

**THE UNIVERSITY OF HONG KONG
HKU BUSINESS SCHOOL**

FIN2343 – Lending and Credit in Private Banking and Corporate Banking (1)

GENERAL INFORMATION

Instructor: Professor Anna Wong

Email: awong81@hku.hk

Office: Room 829, K.K. Leung Building

Phone: 3917 7767

Consultation times: by appointment

Tutor: TBA

Pre-requisites: ACCT 1101 Introduction to Financial Accounting -

Pre-requisites or Co-requisites: FINA 1310 Corporate Finance

Mutually exclusive:

Course Website: via HKU Moodle

Other important details:

COURSE DESCRIPTION

This course covers the key elements of lending and provision of credit facility in banking, including corporate clients and high networth individual (“HNWI”) clients. Lending and leveraging is a key component of a banking relationship and an important source of revenues for banks. Lending and leverage involves risks to the banks and to the clients. The business of lending and the provision of other credit facilities is intrinsically linked to the management of risk for the bank. The use of borrowings and entering into leveraged products/transactions is equally a process of risk awareness and risk management for the client.

The course will discuss basic credit analysis and risk evaluation tools, including financial statement analysis and cashflow analysis, application of financial ratios, business risk identification/evaluation as well as collateral analysis.

COURSE OBJECTIVES

1. To provide a conceptual and practical approach to understand the credit process in a bank, covering both corporate banking and private banking. To identify the purpose and payback of lending/credit.
2. Corporate Banking – to understand the concept of asset conversion cycle and business risks associated with the company’s operations
3. Corporate Banking – to understand and to analyse a company’s financial statements to conclude on the repayment ability of the corporate, this includes application of financial statement analysis, ratio analysis, cashflow analysis, risk identification and mitigating factors and other relevant credit risk considerations
4. Private Banking – to understand the risks and benefits associated with lending and leverage products; to understand the different types of loans and leverage products; to understand the concept of suitability in borrowing and leveraging
5. Private Banking – to understand the concept of collateralized lending, loanable value, marked-to-market risk monitoring, portfolio concentration, margin erosion and top-up/close out procedure
6. Private Banking – to understand the risk and margin requirement of leveraged products

FACULTY GOALS

| | | | |
|--|-------------------------------------|------------------------------|---|
| Goal 1: Acquisition and internalization of knowledge of the programme discipline | | | |
| Goal 2: Application and integration of knowledge | | | |
| Goal 3: Inculcating professionalism and leadership | | | |
| Goal 4: Developing global outlook | | | |
| Goal 5: Mastering communication skills | | | |
| COURSE LEARNING OUTCOMES | | | |
| Course Learning Outcomes | | Aligned Faculty Goals | |
| CLO1 – To identify the purpose of the lending/credit and the appropriateness of providing the facility | | Goals #1, 2, 3,4 | |
| CLO2 – To identify the payback and the risk of lending to a high networth individual and to a corporate | | Goals #1, 2, 3, 4 | |
| CL 03 – To understand financial statements, to apply ratio analysis, financial analysis and cashflow analysis to a corporate lending decision | | Goals #1, 2, 3, 4 | |
| CL 04 – To apply the concept of security and margined lending, and calculation of margin requirement | | Goals #1, 2, 3, 4 | |
| COURSE TEACHING AND LEARNING ACTIVITIES | | | |
| Course Teaching and Learning Activities | | Expected contact hour | Study Load (% of study) |
| T&L1. Lectures | | 33 | 25 |
| T&L2. Tutorials | | 10 | 8 |
| T&L3. Preparations for class/tutorial/assignments | | 30 | 22 |
| T&L4. Preparations for in-class examination | | 60 | 45 |
| Total | | 133 | 100% |
| <p>Interactive lectures using real company case.</p> <p>Students are expected to attend and participate actively in lectures and tutorials. The course is a practical approach of how banks make credit decisions involving analyzing financial statements and understanding of the company's business risk and financial risks. Textbook is light. The lectures will be based on a real company annual report, concepts and financial tools will be progressively taught in the lectures based on the dynamics of the real company. A student may find it difficult to follow the lecture if they miss the prior lecture. Excel spreadsheet [financial spreading] will be constructed together during class, the spreadsheet will be continuously used and adjustments made in the subsequent classes. Students are expected to bring their laptop to the class.</p> <p>Students are encouraged to raise questions, participate in discussion and share ideas with their peers.</p> | | | |
| Assessment Methods | Brief Description (Optional) | Weight | Aligned Course Learning Outcomes |
| A1. Assignments | | 15% | CLO 1, 2, 3, 4, 5, 6 |
| A2 tutorials & class participation | | 15% | CLO 1, 2, 3, 4, 5, 6 |
| | | 30% | CLO 1, 2, 3, 4, 5, 6 |

| | | | |
|--------------------------|-------|------|----------------------|
| A3. Mid term examination | | 40% | CLO 1, 2, 3, 4, 5, 6 |
| A4. Final examination | | | |
| | Total | 100% | |

