Banking Products and Services

Course Objectives

Identify the products and services offered by banks to consumers and retail clients

Explore the products and services offered by banks to businesses and corporations of all sizes

Examine the fee structures of banks and how they make money from each product or service

Investigate the product offerings and groups within investment banks and their associated fees

Build your knowledge of banking products and services in preparation for a career in banking

Banking for Consumers

Retail Banking Products and Services

There are three different categories of products and services within retail banking.

Deposit Products

Demand Deposits
Checking Accounts
Savings Accounts

Longer Term Deposits

Credit Products

Credit/Debit Cards

Consumer Finance
Personal Loans
POS Finance

Mortgages

Investment Products

Investment Management

Insurance

Retirement Planning

Checking & Current Accounts

A transactional account, sometimes referred to as a checking or current account, is a demand deposit account.

Made to securely and quickly **provide access to funds on demand**

- Customers deposit their income into this account to **pay living expenses**
- **No interest rates**, unless to attract more customers
- **Charges a monthly service fee**, unless a minimum balance is kept on the account

Checking accounts are convenience services

Checking & Current Accounts

A transactional account, sometimes referred to as a checking or current account, is a demand deposit account.

Funding source for short-term loans

Gateway to other bank products

Research has shown that accounts with **active checking accounts earn ~4 times more revenue.**

Savings Accounts

Savings accounts are demand deposit accounts that are used when the **customer has no immediate need for their funds but wants quick access to them in case their financial situation changes.**

Offer interest rates

Rates are lower than longer fixed-term deposit products

Savings accounts are a stable **source of funding for short-term lending products.** Banks will offer incentives to compete for these deposits.

Longer Term Deposits

Longer term deposits are products that offer a certain interest rate for a fixed term. These are used when customers want to save their excess funds for a long time and work towards a large purchase.

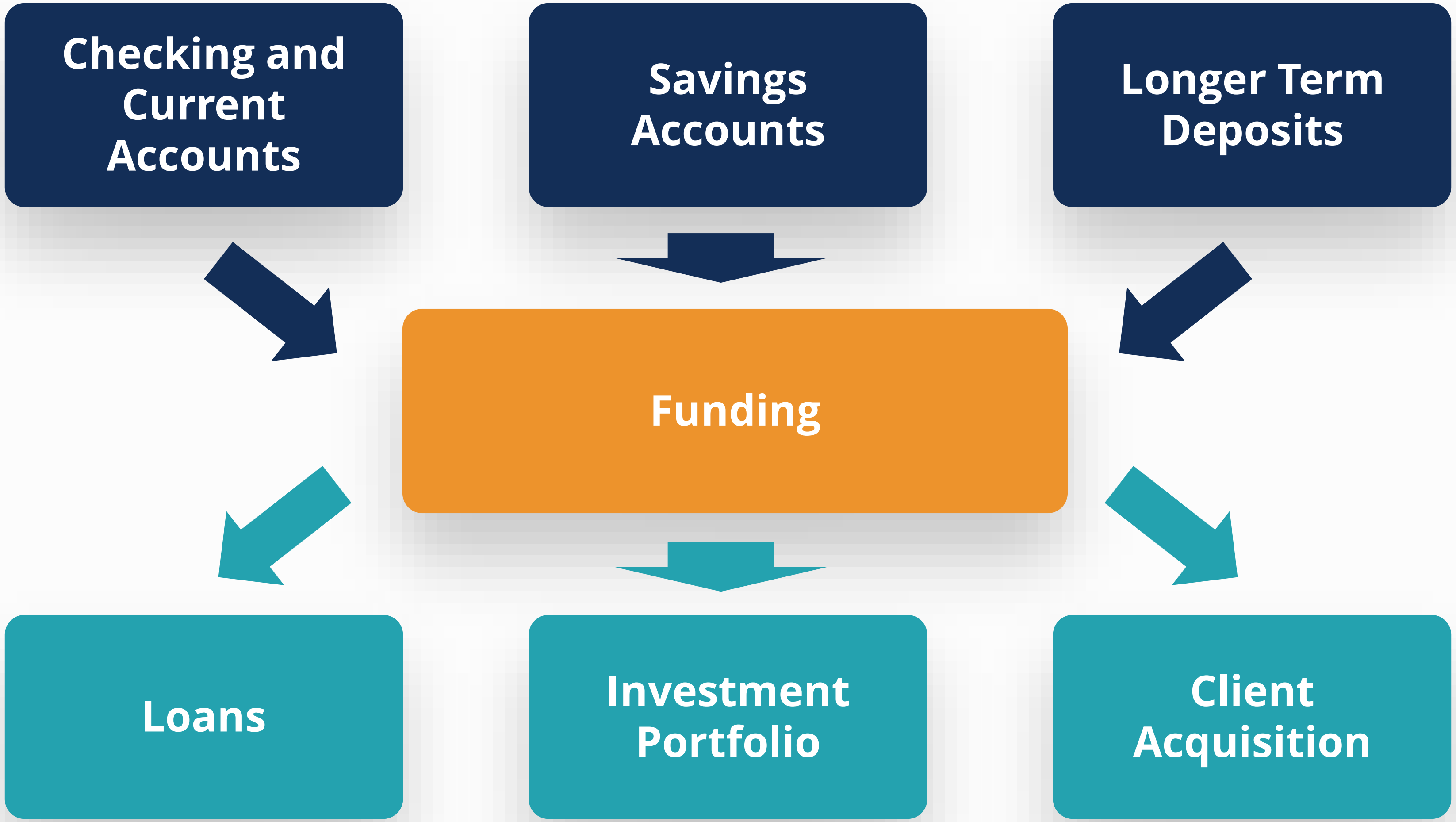
- Term Deposits
- Time Deposits
- Fixed Deposits
- Certificates of Deposits
- General Investment Certificates

Longer Term Deposits

Longer term deposits are products that offer a certain interest rate for a fixed term. These are used when customers want to save their excess funds for a long time and work towards a large purchase.

Banks will match the terms of the loans it makes with the terms of its deposits. If the bank needs more 3-year term deposits to match its loans, it may offer better rates on these deposits.

Deposits as Funding Sources



Bank & Debit Cards

Bank cards, also called debit cards, are linked to the customer's checking account, and sometimes to a savings account as well.

Customers can also make deposits if the ATM is within the bank's network. Banks usually waive fees for ATMs within their network.

Credit Cards

Credit cards offer the convenience of paying without cash but act like a bank loan.

Customers must apply for a credit card. Approval is determined based on their creditworthiness

- The application and approval process happen almost instantly
- The bank will offer a monetary spending limit for the customer
- Customers have 28 days after receiving their credit card statement to pay for purchases made in that period
- Customers do not need to pay the amount owed on the statement in full

Credit cards are a form of revolving line of credit.

Credit Cards

Credit cards products are highly competitive, as they are great revenue generators for the bank.

Incentives can range from:

- **Cash Back**
- **Travel Rewards**
- **Shopping Rewards**

Credit Cards

Credit cards products are highly competitive, as they are great revenue generators for the bank.

Annual Fees

ATM Banking Fees

Merchant Fees

Interest Rates

Credit card interest rates are **much higher than loans.**

- Interest rates can be as low as 8% or as high as 24%
- Customers who carry a balance through multiple periods are a large income source for the bank

Credit Cards

Credit cards products are highly competitive, as they are great revenue generators for the bank.

Annual Fees

ATM Banking Fees

Merchant Fees

Interest Rates

Many credit cards are offered at **0% APR (annual percentage rate) as an introductory rate to attract customers.**

(Customers are reluctant to switch cards once they are accustomed to their card.)

Credit Card Interest Rates

APR – annual percentage rate – is the standard way to quote an interest rate when banks lend money to borrowers and earn interest.

Nominal APR

No compounding

Used in the United States

Effective APR

Includes compounding

Used in the EU and most commonwealth countries

Credit Card Interest Rates

APR, annual percentage rate, is the standard way to quote an interest rate when banks lend money to borrowers and earn interest.

$$\text{Effective Rate} = \left(1 + \frac{I}{n}\right)^n - 1$$

Where:
i = annual nominal rate (APR)
n = compounding periods per year

Example 1: 12% interest rate compounded weekly

Effective rate = $(1 + 0.12/52)^{52} - 1$ = **12.73%**

Example 2: 12% interest rate compounded monthly

Effective rate = $(1 + 0.12/12)^{12} - 1$ = **12.68%**

Loans – Consumer Finance

Loan Classes

Consumer Finance

Mortgages

Loans – Consumer Finance

In consumer finance, there are two loan types: **point of sale (POS) and personal loans.**

POS loans are used when a customer wants to **buy a more expensive product than a typical purchase.**

Instant Approval

Offered Directly at the Retailer

Upon purchase, customers can choose to **pay off the purchase over time with a POS loan.**

If chosen, the system contacts lenders to give **instant credit approval.**

Loans – Consumer Finance

In consumer finance, there are two loan types: **point of sale (POS) and personal loans.**

POS loans are used when a customer wants to **buy a more expensive product than a typical purchase.**

Instant Approval

Offered Directly at the Retailer

POS loans have set:

- **Interest Rates**
- **Monthly Payments**
- **Repayment Periods**

Loans – Consumer Finance

In consumer finance, there are two loan types: **point of sale (POS) and personal loans.**

Personal loans require the customer to apply to the bank and get approval **before a purchase is made.**

Large Purchases

Debt Consolidation

A person with **substantial credit card debt** can pay it off with a personal loan.

Instead of high credit card interest rates, they can pay **lower personal loan rates under a fixed payment schedule.**

Loans – Consumer Finance

In consumer finance, there are two loan types: **point of sale (POS) and personal loans.**

Personal loans that are in the form of lines of credits are called **personal lines of credit (PLOC).**

PLOCs are similar to credit cards but have some differences:

- **More formal application and approval process**
- **Drawing from the line of credit** is not as easy as using a credit card
- The customer must have a **checking account tied to the credit line**

PLOCs have much lower interest rates than credit cards.

Loans – Consumer Finance

In consumer finance, there are two loan types: **point of sale (POS) and personal loans.**

PLOCs are unsecured loans. There is another line of credit that is secured by the equity in the customer's home, called a **home equity line of credit (HELOC).**

HELOC limit is set based on available equity

Interest rates are much lower than a PLOC

Loans – Mortgages

Mortgages are loans used to buy real estate. Mortgages require the assignment of the property title to the lender as security. This means the lender can sell the property in the case of a default.

Fixed Rate, Fixed Term Mortgage

Blended monthly payment of interest and principal

Interest compounds usually semi-annually

Interest payments begin higher than principal payments, but this reverses in proportion over time

Loans – Mortgages

Mortgages are loans used to buy real estate. Mortgages require the assignment of the property title to the lender as security. This means the lender can sell the property in the case of a default.

Fixed Rate

Interest rates do not change throughout loan life

More likely when rates are volatile or rising

Floating Rate

Begins with a base rate and adds an additional percentage

Rate is adjusted frequently

More likely when the loan term is shorter

Interest Only

Only interest is repayable over the term of the loan

Principal is repaid at the end of the term

A secondary means to repay the mortgage at maturity is usually required

Private Banking Products & Services

Private banking is an extension of banking for consumers that caters to **high and ultra-high net worth individuals.**

Banking & Cash Management

Estate & Trust Planning

Tax Planning

Investment Management

Credit Strategies

Philanthropy Advice

Banking & Cash Management

The banking and cash management products offered through private banking mirror those for retail banking – checking and savings accounts, as well as debit and credit cards.

Retail Banking
Maintenance & Transaction Fees

Private Banking
Monthly Fee

Covers multiple accounts, cards, transactions, services, ATMs, transfer fees

Fees range: $75–$150

Bankers only manage a handful of clients

Estate & Trust Planning

Private bankers will also connect their clients with an estate and trust planning consultant that works in the private banking team.

Will, estate, and succession planning advice

Administer, settle, and manage estates as executors, trustees, or agents

There is no extra cost for the provision of this advisory service; it is built into the monthly fee. If the client chooses to use the services for estate and trust **administration**, a fee will then be charged.

Tax Planning

Tax planning is another no-fee service provided through private banking.

Maximize Cash Flow

Minimize Taxes

Tax Efficiency → Transfer wealth to the next generation

Tax Efficiency → Corporate succession planning

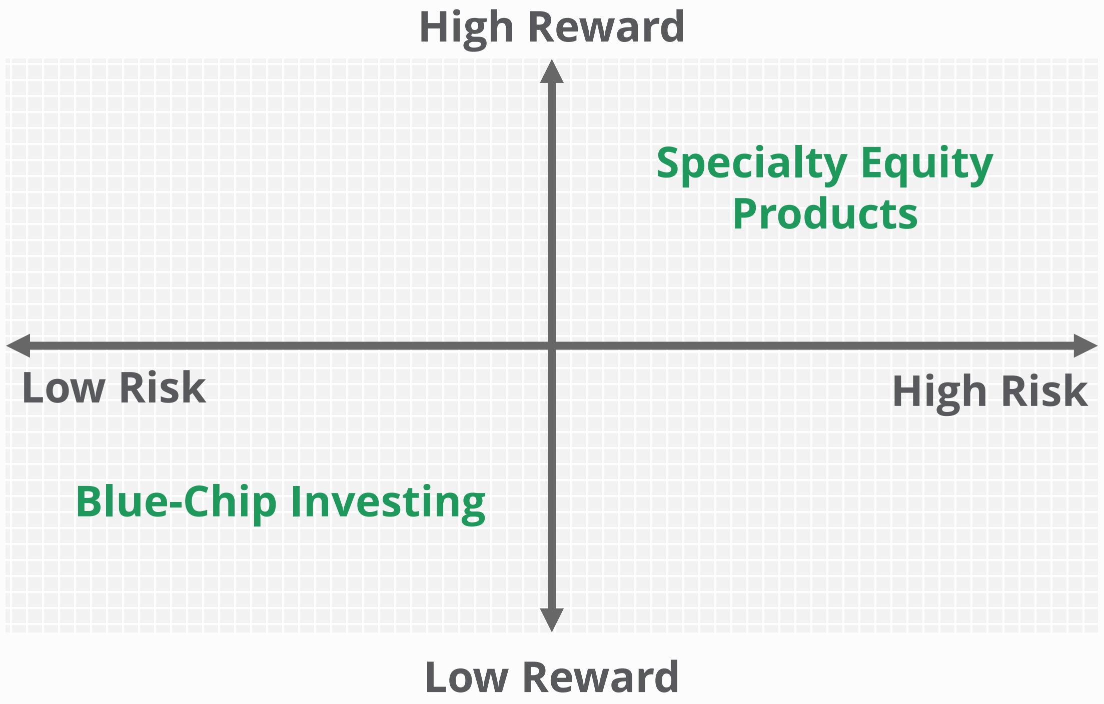
There is no cost for this advisory service. **The bank assumes that the income it earns from the investment and credit products used to minimize taxes will cover the cost of this service.**

Investment Management

For investment management purposes, private bankers will work closely with portfolio managers. **This manager will help the client invest in a variety of products depending on the client's risk tolerance and financial goals.**

