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Banking Digest for IBPS Clerk IV

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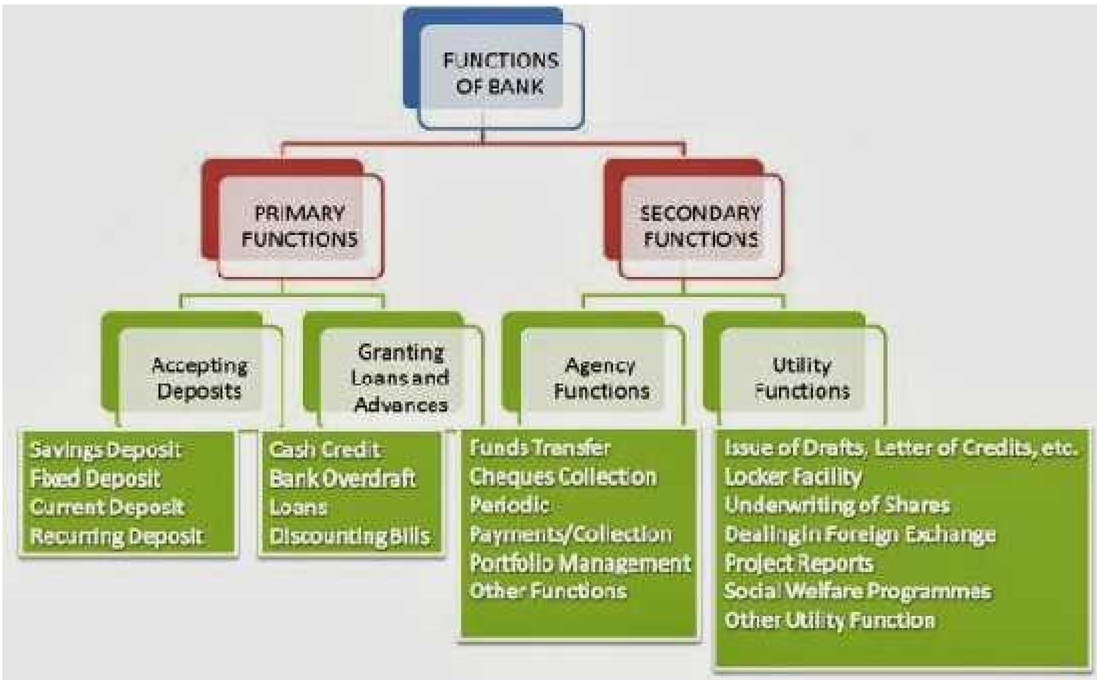
Banking Basics

Functions of Banks



Primary Functions

Accepting deposits
Most important function of a bank is to mobilize public funds. Bank provides safe custody as well as interest to the depositors.

Saving deposit
Saving deposit account meant for those people who wants to save for future needs and uncertainties. There is no restriction on number and amount of withdrawals. Bank provides cheque book, ATM cum debit card and Internet banking facility. Depositors need to maintain minimum balance which varies across different banks.

Fixed deposit or Term deposit
In fixed deposit account, money is deposited for a fixed tenure. Banks issues a deposit certificate which contains name, address, deposit amount, withdrawal date, depositor signatures and other important information.
Depositor can't withdraw money during this period. In case depositor want to withdraw before maturity, banks levy pre-mature withdrawal penalty.

Current account

Current accounts are normally opened by businesses. Banks provide overdraft facility for these accounts by which account holder can withdraw more money than available bank balance. This act as a short term loan to meet urgent needs. Bank charges high rate on interest and charges for overdraft facility because bank need to maintain a reserve for unknown demands for overdraft.

Recurring deposit

In this type of account depositors deposits certain sum of money at regular period of time. Benefit of recurring account is that it provides benefit of compounded rate of interest and enables depositors to collect big sum of money.

Granting Loans and advances

Cash credit

It is a short term loan facility under which banks allows its customers to take loan up to a certain limit, normally bank grants this loan against mortgage of certain property.

Bank overdraft

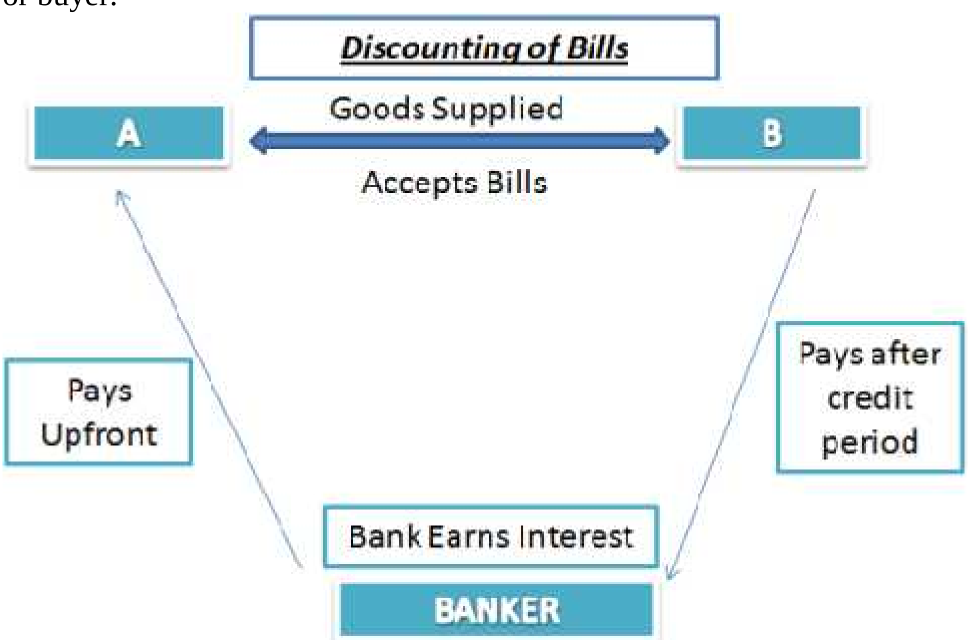
Bank provides this facility to current account holders. Account holder can withdraw money anytime up to the provided limit. He need to pay interest only on borrowed amount for the period for which he took loan.

Loans

Banks providing loans for various kinds of short term as well as long term needs. Borrower pay back the loan in installments.

Discounting bills

In normal day to day business, sellers sends bills to buyer whenever they sell their products and it is mentioned in bill to make payment in stipulated time. Lets take it 30 days. In such conditions seller may discount the bill from bank for some fees. In such situation bill discounting acts as short term loan. In case the buyer or the drawer defaults, bank send the bill back to seller to drawer so that he may take legal action against drawee or buyer.



Secondary functions

Agency functions

- Funds transfer
- Cheques collection
- Periodic payments/collection
- Portfolio management

Utility functions

- **Issue of draft, letter of credit etc** :-Letter of credit acts as an assurance that in case the borrower defaults in making the payment, bank will make the payment up to the amount mentioned in letter of credit
- Locker facility
- Underwriting of shares
- Dealing in foreign exchanges
- Project reports
- Social welfare programs

RBI: The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the RBI Act, 1934. RBI was nationalized in 1949 and it is fully owned by the Government of India. RBI was established on the recommendation of the Hilton Young Commission.

RBI's FUNCTIONS:

1. Issue of currency notes
2. Controlling the monetary policy
3. Regulator and supervisor of the financial system
4. Banker to other banks
5. Banker to the government
6. Granting licenses to banks
7. Control over NBFIs (Non Banking Financial Institutions)
8. Manager of Foreign Exchange of India (also known as FOREX)

RBI & Monetary Policy:

Monetary policy refers to the use of instruments under the control of the central bank to regulate the availability, cost and use of money and credit.
The main objectives of monetary policy in India are:
Maintaining price stability
Ensuring adequate flow of credit to the productive sectors of the economy to support economic growth
Financial stability
There are several direct and indirect instruments that are used in the formulation and implementation of monetary policy.

Direct instruments:

Cash Reserve Ratio (CRR): The share of net demand and time liabilities that banks must maintain as cash balance with the Reserve Bank.

Statutory Liquidity Ratio (SLR): The share of net demand and time liabilities that banks must maintain in safe and liquid assets, such as government securities, cash and gold.

Refinance facilities: Sector-specific refinance facilities (e.g., against lending to export sector) provided to banks.

Indirect instruments
Liquidity Adjustment Facility (LAF): Consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.

Open Market Operations (OMO): Outright sales/purchases of government securities, in addition to LAF, as a tool to determine the level of liquidity over the medium term.

