

# UNIVERSITY OF COLOMBO

## FACULTY OF MANAGEMENT AND FINANCE

### Postgraduate & Mid-career Development Unit

Master of Business Administration in Finance (Semester iii Second-half) (2014 - 2016)  
Examination- July/ August - 2016

#### MBAFI 614- Bank Management

- **Three (03) Hours**
  - **Answerer five (5) questions in all including question No 01.**
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#### Question 01.

Lanka Plate (pvt) Ltd, a leading porcelain ware manufactures has prepared their strategic plan for the next five years and significant feature of it is the new plant proposed to set up in an Industrial Park.

Total project cost is as follows. (Rs. Mn)

Pre-operating Expenses	10
Investment Cost	1,500
Working Capital Cost	400
Contingencies	<u>10</u>
Total Project cost	<u>1,920</u>

Company has been banking satisfactorily for the last 5 years with your Bank. They request for an investment loan of Rs. 1,200 Mn for setting up of the new plant and propose to mortgage the new project's assets. Company performances for the last two years are as follows.

**Income Statement for the Year end 31<sup>st</sup> March**

		(Rs. Mn)
<b>Year</b>	<b><u>2015</u></b>	<b><u>2014</u></b>
<b>Turnover</b>	<b>5,781</b>	<b>4,908</b>
Cost of sales	4,376	3,670
<b>Gross Profit</b>	<b>1,405</b>	<b>1,238</b>
Other Income	42	28
Distribution cost	194	192
Administrative expenses	327	312
<b>Profit from operating activities before charging following</b>	<b>926</b>	<b>762</b>
Finance cost	125	113
<b>Profit before tax</b>	<b>801</b>	<b>649</b>
Income tax expenses	163	160
<b>Profit for the year</b>	<b>638</b>	<b>489</b>
Attributable to :		
<b>Equity holders of the company</b>	<b>375</b>	<b>286</b>
Minority interest	263	203
<b>Profit for the year</b>	<b>638</b>	<b>489</b>

**Financial Position**

<b>Year ended</b>	<b>As at <u>31.03.2015</u></b>	<b>As at <u>31.03.2014</u></b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant & equipment	3,101	2,966
Investments in associates	16	20
Non - current receivables	34	34
Differed tax assets	11	7
	3,162	3,027
<b>Current assets</b>		
Inventories	1,127	961
Trade and other current receivables	872	663
Amount due from related parties	26	1
Short term deposits	60	22
Cash and cash equivalents	287	48
	2,372	1,695
<b>Total Assets</b>	<b>5,534</b>	<b>4,722</b>

## **EQUITY & LIABILITIES**

### **Equity attributable to equity holders of the parent**

Share capital	325	325
Reserves	415	415
Accumulated profits	1,107	854
<b>Shareholders' funds</b>	<b>1,847</b>	<b>1,594</b>
<b>Minority interest</b>	<b>1,043</b>	<b>871</b>
<b>Total Equity</b>	<b>2,890</b>	<b>2,465</b>

### **Noncurrent liabilities**

Subscription in advance	80	-
Interest bearing liabilities	581	641
Deferred tax liabilities	155	132
Provision for terminal benefits	376	332
Capital grants & deferred income	86	79
	1,278	1,184

### **Current liabilities**

Current portion of subscription in advance	9	-
Trade and other payables	514	410
Dividends payable	12	7
Income tax liabilities	57	74
Current portion of interest bearing liabilities	774	582
	1,366	1,073
<b>Total equity &amp; liabilities</b>	<b>5,534</b>	<b>4,722</b>

- i. You as a Credit Officer of your Bank, evaluate the company's request based on the information given. Your credit evaluation should be based on the principles of lending.

(20 marks)

- ii. In order to evaluate the request methodically, what additional information is required?

(08 marks)

**(Total 28 Marks)**

**Question 02.**

- i. "Financial Intermediation refers to the activity of channeling funds between those people or institutions who wish to lend (that is, those who run financial surpluses) and those people or institutions who wish to borrow (that is, those who run financial deficits)."

Discuss how financial intermediation helps to implement the monetary policy in Sri Lanka.

(10 marks)

- ii. Discuss the regulations that are imposed by the Central Bank of Sri Lanka on Licensed Commercial Banks' (LCB) operations to strengthen the financial system stability in Sri Lanka.

(08 marks)

**(Total 18 Marks)**

**Question 03.**

"Banks should efficiently manage their non-interest income and non-interest expenses."

- i. Discuss this statement explaining the importance of managing non-interest income and non-interest expenses

(10 marks)

- ii. What are the most frequently used measures of efficiency of non-interest income and non-interest expenses in banks.

(08 marks)

**(Total 18 Marks)**

**Question 04.**

- i. Discuss the factors that influence on working capital requirement of a manufacturing organization.

(10 marks)

ii. An accountant of a trading organization has revealed the following information.

Annual Sales	Rs. 120 million
Profit margins on cost of goods sold	20%
Stock retention period	30 days
Debtors' collection period	45 days
Creditors' payment period	15 days
45% of sales are on credit basis	
20% of purchases are on credit basis	

Calculate the net working capital requirement of the business.

(08 marks)

**(Total 18 Marks)**

**Question 05.**

“Dealing with a problem loan is imperative not only for banks’ profitability but also for liquidity.”

i. Discuss the steps in analyzing a problem loan

(10 marks)

ii. Select a failed manufacturing business to which credit facilities have been granted. Suggest financial or strategic restructuring solutions in order to continue the business enabling the financial institution to recover the credit facilities granted.

(08 marks)

**(Total 18 Marks)**

**Question 06.**

Your bank has received a credit application for a star class hotel project with 30 rooms in Kandy town. Total cost of the project is as follows.

Pre-operative expenses	Rs. 5 Mn
Investment Cost	Rs. 250 Mn
Working capital cost	Rs. 10 Mn
Contingencies	Rs. 10 Mn
Total Project Cost	Rs. 275 Mn

Discuss the key areas in appraising the project and structure a credit facility with terms and conditions. You may use your own assumptions.

**(Total Marks 18)**

**Question 07.**

i. Define what operational risk is and what measures that banks should initiate to manage the operational risk?

(10 marks)

ii. Most banks are in the pawning advance business since no capital allocations required. Discuss with examples risk factors involved in pawning advances to a financial institution.

(08 marks)

**(Total 18 Marks)**

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