20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **CAIIB BFM (Bank Financial Management) is one of the core compulsory papers of the CAIIB exam conducted by IIBF.**
   IIBF administers BFM to test how a banker manages treasury, forex, risk and balance-sheet functions.

2. **CAIIB BFM has four modules: International Banking, Risk Management, Treasury Management and Balance Sheet Management.**
   Each module covers a distinct area of bank financial management tested in the CAIIB exam.

3. **Module A of CAIIB BFM (International Banking) covers Forex, Nostro/Vostro/Loro accounts, UCP 600 and derivatives.**
   These topics test how banks handle cross-border transactions and foreign-currency exposure.

4. **Module B of CAIIB BFM (Risk Management) covers market, credit and operational risk, VaR, sensitivity and Basel norms.**
   This module tests how banks identify, measure and control financial risk.

5 **Module C of CAIIB BFM (Treasury Management) covers integrated treasury, the dealing room, money market and BPV/duration.**
Treasury numericals like BPV and duration are considered high-scoring once practised.

6 **Module D of CAIIB BFM (Balance Sheet Management) covers ALM, capital adequacy, RAROC and transfer pricing.**
This module tests how a bank manages its overall balance-sheet risk and capital.

7 **A Nostro account is a bank's own foreign-currency account held with a correspondent bank abroad.**
The term Nostro literally means our account with you.

8 **A Vostro account is a foreign bank's local-currency account maintained with a bank in its home country.**
The term Vostro literally means your account with us.

9 **In correspondent banking terms, a Loro account is how a bank refers to another bank's Nostro account held elsewhere.**
Loro literally means their account, referring to a relationship between two other banks.

10 **In BFM, banking book exposures are typically held to maturity with income recognised on an accrual basis.**
This differs from the trading book, where positions are marked to market.

11 **Trading book positions, unlike banking book positions, are marked to market rather than held on accrual.**
Mark-to-market valuation reflects current market prices, not just booked income.

12 **BPV (Basis Point Value) measures how much a bond's price changes for a one-basis-point change in yield.**
BPV is a key treasury numerical tested in CAIIB BFM.

13 **Under UCP 600, a bank examining documents presented under a Letter of Credit gets a maximum of five banking days to do so.**
This time limit applies after the documents are presented to the bank.

14 **A put option is considered in the money (ITM) when its strike price is higher than the current market price.**
A put gives the right to sell, so a higher strike than market price favours the holder.

15 **A currency swap involves two parties exchanging principal and interest payments in different currencies at agreed rates.**
Currency swaps help manage cross-currency funding and interest-rate exposure.

16 **An integrated treasury brings the money market, securities market and forex operations under one dealing room.**
Integration allows faster fund movement and arbitrage across markets.

17 **Standard Value at Risk (VaR) models generally assume normal market conditions, which can understate losses in extreme stress.**

This limitation is why banks supplement VaR with stress testing.

18 **The historical simulation method of VaR estimates potential losses using actual past movements of market prices.**

It re-prices a position using real historical data rather than assumed distributions.

19 **Arbitrage conducted between two financial centres is known as direct or two-point arbitrage.**

Arbitrage across three centres is called triangular or three-point arbitrage.

20 **In CAIIB BFM, effective risk mitigation reduces both the downside potential of losses and the potential for extra profit.**

Hedging lowers risk and reward together, since it caps both losses and gains.