

MBA-BF (606)

BANK RISK MANAGEMENT

Credit Hours: 2

LH: 32

Course Objectives

The course is designed to gain a detailed knowledge pertaining to Risk Management in Banking Industry. It emphasizes on how different types of Risk may affect banking industry and how these risks can be managed. The aim of this course is to provide deep knowledge of Risk and Risk management to business students so that they can apply the same for managing the Risk in Banking Industry.

Course Description

The course designates the entire set of Risk management processes and models allowing banks to implement risk-based policies and practices. It covers all techniques and management tools required for measuring, monitoring and controlling Risks in banking industry. Similarly, it emphasizes on Risk Models to determine the aggregate Risk in a financial portfolio. Moreover, it deals with the Banking Regulations which subjects banks to certain requirements, restrictions and guidelines, designed to create market transparency between banking institutions and the individuals and corporations with whom they conduct business. Furthermore, it highlights with Risk Management Processes to manage different types of Risks in Banking Industry.

Learning Outcomes

Students who successfully complete this paper will be able to:

- identify what are the different types of Risk, how they affect banking industry and what are the techniques for Risk Management.
- evaluate Asset Liability Management (ALM) for measuring, monitoring and managing the market Risk of a bank.
- conceptualize different components of Risk Modeling in Banking Industry.
- assess different types of regulations pertaining to Risk Management in Banking Industry.

- gain knowledge on Risk Management Processes for managing Risks in Banking Sector.

Unit I

LH 5

INTRODUCTION

Banking Risk: Concept, Types: Credit Risk, Liquidity Risk, Interest Rate Risk, Foreign Exchange Risk, Market Risk, Operational Risk, Other Risk (Country Risk, Performance Risk etc.); Component of Risk Management System: Risk Identification, Risk Management and Risk Control.

Unit II

LH 6

ASSET LIABILITY MANAGEMENT (ALM)

ALM Overview, Benefits of ALM, ALM Process, Asset-Liability Management (ALM)-Organization and Techniques, Hedging Issues: Interest rate exposure, the natural exposure of commercial bank, hedging policies.

Unit III

LH 8

RISK MODELS

Risk Measures: Measuring Uncertainty, Sensitivity, Volatility, Value at Risk (VaR) and Capital: VaR and Risk Management, Potential Loss, Measuring expected and unexpected losses, Loss percentiles of the normal distribution, Issues and advances in modelling VaR and Portfolio risks, Risk Based Capital; Valuation: Accounting Standards, Market to Market Valuation, Mark-To-Model Versus Full Mark-To-Market Valuation.

Unit IV

LH 7

BANKING REGULATIONS

Regulatory Issues: The need for regulation, the dilemmas of the regulator; Capital Adequacy: Risk-based Capital Regulations, The implications of capital requirements; The 'Current Accord'

Capital Regulations: The Cooke Ratio and Credit Risk, Market Risk, Derivatives and credit risk, Interest rate risk; The New Basel Accord.

Unit V

LH 6

RISK MANAGEMENT PROCESS

The basic building blocks of risk management processes: Bottom-up and Top-Down Processes, Transversal Process Building Blocks; Risk Models and Risk Processes, Risk Processes and Business Policy; Three basic transversal processes: Process 1-Setting up Risk and Return Guidelines, Process 2-Decision-Making, Process 3-Risk-Return Monitoring; Bank Wide Risk Management: Risk Management Differs across Risk, Different Risks Fit into a Single Framework.

SUGGESTED BOOK

Joel Bessis, “Risk Management in Banking”, John Wiley & Sons, LTD, Second Edition, 8th April, 2002.

R.K. Mishra, I.S Yadav and A. P Kumar, “Risk Management in Banking, Insurance and Financial Services, Academic Foundations, 2014.

Michel Crouhy, Dan Galai and Robert Mark “The essentials of Risk Management”, Mc Graw Hill Education.

MBA-BF (605)

CENTRAL BANKING AND MONETARY MANAGEMENT

Credit Hours 2

LH 32

Course Objectives

This course provides an overview of the functioning of Central Bank and monetary policy along with NRB directives, regulatory framework, Offence and punishment provisions, capital

adequacy framework, economic situation and progress matrix of monetary policy of Nepal, Liquidity and forex management.

Course Description

This course will include the major roles and functions of Central bank, regulations and directives to commercial banks and financial institutions. The course also provides current monetary policy, global and domestic economic outlooks, monetary management including liquidity and foreign exchange management.