STANDARDS FOR ASSESSMENT

Course Grade Descriptors

| | |
|-----------|---|
| A+, A, A- | Strong evidence of superb ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate and synthesis |
| B+, B, B- | Strong evidence of ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate and synthesis |
| C+, C, C- | Evidence of adequate ability to fulfill the intended learning outcomes of the course at low levels of learning such as describe and apply, but not at high levels of learning such as evaluate and synthesis |
| D+, D, D | Evidence of basic familiarity with the subject |
| F | Little evidence of basic familiarity with the subject |

Assessment Rubrics for Each Assessment (Please provide us the details in a separate file if the space here is not enough)

Tutorials – students will be assessed on their participation in tutorials and able to demonstrate a preparation for the tutorial by reading and applying course materials to the case.

Assignment, mid-term examination and final examination are the same as in course grade descriptors.

COURSE CONTENT AND TENTATIVE TEACHING SCHEDULE

Course Outline

1. Overview of a bank's credit process. Function of Credit Department and its interaction with front line relationship managers. Role of relationship managers in the bank's credit process. General lending principles.
2. Corporate Lending – Review of financial statements. Spreading and understanding of a financial statement.
3. Corporate Lending – Adjustments to financial spreading and understanding of notes to a financial statement
4. Corporate Lending – Financial ratio analysis
5. Corporate Lending – Asset conversion cycle, business risks and financial risks, application of financial ratio analysis to a credit decision
6. Corporate Lending – Lending principles
7. Corporate Lending – Cashflow statement and its application
8. Mid-term examination
9. HNWI Lending – risks and benefits of lending/borrowing and leverage products; suitability analysis
10. HNWI Lending – collateralized lending, loanable value, marked-to-market risk monitoring, portfolio concentration, margin erosion and top up/close out procedure
11. HNWI Lending – leveraged products, the risk of options and accumulators from credit risk perspective

REQUIRED/RECOMMENDED READINGS & ONLINE MATERIALS (e.g. journals, textbooks, website addresses etc.)

Bank Lending – The Hong Kong Institute of Bankers

Certified Private Wealth Professional (“CPWP”) Study Manual – Module 1, Paper 9 – Lending and Leveraging

HKEx website for annual reports/financial statements of selected listed companies

Other teaching materials will be distributed via Moodle

MEANS/PROCESSES FOR STUDENT FEEDBACK ON COURSE

conducting mid-term survey in addition to SETL around the end of the semester

Online response via Moodle site

Others: _____ (please specify)

COURSE POLICY (e.g. plagiarism, academic honesty, attendance, etc.)

Academic Honesty

Plagiarism (<http://aao.hku.hk/sy3/plan-of-study/exa-and-ass/plagiarism/>)

“Plagiarism is defined as the unacknowledged use, as one’s own, of work of another person, whether or not such work has been published. It is a very serious academic offence and the University does not allow or tolerate plagiarism. Any student who commits plagiarism is liable to disciplinary action which can result in serious consequences – including expulsion from the University.

You are strongly advised to read the booklets “What is Plagiarism” and “Plagiarism and How to Avoid It” and to consult your teachers if you have any questions about how to avoid plagiarism.”

Cheating

Cheating is another very serious academic offence. Any student who commits cheating on homework assignments or midterm or final examination will receive a grade “F” for the whole course. In addition, the case will be reported to the relevant Board of Examiners and/or the Senate of the University for further actions.

Class Attendance and Work Load

To maximize learning experience, students are strongly recommended to attend all the lectures, submit the homework assignments on time and participate actively in class and tutorials. The work load of this course is quite heavy and students are expected to spend at least 133 contact/study hours as described above.

Class Conduct

The guiding principle governing class conduct is mutual respect. All mobile phones must be switched off or on silent mode. No eating or drinking is allowed. Students should not disturb others in class.

ADDITIONAL COURSE INFORMATION (e.g. e-learning platforms & materials, penalty for late assignments, etc.)

Penalty for Late Submission of Assignments and Term Project

Any late submission of homework assignments will be subject to a 50% penalty deduction of the respective total marks per calendar day after 11:59 pm of the due date, unless prior written permission is obtained from the Instructor under special circumstances, e.g. medical leave.

