

12F007

6 ECTS

Financial Institutions Management

Overview and Objectives

This course covers the structure and new challenges of the banking industry.

Developing a risk approach, it insists on commercial banking strategies in their different risk dimension.

Particular emphasis will be given to banking regulation and supervision as well as credit risk and credit risk management. The institutional dimension will also be considered, as it is part of the banks' environment. It will also be discussed how the banking crisis that started in 2007 has dramatically affected banks.

The course will be based on a series of lectures and will make use of cases and student presentations as well as class discussion..

Course Outline

PART 1 GENERAL CONCEPT

1. Banks Assets, Liabilities & Financial Statements (SC)
 - a. Prerequisites: Modigliani-Miller and Portfolio Management
 - b. Understanding Banks Financial Statements.
 - c. Key Ratios and Performance Analysis

CASE Bank of America Acquires Merrill Lynch (A)
2. The Role of Central Banks
 - a. Determination of Interest Rates; The ECB and The FED
 - b. Implementing monetary policy: The ECB and The FED
3. An Overview of Banks' Risks (SC)

A taxonomy of risks

Internal control and the role of the Board of Directors
4. Off-Balance Sheet Operation
 - a. Futures
 - b. Options
 - c. Swap
 - d. Hedging the Bank's Risk
 - e. CASE Banc One Corporation
5. Funding Strategy
 - a. Types of Liabilities (R: Chptr. 13; GM: Chptr. 20)
 - b. Equity (GM: Chptr.8; HS: Chptr. 9)
 - c. CASE: Washington Mutual's Covered Bonds
6. Loans and Credit Risk (SC: Chptr. 21, RS, Chptr. 14)
 - a. Corporate Loans (GM: Chptr. 21)
 - b. Residential Mortgage Loans
 - c. Consumer Loans
 - d. Securitization

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Case: Nexgen: Structuring Collateralized Debt Obligations (CDOs)

7. Liquidity Risk and Liquidity Management (R: Chpt 12; SC: Chptr. 22)

- a. Reserves
- b. Payment Systems
- c. Repurchase Agreements
- d. The Interbank Deposit Market

8. Security Portfolio, Market and Operational Risk (RS, Jorion)

- a. Regulation
- b. VAR

9. Interest rate risk (RS, Chptr. 1,2,3; SC: Chptr. 23)

- a. Measuring Interest Rate Risk (GM: Chptrs. 18, 19)
- b. Interest Rate Derivatives

PART 2 REGULATION AND SUPERVISION

10. The Regulatory Framework (RS 18,19,20;GM: Chptr. 3)

- a. Banking crisis: L&S, the BCCI Affair, the Scandinavian Crisis, the Barings Crisis, the East Asian Banking Crisis, Japan
- b. The safety net
- c.

PART 3 CREDIT RISK

11. Modelling Credit Risk (RS, Jorion)

12. Credit Risk Derivatives
 - a. Regulation

Required Activities

TO BE DETERMINED BY PROFESSOR

Evaluation

Final Exam

Materials

Three main textbooks:

SC Anthony Saunders and Marcia Cornett, "Financial Institutions Management: A Risk Management Approach" McGraw-Hill Ryerson,
RS Andrea Resti and Andrea Sironi, "Risk Management

And Shareholders' Value In
Banking: From Risk Measurement Models To Capital Allocation Policies", Wiley
JORION Jorion, P. "Financial Risk Management Handbook."
Also:
CS Crawford and Sihler "Financial Service Organizations", Cases in Strategic Management

12F007

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GM Mona J. And Dixie L. Mills "Managing financial institutions: an asset liability approach Gardner, " Fort Worth: Harcourt Brace, 2000 4th ed.
HCS Hempel, Coleman and Simonson, "Bank Management", Text & Cases

We will also discuss newspaper articles from the Financial Times, Wall Street Journal and The Economist, and also relevant research papers