Learning Outcomes

Students who successfully complete this course will be able to:

- execute the functioning and regularity aspects of Central Bank;
- take precaution about punishment for violation of regulations so that institution and the employees will be more trustworthy;
- familiarize with the minimum capital needed for different classes of banks and finance companies so that they will be financially strong to get competitive advantages rather than dealing unfair competition;
- apply knowledge or idea to run organizational operations smoothly based on banking acts and monetary policy;
- manage liquidity position and foreign exchange dealings

Unit I

LH 8

Introduction to Central Banking

Central Bank in the Financial System, Evolution, Characteristics, Objectives, Philosophy and Functions of Central Banks, Relationship Between Central Bank and Govt., Central Bank and Commercial Banks, Modern Central Banking, Autonomy of Central Bank, Separation Between Supervisory and Monetary Authorities.

Unit II

LH 6

NRB Directives and Prudential Regulatory Framework

Capital Adequacy Framework; Upgrading ,Merger and Acquisition need, Need and Significance of Regulation, Prudential Regulation, Effect of Deregulation, Bank Examination/Regulation, Methods of Bank Examination, Brief introduction to antimoney laundering

Unit III

LH 3

Offences and Punishment

Banking Offences, Restrictions, Punishment Proceedings and Disposal of the suits

Unit IV

LH 8

An overview of Monetary Policy of Nepal

Money and its Functions, Demand for and Supply of Money, Multiple Deposit Creation, Determinations of Money Supply, Monetary Base and Money Multiplier, Maintaining Monetary Stability, Conduct of Monetary Policy-Tools, Targets, Goals and Monetary Transmission Mechanism. Domestic Economic Situation and World Economic Outlook, Features and Progress Matrix of Monetary policy

Unit V

LH 2

Liquidity Management

Estimating liquidity needs, Assets liquidity, Primary and secondary Reserve, Regulatory view of bank liquidity

Unit VI

LH 5

Foreign Exchange and Reserve Management

Management of Foreign Exchange, Dealing in Foreign Exchanges, Foreign Exchange Reserve, Issuance of Debt Bond Against Gold and Foreign Currency Exchange Rate Policy, Fixed & Floating Rate, Relationship with International Monetary Institutions, Foreign Currency Investment

Suggested Readings:

NRB Act

Monetary Policy

BAFIA

NRB Directives

Banking Offence and Punishment Act

Ahmed, A.K.N. *Deregulation and Central Bank Autonomy*. University Press Ltd, Dhaka.

Dekock, M.H. *Central Banking* Mishkin, Frederic, S. *The Economics of Money, Banking and Financial Markets*. HarperCollins, New York.

Sheng, Andrew. *Bank Supervision. Principles and Practice*. EDI Working Paper.

Smith, Gray. *Money, Banking and Financial Intermediation*. Heath and Company, Lexington, D.C.

Vittas, Dimitri. *Financial Regulation*. The World Bank, Washington.

MBA-BF (604)

Entrepreneurial Finance and Venture Capital

Credit Hours: 2

LH: 32

Course Objectives:

This course is designed to explore the students to the basic concept of entrepreneurial finance and venture capital. After completion of the course students will be able to understand the principles and process of entrepreneurial development will be able to create new ventures and management and growth of new ventures.

Course Description

This type course is designed to provide intermediate-level understanding of how to create, finance, manage and evaluate a startup as well as investing in other companies as a venture capitalist.

Learning Outcomes

Students who successfully complete this paper will be able to:

- identify and apply the elements of entrepreneurship and to entrepreneurial processes;
- recognize the importance of entrepreneurship and identify the profile of entrepreneurs and their role in economic growth;
- use the entrepreneurial mind-set and behave responsibly and ethically in their roles as entrepreneurs.
- creatively analyze the business environment, opportunity recognition, and the business idea-generation process;
- know how to acquire necessary resources and organizational matters of new venture creation process;
- write a business plan that creates and starts a new venture.
- apply a strategy for growth and manage the implications of growth;

- use capital budgeting that includes cost of capital, leverage and dividend policy in a financial management context;

Unit I 3 LH

Overview of the Entrepreneurial Process

Concepts of entrepreneur and entrepreneurship, Importance and Characteristics of entrepreneurs, Types of entrepreneurs, Benefits and potential risks of entrepreneurship, Myths of Entrepreneurship, Factors affecting growth of Entrepreneurship in India, Role of Entrepreneurship in Economic Development

Unit II 5 LH

Developing the Business Idea

Feasibility analysis of Industry, Market , Product or service and Finance ; Business plan – Meaning, Significance, contents, formulation and presentation of Business Plan, Common errors in Business Plan formulation.

