

NUS Business School
Department of Accounting

Module ACC4761H /ACC4612K Sem. in Acctg:
ACCOUNTING AND BUSINESS ANALYSIS FOR BANKS

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Day & Time Monday, 3:00 to 6:00 pm

Objectives

This module aims to strengthen your accounting concepts and skills necessary to read and analyse the financial information of banks. The banking industry is one of the key pillars of modern economy and plays the unique role as an intermediary providing liquidity for the economy, facilitating commerce, and providing credit to business enterprises and individuals.

Upon successful completion of the course, students should be able to understand why banks exist, explain why the management of balance sheet of a bank is different from a non-bank institution, the risks associated to banks, understand thematic financial issues faced by banks, including those the banking industry's continued fight to stay competitive post 2008 global financial crisis. Students will have gained sufficient knowledge and insights into banks to be able to communicate and engage the stakeholders effectively and with confidence.

Prerequisites

- FIN2704/FIN2004 and ACC2708 or ACC3601
- Students are expected to be comfortable in handling financial numbers and to have a disposition to keep themselves abreast of current developments in the banking industry.

Weight of Assessment

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| Quizzes: | 25% |
| Class Assignment: | 30% |
| Class Participation: | 15% |
| Final Test (open book): | 30% |

- Quizzes: There will be 2 sessions of 40-minute quiz throughout the course, with each quiz worth 12-13%. Each quiz session is held at the beginning of the class to assess your knowledge and understanding of the topic of previous sessions. *Any student caught cheating in any quizzes will be severely penalised.* If you miss a quiz for a good reason (e.g. medical, significant delays by public transport, job interviews), the remaining quiz completed will count fully towards 25% for this component. If you do not take all 2 quizzes, you will receive 0 mark for this component. Details and schedule to be announced in class. *Warning: The quiz is not group work and you are not allowed to talk, consult, or pass mobile messages with anyone during the quiz session.*
- Group Assignment: To be completed in random-assigned groups of 4 to 5 students. Each group will prepare a report to evaluate and address the broad questions and issues relating to topics on the financial

performance trends of a bank, comparison of financial performance of peer banks, responses to external stakeholders etc. The topics will also be randomly allocated to the groups. As there will be limited 2-3 topics, the same topic may be assigned to more than one group. Students may discuss with other groups on the common topic assigned, but each group should complete the assignment on its own and hand in separate written reports. Discussions should focus broadly on the following: (a) What has happened, or what is the problem statement? (b) What were the reasons that resulted in this observation? (c) As management of the bank, how do we approach and address the problem(s) or issue(s) on hand? (d) What can we learn from this case? The group report should be no more than 10 pages with double spacing and font size of 10pt or 11pt. The data source and references should be clearly and completely documented. *Warning: Plagiarism is taken very seriously. Students who are caught plagiarising in this course will be severely penalised.* Details to be announced in class.

- Class Participation: Students are encouraged to actively participate in class discussions on individual basis and breakaway group basis. Some simple preparation before class is required. All quality questions, comments, and even pointing out errors and omissions are welcomed.
- Final Test (open book): Details to be announced later in class.

Contact

- The most efficient way to contact the instructors is by email, who will try to reply within 48 hours. If there are repeated or common questions, the instructors will disseminate to the class at large via LumiNUS or during the subsequent class.
- Consultations are available by appointment.

Reference

- Frans de Weert, *Bank and Insurance Capital Management*, Wiley Finance, 2012

Supplementary References

- *Barron's Dictionary of Banking Terms*, 2018
- Hull, John C., *Risk Management and Financial Institutions*, 4th ed., Wiley Finance, 2015
- Saunders and Cornett, *Financial Institutions Management: A Risk Management Approach*, 9th ed., McGraw Hill, 2018

Suggested Periodicals

- To be listed for each topic. Source will mainly be from: the *Business Times* for Singapore coverage, the *Edge* for regional coverage, and *Bloomberg* for global coverage.

ACC4761H /ACC4612K SEM. IN ACCOUNTING: ACCOUNTING AND BUSINESS ANALYSIS FOR BANKS COURSE OUTLINE

Introduction to Banking

- Role and activities of banking
- The banking system: interconnectedness and systemic importance
- Overview of a deposit-taking and lending financial institution from an accounting perspective
- Understanding the funding sources of a bank and managing the balance between risk, returns and financial soundness of a bank

How are Bank Financial Statements different from that of a non-bank institution?

- Components of balance sheet
- Components of income statement
- Off-balance sheet components
- Financing structure: liquidity and solvency
- Financial indicators and computation: loan interest margin and credit quality/cost

Assets and Asset Risk-Weighting

- On- and off-balance sheet assets
- Concept of expected and unexpected losses
- Asset risk-weighting and the various approaches
- Transcription of balance sheet risks into regulatory view
- Brief concept of bank capital and the regulatory view

Liquidity & Capital Funding

- Liquidity funding for banks: deposits and non-deposit borrowings
- Managing the liability activities and the regulatory measures for liquidity (LCR and NSFR)
- Capital funding: capital adequacy, various tiers of capital and ratios
- Capital management

Credit Quality

- Understanding asset quality and allowances
- Types of credit risk, on and off-balance sheet, accounting for impairment (covered in ACC2708 or ACC3606)
- Reserve adequacy: provisioning, allowances, charge-offs and recoveries, regulatory view
- Key ratios and performance indicators

Business Performance of Banks

- Source and types of income
- Costs and expense components
- Key ratios and performance indicators of profitability for banks
- Thematic accounting issues impacting income line items and profitability ratios
- Understanding cost of capital (COC)
- Understanding the pricing a loan
- Introduction to Funds Transfer Pricing (FTP)

Post-2008 Global Financial Crisis and Financial Reforms

- History of Basel Accord and its journey
- 2009 Basel III regulatory reform and rationale
- Final phase of regulatory reforms (to be implemented from 2022 to 2027)
- Impact of Basel III Reform (2013-18) on balance sheet profile and profitability of banks
- Concept of a hypothetical bank stress test

Multiple Currency Accounting

- How foreign exchange rates are quoted
- Relationship between spot and forward foreign exchange rates
- Concepts of multiple currency accounting
- Position account and equivalent account
- Spot and forward revaluations