



Introduction of course

Principles of Banking

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Lecturer information

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Graduate school:

Bachelor, Banking University

MBA, International U of Japan (www.iuj.ac.jp)

Arhus business school, Denmark

Tuck business school, USA

Teaching at:

- HUI, Economics, Van Lang, Hung Vuong
(4 years)



Lecturer information

Companies I have worked: (5 yrs)

BIDV

SCB

Book published:

Modern Corporate governance, 2011

Research articles:

-Economics and Business Review, 2012

-Economics Insights: Trends & Challenges, Vol 2 and Vol 3, 2012

-Asian Journal of MGT and Business, 2011





Overview OF the course

- ◆ 1. Banking industry and financial services.
- ◆ 2. Bank financial statements
- ◆ 3. Measuring and evaluating bank performance
- ◆ 4. Using derivatives in asset - liability management
- ◆ 5. Managing investment portfolios of a bank
- ◆ 6. Calculating and measuring liquidity and reserve position of a bank
- ◆ 7. Managing and pricing deposit services of a bank
- ◆ 8. Measuring and managing bank equity capital
- ◆ 9. Managing and pricing no deposits and other sources of funds for banks.
- ◆ 10. Managing credit risk and the setting of lending policies and procedures.
- ◆ 11. Pricing and managing business and consumer loans



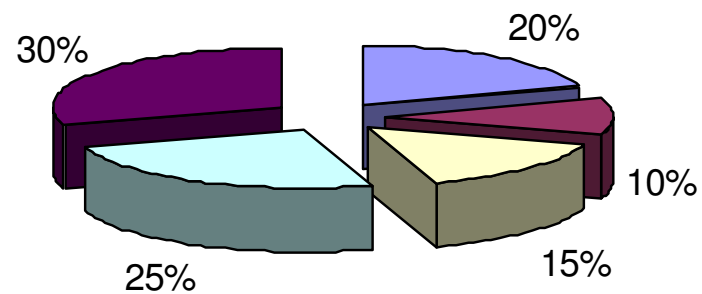
Objectives

1. Introduces basic knowledge of commercial banks and their services and financial statements
2. Helps the student obtain a thorough understanding of capital adequacy of banks, management of the capital structure, bank earnings, importance of attracting a deposit base, liquidity, investment portfolio composition, lending, audit, personnel, and the policies and procedures of each of these areas
3. Equip students with team-work and presentation exercises and further reading beyond the main lecture

Grading



Weight



- Quizzes
- Class participation and preparation
- Individual homework assignment
- Group assignment
- Final exam



Learning materials

Main textbook:

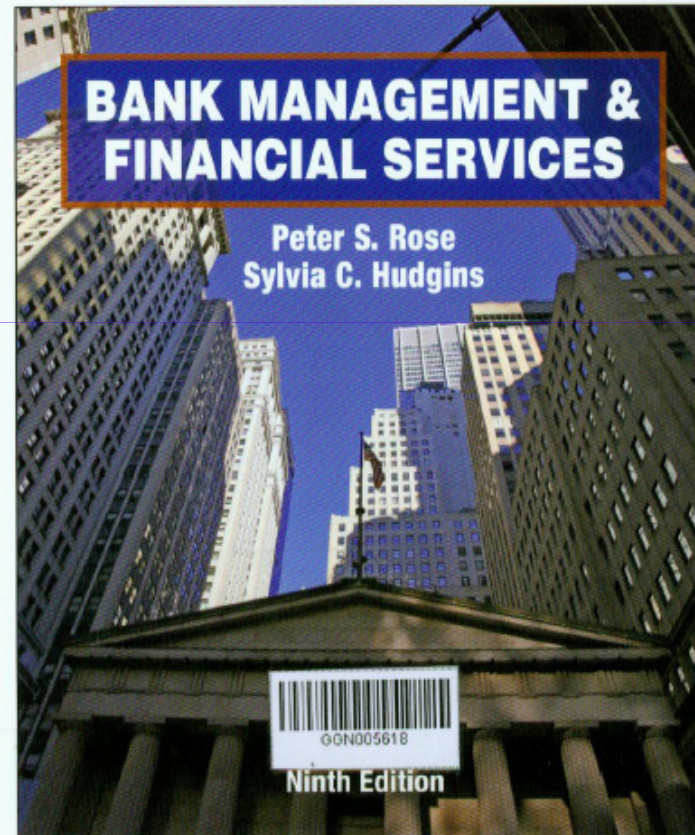
1. Bank Management & Financial Services, 9th edition, Peter Rose, McGraw Hill