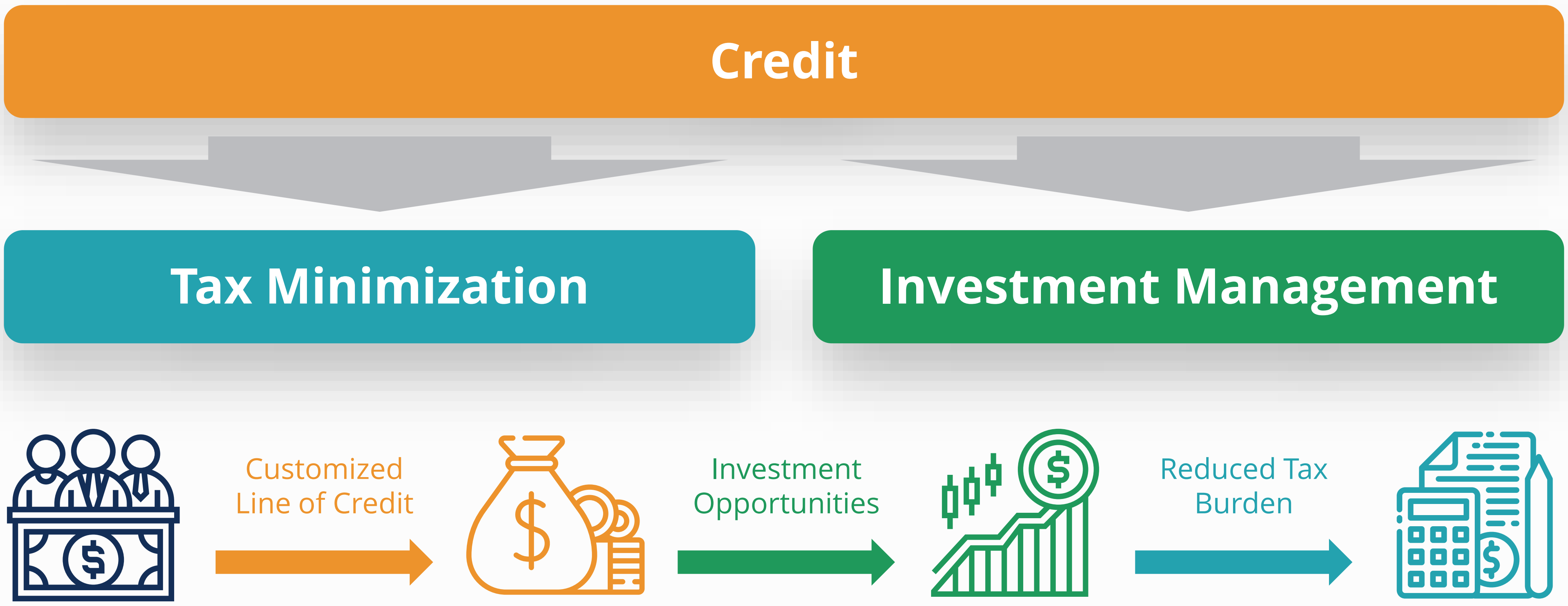
Preserve Capital

Seek Growth



Clients can expect to pay an annual fee of ~1.25–1.5% on their first million of AUM, with fees progressively lowering as AUM increases.

Credit Strategies



Credit solutions offered within private banking include lower rates than those offered to regular retail clients.

Philanthropy Advice

Most high net worth clients will want to leave a legacy behind. **Private banking offers philanthropic advisory services to help clients provide charitable grants or awards.**

Short-Term Grants & Awards

Long-Term Endowment Funds

Fees charged:

- No fees are charged for the **provision of advice**
- Any fees charged are for the **management of the philanthropic fund**

Fees do not go to the bank but are used for the foundation.

Banking for Businesses

Banking for Businesses

Business

Small business owners

Commercial

Mid-size and less complex large companies

Corporate

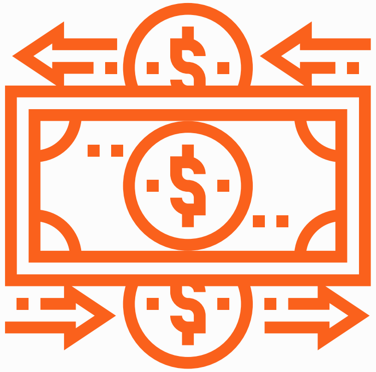
Large companies with more complex needs

Business banks also offer online banking services. Many of the products and services we cover are offered through online banking. When complexity increases, more online support is available.

Business Banking Needs

Business banking products are services are provided to **small businesses with simple banking needs.**

Operational Needs



Working Capital

Financing for Growth (e.g. Capital Expenditures)

Business Banking – Operational Products

Small business owners need similar everyday products and services to consumers, but they also have needs that are specific to running a business.

Business Operating Account

Deposit payments from customers

Pay suppliers and employees

Business Savings Account

Set aside funds for future capital purchases

Cover unanticipated shortfalls

Seen as a source of stable, low-cost funding for the bank

In cases of loans, banks can withdraw and monitor the account if the business is behind on loan payments

Business Banking – Operational Products

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Business Operating Account

Deposit payments from customers

Pay suppliers and employees

Business Savings Account

Set aside funds for future capital purchases

Cover unanticipated shortfalls

Merchant Services

The ability to accept debit and credit card payments at the point of sale

Business Banking – Operational Products

Small business owners need similar everyday products and services to consumers, but they also have needs that are specific to running a business.

Example: Car Mechanic Repair Shop

Most customers are retail customers.

Customers want to pay by **credit card.**

Business wants to receive credit card payments instead of checks, **as there is less chance of default.**

Banks earn fees on each merchant service transaction made. These include maintenance, interchange, network, batch processing, and other fees. Fees tend to be ~2.5-4.5% per transaction.

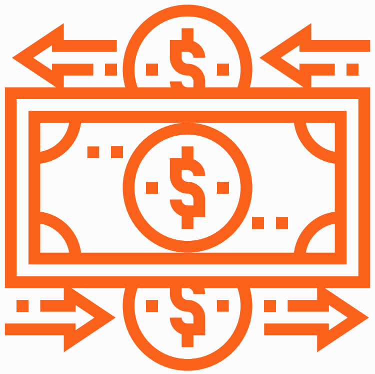
Merchant Services

The ability to accept debit and credit card payments at the point of sale

Less risky and necessary for ecommerce

Business Banking – Financing Products

Small businesses sometimes need extra cash to support day-to-day operations. Additionally, the business may look for funding to purchase new equipment, properties, or to finance growth.



Working Capital

Financing for Growth (e.g. Capital Expenditures)

In both situations, a business may **require financing to help them achieve their goals.**

Financing Products – Working Capital

Raw Materials or Finished Goods

Financing Customers (Receivables)

Hiring Staff (e.g. Salespeople)

When Cash is Needed

Working Capital Funding Gap

When Cash Flows Come in

Working Capital Products – Electronic Funds Transfer (EFT)

To shorten the funding gap, companies can use:

Electronic Funds Transfer (EFT)

01 Pay suppliers via EFT, which can save payment processing time.

02 Accept receipts from customers via EFT, shortening the receivable cycle.

03 There are multiple types of EFTs available, some taking several days, others transferring funds instantly.

04 E-Transfers have lower limits but fulfill instantly. ACH transfers have higher limits and are used by larger companies.

Working Capital Products – Overdraft

To shorten the funding gap, companies can use:

Overdraft

01 Allows for businesses to go into a small negative cash balance for a short amount of time.

02 Banks will charge a fee for each transaction that causes the account to be overdrawn, ranging around $30–$35.

Working Capital Products – Revolving Line of Credit

To shorten the funding gap, companies can use:

Revolving Line of Credit

01 A form of short-term financing where the authorized amount of the credit line will stay at that amount.

02 The business can use the line of credit to cover expenses without reapplying to the bank each time.

03 Once cash from sales comes in, the cash will be used to reduce the amount owing on the line of credit.

04 The line of credit will be negotiated based on factors such as length of time in business and the quality of the business' inventory and receivables.

Working Capital Products – Revolving Line of Credit

To shorten the funding gap, companies can use:

Revolving Line of Credit

05 A line of credit is more cost effective than going into overdraft multiple times in a month.

06 The bank receives an application fee of ~$150 and a similar annual maintenance fee.

07 The bank also charges interest at a rate such as prime or LIBOR + x%, which is often anywhere from 2–5% but can go as high as 20%.

Working Capital Products – Business Credit Cards

To shorten the funding gap, companies can use:

Business Credit Cards

01 Credit cards can be used to extend the length of time until the business must pay cash for an expense.

Example: Inventory Purchase

A company buys inventory and the terms of repayment are 30 days

The company can pay with a credit card. If they are at the beginning of their billing cycle, it may mean they get an additional 28 days before cash outflow.

Working Capital Products – Business Credit Cards

To shorten the funding gap, companies can use:

Business Credit Cards

01 Credit cards can be used to extend the length of time until the business must pay cash for an expense.

02 If the company fully pays off its credit card balance, there will be no financing costs charged.

03 On the bank's side, it receives merchant fees from the merchant who accepted the payment.

04 If the company cannot pay the balance in full, it may be charged interest rates as high as 24%.

Financing Products – Capital Expenditures

When a business is looking to upgrade its equipment or expand its operations it will often need financing.

For capital expenditures:

Commercial Mortgage → **Term Loans**

Real Property

Capital Expenditures – Term Loans

When a business is looking to upgrade its equipment or expand its operations it will often need financing.

For capital expenditures:

A term loan is a fixed amount for a fixed term, associated with a specific expenditure.

Term Length

Amortization Period

Interest Rate

Capital Expenditures – Term Loans

When a business is looking to upgrade its equipment or expand its operations it will often need financing.

For capital expenditures:

A term loan is a fixed amount for a fixed term, associated with a specific expenditure.

Term Length

Depends on the creditworthiness of the business.

Higher Risk = Shorter Terms

Capital Expenditures – Term Loans

When a business is looking to upgrade its equipment or expand its operations it will often need financing.

For capital expenditures:

A term loan is a fixed amount for a fixed term, associated with a specific expenditure.

Amortization Rate

Related to the underlying asset

The longer the amortization period, the lower the amount of the monthly payment

Capital Expenditures – Term Loans

When a business is looking to upgrade its equipment or expand its operations it will often need financing.

For capital expenditures:

A term loan is a fixed amount for a fixed term, associated with a specific expenditure.

Interest Rate

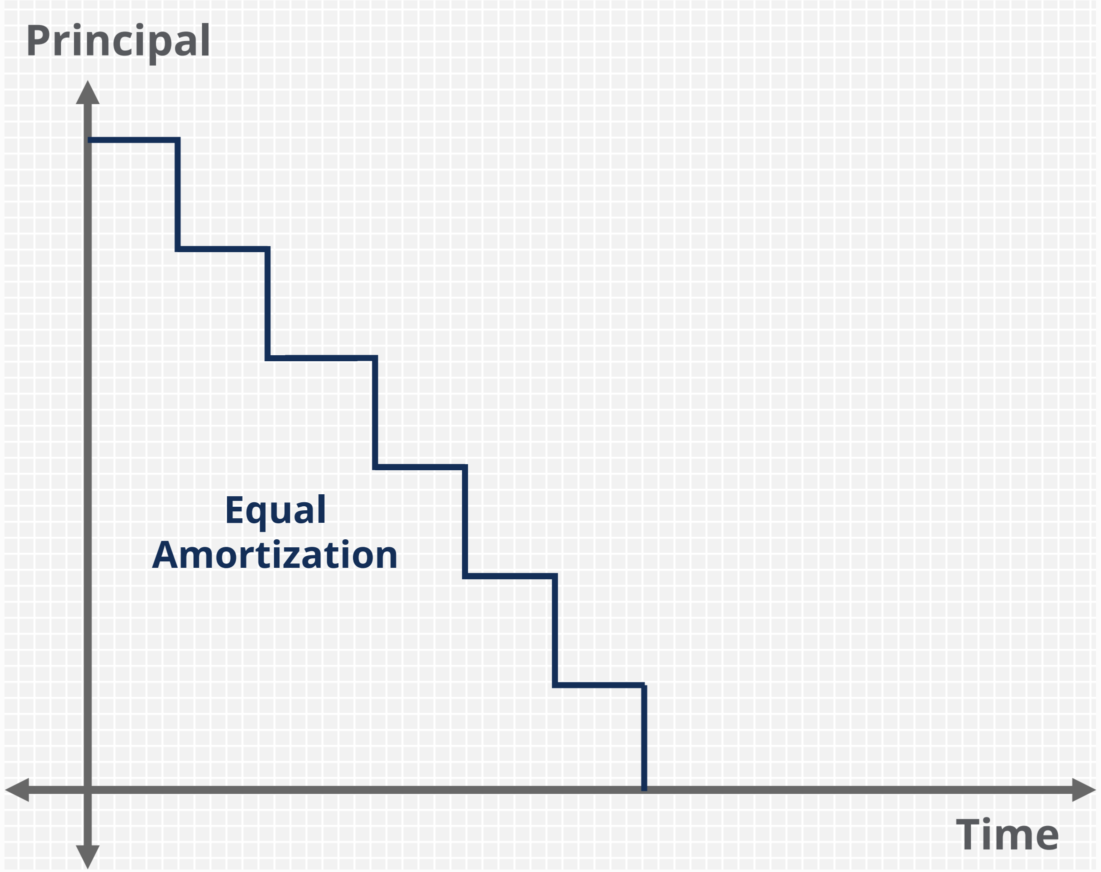
Based on prevailing market conditions and the creditworthiness of the borrower

Term Loan Repayment Options & Fees

There are three types of repayment options on term loans:

Equal Amortization

- AKA Principal and interest payments (P&I)
- Equal blended payments of principal and interest, paid monthly
- The principal amount reduces at a greater rate and the interest paid reduces over the term of the loan

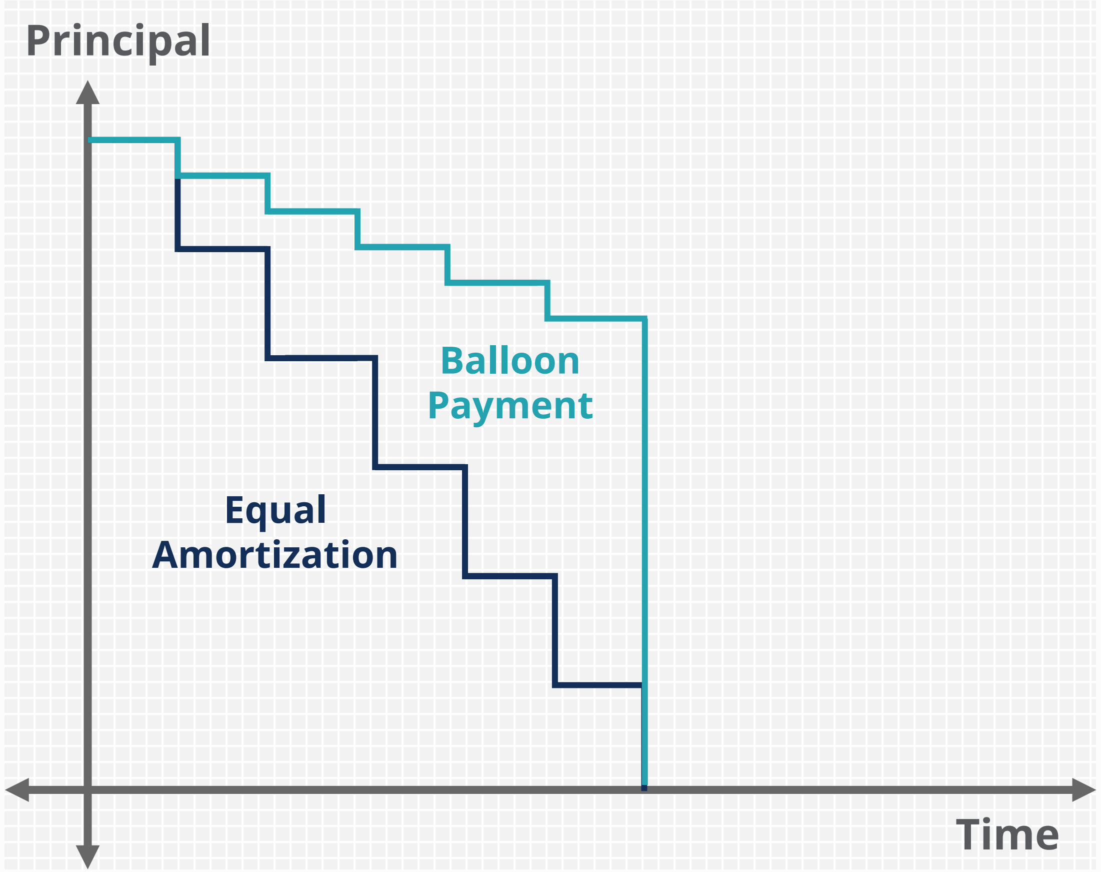


Term Loan Repayment Options & Fees

There are three types of repayment options on term loans:

