

FIN 251: Commercial Bank Management

Nature of the Course: Concentration
Lecture Hours: 150

Full Marks: 100
Pass Marks: 35

Course Objective

This course aims to provide students with basic understandings of how commercial banks provide their services and equip them with the tools and techniques required for commercial bank management. By the end of this course, the student will be able to understand regulatory environment, evaluate performance, analyze asset/liability position of banks, make correct investment decisions, provide various types of lending, manage capital and liquidity position and analyze the impact of off balance activities of commercial banks.

Course Description

This course deals with one of the most important financial institutions – commercial banks. This course introduces students with the commercial bank and the regulatory environment in which it operates. Then it evaluates the performances of banks and discusses how the assets and liabilities of the banks are managed. It describes how these banks maintain their liquidity, manage the capital and offer different types of loan to their clients. Finally, it also covers the off-balance sheet items and electronic banking.

Course Details

Unit 1: Introduction to Commercial Banking

LH 5

Meaning, types and functions of a bank; Bank goals and constraints; Internal organization of banking firms; Sizes and market shares of commercial banks; Assets and liabilities of commercial banks; and Current status of commercial banks in Nepal.

Unit 2: The Bank Regulatory Environment

LH 10

Reasons for bank regulations; Evolution of regulatory framework; Salient Features of Banking and Financial Institutions Act; Functions and power of bank regulator; and The Role of Nepal Rastra Bank in the regulation of banks in Nepal.

Unit 3: Evaluating Bank Performance

LH 10

Framework for evaluating bank performance: internal performance, external performance; Bank financial statement: the balance sheet, the income statement; Analyzing bank performance with financial ratios: profit ratios, risk ratios, other ratios; Risk-adjusted return on capital; and Economic value added.

Unit 4: Asset/Liability Management

LH 15

Concept of asset/liability management; Approaches in managing interest rate risk: balance sheet adjustment, off-balance sheet adjustment; Measuring interest rate sensitivity and dollar gap: classification of assets and liabilities, definition of dollar gap, asset and liability sensitivity gap, interest rates and profitability, incremental and cumulative gap, gap analysis, managing interest rate risk with dollar gap, balance sheet adjustment, acceptable level of interest rate risk, aggressive vs defensive management of interest rate risk using dollar gap, problem of dollar gap management; Duration gap analysis: measurement of duration gap, interest rates, the duration gap and the value of equity, defensive and aggressive duration gap management, problem with duration gap management; and Simulation and stress testing in asset/liability management.

Unit 5: Investment Management**LH 10**

Investment policies and goals; Types of investment securities; Evaluating investment risk: security specific risk, portfolio risk, inflation risk; and Investment strategies: passive investment strategies, aggressive investment strategies.

Unit 6: Credit Evaluation Process**LH 10**

Credit scoring; Credit rating; financial analysis; Ratio analysis: profitability ratios, liquidity ratios and measures, efficiency ratios, leverage ratios; and Common size statement analysis.

Unit 7: Commercial and Industrial Lending**LH 15**

The role of asymmetric information in lending; Lending environment; Loan policy; Ways to making loan; Principal lending activities; Collateral: characteristics of good collateral, types of collateral; The lending process: evaluating a loan request, structuring commercial loan agreements, pricing commercial loans, monitoring and loan review.

Unit 8: Real Estate and Consumer Lending**LH 10**

Real estate lending; Characteristics of mortgage loan; Residential mortgage loan; Commercial real estate loan; Consumer lending; Types of consumer loans; and Financial charges.

Unit 9: Liquidity Management**LH 15**

Estimating liquidity needs: sources and uses of funds method, structure-of-deposits method; Assets liquidity: role of asset liquidity, primary reserves, managing the money position, secondary reserves; Liability management; Fund management of liquidity: liquidity ratios, optimal bank liquidity; Regulatory view of bank liquidity; and Nepal Rastra Bank directives on liquidity management.

Unit 10: Capital Management**LH 10**

Definition of bank capital; Role of bank capital; Capital adequacy; Shareholders' view on bank capitalization; Trends in bank capital; and Nepal Rastra Bank Directives on bank capital.

Unit 11: Liabilities Management**LH 10**

Structures of bank liabilities; Deposit sources of fund; Non deposit sources of funds; Balance sheet structure of bank liabilities; Managing bank liabilities; Formulating pricing policies; Estimating cost of bank funds; and Cost analysis.

Unit 12: Off-Balance Sheet Activities**LH 10**

Financial guarantees; Standby letter of credit; Bank loan commitments; Derivatives; and Other off-balance sheet activities.

Unit 13: Electronic Banking**LH 10**

Retail payments and financial services; Electronic banking services: retail services, wholesale services; and Electronic banking: internet banking.

Project Work

After the completion of fourth year concentration classes the students shall have to prepare and submit a project work in the area they have specialized. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis, etc relevant to the subject within 10 lecture hours.

Text and Reference Books

Gup, B. E., & Kolari, J. W. *Commercial banking*, New Delhi: Wiley India.

Rose, P. S., & Hudgins, S. C. *Bank management and financial services*, New Delhi: Tata McGraw-Hill Education.

Koch, T. W., & McDonald, S. S. *Bank management*. New Delhi: Cengage Learning.

Chaudhari, M. *An introduction to banking – liquidity risk and assets liabilities management*, West Sussex, UK: Wiley.

Government of Nepal. *Banks and financial institutions act 2006*.