

# **FINS3630**

## **BANK FINANCIAL MANAGEMENT**

Session 1, 2003  
School of Banking & Finance  
Faculty of Commerce & Economics  
University of NSW

Web address: <http://bankings.web.unsw.edu.au/fins3630/>

### Lecturers

Vic Edwards  
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Adjunct lecturers to be advised  
Tutor in Charge: Tim Wee QUAD3030  
[fins3630@hotmail.com](mailto:fins3630@hotmail.com) Tel 9385 6595  
Tutor : Lynzy Kow QUAD3054  
[l.kow@unsw.edu.au](mailto:l.kow@unsw.edu.au) Tel tba

Consultation Times will be posted outside Lecturer's and Tutors doors in Week 1.

### Lecture Time

TUESDAY 11.00 a.m. - 1.00 p.m.

### Room

EE.G24

### Tutorial Times

1. MON	1.00 p.m. - 2.00 p.m.	GO26
2. MON	2.00 p.m. - 3.00 p.m.	GO26
3. TUESDAY	9.00 a.m. - 10.00 a.m.	Heffron 613
4. TUESDAY	10.00 a.m. - 11.00 a.m.	EE G24
5. TUESDAY	1.00 p.m. - 2.00 p.m.	Webster 301
6. TUESDAY	2.00 p.m. - 3.00 p.m.	OMB 113
7. WED	2.00 p.m. - 3.00 p.m.	QUAD 1042

THE UNIVERSITY OF NEW SOUTH WALES  
SCHOOL OF BANKING AND FINANCE

**FINS3630 BANK FINANCIAL MANAGEMENT**

**Accreditation**

The Australian Institute of Banking and Finance (AIBF) is the principal professional association for the banking and financial services industry in Australia. This subject counts towards graduate membership. The AIBF has recently changed its policies concerning graduate and full-time student membership. For further information, contact:

Head Office:  
Australian Institute of Banking and Finance  
19/385 Bourke Street  
Melbourne, Victoria 3000.  
Tel (03) 9602-5811  
E-Mail: [nsweo@aibf.com](mailto:nsweo@aibf.com)  
Website [www.aibf.com](http://www.aibf.com)

NSW Regional Office:  
Level 5, 51 Pitt St.  
Sydney NSW 2000  
Phone: 61 2 9252 1122  
Fax: 61 2 9252.1177

**Prerequisites**

Prerequisite for this course is FINS1613 or FINS2613 Business Finance.

**Course Objectives**

The unifying theme in this subject is the application of modern finance theory to the financial decision making and management of banks and non-bank financial institutions. The subject of bank and financial institution decision-making is approached from a risk perspective. The course covers the major decision areas for financial institutional management within the framework of a regulatory and "corporate responsible" environment. The main topics covered are bank risk and its management (such as interest rate risk, off-balance-sheet risk, credit risk, liquidity risk and operating risk) as well as bank performance analysis

At the conclusion of the course students are expected to be able to:

1. Identify the main types of risk confronted by financial institutions;
2. Apply relevant techniques to measure and manage those risks; and
3. Engage in informed discussion of some of the contemporary issues in an international context, affecting financial institutions and their owners, managers, employees and customers.

**Pedagogy**

The text for the subject, Anthony Saunders and Marcia M Cornett, Financial Institutions Management - A Modern Perspective, 4<sup>th</sup> Edition, Irwin McGraw-Hill, 2003, is a U.S. based text, and together with Warren Hogan et al. Management of Financial Institutions form the basis for the lecture material in the course. Saunders is the best book using the risk management approach to



application must be made on the 'Application for Special Consideration' form available from the Student Centre. This application explains the specific information the University requires in order to make a decision.

Such requests should be lodged as soon as practicable after the occurrence and in any event no more than seven days after the final examination in a subject."

A photocopy of all material supporting an application for special consideration, as lodged with the Registrar, must also be provided to the Lecturer-in-Charge within seven (7) days of any event for which special consideration is sought.

Students should be aware that 'minor' ailments are not eligible grounds for special consideration. Any unsubstantiated request for special consideration will be considered to be 'minor'.

Students are expected to complete their work in a timely manner so that an illness in the last few days will not jeopardise the submission of their assignment. Such illness will not constitute grounds for special consideration.