Balloon Payments

- Also has blended payment of principal and interest throughout the loan term
- Final payment at the end will be much higher than the others
- Most often seen in commercial mortgages

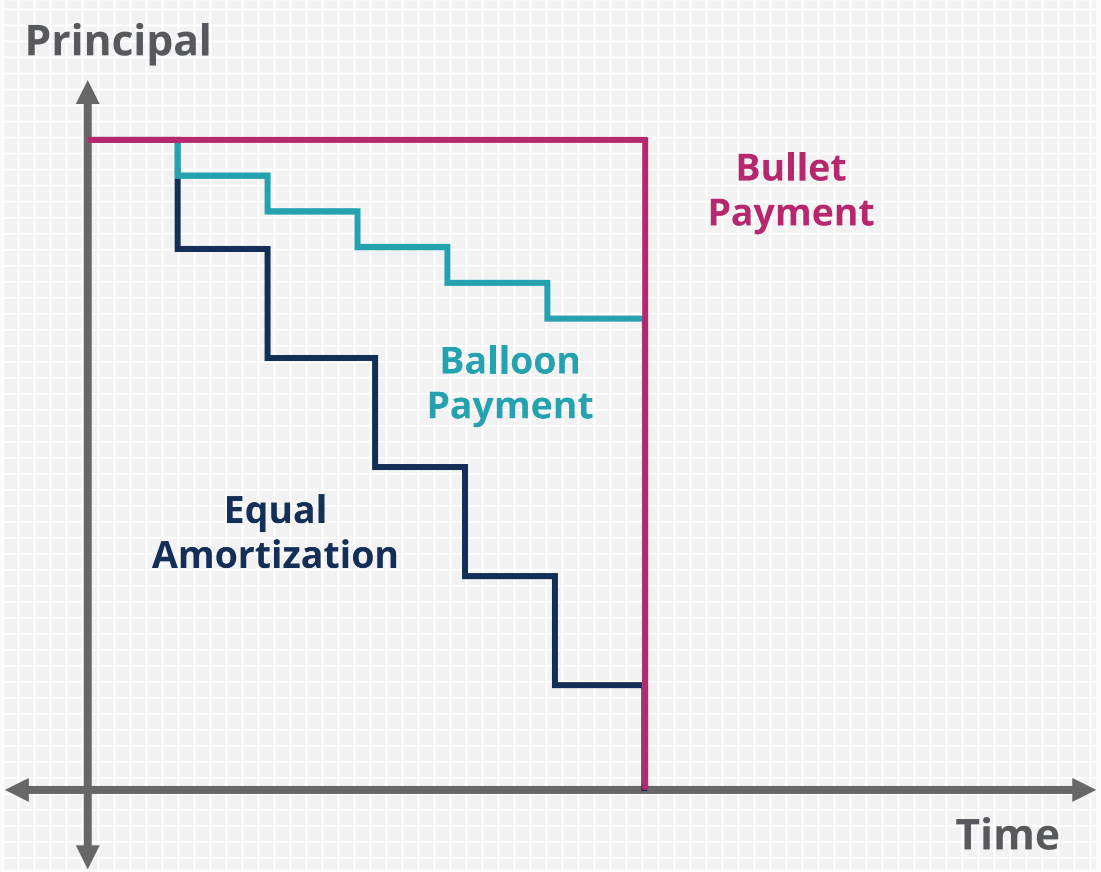


Term Loan Repayment Options & Fees

There are three types of repayment options on term loans:

Bullet Payment

- Only interest is paid throughout the loan term
- The full principal amount is paid at the end of the term
- Most commonly associated with commercial mortgages



Term Loan Repayment Options & Fees

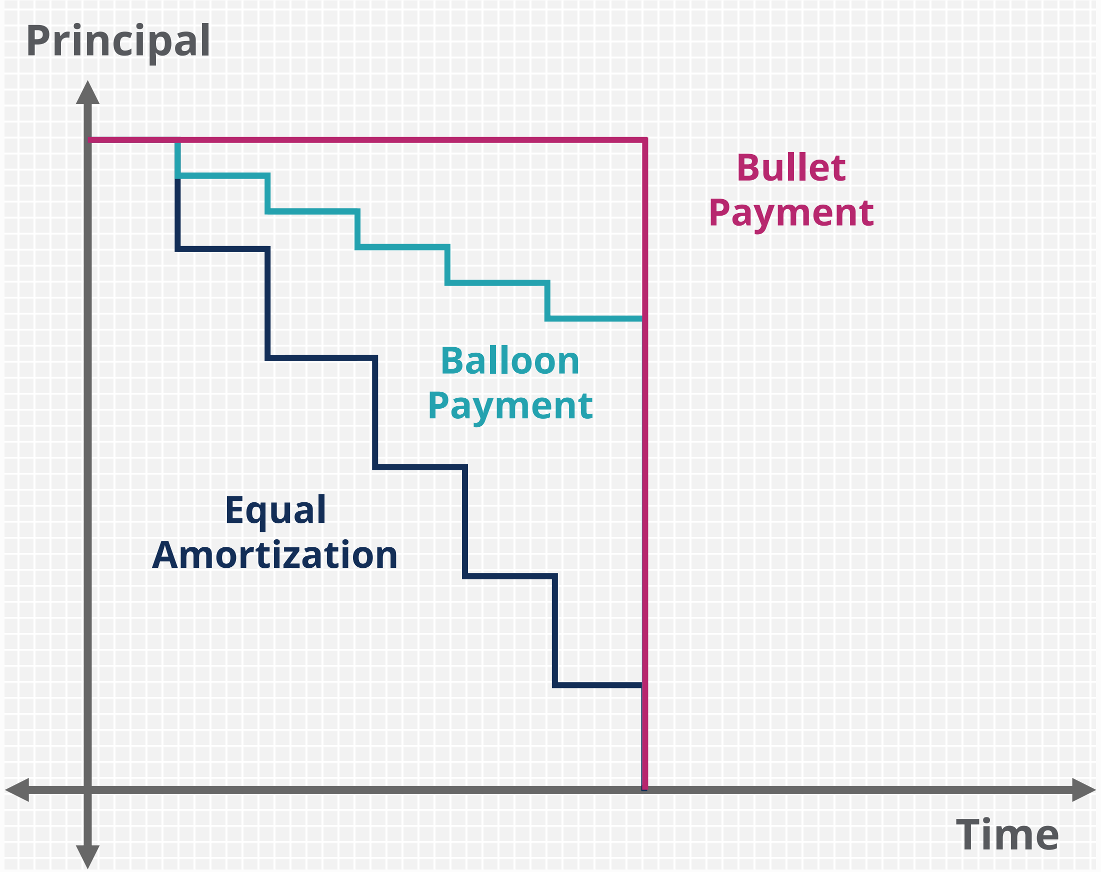
There are three types of repayment options on term loans:

These products have application fees, maintenance fees, and renewal fees associated with the loan.

- E.g. loan origination fee of 1–3% of loan amount requested

The bank also earns interest on these loans

- Interest may be set as a fixed amount or a variable rate like prime or LIBOR + x% may be used



Capital Expenditures – Equipment Financing

For equipment purchases, there are more options than a traditional term loan.

Conditional Sales Agreement

Business takes ownership of the equipment while paying the supplier over a period of time

Lease Financing

The equipment is owned by the bank or a separate leasing company

The business is responsible for the equipment but pays monthly lease payments

The company may purchase the equipment at the end of the lease

Capital Expenditures – Equipment Financing

For equipment purchases, there are more options than a traditional term loan.

Conditional Sales Agreement

Business takes ownership of the equipment while paying the supplier over a period of time

Banks earn fees for negotiating the agreement.
If it acts as a lessor, it earns interest on the payments; rates are usually higher than a loan.

Lease Financing

Advantages include:

Ability to expense full lease payments rather than interest only

Lower cash outlay at the beginning of the lease

Avoids obsolescence risk

Commercial Banking

Clients using commercial banking products and services have more complex needs. This includes having a more complex supply chain.

Operating Accounts and Loan Finance Products	Transaction Banking (Cash and Treasury Management)	Trade Finance and Foreign Exchange	Advisory Services

Commercial Banking – Operational Products

Mid-sized companies have similar needs to small businesses when it comes to having an operating account, savings account and the requirement for merchant services.

Commercial Operating Account

Commercial Savings Account

Merchant Services

Fees for mid-sized companies are similar to small business. **However, the volume of transactions are greater, so they are often offered a better discount.**

Commercial Banking – Loan Finance Products

Working Capital

- Overdrafts
- Lines of Credit
- Credit Cards

Commercial Credit Cards:

Used differently than business credit cards. A mid-size company is likely to use credit cards for smaller purchases and employee expenses.

Commercial Banking – Loan Finance Products

Working Capital

- Overdrafts
- Lines of Credit
- Credit Cards

Commercial Lines of Credit

Likely to be significantly higher than what a small business would use. Business LOCs can go up to $500,000. Commercial LOCs range from $500,000 - $USD Millions.

Commercial Banking – Loan Finance Products

Working Capital

- Overdrafts
- Lines of Credit
- Credit Cards

Capital Expenditures

- Mortgages
- Term Loans
- Equipment Finance

Commercial Loans

Loan amounts in commercial banking are significantly higher than those found in business banking.

Commercial Banking – Cash & Treasury Management

Cash & Treasury Management

Payments (Outflows)

Receipts (Inflows)

Cash (Liquidity)

Cash & Treasury Management – Payments

There are several products and services that a bank may offer its commercial banking clients for managing payments.

Supplier Payments (Straight-Through Processing)

1. Client submits listing of all accounts payable to the bank
2. As invoices are received, the bank automatically pays the supplier for the client
3. Frees up administration of payables for the client
4. A small fee is charged per transaction, changing based on volume

Cash & Treasury Management – Payments

There are several products and services that a bank may offer its commercial banking clients for managing payments.

EFT Payments (e.g. Automated Clearing House Payments)

1. Payments go from the originating bank to a central clearing house (ACH network)
2. The ACH network approves the transaction
3. The money is sent to the receiving bank to post into the supplier's account
4. A small fee is charged per transaction (5–10 cents per transaction
5. Transactions may take multiple days, as they are done in bulk and processed in batches

Cash & Treasury Management – Payments

There are several products and services that a bank may offer its commercial banking clients for managing payments.

Wire Transfers

1 Wire transfers cost significantly more, costing anywhere from $10–$30

2 Funds transfer immediately from one bank to another once they are confirmed

3 Are used more often for cross-border transactions than domestic transactions

SWIFT – **S**ociety for **W**orldwide **I**nterbank **F**inancial **T**elecommunication

SEPA – **S**ingle **E**uropean **P**ayment **A**rea

EFT Deposits

Cash & Treasury Management – Receipts

Other options companies can use to manage their receipts and **shorten their cash cycle or funding gap:**

Receivable Lockboxes

1. Customer mails payments to a post office box
2. The bank collects the payments and they are processed immediately
3. An electronic version exists where customers pay into an e-lockbox
4. Saves the company time and they receive payments faster
5. The bank charges a monthly fee and a transaction fee per payment processed

Cash & Treasury Management – Receipts

Other options companies can use to manage their receipts and **shorten their cash cycle or funding gap:**

Invoice Discounting

1. Company borrows a percentage against the value of their receivables while **keeping ownership**
2. Company transfers collection activities to the bank, freeing up resources for the company
3. Bank takes a percentage on each receivable collected (discount); usually 2-3%
4. Bank also charges a monthly admin fee, charged as a percentage of gross revenue
5. Admin fee can be anywhere from 0.2–0.5% per month depending on revenue

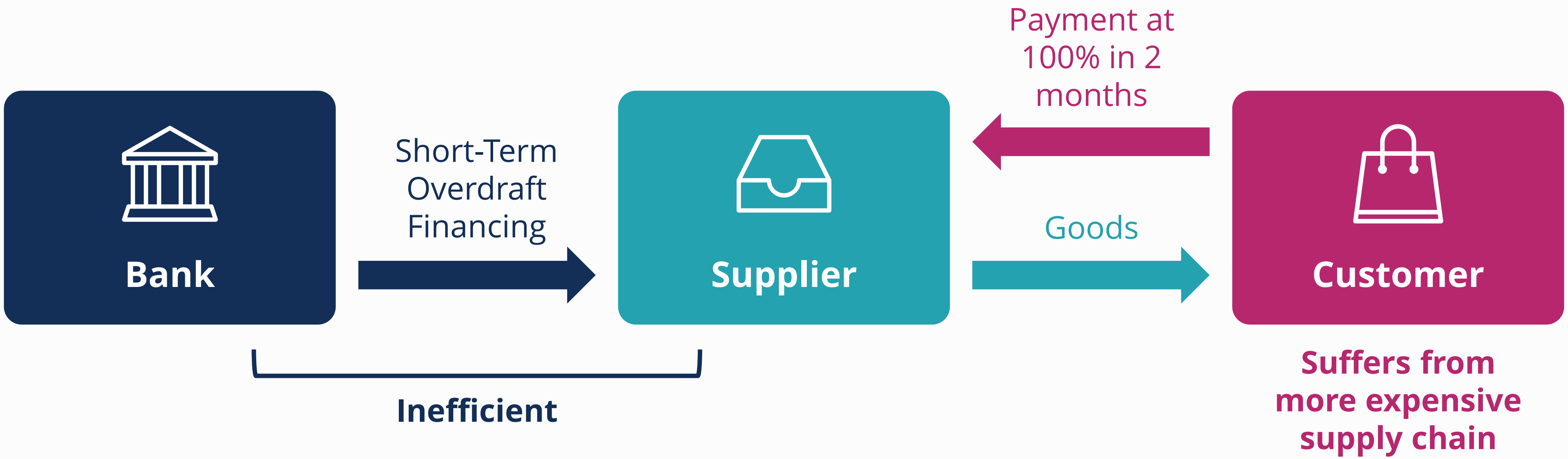
Cash & Treasury Management – Receipts

Other options companies can use to manage their receipts and **shorten their cash cycle or funding gap:**

Invoice Factoring

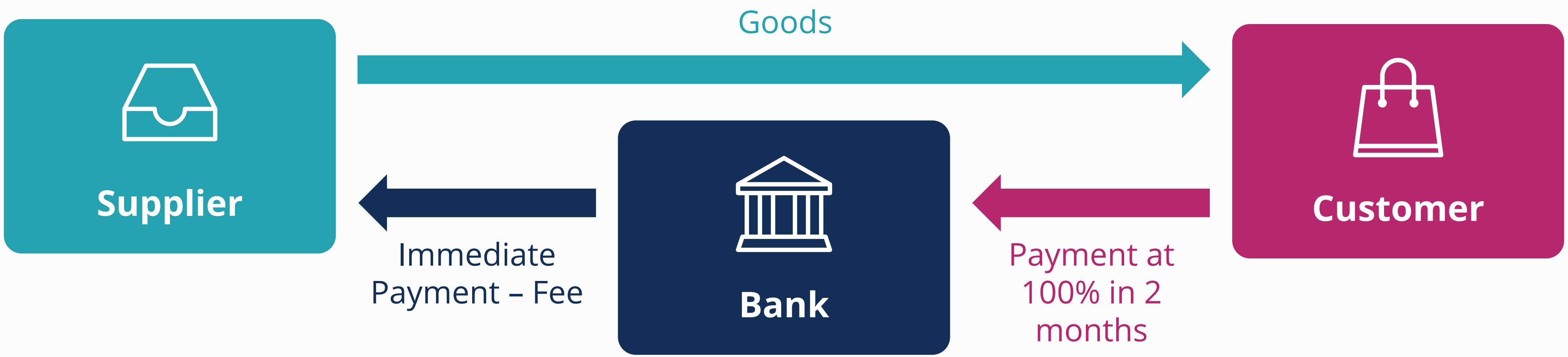
1. Receivables are assigned to the bank
2. The company receives the value of those receivables, less a finance fee
3. Company does **not retain ownership** of the receivable; sells it to the bank instead
4. **Recourse factoring:** Company is responsible to pay for any invoices that are defaulted on
5. **Non-recourse factoring:** Bank carries default risk instead
6. Monthly admin fees are higher than invoice discounting in general

Traditional Supply Chain Finance



Traditional Supply Chain Finance

Using factoring or discounting:



Reduces supplier's reliance on debt financing, may even allow the supplier to extend the buyer's payment terms.

