

# CAIIB Dec 2025

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## Memory Based Question

ABM



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## Must for 2026 Cycle

## **CAIIB ABM Memory-Based Question Paper of December 2025**

**Q1 Statement 1:** HRD is a structured process that enhances employees' skills, knowledge, and abilities for professional growth.

**Statement 2:** HRD supports leadership development and enhances succession planning in organizations.

**Statement 3:** HRD focuses only on technical skills and does not address behavioral competencies.

- a) Statements 1 and 2 are correct
- b) Statements 2 and 3 are correct
- c) All three statements are correct
- d) Only Statement 1 is correct

**Answer: a) Statements 1 and 2 are correct**

Explanation:

1. Statement 1: TRUE - HRD is a structured, ongoing process for skill enhancement
2. Statement 2: TRUE - HRD supports leadership development and succession planning
3. Statement 3: FALSE - HRD develops technical AND behavioral competencies including attitudes, knowledge, and skills

**Q2 Statement 1:** Job Description contains job title, purpose, duties, responsibilities, and working conditions.

**Statement 2:** Job Specification defines the knowledge, skills, and abilities required to perform a job.

**Statement 3:** Job Analysis focuses only on Job Description and ignores Job Specification.

- a) Statements 1 and 2 are correct
- b) Statements 2 and 3 are correct
- c) All three statements are correct
- d) Only Statement 1 is correct

**Answer: a) Statements 1 and 2 are correct**

Explanation:

1. Statement 1: TRUE - Job Description includes all these components
2. Statement 2: TRUE - Job Specification covers education, work experience, skills required
3. Statement 3: FALSE - Job Analysis includes BOTH Job Description AND Job Specification

**Q3 Which of the following statement/s is/are correct?**

- Wage, salary and remuneration all mean the same.
- The reward linked to the performance generally improves the motivation level of employees.
- It is not necessary to give market-linked wages to employees.

- They may otherwise continue because of lack of alternate jobs.
- Uniform wage structure helps in improving the performance.
  - a) Only (i).
  - b) Only (ii).
  - c) Only (i) and (ii) . .
  - d) Only (iii) and (iv).

**Answer: B**

Explanation: The reward linked to the performance generally improves the motivation level of employees is a True statement. Rest three are False statement.

**Q4 Statement 1:** Task conflict relates to disputes about work assignments, policies, and goals.

**Statement 2:** Relationship conflict arises from personal issues between individuals.

**Statement 3:** Value conflict arises only from organizational policies and never from cultural or personal differences.

Choose the correct option:

- A. 1 and 2 correct
- B. 2 and 3 correct
- C. 1 and 3 correct
- D. All three are correct

**Answer: A**

Explanation: Value conflict also arises from cultural, political, ethical, and personal differences — not just policies.



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**Q5 Statement 1:** Job Rotation involves moving employees from one job to another at the same level.

**Statement 2:** Job Enlargement is horizontal expansion adding more tasks to reduce boredom.

**Statement 3:** Job Enrichment is vertical expansion adding responsibility, authority, and growth opportunities.

- a. Only Statement 1 is correct
- b. Statements 1 and 2 are correct
- c. All three statements are correct
- d. Statements 2 and 3 are correct

**Answer: c) All three statements are correct**

- Statement 1: TRUE - Job Rotation is lateral movement at same level
- Statement 2: TRUE - Job Enlargement is horizontal expansion
- Statement 3: TRUE - Job Enrichment is vertical expansion with more responsibility

**Q6 In this stage individual's development is to achieve an ego identity. According to Erikson which stage in adulthood is represented by above statement?**

- a. Adulthood.
- b. Adolescence.
- c. Young Adulthood.
- d. Maturity.

**Answer: b) Adolescence.**

**Q7 Scenario: During a team meeting, Manager says: "You MUST complete this report by EOD. There's no room for discussion. This is the rule and you will follow it."**

Which Ego State is the Manager operating from?

- a. Parent Ego State
- b. Adult Ego State
- c. Child Ego State
- d. Neutral Ego State

**Answer: a) Parent Ego State**

Explanation: Parent ego state is characterized by rule-giving, conscientious behavior, regulating behavior, ethical prescriptions - "MUST follow, no discussion."

**Q8 Scenario: A bank identifies high-potential employees across branches and creates a talent pool. They design accelerated career paths for these individuals with cross-functional exposure, leadership training, and mentorship programs.**

This initiative primarily falls under which HRD subsystem?

- a. Performance Appraisal
- b. Learning and Development only
- c. Talent Management and Succession Planning

d. Organizational Development only

**Answer: c) Talent Management and Succession Planning**

Explanation: Creating talent pools, designing career paths, and preparing high-potential employees for future roles is Talent Management and Succession Planning.

**Q9 According to the Porter and Lawler Model of Motivation, which of the following statements is true regarding rewards?**

- A. Only intrinsic rewards lead to satisfaction
- B. Satisfaction is independent of the perceived equity of rewards
- C. Extrinsic rewards are conferred from outside the individual and usually have monetary value
- D. Actual rewards have no impact on employee satisfaction

**Ans c**

**Q10 Statement 1:** Behaviourist theories hold that learners are passive and respond to stimuli through conditioning.

**Statement 2:** Cognitive theories focus on critical thinking and problem-solving using the brain.

**Statement 3:** Humanistic theories believe learning occurs only through strict external discipline and control.

- a. Statements 1 and 2 are correct
- b. Statements 2 and 3 are correct
- c. All three statements are correct
- d. Only Statement 1 is correct

**Answer: a) Statements 1 and 2 are correct**

- Statement 1: TRUE - Behaviourist/Mechanistic theories see learners as passive
- Statement 2: TRUE - Cognitive theories emphasize critical thinking
- Statement 3: FALSE - Humanistic theories require "freedom to learn" what's personally relevant

**Q11 Ravi has just joined ABC Bank as Assistant Manager. During team meetings, he confidently shares his ideas and past experiences. His colleagues appreciate his openness and can easily understand his working style and expertise.**

Which quadrant of Johari Window is MOST expanded in Ravi's case?

