

**VESALIUS COLLEGE**

**ACADEMIC YEAR 2009-2010 - SUMMER TERM**

**BANKING IN EUROPE (ECN 389E)**

**(Prof. Jean Bellemans and Prof. Bruno de Vuyst)**

**SYLLABUS**

**COURSE DESCRIPTION**

The course covers the following main topics:

(1) The main types of banks in Europe ("supranational banks": European Central Bank (ECB); European Investment Bank (EIB); European Investment Fund (EIF); European Bank for Reconstruction and Development (EBRD); Bank for International Settlements (BIS); central banks; commercial banks; investment banks/merchant banks; asset management banks).

(2) The main services offered by commercial banks (loans to consumers, loans to corporations, project financing, securitization, letters of credit, guarantees, leasing, factoring, etc.).

(3) The main services offered by the other types of banks.

(4) The main regulations covering banks (national, and international, such as "Basel I", "Basel II", etc.)

(5) The financial/banking crisis that began in 2007.

These topics are illustrated by case studies, by annual reports of banks, and other documents published by or on banks.

**COURSE OBJECTIVES**

The main objectives of the course are:

(1) to familiarize the students with the European banking sector, with the main types of banks, and with the various types of services they offer;

(2) to help the students understand the credit relationship between banks and borrowers, and the process through which a bank and a borrower go before a financing is agreed upon, and during the life of the financing.

**SCHEDULE (TUESDAYS AND WEDNESDAYS - 2.00 P.M. TO 6.00 P.M. - BOSTON UNIVERSITY BRUSSELS)**

<u>Session</u>	<u>Date</u>
1	Tuesday May 25
2	Wednesday May 26
3	Tuesday June 1
4	Wednesday June 2
5	Tuesday June 8
6	Wednesday June 9
7	Tuesday June 15 (mid-term examination)
8	Wednesday June 16
9	Tuesday June 22
10	Wednesday June 23
11	Tuesday June 29
12	Wednesday June 30

Final examination: date to be announced.

**ORGANIZATION OF THE CLASSES**

The course is taught through a combination of lectures, readings, discussions, exercises and cases.

So as to maximize the productivity of the learning process, it is essential that all material assigned be prepared sufficiently before each class.

Attendance and active class participation are equally essential.

**ASSESSMENT PHILOSOPHY / GRADING POLICY**

The final grade will be the weighted average of the grades for its four components:

(1) Preparation of the classes (**including the written assignments**): 40 %. Please note that any non-respect of the deadlines for the submission of the written assignments will be penalized.

(2) Class attendance and class participation (i.e. quantity and quality of the participation in the class discussions): 10 %.

(3) The mid-term examination: 20 %.

(4) The final examination: 30 %.

The grade scales are as follows:

<u>Letter grades</u>	<u>Numerical grades</u> <u>(over 4)</u>
A	4.00
A-	3.67
B+	3.33
B	3.00
B-	2.67
C+	2.33
C	2.00
C-	1.67
D+	1.33
D	1.00
F	0.00

### **ACADEMIC INTEGRITY**

You are obviously required to respect strictly the sections on "Academic Honesty", "Disciplinary Procedures", the "Student Conduct Committee", and "Avoiding Plagiarism", in the Vesalius College Catalog, as well as on the related subjects. The penalties specified in this Catalog will be applied.

### **COURSE MATERIAL**

#### (A) Required textbook

Bank Management & Financial Services, 8th Edition, Peter S. Rose, Sylvia C. Hudgins, Hardcover, McGraw-Hill, 2010, ISBN-13 9780073382432.

#### (B) Documents published by or on banks (will be handed out in class)

Annual reports of banks.

Brochures on services offered by banks.

Studies made on banks.

Notes, cases and other documents (included in the "notebook")  
The "statement of sources and uses of funds".

"Overview of Project Finance and Infrastructure Finance" (Harvard Business School 9-207-107).

"Understanding the Credit Crisis of 2007 to 2008" (Harvard Business School 9-209-073).

"Allianz (A1): An Insurer Acquiring a Bank ?" (Harvard Business School 9-305-013).

"PlaNet Finance: Broad Scope in Microfinance" (Harvard Business School 9-708-441).

"Santander's Acquisition of Abbey: Banking Across Borders" (Harvard Business School 9-707-485).

"Cartwright Lumber Co." (Harvard Business School 9-204-126).