- ◆ For students:
- ◆ http://highered.mcgraw-hill.com/sites/0073382434/student_view0/index.html

References:

- ◆ 1. “Commercial banking, the management of risk”, 3rd edition, Beton E.Gup, James W.Kolari, Wiley
- ◆ 2. "Management of banking", 6th edition, .Scott MacDonald/Timothy w.Koch
- ◆ 3. MBA Đinh Trần Ngọc Huy, Mô phỏng Tín dụng Ngân hàng, (2009-cập nhật)
- ◆ 4. MBA Đinh Trần Ngọc Huy, (2011), Modern Corporate governance Principles After Global Crisis
- ◆ 5. Additional Lecture slides

Learning materials



McGraw-Hill International Edition

Slides used contents from
the book



Chapter 1 (section 1)

AN OVERVIEW OF THE CHANGING FINANCIAL SERVICES SECTOR

Prepared by Dinh, T.N. Huy

Jan 2013

Agenda

1. Introduction
2. What is a bank
3. The financial system and competing financial-service institutions
4. Old and new services offered to the public
5. Key trends affecting all financial service firms





Introduction

- ◆ Banks are the principal source of credit for millions of individuals and families and for many units of government (school districts, cities,...)





Introduce yourself

- Where are you from
- Whatever



Basic Concepts

- Commercial banks

Sell deposits and make loans to businesses, individuals and institutions



Basic Concepts

- Community banks

Smaller, locally focused commercial and saving banks

- Money center banks

Largest commercial banks based in leading financial centers (industry leaders)



Basic Concepts

- Investment banks

Underwrite issues of new securities on behalf of their corporate customers



Basic Concepts

- Affiliated banks

Wholly or partially owned by a holding company



Basic Concepts

- International banks

Commercial banks present in more than one nation



Basic Concepts

- Wholesale banks

Larger commercial banks serving corporations and governments



Basic Concepts

- Virtual banks

Offer their services only over the Internet



Basic Concepts

- Key financial service competitors of banks: Savings associations, credit unions, money market funds, investment banks, security brokers and dealers, investment companies (mutual funds), hedge funds, finance companies, insurance companies, private equity funds, and financial service conglomerates



What is a bank

- Can be defined in term of
 - + the economic functions it performs
 - + the services it offers its customers

Or

- + the legal basis for its existence

Business Finance



...the freedom to grow



Many kinds of bank

- See exhibit 1-1 page 3

Business Finance



...the freedom to grow



Roles of the financial system

- Encourage individuals and institutions to transfer their savings to those planning to invest in new projects and needing credit to do so
- This causes economy to grow, new jobs created, and living standard to rise



Roles of the financial system

- Provide payment services (checks, credit cards)
- Provide risk protection services (insurance, derivatives)
- Supply liquidity services
- Supply credit services



The Competitive Challenge for Banks

- Other financial institutions established
- + Saving associations: specialize in selling savings deposits and granting home mortgage loans
- + Credit unions: collect deposits from and make loans to their members as nonprofit associations of individuals



The Competitive Challenge for Banks

- Other financial institutions established
- + Money market funds: collect liquid funds from individuals and institutions and invest these monies in quality securities of short duration
- + Investment banks: help corporations raise funds in the financial market, seek possible business acquisitions, trade securities



The Competitive Challenge for Banks

- Other financial institutions established
- + Mutual funds: sell shares to the public representing an interest in a professionally managed pool of stocks, bonds and other securities
- + Hedge funds: sell shares in a pool of assets mainly to upscale investors (commodities, real estate, loans)



The Competitive Challenge for Banks

- Other financial institutions established
- + Security brokers and dealers: buy and sell securities on behalf of their customers
- + Fringe banks: payday lenders offering small loans bearing high risk and high interest rates to cover immediate financial needs of cash-short individuals and families



Discussion

What are advantages and disadvantages of a bank, compared to other financial firms?





