

Course Code: Fin3117

Course Title: Bank Management

Instructor: Anand Srinivasan

Contact details

email – bizas@nus.edu.sg, phone (work) 6516-8434, (cell) 9009-2385

Required text

Bank Management A decision making perspective by Timothy W. Koch, S. Scott MacDonald, Vic Edwards and Randall E. Duran

Prerequisites: Finance (FIN2004) and Investment analysis and portfolio management (FIN2012).

Summary:

This course will teach you the fundamentals of banking industry. Specifically we will learn how to analyze bank and investment bank performance, GAP analysis, risk management of banks, funding of banks, managing liquidity, use of bank capital, regulation of banks, and credit policy for retail and corporate loans.

Assessment

Two in class tests – 30% each

Projects (group or individual) - 40%

Chapters in text to be covered: 3,4, 5,7,8,10,11,12,14,15

Topic 1

Bank Performance

- Commercial bank financial statements
 - Bank assets
 - Loans
 - Investments
 - Accounting for investment securities
 - Non-interest cash and due from banks
 - Other assets
 - Bank liabilities and stock holder equity
- Return on equity model
 - Profitability analysis
- Managing Risk and Returns
 - Credit Risk
 - Liquidity risk
 - Market risk
 - Operational risk
- Financial statement manipulation
- Analyzing bank performance in Asia

Topic 2

Managing non-interest income and non-interest expense

- Key ratios

- Burden net overhead expense
- Efficiency ratio
- Operating risk ratio
- Productivity ratios
- Customer profitability analysis
- Appropriate business mix

Topic 3

Performance of non-traditional banking companies

- Goldman Sachs
- BMW Financial services

Topic 4

GAP and earnings sensitivity

- Measuring interest rate risk with GAP
 - Traditional static GAP analysis
 - Factors affecting net interest income
 - Rate, Volume and Mix analysis
 - Strengths and weaknesses of static GAP analysis
- Earnings sensitivity analysis

Topic 5

Measuring interest rate risk: Economic value of equity (EVE)

- Measuring interest rate risk with duration gap
- Economic value of equity sensitivity analysis
- Earnings sensitivity versus Economic value of equity
- Strategies for managing earnings and EVE sensitivity

Topic 6

Funding the bank

- Relationship between liquidity, cash and funding sources
- Characteristics of retail deposits
- Characteristics of wholesale liabilities
- Measuring the cost of funds

Topic 7

Managing Liquidity

- Meeting liquidity needs
- Reserve Balances
- Liquidity planning
- Traditional measures of liquidity risk

Topic 8

Effective use of capital

- Importance of capital
- What constitutes capital
- What is the function of capital
- How much capital is adequate

- Risk based capital standards – history of Basel agreements
- Effect of capital on bank operating policies
- Characteristics of external capital sources

Topic 9

Evaluating loan requests

- Fundamental credit issues
 - Character of borrower
 - Quality of data
 - Use of loan proceeds
 - How much should the loan amount be
 - Source and timing of repayment
 - Collateral decision
- Evaluating credit requests
 - Ratio analysis
 - Cash flow analysis
 - Financial projections
- Applications to consumer and corporate loans in Asia