depends on:

a) Demand of the Bond which depends on liquidity in the system.
b) The yield on Bond is different from coupon rate.
c) (a) and (b) both d) None of these

55) If 10 years G. sec. at 7.37 per cent is priced at 104.80, what would be the yield'

a) 6.67% b) 5.42% c) 6.15% d) None of these

56) The interest rates in the economy depends on:

a) Rate of inflation b) GDP growth c) Other economic indicators
d) A combination of all these

57) The variety of Bonds may include: a) Step up coupons b) Coupons linked to inflation c) Floating rate coupons d) Any of these

58) What is STRIPS:

a) Separately registered interest and principal securities
b) Under this process principal and interest are treated as separate zero coupon securities c) (a) and (b) both d) None of these

59) What is corporate debt paper?

a) It includes medium and long term bonds and debentures issued by corporates and financial institutions
b) Yield on Bonds is higher than the govt. securities
c) They are called non-SLR securities where banks can invest d) All these

60) Which of the following statements is not correct?

a) Tier-2 capital Bonds issued by Banks fall under the category of corporate debt paper.
b) Bonds issued by corporates are not that liquid_
c) The bonds are issued in D-mat form.
d) Bank Treasury finds an attractive investment in corporate debt paper.

61) Which of the following statements is correct regarding corporate debt paper?

a) Higher the credit risk higher is the yield.
b) Global ratings are necessary if the debt paper is issued in International market.
c) Treasury can invest FCNR deposit funds and other forex surpluses in global debt paper. d) All the above

62) Which of the followings is correct?

a) Debentures are issued by private companies.
b) Bonds mainly issued by public sector companies.
c) Government does not provide guaranter on PSU Bonds d) All these

63) The material difference between debentures and bonds is:

a) Debentures are governed by relevant provisions of company law.
b) Debentures are transferable on registration
c) Bonds are negotiable instrument governed by Law of Contract. d) All these

64) The Bond can be : a) Zero Coupon Bond b) Floating Rate Bond c) Deep Discount Bond d) Any of these

65) Which of the followings is not correct?

a) Debenture and Bonds can be issued with redemption in instruments over a period.
b) They can be issued with a premium or redemption.
c) There are no Bonds with put and call option
d) Bonds secured by stocks or other collateral are called collaterised obligations

66) Which of the followings is relevant regarding issue of Bonds and debentures?

a) The holders have prior legal claim over the equity and preference stock holders.
b) The Trustee appointed by issuing company protects the rights of debenture holders.
c) The Trustee can initiate legal action against the company in case of any default.
d) All of the above

67) Companies issuing unsecured debentures and bonds have to comply with the provision of :

a) Companies Acceptance of Deposit Rules 1975 b) SEBI
c) (a) and (b) both d) None of these

68) What is a convertible Bond?

a) It is a mix of Debt and Equity.
b) Bond holder has an option to convert debt into equity on a fixed date.
c) The conversion price is pre-determined d) All these

69) The advantages of convertible Bonds are:

a) If the stock price is higher than prefixed conversion price, the investor would convert debt into Equity.

b) Company will have no debt repayment

c) The Equity of the company will be strengthened d) All these

70) Which of the followings are derivative products treated on stock exchange?

a) Index features b) Index options c) Stock futures and options d) All these

71) Provisions to invest in Equities are:

a) Banks can invest in Equities upto 20% of their net owned funds

b) Stock prices are highly volatile

c) Banks prefer low risk investments d) All these

72) The provision on Fll investments are:

a) Foreign currency funds are converted into rupee for portfolio investors.

b) Rupee funds with profits are converted into foreign currency for repatriation

c) Flls are allowed to invest in debt market d) All these

73) What is External Commercial Borrowings?

a) Indian companies can borrow on global market through Bank loan or issue of debt paper.

b) The debt can be repaid by reconversion of rupee funds into foreign currency

c) (a) and. (b) both d) None of these

74) The guidelines for investment of foreign currency funds of Banks are?

a) FCNR deposits can be invested in overseas market and for domestic lending :n foreign currency.

b) Banks are permitted to borrow/invest in overseas market 50% of Tier-l Capital.

c) (a) and (b) both d) None of these

75) What is Export Earners Foreign Currency Account?

a) Exporters are allowed to hold 100% export proceeds in a Current Account. wtth

b) No interest is paid on such deposits

c) (a) and (b) both d) None of these

76) What is Gilts?

a) Securities issued by government or Treasuries.

b) They do not have any credit Risk, c) (a) and (b) both d) None of these

77) SGL Account is:

a) Subsidiary General Ledger

b) It is maintained by public debt office of RBI

c) Banks maintain exclusively government Securities Accounts d) All of these

78) Which of the followings is correct?

a) Counterparty is the other party to a Transaction

b) Yield is internal rate of return where interest is also reinvested at original coupon rate.

c) Foreign currency deposits are denominated in foreign currency d) All of these

79) The features of FCNR deposit are:

a) They are denominated either in USD, GBP, JPY or EURO, Can Dollar and Aus Dollar.

b) The deposits are maintained by non-resident Indians.

c) Interest on FCNR deposits is regulated by RBI d) All of these

80) Broad money or **M3** consists of :

a) Currency in circulation b) Demand and time deposits with Banks

c) Deposits of Banks and other deposits with RBI d) All of these

81) Monetary policy of RBI aims at:

a) Controlling rate of inflation b) Ensuring stability of financial market

c) Regulating money supply d) All of these

82) The tools in the hands of RBI for direct control of money supply are:

a) CRR b) SLR c) (a) and (b) both d) None of these

83) CRR is calculated on net Demand and Time liabilities which contain:

a) Demand deposits and Time deposits

b) Overseas Borrowings

c) Foreign outward remittances and other demand and time liabilities d) All of these

84) The Demand deposits include:

a) Current and Savings Deposits b) Margin Money for Letter of Credits

c) Overdue Fixed Deposits d) All these

85) Other Demand and Time Liabilities include:

ayAccrued Interest b) Credit Balance in Suspense Account
c) Any other liability d) All these

86) In which of the following categories only 3% minimum CRR is required to be maintained?
a) Net Inter-Bank call borrowing/deposits where maturity does not exceed 14 days,
b) Credit Balance in ACU (Asian Currency Unit) Accounts
c) Demand and Time liabilities in respect of off shore Banking units d) None of these

87) Banks need not maintain CRR on :
a) Paid up capital, reserves, retained profits, refinance from apex institutions.
b) Excess provision for Income tax .
c) Claims received from DICGC/ECGC d) All these

88) Which of the followings is correct?
a) CRR need not be maintained on Inter-Bank term deposits of original maturity upto one year
b) RBI does not pay interest on CRR Balance
c) The Demand and Time liabilities as on the reporting Friday of second previous fortnight will be basis for CRR calculation d) All these

89) SLR can be maintained in the form of following Assets:
a) Cash Balance in excess of CRR requirements
b) 'Gold at current market price
c) Approved securities valued as per RBI norms d) All these

90) What is Liquidity Adjustment Facility?
a) It is the mechanism whereby RBI lends funds to Banking sector through repo instrument
b) This is used to monitor day to day market liquidity
c) This is exclusively applicable to repo and reverse repo transactions with RBI
d) All these

91) The features of Negotiated Dealing System are:
a) This is a system where securities clearing against assured payment is handed by Clearing Corporation of India.
b) Physical delivery of cheques are not required.
c) All Inter-Bank Money Market deals are done through Negotiated Dealing System
d) All the above

92) The feature of Real Time Gross Settlement System are:
a) All Inter-Bank payments are settled instantly.
b) Banks' Accounts with all the Branch offices of RBI are also integrated.
c) Since it is instant payment system, Banks need to maintain adequate funds throughout the day.
d) All the above

93) Which of the following is correct?
a) Asian currency unit is a mechanism for payment to/from members of Asian clearing union.
b) Off shore Banking units render special Banking services only to overseas customers.
c) SWIFT is a secure worldwide financial messaging system exclusive to Banks.
d) All the above

94) What is DVP?
a) Delivery vesus Payment system where one account is debited and another account is credit at the same time.
b) In case of securities purchase funding account is debited and securities account is credited.
c) This facilitates prompt settlement of security transactions. d) All these

FUNDING & REGULATORY ASPECTS

CRR: Scheduled Commercial Banks are required to maintain CRR as per section 42 of RBI Act. In terms of this section banks are required to maintain certain percentage of Net Demand & Time Liabilities as cash with RBI.

1. As per amendment to sub-section (1) of Section 42 of the RBI Act 1934, with effect from 1st April 2007, the RBI can prescribe the Cash Reserve Ratio (CRR) for Scheduled Commercial Banks without any floor rate or ceiling rate. Accordingly, there is no minimum or maximum CRR as per RBI Act and RBI will fix CRR.
2. With effect from 24th April 2010, CRR was increased to 6% of NDTL. Banks are required to maintain the prescribed CRR based on their NDTL as on the last Friday of the second preceding fortnight. Banks are required to maintain minimum CRR balances up to 70 per cent of the total CRR requirement on all days of the fortnight.
3. RBI: will not pay any interest on the CRR balances with effect from 31s' March 2007, in view of the amendment carried out to

RBI Act 1934, omitting sub-section (1B) of section 42.

4. From the fortnight beginning June 24, 2006 in cases of default in maintenance of CRR requirement on a daily basis, penal interest will be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day/s, penal interest will be recovered at a rate of five per cent per annum above the bank rate. Reserve Bank of India has prescribed statutory returns i.e. Form A return (for CRR) under Section 42 (2) of the RBI, Act, 1934

SLR: As per amendment to section 24 of the Banking Regulation Act, the provision relating to maintenance of minimum SLR of 25% of **DTL** has been withdrawn. Thus, RBI is free to fix minimum SLR. However, it can be increased to maximum of 40% of DTL. At present it is 24% of **NDTL.** SLR can be kept in the form of cash or in gold valued at a price not exceeding the current market price, or c) in unencumbered approved securities valued at a price as specified by the RBI from time to time. For calculation of SLR, banks are required to send statement on Form **VIII** under Section 24 of the B R Act. For calculation of SLR & CRR, the following are not to be included in the DTL: (a) Paid up capital, reserves, any credit balance in the Profit & Loss Account of the bank, amount availed of as refinance from the RBI, and apex financial institutions like Exim Bank, NABARD, NHB, SIDBI etc. (b) Amount of provision for income tax in excess of the actual/estimated liabilities. (c) Amount received from DICGC towards claims and held by banks pending adjustments thereof. (d) Amount received from ECGC by invoking the guarantee. (e) Amount received from insurance company on ad-hoc settlement of claims pending Judgment of the Court. (f) Amount received from the Court Receiver. For calculation of CRR, inter-bank term deposits / term borrowing liabilities of original maturities of 15 days and above and upto one year are also not to be included in DTL. Further, banks are exempted from maintaining CRR on the following liabilities: (a) Liabilities to the banking system in India as computed under Clause (d) of the Explanation to section 42(1) of the RBI Act, 1934. (b) Credit balances in ACU (US$) Accounts. (c) Demand and Time Liabilities
in respect of their Offshore Banking Units (OBU's). Now banks are required to maintain CRR on CBLO was earlier exempt.

Objective Type Questions

1. Requirements relating to CRR to be maintained by a banking company are given in :
   (a) Section 24 of RBI Act, 1934 (b) Section 42 of Banking Regulation Act, 1949
   (c) Section 24 of Banking Regulation Act 1949 (d) Section 42 of RBI Act (e) None of these
2. The Banks are required to maintain CRR on the NDTL of last Friday of the: .
   (a) preceding fortnight (b) third preceding fortnight (c) second preceding fortnight
   (d) preceding month (e) second fortnight of last month

- 3. Under provisions of RBI Act, 1934, a scheduled commercial bank has to maintain cash reserve ratio (CRR) at prescribed percentage of its net demand and time liabilities. Such liabilities do no include
   (a) overdue time deposits with banks (b) deposits at call
   (c) refinance availed by a bank from RBI/NABARD/SIDBI (d) all above (e) only (a) & (c) above
4. Which of the following is/are exempted from provisions relating to CRR :
   (a) NRE balances (b) NRNR balances (c) FCNR (B) balances
   (d) deposit liabilities of off-shore banking units (e) all above
5. As per present guidelines of RBI, banks are required to maintain a minimum of ____________ percent of required CRR amount on a daily basis during a fortnight which is applicable to all days of the reporting fortnight.
   (a) 80% (b) 50% (c) 35% (d) 70% (e) none of these
6. At present RBI allows interest on eligible cash balances maintained by the banks on:
   (a) quarterly basis (b) monthly basis (c) half yearly basis (d) annual basis (e) none of these
7. Statutory Return prescribed by RBI for SLR under Section 24 of the Banking Regulation Act,1949 is:
   (a) Form A return (b) Form VIII return (c) Form SDF return (d) Form X (e) None of these
8. Net demand and time liabilities in respect of offshore banking units are exempt from : (a) minimum CRR requirement (b) maintaining average CRR balances
   (c) minimum SLR requirement (d) maintaining prescribed current SLR (e) both (b) & (c) above
9. Under Section 24 of the Banking Regulation Act,1949 all SCRs are required to maintain maximum 40% of their demand and time liabilities as SLR in the form of :
   (a) cash (b) gold valued at a price not exceeding the current market price
   (c) unencumbered approved securities valued at a price as specified by the RBI
   (d) one or more of the above (e) only (b) or (c) above
10. Which of the following is/are excluded from computation of NDTL for CRR but not for SLR purposes?
   (a) Amount received from SIDBI under CGFTSI by invoking the guarantee
   (b) Amount received from the Court Receiver
   (c) Inter bank term deposits/term borrowing liabilities of original maturity of 15 days and above and upto one year
   (d) Deposits held as securities for advances (e) none of these

TREASURY RISK MANAGMENT

1) Leverage means ability of a business concern:
a) To with stand pressures in the times of crisis
b) To meet its liabilities in time
c) To borrow or build up assets on the basis of given capital d) none of these

2) In case of banks, lev-erage is expressed by:
a) Return on Assets b) Net NPA ratio c) Capital adequacy ratio
d) Capital to outside liabilities e) None of these

3) Treasury deals are normally done over phone or over a dealing screen_ The deal terms are con-firmed in writing by
a) Front office b) back office c) middle office d) any of these

4) Delivery versus payment means one account is debited and another is credited:
a) on the same day b) by next day c) at the same time d) none of these

5) lh Treasury Operations, the term 'carry' means
a) Interest cost of funds locked in a trading position
b) Carrying forward the contract to next trading period
c) Carrying forward the settlement to next day d) none of these

6) "Marked to Market" means valuation of trading positions applying
a) Purchase price b) current market value
c) current market value or purchase price whichever is lower d) None of these

7) Mismatch refers to:
a) Difference in interest rates paid and received
b) Difference in sale and purchase price
c) Difference in duration of assets and liabilities d) all of these a) None of these

8) Which of the following is a reason for importance of Treasury risk management
a) Adverse market movements may result in instant losses
b) Treasury transactions are of high value needing relatively low capital
c) Large size of transactions done at the sole discretion of the Treasurer
d) Both (a) & (b) only e) All of these

9) High leverage means:
a) Very low capital requirement
b) Very high capital requirement
c) Very high profits compared to capital
d) Very high productivity e) None of these

10) Which of the following is/are not a conventional tool of management control on a treasury function
a) Back office which checks all transactions of dealers
b) Exposure limits for counterparties avoiding concentration risk
c) Intra day and overnight ceiling on open positions and stop loss limits
d) Value at risk and duration techniques e) None of these

11) Which of the following is not a function of Back office of a treasury
a) Generating deals i.e. purchase and sale of foreign exchange, securities etc.
b) Settling the trade after verifying internal controls
c) Obtaining independent confirmation of deal from the counterparty
d) Verifying that rates / prices mentioned in the deal slip are conforming to the market rates at the time of the deal e) None of these

12) Which of the following is responsible for ensuring compliance with various risk limits imposed by the Management and RBI as well as accuracy and objectivity of the transaction?
a) front office b) back office c) middle office
d) both (a) & (b) only e) All of these

13) Middle office in a treasury is responsible for:
a) Validating deal wise information from accounting point of view
b) Overall risk management and MIS
c) Both (a) & (b) d) None of these

14) Default risk in Treasury means:
a) Failure of the borrowing bank in the call money market to repay the amount on due date to the lending bank
b) Possible failure of the counterparty to the transaction to deliver I settle their part of transaction
c) Both (a) & (b) d) None of these

15) The exposure limits for counterparties are fixed on the basis of counterparty's
a) net worth b) market reputation c) track record
d) size of treasury operations e) all of these

16) The Exposure limits for counterparties are:
a) Vary in relation to period of exposure
b) Remain same irrespective of period
c) Fixed only as per net worth irrespective of period d) none of these

17) In which of the following areas trading limits are not fixed by management?
a) limits on deal size b) limits on open position c) stop loss limits
d) all of these e) None of these

18) Open Position refers to:
a) Trading positions where the buy / sell positions are not matched
b) Trading positions where the securities are bought in the open market
c) Open market operations d) none of these

19) Limit on open positions are fixed because
a) There may be loss if there is adverse movement in rates
b) There is 'carry' cost
c) Both (a) & (b) d) None of these

20) Which of the following is incorrect regarding open position in forex?
a) Position limits are prescribed currency wise as also for aggregate position in Rupees
b) There are separate limits for 'day light' and 'over night' c) None of these

DERIVATIVE PRODUCTS

1) Under the Treasury operations the derivatives are used:
a) To manage Risk as including ALM Risk.
b) To meet the requirements of corporate customers.
c) For taking trading position in derivative products d) All the above

2) The kinds of Derivatives are:
a) Cross currency derivatives b) Rupee derivatives
c) (a) and (b) both d) All these

3) The features of a Derivative are:
a) It does not have independent value.
b) The value of a Derivative is derived from an underlying market_
c) Derivatives are used in both the financial and commodity markets d) All the above

4) Financial market consists of:
a) Foreign Exchange b) Debt Instruments c) Equities d) All the above

5) Which of the followings are not derivatives?
a) Forward Contract b) Corporate Bonds c) Swaps d) Options

6) Forward contracts are used by:
a) Exporters b) Importers c) Banks d) All of these

7) Derivative is an instrument where:
a) Value is derived from spot prices in an underlying market.
b) Price depends upon future market conditions
e) (a) and (b) both d) None of these

8) A derivative product can be structured based on the following criteria:
a) Risk Appetite b) Size of Transactions
c) Maturity Requirements d) All of these

9) What is an over the counter product?
a) An instrument which can be directly negotiated and obtained from Banks and investment institutions.
b) An instrument which is settled over the counter.
c) (a) and (b) both d) None of these

10) Which of the followings are over the counter product?
a) Forwards b) Currency and interest rate options
c) Swaps d) All of these

11) Which of the followings are Exchange Traded Products?
a) Currency b) Stock/Index options c) Futures d) All of these

12) The features of over the counter product are:

a) Contracts of any size and maturity can be structured.
b) The product has counterparty risk.
c) Banks are the major players in the OTC market. d) All of these

13) Which of the following is not a feature of OTC product?

a) Cost of option is to be paid up front.
b) Cost is not loaded in the agreed rates.
c) Market is not liquid.
d) Cancellation of contract may become expensive.

14) The features of Exchange traded product are:

a) The contract is of standard size
b) Delivery dates are fixed
c) Price fluctuates according to market. d) All of these

15) The Exchange Traded products have the following features:

a) There is no counterparty Risk.
b) Only members of Exchange can Trade.
c) Minimum margin is maintained d) All of these

16) Which of the following is not correct regarding Exchange Traded products?

a) Positions are marked to market daily
b) Market is illiquid
c) The prices are determined by the market.
d) All Trades are exchange protected.

17) Which of the followings is not correct?

a) Banks mostly use OTC products
b) Volume of Trade in OTC products is much lesser
c) Options and futures are Exchange Traded Products d) All these

18) The contract of an option is:

a) Where the Buyer of an option has a right but no obligations to exercise a contract.
b) The price fixed in advance is called strike price
c) Specified time is known expiry date d) All of these

19) The features of an option are:

a) The option can either be a put option or call option
b) Call option gives a right to the Holder to buy on underlying product at a pre fixed rate and time.
c) Put option gives a right to the holder to sell the Asset at a specified rate and date.
d) All the above

20) Which of the followings is correct regarding option contract?

a) An option which can be exercised any time before the expiry date is known as American option
b) An option which can be exercised only on expiry of date is called European option.
c) (a) and (b) both d) None of these

21) Suppose a Dollar put option on JPY for USD 1 million with strike price at 105 and expires after 3 months: What is the course available to Holder?

a) The Holder has right to sell USD at the rate of 105 JPY per dollar on expiry date.
b) On expiry date if market rate is 108, the option holder will not exercise the put option.
c) If the market rate is below 105, the option Buyer will exercise the option on expiry date.
d) All the above

22) Which of the followings is correct?

a) If strike price is same as the spot price of the currency the option is known at the money.
b) If strike price is less than the forward rate in a call option, it is called in the money.
c) If strike price is more than forward Rate in case of a put option, the option is called out of the money d) All these

23) What is intrinsic value?

a) The difference between the strike price and current forward rate of the currency is known as intrinsic value.
b) At the money and out of the money contracts do not have intrinsic value
c) The option price less than the intrinsic value is the time value of option
d) The Time value is maximum for an At the money option.

24) Which of the followings is correct?

a) As the Buyer of the option has the right but no obligation to exercise option at the strike price, he has more profit opportunities.

b) The seller of the option is obliged to Buy/Sell to the Holder of option at the strike price, he may incur unlimited loss.

c) (a) and (b) both d) None of these

25) The feature of an option are:

a) The option is based on an amount which is only notional. .

b) When Holder exercises the option, the Seller of option -pays only the difference between the strike price and market price.

c) Payment of difference as per*(b) is known as cash settlement. d) All these

26) What is option premium?

a) It is the price of the option payable to the option seller upfront.

b) The premium amount depends on market volatility expiry date and strike price.

c) The longer the maturity, higher is the option premium.

d) Option premium increases with the volatility of market.

27) Suppose a put option for 1000 Reliance shares at Rs. 500 with expiry on 31^{51}-Jufyr-$^{---}$ 2005. What a strike option holder will do?

a) If Reliance shares are trading below Rs. 500 on expiry date, the option holder can sell the shares at Rs. 500.

b) If the market price is above the strike price of Rs. 500, the option holder would prefer to sell in the market and hence would not exercise the option

c) (a) and (b) of the above d) None of these

28) The features of a stock index are:

. a) A put option provides protection to the Holder against a fall in the index.

b) A call option on the index protects a Buyer from rise in the index.

c) (a) and (b) both d) None of these

29) Which of the following statements is not correct?

a) in India we have European type of option.

b) Options do not cover hedge against price fluctuations.

c) A person who sells USD put option to the exporter and a USD call option to the importer would be mitigating mutual Risk.

d) Option is like a insurance against adverse movement of prices.

30) The features of a forward contract are:

a) Settlement of a contract on maturity is essential.

b) Holder of a forward contract can not benefit if market rate is better on day of settlement

c) There is no price for a forward contract — interest differentials of two currencies is loaded into the forward rate. d) All these

31) What is an embedded option?

a) When a call option gives issuer the right to repay the debt before specified date.

b) A convertible option may give bond holder option of converting debt into equity on specified terms.

c) (a) and (b) both d) None of these

32) The features of futures contract are:

a) It is a forward contract where Seller agrees to deliver to the Buyer a specified security on a specified date.

b) Futures contracts are of standard size with pre-fixed settlement date.

c) The contracts are traded in a futures exchange d) All these

33) Which of the followings are financial futures?

a) Currency futures b) Interest Rate Futures

c) Stock/Index futures d) All of these

34) In which of the following currencies futures are traded in terms of US Dollar?

a) Euro b) GBP and Japanese Yen

c) An Australian and Canadian Dollar d) All of these

35) Suppose there is a contract of GBP 25000 traded at the Exchange for delivery on 30th June at 1.8650 as against spot exchange rate of 1.80. What does this contract imply?

a) The contract implies that seller would deliver to the holder of contract, GBP 25000 against payment of equivalent USD at 1.8650.

b) On the settlement date, if market rate of GBP is more than 1.8650, the seller will pay to the holder the difference in contracted price and spot price.

c) If the market price is less than the contracted price, the Buyer of the contract will bear the loss. d) All these

36) Which of the followings is essential in a futures contract?

a) The contract must be executed by both the parties.
b) The Trading is done through the members of the Exchange.
c) The Exchange is the counterparty for each transaction d) All of these

37) Which of the followings is a distinct feature of a futures contract?
a) The contract are marked to market daily.
b) The members are required to pay margin equivalent to daily loss.
c) In case of default by any member the Exchange will meet the payment obligation.
d) All the above

38) Which of the following statements is correct?
a) Futures are issued by Banks in Foreign Exchange Business.
b) Exporters and Importers prefer forward contracts as they can cover risk in terms of size and duration.
c) Futures are traded by traders and speculators with large volumes. d) All these

39) What are the Interest Rate Futures?
a) These are the contracts written on fixed Income securities of a specified size.
b) The interest rates can be of a short term, medium term and long term
c) They are used to hedge interest rate risk d) All these

40) Which of the followings are relevant to interest futures?
a) T. Bill futures are traded with US Treasury Bills and notes.
b) Euro Dollar bonds are traded on the basis of LIBOR or Inter-Bank deposit Rate.
c) The contract size, delivery terms and Trading practices differ from Exchange to Exchange.
d) All the above

41) The Hedging of interest rates Risk depends on:
a) It is based on inverse relationship between interest rates and bond prices.
b) If the interest rate goes up the bond price comes down.
c) Bond price would move up if interest rates decline. d) All these

42) What is an interest rate swap?
a) It is a process where interest flows on an underlying assets or liability are - exchanged
b) The value is the notional amount of swap.
c) The interest is changed according to requirement of a lender or borrower d) All these

43) Interest rate swap are shifted as under:
a) Floating rate to fixed rate b) Fixed rate to floating rate
c) Floating rate to floating rate d) Any of these

44) Flow the interest rates are calculated?
a) Interest rates are calculated on notional amount which is equal to face value of debt instrument.
b) The notional amount is not exchanged.
c) The actual payment of interest is netted out on interest payment date d) All these

45) What are the features of Benchmark rate?
a) it is a Risk free interest rate determined by the market.
b) It is objective and transparent.
c) The issuer of debt paper and the lending bank link interest rate to a benchmark rate
d) All the above

46) The following is the Benchmark Rate:
a) For US dollars, it is LIBOR
b) For Indian Rupee Market, it is MIBOR
c) MIFOR for foreign currency Borrowings swapped in to Rupee d) All these

47) Which of the followings is correct?
a) LIBOR is a rate charged by US federal Reserve for lending to banks.
b) MIBOR is announced by NSE.
c) MIFOR is announced by Reuters d) All these

48) What is significant about MIBOR?
a) It is one day money market rate in the Inter-Bank market being announced by NSE daily ate 9.50 a.m.
b) NSE Pool the rate from various participating Banks and averages out after extreme top and bottom rates.
c) It is a base rate for short term and medium term lending also. d) All these

49) What is a floating to floating rate swap?
a) It involves change of benchmark rate.
b) If a corporate has opted for T-Bill linked rate and later prefers to have MIBOR, it can enter a swap and receive T-Bill rate and pay MIBOR linked equivalent rate

c) (a) and (b) both d) None of these

50) Which of the following statements is correct?
a) Under the Quanta swaps, payment of interest in home currency at rates applicable to foreign currency are allowed.
b) In the coupon swaps floating rates in one currency are exchanged to fixed rate of another currency.
c) Swaptions are swaps which collapse at a knock out level of market rates and swaps with built in options d) All these

51) What is IRS (Interest Rate Swaps)?
a) It is an OTC instrument generally issued by a Bank.
b) This facilitates conversion-of floating rate into fixed and vice-versa.
c) IRS is also used in Treasury operations to fill the Asset-Liability mismatch
d) All the above

52) The feature of currency swap are:
a) It is a process of exchanging cash flows in one currency with that of another currency.
b) The cash flows may be in connection with repayment of principal or interest of a loan.
c) It can be either principal only or interest only swap. d) All these

53) The process of currency swap is:
a) The currency swap arises when loan raised in one currency is actually required to be used in another currency.
b) The different corporates can raise the loan relatively at a lower rate in their home currency and both can exchange the proceeds
c) On due date, payment will be made by each-other d) All these

54) Suppose 'A' company raises a loan of USD 100 million for 5 years at 4% p.a. (interest payment — semi-annual) with bullet payment and swaps the loan into rupee with the Banker **'B'.** Thus 'A' pays 'B' USD 100 million and receive Rs. 450 crore from 'B'. What would be the further process?
a) B will service the interest on USD loan pays interest at 4% to A who pays interest to the lending Bank.
b) A pays interest on rupee loan half yearly to B at swap rate of 6.5%
c) On maturity date A and B exchanges principal amount and reverse :˙he exchange.
d) All the above

55) The kinds of currency swaps are:
a) Principal only swap b) Interest only swap
c) Principal plus interest swap d) Any of these

56) What is ISDA master agreement?
a) Ms a standardized agreement formulated by international swap and derivatives association.
b) The agreement has been approved by FEDAI.
c) Master agreement coves all the transactions between two counterparties globally
d) All of these

57) Which of the following terms of the contract are covered under ISDA master agreement?
a) Valuation norms b) Netting out c) Cross default d) All these

58) What are the RBI guidelines for the development of interest rate swaps (IRS)
a) Banks can use IRS for hedging and Trading both
b) MIFOR is a benchmark for IRS
c) Under ISDA agreement Banks can opt for dual jurisdiction i.e. Indian as well as common law
d) All the above

59) The features of MIFOR are:
a) It combines LIBOR and forward premium
b) It is based on active forex market dealings
c) It is linked to domestic and global markets d) All these

60) Which of the following statements is correct?
a) Exporters and importers can use forward contracts for the trade transactions
b) Contracts can be booked on declaration basis
c) Options and forwards booked to hedge loans, once cancelled can not be rebooked
d) All the above

61) Which of the following is correct?
a) Margin is like a security for credit Risk_
b) Plain vanilla swaps are currency and interest rate swaps with basic structure without inbuilt options
c) Managing market Risk inherent in the Assets and Liabilities of a Bank is called

Balance Sheet Management d) All these

TREASURY & ASSET LIABILITY.MANAGEMENT

1 The significance of Treasury operations in Asset Liability management is:

a) It operates in financial markets directly.
b) Treasury is a link between core banking functions and market operations
c) Treasury identifies and monitors the market risk d) All of these

2_ How the Treasury operations are useful in minimizing Asset Liability mismatch?

a) Through uses of derivatives
b) Use of new products
c) Through Bridging the liquidity and rate sensitivity gaps d) All of these

3 Which of the following statements is correct?

a) Trading in securities is exposed to market risk
b) At times the Risks are compensatory in nature and help to minimize the mismatches.
c) Options can be economic only in marketable size d) All of these

4. Treasury operations also help in effective monitoring and implementation of Asset Liability management process in view of the:

a) Credit instruments can be replaced by Treasury instruments
b) Treasury products are more liquid.
c) Treasury operations monitor exchange rate and interest rate movements
d) All of these

5. Which of the following statements is not correct regarding Treasury operations in Asset Liability management process?

a) Derivatives can be widely used in Treasury operations
b) Derivatives increases liquidity risk
c) The capital requirement for derivative operations is small.
d) Derivatives replicate market Movements.

6. Asset Liability mismatches can be reduced through use of derivatives in Treasury operations because:

a) Derivatives can be used to hedge high value transactions
b) It can also minimize aggregate risk in Asset liability mismatches
c) (a) and (b) both d) None of these

7 Suppose a Bank is funding medium term loan of 3 years with deposits having average maturity of 3 months as short term deposits or borrowings are cheaper than 3 years deposits. what would be the consequences and what a bank should do?

a) Bank would resort to short term resources to increase the spread.
b) The (a) above will have liquidity risk
c) This will also have interest Risk since every time the deposits would be priced.
d) The Bank should swap 3 month interest rate into a fixed rate for 3 years.

8. Suppose a Bank prices the 3 month deposit at 91 day T-Bill + 1% and swap rate of the loan yield T-Bill+3%. What is the impact?

a) Fixed interest of the loan is swapped into floating rate
b) Bank has a spread of 2%
c) The Risk is protected during the period of loan. d) All of these

9. Suppose a Bank borrows US dollars at 3% and lends in domestic market at 8.5%. The Bank pays forward premium of 1.5% to cover exchange Risk. What is the overall impact?

a) The Bank earns a spread of 2% without any exchange Risk.
b) A bank through Treasury operations can supplement domestic liquidity.
c) The above process is known as arbitrage. d) All of these

10. A Bank under the Treasury operations can buy call options to protect foreign currency obligations as under:

a) This will help the Bank to protect rupee value of foreign currency receipts and payments
b) The Bank will gain if the spot rate of call option on the exercise date is more favourable than the strike price of the option.
c) (a) and (b) both d) none of the above

11. Which of the followings is relevant when interest rate is linked to the rate of inflation?

a) Index linked Bonds
b) Treasury Bonds
c) Corporate Debt Instruments
d) All of these

12. The significance of index linked bonds is:
a) It provides protection against inflation rate rise.
b) It is inbuilt in the process.
c) (a) and (b) both
d) None of these

13. Suppose a Bank issues 7 year Bond with a put option at the end of 3[1-6] year. What does it signify?
a) It is as good as 3 year investment
b) The investment becomes more liquid
c) (a) and (b) both
d) None of these

14. The limitations of Derivatives are:
a) All of these
a) If interest rate on deposits and loans are not based on benchmar-k rates interest rate swaps may not be that useful.
b) The product prices may not move in line with market rates.
d) All of these
c) The Treasury operations may not provide perfect hedge.
d) All of these

15'. Which of the followings is correct?
a) Treasury operations are concerned with market risk
b) Treasury operations has no link with the credit risk
c) Credit risk in Treasury operations are contained by exposure limits
d) All the above

16. Why the corporate prefer to issue debt paper than to Bank credit?
a) The cost of debt paper is much lower
b) The procedure is easy
c) (a) and (b) both
d) None of these

17. A Bank may prefer to invest in corporate Bonds because:
a) Bbnd is more liquid Asset
b) Bond has an easy exit
c) Bond can be sold at discount
d) All of these

18. Which of the following is not credit substitute?
a) Commercial paper
b) Mortgage loan
c) Corporate bond
d) Certificate of Deposit

19. The difference between a Bond and loan is:
a) The loan has normally fixed rate of interest. Bond price is dependent on Market interest rate movements.
Bonds are more liquid
Yield to maturity value can be known easily in a bond
d) All of these
What is securitization?
A process which converts conventional credit into tradable Treasury Assets.
Credit receivables of the Bank can be converted into Bonds i.e. .pass through certificates
These certificates can be traded in the market
The advantages of securitization for a Bank is:
It provides liquidity to the issuing Bank
The Bank capital does not get blocked
Securitization proceeds can be used for fresh lending

22. Which of the following loans cannot be securitized?
a) Long term loans
b) Short term loans
c) Medium term loans
d) Retail loans

23. Which of the followings is true?
a) Surplus funds with the banks can be invested in pass through certificates
b) This will be indirect expansion of credit portfolio
c) (a) and (b) both
d) None of these

24. The features of credit derivatives are:
a) It segregates credit Risk from loan
b) The Risk is transferred from the owner of the Asset to another person for a fee.
c) The instrument is known as credit linked certificates
d) All of these

25. The constituents of a credit Derivatives are:
a) Protection Buyer b) Protection Seller
c) Reference Asset d) All of these

26. The process of credit Derivative involves:
a) The protection seller guarantees payment of principal and interest or both of the Asset owned by the protection Buyer in case of credit default.
b) The protection Buyer pays a premium to the protection Seller
c) (a) and (b) both d) None of these

27. The advantages of credit Derivatives are:
a) It helps the issuer to diversity the credit risk
b) The capital can be used more efficiently
c) Credit Derivative is a transferable instrument d) All of these

28. What is transfer pricing under Treasury operations?
a) It is the process of fixing the cost of resources and return on Assets of a Bank in rational manner.
b) The Treasury buys and sells deposits and loans of Bank. -
c) The price fixed by the treasury becomes the basis for assessing profitability of a Bank
d) All the above

29. The parameters for fixing price by a Treasury are:
a) Market interest rate
b) Cost of hedging market Risk
c) Cost of maintaining reserve assets of the Bank d) All of these

30. Which of the following statements is correct regarding transfer pricing under Treasury operations?
a) If Bank procures deposit at 7% but the Treasury buys at a lower cost, the difference being the cost would be borne by the Bank.
b) If the Bank lends at higher rate and sells the loan to Treasury at lower rate, the Balance being risk premium would be the income for the Bank.
c) (a) and (b) both d) None of these

31. An integrated Risk management policy under Asset Liability management should focus on: a) Risk measurement and monitoring b) Risk Neutralisation, c) Product pricing d) All of these

32. Liquidity policy survival prescribe: a) Minimum liquidity to be maintained b) Funding of Reserve Assets c) Exposure limit to money market d) All of these

33. The derivative Policy should consist:
a) Capital Allocation b) Restrictions on Derivative Trading
c) Exposure limits d) All of these

34. The investment policy should contain:
a) Permissible investments b) SLR and non SLR investments
c) Private placement d) All of these

35. The investment policy need not contain:
a) Derivative Trading b) Trading in Securities and Repos
c) Valuation and Accounting policy d) Classification of Investments

36. The composite Risk policy under Treasury operations should include the following:
a) Norms for Merchant and Trading positions b) Securities Trading
c) Exposure limits d) All of these

37. Composite Risk policy should also contain the following:
a) Intra-day and overnight positions b) Stop loss limits
c) Valuation of Trading positions d) All of these

38. Transfer pricing policy shduld prescribe:
a) Spread to be retained by the Treasury
b) Segregation of Administrative and Hedging cost
c) Allocation of cost d) All of these

39. According to RBI, policy of Investment and Risk should be supplemented with:
a) Prevention of money laundering policy
b) Hedging policy for customer Risk_ c) (a) and (b) d) None of these

40. Which of the following are essential requirements for formulation of policy guidelines?
a) It should be approved by the Board

b) It should comply with the guidelines of RBI and SEBI
c) It should follow current market practices d) All of these

41. Which of the followings is correct?
a) All policies should be reviewed annually
b) A copy of the policy guidelines needs to be filed with RBI
c) (a) and (b) both d) None of above

42. A Run of the Bank signifies:
a) A situation where depositors lose confidence and start withdrawing their balances.
b) A Bank running in continuous loss
c) A Bank where non-performing Assets level is high. d) All of these

43. Liquefiable securities are:
a) Securities that can be readily sold in the secondary market.
b) Securities that have easy liquidity
c) Short term securities d) All of these

44. What is Sensitivity Ratio?
a) Extent of interest sensitive Assets
b).Ratio of interest rate sensitive Assets to interest rate sensitive Liabilities
c) -(a) and (b) both d) All of these

45. Risk appetite is:
a) The capacity and willingness to absorb losses on account of market Risk.
b) The extent of Risk involved in securities c) (a) & (b) d) All of these

46. Which of the followings is correct?
a) Special purpose vehicle is formed exclusively to handle securities paper on behalf of sponsoring Bank.
b) Hedging policy is a document which specifies extent of coverage of foreign currency obligations.
c) Self regulatory organizations formulate market related code of conduct
d) All of the above

47. Liquidity policy of a Bank should contain:
a) Contingent funding
b) Inter-Bank committed credit lines
c) (a) and (b) both d) All of these

ANSWER

INTRODUCTION TO TREASURY MANAGEMENT

1	D	2	D	3	A	4	B	5	C	6	A	7	A	8	D	9	D	10	C
11	D	12	D	13	C	14	A	15	C	16	A	17	D	18	D	19	D	20	D
21	C	22	D	23	D	24	C	25	B	26	C	27	C	28	C	29	D	30	B
31	C	32	B	33	A	34	D	35	A	36	A	37	D	38	D	39	D	40	C
41	C	42	D	43	A	44	D	45	C	46	C	47	D	48	D	49	D	50	D
51	D	52	D	53	D	54	D	55	A	56	B	57	C	58	D	59	D	60	C
61	D	62	C	63	B	64	A	65	D	66	B	67	D	68	D				

TREASURY PRODUCTS

1	C	2	A	3	D	4	D	5	D	6	D	7	D	8	D	9	D	10	D
11	D	12	D	13	A	14	A	15	A	16	D	17	C	18	D	19	D	20	D
21	C	22	D	23	C	24	D	25	A	26	D	27	C	28	D	29	B	30	D
31	D	32	D	33	D	34	D	35	D	36	C	37	D	38	D	39	D	40	C
41	C	42	D	43	D	44	D	45	D	46	D	47	B	48	D	49	D	50	C
51	C	52	D	53	D	54	A	55	A	56	D	57	D	58	C	59	D	60	B
61	D	62	D	63	D	64	D	65	C	66	D	67	C	68	B	69	D	70	D
71	D	72	D	73	C	74	D	75	C	76	C	77	D	78	D	79	D	80	D
81	D	82	C	83	D	84	D	85	D	86	D	87	D	88	D	89	D	90	D

91	D	92	D	93	D	94	D	95											

FUNDING AND REGULATORY ASPECTS

1	D	2	C	3	C	4	D	5	D	6	E	7	B	8	B	9	D	10	C

TREASURY RISK MANAGEMENT

1	C	2	C	3	B	4	C	5	A	6	B	7	C	8	E	9	A	10	D
11	A	12	D	13	B	14	C	15	E	16	A	17	E	18	A	19	C	20	C

DERIVATIVES

1	D	2	C	3	D	4	D	5	B	6	D	7	C	8	D	9	A	10	D
11	D	12	D	13	B	14	D	15	D	16	B	17	B	18	D	19	D	20	C
21	D	22	D	23	A	24	C	25	D	26	A	27	C	28	C	29	B	30	D
31	C	32	D	33	D	34	D	35	D	36	D	37	D	38	D	39	A	40	D
41	D	42	A	43	D	44	A	45	D	46	D	47	D	48	D	49	C	50	D
51	D	52	D	53	D	54	D	55	D	56	D	57	D	58	D	59	D	60	D

TREASURY & ASSET LIABILITY MANAGEMENT

1	D	2	D	3	D	4	D	5	B	6	C	7	D	8	D	9	D	10	C
11	A	12	C	13	C	14	D	15	D	16	A	17	D	18	B	19	D	20	D
21	D	22	B	23	C	24	D	25	D	26	C	27	D	28	D	29	D	30	C
31	C	32	D	33	D	34	D	35	D	36	D	37	D	38	D	39	C	40	D
41	C	42	A	43	A	44	B	45	A	46	B	47	C						

CASE STUDIES / PROBLEMS ON TREASURY MANAGEMENT

CASE STUDIES ON CRR Sr COMMERCIAL-PAPER

Case- 1

International Bank has following assets and liabilities in its balance sheet as on Mar 31, 2010:

Capital — Rs. 4400 cr, Reserves — Rs. 8600 cr, demand deposits — Rs. 26000 cr, Saving Bank deposits — Rs. 82000 cr, Term deposits — Public Rs. 123200 cr, Term deposits — Banks Rs. 5200 cr; Borrowing from financial institutions — Rs. 800 cr, NABARD refinance — Rs. 600 cr, Bills payable Rs. 200 cr, Interest accrued Rs. 80 cr, Subordinated debt Rs. 800 cr and suspense account Rs. 120 cr. Total liabilities Rs. 252000 cr. Based on this information, and assuming CRR to *be* 5%, answer the following questions.

