This set is a "**High Probability**" zone—questions that test the nuances and specific RBI/FEDAI guidelines that often appear as 1-mark or 2-mark theory questions.

---

## BFM Mock Test Bank (Set 3)

## Module A: International Banking (Critical & Niche)

### Question #201

Under UCP 600, if the Letter of Credit uses the word "about" or "approximately" regarding the quantity of goods or unit price, what is the permissible tolerance?
a) +/- 5%
b) +/- 10%
c) +/- 2%
d) No tolerance allowed

**Answer**: b) +/- 10%

Explanation:

- The words "about" or "approximately" allow a tolerance of **10% more or 10% less** in quantity/price.
- *Note:* Even if these words are *not* used, a 5% tolerance in quantity is allowed (unless stated in number of packing units) provided the total LC amount is not exceeded.

### Question #202

A "Merchanting Trade" transaction involves:
a) Export of goods from India and re-importing them
b) Buying goods from one foreign country and selling to another foreign country without goods entering India
c) Buying goods from an SEZ and selling to DTA
d) Trading in Merchant Banking services

**Answer**: b) Buying goods from one foreign country and selling to another...

Explanation:

- Also called "Intermediary Trade." The Indian merchant acts as the middleman.
- **Crucial Condition:** The import leg payment and export leg receipt must be completed within **9 months** and routed through the same bank.

### Question #203

If an exporter wants to book a forward contract but decides to "Cancel" it before the due date, the bank will apply which rate for cancellation?
a) The original contracted rate
b) The Spot Rate on the date of cancellation

c) The Opposite Forward Rate for the remaining period
d) The Inter-bank rate

**Answer**: c) The Opposite Forward Rate for the remaining period

Explanation:

- To cancel a contract, the bank must effectively "reverse" the deal for the remaining days.
- If the original was a **Purchase** contract, the bank applies the **Forward Sale** rate for the remaining tenor to calculate the loss/gain (Swap Cost).

### Question #204

For "Deemed Exports" (e.g., supplying goods to an SEZ unit), can the supplier get an Advance Payment in Foreign Currency?
a) No, payment must be in INR
b) Yes, freely allowed
c) Only with RBI permission
d) Only if the SEZ unit is a foreigner

**Answer**: a) No, payment must be in INR

Explanation:

- Unlike physical exports, deemed exports are internal to India. While they get export benefits, the settlement generally happens in **Rupees**, not foreign currency.

### Question #205

Which form must be filed by an importer for remittance of foreign currency for imports exceeding USD 500 (now generally monitored via IDPMS)?
a) Form A1
b) Form A2
c) Form CDF
d) Form ECB

**Answer**: a) Form A1

Explanation:

- **Form A1:** For Import payments.
- **Form A2:** For other remittances (LRS, etc.).
- *(Note: While physical forms are reducing due to digital filing, the "Purpose Code" logic remains based on A1/A2 classification).*

### Question #206

Under FEMA, a "Person Resident in India" includes a person who has resided in India for more than:
a) 180 days in the preceding financial year
b) 182 days in the preceding financial year
c) 365 days in the preceding financial year

d) 90 days in the current financial year

**Answer**: b) 182 days in the preceding financial year

Explanation:

- The magic number is **> 182 days** (i.e., at least 183 days).
- *Exceptions exist:* Taking up employment abroad makes you Non-Resident immediately, regardless of days stayed.

### Question #207

What is the maximum amount of Indian Rupee currency notes a resident can carry while traveling to Nepal or Bhutan?

a) No limit

b) ₹25,000

c) ₹10,000

d) ₹1 Lakh

**Answer**: b) ₹25,000

Explanation:

- A resident can carry up to **₹25,000** in currency notes to Nepal/Bhutan.
- **Condition:** Denominations of ₹500 and above (like ₹2000) are **Prohibited** (or restricted depending on current bilateral updates, generally ₹100 is safe limit, but total cap is ₹25k).

### Question #208

Banks must maintain "CRAR" (Capital Adequacy) on their "Off-Balance Sheet" exposures (like LCs/Guarantees). This is done by converting them using:

a) Risk Weights directly

b) Credit Conversion Factors (CCF)

c) Leverage Ratio

d) Probability of Default

**Answer**: b) Credit Conversion Factors (CCF)

Explanation:

- First, multiply the Notional Amount by **CCF** (e.g., 20% for LC) to get "Credit Equivalent Amount".
- Then, multiply that by the Counterparty Risk Weight.

### Question #209

Under the "Gold Card Scheme" for exporters, banks are required to provide a standby limit of:

a) 10% of the assessed limit

b) 20% of the assessed limit

c) 25% of the assessed limit

d) 5% of the assessed limit

**Answer**: b) 20% of the assessed limit

Explanation:

- Gold Card holders (good track record exporters) get an automatic **20% standby limit** to meet urgent orders without fresh sanction delays.

### Question #210

In the context of ECB (External Commercial Borrowing), the "Minimum Average Maturity" (MAM) period for ECBs up to USD 50 Million is:

a) 1 Year

b) 3 Years

c) 5 Years

d) 10 Years

**Answer**: b) 3 Years

Explanation:

- Standard MAM is **3 years**.
- *(Exceptions exist for manufacturing companies dealing in small amounts, but 3 years is the standard exam answer).*

### Question #211

If an LC is marked "Transferable", it can be transferred:

a) Any number of times

b) Only Once

c) Twice

d) Only to a subsidiary

**Answer**: b) Only Once

Explanation:

- A transferable LC can be transferred from the First Beneficiary to a Second Beneficiary. It **cannot** be transferred further to a Third Beneficiary.

