Risk Management in Banks

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Risk Management in Banks	**4**	**3**	**1**	**0**	**Pass in Class XII**	**NIL**

Learning Objectives
This paper aims at imparting knowledge on risks associated in the banking sector and the tools of hedging those risks.

Learning Outcomes
After completion of the course, learners will be able to:
1. Explain the functioning of a financial institution.
2. Appraise the entire process of operating a bank with respect to the rules and regulations prescribed by the regulators.
3. Comprehend the problems faced by the banks like that of NPA or of liquidity challenge etc.
4. Evaluate the financial statements and analyse the performance of banks.
5. Apply tools and techniques to manage the risk exposure of banks.

Course Contents:
Unit 1: Conceptual Framework of Risk (7 hours)
Financial Institution and its kinds; An overview of the Indian financial system; Regulation of Banks and NBFCs; Products offered by Banks. CRR and SLR management; Conceptual framework of Risk: Interest Rate Risk; Market Risk; Credit Risk; Liquidity Risk: Interest Rate Risk and operational risk

Unit 2: Analysis of Statements of Banking Sector (11 hours)
Flow of Funds Accounts – Sector wise and Instrument wise. Statements of Financial Institution: Analyzing Bank's Financial Statement: The balance sheet; income statement; Cash Flow Statement; profitability, liquidity and solvency analysis; Performance Analysis of banks, KPIs; CAMELS risk system.

Unit 3: Risk Management (20 hours)
Institutional Risk Management Determination of Interest Rate. Theories of Interest Rates: Classical Theory; Loanable Funds Theory; Liquidity Preference Theory; Term Structure of Interest Rates. Interest Rate Risk Management: Measurement of Interest Rate Risk; Duration and its kinds; Convexity. Managing Interest Rate Risk: Repricing Gap Model, Maturity Matching Model, Duration Gap Model, Cash Flow Matching Model; Convexity Adjustments. Credit and Liquidity Risk Management Types of Assets, NPA and its types, Management of NPA, Measurement of Credit Risk – Qualitative and Quantitative models. Term Structure of Credit Risk; Managing Credit Risk: Credit Analysis and kinds of Loans; Pricing of Loans. Liquidity Risk Management: Measurement of Liquidity Risk; Measures of Liquidity Exposure; Causes of Liquidity risk: Asset-Side and Liability-Side; Liquidity Planning; Deposit Insurance.

Unit 4: Regulatory Framework (7 hours)
RBI guidelines on asset liability management; Deposit Insurance Corporation Act 1961, Capital Adequacy Norms: Capital adequacy norms; Basel agreement-II and III; Effect of capital requirements on bank operating policies. Salient features of SARFAESI Act 2002, Debt recovery tribunal (Recovery of Debt), Insolvency and Bankruptcy Code, 2016. Bad Bank and rationale behind its creation.

Exercises:
The learners are required to:
1. Conduct a group discussion on Financial Crisis 2008 & learnings that can be applied in the present economic scenario to contain risk.
2. Discuss a case study on the bank performance using financial ratio analysis.
3. Make reports on the capital adequacy ratios of private / public sector banks and assess their liquidity & solvency position.
4. Give a class presentation on bank's asset quality assessment by investigating the non-performing assets of private / public sector banks
5. Prepare a report on comparative analysis of banking performance & risk exposure.

Suggested Readings
- Rajput, Namita & Sankaran, Sruthi, Impact of Non-Performing Assets An Anecdote Across Indian Scheduled Commercial Banks. Rawat Prakashan, New Delhi.
- Resti & Sironi – "Risk management and shareholders‟ value in banking" John Wiley. Additional Resources
- Justine Paul & Padmalatha Suresh-"Management of Banking and Financial Services" Pearson
- Saunders & Cornett – "Financial Institutions Management – A risk management approach" Tata McGraw Hill

Note: Suggested readings will be updated by the Department of Commerce and uploaded on the Department's website.