01 What is the amount of liabilities that will not be included in net demand and time liabilities for the purpose of CRR calculation:

a) Rs. 13000 cr b) Rs. 13600 cr
c) Rs. 18200 cr d) Rs. 18800 cr

02 What is the amount of Net demand and time liabilities (NDTL), on which the CRR is to be maintained:

a) Rs. 233200 cr b) Rs. 238600 cr
c) Rs. 248300 cr d) Rs. 252000 cr

03 At 5% of NDTL rate prescribed by RBI, what will be the average balance to be maintained by the bank with RBI:

a) Rs. 10960 cr b) Rs. 11660 cr
c) Rs. 11860 cr d) Rs. 12960 cr

04 What is the minimum balance in the CRR account with RBI, in the above situation which should be available:

a) Rs. 8712 cr b) Rs. 8514 cr
c) *Rs.* 8162 cr d) Rs. 8092 cr

05 While calculating the net demand and time liabilities, *for* CRR purpose, which of the following liability is to be excluded:

a) Capital and reserves
b) Refinance from NABARD, NHB, SIDBI
c) Inter-bank deposits with original maturities of 15 days or above
d) All the above

Answers: 1-d 2-a, 3-b 4-c 5-d

Explanations:

Que-1: Capital Reserves -I- term deposit from banks + refinance from NABARD are not to be taken. Hence
4100 + 8600 + 5200 + 600 = 18800 cr.

Que-2: Total liabilities — exempted liabilities (Capital + Reserves + term deposit from banks + refinance from NABARD). Hence 252000 — 18800 = 233200 cr

Que-3: 233200 x 5% = 11660 cr

Que-4: Minimum balance is 70% of the average balance *i.e.* 11660 x 70% = 8162.cr

Que-5: The given answer is correct. It does not require any explanation

Case - 2

International Bank has maintained following balance with RBI in its CRR account for the fortnight ended Feb 12, 2010.

1st 10 days — Minimum balance of 70%

11th and 12th day — Rs. 1600 cr

The average balance required to be maintained *is* Rs. 700 cr. Based on this information, answer the following questions:

01 On product basis, what is the CRR balance for fortnight, to comply with the CRR-requirement:

a) Rs. 10500 cr *b)* Rs. 9800 cr

c) Rs. 6880 Cr d) Inadequate information

02 On product basis, what balance has been maintained by the bank, during the first 10 days of the fortnight:

a) Rs. 4900 cr *b)* Rs. 5600 cr

c) *Rs.* 6300 cr d) Rs. 7000 cr

03 On product basis, what balance has been maintained by the bank on 11th and 12th day:

a) Rs. 1600 cr b) Rs. 3200 cr

c) Rs. 3600 cr d) Rs. 4800 cr

04 On product *basis,* what balance has been maintained by the bank for 1st [2 days of the fortnight:

a) Rs. 3200 cr b) Rs. 4900 cr

c) Rs. 8100 cr d) Rs. 9800 cr

05 How much minimum balance the bank will be required to maintain on 13th and 14th day> to ensure compliance of CRR requirement during the fortnight:

a) Rs. 700 cr b) Rs. 760 cr

c) Rs. 810 cr d) Rs. 850 cr

Answers: 1-b 2-a 3-b 4-c 5-d

Explanations:

Que-1: 700 x 14 = 9800 cr

Que-2: 70% of the required Rs. 700 cr i.e. 490 cr (700 x 70%). Hence total balance for 10 days = 490 x 10 = 4900 cr

Que-3: 1600 x 2 = Rs. 3200 cr

Que-4: (490 x 10 = 4900 cr) f (1600 x 2 = Rs. 3200 cr) = 8100 cr

Que-5: Balance required to be maintained on product basis = 9800 cr minus balance already maintained = Rs. 8100 = 1700 cr. Hence for 2 days, the average balance = 1700/2 = 850 cr.

Case – 3

Pune branch of International Bank (With HQ in Mumbai) has received an investment proposal for investing in commercial paper issued by a company known as XYZ Limited. The bank has received the request for subscribing to the CP up to Rs.50 cr for 182 days at 8% p.a. rate of interest and submitted the following information/ documents on Feb 10, 2010:

a. Copy of credit rating certificate (PRI) issued by CARE which is dated Jan 25, 2010
b. Coy of resolution passed by Board of Directors of the company to this effect which restricts issued of CP up to Rs.100 cr, with a maximum tenure of 182 days.
c. The company has submitted the letters from two non-bank finance companies subscribing to the commercial paper up to Rs.50 cr in the first tranche on Feb28, 2010. On the basis of above information, answer the following questions:

01 Which of ________________ the following other information/confirmation is not required by the bank to ensure that company fulfils the eligibility criteria:

a) proof of sanction of working capital limits by a bank or financial institutions
b) Copy of latest audited balance sheet to ensure that company has required net worth of at least Rs.4 cr.
c) proof that their loan accounts with other banks are standard loan account
d) none of the above

02 Which of the following steps will be initiated by the branch:

a) the branch will immediately subscribe the commercial paper
b) the branch will decline, the subscription, as banks cannot invest in commercial papers
c) the branch will refer the proposal to Treasury Department of the bank in HO, as it is an investment proposal
d) the branch will refer this case to its Regional Head, as case is to be sanctioned in the form of a loan.

03 What is the amount as balance amount, the company can get subscribed as commercial paper?

a) Rs.100 cr b) Rs.50 cr

c) Rs.10 cr d) none of the above

04 If the bank decides to subscribe the commercial paper to the extent of Rs.10 cr, what amount will be bank pay to the company?

a) Rs.10 lac b) Rs.961538
c) Rs.958276 d) 952945

05 If the bank subscribes the CP on Feb 14, 2010, the company shall repay back the amount of commercial paper on :
a) August 13, 2010 b) August 14, 2010
c) August 15, 2010 d) August 16, 2010

Ans. 1-d 2-cq 3-b 4-b 5-b Explanations: —

Que-1: As per RBI guidelines, the eligibility criteria include (a) sanction of working capital limits by a bank or Fl (b) credit rating of at least P2 from CRISIL or equivalent from other rating agency (c) loan accounts are standard accounts (d) net worth is at least Rs.4 cr.

Que-2: Investment in commercial paper, is an investment decision and the evaluation of the proposal and decision to invest, shall be taken by the Treasury Deptt, of the bank.

Que-3: Rs.100 cr– Rs.50 cr (already subscribed) = Rs.50 cr.

Que-5: The discounted value = P/1+r = 10 lad 1.04 = 961538 (rate of interest of 8% for 6 months will be half of 8%.

Que-5: The maturity date is Aug 15. But it being a holiday, the company shall have to pay on the preceding day i.e. Aug 14.

CASE STUDIES ON DERIVATIVES

Case-1 : CREDIT DERIVATIVES

01 A corporate client has requested the bank for sanction of a term loan of Rs. 200 cr for setting up a project. The loan will be repaid within 5 years. Due to industry exposure ceiling, the bank is unable to undertake the exposure. In view of the long standing relationship with the customer, the bank wants to accommodate the customer. If this loan is sanctioned, to hedge the loan concentration, which of the following will be used by the bank:

a) Credit default swap
b) Total return swap
c) Credit linked notes
d) Credit spread options

02 A corporate needs a corporate loan of Rs. 1000 cr to be withdrawn immediately and availed for one year. Among other banks, Universal Bank is also approached for this. The bank is ready to sanction a loan up to -Rs. 250 cr (due to exposure ceiling), while the company has requested for a loan of Rs. 500 cr, as the balance part has been managed by the company, from other banks. In order to retain the customer, for accommodating the party to the extent of Rs. 500 cr, which of the following will be used by the bank:

a) Credit default swap
b) Total return swap
c) Credit linked notes
d) Credit spread options **Answers: 1-b 2-a Explanations:**

1. In this case, the total return swap (TRS) would be appropriate. (TRS represents an off balance sheet replication of a financial assets such as a loan). The bank, after extending the loan, can arrange a TRS with a hedge fund investor. The bank in this way will receive a spread for 5 years, can retain the customer, hedge the risk of the loan and reduce the amount of regulatory capital.
2. The bank can sanction a loan of Rs. 500 cr and go for credit default swap (CDS) of Rs. 250 cr and can sell this amount to a protection seller (particularly those banks that are at a disadvantages so for as credit risk origination is concerned) under CDS. In this transaction, the loan will continue to be with the originating bank and will not be required to be transferred to the bank.

Case-2 : OPTIONS

X is the seller of an option and Y is the buyer of the option. As per the option, the option buyer can buy USD 100000 at a strike price of Rs. 45 per USD with expiry at the end of 3 months.

01 According to this contract:

a) Y has the right to sell USD 100000 to X
b) Y has the right to buy USD 100000 from X
c) X has the right to buy USD 100000 from Y
d) Y has the obligation to buy **USD** 100000 from X

02 In the above case (i.e. call option), if the spot price of USD is. Rs. 45.50 on the expiry *day, it is an:*

a) At-the-money option
b) Out-of-money option
c) In-the-money option
d) American option

03 In the above case (i.e. call option), if the spot price of USD is Rs. 44.50 on the expiry day, it is an:

a) At-the-money option
b) Out-of-money option
c) In-the-money option
d) American option

04 In the above case (i.e. call option), if the shot price of USD is Rs. 45.00 on the expiry day, it is an:

a) At-the-money option
b) Out-of-money option
c) In-the-money option

d) American option

Answers: 1-b 2-b 3-c 4-a Explanations:

1. From buyer's view point, this is a call option as the buyer can purchase USD 100000 without any obligation to purchase. In case the transaction does not turn out to be profitable he may choose not to exercise the option.
2. When the strike price = spot price of the currency, it is at the money option. When the strike price < spot price in a call option and strike price > spot price in a put option, it is called out of the money option. When the strike price > spot price in a call option and strike price < spot price in a put option, it is called in the money option.
3. When the strike price = spot price of the currency, it is at the money option. When the strike price < spot price in a call option and strike price > spot price in a put option, it is called out of the money option. When the strike price > spot price in a call option and strike price < spot price in a put option, it is called in the money option.
4. When the strike price = spot price of the currency, it is at the money option. When the strike price < spot price in a call option and strike price > spot price in a put option, it is called out of the money option. When the strike price > spot price in a call option and strike price < spot price in a put option, it is called in the money option.

Case -3: FUTURES

A futures contractof USD 10000 is traded at National Stock Exchange for delivery on Aug 28, 2011 at one USD = Rs. 45.00 as against the spot rate of Rs. 44.30.

01 *The* contract implies that:

a) Buyer would deliver the holder of the contract USD 10000 against payment of equivalent rupees at the agreed rate of Rs. 45.00
b) Seller would deliver the holder of the contract USD 10000 against payment of equivalent rupees at the agreed rate of Rs. 45.00
c) Seller would deliver to the buyer of the contract USD 10000 against payment of equivalent rupees at the agreed rate of Rs. 44.30
d) Buyer would deliver to the seller of the contract USD 10000 against payment of equivalent rupees at the agreed rate of Rs. 44.30

02 In the above case, if the market rate of USD is Rs. 45.90

a) The seller will pay to the holder, the difference in contract price and spot price on that date
b) The buyer will pay to the holder, the-difference in contract price and spot price on that date
e) The seller will pay to the buyer, the difference in contract price and spot price on that date d) The seller will pay to the buyer, the amount of contract price

03 In the above case, if the market price is less than the contract price:

a) The buyer of the contract will get the profit
b) The buyer of the contract will bear the loss
c) The seller of the contract will bear the loss
d) The profit or loss, if any, will be shared between the buyer_and the seller

Answers: 1-b 2-a 3-b Explanations:

1. **A** futures contract is traded at an Exchange. Under the contract, the seller delivers the holder of the contract, the agreed currency (USD 10000) against payment of equivalent rupees at the agreed rate of Rs. 45.00.

• **2.** The seller will pay to the holder, the difference in contract price and spot price on that date, to settle the contract.

3. The buyer will pay to the holder, the difference in contract price and spot price on that date.

BANK FINANCIAL MANAGEMENT

CASE STUDIES ON RATING MIGRATION

Case- 1

You are provided the following information about the no. of loan accounts with different rating, in international Bank as on Mar 31 2009 and Mar 31 2010.

Rating	Mar 31, 2009	Mar 31, 2010							
		AAA	AA+	AA	A+	A	BBB	C	Default
AAA	100	70	16	4'	4	.2	2	2	-
AA+	100	10	60	14	10	-	2	2	2
A A		-	-		-	-	-	_	-
A+	-	-	-	-	-	-		-	-
A	200		-	-	20	160	12	4	4
BBB	400	-	-	-	20	-	240	60	80
C	60	-	-	-	-	-	10	40	10
Default	-								

Based on this information, answer the following question.

01 What is the %age of AAA rated borrower that remained at the same rating level during the observation period:

a) 70%© b) 65%

C) 60% d) 55%

02 What is the no. of AAA rated accounts as at the end of observation period:

a) 100 b) 80

c) 70 d) 60

03 What is the percentage of migration of borrowers from A and BBB category to default category:

a) 1%, 20% b) 2%, 20%

c) 1%, 10% d) 2%, 10%

04 What is the percentage of migration of loan accounts from C rated to default category:

a) 10% b) 12.50%

c) 15.5% d) 16.7%

05 What is the total no. of borrower in the default category at the beginning and end of the observation period:

a) Nil, 80 b) Nil, 90

c) Nil, 96

d) Inadequate information to answer the question

06 Calculate the percentage for migration of AA+ account to AA category:

a) 10% b) 125

c) 14% d) 16%

07 What is the percentage of BBB category accounts, that did not change their category during the observation period:

a) 70% b) 60%

c) 50% d) 40%

08 What is the percentage of A category accounts that were upgraded to A+ category:

a) 10% b) 12.5%

c) 15% d) 17.5%

Answers: 1-a 2-b 3-b 4-d 5-c 6-c 7-b 8-a

Explanations:

Que-1: Mar 2010 = 70 accounts. Mar 2009 = 100 account. Hence 70/100x100 = 70%

Que-2: 70+10=80

Que-3: For A category = 4/200x100 = 2%. For BBB category = 80/400x100 = 20%

Que-4: 10/60x100 = 16.7%

Que-5: At beginning — nil At end = 2+4+80+10=96

Que-6: 14/100x100 = 14%

Que-7: 240/400x100 = 60%

Que-8: 20/200x100 = 10%

Case -2

You are provided the following information about the no. of loan accounts with different rating, in International Bank as on Mar 31, 2009 and Mar 31 2010.

Rating	Mar 31, 2009	Mar 31, 2010							
		AAA	AA+	AA	A+	A	BBB	C	Default
AAA	200	150	10	12	14	8	6	-	4
AA+	-	-	-	-	-	-	-	-	-
A A	50	-	-		-	-	-	_	-
A+	100	-	1	16	80	-	-	3	-
A	-		-	-	-	-	-	-	-
BBB	400	-	-	-	20	20	330	20	10
C	100	-	-	-	-	-	20	60	20
Default	-								

01 What is the percentage of AA rated and BBB rated account that retained their existing rating:

a) 64%, 85% b) 64%, 82.55

c) 65.5%, 80% d) 60%, 78%

02 What is the no. A+ account at the end of observation period:

a) 100 b) 110

c) 118 d) Inadequate information

03 What is the change percentage in no. of accounts in AAA category:

a) 20% increase b) 22.5% decrease

c) 24% decrease d) 25% decrease

04 What is the percentage of account in all categories that have been shifted to default category:

a) 5.4% b) 6.2%

c) 6.8% d) 7.5%

05 What is the %age of AAA category accounts that *has been* shifted to BBB and AA category:

a) 3%, 6% b) 3%, 5%
c) 4%, 6% d) 4%, 5%

06 What is the percentage change *in AA* category accounts:
a) 15% b) 17.5%
c) 20% d) 25%

07 In which category of accounts, the migration has been highest (in %age terms) during the observation period:
a) AAA b) AA
c) BBB d) C

08 In which category of accounts, the migration has been lowest, during the observation period:
a) C b) BBB
c) A+ d) AA

Answers: 1-b 2-c 3-d 4-a 5-a 6-c 7-d 8-c

Explanations:

Que-1: AA=32/50x 100=64% BBB=330/400x100=82.5%
Que-2: 14+4+80+M = 118
Que-3: 50/200x100 = 25% dedine
Que-4: 36/850x 100= 5.4%
Que-5: To BBB = 6/200X100 = 3% To AA category = 12/200x100 = 6%
Que-6: (Change 60-50 = 10) 10/50x100 = 20%
Que-7: In C category — 40%. In AA category — 36%. In other categories it is lesser than in these categories.
Que-8: A +. It is 20%. In other categories it is higher

CASE STUDIES ON COMPUTATION OF EXPOSURE ON A BORROWER

Case — 1

Credit facility	I Sanctioned amount	Outstanding amount	Credit — conversion factor for non-fund
Cash credit	500	300	
Bills	100	50	
Export loans	200	100	
Term loan	300	100	
Financial guarantees	100	80	100%
Performance Guarantee	100	100	50%
Standby LC	100	50	100%
Documentary LC	400	300	20%
Unconditional take out finance	100	100	100%
Conditional take out finance	100	100	50%
Total	2000	1280	

Balance amount of 200 of term loan to be withdrawn as under: Within one year 100 and after 1 year 100. In case of un-drawn portion, the exposure is to be taken as under:
Cash credit = 20%; Term Loan to be withdrawn within one year = 20%; Term Loan to be withdrawn after one year = 50%

01 The exposure for undrawn amount of fund based limits other than term-loans to be taken at:
a) 20 b) 50
c) 70 d) 140

02 The exposure for undrawn amount of term loans to be taken at:
a) 20 b) 50
c) 70 d) 140

03 The amount of exposure for undrawn amount for fund based limit does not match in which of the following:
a) Cash credit, bills and export loans 70
b) Term loan to be withdrawn in one year 20
c) Term loan to be withdrawn after one year 20
d) Total amount for non-withdrawn amount 140

04 What is the credit equivalent of non-fund based exposure in respect of letter of credit:
a) 130 b) 110
c) 150 d) 390

05 What is the credit equivalent of non-fund based exposure of bank guarantees:
a) 130 b) 110

c) 150 d) 390

06 What is the credit equivalent of non-fund based exposure in respect of take out finance:

a) 130 b) 110

c) 150 d) 390

07 What is the credit equivalent of total non-fund based exposure

a) 130 b) 110

c) 150 d) 390

08 What is the total exposure on account of the borrower:

a) 2000 b) 1280

c) 1080 d) 900

Answers: 1-c 2-c 3-c 4-b 5-a 6-c 7-d 8-c

Explanations:

1. Undrawn amount under fund based limits-other than term loan = 800-450= 350 at 20% = 70
2. Exposure for undrawn amount of term loan as per RBI guidelines: within one year 100 @ 20% = 20 and after 1 year 100 @ 50% = 50. Total = 20 + 50 = 70.
3. Undrawn amount under fund based limits other than term loan = 800-450 = 350 at 20% = 70

Undrawn amount of term loan = within one year 100 @ 20% = 20; after 1 year 100 @ 50% 50. Total exposure for non-withdrawn amount = 70 + 20 + 50 = 140.

4. Letter of credit standby - 50 x 100% = 50.

Documentary 300 x 20% = 60. Total = 50 + 60 = 110.

S. Bank guarantees - Financial guarantee = 80 x 100% = 80,

Performance guarantee = 100 x 50% = 50. Total 80 + 50 = 130.

6. Take out financing for unconditional = 100 x 100% = 100.

For conditional 100 x 50% = 50. - Total = 100 + 50 = 150.

7. Letter of credit = 50 x 100% = 50, 300 x 20% = 60, Total = 50 + 60 = 110.

Bank guarantees = 80 x 100% = 80, 100 x 50% = 50, Total = 80'+ 50 = 130. Take out financing = 100 x 100% = 100, 100 x 50% = 50, Total = 100 + 50 =150. Total = 390

8. FB Based drawn = 550, FB undrawn = 140, Non-fund based = 390, Total = 1080

Case -2

Popular Bank has a credit exposure of Rs. 80 cr which is secured by financial collateral security of A+ rated bonds of Rs. 40 cr issued by a Public Sector Undertaking of Govt. of India. The period of this exposure is 4 years and the residual maturity of the financial collateral is 3 years. The financial collateral is an eligible credit risk mitigant. There is no currency mismatch. (As per RBI guidelines the haircut applicable to this collateral is 6% and the haircut on account of currency mismatch is 0 if no currency mismatch is there and 0.08, if there *is* currency mismatch).

01 Based on the above information, calculate the haircut adjusted collateral value:

a) Rs. 40.00 cr b) Rs. 37.60 cr c) Rs. 27.57 cr d) Rs. 12.43 cr

02 On the basis of above information, what is value of haircut adjusted collateral after adjustment on account of maturity mismatch:

a) Rs. 40.00 cr b) Rs. 37.60 cr c) Rs. 27.57 cr d) Rs. 12.43 cr

03 On the basis on the above information, calculate the value of exposure at Risk:

a) Rs. 40.00 a b) Rs. 37.60 cr c) Rs. 27.57 cr d) Rs. 12.43 cr

Answers: *1-b* 2-c 3-d

Explanations:

1. In this case the residual maturity of collateral is less than the residual maturity of the loan, hence there is maturity mismatch. There is no currency mismatch as stated in the problem. To find out the net exposure qualifying for capital adequacy purpose, at the first stage, the hair cut of the collateral will be calculated and then value of hair-cut adjusted collateral will be calculated, taking into account the adjustment on account of maturity mismatch.

Stage 1- Haircut adjusted collateral value or C = C x (1 - H,

C = 40 x (1 - 6% - 0%) = 40 x 94% = Rs. 37.60 Cr.

(Here, C is original value of collateral. $I\text{-}l_c$ is haircut appropriate to the collateral-security (as per RBI guidelines it is 6%) and H_u is the haircut for currency mismatch (0% if exposure and collateral are in the same currency and 0.08% if the exposure and collateral are in the different currency).

State 2 - Value of haircut adjusted collateral after adjustment on account of maturity mismatch:

P = C x (t - 0.25) / (T - 0.25) = 37.60 x (3-0.25) / (4-0.25) = 37.60 x 2.75 / 3.75 = 27.57.

(P = value of credit risk mitigant adjusted for maturity mismatch, t *is* minimum of T and residual maturity of credit protection expressed in years and T is minimum of 5 years and residual maturity of the exposure expressed in years). The value of exposure at risk (E) = Max {0, (current value of the exposure - value of the adjusted collateral for any hair cut and maturity mismatch)} = Max {0, (40 - 27.57) = 12.43 cr

2. As above
3. As above

Case - 3

A company *has raised* a loan of Rs. 100 cr and collateral in this account is a bank term deposit of Rs. 40 cr. Calculate the net exposure qualifying for capital adequacy purpose, if there is not maturity mismatch

a) Rs. 100 b) Rs. 60 cr
c) Rs. 40 cr d) Inadequate information

- **Answer:**

Solution: 100 - 40 = Rs. 60 cr. The haircut in respect of collateral of bank deposit is Zero as per RBI guidelines. Hence the full Value of Rs. 40 cr would be deducted from the exposure, without any haircut. .

Case — 4

01 Bank has an exposure of Rs. 100 cr (residual maturity 3 years) which is collaterally secured by RBI relief Bonds of Rs. 20 cr with a residual maturity mismatch. The applicable haircut as per RBI guidelines for relief honds is 7% and fr'r Pa. rated bonds 4%. What is the adjusted collateral vaiue of this security for the purpose of risk mitigation:

a) Rs. 100 cr b) Rs. 50 cr
c) Rs. 49.20 cr d) Rs. 50.80 cr

02 Bank has an exposure of Rs. 100 cr (residual maturity 3 years) which is secured collaterally by RBI relief Bonds of Rs. 20 cr with a residual maturity of 3 years and AA rated bonds of Rs. 30 cr. There is no maturity mismatch. The applicable haircut as per RBI guidelines for relief bonds is 2% and for AA rated bonds 4%. Calculate the value of exposure at risk for the purpose of risk mitigation:

a) Rs. 100 cr b) Rs. 50 cr
c) Rs. 49.20 cr d) Rs. 50.80 cr

Answers: 1-c 2-d Explanations:

1. The weightage of the collateral is 20% for relief bonds and 30% for AA rated bonds.
The HC = (20% x 2%) + (30% x 4%) = 0.4 + 1.2 = 1.6% The value of hair cut adjusted collateral
C = C x (1 ¯ 1 1, — C = 50 x (1 — 1.6% - 0%) = 50 x 98.40% = Rs. 49.20 Cr.

2. The weightage of the collateral is 20% for relief bonds and 30% for AA rated bonds.
The HC = (20% x 2%) + (30% x 4%) = 0.4 + 1.2 = 1.6% The value of hair cut adjusted collateral
C = C x (1 —
C = 50 x (1. — 1.6% - 0%) = 50 x 98.40% = Rs. 49.20 Cr.
The value of exposure at risk (E) {0, (current value of the exposure — value of the adjusted collateral for any hair cut and maturity mismatch)} = Max {0, (100 — 49.20) = Rs. 50.80 cr

6. MODULE D: BALANCE SHEET MANAGEMENT

TEST YOUR SELF : MCQ

COMPONENTS OF ASSETS & LIABILIITIES IN BANK'S BALANCE SHEET

1. Which of the following statements is not correct?
a) Liabilities and net worth form the sources of the bank funds
b) Assets represent uses of funds to generate revenue for the bank
c) Various sources through which bank raises funds are Capital, reserves and surplus, deposits, borrowings, other liabilities and provisions
d) Authorised capital is taken as part of the net worth.

2. Which of the following is not a liability?
a) Loan from NABARD b) Loan to Cp-operative Bank
c) Provision for Bad Debits d) **NRI** Deposits

3. What is the purpose of good investment policy?
a) Maximum profits for share holders
b) Maximum security to depositors
c) Matching liquidity d) All the above

4. What is the significance of liquidity?
a) Liquidity is the capacity to produce cash on demand
b) The depositors will feel more confident if they get required cash on demand.
c) Cash Balance is a most liquid Asset
d) All the above

5. Which of the following is the most Liquid Asset?
a) Cash with the Bank b) Cash with the RBI
c) Treasury Bills d) Current Accounts with other Banks

6. The features of money at call and short notice are:
a) It is high liquid earning Asset
b) Money is lent or borrowed for a short period
c) Transactions take place mostly among the Banks and Primary Dealers only.
d) All the above

7. The advantages of Bill of Exchange for the Banks are:
a) Easy Marketability b) Rediscount facility with the RBI
c) Safety and better yield d) All these
8. Which of the following is not money market asset?
a) Investment in Equity Shares
b) Commercial Bills
c) Treasury Bills d) Money afcall and short notice
9. The features of Bank investments are:
a) Investment are made relatively for a longer period.
b) The securities are mainly Govt. Bonds, debentures and Bonds.
c) These investments have easy transferability, d) All the above
10. Which of the following is the risk element in the investment in long term securities?
a) Low interest rates
b) Its market price becomes less than the face value if interest rates go up.
c) Higher interest rates d) It may not redeem in time
11. The negative aspects of loans *and* advances are:
a) High element of risk b) Low liquidity
c) No transferability d) All of these
12. The ratio of liquid Assets to total Assets of a Bank generally falls at: a) 30% b) 40%
c) 50% d) 65%
13.. Who is the authority to decide CRR and SLR requirements in the Banks?
a) Reserve Bank of India b) Indian Banks Association
c) Ministry of Finance d) All these
14. Which of the following is not a liability of a Bank?
a) Prepaid expenses b) Borrowings
c) Other provisions d) Contingent liabilities
15. Which of the following is correct statement regarding capital of a Bank?
a) It is owners stake in the Bank
b) It is a long term source of Funds
c) Minimum capital requirement is decided by the RBI
d) All the above
16. Which of the following is not a part of Reserve and Surplus in the Bank's Balance Sheet?
a) Share Premium b) Cash Reserve c) Capital Reserve d) Statutory Reserve
17. Which of the following falls under the category of Reserve and Surplus?
a) Balance in profit and loss account b) Reserve for Bad Debts
c) Revenue Reserve d) All the above
18. Which of the following are demand deposits of a Bank?
a) Overdue deposits b) Current deposits c) Call Deposits d) All these
19. The demand deposits of a Bank does not include the following:
a) Savings Deposits b) Recurring deposits c) Matured fixed deposits
d) None of these
20. Other liabilities and provisions in the Bank Balance Sheet include the following: a) Bills payable b) Inter-Branch Adjustments c) Interest accrued
d) All of these
21. Which of the following is not a liability?
a) Tax deducted at source b) Unadjusted debit balance
c) Provision for income tax d) Interest tax
22. Which of the following is included under Bills Payable?
a) Demand drafts b) Travellers cheques c) Banker's cheques d) All these
23. Which of the following are not liabilities?
a) Credit Balance of Inter-Branch Adjustment Account
b) Interest accrued but not due on Borrowings.
c) Claims under clearing items d) Mail Transfer payable.
24. Which of the following is not a Borrowing?
a) Borrowings from RBI
b) Investment in SIDBI Bonds
c) Refinance from NABARD d) Rediscounting of Bills with EXIM Bank

25. Which of the following are Cash Assets?
a) Cash in hand b) Balance with RBI c) Balance with Banks d) All of-these
26. Which of the following does not fall under the category of Cash in hand of a Bank?
a) Cash Balance with RBI to meet CRR requirement
b) Foreign Currency Notes
c) Cash Balance with Overseas Branches
d) Cash maintained by Bank branches
27. Which of the following is not included in CRR?
a) Money at call and short notice
b) Cash Balance with the Bank
c) Cash Balance with other Banks d) All the above
28. Which of the following is included as balances with Banks and money at call?
a) Term deposits with other Banks
b) Current Account with other banks.
c) Loans made in Inter-Bank call money market d) All of these
29_ Which of the following is not an investment of a Bank?
a) Capital provided to subsidiaries
b) Advances guaranteed by ECGC
c) Government and Approved securities
d) Investment in Debentures and Bonds
30. Which of the following will be treated as Advances in a Bank Balance Sheet? a) Cash credits b) Term loans c) Bills purchased and discounted
d) All these
31_ Which of the following is not included as advances in the Bank's Balance Sheet?
a) Unsecured advances
b) Advances to the employee of the Bank
c) Advances secured by tangible Assets
d) Advances covered by Bank guarantee 32.Which of the following are not fixed Assets?
a) Bank's own premises b) Furniture and fixtures c) Hardware d) None of these'
33. Which of the following is not other Assets?
a) Debit Balance in Inter-Branch Adjustment Account.
b) Clean Bills discounted.
c) Interest accrued but not collected d) Advance Tax
34. Which of the following are included under other Assets of the Bank?
a) Stationery and Stamps b) Non-Banking Assets
c) Unadjusted Debit Balance d) All thee
35. What does a contingent liability simplify?
a) It is a Bank's obligation under issuance of letter of credit
b) Bills accepted by Bank on behalf of its customers.
c) Guarantees and Acceptances on behalf of constituents d) All of these
36. Other contingent liabilities of the Bank includes:
a) Liability for partly paid investments
b) Liability on account of outstanding forward exchange contracts.
c) Arrears of cumulative dividend d) All of these
37. Which of the following is not a contingent liability of a Bank?
a) Bills rediscounted
b) Bills Payable
c) Underwriting commitment
d) Amount of contracts remaining to be executed on Capital Account and not provided for
38. The interest income can be by way:
a) Interest/discount on advances/Bills
b) Income on investments
c) Interest on Balance with RBI d) All the above
39. Other Income of a Bank can be by way of:
a) Commission exchange and brokerage
b) Profit on sale of investments

c) Profit on exchange transactions d) All of these

40. Which of the following is not an income to a Bank?

a) Income by way of dividend

b) Interest on Inter-Bank Borrowings

e) Security charges d) Profit on Sale of Assets

41. The expenses of a Bank can be categorized as:

a) Interest expenses b) Other operating expenses

c) Provisions & Contingencies d) All these

42. Which of the following are included under interest expenses? a) Interest payable on deposits b) Interest on Borrowings

c) Interest on Refinance d) All these

43. The operating expenses of a Bank signifies:

a) It includes cost of running a Bank

b) It involves all the expenses to Employees

c) Printing and stationery expenses are the part of operating expenses cl) All the above

44. Which of the following is not an operating expense?

a) Rent taxes and Lighting

b) Provision for taxation

c) Advertisement and Publicity d) Depreciation on Bank's property

45. Which of the following are included under operating expenses?

a) Director's fee, allowances and expenses

b) Law charges

c) Repair and maintenance d) All of these

46. Which of the following is not a payment to employee?

a) Entertainment expenses b) Leave fare concession

c) Provident Fund & gratuity d) Medical allowances

47. Which of the following a Bank needs to make provisions?

a) Bad & Doubtful Debts b) Taxation

c) Depreciation in investment d) All these

48. Which of the following statements is correct? a) Income of a Bank can be categorized as interest.

b) The expenses of a Bank include interest expenditure and non-interest expenditure

c) The provisions and contingencies are provided out of profit.

d) All the above

49. What is Asset Liability Management (ALM)?

a) It involves management of Balance Sheet strategically.

b) It is a process of effective management of different kinds of risks.

c) It also involves management of liquidity position of a Bank

d) All the above.

50. The main objectives of ALM are:

a) To generate adequate and stable earnings.

b) To build an equity of organization over time.

c) To initiate reasonable measure for business risks d) All the above

51. Which of the following is not correct regarding ALM?

a) The ALM process basically focuses on growth of demand deposits.

b) ALM is the management of Net Interest Margin (NIM).

c) It is an integrated approach of managing the mix and volume of Assets and Liabilities.

d) ALM requires an understanding of the market area in which the Bank operates.

52. Which of the following is relevant to ALM?

a) The appropriate composition and mix of Assets and Liabilities portfolios is called Balance Sheet re-structuring.

b) ALM is an ongoing process to adjust and readjust the Bank portfolio in response to economic changes and future interest ratio.

c) It is a flexible approach to establish inter-relationship between a wide variety of Risk Factors d) All the above

53. What is the significance of ALM?

a) It minimizes the liquidity risk_

b) It reduces the market risk.

c) It ensures that for every liability, there is an equivalent tenure and amount of matching

Asset d) All the above

54. Which of the following is not correct regarding ALM?
a) ALM is an Off Balance Sheet process.
b) The changes in interest rates will affect net interest margin.
c) The primary goat of ALM is to control interest income and interest expenditure.
d) When Assets fall short of liability obligations in a given period of time. It is called mismatch. 55_ The reasons for growing importance of ALM are:
a) Fluctuations and volatility in the market conditions
b) Banks being prudent and innovative
c) Regulatory framework for risk management d) All the above

56. The focus of ALM is on:
a) To enhance the Asset quality
b) To quantify the Risks associated with Assets and Liabilities
c) Efficient management of mix, maturity, rate sensitivity d) All the above

57. Which of the following steps are needed for efficient ALM?
a) Review of interest rate structure.
b) Compare interest rate with the product pricing of Assets and Liabilities
c) Evaluate loan and investment, portfolio in respect of foreign exchange and liquidity risk d) All the above

58. Which of the following is not needed for efficient ALM?
a) Proper track on cash flows is not required
b) Analyzing contingency risk
c) Review of actual performance against he projections
d) To examine the credit, risk and assess the quality of Assets.