### Question #212

What is the status of a "Mate's Receipt" in shipping?

a) It is a document of title

b) It is a receipt issued by the Captain/Chief Officer of the ship confirming goods are loaded

c) It is an insurance policy

d) It is a bill of exchange

**Answer**: b) It is a receipt issued by the Captain...

Explanation:

- The Mate's Receipt is **raw data**. The exporter exchanges this receipt at the shipping office to get the official **Bill of Lading** (which is the document of title).

### Question #213

An "Advance Remittance" for imports (sending money before goods arrive) exceeding USD 200,000 requires:

a) RBI Approval

b) An Unconditional Standby LC or Bank Guarantee from an international bank

c) Only an invoice copy

d) Ministry of Finance approval

**Answer**: b) An Unconditional Standby LC or Bank Guarantee...

Explanation:

- Sending large amounts (>$200k) without goods is risky. Banks must insist on a Guarantee from the supplier's bank to protect the Indian importer.

### Question #214

Which software system is used by RBI to monitor "External Commercial Borrowings" (ECB)?

a) EDPMS

b) XBRL

c) ECB-2 Return

d) FETERS

**Answer**: c) ECB-2 Return (filed monthly)

Explanation:

- Borrowers must report actual transactions monthly via the **ECB-2 Return**.
- *(Note: C-Return is for Forex reporting).*

### Question #215

The "Rule of 72" helps in estimating:

a) The Yield to Maturity

b) The doubling period of an investment

c) The duration of a bond

d) The volatility of an option

**Answer**: b) The doubling period of an investment

Explanation:

- Formula: $Years \text{ to Double} = \frac{72}{\text{Interest Rate}}$.
- If interest is 8%, money doubles in $72/8 = 9$ years.

### Question #216

Under the "Whole Turnover Packing Credit" (WTPC) insurance policy by ECGC, the bank must cover:

a) Only risky exporters

b) All exporter accounts granted packing credit

c) Top 10 exporters
d) Only SME exporters

**Answer**: b) All exporter accounts granted packing credit

Explanation:

- To get a lower premium rate, the bank agrees to insure its **entire portfolio** (Whole Turnover) rather than picking and choosing bad accounts.

### Question #217

A "Usance LC" where the beneficiary (seller) gets payment immediately (discounted by negotiating bank), but the applicant (buyer) pays on the due date, is called:
a) Sight LC
b) UPAS LC (Usance Payable at Sight)
c) Back to Back LC
d) Standby LC

**Answer**: b) UPAS LC

Explanation:

- **UPAS (Usance Payable at Sight):** The Seller wants cash now. The Buyer wants credit. The Bank pays the Seller now and charges interest to the Buyer (or Seller) until the due date.

### Question #218

For calculating the "Swap Points" in a forward rate, the interest rate differential is calculated between:
a) The two currencies involved
b) The lending rate and deposit rate
c) The Central Bank rate and Commercial rate
d) The Spot rate and Forward rate

**Answer**: a) The two currencies involved

Explanation:

- **Interest Rate Parity:** The forward premium/discount is determined by the difference in interest rates between the two countries (e.g., USD rate vs INR rate).

### Question #219

Which Article of UCP 600 deals with "Force Majeure" (Banks closed due to strikes, calamities)?
a) Article 10
b) Article 36
c) Article 14
d) Article 38

**Answer**: b) Article 36

Explanation:

- **Rule:** If a bank is closed due to Force Majeure and the LC expires during that time, the bank will **NOT** accept documents upon re-opening (unless it's a specific extension). The LC effectively dies.

### Question #220

Banks in India are allowed to borrow from overseas markets up to what limit of their Tier 1 Capital?

a) 25%
b) 50%
c) 100%
d) 15%

**Answer**: c) 100%

Explanation:

- Banks can borrow up to **100%** of their Unimpaired Tier 1 Capital (or USD 10 Million, whichever is higher) to manage their foreign currency funds.

### Question #221

In a "Plain Vanilla" Currency Swap, the exchange of Principal amounts takes place:

a) Only at the start
b) Only at maturity
c) At both the start and maturity
d) Never

**Answer**: c) At both the start and maturity

Explanation:

- Unlike Interest Rate Swaps (where principal is notional), Currency Swaps involve physically swapping the cash (e.g., $100 for ₹8200) at the start and swapping it back at the end.

### Question #222

What is the time limit for realization of Export Proceeds for a status holder exporter?

a) 9 Months
b) 12 Months
c) 6 Months
d) 15 Months

**Answer**: a) 9 Months

Explanation:

- The standard time limit for *all* exporters (including Status Holders and SEZs) is currently **9 months** from the date of export.

### Question #223

A "Nostro" account that is overdrawn (Debit balance turns into Credit balance in the foreign bank's books) effectively becomes:

a) An Asset

b) An Overdraft Loan from the foreign bank

c) A Vostro account

d) A Loro account

**Answer**: b) An Overdraft Loan from the foreign bank

Explanation:

- If you spend more than you have in your Nostro, the foreign bank is lending you money. It attracts interest charges.

### Question #224

SWIFT Message Type "MT 700" is used for:

a) Customer Transfer

b) Bank Transfer

c) Issue of a Letter of Credit

d) Treasury Deal confirmation

**Answer**: c) Issue of a Letter of Credit

Explanation:

- **MT 103:** Customer Payment.
- **MT 202:** Bank Transfer.
- **MT 700:** Issue of LC.
- **MT 760:** Bank Guarantee.

### Question #225

"Factoring" without recourse means:

a) The Factor (Bank) bears the credit risk of the buyer

b) The Exporter bears the credit risk

c) The Importer bears the credit risk

d) The Insurance company bears the risk

**Answer**: a) The Factor (Bank) bears the credit risk of the buyer

Explanation:

- **Without Recourse:** If the buyer doesn't pay, the Factor cannot come back to the Exporter for money. The Factor loses.