- a) Open/Arena
- b) Blind Spot
- c) Hidden/Facade
- d) Unknown

**Answer: a) Open/Arena**

Explanation: Ravi openly shares information about himself (known to self) and others can see his working style (known to others). This expands the Open/Arena quadrant - ideal for effective communication.

**Q12 Scenario: Suresh, a Branch Manager, believes he is an excellent communicator and always explains things clearly. However, his team members often feel confused after his briefings and find his instructions unclear. When given feedback, Suresh is surprised as he genuinely believes he communicates well.**

Which quadrant represents Suresh's situation?

- a) Open/Arena
- b) Blind Spot
- c) Hidden/Facade
- d) Unknown

**Answer: b) Blind Spot**

Explanation: Suresh is unaware of his poor communication skills (unknown to self), but his team members clearly observe this problem (known to others). This is classic Blind Spot - others see what we don't see in ourselves.

**Q13 An employee consistently displays behavior where he believes "I have all the right answers and others are incompetent." He refuses to consider colleagues' suggestions and treats them condescendingly.**

According to Transactional Analysis, which Life Position does he exhibit?

- a) I am OK, You are OK
- b) I am OK, You are NOT OK
- c) I am NOT OK, You are OK
- d) I am NOT OK, You are NOT OK

**Answer: b) I am OK, You are NOT OK**

Explanation: This life position indicates "I have value but you don't" - superiority complex, refusing others' input, condescending behavior.

**Q14 A bank employee, Rajesh, has been doing the same cash handling work for 5 years. He feels bored and demotivated. The manager adds responsibility for opening savings accounts and processing KYC documents to his role without changing his designation or salary.**

Which job design technique is being applied?

- a) Job Rotation
- b) Job Enlargement
- c) Job Enrichment
- d) Job Simplification

**Answer: b) Job Enlargement**

Explanation: Job Enlargement is horizontal expansion - adding more tasks at the same level (cash + savings accounts + KYC) without increased responsibility or authority.

**Q15 Statement 1:** Linear Career Concept involves upward movement within the same profession using organizational hierarchy.

**Statement 2:** Steady State Career means individuals shift from one unrelated job to another frequently.

**Statement 3:** Spiral Career involves individuals taking new jobs, performing well, moving up, then moving to another type of work.

- a) Statements 1 and 3 are correct

- b) Statements 2 and 3 are correct
- c) All three statements are correct
- d) Only Statement 1 is correct

**Answer: a) Statements 1 and 3 are correct**

Explanation:

- Statement 1: TRUE - Linear career is upward in same profession
- Statement 2: FALSE - This describes TRANSITORY pattern, not Steady State (which stays in same profession with higher skills but no hierarchy climb)
- Statement 3: TRUE - Spiral career pattern description

### **Case study**

**PQR Bank is conducting job evaluation for the following positions:**

- Job A: Branch Manager - supervises 15 staff, handles ₹50 crore deposits, decision-making authority up to ₹25 lakh
- Job B: Credit Analyst - analyzes loan proposals, recommends approvals, requires CA qualification
- Job C: Customer Service Officer - handles customer queries, no supervisory role
- Job D: Regional Head - supervises 10 branches, strategic planning, P&L responsibility

**The bank uses Point Method for job evaluation with factors:**

- Skill Required (max 40 points)
- Responsibility (max 30 points)
- Effort (max 20 points)
- Working Conditions (max 10 points)

**Question 16: What is the primary objective of this job evaluation exercise?**

- a) To identify employees for termination
- b) To determine relative worth of jobs for fair compensation
- c) To reduce the number of positions in the bank
- d) To prepare job advertisements for recruitment

**Answer: b) To determine relative worth of jobs for fair compensation**

Explanation: Job evaluation's primary objective is to assess relative worth of jobs to ensure parity in compensation and distinguish complexity, skills, and risk levels.

**Question 17: If Job A (Branch Manager) scores: Skill=32, Responsibility=25, Effort=15, Working Conditions=8, what is the total score?**

- a) 70 points
- b) 75 points
- c) 80 points
- d) 85 points

**Answer: c) 80 points**

Explanation: Total =  $32 + 25 + 15 + 8 = 80$  points

**Question 18: Between Job B (Credit Analyst requiring CA qualification) and Job C (Customer Service Officer), which should score higher on "Skill Required" factor?**

- a) Job C, as it requires customer interaction skills
- b) Job B, due to specialized qualification and analytical skills
- c) Both should score equally
- d) Neither, as skills are not relevant for these jobs

**Answer: b) Job B, due to specialized qualification and analytical skills**

Explanation: CA qualification and loan analysis requires higher technical/functional competence than general customer service skills, warranting higher skill score.

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**Q19 Statement 1:** Legitimate Power is derived from formal position or role within the organization.

**Statement 2:** Expert Power is based on knowledge, skills, and expertise in a specific area.

**Statement 3:** Coercive Power uses rewards and incentives to influence others positively.

- a) Only Statement 1 is correct
- b) Statements 2 and 3 are correct
- c) All three statements are correct
- d) Statements 1 and 2 are correct

**Answer: d) Statements 1 and 2 are correct**

Explanation:

- Statement 1: TRUE - Legitimate power comes from official role
- Statement 2: TRUE - Expert power is knowledge-based
- Statement 3: FALSE - Coercive power uses PUNISHMENT/negative consequences, not rewards (that's Reward Power)

**Q20 A large public sector bank with operations across 28 states is planning to implement an integrated HR system. The bank currently maintains employee records manually at branch level, regional offices, and head office. The HR head has observed that the same employee information is being updated by multiple people at different locations, leading to data inconsistencies. Statutory compliance reports are delayed, and decision-making regarding promotions and transfers takes considerable time due to lack of consolidated data.**

Which of the following approaches would be MOST comprehensive in addressing the bank's challenges?

