City Training UK

BANK FINANCIAL STATEMENT ANALYSIS

A HALF-DAY WEBINAR

City Training UK

Introduction

City Training UK is delighted to submit the outline for its next training on “Bank Financial Statement Analysis”.

This document outlines the structure of the module. We hope this will stimulate further discussion and provide real value to the training participants.

If you have any questions, please email admin@citytraininguk.com or call +44 (0) 207 428 9377.

Why City Training UK?

Client Focus – A small London-based friendly team dedicated to its clients and tailoring courses to your business.

Experience and professionalism – Our trainers all held or are currently holding senior positions in the City, Wall Street or other leading financial centres and are talented lecturers.

Practical Programmes – Up-to-date, practical training including all the latest trends and recent case studies in your field

From heads of departments to credit analysts, recent graduate joining M&A, vice-president in private equity, middle office risk professionals, our trainers have trained thousands of professionals at the following leading institutions worldwide.

Session 1

Financial Statement Analysis for Banks

The aim of this session is to provide participants with an understanding of the financial statements of a bank. The focus is on the banking book and financial instruments. The reporting and valuation of derivatives is also discussed.

- Presentation of a Bank's Financial Statements
  - The Balance Sheet or The Statement of Financial Condition
  - The Income or Profit and Loss Statement
  - The Statement of Other Comprehensive Income
  - The Statement of Changes in Shareholders' Equity
  - The Cash Flow Statement

- Accounting for loans
  - Amortized cost methodology
  - Gross loans and net loans
  - Loan loss impairment applies to amortized cost and FVTOCI mandatory fixed income instruments
  - Incurred losses (IAS 39) replaced by expected losses (IFRS 9)
  - Three stages process to determine impairments
    - *Stage 1*: "12-month expected credit losses" with effective interest rate on gross on gross carrying amount
    - *Stage 2*: "life-time expected credit losses" with effective interest rate on gross on gross carrying amount
    - *Stage 3*: "life-time expected credit losses" with effective interest rate on gross on amortised cost

- Financial Instruments Classification & Measurement
  - Presentation of the three different IFRS 9 categories
    - Amortised Costs;
    - Fair value through Profit & Loss (FVTPL);
    - Fair value through Other Comprehensive Income (FVTOCI)
  - Accounting treatment determined by (i) business model (ii) nature of cash flows
  - Decision tree to decide on classification of financial instruments
  - Balance sheet and P&L calculation of a bond at amortized cost
    - Based on the Internal Rate of Return (IRR) of future cash flows
    - Treatment of fees in the IRR calculation
  - Balance sheet and P&L calculation of a bond at FVTPL and FVTOCI

        - Effective interest rate method for interests (same as amortised costs)
        - Unrealised gain based on NPV at current yield of future cash flows
    - Fair value assessment
        - Level 1 based on unadjusted quoted price
        - Level 2 based on quoted price in inactive markets or observable model input
        - Level 3 based on unobservable but significant inputs to the overall value

- Hedge Accounting

    - Qualification for hedge accounting
    - Different types of IFRS 9 hedge accounting, same as IAS 39, except for time value of money and forward points in foreign exchange forward
        - Cash flow hedge
        - Fair value hedge
        - Net investment hedge for foreign subsidiaries
    - Accounting treatment for time value of money for options: a two-step process through OCI
    - Accounting treatment for foreign currency forward points in OCI
    - IFRS 9 hedge accounting more closely aligned to risk management policy
        - Removal of hedge effectiveness criteria (80% to 125%)
        - Extends eligibility of risk component to include non-financial items
        - Permits aggregate exposure that includes a derivative to be eligible hedged item
        - Group of items and a net position (e.g. assets & liabilities or forecast sales & purchases) hedged collectively as group
    - Netting derivative assets and liabilities

Case study: Review the financial statements of Barclays

Session 2

Fundamentals of Regulatory Capital

Throughout this module, participants review the current regulatory requirements, in particular Tier I and Tier II capital ratios and understand the computations behind all regulatory ratios.

- Overview of regulatory framework
- Overview of Basel I, II and III
- MREL and TLAC
- Overview of calculating available and required capital

  - Common Equity Tier 1 (CET1), Tier 1, Tier 2 and Total capita
  - Key reconciliation items from IFRS Book Equity to CET1: minority interests, deferred tax, changes to investment portfolio, etc.

- Overview of calculating risk weighted assets (RWAs

  - Credit risk RWAs
  - Counterparty risk RWA
  - Market risk RWAs
  - Operating risk RWAs

- Overview of key capital, liquidity and funding ratios

  - Tier 1 and total capital ratios
  - Leverage ratios
  - Liquidity coverage ratios (LCR)
  - Net stable funding ratios (NSFR)

Case study: Review Tier I , Tier II all other regulatory ratios for Barclays