Outline for Senior Client Exec Cross Selling Seminar:

Program designed with a focus on Client Risks: Creating solutions through Bank Products

November 2011

Day One: Building Blocks of Risk Analysis From Credit to Portfolio Construction to Capital Markets

- **8:15 Overview of the Program**
- **8:30 The Client's Issues and Risk -- How do we think about Risk? Building a language of Risk so we can identify Client needs and match our products**
  - Credit managers see risk as not receiving interest and principal on time and in full. The risk focus is on assessing the probability of a partial or full default on loan payments.
  - Asset managers often measure risk as the volatility of returns and evaluate performance in terms of the ratio of returns. The risk focus is on forecasting market volatility and extreme events.
  - Regulators focus on the risk that banks will require official assistance. The risk focus is one the capital adequacy of banks. Extreme events analysis.
  - Bank senior executives often see risk in terms of earnings growth and stock price. The risk management focus of senior executives encompasses all of the above plus additional operational and business risk concerns.
  - Risk clearly means different things to different constituencies, and so to communicate across constituencies requires a common language for risk management.
- And most importantly, we have to understand the language useful to a client so we can define the product the client needs in the context of our ability to solve their problem with our products

Day One, Morning Session Continued

- **09:00 The Client as a Portfolio of Risks: The Good, The Bad and the Ugly**
  - Critical role of cash flow and capital structure credit coverage ratios
  - Weaknesses in just looking at probability of full default – the extreme debt as a short put option approach.
  - What role, if any, does the volatility of earnings or the stock price play?
  - Market Risk may impact default Risk
  - Graphics of Market Risk and implied defaults
- **09:45 Start thinking about the Client: Identifying Individual Client Risks**
  - A simple approach to thinking about risks the client may face
  - Highlighting the differences in risk management perspectives and language
  - Simple approaches with simple cases to visualize risks for various clients
  - Levels of simple risks with simple cases (creating the concept of risk balance sheets
  - Suppose a client has no debt; does it have risk? How does it manage them? Can it use them? How do they manage their cash and investments?
- **10:30 Break**

Day One, 3rd Session

- **11:00 Workshop on Risk Identification: Discussions of Cases**
  - Metallgesellschaft case to identify non-traditional business risk affecting overall credit quality
  - Middle East Product of a European Bank and hidden risks
    - Implications for client needs
    - Trusted advisor
    - Risk to GIB
  - Optimal Portfolio Construction and Risk Management: Looking at Portfolios from a Risk Perspective – **Think Risk**
    - **The Client is a bundle of risks**
    - **Clients are long some risks and short others; all risks create business opportunities**
  - Relating Risk to Assumptions and Credit
    - Leverage ratios, profitability ratios, liquidity ratios, Debt to equity, etc.
    - Ratios are best guesses – Independence of ratios and risk fallacies
    - Misunderstanding of Leverage versus Portfolio risk:
      - SEC for example
      - Volatility on the margin for a portfolio
- **12:30 Lunch**

Day One: Afternoon Session

- **14:00 A Brief Historical Tour Highlighting the Evolution of the Language of Risk Management – Thinking in terms of the language of Risk**
  - Fixed Income Lessons: Cash Flow Management, Duration, Convexity
  - Asset Management Lessons: The Greeks (terms) and VaR (Value at Risk) and Beyond
  - Relating Client risk concepts to what we hear around the Bank
  - Commodity Price and Volatility Charts
- **15:00 Break**
- **15:30 ALBA Workshop with**
  - Break apart reports to highlight all the pieces for pricing, managing, and hedging and to understand the interaction of the parts
  - Re-enforce the language of risk and portfolio construction; look at the client as a bundle of risks and assets
  - Relate Product Risks to Bank Structure (related products), Capital Markets, and Credit Risks in particular

Slide 5

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Day Two: Morning Session

- **08:30 FX Forwards and the Fisher Parity Box – Pricing anything that trades**
  - Introduce the concepts of FX, Gold, Oil, any Monetized Product
  - Simple Pricing Concepts: Fisher Parity Box
  - The key here is not only to understand the building blocks used to create products but to show how client risks can become opportunities for business
  - We want to see that risk has two sides: a good one and a bad one and to exploit the good one and to protect against the bad one
- **The Building Block Approach**

- **10:00 Break**

- **10:30 Swaps and Cash flows: Use Airline Example**
  - Forwards to Swaps, a simple approach
  - Examples of Client needs and a swapped solution
    - From client needs to manager's needs: do they line up?
  - Cathy Pacific
- **Revisit ALBA**
- **12:30 Lunch**

