



FINAL EXAMINATION
MODEL QUESTION PAPER
PAPER – 20B

SET - 2
TERM – DECEMBER 2025
SYLLABUS 2022

RISK MANAGEMENT IN BANKING AND INSURANCE

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1) Choose the correct option:

[15 × 2=30]

- (i) The risk that arises from the possibility of non-payment of loans by the borrowers is known as-
- a) Credit Risks
 - b) Market Risks
 - c) Moral Hazard
 - d) Business Risk
- (ii) A Safe Haven for Investors Money is:
- a) Debt Market
 - b) Equity Market
 - c) Speculative Market
 - d) All of the above
- (iii) Which of the following is the correct definition of Exposure at Default (EAD)?
- a) It measures the remaining economic maturity of the exposure
 - b) It is estimated amount outstanding in a loan commitment if default occurs
 - c) It measures the proportion of the exposure that will be lost if Default occurs
 - d) It measures the likelihood that the borrower will default over a given time horizon
- (iv) _____ risk is the potential loss due to changes in the value of a bank's assets or liabilities resulting from exchange rate fluctuations.
- a) Interest rate.
 - b) Equity.
 - c) Foreign exchange.
 - d) Commodity.
- (v) Policy matures on the assured death or on his attainment of a particular age whichever occurs earlier
- a) Endowment
 - b) Money back
 - c) Joint life
 - d) Single premium



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- (vi) Risk retention means-----
- Saving money to pay for the losses
 - Accepting and agreeing to finance the loss oneself
 - Not taking up any activity which is risky
 - Insuring the risk
- (vii) Under Section 42 of the Insurance Act, 1938, who may appoint a person to act as an insurance agent?
- The Insurance Regulatory and Development Authority (IRDAI)
 - The Central Government
 - The insured
 - The insurer
- (viii) What does the solvency margin of an insurance company indicate?
- The total premium income earned by the insurer
 - The extent to which liabilities exceed assets
 - How solvent and prepared the company is to meet unforeseen exigencies
 - The number of claims settled in a financial year
- (ix) Which of the following method reduces the chance of loss to zero?
- Risk Transferring
 - Risk avoidance
 - Risk retention
 - Risk reduction
- (x) _____ risks happen within a stable environment and are constant over an observed period of time.
- Speculative
 - Pure
 - Dynamic
 - Static
- (b) International Bank has a Paid-up Capital of ₹ 100 Crores, Free Reserves of ₹ 300 Crores, Provisions and Contingencies Reserves of ₹ 200 Crores, Revaluation Reserve of ₹ 300 Crores, Perpetual Non-cumulative Preference Shares of ₹ 400 Crores, and Subordinated Debt of ₹ 300 Crores. The Risk-Weighted Assets for Credit and Operational Risk are ₹ 10,000 Crores and for Market Risk ₹ 4,000 Crores. Based on the above information, answer the following question:
- (xi) What is the amount of Tier-1 Capital?
- ₹ 900 Crores.
 - ₹ 800 Crores.
 - ₹ 750 Crores.
 - ₹ 610 Crores.
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- (xii) Calculate the amount of Tier-2 capital:
- ₹ 900 Crores.
 - ₹ 800 Crores.
 - ₹ 750 Crores.
 - ₹ 610 Crores.
- (xiii) What is the capital adequacy ratio of the bank?
- 9%.
 - 9.65%.
 - 10.05%.
 - 10.07%.
- (xiv) What is the amount of minimum capital to support credit and operational risk?
- ₹ 900 Crores.
 - ₹ 950 Crores.
 - ₹ 1,000 Crores.
 - ₹ 1,250 Crores.
- (xv) What is the amount of minimum Tier 1 and Tier 2 to support the Credit and Operational Risk?
- ₹ 900 Crores, ₹ 900 Crores
 - ₹ 600 Crores, ₹ 900 Crores
 - ₹ 450 Crores, ₹ 450 Crores
 - ₹ 300 Crores, ₹ 450 Crores

SECTION – B

Answer any 5 questions out of 7 questions given. Each question carries 14 marks. [5 × 14 = 70]

2. (a) Explain the common types of risks faced by banks. [7]
- (b) A bank has computed its Tier I capital: ₹ 1,400 Crores (inclusive of CET1 + AT1)
Tier-II Capital – ₹ 1,200 Crores.
RWAs for Credit Risk: ₹ 10,000 Crores
The capital charge for Market Risk: ₹ 500 Crores
The capital charge for Operational Risk: ₹ 300 Crores.
Calculate the Bank's Tier-I CRAR and Total CRAR? [7]
3. (a) Explain the concept of Credit Risk Exposures and discuss the main types of credit risks faced by financial Institutions. [7]
- (b) Differentiate between Debt Repudiation and Debt Rescheduling in the context of international lending.
Discuss why debt rescheduling is generally easier to implement for bank loans compared to bond issues, citing suitable reasons. [7]
4. (a) Explain the concept of a Commercial Letter of Credit and discuss how it provides protection to both buyers and sellers in international trade. Also, describe the different types of letters of credit commonly used in



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business transactions.

[7]

(b) International Banks provided following information about its-NPA account as on Mar 31, 2022.

Total loans ₹ 40,000 Crores.

