

**UNIVERSITY OF COLOMBO, SRI LANKA**  
**FACULTY OF MANAGEMENT AND FINANCE**  
**Postgraduate and Mid-career Development Unit**

**Business Administration in Finance/ Master of Master Business Administration/ Master  
of Master Business Administration in Human Resource Management (Semester III -  
Second-half)**

**Examination- July 2017**

**MBAFI 614- Bank Management**

- **Three (03) Hours.**
- **Answer five (5) questions in all including question number one (01).**

01.

Excellent Ltd is one of the most trusted brands in the country who has a reputation over 200 years in proving various kitchen and home appliances to the nation with a reputed after sales service. Their record of impressive performance has been driven by consistently high standards of customer service and business performance. Their presence is everywhere in the country with more than 240 staff to service more than 4.5 million customers. Apart from their own brands, they represent some other well renowned brands globally. Their Comprehensive income statement and the financial position for the last two years are as follows;

<b>Income Statement</b>			
	<b>Rs.000'</b>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>	39,267,203	33,311,395	
Cost of Sales	(27,849,435)	(23,531,269)	
Gross Profit	11,417,768	9,780,126	
Other Income	431,705	296,622	
Selling and Administrative Expenses	(9,069,711)	(7,918,678)	
<b>Operating Profit</b>	<b>2,779,762</b>	<b>2,158,070</b>	
Finance Cost	(1,619,789)	(1,094,741)	
Finance Income	338,358	164,053	
<b>Net Finance Cost</b>	<b>(1,281,431)</b>	<b>(930,688)</b>	
Value Added Tax on Financial Services	(47,800)	(31,700)	
<b>Profit Before tax</b>	<b>1,450,531</b>	<b>1,195,682</b>	
Income Tax Expenses	(346,085)	(335,977)	
<b>Profit for the Year</b>	<b>1,104,446</b>	<b>859,705</b>	
Earnings per Share - Basic (Rs.)		8.82	6.87

## Financial Position

	Rs.000'	2016	2015
<b>Assets</b>			
Property, Plant and Equipment		3,022,805	2,600,437
Intangible Assets		213,157	200,297
Investment in Subsidiaries		2,455,180	992,242
Equity- Accounted Investees		-	48,000
Other Investments		929,110	616,303
Trade and Other Receivables		1,888,467	1,620,582
Differed Tax Assets		147,270	124,492
<b>Non- Current Assets</b>		<b>8,655,989</b>	<b>6,202,353</b>
Inventories		7,793,495	6,677,027
Loans Due from Related Parties		1,378,075	1,122,638
Income Tax Receivable		1,767	-
Trade and Other Receivables		9,886,667	8,325,781
Amount Due from Related Parties		74,783	234,257
Cash and Cash Equivalents		1,039,586	876,594
<b>Current Assets</b>		<b>20,174,373</b>	<b>17,236,297</b>
<b>Total Assets</b>		<b>28,830,362</b>	<b>23,438,650</b>
<b>Equity</b>			
Stated Capital		626,048	626,048
Capital Reserves		1,065,542	857,580
Revenue Reserves		4,242,213	3,612,779
<b>Total Equity Attributable to Owners of the Company</b>		<b>5,933,803</b>	<b>5,096,407</b>
<b>Liabilities</b>			
Interest- Bearing Loans and Borrowings		6,000,000	6,250,000
Defined Benefit Obligations		476,754	457,182
Security Deposits		1,018,452	851,794
<b>Non- Current Liabilities</b>		<b>7,495,206</b>	<b>7,558,976</b>
Trade and Other Payables		4,590,537	3,345,458
Deferred Revenue		438,989	318,460
Income Tax Payables		-	133,791
Dividends Payable		20,524	17,515
Amount Due to Related Parties- Trade		876,919	771,744
Amount Due to Related Parties- Non- Trade		119,738	125,239
Interest- Bearing Loans and Borrowings		8,652,550	5,454,102
Bank Overdrafts		702,096	616,958
<b>Current Liabilities</b>		<b>15,401,353</b>	<b>10,783,267</b>
<b>Total Liabilities</b>		<b>22,896,559</b>	<b>18,342,243</b>
<b>Total Equity and Liabilities</b>		<b>28,830,362</b>	<b>23,438,650</b>

i. You as a Credit Officer of a Bank, evaluate the company's credibility in the light of basic credit principles.

(20 Marks)

ii. Assuming that all sales and purchases are on credit basis, calculate the working capital requirement for the year 2016.

(8 Marks)

**(Total 28 Marks)**

02.

i. Financial crisis started in 2008 resulted failure of many banks and financial institutions across the world, especially in European and American markets. Discuss the key lessons learnt from those failures.

(10 Marks)

iii. What are Financial Soundness Indicators in an economy and its uses in managing financial system stability?

(8 Marks)

**(Total Marks 18)**

03.

i. Define Credit risk and strategies of mitigating Credit Risk at transactional level.

(10 Marks)

ii. Explain how each of the following potentially affects a bank's credit risk;

a. A bank has financed 20% of its loans to tourism industry.

b. A bank does not have a proper credit policy and credit manual other than some loan scheme guidelines.

c. Branch managers are excessively empowered for granting credit to business customers.

(8 Marks)

**(Total 18 Marks)**

04.

i. What you mean by a sick business unit?

(8 Marks)

ii. How could a bank use early warning signals of a sick business unit to mitigate the potential credit risk?

(5 Marks)

iv. What is a composite settlement in credit recovery and how does it benefit a bank?

(5 Marks)

**(Total 18 Marks)**

05.

In Sri Lankan Banks, more income is generated from interest income than the non-interest income.

i. Should the Sri Lankan banks continue with high interest margin on loans and advances in order to keep the growth momentum? Explain your answer.

(10 Marks)

ii. Discuss the importance of fee income for commercial banks.

(08 Marks)

**(Total 18 Marks)**

06.

i. What are the three pillars of the Asset-Liability Management (ALM) Process in commercial banks and describe the ALM organization?

(10 Marks)

iii. Explain how banks calculate the interest rate risk using gap analysis.

(8 Marks)

**(Total 18 Marks)**

07.

i. How can a Bank maintain a healthy rate of Return on Equity (ROE)? Explain your answer in the light of Return on Equity Model.

(10 Marks)

ii. Explain how each of the following potentially affects a bank's liquidity risk:

a. Being classifying 95% percent of the bank's securities as held-to maturity.

b. Holding Bank deposit base as a low fraction of total assets (35 percent).

(8 Marks)

**(Total 18 Marks)**

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