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20 CAIIB

PART-I

Recollected Questions in
BANK FINANCIAL MANAGEMENT (BFM)

For CAIIB 2022 Examination

KEY HIGHLIGHTS

- **Most likely to be asked questions**
- **Recollected from the previous 5 years**
- **Thoroughly curated by Industry Experts**
- **20 Questions with Solutions**
- **Based on the Latest Pattern for 2022 Exam**

Bank Financial Management (BFM) – Part I

Directions: Given,
Net Worth = 1350.00
Risk Sensitive Asset (RSA) = 18251.00
Risk Sensitive Liability (RSL) = 18590.00
Weight Modified Duration of Asset (DA) = 1.96
Weight Modified Duration of Liability (DL) = 1.25
Answer the following questions based on the above given information

Q1. What is Weight (W)?
(a) 1
(b) 1.02
(c) 1.33
(d) 1.66
Ans.(b)
Explanation:
Calculate weight (W) = RSL/RSA
= 18590/18251
= 1.018
= 1.02

Q2. What is DGAP?
(a) 0.33
(b) 0.48
(c) 0.69
(d) 0.81
Ans.(c)
Explanation:
DGAP (modified duration gap) = DA - (W*DL)
= 1.96 - (1.02*1.25)
= 1.96 - 1.1275
= 0.685
= 0.69

Q3. What is Leverage Ratio?
(a) 12.33
(b) 13.22
(c) 13.52
(d) 13.66
Ans.(c)
Explanation:
Leverage ratio= RSA/ Networth
= 18251/1350
= 13.52

Q4. What is Modified Duration of Equity?
(a) 6.33
(b) 7.33
(c) 8.33
(d) 9.33
Ans.(d)
Explanation:
Modified duration of equity (MD) = DGAP * leverage ratio
= 0.69 * 13.52
= 9.3288
= 9.33 years

Q5. If there is 200 bp change in rate, what is drop in Equity Value?
(a) 18.66
(b) 20.33
(c) 22.66
(d) 24.33
Ans.(a)
Explanation:
Equity value=Change in rate (BP)*MD
= 200*9.33/100
= 18.6576
= 18.66%

Q6. Which approaches are used for measuring and managing funding requirement?
i) Stock approach
ii) Standard approached
iii) Flow approach
iv) Quantitative approach
(a) i) and iii) only
(b) ii) and iv) only
(c) ii) and iii) only
(d) i) and iv) only
Ans.(a)

Directions: As per the RBI guideline on ALM, capital and reserves are to be placed in over 5 years bucket, Saving and Current Deposits may be classified into volatile and core portions. Saving bank (10%) and Current (15%) deposit 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 placed in 1-3 year bucket. The Term Deposits are to be placed in respective maturity bucket.

Capital	Rs. 1180 Cr
Reserve	Rs. 12000 Cr
Current account	Rs. 1000 Cr
Saving Bank	Rs. 4000 Cr
Term Deposits 1 month maturity bucket	Rs. 400 Cr
Term deposit 1 to less than 6 month maturity bucket	Rs. 800 Cr
Term deposit 3 month to less than 6 month Maturity bucket	Rs. 1200 Cr
Term Deposit 6 month to less than 12 month maturity Bucket	Rs. 2000 Cr

Term Deposit 1 year to less than 3 year maturity bucket	Rs. 1200 Cr
Term deposit 3 year to less than 5 year Maturity bucket	Rs. 600 Cr
Term deposit above 5 year maturity bucket	Rs. 800 Cr
Borrowing from RBI	Rs. 400 Cr

Based on the above information answer the following questions

Q7. 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) Rs. 250 Cr
Ans.(b)
Explanation:
Volatile portion of 15% to be placed in this bucket
=1000*15/100=150

Q8. 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
Ans.(d)
Explanation:
Volatile portion of 10% to be placed in this bucket
=4000*10/100=400

