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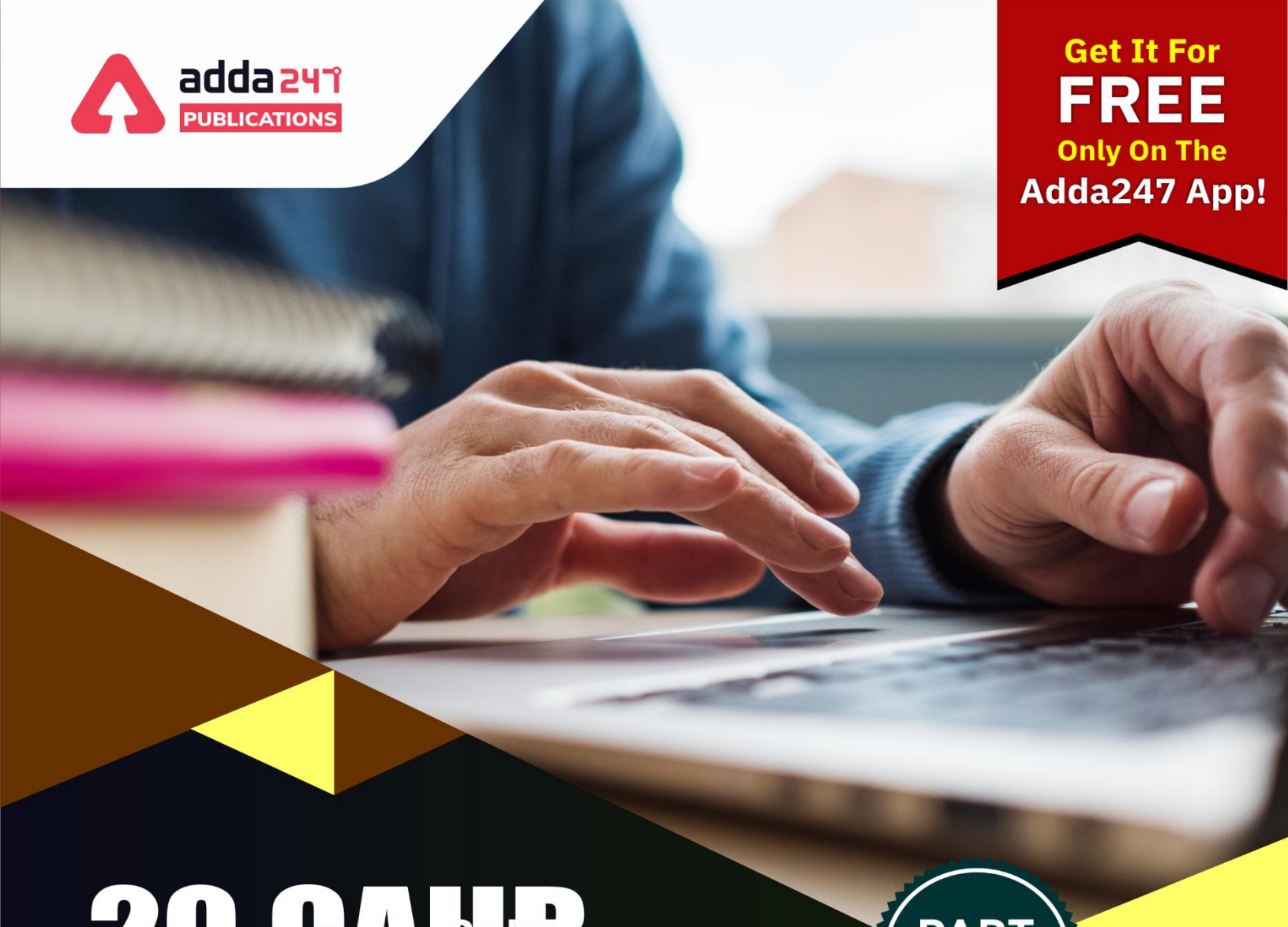

20 CAIIB

PART V

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)

Directions: ABC bank has the following exposure to Corporate sector secured by financial assets.