Standard Accounts ₹ 38,000 Crores including Direct Agriculture and SME loans of ₹10,000 Crores.

Sub-standard ₹ 800 Crores and out of which unsecured Sub-standard ₹ 200 Crores..

Doubtful up to 1 Year ₹ 800 Crores and Doubtful above 1 year up to 3 years ₹ 200 Crores and Doubtful above 3 Years ₹ 120 Crores and Loss Accounts ₹ 80 Crores.

All doubtful loans are fully secured.

Based on the above information, Calculate the following:

- (i) Provision on standard accounts
- (ii) Amount of provision on sub-standard loan accounts
- (iii) Amount of provision on doubtful loan accounts
- (iv) Total provision on NPA loan
- (v) If security value in Doubtful Category-1 accounts is 600 Crores what will be amount of provision for Doubtful Category-1 accounts
- (vi) If security value is 3,150 Crores in Doubtful Category-2 accounts, then what will be the provision
- (vii) Percentage of Net NPA?

[7]

5. (a) Aspire Bank has paid up capital of ₹300 Crores, free reserves of ₹800 Crores, provisions and contingencies reserves ₹500 Crores, Revaluation Reserve of ₹700 Crores, Perpetual non-cumulative preference shares of ₹900 Crores, and Subordinated Debt of ₹700 Crores. The Risk Weighted Assets for Credit and Operational Risk are ₹25,000 Crores and for-Market Risk ₹10,000 Crores.

Based on the above information, calculate the following:

- i. The amount of Tier-1 capital.
- ii. The amount of Tier-2 capital.
- iii. The amount of Fund
- iv. The capital adequacy ratio of the bank
- v. The amount of minimum capital to support Credit and Operational Risk.
- vi. What is the amount of minimum Tier 1 and Tier 2 to support the credit and operational risk?
- vii. What is the amount of Tier-1 capital fund, to support Market Risk?
- viii. What is the amount of Tier-2 capital fund, to support Market Risk?

[7]

(b) Explain the fundamental principles of insurance that ensure fair and efficient functioning of insurance contracts.

[7]

6. (a) Discuss the concept of Individual Agents in the insurance sector. Also analyse the conditions under which a person can act as an insurance agent and the circumstances that lead to disqualification under Section 42 of the Insurance Act, 1938.

[7]

(b) Discuss the key features and benefits offered under the Postal Life Insurance (PLI) scheme. How do these features make PLI a preferred life insurance option for government and postal employees?

[7]



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7. (a) Define Marketing Risk and discuss the steps involved in Marketing Risk Management. [7]
(b) Apply the concept of risk avoidance to real-life business scenarios. Demonstrate how organizations can minimize exposure to high-severity risks through avoidance strategies, with at least two suitable examples. [7]
8. (a) As per RBI guidelines on ALM, Capital and Reserves are to be placed in over 5 Years' Bucket, Savings Bank and Current Deposits may be classified into volatile and core portions. Savings Bank (10%) and Current (15%). Deposits are generally withdrawable on demand. This portion may be treated as volatile. While the volatile portion can be placed in the time bucket for 14 days, the Core portion may be placed in over 1-3 Years bucket. The term deposits are to be placed in respective maturity buckets.

Capital	₹1,180 Crores.
Reserves	₹12,000 Crores.
Current account	₹1,000 Crores.
Savings Bank	₹4,000 Crores.
Term deposits 1-month maturity bucket	₹400 Crores.
1 to less than 3 months maturity bucket	₹800 Crores.
3 months to less than 6 months maturity bucket	₹1,200 Crores
6 months to less than 12 months maturity bucket	₹2,000 Crores.
1 year to less than 3 years maturity bucket	₹1,200 Crores.
3 years to less than 5 years maturity bucket	₹600 Crores. and
Above 5 years maturity bucket.	
Borrowing from RBI	₹400 Crores.

Based on the given information, answer the following questions:

- i. Calculate the amount of current account deposit that can be placed in 14 days bucket?
 - ii. Calculate the amount of saving bank deposit that can be placed in 14 days bucket?
 - iii. Calculate the amount of current account deposit that can be placed in a 1-3 years bucket?
 - iv. Calculate the amount of saving bank deposit that can be placed in a 1-3 years bucket?
 - v. Calculate the total amount of term deposit that will be placed in various maturity buckets up to less than 12 months? [7]
- (b) The Term, whole life, endowment, annuity policies or the combination of policies are available in the market. The best policy is the one that best meets your financial needs. You have to select the policy according to your needs.

Suggest suitable life insurance policies for the given situations:

- i. You are at the age of 25. You just joined an organization. You are recently married. Now you cannot spend more on life insurance.
- ii. You are the only earning member in your family. You purchased a flat by taking a loan from housing finance. As long as you are there you can pay EMIs regularly. You want to retain the house for your family members even in your absence.



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- iii. You are at the beginning of career; you want to combine both insurance and saving. But the combination of this saving and insurance is costly. Right now, you cannot invest much, having dependents and you want to invest later after settling in the career.
- iv. You want to leave an estate to your family after you. But you cannot pay the premiums after retirement. You are undisciplined in your saving habits and you are not financially savvy.
- v. You want to set up a saving stream, beyond term plans. [7]

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