Market Stabilisation Scheme (MSS): This instrument for monetary management was introduced in 2004. Liquidity of a more enduring nature arising from large capital flows is absorbed through sale of short-dated government securities and treasury bills. The mobilised cash is held in a separate government account with the Reserve Bank.

Repo/reverse repo rate: These rates under the Liquidity Adjustment Facility (LAF) determine the corridor for short-term money market interest rates. In turn, this is expected to trigger movement in other segments of the financial market and the real economy.
Bank rate: It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. It also signals the medium-term stance of monetary policy.

Key financial terms

APR: It stands for Annual Percentage Rate. APR is a percentage that is calculated on the basis of the amount financed, the finance charges, and the term of the loan.
ABS: Asset-Backed Securities. It means a type of security that is backed by a pool of bank loans, leases, and other assets.
EPS: Earnings Per Share means the amount of annual earnings available to common stockholders as stated on a per share basis.
CHAPS: Clearing House Automated Payment System. It's a type of electronic bank-to-bank payment system that guarantees same-day payment.
IPO: Initial Public Offerings is defined as the event where the company sells its shares to

the public for the first time. (or the first sale of stock by a private company to the public.)
FPO: Follow on Public Offerings: An issuing of shares to investors by a public company that is already listed on an exchange. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process.
Difference: IPO is for the companies which have not been listed on an exchange and FPO is for the companies which have already been listed on an exchange but want to raise funds by issuing some more equity shares.
RTGS: Real Time Gross Settlement systems is a funds transfer system where transfer of money or securities takes place from one bank to another on a "real time". ('Real time' means within a fraction of seconds.) The minimum amount to be transferred through RTGS is Rs 2 lakh. Processing charges/Service charges for RTGS transactions vary from bank to bank.
NEFT: National Electronic Fund Transfer. This is a method used for transferring funds across banks in a secure manner. It usually takes 1-2 working days for the transfer to happen. NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. (Note: RTGS is much faster than NEFT.)
CAR: Capital Adequacy Ratio. It's a measure of a bank's capital. Also known as "Capital to Risk Weighted Assets Ratio (CRAR)", this ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. It is decided by the RBI.
NPA: Non-Performing Asset. It means once the borrower has failed to make interest or principal payments for 90 days, the loan is considered to be a non-performing asset. Presently it is 2.39%.
IMPS: Inter-bank Mobile Payment Service. It is an instant interbank electronic fund transfer service through mobile phones. Both the customers must have MMID (Mobile Money Identifier Number). For this service, we don't need any GPS-enabled cell phones.
BCBS: Basel Committee on Banking Supervision is an institution created by the Central Bank governors of the Group of Ten nations.
RSI: Relative Strength Index.
IFSC code: Indian Financial System Code. The code consists of 11 characters for identifying the bank and branch where the account in actually held. The IFSC code is used both by the RTGS and NEFT transfer systems.
MSME and SME: Micro Small and Medium Enterprises (MSME), and SME stands for Small and Medium Enterprises. This is an initiative of the government to drive and encourage small manufacturers to enjoy facilities from banks at concessional rates.
LIBOR: London InterBank Offered Rate. An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.
LIBID: London Interbank Bid Rate. The average interest rate at which major London banks borrow Eurocurrency deposits from other banks.
ECGC: Export Credit Guarantee Corporation of India. This organisation provides risk as well as insurance cover to the Indian exporters.
SWIFT: Society for Worldwide Interbank Financial Telecommunication. It operates a worldwide financial messaging network which exchanges messages between banks and other financial institutions.

STRIPS: Separate Trading for Registered Interest & Principal Securities.
CIBIL: Credit Information Bureau of India Limited. CIBIL is India's first credit information bureau. Whenever a person applies for new loans or credit card(s) to a financial institution, they generate the CIBIL report of the said person or concern to judge the credit worthiness of the person and also to verify their existing track record. CIBIL actually maintains the borrower's history.
CRISIL: Credit Rating Information Services of India Limited. Crisil is a global analytical company providing ratings, research, and risk and policy advisory services.
AMFI: Association of Mutual Funds of India. AMFI is an apex body of all Asset Management Companies (AMCs) which have been registered with SEBI. (Note: AMFI is not a mutual funds regulator)
FCCB: Foreign Currency Convertible Bond. A type of convertible bond issued in a currency different from the issuer's domestic currency.
CAC: Capital Account Convertibility. It is the freedom to convert local financial assets into foreign financial assets and vice versa. This means that capital account convertibility allows anyone to freely move from local currency into foreign currency and back, or in other words, transfer of money from current account to capital account.
BANCASSURANCE: Is the term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products.
Balloon payment: Is a specific type of mortgage payment, and is named "balloon payment" because of the structure of the payment schedule. For balloon payments, the first several years of payments are smaller and are used to reduce the total debt remaining in the loan. Once the small payment term has passed (which can vary, but is commonly 5 years), the remainder of the debt is due - this final payment is the one known as the "balloon" payment, because it is larger than all of the previous payments.
CPSS: Committee on Payment and Settlement Systems
FCNR Accounts: Foreign Currency Non-Resident accounts are the ones that are maintained by NRIs in foreign currencies like USD, DM, and GBP.
M3 in banking: It's a measure of money supply. It is the total amount of money available in an economy at a particular point in time.
OMO: Open Market Operations. The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Open market operations are the principal tools of monetary policy. RBI uses this tool in order to regulate the liquidity in economy.
Umbrella Fund: A type of collective investment scheme. A collective fund containing several sub-funds, each of which invests in a different market or country.
ECS: Electronic Clearing Facility is a type of direct debit.
Tobin tax: Suggested by Nobel Laureate economist James Tobin, was originally defined as a tax on all spot conversions of one currency into another.
Z score is a term widely used in the banking field.
POS: Point Of Sale, also known as Point Of Purchase, a place where sales are made and also sales and payment information are collected electronically, including the amount of the sale, the date and place of the transaction, and the consumer's account number.
LGD: Loss Given Default. Institutions such as banks will determine their credit losses through an analysis of the actual loan defaults.

Junk Bonds: Junk bonds are issued generally by smaller or relatively less well-known firms to finance their operations, or by large and well-known firms to fund leveraged buyouts. These bonds are frequently unsecured or partially secured, and they pay higher interest rates: 3 to 4 percentage points higher than the interest rate on blue chip corporate bonds of comparable maturity period.
ARM: Adjustable Rate Mortgage is basically a type of loan where the rate of index is calculated on the basis of the previously selected index rate.
ABO: Accumulated Benefit Obligation, ABO is a measure of liability of pension plan of an organisation and is calculated when the pension plan is terminated.
Absorption: A term related to real estate, it is a process of renting a real estate property which is newly built or recently approved.
AAA: A type of grade that is used to rate a particular bond. It is the highest rated bond that gives maximum returns at the time of maturity.
DSCR: Debt Service Coverage Ratio, DSCR is a financial ratio that measures the company's ability to pay their debts.
FSDC: Financial Stability and Development Council, India's apex body of the financial sector.
ITPO: India Trade Promotion Organisation is the nodal agency of the Government of India for promoting the country's external trade.
FLCC: Financial Literacy and Counseling Centres.
ANBC: Adjusted Net Bank Credit is Net Bank Credit added to investments made by banks in non-SLR bonds.
Priority sector lending: Some areas or fields in a country depending on its economic condition or government interest are prioritised and are called priority sectors i.e. industry, agriculture.
M0, M1, M2 AND M3: These terms are nothing but money supply in banking field.
BIFR: Bureau of Industrial and Financial Reconstruction.
FRBM Act 2003: Fiscal Responsibility and Budget Management act was enacted by the Parliament of India to institutionalise financial discipline, reduce India's fiscal deficit, improve macroeconomic management and the overall management of the public funds by moving towards a balanced budget.
The main objectives of FRBM Act are:-
1. To reduce fiscal deficit.
2. To adopt prudent debt management.
3. To generate revenue surplus.
Gold Standard: A monetary system in which a country's government allows its currency unit to be freely converted into fixed amounts of gold and vice versa.
Fiat Money: Fiat money is a legal tender for settling debts. It is a paper money that is not convertible and is declared by government to be legal tender for the settlement of all debts.
BCSBI: The Banking Codes and Standards Board of India is a society registered under the Societies Registration Act, 1860 and functions as an autonomous body, to monitor and assess the compliance with codes and minimum standards of service to individual customers to which the banks agree to.
OLTAS: On-Line Tax Accounting System.
EASIEST: Electronic Accounting System in Excise and Service Tax.

