

CAIIB Practice Questions



FOR CAIIB

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Q1. 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

Q2. Net interest margin can be worked out as:

- A. $\text{interest income} / \text{interest expenses} \times 100$
- B. $\text{interest income} - \text{interest expenses} \times 100$
- C. $\text{interest income} / \text{average total assets} \times 100$
- D. $(\text{interest income} - \text{interest expenses}) / \text{average total assets} \times 100$

Q3. 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

Q4. 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
- B. a and b
- C. a and c
- D. b only

Q5. Basis Risk to a bank arises on account of -

- a. exposure in different currencies
- b. exposure to different maturities
- c. exposure to different types 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

Q6. 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

Q7. 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

Q8. Liquidity is measured by grouping the assets and liabilities on the basis of their

- A. Pricing
- B. Risk weightage
- C. Maturity
- D. Amount

Q9. 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

Q10. Which one of the following is a forward transaction:

- A. spot transaction
- B. ready transaction
- C. TOM transaction
- D. transaction beyond two days

Q11. 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

Q12. 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

Q13. The systemic risk encompasses

business risk

financial risk

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

Q14. 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

Q15. 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

Q16. 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

Q17. 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

Q18. What is the 'Beta' factor for commercial banking under standardized approach:

- A. 10%
- B. 12%
- C. 15%
- D. 20%

Q19. The dealer in the Treasury Department of the 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

Q20. The simultaneous purchasing and selling of different securities by a person so that the composition of portfolio can be changed without significant cost is called:

- A. arbitrage deal
- B. swap deal
- C. switch deal
- D. option deal

Q21. 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

Q22. The Minimum and maximum cash reserve ratio that RBI can prescribe, falls under which the following range:

- A. 3% to 15%
- B. 3% to 20%
- C. 5% to 20%
- D. none of the above

Q23. 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

Q24. 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

Q25. 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
- D. swap rate of the bond

Q26. The risk of loss in gold investment is an example of:

- A. liquidity risk
- B. commodity risk
- C. interest rate risk
- D. exchange risk

Q27. 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

Q28. Flow approach in ALM depends upon:

- A. measuring and managing the funding requirement
- B. managing market access
- C. contingency planning,
- D. all the above

Q29. 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
- D. 10%, 20%, inflow

Q30. 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

Q31. 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

Q32. The term 'duration' stands for

- A. contractual maturity
- B. residual maturity
- C. weighted average maturity
- D. duration of forward contract

Q33. A bank has a savings bank deposit of Rs.1000 cr which 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

Q34. Building strong relationships with some providers of funding can provide a line of defense in a liquidity problem. This is called:

- A. contingency planning
- B. alternative scenario
- C. managing- market access
- D. none of the above

Q35. Asset held by bank under 'tradingbook', suffer from:

- A. market risk
- B. market and credit risk
- C. market risk and operational risk
- D. market risk, credit risk and liquidity risk



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Answer key

- 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

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