### **Supplementary Examinations**

Please note the following policy of the Faculty of Commerce and Economics concerning supplementary examinations:

*the lodging of applications for special consideration does not guarantee that supplementary assessments will be granted.*

*it is the responsibility of the students who apply for special consideration to be available for supplementary assessments during the specified period (holiday plans are not sufficient reason for non-availability).*

Supplementary exams may involve an oral examination as well as the written exam. If a student is granted a supplementary examination but does not attend that supplementary examination, he/she will not be granted further assessment except in exceptional circumstances.

Students are advised that if they are intending to travel overseas at the end of the session/year, they should consider taking out travel insurance which allows supplementary examinations as valid circumstances for cancelling travel.

### **Academic Misconduct**

Attention is drawn to the following extract from the University of New South Wales Calendar "Procedures":

#### **Academic Misconduct**

Students are reminded that the University regards academic misconduct as a very serious matter. Students found guilty of academic misconduct are usually excluded from the University for two (2) years. Because of the circumstances in individual cases, the period of exclusion can range from one session to permanent exclusion from the University.

The following are some of the actions which have resulted in students being found guilty of academic misconduct in recent years:

1. taking unauthorised materials into an examination;
2. submitting work for assessment knowing it to be the work of another person;
3. improperly obtaining prior knowledge of an examination paper and using that knowledge in the examination;
4. failing to acknowledge the source of material in an assignment.

A most common offence is **plagiarism**. **Plagiarism** entails taking and using as one's own, the thoughts or writings of another without acknowledgment including:

(a) where paragraphs, sentences, a single sentence or significant part of a sentence which are copied directly, are not enclosed in quotation marks and appropriately footnoted;

(b) where direct quotations are not used, but ideas or arguments are paraphrased or summarised, and the source of the material is not acknowledged either by footnoting or other reference within the text of the paper; and

(c) where an idea, which appears elsewhere in print, film or electronic medium, is used or developed without reference being made to the author or the source of the idea.

Students should check the following Faculty website for further information:

[http://www/fce.unsw.edu.au/current\\_students/responsibilities.shtml#misconduct](http://www/fce.unsw.edu.au/current_students/responsibilities.shtml#misconduct)

### **Code of Conduct**

While casual conversation related to class material is acceptable, continued distractions caused by one or a group of students will not be tolerated. Such distractions reduce the ability of the lecturer to deliver material and, furthermore, reduce the ability of students to comprehend the material. This provides for a less-than-optimal learning environment, which is not acceptable.

### **Education Development Unit**

Additional learning support, tailored to the needs of FCE students, is available from the Education Development Unit (EDU) in the Faculty. The EDU offers a range of services for FCE students including:

- Academic skills workshops run throughout the session;
- Printed and on-line study skills resources e.g. referencing guide, report writing and exam preparation;
- A drop-in resource centre containing books and audio visual material that can be borrowed;
- A limited consultation service for students with individual or small group learning needs.

More information about the EDU services including on-line resources, workshop details and consultation request forms are available from the EDU website.

### **Contacts and location:**

EDU Web: <http://education.fce.unsw.edu.au>

EDU Location: Room 2039, Level 2 Quadrangle Building

EDU services are free and confidential and are available to students of the Faculty of Commerce

and Economics.

### **Other UNSW support**

In addition to the EDU services, the UNSW Learning Centre provides academic skills support services for students. The Learning Centre is located on Level 2 of the Library and can be contacted by Phone: 9385 3890 or through their website: <http://www.lc.unsw.edu.au/>. Students experiencing problems of an academic or personal nature are encouraged to contact the Counselling Service at UNSW. This service is free and confidential and run by professional counsellors. The Counselling Service is located on Level 2, Quadrangle East Wing, and can be contact on 9385 5418.

### **Texts**

Anthony Saunders and Marcia Milton Cornett, Financial Institutions Management: A Modern Perspective, 4<sup>th</sup> (International) Edition, Irwin McGraw Hill, New York, 2003.

Warren Hogan et al. Management of Financial Institutions, 5<sup>th</sup> Edition, John Wiley & Sons Australia Ltd, 2001. Case Studies are accessed on <http://www.johnwiley.com.au/highered/mfi/case2.pdf>

### **References**

S.J. Greenbaum and A.V. Thakor, Contemporary Financial Intermediation, The Dryden Press, 1995.

W. Hogan & I. Sharpe, "Prudential Regulation of the Financial System: A Functional Approach", Agenda V4 #1, 1997, pp. 15-28.

T.W. Koch, Bank Management, Dryden Press, 2nd Edition, 1992.

B. Shanmugam, C. Turton, and G. Hempel, Bank Management, Wiley, 1992.

J.F. Sinkey, Jr, Commercial Bank Financial Management in the Financial Services Industry, 6<sup>th</sup> Edition, Prentice Hall, 2002.

