

Hong Kong University of Science and Technology

FINA 532 Financial Institutions

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Course Objectives:

Interest rate risk management: Participants would know the measures of interest rate risk for a financial institution and learn how to manage interest rate risk using futures, options and swaps.

Bank Performance Evaluation and Equity Valuation: We would discuss the basics of bank accounting, and look at performance measures for a bank. We would also focus on important factors that affect equity valuation of a bank.

Management of other types of risk facing a financial institution: Participants would be exposed to credit risk models presently used in practice, and learn how to manage off-balance sheet risk, liquidity risk and bank capital adequacy.

Deposit Insurance: If time permits, we would look at “fair” pricing of deposit insurance premium using options pricing model.

Course Contents:

1. Measures of Interest Rate Risk

A. Bond Fundamentals, Spot Rates and Forward Rates.

B. Measures of Interest Rate Risk: Duration Gap and Periodic Gap

[1] Ch. 8, 9

[21] level 1 Ch. 7

2. Management of Interest rate risk: Using futures, options and swaps

[1] Ch. 24, 25, 26

[23] Ch. 1, 2, 3, 4.

3. Bank Accounting, Bank Performance Evaluation and Equity Valuation of a Bank

Instructor’s Lecture Notes

4. Credit Risk Management

[1] Chs. 11, 12

5. Off-balance Sheet Risk Management

[1] Ch. 13

6. Liquidity Risk Management

[1] Ch. 17, 18

HKMA Publications

7. Capital Adequacy Management

[1] Ch. 20

Basel Capital Adequacy

<http://www.bis.org/publ/bcbsca.htm>

8. Deposit Insurance

[1] Ch. 19

Textbook:

1. Saunders, Anthony, Financial Institutions Management, Irwin, 4th ed., 2003.

Assessment:

Three problem sets : 30%

One project : 20%

Final Exam : 50%

Class Participation : 5% (yes, there are some extra marks for class participation).

There will also be one mock exam that will be held in the middle of the session to gauge students' understanding of the materials. The class participation marks are at the discretion of the instructor. Some marks should be awarded to students who contribute in the form of class discussion, and providing comments on issues, etc.

Supplementary Booklist (by Category):

These supplementary readings serve as a guide only to students who may want to have a more in-depth study of certain issues. There is no requirement to purchase any of these books (except for the textbook), most of which are available in the library.

Banking

2. Bourke P. And Shanmugam B. (eds), The Management of Financial Institutions, Addison Wesley.

3. Gardner M.J. and Mills, D.L., Managing Financial Institutions: An Asset-Liability Approach, Dryden.

4. Graddy D.B. and Spencer A.H., Managing Commercial Banks, Prentice-Hall.

5. Hemple, George, A. Coleman, Donald Simonson, Bank Management: Text and Cases, Wiley.

6. Hempel, G., D. Simonson, Bank Financial Management, Strategies and Techniques for a Changing Industry, Wiley.

7. Ho Y.K., Scott R.H. and Wong K.A (eds), The Hong Kong Financial System, Oxford University Press, 1991.

8. Hong Kong Government, Banking Ordinance

9. Hong Kong Monetary Authority, Annual Report, various issues.

10. Hong Kong Monetary Authority, Quarterly Bulletin, various issues.

11. Koch, T.W. Bank Management, Dryden Press.

12. Kolb, R.W. The Commercial Bank Management Reader, Kolb Publishing.

13. People's Bank of China, Commercial Banking Law

14. Saunders, A. Financial Institutions Management, Irwin, 2003

15. Sinkey, J.F., Commercial Bank Financial Management, Macmillan.

16. Thygeson K.J., Management of Financial Institutions, Harper Collins.

17. Williams, B. Asset/Liability Management Techniques, BAI Toppan.

18. Wilson S., *Managing Bank Assets and Liabilities*, Euromoney Publications.

Options and Futures

19. Chance, Don, *An Introduction to Derivatives*, Dryden.

20. Hull, John, *An Introduction to Futures and Options Markets*, Prentice-Hall.

Fixed Income and Asset-Backed Securities

21. Fabozzi, Frank, *Fixed Income Analysis for the Chartered Financial Analyst Program*, AIMR, 2000.

Accounting

22. White, Sondhi, and Fried, *Analysis and Use of Financial Statements*, Wiley.

Swaps

23. Brown, Keith, and Donald Smith, *Interest Rate and Currency Swaps: A Tutorial*, The Research Foundation of the Institute of Chartered Financial Analyst, 1995 (on reserve).

International Financial Management

24. Shapiro, *Multinational Financial Management*, Prentice Hall.

25. Eiteman, Stonehill, Moffett, *Multinational Business Finance*.

Calculus

26. Watsham, Parramore, *Quantitative Methods in Finance*, Thomson Business Press, 1997, on reserve in Reserve Section of Library.