

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Semester V) Examination 2022- July, 2022

FIN 3315 – Theory and Practice of Banking

Instructions.

- Time allowed is Three (03) Hours.
 - This paper comprises of six (06) questions on four (04) pages.
 - Answer **only five (05)** questions.
 - The use of calculator is permitted.
 - This is an open book and online examination.
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01.

- i. What you mean by the pyramid scheme? Explain the main characteristics of it.

(08 marks)

- ii. Effective implementation of an Integrated Risk Management (IRM) framework enables banks to develop an organization-wide risk culture that recognizes the existence of risks in all levels, their interconnectedness and the need to manage risks proactively.

Based on this statement, explain how the IRM enable banks to enhance their resilience and sustainability.

(12 marks)

(Total 20 Marks)

02.

- i. "Asset and liability management is a must for all banks regardless of their size".

Elaborate this statement based on the concept of banking.

(07 marks)

ii. Following table shows the asset types and minimum provision to set aside for banks in the State of Bisoland:

Asset type	Minimum provision
Standard assets	Tourism – 1.5% Commercial constructions – 1% Others – 0.30%
Sub-standard assets	12% (Secured loans) 22% (Unsecured loans)
Doubtful assets	Secured loans below 1 year – 25% Secured loans from 1 to 3 years – 35% Secured loans more than 3 years – 100% Unsecured loans – 100%

Based on the above information, provide answers to the following questions.

a. What is the provision need to be made for standard loans of \$ 150,000 which includes tourism sector loans of \$ 76,000?
(04 marks)

b. What is the provision need to be made for sub-standard loans of \$ 65,000 including unsecured sub-standard loans of \$ 25,000?
(04 marks)

c. What is the provision need to be made for doubtful loans of \$ 100,000 including \$ 15,000 secured loans below 1 year, \$ 30,000 unsecured loans of 2 years and \$ 55,000 secured loans of 3 years?
(05 marks)

(Total 20 Marks)

03.

- i. Assume Star Bank has tier 1 capital of Rs 10 million and tier 2 capital of Rs 5 million. The bank has Rs 400 million in risk-weighted assets. On the other hand, assume Victoria Bank has tier 1 capital of Rs 15 million, tier 2 capital of Rs 10 million, and Rs 75 million in risk-weighted assets.

Analysis the capital-to-risk weighted asset ratios and comment on the financial stability position of both banks.

(10 marks)

- ii. Lack of liquidity creation (granting loans) by the banking system to the business sector is one of the most serious problems faced by Sri Lanka.

Do you agree with this statement? Justify your answer.

(10 marks)

(Total 20 Marks)

04.

- i. Explain the Covid-19 pandemic impact on the liquidity risk, credit risk, operational risk and strategic risks of the banking sector in Sri Lanka.

(12 marks)

- ii. Briefly explain some of the conventional and unconventional measures implemented by the Central Bank and monetary authorities in Sri Lanka to address the multifaceted challenges of the Covid-19 pandemic.

(08 marks)

(Total 20 Marks)

05.

- i. What is CAMEL Rating system?

(09 marks)

- ii. What are the two liquidity ratios introduced under the Basel III liquidity standards? Briefly explain both the ratios including the equation of measurement.

(08 marks)

- iii. List down three differences of an annual report of a bank and non-bank financial institution.

(03 marks)

(Total 20 Marks)

06.

i. Explain any three (03) of the followings:

- a. Asset transformation
- b. The relationship between the liquidity and profitability of banks
- c. Bank stress testing
- d. Know-your-customer (KYC) concept in banks

(09 marks)

ii. “Theoretically, a unique feature of Islamic banking, is its profit-and-loss sharing (PLS) paradigm. However, in practice Islamic banking is not very different from conventional banking”

a. Define PLS paradigm in Islamic banking

(03 marks)

b. Explain why Islamic banking tend to deviate from the PLS paradigm.

(08 marks)

(Total 20 Marks)