Leads to a more efficient supply chain overall.

Cash & Treasury Management – Cash

A company will want to make any cash it has on hand as efficient as possible.

For larger companies, it is likely that it will have **multiple operating accounts with multiple cash balances in each.**

Interest and bank charges apply to each of these accounts.

Cash Concentration

Sweep all accounts into one master account

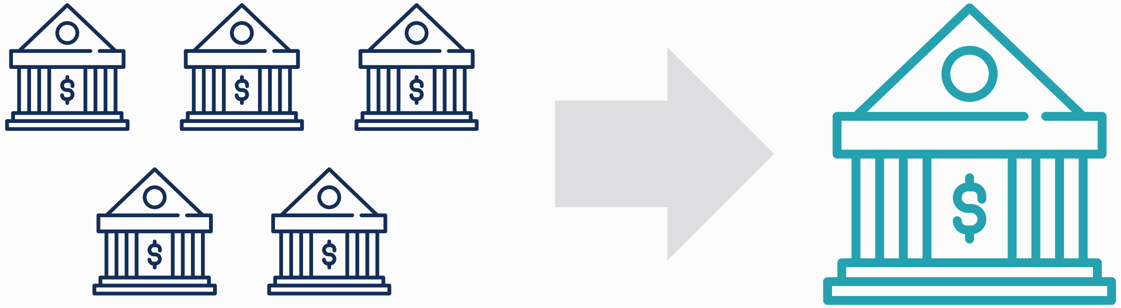
Notional Pooling

Reduces potential interest expense on overdrawn accounts and even allows the company to gain interest income.

Cash & Treasury Management – Cash – Cash Concentration

Cash concentration (physical cash pooling) requires that the balances of identified accounts are physically swept into one master account.

Surplus liquidity can be used for internal financing



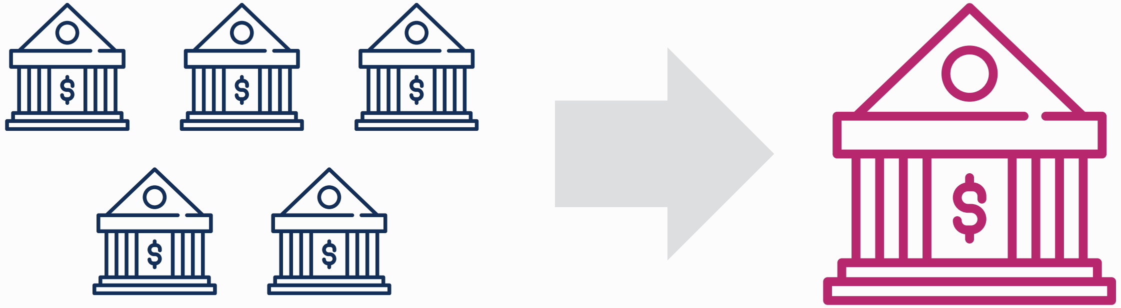
This saves time and money managing payments, but also on external interest expense, since the company is using internal financing.

Cash concentration is most commonly used for domestic accounts but can also be used for international accounts if all the balances are of the same currency.

Cash & Treasury Management – Cash – Notional Pooling

In notional pooling, operating accounts still retain the physical cash. However, accounts are virtually (notionally) swept into a notional pooled account.

Each account retains its physical cash balances



Notional Pooled Account

This allows bank clients to bring balances together on a purely notional basis **to calculate and maximize interest income and minimize bank charges.**

Because there is no physical movement of funds, **the company doesn't incur foreign exchange charges.**

Cash & Treasury Management – Cash – Investments

Investments are used when the company has excess liquidity. The type of product depends on the future cash needs of the company.

Wants to keep cash on hand to cover 6 weeks of operating costs →	**30-Day Treasury Bill or Money Market Product**
Saving for a future acquisition →	**6-Month or 2-Year Bond**

Commercial Banking – Trade Finance & Foreign Exchange

Trade is the exchange of goods and services between a buyer and seller. **Trade finance focuses on the international exchange of goods and services.**

Importing (Buying)

Exporting (Selling)

Foreign exchange (FX) relates to exchanging domestic currency for the currency of another country. **For trade finance, it will be the currency of the country that the client company is doing business with.**

Trade Cycle & Risks – Contract Negotiation & Finalization

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization
Risks	

Trade Cycle & Risks – Contract Negotiation & Finalization

It is important to understand the trade cycle and the risks within each phase of the cycle.

Country Risk

The political and economic stability of the country that the client is doing business with.

Trade Cycle & Risks – Contract Negotiation & Finalization

It is important to understand the trade cycle and the risks within each phase of the cycle.

Operational Risk (Documentary Risk)

The possibility of misunderstanding the contract laws of the country where a bank client is doing business.

Trade Cycle & Risks – Contract Negotiation & Finalization

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization
Risks	Country Operational

Trade Cycle & Risks – Bid Bond/Guarantee

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization
Risks	Country Operational
Products	Bid Bond/Guarantee

Trade Cycle & Risks – Bid Bond/Guarantee

It is important to understand the trade cycle and the risks within each phase of the cycle.

Bid Bond/Guarantee

Issued as part of a supply bidding process

Provides a guarantee that the company will undertake the contract under the terms they bid

The cost is either a flat fee of a few hundred dollars or 1–5% of the penal sum

Penal sum: 5–20% of the contract amount; guaranteed by the bank

Trade Cycle & Risks – Production

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production
Risks	Country Operational	Working Capital Commodity
Products	Bid Bond/Guarantee	

Trade Cycle & Risks – Production

It is important to understand the trade cycle and the risks within each phase of the cycle.

Working Capital Risk

Pressure on the company's cash while it is waiting for the performance of work

More cash pressure exists if the company has made an advance payment

Trade Cycle & Risks – Production

It is important to understand the trade cycle and the risks within each phase of the cycle.

Working Capital Risk

- Electronic Funds Transfer
- Overdraft
- Revolving Line of Credit
- Business Credit Card

Trade Cycle & Risks – Production

It is important to understand the trade cycle and the risks within each phase of the cycle.

Commodity Risk

Relates to the cost of raw materials used in the production cycle

Example: Importing Raw Materials

Risk of raw materials prices going up before a contract is signed

Risk of raw materials prices going down after a contract is signed

Trade Cycle & Risks – Production

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production
Risks	Country Operational	Working Capital Commodity
Products	Bid Bond/Guarantee	Commodity Hedge

Trade Cycle & Risks – Delivery & Settlement

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement
Products	Bid Bond/Guarantee	Commodity Hedge		

Trade Cycle & Risks – Delivery & Settlement

It is important to understand the trade cycle and the risks within each phase of the cycle.

Counterparty Risk

The risk that one party will fail to **deliver** to the other

Typically considered a risk for the buyer

Trade Cycle & Risks – Delivery & Settlement

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement
Products	Bid Bond/Guarantee	Commodity Hedge	Performance Bond/Guarantee	

Trade Cycle & Risks – Delivery & Settlement

It is important to understand the trade cycle and the risks within each phase of the cycle.

Settlement Risk

The risk that the buyer will not pay the seller for the product once it has been received.

Trade Cycle & Risks – Documentary Collection

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement
Products	Bid Bond/Guarantee	Commodity Hedge	Performance Bond/Guarantee Documentary Collection	

Trade Cycle & Risks – Documentary Collection

It is important to understand the trade cycle and the risks within each phase of the cycle.

Documentary Collection

Two banks act on behalf of a buyer and seller to ensure payment is made for the product being delivered

Transaction is settled through the execution of documents like invoices

Difference between documentary collection (DC) and a letter of credit (LC) is that banks make no guarantee of payment in a DC

Best used when the buyer and seller are known to each other

DCs are less complicated than LCs, but are riskier

Trade Cycle & Risks – Import Letter of Credit

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement
Products	Bid Bond/Guarantee	Commodity Hedge	Performance Bond/Guarantee Documentary Collection Import Letter of Credit	

Trade Cycle & Risks – Import Letter of Credit

It is important to understand the trade cycle and the risks within each phase of the cycle.

Import Letter of Credit – For Buyers

Import LCs will request for documentation (e.g. sales contracts)

Upon receipt of documentation, the bank will release payment from the client's account to pay for the product they will receive

Ensures that the buyer knows that the product has been shipped before they pay for it

Guarantees payment to the seller

Client must put a credit facility in place to issue an import LC

Trade Cycle & Risks – Export Letter of Credit

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement
Products	Bid Bond/Guarantee	Commodity Hedge	Performance Bond/Guarantee Documentary Collection Import Letter of Credit	Export Letter of Credit

Trade Cycle & Risks – Export Letter of Credit

It is important to understand the trade cycle and the risks within each phase of the cycle.

Export Letter of Credit – For Sellers

Issued by the buyer’s bank and guarantees the payment for goods or services

The buyer or the bank will be required to cover the full or unpaid portion of the purchase

Mitigates the payment risk for the seller and improves cash flow

The seller’s bank provides all necessary documentation to the buyer’s bank, who will then send the payment to the client

Trade Cycle & Risks – Export Letter of Credit

It is important to understand the trade cycle and the risks within each phase of the cycle.

Letter of Credit – Fees

Pre-advice Fees

Issuance Fees

Maintenance & Other Handling Fees

Fees typically start at $300

Trade Cycle & Risks – Bankers' Acceptances

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement
Products	Bid Bond/Guarantee	Commodity Hedge	Performance Bond/Guarantee Documentary Collection Import Letter of Credit	Export Letter of Credit Bankers' Acceptances

Trade Cycle & Risks – Bankers' Acceptances

It is important to understand the trade cycle and the risks within each phase of the cycle.

Bankers' Acceptances

A promised future payment or time draft which is accepted and guaranteed by a bank; drawn on a deposit at the bank

Specifies the amount of money, the date, and to whom the payment is due

Usually issued after the terms of an LC are satisfied

Cost is either **commission-based** or **discount-plus-commission**

Trade Cycle & Risks – Bankers' Acceptances

It is important to understand the trade cycle and the risks within each phase of the cycle.

Bankers' Acceptances

Commission-Based

If the seller waits until the bankers' acceptance matures, a commission of 1.5% of the invoice value will be charged.

Discount-Plus-Commission

If the seller chooses to cash the bankers' acceptance before it matures, a discount will be taken.

The discount rate depends on the amount of the invoice and the tenor.

Trade Cycle & Risks – Advance Payment Guarantee

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement
Products	Bid Bond/Guarantee	Commodity Hedge	Performance Bond/Guarantee Documentary Collection Import Letter of Credit	Export Letter of Credit Bankers' Acceptances Advance Payment Guarantee

Trade Cycle & Risks – Advance Payment Guarantee

It is important to understand the trade cycle and the risks within each phase of the cycle.

Advance Payment Guarantee

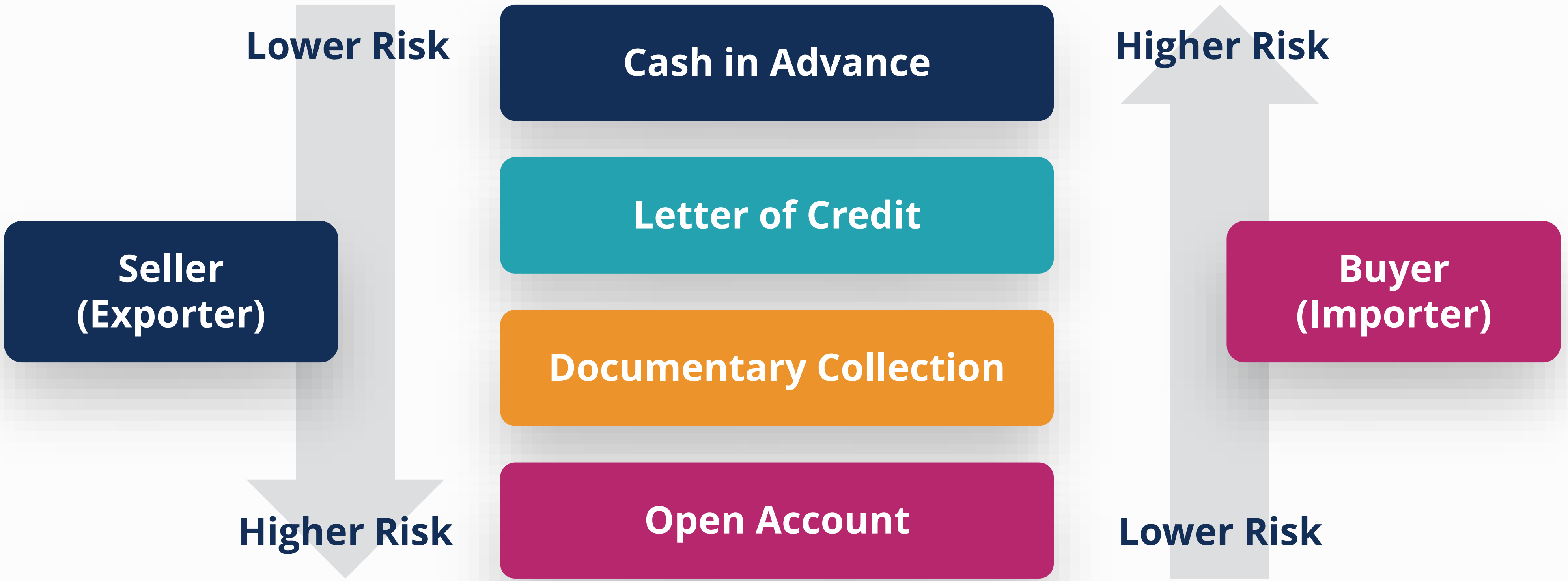
Provided by a bank and assures that the cash advance will be repaid by the bank if its client fails to meet obligations

Useful product for a buyer, as some suppliers will require an advance payment before producing anything

Cost is similar to bid and performance bonds

Trade Finance – Risk from Different Perspectives

The buyer takes the most risk, as they must pay first. They would likely request an advance payment guarantee.



