

Emerging Market Bank Analysis

A three-day workshop for credit risk management, origination, banking, fixed income and regulatory professionals focusing on emerging markets. A structured approach to the analysis of emerging market banks, including limited disclosure situations.

TARGET AUDIENCE

Credit risk management, origination, banking, fixed income and regulatory professionals focusing on emerging market banks. This workshop is targeted at an intermediate level and is the next step after the two-day Introduction to Bank Financial Statements workshop.

COURSE OBJECTIVES

Participants will be equipped to:

- Apply a structured analytic approach incorporating the operating environment (sovereign and systemic risk), financial fundamentals, management and support.
- Identify banking systems with high systemic risk and evaluate the potential impact on the banking system.
- Evaluate the financial statements to identify strong and weak performers and recognise the key areas of vulnerability in emerging market bank financial statements.
- Use both international and local financial, qualitative and market indicators to distinguish early warning signals of credit deterioration.
- Identify the need for and likelihood of support for different types of creditors in a crisis.

CONTENT

ANALYTIC OVERVIEW

Structured approach

- Frameworks and tools of analysis: sovereign, operating environment, management and franchise, financial fundamentals (CAMELS) and support.
- Differing approaches - banks, rating agencies, regulators, equity and bond investors.
- Sovereign and bank debt ratings: issuer default, national, individual and support.
- Market indicators of risk: equity, bond, CDS and deposit rates.
- Purpose payback model: structured approach to analysis.

OPERATING ENVIRONMENT

Sovereign Risk

- Key structural issues - Latin America, Eastern Europe, Asia and Africa
- Key macro economic indicators - GDP, interest, inflation and FX rates, current and capital account, savings and investment, unemployment etc.
- Sustainable debt levels - public and private sector; domestic and external debt and liquidity
- Social and political factors - political stability, labour force, legal system, trade and political links, contagion.

Banking system

- Macro prudential indicators of systemic risk: credit growth, asset price inflation.
- Credit crises: causes and effects.
- Competitive environment: role of key players, banking penetration, product diversification.
- Legal system: bankruptcy laws & recovery rates.

Regulation and supervision:

- Prudential supervision and conflicts of interest.
- Key regulations: international versus local benchmarks, implementation.
- Capital adequacy: Basel I versus Basel II; liquidity

FINANCIAL FUNDAMENTALS

Statement logic

- Banking business models and balance sheet configuration.
- IFRS versus local GAAP: key differences.
- Limited disclosure: looking behind the numbers.

Business risk

- Loan quality: growth, concentrations, impaired loans (definitions and accounting).
- Reserve adequacy: provisioning, write offs and recoveries; capital and profit distortions.
- Off balance sheet exposures: trade finance, derivatives and other contingencies.
- Trading and investment assets: liquidity pool or black hole.
- Related parties: contagion and other risks.

Performance risk

- Risk / return profile: quality and diversity of income.
- Control of expenses: high inflation and IAS 29.
- Earnings accrual and asset impairment.

Financial risk – liquidity

- Stability and variety of funding:
- Stability of insured and uninsured deposit base; dependence on inter-bank, access to money and capital markets.
- Liquidity: liquidity of assets and liabilities, contingency funding plans.
- Gap management: FX, interest rate and maturity exposures.

Financial risk – capital adequacy

- Capital adequacy: size, quality and adequacy; economic and free capital.
- Adjusting capital for distortions.

MANAGEMENT

- Management - structured approach: strategy, systems, skills and structure
- Risk management – credit assessment and recovery; liquidity preservation, trading controls and operational risk.
- Franchise and competitive advantage
- Shareholder risks: contagion, related party, transparency, succession.

SUPPORT

- Solvency and liquidity problems: potential solutions
- Lender of last resort - safety net from shareholders and/or government.