Day Two: Afternoon

- **14:00 Non-Linear Risks: Options Everywhere**
  - Identifying embedded options: Classic Cases for Personnel
  - Consider this approach in analyzing a client's balance sheet
  - Non Linear Risk: The big problem with the assumptions
    - Sources of non-linear risk in structures
    - Market created non-linear risks
    - Client Risk Profiles and non-linear risks
- **15:30 Break**
- **16:00   Options Workshop (options are here used as constructs not simple products)**
  - An example of a "European Problem" in mortgage markets and a non-standard risk management solutions that helps the client, increases profits for the Banks, and lowers overall risk – The goal is to see how related risks in a crisis can be used to create better products, lower bank costs and increase profits with non-linear risks
  - Identification of Non-Linear Risk for GIB client : Visit ALBA Again

- **17:00   Presentation on The World Economy and Markets**
  - Forecasts
  - Asymmetric Risks in the World and Client Risk Implications
  - Role of China in the World Economy
  - Relating Global Forces and Extremes to Clients
  - Worst case scenarios and client implications (this will be an attempt to get the participants involved in the discussions of extreme events and client risks so that we can find opportunities)

Day Three:
Derivatives and Client Risks

- **7:30 Breakfast**
- **8:00 SIV Structures to Illustrate Derivatives and Entities**
  - Defining Factors in Determining Lending Risk: Creating a synthetic Bank
    - The SIV Saga
    - Simplicity of the Structure
  - Methodologies to understand debt leverage and mis-measuring risk
    - Monte Carlo simulations
    - Example from hedge funds
  - The Thrust of this workshop will be on the escalation of market risk leverage: when does it matter
- **09:30 Break**
- **09:45 Options and the Value of the Firm (Summary): Critical concept for looking at a Client and engaging them in conversation – it broadens the Managers Perspective on a company**
  - Debt as an Option revisited
  - Pricing Debt as an Option Theoretic Problem
  - Implications for Loan Decisions
    - Typical Examples from Client Portfolios (Participants will be asked to provide examples for analysis)
  - Methodologies to understand debt portfolio risk in VaR contexts for bank's risk and clients' risks together so optimal cost solutions can be found to increase sales capabilities of RMs
    - Knock Out Options Monte Carlo, strange distributions
- **10:30 Break**

Day Three: Second Morning Session

- **10:45 Risk Management Tools and Sources of Risk Problems**
  - The foundations of VaR (Value of Risk)
  - The Problems and the Assumptions
  - Non Linear Risk: The big problem with the assumptions
    - Sources of non-linear risk in structures
    - Market created non-linear risks
    - Client Risk Profiles and non-linear risks
      - Debt structure
      - Jump Processes in Markets: Peso Problem
  - Crisis risk – Commodity, Currency, and Financially Driven
    - Volatility in a crisis and overall portfolio volatility
    - Correlations go to one experiment
- **11: 15 Workshop On Airline – Pass out for review**
- **12:00 Lunch**

Day Three: Afternoon Session

- **13:00 Airline Workshop**
- **14: 00 Risk and Product Workshop: Identify and Use Risks Summary**
  - Identifying Options-Like Incentives and Risks
  - Implications for products embedded in funding
  - Selling Risk to decrease costs of funding or controlling extremes
  - Non-Linear Risks: Convexity, Delta, Gamma, Vega (identifying them for clients so they can be managed)
  - Correlation Risk, Liquidity Risk, and the Challenges of VaR (valuable for financial institutional clients)
- **15:00 Break**
- **15:30 Overview of Several Financially Engineered Bond Issues**
  - Breaking a Bond into its component parts to analyze as a zero plus a variety of derivatives.
  - Creating bonds using a zero and derivatives: structured finance solutions
  - Looking at New Issues: Nordea

Day Three: Closing Session

- **16:30 Objectives for Group: Client Conversations, Risks and Product Uses**
  - Loans that embed risk management tools to solve Client Needs
  - Higher Returns and Lower Risk from Products while meeting Client Needs
    - Specific client opportunities
    - Identifying issues and potential products
  - Summation
- **17:00 Closing Remarks**
  - Seminar Participant (Ask a selected enthusiastic seminar member for a few comments)
  - Bank Representative on Objective Re-enforcement
- **17:30 Transportation and Logistics**

Case Studies

Case Studies to lay the groundwork on Risk will be provided ahead of time for those who want to work on them in anticipation of the course.

1. ALBA Data for Review ahead of time.

2. Metallgesellschaft

3. Middle East Guaranteed Product

4. Airline Annual Report