



**INDIAN INSTITUTE OF BANKING & FINANCE,
MUMBAI**

EXAMINATION: CAIIB

Question paper pattern for the December 2005 examination and onwards:

- The examination will be conducted purely on objective mode/multiple choice questions basis-offline.
- There will be about 90 questions each in all the three papers viz.
 1. Risk Management,
 2. Financial Management and
 3. General Bank Management
- The time allotted will be 120 minutes per paper
- All the papers will have two sections (under two broad categories of questions) as listed below:
- The pattern will consists of the following two categories:
 1. True or False Questions }
2. Fill in the blanks } Category I
3. Tick which is most appropriate }
4. Small case lets }
5. Big cases } Category II
6. Problems etc. }

Category I questions will be 50 questions for 50 marks and Category II type questions will be 40 questions carrying 50 marks.

In case of General Bank Management paper questions have been put module wise, hence there will be four sections for each of the modules given in the courseware, but the broad category wise allocation of marks will be as above.

- However all the questions will be given with multiple choices and the candidates are required to tick the most appropriate answers.
- Candidates can use calculators to calculate etc. in case of problems and wherever such calculations are called for. However to repeat, they are expected to tick only answer in the book specially supplied for the same.

- There will be negative marking for wrong answers. Candidates are therefore advised not to resort to guessing while answering. If answers are not fully known, don't attempt, to avoid getting negative marks. Such negative marks may affect the final outcome.
- Read the questions very carefully and tick the most appropriate answers, as the questions are also based on the cases/problems. The candidates are expected to use their analytical, problem solving, decision making ability while answering such questions. So the answers should be most appropriate to the situation cited.

A FEW SAMPLE/MODEL QUESTIONS ARE GIVEN TO GET A FEEL OF THE QUESTION PAPER PATTERN.

(SAMPLE IS INDICATIVE AND NOT EXHAUSTIVE)

Before starting to attempt/answer the question paper, candidates should read the instructions very carefully, repeat very carefully.

Please note that for candidates convenience, correct answer has been marked against the question.

SUBJECT-RISK MANAGEMENT

1. Net Interest income is
 - a) Interest earned on advances
 - b) Interest earned on investments
 - c) Total interest earned on advances and investment
 - d) Difference between interest earned and interest paid (d)

2. Interest rate risk is a type of
 - a) Credit risk
 - b) Market risk
 - c) Operational risk
 - d) All the above (b)

3. European option can be exercised on any day at the option of the buyer on or before the expiry of the option.
 - a) True B) False (b)

4. If the volatility per annum is 25% and the number of trading days per annum is 252, find the volatility per day.
 - a) 1.58%
 - b) 15.8%
 - c) 158%
 - d) 0.10 (a)

5. The June 1999 Basle Committee on Banking Supervision issued proposals for reform of its 1988 Capital Accord (the Basle II Proposals). These proposals contained MAINLY.
 - I) Settlement risk management
 - II) Capital requirements
 - III) Supervisory review
 - IV) The handling of hedge funds
 - V) Contingency plans
 - VI) Market discipline

- (a) I,III and VI (d)
- (b) II, IV and V
- (c) I,IV and V
- (d) II, III and VI

Case Study – I

You are working as a Middle Level Executive with ‘Modern Bank Ltd.,’ The MIS Department has submitted the following Statistics from which you are required to estimate the likely Capital Funds required by the Bank as of March, 31st, 2007 taking into account the Basel II implementation compliance.

- i) Risk-Weighted Assets for Credit Risk likely to be Rs.53,889.50 crores
- ii) Capital Allocation for Market Risk to be Rs.100/- crores
- iii) For Operational Risk following Data available. The bank is required to calculate Capital Charge for Operational Risk by Basic Indicator Approach.

Year	31-03-2004	31-03-2005	31-03-2006
Gross Income	2600.00	3000.00	3400.00

(Amount in Crore)

Note: Capital Adequacy prescription applicable to Indian Banks has to be considered for calculation.

Answer the following five questions based on above facts.

6. As per Reserve Bank of India directives the Minimum Capital Adequacy Ratio and minimum Tier I capital the Modern Bank is required to maintain as on 31.03.2007 should be _____ respectively.

