

Early Warning Signals in Banks

A two-day master-class for experienced analysts offering an insight into the causes and early warning signals of credit deterioration and failure in banks. The workshop contains both local and international cases of distress to identify common themes and financial, non-financial and market indicators.

TARGET AUDIENCE

Experienced credit risk and fixed income professionals with a good understanding of the analysis of financial institutions. This workshop follows on from our intermediary level workshops: Intensive Bank Analysis, Emerging Market Bank Analysis and Non-Bank Financial Institutions. Advanced Bank Analysis: Evaluating Complex Financial Statements is a complementary advanced level workshop which drills down into the financial statements of banks with complex activities and accounting practices.

COURSE OBJECTIVES

This two-day masterclass offers insight into the driving forces behind bank failures, what we can learn from the experience and use to help us with identifying early warning signals in financial institutions. The aim is to equip participants with the knowledge and skills to proactively:

- Understand the causes and symptoms of both systemic and individual bank failure.
- Anticipate and quantify the vulnerability of institutions to liquidity and refinancing risk.
- Stress-test solvency for write-downs from credit, trading, investment and derivative positions.
- Differentiate qualitative, quantitative and market indicators of credit deterioration.
- Identify the likely triggers or events which would change the credit standing of a company in the future.

CONTENT

ANALYTIC OVERVIEW

This section demonstrates the use of a structured approach to the identification of early warning signals of credit deterioration.

Signs of distress

- Common themes in troubled financial institutions: excessive growth, over-concentration, volatile earnings sources, asset and liability mismatches, dependence on unstable funding
- Symptoms of a company's deteriorating credit standing: financial, non-financial and market indicators.

Structured analytic approach

- 4-step approach to focus on key issues: purpose, payback, risks and structure
- Purpose of the exposure and sources of payback: importance of refinancing in financial institutions, challenges to downsizing assets and availability of external support
- Risks to repayment: Identify the key macro, sector and company specific business and financial risks which might jeopardise repayment
- Structure: conclude on appropriateness of the facilities, assess the level of protection and critique the pricing to assess the risk ~ return
- Case study: a sub-prime lender. Lessons learned from the origins of the crisis.

OPERATING ENVIRONMENT

The focus of this segment of the course is on the key macro-economic and sector trends that are likely to erode a bank's creditworthiness.

- Systemic risks: sovereign risk, macro variables, competitive pressures, shadow banking system, quality of regulation and supervision

- Macro prudential indicators: potential areas of stress going forward
- Support for the banking system: too big to fail or too big to rescue?
- Case study: stressed countries and banking systems
- Banking crises: causes and effects;
- Regulation and supervision: contribution to banking crisis and impact of regulatory change on different types of institutions going forward

MANAGEMENT AND SHAREHOLDERS

This section will focus on comparing management responses to a challenged sector.

- Companies in crisis: recognising weak management and lack of integrity
- Disclosure levels: identifying poor or inappropriate disclosure and its implications
- Risk management challenges: credit problems, liquidity, reputation, operational risk
- Corporate governance: early warning signals of inappropriate management structures, governance levels and management culture
- Double leverage: challenges of a leveraged holding company
- Inter-group support: ability of a stressed parent company to support subsidiaries
- Case study: a failed investment bank.

BUSINESS RISK

This section will focus on companies with challenged business models and companies in crisis.

- Credit risk: asset quality in the loan book, excessive growth and concentrations, hidden impaired loans, using surveillance reports to anticipate credit risk problems
- Market risk: stress and back testing VaR; lessons learned from the crisis
- Banking book market risk: structural interest rate and FX risk
- Derivatives: hidden credit and market risks, appropriate exposure levels
- Performance risk: assessing earnings volatility
- Case studies: bank failures due to exposures to credit risk, trading and investment losses, derivatives and structural interest rate risk.

FINANCIAL RISK

This section will focus on the stability of a company's funding structure and the ability to withstand solvency and liquidity crises.

- Assessing the diversity and stability of funding sources: refinancing risk: quantifying liquidity and financial flexibility
- Asset and liability management concerns: FX, interest rate and maturity mismatches
- Liquidity risk management: managing and stress-testing transaction and funding stability, off balance sheet exposures
- Solvency: stress-testing quality and adequacy of capital to withstand write-downs
- Case studies: institutions without a stable deposit base; off balance sheet exposures and inadequate capitalisation.

