

Risk Management in Financial Institutions

FINA 690

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A. Course Objectives:

Different from Last Year course:

We also discuss why those Super banks get hurt during the sub prime crisis. What are we missing in discussing Risk management? We do not have too much time for this, but I will try my best to talk about it.

Same as the last year course:

1. We focus on Credit Risk. 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 Rate Risk. 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 market risk 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 exchange rate risk. The Asian currency crisis occurred in 1997 remind us that the currency crisis is always a threaten to the financial sector. again.

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
Sub Prime Crisis, what risk management that textbooks do not teach?
- Session 6: Foreign Exchange Risk (Ch 15), Sovereign Risk (Ch 16)
- Session 7; Technology and Operational Risk (Ch. 14), and Capital Adequacy Risk (Ch 20)
- Session 8: Exam

D Assessment:

| | |
|-------------------------|--------|
| Problem sets/cases | 35-40% |
| Final Exam (close book) | 50% |
| Participant Rate | 10-15% |

1. We have weekly homework sometimes but not always. Usually, it is a group home work, where one group consists of 1-3 people.

2. The final exam is the extension of the homework. During the final, you can bring one A4 cheat sheet, writing down anything you want.

3. The participation of the class also counts. A constant smile face is also a plus. Note that it is your fault if I do not know your name. Thus, show me your name is important. Usually, students get the same grades for this item but two or three are higher than others.