

# Bank Management

**Christian Schopper**

christian.schopper@aon.at / www.christianschopper.com

## Course description

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The Course in Bank Management (the “Course”) will provide you with an overview about key themes and typical transaction-related situations with a focus on commercial banking: On the one hand we will touch topics such as how to assess performance, identify and manage risk, interpret key risk and valuation parameters, implement growth or access the capital markets in an environment increasingly driven by regulatory frameworks. At the same time, we will discuss transactions in the areas of – among others - equity and debt capital markets and M&A, all in case study format.

Case study and analytical assignments will put you into the role of a senior executive, requiring – sometimes - tough decisions on the basis of thorough analysis. Further, we will also - as a reference - review certain issues / themes on the basis of the Financial Reports 2017 of Sberbank, Deutsche Bank and Santander and touch on special topics, such as Shadow Banking, Basel III or – in general – just how an IPO works.

## Course requirements, grading, and attendance policies

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### Participation

- Mandatory and conditional to be graded is a full and timely participation in all classes
- Preparation of mentioned literature and participation in the Basic Test
- Mandatory hand-ins of the Individual Case Study Assignments and the Group Bank Analysis Assignment

### Grading

- Grading will be dependent upon the quality of your active participation and contribution in class room, the quality of the hand-ins of the Individual Case Study Assignments and the Group Bank Analysis Assignment, as well as your score in the Basic Test
- A participant can receive a maximum of 100 points (plus additional bonus points), whereby the eventual grades will be as follows:

Points	Grade
0 – 30	1
31 – 49	2
50 – 55	3-
56 – 60	3
61 – 66	3+
67 – 72	4-
73 – 77	4
78 – 83	4+
84 – 89	5-
90 – 94	5
95 – 100	5+

- A participant can achieve along the following criteria a certain maximum of points:
  - Quality of class room participation 14 points
  - Basic Test 18 points
  - Individual Case Study Assignments 54 points
  - Group Bank Analysis Assignment 14 points
  - Bonus for class room presentation (max 10 per participant) +5 points

### Attitude

The Course is intense and will require time effort, energy and concentration, but basically we want to learn and also have fun ... - Precondition for this is a professional attitude:

- You are to professionally prepare, be in class on time and show a professional attitude
- You are supposed to actively participate in all class sessions, the discussion of the Individual Case Study Assignments and the Group Bank Analysis Assignment and participation in the Basic Test
- In class, you will always have with you: (i) A financial calculator; further, (ii) the Individual Case Study Assignments or the Group Bank Analysis Assignment (in paper or on a tablet, but **not** on a mobile phone); and (iii) your presentation material **on a USB stick** (and not online or else)
  - Downloading presentations during class time is not appropriate and consumes unnecessary valuable time we want to spent together to discuss
- As a matter of principle, mobile phone are switched off and tablets in off-line mode

### Individual Case Study Assignments

- You are required to hand in presentations for a total of 6 case studies
- Grading will be on an individual basis
- Please note: Grading will be driven by your analytical insights, creativity, precision ... and **not** just by summarizing facts from the case ...
- Volume / page numbers / structure of the presentation are up to you (unless stated otherwise, ideally not more than 5-8 slides, though ...); be creative and come to a compelling conclusion backed up with material, analytics or else to support your arguments. In most of the cases you will expected to back your conclusions also with your analysis and / or a (limited) financial model which you are invited to send in an appendix. A good structure may look like following:
  - Analytical conclusions
  - Which are the major issues to resolve?
  - Which basic alternatives are available and feasible?
  - What would you recommend to do and why?
  - Next steps
- You will have to send the presentation via email to [christian.schopper@aon.at](mailto:christian.schopper@aon.at) by latest 24.00 on the night prior to the respective session in which the respective Individual Case Study Assignment will be discussed and bring a copy on a USB stick to class
- Subsequently 2-3 individuals (or groups) will either volunteer or be chosen arbitrarily to present their conclusions (ideally each 5-7mins) in front of class, followed by approx. 2-3 questions (3-5mins), whereby you will have to support your conclusion(s)

### Case 1 -- **Comerica** / Valuation

- In early September 2008, in the midst of the subprime crisis, a manager with the student-run Darden Capital Management fund, wants to evaluate whether Comerica Incorporated, a regional bank based in Dallas, Texas, is a good candidate for inclusion in his portfolio. He needs to perform a valuation of the bank to assert whether the bank seems to be undervalued by the market or whether a further decline in value might be possible. He must account for all the factors that affect bank valuation, both as related to the bank itself as well as to the current market conditions ...
- **Assignment:** Perform a valuation of the bank to assert whether the bank seems to be undervalued by the market or whether a further decline in value might be possible. Account for all the factors that affect bank valuation, both as related to the bank itself as well as to the

current market conditions. -- What would be a fair price? On which key value drivers of bank value (metrics for profitability, credit quality, liquidity, and capital) would you particularly focus on? How would your focus shift, if the bank were in the midst of turbulent times? (3 slides / max 5mins presentation time)