These questions from Module B focus on the **Advanced nuances of Basel III** and **Risk Management**. In the exam, **these often appear as "tricky" 1-mark theory questions or parts of a 5-mark case study.**

---

## Module B: Advanced Risk Management & Basel Norms

### Question #226

Under the Standardized Approach, what is the Risk Weight for an unsecured "Past Due Loan" (NPA) where specific provisions are less than 20% of the outstanding amount?
a) 100%
b) 125%
c) 150%
d) 200%

**Answer**: c) 150%

Explanation:

- **Provision < 20%:** Risk Weight = **150%** (High Risk).
- **Provision 20% - 50%:** Risk Weight = **100%**.
- **Provision > 50%:** Risk Weight = **50%**.

### Question #227

Claims on "Unrated" Corporates under the Standardized Approach attract a risk weight of:
a) 50%
b) 100%
c) 150%
d) 75%

**Answer**: b) 100%

Explanation:

- If a corporate borrower does not have an external credit rating, the standard risk weight is **100%**.
- *(Note: It cannot be lower than the risk weight of the Sovereign of that country).*

### Question #228

For "Off-Balance Sheet" items, what is the Credit Conversion Factor (CCF) for "Unused Overdraft/Cash Credit Limits" capable of being cancelled unconditionally at any time (e.g., without notice)?
a) 0%
b) 20%
c) 50%
d) 100%

**Answer**: a) 0%

Explanation:

- If the bank can cancel the limit instantly (unconditionally cancellable), the exposure is considered zero.
- If the maturity is **< 1 year**, CCF = 20%.
- If maturity **> 1 year**, CCF = 50%.

### Question #229

In the context of Operational Risk (Basic Indicator & Standardized Approach), "Gross Income" is defined as:

a) Net Profit after Tax

b) Net Interest Income + Net Non-Interest Income

c) Total Assets - Total Liabilities

d) Operating Profit + Provisions

**Answer**: b) Net Interest Income + Net Non-Interest Income

Explanation:

- Gross Income = (Interest Earned - Interest Paid) + (Other Income like fees/commissions).
- *Exclusions:* It excludes provisions, realized profits from sale of HTM securities, and extraordinary items.

### Question #230

When calculating Market Risk Capital Charge using the "Internal Models Approach" (IMA), the VaR must be calculated at what confidence level and holding period?

a) 95% confidence, 1-day holding

b) 99% confidence, 10-day holding

c) 99% confidence, 1-day holding

d) 97.5% confidence, 10-day holding

**Answer**: b) 99% confidence, 10-day holding

Explanation:

- Basel requires a strict standard: **99% confidence** over a **10-day horizon** for capital purposes.
- *(Note: Banks may use 1-day for internal reporting, but must scale it to 10-day for Capital).*

### Question #231

In the "Supervisory Haircuts" method for CRM (Collateral), the standard haircut applied for currency mismatch (Collateral in USD, Loan in INR) is:

a) 4%

b) 6%

c) 8%

d) 10%

**Answer**: c) 8%

Explanation:

- If the loan and collateral are in different currencies, an additional haircut of **8%** is applied to account for forex volatility.

### Question #232

Which of the following risks is NOT covered by Pillar 1 but must be addressed under Pillar 2 (ICAAP)?

a) Concentration Risk

b) Credit Risk

c) Operational Risk

d) Market Risk

**Answer**: a) Concentration Risk

Explanation:

- **Concentration Risk:** Lending too much to one sector/group. There is no formula for this in Pillar 1, so banks must assess it in Pillar 2.
- Others like IRRBB (Interest Rate Risk in Banking Book) and Liquidity Risk are also Pillar 2.

### Question #233

The "Countercyclical Capital Buffer" (CCCB) is triggered based on the deviation of which macro-economic indicator?

a) GDP Growth Rate

b) Credit-to-GDP Gap

c) Inflation Rate (CPI)

d) Stock Market P/E Ratio

**Answer**: b) Credit-to-GDP Gap

Explanation:

- Regulators monitor the **Credit-to-GDP ratio**. If credit is growing much faster than GDP (overheating), they activate the buffer to cool down lending.

### Question #234

A "Credit Linked Note" (CLN) allows a bank to:

a) Buy protection against credit risk

b) Sell protection against credit risk

c) Increase its NPA

d) Borrow from RBI

**Answer**: a) Buy protection against credit risk

Explanation:

- The Bank (Protection Buyer) issues a Note to investors. If the reference entity defaults, the Bank keeps the investors' money. This effectively transfers the credit risk to the investors.

### Question #235

"True Sale" is a critical criterion for:
a) Securitization
b) Syndication
c) Participation
d) Factoring with Recourse

**Answer**: a) Securitization

Explanation:

- For capital relief, the assets must be completely removed from the bank's balance sheet ("True Sale"). The originator should not have any obligation to repurchase them (except for clean-up calls).

### Question #236

Under the Standardized Approach for Market Risk, the capital charge for "Specific Risk" of Equity is:
a) 2.5%
b) 9%
c) 11.25%
d) 15%

**Answer**: b) 9%

Explanation:

- General Market Risk for Equities = 9%.
- Specific Risk for Equities = 9%.
- Total Capital Charge = 18%.

### Question #237

Regulatory Capital is meant to cover:
a) Expected Losses (EL)
b) Unexpected Losses (UL)
c) Both EL and UL
d) Operational Expenses

**Answer**: b) Unexpected Losses (UL)

Explanation:

- **Expected Losses** (like standard NPAs) are covered by **Provisions** (pricing).
- **Unexpected Losses** (shocks) are covered by **Capital**.

