

"A step by step, systematic and practical approach to credit analysis and credit applications"

The presenter was for many years a senior transactor and credit officer in Tier 1 multinational banks. In this capacity he personally negotiated and closed large international transactions and reviewed or approved thousands of credits.



CORPORATE CREDIT ANALYSIS

AND RISK MANAGEMENT

This course has become a permanent module in the training programmes of several European and South African banks.

What the course is about:

Learning a practical methodology to assess corporate credits, both from a risk and a pricing point of view.

Replicating the actual credit application process as closely as possible through group discussions and submissions of real life credit proposals. The companies chosen are a mix of foreign and South African companies.

What it is not:

A power point presentation of a random list of issues to consider in the credit process

Jean-Charles Pirlet



Jean-Charles spent seven years in the Credit, Corporate and Investment Banking divisions of Citibank, including three years in the World Corporation Group in London as Vice-President managing a portfolio of UK multinationals on a worldwide basis.

He subsequently worked as Director of Project Finance and Acquisition Financing for Security Pacific in Frankfurt before returning to South Africa in 1993 as Head of Corporate Banking (Senior Vice-President) for the local operation of ABN-Amro.

Jean-Charles has broad credit experience gained over 20 years as credit analyst, credit officer and credit committee member at Citibank and ABN-Amro,

covering Corporate and Investment Banking, including, inter alia, Syndications, Project Finance, Leveraged transactions and Asset securitisation.

He provides in house training to international financial institutions such as Citibank, Deutsche Bank, ING, Nordea, CIBC, Royal Bank of Scotland or West LB and runs public courses in the UK, Honk Kong, South Africa, Singapore and the Middle East.

He also assists banks with the implementation of the Basel II Accord in a consulting capacity and is Basel II Programme Director for Bank T and D Consulting Ltd, a London based consulting firm.

He holds an LLB and an LLM in Tax Law from the University of Liège in Belgium.

Course description

This intensive course provides a step by step, systematic and practical approach to credit analysis and credit applications. The methodology is repeatedly applied to companies operating in a range of different industries and compared to the major rating agencies' rating methodologies.

The focus is on cash flow analysis and the identification of critical success factors, based on industry studies. The impact of Basel II is covered through the assignment of internal and external credit ratings, and the calculation of capital requirements and returns according to the Advanced IRB Approach.



Duration: 5 days

Level: Intermediate

The objectives of the course are:

- To provide participants with a sound understanding of credit risk, focusing on:
 - Capital requirements-the regulatory framework of Basel II-III.
 - The pricing of transactions- **why it is a credit risk issue** and how it relates to capital requirements and Returns on Equity (ROE)
- To develop the participants' ability to understand the borrower's business and assess its ability to liquidate the bank's exposure. - Use of industry analysis modules.
- To provide participants with a standard methodology or "recipe" to assess corporate credit risk and submit consistent credit applications.
 - Identification of Fundamentals
 - Financial analysis-how to analyse financials
 - Critical success factors and Risk analysis
- Extend the analysis to corporate finance issues
 - Debt versus capital
 - Dynamics of mergers and acquisitions.
 - Valuation of companies.

The Course Drivers

I. Risk analysis and critical success factors

Credit applications often tend to be too “numbers orientated”. Numbers are only an indication of the future, sometimes a misleading one.

The identification of the economic and financial fundamentals and from these, the critical success factors of the industry in which the company operates, is the overriding theme of the case studies.

Industry analysis modules of approximately 25 pages are provided to help the delegates in the process of critical success factors identifications.

II. Financial analysis –The meaning of numbers

A common weakness of financial analyses is to merely paraphrase the numbers.

The financial analysis section must express *an opinion* on the company’s performance.

How to extract an opinion from the numbers, and how to link it to the risk analysis and the conclusion is an essential objective of the course.

From a technical point of view, the calculation and interpretation of cash flows receives particular attention. The meaning of ratios is also systematically addressed in the industry studies.

III. Risk inherent in different types of exposures.

Different products have different risk profiles. This section of the course provides an opportunity to learn more about the specific risks and capital requirements of different products, particularly the more complex ones, such as derivatives.

Examples are used in the case studies to show how different risk profiles affect credit decisions and capital adequacy requirements. (Credit Conversion Factors)

IV. Credit risk mitigation

Collateral and guarantees are an integral part of credit applications. They are given more recognition by Basel II and the case studies apply the impact of the Accord on deal structuring to enhance capital requirements, pricing and returns.

V. Internal ratings and Pricing

Under Basel II, the credit application or review is also the platform for the assignment of internal credit ratings, which determine the capital allocated to the exposures and ultimately the pricing required to achieve the Return on Equity (ROE) targeted by the bank.

The concepts of Internal Ratings, Economic Capital, Expected and Unexpected Losses, Risk Adjusted Return on Capital (RAROC), which underpin the new credit framework, must therefore be understood and are explained in detail before providing a comprehensive, but practical overview of the Basel II framework.

In each case study, delegates are required to allocate an internal/external rating to the credit, allocate a PD and calculate the transaction’s ROE based on a given pricing.

Day One

I. Credit risk, Capital Requirements, Returns and Pricing

- Definition- comparison with other types of risks faced by banks
- The regulatory frameworks-Capital adequacy requirements
- Definition of capital
- Risk weighted assets.

ROE calculations- Pricing methodology: the RORAC concept.

