

*“A step by step, systematic and practical approach to credit analysis and the pricing of credit risk”*

The presenter, a former senior transactor and credit officer at Tier 1 multinational banks, has written, reviewed or approved thousands of credit applications from large cross border syndications to SME loans.



## Writing Credit Applications

A Foundation Course

Credit analysis is complex and beginners can understandably be confused by the multitude of issues to consider in a credit review. Indeed even for more experienced bankers, risks are easy to overlook.

The course provides a methodology that ensures that all the issues that *must* be considered in a credit review are addressed in a logical sequence leading to the final recommendation.

More specifically, the course objective is to equip delegates with a framework to consistently and reliably:

- Identify all the potential risks of a credit at the inception stage and avoid poor credit underwriting decisions.
- Identify deteriorations in the credit quality of existing exposures.
- Identify and articulate the strengths of strong credits.
- Assess the profitability of a transaction by understanding the relationship between credit risk, capital requirements, returns and pricing.

The course replicates 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 local companies covering different industries.

**What the course is not:**

- A power point presentation of a list of issues to “look at” in credit applications
- A succession of case studies that teach little beyond the fact that lending can result in losses.

### The Tutor : 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 Banking, Financial Institutions, Structured finance, Leveraged transactions, Asset securitisation and Derivatives.

Analytiques provides training in the field of Operational and Credit Risk, including quantitative analysis, to international financial institutions such as Standard Chartered, Citibank, Deutsche Bank, Nordea, ING and most South African banks. Analytiques also run public courses in the UK, Africa, the Far East and the Middle East.

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 applications.

The methodology uses a standard template based on the structure of credit applications used by multinational banks. The template marshals, in a logical sequence, the issues that must be addressed to lead to a sound credit decision.

The course explains the rationale for every section of the template and how they interact to substantiate the final recommendation.



This is a basic course and therefore the case studies pay particular attention to :

- The most frequent mistakes made by analysts in credit applications.
- What can go wrong with credits and what to look out for.
- The identification of industry fundamentals and critical success factors as benchmarks for the financial and risk analyses.
- How to read annual reports, basic accounting concepts, the calculation of cash flows, ratios and their interpretation.
- Finally, delegates are also introduced to capital requirements, RORAC pricing and returns.

**Duration:** 5 days

**Level:** Beginners to Intermediate

## Day One

### I. Credit analysis and Credit reviews-Theory

#### 1. Putting things in perspective:

- Objectives and scope of credit applications
- Format of applications
- Mandatory components: Rationale and how they interact.
- Sources of information
- Common shortcomings and weaknesses.

#### 2. First step: Understanding the dynamics of the industry:

- How to identify the Economic Fundamentals of the industry/sector
  - A practical guide
- How to identify the Financial Fundamentals of the industry/sector
  - Meaning of financial ratios
  - Which approach ? Cash flow or balance sheet analysis
  - Cross- industries ratios comparison – The ratio game
- How to identify Critical Success Factors and use them as benchmarks.
- Case study: identification of fundamentals and Critical Success Factors using the “How to analyse a retail company” module.

#### 3. Methodology: a step by step credit application

- Minimum requirements
- Understanding and using the credit analysis template
  - Contents of the Background section
  - Objective and contents of the financial analysis section
  - Contents of the Risk Analysis section

## Day Two

### II. Capital Requirements, Returns and Rorac Pricing

Introduction to the Basel II Accord- a fast track approach

- Capital adequacy requirements
- Risk weighted assets.
- Internal and Rating Agencies ratings
- ROE-Rorac calculations

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

### III. Case studies integrating the knowledge acquired.

*Note: The case studies below are only examples-case studies are agreed with the client.*

The 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 below. In each case, delegates are required to present a “bullet points” credit application.

#### Case Study 1- Large retailer

- Group work

Based on the retail industry study, delegates must show how the company meets or does not meet the industry fundamentals and critical success factors.

Using the credit analysis template, they then must draft a summarised proposal, assign an internal/external rating and calculate the bank's ROE of the proposed transactions

It is then compared with the proposed model credit application.

- Presentation to class and discussion

#### Case Study 2- Uchumi – Remedial management

- This case study also looks at a retailer but things go wrong.
- The retailer's performance is followed for a period of 4 years.
- Each year is reviewed in group separately.
- Each group must assess the performance and financial condition for each year at a time and

- Identify the warning signals
- Recommend a course of action

## Day three

### Case Study 3- Beer industry-Kenya Breweries- Ratio analysis

- 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.
- 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.
- Delegates must then analyse how Kenya Breweries fits or does not fit the industry's fundamentals and recommend a credit facility.

### Case Study 4- Building products distributor- Risk identification and mitigation

- 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.
- Delegates are asked to mitigate the risks by taking security



## Day Four

### Case Study 5 – Airline industry-Kenya Airways-Risk identification and cash flow cycle.

- 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 analyse Kenya Airways' position in the industry.
- Delegates must then study a request to finance an aircraft.

### Case Study 6 – Chemical Company-Risk identification-Loan documentation

- 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

## Day Five

Comparison of the Chemical Company's case study with Moody's methodology for assessing chemical companies.

### Case Study 7 – Profitable group with negative cash flow and gearing problem.

- The case provides an example of a profitable company 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.

## Test

## Who we are

Analytiques C & F Ltd is incorporated in England and based in London. It specialises in all the aspects of operational and Credit Risk including quantitative and fundamental Credit Analysis, Capital requirements, the Basel II–III Accord, and legal documentation.

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

## Where we work

Analytiques was originally 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 it retains an office in Johannesburg, the directors of Analytiques routinely conduct in-house and public courses and consulting assignments in other parts of the world, mainly in Europe and the Far East.

## Our clients

Our clientele consists of banks or other financial institutions, including some of the world's largest. A list of clients' is available on the website.

## 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.