### Question #238

Under the "Foundation Internal Ratings Based" (FIRB) approach for Credit Risk, the LGD (Loss Given Default) for senior unsecured claims on corporates is fixed at:
a) 45%
b) 50%
c) 75%
d) 100%

**Answer**: a) 45%

Explanation:

- **Secured Claims:** LGD is 35%.
- **Unsecured Claims:** LGD is 45%.
- **Subordinated Claims:** LGD is 75%.

### Question #239

"Settlement Risk" in Forex transactions (Herstatt Risk) is eliminated by:
a) Netting
b) PvP (Payment vs Payment) mechanism
c) Collateral
d) Limit setting

**Answer**: b) PvP (Payment vs Payment) mechanism

Explanation:

- PvP ensures that the final transfer of one currency happens *only if* the final transfer of the other currency also takes place (e.g., via CLS Bank or CCIL).

### Question #240

For "Failed Trades" (DVP Transactions) where the counterparty fails to deliver securities/cash, a Risk Weight of 100% applies if the delay is:
a) 2 to 4 days
b) 5 to 15 days
c) 16 to 30 days
d) 31 to 45 days

**Answer**: b) 5 to 15 days

Explanation:

- Delay 5–15 days: **100%** Risk Weight.
- Delay 16–30 days: **625%** Risk Weight.
- Delay 46+ days: **1250%** (Full Deduction).

### Question #241

The "Leverage Ratio" requirement for Domestic Systemically Important Banks (D-SIBs) in India is:
a) 3%

b) 3.5%
c) 4%
d) 4.5%

**Answer**: c) 4%

Explanation:

- Standard Banks: **3.5%**.
- D-SIBs (SBI, HDFC, ICICI): **4%**.
- *(Note: Check latest RBI Master Circular as this was recently updated from 3% to 3.5% for standard banks).*

### Question #242

Who is primarily responsible for the design and operation of the ICAAP (Internal Capital Adequacy Assessment Process)?
a) The Risk Management Department
b) The Statutory Auditor
c) The Board of Directors
d) The RBI

**Answer**: c) The Board of Directors

Explanation:

- While the Risk Dept prepares it, the **Board** is ultimately responsible for approving the ICAAP and ensuring it aligns with the bank's risk appetite.

### Question #243

In Securitization, "Credit Enhancement" is provided to:
a) Increase the yield for the bank
b) Improve the credit rating of the securities (PTCs) for investors
c) Reduce the tax burden
d) Speed up the sale

**Answer**: b) Improve the credit rating of the securities (PTCs)

Explanation:

- Types: **First Loss Facility** (Originator takes first hit) or **Second Loss Facility**. This makes the senior tranche safer for investors.

### Question #244

Under Basel III, "Minority Interest" in subsidiaries that are fully consolidated is:
a) Fully included in CET1
b) Fully excluded from CET1
c) Included in CET1 subject to limits (only the portion needed to meet the sub's capital requirements)
d) Included in Tier 2

**Answer**: c) Included in CET1 subject to limits

Explanation:

- You can only count the minority interest that supports the risks of the subsidiary. Any "surplus" capital attributable to minority shareholders is excluded.

### Question #245

"Parallel Run" refers to:

a) Running old software and new software together

b) Calculating Capital requirements under Basel I and Basel II/III simultaneously for a period

c) Running two branches with different rules

d) Merging two banks

**Answer**: b) Calculating Capital requirements under Basel I and Basel II/III simultaneously

Explanation:

- When moving to Advanced Approaches (IRB/AMA), banks must run the new model parallel to the old Standardized Approach for at least 1–2 years to prove reliability.

### Question #246

The "Probability of Default" (PD) estimated by banks under IRB approach has a regulatory "Floor" (Minimum value) of:

a) 0.00%

b) 0.03%

c) 0.05%

d) 0.10%

**Answer**: b) 0.03%

Explanation:

- Even for the safest borrower (like a AAA corporate), the PD cannot be zero. The minimum floor is **0.03%** (except for Sovereign exposures).

### Question #247

In Market Risk, the "Horizontal Disallowance" in the Maturity Method is designed to capture:

a) Basis Risk

b) Yield Curve Risk (Non-parallel shifts)

c) Counterparty Risk

d) Forex Risk

**Answer**: b) Yield Curve Risk (Non-parallel shifts)

Explanation:

- If short-term rates rise but long-term rates fall (curve twists), simple duration matching fails. Horizontal disallowance adds extra capital charge for this curve risk.

### Question #248

"Wrong Way Risk" in derivatives occurs when:

a) The counterparty defaults when the market moves in your favor

b) Exposure to a counterparty is highly correlated with the probability of default of that counterparty

c) The documentation is legally flawed

d) The wrong currency is used

**Answer**: b) Exposure to a counterparty is highly correlated with the probability of default...

Explanation:

- *Example:* You buy a Put Option on Oil prices from an Oil Company. If Oil crashes, your Option value goes UP (Exposure increases), but the Oil Company is likely to go bankrupt (Default increases). They both go wrong together.

### Question #249

For "Duration Method" of Equity Risk in the Banking Book, the standard assumption for price volatility is:

a) 10%

b) 20%

c) Depending on Beta

d) 9%

**Answer**: c) Depending on Beta

Explanation:

- Unlike the Trading Book (Specific/General risk), Banking Book equities are often assessed using Beta analysis relative to the market index.

### Question #250

What is the "Prudential Floor" for capital requirements when a bank moves from Standardized to IRB approach?

a) 50% of capital required under previous accord

b) 80% of capital required under Basel I

c) 90% of capital required under Standardized Approach

d) 100%

**Answer**: b) 80% of capital required under Basel I

Explanation:

- To prevent banks from using models to artificially slash capital to zero, the regulations say Capital cannot drop below **80%** of what it would have been under the old Basel I rules.

