

CariCRIS

Caribbean Information & Credit Rating Services Limited



INTENSIVE CREDIT RISK TRAINING PROGRAMME

WITH CREDIT RATINGS PERSPECTIVE

"History cautions that extended periods of low concern about credit risk have been invariably followed by reversals"

Alan Greenspan, September 2005

INTENSIVE CREDIT RISK TRAINING PROGRAMME

Introduction

Credit Risk remains one of the most important issues facing the global financial market. Moreover, in recent years the risk has been exacerbated by the huge liquidity overhang and consequential quest for higher returns. With rapidly changing business, accounting and regulatory landscapes, the process of assessing and managing credit risk has undergone significant changes. Bank supervisors and inspectors also are gearing for a more risk sensitive supervisory regime, particularly with regard to the impending implementation of Basel-II guidelines. To ensure a consistent approach to credit risk management, improved decision making and pricing processes, financial institutions and their supervisors need to continually update and hone their skills. This is critical to make certain that risk-adjusted returns, aligned with organizational philosophy and strategy are achieved. The CariCRIS intensive credit risk training has been designed to meet these requirements.

About the Course

The CariCRIS Credit Risk Training Programme is a one-stop, comprehensive, enriched 7-session intensive training programme, with a unique emphasis on the incisive credit ratings approach to risk analysis. The programme is designed to provide a judicious mix of concepts, theoretical frameworks and practical approaches aimed at equipping participants with the necessary tools to apply the knowledge in their respective work places. These include:

- Case Studies drawn from real life examples
- Discussions of actual credit ratings
- Discourse on credit situations particularly relevant to the Caribbean context
- Extensive interactive discussions with faculty experienced in credit ratings and benchmarking companies across various sectors and industries.

At the end of the programme the participants will receive a certificate indicating successful participation in the training programme.

The Credit Ratings Approach to Credit Risk Analysis—a Unique Perspective

The CariCRIS Credit Risk Training programme offers participants the unique opportunity to familiarize themselves with analysing credit risk from the perspective of credit ratings. The concept of credit ratings is over 100 years old and today it is the most widely understood and accepted 'language' of debt markets. Often described as the shortest credit commentary in the world, ratings have been used and found as one of the most reliable indicators of credit risk by financial markets worldwide. The increasing use of credit ratings in developing markets and even in regulatory frameworks such as Basel-II, lays testimony to the utility and accuracy of these ratings.

The credit rating approach to credit risk analysis is an incisive one and distils the most relevant credit risk parameters in any credit situation or relating to any entity. This CariCRIS training

programme is offered with the basic objective of imparting to the participants the concepts, practical approaches and techniques used in credit risk identification and analysis, from a credit ratings perspective. Credit ratings are especially useful in allowing meaningful comparison among totally disparate entities belonging to different sectors or geographies and as such, this training programme not only introduces to participants how to analyse the risk of credit exposure to a sovereign, a bank and a manufacturing company, but also how to benchmark the risk associated with these diverse bodies using the same rating or scoring scale.

By understanding the comprehensive, analytical frameworks used by rating agencies such as CariCRIS, the participants will be able to enhance their skills and knowledge significantly. The CariCRIS Credit Risk training programme is also specifically designed to ensure that participants derive the full benefit through use of an interactive training format, allowing threadbare discussions with the experienced faculty on the various nuances in credit rating approaches and addressing specific credit situations that different participants may want to present. To facilitate this, attendance in each programme is limited to a small number of participants and controlled on a first come, first served basis.

About CariCRIS

CariCRIS is the Caribbean's first regional credit rating agency. It is a unique market-driven initiative aimed at fostering and supporting the development of regional debt markets in the Caribbean. CariCRIS' mission is to contribute to the development of a vibrant, integrated Caribbean capital market by setting the highest standards of credible independent analysis and opinion to enable informed financial decisions. CariCRIS' technical consultant, CRISIL Limited, is the largest rating agency in Asia, the world's fourth largest rating agency and a subsidiary of the international rating agency Standard & Poor's (S&P).

Profile of Facilitators

The faculty for this training programme are senior rating professionals with over 30 years of experience in varied fields of financial analysis and economics, hands-on experience in carrying out several credit rating assignments and the development of rating criteria for a wide range of industries and debt instruments, particularly in emerging market environments. Their experience in conducting training sessions for credit officers and senior management of financial institutions, merchant banks and commercial banks further enriches the CariCRIS Credit Risk training programme.

Programme Prerequisites

- Basic professional qualifications relevant to business analysis, accounting & finance or a basic knowledge of the aspects borne out of practical experience
- Basic understanding of financial ratios and ratio computations
- Familiarity with spreadsheets and computers

COURSE COVERAGE

Who Should Attend?