- How margins/spreads/commissions etc. translate into Return On Equity.(ROE)
- “Hurdle rates”
- Impact on business decisions/allocations of capital.
- Why pricing is a credit issue
- The role of provisions versus capital

Basel II

Underlying concepts

- Internal ratings and External ratings
- Economic capital
- Expected and Unexpected losses
- Probability of default, Loss Given Default and Exposure at Default.

The Basel II Accord- a fast-track approach

- Objectives
- The three pillars
- Capital Adequacy Requirements –The 3 Approaches
- Credit Risk Mitigation- Impact of Guarantees, Credit Derivatives and Collateral

Exercises: calculation of Capital requirements and ROE in the Advanced IRB Approach.

II. Credit analysis and Credit reviews-Theory

- Objectives
- Sources of information

1. Prerequisite: Understanding the company’s business and the industry’s dynamics:

Economic fundamentals of the industry/sector

Financial fundamentals of the industry/sector

- Meaning of financial ratios
- Understanding the approach-cash flow vs. balance sheet.
- Implications on ratio analysis
- Cross- industry ratios comparison

Critical success factors

Case study: how to analyse a retail company, using the “How to analyse a retail company” module.

2. Methodology: How to approach a credit application

Minimum requirements
Using the **credit analysis template**

Day Two

III. Case studies integrating the knowledge acquired.

Case studies are based on real life companies as well as the use of industry analysis modules. Cases are first discussed in groups, then presented to the class and discussed. All case studies follow the approach outlined in the first case study. In each case, delegates are required to assign internal ratings/external ratings equivalents, use PD’s, calculate risk weights, capital and returns.

Case Study 1- Large retailer

➤ Group work

- Based on the retail industry study, show how the company meets or does not meet the industry critical success factors.
- Using the credit analysis template, draft a summarised proposal, assign an internal/external rating and calculate the bank’s ROE of the proposed transactions
- Compare it with the proposed model credit application.

• Presentation to class and discussion

Case Study 2- Building products distributor

- Delegates must identify the company’s business model and its rationale
- The case focuses on critical success factors identification and highlights the risks of over-enthusiastic credit decisions based on a good set of results.

Day three

Case Study 3 – Chemical Company

- Based on the chemical industry study, show how the company meets or does not meet the industry critical success factors.
- Using the credit analysis template, draft a summarised proposal, assign a rating and calculate the ROE of the proposed transaction (Acquisition of another chemical business)
- Compare the conclusions with the company's performance in subsequent years. What does the cash flow reveal? Management is economical with the truth.
- Presentation to class and discussion

Case Study 4- Beer industry

- Four annual reports of international breweries are provided. Delegates must identify the industry's economic and financial fundamentals, the winners and losers and assign external ratings.
 - The actual external ratings seem at odds with the financial ratios, as highly geared groups with negative net worth still attract investment grade ratings.
 - The external ratings assigned by the delegates are compared with the actual ratings.
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- Delegates are asked to compare the ratios of 8 international breweries contained in a table and to show how they reflect these companies past activities and how they are an indication for the future.

Day Four

Case Study 5- High-Tech Company

This case emphasizes the importance of a sound business model and lending position. The numbers are misleading

Case Study 6 – Airline industry

Four annual reports of international airlines are provided. Delegates must identify the industry's economic and financial fundamentals, as well as the different business models.

Delegates must identify the winners and losers and recommend the financing of an aircraft for one of the companies.

Day Five

Case Study 7 - Diversified Industrial Concern with Overseas operations

The case provides an example of a large profitable group that faces a gearing problem.

Delegates must identify the reasons for this by analyzing the cash flows and provide a solution.

The impact of currency translation and conversion risks are also reviewed in detail.

Afternoon: Test

Delegates write a credit application based on a real life company.

Who we are

Analytiques C & F Ltd is incorporated in England and based in London. It specialises in all the aspects of Credit Risk including Financial and Credit Analysis, Capital requirements, the Basel II Accord, portfolio management and legal documentation.

It is a provider of both consulting and training services in these fields.

Where we work

Analytiques was set up to address the needs of the African market, in line with the long association of its directors and staff with the continent. Although this remains the company's main focus, the directors of Analytiques are routinely involved in training or consulting assignments in other parts of the world, mainly in Europe and the Middle East, thus keeping abreast with the latest developments in finance.

Our clients

Our clientele consists of banks or other financial institutions, either directly through bilateral contracts or through major international training firms to which we subcontract. The latter include 7City and Crown Agents in the UK and Ethan Hathaway in Hong Kong.

Our approach

All our trainers or consultants have strong academic qualifications, conduct their own research and produce their own study material. But because it is practical guidance and concrete solutions that our clients expect, years of hands-on senior management experience gained with leading international banks and in major financial centres are a mandatory requirement for our staff and what best describes our business franchise.

Analytiques

Our Competitive edge

Contrary to most training firms, the owners and directors of Analytiques are *also* the key subject matter experts.

We eliminate expensive intermediaries and pass on the benefit to our clients.

Also, you discuss your training requirements with experienced finance specialists, not sales people.

In-House Training

Although we do organise public courses at regular intervals most of our courses are delivered in-house, a cost effective solution that enables us to adapt the course contents to the precise requirements of our clients.

Some credit programmes for example have been run for more than 15 times for the same bank in the past 5 years.

In Africa, in-house courses have been provided to a large number of banks or corporates including, inter alia, Barclays (Kenya, Tanzania and Uganda), Nedbank, ABSA, Standard Bank, Rand Merchant Bank, Trust Bank (Ghana), National Bank of Malawi or Shell Africa.

See our website for a non-exhaustive list of in-house clients in other countries.