Bank Restructuring and Management in Crisis

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Course description

The Course in Bank Restructuring and Management in Crisis (the "Course") will provide you with an overview about key themes and typical transaction-related situations with a focus on the financial crisis of 2008 and developments thereafter.
Banks are susceptible to a range of risks. These include credit risk (loans and others assets turn bad and ceasing to perform), liquidity risk (withdrawals exceed the available funds), and interest rate risk (rising interest rates reduce the value of bonds held by the bank, and force the bank to pay relatively more on its deposits than it receives on its loans).
Banking problems can often be traced to a decrease the value of banks' assets, for example, due to a collapse in real estate prices. Bank problems can also be triggered or deepened if a bank faces too many liabilities coming due and does not have enough cash (or other assets that can be easily turned into cash) to satisfy those liabilities, for example, if many depositors want to withdraw deposits at the same time (depositor run on the bank).
In the Course we will touch topics such as how to identify and manage risks as well as implement restructuring strategies whilst considering the interests of numerous stakeholders.
We will discuss constellations and transaction alternatives in case study format which will put you into the role of a senior executive, requiring – sometimes - tough decisions on the basis of thorough analysis and reasoning.

Course requirements, grading, and attendance policies

<u>Participation</u>

- Mandatory and conditional to be graded is a full and timely participation in all classes
- In order to actively participate, preparation of mentioned literature and handing in of all 4 Case Study Assignments is required and mandatory
- Case Study Assignments will be on a group basis. However, you are incentivized to work on an individual basis which will be rewarded with additional bonus points in regards to grading

<u>Grading</u>

- Grading will be dependent upon the quality of your preparation and hand-ins of the Case Study Assignments as well as the active participation and qualitative contribution in class room discussions
- 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 a maximum of 40 points
        - 10 points in each of 4 sessions
    - Case Study Assignments a maximum of 60 points
        - 15 points for each of 4 mandatory group hand-ins
        - up to +4 bonus points, if hand-ins are delivered on an individual basis
        - up to +3 bonus points for a class presentation

<u>Attitude</u>

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

- You are expected to professionally prepare, hand in the Case Study Assignments per deadline, be in class on time and actively participate in sessions
- In class, you will always have with you: A financial calculator as well as the Case Study Assignment (in print form) and your hand-in / presentation material **on a USB stick**
- Mobile phones, Facebook, WhatsApp and similar will be switched off in session

<u>Case Study Assignments</u>

- You are required to hand in Power Point format presentations for 4 case studies
- In principle, grading will be on group basis; a group is not to exceed 3 (three) individuals
- Those choosing to deliver hand-ins on an individual basis will be awarded bonus points
- Each group / individual can assume to / will present at least twice during the Course
- Volume / page numbers / structure of the presentations are up to you (ideally, though, not more than 7 slides, excl. appendices) whereby quality and creativity rules over quantity
    - Especially in restructuring assignments creativity can be key, provided a compelling conclusion is backed up with material, analytics or else to support your arguments. In most of the cases your conclusions will be substantiated with a (small) financial model, attached in an appendix
    - A good structure may look like following: (i) Analytical conclusions (ii) Which are the major issues to resolve? (iii) Which basic alternatives are available and feasible? (iv) What would you recommend to do and why? (v) Next steps
- You will send the presentation via email (christian.schopper@aon.at) by latest 24.00 on the night prior to the respective session in which the Case Study Assignment will be discussed and bring a copy **on a USB stick** to class
- Subsequently 2-3 groups / individuals will either volunteer or be chosen arbitrarily to present their conclusions in front of class (time limit: 10mins), followed by approx. 2-3 questions (3-5mins), whereby you will have to support your conclusion(s)
    - Please note: It may be useful, if you intend to voluntarily present, to make a rehearsal prior to the session, as there will be an absolute presentation time limit of 10mins
- A maximum of 15 points will be awarded for quality of written materials handed in for each Case Study Assignment. Those choosing to deliver hand-ins on an individual basis will be awarded with up to 4 additional bonus points. Groups / individuals who present in class could expect to be awarded an additional maximum of 3 bonus points for the quality of the verbal presentation