The seller takes the most risk as they must ship their product and then wait for payment from the buyer

Trade Cycle & Risks – Foreign Exchange Risk & Products

It is important to understand the trade cycle and the risks within each phase of the cycle.

Trade Cycle	Contract Negotiation & Finalization	Production	Delivery	Settlement
Risks	Country Operational	Working Capital Commodity	Counterparty	Settlement Foreign Exchange
Products	Bid Bond/Guarantee	Commodity Hedge	Performance Bond/Guarantee Documentary Collection Import Letter of Credit	Export Letter of Credit Bankers' Acceptances Advance Payment Guarantee

Trade Cycle & Risks – Foreign Exchange Risk & Products

It is important to understand the trade cycle and the risks within each phase of the cycle.

Foreign Exchange Risk:

Buyers:
Risk that the value of foreign currency will increase before payment is negotiated

Sellers:
Risk that the value of foreign currency decreases before settlement is made

Foreign Currency Account:

Operating and savings accounts in a foreign currency denomination vs. the domestic currency. Used when the client does a large volume of cross-border business.

Costs are no different from domestic currency accounts.

Trade Cycle & Risks – Foreign Exchange Risk & Products

It is important to understand the trade cycle and the risks within each phase of the cycle.

Foreign Exchange Risk:

Buyers:
Risk that the value of foreign currency will increase before payment is negotiated

Sellers:
Risk that the value of foreign currency decreases before settlement is made

Products Relating to FX Hedging:

FX Swaps

FX Options

FX Forwards

Trade Cycle & Risks – Foreign Exchange Risk & Products

It is important to understand the trade cycle and the risks within each phase of the cycle.

Foreign Exchange Risk:

Buyers:
Risk that the value of foreign currency will increase before payment is negotiated

Sellers:
Risk that the value of foreign currency decreases before settlement is made

FX Swap

A contract to swap one currency for another. FX swaps have principal transfers both upfront and at expiry.

An FX swap is an agreement to simultaneously sell one currency for another at an initial date, then swap back at a later date.

Trade Cycle & Risks – Foreign Exchange Risk & Products

It is important to understand the trade cycle and the risks within each phase of the cycle.

Foreign Exchange Risk:

Buyers:
Risk that the value of foreign currency will increase before payment is negotiated

Sellers:
Risk that the value of foreign currency decreases before settlement is made

FX Option

Contract that gives one party the right, but not the obligation, to buy or sell an underlying asset at a specific price by or at a specific date.

E.g. If the buyer believes the FX rate will go up, they may buy an FX call option that gives them the right to buy the currency at the price that was fixed at the time they purchased the option.

Trade Cycle & Risks – Foreign Exchange Risk & Products

It is important to understand the trade cycle and the risks within each phase of the cycle.

Foreign Exchange Risk:

Buyers:
Risk that the value of foreign currency will increase before payment is negotiated

Sellers:
Risk that the value of foreign currency decreases before settlement is made

FX Forward

An agreement made today to delivery currency at some point in the future, at a pre-determined rate. No payment or physical exchange of funds happens upfront.

A bilateral contract between a buyer and a seller where the dates, amounts, and prices are all negotiated for the benefit of both parties.

Commercial Banking – Advisory Services

Commercial bankers provide advice surrounding the products they offer that relate to:

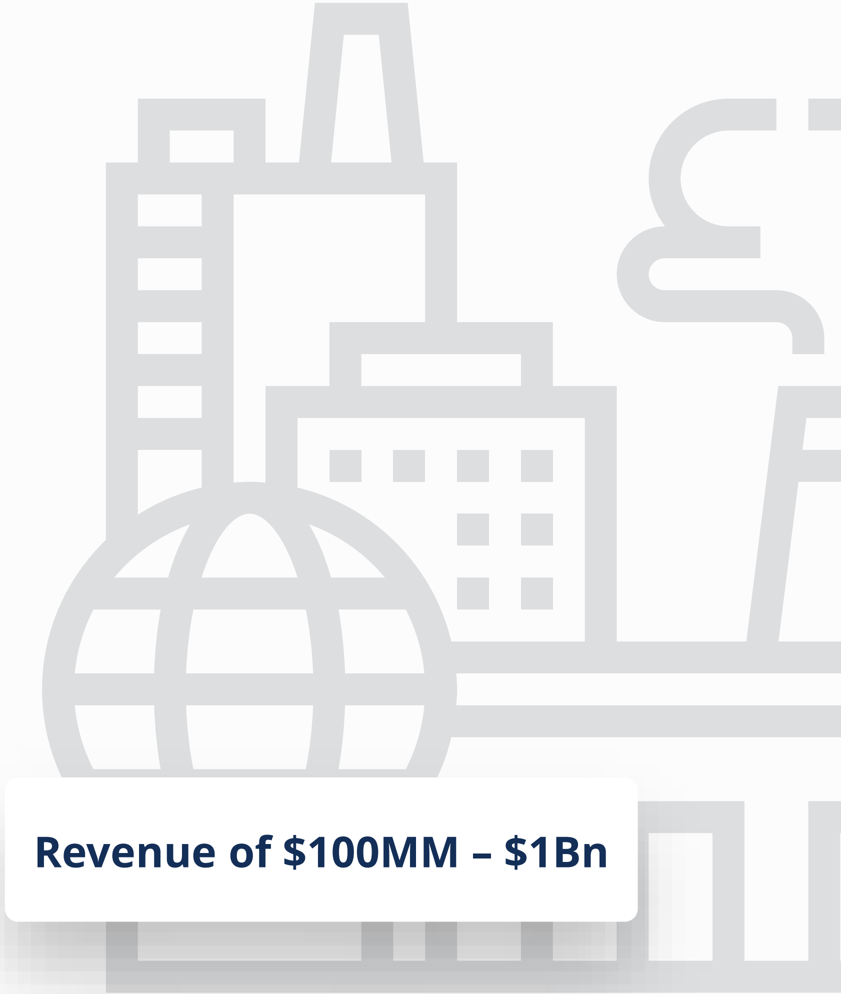
- Cash Flow Optimization
- Liquidity Planning
- Cash Concentration
- Payments to Suppliers
- Collections from Customers
- Short-Term Investments
- Debt Service Obligations

Advice is provided at no extra charge as it typically comes with offering the products that are related to the advice.

Corporate Banking

Corporate banking services are for those clients whose needs are even more complex than in commercial banking.

- Mid–Large Sized Companies
- Growing Through M&A
- Publicly Traded
- Domestic & Multinational Corporations
- Financial & Other Institutions
- Governments



Corporate banking is largely credit related with an advisory component and in a way acts in between the commercial banking services the client will be using.

Corporate Banking – Loan Finance Products

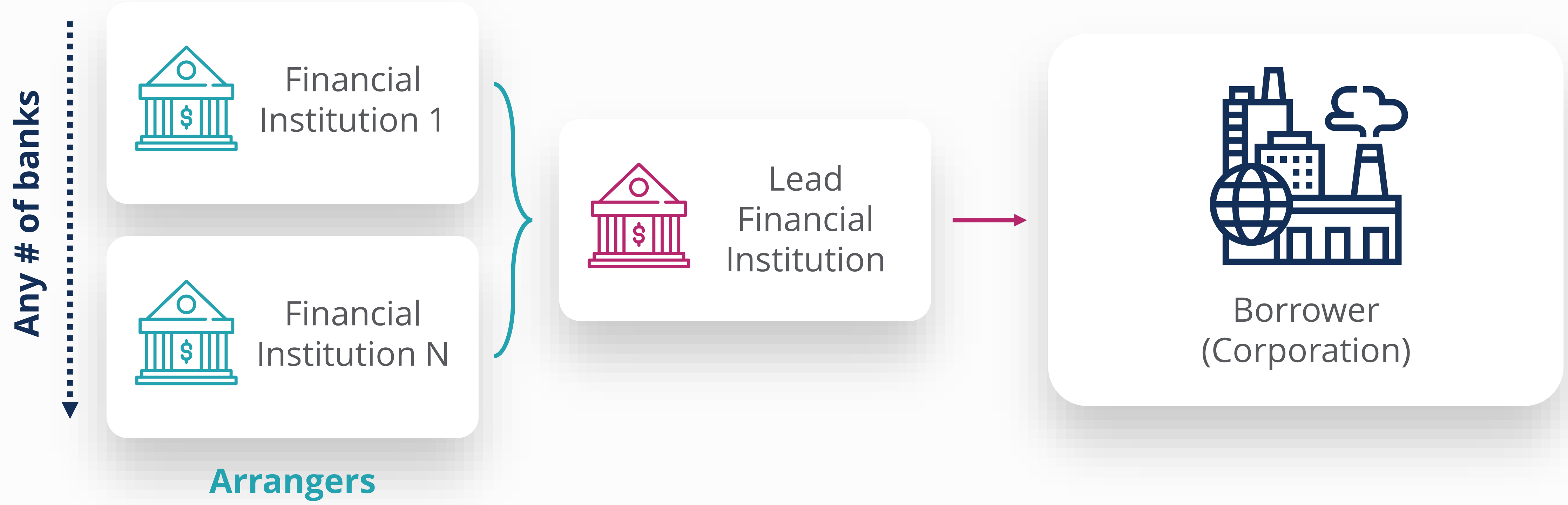
Corporate banking offers access to more sophisticated loan finance products. They will have similar characteristics to other loan types but are structured differently to meet the needs of the company.

- Syndicated Loans
- Bridge Finance
- Project Finance
- Acquisition Finance

Corporate Banking – Syndicated Loans

A syndicated loan is a credit facility provided by multiple lenders to a single borrower.

It is used for large, complex transactions where a client requires access to capital and financial services beyond the capacity of a single bank, or if the loan exceeds the lending limits of the bank.



Corporate Banking – Syndicated Loans

Virtually any type of loan can be syndicated.

Term Loans

A loan with a fixed maturity and normally featuring the amortization of principal.

Revolving Lines of Credit

Offering the borrower the right, but not the obligation to draw down a loan.

Standby Facilities

Lines only expected to be used in extraordinary circumstances

Corporate Banking – Syndicated Loans

Banks have many motives for offering syndicated lending.

Share credit risk

Enhance the return on its assets by arranging the deal and taking more fees from the transaction

Develop other business by showing leadership in the syndicated credit market

Obtain exposure to an asset class that would otherwise be unattainable

Corporate Banking – Syndicated Lending Fees

There are many fees that are charged to the borrower by the banks.

Margin: Interest rate on the loan; depends on the level of credit risk taken by the banks

Arrangement Fee: Paid to the bank that puts together the syndicated loan

Agency Fee: Annual debt servicing fee

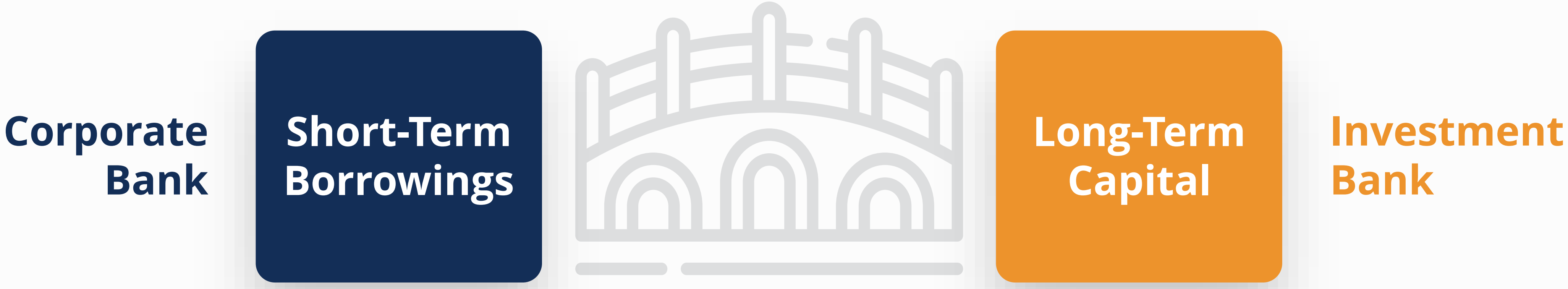
Drawdown Fee: Charged when the borrower uses the facility (~0.1–1% of the loan proceeds)

Utilization Fee: E.g. Revolving Line of Credit: Charged if the line is more than 50% drawn (~0.5% per year)

Commitment/Standby Fee: Charged annually for the undrawn portion of the loan (~0.1–1% of the undrawn portion)

Corporate Banking – Bridge Finance

Bridge financing is a form of temporary financing intended to cover a company's short-term costs until long-term financing is secured.



Banks charge high interest rates for bridge loans (upwards of 20%). This is due to the higher level of default risk.

Corporate Banking – Project Finance

Project finance relates to the long-term financing of an independent capital investment.

Infrastructure

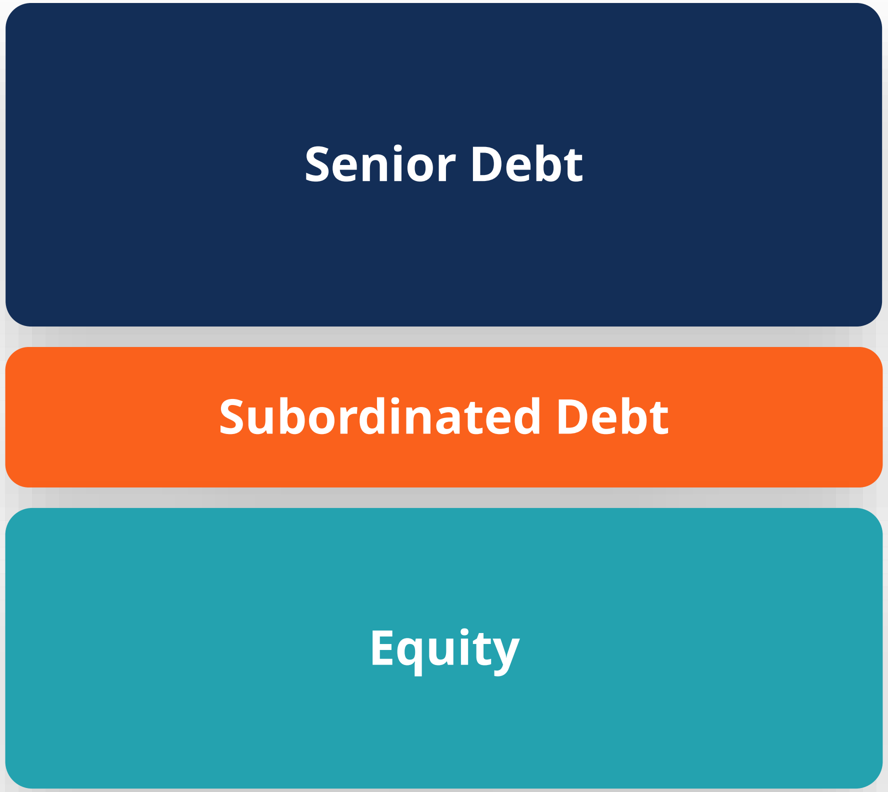
Industrial

These projects are distinct economic units with cash flows and assets that are easily isolated.

