Risk Management in Financial Institutions

FINA 690

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A. Course Objectives:

1. We focus on <u>Credit Risk.</u> The implement of Basel II has made the credit risk become the attention of FI again. Thus, it is one of the major topics in our course. For example, China request the 11 banks (4 state-owned and 7 stock list banks) to fulfill the requirement of Basel II before 2010 and all city banks before 2013.
2. We focus on Interest <u>Rate Risk</u>. The saving and thrifty crisis occurred in the US in 1989 has suggested that the interest rate risk cannot be ignored.
3. We focus on the <u>market risk.</u> since VaR has become on the major tool in the capital market to calculate the risk of stock, bond and derivatives. Leeson's Barnings case is one typical one related to the market risk.
4. We focus on <u>exchange rate risk</u>. The Asian currency crisis occurred in 1997 remind us that the currency crisis is always a threaten to the financial sector. again.
5. Other risks are also discussed.

B. Textbook and Readings

Textbook: Financial Institutions Management, A Risk Management Approach, by Saunders and Cornett, 2006

Outside Reading: including articles in the Wall Street Journal, academic research papers and others. I will distribute it to you through email before the class.

C. Chapters Outline

Basically, we follow the chapters in the textbook. However, we adjust the courses when there are events related to risks, or when most students are particularly interested in some topics.

Session 1: Unique feature of FI (Chapters 2 –4)
Interest Risk Management (Ch. 8)
Reprising Model

Session 2: Interest Risk Management (Ch. 8 and 9) and Futures and Forward (Ch 24)

Duration Model and Swap, futures

Session 3: Market Risk (Ch. 10):

Value at Risk? Riskmetrics

Session 4: Credit Risk (Ch. 11 and 12):

Four Risk Models: Z-score, KMV, Credit Metrics and Credit+

Session 5: Credit Risk model again and Capital Adequacy (Ch 20)

Basel I, Basel II and possibly Basel III

Session 6: Foreign Exchange Risk (Ch 15), Sovereign Risk (Ch 16)

Session 7; Off-Balance Sheet Risk (Ch 13), Technology and Operational Risk (Ch. 14), and Liquidity Risk (Ch 17)

Session 8: Exam

D Assessment:

Mini-Project, Problem sets/cases	50%
Final Exam	50%

The final exam is 50% closed-book, and 70% open-book.

The closed-book section comprises 20 multiple-choice questions and lasts for 1.5 hour.
The closed-book section covers materials that are taught during the first five sessions.

The open-book section consists of questions that require written-type responses. The open-book section would last for 1.5 hours. The open-book session covers all materials taught.