Unit III 4 LH

Organizing and Financing a New Venture

Challenges of new venture start-ups, Pit falls in selecting new ventures, Critical factors for new venture development, Why new ventures fail, Sources of Finance for New Venture.

Unit IV 5 LH

Planning for the future

Managing Cash Flow. Types and Costs of Financial Capital, Securities Law Considerations When Obtaining Venture Financing.

Unit V 8 LH

Creating and recognizing venture value.

Projecting Financial Statements, Valuing Early-Stage Ventures. Venture Capital Valuation Methods an overview of valuation methods (discounted cash flow, the relative value, venture capital and first Chicago method) and valuation in practices

Unit VI

3 LH

Structuring financing for the growing venture

Professional Venture Capital, Other Financing Alternatives, Security Structures and Determining Enterprise Values

Unit VII

4 LH

Exit and turnaround strategies

Harvesting the Business Venture Investment, Financially Troubled Ventures: Turnaround Opportunities. Real Estate Investment Ventures, The application of entrepreneurial finance to entities that focus on creating social value

Suggested Readings

Entrepreneurial Finance (Fifth Edition) by Leach and Melicher. Cengage Learning.

Holt, D.H. Entrepreneurship and new Venture creation, Prentice Hall

Paul Gompers and Josh Lerner, The Venture Capital Cycle, Cambridge, MIT Press, 1999.

Josh Lerner, Venture Capital and Private Equity: A Casebook, New York, John Wiley, 2000.

MBA-BF (601)

ADVANCED CORPORATE FINANCE

Credit Hours: 2

LH: 32

Course Objectives

The course develops theoretical framework for understanding and analyzing major financial problems of modern firm in the market environment. The course covers basic models of corporate capital valuation, including pricing models for primary financial assets, real assets valuation and investment projects analysis, capital structure, derivative assets and contingent claims on assets. The course is focused on developing skills in analyzing corporate behavior in capital markets and the relationship of agent and principal in raising funds, allocating capital, distributing returns. It provides necessary knowledge in evaluating different management decisions and their influence on corporate performance and value. The course requires the knowledge in micro and macroeconomics, accounting and banking

Course Description

This course develops theoretical framework for understanding and analyzing major financial problems of modern company in market environment. The goal of the course is to help you understand optimal capital structure choices for different corporate.

Learning Outcomes

The students who successfully complete this paper will be able to:

- recognize the theoretical concept of corporate finance and its compatibility with real corporate world
- demonstrate and apply different investing techniques
- perform the technical aspects of option trading and contingent claims
- assess the dimensions of mergers and takeovers
- identify the components of capital structure using modelling techniques

Course Contents

Unit I**8 LH****The Foundation for Proper Financial Analysis of the Firm**

The life-cycle of the corporation at the capital market: funds raising, investing and benchmarks, returning money to investors at the capital market. The consumption choice and the first Fisher separation theorem. No arbitrage rule and the principle of tracking (replicating) portfolio. Net present value rule of corporate analysis. The sources of NPV. The second Fisher separation theorem. The differences between financial model of corporate analysis and accounting model: the concept of cost and profits, the concept of money measurement, the concept of return and corporate performance measurement. The value creation and building blocks in corporate finance. The mission of Chief Financial Officer of the Corporation (CFO). The role of corporate finance in building financial model of the firm. Corporate Finance and proper financial analysis of any firm in market economy.

Unit II**7 LH****Investing Policies and Value Creation**

What is risk-free investment project? Competitive advantage and value creation. Incremental cash flows and incremental value. Net present value rule, its assumptions and value additivity rule. The sources for positive net present values. Internal rate of return (IRR) and financial approach to corporate return analysis. The limitations of IRR. Modified IRR. Discounted payback (DPB). Profitability index (PI). Economic value added (EVA) and economic profit generated by the project. EVA versus NPV. Capital budgeting in inflationary environment: nominal approach, real terms approach.

Unit III**6 LH****Option Pricing Models and Contingent Claims**

The features of option. Put-call parity. Binomial pricing models and the principle of tracking portfolio. Risk-neutral option valuation. Black-Scholes model and its assumptions. The methods of stock volatility estimation. Option values and dividends on underlying stock. Empirical biases in Black-Scholes formula.