V. Edwards in D. Morrison, "Study Guide for the Handbook of Australian Corporate Finance" 5<sup>th</sup> Edition, Butterworths, Sydney 1997, Chs 2 and 7

V. Edwards \* A number of Readings from my own publications will be put either in the Library or on the website: <http://banking.web.unsw.edu.au/>. I hope these will provide summarise and supplement some of the materials contained in the prescribed textbooks.

## LECTURE OUTLINE & REQUIRED READING

Week	Topic	Required Reading
1 (VE)	Introduction and Overview of the Financial System	S Chs1 & 2 H Chs 1,2&3
2 (VE)	As Above + Banks & Non-Banks Structure & Environment	Edwards*: Module 2
3 (VE)	Performance Analysis & Strategic Planning	H Ch 3 Sinkey Ch 7 (pp.201-205)
4 (VE)	Risks of Financial Intermediation Credit Risk-Qualitative Models	S Ch 11 (pp.260-281); H Chs9&10 Edwards:* Credit & Lending
5 (VE)	Credit Risk-Quantitative Models And Credit Risk Management Techniques	S Ch 11 (pp.281-297) Ch 25 (pp.672-673), Ch 26 (pp.708 -711); H Chs 11 & 12 Edwards:* Credit & Lending
6 (VE)	The Electronic Payments System	Edwards*: Module 4
7 (MD)	Interest Rate Risk - Gap & Duration Analysis N.B. Easter Recess Follows Week 7	S Ch. 8 (pp. 164-174) & Ch. 9 H Ch 4
8 (MD)	Interest Rate Risk - Duration Analysis	As for Week 7
9 (MD)	Interest Rate Risk Management Using a selection of techniques from Forwards, Futures, Options, Caps, Floors, Collars and Swaps	S Ch 24 (pp.620-636) Ch 25 (pp.653-660 & 664-670) Ch 26 (pp.690-697) H Chs 13, 14 & 15
10 (SA)	Off-Balance-Sheet Risk	S Ch 13; H Ch 2
11 (SA)	Capital Adequacy	S Ch 20 (pp.511-542) H Ch 1 Appendix A
12 (AA)	Loan Sales & Securitisation	S Chs 27 & 28 Edwards*: Module 6
13 (NE)	Deposit Insurance and Regulation	Saunders Ch 19 (pp. 475-502) Hogan and Sharpe pp15-28 Costello (1997)
14	Self Review for Exam	

### TUTORIAL/WORKSHOP PROGRAM

Week	Topic	Workshop Questions
1 2	Make sure tute enrolment is completed Introduction and Overview of the Financial System	H Ch 1 Qs 2, 5, 6 & 7. Ch 2 Qs 1& 7 Ch 3 Qs and Hogan Case Study No. 2 on Regulation: <a href="http://www.johnwiley.com.au/highered/mfi/case2.pdf">http://www.johnwiley.com.au/highered/mfi/case2.pdf</a>
3	As Above + Banks & Non-Banks Structure & Environment	Edwards* Ch 2 in Morrison All Questions
4	Performance Analysis & Strategic Planning	H Ch 3 Qs 1, 2 and 4
5	Risks of Financial Intermediation Credit Risk-Qualitative Models	S Ch 11 Qs 1,2,3,5,10,15 Edwards Ch7 in Morrison Problem Questions 1,2 & 3
6	Credit Risk-Quantitative Models And Credit Risk Management Techniques	S Ch 11 Qs 17,18 & 21 Ch 25 Qs 1 to 4 Ch 26 Qs 1-3 & 8 and 23
7	The Electronic Payments System	Hogan Discuss Case Study No.3 Combines Wks 4&7 <a href="http://www.johnwiley.com.au/highered/mfi/case3.pdf">http://www.johnwiley.com.au/highered/mfi/case3.pdf</a>
8	Interest Rate Risk - Gap & Duration Analysis	tba by (lecturer to be advised)
9	Interest Rate Risk - Duration Analysis	As for Week 8
10	Interest Rate Risk Management Using a selection of techniques from Forwards, Futures, Options, Caps, Floors, Collars and Swaps	As for Week 9
11	Off-Balance-Sheet Risk	tba by Mr. Simon Arraj
12	Capital Adequacy	As for Week 11
13	Loan Sales & Securitisation	tba by Mr. Andrew Adamovich
14	Deposit Insurance and Regulation	tba by Dr. Neil Esho