- a) Implement only a basic HRIS system focused on payroll processing and leave management to reduce immediate administrative burden
- b) Deploy a complete HRMS with modules for personnel management, recruitment, training, ESS, and integrate it with databases accessible across all locations while ensuring role-based access control
- c) Continue with manual systems but hire more staff at each location to improve data updating speed and accuracy
- d) Implement e-HRM focusing only on operational functions like payroll and personal data, leaving strategic functions to be handled manually

**Answer: B**

**Q21 Assertion (A): Management by Objectives (MBO) requires joint goal-setting between employees and their superiors.**

**Reasoning (R): MBO was coined by Peter F. Drucker and focuses on aligning organizational goals through shared objectives and open communication.**

Options:

- a) Both A and R are true, and R is the correct explanation of A
- b) Both A and R are true, but R is not the correct explanation of A
- c) A is true, but R is false
- d) A is false, but R is true

**Answer: a) Both A and R are true, and R is the correct explanation of A**

**Q22 Consider the following statements about Performance Appraisal:**

**Statement 1:** The Graphic Rating Scale method is adaptable and can evaluate every type of job without requiring formal training.

**Statement 2:** The main disadvantage of the Graphic Rating Scale is the rater's bias.

**Statement 3:** The Forced Distribution Method categorizes employees into fixed performance groups based on current performance only.

Which of the above statements is/are correct?

Options:

- a) Only Statement 1 and 2
- b) Only Statement 2 and 3
- c) Only Statement 1 and 3
- d) All three statements

**Answer: a) Only Statement 1 and 2**

**23 A regional rural bank is planning to modernize its recruitment process. Currently, they publish advertisements in newspapers, receive physical applications, conduct manual shortlisting, and maintain paper-based candidate records. The process takes 4-6 months per recruitment cycle. The bank wants to reduce time-to-hire, reach a wider candidate pool, ensure procedural compliance at every stage, and provide timely feedback to candidates. The HR budget is moderate, and the bank has basic IT infrastructure.**

Which combination of e-HRM activities would be MOST suitable for this bank's requirements?

- a) Implement only e-Compensation to manage salary data online, as recruitment can continue manually
- b) Implement e-Recruitment for posting jobs online and receiving applications, combined with e-Selection ensuring each step complies with procedural requirements including vendor selection, assessment steps, and candidate feedback
- c) Implement e-Performance Management first to evaluate current employees before hiring new ones
- d) Implement transformational e-HRM focusing on strategic orientation and knowledge management before addressing recruitment

**Answer: B**

**Q24 Statement 1:** DSCR of 1.5 indicates that the borrower generates 50% more cash than required to service debt obligations.

**Statement 2:** For calculation of DSCR, depreciation should be added back to PAT as it is a non-cash expense.

**Statement 3:** A declining trend in DSCR over three years, even if above 1.25, is a warning signal for credit analysts.

- a) Only Statement 1 is correct
- b) Statements 1 and 2 are correct
- c) Statements 1 and 3 are correct
- d) All statements are correct

**Answer: d) All statements are correct**

Explanation:

- Statement 1: TRUE - DSCR of 1.5 means 1.5 times the required debt service capacity
- Statement 2: TRUE -  $DSCR = (PAT + Depreciation + Interest) / (Interest + Principal repayment)$
- Statement 3: TRUE - Declining trend indicates deteriorating financial health

**Q25 Statement 1:** An agricultural loan granted for crop production becomes NPA if principal or interest remains overdue for two crop seasons.

**Statement 2:** A term loan where interest and/or installment remains overdue for more than 90 days is classified as NPA.

**Statement 3:** In case of cash credit accounts, the account becomes NPA if it remains out of order for more than 90 days.

- a) Statements 1 and 2 are correct
- b) Statements 2 and 3 are correct
- c) Statements 1 and 3 are correct
- d) All statements are correct

**Answer: d) All statements are correct**

Explanation:

- Statement 1: TRUE - Agricultural NPAs have special norms (two crop seasons)
- Statement 2: TRUE - Standard definition of NPA for term loans
- Statement 3: TRUE - CC/OD accounts out of order for >90 days become NPA

**Q26 Global Finance Bank has 8,000 employees across India and wants to provide compliance training on new RBI guidelines within a tight 3-month deadline. Employees work in different time zones and shifts. The training content includes videos, case studies, interactive quizzes, and requires assessment at the end. The bank wants to track completion rates, scores, and provide certificates automatically. Some employees in rural branches have limited internet connectivity. The training budget is restricted due to recent cost optimization measures.**

Considering the scenario, which training technology solution presents the MOST balanced approach?

- a) Conduct Virtual Instructor-Led Non-Training (VILT) with live sessions, as it provides real-time interaction
- b) Deploy e-Learning on an LMS platform with downloadable content for offline access, combined with periodic VILT sessions for doubt clarification, ensuring the platform supports tracking, assessment, and automated certification

- c) Use only Augmented Reality (AR) and Virtual Reality (VR) to provide immersive training experience
- d) Continue with traditional classroom training in batches at regional centers to avoid technology challenges

**Answer: B**

**Q27 At the time of financing projects banks generally adopt which of the following methodologies as far as determining the level of promoters” Equity is concerned?**

- i. Promoters bring their entire contribution upfront before the bank starts disbursing its commitment.
- ii. Promoters bring certain percentage of their equity (40-50%) upfront and balance is brought in stages.
- iii. Promoters agree, ab initio, that they will bring in equity funds proportionately as the banks finance the debt portion.
  - a) Only (i) and (ii).
  - b) Only (ii) and (iii).
  - c) Only (i) and (iii).
  - d) Any one of the above.

**Ans d**

**Q28 According to RBI guidelines, rupee loans (except floating rate personal / retail loans and MSME loans) sanctioned and credit limits renewed on or after April 01, 2016 shall be priced with reference to which benchmark?**

- A. Base Rate
- B. External Benchmark-based Lending Rate (EBLR)
- C. Marginal Cost of Funds based Lending Rate (MCLR)
- D. Repo Linked Lending Rate (RLLR)

**Answer: C) Marginal Cost of Funds based Lending Rate (MCLR)**

#### **Case Study**

**XYZ Infrastructure Ltd. is setting up a toll road project with the following details:**

- I. Project Cost: ₹500 crore
- II. Debt-Equity Ratio: 3:1
- III. Interest Rate: 10% p.a.
- IV. Moratorium Period: 2 years
- V. Repayment Period: 10 years (after moratorium)
- VI. Expected Annual Revenue (post-completion): ₹100 crore
- VII. Operating Expenses: 40% of revenue