Party - A Ltd	**Party - B Ltd**	**Party - C Ltd**
Amount in Rs - 20.00 Cr	Amount in Rs - 40.00 Cr	Amount in Rs - 60.00 Cr
Maturity of exposure & collateral – 2	Maturity of exposure & collateral - 3	Maturity of exposure & collateral - 6
Collateral - Mutual Fund (AA)	Collateral - Sovereign Bond	Collateral - Gold
Value of collateral - 20.00 Cr	Value of collateral - 40.00 Cr	Value of collateral - 62.00 Cr
Exposure Rating – AA	Exposure Rating - BBB	Exposure Rating - A

Q1. Find out the credit risk weighted asset for A Ltd.
(a) 0.18 Cr
(b) 0.24 Cr
(c) 0.80 Cr
(d) 2.65 Cr
Ans.(b)
Explanation:
Applying the credit risk mitigation formula:
E* = max {0, [E x (1 + He) - C x (1 - Hc - Hfx)]}
where:
E* = the exposure value after mitigation
E = current value of the exposure for which the collateral qualifies as a risk Mitigant
He = haircut appropriate to the exposure
C = the current value of the collateral received
Hc = haircut appropriate to the collateral
Hfx = haircut appropriate for currency mismatch between the collateral and exposure
Party - A Ltd
Exposure - 20.00
Rating of Exposure - AA
Risk Weight - 30%
Hair cut for exposure - 0
Collateral value - 30.00
Collateral - Mutual Fund(AA)
Maturity of collateral - 2
Hair cut for collateral - 4%
E* = max {0, [20 x (1 + 0) - 20 x (1 – 0.04 - 0)]}
= max of 0 or [0.80]
Means the collateral value after mitigation = 20 - 0.80 = 19.20
So the net exposure = 20 - 19.20 = 0.80
RWA = 0.80 x Risk weight of exposure which is 30%
= 0.24 Cr

Q2. Find out the credit risk weighted asset for B Ltd.

(a) 0.18 Cr

(b) 0.24 Cr

(c) 0.80 Cr

(d) 2.65 Cr

Ans.(c)

Explanation:

Applying the credit risk mitigation formula:

E* = max {0, [E x (1 + He) - C x (1 - Hc - Hfx)]}

where:

E* = the exposure value after mitigation

E = current value of the exposure for which the collateral qualifies as a risk Mitigant

He = haircut appropriate to the exposure

C = the current value of the collateral received

Hc = haircut appropriate to the collateral

Hfx = haircut appropriate for currency mismatch between the collateral and exposure

Party - B Ltd

Exposure - 40.00

Rating of Exposure - BBB

Risk Weight - 100%

Hair cut for exposure - 0

Collateral value - 40.00

Collateral - Sovereign Bond

Maturity of collateral - 3

Hair cut for collateral - 2%

E* = max {0, [40 x (1 + 0) - 40 x (1 – 0.02 - 0)]}

= max of 0 or [0.80]

Means the collateral value after mitigation = 40 - 0.80 = 39.20

So the net exposure = 40 - 39.20 = 0.80

RWA = 0.80 x Risk weight of exposure which is 100%

= 0.80 Cr

Q3. Find out the credit risk weighted asset for C Ltd.

(a) 0.18 Cr

(b) 0.24 Cr

(c) 0.80 Cr

(d) 2.65 Cr

Ans.(d)

Explanation:
Applying the credit risk mitigation formula:
E* = max {0, [E x (1 + He) - C x (1 - Hc - Hfx)]}
where:
E* = the exposure value after mitigation
E = current value of the exposure for which the collateral qualifies as a risk Mitigant
He = haircut appropriate to the exposure
C = the current value of the collateral received
Hc = haircut appropriate to the collateral
Hfx = haircut appropriate for currency mismatch between the collateral and exposure
Party - C Ltd
Exposure - 60.00
Rating of Exposure - A
Risk Weight - 50%
Hair cut for exposure - 0
Collateral value - 62.00
Collateral - Gold
Maturity of collateral - 6
Hair cut for collateral - 15%
E* = max {0, [60 x (1 + 0) - 62 x (1 – 0.15 - 0)]}
= max of 0 or [7.30]
Means the collateral value after mitigation = 62 - 7.30 = 54.70
So the net exposure = 60 - 54.70 = 5.30
RWA = 5.30 x Risk weight of exposure which is 50%
= 2.65 Cr

