

Business Environment & Strategy Risks Analysis: “An Advanced Approach to Credit Analysis & Lending”

4 Days

COURSE OVERVIEW

The workshop teaches advanced tools, techniques and concepts to analyze a borrower's business environment and business strategy to determine loan repayment ability. Today's volatile business environment (oil prices, subprime crisis, climate change etc) present high non performing loan (NPL) risks to banks. Similarly a borrower's business strategy determining its competitiveness and market share would ultimately determine its loan servicing ability.

LEVEL

Advanced

WHAT WILL I GET OUT OF IT?

On completion of the workshop, a participant will be able to:

- Identify the weaknesses in present lending approaches focusing on financial analysis and security taking and their contributions to non performing loans
- Apply a Business Environment Scanning Framework to identify the threats and risks faced by a borrower in today's fast changing environment
- Apply a Business Decisions Financing Framework to analyze a borrower's short term repayment ability risk and mitigating factors
- Apply a Business Strategy Framework to analyze a borrower's medium to long term loan repayment risk and mitigating factors
- Apply a Value Chain Framework to finance groups of companies, holding companies and intercompany advances with minimum risks
- Transfer workshop learning to the workplace from applications of the above in case studies

WHO'S IT FOR?

The workshop will benefit participants fitting one or more of the following profiles seeking to update existing credit skills or develop new ones:

- Department heads, team leaders, relationship managers, credit analysts in investment/merchant,
- corporate, commercial/business, development and Islamic banking with lending responsibilities
- Credit reviewers, credit auditors and other risk management personnel with responsibilities for
- maintaining loan portfolio quality

- Loan workout or rehabilitation personnel with responsibilities for restructuring loans to minimize loan default losses
- Financial services regulatory bodies personnel with responsibilities for ensuring sound lending practices in financial institutions
- Rating agencies personnel with responsibilities for evaluating and assigning risk ratings to corporations
- Corporate advisors in IPOs, debt restructuring, mergers & acquisitions seeking to structure financing arrangements for such transactions
- Institutional investors and fund managers seeking new risk evaluation tools to strengthen investment decisions

WORKSHOP METHODOLOGY

Formal lectures, group discussions and exercises and case studies evaluation comprise the core teaching methodologies. The workshop emphasizes applications of concepts and methodologies taught for immediate transfer of learning to the workplace.

Whilst designed for high risk lending, the workshop is equally suited for, and will improve on, normal lending approaches.

COURSE CONTENT

Weaknesses of Present Lending Approaches for High Risk Lending

- Over reliance on financial statements, analysis and projections to determine loan repayment ability - case studies on Enron (US), Parmalat (Italy), Informatics (Spore)
- Inadequacies of S.W.O.T type analyses to determine soundness of a borrower
- Over emphasis on security and collateral analysis as insurance against loan losses
- Strong belief in past/historical performance as indicators of future loan servicing performance

Business Environment Analysis

- Present and future trends and developments to analyze borrower's ability to cushion sudden shocks (stress test) and loan default risks
- Country and industry risks to analyze borrower's ability for overseas expansion for bank financing

Business Decisions Analysis

- Proactive/dynamic credit analysis versus reactive/static credit analysis
- Business decisions versus assumptions to projections in determining future loan servicing performance
- Evaluating the borrower's business decisions - investment, financing, dividend and restructuring decisions – as indicators of short term repayment (next 12 months) ability

Business Strategy Analysis

- Business strategy as more reliable predictors of a borrower's ongoing and future loan servicing performance than assumptions and financial projections

- SCP (Structure-Conduct-Performance) Model to determine credit risk from the viability and profitability of the borrower's industry
- Generic Strategies Matrix to determine credit risk from the borrower's ability to compete
- Ansoff Matrix to determine credit risk from the borrower's expansion and growth strategy
- Boston Matrix to determine credit risk from the strength of borrower's product cashflows
- GE-McKinsey Matrix to determine credit risk from the borrower's positioning as a market leader, challenger, follower or exiter
- Market Positioning Matrix to determine credit risk from the borrower's product-market strategy
- Strategic Grid Matrix to determine and measure/quantify loan default risks to the bank
- Market research studies on business strategy in the corporate and SME sectors, and impact on bank lending
- Applications of strategy concepts in determining non performing loan trends and developments

Intercompany Financing Risks and Value Chain Analysis

- Concept of a value chain and its significance in financing a group of companies
- Low risk lending to holding companies and intercompany financing based on value chain analysis
- Constructing a value chain for a group of companies, and identifying low risk companies to finance
- Structuring an intercompany financing facility based on value chain analysis