SOFA: Status of Forces Agreement, SOFA is an agreement between a host country and a foreign nation stationing forces in that country.
CALL MONEY: Money loaned by a bank that must be repaid on demand. Unlike a term loan, which has a set maturity and payment schedule, call money does not have to follow a fixed schedule. Brokerages use call money as a short-term source of funding to cover margin accounts or the purchase of securities. The funds can be obtained quickly.
Scheduled bank: Scheduled Banks in India constitute those banks which have been included in the Second Schedule of RBI Act, 1934 as well as their market capitalisation is more than Rs 5 lakh. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act.
FEDAI: Foreign Exchange Dealers Association of India. An association of banks specialising in the foreign exchange activities in India.
PPF: Public Provident Fund. The Public Provident Fund Scheme is a statutory scheme of the Central Government of India. The scheme is for 15 years. The minimum deposit is Rs 500 and maximum is Rs 70,000 in a financial year.
SEPA: Single Euro Payment Area.
GAAP: Generally Accepted Accounting Principles. The common set of accounting principles, standards and procedures that companies use to compile their financial statements.
Indian Depository Receipt: Foreign companies issue their shares and in return they get the depository receipt from the National Security Depository in return of investing in India.
Hot Money: Money that is moved by its owner quickly from one form of investment to another, as to take advantage of changing international exchange rates or gain high short-term returns on investments.
NMCEX: National Multi-Commodity Exchange.
PE RATIO: Price to Earnings Ratio, a measure of how much investors are willing to pay for each dollar of a company's reported profits.
CASA: Current Account, Savings Account.
CAMELS: CAMELS is a type of Bank Rating System. (C) stands for Capital Adequacy, (A) for Asset Quality, (M) for Management ,(E) for Earnings, (L) for Liquidity and (S) for Sensitivity to Market Risk.
OSMOS: Off-site Monitoring and Surveillance System.
Free market: A market economy based on supply and demand with little or no government control.
Retail banking: It is mass-market banking in which individual customers use local branches of larger commercial banks.
Eurobond: A bond issued in a currency other than the currency of the country or market in which it is issued.
PPP: Purchasing Power Parity is an economic technique used when attempting to determine the relative values of two currencies.
FEMA Act: Foreign Exchange Management Act, it is useful in controlling HAWALA.
Hawala transaction: It's a process in which large amount of black money is converted into white.
Teaser Loans: It's a type of home loans in which the interest rate is initially low and then grows higher. Teaser loans are also called terraced loans.

ECB: External Commercial Borrowings, taking a loan from another country. Limit of ECB is $500 million, and this is the maximum limit a company can get.
CBS: Core Banking Solution. All the banks are connected through internet, meaning we can have transactions from any bank and anywhere. (e.g. deposit cash in PNB, Delhi branch and withdraw cash from PNB, Gujarat)
CRAR: For RRB's it is more than 9% (funds allotted 500 cr) and for commercial banks it is greater than 8% (6000 cr relief package).
NBFCs: NBFC is a company which is registered under Companies Act, 1956 and whose main function is to provide loans. NBFC cannot accept deposit or issue demand draft like other commercial banks. NBFCs registered with RBI have been classified as AssetFinance Company (AFC), Investment Company (IC) and Loan Company (LC).
IIFCL: India Infrastructure Finance Company Limited. It gives guarantee to infra bonds.
IFPRI: International Food Policy Research Institute. It identifies and analyses policies for meeting the food needs of the developing world.
Currency swap: It is a foreign-exchange agreement between two parties to exchange aspects (namely the principal and/or interest payments) of a loan in one currency for equivalent aspects of an equal in net present value loan in another currency. Currency swap is an instrument to manage cash flows in different currency.
WPI: Wholesale Price Index is an index of the prices paid by retail stores for the products they ultimately resell to consumers. New series is 2004 2005. (The new series has been prepared by shifting the base year from 1993-94 to 2004-05). Inflation in India is measured on WPI index.
MAT: Minimum Alternate Tax is the minimum tax to be paid by a company even though the company is not making any profit.
Future trading: It's a future contract/agreement between the buyers and sellers to buy and sell the underlying assets in the future at a predetermined price.
Reverse mortgage: It's a scheme for senior citizens.
Basel 2nd norms: BCBS has kept some restrictions on bank for the maintenance of minimum capital with them to ensure level playing field. Basel II has got three pillars:
Pillar 1- Minimum capital requirement based on the risk profile of bank.
Pillar 2- Supervisory review of banks by RBI if they go for internal ranking.
Pillar 3- Market discipline.
Microfinance institutions: Those institutions that provide financial services to low-income clients. Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients.
NPCI: National Payments Corporation of India.
DWBIS: Data Warehousing and Business Intelligence System, a type of system which is launched by SEBI. The primary objective of DWBIS is to enhance the capability of the investigation and surveillance functions of SEBI.
TRIPS: Trade Related Intellectual Property Rights is an international agreement administered by the World Trade Organisation (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation as applied to nationals of other WTO Members.
TRIMs: Trade Related Investment Measures. A type of agreement in WTO.
SDR: Special Drawing Rights, SDR is a type of monetary reserve currency, created by the International Monetary Fund. SDR can be defined as a "basket of national

currencies". These national currencies are Euro, US dollar, British pound and Japanese yen. Special Drawing Rights can be used to settle trade balances between countries and to repay the IMF. American dollar gets highest weightage.
LTD: Loan-To-Deposit Ratio. A ratio used for assessing a bank's liquidity by dividing the bank's total loans by its total deposits. If the ratio is too high, it means that banks might not have enough liquidity to cover any fund requirements, and if the ratio is too low, banks may not be earning as much as they could be.
CAD: Current Account Deficit. It means when a country's total imports of goods, services and transfers is greater than the country's total export of goods, services and transfers.
LERMS: Liberalized Exchange Rate Management System.
FRP: Fair and Remunerative Price, a term related to sugarcane. FRP is the minimum price that a sugarcane farmer is legally guaranteed. However sugar Mills Company gives more than FRP price.
STCI: Securities Trading Corporation of India Limited was promoted by the Reserve Bank of India (RBI) in 1994 along with Public Sector Banks and All India Financial Institutions with the objective of developing an active, deep and vibrant secondary debt market.
IRR: Internal Rate of Return. It is a rate of return used in capital budgeting to measure and compare the profitability of investments.
CMIE: Centre for Monitoring Indian Economy. It is India's premier economic research organisation. It provides information solutions in the form of databases and research reports. CMIE has built the largest database on the Indian economy and companies.
TIEA: Tax Information Exchange Agreement. TIEA allows countries to check tax evasion and money laundering. Recently India has signed TIEA with Cayman Islands.
Contingency Fund: It's a fund for emergencies or unexpected outflows, mainly economic crises. A type of reserve fund which is used to handle unexpected debts that are outside the range of the usual operating budget.
FII: Foreign Institutional Investment. The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market.
P-NOTES: "P" means participatory notes.
MSF: Marginal Standing Facility. Under this scheme, banks will be able to borrow upto 1% of their respective net demand and time liabilities. The rate of interest on the amount accessed from this facility will be 100 basis points (i.e. 1%) above the repo rate. This scheme is likely to reduce volatility in the overnight rates and improve monetary transmission.
FIU: Financial Intelligence Unit set by the Government of India on 18 November 2004 as the central national agency responsible for receiving, processing, analysing and disseminating information relating to suspect financial transactions.
SEBI: Securities and Exchange Board of India. SEBI is the primary governing/regulatory body for the securities market in India. All transactions in the securities market in India are governed and regulated by SEBI. Its main functions are:
1. New issues (Initial Public Offering or IPO)
2. Listing agreement of companies with stock exchanges

