

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
THIRD YEAR FIRST SEMESTER EXAMINATION IN
BACHELOR OF BUSINESS ADMINISTRATION/
SPECIALISATION IN HUMAN RESOURCES MANAGEMENT/
SPECIALISATION IN MARKETING MANAGEMENT- 2016/2017
PROPER/REPEAT-OCTOBER, 2018

MOC 3052 – BANKING AND FINANCE

Answer all questions

Time: Two hours

Number of Pages: 04

Q1.

a) Identify the forms of “**Transformation of Assets**” undertaken by Bank.

(04 Marks)

b) Define “**Annuity**”.

(04 Marks)

1) Prema will get Rs. 255.20 for 5 years @ 5%. How much should she deposit with the Bank?

(04 Marks)

2) The Bank wishes to give her Rs. 5,000/- today. If the Bank promises to give her Rs. 6,802/- after 4 years, what is the relevant interest rate?

(04 Marks)

3) If Prema deposits Rs. 5,000/- today @ 10%, how long will it take to grow Rs. 10,000/-?

(04 Marks)

c) Why do Banks make “**Loan Loss Provisioning**”?

(05 Marks)

(Total 25 Marks)

Q2.

a) Merchant Banks have been increasingly engaged in "Fee-Based Services". List out the main tasks undertaken by such activity and describe any two of them. (05 Marks)

b) Suppose that Raju is seeking your advice of starting a leather products company. As the Branch Manager of a Merchant Bank, "What Type of **Service Division**" you will correctly propose to him? Why? Give reasons. (05 Marks)

1) Raju invests in a share, issued by the Bank. That is currently valued at Rs. 11/-. It is expected to increase to Rs. 12/- in a year from now along with an expected dividend of Rs. 0.75. What is the expected rate of return for him in next one year? (03 Marks)

2) If Raju purchased that share 6 months ago @ Rs. 100/-, and sold it for Rs. 106/- after receiving a dividend of Rs. 3/- during this period, what is the annualised rate of return of his transaction? (03 Marks)

3) Now, Raju is to invest in a share, issued by the Bank to earn Rs. 5/- in ten years @ 8%. How much should he invest in the share? (03 Marks)

c) How are "**Non-Performing Advances (NPAs)**" re-classified as Performing Account by Banks? Clarify. (06 Marks)

(Total 25 Marks)

Q3.

a) "For the last 60 years, Sri Lanka has been managing its economy on the basis that the Sri Lanka Rupee should '**Depreciate**' its value against other currencies". Why do you think should local currency be depreciated? Justify your answer with the present situation of Sri Lanka.

(10 Marks)

b) Assume that a Bank proposes to purchase a machine for Rs. 10,000/-. This will produce 1,000 units of ATM Card for each of the next five years. The selling price of the product will be at Rs. 10/- per unit. The cost of production per unit is Rs. 5/-. The cost of capital is 18% per annum. **Evaluate the proposal.**

(10 Marks)

c) How is '**Capital Adequacy**' required by Banks to absorb unexpected losses?

(05 Marks)

(Total 25 Marks)

Q4.

a) List out the functions mainly catered by '**Licensed Specialised Banks**' (LSBs) and briefly explain three of them with suitable examples.

(06 Marks)

b) What do you mean by the term of '**Expected Return**'? (04 Marks)

(1) Mala decides to invest in two securities. She puts 30% of her money in share **A** which has an '**Expected Return**' of 15%. 70% of her money is put in share **B** which offers 12%. What is the expected return of the portfolio?

(05 Marks)

(2) Given the following three assets, Mala wants to know which one is inferior to the other two assets. Explain.

	E(R)	SD
A	12%	20%
B	12%	30%
C	16%	30%

(05 Marks)

c) What is the importance of '**Hair Cut Provisioning**'? Give reasons.

(05 Marks)

Formula Sheet

$$E(R_{\text{Asset}}) = \frac{\sum_{i=1}^n (R_i)}{n} = \frac{R_1 + R_2 + \dots + R_n}{n}$$

$$PVA = C(PVIFAR, t)$$

$$RR = \text{Value of } \frac{\text{Collateral}}{\text{Value}} \text{ of the Loan}$$

$$LGD = 1 - \text{Recovery Rate (RR)}$$

$$EL = PD \times LGD \times EAD$$

$$PV = C \left[\frac{1}{r} - \frac{1}{r(1+r)^T} \right] + \frac{F}{(1+r)^T}$$

$$P_0 = \frac{Div_1}{1+r} + \frac{Div_2}{(1+r)^2} + \frac{P_2}{(1+r)^2}$$

$$P_0 = \frac{Div_1}{1+r} + \frac{Div_2}{(1+r)^2} + \frac{Div_3}{(1+r)^3} + \frac{Div_4}{(1+r)^4} + \dots$$

$$FV = C_0 \times (1+R)^t$$

$$P_0 = \frac{Div_1}{1+r} + \frac{Div_2}{(1+r)^2} + \frac{Div_3}{(1+r)^3} + \frac{Div_4}{(1+r)^4} + \dots$$

$$P_0 = \frac{Div}{(1+r)^1} + \frac{Div(1+g)}{(1+r)^2} + \frac{Div(1+g)^2}{(1+r)^3} + \dots$$

$$= \frac{Div}{P_0} = \frac{F}{(1+r)^T}$$

$$RP = w_1 R_1 + w_2 R_2$$