59. What are the basic parameters required for stabilizing ALM of Banks?
a) Net Interest Income
b) Net Interest Margin
c) Economic Equity Ratio d) Ali the above

60. What are the features of Net Interest Income?
a) It is a tool for measuring the impact of volatility on the short term profit.
b) This indicates difference between interest income and interest expenditure
c) Short term profits can be stabilized by minimizing fluctuations in Net Interest Income.
d) All the above

61. The Net Interest Margin signifies:
a) It is the result of Net Interest Income divided by average total Assets
b) It can be viewed as spread on earning Assets.
c) The higher the spread, more will be the Net Interest Margin. d) All the above

62_ Which of the following statements is not correct?
a) There is no correlation in Risk and Return.
b) Higher spread implies increased Risk exposure
c) Achieving higher profitability should be the target of a Business
d) Management of Risk is important not the Risk elimination

63. Economic Equity Ratio implies:
a) This is the ratio of shareholders funds to the total Assets.
b) It measures the shifts in the ratio of owned funds to total funds.
c) This indicates the sustenance capacity of a Bank d) Al! the above

64. What does price matching signify?
a) Deployment of liabilities will be at a rate higher than the cost.
b) The Bank would be benefited if there is a positive gap (Assets > Liabilities)
c) A Bank may also get benefited from declining interest _ rates by a negative gap (Liabilities > Assets). d) All the above

ANSWER : ASSETS & LIABILITIES IN A BALANCE SHEET

1	D	2	B	3	D	4	D	5	A	6	D	7	D	8	A	9	D	10	B
11	D	12	A	13	A	14	A	15	D	16	B	17	D	18	D	19	B	20	D
21	B	22	D	23	C	24	B	25	D	26	A	27	D	28	D	29	B	30	D

31	B	32	D	33	B	34	D	35	D	36	D	37	B	38	D	39	B	40	B
41	D	42	D	43	D	44	B	45	D	46	A	47	D	48	D	49	D	50	D
51	A	52	D	53	D	54	A	55	D	56	D	57	D	58	A	59	D	60	D
61	D	62	A	63	D	64	E												

CAPITAL ADEQUACY, SUPERVISORY REVIEW, MARKET DISCIPLINE

1) Bank for International settlement (BIS) is located at:
a) London b) Brussels c) Basel d) Geneva e) None of these

2) As per Basel I, all exposures to sovereign were given 2/0 risk weight while bank exposures had a risk weight of %
a) 20, 50 b) 0, 20 c) 0, 50 d) 0, 100

3) The, revised framework for capital adequacy provides for
a) Greater use of assessment of risk provided by Bank's internal systems as inputs to capital calculations
b) Capital allocation for operational risk
c) Range of options for determining capital requirements for credit risk and operational risk
d) All of these

4) Basel II accord aligns regulatory capital with the bank's
a) profitability b) risk profiles c) assets d) all of these e) None of these

5) Which of the following is not a pillar of Basel II
a) Minimum capital requirements
b) Supervisory Review Process c) Market discipline d) All of these e) None

6) The revised accord of Basel II provides incentives to banks to improve their
a) capital b) risk management system c) profitability d) bottom line
e) None of these

7) Which of the following methods is to be adopted for assessing capital for credit risk?
a) Basic Indicator Approach b) Standardised Approach
c) Internal Rating Based Approach d) Either (a) or (b) e) Either (b) or (c)

8) Supervisory review would not include:
a) Evaluating risk assessment of banks by RBI
b) Ensuring soundness and integrity of bank's internal processes to assess the adequacy of capital
c) Ensuring maintenance of minimum capital with prompt corrective action for shortfall
d) All of these e) None of these

9) The market discipline includes
a) Regulating the bank by supervisors
b) Regulating banks by shareholders
c) Enhancing disclosures
d) Disciplining banks by regulators e) None of these

10) The term capital as per Basel II includes
a) Core Capital b) Supplemental capital c) Tier 3 capital
d) both (a) & (b) e) All of these

11) As per Basel II, banks are required to maintain capital ratio of not lower than
a) 8% b) 9% c) 10% d) any of these as per risk profile of bank

12) Tier 3 capital consists of
a) Subordinated debt of more than 5 years maturity
b) Short term subordinated debt of at least two year maturity
c) Loan loss reserve
d) Limited life preference shares e) revaluation reserve

13) As per Basel II, Tier-3 capital will be limited to _% of banks Tier I capital
a) 100% b) 50% c) 250% d) None

14) Minimum of about _____% of market risk needs to be supported by Tier I capital
a) 28.5 b) 35.5 c) 40 d) None of these

15) Short term debt can be used for meeting _ capital
a) Tier I b) Tier II -c) Tier III d) All of these

16) For which of the following risks capital is to be provided for the first time as per Basel

a) Credit risk b) market risk c) operational risk
d) both (b) &. (c) e) All of these

17) Credit risk means

a) Possibility of loss due to reduction of credit quality of borrower or counter parties

b) Losses due to reduction in portfolio value due to deterioration in credit quality

c) Both (a) & (b) d) none of these

18) As per Standard approach to measure credit risk credit rating is done by external credit assessment institution which has to be selected by

a) Individual bank b) RBI c) IBA d) Any of these

19) As per Standardised Approach to credit risk, all banks in a given country will be assigned a risk weight of

a) 50% b) 100%

c) one notch below the risk weight assignment that sovereign d) none of these

20) As per standardized approach to credit risk measurement, Retail and SME exposures attract a uniform risk weight of

a) 50% b) 75% c) 100% d) 125%

21) As per standardized approach to credit risk measurement which of the following is not correct?

a) All housing loan portfolio secured by mortgage will have arisk weight of 35%

b) Loans secured by commercial property will have a risk weight of 100%

c) Post due loans would have a risk weight of 150% when specific provisions are less than 20% of loan amount

d) Post due housing loan would have a risk weight of 50% when provisionary is below 20%

e) The risk weight in respect of unrated corporate claims will be 100%

22) As per Internal Rating Based Approach, capital charge computation is not based on which of the following?

a) Probability of default b) loss given at fault c) exposure at default

d) effective maturity e) None of these

23) Which of the following is not true about Individual Rating Based approach to credit Risk?

a) Banks are required to classify exposure into corporates, sovereigns, banks, retail and equity.

b) Under the Foundation approach, banks provide their own estimates of probability of default and rely on supervisory estimates for other risk components

c) Banks adopting IRB approach should continue to use the same and for return to earlier approach approval from supervisor is required d) None of these

24) The market risk positions that require capital charge are:

a) Foreign exchange open positions in both trading and banking book

b) Equities in banking book

c) Interest rate related instruments in banking book d) All of these e) None of these

25) A trading book consists of financial instruments and commodities held with intention of

a) Trading b) hedging other elements in trading book c) Both (a) & (b)

d) None of these

26) In the Indian scenario, which of the following is not a part of the trading book?

a) Securities held till maturity

b) Open forex and gold positions

c) Derivatives for hedging trading positions

d) Trading positions in derivatives e) None of these

27) The minimum capital requirement for debt instruments comprises:

a) General market risk charge towards interest rate risk in the portfolio

b) Specific charge for each security just like capital charge for credit risk

c) Operational risk in trading d) Both (a) & (b) e) All of these

28) Which of the following is not correct regarding specific capital charge (% of exposure) for market risk

a) For investment in Govt. securities and other approved securities guaranteed by Govt. it is 0%

b) Investment in other approved securities not guaranteed by Govt. and investment in non approved securities, it is 1.8%

c) Investment in Tier II bonds of other banks it is 9% and investment in mortgage backed securities it is 4.5%

d) All of these e) None of these

29) For computation of capital charge for market risks, which of the following methods is used?

a) Standardized approach

b) Internal risk management model approach
e) Individual Rating Based Approach d) Both (a) & (b) e) All of these

30) In India, RBI has prescribed method to arrive at capital charge for market risk
a) maturity b) duration c) both (a) & (b) d) none of these

31) Operational Risk which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events includes
a) legal risk b) strategic and reputation risk c) credit risk
d) both (a) & (b) e) None of these

32) Which of the following methods is not used for measuring capital charge for Operational Risk?
a) Basic Indicator Approach " b) Standardised Approach
c) Advanced Management Approach d) Strategic Approach e) None of these

33) Under Basic Indicator Approach banks are required to hold capital for operational risk equal to ------------------- % of positive annual gross average income for last three years
a) 10 b) 5 c) 15 d) 20 e) None-of these

34) Annual gross income for the purpose of aforesaid question will be net interest income plus net non interest income and should
a) be gross of provisions if any
b) be gross of operating expenses
c) exclude realized profits/losses from sale of investment in the banking books
d) All of these e) None of these

35) Gross income for the aforesaid question would be
a) Net profit plus operating expenses minus extra ordinary items
b) Operating profit minus operating expenses minus extra ordinary items & profits from sale of investments in banking book
c) Operating profit plus operating expenses minus extra ordinary items and profits from sale of investment in banking book • d) None of these

36) Standardized approach for operational risk is based on gross income from eight business lines and different factors ranging from % to % are used for different lines ; a) 10, 15 b) 12, 18 c) 10, 20 d) none of these

37) Under Supervisory Review, the supervisors are expected to concentrate on:
a) Risks not considered under Pillar I such as credit concentration Risk
b) Risks considered under Pillar but fully captured such as strategic risk or interest rate risk in the banking book
c) Factors external to the bank e.g. business cycle effects
d) All of these e) None of these

38) As per 2nd Pillar of Basel II when supervisors are expected to invervene?
a) regularly b) continuous basis c) yearly d) whenever necessary

39) As per Basel II, which of the following issues require focused attention of supervisors
a) Interest rate risk in the Banking Book b) Operational Risk
c) Credit concentration risk d) All of these e) None of these

40) As per pillar III of Basel II, banks are required to make .disclosures which are
a) qualitative b) quantitative c) both (a) & (b)

41) Three pillars of Basel II framework *are*
a) independent of each other b) complimentary c) both (a) & (b)

42) The 2" pillar of Basel II relates to
a) Capital requirement b) market discipline c) supervisory review

43) The main purpose of the supervisory Review as per Base! II is:
a) To ensure that banks are profitable
b) To ensure that credit risk is adequately managed by banks
c) To ensure that banks have adequate capital to support all risks
d) To encourage banks to develop and use better management techniques
e) Both (c) & (d)

44) As per principle of supervisory review banks should have process for
a) assessing capital adequacy in relation to risk profile
b) strategy for maintaining capital levels
c) strategy for achieving profit targets d) Both (a) & (b) e) Both (b) & (c)

45) Which of the following is not a feature of process of ensuring that bank has adequate

capital?
a) Sound capital assessment
b) Comprehensive assessment of risks
c) Board and Senior Management Review d) None of these e) All of these

46) As per principle 2 of supervisory review, emphasis should be on quality of the risk management and control which would involve:
a) On site inspection and off site review
b) Review of work done by Auditor
c) Discussions with Bank Management d) Both (a) & (c) only e) All of these

47) As per principle 3 of the Supervisory Review, banks should operate at
a) Minimum regulatory capital ratio
b) Above regulatory capital ratio
c) At least 20% above regulatory capital ratio

48) Piller 3 of Basel 1I is meant for
a) Providing disclosures
b) Helping investors in a bank to make informed decisions
c) Providing key information to RBI d) both (a) & (b) e) All of these

49) Information required as per Piller 3 of Basel **II**
a) Should be consistent with the audited statements
b) Should be independent of requirement of accounting standards
c) Should be provided at a separately place in the Balance sheet
d) All of these e) None of these

50) Which of the following is correct regarding disclosures under Pillar 3
a) Disclosures should be on an annual basis
b) Qualitative disclosures such as policies, systems may be made on semi annual basis
c) Tier I capital and capital ratios should be published a quarterly basis
d) All of these e) None of these

51)Pillar 3 of Basel **II** prescribes qualitative and quantitative disclosures under 13 areas which are mainly related to: a) capital b) credit risk c) market risk d) operational risk
e) all of these

ANSWER

1	D	2	B	3	D	4	B	5	E	6	B	7	E	8	E	9	C	10	E
11	A	12	B	13	C	14	A	15	C	16	C	17	C	18	B	19	C	20	B
21	D	22	E	23	D	24	A	25	C	26	A	27	D	28	E	29	D	30	B
31	A	32	D	33	C	34	D	35	C	36	B	37	C	38	D	39	D	40	C
41	B	42	C	43	C	44	D	45	D	46	E	47	B	48	D	49	A	50	C
51	E																		

Objective Type Questions

1. What is the objective of introducing prudential norms for income recognition, asset classification and Provisioning for the advances portfolio of the banks by RBI?
(a) for greater consistency in the published accounts (b) for transparency in the published accounts
(c) to apply principle of conservatism (d) Both (a) & (b) (e) All of these

2. Prudential Accounting Norms are applicable in respect of: .
(a) Asset classification (b) Income Recognition (c) Provisioning (d) All of these

3. As per the prudential accounting norms of RBI, presently advances are classified as:
(a) Standard Assets (b) Non Performing Assets (c) Regular I Irregular Assets
(d) either (a) or(b) (e) either (b) or (c)

4. Non Performing Assets (NPAs) are categorized as:
(a) Sub Standard Assets (b) Doubtful Assets (c) Loss Assets (d) any one of the above

5. A standard asset is one which :
(a) does not disclose any problem *(b)* does not carry more than normal risk attached to the business
(c) is of a high quality as regards security and borrower both
(d) all of these (e) none of these

6. With effect from the year ending 31.03.2004, a term loan is treated as non-performing asset (NPA) if :
(a) the balance outstanding is more than the loan amount originally sanctioned
(b) interest remains overdue for more than 90 days
(c) installment remains overdue for more than 90 days
(d) interest and/or installment remain overdue for more than 90 days (e) both (a) and (d) above

7. As from the year ending 31.03.2004, a cash credit/overdraft account is classified as NPA if :
(a) balance is beyond the sanctioned limit / D.P (b) interest has not been serviced for 4 quarters
(c) the account remains out of order (d) both (b) and (c) (e) none of these

8. Crop loan granted for long duration crop becomes NPA if :
(a) interest remains unpaid after it has become overdue for two years
(b) interest and /or installment remains unpaid after it has become overdue for two crop seasons
(c) interest and/or installment of principal remains unpaid after it has become overdue for two half years
(d) interest and/or installment of principal remains unpaid after it has become overdue for two crop seasons but for a period not exceeding two half years
(e) interest or instalment is overdue for one crop season.

9. Crop loan granted for short duration crop will become NPA if:
(a) the loan is overdue for 6 months (b) the loan is overdue for 12 months
(c) the loan is overdue for two crop season (d) the loan is overdue for more than 2 crop seasons

10. Out of order account means an account where:
(a) the balance is continuously more than the sanctioned limit or drawing power
(b) where as on the date of Balance Sheet, there is no credit in the account continuously for 90 days or credit is less than interest debited
(c) where stock statement has not been received for 3 months or more.
(d) any of these (e) only (a) or (b)

11. In case of cash credit and overdraft, the account will be treated as NPA if
(a) the limit is not renewed/reviewed within 6 months from the due date of renewal.
(b) account remains out of order.
(c) the limit is not renewed within 3 months from the due date of renewal
(d) Either (a) or (b) (e) none of these

12. With a view to moving towards international best practices and to ensure greater transparency, RBI decided to adopt ____________ overdue norm for identification of NPAs from the year ending 31.03.2004.
(a) 150 days (b) 120 days (c) 60 days (d) 30 days (e) 90 days

13. Which of the following accounts will be classified as NPA?
(a) Loan against LIP when the balance outstanding is more than the limit sanctioned for 6 months but within surrender value of LIP
(b) Interest debited in the educational loan account during moratorium period has not been recovered simultaneously.
(c) Interest debited in a housing loan account for last 6 months has not been recovered from the date of sanction and repayment was to start after 12 months from sanction.
(d) Loan is guaranteed by Central Govt and is overdue for more than 90 days.
(e) None of these

14. Which of the following agricultural loan will be classified as NPA?
(a) Loan given for long duration crop and overdue for only one crop season.
(b) Loan given for poultry and interest is overdue for 100 days
(c) Loan is given for raising crop and interest is overdue for 100 days
(d) Both (a) & (b) (e) None of these

15. Which of the following is not correct regarding income recognition in respect of NPA accounts?
(a) Banks should not charge and take to income account interest on any NPA.
(b) Interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.
(c) If Central Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.
(d) None of these

16. Which of the following is true regarding reversal of interest or fees in the case of NPA accounts?
(a) the entire interest accrued and credited to income account in the past periods, should be reversed and provided for if the same is not realised.
(b) The interest should not be reversed in the case of Government guaranteed accounts.

(c) Only interest should be reversed but commission etc should not be reversed.
(d) All of these (e) None of these

17. Interest realized on NPAs should be credited to:
(a) principal (b) interest due (c) either (a) or (b) as per bank discretion
(d) either principal or interest due but bank should adopt the policy in a uniform and consistent manner.

18. As per RBI guidelines, w.e.f the year ending 31.03.2005 when an asset is identified as NPA it will be classified as sub-standard up to a period not exceeding :
(a) 18 months (b) 5 years (c) 6 months (d) 12 months (e) None of these

19. As per RBI guidelines, w.e.f the year ending 31.03.2005, an account will be classified as Doubtful if it is NPA or sub standard for more than:
(a) 6 months (b) 12 months (c) 18 months (d) 24 months (e) None of these3 years

20. For the purpose of asset classification, a special mention account is treated as :
(a) standard (b) sub standard (c) irregular (d) problematic (e) None of these

21. An NPA account is straightaway classified as doubtful without waiting for 12 months if the security deteriorates so much that its realizable value is:
(a) less than 10% of the outstanding balance (b) 10% or above the outstanding balance
(c) 10% or above but less than 50% of the outstanding balance
(d) 10% or below the outstanding balance (e) None of these

22. An NPA account is straightaway classified as loss if the security deteriorates so much that its realizable value is:
(a) less than 10% of the outstanding balance (b) 10% or above the outstanding balance
(c) 10% or above but less than 50% of the outstanding balance
(d) 10% or below the outstanding balance (e) None of these

23. In an NPA account, interest or any other charge will be recognized as income as per which of the following:
(a) on accrual basis (b) when borrower gives a firm commitment to regularize the account
(c) when it is actually realised (d) (a) or (c) as per policy of the bank (e) None of these

24. A personal loan without any security has become NPA. In which category account will be classified?
(a) sub standard for 12 months
(b) doubtful immediately as realizable value of security is less than 10% of the outstanding balance
(c) loss immediately as realizable value of security is less than 10% of the outstanding balance
(d) As per net worth of the borrower (e) None of these

25. A crop is considered as long duration crop if crop season is more than 12 months. The crop season for each crop which means the period up to harvesting of the crops raised, is determined by:
(a) Banks themselves (b) State Level Banker's Committee (c) NABARD (d) RBI

26. Which of the following accounts will be classified as NPA?
(a) Cash credit limit which has not been renewed for 3 months from due date
(b) Cash credit limit in which stock statement has not been received for last 3 months
(c) Bill Discounted with usance period of 2 months which was discounted 3 months back
(d) Short duration crop which is overdue for 2 crop seasons only (e) None of these

27. Provisioning is required to be made in the case of________ assets.
a) Standard b) Sub standard c) Doubtful d) Only (b) & (c) e) All of these

28. On which of the following types of loans, provision is required to be made at the rate of 0.25% of the outstanding if the advance is classified in the standard category?
a) Direct advance to agriculture (b) Direct advance to SME
c)All advances to Agriculture & SME (d) Both (a) & (b) (e) None of these

29. The provision on-an advance made to a farmer for agriculture or to an entrepreneur for small scale industry sector in the standard category as on 31.3.2010 will be _________ % of the outstanding balance.
a) 0.25% b) 0.40% c) 1% d) 0.50% e) None of these

30. The provision on standard assets made to a person other than Direct advance to agriculture and SME and for commercial real estate are to be made at the rate of__________of the outstanding balance on global basis.
a) 0.25% b) 0.40% c) 1% d) 0.50% e) None of these

31. Which of the following is correct regarding provision on standard assets in the following categories?
a) Commercial Real estate: 1% of outstanding balance
b) Housing loan more than 30 lakh: 1% of the outstanding balance
c) Capital market exposure: 2% of the outstanding balance d) Both (a) & (b) only (e) None of these

32. In the case of advances classified as sub standard assets other than those which were unsecured abinitio, the provision is required to be made as per which of the following?
a) For unsecured portion 100% and on secured portion 10%.

b) For unsecured portion 100% and on secured portion 20%.

c) 10% of the outstanding balance without reference to security d) None of these

33. In the case of sub standard assets which were unsecured abinitio, the provisioning is required to be made at the rate of of outstanding balance.

a) 25% b) 50% c) 75% d) 100% e) None of these

34. A clean overdraft has become NPA and the outstanding is Rs 100,000. Haw much provision is to be made?

(a) Rs20,000 (b) Rs 25,000 (c) Rs 50,000 (d) Rs 100,000 (e) None of these .

35. An advance was granted to farmer for poultry. Account is standard and outstanding in the account is Rs 100,000 whereas realizable value of security is Rs 60,000 only. How much provision is to be made?

(a) Rs 10,000 (b) Rs 250 (c) Rs 40,150 (d) Rs 400 (e) None of these

36; An advance has been granted to a farmer for construction of house. The account is standard and outstanding in the account is Rs 100,000. How much provision is to be made on this account?

(a) Rs 250 (b) Rs 400 (c) Rs 1000 (d) None of these

37. Which of the following is incorrect?

a) An account which is doubtful for up to 1 year is classified in DF 1 category.

b) An account which is doubtful for more than 1 year but up to 3 years is classified in DF 2 category.

c) An account which is doubtful for more than 3 year is classified in DF 3 category.

d) None of these e) All of these

38. In the case of doubtful accounts, provision on unsecured portion is made at the rate of 100%. For secured portion, the provision is made as a percentage of realizable value of security depending upon the period for which the account is doubtful. For which of the following, the rate of provision for secured portion is not correct?

a) DF1: 25% b) DF2: 40% c) DF3: 50% d) DF3: 100% e) None of these

39. A loan has become more than 3 years old in the doubtful category. In this case, the provision on secured portion as on 31.3.10 will be:

a) 50% b) 60% c) 75% d) 100% e) None of these

40. An advance of Rs. 2,35,000 has been declared sub standard on 31.07.2011. It is covered by securities with realizable value of Rs. 1,68,000. Total provision in the account as on 31.03.2012 will amount to:

(a) Rs. 35,250 (b) Rs. 30,200 (c) Rs. 23,500 (d) Rs. 83,800 (e) none

41. An advance of Rs. 1,50,000 is shown as doubtful asset as on 31.01.2010. It is covered by securities with realisable value of Rs. 90,000. As on 31.3.12, the total amount of provision under doubtful category will be (a) Rs. 12,000 (b) Rs. 30,000 (c) Rs. 87,000 (d) Rs. 60,000 (e) Rs 96,000

42. The unsecured exposure which are classified as sub standard attract a provision of 25% of the outstanding balance. For this purpose, unsecured exposure means an exposure where the realisable value of the security, as assessed by the bank/approved valuers/ Reserve Bank's inspecting officers, is ---- *ab initio,* of the outstanding exposure.

(a) not more than 10% (b) not less than 10% (c) less than 10% (d) None of these

43. A cash credit account became out of order on 5.3.09. Balance outstanding in the account is Rs 200,000. Value of security in the account is Rs 150,000. How much provision is required to be made as on 31.3.09?

(a) Rs 20,000 (b) Rs 50,000 (c) Rs 15,000 (d) None of these

44. An account became sub standard on 5.3.08. Balance outstanding in the account is Rs 5 lac and realizable value of security is Rs 4 lac. How much provision is required to be made as on 31.3.12.

(a) Rs 50,000 (b) Rs 220,000 (c) Rs 100,000 (d) Rs 500,000 (e) None of these

45. An account became NPA on 5.4.09. The outstanding in the account is Rs 10 lac. Realisable value of security is Rs 7 lac. The balance includes Rs 50,000 as recorded and suspended interest. How much provision is required to be made as on 31.3.10?

(a) Rs 100,000 (b) Rs 440,000 (c) Rs 142,500 (d) Rs 510,000 (e) None of these

46. An account became NPA on 16.7.10. Balance outstanding is Rs 10 lac. Realisable value of security is Rs 6 lac. Loan is guaranteed by Credit Guarantee Trust and cover is 75%. How much provision will have to be made as on 31.3.12.

(a) Rs 520,000 (b) Rs 220,000 (c) Rs 250,000 (d) Rs 280,000 (e) None of these

47. The banks are required to make a general provision for standard assets other than for direct advance to agriculture and SME, commercial real estate and loans at teaser rate at the rate of:

(a) 0.5% of total advances (b) 0.40% of standard assets on global basis

(c) 0.25% on domestic standard assets (d) lower of (b) or (c) (e) none of these

48. How is the provision on standard assets treated?

(a) it is deducted from Gross NPA (ii) it is deducted from Gross advances

(c) shown as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions -Others' in Schedule 5 of the balance sheet.

(d) any of these but accounting practice should be followed consistently. (e) None of these

49. In respect of Govt. guaranteed advances which of the following is correct regarding application of NPA norms:
(a) For State Govt guaranteed loans, NPA norms will be applicable as in other cases.
(b) For Central Govt guaranteed loans income recognition norms will be applicable as in other cases.
(c) For Central Govt guaranteed loans, provisioning will be made only if guarantee has been invoked and Central Govt repudiates the guarantee.
(d) All of these (e) None of these

50. An advance has been made by 3 banks under a consortium arrangement. The account becomes NPA with one of the banks. What should be done by other banks?
(a) classify the account as NPA (b) classify the account as NPA but provision not to be made
(c) the account will be classified as per record of recovery of each bank
(d) classify the account as NPA if the same is NPA with the leader bank (e) None of these

51.-Advance against which of the following will be subject to provisions of Asset classification, Income Recognition and Provisioning even if sufficient margin is available?
(a) own deposit (b) NSC (c) government securities (d) LIP (e) None of these

52. With a view to bringing down divergence arising out of difference in assessment of the value of security, in which cases stock audit should be conducted at annual intervals by external agencies.
(a) in case of all NPAs in cash credit accounts (b) in case of all doubtful accounts
(b) in cases of NPAs with balance of Rs. 5 crore and above (d) in case of DF3 accounts only

53. RBI has proposed that total provisioning coverage ratio of banks, including floating provisions, should not be less than _____________ . Banks should achieve this norm not later than end-September 2010
(a) 30% (b) 40% (c) 50% (d) 70% (e) None of these

54. For calculating Net advances and Net NPA, which of the following should not be deducted from Gross advances and Gross NPAs?:
(a) Provisions on NPAs (b) DICGC/ECGC claims received and held pending adjustment
(c) Floating Provisions (d) Provision on Standard Assets (e) None of these

55. Which of the following is true about treatment of floating provisions?
(a) Floating provisions can be deducted from gross NPAs to arrive at net NPAs
(b) Floating provisions can be treated as part of Tier II capital
(c) Either (a) or (b) (d) Both (a) & (b) (e) None of these

ANSWER : ASSET CLASSIFICATION & PROVISIONING NORMS

1	D	2	D	3	D	4	D	5	B	6	D	7	C	8	E	9	C	10	D
11	D	12	E	13	E	14	D	15	D	16	A	17	D	18	D	19	B	20	A
21	C	22	A	23	C	24	A	25	B	26	D	27	E	28	D	29	A	30	B
31	A	32	C	33	A	34	B	35	B	36	B	37	D	38	C	39	D	40	A
41	E	42	A	43	D	44	D	45	C	46	C	47	B	48	C	49	D	50	C
51	C	52	C	53	D	54	D	55	C										

LIQUIDITY MANAGEMENT

1. Which of the following statements is not correct?
a) Liquidity is ensured by grouping Assets / Liabilities based on their maturity profile.
b) In .practice, there is often match in the maturity pattern.
c) The gap is important to assess future financing requirements.
d) None of these

2. Which of the following is important in Asset side management of a Balance Sheet under ALM approach?
a) Reserve position management
b) Liquidity management
c) Investment management d) All the above

3. Which of the following is not important in Asset side management of a Balance Sheet?
a) Fixed Assets Management b) Inter Branch Adjustment
c) Loan Management d) Security Management

4. The liability side management in a Bank Balance Sheet will include:
a) Capital Management b) Long Term Management

c) Reserve Position Management d) All these

5. What are the core areas where profit planning of a Bank should focus under ALM?
a) Spread Management b) Non-interest income
c) Control on non-operating expenses d) All the above

6. Which of the following is not relevant in profit planning under ALM?
a) Control over taxes b) Generating fee income
e) Capital adequacy d) Loan quality

7. Which of the following statements is false?
a) Assets represents source of funds in the Balance Sheet.
b) Deregulated environment has narrowed spread of Banks.
c) ALM has bearing on profit augmentation
d) Net Interest Margin is also known as spread.

8. Which of the following are true about concept of liquidity in a Bank?
a) It is a function to accommodate decreases in Liability and to fund increases in Assets.
b) The cot of liquidity depends on market conditions and market perceptions of the interest rate risk and credit risk.
c) **If** there is a liquidity mismatch, Bank may have to acquire additional liabilities at the higher cost. d) All the above

9. The effective liquidity management in a Bank has the following role:
a) It indicates the Bank's ability of repaying its borrowings.
b) The loan commitment can be met.
c) The Bank can avoid unprofitable sale of Assets. d) All the above

10. Which of the following analysis is important, for adequacy of bank's liquidity positions?
a) Current liquidity position
b) Future funding needs
c) Trend of past funding requirements d) All the above

11. Which of the following is not relevant for analysis to find out liquidity analysis?
a) The quality of Assets b) Existing Staff Strength
c) Sources of funds d) Future Earning Capacity

12. Which of the following factors may affect the Bank's liquidity?
a) Business growth opportunities
b) Increase in non-performing Assets
c) Decline in earnings d) All the above

13. The following is not relevant to affect Bank's liquidity:
a) Level of Cash Balance with the Bank Branch
b) Down grading by Rating Agency
c) Acquisition d) New Tax Initiatives

14. Which of the following combinations is important to meet funding needs of a Bonk?
a) Increase short term Borrowings
b) Minimize holding of less liquid Assets
c) Increase Capital Funds d) All the above

15. Which of the following statements is not correct?
a) Funding risk may arise due to huge withdrawal of deposits or non-renewal of deposits
b) Swaps and options are not the part of Call Risk.
e) Time Risk arises due to non receipt of expected inflows of funds.
d) Conversion of non-fund based limit into fund based may lead to Call Risk.

16. Funding Risk may arise due to:
a) Systematic Risk
b) Loss of confidence of Depositors
c) Liabilities in Foreign currency d) All the above

17. Which of the following factors may contribute to Time Risk?
a) When standard Assets are turned into Non-performing Assets
b) Problems in recovery
c) Time factor involved in managing liquidity d) All the above

18. The types of liquidity Risk can be:
a) Funding risk b) Time Risk c) Call Risk d) All the above

19. What are the key factors for managing strong liquidity in a Bank?

a) Analysis of net funding requirement under alternative scenarios.
b) Extent of diversification of funding sources.
c) Effective contingency planning. d) All the above

20. The important steps for managing liquidity risks in a bank are:
a) Developing a suitable structure.
b) Fixing a level and limit for Liquidity Risk
c) Measuring and managing Liquidity Risk d) All the above

21. Which of the following is not relevant for developing a suitable structure u a Bank for liquidity Management?
a) Function of ALM Committee at the top level.
b) Developing customer re-orientation.
c) Creating an awareness among Bank Branches.
d) Monitoring performance and liquidity risk profile.

22. The liquidity policy of a Bank should specify:
a) To set out general principles for liquidity management, including quantitative and qualitative benefits.
b) The policy should include composition of Assets
c) To decide Bank's goal of protecting financial stability.
d) All the above

23. Which of the following can be management structure of liquidity management in foreign currency?
a) Centralized liquidity management in foreign currency.
b) Fixing Divisions responsibility subject to close monitoring by head office.
c) Independent responsibility in home currency by home office and foreiv '..,Arruney by concerned foreign office.
d) Any of the above

24. What are the aspects to be considered for liquidity strategy in each currency under foreign exchange transactions?
a) Funding and conversion methods of foreign currency
b) Strategies for managing associated risks.
c) The capacity of a Bank to access foreign currency markets.
d) All the above

25. Which of the following limits can be fixed for liquidity Risk?
a) Cumulative net funding requirement as a percentage of total liability.
b) Extent of liquid asses as percentage of short-term liabilities.
c) Level of loan to deposit ratio d) All the above

26. The extent of cumulative cash flow mismatches could be arrived as under:
a) Taking a conservative view of marketability of liquid assets.
b) Provision for discount to cover price volatility.
c) Expected outflows as a result of draw down of commitments.
d) All the above

27. A limit for liquidity Risk need not be fixed up for the following:
a) A limit on daily withdrawals.
b) A limit on loan to capital ratio
c) Quantifying sources of funds
d) Flexible limits on a particular liability category

28. A limit can be fixed for the following for managing liquidity Risk:
a) Extent of dependence on individual customer
b) Flexible limits on average maturity of different liabilities.
c) Minimum liquidity provision d) Any or all the above

29. Which of the following are important ratios under the stock approach for managing liquidity Risk?
a) Ratio of core deposits to total Assets
b) Net Loans to total deposit ratio
c) Ratio of Term deposits to total deposits. d) All the above

30. What do core deposits signify?
a) This constitutes deposits from public in the ordinary course of Business
b) The higher ratio is better
c) Core deposits are stable source of liquidity d) All the above

31. Which of the following ratio is not important for managing liquidity?
a) Ratio of volatile Assets to total Assets
b) Ratio of liquid Assets to total Assets
c) Ratio of market liabilities to total Assets

d) Ratio of short term liabilities to total Assets

32. Which of the following is an important element for managing liquidity under the flow approach?

a) Assessing net funding requirements
b) Managing market access.
c) Contingency planning d) All the above

33. What is net funding requirements management?

a) It is called Gap Analysis of measuring -and managing liquidity
b) The funding requirements are assessed on the basis of residual maturities of Assets and liabilities.
c) The Net Cash Flow is the difference between outflow and inflow of cash in future.
d) All the above

34. What does a gap signify?

a) It represents-periodical gap between cash inflow and outflow_
b) If the gap is negative, Bank has to mange shortfall.
c) An analysis of net funding requirements involves preparation of maturity ladder.
d) All the above

35. What does a maturity ladder signify?

a) It is a chart showing sources and amount of cash inflows and outflow in specified time periods.
b) Cash inflows and outflows can be ranked by the due dates,
c) Significant interest and other cash flows should also be considered d) All the above

36. The features of forward market conditions scenario are:

a) It establishes a Benchmark for the normal business behaviour of a Balance Sheet.
b) It is useful in managing a Bank's use of deposits and other debt market.
c) With this process Bank can avoid the impact of temporary constraints.
d) All the above

37. Which of the following is not a source of cash inflow?

a) Deposits Run off b) Maturing Assets c) Interest Receivable d) Asset Sale

38. The sources of cash outflows are:

a) Interest payable
b) Drawdowns on lending commitment
c) Deposits Run off d) All the above

39. What are the most liquid category of Assets?

a) Cash b) Securities c) Inter-Bank loans d) All the above

40. Which of the following is not least liquid Assets?

a) Bank Premises
b) Saleable loan portfolio
c) Investment in subsidiaries d) Non-realisable loans

41. Which of the following factors help in determining the level of Bank's Assets in Cash Flows?

a) Maturing Assets and extent of roll over or renewals.
b) Expected level of new loan demand.
c) Anticipated level of draw downs of commitment. d) All the above

42. What are the factors affecting normal funding needs?

a) Analysis of seasonal loan demand
b) Customer-by-customer assessment for large customer
c) Use to historical relationship d) Any or all of the above

43. The cash flows arising from a Bank's liabilities depends on the following factors:

a) Routine level of roll overs of deposits and other liabilities
b) Effective demand from demand deposits category
c) Normal growth of new deposits d) All the above

44. Which of the following is not a contingent liability of a Bank?

a) Letter of credit
b) Overdraft against third party guarantee
c) Swap deals d) Financial guarantee

45. Which of the following are time buckets prescribed by RBI, as per the guidelines for bucket wise classification of Assets and Liabilities issued by the RBI?

a) 1-14 days b) 15-28 days c) 29 days and upto 3 months
d) All the above

46. Which of the following is not a bucket as per RBI norms for classification of Assets and Liabilities?

a) 6 months and upto one year
b) Over one year and upto 3 years
c) Over 7 years d) Over 3 years and upto 5 years

47. What are the major dimensions for assessing and managing Bank liquidity?
a) Evaluating Net Funding Requirements
b) Managing Market Access
c) Contingency Planning d) All the above

48. What does contingency planning signify?
a) It is a process which ensures un interrupted flow of information
b) It facilitates precise information to management for making quick decisions
c) It includes the sources of cash flows in emergency situations
d) All the above

49. Which ofthe following is correct regarding objective of liquidity management?
a) Ensure profitability b) Ensure Liquidity
c) Both the above d) Either of the two

50. Banks need liquidity to:
a) Meet deposit withdrawals
b) To fund loan demands
c) Both of them d) one of them

51. Adequacy of Bank's liquidity position depends upon:
a) Sources of funds
b) Anticipated future funding needs
c) Present and future earning capacity d) All the above

52. Which of the following statements is not correct?
a) The need to replace net outflows due to unanticipated withdrawal of deposits is known as Interest Rate Risk_
b) The need to compensate for non-receipt of expected inflows of funds is classified as Time Risk.
c) Call Risk arises due to Crystallisation of Contingent Liabilities
d) Maturity ladders help the Bank to assess the difference between cash inflows and cash outflows in different periods. 53. Which of the following statements is correct?
a) Liquidity management methodology under different scenarios is known as Alternative Scenarios.
b) The capacity of a Bank to withstand a net funding requirement in a Bank specific or general market liquidity crises is known as contingency planning
c) Both (a) & (b) d) None of the above

ANSWER : LIQUIDITY MANAGEMENT

1	B	2	D	3	B	4	D	5	D	6	A	7	A	8	D	9	D	10	D
11	B	12	D	13	A	14	D	15	B	16	D	17	D	18	D	19	D	20	D
21	B	22	D	23	D	24	D	25	D	26	D	27	A	28	D	29	D	30	D
31	A	32	D	33	D	34	D	35	D	36	D	37	A	38	D	39	D	40	B
41	D	42	D	43	D	44	B	45	D	46	C	47	D	48	D	49	C	50	C
51	D	52	A	53	C														

INTEREST RATE RISK MANAGEMENT

1) The deregulation of the financial system In India has resulted in
a) operational freedom to the banks b) freedom in pricing of assets
c) freedom in pricing of liabilities d) only (a) & (b) e) All of these

2) Interest rate risk means
a) Exposure of a bank's financial condition to adverse movements in interest rates.
b) Volatility in Net Interest Income or in variations in Net Interest Margin.
c) Change in the underlying value of the bank's assets, liabilities and off balance sheet instruments due to change in interest rates.
d) Only (b) & (c) e) All of these

3) Which of the following is not correct?
a) Market value of an asset or liability is equal to the present value of current and future cash flows from that asset or liability

b) Rising interest rate decreases the discount rate and decreases the market value of assets or liabilities
c) Falling interest rates increase the market value of assets or liabilities
d) Mismatching maturities by holding longer term assets then liabilities means that when interest rates rise, the market value of assets falls by greater amount than liabilities.
e) None of these
4) Net Interest Margin means
a) Interest income — Interest Expense
b) Interest Expense — Interest Income
c) Net Interest Income divided by earning assets
d) Net interest income divided by net demand and time liabilities
e) Net interest income divided by total deposits and loans
5) Which of the following is not a interest rate risk
a) gap risk b) basis risk c) portfolio risk d) yield curve risk e) price risk
6) In the context of interest rate risk, gap means difference between the amount of assets and liabilities
a) maturing during a particular period
b) on which the interest rates are reset during a given period
c) of short term nature d) of long term nature e) which do not carry any interest rate
7) Which of the following represents gap risk?
a) Uncertainty with regard to interest rate at which the future cash flows can be reinvested
b) Risk of loss due to sale of assets before maturity dates
c) Risk that the interest rate of different assets and liabilities may change in different magnitudes
d) Holding assets and liabilities with different principal amounts, maturity dates or repricing dates creating exposure to changes in the level of interest rates e) None
8) Which of the following is incorrect?
a) Gap is the difference between the amount of assets and liabilities on which interest rates are reset during a given period
b) Mismatch or gap may lead to gain or loss depending upon how interest rate in the market tend to move
c) **In** a perfectly matched gap position there is not difference between the repricing dates. However, the magnitude of change in the deposit rates **would** not necessarily be exactly matched by the magnitude of change in loan rate
d) If a bank has more assets on which it earns interest than its liabilities on which it pays interest, interest rate risk arises when interest rate earned on assets changes while cost of funding of the liabilities remains same e) **None** of these
9) Changes in interest rates affect
a) Net Interest income b) Net Interest margin
c) Underlying value of the bank's assets and liabilities
d) Both (a) & (b) only e) All of (a), (b) & (c)
10) Rise in interest rate results in
a) Increase in the market value of the asset
b) Increase in the market value of the liability
c) Decrease in the market value of asset
d) Certain decline in the net interest income
e) No impact on the market value of the asset or liability, though it may affect Net Interest income.
11) The gap is the difference between the amount of assets and liabilities on which interest rates are during a given period_
a) fixed b) increased c) decreased d) reset e) realigned
12) A bank holds Rs. 100 crore liabilities at 9% of one year maturity to fund assets of Rs. 100 crore at 10% with two year maturity. The interest rate on liabilities increase to 11% in second year. What will the impact on net interest income of the bank from these assets and liabilities.
a) Nil will reduce by Rs. 1 crore b) Nil will increase by Rs. 1 crore
c) Nil will reduce by Rs. 2 crore d) Nil will increase by Rs. 2 crore
e) No impact as neither asset nor liability has been withdrawn_
13) A bank takes a deposit for 91 days at 8% and invests the same in a floating rate loan (repriced at monthly intervals) with an initial rate of 10%. In this case bank will be treated as
a) asset sensitive b) liability sensitive c) Both (a) & (b) d) none of these
14) Which of the following is incorrect regarding asset sensitive bank?
a) It will produce a large Nil if the interest rate rises in the market

b) It will have a reduction in NII if the interest rate declines in the market
c) It will produce a large NII if the interest rate declines in the market
d) Both (a) & (c) e) Both (a) & (b)

15) A bank is considered liability sensitive when
a) Short term deposit is used to fund long term loan
b) Interest paid on deposit is reset more, rapidly than the rate being charged on the loan
c) Long term deposit is used to fund short term loan
d) Both (a) & (b) e) Both (b) & (c)

16) The risk that the interest rate of different assets and liabilities may change in different magnitudes is called risk.
a) Basis b) Gap c) Yield Curve d) price e) Reinvestment

17) A bank has raised SB deposit of Rs. 50 crore, fixed deposit of Rs. 50 crore and invested the same in cash credit for Rs. 40 crore and call money for Rs. 50 crore. What is the gap?
a) positive gap of 10 crore b) negative gap of 10 crore

18) In the above question, if interest rate falls by 1%, then as per traditional gap management, bank's NII will
a) improve by Rs. 10 lakh b) decline by Rs. 10 lakh c) None of these

