

## Commercial Banking

### I. Subject Overview and Objective

Commercial banking significantly involves in and facilitates the day-to-day life of all segments of the general public in their local and overseas economic transactions. Commercial banks carry on a business on money by facilitating the money to serve its economic functions effectively and faster. Without commercial banks, the role of money will be very primitive and cash-based which the current World cannot think of. Conventionally, commercial banking is a core component of the financial operations in the economy. Commercial banking has been evolving with innovative products to facilitate the day-to-day economic activities of the general public. These products involve in almost all aspects of financial operations, i.e., mobilization of savings, provision of funds to borrowers and investors and provision of money transactions services locally and cross-border. The provision of all these financial services is extensively subject to regulation and supervision by the Government due to systemic importance of commercial banking system. Fundamentally, both economic stability and financial stability of a country are facilitated and influenced by commercial banking stability. Therefore, this subject is designed to provide fundamental knowledge in operations of commercial banking business to banking and finance professionals

to enable them to serve in or deal with any division of a bank effectively.

### II. Recommended Subject Coverage

- (a) Evolution of banking: Goldsmiths, gold standard and bank notes
- (b) Banking business lines: Fund-based and fee-based businesses
  - Fund based: Deposit –taking (current, savings and time deposits), checking and clearing facility, lending (overdrafts, term loans, trade finance, credit cards, etc.), borrowing (inter-bank, debentures, repos) and investments
  - Fee-based: Commitments and contingencies, payments and investment services
- (c) Authorized dealer/foreign exchange operations: Permitted accounts/deposits for residents and non-residents in respect of foreign businesses, lending in foreign currency, buying and selling (over-the-counter, spot, forward, etc.), remittances, Nostro accounts.
- (d) Banking business models: Corporate banking, retail banking, transactions banking, international banking/off-shore banking, universal banking, Islamic banking
- (e) Banking delivery channels: Branches/outlets, ATMs, internet banking, mobile/tele banking
- (f) Banking soundness assessment: Asset quality, liquidity, profitability, solvency/capital, sensitivity and key soundness indicators
- (g) Banking risk management: Banking risks (credit, liquidity, market, operational and strategic risks and risk indicators), risk management systems/measures (lending policies-limits, committees, collaterals, provisioning/impairment, etc, asset liability gap management, liquid assets, contingency credit lines, internal controls, business continuity plans, capital)
- (h) Banking prudential regulation and supervision: Major regulatory and supervisory measures and methods in Sri Lanka-Licensing, major regulations (capital adequacy, liquid assets ratio, classification of loans and provisions, fitness and propriety of directors and officers, corporate governance, share ownership limit, limits on investment in equity,

limits on accommodation, deposit insurance, requirements for financial statements and audit, supervision (risks- resources based approach versus CAMELS, continuous/ off-site supervision, examinations /on-site supervision, early warning signals and problem resolution), Basel standards(core principles, Basel III capital ratios, liquidity ratios and leverage ratio)

- (i) Recent banking sector trends and performance in Sri Lanka
- (j) Recent global banking business trends and issues and impact from global financial crisis