

Principles of Bank Analysis

OBJECTIVES

This course will cover topics including:

- Evaluate the various aspects of fundamental credit analysis for a bank
- Understand banking risks, risk management and why banks fail
- Discuss capital, regulatory influences and stress testing
- Evaluate further credit risk analysis including probability of default
- Develop a credit rationale for two bank case studies utilizing the Credit Scorecard approach
- Culminate in formal team presentations

Course overview: The course will be a combination of lecture, group and individual exercises, and group discussion. Two case studies will be used throughout the course to highlight specific learning points. S&P Capital IQ's products will be discussed when appropriate.

This course does not teach the Standard & Poor's Ratings Services' Credit Ratings criteria or methodologies. The instructors are independent consultants sourced through our training firm partner, Global Financial Markets Institute, Inc. The instructors teach courses on behalf of S&P Capital IQ and as such, their views do not necessarily reflect the views of S&P Capital IQ. This agenda is subject to change without notice

CPE Credits: 15

CFA CE Credits: 13

DAY 1

9:00 a.m. – 9:15 a.m.

Course Objectives and Participant Introduction

9:15 a.m. – 10:45 a.m.

Session 1: The Fundamentals Of Bank Analysis

The opening session discusses the key corporate structures of a bank and the analysis of the income statement and balance sheet. Participants will appreciate the key ratios used to analyze a bank and understand the key analytical frameworks that are used to analyze banks. By the end of this session, course participants should be able to explain:

- Banking in context and corporate structures
- Banking activities and the "business of banking"
- Analytical Frameworks
 - CAMELS and CROCODILES
 - Structured Approach to Bank Analysis
 - Balance sheet context
 - Risk expectations
 - Income statement clarification
 - Management evaluation
- Enterprise Risk Management
- Balance sheet structure – the starting point to bank analysis

Case Study – Regions Financial and Commerce Bancshares Balance Sheets

10:45 a.m. – 11:00 a.m.

Coffee Break

11:00 a.m. – 12:30 p.m.

Session 1 Continued:

- How banks make money
- The income statement
- Net interest income and the yield curve
- Provisioning for loan losses

Exercise: Measuring and Managing a Liquidity Gap

Exercise: Regions Financial and Commerce Bancshares balance sheets

- Discuss the importance and differences of key bank ratios
 - Profitability
 - Operations
 - Risk

Exercise: Regions Financial and Commerce Bancshares – key ratios and trends

12:30 p.m. – 1:30 p.m.

Lunch

1:30 p.m. – 2:30 p.m.

Session 2: The Fundamentals of Credit Analysis

In this session, participants will enumerate the various risks that are facing banks during different times in the credit cycle. By the end of this session the course participants should be able to complete:

- Credit risk overview – qualitative and quantitative
- Examine general and business risk – where are we in the credit cycle
- Estimating default and default concepts – PD, LGD, EAD

2:30 p.m. – 3:30 p.m.

Session 3: Risk Management and Why Banks Fail

In this session, participants will appreciate the risks that banks face and how banks can manage their risks. Participants will also review the reasons for the last banking crisis and review a failed bank. At the end of the session, course participants should be able to:

- Discuss how banks identify, measure, control and monitor their risks
- Examine the key reasons for bank failure
 - Balance sheet structure
 - Portfolio management
 - Liquidity issues
- Examine the anatomy of a financial crisis

3:30 p.m. – 3:45 p.m.

Coffee Break

3:45 p.m. – 5:00 p.m.

Session 3: Continued

DAY 2

9:00 a.m. – 10:15 a.m.

Exercise: Example of a bank failure. In groups, participants will review the income statement, balance sheet and ratios of Washington Mutual and answer the following: What key figures show financial deterioration? When did the financial decline start?

10:15 a.m. – 10:30 a.m.

Coffee Break

10:30 a.m. – 12:00 p.m.

Session 4: Capital, Regulatory Influences and Stress Testing

In this session, participants will understand the key regulatory issues that are facing the banks today. By the end of this session the course participants should be able to:

- Discuss the implications of domestic bank regulation and how to manage in a time of constant regulatory uncertainty
- Analyze the merits of Stress Testing
- Identify key aspects of the Basel II capital adequacy framework
 - Describe the three pillars, their purpose, and influence on banks
 - Define Tier I, Tier II and Tier III capital
- Understand key RAROC concepts

Exercise: Pricing a BB rated loan

- Analyze potential impact of proposed Basel III reforms

12:00 p.m. – 1:00 p.m.

Lunch

1:00 p.m. – 2:00 p.m.

Session 5: The S&P Analyst Perspective

2:00 p.m. – 2:30 p.m.

Session 6: A Scorecard Approach

- Credit Assessment Scorecards
- S&P's scoring methodology

2:30 p.m. – 2:45 p.m.

Coffee Break

2:45 p.m. – 3:30 p.m.

Session 7: Develop And Defend A Credit Rationale

After thoroughly analyzing Regions Financial and Commerce Bancshares, participants will be asked to formulate and defend their analysis. By the end of this session, course participants should be able to:

- Discuss how credit analysts form a rationale and what the results may be
- Make better-informed business and financial decisions by developing a relative attractiveness assessment from all of the previous sessions
- Analyze both qualitative and quantitative factors

Exercise: Apply the learning objectives to develop and present a sound credit rationale utilizing the team-based case studies

3:30 p.m. – 4:30 p.m.

Group Presentations

4:30 p.m. – 4:45 p.m.

Session 8 - Risk Lessons – What Have We Learned?

4:45 p.m. – 5:00 p.m.

Course feedback and close

Course agenda is subject to change without notice.

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