Day 1

Case Study 1: During the night of September 14, 2008, a few hours before Lehman Brothers folded, **Merrill Lynch** declared defeat: It was acquired by Bank of America (BofA). Unsure of its ability to continue as a stand-alone entity, Merrill Lynch deliberately ended 90 years of independence. Before its buyout by BofA, Merrill Lynch was the world's largest and most widely recognized stockbroker. It dominated retail stockbroking with its army of 16,000 brokers around the world. At the start of 2008, Merrill Lynch, Goldman Sachs, Morgan Stanley, Lehman Brothers and Bear Stearns were the five largest stand-alone investment banks, with a combined total history of 549 years: within the span of six months, they would all be gone. Some observers wondered whether any early signs of the financial distress that the investment firm experienced in 2008 could be seen in the financial statements published in the years preceding the acquisition of this giant. In addition, was there value in evaluating the performance of the company from an angle other than that of operating results, which is typically used by financial analysts? Specifically would there be value in an assessment of the company's performance by scrutinizing the origin and use of its liquid assets for the years 2005, 2006 and 2007. Such an investigation has required focus on the statements of cash flows, including the need to: evaluate the cash situation at year-end;analyze cash flows provided (used) by operating activities; analyze cash flows provided (used) by investment activities; and, analyze cash flows provided (used) by financing activities.

Case Study 2: **Washington Mutual** issued EUR 6bn of covered bonds in 2006. The objective of the case is to ask whether these bonds are mispriced in late 2008. The case is set in September 2008, and Washington Mutual is facing considerable distress due to mounting losses on its mortgage portfolio. Following investment bank Lehman Brother's Chapter 11 bankruptcy protection filing in mid September, the price of Washington Mutual's covered bonds has fallen to 75 per 100 of face value. As these bonds are overcollateralized, the case asks you to evaluate the underlying collateral portfolio in the event of liquidation, as well as assessing the likelihood of different outcomes. The case takes place during a period of considerable uncertainty in the global capital markets.

Day 2

Case Study 3: **Citigroup** faced considerable distress in early 2009. In late 2008, the bank had accepted US$ 45bn in preferred equity from the United States government via the Troubled Assets Relief Program (TARP). Yet, the stock had continued to slide in early 2009. In late February, the company announced that it would convert as much as US$ 50bn of preferred stock into common stock, at US$3.25 per share. The case asks you to evaluate the pricing of preferred stock relative to common stock at this time. As the case takes place during a period of considerable uncertainty in global capital markets, and conventional sources of arbitrage capital have been depleted, the apparent mispricing may not be as attractive as it initially seems.

Case Study 4: The president of **Bankinter**, a Spanish bank, decided that the time was right to expand. At the time, the Spanish economy was experiencing a severe downturn and the banking system was going through major reforms. He believed that growth could occur either organically or through acquisitions - as long as the target business complemented Bankinter's present operations and preserved the company's values and organizational culture. His goal was to choose one option, while determining the price that should be paid if an acquisition offer was made. In this case, the purchase would be funded entirely through the issue of additional shares. The offer price would have to be justified to existing shareholders, who would only agree if the acquisition created value for them. At the same time, the success of the merger depended on the offer being accepted, so the price had to be attractive to the target company's shareholders

Course contents

<u>Content</u>

The aim of the Course - comprising 4 sessions - is providing an insight into selected restructuring constellations with a focus on the commercial banking industry. Subjects will cover – among others:

- Regulation and Corporate Governance
- Analysing and assessing restructuring alternatives
- Recapitalisations
- Analysing and assessing procedural alternatives
- Valuation of distressed / levered loans
- Managing different stakeholder expectations
- Crisis pattern

<u>Learning Approach</u>

Learning is foremost by building on already acquired know-how of Corporate Finance and bank analysis principles and applying these in case study constellations, with lecture elements provided as needed. Hence, learning will take place in individual preparations and then subsequently in class room.

<u>Learning Outcomes</u>

By applying tools and concepts introduced in the course, participants will learn

- Problem bank identification and supervision
- Crisis containment
- Elements of effective resolution regimes
- Bank restructuring and resolution tools
- Dealing with impaired assets

<u>Schedule</u>

The topics allocated to certain days are indicative only and may be adapted, as required:

	Session 1	Session 2	Session 3	Session 4
	19 May 2018	19 May 2018	2 June 2018	2 June 2018
	10.00	13.30	10.00	13.30
	Predicting Financial Distress	**Bank in Distress**	**Bank Restructuring**	**Growth in Crisis**
1				
2	**Case Study** - Merrill Lynch	**Case Study** - Washington Mutual	**Case Study** - Citibank Exchange Offer	**Case Study** - Bankinter
	= Group Case Study Assignments			

Course materials

<u>Preparation</u>

- Familiarize yourself with literature / readings about the principles of Corporate Management. Basically, you are free to select any literature which suits you. Good references in this context are the books by Damodaran – Corporate Finance or by Brealey / Myers -- Principles of Corporate Finance. Further recommended is Koch / MacDonald – Bank Management and Rezaee – Financial Institutions, Mergers and Acquisitions.

Academic integrity policy

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