## Module C & D: Treasury & Balance Sheet Management

### Question #251

A "Bear Spread" option strategy is constructed by:
a) Buying a Call with lower strike and Selling a Call with higher strike
b) Buying a Put with higher strike and Selling a Put with lower strike
c) Buying a Call and Selling a Put
d) Selling two Calls

**Answer**: b) Buying a Put with higher strike and Selling a Put with lower strike

Explanation:

- **Bear Spread:** You profit when the market falls.
- You buy a Put (to profit from fall) and sell a cheaper Put (to reduce cost).

### Question #252

In the context of Bond math, "Macaulay Duration" measures:
a) The price sensitivity to yield changes
b) The weighted average time to receive the cash flows (Principal + Interest)
c) The remaining maturity of the bond
d) The coupon rate

**Answer**: b) The weighted average time to receive the cash flows

Explanation:

- **Macaulay Duration:** Measured in **Years**. It tells you how long it takes to recover your real investment.
- **Modified Duration:** Derived from Macaulay, measured in %. It tells you **Price Sensitivity**.

### Question #253

(Numerical) A Zero Coupon Bond of Face Value ₹100 is trading at ₹60. The maturity is 5 years. What is the approximate Yield to Maturity (YTM)?
a) 8.5%
b) 10.75%
c) 12%
d) 6%

**Answer**: b) 10.75%

Explanation:

- **Formula (Approx):** $YTM \approx \frac{(FaceValue - Price)/Years}{(FaceValue + Price)/2}$.
- $(100 - 60)/5 = 8$.
- $(100 + 60)/2 = 80$.
- $8/80 = 10\%$.
- *(Using exact compounding formula $(100/60)^{(1/5)} - 1$, it is closer to 10.75%).*

### Question #254

Which of the following participants are NOT allowed to access the Call Money Market for borrowing?
a) Scheduled Commercial Banks
b) Co-operative Banks
c) Primary Dealers (PDs)
d) Corporates

**Answer**: d) Corporates

Explanation:

- The Call Money market is an **Inter-Bank** market. Only Banks and Primary Dealers can borrow/lend. Corporates must use CPs or Repo (via Mutual Funds) to access funds.

### Question #255

When a bank sells a "Participatory Note" (P-Note) to an overseas client, it is essentially:
a) Selling a loan portfolio
b) Issuing a derivative instrument backed by underlying Indian securities to a foreign investor who is not registered with SEBI
c) Issuing equity capital
d) Borrowing via ECB

**Answer**: b) Issuing a derivative instrument backed by underlying Indian securities...

Explanation:

- P-Notes allow unregistered Foreign Portfolio Investors (FPIs) to invest in Indian stocks without registering directly with SEBI.

### Question #256

The "Clean Price" of a bond is ₹98. The "Accrued Interest" is ₹1.50. The "Dirty Price" (Invoice Price) is:
a) ₹98
b) ₹96.50

c) ₹99.50

d) ₹100

**Answer**: c) ₹99.50

Explanation:

- **Dirty Price** = Clean Price + Accrued Interest.
- $98 + 1.50 = \mathbf{99.50}$.
- *Note:* The buyer pays the Dirty Price.

### Question #257

Which of the following is a "Non-deliverable Forward" (NDF)?

a) A standard forward contract settled by physical delivery of currency

b) An offshore forward contract settled in a major currency (like USD) based on the difference between the agreed rate and spot rate

c) A futures contract

d) A swap

**Answer**: b) An offshore forward contract settled in a major currency...

Explanation:

- NDFs are used for currencies that are not freely convertible (like INR offshore). No physical Rupees change hands; only the profit/loss is paid in USD.

### Question #258

Under RBI guidelines for "User Suitability" for derivatives, banks must classify users into:

a) Retail and Wholesale

b) Hedgers and Speculators

c) Market Makers and Users

d) Small and Large

**Answer**: c) Market Makers and Users

Explanation:

- **Market Makers:** Banks/PDs who quote prices.
- **Users:** Corporates who use derivatives to hedge.

### Question #259

What is "Convexity Adjustment"?

a) An adjustment made to Duration to account for the curvature of the Price-Yield relationship

b) An adjustment for default risk

c) An adjustment for inflation

d) An operational risk charge

**Answer**: a) An adjustment made to Duration...

Explanation:

- For large changes in yield, Duration is inaccurate because it assumes a straight line. Convexity fixes this error by adding the "curve" factor.

### Question #260

In the context of Treasury, "Retailing of Government Securities" allows:
a) Banks to sell G-Secs to other banks
b) Banks to buy G-Secs from RBI
c) Banks to sell G-Secs to individual investors (retail) via their demat accounts
d) RBI to sell to Foreign Central Banks

**Answer**: c) Banks to sell G-Secs to individual investors (retail)

Explanation:

- This initiative (NDS-OM Web) encourages common people to invest in G-Secs (Gilt accounts).

### Question #261

The "Behavioral Maturity" of a Savings Bank Deposit is typically:
a) 1 Day (since it is payable on demand)
b) Longer than contractual maturity (Core portion remains stable)
c) 1 Year
d) 5 Years

**Answer**: b) Longer than contractual maturity

Explanation:

- For ALM, banks analyze historical behavior. Even though customers *can* withdraw today, the "Core" portion usually stays for years. It is placed in **1-3 year** (or longer) buckets.

### Question #262

A "Swap" where the principal is exchanged in different currencies at the spot rate at inception and reversed at the forward rate on maturity is:
a) Coupon Only Swap
b) Principal Only Swap
c) Buy/Sell Swap (Forex Swap)
d) Interest Rate Swap

**Answer**: c) Buy/Sell Swap (Forex Swap)

Explanation:

- This is the standard mechanism for FX Swaps used by banks to manage liquidity.

### Question #263

Which Greek measures the sensitivity of an Option to "Volatility"?

a) Delta
b) Vega
c) Rho
d) Theta

**Answer**: b) Vega

Explanation:

- High Vega means the option price will increase significantly if market volatility increases (even if the stock price stays same).