3. Trading mechanisms 4. Investor protection
5. Corporate disclosure by listed companies etc.
Note: SEBI is also known as capital regulator or mutual funds regulator or market regulator. SEBI also created investors protection fund and SEBI is the only organization which regulates the credit rating agencies in India. (CRISIL and CIBIL).
FINANCIAL REGULATORS IN INDIA: RBI, SEBI, FMCI (Forward Market Commission of India), IRDA etc.
ASBA: Application Supported by Blocked Amount. It is a process developed by the SEBI for applying to IPO. In ASBA, an IPO applicant's account doesn't get debited until shares are allotted to him.
DEPB Scheme: Duty Entitlement Pass Book. It is a scheme which is offered by the Indian government to encourage exports from the country. DEPB means Duty Entitlement Pass Book to neutralise the incidence of basic and special customs duty on import content of export product.
LLP: Limited Liability Partnership, is a partnership in which some or all partners (depending on the jurisdiction) have limited liability.
Balance sheet: A financial statement that summarises a company's assets, liabilities and shareholders' equity at a specific point in time.
TAN: Tax Account Number, is a unique 10-digit alphanumeric code allotted by the Income Tax Department to all those persons who are required to deduct tax at the source of income.
PAN: Permanent Account Number, as per section 139A of the Act obtaining PAN is a must for the following persons:-
1. Any person whose total income or the total income of any other person in respect of which he is assessable under the Act exceeds the maximum amount which is not chargeable to tax.
2. Any person who is carrying on any business or profession whose total sales, turnover or gross receipts are or are likely to exceed Rs. 5 lakh in any previous year.
3. Any person who is required to furnish a return of income under section 139(4) of the Act.
JLG: Joint Liability Group, when two or more persons are both responsible for a debt, claim or judgment.
REER: Real Effective Exchange Rate.
NEER: Nominal Effective Exchange Rate.
Contingent Liability: A liability that a company may have to pay, but only if a certain future event occurs.
IRR: Internal Rate of Return, is a rate of return used in capital budgeting to measure and compare the profitability of investments.
MICR: Magnetic Ink Character Recognition. A 9-digit code which actually shows whether the cheque is real or fake.
UTR Number: Unique Transaction Reference number. A unique number which is generated for every transaction in RTGS system. UTR is a 16-digit alphanumeric code. The first 4 digits are a bank code in alphabets, the 5th one is the message code, the 6th and 7th mention the year, the 8th to 10th mentions the date and the last 6 digits mention the day's serial number of the message.
RRBs: Regional Rural Banks. As its name signifies, RRBs are specially meant for rural

areas, capital share being 50% by the central government, 15% by the state government and 35% by the scheduled bank.
MFI: Micro Finance Institutions. Micro Finance means providing credit/loan (micro credit) to the weaker sections of the society. A microfinance institution (MFI) is an organisation that provides financial services to the poor.
PRIME LENDING RATE: PLR is the rate at which commercial banks give loans to its prime customers (most creditworthy customers).
BASE RATE: A minimum rate that a bank is allowed to charge from the customer. Base rate differs from bank to bank. It is actually a minimum rate below which the bank cannot give loan to any customer. Earlier base rate was known as BPLR (Base Prime Lending Rate).
EMI: Equated Monthly Installment. It is nothing but a repayment of the loan taken. A loan could be a home loan, car loan or personal loan. The monthly payment is in the form of post dated cheques drawn in favour of the lender. EMI is directly proportional to the loan taken and inversely proportional to time period. That is, if the loan amount increases the EMI amount also increases and if the time period increases the EMI amount decreases.
Basis points (bps): A basis point is a unit equal to 1/100th of a percentage point. i.e. 1 bps = 0.01%. Basis points are often used to measure changes in or differences between yields on fixed income securities, since these often change by very small amounts.
Liquidity: It refers to how quickly and cheaply an asset can be converted into cash. Money (in the form of cash) is the most liquid asset.
Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialised form for funds deposited at a bank or other eligible financial institution for a specified time period.
Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. It was introduced in India in 1990. Corporates and the All-India Financial Institutions are eligible to issue CP.

Indian Banking Structure

Types of banks in India
Central Bank (RBI)
Specialised banks
Commercial banks
Development banks
Co-operative banks
Central Bank:
As its name signifies, a bank which manages and regulates the banking system of a particular country. It provides guidance to other banks whenever they face any problem (that is why the Central Bank is also known as a banker's bank) and maintains the deposit accounts of all other banks. Central Banks of different countries: Reserve Bank of India (INDIA), Federal Reserve System (USA), Swiss National Bank (SWITZERLAND), Reserve Bank of Australia (AUSTRALIA), State Bank of Pakistan (PAKISTAN).
Specialised Banks:
Those banks which are meant for special purposes. For examples: NABARD, EXIM bank, SIDBI, IDBI.

NABARD: National Bank for Agriculture and Rural Development. This bank is meant for financing the agriculture as well as rural sector. It actually promotes research in agriculture and rural development.
EXIM bank: Export Import Bank of India. This bank gives loans to exporters and importers and also provides valuable information about the international market. If you want to set up a business for exporting products abroad or importing products from foreign countries for sale in our country, EXIM bank can provide you the required support and assistance.
SIDBI: Small Industries Development Bank of India. This bank provides loans to set up the small-scale business unit / industry. SIDBI also finances, promotes and develops small-scale industries. Whereas IDBI (Industrial Development Bank of India) gives loans to big industries.
Commercial banks:
Normal banks are known as commercial banks, their main function is to accept deposits from the customer and on the basis of that they grant loans. (Loans could be short-term, medium-term and long-term loans.) Commercial banks are further classified into three types.
(a) Public sector banks
(b) Private sector banks
(c) Foreign banks
(a) Public Sector Banks (PSB): Government banks are known as PSB. Since the majority of their stakes are held by the Government of India. (For example: Allahabad Bank, Andhra Bank, Bank of Baroda, Bank of India, Bank of Maharastra, Canara Bank, Central Bank of India etc).
(b) Private Sector Banks: In these banks, the majority of stakes are held by the individual or group of persons. (For example: Bank of Punjab, Bank of Rajasthan, Catholic Syrian Bank, Centurion Bank etc).
(c) Foreign Banks: These banks have their headquarters in a foreign country but they operate their branches in India. For e.g. HSBC, Standard Chartered Bank, ABN Amro Bank.
Development banks:
Such banks are specially meant for giving loans to the business sector for the purchase of latest machinery and equipments. Examples: SFCs (State Financial Corporation of India) and IFCI (Indian Finance Corporation of India).
Co-operative banks:
These banks are nothing but an association of members who group together for self-help and mutual-help. Their way of working is the same as commercial banks. But they are quite different. Co operative banks in India are registered under the Co-operative Societies Act, 1965. The cooperative bank is regulated by the RBI.
Note: Co-operative banks cannot open their branches in foreign countries while commercial banks can do this.
Types of bank accounts
Savings bank account
Current account
Fixed Deposit account

Question

1. On the recommendation of which committee was NABARD established?
(a) Shivraman (b) Rangarajan
(c) Malegam (d) Vijay Kelkar
2. 'Swabhiman', the financial inclusion scheme, comes under the purview of which ministry?
(a) Ministry of Commerce (b) Ministry of Home Affairs
(c) Ministry of Finance (d) Ministry of External Affairs
3. RBI was established on ___________.
(a) April 1, 1925 (b) April 1, 1935
(c) April 1, 1945 (d) April 1, 1955
4. The one-rupee note bears the signature of____________.
(a) RBI Governor (b) Deputy Governor
(c) Finance Secretary (d) Finance Minister
5. Which among the following does the RBI not decide?
(a) CAR (b) CRR (c) Base Rate (d) Bank Rate
6. What does 'T' in RTGS stand for?
(a) Transaction (b) Transfer (c) Tax (d) Time
7. In banking, IFSC code stands for_________________.
(a) International Format System Code
(b) Indian Function System Code
(c) International Forex System Code
(d) Indian Financial System Code
8. If a customer does not get a satisfactory response to his grievance from the bank within _____ days, then he can approach the Banking Ombudsman.
(a) 60 (b) 90 (c) 30 (d) 15
9. Which of the following organizations is the Mutual FUND Market regulator?
(a) AMFI (b) SEBI (c) CIBIL (d) CRISIL
10. Which of the following statements is incorrect regarding RTGS system?
(a) The transactions take place in real time
(b) The system operates on DNS (Deferred Net Settlement) basis
(c) The minimum amount that can be remitted is Rs. 2 lakh
(d) Service charges for RTGS transactions vary from one bank to another
11. Banks have recently launched a service through which MONEY can be transferred using mobile phones. This service is known as
(a) MMTF (Mobile Money Transfer Facility)
(b) MTMT (Mobile To Mobile Transfer)
(c) IMPS (Inter Bank Mobile Payment Service)
(d) IBMPS (Internet Banking Mobile Payment Service)
12. Which among the following is at times mentioned as a kind of Direct Debit Facility?
(a) ECS (b) RTGS (c) IMPS (d) UTR
13. The discounting rate at which RBI borrows government securities from commercial banks is known as
(a) Repo Rate (b) Reverse Repo
(c) Deposit Rate (d) Base Rate