19) In the same question, if rate on call money lending falls 1%, the rate on cash credit faits 0.7%, the rate on saving deposits falls by 0.5% and rate on fixed deposits falls by 0.4%, then
a) **NII** will improve by Rs. 1 crore
b) **NII** will improve by Rs. 0.33 crore
c) Nil will decline by Rs. 0.33 crore
d) Nil will decrease by Rs. 0.78 crore e) Nil will decrease by Rs. 0.45 crore

20) If a bank has more assets on which it earns interest than its liabilities on which it pays interest, interest rate risk arises when interest rate earned on assets changes while the cost of funding of liabilities remain same. This risk is called as: a) Embedded option Risk b) Net Interest Position Risk
c) Reinvestment Risk d) Yield Curve Risk e) Price Risk

21) When interest rates increase, depositors are likely to go for premature renewal of deposits and when interest rates decrease, borrowers are likely to pay off loans before due date resulting in lower NIL This risk is called
a) Embedded option risk b) Net Interest position risk
c) Reinvestment risk d) Yield curve risk e) Price Risk

22) When different benchmarks are used to reprice floating rate fixed deposits- and Hooting rate loans, interest rate risk arising due to this is called------ risk
a) Gap b) Basis c) Yield Curve d) Reinvestment

23) Embedded option means
a) Prepayment of loans and bonds (with put or call option)
b) Option to repay or extend the loan on due date
c) Automatic renewal of deposits
d) Premature withdrawal of deposits e) Both (a) & (d)

24) Mismatch in the context of Interest Rate Risk occurs when assets and liabilities fall doe for in different periods. a) payment b) repricing c) either (a) or (b) whichever is earlier d) None

25) Changes in interest rates can have adverse impact on
a) a bank's earnings b) a bank's economic value c) both (a) & (b) d) None of these

26) Which of the following is incorrect
a) When interest rates fall, the bank which provides the servicing function for mortgage loans may have decline in fee income due to prepayment of loans
b) Net interest income .means difference between total interest income and total interest expense
c) Change in interest rates may affect noninterest income also
d) Both (a) & (c) e) None of these

27) The economic value of a bank *can* be viewed as the present value of the bank's expected : a) net cash flows b) cash flows on assets c) cash flows on the liabilities d) none of these

28) Which of the following is incorrect?
a) Economic value perspective of interest rate risk is more comprehensive then earning perspective.
b) Increase in the interest rates on assets like bonds will reduce the market price of the bonds
c) A bank has a 5 year government security of 10%. Market interest rates decrease to 8%. The market value of bond will increase.

d) All of these e) none of these

29) Instruments that are not marked to market may represent

a) higher gain b) higher economic value c) embedded losses d)none

30) A negative or liability sensitive gap occurs where liabilities assets (including OBS positions) in a given time bond - a) are more than b) are less than c) are equal to d) none of these

31) A negative gap means:

a) liability sensitive gap - b) asset sensitive gap

c) liabilities exceed assets (including OBS positions) in a given time period.

d) both (a) & (c) e) None of these

32) Which of the following is not a shortcoming of gap analysis

a) It ignores the basis risk

b) It fails to take into account for differences in the sensitivity of income that may from option related positions_

c) It fails to capture variability in non interest revenue and expenses

d) Both (a) & (b) only e) none of these

33) Duration reflects:

a) Percentage change in the economic value that will occur with a change in the level of market interest rates

b) Timing and size of cash flows that occur before the instrument's contractual maturity

c) Both of these d) .None of these

34) Higher duration which implies that a given change in the level of interest rates will have a larger impact on economic value will be higher when:

a) The maturity or next repricing date of the instrument is longer

b) The payment that occur before maturity (e.g. coupon payments) is smaller

c) Both of these d) None of these

35) Which of the following is correct regarding strategies for controlling interest rate risk

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 would increase, it will widen the gap by liabilities more frequently then assets.

c) If a bank expects that interest rate would increase, it will widen the gap by repricing the assets more frequently than liabilities

d) Both (a) & (b) e) Both (a) & (c)

36) Asset sensitivity can not be reduced by:

a) Increasing short term lendings b) Increasing short "term borrowings

c) Increasing fixed rate lendings d) Increasing floating rate deposits

e) Extending investment portfolio maturity

37) Which of the following is not a strategy to manage interest rate risk?

a) Match long term assets with non interest bearing liabilities

b) Match repriceable assets with a similar repriceable liabilities

c) Contain volumes of NPA

d) Use Forward Rate Agreements, Swaps etc. e) none of these

38) The adverse impact on Nil due to mismatch as can be minimized by:

a) Fixing appropriate tolerance limits on interest rate sensitivity gaps

b) Granting short term loans

c) Accepting long term deposits d) Both (b) & (c) e) none of these

39) Maturity mismatch is increased by:

a) Increase in Non Performing assets

b) Reschedulement of loan instalments c) Both (a) & (b) e) none of these

ANSWER : INTEREST RATE RISK MANAGEMENT

1	E	2	E	3	B	4	C	5	C	6	B	7	D	8	C	9	E	10	C
11	D	12	C	13	A	14	C	15	D	16	A	17	B	18	A	19	C	20	B
21	A	22	C	23	E	24	C	25	C	26	D	27	A	28	E	29	C	30	A
31	D	32	E	33	C	34	C	35	E	36	A	37	E	38	A	39	C		

PROFIT PLANNING

1) What is the profit?

a) Surplus of income over expenditure
b) Difference between operating income and operating expenditure
c) Excess of Revenue and Expenditure d) All these
2) What is profitability?
a) It is a function of certain ratios.
b) It is a parameter of economic efficiency.
e) Productivity is one of the major determinants of profitability d) All these
3) Productivity in Banks can be measured in terms of:
a) Total assets per employee
b) Net operating profit per employee
c) Ratio of establishment expenses to working funds d) All these
4) Which of the following statements is correct?
a) Profit and Profitability goes together.
b) If profits increase, profitability will also increase.
c) Profit may increase profitability may decline d) All these
5) Profitability indicates: -
a) Financial soundness of a Bank b) Sustained confidence of the Depositort;
c) (a) and (b) both d) None of these
6) The objective of profitability is:
a) To increase productivity b) To increase efficiency
c) Cost reduction and return maximization d) All these
7) Which of the following factors helps to profitability?
a) Efficient Asset Management
b) Liability management in terms of deposits and capital funds
c) Operational efficiency in terms of branching and personnel d) All these
8) What is spread? -
a) Difference between interest receipts and interest payments as percentage to rota' Assets.
b) An increase in spread leads to rise in profits.
c) There is a positive relationship between spread and net profit. d) All these
9) What is Burden?
a) Difference between non-interest income and non-interest expenditure
b) It is measured in terms of percentage to Total Assets
c) (a) and (b) both d) None of these
10) Banks are required to make provision out of operating profits in respect of:
a) Non-performing Assets b) Income Tax c) Interest Tax d) All these
11) The extent of provision is influenced by:
a) Quality of Assets portfolio b) Tax Rate c) Depreciation in Investments
d) All these
12) Banks have non-interest income from the following sources:
a) Fee on issue of Guarantee b) Commission on issue of Letter of Credit
c) Project management fee d) All these
13) Which of the following are the important profitability ratios to measure the efficiency of a Bank?
a) Net profit as percentage of gross operating income
b) Net profit as percentage of working funds
c) (a) and (b) both d) None of these
14) Net profit as percentage to gross operating income indicates:
a) Capacity of a Bank to generate residual income
b) Cost control exercises taken up by the management
c) (a) and (b) both d) None of these
15) Net profit as percentage of working funds indicates:
a) Efficiency of fund management
b) Productivity of capital employed in a Bank
c) (a) and (b) both d) None of these
16) The factors affecting profitability are:
a) Liquidity and Credit Policy of RBI b) Changes in Deposit mix
c) Increase in establishment cost d) All these

17) The following also have direct impact on profitability of Bank:
a) High level of NPA b) Higher amount of provision
c) (a) and (b) both d) None of these
18) Profitability can be improved through:
a) Increased diversification b) Containment of cash
c) Better quality of Assets d) All these
19) What are the important parameters which established relationship with profitability?
a) Relationship between owned funds and net profits
b) Relationship between total assets and profit before depreciation, interest and tax.
c) (a) and (b) both d) None of these
20) The profit planning in a Bank involves:
a) Balance sheet management
b) Efficient management of credit and investments
c) Increased level of non-fund based income d) All these
21) The major sources of Banks income are:
a) Interest income b) Fee based income c) Treasury income d) All these
22) Interest income is derived from:
a) Loans and advances b) Investment in securities c) Investment in Bonds
d) All these
23) Which of the following are new sources which offer better non-fund income?
a) Depository sources b) Internet Banking c) E-Commerce d) All these
24) A Bank can have Treasury income by way of:
a) Trading n securities b) Forex Transactions
c) Dealing commodities and derivatives d) All these
25) The profitability is a function of following variables:
a) Interest income b) fee based income c) Trading income d) All these
26) The following variables also affect the profitability:
a) Interest expenses b) Staff expenses c) Other operation expenses d)All these
27) The fundamental principle of profitability is:
a) Interpst and other income should be maximized
b) Interest expenses and other operating expenses should be minimised
c) (a) and (b) both d) None of these
28) What has been the trends in profitability of commercial Banks in India?
a) Net profit to owned funds have shown improvements
b) Operating profits have shown increasing trend
c) (a) and (b) both d) None of these
29) The factors influencing investment decisions include:
a) Earning per share and price earning ratio b) Dividend yield
c) Return on Networth d) All these
30) What is the concept of Economic Value Added (EVA)?
a) It is the difference between the rates at which the Bank is earning from its operations and its cost of capital
b) It is difference between the net operating profit after tax and the opening the capital employed times the cost of capital
c) It is able to capture the cost of capital employed d) All these
31) The significance of EVA is:
a) It indicates the efficiency of Bank in deployment of capital to get optional returns.
b) It looks at the rate at which the Assets are put to use and compares the cost of such capital.
c) If the Bank is able to earn a return which is more than its cost of capital, it is said to be creating wealth for its shareholders. d) All these
32) EVA is a better measurement over:
a) Earning per share b) Return on Equity
c) As (a) and (-13) do not factor risk d) None of these
33) 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 cost of funds
c) (a) and (b) both d) None of these

34) The calculation of EVA is complicated as such:

a) It needs cost of equity 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

35) EVA will be affected by:

a) Changes in Depreciation policy b) Inventory valuation policy

c) Accounting for deferred taxation d) All these

36) The limitations of EVA are:

a) It is based against companies which are capital intensive

b) It considers only capital outlay necessary for creation of physical assets

c) It ignores implicit capital outlay involved in the creation of intangible Assets

d) All the above

37) Which of the following is correct?

a) Companies with high EVA are cash rich

b) EVA depicts notional value created by a business

c) It has no relation to liquidity requirement d) All these

38) Which of the following is correct?

a) Companies which are cash sensitive and if there is a cash shortage in may lead to Bankruptcy. -

b) EVA is an ideal measure for matured industries.

c) EVA will not be that effective for the companies in growth stage. d) All these

39) What is Market Value Added?

a) An excess of market value of the. company over the value of investors capital.

b) It quantifies the premium the market is willing to pay.

c) It is the sum of the current market value of debt and equity minus economic book mEque.

d) All the above

40) The important factors which determine MVA are:

a) Market value of capital employed b) Economic value c) (a) and (b) both

d) None of these

41) Which of the following statements is correct?

a) A company creates value if its MVA is positive

b) MVA is same as the price to Book value figure

c) (a) and (b) both d) None of these

42) What has made profitability management more challenging task?

a) The Extent competition b) Advanced Technology c) Deregulatory measurement

d) All these

ANSWER : PROFIT PLANNING

1	A	2	D	3	D	4	C	5	C	6	D	7	D	8	A	9	C	10	D
11	D	12	D	13	C	14	C	15	C	16	D	17	C	18	D	19	C	20	D
21	D	22	D	23	D	24	D	25	D	26	D	27	C	28	C	29	D	30	D
31	D	32	C	33	C	34	C	35	D	36	D	37	D	38	D	39	D	40	C
41	C	42	D																

CASE STUDY / CASE LETS ON MODULE – D

CASE STUDIES ON NPA PROVISIONING

Case-1

International Bank has provided the following information relating to its advance portfolio as on Mar 31, 2010: Total advances P_s. 40000 cr. Gross NPA 9% and Net NPA 2%. Based on this information, answer the following questions:

01 Considering that all the standard loan accounts represent general advances, what is the amount of provision for standard loan accounts:

a) Rs. 160 cr b) Rs. 151.90 cr

c) Rs. 145.60 cr d) Rs. 141.50 cr

02 What is the provision on NPA accounts:

a) **Rs.** 3600 cr b) Rs. 3200 cr

c) Rs. 2800 cr
d) Incomplete information. Cannot be calculated

03 What is the total amount of provisions on total advances, including the standard accounts:
a) Rs. 3612.30 cr b) Rs. 2945.60 cr
c) Rs. 2840.20 cr
d) Incomplete information. Cannot be calculated

04 What is the amount of gross NPA:
a) Rs. 4000 cr b) Rs. 3600 cr
c) Ps. 3200 cr d) Rs. 2800 cr

05 What is the amount of net NPA:
a) Rs. 800 cr b) Rs. 1000 cr
c) Rs. 1200 cr d) Incomplete information

06 What is the provision coverage ratio for NPA:
a) 70%¯ — b) 74.3%
c) 75.2% d) 77.85

07 What is the minimum amount of provisions to be maintained by the bank to meet the provisioning coverage ratio of 70%;
a) Ps. 3600 cr b) Rs. 3200 cr
c) Rs. 2880 cr d) *Rs.* 2520 cr

Answers: 1-c 2-c 3-b 4-b 5-a 6-d 7-d

Explanations:

Que-1: Standard account Total = 40000 cr — 9% NPA = 3600 cr. = 40000 — 3600 = 36400 cr. Provision at 0.4% = 36400 x 0.4% = 145.60 cr
Que-2: Provision on NPA = Gross NPA 9% - net NPA 2% = 7% i.e. 40000 x 7% = 2800 cr
Que-3: Prevision on¯NPA = Gross NPA 9% - net NPA 2% = 7% i.e. 40000 x 7% = 2800 cr. Provision on standard account Rs. 145.60 cr. Hence total provision = 2945.60 cr
Que-4: 40000 x 9% = 3600 cr
Que-5: 40000 x 2% = 800 cr
Que-6: Total provision on NPA/Gross NPA = 2800/3600 = 77.8%
Que-7: Gross NPA x 70% = 3600 x 70% = 2520 cr

Case-2

International Banks provided following information about its-NPA account as on Mar 31, 2012.

Total loans — Rs. 40000 cr. Standard accounts Rs. 38000 cr induding direct agriculture and SME loans of Rs. 10000 cr. Sub-standard Rs. 800 a¯ out of which unsecured sub-standard Rs. 200 cr. Doubtful up to 1 year Rs. 800 **a¯,** Doubtful above 1 year up to 3 years Rs. 200 cr and doubtful above 3 years Rs. 120 cr and loss accounts Rs. 80 cr. All doubtful loans are fully secured.

01 What is the provision on standard accounts:
a) Rs. 25 cr b) Rs. 112 cr
c) Rs. 137 cr *d)* Rs. 151 cr

02 What is the amount of provision on sub-standard loan accounts:
a) Rs. 120 cr b) Rs. 140 cr
c) Rs. 160 cr d) Rs. 240 cr

03 What is the amount of provision on doubtful loan accounts:
a) Rs. 400 cr b) Rs. 340 cr
c) Rs. 320 cr d) Rs. 260 cr

04 What is the total provision on NPA loan:
a) Rs. 420 cr b) Rs. 560 cr
c) Rs. 580 cr d) Rs. 620 cr

05 What is the total provision on standard and NPA loans:
a) Rs. 813 cr b) Rs. 757 cr
c) Rs. 689 cr d) Rs. 716 cr

06 What is the provision coverage ratio of the bank:
a) ⁷8.5% b) 30.8%
c) 31.0% d) 34.1%

07 If the security value in secured sub-standard accounts is Rs. 500 cr, what will be the provision on sub-standard accounts:
a) Rs. 90 cr b) Rs. 85 cr
c) Rs. 80 cr d) Rs. 75 cr

08 If security value in DF-1 category accounts is Rs. 600 cr, what will be amount of provision for OF-1 category accounts:
a) Rs. 800 cr b) Rs. 600 cr
c) Rs. 350 cr d) Rs. 190 cr

09 If security value is Rs. 150 cr in DF-2 accounts, the provision shall be:
a) Rs. 110 cr b) Rs. 95 cr

c) Rs. 80 cr d) Rs. 75 cr

10 What is the percentage of gross NPA:

a) 8% b) 6%

c) 5% d) 4%

11 what is the amount of net NPA:

a) Rs. 2000 cr b) Rs. 1380 cr

c) Rs. 1170 cr d) Rs. 1080 cr

12 What is the percentage of net NPA:

a) 3.29% b) 3.41%

c) 3.50% 1:1) 4.01%

Answers:1-c 2-b 3-a 4-d 5-b 6-c 7-a 8-c 9-a 10-c 11-b 12-c Explanations:

Que-1: Provision on general accounts = 28000 x 0.4% = 112 cr + Provision on direct agriculture *and* SME accounts = 10000 x 0.25% = 25 c. Total provision = 112 + 25 = 137 cr

Que-2: Secured sub-standard accounts = 600 x 15% = 90 cr + Unsecured sub-standard 200 x 25% = 50cr. Total provision = 140 cr

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Que-3: DF-1 = 800 x 25% = 200 a + DF-2 = 200 x 40% = 80 cr + 120 x 100 = 120 cr. Total provision = 200 + 80 + 120 = 400 cr

Que-4: Sub-standard = 140 + DF = 400 + loss accounts = 80 cr Total = 140 + 400 + 80 = 620 cr

Que-5: Standard accounts = 137 cr + NPA loans Rs. 620 cr. Total provision = 757 cr

Que-6: 620/2000X100 = 37.9%

Que-7: In secured sub-standard accounts, secured and unsecured balance is not to be differentiated for provisioning purpose. Hence the provision shall be 600 x 15% = Rs. 90 cr

Que-8: Provision on secured portion 25% and on unsecured portion 100%. Hence provision shall be as under:

Secured accounts = 600 x 25% = 150 a Unsecured 200 x 100 = 200 x 100 = 200 cr

Total provision = 150 + 200 = 350 cr

Que-9: Secured = 40% and unsecured = 100%

Secured account = 150 x 40 = 60 cr Unsecured = 50 x 100 = 50 a

Total = 60 + 50 = 110 cr

Que-10: 2000 a/40000 a = 5%

Que-11: Gross NPAs - provision = 2000 - 620 cr = 1380 cr

Que-12: Net advances = 7;0000 - 60 = 39380. Net NPA = 1380. NPA %age = 1380/39380 = 3.5%

Case- 3

International Bank has following information relating to NPA loans portfolio on its records as on Mar 31, 2012.

Sub-standard secured loans - Rs. 1200 cr (security value Rs. 1000 cr),

Sub-standard unsecured loans - Rs. 200 a (security value Rs. 18 a),

Doubtful up to 1 year loans - Rs. 800 cr (security value Rs. 600 cr),

Doubtful above 1 year up to 3 years loans - Rs. 800 cr (security value Rs. 400 cr),

Doubtful,above 3 years loans - Rs. 800 a (security value Rs. 200 cr),

Loss loans - Rs. 200 cr (security value Rs. 18 cr),

Total advances - Rs. 40000 cr. Total NPA Rs. 4000 cr

On the basis of given information, answer the following questions:

01 What is the percentage of gross NPA:

a) 10% b) 11%

C) 12% d) 8%

02 What is the amount of provision for sub-standard account:

a) Rs. 320 cr b) Rs. 240 cr -

c) Rs. 230 cr d) Rs. 180 cr

03 What Is the amount of provision for doubtful loans:

a) Rs. 1710 cr b) Rs. 1660 cr

c) Rs. 1520 cr d) Rs. 1490 cr

04 What is the amount of total provisions:

a) Rs. 1640 cr b) Rs. 1760 cr

c) Rs. 1840 cr d) Rs. 2140 cr

05 What is the percentage of net NPA:

a) 5.18% b) 4.91%

c) 4.65%

d) Cannot be calculated on the basis of given information

06 What is the provision coverage ratio:

a) 51.5% b) 53.5%

c) 57.9% d) 64.5%

Answers: 1-a 2-c 3-a 4-d 5-b 6-b

Explanations:

Que-1: Gross NPATTotal advances = 4000/40000 x 100 = 10%
Que-2: 1200 x 15% + 200 x 25% = 180 + 50 = 230 cr
Que-3: DF-1 600 x 25% = 150 cr unsecured portion 200 x 100 = 200 cr Total = 350 cr
DF-2 400 x 40% = 160 cr i- unsecured portion = 400 x 100 = 400 cr Total = 560 cr
DF-3 = 800 crx100% = 800 cr Total provision = 350 + 560 + 800 = 1710 cr
Que-4:Total provision = Sub-standard = 230 cr, Doubtful 1710 cr, Loss = 200 cr. Total provision Rs. 2140 cr
Que-5: Net NPA = 4000 – 2140 = 1860 -
Net advance = 40000 – 2140 = 37860
Net NPA/Net Advances 1860/3.7860 = 4.91%
Que-6: 2140/4000 = 53.5%

CASE STUDIES ON CAPITAL ADEQUACY

Case-1

International Bank has paid up capital of Rs. 100 cr, free reserves of Rs. 300 cr, provisions and contingencies reserves Rs. 200 cr, revaluation reserve of Rs. *300* cr, Perpetual non-cumulative preference shares of Rs. 400 cr, and subordinated debt of Rs. 300 cr. The risk weighted assets for credit and operational risk are Rs. 10000 cr and for-market risk Rs. 4000 cr.
Based on the above information, answer the following question:

01 What is the amount of Tier-1 capital:
a) 900 cr b) 800 cr
c) 750 cr d) 610 cr

02 Calculate the amount of Tier-2 capital:
a) 900 cr b) 800 cr
c) 750 cr d) 610 cr

03 Calculate the amount of capital fund:
a) 895 cr b) 1255 cr
c) 1435 cr d) 1675 cr

04 What is the capital adequacy ratio of the bank:
a) 9% *b)* 9.65%
c) 10.05% d) 10.07%

05 What is amount of minimum capital to support credit and operational risk:
a) 900 cr b) 950 cr
c) 1000 cr d) 1250 cr

06 What is the amount of minimum Tier 1 and Tier 21 6 support fife credit and operational risk:
a) 900 cr, 900 cr b) 600 cr, 900 cr
c) 450 cr, 450 cr d) 300 cr, 450 cr

07 What is the amount of Tier-1 capital fund, to support market risk:
a) 450 cr b) 350 cr
c) 250 cr d) 185 cr

08 What is the amount of Tier-2 capital fund, to support market risk:
a) 450 cr b) 350 cr
c) 250 cr d) 160 cr

Answers: 1-b 2-d 3-c 4-d 5-a 6-c 7-b 8-d

Explanations:

Que-1:Tter-1 = Capital + Free Reserves + Perpetual non-cumulative preffrence shares = 100+300+400 cr = 800 cr. Tier II = Provisions and contingencies reserves maximum 1.25% of risk weighted assets + revaluation reserve at 55% discount + subordinated debts = 175+135 (300x45%, at 55% discount) + 300 = 610.

Que-2: Tier-1 = Capital + Free Reserves + Perpetual_non-cumulative preference shares = 100+300+400 cr 800 cr. Tier II = Provisions and contingencies reserves maximum 1.25% of risk weighted assets + revaluation reserve at 55% discount + subordinated debts = 175+135 (300x45%, at 55% discount) + 300 = 610.

Que-3: Tier-1 = Capital + Free Reserves + Perpetual non-cumulative preference shares = 100+300+400 cr = 800 cr. Tier II = Provisions and contingencies reserves maximum 1.25% of risk weighted assets + revaluation reserve at 55% discount + subordinated debts = 175+135 (300x45%, at 55% discount) + 300 = 610. Total capital fund = 800+610 = 1410 cr ._ •

Que-4: 1410/14000 = 10.07%
Que-S: 10000x9% = 900 cr
Que-6: Tier 1 = 10000x4.5% = 450cr Tier-2 = 10000x4.5% = 450 a (Tier 2 capital fund cannot be more than Tier **I)**
Que-7: Total Tier 1 — Min. Tier 1 for credit and operational risk = 800-450 = 350 cr
Que-8: Total Tier 2 — Min Ter 2 for credit and operational risk = 610-450 = 160 cr

Case — 2

Popular Bank has provided following details: 1— Tier 1 capital = 2000 cr , 2 - Tier 2 capital = 2400 cr, 3 — Risk weighted assets for credit risk = Rs. 20000 a 4 - Risk weighted assets for market risk = Rs. 1000 cr, 5 Capital charge for operational risk = Rs. 600 cr

01 Based on the given information, please calculate the amount of total risk weighted assets, if the CAR is 9%:

a) Rs. 21600 cr b) Rs. 23200 cr c) Rs. 33457 cr d) Rs. 37779 cr

02 Based on the given information, please calculate the amount of Tier I capital adequacy ratio of the bank:

a) 6% b) 5.81% c) 5.29% d) 4.89%

03 Based on the given information, please calculate the total capital to risk assets ratio:

a) 9% b) 10.59% c) 11.12% d) 11.67%

Answers: 1-d 2-c 3-b Explanations:

1. RWA for Credit risk + RWA for market risk + RWA for operational risk = 20000 + 1000/0.09 + 600/0.09= 20000 + 11112 + 6667 = 37779 cr.
2. RWA for Credit risk + RWA for market risk + RWA for operational risk = 20000 + 1000/0.09 + 600/0.09 = 20000 + 11112 + 6667 = 37779 cr.

Tier I capital = 2000

Tier **II** capital = 2400

Total = 4000 (Tier 2 cannot be Tier I)

Tier **I** capital funds = Eligible Tier I/Total RWA = 2000/37779 = 5.29%

3. RWA for Credit risk + RWA for market risk + RWA for operational risk = 20000 + 1000/0.09 + 600/0.09 = 20000 + 11112 + 6667 = 37779 cr.

Tier I capital = 2000

Tier H capital = 2400

Total = 4000 (Tier 2 cannot be Tier I. Hence maximum it can be taken is 2000 cr)

Total capital funds = Eligible total capital fund/Total RWA = 4000/37779 = 10.59%

Case- 3

International Bank has paid up capital of Rs. 200 cr, free reserves of Rs. 600 cr, provisions and contingencies reserves Rs. 400 cr, revaluation reserve of Rs. 600 cr, Perpetual non-cumulative preference shares of Rs. 800 cr, and subordinated debt of Rs. 600 cr. The risk weighted assets for credit and operational risk are Rs. 20000 cr and for-market risk Rs. 8000 cr.

Based on the above information, answer the following question:

01 What is the amount of Tier-1 capital:

a) 1800 er b) 1600 cr

c) 1500 cr d) 1220 cr

02 Calculate the amount of Tier-2 capital:

a) 1800 cr • b) 1600 cr

c) 1500 cr d) 1200 cr

03 Calculate the amount of fund:

a) 1790 cr b) 2510 cr

c) 2820 cr d) 3350 cr

04 What is the capital adequacy ratio of the bank:

a) 9% b) 9.65%

c) 10.05% d) 10.07%

05 What is amount of minimum capital to support credit and operational risk:

a) 1800 cr b) 1900 cr

c) 2000 cr d) 2500 cr

06 What is the amount of minimum Tier 1 and Tier 2 to support the credit and operational risk: a) 1800 cr, 1800 cr b) 1200 cr, 1800 cr

c) 900 cr, 900 cr 600 cr, 900 cr

07 What is the amount of Tier-1 capital fund, to support market risk:

a) 900 cr b) 700 cr

c) 500 cr d) 370 cr

08 What is the amount of Tier-2 capital fund, to support market risk:

a) 900 cr b) 700 cr

c) 500 cr d) 320 cr

Answers: 1-b 2-d 3-c 4-d 5-a 6-c 7-b 8-d

Explanations:

Que-1: Tier-1 = Capital + Free Reserves + Perpetual non-cumulative preference shares = 200+600+800 cr =- 1600 cr. Tier II = Provisions and contingencies reserves maximum 1.25% of risk weighted assets + revaluation reserve at 55% discount ˇ**F** subordinated debts = 350+270 (600x45%, at 55% discount) + 600 = 1220.

Que-2: Tier-1 = Capital + Free Reserves + Perpetual non-cumulative preference shares = 200+600+800 cr = 1600 cr. Tier II = Provisions and contingencies reserves maximum 1.25% of risk weighted assets + revaluation reserve at 55% discount + subordinated debts = 350+270 (600x45%, at 55% discount) + 600 = 1220.

Que-3:71er-1 = Capital + Free Reserves + Perpetual non-cumulative preference shares = 200+600+800 cr = 1600 cr. Tier H = Provisions and contingencies reserves maximum 1.25% of risk weighted assets + revaluation reserve at 55% discount + subordinated debts = 350+270 (600x45%, at 55% discount) + 600 = 1220. Total capital fund = 1600+1220 = 2850 cr

Que-4: 2820/28000 = 10.25%

Que-5: 20000x9% = 1800 cr

Que-6: Tier 1 = 20000x4.5% = 900cr Tier-2 = 20000x4.5% = 900 cr

Que-7: Total Tier 1— Min Tier 1 for credit and operational risk = 1600-900 = 700 cr
Que-B: Total Tier 2 — Min Tier 2 for credit and operational risk = 1220-900 = 320 cr

Case- 4

International Bank provides following information:

Rs. In crores	1st year	rd year
Net profits	120	150
Provisions	240	290
Staff expenses	280	320
Other operating[1] expenses	160	240
Other income	320	460

Based on the above information, answer the following questions

01 What is the amount of capital charge for operation risk, on the basis of *1* year results alone:
a) 100 cr b) 120 cr
c) 150 cr d) 135 cr
02 What is the amount of capital char$_g$e for operational risk, on the basis of 2nd year results alone:
a) 100 cr b) 120 cr
c) 150 cr d) 135 cr
03 What is the amount of capital char$_g$e for operational risk, on the basis of 1g and 2nd year results:
a) 100 cr b) 120 cr
c) 135 cr d) 150 cr
04 What is the amount of risk weighted assets for operational risk as per Basel II recommendations, on the basis of *1st* year results alone:
a) 1500 cr b) 1687.50 **cr**
c) 1875 cr d) Incomplete information
05 What is the amount of risk wei$_g$hted assets for operational risk as per Basel II recommendations, on the basis of 2nd year results alone:
a) 1500 cr b) 1687.50 cr
c) 1875 cr d) Incomplete information
06 What is the amount of risk wei$_g$hted assets for operational risk as per Basel II recommendations, on the basis of 1g year and 2° year results:
a) 1500 cr b) 1687.50 cr
c) 1875 cr d) Incomplete information
Answers: 1-b 2-c 3-c 4-c 5-c 6-b
Explanations:

Que-1: Capital charge = Gross income X 15%. Gross income = net profit + provisions + staff expenses + other operating expenses = 120+240 +280+160 = 800 cr. Capital charge = 800x15% = 120cr

Que-2: Capital charge = Gross income X 15%. Gross income = net profit + provisions + staff expenses + other operating expenses = 150+290 +320+240 = 1000 cr. Capital charge = 1000x15% = 150cr **Que-3:** Capital charge = Gross income X 15%. Gross income = net _profit + provisions + staff expenses +
other operating expenses =
year = 120+240 +280+160 = 800 cr.
2nd year = 150+290 +320+240 = 1000 cr.
Average gross income = (800+1000)/2 = 900 Cr. Capital charge = 900x15 = 135cr
Que-4: Capital charge/8% = 120/8% = Rs. 1500 cr
Que-5: Capital charge/8% = 150/8% = Rs. 1875 cr
Que-6: Capital charge/8% = 135/8%=Rs. 1687.50 cr

Case- 5

International Bank provides following information:

Rs. In crores	1st year	2nd year
Net profits	300	400
Provisions	200	300
Staff expenses	300	400
Other operating expenses	200	300
Other income	400	600

BaSed on the above information, answer the following questions

01 What is the amount of capital charge for operation risk, on the basis of 1st year results alone:

a) 120 cr b) 150 cr
c) 180 cr d) 210 cr

02 What is the amount of capital charge for operational risk, on the basis of 2" year results alone:

a) 120 cr • h) 150 er
c) 180 cr d) 210 cr

03 What is the amount of capital charge for operational risk, on the basis of 1st and 2" year results:

a) 120 cr b) 150 cr c) 180 cr d) 210 cr

04 What is the amount of risk weighted assets for operational risk as per Basel II recommendations, on the basis of 1st year results alone:

a) 1875 cr b) 2625 cr c) 2250 cr d) Incomplete information

05 What is the amount of risk weighted assets for operational risk as per Basel II recommendations, on the basis of 2" year results alone:

a) 1875 cr b) 2625 cr c) 2250 cr d) Incomplete information

06 What is the amount of risk weighted assets for operational risk as per Basel II recommendations, on the basis of 1st year and 2nd year results:

a) 1875 cr b) 2625 cr c) 2250 cr d) Incomplete information

Answers: 1-b 2-d 3-c 4-a 5-b 6-c

Explanations:

Que-1: Capital charge = Gross income X 15%. Gross income = net profit + provisions + staff expenses + other operating expenses = 300+200+300+200 = 1000 cr. Capital charge = 1000x15% = 150cr

Que-2: Capital charge = Gross income X 15%. Gross income = net profit + provisions + staff expenses + other operating expenses = 400+300+400+300 = 1400 cr. Capital charge = 1400x15% = 210cr

Que-3: Capital charge = Gross income X 15%. Gross income net profit + provisions + staff expenses + other operating expenses =
1st year = 300+200+300+200 = 1000 cr.
2nd year = 400+300+400+300 = 1400 cr.
Average gross income = (1000+1400)/2 = 1200 cr. Capital charge = 1200x15 = 180cr

Que-4: Capital charge / 8% = 150/8% = Rs. 1875 cr

Que-5: Capital charge / 8% = 210/8% = Rs. 2625 cr

Que-6: Capital charge / 8% = 180/8% = Rs. 2250 cr

Case- .6

The financial results of International Bank as on Mar 31, 2010 provide the following information:
Interest earned — Rs. 24000 cr, other non-interest income — Rs. 3600 cr, profit on sale of fixed assets — Rs. 240 cr, income on sale of 3rd party products — *Rs.* 160 cr, interest paid — Rs. 15600 cr, operating expense — Rs 7600, provisions Rs. 3200 cr.
In the basis of given information, answer the following questions.

01 What is the amount of operating profit:

a) Rs. 1600 a b) Rs. 4800 cr c). Rs. 6400 cr d) Inadequate information

02 What is the amount of gross income as per Basic Indicator Approach for operational risk:

a) Rs. 24000 cr b) Rs. 15600 cr c) Rs. 12000 cr d) Rs. 8400 cr

03 What is the amount of capital charge for operational risk under basic indicator approach:

a) Rs. 1200 cr b) Rs. 1800 cr c) Rs. 2400 cr d) Rs. 3000 cr

04 What is the amount of risk weighted assets for operational risk under basic indicator approach:

a) Rs. 18000 cr b) Rs. 20000 cr c) Rs. 22500 cr d) Rs. 25500 cr

Answers: 1-b 2-c 3-b 4-c

Explanations:

Que-1: Operating profit = Interest earned + other non-interest income + profit on sale of fixed assets + income on sale of 3rd party products — interest paid — operating expense
Rs. 24000 cr + Rs. 3600 cr + Rs. 240 a + Rs. 160 cr — Rs. 15600 cr — Rs. 7600 = 4800

Que-2: Gross income = Net interest income + net non-interest income
Gross income = 24000 — 15600 + 3600 = 12000

Que-3: Capital charge for operational risk = Gross income x 15% = 12000 x 15% = 1800 cr

Que-4: RWA = Capital charge/minimum Basel-2 CAR. RWA=1800/8% = 22500 cr

Case- 7

The financial results of International Bank as on Mar 31, 2010 provide the following information:
Interest earned — Rs. 28000 cr, other non-interest income — Rs. 4700 cr, profit on sale of fixed assets — Rs. 350 cr, income on sale of 3rd party products — Rs. 250 cr, interest paid — Rs. 17800 a, operating expense — Rs 8800, provisions Rs. 1100 cr.
On the basis of given information, answer the following questions.

01 What is the amount of operating profit:

a) Rs. 5600 cr b) Rs. 5800 cr c) Rs. 6200 cr d) Rs. 6700 cr

02 What is the amount of gross income as per Basic Indicator Approach for operational risk:

a) Rs. 14900 cr b) Rs. 15600 a C) Rs. 16000 cr d) *Rs.* 18400 cr

03 What is the amount of capital charge for operational risk under *basic* indicator approach:
a) Rs. 1800 cr b) Rs. 2075cr c) Rs. 2235 crd) Rs. 2430 cr
04 What is the amount of risk weighted assets for operational risk under basic indicator approach:
a) Rs. 18540.50 cr b) Rs. 22507.75 a
c) Rs. 22511.50 cr d) Rs. 27939.50 a
A n s w e r s : 1 - a 2 - a 3 - c 4 - d
Explanations:
Que-1: Operating profit = Interest earned + other non-interest income + profit on sale of fixed assets + income on sale of 3rd party products — interest paid — operating expense
Rs. 28000 cr + Rs. 4700 a + Rs. 350 cr + Rs. 250 a — Rs. 17800 cr — Rs. 8800 = **6700 Que-2:** Gross income = Net interest income + net non-interest income
Gross income = (28000-17800) + 4700 = **14900**
Que-3: Capital charge for operational risk = Gross income x 15% = 14900 x 15% = 2235 cr **Que-4:** RWA = Capital charge/minimum Basel-2 CAR. RWA=2235/8% = 27937.50 Cr

Case- 8

The assets side of balance sheet of International Bank provides the following information:
Fixed Assets — 500 cr, Investment in Central govt. securities — Rs. 5000 a. In standard loan accounts, the Retail loans — Rs. 3000 cr, House Loans — Rs. 2000 a (all Individual loans below Rs. 30 lac and fully secured by mortgage), Other loans — Rs. 10000 Cr. Sub-standard secured loans — Rs. 500 a, sub-standard unsecured loans Rs. 150 a, Doubtful loans Rs. 800 cr (all OF-1 category and fully secured) and other assets — Rs. 200 cr. Based on this information, by using Standard Approach for credit risk, answer the following questions.
01 What is 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
02 What is the amount of risk weighted assets for housing loans:
a) Rs. 2000 cr b) Rs. 1800 cr c) Rs. 1500 cr d) Rs. 1000 cr
03 What is the amount of risk weighted assets *for* investment in govt. securities:
a) Rs. 5000 cr b) Rs. 2500 cr c) Rs. 1000 cr d) NA
04 What is the amount of risk weighted assets for sub-standard secured accounts:
a) Rs. 250 cr **b)** Rs. 500 cr c) Rs. 750 cr d) Rs. 1000 cr
05 What is *the* amount of risk weighted assets for sub-standard unsecured accounts:
a) Rs. 75 cr b) Rs. 112.50 cr c) Rs. 150 cr d) Rs. 225 cr
06 What is the amount of risk weighted assets for doubtful accounts:
a) Rs. 400 cr b) Rs. 600 cr c) Rs. 800 cr d) Rs. 1600 cr
Answers: 1-c 2-d 3-d 4-c 5-c 6-c
Explanations:
Que-1: RW is 75% on retail loans. RW value = 3000x75% = 2250
Que-2: RW is 50% on housing loans for individual loan up to Rs. 30 lac. RW value — 2000x50% = 1000 **Que-3:** On claims against Central govt., the risk weight is zero. 5000x0% = 0
Que-4: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In sub-standard secured account, the provision being 15%, RW is 150%. Hence RWA 500x150% = 750 cr
Que-5: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In sub-standard unsecured account, the provision being 25%, RW is 100%. Hence RWA = 150x100% = 150 cr
Que-6: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In doubtful up to one year category (DF-1) account, the provision being 25%, RW Is 100%. Hence RWA = 800x100% = 800 cr

Case- 9

The assets side of balance sheet of 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 caall DF-3 category and fully secured) and other assets Rs. 100 cr.
Based on this information, by using Standard Approach for credit risk, answer the following questions.
01 What is 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
02 What is 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
03 What is 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
04 What is the amount of risk weighted assets for sub-standard secured accounts:
a) Rs. 200 cr b) Rs. 400 cr c) Rs. **600** cr d) Rs. 900 cr
OS What is the amount of risk weighted assets for sub-standard unsecured accounts:
a) Rs. 100 a b) Rs. 112.50 cr c) Rs. 150 cr d) Rs. 250 cr
06 What *is* the amount of risk weighted assets for doubtful accounts:

a) Rs. 250 *a* b) Rs. 400 cr c) Rs. 500 cr d) Rs. 1000 cr

Answers: 1-a 2-b 3-d 4-t 5-a 6-a Explanations:

Que-1: RW is 75% on retail loans. RW value = 4000x75% = 3000

Que-2: RW is 75% on housing loans for individual loan above Rs. 30 lic. RW value = 1000x75% = 750 cr Que-3: On claims against Central govt., the risk weight is zero. 6000x0% -= 0

Que-4: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In sub-standard secured account, the provision being 15%, RW is 150%. Hence RWA = 400x150% = 600 cr

Que-5: RW is 150%, if the provision is less than 20% and 100%, If the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In sub-standard unsecured account, the provision being 25%, RW is 100%. Hence RWA = 100x100% = 100 cr

Que-6: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In doubtful above 3 years category (DF-3) account, the provision being 100%, RW is 50%. Hence RWA = 500x50% = 250 cr

Case- 10

You are working as an Executive with International Bank. The MIS Department of the bank has submitted the following data relating to the bank, from which you are required to estimate the likely Capital Funds required by the Banks as on March, 31st , 2010 taking into account the Basel li implementation compliance of RBI in India. I) Risk- Weighted Assets for Credit Risk likely to be Rs.62,854 crores.

ii) Capital Allocation for Market Risk to be Rs.100/- crores

iii) For Operational Risk, the following Data available. The gross income of the bank is Rs.3600 cr for 31.3.08, Rs.4000 cr for 31.3.09 and Rs.4400 cr for 31.3.10.

