

**Hong Kong University of Science and Technology
School of Business and Management**

**FINA 331: Management of Financial Institutions
Fall Semester 2007**

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Course website: webct.ust.hk
Lectures: Tuesday and Thursday: 13:30–14:50 (L1); 15:00–16:20 (L2)

Prerequisite

FINA 221 (Investment Analysis and Portfolio Management)

Course description

Management of Financial Institutions is an important course for students who intend to manage financial companies or have business dealings with them. The impact of major financial institutions, which include commercial banks, investment banks, mutual funds, and insurance companies, goes well beyond the financial sector to affect businesses, households and governments throughout the entire economy.

This course will focus on a number of important issues currently facing managers of financial service firms (FSFs.) These issues include creation of value for stakeholders, especially shareholders, management of financial risk, product innovation, and government regulation. Teaching methods include lectures, in-class discussion, homework assignments, group presentation, and a written examination. While the course is taught from a global perspective, particular attention is paid to financial institutions operating in Hong Kong and China.

Required text

Dermine, Jean and Youssef F. Bissada, 2007, *Asset and Liability Management: A Guide to Value Creation and Risk Control*, Prentice-Hall, second edition. ISBN 978-0-273-71001-1. This book comes with a CD that containing a set of slides that will be used in class and that can be used for self-study.

Text in UST library two-hour reserve (2 copies):

Liaw, K. Thomas. *The Business of Investment Banking: A Comprehensive Overview*. 2nd edition, 2006. John Wiley & Sons, Inc., Hoboken. New Jersey, USA ISBN-13: 978-0-471-73964-7.

Course objectives

Upon completion of this course, a student should be able to:

1. Identify the principal assets, liabilities, and sources of value creation for commercial banks including global banks.
2. Identify and describe the principal risks that FSFs face, and explain how FSFs go about managing these risks.
3. Calculate a bank's exposure to interest rate, currency, and market risks along with the expected costs and benefits from using derivative contracts (futures, forwards, options, and swaps) to hedge these risks.
4. Describe and explain recent innovations in FSFs.
5. Explain why and how FSFs are regulated, including regulations involving capital adequacy, liquidity, market structure, and deposit insurance.
6. Describe and explain how investment banks create value.
7. Describe and explain the major issues involved in development of the banking industry in Hong Kong and in Mainland China.

Assessment

Individual homework assignments (3 of 5)	15%
Group homework assignment (1)	10%
Topic presentation (1, done in groups)	15%
Class participation (done individually)	20%
Mid-term examination (done individually)	20%
Final examination (done individually)	<u>20%</u>
Total	100%

Course policies and general information

1. A course website will be maintained on WebCT. There you will be able to download, among other things, material presented in class (notes, spreadsheets, etc), supplemental reading material, and solutions to numerical problems.
2. Students will be asked to sit in the same seat in each class. This will make it easier for the instructor to get to know students by name and to assess class participation.
3. Individual homework assignments will take the form of numerical exercises and short (one- or two-page) essays on various topics and should take no more than two to three hours to prepare. There will be **five** individual homework assignments. The lowest two assignment grades will be excluded in calculating your individual homework grade which is worth 15% of the overall course grade.
4. There will be one group homework assignment counting for 10% of the overall course grade. This assignment will be required of all students.
5. There will be one group presentation that will account for 20% of your overall course grade. Students may form their own groups. Each group will select and make a class presentation on a specific topic that will provide the basis for class discussion on that topic. In-class discussions will be an important part of the course.
6. There will be two written examinations, a mid-term examination and a final examination. The final examination will take place during the university's final

examination period in December. Each examination will count for 20% of the overall course grade. If the mid-term exam is not taken, the final exam will count in its place.

Note: All students must take the final examination—there are no exceptions to this. Final examinations are scheduled by the university and may occur as late as December 21. Students, especially exchange-in students, need to take note of this in planning for end-of-semester travel and other commitments.

References

Bowers, Tab, Greg Gibb, Jeffrey Wong and members of McKinsey & Company's Asia Financial Institutions and Corporate Finance & Strategy practices. 2003. *Banking in Asia: acquiring a profit mindset*. John Wiley & Sons (Asia). Chapters 5 and 7 pertain to Mainland China and Hong Kong respectively.

Casserley, Dominic and Greg Gibb. 1999. *Banking in Asia: the end of entitlement*. Singapore: John Wiley & Sons (Asia). (HG3252.C37) Chapters 9 and 14 pertain to Hong Kong and Mainland China respectively.

Cornett, Marcia M and Anthony Saunders. 1999. *Fundamentals of Financial Institutions Management*. Irwin/McGraw-Hill, International Edition. Chapter 8 covers financial performance evaluation.

Hempel, George H and Donald G Simonson. 1999. *Bank Management – Case Studies*. John Wiley & Sons. (HG1615.H45)

Koch, Timothy W and S Scott MacDonald. 2003. *Bank Management*. Thomson/South-Western. (HG1615.K625)

Saunders, Anthony and Cornett, Marcia M. 2006. *Financial Institutions Management: A Risk Management Approach*. McGraw-Hill, International Edition.

Some interesting web sites relevant to this course

www.hkex.com.hk (Hong Kong Exchange—cash and derivative securities trading)

www.hkma.gov.hk (Hong Kong Monetary Authority—lots of good stuff here)

www.bis.org (Bank for International Settlements located in Basle, Switzerland)

www.kpmg.com.hk (KPMG is a professional services firm that has survey data on the financial performance of Hong Kong banks)

www.pbc.gov.cn (People's Bank of China—China's central bank)

www.erisk.com (risk management advisory firm—registration required)

www.riskmetrics.com (risk management advisory firm—lots of good stuff here)

finance.yahoo.com (financial market quotes, data, information and analysis)

finance.yahoo.com.hk (same as finance.yahoo.com, except in Cantonese)

www.rmahq.org/RMA/RMAUniverse/Chapters/ChapterLocator/Hong+Kong+Chapter/ (Hong Kong chapter of the Risk Management Association)

www.garp.com (Global Association of Risk Professionals)

www.financeasia.com (articles/news on many things including retail products)