Unit IV**6 LH****Mergers & Takeovers**

Types

of mergers and takeovers. The principles of valuation of mergers and takeovers. Stand - alone value of

the target and of the buyer. Efficiency theories of M&A activities: differential efficiency, inefficient management, synergy effects theory. The sources and types of synergy. Agency theories of M&A. Signaling theories of M&A. Hostile takeovers and free - rider problem. Management defenses. Valuing synergy on the basis of DCF.

Unit V

5 LH

Financial Modeling for Optimal Capital Structure

Adjusted present value (APV): base case value, side effects values, multiple discount rates. Advantages of APV for capital budgeting and valuation. The criteria for optimal capital structure. The rating (WACC) approach to optimal capital structure analysis: the assumptions, the method, the limitations. The adjusted present value approach (APV) to optimal capital structure analysis: the assumptions, the benefits, and implications. The target capital structure. The operating income approach to planning for optimal capital structure. Factors affecting the target capital structure: macroeconomic, microeconomic and firm's specific factors. The decision-making on capital structure.

Suggested Readings

Grinblatt, Titman. Financial Markets and Corporate Strategy. McGraw Hill.

G&T Brealey, Myers. Principles of Corporate Finance.6th Edition.

B&MBrealey/ Myers. Principles of Corporate Finance.6th Edition. Study guide.

Frantz, P. & R. Payne (1999) . Study Guide. Corporate Finance. First Edition.

MBA-BF (602)

Financial Institutions and Services

Credit Hours: 3

LH: 48

Course Objective

The course aims at familiarizing the students with the role of financial institutions and markets. It also helps the applications of principles from finance and economics that explore the connection between financial markets, financial institutions and the economy. On the financial markets side, we will learn the term structure of interest rates, Money Market, Regulation and Structure of financial Markets. On the institutions side, we will learn Commercial Banks, Insurance companies, Mutual Funds, the Central Bank and their role of in the economy.

Course Description

This course develops theoretical framework for understanding and analyzing major financial market and its system. The course enables to know about the various aspects of financial markets and institutions.

Learning Outcomes

The student who successfully completes this paper will be able to:

- explore the financial system
- explain the workings of central bank
- perform the operations of money market instruments.
- describe and perform working principles commercial bank.
- recognize the aspects of finance company, mutual fund and insurance company

Course Contents

Unit I

10 LH

Overview of Financial System

The nature and role of Financial System, Structure of Financial Market, Financial Intermediaries and Financial Innovations, Types of financial markets, Financial assets,

securities trade in financial markets, lending and borrowing in the financial system, Importance of financial institutions in financial market, Development of Capital Market, Internationalization of financial market.

Unit II

8 LH

Central Bank

Central Bank: Function, Role and Objectives, Monetary tools of Central Bank, Role of NRB in money market. Monetary Policy, Transmission mechanism of Monetary Policy, The International Monetary System, Exchange Rate Policies, The International Monetary Fund, International Institutions. Major issues in Financial sector of Nepal.

Unit III

8 LH

Money Market and Instruments

Characteristics of the Money Markets, , Treasury Bills: Features, Types and Importance, Interest rate pattern in Money Market, Re- Purchase Agreements (RPs), Commercial Paper, Bankers Acceptance, Certificate of Deposit, Eurodollars, Dealer Loan, Primary Dealer, Money Market Derivatives.

Unit IV

12 LH

Commercial Banking

General principles of bank management, Liquidity and Risk management in commercial banks, Portfolio Characteristics of Commercial Banks, Process of Loan Management, Loan types, Equity Capital, Revenue and Expenses, Analyzing Financial Statements of Commercial Banks, Analysis of Variation, Leverage, Profitability and Risk, Capital Adequacy and BASEL ACCORD – I and II, Managing Liquidity and Risk in Commercial Banks, Consolidation and Information Technology, Measurement of commercial bank Performance, Status of commercial banks in Nepal.

Unit V

LH 6

Finance Company and Mutual Fund

Finance Companies: Types, Operations, Risk in Finance companies, Investment Companies: Net Assets Value, Types of Investment Companies, Mutual Fund Growth and Structure, Mutual Fund Objectives, Fee and Expenses of Mutual Funds, Mutual Funds in Nepal.

