

## CAIIB Early Bird Pack 2025 – 2026

1. A bank's credit monitoring team observes a borrower's account with a sanctioned working capital limit is showing consistently low turnover. Furthermore, the borrower has started delaying the submission of monthly stock statements. According to the Loan Review Mechanism (LRM), what would be the most logical and immediate sequence of actions for the bank to undertake?

A) Initiate a credit audit immediately and then scrutinize the books of accounts.

B) Appoint a nominee on the board and then request more frequent stock inspections.

C) Ensure sales proceeds are routed through the account, conduct more frequent inspections, and consider converting hypothecation to a pledge.

D) Rely on market reports to assess industry health and then initiate legal action for recovery.

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2. As per RBI guidelines, the Credit Audit Department is tasked with a comprehensive review of the bank's lending activities. Which of the following best describes a primary objective of the Loan Review process within the scope of a credit audit, especially concerning newly sanctioned loans?

- A) To conduct on-site factory visits for all fresh proposals to verify physical operations.
- B) To exclusively focus on large accounts, auditing them within one month of sanction to ensure rapid assessment.
- C) To review all fresh and renewed loan proposals within a 3-6 month timeframe from sanction to audit the sanctioning process and post-sanction compliance.
- D) To primarily focus on reducing concentration risk by reallocating sanctioned limits across different sectors.

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3. A borrower with a significant working capital limit submits monthly stock and receivables statements that are used to calculate the Drawing Power (DP). A credit monitor notices that a substantial portion of the receivables are consistently aged over 180 days. What is the most prudent action the bank should take in response to this specific finding?

- A) Appoint an independent agency to conduct a stock and receivables audit immediately.
- B) Initiate discussions with the borrower's key debtors to understand payment patterns.
- C) Increase the frequency of periodic site visits to verify the existence of charged assets.
- D) Exclude the receivables aged above 6 months from the Drawing Power calculation to prevent over-financing.

→ exclude 180+ days

→ DP calc.

→ Cash Flows

→ Flag

→ Communicate

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4. During a credit audit for a large corporate loan, the audit team is tasked with verifying compliance and assessing risk. Which of the following activities falls squarely within the key review action points of a credit audit, as distinct from general credit monitoring?

- A) Conducting a surprise physical inspection of the borrower's factory premises to check inventory levels. *→ tool for G. monitoring*
- B) Verifying that the loan sanctioning process adhered to the bank's internal policies and that all necessary legal documents are correctly in place.
- C) Interacting with the borrower's key suppliers and customers to gather market intelligence on the company's reputation.
- D) Comparing the borrower's quarterly performance against industry benchmarks published by credit rating agencies.

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5. A bank has sanctioned a loan of ₹7 crores to a company for acquiring a commercial property. As per RBI guidelines, what specific, mandatory audit must the bank conduct periodically to secure its interest in the charged asset, and what is a key reporting requirement associated with it?

A) A Credit Audit must be conducted quarterly, with reports submitted to the Head of the Credit Department.

B) A Legal Audit must be conducted to verify title deeds, with quarterly reports on its status presented to the company's Board of Directors.

C) A Stock & Receivables Audit must be conducted annually, with the findings reported to the branch manager.



D) A Legal Audit must be conducted for title deed verification, with quarterly reports on its status presented to the bank's Board.

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6. A bank is financing a large textile firm. A review of the borrower's books of accounts reveals several large, high-value transactions to entities that appear unrelated to the textile business. This finding, combined with a recent invocation of a bank guarantee, strongly suggests a specific type of risk. What is the most likely issue the bank needs to investigate further?

- A) Accumulation of old, non-moving stock affecting the drawing power.
- B) Diversion of funds for purposes other than the intended business use.**
- C) A general decline in demand within the textile industry affecting profitability.
- D) Inaccurate reporting of receivables, leading to inflated financial statements.

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7. The RBI mandates a risk-based frequency for conducting credit audits to optimize monitoring efforts. A bank has categorized its loan accounts into high, medium, and low risk. What is the correct audit frequency for a medium-risk account as per these guidelines?