Q4. In a loan a/c, the balance outstanding is Rs. 5 lacs and a cover of 75% is available from CGTMSE. The a/c has been doubtful since 01.10.2011 and the value of security held is Rs. 2 lacs. What will be the total provision to be made for this account as on 31.03.2015?
(a) Rs. 500000
(b) Rs. 275000
(c) Rs. 225000
(d) Rs. 75000
Ans.(b)
Explanation:
Outstanding balance = Rs. 5 lacs, Security available = Rs. 2 lacs
CGTMSE cover of 75% available on the remaining amount
= (500000 – 200000) x 75/100
= 300000 x 75/100 = 225000
We will take the uncovered amount for taking provision, which will be,
300000 - 225000 = 75000
Since loan is in doubtful category for more than 3 years, we will take 100 % Provision for security value.
=200000
So total provision will be,
75000+200000
= 275000

Directions: Balance sheet of a bank provides the following information:
Total advances Rs 50000cr, Gross NPA 10% and Net NPA 3%. Based on this information, answer the following questions?

Q5. What is the amount of gross NPA?
(a) Rs 4000cr
(b) Rs 4500cr
(c) Rs 5000cr
(d) Rs 5500cr
Ans.(c)
Explanation:
Gross NPA
= 50000 x 10 %
= 5000 Cr

Q6. What is the amount of net NPA?
(a) Rs 1000cr
(b) RS 1200cr
(c) Rs 1500cr
(d) Rs 1800cr
Ans.(c)
Explanation:
Net NPA
= 50000 x 3 %
= 1500 Cr

Q7. What is the amount of provision for standard loans, if all the standard loan account represent general advance?
(a) Rs 150cr
(b) Rs 160cr
(c) Rs 180cr
(d) Rs 200cr
Ans.(c)
Explanation:
Standard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000
Provision for standard loans (general advance)
= 0.4%
= 45000 x 0.4%
= 180 Cr

Q8. What is the provision on NPA accounts?
(a) Rs 3000cr
(b) RS 3500cr
(c) Rs 4500cr
(d) Rs 5000cr
Ans.(b)
Explanation:
Provision of NPA
= (Gross NPA - Net NPA. x Total Advances
= (10% - 3%) x 50000
= 7% x 50000
= 3500 Cr

Q9. What is the total amount of provisions on total advances, including the standard accounts?
(a) Rs 3500cr
(b) Rs 3680cr
(c) Rs 4000cr
(d) Rs 4200cr
Ans.(b)
Explanation:
Provision on Total Advances
= Provision of NPA + Provision for standard loans
= 3500 + 180
= 3680 Cr

Q10. What is the minimum amount of provision to be maintained to meet the PCR of 70%?
(a) Rs 3500cr
(b) Rs 3680cr
(c) Rs 4000cr
(d) Rs 4200cr
Ans.(a)
Explanation:
Minimum amount of provision to be maintained to meet the PCR of 70%
= Gross NPA x PCR
= 5000 x 70%
= 3500 Cr

Q11. What is the amount of provision for standard loans, if all the standard loan account represent direct advances to agricultural?
(a) Rs 90cr
(b) Rs 112.5cr
(c) Rs 135cr
(d) Rs 180cr
Ans.(b)

Explanation:
Standard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000
Provision for standard loans (direct advances to agricultural)
= 0.25%
= 45000 x 0.25%
= 112.5 Cr

Q12. What is the amount of provision for standard loans, if all the standard loan account represent advances to SMEs sectors?
(a) Rs 90cr
(b) Rs 112.5cr
(c) Rs 135cr
(d) Rs 180cr
Ans.(b)
Explanation:
Standard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000
Provision for standard loans (SMEs Sector)
= 0.25%
= 45000 x 0.25%
= 112.5 Cr

Q13. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE sectors?
(a) Rs 112.5cr
(b) Rs 180cr
(c) Rs 337.5cr
(d) Rs 450cr
Ans.(d)
Explanation:
Standard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000
Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 1%
= 45000 x 1%
= 450 Cr

