COMMERCIAL BANK MANAGEMENT

MBAD 6156
Section U90
Spring 2012

I. General Information

Time: Monday, 5:30 P.M. - 8:15 P.M.
Location: Center City Building, Uptown
Instructor: C.W. Sealey, PhD
The Torrence E. Hemby, Sr., Distinguished Professor in Banking
Department of Finance
University of North Carolina at Charlotte
Friday Building, Room 249-A
Office Hours: Monday, 4:30 P.M. - 5:30 P.M. at the Center City Building,
or at the University campus by appointment
Phone Numbers: UNC Charlotte: 704.687.7613
email cwsealey@uncc.edu
Home: 704.366.3652

II. Course Materials

Required Texts: Anthony Saunders and Marcia Cornett, Financial, Institutions
III. Course Description

Techniques for the financial management of commercial banks. Topics of study include industry structure, administrative organization, management of assets, liabilities, capital, and financial analysis of the banking firm. Same as FINN 6156. Prerequisite: MBAD 6152

IV. Course Objectives

The objectives of this course are: (1) provide students with an introduction to the financial management of the commercial banking enterprise, (2) afford students with an understanding of the basic issues involved in value creation and risk management for banking firms, and (3) equip students with the technical and analytical tools, and strategic abilities necessary to understand the evolution and workings of the commercial banking industry.

Our main attention will focus on managing risk and return in the modern banking firm. Specifically, we will focus on the following areas:

1. identifying the distinguishing features of banks as financial intermediaries, their unique characteristics as businesses in our economy, and their sources of value-added in the economy;

2. identifying and understanding the sources of risk in banking and how these risks interact to understand the overall risk level that banks face in today’s economic, financial, and regulatory environment;

3. understanding how banks manage their risk exposure and the relationship of risk management to the creation of value for the bank;

4. understanding how the economic and regulatory environments of the bank impact bank decision-making;

5. developing technical, analytical and decision making skills in preparation for managerial responsibility in the financial management of the banking firm; and finally,

6. provide students with a foundation for more advanced academic and professional training and development in bank management.

V. Outline of Topics and Readings

In keeping with the main outline of the textbook, the topics covered will be divided into three major categories. These categories are in turn divided into a number of chapters. The outline of topics for class coverage, and the corresponding readings, is shown below. Although I have retained the three-section approach of the textbook authors, note that I have changed the names
and order of the sections in places. Also, please note that additional readings may be assigned from time to time to cover relevant current topics and events.

Topics signified with a double asterisk, ***, indicates those topics that I believe are of utmost importance in a course on bank financial management. These are topics we will cover in detail in class. Topics marked with a single asterisk, *, are topics that I judge of secondary importance and will be covered only briefly in class; however, students should peruse these chapters. The remaining topics may at times be discussed briefly, and students should at least skim this material. The sections within chapters that deal specifically with non-depository institutions, e.g., insurance companies, finance companies, etc., fall into the latter category.

Finally, specific dates for coverage of specific material are not given because I have found that in my considerable years of teaching that such limits present a hindrance to learning. In my view, learning does not take place on a precise time table. I will always briefly discuss the material to be covered next class. If a student wants to read ahead, as I have noted above, the outline shows the topics I deem most important.

1. Introduction to the Sources of Value-Added in Commercial Banking

*** (a) Why are Financial Institutions Special

Saunders and Cornett, Chapter 1

*** (a) Depository Financial Institutions

Saunders and Cornett, Chapter 2,

(b) Non-Depository Financial Institutions

Saunders and Cornett, Chapters 3, 4, 5 & 6

2. The Sources of Risk in Banking

*** (a) Overview of Sources of Risk

Saunders and Cornett, Chapter 7

*** (b) Interest Rate Risk

Saunders and Cornett, Chapters 8 & 9
** (c) Market Risk
Saunders and Cornett, Chapter 10

** (d) Credit Risk
Saunders and Cornett, Chapters 11 & 12

** (e) Off-Balance Sheet Risks
Saunders and Cornett, Chapter 13

* (f) Operating Characteristics and Risk in Banking
Saunders and Cornett, Chapter 14

** (g) Foreign Activities and Risk
Saunders and Cornett, Chapters 15 & 16

** (h) Liquidity Risk
Saunders and Cornett, Chapter 17

3. Managing Bank Risks

** (a) Managing Liability and Liquidity Risk
Saunders and Cornett, Chapter 18

** (b) Deposit Insurance, Bank Capital, and Capital Regulation
Saunders and Cornett, Chapters 19 & 20

* (c) Managing Risk via Products and Markets
Saunders and Cornett, Chapters 21

** (d) Managing Risk with Derivative Products
Saunders and Cornett, Chapter 22, 23, & 24
VI. Other Information

1. The above outline is intended to serve as a guide so that you can match the appropriate textbook material with each topic. Students should read the assigned material and be prepared to discuss it prior to the class when each topic is covered. In addition, students should regularly review current business events, especially those that involve financial markets and the financial services industry. The best way to develop an awareness of current financial events is by reading *The Wall Street Journal*, *The Economist*, *Business Week* and similar publications.

2. This course is an applications-oriented course. Lectures are based on the material in the text, and other material if assigned, and will be related to current events where appropriate. Throughout the semester we will relate the textbook material to real financial problems in an effort to understand and evaluate current events occurring with financial markets and the financial services industry. Exams are based on the assigned reading materials, lectures and classroom discussions.

3. Given the limited number of hours allocated for class meetings, class time is not sufficient to cover all of the material in the assigned readings. However, students should prioritize their reading according to level of importance as indicated in the outline above. Class time will be devoted to discussions of the more difficult conceptual material contained in the readings, and its applications. The more descriptive material contained in the course readings can be assimilated easily by students outside the classroom; therefore, this material frequently will be discussed in class in a cursory fashion.

4. All students are required to be familiar with the following codes defined in the 2007-2009 UNC-Charlotte Graduate Catalogue and to conduct themselves in accordance with those standards:

   A. The UNC-Charlotte code of Student Responsibility (Policy Statement 104, which can be found at www.legal.uncc.edu/policies/#student); and
   B. The UNC-Charlotte code of Student Academic Integrity (Policy Statement 105, which can be found at www.legal.uncc.edu/policies/#student).

VII. Examinations and Grading

1. Examinations

   a) Examinations will cover the assigned reading materials, lectures, and topics discussed in class. Exam questions will take a variety of forms including, but not limited to, essay questions, short answer questions, and problem solving opportunities.
b) Two examinations will be given in this course: a midterm exam, tentatively scheduled for March 12, 2012, and a comprehensive final exam at the regularly scheduled exam date.

c) A term paper will be required of each student. The parameters that apply to this assignment will be discussed in class.

2. Grading

Final course grades will be determined according to the following weighting scheme.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Possible Points</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Midterm Examination</td>
<td>100</td>
<td>35%</td>
</tr>
<tr>
<td>Final Examination</td>
<td>100</td>
<td>50%</td>
</tr>
<tr>
<td>Term paper</td>
<td>100</td>
<td>15%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>300</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Final grades will be assigned on the basis of the following point ranges. While the point ranges may be subject to downward revision, they will not be increased.

<table>
<thead>
<tr>
<th>Weighted Total Points</th>
<th>Course Grade</th>
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<tbody>
<tr>
<td>90-100</td>
<td>A</td>
</tr>
<tr>
<td>80-89</td>
<td>B</td>
</tr>
<tr>
<td>70-79</td>
<td>C</td>
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<tr>
<td>Below 70</td>
<td>U</td>
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