

# Advanced Bank Analysis: Evaluating Complex Financial Statements

A two-day advanced case study based workshop which drills down into the financial statements of banks and securities companies in order to identify and quantify the risks of more complex business lines.

## TARGET AUDIENCE

Experienced analysts, regulators, risk and fixed income professionals with a good understanding of the analysis of financial institutions. This workshop is a follow-on from our intermediary level workshops: Intensive Bank Analysis, Emerging Market Bank Analysis and Non-Bank Financial Institutions. Other complementary workshops include Risk Management in Banks & the Capital Implications and Early Warning Signals in Banks.

## COURSE OBJECTIVES

Participants will be equipped to:

- Recognise how and the extent to which more complex banking businesses are reflected in the balance sheet and how the risk profile is evidenced in the income statement
- Identify and quantify exposures where all or part of the exposure is off-balance sheet, including derivatives and structured finance vehicles
- Understand how the new accounting and reporting conventions under both US GAAP and IFRS impact differently the financial statements of banks and investment banks
- Use the information provided to evaluate the bank's risk profile and appetite.

## CONTENT OVERVIEW

### Products

- Complex banking products: risk profiles and analytic challenges - cash, derivative and structured products
- Transaction flows: securities and derivatives trading products, other investment banking activities.

### Accounting

- Accounting for securities and derivatives transactions
- Overview of new accounting principles
- Impact of FAS 133 and IAS 39 on financial instrument and derivatives accounting
- Key differences between US GAAP and IFRS
- Impact of Basel II on the financial statements and disclosure.

## STATEMENT LOGIC

### Cash market transactions

- Long and short positions in equities, bonds and commodities
- Loan and loan commitments: fair valuation and cost plus impairment techniques; banks who use a mix of fair value and cost accounting; contingent liabilities
- Financing transactions: stock borrowing and lending, repos and reverse repos
- Re-hypothecation of client balances – liquidity challenges
- Where these items will be reflected in the financial statements.

### Derivative transactions

- Treatments of trading and hedging transactions under FAS 133 and IAS 39
- Methodologies for quantifying credit risk: factors affecting potential future exposure (PFE) calculations
- Expected disclosures and key additional questions to ask.

### Structured finance transactions

- Types of transaction: securitization, other structured credit products, other off-balance sheet vehicles e.g. SIVs, ABCP
- Different risk profiles: what went wrong?
- When and where these will come on balance sheet
- Role of investment banks in the originating, securitizing, trading and investing in RMBS liquid and non-liquid (equity) tranches
- Quantifying exposure to CDO's, MBS, and SIV's: valuing securities marked to model when market values can not be established.

## FINANCIAL STATEMENT ANALYSIS

### Securities and derivatives activities

- Using the financial statements to assess trading and market risk
- Relating market risks to the success of the business model: key sensitivities to different markets
- Reliance on, and volatility of, trading profits
- Measuring VaR levels: benchmarking performance against peers
- Other disclosures about market risk: back testing, stress testing, other risk measures

### Lending and underwriting activities

- Using the financial statements to assess credit risk: insights and limitations of traditional impaired loans and provisioning ratios
- Impact of derivatives on credit risk: credit derivatives used for hedging and potential future exposure on all derivative positions
- Best practice: need for global systems (limits and outstandings), models that accommodate correlated variables; Credit VaR
- Case: credit risk on- and off-balance sheet activities and derivatives.

### Financing activities

- Using the balance sheet to assess liquidity risk and capital adequacy
- Relating transaction flows to liquidity
- Impact of different business lines on liquidity: trading, broking, prime brokerage, etc.
- Liquidity regulations
- Legal structure: implications of double leverage
- Off-balance sheet exposures and their implications; window dressing
- Capital adequacy: differences between core and hybrid capital
- Distinction between a liquidity and solvency crisis
- Ratios: what they mean and how they should be used
- Case: liquidity risks, quality of capital and early warning signals.