Case 2 -- **Wilson Lumber** / Loan Term Sheet

- Wilson Lumber is a fast growing SME seeking to restructure its banking relationship with a view to expand and optimize its working capital funding. A risk assessment and a proper term sheet are required. And how will the bank make money ...?
- **Assignment:** You are the Coverage Officer at Northrup National Bank responsible for Wilson Lumber and are asked for a Power Point presentation to the Board of the Bank to decide upon whether to extend a loan or not (3 slides / max 5 minutes presentation time)
  - Slide 1: Run a credit analysis on Wilson Lumber (decomposition / break-down of RoE and RoA, liquidity ratios, leverage ratios, interest coverage ratios, etc.)
  - Slide 2: Come up with a detailed term sheet for a loan by Northrup National Bank and break out all terms, covenants, pledges, other securities you may think of
  - Slide 3: Present how the Northrup National Bank can / will make money

Case 3 -- **First National** / Loan Loss Provisions

- First National Bank Corp., a major regional bank in the Northeast, must decide how large a provision for credit losses to accrue in its 1990 financial statements. The recession in New England has caused serious problems in its loan portfolio

Case 4 -- **Barclays** / Contingent Capital

- In 2012, regulatory changes following the financial crisis mean that Barclays Bank is faced with the need to raise large amounts of capital in order to comply with increased capital requirements, tightening rules as to the "quality of capital," and increased risk weights for its capital markets assets. The bank is contemplating offering contingent capital bonds, which would act like debt during "normal times" but would convert to create capital should the bank hit a "triggering event." How should these instruments be designed? Can they be attractive for the bank and for investors?

Case 5 -- **Agricultural Bank of China** / IPO

- We are reviewing management's perspective prior to an IPO which would probably be the biggest in history. The team is just about to prepare the road-show for this double-listing transaction (Shanghai / Hong Kong). Considerable head-aches are caused by the overall market environment at that point of time and the question is whether to go ahead with the intended transaction.

Case 6 – **Citibank, Confia** / M&A

- This case follows the tortured path of Citibank's acquisition of the Mexican bank, Confia, in 1998. The case describes the situation of Confia, the initial agreement to acquire the bank, the long period of due diligence evaluation, the shock of the money laundering indictment, and the final purchase of Confia in August of 1998. The focal points are the attempt to value Confia for the acquisition and the examination of Confia's fit within Citibank's overall strategy

### Group Bank Analysis Assignment

- Each participant will join a group and this group will work on an analysis of Sberbank and comparing that with either Deutsche Bank or Santander, focusing on the respective performances for the period of between 2015 and 2017
- Groups can / will be formed before / in the first session and not exceed 5 individuals
- Grading will be on a group basis
- The respective reports for 2017 can be found under:
  - Deutsche Bank:  
[https://www.db.com/ir/en/download/DB Annual Report 2017.pdf](https://www.db.com/ir/en/download/DB%20Annual%20Report%202017.pdf)
  - Santander:  
[http://www.santanderannualreport.com/2017/sites/default/files/auditors\\_report\\_and\\_annual\\_consolidated\\_accounts.pdf](http://www.santanderannualreport.com/2017/sites/default/files/auditors_report_and_annual_consolidated_accounts.pdf)
  - Sberbank:  
[https://www.sberbank.com/common/img/uploaded/files/info/Word\\_Eng\\_YE2017-04fteet.pdf](https://www.sberbank.com/common/img/uploaded/files/info/Word_Eng_YE2017-04fteet.pdf)
- Your Power Point presentation (max 10 slides) will focus on parameters, such as such as profitability, capitalisation, liquidity, risk, yields, or valuation (incl. “Camels”), whereby emphasis is put on the “story behind (!) the figures and parameters” ... - Format and structure is up to you
- You will have to send the presentation via email to [christian.schopper@aon.at](mailto:christian.schopper@aon.at) by latest 24.00 on the night prior to the respective session in which the Group Bank Analysis Assignment will be discussed (Session 4) and bring a copy on a USB stick to class
- Subsequently 2 groups will either volunteer or be chosen arbitrarily to present their conclusions (ideally each 5-7mins) in front of class, followed by approx. 2-3 questions (3-5mins), whereby you will have to support your conclusion(s)