14. Which among the following is an instrument of monetary policy used by the RBI?
(a) Base Rate (b) PLR (c) CRR (d) BPLR
15. Which among the following statements is incorrect in the context of IMPS?
(a) It's a mobile-to-mobile fund transfer facility
(b) For this facility we need a GPS-enabled mobile phone
(c) Both the sender and the receiver must have an account in the same bank
(d) Both the customers must have an MMID (Mobile Money Identifier Number) number
16. ________is the organization that maintains the borrower's history in India.
(a) CRISIL (b) CIBIL (c) CARE (d) RBI
17. RBI has directed commercial banks to resolve ATM transaction-related complaints within seven working days. If a commercial bank is unable to do so then it has to pay Rs.________per day as compensation.
(a) 50 (b) 100 (c) 200 (d) 225
18. RTGS as well as NEFT uses
(a) UTR Number (b) MICR (c) IFSC (d) DNS
19. Which of the following statement is incorrect about SEBI?
(a) SEBI is a capital market regulator
(b) SEBI is the mutual fund regulator
(c) SEBI also regulates the credit rating agencies in India
(d) None of them is wrong
20. What does liquidity mean?
(a) It means how cash is converted into gold
(b) It means how cheaply and quickly an asset is converted into cash
(c) It means how cash is converted into SDR (Special Drawing Rights)
(d) It means how uncertain the money market conditions are
21. SWIFT is a commonly used acronym in the banking industry. The 'I' in SWIFT stands for_____________.
(a) Interbank (b) International
(c) Intercom (d) Indian
22. What does the term Open Market Operations refer to?
(a) Selling of equities in the open market
(b) Selling of COMMODITIES in the open market
(c) Buying and selling of government securities in the open market
(d) Buying and selling of products in the wholesale market
23. Under which act does RBI issue directives to banks?
(a) PMLA Act, 2002 (b) RBI Act, 1934
(c) DICGC Act, 1961 (d) Banking Regulation Act, 1949
24. Which committee recommended the change in the base year of the Wholesale Price Index?
(a) Narsimhan committee (b) Vijay Kelkar committee
(c) Srikrishna committee (d) Abhijit Sen committee
25. ____________is the base year of the New Consumer Price Index Series.
(a) 2009 (b) 2008 (c) 2006 (d) 2010
26. __________________isn't a method of measurement of National Income.
(a) Value-added method (b) Income method
(c) Investment method (d) Expenditure method

27. With which among the following countries has India signed a Comprehensive Economic Partnership Agreement (CEPA)?
(a) Japan (b) Singapore
(c) Malaysia (d) France
28. In India, the commercial banks are required to provide_______% of their ANBC (Adjusted Net Bank Credit) to priority sector.
(a) 15 (b) 25 (c) 35 (d) 40
29. What does FSDC stand for?
(a) Financial Security and Development Council
(b) Financial Stability and Development Council
(c) Fiscal Security and Development Council
(d) Fiscal Stability and Development Council
30. ____________________has been declared the first 'total banking state' in India, successfully implementing the total financial inclusion thereby ensuring banking facility to all households.
(a) Maharashtra (b) Kerala
(c) Himachal Pradesh (d) Uttarakhand
31. Since April 1, 2012__________has become the validity of cheques and bank drafts.
(a) 2 months (b) 3 months (c) 4 months (d) 6 months
32. On what basis is Ad Valorem Tax levied?
(a) Volume (b) Value (c) Imports (d) Exports
33. RBI is coming up with the concept of____________to protect banks against possible harmful effects arising from the operations of their non-banking financial subsidiaries.
(a) Financial Holding Company
(b) Bank Holding Company
(c) Bureau of Credit Union
(d) Financial Institutions Audit Cell
34. RBI has introduced "Marginal Standing Facility" with the objective of:
(a) Controlling Inflation
(b) Containing instability in long term inter-bank rates
(c) Containing instability in the overnight inter-bank rates
(d) All of the above
35. ______________are the beneficiaries of the "Reverse Mortgage Scheme".
(a) Government employees (b) Senior citizens
(c) Unemployed persons (d) Persons of BPL category
36. RBI was nationalized in the year
(a) 1949 (b) 1952 (c) 1955 (d) 1964
37. Which of the following is/are associated with the fiscal policy? 1. Marginal Standing Facility 2. Devaluation of Currency 3. Market Stabilization Scheme
(a) 1 & 2 (b) Only 3 (c) 2 & 3 (d) Only 2
38. When was Liberalized Exchange Rate Management System (LERMS) started in India?
(a)1990 (b)1996 (c)1992 (d)1998
39. National income of India is estimated by
(a) NCAER (b) Ministry of Statistics
(c) Central Statistical Office (d) Ministry of Finance

40. What is understood by Fiduciary Issue of currency?
(a) The issue of CURRENCY notes without keeping gold or silver as deposit
(b) The issue of CURRENCY notes keeping gold or silver as deposit
(c) The issue of currency notes with partial gold or silver deposits
(d) The issue of currency notes with comparative gold or silver deposits
41. _____________is the percentage of total deposits of a bank which it has to keep with itself in the form of liquid assets.
(a) Statutory Liquidity Ratio (SLR) (b) Cash Reserve Ratio (CRR)
(c) Statutory Reserve Ratio (d) Cash Ratio
42. The exchange rate in India is dependent upon: 1. Government policy 2. Demand-supply forces 3. Monetary policy objectives
(a) Only 2 (b) 2 & 3 (c) 1 & 2 (d) 1, 2 & 3
43. Collateralized Borrowing and Lending Obligation (CBLO) is a/an ________.
(a) Money Market Instrument (b) Instrument of Monetary Policy
(c) Type of Risk Cover (d) STOCK MARKET Instrument
44. Often, we read in newspapers that the RBI has changed the Repo rate and the Reverse Repo rate by a few basis points. What is a basis point?
(a) Ten % of one hundredth point (b) One hundredth of 1%
(c) One tenth of 1% (d) Ten % of 100
45. Banks generally don’t pay interest on money deposited in which of the following accounts?
(a) Savings account (b) Current account
(c) Fixed deposit account (d) None of these
46. ‘Fiat Money’ is defined as the money which is
(a) Accepted internationally
(b) Accepted temporarily in lieu of gold
(c) Issued by keeping gold or silver as deposit
(d) Decreed as money by the government
47. Demand-pull inflation can be caused by which of the following?
(a) A decline in consumption expenditure
(b) A sharp increase in lending rates
(c) A steep decline in income tax
(d) An increase in direct taxation
48. For obtaining which among the following does a customer not require a bank account?
(a) A loan (b) A cheque
(c) A banker’s draft (d) A credit card
49. RBI isn’t expected to perform the role of
(a) Acting as a clearing house
(b) Working as a banker to the government
(c) Managing forex
(d) Accepting deposits from general public
50. For paying which among the following will a bank standing order be suitable?
(a) Telephone bills (b) Electricity bills
(c) Grocery bills (d) Mortgage repayments
51. A bank draft can be defined as a/an

(a) Letter from commercial bank
(b) Cheque drawn on the bank itself
(c) Direction to a banker to collect a customer's debt
(d) Instruction to dishonour a stop payment
52. When RBI sells government securities, its result is that
(a) The liquidity in the banking system increases
(b) The liquidity in the banking system remains unchanged
(c) The liquidity in the banking system gets diminished
(d) None of the above
53. It has been made mandatory for NBFCs to get themselves registered with …… before July 8, 1997.
(a) RBI (b) SEBI
(c) Ministry of Finance (d) CBDT
54. Which of the following is not an instrument in the hands of the RBI to check inflation in our country?
(a) Open Market Operations (OMO) (b) Special Drawing Rights (SDR)
(c) Bank Rate (BR) (d) Cash Reserve Ratio (CRR)
55. In India, which among the following is/are a part of Legal Tender Money?
(a) Both coins and currency notes
(b) Both coins and bank drafts
(c) Both currency notes and SDRs
(d) Only currency notes issued by RBI
56. __________has become the first state in India to launch RBI's e- payment system for commercial tax payers.
(a) Goa (b) Kerala (c) Karnataka (d) Maharashtra
57. In which among the following types occurs the Interest Rate Risk?
(a) Credit risk (b) Market risk
(c) Operational risk (d) All the above
58. Which among the following is true regarding Forex (Foreign Exchange) markets?
(a) Foreign exchange markets are a type of localized markets
(b) Foreign exchange markets operate within the time zone of region
(c) Foreign exchange markets are dynamic and round-the-clock markets
(d) Foreign exchange markets are used only for business transactions
59. Securities Trading Corporation of India Limited (STCI) has been promoted jointly by __________and Public sector Banks.
(a) SEBI (b) RBI (c) SIDBI (d) ICICI Ltd
60. ____________is an agreement under which an issuing bank at the request of the importer undertakes to make payment to the exporter against certain specified documents.
(a) Bill of exchange (b) Letter of exchange
(c) Letter of credit (d) Bill of entry
61. ____________is the duty applied by a government to control the exports of an article of trade, so that the article of trade can be used by the local markets rather than in foreign countries.
(a) Customs duty (b) Excise duty
(c) Anti-dumping duty (d) Dumping duty
62. ____________________finalizes the market-borrowing programmes of state

