

THE UNIVERSITY OF
NEW SOUTH WALES



THE AUSTRALIAN SCHOOL OF BUSINESS
School of Banking and Finance

FINS 3630
BANK FINANCIAL MANAGEMENT

COURSE OUTLINE
SESSION 2, 2007

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1. COURSE STAFF

Lecturers:

Vic Edwards Senior Lecturer in Charge (Lecturing the whole course weeks 1 – 14)

Room: Quad3047 and Heffron353

Tel No.: 9385 5860

Email: v.edwards@unsw.edu.au

Consultation: Tuesday 11 – 12 noon and Wednesday 10 – 11a.m

Tutor(s):

Adrian Mak is Tutor in charge.

Email: z3099451@student.unsw.edu.au

Other particulars TBA

and Albert Chung

Email and other particulars TBA

1.1 Communication with Staff

Students with queries regarding course administration or lecture contents should:

- Check WebCT site and their UNSW student email accounts
- See lecturer responsible during his/her consultation times
- Email the responsible lecturer using your UNSW student email address

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and Locations

Lectures:

TUESDAYS 11 to 1.00 p.m. in Chem Sc. L1.

Tutorials: As per your enrolment or see myUNSW site.

See the School of Banking and Finance's notice board at level 3, Quadrangle.

2.2 Units of Credit

This course has 6 units of credit and 3 contact hours per week.

2.4 Prerequisites

The prerequisite for this course is FINS1612.

2.5 Approach to learning and teaching

As a year-3 course, independent learning from students is expected. The course will draw on concepts, issues and practical information from textbooks, academic and financial press articles, as well as websites of relevant financial services regulators. Students are therefore required to read and understand these materials and their relevance. Students are also expected to extend and apply their knowledge acquired in the lecture to current issues discussed in the financial press. Guest Lecturers from industry have been invited to present to the class current financial regulatory issues and an industry perspective to the management of bank and non-bank FIs.

A large part of the course is quantitative in nature, which reflects the skills required to work in today's banking and other financial services environments. Tutorial sessions are designed so that students can not only practice their problem-solving skills and receive appropriate feedback but also extend their knowledge beyond the bounds of their textbook. In particular, they will deal with the Australian bank and NBF sectors as well as international developments of relevance to the course. It is essential that students utilise these tutorial times to actively participate in the discussion of prescribed tutorial questions and raise questions to tutors regarding areas where further reviews are necessary. To facilitate this, three elements have been built into the course and are listed immediately below:

2.5.1. Enhance Presentation Skills. Each student will be required to give a 5 minute presentation on a prescribed topic which will make up part of their tutorial mark.

2.5.2 Teamwork in Group Based Activities: Students will also be placed in teams to undertake an applied project (likely to be a comparison of the financial performance between two Australian financial institutions where they will use data from recent Financial Institution Annual Reports). This approach should cultivate opportunities to show initiative, leadership and teamwork as well as coping with the negative attributes of conflict and conflict resolution.

2.5.3. Foster technical skills and better written communications skills and standards particularly in the group project so as to meet current commercial standards. The presentations and the major project are designed to develop better hands-on technical skills, oral and written communication skills respectively on financial topics. If students are to reach middle management levels and beyond in finance successfully, they will need these skills. The major project, together with feedback provided by your lecturer/tutor will achieve this end.

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

The unifying theme in this course 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 including interest rate risk, off-balance-sheet risk, credit risk, liquidity risk, foreign exchange risk and operational risk.

3.2 Student Learning Outcomes

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. Understand the main regulations and operations of financial institutions within such regulations.
4. Engage in informed discussion of some of the contemporary issues in a local and

international context, affecting financial institutions and their owners, managers, employees and customers.

3.3 Teaching Strategies

The 2 hours of lectures each week will complement the compulsory text and readings for the course by (1) outlining the main issues relevant to the topic, (2) reinforcing the analytical material in the required readings, (3) introducing relevant material not adequately covered in the text, and (4) drawing on recent developments in financial institutions and their management including the involvement of top industry guest lecturers.

The 1-hour tutorial aims to assist students in problem solving, clarifying lecture materials, and facilitating discussions on topics covered in the lecture of the previous week. After each lecture, students are required to attempt to answer the prescribed tutorial questions before the corresponding tutorial. There are no tutorials in weeks 1 and 10.

4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Workload

It is expected that you will spend at least ten hours per week studying this course. This time should be made up of reading, research, working on exercises, problems and project work and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.2 Attendance

Lectures: your regular and punctual attendance at lectures is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

Tutorials: **attendance at all tutorials is compulsory.** The prescribed tutorial questions (check WebCT for detail) must be attempted before each tutorial. The tutors will keep attendance records and may conduct impromptu class tests during tutorial times.