**Question 29: What is the Debt component and Equity component in the project?**

- a) Debt: ₹375 crore, Equity: ₹125 crore
- b) Debt: ₹400 crore, Equity: ₹100 crore

- c) Debt: ₹300 crore, Equity: ₹200 crore
- d) Debt: ₹450 crore, Equity: ₹50 crore

**Answer: a) Debt: ₹375 crore, Equity: ₹125 crore**

Explanation: Debt:Equity = 3:1 means Debt = 75% and Equity = 25% of project cost Debt =  $500 \times \frac{3}{4} = ₹375$  crore Equity =  $500 \times \frac{1}{4} = ₹125$  crore

**Question 30: Calculate the Annual Debt Service (principal + interest) after the moratorium period (assuming equal principal repayment).**

- a) ₹50 crore
- b) ₹75 crore
- c) ₹37.5 crore in Year 3, declining thereafter
- d) ₹75 crore in Year 3, declining by ₹3.75 crore annually

**Answer: d) ₹75 crore in Year 3, declining by ₹3.75 crore annually**

Explanation:

- Principal repayment per year =  $375/10 = ₹37.5$  crore
- Interest in Year 3 = 10% of 375 = ₹37.5 crore
- Total debt service in Year 3 =  $37.5 + 37.5 = ₹75$  crore
- Interest declines by 10% of 37.5 (₹3.75 crore) each year as principal reduces

**Q31 Statement 1:** Under the revised MSME definition (2020), both investment in plant & machinery/equipment AND annual turnover criteria must be satisfied for classification.

**Statement 2:** A manufacturing unit with investment of ₹8 crore and turnover of ₹45 crore qualifies as a Small Enterprise.

**Statement 3:** Exports of goods or services are excluded from the calculation of turnover for MSME classification.

- a) Only Statement 1 is correct
- b) Statements 1 and 2 are correct
- c) Statements 1 and 3 are correct
- d) All three statements are correct

**Answer: d) All three statements are correct**

**Q32 Assertion (A): In Credit Linked Notes, SPV purchases high-quality securities with money received from investors.**

**Reason (R): In case of default, these securities are used to compensate the risk seller (bank).**

- a) Both A and R are true, and R is the correct explanation of A
- b) Both A and R are true, but R is NOT the correct explanation of A
- c) A is true, but R is false
- d) A is false, but R is true

**Answer: a) Both A and R are true, and R is the correct explanation of A**

Explanation: The mechanism of CLN involves SPV purchasing securities which serve as collateral for default protection.

**Q33 A composite loan limit of ---- can be sanctioned by banks to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window?**

- a) Up to Rs. 10 lakhs.
- b) Up to Rs. 25 lakhs.
- c) Up to Rs. 1 Crore.
- d) Up to Rs. 50 lakhs.

**Ans c**

**Q34 Statement 1:** Banks should verify if directors appear in wilful defaulters list using DIN or PAN.

**Statement 2:** Banks must submit list of suit-filed accounts and non-suit filed accounts of wilful defaulters of ₹25 lakh and above.

**Statement 3:** Wilful defaulters list should be submitted to all four CICs on monthly or more frequent basis.

- a) Statements 1 and 2 are correct
- b) Statements 2 and 3 are correct
- c) All three statements are correct
- d) Only Statement 1 is correct

**Answer: c) All three statements are correct**

Explanation:

- Statement 1: TRUE - DIN/PAN verification is mandatory
- Statement 2: TRUE - ₹25 lakh threshold for wilful defaulters reporting
- Statement 3: TRUE - Monthly reporting to all four CICs is required



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**Q35 Borrowers enjoying working capital facility from the banking system, delivery of bank credit for borrowers having aggregate fund based working capital limit of 150 crores and above from the banking system, a minimum level of 'loan component' of \_\_\_\_\_ has been insisted and rest will be allowed in the form of 'cash credit'?**

- a) 50%.
- b) 40%.
- c) 60%.
- d) 80%.

**Ans c**

**Q36 What percent of Voting share of the Committee of Creditors (CoC) is needed for the Withdrawal of Corporate Insolvency Resolution Process(CIRP)?**

- a) 75 %.
- b) 85 %.
- c) 80 %.
- d) 90 %.

**Ans d**

**Q37 What is the formula for Negative Carry on CRR under MCLR?**

- A.  $(CRR \times \text{Cost of Funds}) \div (1 - CRR)$
- B.  $CRR \times \text{Return on Assets}$
- C.  $(1 - CRR) \times \text{Cost of Funds}$
- D.  $CRR \div \text{Cost of Funds}$

**Ans A**

**Q38 What is the correct formula of VANQUISH Ratio?**

- A. Net Worth  $\div$  Risk Weighted Assets
- B. Gross NPAs  $\div$  Total Advances
- C.  $(\text{Operating Profit} - \text{Provisions} - \text{Taxes}) \div \text{Average Working Funds}$
- D. Total Income  $\div$  Total Assets

**ANS C**

**Q. To achieve a Current Ratio (CR) of 1.50, given:**

- A. Current Assets (CA) = ₹5,000
- B. Current Liabilities (CL) = ₹3,000
- C. Additional borrowal adds to Current Liabilities

**Q39 What is the amount of additional borrowal required?**

- A. ₹250
- B. ₹333.33
- C. ₹500
- D. ₹750

**ANS B**

**Q PQR Textiles Ltd. has the following financial information for FY 2024-25:**

- Net Sales: ₹200 crore
- Gross Profit: ₹60 crore
- Operating Profit (EBIT): ₹30 crore
- Interest Expense: ₹10 crore
- Tax Rate: 30%
- Total Assets: ₹150 crore
- Total Equity: ₹80 crore
- Total Debt: ₹70 crore

**Question 40: Calculate the Interest Coverage Ratio.**

- a) 2.0 times
- b) 3.0 times
- c) 6.0 times
- d) 2.8 times

**Answer: b) 3.0 times**

Explanation: Interest Coverage Ratio = EBIT / Interest Expense =  $30/10 = 3.0$  times

**Question 41: Calculate the Return on Equity (ROE).**

- a) 17.5%
- b) 20.0%
- c) 13.3%
- d) 25.0%

**Answer: a) 17.5%**

Explanation:

- PAT = (EBIT - Interest)  $\times$  (1 - Tax Rate) =  $(30 - 10) \times 0.70 = ₹14$  crore
- ROE = (PAT / Total Equity)  $\times$  100 =  $(14/80) \times 100 = 17.5\%$

**Question 42: What is the Debt-to-Equity Ratio?**

- a) 0.47
- b) 0.88
- c) 1.14
- d) 1.75

**Answer: b) 0.88**

Explanation: Debt-to-Equity Ratio = Total Debt / Total Equity =  $70/80 = 0.875 \approx 0.88$

**Q43 Which of the following statements are correct in respect of Project Appraisal?**

- i) The credentials of the promoters are examined under Management Appraisal.
- ii) Return on Investment is worked out by using various calculation methods such as NPV, IRR, Payback Period, Cost Benefit Analysis, Accounting Rate of Return etc.