The bank is required to calculate Capital Charge for operational Risk by Basic Indicator Approach.

You are required to take into account the Capital Adequacy prescription applicable to Indian Banks for calculation of capital fund.

Answer the following questions based on above information.

01 As per RBI directives, the Minimum CapitalAdequacy Ratio and minimum Tier i capital the Bank is required to maintain-as on 31.3.2010 should be respectively

a) 8% and 4.5% b) 9% and 6% c) 9% and 4.5 % d) 12% and not specified

02 Based on the Gross Income given above, the likely Capital Charge as on March 31, 2010 to cover Operational Risk under Basic indicator Approach shall be:

a) 475 crores b) 540 crores c) 590 crores d) 600 crores

03 What is the totall Capital Funds requirement of the bank, for covering Credit Risk as on March 31, 2010 to comply base! II norms.

a) Rs.5656.86 crore b) Rs.6767.97 crore c) Rs.4848.87 crore d) Rs.4949.67 crore

04 What is the minimum *Tier* I Capital Fund requirement of the bank, for covering Credit Risk as on March 31, 2010 to comply Basel II norms.

a) Rs.3387.22 crore b) Rs.3467.43 crore c) Rs.3641.10 crore d) Rs.3771.24 crore

Ans. 1-b 2-d 3-a 4-d

Explanation:

Que-1: RBI directives prescribed min CRAR of 9% and Tier I should be at least 6% by 31.3.2010

Que-2: Average gross income = 3600 + 4000 4400 = 12000/3 = 4000. Capital charge for operational risk is 15% of average gross income for 3 years. Hence 4000x15% = Rs.600 cr

Que-3: For credit risk weighted assets of Rs.62854 cr, the 9% capital fund = 62854x9% = 5656.86 cr.

Que-4: For credit risk weighted assets of Rs.62854 cr, the 9% capital fund = 62854x9% = 5656.87 cr. Out of this Tier 1 should be 6%. Hence 5656-.87x6/9 = Rs.3771.24 cr.

Case- 11

You are working as officer with International *bank.* The MIS department of the bank *has* submitted the following data relating to the bank, from which you are required to estimate the likely Capital Funds required by bank as on March 31st, 2010 taking into account the Basel II implementation compliance of RBI in India.

I) Risk-Weighted Assets for credit Risk likely to be Rs.70,000 crores.

ii) Capital Allocation for Market Risk to be Rs.200/- crores

iii) For Operational Risk following data is available. The gross income of the bank is Rs.4000 cr for 31.3.08, Rs.5000 cr for 31.3.09 and Rs.6000 cr for 31.3.10.

The bank is required to calculate Capital Charge for operational Risk by following Basic Indicator Approach.

You are required to take into account the Capital Adequacy prescription applicable to Indian Banks for calculation of capital fund.

Answer the following questions based on above information.

01 As per RBI directives, the Minimum Capital Adequacy Ratio and maximum Tier II capital, the Bank is required to maintain as on 31.3.2010 should be respectively

a) 9% and 50% of capital fund

b) 9% and 100% of capital fund c) 8% and 50% of capital fund d) 8% and 50% capital fund

02 Based on the Gross Income given above, the likely Capital Charge as on March 31, 2010 to cover Operational Risk under Basic Indicator Approach shall be: b

a) 750 crores b) 700 crores c) 600 crores d) 500 crores

03 What is the total Capital Funds requirement of the bank, for covering Credit Risk as on March 31, 2010 to comply Basel li norms.

a) Rs.5400 crore b) Rs.6000 crores c) Rs.6300 crores d) Rs.6600 crores

04 What is the minimum Tier I Capital Fund requirement of the bank, for covering Credit Risk as on March 31, 2010 to comply Basel II norms.

a) Rs.4200 crore b) Rs.3900 crores c) Rs.3600 crores d) Rs.3300 crores

Ans. 1-a 2-a 3-c 4-a

Explanations:

Que-1: RBI directives prescribe min CRAR of 9%, minimum Tier **I** of at least 6% *by* 31.3.2010. Tier *It* can be maximum 50% of the capital fund.

Que-2: Average gross income = 4000 + 5000 + 6000 = 15000/3 = 5000. Capital charge for operational risk is 15% of average gross income for 3 years. Hence 5000x15%=Rs.750 cr

Que-3: For credit risk weighted assets of Rs.70000 Cr, the 9% capital fund = 70000 x 9% = 6300 cr.

Que-4: For credit risk weighted assets of Rs.70000 cr, the capital fund = 70000 x 9% = 6300 cr. Out of this Tier

7. MCQS ON MEMORY BASED QUESTIONS : BFM

01 RBI implemented the Basel-III recommendations in India, w.e.f:
a) 01.01.2013, b. 31.03.2013, c. 01.04.2013, d. 30.09.2013

02 Basel III recommendations shall be completely implemented in India by:
31.03.2020, b. 31.03.2019 c. 31.03.2618 d. 31.03.2017

03 Basel III capital regulations were released by Basel Committee on Banking Supervision (BCBS) during as a Global Regulatory Framework for more resilient banks and banking systems:
December 2010, b. March 2011, c. December 2011, d. December 2012

04 Basel III capital regulations are based on 3 mutually reinforcing pillar. These pillars are (1) Pillar-1 minimum capital standards (2) supervisory review of capital adequacy (3) risk management.
all the 3 are correct, b. only 1 and 2 are correct, c. only 1 and 3 are correct, d. only 2 and 3 are correct Under Basel II,

05.Under Basel II the option available to compute capital for credit risk are:-
standardized approach, b. risk management approach, c. advance measurement approach, d. standardized approach,

06. Under Basel III, the options available to compute capital for operational risk are :
standardized approach, b) risk management approach, c) advance measurement, approach, d) basic indicator approach,

07.Under Basel III, the options available to compute capital for market risk are :
standardized approach, b) risk management approach, c) advance, measurement approach, d) basic indicator approach

08.Certain specific prescription of Basel II capital adequacy framework will continue to apply along with Basel III (parallel run), till:
31.03.2019, b) 31.03.2018, c) 31.03.2017, d) 31.03.2016

09. A bank in India is to comply with capital adequacy ratio requirements at :(1) consolidated (group) level after consolidating the assets liabilities of its subsidiaries / joint ventures (2) solo level (3) overseas operations of the bank under (I) and (2).
a)1 and 2 only correct, b) 1 and 3 only correct, c) 2 and 3 only correct, d) 1 to 3 all correct.

10. In India, the banks are required to maintain a minimum Pillar 1 capital to risk weighted assets ratio (or minimum total capital to risk weighted assets ratio) of as on
a) 8%, 31' Mar each year, b) 9%, 31" Mar each year, c) 8%, ongoing basis, d) 9%, ongoing basis.

11. The banks in India are required to compute Basel III capital ratios in the following manner (1) Common equity Tier I capital ratio (2) Tier I capital ratio (3) Tier 2 capital ratio (4) Total capital to risk weighted asset ratio a) I to 4 all, b) 1,2 and 4 only, c) 1, 3 and 4 only, d) 1 and 4 only

12. To calculate capital adequacy ratio, the banks are to take into account, which of the following risk:
credit risk and operational risk only, b) credit risk and market risk only, c) market risk and operational risk only, d) credit risk, market risk and operational risk.

13.Which of the following statement regarding the Total regulatory capital under Basel III is correct:
total regulatory capital is sum total of Tier I capital and Tier 2 capital, b) Tier I capital is called `aning-concern' capital and Tier 2 capital is called 'gone-concern' capital, c) Tier I capital comprises common equity Tier I and additional Tier I, d) all the above.

14 As per Basel III implementation in India, Common Equity Tier 1 capital must be % of risk weighted assets on ongoing basis: a: 5.5% b: 7%, c: 9% d: 11%

15. As per Basel III implementation in India, minimum Tier 1 capital must be % of risk weighted assets on ongoing basis:
a: 5.5% . b: 7%, c: 9% d: 11%

16. As per Basel III implementation in India, within the minimum Tier 1 capital, the additional Tier capital can be:
a: min 5.5% of risk weighted assets (RWA), b: max 5.5% of RWA, c: min 1.5% of RWA, d: max 1.5% of RWA

17. As per BaselIII implementation in India, within total capital of 9% of risk weighted assets, the Tier 2 capital can be:
a: max equal to Tier I capital, b) min equal to Tier I capital c) max equal to 2% of risk weighted assets, d) min equal to 2% of risk weighted assets

18. Which of the following statements is not correct regarding Basel III implementation in India:
a) minimum common equity Tier I ratio should be 5.5% of RWAs, b) capital conservation buffer, c) (CCB) consisting of common equity, should be 2.5% of RWAs, d) maximum additional tier 1 capital should be 1.5% of RWAs, e) minimum common

equity Tier I ratio plus capital conservation buffer should be 7%
19. Which of the following statements is not correct regarding Basel III implementation in India:
a) minimum Tier I capital ratio should be 8%, b) Tier 2 capital should be max 2%, c) minimum total capital ratio should be 9%, d) minimum total capital ratio plus capital conservation buffer should be 11.5%
20. As per Basel III, which of the following is an element of Common Equity component of Tier I (1) common shares i.e. paid up equity capital (2) stock surplus i.e. share premium (3) statutory reserves (4) capital reserves representing surplus arising out of sale proceeds of assets (5) balance in profit and loss account at the end of the previous year.
a) 1 to 5 all, b) I to 4 only, c) 1,4 and 5 only, d) 1, 2 and 3 only
21. As per Basel III, which of the following can be included in Additional Tier I capital (1) Perpetual Noncumulative Preference shares — PNCPS (2) stock surplus or share premium resulting from issue of Additional Tier I instruments (3) Debit capital instruments eligible to be included in additional Tier I.: a) 1 to 3 all, b) 1 and 2 only, c) 1 and 3 only, d) 2 and 3 only
22. As per Basel III, Tier 2 capital comprises which of the following (1) general provisions and loss reserves (2) debt capital instruments issued by bank (3) preference share capital instruments with redeemable or cumulative feature (4) revaluation reserve (5) stock surplus i.e. share premium resulting from issue of Tier 2 eligible instruments.
a) 1 to 5 all, b) 1 to 4 only, c) 1, 4 and 5 only, d) 1, 2 and 3 only.
23. As per Basel III, general provisions and loss reserves are included in Tier-2 capital maximum to the extent of: 1.25% of total risk weighted assets under standardized approach and 0.6% of total risk weighted assets under IRB approach
a) 0.6% of total risk weighted assets under standardized approach and 0.6% of total risk weighted assets under IRB approach
b) 0.6% of total risk weighted assets under standardized approach and 1.25% of total risk weighted assets under IRB approach
c) 1.25% of total risk weighted assets under standardized approach and 1.25% of total risk weighted assets under IRB approach.
24 As per Basel III, the value of revaluation reserve is to be taken at % discount to include in Tier 2 capital:-
a: 60% b: 55%, c: 50% d: 45%
25 As per Basel III, adjustments / deductions are required to be made from Tier I and Tier 2 capital, relating to which of the following (1) goodwill and other intangible assets (2) deferred tax assets (3) Investment in own shares (treasury stock) (4) investment in capital of banking, financial or insurance entities :
1 to 4 all, b) 1 and 2 only, c) 1 and 3 only, d) 1 only
26 As per Basel III, the investment of a bank in the capital of a banking or financial or insurance entity is restricted to which of the following: a) 10% of capital funds (after deductions) of the investing bank, b) 5% of the investee bank's equity capital, c 30% of paid up capital and reserves of the bank or 30%, of paid up capital of the company, whichever is lower. d all the above
27 The net stable funding ratio (NSFR) under Basel-III will be implemented in India from:
a 01.01.2017, b 01.04.2017, c 01.01.2018, d 01.04.2018
28. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match in respect of which of the following:
a. Fund & non-fund based claims on Central Govt. 0%, b Fund and non-fund based Central Govt. guaranteed claims — 0%, c Fund and non-fund based State Govt. guaranteed claims — 0%
D Fund and non-fund based claims on State Govt. — 0%.
29 Under Basel III, the risk weight for capital charge for credit risk on the *basis* of standardized approach, does not match in respect of which of the following:
a) Claims on RBI or DICGC 0%, b) Claims on Credit Guarantee Fund Trust for MSE — 0%, c) Claims on Credit Risk Guarantee Fund Trust for Low Income Housing — 0%, d) Claims on ECGC — 0%.
30. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match for claims on foreign governments (based on rating of international rating agencies such as S & P, Fitch, Moody's Rating), in respect of which of the following:
AAA to AA rating — 0%, b: BBB rating — 20%, c: Below B rating — 150%, d: unrated — 100%
31. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match for claims on foreign public sector enterprises (based on rating of S & P, Fitch, Moody's Rating), in respect of which of the following:
a: AAA to AA rating — 20%, b: A rating — 20%, c: BBB to BB rating — 100%, d: unrated — 100%.
32. Under Basel III, what is the risk weight for capital charge for credit risk on the basis of standardized approach, for claims on Bank for International Settlements, International Monetary Fund, Multi lateral Development Banks:
a: 0% b: 10%, c: 20%d: 50%.
33. Under Basel III, the risk weight is % for capital charge for credit risk on the basis of standardized approach, for claims on banks incorporated in India and foreign bank branches in India, where they meet the level of common equity Tier I capital and applicable CCB: a: 0% b: 10%, c: 20% d: 50%
34.Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match for claims on foreign banks (based on rating of international rating agencies such as S & P, Fitch, Moody's Rating), in respect of which of the following: a) AAA to AA rating — 20% b) BBB rating — 50%, c) Below B rating — 150% d) unrated — 150%,
35. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for long term loans, does

not match for claims on domestic corporates, AFC and NBFC-IFC (based on rating of internal rating agencies such as CRISIL, CARE, ICRA etc.), in respect of which of the following:
a) AAA rating — 20%, b) A rating — 50%, c) BBB —100%, d) unrated — 150%
36. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for short term loans, does not match for claims on domestic corporates, AFC and NBFC-IFC (based on rating of internal rating agencies such as CRISIL, CARE, ICRA etc.), in respect of which of the following: a) Al+ - 20%, b) A2 — 50%, c) A3 — 75%, d) A4 —150%
37. Under Basel III, the risk weight is % for capital charge for credit risk on the basis of standardized approach, for claims included in regulatory retail portfolio: a 20% b: 50%, c 75% d: 100%
38. Under Basel III, which of the following is part of the regulatory retail portfolio (1) mortgage loans which qualify as claim secured by residential property or commercial real estate (2) consumer credit or personal loans or credit card receivables (3) capital market exposure (4) venture capital exposure.
a) I and 3 only, b) 2 and 4 only, c) 1 to 4 all, d) none of the above
39. Under Basel III, to consider a claim as part of regulatory retail portfolio, which of the following condition is stated correctly: (1) orientation criteria i.e. the exposure to individual person or to small business, where total average annual turnover in small business is less than Rs.50 or (2) granularity criteria i.e. no aggregate exposure to one counterpart is more than 02% of overall regulatory retail portfolio (3) maximum retail exposure to one counterpart does not exceed the threshold limit of Rs. I cr.
a) 1 to 3 all, b) 1 and 2 only c) I and 3 only, d) 2 and 3 only
40. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for home loan up to Rs.20 lac where loan to value (LTV) ratio is 90% is : a) 20% b) 50%, c) 75% d) 100%.
41. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for home loan of above Rs.20 lac up to Rs.75 lac, where loan to value (LTV) ratio is 80% is : a) 20% b: 50%, c 75% d: 100%
42. Under Basel III, the risk weight for capital charge for credit risk as per standardized approach for home loan of above Rs.75 lac, where loan to value (LTV) ratio is 75% is :- a) 20% b: 50%, c 75% d: 100%
43. Under Basel III, the risk weight is for capital charge for credit risk on the basis of standardized approach for commercial real estate — residential housing: a) 20% b: 50%, c) 75% d: 100%.
44. Under Basel III, the risk weight is for capital charge for credit risk on the basis of standardized approach for exposure to commercial real estate:- 20% b: 50%, c: 75% d: 100%.
45. Under Basel III, for home loan purpose, the loan to value ratio (LTV) ratio is calculated as :
a) (principal + other charges) / (realizable value of mortgage property), b) (principal + accrued interest + other charges) / (realizable value of mortgage property) c) (principal + accrued interest) / (realizable value of mortgage property), d) (principal + accrued interest + other charges) / (cost of mortgage property)
46. Bank's exposure for dwelling unit to an individual shall be treated as exposure to commercial real estate, as per Basel III:- a: 2nd b: 3rd, c 4th d: 5th
47. As per BaselIII implementation, the risk weight for unsecured portion of NPA for credit risk as per standardized approach is % if the specific provision is less than 20% of the outstanding in NPA account:- a. 150%, b: 100%, c: 75% d: 50%
48. As per BaselIII implementation, the risk weight for unsecured portion of NPA for credit risk as per standardized approach is % if the specific provision is at least 20% of the outstanding in NPA account:- a 150% b: 100%, c: 75% d: 50%
49. As per BaselIII implementation, the risk weight for unsecured portion of NPA for credit risk as per standardized approach is % if the specific provision is at least 50% of the outstanding in NPA account:- a 150% b: 100%, c: 75% d: 50%
50. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for which of the following exposure, does not match: a) venture capital — 150% b) consumer credit or personal loans— 125%, c) credit card - 125%, d) capital market exposure 100%
51. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach is % for staff loans secured by superannuation benefits or mortgage of flat / house: 20% b: 50%, c 75% d: 100%
52. Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach is % for staff loans other than secured by superannuation benefits or mortgage of flat / house, being eligible under regulatory retail portfolio:
a: 20% b: 50%, c 75% d: 100%
53. Under Basel III,under standardized approach, the total risk weighted off-balance sheet credit exposure is calculated by taking into account, thecredit conversion factor (CCF). In which of the following, the CCF is not correctly stated: - a) direct credit substitutes such as financial guarantee or standby LC — 100%, b) performance guarantees 50%, c) self liquidating short term LC covering trading in goods — 50%, d) note issuance facilities and revolving underwriting facilities -50%
54. Credit enhancements under Securitization exposure, that are first loss positions, is to be risk weighted at _% under Basel III requirements:- A: 125% b: 375%, c: 625%, d: 1111%
55. Out of the following, which are domestic credit rating agencies, approved by RBI for the purpose of credit rating to determine risk weight for rated exposures (1) Brickwork (2) CARE (3) Fitch (4) CRISIL (5) Moody's (6) SMERA (7) Standard & Poor:
a 1, 2, 4, 7, b: 1, 2, 4, 6, c: 1, 2 3, 4, d: 1, 2, 4, 5

56 To be eligible for risk weighting purposes under Basel Ill, the rating from a credit rating agency approved by RBI, should be in force and confirmed from the monthly bulletin of the concerned rating agency. The rating agency should have reviewed the rating at least once during the previous months.

A 6 months, b: 9 months, c: 12 months, d: 15 months

57. Under Basel III, which of the following are eligible as collateral for credit risk mitigation purpose: (1) cash (2) gold (3) Central or State Govt. securities (4) Kissan Vikas Tatra or National Saving Certificates (5) Life insurance policies and units of mutual funds (6) debt securities rated or unrated.
a: 1 to 6 all, _ b:A 2 to 6 only, cz to 5 only, dt 3 to 5 only

58. As per Basel HI requirements, modified by RBI, call option on Additional Tier 1 instrument (PNCPS and PDI) will be permissible at the initiative of the issuer after the instrument has run for at least years. a) two years b) three years c) five years d) ten years

59. As per Basel III, the risk of losses in on-balance shee and off-balance sheet positions arising from movements in market prices is called :- a) credit risk, b) market risk, c) pricing risk, d) liquidity risk

60. The market risk positions, that are subject to capital charge requirement, includes which of the following positions, under Basel III: a) risk pertaining to interest rate related instruments in the trading book, b) risk pertaining to equities in the trading book, c) forex risk including open positions in precious metal d) all the above.

61. The trading book of a bank is subject to market risk. As per Basel III, which of the following is not included in the trading book for capital adequacy purpose:- securities under HFT and AFS, b) open gold positions and forex positions, c) trading positions in derivatives, d) securities under HTM

62. If a security has matured and remains unpaid, it attract capital for risk on completion of 90 days delinquency period:- credit risk, b: market risk, c: operational risk, d: at discretion of the bank

63. For market risk, the minimum capital requirement is expressed in terms of two separately calculated charges which are:- a) specific risk and general market risk, b: special risk and general risk, c: liquidity risk and liquidation risk, d) counterparty credit risk and trading partner's risk.

64. The capital requirement for general market risk is designed under Basel III to capture the risk of loss arising from change in :- a prices of securities, b: market value securities, c: interest rate on securities, d: all the above

65. The capital charge for specific risk under market risk will be % or capital charge in accordance with the risk warranted by external rating of the counterparty, whichever is higher, under Basel HI. A: 9.00%, b: 9.75%, c: 10.50%, d: 11.25%

66 The capital charge for general market risk under the market risk will be % on gross equity position, under Basel HI.
a: 9.00%, b: 9.75%, c: 10.50%, d: 11.25%

67. Under Basel III, the risk weight for open foreign currency and open gold position is:-
a: 50% b:75%, c: 100% d: 125%

68. The capital charge (CAR) for open foreign exchange positions and open gold positions, under Basel HI, for market risk is:- a 6% b: 7%, c: 8% d: 9%

69. The aggregate capital charge for market risk is the sum total of capital charge for (1) interest rate (2) equity investment (3) forex and gold open positions:- a) 1 to 3 all, b) 1 and 3 only, c) 1 and 2 only, d) 2 and 3 only

70. Under Basel Ill, the risk of loss resultingfrom inadequate or failed internal processes, people and systems or from external events is called :- a) credit risk, b) operational risk, c) market risk, d) reputation risk

71. As per Basel III, which of the following is part of operational risk :- a) legal risk, b) reputational risk, c) strategic risk, d) all the above.

72. Under Basel HI, by using the Basic Indicator Approach, banks must hold capital for operational risk equal to the average over the previous years of a fixed percentage (denoted as alpha) of positive annual gross income. a) 2 years, b) 3 years, c) 5 years, d) at bank discretion

73. Under Basel III, by using the Basic Indicator Approach, banks must hold capital for operational risk equal to the average over the prescribed no. of previous years, at % (denoted as alpha) of positive annual gross income. a: 8% b: 9%, c: 12% d: 15%

74. For the purposeof calculation of capital charge for • operational risk under basic indicator approach, the gross income means:- a net interest income, b: net non-interest income, c: net interest income + net non-interest income, d: net interest income minus net non-interest income.

75. For the purposeof calculation of capital charge for operational risk under basic indicator approach, the gross income means:- a net profit + provisions and contingencies, b: net profit + provisions and contingencies + operating expenses, c net profit + operating-expenses, d: provisions and contingencies + operating expenses.

76 The risks that the banks are generally exposed to and are not captured or not fully captured in regulatory CRAR include which of

the following:- a settlement risk, liquidity risk, b: reputational risk, strategic risk, c: risk of under-estimation of credit risk under standardized approach, d: all the above.

77. Under Pillar-2 of Basel III, the banks are required to have a Board approved ICAAP and assess capital accordingly. ICAAP stands for: a) Internal Capital Adequacy Assessment Procedure, b) Internal Capital Approval Assessment Process c) Internal Capital Adequacy Assessment Process, d) Internal Capital Assessment Approved Process

78. As per Basel III requirements, modified by RBI during Sept 2014, banks can issue Tier 2 capital instruments with a minimum original maturity of at least years : a two years, b three years, c five years, d ten years

79 Which of the 'following better explains the meaning of risk :- a loss arising on happening of some event, b loss arising on non-happening of some event, c probability of loss that could arise due to uncertainty, d probability of risk that could arise due to uncertainty, e risk due to loss as a result of uncertainty

80 Market risk is the risk of loss in (a) on-balance sheet positions (b) off balance sheet positions (c) arising from movement in market prices:- a a to c all are correct, b only a and c correct, c only b and c correct, d only a and b correct

81 Risk that is associated with inability/failure of banks in payment of amount representing clearing cheques presented by different banks:- a liquidity risk, b settlement risk, c credit risk, d legal risk e clearing process risk.

82. Risk that could arise due to legal actions or uncertainty of interpretations of contracts and agreements is called:- a) legal risk, b) contract risk, c) country risk, d) uncertainty risk, e) counter-party risk

83. A bank finds it difficult to repay the short term deposits on maturity to its deposits because the funds of the bank are locked in long term loans or investments. The risk arising from this situation is called:
a Interest rate risk, b Liquidity risk, c Operational risk, d Market risk, e Credit risk.

84. When failure of the financial system affects other systems such as insurance market or forex market, such risk is:- a liquidity risk, b settlement risk systemic risk, d systematic risk, e clearing process risk

85 Market risk takes the form of (which one is not correct):-
a commodity price risk, b interest rate risk c loan default risk d liquidity risk.

86 The risk that loss may arise on account of trading in SLR and other securities by a bank is classified as:
a credit risk, b investment fluctuation risk c trading risk, d operational risk, e market risk

87. The risk that the interest rate of different assets and liabilities may change in different magnitude iscalled?
A) Embedded Risk, b) Maturity Risk, c) Basis Risk, d) Price Risk

88. Exposure to uncertainty in economic value of *an* investment that could not be marked to market is called:- a) trading risk, b) business risk, c) market risk, d) liquidity risk, e) investment risk,

89. A foreign exchange dealer forgets to square the over bought position in a foreign currency. It is a..
a) foreign exchange risk, b) settlement risk, c) liquidity risk, d) operational risk

90. Risk that is associated with failure of internal processes of a bank or business organization:
a) settlement risk, b) procedural risk, c) operational risk, d) credit risk

91. A bank has failed to meet its obligation on account of a payment on due date due to its incapacity to pay. What kind of risk it is:
a) credit risk, b) liquidity risk, c) settlement risk, d) payment risk, e) all the above

92. Risk associated with changes in the credit profile of the borrowers and counter parties, is called:
a) credit risk, b) market risk, c) counter-party risk, d) liquidity risk, e) a and b –above

93. The customer service in a bank branch, has been disrupted for 2 hours, due to failure of the central server. What type of risk it is: a reputation risk, b systemic risk, c operational risk, d settlement risk

94. When the bank is selling 3rd party products, which type of risk is involved:-
a reputation risk, b operational risk, c credit risk, d liquidity risk e Financial Sector Terms

95 When the objective is to follow the best practices to conduct the affairs of a company or bank in a transparent manner for giving fair deal to all the stake holders, this is called: a implementation of prudential guidelines, b organisational restructuring, c corporate governance, d corporate restructuring, e autonomy

96 Replacement of relatively high -cost debt with that of lower cost borrowing to take advantage of falling interest rates is called:
a debt replacement, b derivative, c credit enhancement, d credit risk management, e debt swap

97 In capital market, the term 'Market cap' is the product of a market price *x* authorised capital, b market price x paid up capital, c market price x outstanding no. of shares, d market price x shares e b and d

98. A banking system under which the banks are to raise low cost funds and invest such funds in low risk assets such as govt. securities, is known as:
a) narrow banking, b) universal banking, c) rural banking, d) risk management banking asset liability management banking

99. An entity established or incorporated outside India which proposes to make investment in India and which is registered as such, in accordance with the SEBI Regulations is called: a) Indian Depository Receipt b) Foreign Institutional Investor c) Foreign Direct Investment, d) Foreign Currency Convertible Bond

100. market provides a platform for trading of existing securities and price discovery thereof:
a) primary market, b) secondary market, c) money market, d) insurance market

101. Red Herring Prospectus is issued by a for a) company, to raise funds through commercial paper, b) company, to raise funds from bank for a long term project, c) company, to raise capital from market under book building process in which the price of the share is not disclosed., d) bank, to raise funds from the overseas lenders.

102. An investment by non-resident entity/person resident outside India in the capital of an Indian company on a long term basis, is called :- a Indian Depository Receipt, b Foreign Institutional Investment, c Foreign. Direct Investment D ForeignCurrency Convertible Bond

103.What is an Indian Depository Receipt? : a) deposit account with a public sector bank, b) A depository account with any of Depositories in India c) An instrument in the form of depository receipt created by an Indian depository against underlying equity shares of the issuing company, d An instrument in the form of deposit receipt issued by Indian depositories

104. When Reserve Bank injects liquidity in the monetary economy of the country, this is done through which of the following mechanisms? - a) increase in CRR, b) repo, c) increase in SLR, d) change in bank rate, e) liquidity adjustment facility

105. The receivables of various loans and obligations are put together and distributed amongst investors through marketable securities, in which of the following: a) leasing, b) factoring, c) securitization, d) venture capital, e) forfeiting

106. The process in which the electronic holding of share replaces the paper securities: a) demutualisation b) rematerialisation, c) electronic shares d) dematerialsation,

107. The term 'Green-shoe option' is used in relation to:- a) environment audit, b) 2d green revolution, c) capital mobilized by plantation companies d) option to retain that portion of the equity that has been subscribed by the public over and above the issued amount e) option to return the amount of capital that has been received in excess of the issued amount

108. Which of the following instruments represent the share in Indian companies in India being traded in America/Europe? a) GDR/ADR, b) IDR/ADR, c) GDR/IDR, d) Zero Coupon Bonds Debentures

109. The stock-index futures contracts are the contracts relating to:- a) stocks of commodities b) stocks of industrial products stocks/shares being traded at stock exchanges, c) stocks of d) infotech companies

110) ESOP stands for:- a) efficient servicingof promises, b) employees' service option projects, c) employees stock option plan, d) effective system of projects

111) The term CBLO in connection with short term market related borrowing, stands for:- a) collateralized banking and lenders' obligation, b) common borrowing and lending obligation c) collateralized borrowing and lending obligation d) collateralized borrowing and lending organization

112) The demat shares of a public sector undertaking can be converted in to physical shares. This process is called:- a) re-issue of shares, b) dematerialisation of shares c) re-materialisation of shares d) demutualisation of shares, e) forfeiture of shares

113) Interest rate on a debt security (say Govt. bonds) which issuer pays to holder till maturity:-
a) interest, b) yield, c) floating rate, d) coupon rate

114) When buying or selling of securities is done by a person having access to privileged information, it is known as? a) Secular trading, b) Insider trading, c) Over trading, d) Unauthorized trading, e) Any of the above

115) The term 'round tripping' in case of Foreign Direct investment relates to: a) coming back of domestic money as FDI b) use of FDI funds out of country, c) sending back foreign money as export, d) a and c above.

116) In order to obtain cash for its credit sales, the duly accepted domestic sale invoices are assigned by the seller in favour of a 3rdparty. Such purchase of receivables by the 3rd party with or without recourse is called:
a securitization, b factoring, c bills discounting, d forfeiting, e any of above

117 Branches of banks distribute to their customers as corporate agents, insurance products of other insurance companies, which is called: a underwriting business, b bancassurance, c referral business, d any of the above

118 Ais a contract where the purchaser of the option has the right but not the obligati on to either purchase or sell and the seller of the option agrees to sell or purchase an agreed amount of a specified currency at a price agreed in advance and denominated in another currency : ainterest rate swap, b forward rate agreement, c currency option, d foreign exchange forward

119 When a company instead of fixing the price of new share, invites bids and allows the market to fix the price of the share, the process is called: a private placement, b price search, c book-building, d initial public Offering, e market price fixation

120 The temporary loans that are allowed by RBI to Govt. from time to time to meet the mismatch position are called:
a) treasury bills b) dated securities, c) ways and means advances, d) ad hoc treasury bills

121 In the capital market, the term *arbitrage* is used with reference to which of the following?
A Purchase of securities to cover the sale, B Sale of securities to reduce the loss on purchase, c Simultaneous purchase and sale of securities to make profits from price variation in different markets, dAny of the above

122 The contract notes that are issued by Foreign Institutional Investors (FIIs) to their clients (not registered with SEBI), investing in Indian stock market:
a depository receipt, b derivative, c option, .d participatory notes

123 A is a type of transferable financial instrument traded on a local stock exchange of a country but represents a security issued by a foreign publicly listed company:

a depository receipt, b derivative, c option, d participatory notes

124 All the sales practically become cash sale to the seller in respect of :

a Leasing, b Acceptance credit, c Factoring, d Buyer's credit

125 In order to obtain cash for its credit sales, the duly accepted domestic sale invoices are assigned by the seller in favour of a 3rd party. Such purchase of receivables by the said 3rd party with or without recourse is called:

a securitization, b factoring, c bills discounting, d forfeiting

126 Which of the following methods can be conveniently used for providing finance to infrastructure projects:

a securitization, b factoring, c credit syndication, d consortium financing, e take out financing

127 Narrow money is the term in monetary aggegates which is represented by:- a M 1 b M 2 , c M3 d M4

128 In banking, the banks offer all types of financial services to expand their business that include high risk products and medium risk products also:- a retail banking, b universal banking, c wholesale banking, d narrow banking

129 When an existing non-profit organisation is converted into a for-profit company, the process is called :

a Dematerialization, b Demutualization, c Re-materialization, d Re-rnutualization

130 A is a financial contract between two parties to exchange interest payments for a 'notional principal' amount on settlement date, for a specified period from start date to maturity date. a) nterest rate swap, b) forward rate agreement, c) interest rate future, d) foreign exchange forward.

131.What is meant by the term reverse REPO out of the following: a) injecting liquidity by the Central Bank of a country through purchase of govt. securities, b) absorption of liquidity from the market by sale of govt. securities, c) Balancing liquidity with a view to enhance economic growth rate, d) Improving the position of availability of the securities in the market.

132 A is a financial contract between two parties exchanging or swapping a stream of interest payments for a `notional principal' amount on multiple occasions during a specified period.

a interest rate swap, b forward rate agreement, c interest rate future, d foreign exchange forward

133 Transformation of certain processes and procedures with a view to empower the bank with contemporary technologies, business solutions and innovations that enhances the competitive advantages is called:

a business process modifications, b business process re-engineering, c best practices code, d business re-modeling

134 A ___- is an over-the- counter contract under which a purchaser agrees to buy from the seller, and the seller agrees to sell to the purchaser, a specified amount of a specified currency on a specified date in the future at a known price denominated in another currency: interest rate swap, b) forward rate agreement c) interest rate future, d) foreign exchange forward

135. When an unlisted company issues fresh securities for the first time, it is called: a) initial public offering, b) rights issue, c) follow-on public offering d) bonus shares

136. A negotiable security issued outside India by a Depository bank, on behalf of an Indian company, which represents the local Rupee denominated equity shares of the company held as deposit by a Custodian bank in India, is called : a) Derivative, b) Depository receipt, c) FDI, d) Indian Depository receipt.

137. The depository receipts listed and traded in the US markets are known as :- a) Global Depository Receipts b) Indian Depository Receipts, c) American Depository Receipts, d) Derivative Instruments A

138. bond giving the investor the option to get the value of bond equal to an equity share, at a pre-determined exchange price, is called: a) coupon bonds, b) convertible bonds c) commercial paper d) zero coupon bonds

139. The depository receipts listed and traded anywhere/elsewhere other than in United States, are known as:- a)Global Depository Receipts b)Indian Depository Receipts c) American Depository Receipts, d) Foreign Currency convertible bond

140. In which of the following kinds of financing the banks can take up financing for medium term (5-7 years) out of the very long term nature of the projects (1520 years):- a) Securitization, b) Take out financing, c) Project participation d) Consortium

141. Process of artificially increasing or decreasing prices of a security:-

a) insider trading, b) circular trading, c) price rigging, d) any of the above

142. Interest spread refers to: a) surplus of interest earned over interest expended b) interest earned on loans less the provisions c) interest earned on loans and investments less provision d) none of the above

143. The market based approach aimed at neutralizing part or whole of the monetary impact of foreign exchange inflows is termed: a) sterilization, b) neutralization, c) globalization, d) liquidity adjustment

144. The term broad money is known as:- a) M1 b) M2, c) M3 d) M4

145. What is an American Depository Receipt? a) An instrument denominated in US dollars, b) An instrument issued to non-resident c) investors, aaainst ordinary shares, d) An instrument fulfilling the features given in A and B, d A or B

146. There are certain financial instruments whose prices are derived from the price of the underlying currency or interest rate or stocks etc. These are known as:- a Securitisation,

b Derivatives, C Leasing, d Factoring e Venture Capital Funding

147 Which of the following is not an instrument of derivatives:- a forwards, b options, c futures, d a to c, e none of these

148 An option that provides to the option holder, a right to sell, without an obligation to sell , is called:

a put option, b call option, c American option, d European option

149 An option that provides to the option holder, a right to purchase, without an obligation to purchase, is called:

a put option, b call option, c American option, d European option

150 An option that can be exercised any time during its validity period, is called:- a put option, b call option, c American option, d European option

151 An option that can be exercised on a specified day,. during its validity period, is called:-

a put option, b call option, c American option, d European option

152 What is an option ? a a right to sell only without obligation to sell, b a right to purchase only without obligation to purchase, c a right to sell or purchase, d without obligation to sell or purchase, d obligation to purchase or sell without any right to sell or purchase

153 Where exercising the option provides gain to the buyer, it is called

a at the money, b in the money, c out of money, d above the money

154 Where exercising the option results in loss to the buyer, it is called:-

a at the money, b in the money, c out of money d above the money

155 Where exercising an option provides gain or loss to the buyer, it is called

a at the money, b in the money, c out of money d above the money, e) Govt. Securities

156: Gilt-edged market deals in: a: Worn currency notes, b) Bullion and gold, c) Govt. securities, d) Corporate bonds, e) all kinds of capital market securities

157 In respect of investment in securities, the process under which the value of the securities is taken into account at their current market price is called:- a pricing of securities, b marking to market, c valuation of securities d any of the above

158 The securities that are purchased by banks with the intention to take advantage of price movement or interest movement, are classified as:

a held till maturity, b available for sale, c held for trading, d fluctuating securities

159 A govt. security that has been authorised to be issued but has not been issued actually, as yet called:

a gilt-edged security, b approved security, when, as and if issued, d ways and means advance, e treasury bill

160 What is the maturity period of treasury bills issued by Govt. of India:- a 14 and 91 days, b 91 & 182 days, c 14 & 182 days, d 91,182 & 364 days, e) none of the above

161 Ways and means advances of the Central Govt. are payable within a period of?

a 10 days b 18 days, b: 15 days d c) 20 days, d) 14 days

162 The maturity period of a cash management bill can be:- a less than 364 days, b less than 182 days, C less than 91 days, d any period at discretion of the Govt.

163 Under WMA RBI has allow the States to run overdrafts for consecutive working days from Feb 01, 2001 instead of the then 10 Days:- a 09 days b I 1 days, c 14days d 15 days, e Call and Notice Money

164 The market for short term financial assets instruments, that are close substitutes of money, is called:- money market b) capital market c) forex market d) financial market

165. Under market, the funds are transacted by banks on an overnight basis:

a) money market, b) call money market, c) notice money market d) term money market

166. Under notice money market, the funds are transacted by banks for:- a) one day, b) overnight, c) 2 to 14 days d) 15 days and above

167. On a fortnightly average basis, the prudent limit fixed by RBI in respect of outstandingborrowing transactions in call and notice money for the participating banks is: a) 100% of capital of bank b) 100% of capital + reserves of the bank, c) 100% of capital fund of the bank, d) 100% of net worth of the bank.