- a) 8% and 4%
- b) 9% and 4.5%
- c) 9% and 4.0%
- d) 12% and not specified (b)

7. The Basel Committee has defined gross income as net interest income and plus net non-interest income and has allowed each relevant national supervisor to define gross income in accordance with the prevailing accounting practices. Accordingly the Reserve Bank of India in the draft guidelines issued

on 11.03.2005 for implementation of the new capital adequacy framework has modified the Gross Income definition slightly. The Net Interest Income has been replaced by

- a) Net Profit
- b) Operating Profit
- c) No Changes made
- d) Interest Expended (a)

8. Based on the Gross Income given above, the likely Capital Charge for Modern Bank Ltd., as on March 31, 2007 to cover Operational Risk under Basic Indicator Approach shall be

- (a) 375 crores
- (b) 540 crores
- (c) 450 crores
- (d) 360 crores (c)

9. The Modern Bank Ltd., will require total Capital Funds for covering Credit Risk. As on March 31, 2007 to comply Basel II norms of Rs. _____ crores.

- a) 5400 crore
- b) 4500 crores
- c) 4800 crores
- d) 4311.16 crores (a)

10. The Modern Bank Ltd., should have minimum of Rs. _____ Crores as Tier I capital at the rate of minimum of _____% respectively as per RBI guidelines applicable to Indian Banks.

- a) 2250, 4.50%
- b) 2700, 4.50%
- c) 2400, 4.00%
- d) 2400, 8.00% (b)

SUBJECT -FINANCIAL MANAGEMENT

Based on the following information, Answer Questions 1 to 3.

Sales (80% in credit) Rs.14 lakhs, Opening debtors Rs.1,80,000, Discount Rs.12,000, Bad debt Rs.27,000, Cash and Cheques received Rs.10,80,000, Cheques dishonoured Rs.7,200 (expected to realise 50% from that debtor).

Closing creditors Rs.1,70,000, Purchases Rs.5 lakhs (25% in cash), Paid to creditors Rs.3,25,000, Goods returned Rs.15,000.

Cost of goods sold / sales = 75%

Closing stock of finished goods : Rs.1 lakh

Opening stock of finished goods : Rs.0.75 lakh

Assume 1 year = 360 days.

1. The inventory turnover ratio is:
 - a. 12
 - b. 24
 - c. 36
 - d. None of the above (a)

2. The average collection period is:
 - a. 60 days
 - b. 59 days
 - c. 58 days
 - d. None of the above (b)

3. The average payment period is:
 - a. 250 days
 - b. 256 days
 - c. 146 days
 - d. 186 days (c)

4. A firm has an opening of stock of Rs.70,000, Closing stock of Rs.90,000 and Cost of goods sold Rs.2,40,000. What the Inventory Turnover Ratio?
 - a. 5
 - b. 4
 - c. 3
 - d. 2 (c)

Based on the following information, Answer Questions 5 and 6.

Credit Sales Rs.3,00,000

Opening Balance of Accounts Receivable Rs.40,000

Closing Balance of Accounts Receivable Rs.60,000

Credit Purchases Rs.1,80,000

Opening Balance of Account Payable Rs.20,000

Closing Balance of Accounts Payable Rs.40,000

5. The Debtors' Turnover Ratio is:
- a. 6
 - b. 8
 - c. 10
 - d. 12 (a)
6. The Creditors' Turnover Ratio is:
- a. 8
 - b. 6
 - c. 4
 - d. 2 (b)
7. Wait a minute! Why can't I simply choose, say, z to be really large ($z=1,000,000$ say) and thereby make p as large as I want?
- A You can't because
- a) that would make p too large
 - b) z has a negative coefficient in the first constraint
 - c) it would violate the first constraint
 - d) it would violate the second constraint (d)
8. To solve a standard maximization problem using the **simplex method**, we take the following steps: which are jumbled. Mark the correct order of steps.
- Step 1:** Determine which variable to bring into solution.
- Step 2:** Determine which variable to replace

Step 3: Formulate problem in terms of an objective function and a set of constraints

Step 4: Update remaining Row values. Compute new z

Step 5: Calculate new row values for entering variable and insert into new tableau.

Step 6: Set up initial Tableau with slack variables

Step 7: If there is no positive (c-z) value found, the solution is optimum. If there is a positive value, then iterate again (repeat earlier three steps).

Choose the correct sequence of steps.

- a) 3,5,4,5,7,1,2
- b) 3,6,2,1,5,4,7
- c) 3,6,2,1,4,5,7
- d) 3,6,1,2,5,4,7 (d)

Based on the following information, Answer Questions 9 to 10.

