

# Master Finance

## Banking risk management

Responsable	Descriptions	Informations
	Code : BFICV12B	Composante : Faculté d'Économie et de Gestion
	Nature : Élément constitutif	
	Domaines : Droit, Économie, Gestion	

### LANGUE(S) D'ENSEIGNEMENT

Anglais

### CONTENU

#### 1) Goals:

The aim of the course will help students to understand the:

- Various banking activities and financial statement structures
- Way banks function and are able to generate value
- Risks faced by banks and their measurement
- Banking regulation and risk management in light of the recent credit crunch
- Current regulatory challenges and the impact on the banking business conduct
- Risk management governance and enterprise risk management

#### 2) Course outline:

#### a. UNDERSTANDING BANKING FINANCIAL STATEMENT STRUCTURE

##### MANDATORY: BEFORE THE SESSION PREPARE THE BANKING DETECTIVE CASE.

- Understanding a financial institution business model
  - o Understanding the funding of a bank (equity, debt, wholesale funding, deposits, repo,...)
  - o Understanding the revenue producing activities of a bank (consumer loans, mortgage loans, long term investment, securitization, banking and trading books, asset financing, etc...)
  - o Understanding the differences between the different types of financial institutions (retail bank, saving and postal banks, investment bank, hedge fund, UCITS funds, insurance, microfinance institutions, consumer credit institution etc...)
  - o Understanding the risks faced by a financial institution

#### b. UNDERSTANDING RISKS IN BANKING OPERATIONS, THEIR SOURCES AND IMPACTS

##### KEY LEARNING POINTS AND SESSION OUTLINE

The following items will be discussed:

- Definition of risk
  - o What are the different types of risks?
  - o What is the importance of these risk for a bank?
- Measurement of risk
  - o What are the different measures of risk?
  - o What do they really measure (uses and pitfalls)
  - o What is normal? What is extreme?
- Risk management (first overview)
  - o What is risk management about?
  - o What does it imply in terms of organization and performance?

#### c. STRATEGIC RISK: A VALUE CREATION PERSPECTIVE

##### MANDATORY: KAUPTHING CASE STUDY TO BE PREPARED IN GROUP (PPT deliverable)

##### KEY LEARNING POINTS AND SESSION OUTLINE

Based on various examples, the following items will be discussed:

- Where does the bank value come from?
- What does the bank value consist of?
  - o Distinction between profit and free cash-flows
  - o Liquidity vs. solvency vs. company's value
  - o What are the differences between profit and value creation?
  - o Why generating profits does not imply getting cash-inflows?
- What are the key challenges of Basel II/III regarding bank's performance?
  - o What are the uses and pitfalls of Basel Accords?
  - o What is (and is not) the role of regulatory/economic capital?
  - o What are the uses and pitfalls of Basel Accords?
- Strategic risk: Back to value thinking
  - o How to manage value in a sustainable way?

- § What to do when actual growth is below the sustainable growth?
- § What to do when actual growth is above the sustainable growth?
- o What are the key lessons in managing growth? Lessons from top 50 world banks
- What are the impacts of Basel II/III on business conducts for financial institutions?
- What are the key challenges of Basel II/III for a fast growing financial institution?
- o What are the uses and pitfalls of Basel Accords?
- Event vs. Cause-effect approach when managing risks
- Lessons learnt from the current crisis: case studies

#### d. ENTERPRISE RISK MANAGEMENT IN BANKING: BUILDING UP A RISK MANAGEMENT FRAMEWORK

#### KEY LEARNING POINTS AND SESSION OUTLINE

Focus on the impact of governance and reporting structure on the efficiency of risk management in financial institutions. An effective enterprise risk management includes:

- Strategy and risk appetite
- Risk policies & use test
- Modelling & data collection processes
- Stress test
- Organisational challenges & functional components of ERM framework
- Compliance and governance
- Roles and responsibilities regarding risk management of:
- o The Board, Executive committee
- o Internal controls
- o Risk management
- o Business development
- o Sales people
- o HR

- Lessons learnt from the current crisis: case studies

taught in accounting, corporate finance, and financial analysis.