The cash flows from the project are **sufficient to cover both operating and financing cash flows.**

Project Finance – Types of Debt

This type of financing is made up of debt and equity with a finite life, usually tied to the life of the asset. The corporate bank will consult with their client to structure the debt and equity to provide for the lowest cost of funds.



Types of Debt – Senior Debt

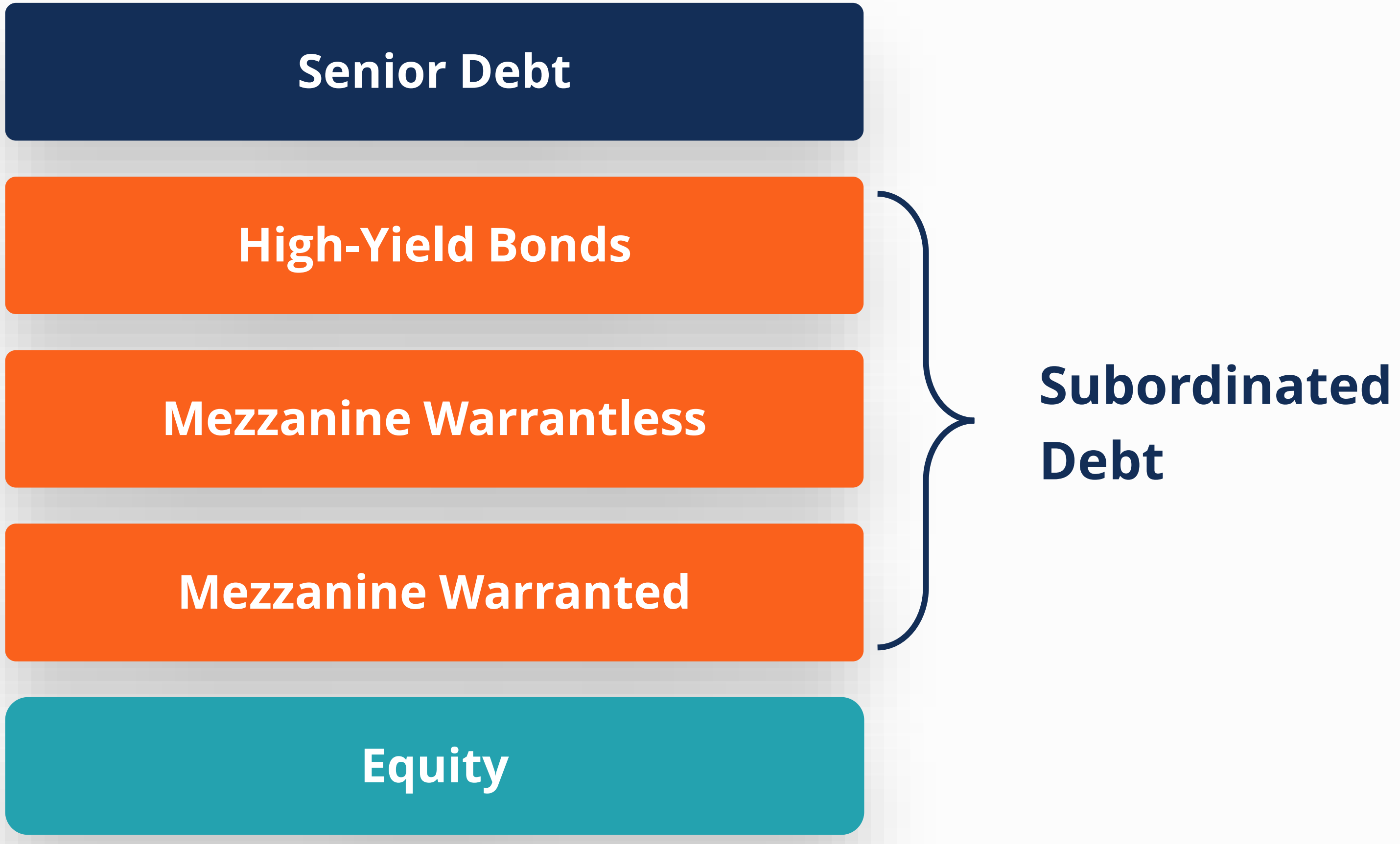
Senior debt is made up of the products we have already covered in this course:

- Revolving Line of Credit
- Term Loan A
- Term Loan B
- Term Loan C
- Subordinated Debt

Senior Debt:
Held by a bank
and often secured

Types of Debt – Subordinated Debt

Subordinated debt is not secured and is higher risk. **Subordinated debt is repaid after senior debt so it has lower priority.**



Types of Debt – Subordinated Debt

High-Yield Bonds

Non-investment grade

Must pay a higher rate of interest to attract investors

Mezzanine Debt (Warrantless)

Highest risk form of subordinated debt

Return of ~10–15% more than a secured loan

Mezzanine Debt (Warranted)

Includes equity attached to the loan

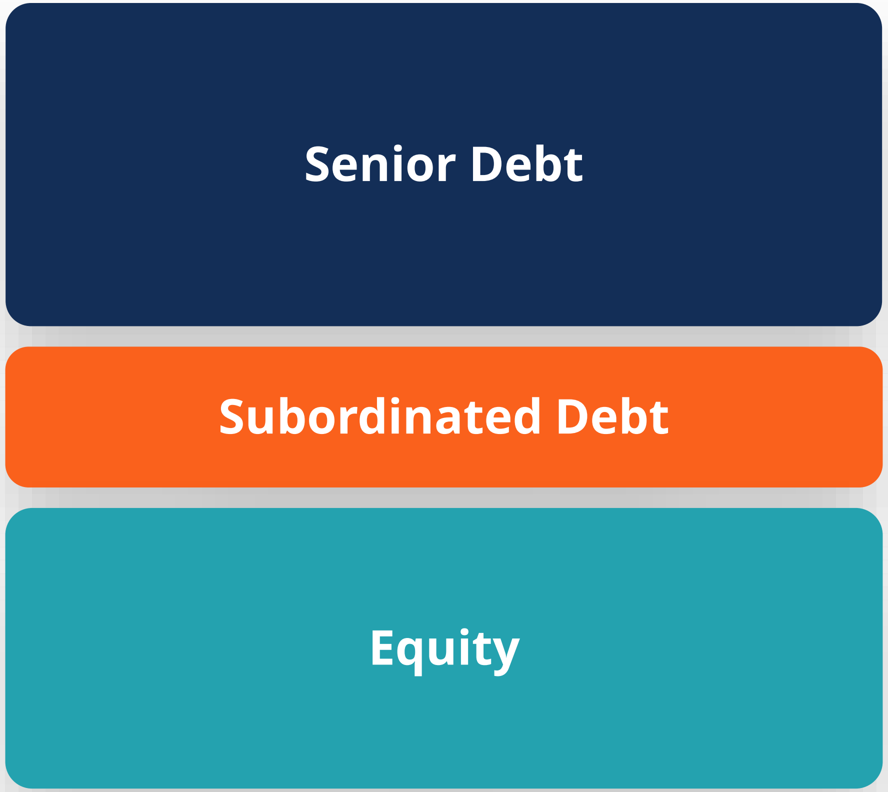
Lender has the right to a return equal to the % shares attached to the warrant (~1–5% of issuer's share value)

Borrower may pay interest by cash, add it to the loan balance and pay a balloon payment, or provide a warrant

Corporate banks will act as a conduit between the client and investment bank and earn a fee.

Corporate Banking – Acquisition Finance

Acquisition Finance is used for purchasing another company or for buying out the controlling interest in a company through an outright purchase of the company's shares.

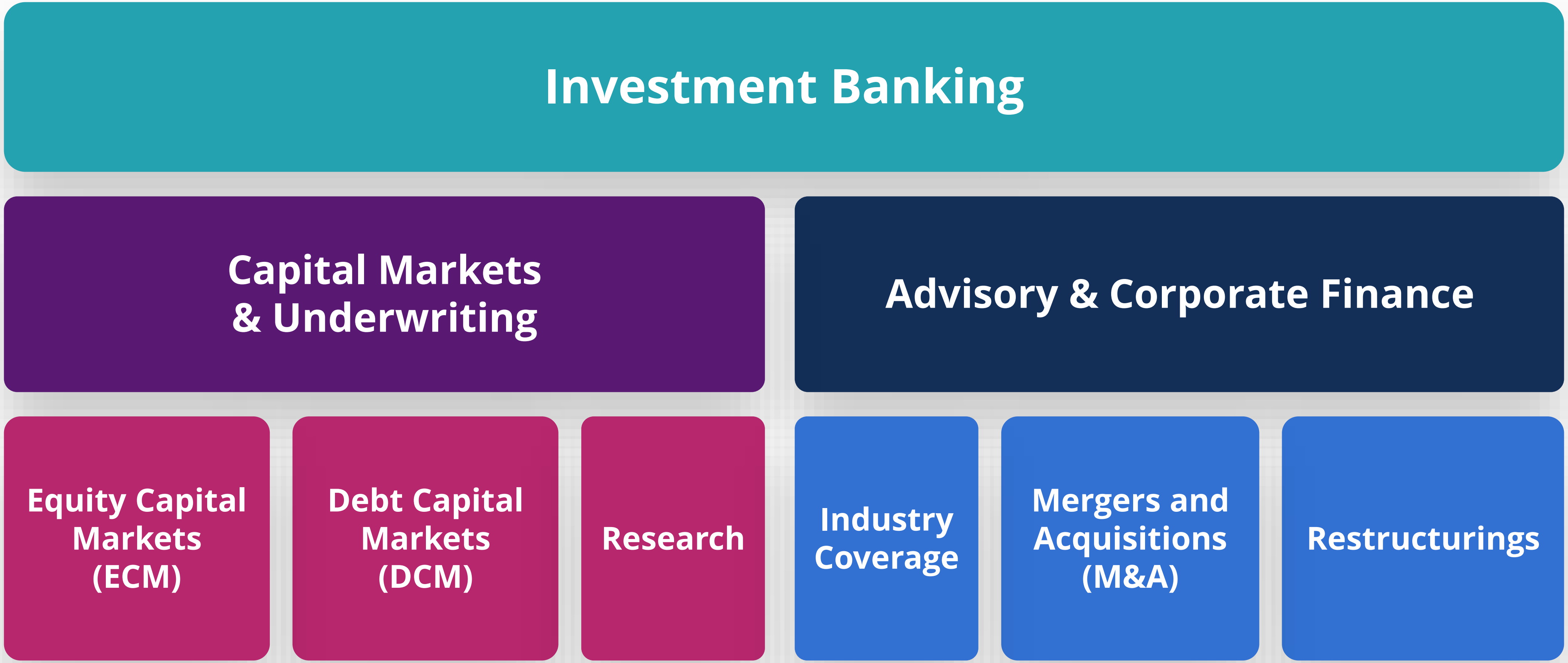


Investment Banking and Corporate Finance

Components of an Investment Bank

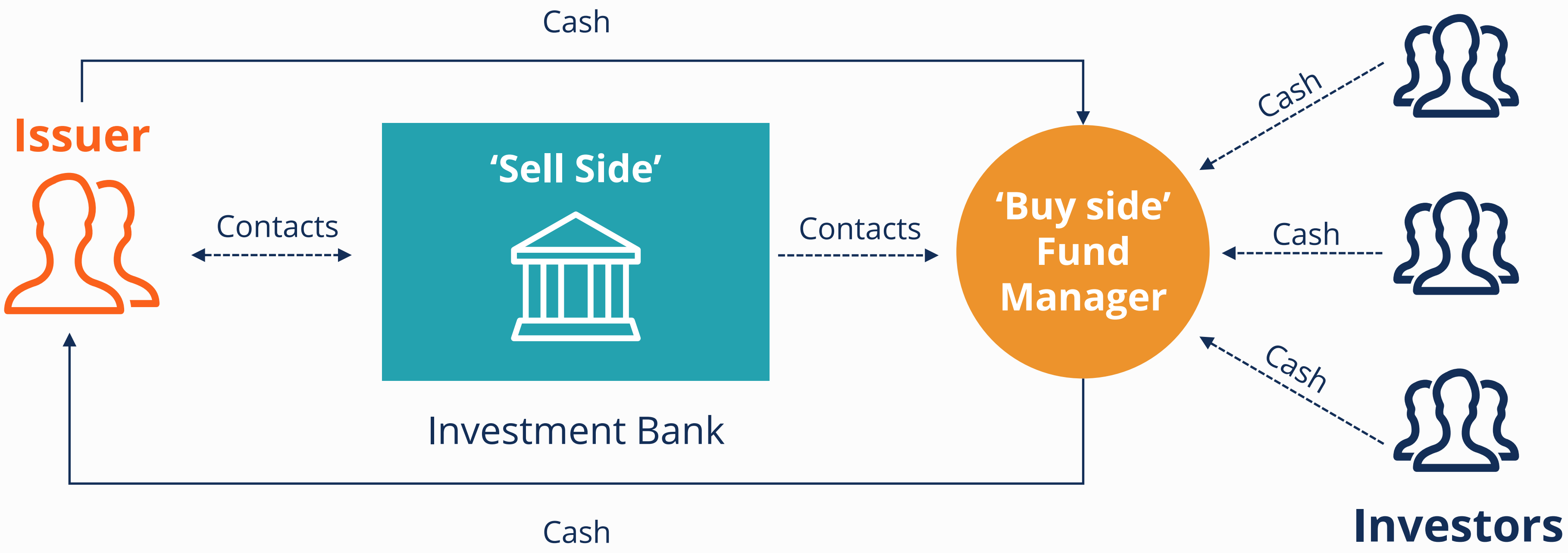
Capital Markets & Securities Analyst Program (CMSA™)

Components of an Investment Bank



Capital Markets & Underwriting

The most important function of an investment bank is its role in raising capital. The bank does this by supporting securities issuances as an underwriter and by providing access to its network of investors.



Capital Markets & Underwriting

The most important function of an investment bank is its role in raising capital. The bank does this by supporting securities issuances as an underwriter and by providing access to its network of investors.

Equity Capital Markets (ECM)

Initial Public Offerings

Follow-on Issuances

Private Placements

Debt Capital Markets (DCM)

Services related to issuance of fixed income securities

Capital Markets & Underwriting

The most important function of an investment bank is its role in raising capital. The bank does this by supporting securities issuances as an underwriter and by providing access to its network of investors.

Equity Capital Markets (ECM)

Initial Public Offerings

Follow-on Issuances

Private Placements

Debt Capital Markets (DCM)

Investment Grade
High-Yield
Government
Emerging Markets
Municipal

Capital Markets & Underwriting – Types of Underwriting & Fees

The most important function of an investment bank is its role in raising capital. The bank does this by supporting securities issuances as an underwriter and by providing access to its network of investors.

Firm Commitment Underwriting

Best-Efforts Underwriting

Capital Markets & Underwriting – Types of Underwriting & Fees

The most important function of an investment bank is its role in raising capital. The bank does this by supporting securities issuances as an underwriter and by providing access to its network of investors.

Firm Commitment

The bank commits to **buying the entire security issuance** at a specific price

- **Risk of undersubscription** falls on the bank
- If the issue is undersubscribed, the **bank is obligated to purchase the remaining shares**
- Banks can include a **market-out clause**, allowing them to escape this agreement if something affects the quality of the securities

Capital Markets & Underwriting – Types of Underwriting & Fees

The most important function of an investment bank is its role in raising capital. The bank does this by supporting securities issuances as an underwriter and by providing access to its network of investors.