Unit VI

4 LH

Insurance Companies

Concept, Risk and Return of Insurance Companies, Types of Insurance Companies: Life and Non- Life, Regulation and supervision of insurance companies by Nepal Insurance Board. Issues and Challenges of Insurance Companies.

Suggested Readings

Mishkin, F.S. *Financial Markets, Institutions and Money*, New York: Harper Collins College Publishers

Fabozzi, F.J., Modigliani, F., Jones. F.J. and Ferel. M.J., *Foundation of Financial Markets and Institutions.*, New Delhi: Pearson Education.

Pathak, B. *Indian Financial System: Market, Institution and Services*, Pearson Education India.

Madura, J. *Financial Markets and Institutions*, New Jersey: Thomas South Western

Shrestha, S. *Portfolio Behaviour of Commercial Banks in Nepal*, Kathmandu: Mandala Book Point.

MBA-BI (603)
MICROFINANCE

Credits: 2

LH: 32

Course objectives

The basic purpose of this course is to develop a conceptual framework of Microfinance and prepare students to take on roles as policy analysts and technical advisors on Microfinance. Students will have an appreciation of the broader context that underpins the Microfinance field, understand how and why the formal credit market fails to meet the financial needs of the poor and be equipped with a framework to objectively examine and assess these issues.

Course Description

The course will provide in-depth knowledge about Microfinance and its trend. It also provides analytical frameworks that underpin the design of Microfinance tools and identify areas where challenges and controversies exist. It documents creative and innovative approaches that are currently being mainstreamed and provide insights on how the Microfinance frontier could be extended.

Learning outcomes

The students who successfully complete this paper will be able to:

- apply thorough knowledge of the concept of Microfinance and how Microfinance institutions work amongst poorer
- recognize how and why the formal credit market fails to meet the financial needs of the poor
- identify about the challenges and controversies facing Microfinance institutions
- argue about legal framework and prudential regulation with specific reference to the Nepalese context
- analyze the financial performance of the MFIs and help to learn emerging issues
- explain the procedure to establish Microfinance in Nepalese context

Course Contents

Unit I

5 LH

Perspective of Microfinance

Concept, Definition, Principles and Evolution of Microfinance, Impact assessment and Social assessment of MFIs, Criticisms of Microfinance, Linkages between main stream financial services & Micro-finance, Current situation and Future perspective of Microfinance sectors in Nepal

Unit II

3 LH

Approaches to Microfinance

Practices and Some innovative and Creative Microfinance models (Special reference to Nepal), Strengths and Weaknesses of the various Microfinance approaches

Unit III

3 LH

The Challenge of Financing Agriculture

Context of Agricultural Finance, Challenge of Agricultural Credit, Agricultural Value Chain Finance, Agricultural Insurance, Role of MFIs in Agricultural development in Nepal

Unit IV

6 LH

Designing and monitoring financial product and services

Lending Products- Meaning and Types, Loan Collateral, Collateral Substitutes, Alternative Forms of Collateral, Loan Pricing, Risk on lending. Savings Products- Meaning and Types, Pricing saving products. Micro insurance, Remittance, Other services- Credit cards and Smart cards

Unit V

3 LH

Current Trends towards Commercialization and Financial Regulation

Commercialization and Financial Regulation, Corporate Governance and Consequences of Transformation

Unit VI

6 LH

Performance analysis

Analyzing financial statements, financial performance ratios, Rating MFIs, Benchmarking, Social Performance Measurement and Impact performance evaluation of Microfinance institutions in the framework of World Council of Credit Unions (WOCCU) Model, Consultative Group to Assist the Poor (CGAP) Model

Unit VII

4 LH

Innovation and Changes in Microfinance sector

Governance of Microfinance, Branchless and Mobile banking, Innovations in MF, Emerging issues in Nepalese Microfinance sectors

Unit VIII

2 LH

Procedure to establish Microfinance in Nepal

Project work

Suggested Reading

- Christen R.P (2007). *Banking Services for the Poor: Managing for Financial Success*, Accion International, Washington DC.
- Joanna Ledgerwood. 2001. Microfinance Handbook: *An Institutional and Financial Perspective*: Sustainable Banking with Poor. Washington D.C: The World Bank.
- Joanna Ledgerwood. 2014. The New Microfinance Handbook: *A Financial Market system Perspective*: Washington D.C: The World Bank.
- Various publications and articles published from Nepal Rastra Bank.