



Eastern University, Sri Lanka
Faculty of Commerce and Management
Third Year Second Semester Examination in Bachelor of Business Administration
(Specialization in Human Resources Management/Marketing Management) - 2010/2011
(June, 2013) (Proper/Repeat)
MOC - 3052 –Banking and Finance

Answer all Questions

Time: Three Hours

Q1. Case Study

CREDIT EVALUATION

Background

Mr. Ranjith who is 40 years old Sales Manager in a private company and maintains an account with the Bank for five years.

Monthly Income :- Average Rs. 60,000/- (including sales commission)
Civil Status :- Married
Wife's Employment :- No
Dependents :- 2 children (11 and 13)
Assets Owned :- Property at Dehiwala(Realizable value Rs. 2.5M). House jointly owned his wife (Value Rs. 5.0M)

Accounts Details

Account Balance Fluctuation: Highest balance – Rs. 59,500/- (Cr)
Lowest balance – Rs.40,300/- (Dr)
Average Balance Rs. 15, 000/- (Cr)

Request

Facility	Term Loan for LKR 5.0M. Outstanding to be reduced up to LKR 2.5M with the sale of the property at Dehiwala
Purpose	To finance the purchase consideration of a property in Kandy
Interest	@22% p. a.
Period	10 Years
Security	Primary Mortgage over Property in Kandy. Value of the property – Purchase consideration Rs. 5.0M

Evaluation

Customer:

- Mr. Ranjith could be considered as an honest individual with a high integrity.
- Therefore, the risk of default (non-payment) of the proposed facility is minimum provided that, Mr. Ranjith has a large income to repay the same.

Repayment Capacity:

- Total monthly expenses are equal to the lowest balance of the account.
- Sale proceeds of the Colombo property is received immediately and the facility is reduced to Rs. 2,500,000/-. Therefore, the monthly loan installment would be Rs. 50,744/-.

Income / Expense Analysis

Income	Amount (Rs.)	Expenses	Amount (Rs.)
Average Monthly Salary including Commission	60,000	Total monthly expenses	40,300
		Monthly loan installment	50,744
Expenditure over Income	31,044		
Total	91,044	Total	91,044

Questions

- a. What is **Credit Risk**? What does cause **Defaults**?
(07 Marks)
 - b. Assume that you are a Credit Officer of this Bank. Discuss suitable further information required to evaluate credit for Mr. Ranjit.
(15 Marks)
 - c. How can you overcome '**Problems of Defaults**'? Explain.
(08 Marks)
- (Total 30 Marks)

Q2.

Give four '**Core Functions**' of the Central Bank.

- a. What is **Moral Suasion**?
(07 Marks)
(05 Marks)
 - b. Why is '**Call Money Market**' important? How is it effective tool to manage liquidity
(08 Marks)
- (Total 20 Marks)



Q3.

- a. What is Annuity? Explain with examples. (04 Marks)
 - b. How much should be invested at 5% for 5 years to get LKR 255.20? Does it mean to calculate Present Value of LKR 255.20 to be received after 5 years now? (10 Marks)
 - c. If LKR 5 M needs to be withdrawn as the retirement package after 5 years from a fund which pays 10% interest per annual, how much should be invested annually for next 5 years? (06 Marks)
- (Total 20 Marks)**

Q4.

- a. Define Net Present Value. (04 Marks)
 - b. Your bank has an opportunity to invest in a project that is expected to result in after-tax cash flows of \$18,000 the first year, \$20,000 the second year, \$23,000 the third year, -\$8,000 the fourth year, \$30,000 the fifth year, \$36,000 the sixth year, \$39,000 the seventh year, and -\$6,000 the eighth year. The project would cost the firm \$142,000. If the firm's cost of capital is 12%, what is the modified internal rate of return for the project? (08 Marks)
 - c. Determine the payback period (in years) for a project that costs \$120,000 and would yield after-tax cash flows of \$20,000 the first year, \$22,000 the second year, \$25,000 the third year, \$27,000 the fourth year, \$31,000 the fifth year, and \$37,000 the sixth year. (08 Marks)
- (Total 20 Marks)**

Q5. Write short notes on the followings.

- i. Recent Developments in Banking,
- ii. Financial Management,
- iii. Statutory Reserve Requirements,
- iv. Non-Performing Assets,
- v. Foreign Exchange Rate

(5 × 2 Marks = Total 10 Marks)