- A) A credit audit must be performed every 3 months.
- B) A credit audit must be performed every 6 months.
- C) A credit audit must be performed every year.
- D) A credit audit must be performed within 3-6 months of the last renewal.

e) 12 to 15 months

High → 9-12m.

Low → 18-36m

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8. A bank decides to appoint a nominee director to the board of a borrowing company. This is a significant credit monitoring action. In which of the following scenarios would this step be most justified and appropriate as per the principles outlined in the document?

- a) A) The borrower has delayed the submission of stock statements for two consecutive months.
- a) B) The bank wants to gain better insight into the borrower's payment patterns with its suppliers.
- C) The loan is exceptionally large, and the bank needs to have direct oversight to prevent potential fund diversion and mismanagement.
- D) The bank's credit audit has revealed minor non-compliance with post-sanction documentation requirements.



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9. A bank's analysis of a borrower's annual financial statements reveals a sudden and significant decline in revenue and profitability, which is inconsistent with the company's projections. This is a critical early warning signal. What is the most direct and specified action the bank should take based on this financial statement analysis?

- A) Immediately conduct an independent stock and receivables audit.
- B) Mandate a legal audit to re-verify title deeds of all collateral.
- C) Investigate the reasons for the sudden decline in revenue and profit as part of the financial analysis.
- D) Check market reports to see if the entire industry is facing a similar downturn.

LEARNING SESSIONS

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10. In the context of a Loan Review Mechanism (LRM), scrutinizing a borrower's books of accounts is a powerful tool for fraud detection. Which of the following discoveries would be a direct outcome of this specific monitoring tool?

- A) The discovery that the borrower is routing all sales proceeds through an account with another bank.
- B) The discovery that the borrower's stock records do not match the physical inventory during an inspection.
- C) The discovery that the borrower is using a sister concern to create fake sales invoices to artificially inflate revenues.
- D) The discovery that a property held as collateral has a forged title deed.

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11. A bank's credit monitoring policy emphasizes a holistic approach, combining various tools for effective risk management. A borrower in the manufacturing sector is performing well, but market reports indicate a potential future decline in demand for their specific product line. Which monitoring tool is specifically designed to assess and react to this type of external, sector-level risk?

A) Analysis of the borrower's annual financial statements.

B) Periodic site visits and inspections.

C) Monitoring market reports and industry trends.

D) Scrutiny of the borrower's books of accounts.

(win dow chng, diversion

Decline sales  
DER ↑  
NW

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**12. The RBI outlines several objectives for a formal Credit Audit function within a bank to enhance the quality of the loan portfolio. Which of the following is an objective focused on the pro-active identification and management of potential future problems rather than reviewing past actions?**

- A)** To review the sanction process and ensure compliance with policies for loans already disbursed.
- B)** To conduct an independent risk assessment of the effectiveness of the bank's credit risk management system.
- C)** To detect early warning signals in accounts that are at risk of default and suggest corrective measures.
- D)** To process credit audit reports, document findings, and report them to top management for accountability.

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13. A credit officer is monitoring a borrower's account conduct and notices several "red flags," including frequent overdrawings and a recently bounced cheque. According to the document, what is a key difference in the bank's potential response between converting hypothecation to a pledge versus conducting more frequent stock inspections?

A) More frequent inspections are a verification tool, while converting to a pledge is a control-enhancing measure.

a B) Converting to a pledge is only done for large accounts, while inspections are for medium accounts.

d C) Inspections are done to calculate Drawing Power, while converting to a pledge is done to improve profitability.

D) Converting to a pledge is an early warning signal, while inspections are a corrective action.

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*on layer scale*  
14. The scope of a credit audit is broad, covering both a micro and macro view of the bank's lending. Which of the following activities best represents the 'Portfolio Review' aspect of a credit audit?

→ A) Auditing a fresh loan proposal for a large account within 3-6 months of its sanction to check for compliance.

