

Intensive Bank Analysis

A three-day case study based workshop for credit risk, fixed income, origination and regulatory professionals. An in-depth analytic approach to the credit analysis of both local and international commercial banks.

TARGET AUDIENCE

Intermediate level workshop for credit risk management, fixed income, origination and regulatory professionals. The two day Introduction to Bank Financial Statements is designed as a preparation for those with limited accounting and banking experience. The workshop Emerging Market Bank Analysis covers a similar analytic approach but with a focus on emerging market specific issues. This workshop is recommended as a preparation for our advanced level workshops: Early Warning Signals in Banks and Advanced Bank Analysis: Evaluating Complex Financial Statements.

COURSE OBJECTIVES

Participants will be equipped to:

- Use a structured approach to the analysis of banks, incorporating the CAMELS framework within the wider context of the operating environment and support.
- Identify strong & weak performers using a detailed analysis of financial statements within the context of local and international accounting and business norms.
- Identify financial, qualitative and market early warning signals of credit migration.
- Stress test bank capital and ability to withstand credit, market and liquidity risk.
- Evaluate strategy and risk management capabilities within the context of the current and future economic climate and changing competitive, political and regulatory conditions.

CONTENT

ANALYTIC OVERVIEW

- Overview of the frameworks and tools of bank analysis: operating environment, financial fundamentals, management, support
- Rating agency approaches: issuer ratings, individual / financial strength and support ratings
- CAMELS (capital, assets, management, earnings, liquidity, sensitivity to market risk)
- Market perspective on credit: equity indicators, credit default swap and bond market indicators
- Purpose and payback model: a structured approach to credit analysis.
- Key issues in exposures to banks: exposure profile, seniority, safeguards, pricing.

OPERATING ENVIRONMENT

Macro economic and systemic issues

- Impact of macro economic variables on performance
- Bank systemic risk: macro prudential indicators
- Sub-prime and other drivers of credit crunch
- Competitive and structural issues of the banking system.

Regulation and supervision

- Key regulations: purpose and implementation
- Liquidity: quantitative and qualitative measures
- Capital: Basel I and II: Pillar I, II and III
- Standardised and advanced approaches
- Types of capital: core vs. hybrid; tier one, two and three
- Internal capital adequacy assessment process (ICAAP).

FINANCIAL FUNDAMENTALS

Statement logic

- Relating business mix to financial statements
- Accounting policies and disclosure: IFRS and local GAAP; fair valuation – securities, derivatives, own debt

Business risk

- Loan portfolio analysis: uncovering the risk profile of the loan portfolio; key differences between types of bank
- Loan quality: impaired loans and reserve adequacy
- Off balance sheet exposures: lending commitments, SIVs, conduits and other special purpose vehicles
- Trading risk: assessing securities and derivatives portfolios, use of value at risk (VaR) models
- Investment risk: valuation and accounting policies, hidden reserve or black hole.

Performance risk: earnings

- Balancing the risk/return profile: strategy and risk appetite
- Income stability and diversity: earnings at risk
- Control of expenses: targets and peer comparisons.

Financial risk - liquidity

- Funding risk: stability and variety of funding sources, contingency funding
- Liquidity of assets: identifying truly liquid assets, stable funding of illiquid assets
- Liquidity of liabilities: stability of deposit base, dependence on short-term wholesale funding, inter-bank market, key challenges of repo and CP funding
- Cash capital, stress testing and other tools to control liquidity risk
- Gap management: using the tenor and interest rate mismatch tables to highlight re-pricing and refinancing risk
- Securitisation vehicles: accounting and credit implications.

Financial risk - solvency

- Leverage ratios: benchmarks and challenges
- Capital adequacy: measuring size, quality and adequacy of capital base; regulatory capital ratios and assessing regulatory capital for non deposit takers
- Stress-testing capital for market and credit write-downs.

Early warning signals

- Financial and non-financial indicators of distress
- Market indicators: equity, CDS and bond indicators
- Lessons learned from failed banks

MANAGEMENT, FRANCHISE AND OWNERSHIP

- Management: strategy, systems, skills, structure
- Risk management
- Franchise - strength of banking business model
- Ownership: holdcos, conglomerates, double leverage

SUPPORT

- Reliance on support: rating floors, which creditors are supported, loss absorbing capability of hybrid capital
- Solvency versus liquidity problems
- Regulatory responses to banking crisis: recapitalisation, guarantees, bad banks, insurance.