

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

FINA 331: Management of Financial Institutions
First Semester, 2005-06

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Course website: webct.ust.hk
Lectures: Monday and Wednesday: 2–3:20pm (L1); 3:30–4:50pm (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.

Most of the recent additions to the body of knowledge in the management of financial institutions have been analytical and quantitative in nature, especially in the risk management area. Accordingly, this course will deal primarily with the analytical aspects of managing financial institutions. Teaching methods include lectures, problem sets, group project, and in-class discussion of financial management concepts and principles, numerical problems, and current events. While the course is taught from a global perspective, particular attention is paid to financial institutions operating in Hong Kong and China are emphasized.

Required text

Saunders, Anthony and Marcia M. Cornett, 2006, *Financial Institutions Management: A Risk Management Approach*, McGraw-Hill, 5th international edition. ISBN 007-124764-5. Textbook website: www.mhhe.com/saunders5e -- PowerPoint slides and chapter summaries and appendices are available here along with other material.

Note 1: The older, 4th edition of the textbook may be used in place of the newer 5th edition since both editions are very similar in content. However, end-of-chapter questions may differ in the two editions, so be careful.

Note 2: This is an American textbook containing much information about the U.S. economy and its financial institutions, markets, and statutory regulations. This information is not important to FINA 331 and will not be covered in examinations. What is important, however, are the basic concepts that apply to almost all financial institutions and markets around the world, along with specific information about Hong Kong institutions and markets that is presented in class and contained in class notes and other handout materials.

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 the major types of financial institutions.
2. Identify and describe the principal risks that financial institutions face, and explain how financial institutions go about managing these risks.
3. Calculate a financial institution'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. Evaluate the financial performance of a financial institution.
5. Explain why and how financial institutions are regulated, including regulations involving capital adequacy, liquidity, market structure, and deposit insurance.
6. Explain and illustrate how a financial institution would go about developing and offering structured products for its retail customers.

Assessment

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| Problem sets (2, done individually) | 25% |
| Project report and presentation (done in groups) | 35% |
| Class participation (done individually) | 10% |
| Final examination (done individually) | <u>30%</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. Two problem sets will be done on an individual basis and handed in for grading. While working together is encouraged (this can be a good way to improve your understanding of course material), each student is expected to submit original work. Instances of plagiarism will result in severe penalties.
3. There will be one group project that will account for approximately one-third of your overall course grade. Additional information about the project will be given as the course progresses. You are free to form your own groups, but no group may have more than five members or fewer than four members. Group formation will be handled on a "first-come, first-served" basis and should be completed no later than October 12. Please note that a group will not be allowed to form unless it has the requisite four or five members.

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.
- Beecham, B Julian. 1996. *Monetary and Financial System in Hong Kong*. Hong Kong Institute of Bankers. 3rd edition. (HG187.H85 B44)
- 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.
- Delhaise, Philippe. 1998. *Asia in crisis: the implosion of the banking and financial systems*. John Wiley & Sons (Asia). (HG3252.D45)
- Hong Kong Institute of Bankers. 1998. *Hong Kong Banking System and Practice*. 4th edition. (HG3552.C45)
- Hong Kong Monetary Authority. 1995. *Money and Banking in Hong Kong*. (HG3352.P73) Contains good coverage of banking issues and practices.
- Ho, Richard Yan-ki, Robert Haney Scott, and Kie Ann Wong, editors. 1991. *The Hong Kong financial system*. Oxford University Press. (HG187.H85 H66)
- Jao, Y C. 1997. *Hong Kong as an international financial center: evolution, prospects and policies*. City University of Hong Kong Press. (HG187.H85 J35)

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)