*macro*  
B) Examining the overall credit portfolio to identify and suggest measures to reduce risk concentration in the real estate sector as per RBI norms.

→ C) Verifying that the security and legal documents are properly executed for a specific high-value loan.


→ D) Identifying early warning signals, such as frequent cheque bounces, in a specific borrower's account.

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15. A bank financed a textile firm for ₹50 Cr, but within six months, the account showed high cheque bounce rates and delayed stock statements. The bank's subsequent stock audit revealed "ghost inventory." What does "ghost inventory" imply in this context, and which monitoring failure does it expose?

A) It implies the stock was old and non-moving; it exposes a failure in analyzing financial statements.

B) It implies the inventory was present but charged to another bank; it exposes a failure in periodic site visits.

 C) It implies the inventory listed in the stock statements did not physically exist; it exposes a failure of relying solely on self-reported statements without verification.

D) It implies the stock was real but its market value was inflated; it exposes a failure to monitor industry trends.

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**16. A bank's Credit Audit Department is establishing its operational procedures. As per the guidelines provided, which statement accurately describes the typical execution and process of a credit audit at the operational level?**

*a* **A)** The audit is conducted at the head office, centrally reviewing all reports without any branch-level activity.

*a* **B)** The audit requires mandatory on-site factory and office visits to the borrower's premises for a physical assessment.

**C)** The audit is conducted on-site at the branch level, reviewing the main operative credit limits and collecting reports from other branches for a comprehensive assessment.

*a* **D)** The audit is exclusively a review of the borrower's financial statements and does not involve looking at the bank's internal sanctioning documents.



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17. One of the key tools for credit monitoring is interacting with key stakeholders of the borrower's business. What specific kind of insight is this tool uniquely positioned to provide that cannot be easily obtained from analyzing financial statements or account conduct?

A) The precise value of non-moving stock held in the borrower's warehouse.

**B) The borrower's reputation in the market and its actual payment patterns with suppliers.**

C) Whether the borrower is artificially inflating revenues through fake transactions in its books.

D) The compliance status of the loan with the bank's post-sanction conditions.

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18. A thorough credit appraisal is conducted before sanctioning a loan, yet the document emphasizes the need for continuous credit monitoring. What is the fundamental reason provided for why the risk of default can increase even after a meticulous initial appraisal and securing collateral?

- $\alpha$  A) Because the bank's initial credit appraisal policies are often inadequate for assessing long-term risk.
- $\alpha$  B) Due to the dynamic nature of the business environment, which can cause a borrower's financial health to deteriorate over time.
- $\alpha$  C) Because the legal documentation is often not properly executed, weakening the bank's claim on collateral.
- $\alpha$  D) Due to the high probability that borrowers will intentionally divert funds from the very beginning.

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19. A private bank sanctioned a ₹100 Cr loan to a real estate company. A subsequent credit audit uncovered several severe irregularities, including forged title deeds and inflated sales projections. According to the case study, what was the most critical outcome of the bank's decisive actions following this audit?

lqps

A) The bank was able to improve its credit audit procedures for future loans.

B) The bank successfully restructured the loan with stricter terms and conditions.

C) The bank saved the entire ₹100 Cr loan from turning into a Non-Performing Asset (NPA) by recalling the loan and seizing assets.

D) The bank appointed a nominee director to the real estate company's board to oversee the project.

Recovery

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20. The conclusion of the document suggests that the future of credit monitoring will evolve beyond traditional methods. What is the key strategic shift that banks are encouraged to adopt for more efficient risk management in the future?

A) To rely more heavily on periodic physical inspections and less on financial statement analysis.  $\alpha$

B) To focus exclusively on credit audits, as they are the most comprehensive review tool.  $\alpha$

Ans C) To adopt a holistic approach that integrates modern technologies like AI, real-time audits, and big data analytics.

$\alpha$  D) To mandate the appointment of nominee directors for all loans above a certain threshold to ensure direct control.

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