4.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

4.4 Keeping informed

You should take note of all announcements made in lectures, tutorials or on the

course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information.

5. LEARNING ASSESSMENT

5.1 Formal Requirements

In order to pass this course, you must:

- achieve a composite mark of at least 50; and
- make a satisfactory attempt at all assessment tasks

5.2 Assessment

Assessment in this course is a combination of individual and group assessment tasks consisting of a mid-session examination, final examination, tutorial attendance and presentations and the applied real life group research project. Individual exams must be your own work. Group assignment tasks must be done and submitted as a team. **Free riders** in group tasks are identified by confidential questionnaire circulated in the final examination and will receive an appropriate reduction of marks for the group assignment task concerned.

The assessment regime is designed to promote and reinforce the stated learning objectives.

The assessment weights for the following tasks will be:

Mid-session Exam	15%
Final Exam	45%
Tutorial/Presentation and Participation	15%
Applied Project Assignment:	25%

5.3 Examinations

Mid-session Exam

Due: Week 6 and will cover material either in the text or in lecture notes or orally in lectures and tutorials during the first 5 weeks of class.

Final exam

Due: In week 14 and will cover content of weeks 7 to 13

- Students failing to take *either* exam will be awarded a failure for unsatisfactory performance. The mid session exam will consist of multiple choice questions, while the final exams will consist of multiple choice and essay and problem type questions. The marks or weighting for each question will appear on the exam paper and will reflect the degree of difficulty of the question.

5.4 Applied Project Assignment

The Applied Project Assignment will be due by the end of Week 10. Information about the assignment format and criteria for marking are contained in the WebCT notes titled “Major Project Assignment”.

5.5 Special Consideration and Supplementary examinations

Information and policy about special consideration and supplementary examinations – it is recommended that there is a standard School policy, which is available on the School website and referred to in the course outline. UNSW Policy and information on special consideration, including supplementary exams can be found at: <https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>

An example of words about special consideration for this course is outlined as follows. These words could be used and/or modified to suit the policies/processes within your School:

UNSW policy and process for Special Consideration applies (see <https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>). Specifically:

- Applications for special consideration (including supplementary examinations) must go through UNSW Central administration (within 3 working days of the assessment to which it refers) – applications will not be accepted by teaching staff;
- Applying for special consideration does not automatically mean that you will be granted additional assessment or that you will be awarded an amended result;
- If you are making an application for special consideration (through UNSW Central Administration) please notify your Lecturer in Charge;
- Please note: a register of applications for Special Consideration is maintained. History of previous applications for Special Consideration is taken into account when considering each case.
- Students who are successful in their applications for consideration in taking a supplementary exam may be given a viva (oral exam by the examiner). In some cases, an aegrotat mark may also be given as a substitute for the examination.

6. STUDENT RESOURCES

6.1 Course Resources

Prescribed text: Bank Management, Timothy Koch and S.Scott MacDonald, Thomson/South-Western 2006. See note in First Lecture ppt. about availability.

Recommended Supplementary text:

Financial Markets & Institutions Tom Valentine, Guy Ford et al., Pearson Aust., 2006 will also be used.

Suggested additional textbooks for referral are:

- W. Hogan et al., Management of Financial Institutions, John Wiley and Sons Australia, 2001, a good Australian text becoming a little dated.
- J.F. Sinkey, Jr. International Bank Financial Management in the Financial Services Industry, 6th edition, Macmillan Publishing, New York, 2004,. Not so risk focussed in decision making and also a little off-beat.

Resources available on WebCT Vista (access through myunsw portal) include:

- Prescribed tutorial questions for each chapter
- Lecture notes and additional reference articles
- Tutorial solutions, will only be made available AFTER tutorials for that week have been taken.
- Important notices, a message board and other forms of communication
- Exam results

7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- Learning and study support
 - **FCE Education Development Unit** (<http://education.fce.unsw.edu.au>)
Students should avail themselves of this service if they are underperforming in assessment tasks. N.B. students capable of gaining a HD instead of a credit have been referred to this service by your lecturer with success. **It is not only for students in fear of failure.**
 - UNSW Learning Centre (<http://www.lc.unsw.edu.au>)
 - EdTec – WebCT information (<http://www.edtec.unsw.edu.au>)

- Counselling support - <http://www.counselling.unsw.edu.au>

- Library training and support services - <http://info.library.unsw.edu.au>

- Disability Support Services – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (<http://www.equity.unsw.edu.au/disabil.html>). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- Examination procedures and advice concerning illness or misadventure
<https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html>
- Occupational Health and Safety policies and student responsibilities;
<http://www.riskman.unsw.edu.au/ohs/Policies%20&%20Procedures/UNSW%20OHS%20Accountability.pdf>

8. CONTINUAL COURSE IMPROVEMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

9. COURSE SCHEDULE

Part 1:

Overview of the Financial Services Industry, Its Regulation and Performance

Week 1 Are Banks Special? Goals and functions of Bank Regulation. Safety, Soundness, Efficiency and Competitiveness of the Banking System. Consumer Protection. Technology. Australian ADIs.