168. As per the prudent limit fixed by RBI in respect of outstanding borrowing transactions in call and notice money for the participating banks, the banks can borrow a maximum of on any day, during the fortnight:- a 110% of their capital fund, b 120% of their capital fund, c 150% of their capital fund, d 125% of their capital fund

169. On a fortnightly average basis, the prudent limit fixed by RBI in respect of outstanding lending transactions in call and notice money for the participating banks is:-

a 10% of capital of bank, b 15% of capital + reserves of the bank, c 25% of capital fund of the bank, d 30% of net worth of the bank

170 As per the prudent limit fixed by RBI in respect of outstanding lending transactions in call and notice money for the participating banks, the banks can borrow a maximum of on any day, during the fortnight:

a 20% of their capital fund, b 30% of their capital fund, c 50% of their capital fund, d 50% of their net worth

171 Which of the following features of certificate of deposit is correct (1) CD is a negotiable market instrument (2) CD is issued in demat form or as a usance promissory note (3) CD is issued at a discount to face value:-

a 1 to 3 all, b 1 and 2 only, c 2 and 3 only, d 1 and 3 only

172. Which of the following statement regarding amount of certificate of deposit is correct:

a) minimum amount is Rs.1 lac and maximum Rs. I cr b) minimum amount is Rs 1 lac without any maximum but multiple should be of Rs.5 lac, c) minimum amount is Rs.1 lac without any maximum but multiple should be of Rs.2 lac, d) minimum amount is Rs.1 lac without any maximum but multiple should be of Rs.1 lac

173. Certificate of deposit issued by banks can have a maturity period of:- a) 15 days to 12 months, b) 15 days to 6 months, c) 15 days to 3 months, d) 7 days to 12 months

174. Which of the following statement regarding certificate of deposit is correct (1) banks can grant loan on security of CD (2) banks can buy back the CDs before maturity (3) CD can be freely transferred any time after issue (4) CRR and SLR is applicable on CD:- a) I to 4 all, b) 2 and 4 only, c) 3 and 4 only, d) 1 and 4 only

175. Commercial Paper (CP) is an unsecured money market instrument issued in the form of:- a) a debenture certificate, b) a share certificate, c) a usance promissory note, d) a bill of exchange.

176. For a company to issue commercial paper which of the following conditions to be fulfilled are correctly stated (1) the net worth should be at least Rs.4 cr (2) the company should have been sanctioned working capital limits of Rs.10 cr (3) the loan accounts the company should be classified as Standard loan by its banks (4) it should have a credit rating of at least A3 by an approved credit rating agency.:- a1 to 4 all, b 1,2 and 4, c I, 3 and 4, d 1 to 3

178. The maturity period of Commercial paper falls within the following range:-
a 7 days to 3 months, b 7 days to 6 months, c 7 days to 9 months, d 7 days to 12 months

179. The minimum amount of and multiple of commercial paper should be:- a. Rs.1 lac, Rs.1 lac, b Rs.1 lac, Rs.5 lac, c Rs.5 lac, Rs.5 lac, d Rs.5 lac and no multiple, e. Credit Card Operations

180. The term plastic money relates to which of the following:-
a credit card, b prepaid phone card, c plastic sheet notes, d all the above

180 Credit card business can be conducted by banks only if their net worth is at least Rs.
a Rs.100 cr, b Rs.200 cr, c Rs .300 cr, d Rs.500 cr

181 In case of credit card, the customers can lodge a complaint with the banks within a period of :
a 15 days, b 30 days, c 45 days, d 60 days

182 Revolving credit is made available in which of the following:- a a debit card, b a pre-paid card, C a credit card, d all the above

183. In case of a credit card, if a customer protests any bill, the bank should provide explanation or documentary evidence within a maximum period of days to amicably redress the grievances.: a 10 days, b 15 days, c 30 days, d 60 days

184. In case of a credit card if a complainant does not get satisfactory response from the bank within a maximum period of days from the date of his lodging the complaint, he will have the option to approach the Office of the concerned Banking Ombudsman for redressal of his grievance/s.
a 10 days b 15 days, c 30 days d 60 days

185. In case of acard, the customer can make payment to the extent of balance lying in his account - a debit card, b smart card, c credit card, dany of the above

186 In case of bank having higher CRAR of 25% over the regulatory CRAR of 9%, the maximum amount of inter-bank liabilities of a bank can be of net worth of the bank as on March 31 of the previous year: a 100% , b 150%, c 200%, d 300%

187 The maximum amount of inter-bank liabilities of a bank can be of net worth of the bank as on March 31 of the previous year:
a 100% b 150%, c 200% d 300% e Marginal Standing Facility

188 What is the amount for which the marginal standing facility (MSF) can be availed by banks from RBI:
a minimum Rs. 1 cr and multiple of Rs.50 lac, b minimum Rs 1 cr and multiple of Rs.1 cr, c minimum Rs.5 or and multiple of Rs.1 cr, d minimum Rs.5 cr and multiple of Rs.5 cr

189 Under the marginal standing facility (MSF), the eligible entities can avail the facility, up to per cent of their respective Net Demand and Time Liabilities (NDTL) outstanding at the end of the second preceding a) 3% b) 1% c) 2%, d) 0.5%

190. Under the marginal standing facility, what is the time period for which the facility can be generally availed from RBI: a) 10 days and 12 days on Friday, b) 7 days and 9 days on Friday, c 1 day and 3 days on Friday, d RBI discretion

191. What is the maximum ceiling on Foreign Direct Investment (FDI) for investment in the equity of private banks in India: a. 25% b 26%, c 49% d 51%, e 74%

192. What is the maximum ceiling on Foreign Direct Investment (FDI) for investment in the equity of public sector banks in India: a. 20% b. 26%, c 49% c 51%, e 74%

193. An infrastructure finance company can deploy _% of its total assets in infrastructure loans:
a. 50% b. 51%, c 74% d 75%

194. Under takeout financing (refinancing) of project loans, the banks can takeover the standard loan from other banks; provided the aggregate exposure of all institutional lenders to such project should be minimum:-
a) Rs. Rs.100 cr b) Rs.250 cr c) Rs.500 cr d) Rs.1000 cr

195. RBI treats Core Investment Companies having an asset size of as systemically important core investment companies:- a) Rs.10 crore and above b) Rs.50 crore and above c) Rs.100 crore and above d) Rs.200 crore and above

196. A non-banking financial company which carries on the business of acquisition of shares and securities and satisfies certain conditions, is called:- a) Investment company b) financial company, c) non-bank finance company d) core investment company

197. Core investment companies will be treated as systemically important core investment company, if its assets size is a) Rs. Rs.50 cr and above, b) Rs.100 cr and above, c) Rs.200 cr and above, d) Rs.500 cr and above

198. A core investment company must hold not less than of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies : a) 100% b) 90%, c) 74% d) 60% SEBI Rules

199. The time gap between closure date of a public issue and its listing on stock exchange, has been reduced by SEBI from to a) 42 days to 30 days b) 30 days to 22 days, c) 22 days to 12 days d) 30 days to 15 days

200. Listed companies are required to disclose their quarterly financial results within from close of the quarter: a) 15 days, b) 30 days, c) 45 days **d)** 60 days

201. Listed companies are required to disclose their annual audited results within from close of the financial year: a 15 days b 30 days, c 45 days d 60 days

202 As per SEBI directives, what is the minimum public shareholding in case of listed companies:
a 10% b 24%, c 25% d 26%, e 49%

203 Under which kind of following mechanisms, the D SB returns being submitted by banks to RBI, fall: a early alert system, b on-site surveillance, c off-site supervision, d risk based supervision system e prevention of money laundering

204 Negotiated Dealing System relates to:- a trading at stock markets, b Settlement of security dealings, c. trading in Govt. securities, d Settlement of share payments, e aand b

205 Which of the following extension of abbreviation does not match?
a BCSBI — Banking Codes and Standards Board of India, b BCBS — Banking Codes and Banking Standards, c BFS — Board for Financial supervision, d BIFR — Board for Industrial and Financial Reconstruction

206 Banks are required to ensure that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres.
a. 20%, b 25%, c 33% d 40%

207. To promote a joint venture or a subsidiary for with risk insurance business of underwriting, the minimum net worth of the bank should be: a) Rs.200 cr, b) Rs.500 cr, c) Rs.1000 cr, d) Rs.2000 cr

208. Operating profits in bank's profit and loss ° account refer to: a) net profits, b) profits before contingencies c) profits before provisions and contingencies, d) profits after provisions and contingencies

209. For banks to enter into insurance sector for underwriting with-risk business, among others, the CRAR should not be less than:- a) 8% b 9%, c) 10% d 11%, e) 12%

210. As per Exchange Traded Currency Options (RBI) Directions 2010, the underlying for the currency option shall be spot rate;
a) Euro-Indian Rupee spot rate b) USD-Indian Rupee spot rate, c) USD & Euro -Indian Rupee spot rate, d) Pound -Indian Rupee spot rate

211. To promote a joint venture or a subsidiary for with risk insurance business of underwriting, the minimum net worth of the bank should be:- a Rs.200 cr, b Rs.500 cr, c Rs.1000 cr, d Rs.2000 cr

212 The term TReDS, in the context of financing of working capital of MSME, means: a Trade Receivables Discounting System, b Time Receivables Discounting System, c Trade Related Discounting System, d Trade Receivables Distribution System

213 Under the rating system called CAMELS, the term `M' stands for which of the following:
a management of assets and liabilities, b management of nonperforming assets c management of human resources d management effectiveness, e management policies

214 The letter C in the rating model CAMELS being used by RBI for rating Public Sector Banks represents: a Capital fund, b Capital adequacy, c Capital contributed to subsidiaries, d b & c

215 RBI's Model for Rating of Indian Banks is known as:- a CAMELS, b CAMEL, c RATING, d e-CAMEL

216 What is Net Interest Income (Nu)? a Difference of interest, earned on assets and non-interest income, b Difference of assets and liabilities, c Difference of interest earned on assets and interest paid on liabilities, d None of the above.

217 What is RBI's objective in asking banks to move from quarterly to monthly system of interest charging ?
A as part of 90 days norms for identification of non- performing advances, B introduction of international standard
C early recovery of interest to increase income of banks, d introduction of simple interest rates

218 What is true with regard to payment of dividend by a commercial bank:
a maximum dividend that can be paid is 33.33%, b maximum dividend payment is 25%, c maximum dividend that can be paid is 40%, d maximum dividend payout ratio is 40%, e there is no restriction on dividend payment if bank is in profit and CAR is 9%

219 Non-Convertible Debentures may be issued in denominations with a minimum of (face value) and in multiples of

a Rs.l lac, Rs.1 lac, b Rs.5 lac. Rs.1 lac, c Rs.5 lac, Rs.5 lac, d Rs.5 lac, Rs.10 lac

220 Which of the following terms represent 'one basis point': a one percent, b one tenth of one percent, c one hundredth of a percent, d one hundred percent, e one thousandth of a percent

221 Bombay stock exchange index `Sensex' is based on the value of top blue chip shares of:
a 10 b 20, c 25 d 30, e 50

222 Which of the following category of securities are not required to be marked to market by banks:
a held till maturity, b available for sale, c held for trading, d none of the above

223 The held for trading securities are required to be sold within
a 360 days, b 180 days, c 90 days, d there is no such time constraint.

224 All credit institutions are required to become members of a credit information company under provisions of Credit Information Companies (Regulation) Act 2005. A bank can become member of which of the following:- A Credit Information Bureau (India) Limited, b Experian Credit Information Company of India Pvt Ltd, c Equifax Credit Information Services Pvt Ltd, d any of these

225 The credit institutions are required to update the credit information on a regular basis at least on basis, to provide the information to Credit Information Companies: a) Monthly, b) quarterly, c) Half-yearly, d) Yearly

226. The SLR and non-SLR securities of the banks are classified into 3 categories. Which of these is not part of those 3 categories:- a) held till maturity b) available for sale c) held for trading d) none of the above

227. RBI changes the CRR. Which of the following is correct in this connection:- a) reduction in CRR increases the liquidity position within Indian banks, b) increase in CRR increases the liquidity position within Indian banks, c) increase in CRR does not affect the liquidity position, d) decrease in CRR does not affect the liquidity position

228. When Repo rate is reduced by RBI, it leads to :- a) reduction of cost to borrowers on bank loans, b) increase in cost of loans to borrowers from banks, c) reduced cost of borrowing by banks from RBI d) increased cost of borrowing by banks from RBI

229. When RBI offers liquidity adjustment facility to banks this leads to (a) improvement in the liquidity position of banks (b) increase in their capacity to lend (c) increase in their deposits (d) improvement in income of banks by more lending a) a to d all, b) b and c, c) b and d, d) c and d

230. What is the objective of securitisation of financial assets?

a) to enable the banks in speedy recovery of bad loans, b) to sell the securities without intervention of the court, only if loan gots bad c) to acquire assets and then sell the same at profit, d) recycling of funds and reduce concentration risk e) a to d all

ANSWER

1	C	2	B	3	A	4	B	5	C	6	B	7	C	8	C	9	D	10	D
11	B	12	D	13	D	14	A	15	B	16	D	17	C	18	D	19	A	20	A
21	A	22	A	23	A	24	B	25	A	26	D	27	C	28	C	29	D	30	B
31	B	32	C	33	C	34	D	35	D	36	C	37	C	38	D	39	B	40	B
41	B	42	C	43	C	44	D	45	B	46	B	47	A	48	B	49	D	50	D
51	A	52	C	53	C	54	D	55	B	56	D	57	A	58	C	59	B	60	D
61	D	62	A	63	A	64	C	65	D	66	A	67	C	68	D	69	A	70	B
71	A	72	B	73	D	74	C	75	B	76	D	77	C	78	C	79	C	80	A
81	B	82	A	83	B	84	C	85	C	86	E	87	C	88	B	89	D	90	C
91	C	92	A	93	C	94	B	95	C	96	E	97	C	98	A	99	B	100	B
101	C	102	C	103	C	104	B	105	C	106	D	107	D	108	A	109	C	110	C
111	C	112	C	113	D	114	B	115	B	116	B	117	B	118	C	119	C	120	C
121	C	122	D	123	A	124	C	125	B	126	E	127	A	128	B	129	B	130	B
131	B	132	A	133	B	134	D	135	A	136	B	137	C	138	B	139	A	140	B
142	A	143	A	144	C	145	C	156	B	147	E	148	A	149	B	150	C	151	D
152	B	153	C	154	C	155	A	156	C	157	B	158	C	159	C	160	D	161	A
162	C	163	C	164	A	165	B	166	C	167	C	168	D	169	C	170	C	171	A

172	D	173	D	174	C	175	C	176	C	177	D	178	C	179	A	180	A	181	D
182	C	183	D	184	C	185	B	186	D	187	C	188	B	189	B	190	C	191	E
192	A	193	D	194	D	195	C	196	D	197	B	198	B	199	C	200	C	201	D
202	C	203	C	204	C	205	B	206	B	207	C	208	C	209	C	210	B	211	C
212	A	213	D	214	B	215	A	216	A	217	A	218	D	219	B	220	E	221	D
222	A	223	C	224	D	225	A	226	D	227	A	228	C	229	C	230	D		

LATEST RBI POLICIES GUIDELINE MCQ on FOREX

01 The rate of interest equalisation available on Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit is ___ % per annum:
(a)2% **(b)** 3% **(c)** 4% **(d)** 5%
02 The duration of interest equalisation scheme for Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit is ____ w.e.f 01.04.2015: **(a)**5 years **(b)** 4 years **(c)** 3 years **(d)** 1 year
03 The benefit of interest equalisation scheme for Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit is not available to which of the following:
(a)SEZ exporters **(b)** Warehouse exports **(c)** merchant exporters**(d)** gold card holder exporters
04 Banks can submit the claims to RBI under interest equalisation scheme for Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit on ______ basis, within ____:
(a)quarterly, within 20 days **(b)** monthly, within 15 days **(c)** half-yearly, within 25 days **(d)** annually, within 30 days
05 A person resident outside India can establish a branch office in India provided it has a profit making track record during the immediately preceding 5 financial years in the home country and net worth of not less than ____ or its equivalent.
(a) USD 100000 **(b)** USD 75000 **(c)** USD 50000 **(d)** USD 25000
06 A person resident outside India can establish a liaison office in India provided it has a profit making track record during the immediately preceding 3 financial years in the home country and net worth of not less than ___ or its equivalent.
(a) USD 100000 **(b)** USD 75000 **(c)** USD 50000 **(d)** USD 25000
07 AD Category - I banks can approve Clean Credit i.e. credit given by a foreign supplier to its Indian customer / buyer, without any Letter of Credit (Suppliers' Credit) / Letter of Undertaking (Buyers' Credit) / Fixed Deposits from any Indian financial institution for import of Rough, Cut and Polished Diamonds, for a period not exceeding 180 days from the date of shipment.
(a) 90 days **(b)** 180 days **(c)** 270 days **(d)** 360 days
08 As per extant FDI policy for Insurance sector, the limit of foreign investment in insurance sector has been enhanced ___ under the automatic route : **(a)** from 24% to 49% **(b)** from 26% to 49% **(c)** from 49% to 74% **(d)** from 49% to 75%
09 A no. of reports are required to be sent to RBI on XBRL. XBRLstands for:
(a) eXtensible Bank Reporting Language **(b)** eXtensible Business Reporting Language
(c) eXpress Business Reporting Language **(d)** eXpress bank Reporting Language
10 RBI may consider allowing FDI to entities having an established track record of running a Credit Information Bureau in a well regulated environment.
(a) up to 49% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 10% of voting rights in the company)
(b) up to 26% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 10% of voting rights in the company)
(c) up to 74% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 10% of voting rights in the company)
(d) up to 26% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 5% of voting rights in the company)
11 RBI may consider allowing FDI to entities having an established track record of running a Credit Information Bureau in a well regulated environment.
(a) up to 26% if their ownership is well diversified **(b)** up to 49% if their ownership is well diversified
(c) up to 74% if their ownership is well diversified **(d)** up to 100% if their ownership is well diversified
12 Who is a 'Non-resident Indian (NRI)' ?
(a) a person resident outside India **(b)** a person resident outside India who is a Person of Indian origin
(c) a person resident outside India who is a citizen of India **(d)** c and d both
13 A 'Person of Indian Origin (PIO)' is a person resident outside India who is a citizen of any country other than Bangladesh or Pakistan or such other country as may be specified by the Central Government, satisfying the following conditions (which one is not correct):
(a) Who was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955
(b) Who is a child or a grandchild or a great grandchild of a citizen of India

(c) Who is a spouse of foreign origin of a citizen of India **(d)** a and b only
14 Any person resident outside India, having a business interest in India, may open an ___ account in Indian Rupee with Authorized Dealers for the purpose of putting through bona fide transactions in rupees:
(a) Foreign currency non-resident account **(b)** special non-resident rupee account
(c) non-resident ordinary account **(d)** non-resident external rupee account
15 The maximum period for a which special non-resident rupee account can be opened by a foreigner for business purpose is:
(a) one year **(b)** three years **(c)** five years **(d)** seven years
16 AD Category – I banks can consider granting extension of time for settlement of import dues up to
a period of at a time (maximum up to the period of three years) irrespective of the invoice value for delays on account of disputes about quantity or quality or non-fulfilment of terms of contract; financial difficulties and cases where importer has filed suit against the seller. **(a)** 1 month **(b)** 2 months **(c)** 3 months **(d)** 6 months
17 While considering extension beyond one year from the date of remittance, the AD Category-1 have to ensure that the total outstanding of the importer should not exceed USD ____ or 10 per cent of the average import remittances during the preceding two financial years, whichever is lower; - **(a)** USD one lac **(b)** USD five lac **(c)** USD one million **(d)** USD ten million
18 F- TRAC of the Clearcorp Dealing Systems (India) Ltd., stands for:
(a) Forward Market Trade Reporting and Confirmation Platform
(b) Financial Market Trade Reporting and Confirmation Platform
(c) Financial Market Trade Requirement and Confirmation Platform
(d) Financial Market Trade Reporting and Consolidation Platform
19 As per RBI guidelines, the exporters are caution-listed if any shipping bill remains open for more than ___ from date of shipment in RBI's EDPMS. - **(a)** 3 months **(b)** 6 months **(c)** one year **(d)** two years
20 What is full form of EDPMS? - **(a)** External data processing and monitoring system **(b)** Export data processing and monitoring system, **(c)** Export data preparing and monitoring system **(d)** Export data processing and making system
21 Separate reporting has been discontinued from HY December 2015 onwards for which of the following, because the information is available on EDPMS of RBI? -**(a)** BEF **(b)** R-return **(c)** XOS **(d)** all the above
22 For transactions under Asian Clearing Union arrangement, the minimum amount which RBI receives in USD and/or Euro is
(a) USD 25000 or Euro 25000 **(b)** USD 10000 or Euro 10000 **(c)** USD 1000 or Euro 1000 **(d)** USD 500 or Euro 500
23 For transactions under Asian Clearing Union arrangement, the minimum amount which RBI pays in USD and/or Euro is :
(a) USD 25000 or Euro 25000 **(b)** USD 10000 or Euro 10000 **(c)** USD 1000 or Euro 1000 **(d)** USD 500 or Euro 500
24 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals up to :
(a) USD 1,20,000 per Financial Year (April-March) for permittedcurrent account transaction.
(b) USD 2,50,000 per Financial Year (April-March) for permitted current account transaction only.
(c) USD 1,25,000 per Financial Year (April-March) for any permitted current or capital account transaction or a combination of both.
(d) USD 2,50,000 per Financial Year (April-March) for any permitted current or capital account transaction or a combination of both.
25. The permissible capital account transactions by an individual under LRS are: **(a)** opening of foreign currency account abroad with a bank **(b)** purchase of property abroad, **(c)** making investments abroad-acquisition and holding shares of both listed and unlisted overseas company or debt instruments; acquisition of ESOPs; investment in units of Mutual Funds, Venture Capital Funds, unrated debt securities, promissory notes; **(d)** all the above
26 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals within the prescribed limit for which of following current account transactions : (1) private visit or business trips (2) gift/donation (3) going abroad on employment, emigration or for medical treatment (4) maintenance of close relatives abroad or for studies abroad -**(a)** 1 to 4 all **(b)** 1, 2 and 4 only **(c)** 1, 2 and 3 only **(d)** 1 and 2 only
27 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals beyond the prescribed limit of USD 250000 for which of following current account transactions on the basis of additional documentation : (1) medical treatment abroad (2) studies abroad (3) emigration (4) employment abroad
(a) 1 to 4 all **(b)** 1, 2 and 4 only **(c)** 1, 2 and 3 only **(d)** 1 and 2 only
28 Under the Liberalised Remittance Scheme of RBI, loan cannot be given for remittances by resident individuals for which of following transaction : **(a)** medical treatment abroad **(b)** purchase of property abroad **(c)** donation or gift **(d)** none of the above
29 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals by obtaining Form-A2, which is mandatory requirement if the amount of remittance is above:
(a) USD 15000 **(b)** USD 25000 **(c)** USD 30000 **(d)** in all cases
30 Under the Liberalised Remittance Scheme of RBI, it is mandatory to have PAN card to make remittances under the Scheme for capital account transactions. However, PAN card need not be insisted upon for remittances made towards permissible current account transactions up to USD ___ .- **(a)** USD 15000 **(b)** USD 25000 **(c)** USD 30000 **(d)** in all cases
31 A resident individual can lend to Non-Resident Indian or Personal of India Origin max ______ in India and amount of loan should be credited to: **(a)** Up to USD 125000 by crediting the amount to NRO account of NRI / PIO
(b) Up to USD 250000 by crediting the amount to NRO account of NRI / PIO

(c) within LRS limit of USD 250000 by crediting the amount to NRO account of NRI / PIO
(d) within LRS limit of USD 250000 by crediting the amount to NRO or NRE account of NRI / PIO
32 Outward remittance under Liberalized Remittance Scheme (LRS) of RBI are permitted to (1) Individuals (2) on behalf of Minor (3) HUF (4) Partnership (5) Company (6) Trust :- **(a)** 1 to 6 all **(b)** 1 to 3 only **(c)** 1 and 2 only **(d)** 1 only
33 Outward remittance under Liberalized Remittance Scheme (LRS) of RBI are permitted up to an amount of:
(a) USD 125000 per calendar year for permitted capital and current account transactions
(b) USD 125000 per financial year for permitted capital and current account transactions
(c) USD 250000 per financial year for permitted capital and current account transactions
(d) USD 250000 per calendar year for permitted capital and current account transactions
34 Which of the following remittance are not allowed under LRS, as capital account transactions:
(a) opening of foreign currency account abroad
(b) purchase of property or making investment in shares or debt instruments or setting up wholly owned subsidiary companies & joint ventures, **(c)** extending loans including in Indian currency to non-resident Indians who are relatives **(d)** none of the above
35 Mr. Z wants to visit a no. of European countries and has requested for obtaining foreign currency under LRS of RBI. How much amount will be available to him and how many times he can go outside India:
(a) USD 250000 per financial year without any restriction on no. of visits abroad
(b) USD 250000 per calendar year without any restriction on no. of visits abroad
(c) USD 250000 per financial year with maximum 3 visits abroad
(d) USD 250000 per calendar year with maximum 3 visits abroad
36 Mr. X wants to send a gift to his son residing in UK in Pound Sterling. What is the maximum amount he can remit under LRS of RBI? -- **(a)** Equivalent of USD 250000 in a calendar year **(b)** Equivalent of USD 250000 in a financial year
(c) Pound Sterling 250000 in a financial year **(d)** Pound Sterling 250000 in a calendar year
37 Outward remittance can be made by a resident Indian, as part of current account transaction up to USD 250000 for (1) donation (2) employment (3) expenses of relative (4) studies (5) immigration (6) medical treatment:
(a) 1 to 6 all **(b)** 1 only **(c)** 2 and 6 only **(d)** 4 to 6 only
38 Outward remittance can be made by a resident Indian, as part of current account transaction in excess of USD 250000 against documentary evidence for (1) donation (2) employment (3) expenses of relative (4) studies (5) immigration (6) medical treatment:
(a) 1 to 6 all **(b)** 1 only **(c)** 2 and 6 only **(d)** 4 to 6 only
39 For which of the following transactions under LRS of RBI, banks cannot give loan:
(a) medical treatment outside India **(b)** purchase of property outside India
(c) making donation in favour of a Trust outside India **(d)** all the above
40 For availing the remittance facility under LRS of RBI, the remitter is required to make application / declarations on:
(a) Form CDF **(b)** Form A-1 **(c)** Form A-2 **(d)** Form EDF
41 Resident individual can lend to non-resident Indian or Person of Indian Origin close relative under LRS of RBI for a period up to: -
(a) 6 months **(b)** one year **(c)** three years **(d)** five years
42 Under LRS of RBI, for making remittance for capital account transactions, the Indian resident should be holding account with the Authorized dealer for a period of atleast: - **(a)** three months **(b)** six months **(c)** one year **(d)** 2 years
43 As per RBI guidelines, the Foreign Portfolio Investors (FPIs) can transact in the Over-the-Counter (OTC) market for Government securities with ____ settlement.-**(a)** T + 3 **(b)** T + 2 **(c)** T + 1 **(d)** T + 0
44 Total foreign investment in an Indian company is the sum total of direct and indirect foreign investments.
(a) direct investment **(b)** indirect investment **(c)** participatory notes **(d)** a and b both
45 As per FDI Policy, Portfolio investment up to aggregate foreign investment level of ___ or sectoral/ statutory cap, whichever is lower, will not be subject to either Government approval or compliance with the sectoral conditions provided such investment does not result in change in ownership leading to control of Indian entities:- **(a)**24% **(b)** 49% **(c)** 50% **(d)**74%
46 For FDI purpose, a company or a limited liability partnership shall be considered as owned by resident Indian citizens if more than ____of the capital in it, is beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens.- **(a)** 24% **(b)** 49% **(c)** 50% **(d)** 74%
47 Foreign investment up to ____ under the automatic route has been permitted in the plantation sector which includes tea plantations, coffee plantations, rubber plantations, cardamom plantations, palm oil tree plantations and olive oil tree plantations. -
(a) 26% **(b)** 51% **(c)** 74% **(d)** 100%
48 Foreign investment up to ____ is allowed under the automatic route, in Non-Banking Finance Companies (NBFCs) engaged in the select 18 activities. - **(a)** 26% **(b)** 51% **(c)** 74% **(d)** 100%
49 As per extant RBI directives, the amount of permitted trade transaction, under the Rupee Drawing Arrangements (RDAs) shall not exceed Rs.___ per transaction. : - **(a)** Rs.10 lac **(b)** Rs.15 lac**(c)** Rs.25 lac **(d)** Rs.100 lac
50 Against the pre-shipment credit, the refinance is available from ___ maximum for ___ days:
(a) RBI, 90 days, **(b)** EXIM Bank, 90 days **(c)** Exim Bank, 180 days **(d)** refinance is not available

FOREX-ANSWER

1	B	2	A	3	C	4	D	5	A

6	C	7	B	8	B	9	B	10	A
11	D	12	C	13	D	14	B	15	D
16	D	17	C	18	B	19	D	20	B
21	C	22	A	23	D	24	D	25	D
26	A	27	C	28	B	29	D	30	B
31	C	32	C	33	C	34	D	35	A
36	B	37	A	38	D	39	B	40	C
41	B	42	C	43	B	44	D	45	B
46	C	47	D	48	D	49	B	50	D

CASE STUDIES / CASE LETS

Case study - 1 : Calculation of Capital Fund (Fund based)

Popular Bank is a leading bank in public sector and its balance sheet as on 31.03.2008 reveals the following inter-bank call money market lending and refinance & loans to other banks:

1 Call money lending Rs.1100 cr which comprises: a)Rs.500 cr to a public sector bank having CRAR of 10%, b)Rs.300 cr to a private bank having CRAR of 14%, c)Rs.200 cr to a scheduled bank having CRAR of 8%, d)Rs.50 cr to a non-scheduled bank with CRAR of 16%,e)Rs.50 cr to another non-scheduled bank with CRAR of 5.5%.
2. Loans and refinance to other banks as under: a)Rs.300 cr to a scheduled bank with CRAR of 5.5% b)Rs.200 cr to a non-scheduled bank with CRAR of 15% c)Rs.100 cr to a non-scheduled bank with CRAR of 8.5%.

What will be amount of capital fund required for this purpose **and what** will be the minimum or maximum amount of Tier I and Tier **II capital. The** RBI guidelines on the issue are as under:

RBI guidelines: The claims on banks incorporated in India and foreign **bank** branches in India, will be risk weighted as under:

(i) All claims on scheduled banks, which comply with the minimum CRAR (9% presently), will be risk weighted at 20%.

(ii) All claims on non scheduled banks which meet the minimum CRAR (9% presently), will be assigned a risk weight of 100%.

(iii) Claims on other scheduled and non scheduled banks will be assigned a risk weight as applicable to the bank's CRAR position as under:

a)CRAR of 6 to < 9 : For scheduled bank - 50% and for non-scheduled bank 150%

b)CRAR of 3 to < 6 : For scheduled bank - 100% and for nonscheduled bank 250%

c)CRAR of 0 to < 3 : For scheduled bank - 150% and for nonscheduled bank 350%

Negative CRAR: For scheduled bank or non-scheduled bank 625% **Solution:** Risk weight for Call money lending to other banks:

a) 500 cr x 20% = 100 cr b) 300 cr x 20 %= 60 cr c) 200 cr x 50% = 100 cr d) 50 cr x 100% = 50 cr

e) 50 cr x 250% = 125 cr
Total amount of risk weight for call money lending = 435 cr Risk weight for loan and refinance to other banks: a) 300 cr x 100% = 300 cr b) 200 cr x 100% = 200 cr c) 100 cr x 150%= 150 cr
Total amount of risk weight for loans/refinance = 650 cr Total amount risk weight assets = 435 + 650 cr = Rs.1085 cr. Total capital fund requirement = 1085 x 9% = Rs.97.65 cr Tier **I** capital should be minimum 50% = Rs.48.825 cr Tier **II** capital can be maximum 50% = Rs.48.825 cr

Case study - 2 : Calculation of Capital Fund (Non-Fund based)

Universal Bank has allowed non-fund based credit facilities **to its** borrowers, the details of which are as under:

a) letters of credit for imports of goods and buying of domestic goods to various parties within the retail portfolio — Rs.1000 cr (out of this, to AAA rated companies 20% and the balance for BBB rated).

b) standby letters of credit serving as financial guarantees for credit enhancements — Rs.500 cr (Entire amount is to A rated companies)

c) Standby letters of credit related to particular transactions — Rs.200 cr (out of this to AA rated is 50% and balance amount is for unrated companies).

d) Performance bonds and bid bonds on behalf of their customers Rs.1000 cr (out of this 50% is to A rated and the balance for unrated companies)

e) Financial guarantees — Rs.400 cr (on behalf of AA rated companies)

f) Letters of credit of other banks confirmed by Universal Bank for imports — Rs.100 cr

RBI guidelines on credit conversion factor (CCF) are as under:

1. Direct credit substitutes e.g. general guarantees of indebtedness(including standby L/Cs serving as financial guarantees for loans and securities, credit enhancements, liquidity facilities for securitisation transactions), and acceptances (including endorsements with the character of acceptance). (i.e., the risk of loss depends on the credit worthiness of the counterparty or the party against whom a potential claim is acquired) : 100%

2. Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties, indemnities, standby LC related to particular transaction) : 50%
3. Short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralised by the underlying shipment) for both issuing bank and confirming bank : 20% The rules relating to risk weight for corporates based on rating provide as under:

AAA rated — 20%, AA-30%, A-50%, BBB-100%, BB & Below-150%, unrated- 100%

Please calculate the total amount of risk weighted assets and the total capital fund requirement.

Solution: To calculate the risk weight and provide for capital, the non-fund based exposure will be first converted into the funded exposure by applying the credit conversion factor.

Calculation of credit exposure using CCF:

a) Rs.1000 cr x 20% = 200 cr.
b) Rs.500 cr x 100% = 500 cr
c) Rs.200 cr x 50% = 100 cr
d) Rs.1000 cr x 50% = 500 cr
e) Rs.400 cr x 100% = 400 cr t) Rs.100 cr x 20% = 20 cr

Calculation of Risk weight on the above credit exposure:

a) Rs. 200 cr Out of this for 20% i.e. Rs.40 cr x 20% = 8 cr (20% is for AAA rated companies where risk weight is 20%)

Out of this for 80% i.e. Rs.160 cr x 100% = 160 cr (for this the risk weight is 100%)

b) Rs.500 cr x 50% = 250 cr (for A rated companies, the risk weight is 50%)
c) Rs.100 cr Out of this for 50% i.e. Rs.50 cr x 30% = 15 cr (risk weight is 30% for AA rated companies)

Out of this for 50% i.e. Rs.50 cr x 100 = 50 cr (risk weight is 100% for unrated companies)

d) Rs.500 cr Out of this for 50% i.e. Rs.250 cr x 50% = 125 cr (risk weight is 50% for A rated companies)

Out of this for 50% i.e. Rs.250 cr x 100% = 250 cr (risk weight is 100% for unrated companies)

e) Rs.400 cr x 30% = 120 cr (risk weight is 30% for AA ratedcompanies)

f) 20 cr x 20% = 4 cr (risk weight for confirming banks is 20%).
Total amount of risk weight assets from (a) to. (f)
8+ 160 + 250 + 15 + 50 + 125 + 250 + 120 4= 982

Minimum capital fund required for risk weighted assets of Rs.982 cr = 982 x 9% = Rs.88.38 cr

Case study - 3 : Effect of change of interest rates on net interest income

International Bank has the following repricing assets and liabilities:Call money— Rs.300 cr Cash credit loans — Rs.240 cr Cash in hand - Rs.200 cr Saving bank - Rs.300 cr Fixed Deposits - Rs.300 cr Current deposits Rs.250 cr On the basis of above information, answer the following questions:

01What is the adjusted gap in repricing assets and liabilities?: a)Rs.540 cr b)Rs.600 cr c)Rs.60 cr negative d)Rs.60 cr positive

02What is the change in net interest income, if interest falls by **2% p**oints across the board i.e. for all assets and liabilities?:a) improves by Rs.1.20 cr b)declines by Rs.1.20 cr c)changes by Rs.1 cr d) there is nochange

03)If the interest rates on assets and liabilities increase by 2%, what is the change in net interest income?:a)improves by Rs.1.20 cr b) declines by Rs.1.20 cr c)changes by Rs.1 cr d) there is no change 04)If interest rate falls on call money by 1%, on Cash credit by 0.6%, on saving bank by 0.2% and on FD by 1%, what is change in net interest income?:a)improves by Rs.0.72 cr b)declines by Rs.0.82 cr c)decline by Rs.0.84 cr d)declines by Rs.0.96 cr 05)If interest rate increases on call money by 0.5%, on Cash credit by 1%, on saving bank by 0.1% and on FD by 0.8%, what is change in net interest income?:a)declines by Rs.1.05 cr b)improves by Rs.0.90 cr c)declines by Rs.1.25 cr d)improves by Rs.1.20 cr

Explanations: 01

Que-1: (SB + FD) — (Call money +CC) = (300 + 300) — (300 + 240) = Rs.60 cr (assets are less than liabilities — Hence negative gap). The cash in hand and current account deposits are not subject to re-pricing as these are not interest bearing, hence these have been ignored.

Que-2: There is negative gap (interest bearing liabilities more) of Rs.60 cr [(300 + 300) — (300 + 240)], which means the interest cost declines @2% on this negative gap, which leads to increase in NIL Hence it is Rs.60 cr x 2% = Rs.1.20 cr.

Que-3: There is negative gap of Rs.60 cr [(300 + 300) — (300 + 240)],3.00 cr) = 3.60 cr

Net fall in interest income = 4.44 cr — 3.60 cr = 0.84 cr.

Que-5: Increase in interest amount in case of assets = (Call — 300 x 0.5% = 1.50 cr) + (Cash credit — 240 x 1% =2.40) = Rs. 3.90 cr.

Increase in interest amount in case of liabilities (SB — 300 x 0.1 = 0.30 cr) + (300 x 0.8% = 2.40 cr) = 2.70 cr , Net improvement = 3.90 cr — 2.70 cr = 1.20 cr.

Case Study — 4 : Rating Migration in Borrowal Accounts •

You are provided the following information about the no. of loan accounts with different rating, in International Bank as on Mar 31, 2009 and Mar 31,2010.

Rating	Mar 31, 2009	Mar 31, 2010							
		AAA	AA+	AA	A+	A	BBB	C	Default
AAA	100	70	16	4	4	2	2	2	-
AA+	100	10	60	14	10	-	2	2	2
AA	-	-	-	-	-	-	-	-	-
A+	-	-	-	-	-	-	-	-	-
A	200	-	-	-	20	160	12	4	4
BBB	400	-	-	-	20	-	240	60	80
C	60	-	-	-	-	-	10	40	10
Default	-								

Based on this information, answer the following questions.:

01What is the %age of AAA rated borrower that remained at the same rating level during the observation period?: a)70% b)65% c)60% d)55%

02What is the no. of AAA rated accounts as at the end of observation period: a) 100 b) 80 c)70 d)60

03What is the percentage of migration of borrowers from A and BBB category to default category: a)1%, 20% b)2%, 20% c)1%, 10% d)2%, 10%

04What is the percentage of migration of loan accounts from C rated to default category?: a)10% b)12.50% c)15.5% d)16.7%

05What is the total no. of borrower in the default category at the beginning and end of the observation period?: a)nil, 80 b)nil, 90 c)nil, 96 d)inadequate information to answer the question

06Calculate the percentage for migration of AA+ account to AA category.: a) 10% b)12% c)**14%** d)16%

07What is the percentage of BBB category accounts, that did not change their category during the observation period?: a)70% b)60% c)50%d)40%

08What is the percentage of A category accounts that were upgraded to A+ category?: a)10% b)12.5% c)15%d)17.5%

Answers: 1-a 2-b 3-b 4-d 5-c 6-c 7-b 8-a

Explanations:

Que-1: Mar 2010 = 70 accounts. Mar 2009 = 100 account. **Hence**70/100x100 = 70%

Que-2: 70 + 10 = 80

Que-3: For A category = 4 / 200 x 100 = 2%. For BBB category = 80/ 400 x 100 = 20%

Que-4: 10 / 60 x 100 = 16.7%

Que-5: At beginning — nil At end = 2+4+80+10 = 96

Que-6: 14 / 100 X 100 = 14%

Que-7: 240 / 400 x 100 = 60%

Que-8: 20 / 100 x % = 10%

Case Study — 5 : Calculation of capital for market risk

International Bank has paid up capital of Rs.100 cr, free reserves of Rs.300 cr, provisions and contingencies reserves Rs.200 cr, revaluation reserve of Rs.300 cr, Perpetual non-cumulative preference shares of Rs.400 cr, and subordinated debt of Rs.300 cr. The risk weighted assets
for credit and operational risk are Rs.10000 cr and for market risk Rs.4000 cr.