- ◆ Practitioners in Credit/ Investment markets
- ◆ Credit/ loan officers from banks and other lending institutions
- ◆ Risk Managers
- ◆ Brokerage/ Investment bank analysts
- ◆ Mutual and pension fund managers
- ◆ Corporate treasury managers
- ◆ Banking & financial sector regulators

Course Coverage

Over 7 sessions, the training programme will cover the following:

SESSION 1

Fundamentals of credit ratings

- ◆ Understanding the foundations of the global credit rating systems
 - Interpretation of rating symbols used by global rating agencies
 - Understanding 'Rating Outlooks' and 'Rating Watch'
- ◆ Understanding national and regional scale ratings
 - Key differences with global scale ratings
 - Treatment of currency and sovereign risks
- ◆ Long term and short term ratings
 - Linkages between long term and short term ratings
 - Additional parameters used for short term ratings
- ◆ Default and transition statistics
 - Computational issues
- ◆ Interpretation and uses of default and transition rates
 - Understanding limitations of historical default statistics

SESSION 2

How to Analyze Credit Risk of Sovereigns

Framework and methodology for evaluation of credit risk of *sovereigns* including:

- ◆ Income and Economic Structure
 - Key parameters in evaluating economic structure
 - Size, economic resilience
 - Role of private sector
 - Other socio-demographic parameters
- ◆ Fiscal Policies
 - Coherence of fiscal policy and consistency
 - Analytical framework for government revenues and expenses
- ◆ Monetary Policies
 - Understanding linkages with fiscal policy
 - Other key analytical parameters
 - Inflation
 - Financial system soundness
 - Status of development of capital markets

Key Learnings!

- ◆ Fundamentals of credit ratings
- ◆ Business and industry risk analysis framework
- ◆ Understanding financial risk and key ratios
- ◆ Adjusting reported financial statements
- ◆ Framework for analysing Banks
- ◆ Sovereign credit analysis
- ◆ Fundamentals of structured finance and securitisation

◆ Balance of Payments and External Liquidity

- Framework for analysing Balance of Payments covering Current and Capital accounts
- Adequacy of Reserves
- Linkages with monetary policy

◆ Political Stability

SESSION 3

Case Study on a Caribbean Sovereign

- ◆ Practical, hands-on training based on analysis and presentation by participant groups and faculty review
- ◆ Rating to be assigned on all key risk parameters on scale used by rating agencies

SESSION 4

How to Analyse Credit Risk in Manufacturing and Service Companies

Framework and methodology for evaluation of credit risk for companies in the *manufacturing and service sectors* including

◆ Business Risk analysis

- Components of business risk, industry risk analysis framework

◆ Financial Risk

- Meaning of financial risk, understanding key measures and financial ratios used to analyse financial risk
- Understanding accounting quality, key issues to look-out for
- Adjusting ratios for off balance sheet liabilities

◆ Management Risk

- Risk assessment framework for management
- Parameters for evaluating three key components: competence, integrity and risk appetite

◆ Project Risk

- Understanding key components of project risk
 - Relative size, complexity, track record
 - Technology risk
 - Funding risk

COURSE COVERAGE

SESSION 5

Case Study on a Manufacturing sector company

- ◆ **Case material will be given for home reading**
- ◆ **Practical, hands-on training based on analysis and presentation by participant groups and faculty review**
- ◆ **Rating to be assigned on all key risk parameters on scale used by rating agencies**

SESSION 6

How to Analyse Credit Risk of entities in the Banking & Financial Sectors

Framework and methodology for evaluation of credit risk for companies in the *banking and financial services sectors* as per CRAMEL framework, including

- ◆ **Business risk analysis**
- ◆ **Capital adequacy**
 - Regulatory stipulations, tier I and tier II break-up
- ◆ **Resources**
 - Resource mix
 - Retail deposits
 - Cost of borrowing

- ◆ **Asset Quality**

- Gross and net NPA
- Provision cover and overall cover
- Understanding the concept of weak assets

- ◆ **Management**

- Growth philosophies, risk management

- ◆ **Earnings**

- Earnings quality, quantum and sources of fee income

- ◆ **Liquidity and Asset/Liability Management (ALM) risk**

SESSION 7

Case Study on a Caribbean Bank

- ◆ **Practical, hands-on training based on analysis and presentation by participant groups and faculty review**
- ◆ **Rating to be assigned on all key parameters on scale used by rating agencies**



Caribbean Information & Credit Rating Services Limited

CariCRIS, the first regional credit rating agency in the Caribbean, aims to provide regionally relevant risk assessment of entities and debt issues. CariCRIS' shareholding is well distributed among several entities across the Caribbean region, including central banks, multilateral financial institutions, commercial banks, insurance companies and mutual funds.

CariCRIS offers both regional and national scale ratings to borrowers across the Caribbean including sovereigns, manufacturers, banks and other financial institutions. CariCRIS ratings, which provide an objective and independent opinion about the relative creditworthiness, will significantly improve investors' ability to make informed financial decisions. For borrowers, CariCRIS ratings will enhance credibility and expand access to funding sources.

CariCRIS' coverage includes nineteen Caribbean countries— Bahamas, Barbados, Belize, Costa Rica, Dominican Republic, Guyana, Haiti, Jamaica, Panama, Trinidad and Tobago and eight countries in the OECS—Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia and St. Vincent & the Grenadines.

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