Best-Efforts

There are **two main types** of best-efforts underwriting agreements:

- **All-or-none:** the entire issue must be subscribed and sold within a specified time period. If it is undersubscribed, the deal is canceled, and the bank is not paid
- **Mini-max:** a pre-specified minimum must be sold in a specified time period, otherwise it is canceled, and the money is returned to investors

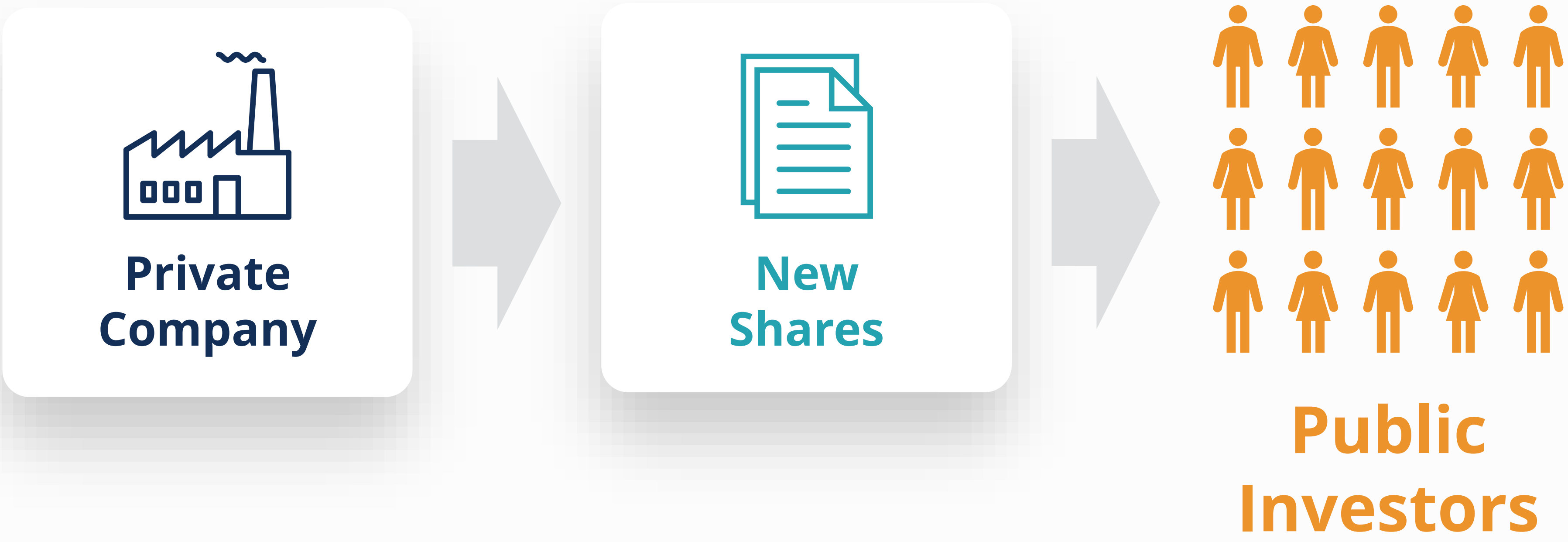
Capital Markets & Underwriting – Types of Underwriting & Fees

The most important function of an investment bank is its role in raising capital. The bank does this by supporting securities issuances as an underwriter and by providing access to its network of investors.

Fees:	**Equity:** • ~4-7% of the issuance **Debt:** • Lower risk: ~1-2% of the issuance • Higher risk: ~5% of the issuance **Offering/issuing costs**

Capital Markets & Underwriting – Initial Public Offerings (IPO)

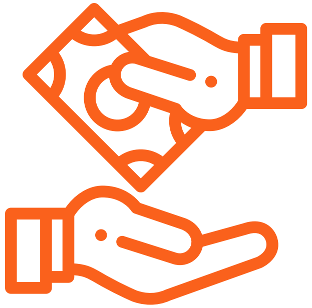
An initial public offering (IPO) is when a private company offers its shares to the public for the first time to raise capital.



Capital Markets & Underwriting – Initial Public Offerings (IPO)

An initial public offering (IPO) is when a private company offers its shares to the public for the first time to raise capital.

Raise Capital



Exit Strategy

Capital Markets & Underwriting – Initial Public Offerings (IPO)

An initial public offering (IPO) is when a private company offers its shares to the public for the first time to raise capital.

Raise Capital

Facebook

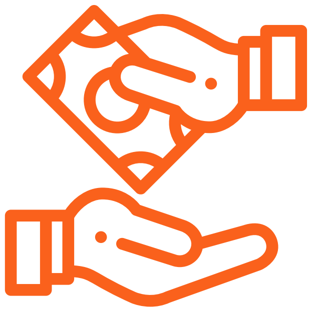
2012:

421,233,615 shares
$38/share

USD $16Bn

Capital Markets & Underwriting – Initial Public Offerings (IPO)

An initial public offering (IPO) is when a private company offers its shares to the public for the first time to raise capital.



Exit Strategy

Facebook

Senior exec. owns:

4,212,336 shares (1%)
$38/share

USD $160MM

Initial Public Offerings (IPO) – Underwriting Process

The underwriting process starts with conducting due diligence on the company to see if it is a good IPO candidate.

Due Diligence

Research and analyze the company:

Financials, health, sustainability, growth prospects, risks, competition, and industry

Documentation & Filings

Process and submit relevant documents and filings

E.g. Prospectus (IPO registration document)

Marketing & Valuation

Meet clients to pre-market the IPO and get feedback to support valuation ranges

Conduct a roadshow to pitch the deal, take orders, and reach a final IPO valuation

Initial Public Offerings (IPO) – Fees & Examples

Banks charge fees to underwrite issues. IPO fees typically range from 4-7% of the IPO firm's value. However, "hot offerings" may have lower associated fees.

Facebook

Fees: 1.1% distributed across banks that worked on the deal

IPO Value: ~$16Bn

Fees Charged: ~$176MM

Initial Public Offerings (IPO) – Fees & Examples

Examples of famous IPOs:

Facebook	Groupon	Apple
2012: $38	2011: $20	1980: $22
2020: $211	**2020: $1.08**	**2020: $307**

The value of the shares after the IPO does not impact the company's cash position.

Research

Banks provide research reports on public companies, known as equity research. The goal of these reports is to **provide an analysis and purchasing recommendation regarding a company's shares.**

Industry Research

Management Overview

Historical & Forecasted Financials

Valuation

Recommendation

Research

Banks provide research reports on public companies, known as equity research. The goal of these reports is to **provide an analysis and purchasing recommendation regarding a company's shares.**

Industry Research

Management Overview

Historical & Forecasted Financials

Valuation

Buy / Hold / Sell

Research

Historically, research was bundled along with other products. Thus, it was provided to clients and prospective clients for free as a marketing device.

Research

Regulations have mandated for investment banks to unbundle research. Banks must now explicitly charge for research.

Research

Regulations have mandated for investment banks to unbundle research. Banks must now explicitly charge for research.

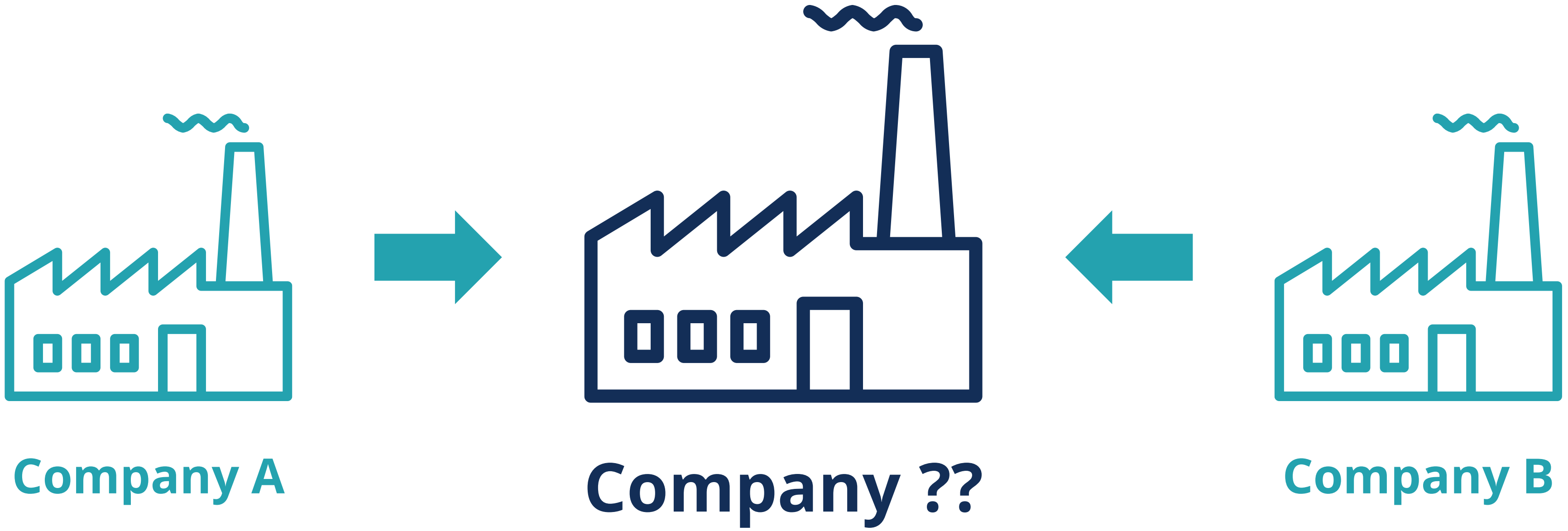
Industry Coverage

For all products and services, investment banks will have specialty groups that will cover a specific sector or geography.

- Consumer Related
- Financial Institutions
- Financial Sponsors
- Healthcare
- Industrials
- Media & Telecoms
- Real Estate
- Gaming, Leisure, & Lodging
- Technology

Advisory & Corporate Finance – Mergers & Acquisitions (M&A)

Mergers and acquisitions (M&A) are transactions relating to the **consolidation or purchase of companies**.



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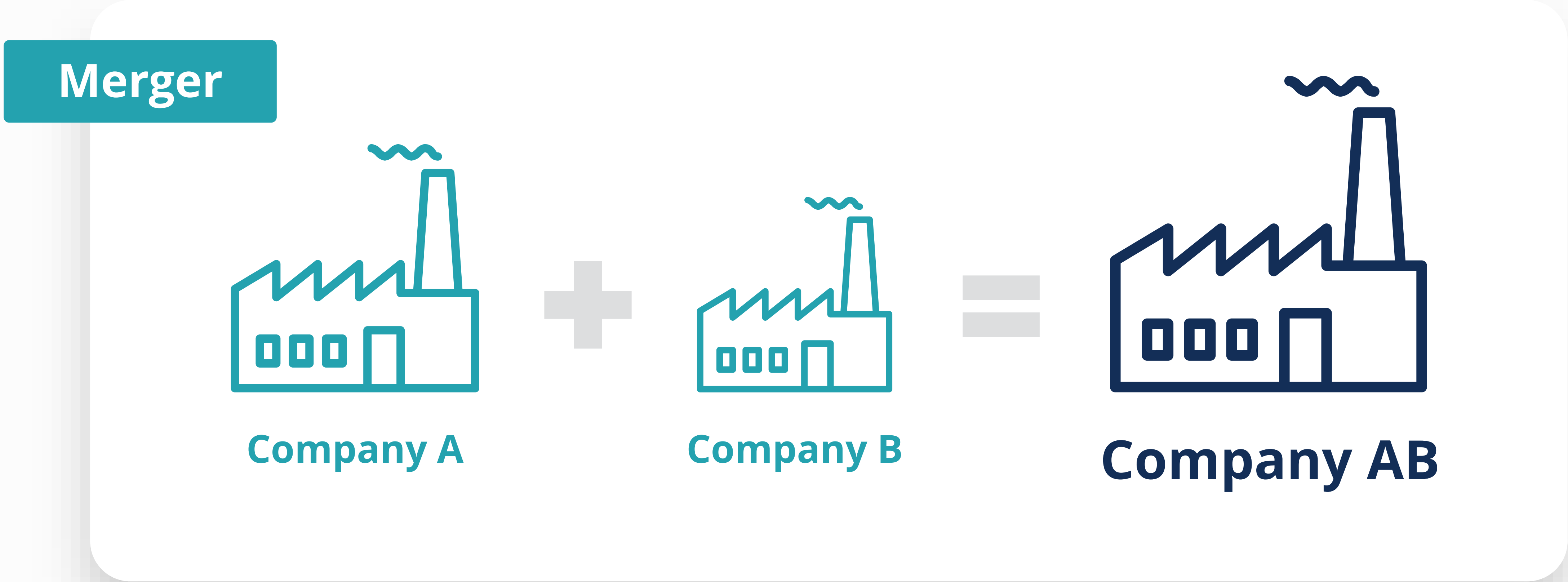

Advisory & Corporate Finance – Mergers & Acquisitions (M&A)

Mergers and acquisitions (M&A) are transactions relating to the **consolidation or purchase of companies**.

Merger

01 The companies emerge from the transaction with a new name. New shares are issued under the new entity.

02 Mergers are usually friendly transactions that are negotiated between the two companies.

03 The management team that handles the new merged company is usually comprised of management from both sides.

Advisory & Corporate Finance – Mergers & Acquisitions (M&A)

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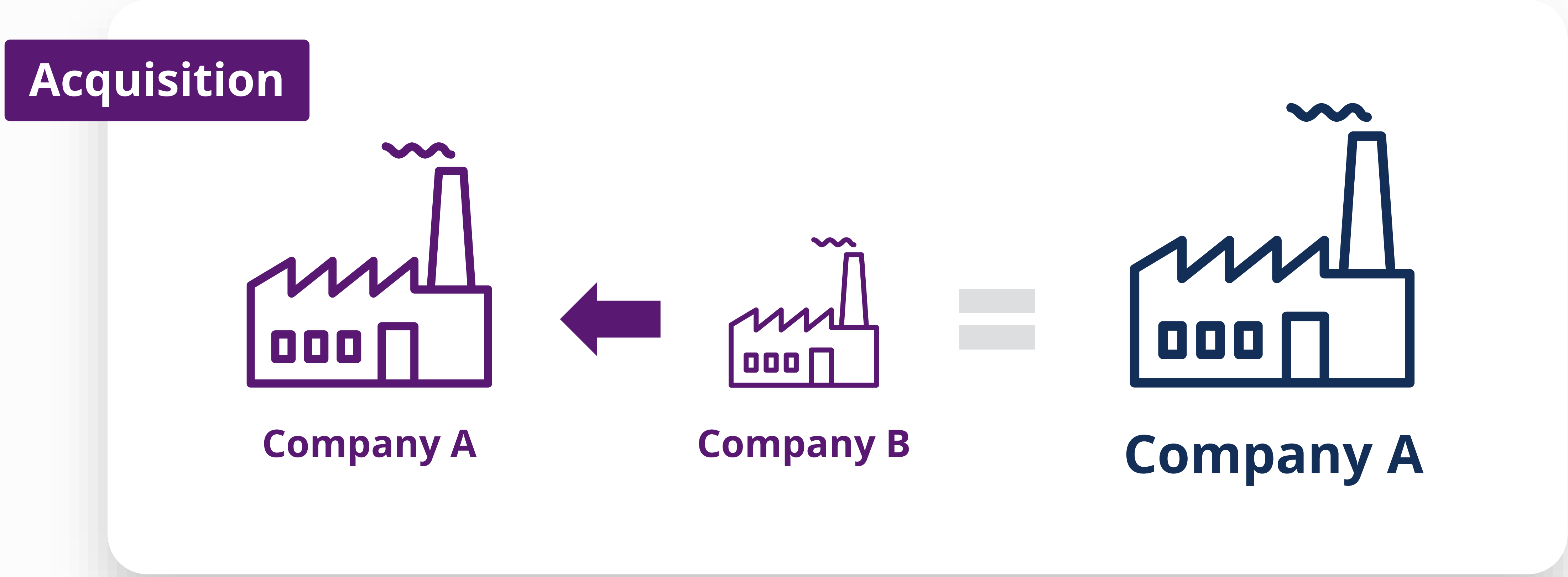


Advisory & Corporate Finance – Mergers & Acquisitions (M&A)

Mergers and acquisitions (M&A) are transactions relating to the **consolidation or purchase of companies**.