- iii) Break-Even Analysis and Sensitivity Analysis are part of Technical Appraisal of a Project.
- iv) Financial stake of promoters in the project and their capability to bring additional funds in case of contingencies arising out of delay in project implementation and changes in market conditions, is covered under Economic Appraisal.
  - a) (i) and (ii) only.
  - b) (i), (iii) and (iv) only.
  - c) (i), (ii) and (iv) only.
  - d) (i), (ii), (iii) and (iv).

**Answer: C**

Explanation: All points are correct, except (iii) point as Break-Even Analysis and Sensitivity Analysis are part of Commercial Appraisal of a Project.

**Q44 Assertion (A): Credit risk in fund-based facilities is the non-payment of principal and interest by the borrower as per agreed terms.**

**Reason (R): Credit risk arises only from internal factors like faulty loan structuring and poor appraisal.**

- a) Both A and R are true, and R is the correct explanation of A
- b) Both A and R are true, but R is NOT the correct explanation of A
- c) A is true, but R is false
- d) A is false, but R is true

**Answer: c) A is true, but R is false****Q45 Assertion (A): Banks should carry out independent credit appraisal and not depend on reports prepared by outside consultants.**

**Reason (R): Outside consultants, especially in-house consultants of borrowing entities, may have conflict of interest.**

- a) Both A and R are true, and R is the correct explanation of A
- b) Both A and R are true, but R is NOT the correct explanation of A
- c) A is true, but R is false
- d) A is false, but R is true

**Answer: a) Both A and R are true, and R is the correct explanation of A**

Explanation: RBI guidelines specifically mention this to ensure objectivity in credit appraisal. In-house consultants may be biased toward the borrower.

**Q46 Assertion (A): In Credit Default Swaps, both principal and interest are covered for default protection.**

**Reason (R): CDS is offered only on negotiable and publicly traded debt.**

- a) Both A and R are true, and R is the correct explanation of A
- b) Both A and R are true, but R is NOT the correct explanation of A
- c) A is false, but R is true
- d) Both A and R are false

**Answer: c) A is false, but R is true**

Explanation: Assertion is FALSE - CDS covers only PRINCIPAL, not interest.

Reason is TRUE - CDS is offered only on negotiable and publicly traded debt, not

conventional bank loans.

**Q47 Assertion (A): Banks must report to CRILC all borrowers having total credit facilities of ₹5 crore or more.**

**Reason (R): Crop loans are exempted from CRILC reporting requirements.**

- a) Both A and R are true, and R is the correct explanation of A
- b) Both A and R are true, but R is NOT the correct explanation of A
- c) A is true, but R is false
- d) Both A and R are false

**Answer: b) Both A and R are true, but R is NOT the correct explanation of A**

Explanation: Both statements are independently true as per RBI guidelines, but the exemption of crop loans doesn't explain the ₹5 crore threshold.

### **Case Study**

**Q. ABC Manufacturing Ltd., a registered MSME with an annual turnover of ₹8 crore, has defaulted on loan payments totaling ₹85 lakhs to State Bank of India. The company's promoters believe they can revive the business if given some time and have prepared a restructuring proposal. They want to retain control of the company during the resolution process. The company had undergone a Corporate Insolvency Resolution Process (CIRP) 2 years ago which was successfully resolved. SBI is considering initiating insolvency proceedings.**

**Q48 Which of the following statements is MOST accurate regarding the appropriate insolvency framework for this case?**

- a) Only CIRP can be initiated as the default amount is less than ₹1 crore, and PIRP cannot be used since a previous CIRP was completed only 2 years ago
- b) Pre-Packaged Insolvency Resolution Process (PIRP) can be initiated as the company is an MSME with default below ₹1 crore, but it cannot be used since the three-year gap from the previous CIRP has not been completed
- c) PIRP can be initiated immediately as it follows a debtor-in-possession model suitable for MSMEs, and the default amount is within the ₹1 crore limit for PIRP applicability
- d) Neither CIRP nor PIRP can be initiated as the default amount of ₹85 lakhs is below the minimum threshold of ₹1 crore required for any insolvency proceedings

**Answer: B**

**Q. Sunrise Manufacturing Ltd. is a textile company with the following operational parameters:**

- Raw material holding period: 30 days
- Work-in-process period: 45 days
- Finished goods holding period: 25 days
- Credit period provided to customers: 60 days
- Credit period received from suppliers: 40 days

**Q49 What is the length of the working capital cycle (operating cycle) for Sunrise Manufacturing Ltd.?**

- A. 100 days
- B. 120 days
- C. 140 days
- D. 160 days

**Answer: B**

Explanation: Working Capital Cycle = Raw Material Period + WIP Period + Finished Goods Period + Receivables Period - Payables Period  
 $= 30 \text{ days} + 45 \text{ days} + 25 \text{ days} + 60 \text{ days} - 40 \text{ days} = 160 \text{ days} - 40 \text{ days} = 120 \text{ days}$

**Q. Small Scale Components Ltd., an MSME supplier, has delivered goods worth ₹50 lakhs to a large PSU. The PSU has accepted the invoice with a payment term of 90 days. The MSME needs immediate funds and decides to use the TReDS platform. Multiple financiers bid, and the best rate offered is 12% per annum for discounting.**