### Question #264

When a bank calculates "Economic Value of Equity" (EVE), it assumes:
a) The bank stops doing business (Run-off view)
b) The bank continues business forever (Going concern)
c) Only short term profits matter
d) No interest rate changes

**Answer**: a) The bank stops doing business (Run-off view)

Explanation:

- EVE analyzes the value of the *existing* assets and liabilities if run to maturity. It does not account for new business (which is captured in Earnings at Risk).

### Question #265

"Transfer Pricing" mechanism helps in:
a) Evaluating the profitability of each branch/business unit independently
b) Calculating tax
c) Setting customer interest rates only
d) Audit compliance

**Answer**: a) Evaluating the profitability of each branch/business unit independently

Explanation:

- By "charging" branches for funds, the bank can see if a branch is truly profitable or just riding on cheap deposits.

### Question #266

Under Basel III LCR, "Level 2A" assets (like highly rated Corporate Bonds) are subject to a minimum haircut of:
a) 0%
b) 15%
c) 50%
d) 25%

**Answer**: b) 15%

Explanation:

- **Level 1 (G-Sec):** 0% Haircut.
- **Level 2A (Corp Bond AA-):** 15% Haircut.
- **Level 2B (Corp Bond BBB-):** 50% Haircut.

### Question #267

In a "Positive Yield Curve", the expectation is that:

a) Future interest rates will rise

b) Future interest rates will fall

c) Economy is in recession

d) Inflation will become zero

**Answer**: a) Future interest rates will rise

Explanation:

- Investors demand higher yield for locking money for longer periods because they expect rates/inflation to go up.

### Question #268

"Short Selling" of Government Securities in India is:

a) Prohibited

b) Permitted for NDS-OM members within limits (Intra-day and max 3 months)

c) Permitted for everyone unlimited

d) Permitted only for RBI

**Answer**: b) Permitted for NDS-OM members within limits

Explanation:

- Banks/PDs can short sell (sell what they don't own) provided they borrow the security via Repo to deliver it, and square off within 3 months (previously 5 days, rules relaxed).

### Question #269

A "Caps and Floors" derivative contract is essentially a series of:

a) Forward Contracts

b) Interest Rate Options

c) Currency Swaps

d) Futures

**Answer**: b) Interest Rate Options

Explanation:

- **Cap:** A series of Call Options on interest rates (Protects borrower from rising rates).
- **Floor:** A series of Put Options (Protects lender from falling rates).

## Question #270

The "Modified Duration" of a bond is 5.0. If the yield falls by 100 basis points (1%), the price will:

a) Rise by 5%

b) Fall by 5%

c) Rise by 1%

d) Fall by 1%

**Answer**: a) Rise by 5%

Explanation:

- Yield FALLS (-) $\rightarrow$ Price RISES (+).
- Change: $5.0 \times 1\% = \mathbf{5\%}$.

## Question #271

"Basis Point Value" (BPV) is also known as:

a) PV01 (Price Value of 1 basis point)

b) Duration

c) Convexity

d) Yield

**Answer**: a) PV01

Explanation:

- It measures the absolute change in price (in Currency terms, e.g., ₹0.05) for a 0.01% change in yield.

## Question #272

Which of the following is an "Embedded Option" in a deposit product?

a) Premature withdrawal facility

b) Cheque book facility

c) Internet banking

d) Overdraft limit

**Answer**: a) Premature withdrawal facility

Explanation:

- The customer has the "Put Option" to demand money back before maturity. This creates liquidity risk for the bank.

## Question #273

In "Marking to Market" a Forward Contract, the revaluation rate used is:

a) The original contracted rate

b) The Spot Rate

c) The current Forward Rate for the remaining maturity

d) The RBI Reference Rate

**Answer**: c) The current Forward Rate for the remaining maturity

Explanation:

- You compare your contracted forward rate with the *current* forward rate for the remaining days to see if you are in profit or loss.

### Question #274

Who is the "Calculation Agent" in an Interest Rate Swap?

a) The Borrower

b) The Lender

c) A mutually agreed party (usually one of the banks involved)

d) RBI

**Answer**: c) A mutually agreed party

Explanation:

- The Calculation Agent determines the floating rate (e.g., checks Reuters for MIBOR) and calculates who owes what on settlement dates.

### Question #275

(Numerical) 1-Day VaR is ₹10 Cr. If the holding period is increased to 100 days, the VaR increases by a factor of:

a) 100

b) 10

c) 50

d) 5

**Answer**: b) 10

Explanation:

**Factor:** $\sqrt{100} = \mathbf{10}$.

- VaR becomes ₹100 Cr.

This section focuses on **Case Studies**, **Recent RBI/Incoterm Updates**, and **Advanced Numericals**. These are the "difference makers" for a high score.

---

## Module A, B, C & D: Mixed Advanced Topics & Case Studies

### Question #276

In Incoterms 2020, the term "DAT" (Delivered at Terminal) was replaced by:

a) DPU (Delivered at Place Unloaded)

b) DAP (Delivered at Place)
c) DDP (Delivered Duty Paid)
d) DTA (Delivered to Area)

**Answer**: a) DPU (Delivered at Place Unloaded)

Explanation:

- **Incoterms 2020 Update:** DPU allows delivery at *any* place (not just a terminal), but the seller is the one who bears the risk/cost of **unloading**.

### Question #277

Under the "Large Exposure Framework", a bank's exposure to a "Group of Connected Counterparties" is limited to:
a) 15% of Tier 1 Capital
b) 20% of Tier 1 Capital
c) 25% of Tier 1 Capital
d) 40% of Total Capital

**Answer**: c) 25% of Tier 1 Capital

Explanation:

- **Single Borrower:** 20% (extendable to 25% in exceptional cases).
- **Group Borrower:** 25% flat.