Based on the above information, answer the following questions?:

01What is the amount of Tier-1 capital?: a)900 cr b)800 cr c)750 cr d)610 cr

02Calculate the amount of Tier-2 capital?: a)900 cr b)800 cr c)750 cr d)610 cr

03Calculate the amount of capital fund.: a)895 cr b) 1255 cr c)1435 cr d)1675 cr

04What is the capital adequacy ratio of the bank?: **a)**9% b)9.65% c)10.05% d)10.07%

05What is amount of minimum capital to support credit and operational risk?:a)900 cr b)950 cr c)1000 cr d)1250 cr

06What is the amount of minimum Tier 1 and Tier 2 to support the credit and operational risk?: a)900 cr, 900cr b)600 cr, 900 cr c)450 cr, 450 cr d)300 cr, 450 cr

07What is the amount of Tier-1 capital fund, to support market **risk?:** a)**450** cr b)350 cr c)250 cr d) 185 cr

08What is the amount of Tier-2 capital fund, to support market risk?: a)450 cr b)350cr c)250 cr d) 160 cr

Answers: 1-b 2-d 3-c 4-d 5-a 6-c 7-b 8-d

Case Study — 7: Calculation of Risk Weighted Assets based on. Standard Approach for credit risk

The assets side of balance sheet of International Bank provides the following information:

Fixed Assets — 500 cr, Investment in Central govt. securities — Rs.5000 cr. In standard loan accounts, the Retail loans — Rs.3000 cr, House Loans- Rs.2000 cr (all individual loans below Rs.30 lac and fully secured by mortgage), Other loans — Rs.10000 cr. Sub-standard secured loans — Rs.500 cr, sub-standard unsecured loans Rs.150 cr, Doubtful loans Rs.800 cr (all DF-1 category and fully secured) and other assetsRs.200 cr.

Based on this information, by using Standard Approach for credit risk, answer the following questions.

01What is 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

02What is the amount of risk weighted assets for housing loans?: a)Rs.2000 cr b)Rs.1800 cr c) Rs.1500 cr d) Rs.1000 cr

03What is 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

04What is the amount of risk weighted assets for sub-standard secured accounts?: a)Rs.250 cr b)Rs.500 cr c)Rs.750 cr d)Rs.1000 cr

05What is the amount of risk weighted assets for sub-standard unsecured accounts? : a)Rs.75cr b) Rs.112.50 cr c)Rs.150 cr d)Rs.225 cr

06What is the amount of risk weighted assets for doubtful accounts?: a)Rs.400 cr b)Rs.600 cr c) Rs.800 cr d)Rs.1600 cr

Answers: 1-c 2-d 3-d 4-c 5-c 6-c

Explanations:

Que-1: RW is 75% on retail loans. RW value = 3000 x 75% = 2250

Que-2: RW is 50% on housing loans for individual loan up to Rs.30 lac. RW value = 2000 x 50% = 1000

Q**ue-3:** On claims against Central govt., the risk weight is zero. 5000 x 0% = 0

Que-4: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In sub-standard secured account, the provision being 10%, RW is 150%. Hence RWA = 500 x 150% = 750 cr

Que-5: RW is 150%, if the provision is less than 20%, nd 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In sub-standard unsecured account, the provision being 20%, RW is 100%. Hence RWA = 150 x 100% = 150 cr

Que-6: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In doubtful up to one year category (DF1) account, the provision being 20%, RW is 100%. Hence RWA = 800 x 100% = 800 cr

Case Study — 8 : NPA provisioning

International Bank has provided the following information relating to its advance portfolio as on Mar 31, 2010: Total advances Rs.40000 cr. Gross NPA 9% and Net NPA 2%. Based on this information, answer the following questions?

01Considering that all the standard loan accounts represent general advances, what is the amount of provision for standard loan accounts: a)Rs.160 cr b)Rs.151.90 cr c)Rs.145.60 cr d)Rs.141.50 cr

02What is the provision on NPA accounts?: a)Rs.3600 cr b)Rs.3200 cr c)Rs.2800 cr d)Incomplete information. Cannot be calculated.

03What is the total amount of provisions on total advances,including the standard accounts?: a)Rs:3612.30 cr b)Rs.2945.60 cr c)Rs.2840.20 cr d) Incomplete information. Cannot be calculated.

04What is the amount of gross NPA ?: a)Rs.4000 cr b)Rs.3600 cr c) Rs.3200 cr d)Rs.2800 cr

05What is the amount of net NPA?: a)Rs.800 cr b)Rs.1000 cr c)Rs.1200 cr d)Incomplete information.

06What is the provision coverage ratio for NPA?: a) 70% b)74.3% c)75.2% d)77.8%

07What is the minimum amount of provisions to be maintained by the bank to meet the provisioning coverage ratio of 70%.: a)Rs.3600 cr b)Rs.3200 cr c)Rs.2880 cr d)Rs.2520 cr

Answers: 1-c 2-c 3-b 4-b 5-a 6-d 7-d

Explanations:

Que-1: Standard account Total = 40000 cr — 9% NPA = 3600 cr. = 40000 — 3600 = 36400 cr. Provision at 0.4% = 36400 x 0.4% = 145.60 cr

Que-2: Provision on NPA = Gross NPA 9% - net NPA 2% = 7% i.e. 40000 x 7% = 2800 cr.

Que-3: Provision on NPA = Gross NPA 9% - net NPA 2% = 7% i.e. 0000 x 7% = 2800 cr. Provision on standard accounts Rs.145.60 cr. Hence total provision = 2945.60 cr.

Que-4: 40000 x 9% = 3600 cr

Que-5: 40000 X 2% = 800 cr

Que-6: Total provision on NPA / Gross NPA = 2800 / 3600 = 77.8%
Que-7: Gross NPA x 70% = 3600 x 70% =2520cr

Case Study — 9 : Default Probabilities

International Bank has provided following information on its advances portfolio:
Default nrobabilit

Rating	AAA	AA	A	BBB	BB	B	CCC
3 year	0.04%	0.15%	0.30%	1.10%	6.0%	25.0%	40.0%
5 year	0.10%	0.40%	0.60%	2.00%	10.0%	35.0%	45.0%

The base rate of the bank = 11% which is charged for AAA category borrowers for a 3 year loan.The load factor is added to base rate by 1% for AA, 2% for A, 3% for BBB, 4% for BB accounts.The load factor is further increased by 0.5% for each additional maturity year over 3 years.

Based on this information, answer the following questions?:

01Which of the following loans shall have the highest expected loss if there is no amortization and entire loan is payable on maturity only.: a)Rs.600 lac — 3 year loan to A rated borrower b)Rs.50 lac — 5 year loan to BB rated borrower c)Rs.400 lac — 3 year loan to BBB rated borrower d)Rs.2500 lac — 5 year loan to AA rated borrower

02Banks has given a loan of Rs.400 lac to an A rated company for 5 years out of which 2 year period has already lapsed and there has been no default. Present outstanding is Rs.300 lac in the loan. EAD is 100% and LGD 50%. What is the expected loss on this account?: a)Rs.45000 b)Rs.54000 c)Rs.63000 d)Rs.72000

03Taking into account the above risk policy of the bank, which loan shall earn the lowest return? : a)BB — 3 year b)BBB — 5 year c)A — 5 year d)AAA — 3 year

04Bank wants to sanction a loan to AA rated borrower which is repayable in 5 years. What interest rate should be charged by the bank?: a)11.0% b) 11.5% c)12.5% d)13%

05As on Mar 31.3.2009, bank had 200 BBB rated account out of which 10% account migrated to default category by 31.3.2010. What is increase in no. of accounts in default category?: a)20 b)25 c)30 d)35

Answers:1-d 3-d 4-d 5-a

Explanations: **Que-1:** AA rated borrower is having the largest amount, due to which here the expected loss would be highest.

Que-2: 300 x 0.30 x 50% = Rs.45000 (remaining period of load is 3 year. Hence 0.30% default probability has been taken)

Que-3: AAA loan shall have the lowest interest rate as the period is least and rating is highest.

Que-4: Base rate + load factor for AA rating + load factor for 5 year over 3 year maturity.11% + 1.0% + 1% = 13%

Que-5: 200 x 10% = 20

Case Study —10 : Pre-shipment and post-shipment Loan

An exporter approaches the Popular Bank for pre-shipment and post-shipment loan with estimated sales of Rs. 100 lakh. The bank sanctions a limit of Rs. 50 lakh, with 25 % margin for pre-shipment loan on FOB value and margins on bills of 10 % on foreign demand bills and 20 % on foreign usance bills.The firm gets an order for USD 50,000 (CIF) to Australia. **On** 1.1.2011 when the USD/INR rate was Rs.43.50 per USD, the firm **approached** the Bank for releasing pre-shipment loan (PCL), which is released.On 31.3.2011, the firm submitted export documents, drawn on sight basis for USD 45,000 as full and final shipment. The bank purchased the documents~at Rs.43.85, 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 30.4.2011 after deduction of foreign bank charges of USD 450. The bank adjusted the outstanding post shipment advance against the bill.Bank charged interest for pre-shipment loan @ 7 % up to 90 days and, @ 8% over 90 days up to 180 days. For Post shipment credit the Bank charged interest @ 7 % for demand bills and @ 7.5 % for usance (D/A) documents up to 90 days and @ 8.50 % thereafter and on all overdues, interest @ 10%.

01.What is the amount that the Bank can allow as PCL to the exporter against the given export order, considering the profit margin of 10% and insurance and freight cost of 12% ?: a)Rs.2200000 b)Rs.1650000 c)Rs.1485000 d)Rs.1291950

02What is the amount of post shipment advance that can be allowed by the Bank under foreign bills purchased, for the bill submitted by the exporter?:a)Rs.1980000 b)Rs.1775925 c)Rs.1973250 d)Rs.2192500

03.What will be the period for which the Bank charges concessional interest on DP bills, from date of purchase of the bill?: a)90 days b)25 days c)31 days d)Up to date of realization

04In the above case, when should the bill be crystallized (latest date), if the bill remains unrealised for over two months, from the date of purchase (ignore holidays)?: a)On 30.4.2011 b)On 24.4.2011 c)On 24.5.2011 d)On 31.5.2011

05 What rate of interest will be applicable for charging interest on the export bill at the time of realisation, for the days beyond Normal Due Date (NDD)?: a)8% b)7% c)7.5 % d)10 %

Answers: 1-d 2-c 3-b 4-c 5-d

Explanations: **1FOB** value = = 50000 x 43.50 = 2175000 — 24000 (12% of 2175000) = 1914000 — 191400 (10% profit margin) = 1722600 430650 (25% margin) = 1291950

2) 45000 x 43.85 = 1973250 3)Concessional rate wil' be charged for normal transit period of 25 days and there after overdue interest will be charged.
4)Crystallisation will be done when the bill becomes overdue after 25 days of normal transit period. Date of overdue will be 25.4.2011. If bill remains overdue, it will be crystallised within 30 days i.e. up to 24.5.2011.
5)Rate of interest will be 10% as the overdue interest is stated as 10% in the question.

CASE STUDY11:

Modern Bank has the following assets liabilities (other than capital and Reserves) in its balance sheet: current deposits Rs.500 cr, saving bank deposits Rs.1000 cr, term deposits Rs.3000 cr, cash in hand Rs.300 cr, call money Rs.400 cr and cash credit loans Rs.4000 cr There is change in interest rates as under: saving bank - increase from 3.5% to 4%, FD - from 7.5% to 8.5%, call money - from 5% to 6% and cash credit - from 12% to 12.5%

01 Calculate the adjusted gap in re-pricing assets and liabilities: a)Rs.200 cr negative b)Rs.200,cr positive c)Rs.400 cr negative d)Rs.400 cr positive

02 On the basis of change in interest rate, calculate the amount of repricing liabilities, as per standard gap method in re-pricing assets and liabilities.: a)Rs.3000 cr b)Rs.3500 cr c)Rs.2500 cr d)Rs.2400 cr

03 On the basis of change in interest rate, calculate the amount of repricing assets, as per standard gap method in re-pricing assets and liabilities. : a)Rs.3000 cr b)Rs.3500 cr c)Rs.2500 cr d)Rs.2400 cr

04 On the basis of above information, calculate the standard gap of the bank in re-pricing assets and liabilities: a)1000 cr negative b)1000 cr positive c)1100 cr negative d)1100 cr positive

Explanation:

1.Adjusted gap = (SB + FD) - (Call money + Cash credit) = (1000 + 3000) - (400 + 4000) = - 400. Current account and cash not to be taken, as these are not subject to repricing. 2)Repricing liabilities = (SB + FD) = 1000 x 0.5 + 3000 x 1 = 500 + 3000 = 3500 cr. 3)Repricing assets = (Call money + cash credit) = 400 x 1 + 4000 x 0.5 = 400 + 2000 = 2400 cr
4. Repricing liabilities = (SB + FD) = 1000 x 0.5 + 3000 x 1 = 500 + 3000 = 350dcr.

Repricing assets = (Call money + cash credit) = 400 x + 4000 x 0.5 = 400 + 2000 = 2400 cr.

Gap = 3500 — 2400 = 1100 cr negative (liabilities more than assets)

Answers: 1-c 2-b 3-d 4-c

Case Study.— 12

Problem: International Bank purchased 8% gkivt. securities, with face value of Rs.1000 at Rs.1060 each for 8.510' jrield. Due to change in yield to 9%, the value of the securities declined to Rs.1020.

01 On the basis of above information, calculate change in basis point value for each basis point increase in the yield.: a)Rs.40 b)50 paise c) 80 paise d) inadequate information

02 If there is increase in yield by 100 basis points, instead of 50 basic points as above, during this period, what will be price of security: a)Rs.960 b)Rs.980 c)Rs.1040 d) Rs.1080

03 The bank decides to sell the security immediately, to stop the loss. How much it will lose on the sale transaction ?: a) Rs.20 per bond b)Rs.30 per bond c)Rs.40 per bond d) inadequate information.

Explanation:

1. Change in value / change in yield = (1060-1020) / (9.00 — 8.50) = Rs.40 / 50 basis points = 80 paise
Change in basis point = Change in value / change in yield = (10601020) / (9.00 — 8.50) = Rs.40 / 50 basis points = 80 paise. Change for 100 basis points = 80 p x 100 = Rs.80. Value = Old price change = 1060- 80-= 960
3. Loss = purchase price — current value at which it can be sold = 1060 -1020 = Rs.40

Answers: 1-c 2-a 3-c

CASE STUDY 13- Calculation of Admissible Additional Tier 1 and Tier 2 capital as per Basel III

Universal bank calculated the capital adequacy ratios as under:

Common Equity Tier 1 Ratio	8.5% of risk weighted assets 2.5% of risk weighted assets
Capital conservation buffer	
PNCPS / PDI	3.5% of risk weighted assets
Tier 2 capital issued by bank	2.5% of risk weighted assets
Total capital available	17% of risk weighted assets

As per Basel III rules of RBI, for the purpose of reporting Tier 1 capital and CRAR, any excess Additional Tier 1 (AT1) capital and Tier 2

(T2) capital will be recognised in the same proportion as that applicable towards minimum capital requirements. At min 9% total capital, the max AT1 can be 1.5% and T2 can be max 2%.

On the basis of given information, answer the following questions:

01 What is the amount of total CET1 capital:a)9% b)10% c)11% d)12%
Explanation: Total CET1 = CET1 + CCB = 8.5% + 2.5% = 11%

02 What is the amount of PNCPS / PDI eligible for TierI? a)3% b)2.5% c)2.125% d)1.375%
Explanation: PNCPS / PDI eligible for Tier 1 = 1.5 / 6 x 8.5 = 2.125%

03 What is the amount of PNCPS / PDI not eligible for Tier I?:a)3% b)2.5% c)2.125% d)1.375%
Explanation PNCPS / PDI not eligible for Tier 1 = 3.5 - 2.125 =1.375% **04** What is the amount of Tier 2 eligible for CRAR? a:2% b:2.5% c:2.833% d:0.333%
Explanation: Tier 2 eligible for CRAR = 2 / 6 x 8.5 = 2.833% 05What is the amount of PNCPS / PDI eligible for Tier2?: a:2% b:2.5% c:2.833% d:0.333%
Explanation: PNCPS / PDI eligible for Tier 2 = 2.833 - 2.5 = 0.333% **06** What is "Ate amount of PNCPS / PDI not eligible foi Tier 2 capital?: a:1.375% b:1.042% c:2.125% d:0.333%
Explanation: PNCPS / PDI not eligible for Tier 2 = 1.375 - 0.333 = 1.042% **07**What is the total amount of eligible capital?: a)17% b)16.43% c)15.96% d)14.13% Explanation :Total CETI = CETI + CCB = 8.5% + 2.5% = 11% PNCPS / PDI eligible for Tier 1= 1.5 / 6 x 8.5 = 2.125%PNCPS / PDI not eligible for Tier 1 = 3.5 - 2.125 = 1.375% Tier 2 eligible for CRAR = 2 / 6 x 8.5 = 2.833%PNCPS / PDI eligible for Tier 2 = 2.833 - 2.5 = 0.333%PNCPS / PDI not eligible for Tier 2 = 1.375 - 0.333 = 1.042% Total capital available := CETI + AT1 + T2 = 11% + 2.125 + 2.833 = 15.958 or 15.96%

Answers : 1-c 2-c 3-c 4-c 5-d 6-b 7-c

CASE STUDY NO. 14

Based on the following information, answer following questions.
Family Bank Ltd. has invested Rs. 300000L- on 31.03.2005 in __following Securities

Sr. No.	Security Name	Face Value (Rs.)	Yield %	Price (Rs.)	Cost (Rs.)
1	8% 001 Loan 2011	100000	6.52	107.30	107300
2.	10% 001 Loan 2014	200000	6.73	122.05	244100

The yields on these securities have undergone change as on 31.12.2005. Yield and price of above securities became as under:

Sr. No.	Security Name	FaceValue (Rs.)	Yield %	Price (Rs.)	Market Value (Rs.)
1_	8% 001 Loan 2011	100000	6.73	105.63	105630
2.	10% GOI Loan 2014	200000	7.06	118.54	237080

Using the above given data, answer the following five questions. Computation of price I yield to nearest 2 decimals only.

(1) Find the change in Basis Point Value for every basis point increase in yield for 8% GOI Loan 2011 on 31.12.2005 over 31.03.2005

(1) 9.75 Paise (2) 7.95 Paise (3) 5.75 Paise (3) 5.97 Paise

(2) Find the change in Basis Point Value for every basis point increase in yield for 10% GOI Loan 2014 on 31.12.2005 over 31.03.2005_

(1) 6.30 Paise (2) 7.95 Paise (3) 10.64 Paise (4) 3.60 Paise

(3) If the yield is increased by 100 basis points over March 31, 2005, what would be the price of 10% GOI Loan 2014?

(1) Rs. 111.41 (2) Rs. 112 (3)`Rs. 100 (4) None of these

(4) Had the Family Bank Ltd. decided to sell these two securities on 31.12.2005 at prevailing yield to stop loss, the loss would have been

(1) Rs. 51400 (2) Rs. 42710 (3) Nil Loss (4) Rs. 8690

(5) The prices of given securities have fallen as a result of increase in yield. This is due to: (1) Bonds are maturing beyond 5 years

(2)Investors are not interested for longer period bonds and hence they are sold at a discount

(3) Bond prices are inversely proportional to change of interest rates

(4)Bonds prices are directly proportional to change in interest rates.

CASE STUDY NO. 15

11.50% Central Government Stock 2011 was issued on 24.11.2000 with Maturity on 24.11.2011. The Coupon of 11.50% is payable half yearly on 24th November and 24th May every year. At Yield to Maturity (YTM) of 6.80 percent, the bond is quoted at Rs_ 121.07 on 15.06.2006. The Duration of the Bond is 4.30 years. Answer the following questions

1. At 6.80% YTM, the 11.50% Central Government Stock 2011 is a

(1) Premium bond for the purchaser (2) Discount bond for the purchaser
(3) Par bond for the purchaser (4) Information insufficient to opine

2. 'Years to Maturity' of the Bond if the purchase date is 15.06.2006 shall be

(1) 6 years (2) 11 years (3) 5.44 years (4) 5 years

3. The Modified Duration of the Bond at 6.8% YTM shall be

(1) 5 years (2) 6 years (3) 5.44 years (4)4.02 years

CASE STUDY NO. 16

DC Bank, a cooperative'bank allowed huge loans amounting to Rs.750 cr to the group companies of Mis CDR, against overpriced shares of group companies. The bank used to issue their pay orders to the borrower without real cash balance in their account or enduring funding requirements as necessary in case of pre-paid instruments. CDR used to

have account with bank B having branch in Mumbai. The branch had discounted the pay order issued by DC Bank amounting to Rs.75 cr and presented these through clearing house. But DC Bank could not provide funds. Resultantly, the pay orders were dishonoured. The clearing house regulator put embargo on DC Bank. Bank B yet to recover Rs.70 cr from CDR. The investigation revealed on the day of collapse of DC Bank, 65% of the discounted pay orders by Bank B belonged to DC Bank. Bank has held its manager responsible for inadequate management control. It was talso found that around 60% of total loans given by DC Bank were restricted to 10 entities. The collapse of the DC Bank had a chain reaction in other cooperative banks. Based on the above facts, answer the following questions:

1 Bank B's loss of Rs.70 cr in discounting the pay orders is falling under:

a) credit risk b) operational risk c)market risk d)combination of credit risk and operational risk

2 DC Bank's outstanding loans to CDR group was more than 40% of their capital funds. Such high exposure to a single group by a bank is against the regulatory guidelines to avoid:

a) concentration risk b)systemic risk c)funding risk d)reputational risk

3 If the regulator has put embargo or ordered liquidation of DC Bank, the effect as a result of this could lead to:

a) legal risk b)systemic risk c)counterparty risk d)liquidity risk

4 As per existing guidelines of RBI, the DC Bank is required to disclose their exposure to capital market under

a) segment reporting b)transactions with related parties c)exposure to sensitive sectors
d) maturity pattern of assets and liabilities

CASE STUDY NO.17

Based on the following information, answer following questions

Rating migration of Loan Accounts based on their internal Rating Module for Fair Growth Bank Ltd. between 31.3.05 to 31.3.06 are given in the following tables.

Last Rating	No. of Accounts	Present Rating							Default
		AAA	AA+	AA	A+	A	BBB	C	
AAA	50	35	8	2	2	1	1	1	
AA+	50	5	30	7	5	-	1	1	1
A	100	-		-	10	80	6	2	2
BBB	200	-	-		10	-	120	30	40
C	30	-	-	-	-	-	5	20	5

Standard migration pattern for A' rated Borrowers shows a default Probability of 0.2% and 'BBB' rated Borrowers shows a default probability of 20%. Based on the given data, answer the following five questions.

1. Find out the percentage of 'AAA' rated borrowers which remained at the same rating level for the observation period.

(1) 35% (2) 50% (3) 70% (4) 10%

2. At the end of the observation period, the number of 'AAA' rated borrowers remained at

(1) 40 (2) 55 (3) 35 (4) 100

3. The Percentage (%) of migration of borrowers from 'A' and 'BBB' category to default category are and

(1) 20%, 40% (2) 20%, 40% (3) 2%, 20% (4) 0.2%, 40%

4. Going by the Standard Migration Rating, which type of Rating module the regulator will advise the bank the follow?

(1) Both 'A' and 'BBB' rated borrowers (2) Only 'A' rated borrowers (3) 'BBB' rated borrowers (4) none

5. At the end of the observation period the number of default category borrowers remained at

(1) 40 (2) 54 (3) 133 (4) 48

CASE STUDY NO. 18

The Modern Bank Limited, through its internal modules has assessed the default probabilities of its loan products by tracking last 5 years data given below. Use the give PD table and information below to answer the next five questions:

Default Probabilities

Rating	3 years	5 years
AAA	0.05%	0.15%
AA	0.20%	0.50%
A	0.30%	0.70%
BBB	0.90%	2.00%
BB	7.00%	12.0%
B	20.0%	30.0%
CCC	35.0%	40.0%

BPLR of the bank is 10% p.a. which is applicable to AAA rated loans for a repayment period of up to 3 years and for every additional one year the load factor is 50 basis points. For lower rating loan, the load factor 100 by for AA rated, 200 by for A rated, 300 by for BBB and 400 by on BB rated loans up to 3 years. For longer repayments, additional 50 by is demanded for each additional year. Using the PD table and above information, answer the following questions: 1 Which loan below has the highest expected credit loss (assume that all the loans are due at maturity without amortization)

a 3-year loan of Rs.500 lac to a counterparty with a credit rating of A.

have account with bank B having branch in Mumbai. The branch had discounted the pay order issued h' DC l and amounting to Rs.75 cr and preSented these through clearing house. But DC Bank could not provide funds. Resultantly, the pay orders were dishonoured. The clearing house regulator put embargo on DC Bank. Bank B yet to recover Rs.70 cr from CDR. The investigation revealed on the day of collapse of DC Bank, 65% of the discounted pay orders by Bank

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Rating	3 years	5 years
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AA .	0.20%	0.50%
A	0.30%	0.70%
BBB	0.90%	2.00%
BB	7.00%	12.0%
B	20.0%	30.0%
CCC	35.0%	40.0%

BPLR of the bank is 10% p.a. which.is applicable to AAA rated loans for a repayment period of up to 3 years and for every additional one year the load factor is 50 basis points. For lower rating loan, the load factor 10(0)0? ker A.A rated, 200 by for A rated, 300 by for BBB and 400 by on BB rated loans up to 3 years. For longer repayments, additional 50 by is demanded for each additional year. Using the PD table and above information, answer the following questions:

1 Which loan below has the highest expected credit loss (assume that all the loans are due at maturity without amortization)

a 3-year loan of Rs.500 lac to a counternarty with a credit rating of A.b 5-year loan of Rs.15 lac to a counterparty with a credit rating of BB.

c 5-year loan of Rs.4000 lac to a counterparty with a credit rating of AA.

d 3-year loan of Rs.200 lac to a counterparty with a credit rating of BBB.

2 Bank has given loan to M rated corporate for a period of 5 years of which 2 years has lapsed without any default. Present o/s is Rs.200 lac. The company has drawn the loan to the fullest extent (EAD 100% and the LG .13 45%). Using the probability of default table given above, find the appx expected loss from the loan:

a Rs.18000 b Rs.15000 c Rs.45000 d Rs.27000

3 Going by the bank's risk priority policy of loan, which of the following loan accounts return will be lowest:

a BBB rated loan of 4 years repayment period b A rated loan of 3 years repayment schedule

c one year BB rated loan with a ken on LIC policy of surrender value equal to 50% of loan amount

d AAA 5-year loan

4 The bank is considering a loan proposal of Rs.50 lac which is A rated as per its internal rating module. The borrower is asking for a 5 year repayment schedule. As credit risk manager, you are assigned to calculate the rate of interest to the loan taking into pricing of the bank. The interest rate should be:

a 12% b 11% c 15% d 13%

5 The bank had 250 BBB accounts which were rated as on 31.03.04 and 8% accounts migrated to default category as on 31.03.05. The no. of additional defaults accounts as on 31.03.05 is:

a 8 b 20 - c 12 d 16

CASE STUDY NO. 19

Firm X and Firm Y approach Bank-A for a term loan of Rs.50 lac each. X has a higher credit rating (AAA) and Y has (A) rating. Interest rate quoted by the bank for Firm X is 10% fixed and LIBOR as floating rate and for Firm Y A is 14% fixed and LIBOR+2% floating. Firm X wants floating rate and firm Y wants a fixed rate loan. The borrowers wishing to capitalize on the interest rate in the respective fixed and floating interest rate markets available to them, have entered into a interest rate swap, so as to gain on the interest rate equally between them.

Based on the above information answer the following questions:

1. The effective rate to X and Y, if they enter into an interest swap would be:

a LIBOR less 1% for firm X b Fixed 10% less 1% for X

c LIBOR less 4% for Y d Fixed 14% less 1% for Y

Which of the above statements is correct:

(1) a and b are correct (2) a and c are correct

(3) a and d are correct (4) none of the above

2 If the above swap is concluded, which of the following statement would be true

a X will borrow at fixed rate b Y will borrow at fixed rat

e Y will borrow at floating rate d X will borrow at floating rate

Which of the above statements is correct:

1 only a is true 2 a and b are true 3 a and c are true 4 a and d are true

3 In the above type of swap, which statement given below is not correct:

a principal amount is exchanged at the time of agreement (b) X will pay firm Y at LIBOR

c Y will borrow at LIBOR + 2% (d) Interest differential will be netted and settled between X and Y

4 The above type of interest rate swap is called:

a plain vanilla swap b basis swap c amortising swap d step up swap

5 The following statements are given in this connection:

a the interest rate swap can be concluded for a notional sum

b the above type of swap is an exchange traded swap

c the swap is independent of the respective borrowings of firm X and Y from the bank
d the difference in interest rate will be paid or received by either parties at specified intervals. Which of the above statements is correct

1 a and b are correct   2 a, b and c are true
3 a, b, c and d are true   4 a, c and d are true

CASE STUDY NO.20

A bank gets a FCNR deposit of USD 5 million for 3 years. The bank converts USD 4 millions to Indian Rupees the rate of USD 1 = INR 45. It leaves rest of the balance in its Nostra Account. The assets and liabilities of *the Dank in* US Dollars show the position as below:

FCNR Deposit USD 50,00,000; Nostro Account USD10,00,000; Position AccountUSD 40,00,000

1. State which of the following statements is correct

(a) Bank has overbought position of USD 4 million
(b) Bank has oversold position of USD 1 million
(c) Bank has oversold position of USD 4 million
(d) Bank has overbought position of USD 1 million

2. Foreign exchange rate of USD moves up to Rs. 46. In this situation

(1)The Bank stands to lose Rs. 4 mio   (2) The bank stands to gain Rs. 4 mio
(3)The Bank stands to loSe Rs. 1 mio   (4)The Bank stands to gain Rs. 1 mio

3. Foreign exchange rate of USD moves to Rs. 44. In this situation

(1)The Bank stands to lose Rs. 4 mio   (2)The Bank stands to gain Rs. 4 mio
(3)The Bank stands to lose Rs. 1 mio   (4)The Bank stands to gain Rs. 1 mio

4. Bank has overnight limit of USD **1** million. Considering this, which of the following forex transaction will have to be done by the bank's dealer?

(a) Acquire USD assets of at least USD 3 million
(b) Acquire USD assets of at least USD 1 million
(c) Acquire USD liabilities of at least USD 3 million
(d) Acquire USD liabilities of at least USD 1 million

5. If Bank invests entire funds of USD 5 million from the above FCNR deposit in a 3 year USD loan with interest rate of 6 month LIBOR plus 100 basis points, in this situation, which of the following statements is correct?

(1)Bank has basis risk for interest rate   (2) Bank has forex risk
(3) Bank has maturity risk   (4) None of the above

CASE STUDY NO. 21

Fair Glow Pvt. Ltd. is maintaining a current account with your branch with an average balance of Rs. 40 lakh. Branch head has been pursing with their management to avail credit facility from your bank considering their satisfactory dealings. The company has approached the Branch for investment in their Commercial Paper (CP) issue of Rs. 20 crore. The company requested to subscribe at least Rs. 5 crore in the issue. They have submitted the following papers for the purpose.

(i) Copy of duly Certified Rating Certificate issued by CRIS1L with P2 rating dated 10.01.2008, validity one year from issue date for Rs. 40 crore. (ii) Copy of Board Resolution dated 30.12.2007 for issuance of C.P. maximum upto Rs. 50 crore from the market within a period of one year. (iii) The Company has also submitted papers to confirm that they are eligible to issue CP as per Reserve Bank of India guidelines.

(iv) The company also informed they have successfully completed one tranche of CP issue of Rs. 20 crore for a period of 181 days on 25.03.2008. The Present issue is for a period of 91 days.

1. The first step the branch will take in the matter is to ________

(a) Send all papers to Treasury Department for their decision as investments decisions are handled there.
(b) Reject the Proposal of investment in CP as they are not availing credit facilities from the bank.
(c) Sanction Rs. 5 crore Short term loan to them.   (d) Agree to subscribe Rs. 5 crore in the CP issue

2. What is the maximum amount the company can now raise through CP issue?

(1) 20 crore   (2) 30 crore   (3) 40 crore   (4)50 crore

3. If the bank decides to invest 5 crore in the issue at a discount of 6% p.a., the discounted price of CP will be ______________________
(Note Rate to be calculated upto 4 decimal point and amount converted to nearest rupees)

(1) 4,92,52,055/-   (2) 5,00,00,000/-   (3) 5,30,00,000/-   (4) 4,92,63,100/-

4. The maturity date of the CP shall be   if the date of issue is 15.06.2008

(1) 14.9.2008   (2) 15.9.08   (3) 30.9.08   (4) 13.9.08

5.Which of the following statements is correct?

(1)The company can prefer to issue CP on different dates with different maturities.(2)The company is required to issue entire issue of CPs on one common date

(3)The company can issue on multiple date but entire issue should have a common maturity date.   (4)None

ANSWER TO CASE STUDIES

Case Study No										
14	1	(2)	2	(3)	3	(1)	4	(4)	5	(3)
15	1	(1)	2	(3)	3	(4)	4		5	
16	1	D	2	A	3	B	4	C	5	
17	1	(3)	2	(1)	3	(3)	4	(3)	5	
18	1	C	2	A	3	D	4	D	5	B
19	1	(3)	2	(3)	3	B	4	A	5	(4)
20	1	(3)	2	(1)	3	(2)	4	(1)	5	(1)
21	1	A	2	(1)	3	(4)	4	(1)	5	(3)

CASE STUDY22:

Common Equity Tier 1 Ratio	85.00
Capital conservation buffer	25.00
Total amount of PNCPS / PDI	35.00
Eligible PNCPS / PDI for ATI	21.25
Eligible Tier 1 capital	106.25
Tier 2 capital available	25.00
Tier 2 capital eligibility	28.33
Excess PNCPS / PDI eligible for Tier 2 capital	3.33
Total Eligible catal	134.58

On the basis of given information, answer the following questions:

01 What is the min Common Equity Tier-1 (CET1) capital to support credit and operational risk: a)108 b)66 c)24 d)18 -

02 What is the max Additional Tier-1 (ATI) capital to support credit and operational risk: a)108 b)66 c)24 d)18

03 What is the max Tier 2 (T2) capital to support credit and operational risk: a)108 b)66 c)24 d)18

04 What is the amount of total capital to support credit and operational risk: a)108 b)66 c)24 d)18

05 What is the min Common Equity Tier-1 (CET1) capital to support market risk: a)26.58 b)**19 c)**4.33 d)3.25

06What is the max Additional Tier-1 (AT1) capital to suppkt market risk: a)26.58 b)19 c) 4.33 d)3.25

07What is the max Tier 2 (T2) capital to support market risk: a)26.58 b)19 c)4.33 d)3.25

08What is the amount of total capital to support market risk: a)26.58 b)19 c)4.33 d)3.25

Consolidated solution for the Question I to 8.