**Q50 Which of the following statements about this TReDS transaction is CORRECT?**

- a) The transaction is "with recourse," meaning if the PSU defaults, the MSME must repay the financier
- b) The transaction is "without recourse," meaning the MSME is not liable if the PSU fails to pay
- c) Only banks can participate as financiers on TReDS; NBFCs are not permitted
- d) The MSME can only upload the invoice after receiving payment confirmation from the PSU

**Answer: B**

**Q. Tech Solutions India Ltd. filed for CIRP on March 1, 2024. The NCLT admitted the application on March 15, 2024, appointing the proposed Interim Resolution Professional. The IRP made a public announcement on March 18, 2024. Various creditors are now preparing to submit their claims. ICICI Bank wants to verify its claim using the Information Utility database. A supplier, Vendor A, wants to prove its operational debt. An employee wants to claim unpaid wages. The deadline for submitting claims as per the public announcement is March 29, 2024.**

**Q51 Which of the following statements about the claim submission process is MOST accurate?**

- A. All creditors must submit their claims only electronically through the Information Utility platform within the 11-day period from the public announcement
- B. Financial creditors like ICICI Bank must submit claims electronically only, while operational creditors like Vendor A can submit in person, by post, or electronically with supporting documents such as contracts, invoices, or court orders

- C. The deadline of March 29 is final and no claims can be submitted after this date under any circumstances during the CIRP process
- D. Only financial creditors can use Information Utility data as proof of claims; operational creditors must provide physical contracts and invoices only

**Answer: B**

**CASE STUDY**

**Bharat Electronics Ltd. imports electronic components for manufacturing. The company's annual consumption of imported components is ₹12 crore. Based on their inventory management analysis, the Economic Order Quantity (EOQ) has been determined as ₹2 crore per order. The typical timeline for LC completion is as follows:**

- Lead time (from LC opening to shipment): 15 days
- Transit time (shipping duration): 25 days
- Usance period (credit period): 90 days

The company has approached ABC Bank for sanctioning an LC limit to support their import requirements.

**Question 52: What is the frequency of LC opening per year for Bharat Electronics Ltd.?**

- A) 4 times per year (one LC every 3 months)
- B) 6 times per year (one LC every 2 months)
- C) 8 times per year (one LC every 1.5 months)
- D) 12 times per year (one LC every month)

**Answer: B**

Explanation: Frequency of LC Opening = Annual Consumption  $\div$  EOQ = ₹12 crore  $\div$  ₹2 crore = 6 LCs per year = One LC every 2 months (12 months  $\div$  6 = 2 months)

**Question 53: What is the total outstanding period for each LC from opening to settlement?**

- A) 90 days
- B) 115 days
- C) 130 days
- D) 150 days

**Answer: C**

Explanation: Total Outstanding Period = Lead Time + Transit Time + Usance Period = 15 days + 25 days + 90 days = 130 days

**Q. Mega Industries Ltd. is undergoing CIRP. The Committee of Creditors (CoC) has been constituted with the following composition: Bank A (₹300 crore debt), Bank B (₹200 crore debt), Bank C (₹150 crore debt), NBFC D (₹100 crore debt), and NBFC E (₹50 crore debt). Total financial debt: ₹800 crore. A CoC meeting has been called to decide on: (i) whether to continue the existing IRP as Resolution Professional, and (ii) whether to approve a resolution plan received from a potential investor.**

**Bank A (₹300 cr) and Bank B (₹200 cr) are present at the meeting and vote in favor of both proposals.**

**Q54 Which of the following outcomes is CORRECT based on IBC provisions?**

- A. Both proposals will be approved as Bank A and Bank B together represent more than 51% of the debt (₹500 crore out of ₹800 crore), which is sufficient for all CoC decisions
- B. The meeting is invalid as the quorum of 33% by value has not been met, since only two banks representing ₹500 crore are present
- C. The meeting is valid as quorum of 33% (₹264 crore) is met with ₹500 crore present, but only the continuation of IRP as RP will be approved (requiring 66% = ₹528 crore), while the resolution plan will fail (also requiring 66% approval)
- D. The meeting is valid with proper quorum, the continuation of IRP as RP will be approved as it requires only 51% majority, and the resolution plan will also be approved as ₹500 crore exceeds the 51% threshold

**Answer: C**

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**Q55 Statement 1: Internal credit rating models must incorporate both quantitative financial parameters and qualitative factors.**

**Statement 2: A borrower rated 'BBB' has higher probability of default than a borrower rated 'AA'.**

**Statement 3: External credit ratings can be directly used for regulatory capital computation without internal validation.**

- a) Statements 1 and 2 are correct
- b) Statements 2 and 3 are correct
- c) Only Statement 1 is correct
- d) All statements are correct

**Answer: a) Statements 1 and 2 are correct**

Explanation:

Statement 1: TRUE - RBI mandates both quantitative and qualitative factors

Statement 2: TRUE - Lower rating indicates higher default probability

Statement 3: FALSE - Banks must validate external ratings through internal assessment

**Q56 Identify the wrong statements:**

**The CCO should directly report to the MD & CEO or the Board Committee. If reporting to MD & CEO, the Audit Committee must meet the CCO annually.**

**Age limit for CCO appointment is 55 years.**

**CCO must have at least 15 years of experience, including 5 years in compliance-related areas.**

- a) Only 1
- b) Only 3
- c) 2 and 3
- d) Only 2

**Answer: (d)**

Explanation: ACB must meet quarterly, not annually.

**Q57 Consider the following statements about Compliance Policy:**

- 1. It must define compliance objectives, scope, responsibilities, and procedures.**
- 2. It should be reviewed at least once in three years.**
- 3. A quality assurance program must be subject to external review at least once in three years.**
- 4. The Chief Compliance Officer should be included in the New Product Committee.**

**Which of the above are correct?**

- a) 1, 3, 4 only
- b) 1 and 2 only
- c) 2 and 4 only
- d) All 1, 2, 3, 4

**Answer: (a)**

Explanation: Policy is reviewed annually, not once in 3 years.