Acquisition

01 Target company shareholders may trade their shares for the acquirer's shares if it is a stock-based transaction.

02 Acquisitions are often hostile and can be seen as a takeover. This is where the term hostile takeover come from.

03 Management is handled entirely by the acquirer, who can choose to keep the target's old management or replace it entirely.

Advisory & Corporate Finance – Mergers & Acquisitions (M&A)

Mergers and acquisitions (M&A) are transactions relating to the **consolidation or purchase of companies**.

	Merger	Acquisition
Name	The two companies combine and emerge with a **new name**.	The target company becomes part of the acquirer and assumes the **acquirer's name**.
Shares	Shares are re-issued under the **new company entity.**	Target company shareholders may give up their shares for the acquirer's shares if it is a **stock-based transaction**.
Execution	Usually on **friendly terms** and negotiated together.	Usually **hostile**, considered a "takeover".
Leadership	Management is built from **leadership from both firms working together**.	Management is **handled by the acquirer**.

Mergers & Acquisitions (M&A) – Reasons for M&A

01. Synergies

02. Growth

03. Economies of Scale

04. Asset Acquisition

05. Elimination of Competition

06. Diversification

07. Tax Advantages

Mergers & Acquisitions (M&A) – Buy-Side vs. Sell-Side Deals & Fees

M&A transactions are complex and require the help of an investment bank.

Buy-Side Deals

(representing acquirers/buyers)

- Source potential targets and deals that fit the needs of buyers
- Conduct due diligence on prospects
- Value target companies and their synergies
- Raise capital for M&A activities
- Negotiate and execute the deal

Sell-Side Deals

(representing targets/sellers)

- Prepare financials, projections, and marketing materials
- Pitch the company to possible acquirers
- Provide a valuation of the company for bidders
- Negotiate and execute the deal

Mergers & Acquisitions (M&A) – Buy-Side vs. Sell-Side Deals & Fees

M&A transactions are complex and require the help of an investment bank.

Buy-Side Deals

(representing acquirers/buyers)

Retainer Fee
This fee is guaranteed and is paid to retain the services of the bank. It covers some of the basic costs of the bank's services ($50,000–$250,000).

Success Fee
Obtained when the deal is closed. There is some uncertainty in this fee, as the buy-side typically focuses all its efforts on a single target. If the deal falls apart, the bank will not be paid this fee.

Sell-Side Deals

(representing targets/sellers)

Retainer Fee
This fee is guaranteed and is paid to retain the services of the bank. It covers some of the basic costs of the bank's services ($50,000–$250,000).

Success Fee
Obtained when the deal is closed. This fee is "guaranteed" to some extent, as sell-side deals typically have many buyers to choose from.

Mergers & Acquisitions (M&A) – Buy-Side vs. Sell-Side Deals & Fees

M&A transactions are complex and require the help of an investment bank.

$1MM–$5MM	8-12%
$5MM–$25MM	4-7%
$30MM–$100MM	2-4%

Mergers & Acquisitions (M&A) – Buy-Side vs. Sell-Side Deals & Fees

Examples of famous M&A deals:

Merger

1989:
Time Inc. and Warner Communications form Time Warner Inc.

USD $15.2Bn

Merger

1998:
Exxon merges with Mobil to form ExxonMobil

USD $77.2Bn

Acquisition

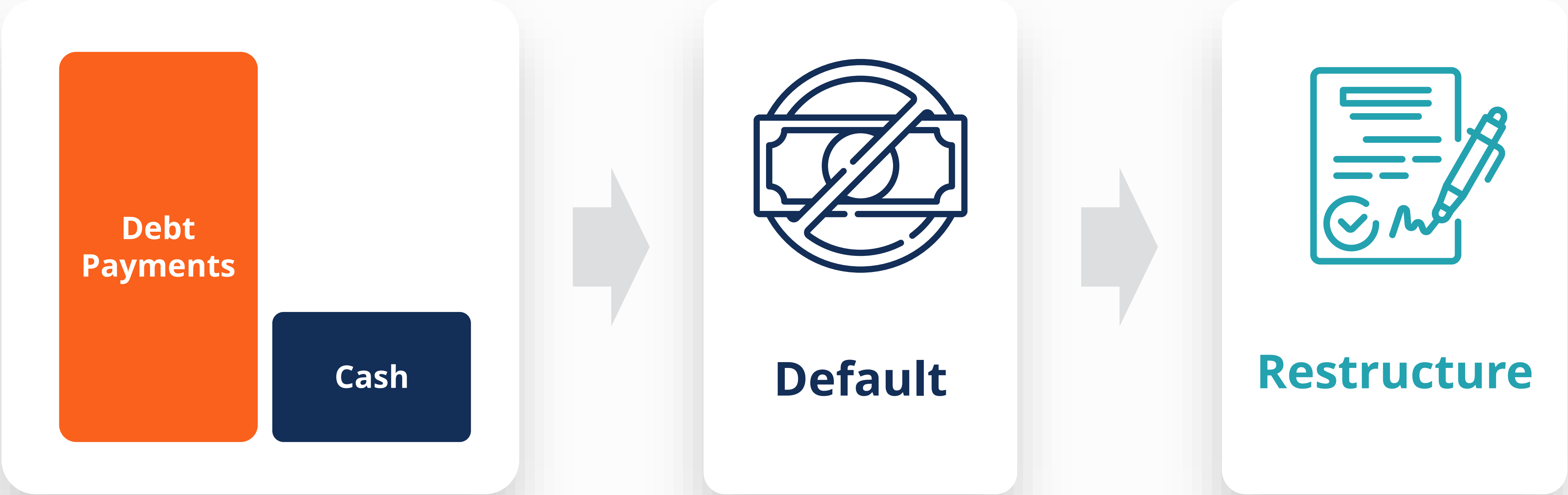
2009:

Disney acquires Marvel

USD $4.24Bn

Advisory & Corporate Finance – Restructurings

Restructurings are when a company makes significant changes to its financial structure. This most often happens when it is unable to meet its liabilities to its creditors.



Advisory & Corporate Finance – Restructurings

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Missed Interest Payment

Missed Principal Payment

Breach of Covenants

Advisory & Corporate Finance – Restructurings

Debt Restructuring

The company negotiates with creditors to amend debt terms.

Examples:
Different payment timeline
Reduced interest and principal
Bankruptcy proceedings

Organizational Restructuring

The company changes operations to revive its prospects.

Examples:
Replace management
Sell off assets
Change company strategy

Advisory & Corporate Finance – Restructurings

Investment banks represent two different sides in a restructuring deal: the debtor and the creditors.

Conduct due diligence on the company's revival prospects

Assess the company's true value

Debtor	Creditor
Present the company's resurgence strategy in a favorable light	Find weaknesses in the company's restructure plan

Advisory & Corporate Finance – Restructurings

Investment banks represent two different sides in a restructuring deal: the debtor and the creditors.

Retainer Fee

Success Fee

Security Issuance Fee

Asset Management and Trading

Asset Management and Trading

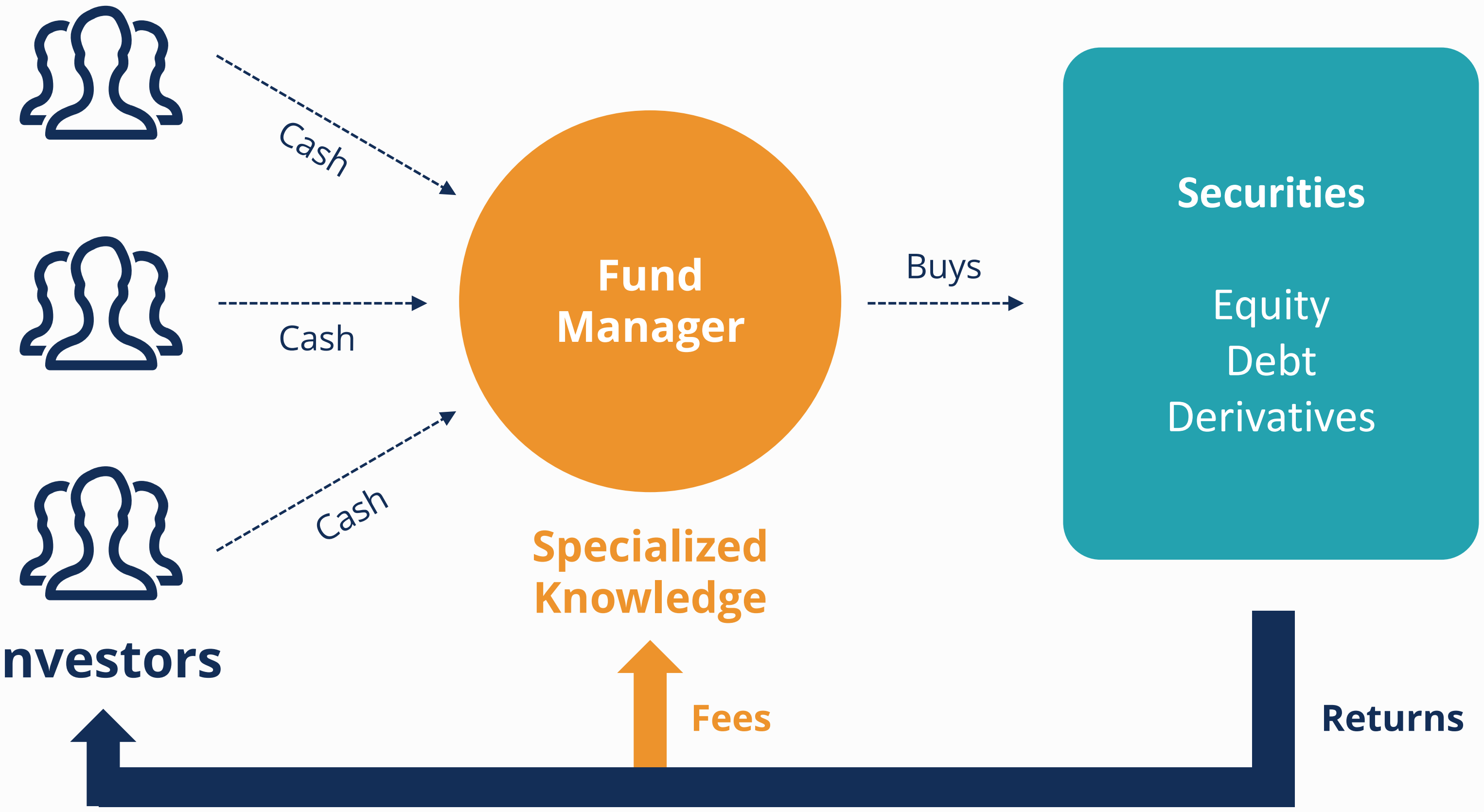
Buy-Side Investment Banking

Asset Management

Trading

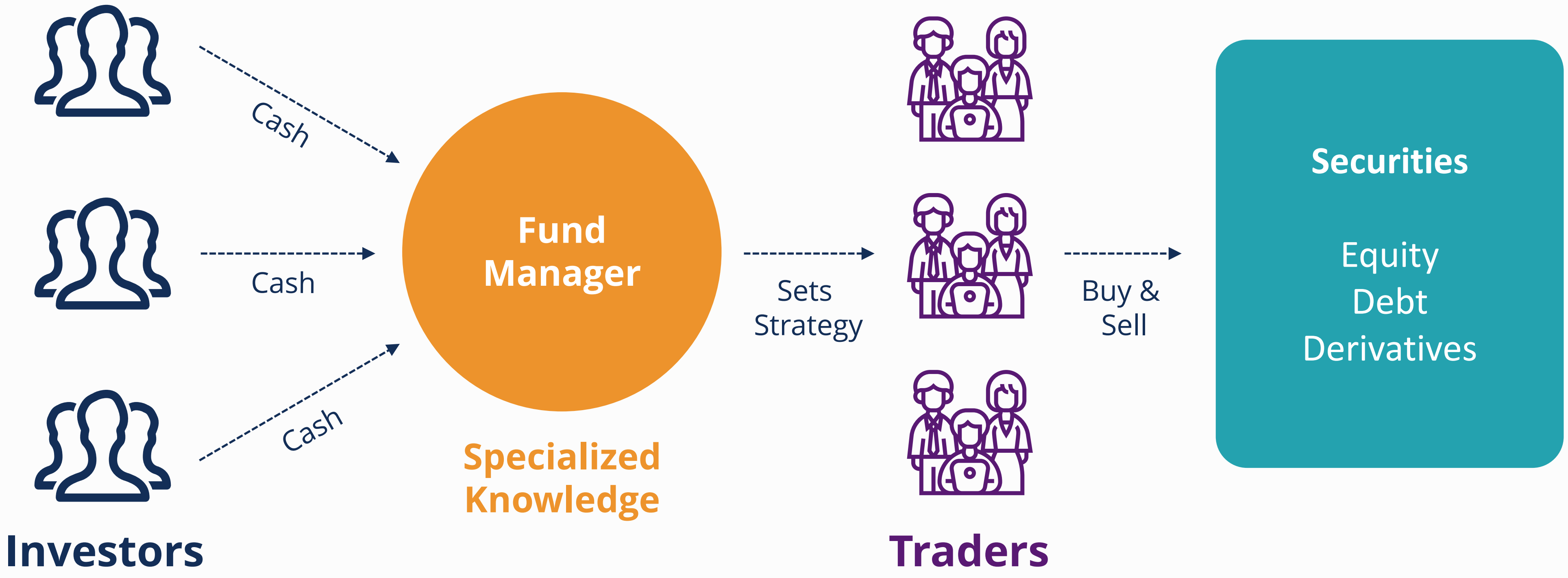
Asset Management and Trading

Asset management is the service of investing the funds of other people. Though it is a buy-side service, investment banks also have asset management groups.



Asset Management and Trading

Trading refers to the execution of orders in the capital markets. Traders work closely with asset managers to buy and sell the securities for the fund.



Asset Management and Trading

Trading refers to the execution of orders in the capital markets. Traders work closely with asset managers to buy and sell the securities for the fund.

Energy

Healthcare

Real Estate

Traders need a deep understanding of liquidity and the sectors that they trade in.

Conclusion

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Looked at banking for consumers, including various accounts, credit products, private banking, and fees

Explored banking for businesses of all sizes, their needs, and the products used to fulfill them

Examined investment banking and corporate finance groups, components, products, the buy side, and the sell side

Provided an overview of the products that bankers work with in preparation for other courses and your career objectives