Risk Weighted assets: Credit and operational risk Market risk	1200 100
Min CET1 to support credit and operational risk (1200 x 5.5)	66
Max AT1 within Tier 1 capital required to support credit and operational risk ((1200 x 1.5)	18
Max T2 within Tier 1 capital required to support credit and operational risk (1200 x 2)	24
Total capital to support credit and operational risk	108 19
Min CET1 available to suppOrt market risk (85-66)	
Max AT1 capital within Tier 1 capital available to support market risk (21.25 — 18 = 3.25	3.25
Max T2 capital within total capital available to support market risk (28.33 — 24)	4.33
Total eligible capital to support market risk (19 + 3.25 + 4.33)	26.58

Answer s : 1-b 2-d 3-c 4-a 5-h 6-b 7-d 8-a

8. PRACTICE TEST (TEST YOUR SELF)

PRACTICE TEST PAPER NO. - 1

1.The latest proposal of the Basel Committee on Banking Supervision (BCBS) for the new Basel Accord (Basel II) introduces the Advanced Internal Rating Approach for credit risk. Under this, banks will input their own : (**a)** EDF (**b)** LGD, (**c)** EDF & LGD (**d)** None

2.Recently Reserve Bank of India has issued revised guidelines as to the treatment of 'Investment Fluctuation Reserve' for calculation of capital funds. Which one of the following is the revised one?

a. Banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both HFT and AFS category may treat the balance is excess of 5 percent of securities included under HFT and AFS categories, in the IFR, as Tier I capital.

b.Banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both HFT and AFS category as on March 31, 2006, would be permitted to treat the entire balance in the IFR as Tier I capital.

c.Full amount of IFR qualify for Tier capital without any conditions, d. None of the above

3.The difference between rates for buying and selling of foreign currency (Bid and Offer rates) is known as :

(**a)** Surplus (**b)** Profit (**c)** Gain (**d)** Spread

4.From 6.8.2005, which of the players listed below discontinued from participating in lending in Call Money Market by Reserve Bank of India? a. Primary Dealers, b.Scheduled Co-operative Banks

c.All India Financial Institutions / Mutual Funds I Insurance Companies, d.None of the above

5.The Eligible Securities for REPOS and REVERSE REPOS comprise ___

a. All SLR Transferable Securities , bAll SLR transferable Government of India dated Securities

c.All those Securities held in SGL format d.Non-SLR Securities only

6. Commercial Papers can be issued : a As a Stand-alone facility, b. Against Working Capital entitlement c. As a stand alone facility with a standby assistance / Credit backstop facility from

Banks/Fls, d All of the above

7. Which of the following investment carries more credit risk?

a Investment in Treasury Bills b Investment in Commercial Paper with P1 Rating c Investment in 'BBB' rated 3 year Corporate Bonds **d)** All the above carry equal credit risk

8. A trader buys a call option at an exercise price of 45 and premium of 2. Under what conditions will he make a profit?

a Spot price < 43 b 43 < spot price < 45 c 45 < spot price < 47 d spot price > 47

9. Basel-II accord rests on three pillars. The second pillar of the accord is _ _

a Market Discipline b Risk Management c Supervisory review process Operational risk management

10. Risk weighted assets for Operational risk are worked out as

a Capital for operational risk x 9 b Capital for operational risk x 12.5

c Capital for operation risk x 8.33 d Capital for operational risk x 8

11.Basel-11 accord prescribes that housing loan portfolio be given risk weight of

(**a)** 100% (**b)** 75% (**c)** 35% (**d)** 150%

12.Under Simplified Standardised Approach (SSA), maximum risk weight for corporates is prescribed as

(**a)** 150% (**b)** 100% (**c)** 50% (**d)** 20%

13. Basic Indicator Approach (BI**A)** is one of the methods for computation of capital charge for ___

a Interest rate risk b Market risk c Operational risk d Credit risk

14. Capital charge for Credit risk under

Internal Rating based (IR**B)** approach is a function of Probability of default (PD), Loss given default (LGD), Exposure at default (E**D)** and __

a Risk weights as prescribed b Maturity c Provisions already set aside Yield

15.For Substandard Secured Assets (code

21), the provision required is _ of the outstanding amount.

a 10% b 20% c 10% of the realizable value of security (RVS) d None of these

16. For standard assets, the provision required is of the outstanding amount.

(a)' 0.10% (**b)** 0.20% (**c)** 0.40% (**d)** 0.25%

17.The highest beta factor (in percentage) is assigned to different business lines for operational risk under standardised approach is-(**a)** 10% (**b)** 20% (**c)** 18% (**d)** 15%

18. Provisioning requirement for facility under Doubtful-I denoted by code 31, is

a 20% of Realisable Value (RVS) b 20% of RVS 4- 100% of security

c 30% of RVS 4- 100% of security d 20% of outstanding loan amount

19.Provisioning requirement for an advance facility under Doubtful-III category, denoted by code 33, is -

a Same as loss asset b 50% of RVS + 100% of security c 100% of outstanding amount
d none of the above
20. Market discipline framework refers to : a Disclosure requirements b Rates quoted in the market c Market risk **d)** Disclosure of confidential information
21)Asset-liability management is concerned with
(a) Quality of the assets **b)** Recovery of non-performing assets **c)** Operational risk **d)** None of these
22)A coupon Swap is defined as_
(a) Forex swap, where one currency is traded for another
(b) Interest rate swap, where underlying benchmark interest rates are exchanged
(c) Interest rate swap, where fixed rate is exchanged with floating rate **(d)** None of these
23)FCNR Deposit is
(a) Futures contract **b)** Options contract **(c)** Swap **(d)** None of these
24)Interest rate sensitivity gap statement is prepared by classifying the assets and liabilities based on their
(a) Maturity dates **b)** Repricing dates **c)** Maturity date or repricing date whichever is later **d)** None of these
25) Find the odd man out.
(a) Futures Value at Risk (VAR) **c)** Options **(d)** Swaps
26)ALM system is built on three pillars, which are _
(a) Capital adequacy, supervisory review, and market discipline
(b) Information system, organization and process
(c) ALCO, maturity ladder and duration **d)**All of the above
27)Change in interest rates will affect__
(a) Net interest income **b)** Other income **c)** Staff expenses **(d)** All of these
28)The risk for the option seller is
(a) Limited to the Premium amount **b)**Limited to the amount of option clot isoil:
c) Limited to a certain percentage of the option contract **d)** None of these
29)Currency futures are forward contracts_
(a) With standard size **b)** With standard maturity date **c)** Traded on the exchange **d)** All of the above
30)Savings bank deposits are placed in bucket.
(a) Non sensitive **b)** 3-6 months **c)**Over 5 years **(d)** None of these
31)Borrowing from Reserve Bank of India are placed in _ bucket.
(a) Upto one month **b)** 6 months or 1 year **c)** 1 month to 3 months **d)** none of these
32)Sub-standard NPAs are placed in bucket.
(a) Over 5 years **b)**3-5 years **c)** Non-sensitive **d)**None of these
33)PLR based Cash-Credit accounts are placed in----bucket. (PLR is found to be changed once in eight month)
(a) 0-8 months **b)** 6-12 months **c)** 1-2 years **(d)** None of these
34)Capital and reserves are placed bucket.
(c) Over 5 years **b)** Upto one month **c)** Residual maturity **d)** Non sensitive
35)The term "economic value Perspective" indicates_____
(a) Impact of interest rate changes on earnings
(b) Present value of expected cash flows taking into account change in interest rates
(c) Instruments that are not marked to market **d)** None of the above
36)Duration can be described as_
(a) A measure of operational risk **b)** A percentage change in economic value, given a unit change in interest rate. **c)** A measure of interest rate sensitivity **d)** None of these
37)Bank's own trading positions are called as__ _
(a) Overnight Positions **b)** Daylight Positions **c)** Proprietary Positions **d)** All these
38)Basel Accord of 1988 recommended____
(a) Minimum capital standards for the banks **b)** Classification of assets into various time buckets
c) Classification of assets basedon counterparty risk **d)** All the above
39)Value at Risk (VAR) concept can bedescribed as
(a) Downside risk potential b Measure of volatility **c)** Measure of sensitivity **d)** All the above
40)Find the odd man out : (**a)** Liquidity risk (**b)** Sovereign risk(**c)** Interest rate risk **(d)** Foreign exchange risk
41)Find the odd man out : Standardised method **b)** Basic Indicator Approach (**c)** Supervisory Review Process **d)** **(d)** Internal Rating Based Approach
42)Loans which are NPA for over 48 months are categorized under _
(a) Doubtful-III category **b)** Doubtful-II category **c)** Sub-standard category **d)** None of the above

43)Advance under Doubtful-II category require ____________ as provision.
(a) 50% of realizable value of security Plus 100% of shortfall in security (b) 100% of outstanding amount
(c) 100% of shortfall in security plus 30% of realizable value of security d) none of these
44)Capital Adequacy Ratio under Basel it is computed on the basis of _
(a) Risk weighted assets for credit risk b) Capital for market risk
(b) Capital for operational risk d) All the above
45)Supervisory Review under Basel-il framework refers to
(a) Operational risk, b) Market risk c) Credit risk(d) None of these
46)Find the odd man out.
(a) Fee based income (b) Owned funds (c) Staff expenses (d) Treasury Income
47)Which of the following is not a function of . integrated Treasury Department
(a) Pricing of Products b) Facilitation of Payment and Settlement of the bank
c) Issuance of Foreign currency denominated Traveler's cheques d) Assisting the bank management in ALM.
48)By 'Emerging Market Countries' we mean__
(a) Countries attracting BPO business (b) Fast developing economies
(c) Countries which became independent after splitting of erstwhile USSR (d) OECD countries.
49)The differences between Forward and Futures contracts are
(a) In futures contracts, the contract terms are highly standardized unlike Forward contracts.
(b) Trades in Futures contracts require to be marked to market daily unlike forward contracts
(c) Futures contract obligationsare guaranteed by respective clearing houses unlike forward contracts
(d) Both (a) & (b) only e) All of these
50) Promissory notes issued by Central Government to meet its short term requirements are called__
(a) Certificate of Deposits b)Commercial Papers c) Capital Indexed Bonds (d) Treasury Bills
51)Under Open Market Operation (OMO), if the Reserve Bank wishes to increase the quantity of Money Supply with Banks,it______________-
(a) Sells Bond b) Buys Bond c)Allows banks to take money from currency chests
d) Restricts customers to withdraw from their Accounts
52)In the Inter Bank Call money market, Borrowing and Lending is restricted among___
(a) Scheduled commercial banks,co-operative banks & Primary Dealers (PDs)
(b) Scheduled Commercial Banks,Co-operative Banks, All India Financial Institutions & Primary Dealers (PDs)
(c) Scheduled commercial banks,Co-operative Banks & Mutual Funds
(d) Scheduled Commercial BanksCo-operative Banks & Insurance Companies
53)Scheduled Commercial Banks are required to maintain 25% of their DTL as SLR under section 24 of Banking Regulation Act, 1949 in the form of _
(a) Cash in hand (b) Gold (valued at current market price)
.(c) Un-encumbered Approved securities (d) Combination of all of the above
54)In which option does the buyer get the right to buy the underlying asset?
(a) Call option b) Put option c) American option d) European option
55)In a futures contract the risk of default is faced by _ _
(a) Buyer of the contract b)Seller of the contract c) Clearing agency d) Both (1) & (2) above
56)An Indian Firm has receivables amounting to US $ 1,00,000 arising out of the export of its product. The price of a spot dollar in terms of Rupees is Rs. 44 & the three month forward rate is Rs. 45.40. But after three months the spot rate turns out to be Rs. 45.60. Calculate the exposure
(a) Rs. 1,20,000 (b) US $ 120000 (c) US $ 1,000,000 (d) Rs. 45,60,000
57)The risk that is associated with the intermediate cash flows arising with the payment of interest, installment on loans ,etc. is
(a)' Rate level risk (b)Volatility risk c) Reinvestment risk (d) Basis risk
58)Which one of these is not a source of Interest Rate Risk?
'(a) Yield Curve Risk b) Basis Risk c) Embedded Option Risk d) Funding Risk
59)The core Capital of a Bank under Basel 2 consist of
(a) Paid up capital of the bank b) Authorized capital of the hank
c) Paid up capital plus retained eaE ozcags and disclosed reserves d) None of these
60)Frequency of coupon Payments and duration of a bond are
(a) Directly related b) Inversely related c) Not related at all d) Randomly related
61)A credit derivative seeks to__
(a) Protect the market risk as well as the credit risk of an asset

(b) Segregate the credit risk from an asset and trade it separately

(c) Transfer the credit risk along with the reference asset to the credit risk buyer **d)** None of the above

62)Derivatives are available for __

(a) Foreign exchange **b)** Interest bearing financial assets **c)** Commodities / Equities **d)** All of the above

63)Assuming the time . horizon for all transactions is the same, which of the following transactions would have the least credit risk?

(a) A forward purchases of oil from an 'AA' rated company **b)** Buying a call option on oil from a 'B' rated company

c) A forward sale of oil to an 'AA' rated company **d)** A forward sale of oil to a 'C' rated company where the total purchase price is guaranteed by a letter of credit from an 'AAA' rated company

64)How is the risk of so-called Event of God losses dealt with?

(a) Through RAROC models **b)** Through Var, Preferably delta-gamma approach

c) Only insurance companies can offer a partial cover **d)** Both (**b**) & (**c**) above

65)In order to formulate Bank's Loan Policy to address Credit risk, which of the following points are not considered?

(a) Delegation of Powers **b)** Credit appraisal **c)** Pricing policies **d)** Standardization of Documents

66)What is the beta factor for payment and settlement under Standardized Approach for operational risk?

(**a**) 12% (**b**) 18% 15% (**d**) 16%

67)A negative yield curve is one in which

(a) Long term interest rates are lower than short term interest rates.

(b)Forward Exchange rates are at a discount to spot rates.**c)** Short-term interest rates are lower than long term rates.

(d) Forward exchange rates are premium to spot rates.

68)A dealer makes the following spot EUR/USD transactions

Buy EUR 10,000,000 at 1.1001

Buy EUR 25,500,000 at 1.0993

Sell EUR 20,000,000 at 1.1011

If the end of day revaluation rate is 1.0990, what is his profit or loss?

(a) USD 23,350 Profit **b)** USD 23,350 Loss **c)** USD 23,500 Profit **d)** USD 23,500 Loss

QUESTION BASED ON CASE STUDY/ CASE LET

Case Study No. 1

Bank has fixed assets 100 cr, govt. securities 1000 cr, standard assets in retail loans 600 cr, in home loans 400 cr and other loans 2000 cr. Substandard secured are 100 cr, unsecured 30 cr, doubtful advances are 170 cr and other assets 200 cr. Under the simplified standard approach for credit risk, compute the following components of claims:

) RWA for retail and home loan segment:

510 cr b 590 cr)00 cr one of the above

). Risk weighted assets for NPAs:

350'cr b 300 cr)0 cr 50 cr

L.Risk weighted asset for the entire asset portfolio:

3240 cr b 3440 cr L90 cr 350 cr

2 Risk weighted assets for standard assets:

2510 cr b 3590 cr 590 cr)00 cr

CASE STUDY NO. 2

The summary information about P&L account of the bank indicates the interest earning of Rs.6000 cr, other non interest income of Rs.900 cr, profit on sale of fixed assets Rs.60 cr and income from sale of 3"' party products Rs.40 cr. Interest expenses are Rs.3900 cr, operating expenses Rs.1900 cr and provisions of Rs.800 cr. Based on the above information answer the following questions: _

73. Operating profit for the bank is:

a Rs.400 cr b Rs.2200 cr c Rs.1200 cr d Rs.1400 cr

74 Gross income for the purpose of working out capital charge for operational risk under Basel I! would be:

a 3000 cr b 2200 cr c 2000 cr d 1300 cr

75 Under Basic indicator approach, the bank would be required to allocate capital for operational, risk under Basel **II** based on operations for one year as:

a 450 cr b 300 cr c 150 cr d 600 cr

76 The risk weighted assets for operational risk under Basel II in the above case would be :

a Rs.5625 cr b 4500 cr c 2500 cr d 3000 cr

77 The allocation of capital for market risk under Basel II would be:

a Rs.148 cr b Rs.296cr c Rs.777 cr d insufficient data to calculate the capital required.

CASE STUDY NO. 3

Bank gioup-wise maturity profile of select liabilities and assets of banks in %age terms of major maturity buckets as on Mar 31, 2008 are given below:

Liability/asset	PSU Banks	Old Pvt Bank	New Pvt Bank	Foreign Bank
Deposits:	100 '	100	100	1 0 0
Up to 1 year	34	51	51	46
Over 1 to 3 yr	38	37	43	46
Over 3 to 5 yr	12	5	4	1
Over 5 years	16	7	2	7
Borrowings:	100	100	100	100
Up to 1 year	82	90	47	85
Over 1 to 3 yr	14	5	36	12
Over 3 to 5 yr	3	3	8	3
Over 5 years	1	2	9	0
Loans:	100	100	100	1 0 0
Up to 1 year	40	41	35	57
Over 1 to 3 yr	33	36	31	16
Over 3 to 5 yr	12	10	13	8
Over 5 years	15	13	21	19
Investments:	100	100	100	100
Up to 1 year	10	18	51	46
Over 1 to 3 yr	12	10	43	31
Over 3 to 5 yr	15	11	4	8
Over 5 years	63	61	2 .	15

On the basis of above information, answer the follow ng questions:

78 Interest rate for deposits is increased by 50 basis points for period up to 3 years. The bank group which will be most affected due to cost of funds:

a) old private banks **b)**new private banks **c)** public sector banks **d)** all will be affected equally

79 in, respect of borrowing, the group that more often relying on call / short term borrowings to remain liquid is:

a) old private banks **b)**new private banks **c)** public sector banks **d)** foreign banks

80 Assuming that all banks across the group have insignificant investment in equity shares and other non-interest bearing investments under 'over 5-year bucket' and the yield for bonds increases by 100 basis points for over 5 years tenor, the group which will be most affected due to diminution in value of bonds:

a) old private banks **b)**new private banks **c)** public sector banks **d)** all will be affected equally

81 In an upward moving interest rate scenario for loans, the bank group which has a higher %age of loans due for repricing up to 1 year term is:

a) old private banks **b)**foreign banks **c)** public sector banks **d)** none of these

82 The bank group which appears to have a better ALM position among all the 4 bank groups is:

a) old private banks **b)**new private banks **c)** public sector banks **d)** foreign banks

CASE STUDY NO. : 04

RBI has issued following guidelines for interest rate sensitivity :

1. Capital, Reserves and Surplus, balance in current account are non-sensitive to interest rate changes in the market.
2. SB deposit earning portion called core portion is sensitive and to be classified in 3-6 bucket but volatile portion is non-sensitive.
3. Term deposits, CDs, borrowings fixed as well as floating and zero coupon are sensitive to rate dhanges.
4. Borrowing from RBI to be put in one month bucked. Other liabilities and provisions are non-sensitive.

Following information about bank's liabilities is available: Capital is Rs.295 cr, Reserves 3000 cr, current account deposits 250 cr, SB account 1000 or (25% being volatile). Time deposit are maturing within one month 100 cr, one months 'and before 3 months 200 cr, after 3 months and before 6 months 300 cr, after 6 months and before 1 year 500 cr, after 1 year and before 3 years 400 cc, after 3 years and before 5 years 150 cr and after 5 years 200 cr. Borrowing from RBI is 100 cr. Based on the above information answer the following questions:

83 What is the amount of SB deposit in 3-6 months bucket:

a 500 b 600 c 750 d 1000

84 How much of the current account would be under 1 month bucket:

a 50 b 100 c 250 d none of the above

85 How much reserve and surplus will be put under non-sensitive if you feel that 100 will be lost in NPA and 400 in treasury loss:

a 2500 b 2900 c 3000 d none of the above

86 How much time deposit shall be under one month bucket

a 150 b 100 c 250 d none of the above

87 Borrowing from RBI for 100 will be put in bucket for interest rate sensitivity

a one month b more than one to three months

c more than 3 months to 6 months d more than 6 months to 12 months

CASE STUDY NO. 05

The balance sheet of Bank-X provides the following information as on Mar 31, 2008 (Rs.cr): Capital - 1000, Reserves - 6000, current account deposit 30000, saving bank deposit 30000, term deposit 30000 and borrowing 3000. On the assets side, the cash - 6900, balance with banks-15000, investments-15000, bills purchased-20000, cash credit-20000, term loans-20000 and fixed assets3100. Total-100000. Earning assets out of total assets are Rs.90000 cr. Cash credit, bills purchased and investments are affected by change in interest rate. Term loans carry fixed interest rate. SB and TD are affected by change in interest rate. Based on the above information answer the following questions:

3 Rate sensitive assets of the bank are:
55000 b 75000 c 5000 90,000

) Rate sensitive liabilities of the bank are:
63000 b 93000 c)000 None of the above

) The above bank has:
positive gap b negative gap c arginal gap Zero gap

1 Tier-1 capital of the bank is Rs
1000 b 7000 c)000 Credit risk

92. Basic Indicator Approach is one of the methods of Computing :
a) Interest Rate Risk , b) Market Risk c) Operational Risk d) Credit Risk

CASE STUDY NO. 06

In the following Table, data about movement of monthly closing prices of stocks of XYZ Ltd are given from January, 2007 to December, 2007. You are required to answer the following five uestions using these data.

Month	Closing Stock Price	Month	Closing Stock Price
January	10	July	23
February	11	August	41
March	9	September	38
April	10	October	45
May	. 12 .	November	42
June	17	December	51

(93) Find out the 'Mean' Price of XYZ stocks for the observed period.
(a) 25.75 **(b)** 20 **(c)** 23 **(d)** 10

(94) The variance of the selected data will be approximately (upto 2 decimal point).
(a) 2922.25 **(b)** 243.52 **(0)** 15.61 **(d)** 54.06

(95) The volatility of XYZ stocks for the period from January, 2007 to December, 2007 is
(a) 2922.25 **(b)** 243.52 **(c)** 15.61 **(d)** 54.06

(96) The volatility is also known as
(a) Standard Deviation **(b)**Value at Risk (VaR) **(c)**Mode **(d)** Median

(97) If the Investor has identified one more stock 'A' with a standard deviation of 25 to invest with XYZ stocks in 50:50 ratio of the corpus, the volatility will be
(a) More than volatility of stock 'A' **(b)** will be less than volatility of XYZ Jocks
(c) Average of both stocks **(d)** Between volatility of XYZ and stock 'A'

CASE STUDY NO. 07

ABC Bank Ltd. analyzed the operating profits of five zones for last five years. The Standard-- - Deviation and Standard Deviation to mean for the five years are given in the following table.

Name of Zones	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Mean	S.D.	D. to Mean
Ahmedabad	10	3	4	8	11	36	7.20	3.56	0.49
Chennai	3	8	1	6	4	22	4.40	2.70	0.61
Delhi	12	8	9	2	4	35	7.00	4.00	0.57
Kolkata	6	9	2	3	5	25	5.00	2.74	0.55
Mumbai	7	12	5	.8	6	38	7.60	2.74	0.36
Total	38	40	21	27	30	156	31.20	7.85	

From the above data, answer the following questions assuming that the bank's credit exposure is at equal levels for each zone:

98. From business risk point of view, the Performance of the zone which is subjected to maximum risk exposure appears to be
(a) Ahmedabad **(b)** Mumbai **(c)** Chennai **(d)** Kolkata

99. From Business risk point of view, the Performance of the Zone which is subjected least risk exposure appears to be
(a) Delhi **(b)** Mumbai **(c)** Chennai **(d)** Kolkata

100. The ratio of Standard Deviation to Mean for all zones put together for ABC Bank Ltd. Is
(**a)** 7.85 (**b)** 31.20 (**c)** 0.516 (**d)** 0.25

ANSWER PRACTICE TEST NO.

1	C	2	B	3	D	4	C	5	B	6	C	7	C	8	D	9	C	10	B
11	C	12	B	13	C	14	B	15	A	16	C	17	C	18	B	19	C	20	A
21	AS	22	C	23	B	24	C	25	B	26	B	27	A	28	D	29	D	30	B
31	A	32	B	33	B	34	D	35	B	36	B	37	C	38	A	39	A	40	B
41	C	42	A	43	C	44	D	45	D	46	B	47	C	48	B	49	E	50	D
51	B	52	A	53	D	54	A	55	C	56	D	57	C	58	D	59	C	60	A
61	B	62	D	63	D	64	C	65	D	66	B	67	A	68	A	69	B	70	A
71	A	72	C	73	C	74	A	75	A	76	A	77	D	78	B	79	A	80	C
81	B	82	B	83	C	84	D	85	A	86	B	87	A	88	D	89	A	90	A
91	B	92	C	93	A	94	B	95	C	96	A	97	A	98	C	99	B	100	D

PRACTICE TEST PAPER NO. 2 (TEST YOUR SELF)

(BASED ON RECALLED QUESTIONS)

01 In respect of the items contained in the Balance Sheet of a bank, find the odd man out:
(a) capital **(b)** investments **(c)** borrowing **(d)** sundry creditor.
02 Net interest margin can be worked out as:
a interest income / interest expenses x 100 **b** interest income — interest expenses x 100
c interest income / average total assets x 100 **d** (interest income — interest expenses)/ average total assets x 100
03 Which of the following does not appear in the balance sheet of a bank as 'off-balance sheet' item:
a letter of credit **b** bank guarantees **c** demand drafts issued **d** option forward contracts
04 Of the following which is the objective of the liquidity management **(a)** ensure profitability of the bank **(b)** protect the bank from reputation loss **(c)** create the maturity ladder for assets and liabilities.
a a only **b** a and b **c** a and c **d** b only
05 Basis Risk to a bank arises on account of (**a)** exposure in different currencies (**b)** exposure to different maturities (**c)** exposure to different type of entities. Which of these is not a factor:
a a and b **b** b and c **c** a and c **d** none of the above
06 Management and control of interest rate risk is the responsibility of:
a Credit risk management Deptt (CRMD) **b** Asset Liability Management Committee (ALCO)
c SMS Deptt **d** all the above
07 A negative gap in a time bucket can affect net interest income adversely, if:
a there is decline in interest rate **b** there is an increase in interest rate **c** there is no movement in interest rate
d none of the above
08 Liquidity is measured by grouping the assets and liabilities on the basis of their
a pricing **b.** risk weightage **c** maturity **d** amount
09 A negative gap occurs when in a given time bucket:
a assets exceed the liabilities b liabilities exceed the assets c assets match the liability d none of the above
10 Which one of the following is a forward transaction:
a spot transaction **b** ready transaction **c TOM** transaction **d** transaction beyond two days
11 in an option contract where the buyer of a contract has the right but not the obligation to sell a currency at a predetermined price during the contract period is called:
a American put option **b** American call option ,**c** European call option **d** European put option
12 An FCNR deposit received from an NRI in US$ can be viewed by the bank as:
a Euro-rupee deposit, **b** Petro-dollar deposit**,** c Rupee-dollar deposit, **d** Euro-dollar deposit
13.The systemic risk encompasses (**a)** business risk (**b)**financial risk (**c)** interest risk. Which of these is correct?
a a and b only, **b** b and c only , **c** a and c only **d** a, b and c all
14.The off-balance sheet items, as long as, they are not invoked /devolve, give rise to-----risk
a.currency risk **b** credit risk, **c** contingency risk **d** liquidity risk
15. VaR (value at risk) is: **a** measure of interest rate risk , **b** a type of market risk, **c**a measure of operational risk **d.**none of the above
16. Which of the following procedures is essential in validating the VaR estimates:

a back testing **b** scenario analysis **c** stress testing **d** no validation needed, if Var is approved by the regulator

17 Review process by the supervisors for operational risk implementation by banks include:

a the quality and comprehensiveness of the bank's disaster recovery and business continuity plans

b the effectiveness of the bank's risk management process and overall control of management. with respect to operational risk

c the effectiveness of the bank's operational risk mitigation effort

d all the above

18 What is the 'Beta' factor for commercial banking under standardized approach:

a 10% **b** 12% **c** 15% **d** 20%

19 The dealer in Treasury Department of bank wits US 2 million spot on May 12 (Friday). May 13 is a public holiday under NI Act. The settlement of the deal shall take place:

a May 15 **b** May 16 **c** May 17 **d** May 18

20 The simultaneous purchasing and selling of different securities by a person so that the cornposition of portfolio can be changed without significant cost is called: **a** arbitrage deal **b** swap deal, **c** switch deal **d** option deal

21.Forward rate is: **a** derived from the spot rates **b** spot rate adjusted for the premium/discount

c the rate agreed for settlement on an agreed date in the future,**d** all the above

22 The minimum and maximum cash reserve ratio that RBI can prescribe, falls under which of the following range:

a 3% to 15% **b** 3% to 20% **c** 5% to 20% **d** none of the above

23 Which among the following is not a correct statement in the context of treasury bills:

a issued in demat form (SGL) unless the investor so desires **b** issued at a discount to face value

c are approved securities and qualify for SLR purpose for banks **d** the discount is calculated at front end

24 A company has issued debentures for a period of 5 years with the provision that interest for the first year shall be 6.5% and for the remaining 4 years it shall be 7%. These can be called:

a floating rate debentures **b** step up debentures **c** flexible debentures d option debentures

25 Yield to maturity of a bond is also called:

a internal rate of return of the bond **b** coupon of the bond **c** discount of the bond swap rate of the bond

26 The risk of loss in gold investment is an example of:

a liquidity risk **b** commodity risk **c** interest rate risk **d** exchange risk

27 Under ALM, stock approach for monitoring and managing liquidity is based on:

a level of assets **b** level of liabilities **c** level of assets and liabilities **d** level of assets, liabilities and off-balance sheet exposure

28 Flow approach in ALM depends upon:

a measuring and managing the funding requirement **b** managing market access **c** contingency planning,

d all the above

29 As per RBI guidelines, the gap of maturing assets and liabilities in the first two buckets should not be more than of for funds:

a 5%,10%, outflow **b** 10%, 20%, outflow **c** 5%, 10%, inflow 10%, 20%, inflow

30 Measuring and managing net funding requirement is done through:

a maturity ladder b alternative scenarios c measuring liquidity over a chosen time frame d all the above

31 Rate sensitive gap report is used for measuring risk of loss due to:

a changes in currency rates b changes in commodity rates c changes in equity rates d changes in interest rates

32 The term 'duration' stands for

a contractual maturity b residual maturity c weighted average maturity d duration of forward contract

33 A bank has saving bank deposit of Rs.1000 cr which it invests in 7 year 7% govt. securities. The securities are actively traded in the market. The bank carries:

a interest rate risk b liquidity risk c credit risk d liquidity and interest rate risk

34 Building strong relationships with some providers of funding can provide a line of defence in liquidity problem. This is called:

a contingency planning b alternative scenario c managing- market access d none of the above

35 Asset held by bank under 'trading book', suffer from:

a market risk b market and credit risk c market risk and operational risk d market risk, credit risk and liquidity risk

36 Legal risk is a type of :

a operational risk b credit risk c market risk d none of the above

37 Under the Basel II, the advanced internal rating based approach to credit risk, banks are required to input their own:

a EAD b LGD c EAD & LGD d None of the above

38 The following statements compare a highly liquid assets against an illiquid asset. Which of these statement is false:

a it is possible to trade a larger quantity of liquid assets without affecting the price

b the liquid asset has a smaller bid-ask spread the liquid asset has higher price volatility since it trades more often

d the liquid asset has higher trading volume

39 The risk_ weight of 2.5% on Govt. bonds was introduced in 1999 to address:

a credit risk b operational risk **c)** market risk d counter-party risk

40 A trader buys a call option at an exercise price of 45 and premium of 2. Under which of the following situations, he shall make profit:
a spot price < 43 b 43 < spot price < 45 c 45 < spot price > 47 d spot price > 47
41 Monthly volatility of a stock is 20%. Its one year volatility is approximately :
a 140% b 69% c 20% d 12%
42 In case of a positive gap in rate sensitive assets and liabilities of a bank an increase in the market rate of interest shall:
a increase the profit ,b decrease the profit, c no change in the profit , deither increase or decrease the profit
43. Which of the following statements concerning Risk,Capital and Return is false:
a. business having large variations in the net cash flows would be a business with higher risk and need higher capital to sustain
b. capital and RAROC both are risk dependant
c. a business with lower variation in net cash flow would be a business with low risk and need higher capital to sustain
d. higher the RAROC, higher the reward to investors/shareholders
44. Dynamic liquidity is the liquidity position of: a. 1-14 days, b 15-28 days c. 29 day — 3 months, d 1 day to 3 months
45. Which of the following statements is true: a. capital is a rate sensitive liability , b. cash is a rate sensitive asset
c. deposit is a rate sensitive liability, d. fixed asset is a rate sensitive asset
46. Which of the following activities is likely to be carried out by the Integrated Treasury in a bank (**a)** meeting the reserve requirements (**b)** monitoring large value credits (c)•global cash management (**d)** investment in securities. Indicate as .to which of these will be carried out : a. all the above , b. only b and d , c. a, b and d d. a, c and d
47. The term capital adequacy refers to: a.the ability of a bank to generate adequate capital ,b.the amount of shares outstanding for a bank, c. the ability of a bank to meet its dividend payment to shareholders, d. the bank has sufficient capital to carry out normal business under internationally recognized rules
48. Basel II rests on three pillars. Which of the following is one of such pillars:- a. market risk, b. supervisory review, c. risk management, d. operational risk
49.Which of the following method is considered a traditional method to quantify the risk: a. simulation, b.maturity gap approach, c. duration approach , d. hedging approach
50. The objective of securitization of loans is to: a. reduce credit concentration, b. reduce regulatory capital requirement
c. provide access to loan products for investor, d alfthe above
51 Value at risk (Var) analysis should be complemented by stress-testing because stress testing:
a summarises the expected loss over a target horlzorr within a minimum confidence interval
b provides a maximum loss, expressed in dollars assesses the behaviour of portfolio at a 99% confidence level
d identifies losses that go beyond the normal losses measured by VaR.
52 When the costs / yields of liabilities / assets are linked to a floating rate and there is no simultaneous movement in interest rates, it leads to:
a real interest rate risk b basis risk c reinvestment risk volatility risk
53 The effective interest rate on a Repo trarpsacOon should be:
a higher than the corresponding money market b lower than the corresponding money market
c equal to the corresponding money market d none of the above
54 If a dollar-yen transaction takes place between 13;.Ylk A and Bank Bin Mumbal, it will:
a give rise to settlement risk for only bank A b give rise to settlement risk for both banks
c give rise to settlement risk for bank A or bank B d not give rise to settlement risk for either banks
55 SLR is prescribed by RBI as a percentage of banks (**a)** net bank credit (**b)** net deposits (**c)** total deposits (**d)** total liabilities. Which of these is correct:
a a and b b b and c c c and d d none of these is correct
56 Risk weighted assets for operational risk are worked out as:
a capital to operational risk x 9 b capital to operational risk x 12.5 c capital to operational risk x 8.33 d none of the above
57 Basel 11 prescribes that the housing loan portfolio be given the risk weight of:
a 100% b 35% c 75% d none of the above
58 A confidence interval of 95% in a VaR model Mei:MS that:
a the losses will not exceed 5% of VaR number b there is a 5% chance that losses will be greater than the VaR number c 5% of price moves cannot be explained by the VaR model d only 95% of all activities are covered by the VaR model
59 Which of the following is likely monetary policy in falling interest rate scenario with oihe remaining the same:
a an expansive monetary policy b a restrictive monetary policy c rising nominal interest rates d falling inflation
60 Calculate the price of Zero Coupon bond with a par value of Rs.100 yielding 6% with exactly 2 years left until final maturity:
a Rs.88 b Rs.89 c Rs.94 d Rs.87.92
61 What do you call a yield curve where the short term yields are higher than the long term yields:
a positive b parabolic c inverted d flat
62 The risk that arises due to worsening of credit quality is
a intrinsic risk b credit spread risk c portfolio risk d counterpart), risk
63 The method suggested by Basel Committtee **II** for measuring capital charges does not include:
a basic indicator approach b standardized approach

c advanced measurement approach
d quantitative measurement approach
64 The back office of a bank has failed to exercise a forward contract due to oversight. In this the bank has suffered: a operational risk b market risk c settlement risk d counterparty risk
65 Which of the following is not a limit to control the market risk:
a counterparty limit b maximum transaction size limit c stop loss limit d forward gap limit
66 Which of the following statements is not true?:
a value at risk is the maximum possible loss for a given portfolio of assets
b In an interest rate swap transaction, the principal amounts are exchanged on the first day of itself and only interest flows occur on the maturity date
c Future contract can be for any amount as may be agreed by both the parties to the contract, d None of these
67 Which of the following statements is true?
a Basel II accord is based on three pillars (**a)** credit risk (**b)** market risk and (**c)** operational risk
b Under Basel II, the risk weight of a particular country can be more than the risk weight for a corporate in another country
c Issuing ADR/GDR instruments in foreign currency causes exchange risk for the issuing company.
68 Net Interest Margin (NIM) is —
a The difference of interest earned and interest paid b The Net Interest Income divided by total assets
c The Net Interest Income divided by average assets d Net Profit divided by total interest earned.
69 Off-Balance Sheet items such as Guarantees, Letters of Credit, underwriting commitments give rise to
a Operational risk b Credit risk and Market risk c Contingency risk d Liquidity risk, interest rate risk, credit risk and operational risk
70 Given that remaining maturity is the same, which among the following will have the longest duration?
a Bonds with half yearly coupon rates b High Coupon Bond trading at premium c Low Coupon Bond trading at discount
d Zero Coupon Bond
71 Portfolio risk is less than weighted average of individual risks in the portfolio because of —
a Diversification effect b Risks on individual share prices are unpredictable c Both (**a)** & (**b)** are correct d None of them is correct
72 Daily volatility of a stock is 0.5%. What is its 15 days volatility?
(**a)** 7.5% (**b)** 1.5% (**c)** 1.94% (**d)** 5%
73 The periodicity 'proposed for 'disclosure' under market discipline for Basel II implementation is
(**a)** Quarterly (**b)** Annual (**c)** Semi-annual (**d)** Monthly
74 Which one of the following statements is correct as regards 'duration' of a 5 year Zero Coupon Bond?
a) Duration of a five year Zero Coupon Bond would be less than 5 years.
b) Duration of a five year Zero Coupon Bond would be more than 5 years
c) Duration of a five year Zero Coupon Bond would be less than or equal to 5 years
d) Duration of a five year Zero Coupon Bond is exactly 5 years

75. The latest proposal of the Basel Committee on Banking Supervision (BCBS) for the new Basel Accord (Basel II) introduces the Advanced Internal Rating Approach for credit risk. Under this, banks will input their own :a) EAD b) LGD c) EAD & LGD d) None

QUESTION BASED ON CASE STUDY/ CASE LET

Case Study No. 1

Data relating to balance sheet as on 21.12.2007 of a bank reveals (Rs. c**c)** its capital at 1100, reserves 2150, demand deposits 6500, SB deposits 20500, term deposits from banks 1300, term deposits from public 30800, borrowing from RBI nil, borrowing from other institutions 200, refinance from NABARD 150, bills payable 50, interest accrued 20, subordinated debt 200 and credit balance in suspense account 30. (Total being 63000). Based on the above facts, answer the following questions based on RBI guidelines on calculation of CRR:
76 Items of liabilities which are not to be included for computing NDTL are:
a) capital and reserves **b)** capital and reserves + refinance from NABARD
c) capital and reserves + refinance from NABARD + term deposits of banks **d)** none of the above
77 Total amount of liabilities not to be included in computing NDTLs is Rs:
a) 3250 cr **b)** 3300 cr **c)** 4600 cr **d)** 4700 cr
78 Total amount of NDTL on which 7.5% CRR is to be maintained:
a) 58100 cr **b)** 63000 cr **c)** 58300 cr **d)** 67100 cr
79 Bank would be required to maintain average CRR amounting to:
a) 4372.5 cr **b)** 4357.5 cr **c)** 4725 cr **d)** None of these
80 On any particular day during the fortnight, the cash balance with RBI should not fall below Rs:
a. 3061 cr b. 3050 cr c. 2835 cr d. 2945 cr

Case Study No. 2

East-West Bank Ltd. (EW**B)** is a scheduled commercial bank, has computed its obligatory average cash reserve requirement at Rs. 175 crore for the fortnight beginning 10.11.2007. The bank has maintained average of 70% of obligatory CRR for the first 12 days due to fund constraints / high call rates in Inter-Bank Call money market. However, on the 13th day of fortnight, the bank could maintain Rs. 400 crore in their current account with RBI. Based on the above information, answer following questions:

81. EWB is required to Maintain minimum CRR on Product basis for the fortnight to comply with CRR requirement of
(a) 2450 crore **(b)** 2100 crore **(c)** 175 crore **(d)** 1715 crore
82. How much amount of CRR the bank has maintained upto first 12 days?
(a) Rs. 2185 crore **(b)** Rs. 2100 crore **(c)** Rs. 1470 crore **(d)** Rs. 1785 crore
83. Total CRR Product achieved at the end of 13th day by the bank is ______
(a) 1870crore **(b)** 2450 crore **(c)** 2185 crore **(d)** 2100 crore
84. EWB is required to arrange for on the last day of the fortnight with RBI so as to comply with CRR maintenance
(a) 265 crore **(b)** 580 crore **(c)** 300 crore **(d)** 122.50 crore
85. If EWB has successfully maintained the obligatory CRR for the fortnight starting from 10.11.2007, the rate of interest it will earn on the eligible amount from RBI is__________
(a) Bank Rate **(b)** Repo Rate **(c)** Reverse Repo Rate **(4)** None of these

Case Study No. 3

A bank has total advances of Rs.10000, gross NPA of 8% & Net NPA 5%, Based on the above facts, answer the following questions:
86 Total provisions amount would be: a 200 cr b 300 cr c.336.80 cr d. None of the above
87 Net NPA amount would be: a 550 cr b 400 crc. c. 500 cr d. None of the above
88 Provision required for standard assets would be: a 36.8 cr b 25 cr c c.40 cr d. None of the above

Case Study No. 4

The financial results of AB Bank reveals the classification of its non-agriculture credit portfolio (of Rs.10000 cr) as on 31.3.08 under standard assets Rs.9500 cr, Sub-standard secured Rs.150 cr and unsecured Rs.50 cr, doubtful up to 12 months(DF**1)** 200 cr, doubtful for more than 12 months but up to 3 years (DF II) Rs.50 cr and doubtful above 3 years (DF **Ill) Rs.30 cr and** loss assets Rs.20 cr. Based on the above information, choose the correct answer:
89 Provisioning requirement for sub-standard accounts would be:
a Rs.20 cr b Rs.40 cr c Rs.25 cc d Rs.35 cr
90 If the realisable value of security for OF I advances is Rs.150 cr, the provision required on OF-1 accounts would be:
a 40 cr b 120 cr c 30 cr d 80 cc
91 lithe realisable value of security for DF **II** advances is Rs.30 cr, the provision required on DF-2 accounts **would** be:
a 20 cr b 29 cr c 36 cr d 35 cr
92 If the realisable value of security for DF Ill advances is Rs.10 cc, the provision required on GF-3 accounts would be:
a 25 cr b 30 cr c 20 cr d none of the above
93. Provision for total NPAs would be:
a 184 cr b 164 cr c 150 cr none of the above

Case Study No. 5

Advance Portfolio of XYZ Bank is summarized as below:
Total Advances:Rs. 10000 crore; Sub-standard secured (Code 2**1)** : Rs. 300 crore; Sub-standard unsecured(Code 22):Rs 50 crore and Realizable value of security (RVS):Rs 5 crore; Doubtful-I Category (Code 31):Rs 200 crore and Realizable value of security (RVS): Rs150 crore; Doubtful-II Category (Code 32): Rs 200 crore and Realizable Value of Security (RVS): 100 crore; Category:Rs200 crore and Realizable value of Security (RVS):Rs 50 crore; Loss
Assets: 50 crore. Based on the following information, *answer* following questions
(94**)** Gross NPA Percentage for this bank is
(a) 7% **(b)** 10% **(C)** 9% **(d)** 9.5%
(**95)**Provision for Sub-Standard advances would be______
(a) 35 crore **(b)** 39 crore **(c)** 40 crore **(d)** 30 crore
(96) Provision for doubtful advances would be
(a) 410 crore **(b)** 340 crore **(c)** 300 crore **(d)** 385 crore
(97) Provision for loss assets would be
(a) 50 crore **(b)** 45 crore **(c)** 47 crore **(d)** 48 crore
(98) If the bank has made Provision fully, then the net NPA Percentage for XYZ bank would be
(a) 4.36% **(b)** 5.26% **(c)** 6.1% **(d)** 6.27%

Case Study No. 6

As on Mar 31, the net profit of the bank are 30 cr, provisions 60 cr, staff expenses 70 cr, other operating expenses 40 cr, other income 80 cr. Based on the above facts, answer the following questions:
99 Capital charge for operational risk based on one year's results using Basic Indicator approach would be:
a 24 cr b 30 cr c 33 cr d 15 cr
100. Risk weighted assets for operational risk would be worked out as:
a 375 cr b 300 or c 240 cr d none of the above

ANSWER PRACTICE TEST NO. 2

1	D	2	D	3	C	4	B	5	D	6	B	7	B	8	C	9	B	10	D
11	A	12	C	13	A	14	C	15	A	16	A	17	D	18	C	19	B	20	B
21	D	22	D	23	A	24	B	25	A	26	B	27	D	28	D	29	A	30	D
31	D	32	C	33	A	34	C	35	D	36	A	37	C	38	A	39	C	40	D
41	B	42	A	43	C	44	D	45	C	46	D	47	D	48	B	49	B	50	D
51	D	52	B	53	B	54	C	55	D	56	B	57	B	58	A	59	A	60	B
61	C	62	B	63	D	64	A	65	A	66	C	67	B	68	B	69	D	70	D
71	A	72	C	73	C	74	D	75	C	76	C	77	D	78	C	79	A	80	A
81	A	82	C	83	A	84	B	85	D	86	C	87	C	88	A	89	C	90	D
91	B	92	B	93	A	94	B	95	C	96	A	97	A	98	B	99	B	100	A

****BEST OF LUCK ****