

FIN 251: Commercial Bank Management

Nature of Course: Concentration
Lecture Hours: 150

Full Marks: 100
Pass Marks: 35

Course Objective

The objective of the course is to build up the theoretical foundation and develop the analytical skill of the students required to manage the bank at operation level in general. More specifically, the objective of this course is to provide the students an overview of commercial banks management; acquaint the students with the organizational structure of a bank, bank regulation, and supervision and develop students' skill to understand and analyze the financial statement of banks, manage assets and liabilities of a bank.

Course Description

This course consists of the overview of banking industries and their services; banking regulations and supervision, organization structure of banks, financial statements and performance evaluation of banks, asset-liability management, investment management, liquidity and reserve management, managing and pricing deposit liabilities, management of non-deposit liabilities, management of capital, bank lending, and agency and electronic banking.

Course Details

Unit 1: An Overview of Banking Industries and Their Services

LH 10

Concept and classification of bank and financial institutions in Nepalese context; Unit banking versus branch banking; Functions of a bank; Historical development of Nepalese banking industry in Nepal; Structure and size of banking industry in Nepal; Organizational structure of Nepalese Banks; Key trends affecting banking industry in Nepal.

Unit 2: Banking Supervision and Regulation

LH 15

Reasons of regulation of banking industry; Role of Nepal Rastra Bank in the regulation and supervision of banking industry in Nepal; Institutional mechanism of Nepal Rastra Bank for regulation and supervision of banking industry; Professional ethics of bank supervisors; Macroprudential regulation of licensed financial institutions; Types of supervision: offsite and onsite supervision; Onsite supervision: procedures, and reporting of supervisions; Offsite supervision: rationale of off-site supervision, dimensions of offsite supervision of banks, contents of report on the compliance of regulatory directives; CAMELS as an offsite and onsite supervision tools, construction and interpretation of composite index.

Unit 3: Financial Statements and Performance Evaluation of Commercial Banks **LH 15**

Concept of Uniform bank reporting system (UBRS) in Nepal; Balance sheet and income statements as per UBRS; Concept of off-balance sheet items; Evaluating bank performance: value of stock, profitability ratios-ROE, ROA, NIM, NNIM, NOM, and EPS; Evaluation of performance of bank in the framework of DuPont model; Comparing the performance indices with industry average indicators.

Unit 4: Asset-Liability Management **LH 15**

Concept of asset/liability management; Asset-liability management strategy; Meaning and nature of financial risk, Types of major risks in banking business; Risk identification; Risk measurement and Risk mitigation; Forces determining interest rates; Measurement of interest rates; Components of interest rate; Interest rate hedging: protection of net interest margin ; Interest sensitive gap management and practice of GAP analysis in Nepal; Problems with interest sensitive gap management; Duration as risk management tool: concept, price sensitivity to changes in interest rate and duration; Using duration to hedge against interest rate risk; and Limitation of duration gap management.

Unit 5: Investment Management of Commercial Banks **LH 12**

Concept of investment; investment instruments available to commercial banks; Purposes of investment; Classification of investment of Nepalese banks; Structure of investment of Nepalese banks; Factors affecting choice of investment securities; Investment maturity strategies; Maturity management tools; and Directives of NRB regarding investment of banks.

Unit 6: Liquidity and Reserve Management **LH 15**

The demand for and supply of liquidity; Causes of liquidity problem; Strategy for liquidity management; Estimating liquidity needs: Sources and uses of funds approach, The structure of fund approach; Liquidity indicator approach; Legal reserve and money position management: legal reserves, reserve requirements, calculation of reserve; Different sources of reserves; NRB Directives regarding liquidity and reserve; Introduction to stress testing.

Unit 7: Managing and Pricing Deposit Liabilities **LH 12**

Types of deposit offered by banks; Position of deposits in the liabilities structure of Nepalese banks; Structure of bank deposits of Nepalese banks; Interest rates offered on different types of deposits; Pricing deposits at cost and profit margin; Using marginal cost to set interest rate on deposits; Pricing based on the total customer relationship; NRB directives regarding the deposit collection.

Unit 8: Managing Non-Deposit Liabilities **LH 6**

Alternative non-deposit source of funds; Inter-bank borrowing; Repurchase agreements; Borrowing from NRB; Negotiable certificate of deposit; Commercial paper.

Unit 9: Management of Capital**LH 10**

Introduction to Bank for International Settlements and Basel; Concept and functions of capital; Capital and risk; Types of capital; Measurements of capital according to BASEL III; NRB directives regarding the measurement of capital and capital adequacy and case analysis on capital of Nepalese banks.

Unit 10: Bank Lending: Policies and Procedures**LH 15**

Types of loans: commercial lending, real estate lending, agricultural lending, loan to individuals-- hire purchase loans, credit card loans, education loan and medical care loan; Regulation of lending; Steps in lending process; Credit analysis; Sources of information about loan customers: credit scoring, credit rating agencies, credit information bureau; Blacklisting; Essentials of loan agreement; Recovery of loan; Directives of NRB regarding loans.

Unit 11: Agency Services and Electronic Banking**LH 15**

Fund transfer; Remittance services; Bank customer relationship: agent-principal, debtors-creditors, trust-trustee; Utility payment services; Advisory services; Foreign exchange service; Clearing services; Retail payments and financial services; Electronic banking services: retail services, wholesale services; Electronic banking; Internet banking.

Project Work**LH 10**

The students shall have to prepare and submit a project work in the area studied in the course. 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 Book

Rose, P.S., & Hudgins, S.C. *Bank management and financial services (Irwin Finance)*.

New Delhi: McGraw-Hill Education

References

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

Koch, T.W., & Macdonald, S.S. *Bank management*. USA: The Dryden Press

Singh, K., & Dutta, V. *Commercial bank management*. New Delhi: McGraw- Hill Education

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Nepal Rastra Bank Inspection and Supervision Bylaws, 2017. Kathmandu: Nepal Rastra Bank.