#### MODALITÉS D'ORGANISATION

The course is based on the uses of a variety of pedagogic and interactive methods, including case studies from the industry, shared experience, analyses of current examples and best practices. Active involvement and contribution from the participants are highly recommended and welcomed. Also, case preparations are mandatory before the course.

#### BIBLIOGRAPHIE, LECTURES RECOMMANDÉES

- Basel Committee on Banking Supervision (2005), "An explanatory note on the Basel II IRB risk weight functions", BIS, July. <http://www.bis.org/bcbis/irbriskweight.htm>
- Curtis P. and Carey M. (2012), "Risk assessment in practice", COSO, 28 pages.
- Dowd K., Cotter J., Humphrey C. and Woods M. (2008), "How unlucky is 25-Sigma?", 7 pages. Read pages 1 to 4.
- ECB (2017), "Financial Stability Review May 2017 – Euro area financial institutions", chapter 3, pages 68-134
- Jorion P. (2000), "Risk Management Lessons from LTCM", European Financial Management, Vol. 6, N° 3, pp. 277-300
- Llewellyn D. (2008), "The Northern Rock crisis: a multi-dimensional problem waiting to happen", Journal of financial regulation and compliance, Vol. 16, N° 1, pp. 35-57.
- Schmit M. (2013), "Definition and objectives of risk governance", 29 pages.
- Schmit M. (2013), "New Requirements and Changes of Basel III: Towards a New Business Model for Financial Institutions ? ", 20 pages.
- Taleb N., Goldstein D. and Spitznagel (2009), "The six mistakes executives make in risk management", Harvard Business Review, 5 pages.
- Vermaelen T. (2011), "CEOs should refresh their finance skills", QFINANCE, 4 pages.

#### PRÉ-REQUIS OBLIGATOIRES

#### Videos to watch before the sessions (strong recommendation)

Please find interesting videos to help you in your learning process. Please note that I will refer to accounting and financial principles that you are supposed to master. If it is not the case, please carefully watch and understand the videos. Balance sheet, income statement AND cash-flow statement interpretation ability is a prerequisite for the course. I provide also a document that could be of interest (see below). If you think you do not have the prerequisites, please contact me (sufficiently in advance) in order to find a solution.

#### COMPÉTENCES À ACQUÉRIR

At the end of the course and after studying the course, students should be able to analyse from a high-level perspective the performance and the risks of a financial institution based on its business model. The course will be taught in such a way that key messages can be transposed to other industries (e.g. performance assessment, risk management governance, bird's eye view of the main aspects of risk management, etc.). The course will complement and apply concepts



Dernière modification le 11/12/2023

**on financial statements**

**On balance sheet:**

<http://www.khanacademy.org/economics-finance-domain/core-finance/housing/home-equity-tutorial/v/introduction-to-balance-sheets>

<http://www.khanacademy.org/economics-finance-domain/core-finance/housing/home-equity-tutorial/v/more-on-balance-sheets-and-equity>

**On income statement:**

<https://www.khanacademy.org/economics-finance-domain/core-finance/stock-and-bonds/valuation-and-investing/v/introduction-to-the-income-statement>

<https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-statements/financial-statements-tutorial/v/balance-sheet-and-income-statement-relationship>

**On cash-flow statement:**

<https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-statements/cash-accrual-accounting/v/cash-accounting>

<https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-statements/cash-accrual-accounting/v/accrual-basis-of-accounting>

<https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-statements/cash-accrual-accounting/v/comparing-accrual-and-cash-accounting>

<https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-statements/financial-statements-tutorial/v/basic-cash-flow-statement>

**On discounting and time value:**

<http://www.youtube.com/watch?v=ks33IMoxst0>

[http://www.youtube.com/watch?v=4L-SktB7Pk\\_c](http://www.youtube.com/watch?v=4L-SktB7Pk_c)

<http://www.youtube.com/watch?v=3SgVUIEcOBU>

**The following reading may also be helpful:**

Mc Isaac Ian (2004), Understanding annual reports and company accounts, 27 pages. Read page 1 to 19.

## VOLUME HORAIRE

- Volume total: 18 heures
- Cours magistraux: 18 heures

## CODES APOGÉE

- BFIC13B [ELP]

## M3C

Aucune donnée M3C trouvée

## POUR PLUS D'INFORMATIONS

[Aller sur le site de l'offre de formation...](#)