governments in India.
(a) State governments (b) RBI
(c) Union Ministry of Finance (d) Planning Commission
63. Which among the following is not incorrect?
(a) Money market provides long term source of finance
(b) Recession in the industrial sector in India is normally due to a fall in exports
(c) Ways and means advances given by RBI are nowhere related to the state's revenue
(d) Exchange rate is fixed by RBI
64. We have read in the newspapers that the Government of India has signed a DTAA to broaden the scope of article of exchange of information to include exchange of banking information. What does DTAA stand for?
(a) Double taxation article agreement
(b) Double taxation avoidance agreement
(c) Double taxation avoidance arrangements
(d) Dual tax agreement arrangement
65. Which of the statements mentioned below is/are correct?
1. T-bills are issued by the Government of India on behalf of the RBI
2. T-bills are short-term money market instruments
3. T-bills cannot be purchased by a resident of India
(a) All are correct (b) 2 & 3 are correct
(c) Only 2 is correct (d) Only 3 is correct
66. Which of the following is an incorrect statement?
(a) Reverse Repurchase operation by RBI is aimed at increasing the liquidity in the banking system
(b) Special Drawing Rights (SDR) are issued by IMF
(c) Rupee appreciation results in decrease in imports
(d) Increase in the inflation rate leads to decline in real interest rate
67. What purpose does the MICR number, which is present on a cheque, serve?
(a) It is used to identify the genuineness of the cheque
(b) It is used to identify the bank branch
(c) It is nothing but a type of cheque number
(d) Both (a) and (b)
68. In TRIPS, what does 'I' stand for?
(a) Intellectual (b) Information (c) Indian (d) Infra
69. Insurance companies use the bank sales channels to sell their products. Which of the following terms describes this selling process?
(a) Scheduled banking (b) Scheduled Insurance
(c) Bankinsuring (d) Bancassurance
70. Which of the following acts is useful in controlling HAWALA transactions?
(a) FEMA Act (b) RBI Act
(c) DICGC Act (d) Banking Regulation Act
71. What does the term SME stand for?
(a) Small and Micro Enterprises (b) Small and Medium Enterprises
(c) State and Medium Economy (d) Small and Medium Economy
72. 'CAMELS' is a type of Bank Rating System. In CAMELS, what does 'C' stand for?
(a) Currency (b) Compensation

(c) Capital Adequacy (d) Capitalisation
73. A Eurobond is
(a) A bond released in a currency of the European countries
(b) A bond released in an Indian currency in European nations
(c) A bond released in Euro in our country
(d) A bond released in a currency other than the currency of the country in which it is issued
74. In banking parlance, 'NPA' stands for
(a) Non Performing Asset (b) Net Producing Asset
(c) Net Performing Asset (d) Not Promoting Asset
75. LAF is an indirect instrument of monetary policy, which is used by \RBI to regulate the liquidity in banking system. 'LAF' stands for:
(a) Liquidity Adjustment Facility (b) Liquidity Account Facility
(c) Liquidity Allotment Facility (d) Long Adjustment Facility
76. On the basis of which commission was RBI established?
(a) Hilton Young Commission (b) British Commission
(c) Federal Commission (d) Federation Commission
77. Life insurance and general insurance companies like LIC, ICICI Prudential, ICICI Lombard, National Insurance etc. are regulated by which organisation?
(a) RBI (b) PFRDA (c) IRDA (d) IBA
78. Bank rate is defined as the
(a) Rate of interest charged by commercial banks from borrowers
(b) Rate of interest at which RBI lends money to banks against government securities
(c) Rate of interest allowed by commercial banks on their deposits
(d) Rate at which RBI purchases or rediscounts bills of exchange of commercial banks
79. An IDR (Indian Depository Receipt) is
(a) An instrument of monetary policy used by RBI
(b) A deposit account with a depository in India
(c) An instrument in the form of depository receipt created by an Indian depository against underlying equity shares of the issuing company
(d) An instrument in the form of deposit receipt issued by an Indian depository
80. Fiscal deficit is_______
(a) total income less government borrowing
(b) total payments less total receipts
(c) total payments less capital receipts
(d) total expenditure less total receipts excluding borrowing
81. _____________are NOT a part of the Scheduled Banking structure in India.
(a) Money lenders (b) Public sector banks
(c) Private sector banks (d) Regional rural banks
82. 'MAT' is an acronym which stands for
(a) Maximum Alternate Tax (b) Minimum Alternate Tax
(c) Minimum Affordable Tax (d) Maximum Affordable Tax
83. Often, we read in the newspapers that several Indian companies are taking the FCCB route to raise capital. What does the term FCCB stand for?
(a) Foreign Currency Convertible Bond
(b) Foreign Convertible Credit Bond

(c) Financial Consortium and Credit Bureau
(d) Future Credit and Currency Bureau
84. Which of the following interest rates signifies RBI's long term stance of monetary policy?
(a) Repo Rate (b) CRR (c) Bank Rate (d) Reserve Repo Rate
85. As per RBI instructions, places having a population of 2000 and above have to be provided with banking facilities by
(a) March 2011 (b) March 2012 (c) March 2013 (d) March 2015
86. ________________was the main objective of the Fiscal Responsibility and Budget Management Act, 2003.
(a) Achieving fiscal surplus (b) Eliminating revenue deficit
(c) Eliminating fiscal deficit (d) Stopping money laundering
87. DEPB (Duty Entitled Passbook) scheme which ended in September 2011 was related to
(a) Foreign direct investment (b) Foreign institutional investment
(c) Export promotion (d) Import substitution
88. Recently, the Ministry of commerce has introduced a new "Niryat Bandhu" scheme for the guidance and mentoring of first generation entrepreneurs. Who are the "Niryat Bandhus"?
(a) Entrepreneurs (b) Officers (c) Agents (d) Export assistants
89. In capital markets, the term arbitrage is used in reference to the
(a) purchase of securities to cover the sale
(b) sale of securities to reduce the loss on purchase
(c) concomitant sale and purchase of securities to MAKE PROFITS from price
(d) variation in different markets
90. If RBI wants to limit the capital outflows and control currency depreciation, which of the following would be the most viable action?
(a) Increase interest rates (b) Decrease interest rates
(c) Purchase government bonds (d) Decrease statutory liquidity ratio
91. The buying of shares and bonds of Indian firms by foreign institutional investors is known as
(a) FDI (b) Portfolio investment
(c) NRI investment (d) Foreign indirect investment
92. The Financial Sector Assessment Program (FSAP) is a comprehensive and in-depth analysis of a country's financial sector. Which among the following bodies conducts this programme?
(a) International Monetary Fund (b) G-20
(c) World Economic Forum (d) World Bank
93. The ability of commercial banks to increase their deposits by expanding their loans and advances is known as
(a) Capital expansion (b) Credit expansion
(c) Credit control (d) Credit creation
94. Which among the below mentioned is/are dealt by the Indian Capital Market?
1. Short-term FUNDS 2. Medium-term funds 3. Long-term funds
(a) 1 & 2 (b) 2 & 3
(c) 1 & 3 (d) 1, 2 & 3

95. Net Interest Income is defined as the
(a) Interest earned on advances
(b) Interest earned on investments
(c) Total interest earned on advances on advances and investment
(d) Difference between interest earned and interest paid
96. 'KYC' (Know Your Customer) norms were implemented in the Indian banking system in 2002 as per the directive of
(a) SEBI (b) RBI (c) IBA (d) IRDA
97. ___________ has got RBI's nod to issue prepaid card to its clients.
(a) LIC (b) SIDBI (c) NABARD (d) GIC
98. If there is an inflationary trend in the economy, what would be the trend in the pricing of banking services?
(a) Increasing trend (b) Decreasing trend (c) Constant trend (d) There is no relevance of inflation in pricing of the banking products
99. The SBI (Amendment) Bill-2010, which was passed by the parliament, reduces the statutory minimum shareholding of the Central Government in the bank from _______% to ______ %. Which among the following figures fills the blanks correctly?
(a) 59, 52 (b) 55, 51
(c) 59, 55 (d) 62, 51
100. Inflation happens when there are
(a) fewer goods and more buyers (b) more goods and fewer buyers
(c) fewer goods and fewer buyers (d) more goods and more buyers