**Q58 Which of the following statements is correct with respect to RBI's Scale-Based Regulation (SBR) framework for NBFCs?**

- A) All NBFCs are now treated under a single regulatory framework
- B) RBI has classified NBFCs into 4 layers- Base, Middle, Top and Upper
- C) NBFCs are classified into 4 layers: Base, Middle, Upper, and Top
- D) The layer classification applies only to deposit-taking NBFCs

**Correct Answer: C**

Explanation: RBI's SBR framework classifies NBFCs into 4 layers — Base Layer (BL), Middle Layer (ML), Upper Layer (UL), and Top Layer (TL).

**Case Study:**

**XYZ Bank sanctioned a working capital limit of ₹50 crore to ABC Ltd., a manufacturing company.**

**Within 6 months, the account shows frequent overdrawing and cheque returns. The company delays submission of stock statements, making Drawing Power (DP) calculation difficult. Market reports indicate a decline in ABC's sector due to raw material shortages. A credit audit revealed that the company routed some transactions through another bank, violating loan terms. The auditor recommended closer monitoring, more frequent stock audits, and possibly appointing a nominee director on the board of ABC Ltd.**

**Q59 Which of the following are early warning signals of credit deterioration in ABC Ltd.'s case?**

1. Frequent overdrawing and cheque returns.
2. Delay in stock statement submission.
3. Routing of transactions through another bank.
4. Appointment of a nominee director.
  - a) 1, 2, 3 only
  - b) 2 and 4 only
  - c) 1 and 3 only
  - d) All 1, 2, 3, 4

**Answer: (a)**

Explanation: 1-3 are red flags. Appointment of a nominee director is a corrective action, not an early warning.

**Q60 Which of the following best and most comprehensive conclusions can be drawn from the above situation?**

- A. The issues observed are primarily operational in nature and can be resolved by penal interest for overdrawing and strict follow-up for stock statements; appointment of a nominee director is unwarranted at this stage.
- B. The account shows multiple Early Warning Signals (EWS) arising from financial, operational, and market-related risks, along with covenant breaches; therefore, intensified monitoring, governance intervention, and reassessment of credit risk grading are justified.
- C. Since the account is still standard and no default in interest repayment has occurred, the irregularities should be treated as routine working capital issues, and no escalation beyond branch-level corrective action is required.
- D. The deterioration in the borrower's performance is solely attributable to

external sectoral factors, and routing of transactions through another bank does not materially affect the bank's credit exposure or monitoring capability.

**Ans b**

**Q61 Regulatory minimum Net Owned Fund (NOF) for NBFC-ICC, NBFC-MFI and NBFC-Factors shall be increased to 10 crores by?**

- a) March 31, 2027.
- b) March 31, 2025.
- c) March 31, 2026.
- d) March 31, 2024.

Answer: a) March 31, 2027

**Q62 Statement 1:** Banks fix internal limits for aggregate commitments to specific sectors to spread exposures evenly.

**Statement 2:** Stress resolution policies include rectification, restructuring, compromise, recovery and write-off.

**Statement 3:** Macro level risk mitigation focuses only on individual loan proposals.

- a) Statements 1 and 2 are correct
- b) Statements 2 and 3 are correct
- c) All three statements are correct
- d) Only Statement 1 is correct

**Answer: a) Statements 1 and 2 are correct**

Explanation:

- Statement 1: TRUE - Sector-wise limits prevent concentration risk
- Statement 2: TRUE - These are components of stress resolution policy
- Statement 3: FALSE - Macro level deals with OVERALL portfolio, not individual proposals

**Q. ABC Manufacturing Ltd. has approached your bank for a term loan of ₹50 crore. The company operates in the textile sector which is currently facing headwinds due to increased imports from Bangladesh. The promoter has been in business for 15 years and has good track record. However, the company's debt-equity ratio is 3:1, and interest coverage ratio is 1.8 times. The company has existing loans from two other banks totaling ₹80 crore.**

**Question 63: Which type of credit risk is MOST prominent in this case?**

- a) Concentration Risk
- b) Industry Risk
- c) Default Risk
- d) Recovery Risk

**Answer: b) Industry Risk**

Explanation: The textile sector facing headwinds due to imports indicates industry-level challenges affecting all players in the sector, making industry risk most prominent.

**Question 64: The increased imports from Bangladesh affecting the borrower represents:**

- a) Internal factor affecting credit risk
- b) External factor affecting credit risk
- c) Operational risk
- d) Market risk

**Answer: b) External factor affecting credit risk**

Explanation: Protectionist policies of other countries and international competition are external factors that affect creditworthiness but are beyond the bank's control.

**Scenario: Your bank's credit rating model gives a score of 45/100 to a proposal, placing it in the "BBB – Acceptable Risk" category. The borrower has offered prime commercial property worth 150% of the loan amount as collateral.**

**Q65 What would be the BEST course of action?**

- a) Reject due to low credit score
- b) Ask the borrower to improve financials before reconsideration
- c) Accept at normal rate due to strong collateral
- d) Accept at higher interest rate with the collateral

**Answer: d) Accept at higher interest rate with the collateral**

Explanation: BBB rating is "Acceptable Risk." Strong collateral (150% coverage) mitigates risk but doesn't eliminate it. Risk-adjusted pricing (higher interest) is appropriate.

**Scenario: An infrastructure borrower diverted ₹20 crore of loan funds meant for project construction to purchase land in promoter's personal name. The bank discovered this during routine monitoring.**

**Q66 What action aligns with RBI guidelines on fund diversion?**

- a) Ignore if project is otherwise on track
- b) Restructure the loan to accommodate the diversion
- c) Give warning and ask for fund repatriation within 30 days
- d) Immediately classify as wilful default and report to CICs

**Answer: d) Immediately classify as wilful default and report to CICs**

Explanation: Fund diversion for non-project purposes, especially to promoter's benefit, constitutes wilful default. Must be reported to all CICs on monthly basis for amounts ₹25 lakh and above.

**Q67 Statement 1:** Banks are required to review their benchmark MCLR of different maturities at least once in a quarter.

**Statement 2:** The actual lending rates can be higher than MCLR by adding spread, which includes credit risk premium and tenor premium.

**Statement 3:** Existing borrowers have the option to move to MCLR-linked loans from Base Rate system at mutually agreed terms.