Koch Ch1 Valentine Chs 3, 5 & 12

Week 2 Analysing Bank and Financial Institution Performance – in particular the ROE Model (aka DuPont Analysis) and Managing Non-Interest Income and Expense.

Koch Chs.2 & 3 + KPMG Annual Financial Institutions Performance Surveys. Essential reading for your Applied Assignment Project due in Week 8.

Your Group Assignment topic (To be handed in on week 10) will be given to you this week. Tutors will organise you into groups.

Part 11: Managing Interest Rate Risk

Week 3 Pricing Fixed Interest Securities, Duration , Price Volatility & Innovations in the market. Interest Rate Risk Measurement is generally seen as the greatest risk to F.Is so we spend more time examining it specifically. **Managing Interest Rate Risk 1: GAP and Earnings Sensitivity**

Koch Chs 4 & 5 also Valentine is useful Ch.6

Week 4 **IRR Measurement II: Duration Gap & Market Value of Equity**

Koch Chs 5 & 6

Week 5 **Interest Rate Risk Measurement III : Using Derivatives to Manage Interest Rate Risk.**

Koch Ch 7

Valentine Ch 14 (Derivatives: Fixed Rate Instruments) and Ch 15 (Derivatives: Options) may assist your understanding.

Week 6 MID-SESSION EXAM

Part 111: Managing Cost of Funds, Bank Capital & Liquidity

Week 7 Funding the Bank and Managing Liquidity

This Chapter in Koch Ch 8 is much more related to the US economy. Your tutor will take you through the parts of Koch that are relevant from a M/C test bank p.o.v.

The approach we shall take is from Hogan et al Ch.6 – see Lecture notes and also WebCT Vista for Hogan.

Bank Capital

Week 8 The Function of Bank Capital - Using Bank Capital effectively. Capital requirements and the operation of the Bank. N.B. This topic ties up with Lecture on Basel 11 in Week 13. Also Deposit Insurance and Moral Hazard.

Koch Ch. 9 , Valentine Ch.5

Part IV: Credit Risk Management

Week 9 Introduction to Lending. Loan Growth & Quality. Competition in Lending. The granting of credit – different types of loans – personal, commercial and consumer loans. Guest lecturer Mr. Simon Arraj to give this lecture.

Koch Chs 10, 11 and 12

N.B. Your Group Assignment is due at the end of week 10. You will also need to catch up on your tutorial presentations.

Mid-session Break

You will need to start your revision for the final exam and also work on completing your Applied Group Project Assignment due in Week 10.

Week 10 Credit ratings and ratings agencies. Guest lecture for first half of lecture. Mr. Ben McCarthy (MD of Fitch Ratings). Credit analysis: Corporate failure prediction models. Lecture material from Vic Edwards.

Koch Ch 10 and Edwards in WebCT Vista Notes.

Week 11 Structured finance: Loan Sales and Securitisation. Mortgage-backed and asset backed securities, structuring of a CMO and CDO. Guest co-lecturer Mr. Glenn Redman.

Valentine: Ch. 2 + Lecture powerpoints and notes.
Saunders: Chs 27-28

- Week 12 Capital Adequacy and the new about to be introduced Basle 11 legislation – the regulator’s perspective. Guest lecturer: Ms. Raman Sandhu, Senior Manager, APRA for Basle 11 Implementation.. This lecture links with Capital Management lecture in Week 8..
.
Ms Sandhu has her own powerpoints.
- Week 13 Managing the Investment Portfolio

Koch Ch 13
- Week 14 Global Banking Activities

Koch Ch.14
Also note Mr. Edwards will give a lecture to the Asia Pacific Forum on “China: Past, Present and Future – Friend of Foe?” Time and venue to be advised.

Adrian Mak, Albert Chung and I hope you have enjoyed the series of lectures and tutorials and have found the course a worthwhile addition to your knowledge base for your future careers.

Vic Edwards
Senior Lecturer in Charge