MEMBER OF AN INFLUENTIAL ORGANISATION overdraws his accounts at the following banks: the India Integrity Bank, Citizens' Trust Cooperative Bank, and Prudent Money Investment Bank and uses his organisations allocated Funds. There are no penalties for these withdrawals since the overdrafts are subsidized by organisation. Ethics Committee of the organisation tends to let slide irregular banking activities of this sort, provided they are not flagrant. At the moment a total overdraft of up to Rs.10,000/- will be overlooked. Ramani's underlying sense of guilt makes him feel funny about writing overdrafts for banks whose names include expressions like "integrity" and "citizens' trust" and "Prudent". The effect of this is that his bad cheque writing for the first two banks combined amounts to no more than one-quarter of the total. On the other hand, the financial officers at India Integrity Bank are eager to please Ramani due to his influential position, so they would like him to overdraw his account by as much as possible. Find the amount he should draw from each bank in order to avoid investigation by the ethics committee of the organisation and overdraw his account at India Integrity by as much as his sense of guilt will allow.

9. Rs..... from India Integrity Bank.
- a) Rs.2,500/-
 - b) Rs.30,000/-
 - c) Rs.25,000/-
 - d) Rs.35,000/- (a)

10. Rs..... from Prudent Money Investment Bank
- a) Rs.7,500/-
 - b) Rs.10,000/-
 - c) Rs.12,500/-
 - d) Rs.15,000/- (a)

11. Radhika oil Mill is planning for its cash to be maintained during the month of August. The manager has analysed the daily cash outgo for the month of June. Ten longest daily cash outflows are as follows:

June (Rs. in '000s)

Date	3rd	7th	10th	12th	15th	16th	18th	22th	26th	28th
Cash Outflow	55	40	35	48	23	68	42	33	58	29

It is expected that the pattern of cash outflows in the month of June but the magnitude of cash outflows will be 20% more. If the finance manager desires sufficient cash to cover payments of 4 peak days during the month than the safety level of cash to be maintained in the month of AUGUST would

- a) Rs.1,72,400
 - b) Rs.2,06,880
 - c) Rs.2,29,000
 - d) Rs.2,74,800 (d)
12. Which of the following is not a motive for the companies to hold cash?
- a) Transaction motive
 - b) Precautionary motive
 - c) Lack of proper synchronization between cash inflows and outflows
 - d) Capital investments (d)
13. VaR menas:
- a) Valume of Business at Risk
 - b) Value at Risk
 - c) Volume on Risk
 - d) Value as Risk (b)

14. In an inflationary trend, the pricing of the bank products are:
- Decreasing trend
 - Constant
 - Increasing trend
 - No relevance (c)
15. Credit Risk Assessment of the borrowal units is for:
- Assessing the repayment capacity
 - To fix the pricing of the product
 - To review the units performance
 - None of the above (b)
16. Pricing is equals to:
- Cost of the product
 - Break Even Point of the firm
 - Function of Risk rating
 - All of the above (c)

Based on the following information, Answer Questions 17 to 20.

The following are the data on a capital project being evaluated by the management of X Ltd.,

Project M	
Annual cost saving	Rs.40,000
Useful life	4 yeas
I.R.R.	15%
Profitability Index (PI)	1,064
NPV	?
Cost of Capital	?
Cost of Project	?
Salvage value	0

Considering the following table of discount factor:

Discount factor	15%	14%	13%	12%
1 Year	0.869	0.877	0.885	0.893
2 Year	0.756	0.769	0.783	0.797
3 Year	0.658	0.675	0.693	0.712
4 Year	0.572	0.592	0.613	0.636

17. The Pay back period of Project of Project M is:
- a) 2 year 11 months
 - b) 2 years 9 months
 - c) 2 years 12 months
 - d) None of the above (a)
18. What is the cost of capital of Project M
- a) 12%
 - b) 14%
 - c) 16%
 - d) 18% (a)
19. Project-M NPV is:
- a) 7,211
 - b) 7,309
 - c) 8,014
 - d) 8,020 (b)
20. Cost of Project M is:
- a) 1,14,600
 - b) 1,14,200
 - c) 1,14,860
 - d) 1,14,940 (b)

SUBJECT : GENERAL BANK MANAGEMENT

INSTRUCTIONS:

1. The question paper will have four sections:

Section 1: International Banking

Section 2: Human Resources Management

Section 3: Technology Management

Section 4: Marketing Management

2. Each section will have questions in the following pattern:

Question 1: Five statements will be given with multiple-choice answers.