"Poland's A2 Motorway" (Harvard Business School 9-202-030).

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### Important remarks

(1) It is impossible for any student to follow this course if he or she does not have his or her own copy of the textbook. Please note that the two examinations will include questions taken from the textbook.

(2) Obviously, you must bring with you for each session this syllabus, the textbook, and all the other course material that is scheduled to be discussed, as specified in this course outline.

### WRITTEN ASSIGNMENTS

As indicated in this course outline, you are required to prepare a number of written assignments, which are a very important part of your learning process, and of your final grade. They have to be specific, complete, clear and convincing.

Each written assignment must be given to me AT THE BEGINNING OF THE CORRESPONDING SESSION (I will not take into account any assignment given to me later).

A student who is unable to attend a session for which a written assignment is due, should send it to me by e-mail (belleman@bu.edu) BEFORE that session.

### EXAMINATIONS

There will be two examinations (both "open book"):

(1) A mid-term examination, on Tuesday June 15 (session 7), which will be based on the topics covered until the day of that examination.

(2) A final examination, on a date to be decided, which will be based on the topics covered after the mid-term examination.

### SESSION 1 (TUESDAY MAY 25)

#### Topics

- (a) Introduction to the course.
- (b) Overview of the banking and financial services sector.
- (c) Bank credits/loans.
- (d) The "statement of sources and uses of funds".

**SESSION 2 (WEDNESDAY MAY 26)**

**Topics**

- (a) Overview of the banking and financial services sector.
- (b) Bank credits/loans.
- (c) The "statement of sources and uses of funds".
- (d) Project financing.

**Preparation required**

Study chapter 1.

"Skip" chapter 2 (**Note:** The impact of government policy and regulations on banking and on financial services is considerable in the whole world. However, as the textbook is published in the U.S.A., chapter 2 concentrates on the government policy and regulations in that country, which have a limited importance in Europe. During session 9, we will study in detail one of the most important worldwide regulations for banks, the "capital adequacy" (see chapter 14 of the textbook)).

"Skim" chapter 3 (this chapter is only partly applicable to Europe).

Study chapters 16, 17 and 18.

Study the document on the "statement of sources and uses of funds".

Study the case "Cartwright Lumber Company", and prepare the following questions:

- (1) (**first written assignment, together with question (2), due at the beginning of session 3**) What is the "statement of sources and uses of funds" of Cartwright Lumber Company from December 31, 2001 to December 31, 2003 ? What is the breakdown between **internal** and **external** sources of funds between these two dates ?
- (2) (**first written assignment, together with question (1), due at the beginning of session 3**) On the basis of your answer to question (1), and of the contents of the case, please explain why Cartwright Lumber Company must borrow so much money while this business is profitable.

**(3) (second written assignment, together with question (4), due at the beginning of session 4)** What are your projections **(rounded to the nearest thousand of USD)** of:

(a) the income statement for 2004;

(b) the balance sheet as of December 31, 2004.

Please make the following assumptions for 2004 and for December 31, 2004:

- sales = USD 3.6 million;

- "cost of goods sold" and "operating expenses": same percentages of sales as in 2003;

- interest rate = 10.5 % per year, applied to the arithmetic average between the total of "notes payable-bank" and "long-term debt", on December 31, 2003 (actual) and on December 31, 2004 (projected);

- income tax rate: same percentage of net income before taxes as in 2003;

- "cash", "accounts receivable, net", "inventory", "property, net", "accounts and notes payable", and "accrued expenses": same percentages of sales as on December 31, 2003/for 2003.

**(4) (second written assignment, together with question (3), due at the beginning of session 4)** In your opinion, does the line of credit of USD 465,000 being discussed meet Cartwright Lumber's requirements ? Why or why not ?

(5) What would be your answers to questions (3) and (4) if the company was paying its suppliers 10 days after invoice date to take advantage of the 2 % discount ?

(6) As Mr. Cartwright's financial adviser, would you recommend to him to go ahead with his anticipated expansion and his plans for additional debt financing ? Why or why not ?

(7) As Mr. Dodge, would you approve the line of credit requested by Mr. Cartwright ? If so, why, and at what conditions ? If not, why ?

**SESSION 3 (TUESDAY JUNE 1)**

**Topics**

- (a) The financial statements of banks and their principal competitors.
- (b) Measuring and evaluating the performance of banks and their principal competitors.
- (c) Annual reports of banks.
- (d) Project financing.
- (e) Bank credits/loans.

