Section 4: Case Study XYZ Bank

You are a team of bank supervisors who will soon be meeting with the C.E.O. and Chief Financial Officer (C.F.O.) of XYZ Bank. This is a normal meeting that forms part of your regular supervisory contact with XYZ Bank.

You should review the documents about the bank and draw up an agenda for your meeting. The agenda should cover the key points that you, the regulator, want to discuss with the bank, based on the information in the documents.

You will then meet for 10 minutes with the C.E.O. and the C.F.O (The role of the C.E.O. and the C.R.O. will be played by GARP trainers.)

XYZ Bank is located in the (fictional) country of Ruritania, which is a country in Eastern Europe.
Official Statement by XYZ Bank About the 2014-2018 5-Year Plan

Dated 2 February 2014

XYZ Bank’s five-year Plan for 2014-2018, approved by the Board of Directors on 23 January 2014, aims to transform XYZ Bank into the dominant regional player in Eastern Europe, while strengthening our bank’s leading position in our home market of Ruritania.

Victor Banacheck, XYZ Bank’s Chairman, commented that, “XYZ bank has shown strong growth over the last five years, reflecting the modernisation of the Ruritanian economy and the development of Ruritanian capital markets. It is now time for us to take our place on the regional stage. The Board of Directors has challenged the bank’s management to make XYZ bank worthy of the title “Eastern Europe’s Leading Bank” by 2018.

Central to the regional expansion plan will be new Private Banking Platform, to be rolled out throughout Eastern Europe, starting in mid-2014.

XYZ’s C.E.O. Martin Cusac said, “Eastern Europe is on the move. Our region is creating strong, profitable companies that are owned by businessmen who are entrepreneurial, ambitious – and increasingly wealthy. These businessmen deserve high-quality private banking services that cover the full spectrum from wealth management, investing and tax planning services. Through our innovative regional private banking platform, XYZ Bank will become the leading bank to high-net worth individuals in Eastern Europe.”

XYZ Bank is delighted to announce that Mr. John Bachtel, who served as Ruritania’s Finance Minister from 2008 to 2011 will join the bank to lead the new Private Banking Strategy. Mr. Bachtel will hold the position of Deputy C.E.O. and he will be proposed for election as a member of the Board of Directors at the next Annual Shareholders Assembly.

Following its acquisition of Commercial Bank of Ruritania (CBR) in 2013, XYZ Bank is now the second largest bank in Ruritania, ranked by assets. The merger brought together the strong commercial and investment banking business of XYZ Bank with the broad retail banking, residential mortgage, and deposit base of CBR. The merged entity – which has kept the name XYZ Bank, now has 83 retail branches in Ruritania and 136 ATMs.

Martin Cusac, XYZ’s C.E.O. commented that, “We are on track to achieve – or exceed -- the cost savings that we outlined as part of our merger plan with CBR. All central administrative functions have already been moved to XYZ’s Headquarters, enabling us to reduce total administrative staff by 450 people. By the end of April we will centralise all payment processing in XYZ’s out-of-town facility, enabling further cost savings. We believe that these, and other steps taken by the bank’s management, will create significant value for XYZ bank’s shareholders over the short, medium and long term. It is upon this strong base that we are building our regional expansion plan.
Melkovitch to Leave XYZ Bank

XYZ Bank has announced that Vitas Melkovitch will leave the bank at the end of 2014. Melkovitch, the former Managing Director of Commercial Bank of Ruritania (CBR), became Co-C.E.O. of XYZ Bank when the two banks merged in September 2013.

The retention of Melkovitch, who had previously held senior risk management positions in HSBC Bank and Banque Paribas before returning to his native Ruritania in 2008 to lead CBR, was an important factor behind the quick regulatory approval that the merger received from the Banking Control Commission of Ruritania.

However, in recent weeks, there had been reports of tensions between Melkovitch and Martin Cusac, the C.E.O. of XYZ Bank. Stefan Harr, an economist at Capital One, a local brokerage company, commented to The Daily Sun, “Crusac came to banking after 20 years in private equity – he was a deal maker, a big picture person -- and he found Melkovitch’s steady focus on detail and processes a bit hard to work with. “

XYZ Bank said in a statement, “We are sorry to see Vitas Melkovitch leave the bank and we are grateful to his contribution to XYZ Bank since the merger with CBR a few months ago. We wish Vitas well in future. The Board of XYZ Bank remains confident that the objectives and targets set out in the XYZ-CBR merger documents will be fulfilled under the leadership of Martin Cusac and his team.”

