

# [Managing the security portfollio and managing bank capital](https://assignbuster.com/managing-the-security-portfollio-and-managing-bank-capital/)

[Business](https://assignbuster.com/essay-subjects/business/)

Managing the Security Portfolio and Managing Bank Capital Instruction Task Managing the Security Portfolio Managing security portfolio deals with all markets, including products, labor and capitals as imperfect and changing occur in the economy; therefore, strategies are made to manage the institutions in these uncertain situations. Maginn Cfa and Tuttle Cfa (2010) indicate that banks use securities portfolio to chance and intensify the credit risk access to a manageable level. Banks expect that the significant credit risk in portfolios can balance the risk involved by use of minimal credit in their securities portfolio. Meanwhile, they manage portfolio to distribute the risk when the security portfolio is not adequate diversified (Saita, 2007). They also use the securities portfolios to manage the pledging requirement; for instance, in the United States, banks must pledge government securities against the uninsured portion of the deposits (Maginn Cfa and Tuttle Cfa, 2010).
Just as, the banks liabilities are interest rate responsive banks security portfolios consist almost entirely on constant revenue securities. These traits, as well as the prejudice toward low credit risk holdings, are facilitated by regulatory constraints on securities holdings. Maginn Cfa and Tuttle Cfa (2010) indicate that many banks face time horizon problems for their securities portfolio; therefore, there is necessitate of managing risk on interest rate risk while earning a tangible return on invested capital. A bank’s liability structure normally reflects an overall shorter maturity than its portfolio that lead to a need to place risk management limit on the time prospect duration for their securities portfolio (Saita, 2007).
In addition, proper management on the securities portfolio solves the problem of interest on the taxes imposed. For instance, in United States the full total of interest used to fund the purchase of tax exempt securities on the commodities and banks were main buyers of the bonds to solve the problem (Greuning and Bratanovic, 2003). An investment decision show the impact on the profitability of the institutions, and strategic investments involve in a large sum of expenditure. Therefore, appropriate portfolio management is needed to identify investment opportunities through the introduction of derivatives securities such as options and futures (Maginn Cfa and Tuttle Cfa, 2010).
Managing Bank Capital
According to Greuning and Bratanovic (2003), Managing bank capital elaborate on proven mechanisms available that helps in maximizing shareholder value in different institutions. The activities that require to be employed to fulfill the optimization performance of bank capital lie within individual business and risk management. In order to optimize capital management within a financial institution, bank should operate as the real owner of this optimization process; thus, it should check whether its optimal capital structure meets the regulatory requirements. Managing bank capital helps to satisfy stakeholder expectations, because financial institutions should tolerate the consequences of the unreasonable behavior of these stakeholders (Saita, 2007). In addition, the bank focusing on managing customers’ cash and subsequently relocating cash in an appropriate manner (Saita, 2007).
The bank gives customers the option of withdrawing money on demand and giving loans on the long-term basis: for instance, acquisition of mortgages to small and medium sized enterprises and corporate. Managing of bank’s capital ratio has helped in increasing capital by not distributing dividends and by issuing equity (Greuning and Bratanovic, 2003). Hence, they have managed to modify the balance sheet structure by decreasing assets and by shifting into assets that bear lower risk weight. The management has helped in times of high demand for banks are more likely to augment capital; in case of shortages in the economy, bank should choose to reduce the size of their balance sheets (Saita, 2007).
The introduction of capital adequacy standards has also motivated the need of bank capital management to keep their funding assistance to customers at an affordable price as possible. Since the value of equity is seen as more than the cost of debt, banks should keep lower imposition of capital as a form of regulatory taxation (Saita, 2007). Finally, the management of bank capital should aim at analyzing the expected growth institution to avoid the capital decrease, and in case of capital shortfall, it should take actions to address the problem.
References
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