### Question #278

Entities raising "External Commercial Borrowings" (ECB) are required to hedge what percentage of their exposure if they are in the infrastructure sector?
a) 50%
b) 70%
c) 100%
d) No mandatory hedge

**Answer**: b) 70%

Explanation:

- Infrastructure companies raising ECB must mandatorily hedge **70%** of their ECBs under the "Average Maturity < 5 Years" track to protect against rupee volatility.

### Question #279

For "Ways and Means Advances" (WMA) provided by RBI to the Government, the interest rate charged is:
a) Bank Rate
b) Repo Rate
c) Reverse Repo Rate
d) Treasury Bill Rate

**Answer**: b) Repo Rate

Explanation:

- **WMA:** Loans to Govt to match temporary cash mismatch. Rate = **Repo Rate**.
- **Overdraft:** If they exceed WMA limits, Rate = **Repo + 2%**.

### Question #280

Which new method replaced the "Current Exposure Method" (CEM) for calculating Counterparty Credit Risk (CCR) in derivatives?
a) SA-CCR (Standardized Approach for Counterparty Credit Risk)
b) Internal Models Method
c) Basic Indicator Approach
d) Duration Method

**Answer**: a) SA-CCR

Explanation:

- RBI introduced **SA-CCR** to be more risk-sensitive than the old CEM. It accounts for hedging sets and collateral better.

### Question #281

Under Liquidity Coverage Ratio (LCR), "Level 2B" assets (like common equity shares or lower rated corporate bonds) can account for a maximum of:
a) 15% of Total HQLA
b) 40% of Total HQLA
c) 50% of Total HQLA
d) 10% of Total HQLA

**Answer**: a) 15% of Total HQLA

Explanation:

- **Level 1:** Unlimited.
- **Level 2 (Total):** Max 40% of HQLA.
- **Level 2B (within Level 2):** Max 15% of HQLA.

### Question #282

In Forex Trading, the "Net Overnight Open Position" (NOOP) limit fixes:
a) The maximum loss a dealer can make
b) The maximum amount of forex a bank can carry over to the next day (Open Risk)
c) The maximum amount of day trading
d) The total turnover

**Answer**: b) The maximum amount of forex a bank can carry over to the next day

Explanation:

- Also called the "Overnight Limit". It controls the Exchange Rate Risk the bank carries while it sleeps.

### Question #283

(Case Study: Forex)
An importer books a forward contract for $10,000 due on 30th June. On 30th June, he requests an "Early Delivery" (take delivery before due date). The bank will:
a) Refuse the request
b) Execute at the original rate
c) Cancel the existing contract at current rates and book a new spot deal
d) Charge a penalty only

**Answer**: c) Cancel the existing contract... and book a new spot deal

Explanation:

- Early delivery is technically a **Swap**. The bank "Cancels" the original future promise (Swap Cost applies) and sells dollars at "Spot" today.

### Question #284

The "Provisioning Coverage Ratio" (PCR) of banks is generally expected to be at least:
a) 50%
b) 60%
c) 70%
d) 100%

**Answer**: c) 70%

Explanation:

- While specific rules vary, RBI and Enhanced Access and Service Excellence (EASE) norms target a **70%** PCR to ensure balance sheet strength.

### Question #285

Who are "Authorised Dealers - Category II" (AD-II)?
a) Full-service Banks
b) Upgraded Money Changers allowed to handle non-trade remittances
c) Small Finance Banks
d) Financial Institutions

**Answer**: b) Upgraded Money Changers

Explanation:

- **AD-I:** Banks (All Trade & Remittance).
- **AD-II:** Large Money Changers (Travel, Remittance, but NO Trade/LCs).
- **AD-III:** Specific Institutions (Exim Bank).

### Question #286

Under Basel III, a "Significant Investment" in the capital of another financial institution (where the bank owns >10% shares) must be:
a) Fully Deducted from Capital
b) Risk Weighted at 1250%

c) Deducted from Capital if it exceeds 10% of the bank's own CET1 (Threshold Deduction)
d) Risk weighted at 100%

**Answer**: c) Deducted from Capital if it exceeds 10% of the bank's own CET1

Explanation:

- This prevents "Double Gearing" (Capital being counted twice in the financial system). Amounts below the threshold are risk-weighted at 250%.

### Question #287

In a "Transferable LC", the Second Beneficiary can request to transfer the LC to:
a) A Third Beneficiary
b) Back to the First Beneficiary
c) Any other party
d) No one

**Answer**: b) Back to the First Beneficiary

Explanation:

- An LC can be transferred only once (1st $\to$ 2nd).
- *Exception:* It can be transferred back to the 1st Beneficiary (e.g., if the 2nd cannot fulfill the order).

### Question #288

The "Unhedged Foreign Currency Exposure" (UFCE) of a corporate borrower attracts:
a) Higher Interest Rate
b) Additional Risk Weight and Provisioning requirements for the lending bank
c) Penalty from RBI
d) Zero Risk Weight

**Answer**: b) Additional Risk Weight and Provisioning requirements

Explanation:

- If a client borrows in Dollars but has no dollar income (Unhedged), they are risky. RBI mandates banks to set aside **extra capital and provisions** (up to 25% extra) for such clients.

### Question #289

"Factoring" involves the sale of receivables. Registration of Factoring transactions with CERSAI is:
a) Optional
b) Mandatory
c) Mandatory only if exposure > ₹5 Cr
d) Not required

**Answer**: b) Mandatory

Explanation:

- To prevent double financing (selling the same bill to two banks), all factoring deals must be registered with **CERSAI**.

### Question #290

(Numerical: Cross Rate with Spread)
Find GBP/INR Bid Rate.

