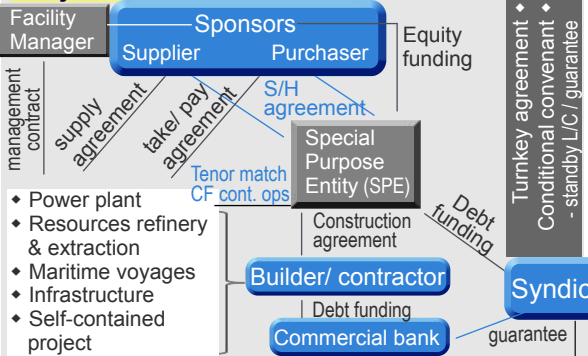


**Corporate Banking** (indirect financing)

**Project Finance** limited recourse - specific outlined occurrence



- Credit Controls - Terms/ Conventions**
- restricting usage of borrowed fund
  - periodic audit statement that show ↓ debt/ equity ratio, adhere to target ratios, SOX 404 internal control report
  - free up capital from current assets, propose equity injection before drawdown
  - encumbrance of assets to be pledged as collateral
  - negative covenants for no addition capex nor borrowing without consent from lender; cross-default
  - limiting aggregate exposure in financial instruments other than hedging, restrict leverage/ short selling, set target VaR, maintain min Ops CF performance, off-load excessive investment exposure ...

**Operational Risk Model**

Risk events: execution, products/ practices, workplace, infrastructure, fraud/ theft/ security/ unauthorized activity

Risk factors: Severity x Occurrence x Detection + quantitative factors

Parameters: **Deterministic** - ops loss as % of o/s assets, N/C, o/s issues, resolution days, threats/ contingency beyond IC

**Stochastic** - PCA correlation, surveillance, stress test

**Risk Management** Market, Sovereign, Country, FX, Interest rate risks ...

Repricing vs Market value-based maturity & Duration model

Magnitude of match within buckets, effect of rate-sensitive runoff

Off-B/S cash flow

**Capital Assets Management** Basel Accord

**Earnings Liquidity Sensitivity** Cash flow & capital budget

**Asset-Liability Management - Treasury** Aggregate info → simulation → action to set limit & analytical allocation of equity + adjust for early repayment, extension of deposits & loans, inclusion of commitments, exercise of options → monitoring

**Shadow Banking** (Money Market)

**Lead Manager** — **Book-Runner**

**Syndicated Loan**

- Determine price before bid is made
- Loan features:
  - multi-currency options
  - amortize/ bullet repayment
  - revolving, maturity extension ...
- Mandate: after the underwriting has been shared by syndicated lenders
- increase size/ cut participation
- Nego & sign loan documentation

**Syndicated banks**

Refinancing: resolver - commitment fees

Confidentiality of funding purpose

Flexibilities - revolving feature, Borrow @ float & fix it via SWAP

**Commercial Lending** adverse selection info asymmetry moral hazard - collateral: property equipment, vehicle, merchandise...

**Underwriting** vs best effort marketing

- Dividend ↔ Dilution, time, costs, B/S effect
- Public issuance - regulatory compliance
- Rating - institutional access
- Private limited placement

**Debts** - Bonds/ Notes

- Term sheet: coupon, callable, convertible\*
- OID, liquidation pref.
- Immunization
- Treasury: inflation adj, Felines/STRIPs (coupon stripping)
- Municipal: general obligation/ revenue

**Covered Bond**

- quality of underlying assets
- recourse debt obligations

**Hybrids/ Prefers/ Managed Investments:** MITTS, TruPS, CABCO, PPLUS, SATURNS, DEC/ PERCS \*, ARS, other ABS, REIT...

**Investment Banking** (direct financing)

- information & liquidity networks, reputations in capital market
- Capital before firm is able to issue shares in public market
- Remove agency problem
- Covered Fund** - limited sponsorship

**Equity** - common/ preferred (depository shares)

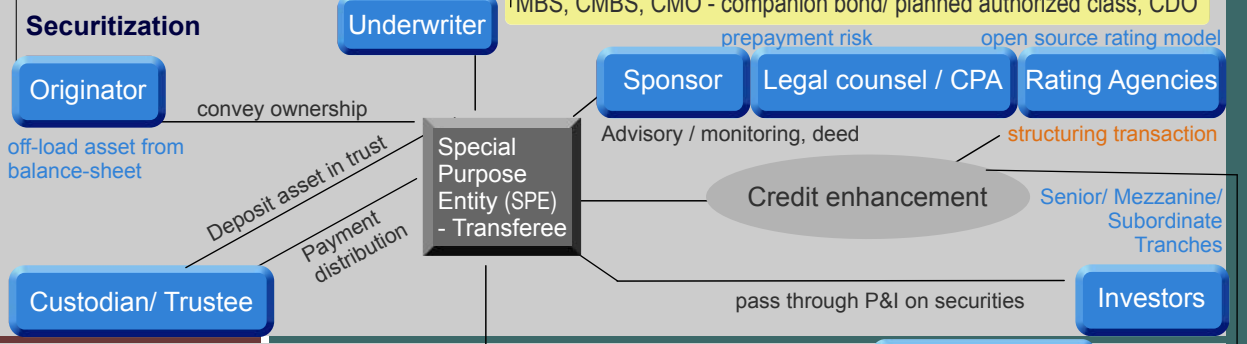
- Price discovery process, subscription
- Bookbuilding** - control over the allocation of shares, coordinates who in network will participate (the "right" strategic investors), minimize underpricing, ↑ price accuracy
- Auction** - eliminate 1st day gains for "hot" IPO, bidding put more shares into hands of individuals; can't control entry to the auction & can't provide enough incentive for investors to carefully evaluate offering
- Privatization, 2nd offerings, right issues
- M&A, takeover, buyback, spinoff advisory

**Sell-side Research**

- Sales & Trading
- Proprietary Trading**
- Asset Management

**Private Banking**

- Portfolio management
- Active investment advisory
- Investment funds
- Estate advisory
- Trust business
- Global custody
- Collectable banking
- Real estate management



**Off-balance-sheet activities / Derivative contracts**

- Forwards**
  - Negotiation
  - mature by delivering
- Futures**
  - exchange traded
  - predetermined maturity & size
- Options**
  - Flex timing to maturity & size to match needs
- SWAPs**
  - convertible\*
  - FX, interest rate, credit
  - bilateral OTC, not trade on future exchange
- CDS**
  - OTC, transfer FI holder's credit exposure
  - Protection is in reference with credit risk of 3rd party entit(ies); upon credit event - take delivery / contingent payment
  - Higher volatility, speculate on spread
  - Sell Cr protection, rec premium = PV debt unfunded exposure to underlying
- Monoline insurer** gtee P&I

- Schedule L for bank (avoidance of regulatory costs, ↑ fee income)
- Reduce risks through hedging with derivatives & other means L/C, standby / performance bond
- Loan commitments - interest rate risk & take-down risk, credit risk, aggregate funding risk
- Loan sold without recourse - commitment to buy / sell - ambiguity, contingent liabilities
- Non-schedule L off-B/S activities: affiliate risk, intra-day exposure to settlement risk