Candidates are required to tick the answer, which is **True or False**.

Question 2: This will be five concepts/ definitions with multiple-choice answers.

Candidates are required to tick the answer which is **most appropriate**.

Question 3: Five small cases will be given along with the issue involved therein with multiple choice answers.

Candidates are required to tick answer, which is considered to be the most appropriate.

Question 4: One real life situation will be narrated and five issues will be raised thereon with multiple choice answers.

Candidates are required to tick the answers, which are considered to be the most appropriate.

SECTION 1: INTERNATIONAL BANKING-SAMPLE QUESTIONS

1. Which of the following statement is correct?
 - (a) Foreign Exchange markets are localized markets.
 - (b) Foreign Exchange markets operate within a country's time zone.

- (c) Foreign Exchange markets are dynamic and round the clock markets.
- (d) Foreign Exchange markets are used only for trade related transactions. (c)

Certain statement has been given below. Answer the question as directed there in.

2. Which of the following definitions is most correct?
UCPDC 500 is :
- (a) Set of rules applicable to CC transactions
 - (b) Set of rule having 500 articles.
 - (c) Set of rules framed by ICC governing LC business globally .
 - (d) Set of universally applicable rules governing LC business in India only. (c)

Read the following situation carefully and tick the answer which is considered most appropriate on the issue raised there in.

3. If market quotes USD/INR as 43.61/63, at what rate can you buy USD at the given quote:
(a) 43.61 (b) 43.62 (c) 43.63 (d) None of the above. (c)
4. A correspondent in Japan wants to fund his Vostro account for Rs 10.00 million. At USD/INR at 63.56/57 and JPY at 109.60/70, how much JPY should the correspondent pay into your Nostro account with him, assuming no margins are loaded:
(a) 91157.70 (b) 251636 (c) 229515 (d) 251762 (d)

Read the following situation carefully and tick the answer which is considered most appropriate on the issues raised therein.

In January 2000, Mr Lobo, a resident of Mumbai, was offered a job in Muscat by a construction company, as Sr. Civil Engineer on a 2 year job contract. He left India on 15.2.2000, after completing Visa formalities and joined the company in Muscat on 18.2.2000. His family joined him in May 2000. He worked with the company till March 2002, and returned back to India bag and baggage.

In May 2002, he joined a large construction company in Mumbai, which also undertook large construction projects at overseas centers. He was posted at one of the local construction sites initially, but in October 2003, he was deputed

to a Hotel construction site in Moscow, by his employers. He stayed in Moscow for a year, and returned in November 2004 on completion of the project work. On returning India, he resigned from the company to go to Riyadh for taking up another job.

He left for Riyadh in December 2004 and got a job with a large company immediately and continues to be there until now.

He had following accounts in India:

- (a) A Savings bank account with XYZ Bank opened in 1998.
- (b) A Savings Bank account with XYZ Bank opened in 2000, from the monies sent from Muscat, used for payment of monthly sustenance to his old parents in India,
- (c) A Term Deposit with a Foreign Bank in India , made out of funds he received by selling his ancestral property in Goa.
- (d) A Term deposit account with an ABC Bank, for USD 5000.00, sent from Muscat, when he received his annual bonus.

Answer the following questions based on the above facts-

- 5. What do we call the savings account of Mr. Lobo with XYZ Bank between the period March 2000 and March 2002.
 - (a) Ordinary savings account
 - (b) Resident Rupee account
 - (c) Non resident Ordinary Rupee account
 - (d) Non resident External Rupee Account. (c)

- 6. What do we call the savings account of Mr. Lobo with XYZ Bank, opened in 2000, until March 2002.
 - (a) NRNR Account
 - (b) NRO savings account
 - (c) NRE savings account
 - (d) FCNR savings account (c)

- 7. What was the status of Mr. Lobo, during May 2002 and May 2003
 - (a) Non resident Indian
 - (b) Returning resident Indian
 - (c) Temporary resident Indian
 - (d) Resident Indian (d)

8. What do we call the Term deposit account of Mr. Lobo with the foreign bank during his stay in India:.
- (a) NRO account
 - (b) NRE account
 - (c) Ordinary resident term deposit account
 - (d) Domestic term deposit account. (d)
9. What do we call the deposit of Mr. Lobo made in US Dollars, when opened?
- (a) NRE USD account
 - (b) Foreign Currency Resident account
 - (c) Foreign Currency Non- Resident account
 - (d) Non –Resident Foreign currency account (c)