Answer

1. Saving Bank Account: These accounts are maintained by individuals/ salaried peoples. Such account offers interest on customer deposit. The interest on these accounts is regulated by Reserve Bank of India. No Overdraft is allowed on such accounts.
   2. Current Account: These accounts are used mainly by businessmen and are not generally used for the purpose of INVESTMENT. These deposits are the most liquid deposits and there are no limits for number of transactions or the amount of transactions in a day. No interest is paid by banks on these accounts. One of the prominent advantage of such account is that Overdraft is allowed.
   3. Fixed Deposit Account: also known as term deposit account. All Banks offer fixed deposits schemes with a wide range of tenures for periods from 7 days to 10 years. The term "fixed" in Fixed Deposits (FD) denotes the period of maturity or tenor.
   Explanations- Banking General Knowledge
   1. (a) NABARD (National Bank for Agriculture and Rural Development) was established in 1982 on the recommendation of Shivraman Committee.
   2. (c) Ministry of Finance.
   3. (b) RBI was established on 1st of April 1935.
   4. (c) Finance secretary.

5. (c) Base rate is decided by commercial banks, not the RBI.
6. (d) RTGS-Real Time Gross Settlement system is a FUNDS transfer systems where transfer of money or securities takes place from one bank to another on a "real time". (Real time means within fraction of seconds.)
7. (d) Indian Financial System Code.
8. (c) 30 days.
9. (b) SEBI is also known as Capital regulator or Mutual funds regulator or Market regulator. SEBI is also created investors protection FUNDand SEBI is the only organization which regulate the credit rating agencies in India such as CRISIL and CIBIL.
10. (b) NEFT-National Electronic Fund Transfer. This is a method used for transferring funds across banks in a secure manner. It usually takes 1-2 working days for the transfer to happen. NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. RTGS does not works on DNS.
11. (c) IMPS-Interbank Mobile Payment Service is an instant interbank electronic fund transfer service through mobile phones. Both the customers must have MMID (Mobile Money Identifier Number).
12. (a) ECS: Electronic Clearing Service.
13. (a) Also called Repurchase Rate, the rate at which the RBI lends money to the banks or in other words we can say that Repo rate is the discounting rate at which central bank borrows government securities from commercial bank. Repo means repurchase agreement between RBI & commercial bank.
14. (c) CRR (Cash Reserve Ratio)
15. (b) We don't need any GPS enabled cell phone for IMPS.
16. (b) CIBIL: Credit Information Bureau of India Limited. CIBIL is India's first credit information bureau. Whenever a person apply for new Loans or Credit Card to a Financial Institution, they generate the CIBIL report of the said person or concern to judge the credit worthiness of the person and also to verify existing track record. CIBIL actually maintains the borrower's history.
17. (b) Rs 100 per day.
18. (c) IFSC: Indian Financial System Code.
19. (d) None of them is wrong.
20. (b) It refers to how quickly and cheaply an asset can be converted into cash. Money (in the form of cash) is the most liquid asset.
21. (a) Society for Worldwide Interbank Financial Telecommunication. It operates a worldwide financial messaging network which exchanges messages between banks and other financial institutions.
22. (c) Open Market Operations. The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system.
23. (d) Banking Regulation Act, 1949
24. (d) Abhijit Sen Committee.
25. (d) 2010. Since January 2011 the C.S.O. (Central Statistical Office)

has started calculating inflation on C.P.I. as well. Earlier inflation was being calculated on the basis of W.P.I.
26. (c) Investment Method. The methods of calculation of National income are: 1) Product Method or Value Added Method 2) Income Method 3) Expenditure Method or Outlay Method.
27. (a) Japan. India has signed a CEPA (Comprehensive Economic Partnership Agreement) with Japan and South Korea. India has signed CECA (Comprehensive Economic Cooperation Agreement) with Singapore and Malaysia.
28. (d) 40%
29. (b) Financial Stability and Development Council (FSDC),
30. (b) Kerala. Palakkad district in Kerala was the first district in the country to achieve total financial inclusion.
31. (b) 3 months
32. (b) Value
33. (a) Financial Holding Company
34. (c) Containing instability in the overnight inter-bank rates
35. (b)Senior citizens
36. (a) 1949
37. (d) Devaluation of CURRENCY
38. (c) 1992
39. (c) Central Statistical Office
40. (a) The issue of CURRENCY notes without keeping gold or silver as deposit.
41. (a) Statutory Liquidity Ratio
42. (a) Demand-supply forces
43. (a) CBLO is an RBI approved money market instrument which can be issued for a maximum tenor of one year. CBLO as a product has been conceived and developed by Clearing Corporation of India, CCIL, for the facilitating deployment in a collateralised environment.
44. (b) One hundredth of 1%
45. (b) Current account
46. (d) 'Fiat Money' is the currency that a government has declared to be legal tender, despite the fact that it has no intrinsic value and is not backed by reserves. Historically, most currencies were based on physical COMMODITIES such as gold or silver, but fiat money is based solely on faith.
47. (c) A steep decline in Income tax
48. (c) A Banker's Draft
49. (d) Accepting deposits from general public
50. (d) Mortgage repayments
51. (b) A bank draft is a bill of exchange drawn by a bank on itself, or on a correspondent bank in another city or country.
52. (c) The liquidity in the banking system gets diminished
53. (a) RBI
54. (b) Special Drawing Rights

55. (a) Both coins and currency notes
56. (c) Karnataka
57. (b) Market risk is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors. Interest rate risk, which is a type of market risk, is the risk that interest rates (e.g. Libor Euribor, inflation, etc.) and/or their implied volatility will change.
58. (c) Foreign exchange markets are dynamic and round the clock markets
59. (b) RBI
60. (c) Letter of Credit
61. (a) Customs Duty is a type of indirect tax levied on goods imported into India as well as on goods exported from India.
62. (d) Planning Commission
63. (c) Ways and means advances is given by RBI are nowhere related to state’s revenue
64. (b) Double taxation avoidance agreement
65. (c) Only 2 is correct
66. (a) Reverse Repurchase operation decreases the liquidity in the banking system.
67. (a) MICR number is used to identify the genuineness of cheque.
68. (a) TRIPS: Trade Related Intellectual Property Rights.
69. (d) Bancassurance.
70. (a) FEMA Act. (Foreign Exchange Management Act)
71. (b) Small and Medium Enterprises.
72. (c) CAMELS is a type of Bank Rating System. (C) stands for Capital Adequacy, (A) for Asset Quality, (M) for Management, (E) for Earnings, (L) for Liquidity and (S) for Sensitivity to Market Risk.
73. (d) A bond released in a currency other than the currency of the country in which it is issued.
74. (a) Non Performing Asset.
75. (a) Liquidity Adjustment Facility.
76. (a) Hilton Young Commission.
77. (c) Insurance companies in India are regulated by IRDA (Insurance Regulatory and Development Authority.)
78. (d) Rate at which RBI purchases or rediscounts bills of exchange of commercial banks
79. (c) An instrument in the form of depository receipt created by an Indian depository against underlying equity shares of the issuing company
80. (d) Total expenditure less total receipts excluding borrowing
81. (a) Money Lenders
82. (b) Minimum Alternate Tax
83. (a) Foreign Currency Convertible Bond
84. (c) Bank Rate
85. (b) March 2012
86. (c) Eliminating Fiscal Deficit

87. (c) Export Promotion
88. (b) Officers
89. (c) Concomitant sale and purchase of securities to MAKE PROFITS from price
90. (a) Increase Interest Rates
91. (d) Foreign Indirect Investment
92. (a) International Monetary Fund
93. (d) Credit Creation
94. (b) 2 & 3
95. (d) Difference between interest earned and interest paid
96. (b) RBI
97. (a) LIC
98. (a) Increasing trend
99. (b) 55, 51
100. (a) Fewer goods and more buyers

Basic Financial Terms A-Z

A

AGM - Annual General Meeting, it is the year meeting held by every registered company. Agenda is to explain the performance during the year, presentation of annual financial statements, voting on important financial decisions. Any shareholder can participate in AGM.