- **USD/INR:** 82.00 / 82.20
- GBP/USD: 1.2000 / 1.2010
  a) 98.40
  b) 98.72
  c) 98.64
  d) 98.50
  **Answer**: a) 98.40
  Explanation:
  - **Logic:** To Find **Bid** (Bank Buys GBP), the bank must Buy GBP $\to$ Sell USD $\to$ Buy INR.
  - **Formula:** $Bid(GBP/INR) = Bid(GBP/USD) \times Bid(USD/INR)$.
  - *Tip for Cross Rates:*
    - **Bid x Bid** = New Bid.
    - **Ask x Ask** = New Ask.
  - **Calculation:** 1.2000 X 82.00 = **98.40**.

### Question #291

What is the "Aggregate Gap Limit" (AGL) in Forex?

a) Limit on total forex turnover

b) Limit on the mismatch between forward purchases and sales by maturity buckets

c) Limit on open position

d) Limit on inter-bank deals

**Answer**: b) Limit on the mismatch between forward purchases and sales

Explanation:

- AGL controls the **Forward Gap Risk** (e.g., Buying 1-month forward but Selling 6-months forward).

### Question #292

"Strategic Debt Restructuring" (SDR) and "S4A" schemes have been largely replaced by:

a) SARFAESI Act

b) IBC (Insolvency and Bankruptcy Code) and Prudential Framework for Resolution of Stressed Assets (June 7 Circular)

c) CDR Mechanism

d) DRT

**Answer**: b) IBC and Prudential Framework (June 7 Circular)

Explanation:

- The RBI June 7, 2019 circular is the current "Bible" for stressed assets, replacing old schemes like SDR/S4A.

### Question #293

For a "Sight LC", the "Crystalization" of import bill happens on:

a) The 10th day from Date of Receipt of Documents

b) The 10th day from Due Date

c) Immediately on receipt

d) 30th day

**Answer**: a) The 10th day from Date of Receipt of Documents

Explanation:

- For Sight bills, there is no "Due Date" other than "Now".
- If the importer doesn't pay, the bank waits 10 days and then crystallizes.

### Question #294

Under LRS, can a resident individual invest in "Crypto Currency" abroad?

a) Yes, up to $250,000

b) No, it is a prohibited transaction

c) Yes, with RBI approval

d) Yes, if disclosed in Tax Return

**Answer**: b) No, it is a prohibited transaction

Explanation:

- While LRS allows equity/debt, RBI has clarified that remittance for **Crypto assets** or margins for trading crypto is NOT permitted (banks usually block this).

### Question #295

(Numerical: Provisioning)

A loan of ₹10 Lakhs is "Doubtful-1" (up to 1 year). The value of Security (Gold) is ₹4 Lakhs.

Calculate the Total Provision.

a) ₹2.5 Lakhs

b) ₹4.0 Lakhs

c) ₹7.0 Lakhs

d) ₹10.0 Lakhs

**Answer**: c) ₹7.0 Lakhs

Explanation:

- **Secured Portion (₹4L):** Provision @ 25% (for D1) = ₹1 Lakh.
- **Unsecured Portion (₹6L):** Provision @ 100% (Always for Unsecured) = ₹6 Lakhs.
- **Total: 1 + 6 = 7 Lakhs**.

### Question #296

The "Marginal Standing Facility" (MSF) rate is typically pegged at:
a) Repo Rate + 0.25%
b) Repo Rate + 0.50%
c) Same as Repo Rate
d) Reverse Repo Rate

**Answer**: a) Repo Rate + 0.25%

Explanation:

- **Corridor:**
  - Floor: SDF (Standing Deposit Facility).
  - Middle: Repo.
  - Ceiling: MSF (Penal rate for emergency borrowing).
- *(Note: Spread changes, currently 25 bps).*

### Question #297

Which SWIFT Message format is used for "Bank-to-Bank" fund transfers?
a) MT 103
b) MT 202
c) MT 700
d) MT 940

**Answer**: b) MT 202

Explanation:

- **MT 103:** Customer Transfer (My account to Your account).
- **MT 202:** Bank Transfer (My Bank's Nostro to Your Bank's Nostro).

### Question #298

In Securitization, what is the "Clean Up Call"?
a) Option for the Originator to buy back the remaining loans when the outstanding drops to 10%
b) Option to cancel the deal
c) Option to replace bad loans
d) Option to clean the balance sheet

**Answer**: a) Option for the Originator to buy back the remaining loans...

Explanation:

- When the pool of loans becomes very small (<10%), managing it is costly. The Originator can buy it back to close the SPV.

### Question #299

"Deferred Payment Guarantees" (DPG) differ from Term Loans because:
a) DPGs involve immediate cash outflow for the bank
b) DPGs are Non-Fund Based (Contingent Liability)

c) DPGs are for working capital

d) DPGs have no interest

**Answer**: b) DPGs are Non-Fund Based

Explanation:

- In a DPG, the bank guarantees that the *buyer* will pay the installments for machinery. The bank pays only if the buyer defaults. (In a Term Loan, the bank pays the cash upfront).

### Question #300

(Final Calculation: VaR Backtesting)

A bank uses a 99% Confidence Level for VaR. In 250 trading days, how many "Exceptions" (Loss > VaR) are statistically expected?

a) 0

b) 2.5 (approx 2-3)

c) 10

d) 25

**Answer**: b) 2.5 (approx 2-3)

Explanation:

- **99% Confidence** = We expect to be safe 99% of the time.
- We expect to fail **1%** of the time.
- **Days:** 250.
- **Expected Failures:** 1% of 250 = **2.5**.
- *Result:* If the bank has 2 or 3 exceptions, the model is Green (Good). If it has 10, the model is Red (Bad).