### Basic Test

- The Basic Test will be an approximately 40min multiple choice test about the basics of bank analysis, basically all of which you can find in: “Primer on Financial Analysis of Banks” on the website [www.christianschopper.com](http://www.christianschopper.com) under the link: [http://christianschopper.com/wp-content/uploads/2018/04/bank-statement-analysis\\_short.20180429.pdf](http://christianschopper.com/wp-content/uploads/2018/04/bank-statement-analysis_short.20180429.pdf)
- The Basic Test will be closed book, grading will be on an individual basis

## **Course contents**

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### Content

The aim of the Course - comprising 7 sessions - is providing an insight into selected strategic and / or transactional situations with a focus on the commercial and retail banking industry across several continents. Subjects will cover – among others:

- The Banking Environment and Changing Dynamics
- Regulation and Corporate Governance
- Analysing Bank Performance and Valuation
- Managing a Bank Income Statement and Balance Sheet
- Funding and Liquidity Planning
- Managing Risk and Value
- Implementing Growth

Learning Approach

- As needed, theory and concepts will be reviewed in the sessions whereby the dominant modus operandi will be lectures / presentations and the Individual Case Study Assignments as well as the Group Bank Analysis Assignment
- We will on a regular basis refer to the Financial Report 2017 of Sberbank (“FRSB 2017”). – Prior to each session you will be required to submit a hand in for the respective Individual Case Study Assignments and prior to Session 4 the Group Bank Analysis Assignments. As a warm-up the Course will start with a small Basic Test (lasting ca 40mins)

Learning Outcomes

When you have completed this Course, you will be able to

- Discuss trends affecting the whole banking industry and assess implications
- Describe the dimensions of performance and risk relevant to financial firms
- Calculate contemporary measures of financial measures of performance and risk
- Describe contemporary managerial risk management oversight processes
- Explain how the banking industry and the capital markets interact
- Describe the impact that financial innovation, advances in technology, and changes in regulations has had on the structure of the financial firms/industry

Schedule

The topics allocated to certain days may be adapted, as required

	Session 1	Session 2	Session 3	Session 4	Session 5	Session 6	Session 7
	4. März 2019	11. März 2019	15. März 2019	18. März 2019	22. März 2019	25. März 2019	29. März 2019
	TBD	TBD	TBD	TBD	TBD	TBD	TBD
	Bank Analysis	Loan & LLP Policy	Loan & LLP Policy	Bank Analysis	Innovation & Regulation	Debt & Equity Capital Markets	M&A
	Comercia	Wilson Lumber	First National Bank	Sberbank vs Deutsche Bank / Santander	Barclays	Agricultural Bank of China	Citi Confia
	Basic Test						
	Bank Analysis	Loan Terms	Balance Sheet Policy	Bank Analysis	Basel III	IPO Process	M&A Integration
	Performance Parameters	Covenants	Loan Classification & LLPs	Funding & Duration Gap	Financial Innovation	Credit Rating Process	Course Wrap Up
			Securitization				
	Individual Assignment						
	Group Assignment						

**Course materials**

Preparation

- Download, review and familiarize yourself the Financial Report of Sberbank of 2017 (“FRSB 2017”)
  - Sberbank: You can download the “2017 IFRS Statement and Auditor’s Report” from: [https://www.sberbank.com/common/img/uploaded/files/info/Word\\_Eng\\_YE2017-04fteet.pdf](https://www.sberbank.com/common/img/uploaded/files/info/Word_Eng_YE2017-04fteet.pdf)
- Familiarize yourself with and walk through in depth the “Primer on Financial Analysis of Banks” on the website [www.christianschopper.com](http://christianschopper.com/wp-content/uploads/2018/04/bank-statement-analysis-short.20180429.pdf) under the link: <http://christianschopper.com/wp-content/uploads/2018/04/bank-statement-analysis-short.20180429.pdf> - The material is the basis for the closed-book Basic Test in the first session of the Course
- You may also familiarize yourself with literature / readings about the principles of Bank Management. Basically, feel free to select any literature which suits you. Good references in this context are the books by Koch / Macdonald – Bank Management or by Francis / Hecht / Siegel -- Principles of Banking
- A summary of some selected banking-related analytical concepts you may also find on my website: <http://christianschopper.com/on-finance/>

- Please note and be mindful of the intensity of the Course: You may assume that the preparation of the respective assignments realistically requires from 20-30 hours

### **Academic integrity policy**

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Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.

### **Miscellaneous**

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In case of any questions concerning the Course, please feel free to get in touch with me, preferably via email ([christian.schopper@aon.at](mailto:christian.schopper@aon.at))