Asset turnover ratio - This ratio can be explained as Net assets / Total turnover or sales. This ratio measures the operational efficiency of business assets. In simple terms this measures how many time total assets turned in a year and how efficiently the assets are used in a business.

Acid test ratio - This is one of the important ratio to measure business liquidity. Business liquidity is defined as ability of a business to pay it;s short term debts. Acid test ratio = Highly liquid assets / current liabilities

American Depository Receipts - This is the way non-US companies raises money from US investors. These shares can be traded in US stock exchanges and denominated in US $.

Amortization - It is an accounting technique by which intangible assets are written off over a period of time. For example provision for doubtful debts or preliminary expenses are written off over a certain period of time.

Annuity - It is an investment scheme under which investor makes recurring investments and lump sum payment is made to him at the end. Common example is Recurring deposit account at a post office where people makes small monthly deposits and gets their money back at the end of period. Benefit of Annuity is investor gets compound interest over a period of time.

Asset Management Company - AMC is a company that pools and invests investor money in pre-determined goals. Pool of funds is known as Mutual fund.

Audit - Financial statement and physical stock is checked annually by professional auditor (Chartered Accountant affiliated by ICAI in India)

B

Book-keeping - Recording of financial transactions in books of account.

Bear market - A market situation in which most of the investors thinks that markets will fall.

Balance of Payment - BOP is the difference between a country's exports and imports.

C

Capital - Wealth invested by an entrepreneur on his business. Capital = Assets - Liabilities

Capital gain - Gain by selling a capital asset in which a person is not doing business. Income by selling a house by a bank employee is a capital gain whereas when a builder do the same thing it is Income from business and professional.

Current asset - An asset that can be converted into cash with 12 months. For example - debtors, stock etc.

Credit rating - A ranking applied to an individual, business or a nation based upon its credit history and current financial position. There are various credit rating companies in India such as Crisil.

CPI - Consumer price index is measure to find price of a bundle of commodities. CPI is used to measure the inflation in a country.

D

Debt consolidation - Debt consolidation is a process by which various loans and converted into a single loan to reduce interest rate and instalment value.

Depreciation - Depreciation is reduction in value of an asset due wear and tear over a period of time. For example a company purchased a machine in 2005 and planned to charge 20% depreciation. In 2010 the machine will be written off from the books of account.

Dividend - Dividend is the amount per share paid by a company to its shareholders. Dividend value is based upon company's profitability.

Dividend payout ratio - It is the ratio of dividend paid per share and EPS (Earning per share)

Double entry bookkeeping - It is a method of bookkeeping in which every transaction is recorded two accounts. Once in debit side and once in credit side.

E

Earning per share - Earnings made by a company in a financial year divided by number of issued shares.

Equity - Value of a business. Equity = Total assets - Total liabilities

Ex-divided - Ex-dividend means without dividend. When a seller makes a ex-dividend sales contract then he is entitled to get dividend or interest payment.

EBIT - Earning before interest and taxes

EBT - Earning before tax

EAT - Earning after tax

F

Face value - The amount mentioned on face of a bond certificate.

Fixed assets - Assets which can be seen such as machinery

Financial year - A period of 12 months from 1st April to 31st march

Fundamental analysis - Analysis of a company based upon financial and operational performance.

Fiscal policy - Income and expenses management by Government.

Flat rate - Rate of interest in a contract which remains same irrespective of market rate in future.

Floating rate - Rate of interest which changes with change in market rate.

Fund manager - A person who manages a mutual fund and tries to maximize fund's returns while sticking to fund's objectives.

G

Gearing - It is the ratio of debt to equity

Goodwill - Intangible assets that defines firm's reputation in monetary terms.

Gross profit = Net sales - Net purchases - Direct expenses

GDP - Gross domestic product is the aggregate value of goods and services produced by every person of a nation.

GST - Goods and services tax is the same tax system for everything. It is proposed that GST will replace the multi tax system in India by 2015.

H

Hedging - Hedging is a technique used by investors to protect themselves from adverse price movements. Derivatives are used for hedging in which hedgers takes the risk of price fluctuations.

Hedge funds - Mutual funds which invests in derivatives

I

Index - It is statistical measure used to find price variations in market. In stock markets most dominating stocks are grouped to make an index. For example - Sensex.

Income statement

A statement that represents both income and expenditure of a business during a specific period of time.

IPO - Initial public offer is issue of stocks for the first time in the market.

Intangible assets – Assets which can’t be seen but have value for business. For example – Goodwill.

Indemnity – A legal contract under which one party promises to pay another for any loses incurred to them by their acts.

Interest rate risk – Risk that value of financial assets will deteriorate because of fall in interest rate. For example value of bonds decreases with decrease in interest rate.

Irredeemable stocks – Stocks which can’t be exchanged for cash in future.

Indirect Costs - Indirect cost is a cost incurred on product that is not directly related to its production.

J

Junk fund – A fund which invests investor's money in junk investments means high risk investments which high returns.

K

KYC – Know Your Customer policy is mandatory in India and every investor irrespective of his investment volume needs to furnish his identity and residence details.

L

Libor – London

Liquidity – Ability of a business to pay off its short term debts with current assets. Currently NISL is facing liquidity crunch.

Liquid assets – Assets which can be readily converted into cash

Liquid ratio – Liquid assets/Current liabilities

Limited liability – Liability of an individual or a business up to the value of investment made in a business

M

Monopoly - A situation in market where there are many buyers but a single seller exist.

Money market - Market dealing in short term lending and borrowing of funds. Also know as Cash market.

Monetary policy - Set of actions by Central bank of a country (RBI in case of India) to control the supply of money. These actions included increase in interest rate, open market purchases, changing commercial bank's reserve funds ratio (SLR) etc.

Marginal cost - Additional cost to produce an extra unit of product.

Margin - Amount of profit added to cost price of each unit of a product

Margin call - Margin call term is used in two situations. **First** - Whenever a lender gives a secured loan and loan value is a fixed percentage of loan then whenever the value of security decrease below the decided ratio then lender given a margin call to borrower to bring loan to security ratio to decided level. **Secondly** in stock exchanges traders trades in various securities by paying 20-30% of the value of securities. Whenever the value of security goes below that margin, broker gives margin call to trader to bring the margin to desired level.

Mark-to-market - As explained above while defining margin call, value of assets in case of securities is measured on daily basis. If the trader's asset value increased, increased value is transferred to his account. In case the value of assets decreased margin call is made to adjust the margin.

N

NPV - Net Present Value is aggregate of future cash flows from a project minus total costs. NPV is a capital budgeting technique used to check feasibility of projects.

Net profit - Net profit is Gross profit minus indirect cost. See indirect costs

Net worth - Net assets - Total liabilities

Nationalization - When Government takes control of a business, this is known as nationalization.

NAV - Net Assets Value is mutual fund's per unit exchange traded price

O

Opportunity cost - Additional cost in production of an addition unit of product.

Options - Option is right to buy at pre-determined price at a future date. Option is used for hedging. Options safeguards option-holder from future price fluctuations.

Overdraft - Facility given by a bank which allows its customers to withdraw more money than account balance. Overdraft generally have high rate of interest as borrower can demand and return the loan anytime.

P

Preference shares - A type of shares having no voting rights and have higher rate of dividend.

Ponzi **schemes -** It is a kind of fraud scheme which use Network marketing as a tool. Investors are paid out of new investments. These schemes end when new investments stop coming and large number of investors wants to withdraw their money. Latest Ponzi scheme in India was "Speak Asia".

PLR - Prime lending rate is the minimum rate of interest that is to be charged by a bank. Each bank decides its own PLR.

R

ROI - Rate on investment is return divided by value of investment

Redemption - Maturity date of a security or a bond

Recession - An economic situation of negative growth

Repo rate - Rate at which Central bank (RBI in case of India) lends money to commercial banks

Reverse repo rate - Rate at which commercial banks lends to central bank

Right issue - Issue of shares in which existing shareholders gets right to buy shares in proportion of their existing holding

Risk free return - Rate of return, normally it is 90 days bills issued by a national government

S

Stagnation - An economic situation of slow economic growth, high rate unemployment and inflation.

Shorting - Selling securities which an investors don't have in expectation of price drop

U

Underwriters - In case of an IPO, new companies makes contracts with underwriter where underwriters promises to purchase unsubscribe shares.

W

Working capital - Money required by a business to run its day to day business. Working capital = Current assets / Current liabilities

Warrants - A document which gives right to holder to get shares at stated price

Y

Yield - Yield is the return on investment which may in form dividend or interest