The Competitive Challenge for Banks

- Other financial institutions established
- + Finance companies: Offer loan to commercial enterprises, families, using funds borrowed in the open market or from other F.I
- + Financial holding companies (FHCs): credit companies, insurance and finance companies, and security firms operating under one corporate umbrella



The Competitive Challenge for Banks

- Other financial institutions established
- + Life and property insurance companies: protect against risks to persons or property and manage the pension plans of businesses and the retirement funds of individuals



Service banks have offered for centuries

- Carrying out currency exchanges (one to another currency for a service fee)
- Discounting commercial notes (loans to merchants who sold debts or A/R) and making business loans
- Offering savings deposits



Service banks have offered for centuries

- Safekeeping of valuables and certification of value (holding gold)
- Supporting government activities with credit (purchase government bonds)
- Offering checking accounts (demand deposits): allow depositors to write drafts in payment for goods
- Offering trust services (keeping valuable assets safe)



Services banks/competitors have offered in the past century

- Consumer loans
- Financial advising (prepare financial plans for individuals)
- Managing cash (handle cash collection and disbursements for a firm and invest it)
- Equipment leasing
- Venture capital loans (financing start-up costs of new firms)



Service banks/competitors have offered in the past century

- Sell insurance policies
- Manage retirement plans
- Deal in securities (security brokerage services)
- Offer mutual funds (invested stocks, bonds, other assets “fit” fund goals), annuities
- Offer merchant banking services
- Offer risk management and hedging services



Banking and competitors' roles

- The intermediation role
- The payments role
- The guarantor role (L/C)
- The risk management role (insurance)
- The investment banking role (new funds)



Banking and competitors' roles

- The savings/investment adviser role (building and investing savings)
- The safekeeping/certification of value role
- The agency role (manage property on behalf of customers)
- The policy role (government/association policy)



Key Trends Affecting All Financial Service Firms

- Service proliferation (new services besides traditional loans)
- Rising competition
- Deregulation and then reregulation (tightening of government rules for the financial services sector)



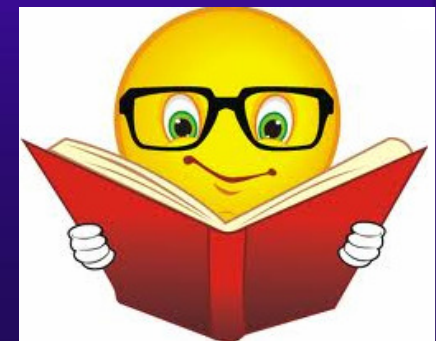
Key Trends Affecting All Financial Service Firms

- Crisis, reform and change in banking (2007-2009)
- Technological change and automation (ATMs)
- Convergence (from 1 or 2 product lines to other product lines to broaden sales) and globalization



Summary

- The principal functions offered by financial service firms today:
 - + lending/investing
 - + making payments
 - + managing and protecting cash/property
 - + Assisting customers in raising new funds





Multiple Choice Question

1. Globalization is a trend that the geographic expansion and consolidation of financial service units have reached well beyond the boundaries of a single nation:
 - a. True
 - b. False



Multiple Choice Question

2. Government deregulation is a loosening of government control of the financial services:
 - a. True
 - b. False



MCQ-Answers

1. A

2. A



Homework



Exercise 1

ABC bank provides Ms Lan with a real estate loan on 27/aug/2012, outstanding balance of \$400000, at 8% annual interest rate (1 year has 365 days). The borrower, Ms Lan, has to repay \$5000 on the 26th each month. Interest charged depends on the decreasing balance.

Calculate the total interest charge :

- From 27/aug/2012 to 26/sep/2012
- From 27/sep/2012 to 26/oct/2012

How long is the lending period?