- a) Statements 1 and 2 are correct
- b) Statements 2 and 3 are correct

- c) Statements 1 and 3 are correct
- d) All statements are correct

**Answer: b) Statements 2 and 3 are correct**

Explanation:

Statement 1: FALSE - MCLR must be reviewed monthly, not quarterly

Statement 2: TRUE - Actual lending rate = MCLR + Spread (credit risk + tenor premium + other charges)

Statement 3: TRUE - RBI allows existing borrowers to migrate with mutual consent

**Q68 Statement 1:** The Base Layer comprises non-deposit taking NBFCs below ₹1,000 crore asset size and NBFCs like P2P lending platforms, Account Aggregators, and NOFHGs.

**Statement 2:** All deposit-taking NBFCs, irrespective of their asset size, are placed in the Middle Layer along with Housing Finance Companies and Core Investment Companies.

**Statement 3:** The Top Layer is always populated with the top 10 NBFCs by asset size to ensure maximum regulatory oversight.

Which of the above statements is/are CORRECT?

- A) Only Statement 1 and 2
- B) Only Statement 2 and 3
- C) Only Statement 1 and 3
- D) All three statements

**Answer: A) Only Statement 1 and 2**

**Q69 Statement 1:** The CCO must be appointed for a minimum fixed tenure of 3 years, but the Board can relax this by one year in exceptional circumstances with appropriate succession planning.

**Statement 2:** The CCO must hold a rank not below two levels from the CFO for all categories of NBFCs without any exception.

**Statement 3:** The CCO can be removed before completion of tenure only in exceptional circumstances with explicit prior approval of the Board/Board Committee.

Which of the above statements is/are CORRECT?

- A) Only Statement 1 and 2
- B) Only Statement 1 and 3
- C) Only Statement 2 and 3
- D) All three statements

**Answer: B) Only Statement 1 and 3**

**Q70 Statement 1:** The NPA classification norm has been changed to an overdue period of more than 90 days for all categories of NBFCs.

**Statement 2:** There is a ceiling of ₹2 crore per borrower for financing subscription to Initial Public Offer (IPO).

**Statement 3:** NBFCs in the Base Layer are provided a glide path to adhere to the 90 days NPA norm.

Which of the above statements is/are CORRECT?

- A) Only Statement 1 and 3
- B) Only Statement 2 and 3
- C) Only Statement 1 and 2
- D) All three statements

**Answer: A**

**Q71 According to Section 17 of the Indian Contract Act, 1881, which of the following does NOT constitute fraud?**

- A) A promise made without any intention of performing it
- B) Active concealment of a fact by one having knowledge or belief of the fact
- C) An honest mistake made by a party without intention to deceive
- D) The suggestion, as a fact, of that which is not true, by one who does not believe it to be true

**Answer: C**

**Q72 Consider the following statements regarding the roles and responsibilities of the Chief Compliance Officer:**

**Statement 1:** The CCO shall not be given any responsibility that brings elements of conflict of interest, especially roles relating to business operations.

**Statement 2:** The CCO can perform the role of Anti-Money Laundering Officer as it does not attract direct conflict of interest.

**Statement 3:** The CCO can be a member of any committee with full voting rights to ensure compliance oversight across all decisions.

Which of the above statements is/are CORRECT?

- A) Only Statement 3 and 2
- B) Only Statement 2 and 1
- C) Only Statement 1 and 3
- D) All three statements

**Answer: B) Only Statement 2 and 1**

**Q73 What is the minimum threshold amount for frauds that must be exclusively monitored by the Special Committee of the Board for monitoring and follow up of cases of frauds (SCBF)?**

- A) ₹5 million and above
- B) ₹50 million and above
- C) ₹25 million and above
- D) ₹10 million and above

**Answer: D) ₹10 million and above**

**Q74 What is the primary characteristic that distinguishes a Trojan virus from other types of malware?**

- A) It spreads automatically through network connections without user intervention
- B) It disguises itself as a harmless or legitimate file but gives attackers control once installed
- C) It encrypts all files and demands ransom payment for decryption
- D) It only targets mobile devices and not desktop computers

**Answer: B) It disguises itself as a harmless or legitimate file but gives attackers control once installed**

Explanation: According to the material on Malware and Spyware Attacks: "Trojan virus – Disguises as a harmless file but gives attackers control."

**Q75 A bank employee receives an email that appears to be from the CEO asking for urgent transfer of funds. Which of the following would be the MOST effective way to verify if this is a spoofing attempt?**

- A) Reply to the email asking for confirmation
- B) Check the actual email address in the header, not just the display name, and verify through alternate communication channel
- C) Forward the email to IT department and wait for their response before taking action
- D) Click on any links in the email to verify they lead to company websites

**Answer: B) Check the actual email address in the header, not just the display name, and verify through alternate communication channel**

Explanation: Best practice for detecting email spoofing:

**Q76 What are the key protections that must be provided to whistle blowers under a robust whistle blowing policy in the financial sector?**

- A) Whistle blowers should be protected only if their reports are proven to be accurate; otherwise, they may be subject to disciplinary action or retaliation, and their identities may be disclosed to management or other staff members as necessary for investigation purposes.
- B) Whistle blowers should only be protected if they report through external channels, and there is no need for the institution to have any internal mechanisms or protections in place.
- C) Whistle blowers may be protected, but only for a limited period of time and only if they agree to waive their right to anonymity.
- D) Whistle blowers must be protected from any form of retaliation, including dismissal, demotion, harassment, or discrimination, regardless of whether the reported allegation is substantiated, provided the report was made in good faith; their identity and any information that could reveal it must be kept strictly confidential, disclosed only to competent authorities if required, and the institution must make it clear that no adverse action will be taken against individuals who report suspected misconduct honestly, even if the investigation does not confirm the violation.

**Answer: D)**

**Q77 Assertion (A): Credit audits are conducted to identify compliance gaps, early warning signals, and credit risk.**

**Reason (R): The main objective of credit audit is only to verify collateral documents at the borrower's premises.**

- a) A true, R true, R correct explanation
- b) A true, R true, R not correct explanation
- c) A true, R false
- d) A false, R true

**Answer: (c) A true, R false**

Explanation: Credit audit covers compliance, risk review, portfolio quality—not just collateral verification.



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