Q14. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE-RH sectors?
(a) Rs 112.5cr
(b) Rs 180cr
(c) Rs 337.5cr
(d) Rs 450cr
Ans.(c)
Explanation:
Standard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000
Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 0.75%
= 45000 x 0.75%
= 337.5 Cr
SME - Small and Micro Enterprises
CRE - Commercial Real Estate (CRE) Sector
CRE - RH - Commercial Real Estate – Residential Housing Sector (CRE - RH)

Directions: A is an Indian who now settled in UK and married B who is from Kenya but now a British citizen. They have 2 children (C&D) born in London. C is now married to a Pakistani citizen and settled in Karachi. D is working in London.

Q15. Status of D .....
(a) NRI
(b) Foreign National
(c) Person of Indian origin
(d) Person of Kenya origin
Ans.(c)

Q16. A can open which type of a/c? (i) NRE, (ii) NRO, (iii) FCNR(B)
(a) Only (i) and (ii)
(b) Only (i) and (iii)
(c) Only (ii) and (iii)
(d) (i), (ii) and (iii)
Ans.(d)

Q17 A can make Nominee for her a/c out of her family?
(a) B
(b) C
(c) D
(d) Anyone
Ans.(d)

Directions: 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 1.1.2021 when the USD/INR rate was Rs.66.80 per USD, the firm approached the Bank for releasing pre-shipment loan (PCL), which is released. On 31.3.2021, the firm submitted export documents, drawn on sight basis for USD 46,000 as full and final shipment.

The bank purchased the documents at Rs.67.25, 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 30.4.2021 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 @ 10.5%.

Q18. 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 10% ?

(a) Rs.2029050

(b) Rs.2705400

(c) Rs.3093500

(d) Rs.3340000

Ans.(a)

Explanation:

FOB value = 50000 x 66.80 = 3340000 - 334000 (10% of 3340000 (insurance and freight cost))

= 3006000 - 300600 (10% profit margin)

= 2705400 - 676350 (25% margin)

= 2029050

Q19. 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.2029050

(b) Rs.2705400

(c) Rs.3093500

(d) Rs.3340000

Ans.(c)

Explanation:

46000 x 67.25 = 3093500

Directions: On 20th January, M/s ABC Exporter tenders for purchase a Bill payable 60 Days from Sight and Drawn on New York for USD 25,000. The Dollar / Rupee rates in the interbank exchange market were as under:
Spot USD 1 = Rs. 65.4000 / 4550
Spot / February 1600/1500
Spot / March 3000/2900
Spot / April 5000/4900
Spot / May 6000/5900
Exchange Margin of 0.10% is to be loaded. Rate of Interest is 11% p.a.

Q20. What will be the Exchange Rate to be quoted to the customer?
(a) 64.6525
(b) 64.8350
(c) 64.9000
(d) 65.4000
Ans.(b)
Explanation:
The notional due date is (60 + 25) days from 20th January, i.e., 15th April. (Note that transit period of 25 days is to be taken even if the question is silent). Since the dollar is at discount (forward margin is in descending order), this period will be rounded off to higher month, i.e., end November, and the rate quoted will be based on Spot / November rate for US dollar in the interbank market.
Dollar / Rupee market spot buying rate = Rs. 65.40000
Less: Discount for Spot / February – Rs. 0.50000
65.40000 - 0.50000 = Rs. 64.90000
Less: Exchange margin at 0.10% on Rs. 64.90000 = Rs. 0.06490
64.90000 - 0.06490 = 64.8351
Rounded off to the nearest multiple of 0.0025, the rate quoted would be Rs. 64.8350 per dollar.

Q21. What will be the Rupee Amount payable to him?
(a) Rs. 15,62,129
(b) Rs. 15,79,354
(c) Rs. 16,20,875
(d) Rs. 16,35,000
Ans.(b)
Explanation:
Rupee amount payable on the bill for USD 25,000
At Rs. 64.8350 per dollar = Rs. 16,20,875
Less: Interest for 85 days at 11% on Rs. 16,20,875
= Rs. 41,521
= 16,20,875 - 41,521
= 15,79,354