Q9. What is the amount of Current account deposit that can be placed in 1-3 year bucket?
(a) RS.100 Cr
(b) RS.400 Cr
(c) RS.800 Cr
(d) RS.850 Cr
Ans.(d)
Explanation:
Non- Volatile portion of 90% to be placed in this bucket
=1000*85/100=850

Q10. What is the amount of Saving bank deposit that can be placed in 1-3 year bucket?
(a) RS.4000 Cr
(b) RS.3600 Cr
(c) RS.3200 Cr
(d) RS.3000 Cr
Ans.(b)
Explanation:
Non-Volatile portion of 90% to be placed in this bucket
= 4000*90/100 = 3600

Q11. What is the total amount of term deposit that will be placed in various maturity bucket upto less than 12 month?
(a) RS.2400 Cr
(b) RS.2800 Cr
(c) RS.3200 Cr
(d) RS.4400 Cr
Ans.(d)
Explanation:
400+800+1200+2000 = 4400

Q12. In market risk, risk measurement is done on the basis of sensitivity and ...... (i) downside potential, (ii) upside potential
(a) Only (i)
(b) Only (ii)
(c) Either (i) or (ii)
(d) Both (i) and (ii)
Ans.(a)

Directions: International Bank has following assets and liabilities in its balance-sheet as on Mar 31, 2021:
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.

Q13. What is the amount of interest rate sensitive assets?
(a) Rs. 252000
(b) Rs. 320000
(c) Rs. 360000
(d) Rs. 400000
Ans.(c)
Explanation:
Assets other than cash and other assets are rate sensitive.
Hence 400000-27600-12400 = 360000

Q14. What is the amount of interest rate sensitive liabilities?
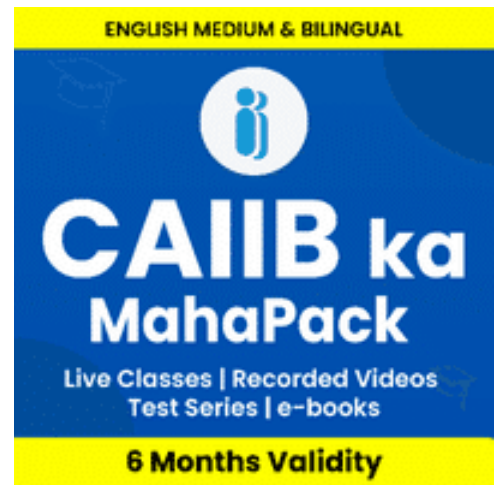(a) Rs. 252000
(b) Rs. 320000
(c) Rs. 360000
(d) Rs. 400000
Ans.(a)
Explanation:
Liabilities other than capital, reserves and current accounts are rate sensitive.
Hence, 400000-4000—24000-120000 = Rs. 252000 cr

Q15. 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

Ans.(b)

Explanation:

Interest sensitive assets are more than interest sensitive liabilities i.e. 360000.

Hence, there is positive gap

Q16. 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

Ans.(c)

Explanation:

Tier-1 capital comprises reserves and capital. Hence 4000 + 24000 = 28000 cr

Q17. As per a call option, you can buy USD 100000 at a strike price of Rs. 74 per USD with expiry at the end of 2 months. In this case,

1. If the spot price of USD is Rs. 75 on the expiry day, it is an ......

(a) In-the-money option

(b) Out-of-money option

(c) At-the-money option

(d) American option

Ans.(a)

Q18. If the spot price of USD is Rs. 73 on the expiry day, it is an ......

(a) In-the-money option

(b) Out-of-money option

(c) At-the-money option

(d) American option

Ans.(b)

Q19. If the spot price of USD is Rs. 74 on the expiry day, it is an ......

(a) In-the-money option

(b) Out-of-money option

(c) At-the-money option

(d) American option

Ans.(c)

Q20. Which is not a derivative product?
  (a) Swap
  (b) Repo
  (c) Option
  (d) Forward
  Ans.(b)