**Preparation required**

Study chapters 5 and 6 of the textbook.

Study the note "Overview of Project Finance and Infrastructure Finance".

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Study the case "Poland's A2 Motorway". Questions to prepare:

- (2) In your opinion, what are the main risks in this project ? Have they been properly identified, assessed, and mitigated under the current structure ?
- (3) Who bears these risks ? What factors determine who should bear these risks ?
- (4) What are the various strategies you can use to manage the major risks of this project ? For example, when is it appropriate to prevent, hedge, insure, allocate, or bear particular risks ?
- (5) According to you, how should Wojciech Gebicki respond to the banker's concerns in June 2000 ?

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Study again chapters 16, 17 and 18 of the textbook.

Study again the case "Cartwright Lumber Company", and prepare the same questions as for session 2. **First written assignment due: questions (1) and (2) on this case.**

#### **SESSION 4 (WEDNESDAY JUNE 2)**

##### **Topics**

(a) Asset-liability management: determining and measuring interest rates and controlling interest-sensitive and duration gaps.

(b) Annual reports of banks.

(c) Bank credits/loans.

(d) Microfinance.

##### **Preparation required**

Study chapter 7 of the textbook.

Study the case "PlaNet Finance: Broad Scope in Microfinance".

#### **SESSION 5 (TUESDAY JUNE 8)**

##### **Topics**

(a) Risk-management using asset-backed securities, loan sales, credit standbys and credit derivatives.

(b) Annual reports of banks.

##### **Preparation required**

Study chapter 7 of the textbook.

Study the documents in the "notebook" on asset-backed securities, loan sales, credit standbys and credit derivatives.

#### **SESSION 6 (WEDNESDAY JUNE 9)**

##### **Topics**

(a) The investment function in banking and financial services management.

(b) Liquidity and reserve management: strategies and policies.

(c) The types of banks that are not commercial banks or investment/merchant banks: (i) "supranational banks": European Central Bank (ECB); European Investment Bank (EIB); European Investment Fund (EIF); European Bank for Reconstruction and Development (EBRD); Bank for International Settlements (BIS); (ii) central banks; (iii) asset management banks.

##### **Preparation required**

Study chapters 10 and 11 of the textbook.

Study the documents in the "notebook" on the types of banks that are not commercial banks.

**SESSION 7 (TUESDAY JUNE 15)**

**FIRST HALF**

**Topics**

(a) Managing and pricing deposit services.

(b) Managing non-deposit liabilities and other sources of borrowed funds.

**Preparation required**

Study chapters 12 and 13 of the textbook.

Study the documents in the "notebook" on deposits at banks and on bonds issued by banks.

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**SECOND HALF**

**Mid-term examination, covering the topics studied so far.**

**SESSION 8 (WEDNESDAY JUNE 16)**

**Topics**

(a) Discussion of the mid-term examination.

(b) Investment banking, insurance and other sources of fee income.

**Preparation required**

Study chapter 14 of the textbook.

Study the documents in the "notebook" on the investment banks and the "bankinsurance companies".

Study the case "Allianz (A1): An Insurer Acquiring a Bank ?" (in the "notebook").

**SESSION 9 (TUESDAY JUNE 22)**

**Topics**

(a) The international and national regulations for the banking and financial services sector.

(d) The management of capital.

(e) Annual reports of banks.

**Preparation required**

Study chapter 15 of the textbook.

Study the documents in the "notebook" on the international and national regulations for the banking and financial services sector.

**SESSION 10 (WEDNESDAY JUNE 23)**

**Topics**

(a) Acquisitions and mergers in the banking and financial services sector.

(b) International banking and the future of banking and financial services.

**Preparation required**

Study chapters 19 and 20 of the textbook.

Study the case "Santander's Acquisition of Abbey: Banking Across Borders" (in the "notebook").

**SESSIONS 11 AND 12 (TUESDAY JUNE 29 AND WEDNESDAY JUNE 30)**

**Topics**

Financial derivatives: forwards, futures, options and swaps.

**Preparation required**

Study chapter 8 of the textbook.

Study the documents on financial derivatives in the "notebook".

**DATE TO BE ANNOUNCED**

**FINAL EXAMINATION, COVERING THE TOPICS STUDIED SINCE THE MID-TERM EXAMINATION.**

Jean Bellemans

March 18, 2010