Privately, sources close to the bank told The Daily Sun that there are no plans to replace Melkovitch as Co-C.E.O. “The whole “joint leadership” thing was never going to work, so Melkivitch’s resignation was just a matter of time,” said one long-time observer of XYZ Bank, adding “Cusac and his boys have got a clear idea of where they are going with XYZ Bank, and the Chairman’s right behind them.”

In a short statement issued after news of his resignation became official, Vitas Melkovitch said, “It has been a privilege to work for Commercial Bank of Ruritania and, following the merger, as Co-C.E.O. of XYZ Bank. I wish XYZ Bank every success in the future.”

Shares in XYZ Bank fell 4% yesterday, following the announcement.
Cusac Eyes Forint Bank

16 February 2014

The Hungarian Mercury hears that XYZ Bank C.E.O., Martin Cusac, is becoming a regular visitor to Budapest. Cusac is understood to have a long-term booking at the Hilton Hotel, just a hundred yards from the headquarters of Forint Bank.

So is Cusac, the former private equity star who last year merged XYZ Bank with Commercial Bank of Ruritania, now setting his sights on Forint Bank as his next acquisition target?

Our spies in the Hilton, say that Cusac and Forint Bank’s C.E.O., Marcus Rope, have been seen sampling the menu in the hotel’s exclusive “Mojo” restaurant on at least three occasions this month and that last month he enjoyed a performance of “The Marriage of Figaro” from Forint Bank’s Corporate Box at the Budapest Opera House.

Cusac has also been seen leaving the Hilton in Rope’s company-owned limousine.

Of course, no-one should be surprised that Rope is happy to lend Cusac his car or give him access to the bank’s Box at the Opera House. Cusac and Rope graduated from Arizona State University in 1989 and worked together at the investment firm “First Eastern Europe Capital Partners” for five years in the mid-1990s.

Cusac has made no secret of his desire to turn XYZ Bank into an Eastern European financial powerhouse – an ambition that received official confirmation earlier this month when XYZ Bank revealed its Five-Year plan for 2014-2018.
ABC Ratings Changes Outlook on XYZ Bank to Negative; confirms BB/Not Prime ratings.

23 September 2013

ABC Ratings today put the long-term rating of Ruritania’s XYZ Bank on negative outlook following the formal merger of XYZ Bank and Commercial Bank of Ruritania.

ABC Ratings confirmed XYZ’s long-term rating of BB- and its short term rating of Not Prime.

The ratings on Commercial Bank of Ruritania have been withdrawn.

ABC Ratings said that while the merger of the two banks would likely strengthen the financial position of XYZ over the short term, the challenges of integrating the two banks would be considerable. The rating agency said that the expected cost savings to be gained from combining the two banks’ back-office functions are ambitious and may be hard to achieve in the short time-frame proposed in the merger documents.

A “negative outlook” means that ABC Ratings thinks that there is at least a 50% chance that a bank’s rating will be lowered within the next 12 months.
SUMMARY FINANCIAL STATEMENTS

Statements for 2009-2012 are for XYZ Bank. Statements for 2013 are for the merged entity.

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<tbody>
<tr>
<td>Cash and deposits with C.B.</td>
<td>96.4</td>
<td>89.7</td>
<td>120.2</td>
<td>86.6</td>
<td>78.2</td>
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<td>Placements with banks</td>
<td>150.6</td>
<td>200.5</td>
<td>220.1</td>
<td>221.6</td>
<td>230.6</td>
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<td>Investments in marketable securities</td>
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<td>259.3</td>
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<td>Loans and advances</td>
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<td>715.7</td>
<td>680.4</td>
<td>664.6</td>
<td>639.2</td>
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<td>Other assets</td>
<td>100.0</td>
<td>96.0</td>
<td>98.0</td>
<td>101.3</td>
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<td>Assets = Liabilities</td>
<td>2,345.7</td>
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<td>Deposits by banks</td>
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<td>230.5</td>
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<td>Customers Deposits</td>
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<td>730.3</td>
<td>720.5</td>
<td>680.4</td>
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<td>Bonds issued</td>
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<td>150.0</td>
<td>200.0</td>
<td>200.0</td>
<td>150.0</td>
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<td>Other liabilities</td>
<td>37.0</td>
<td>126.1</td>
<td>42.1</td>
<td>43.2</td>
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<td>Shareholders' equity</td>
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<td>Equity % assets</td>
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<td>Loans % deposits</td>
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<td>Loans % assets</td>
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