CENTRAL BANK OF EGYPT
Egyptian Banking Institute

البنك المركزى المصرى
المعهد المصرفى المصرى

Advanced SME Banking

COURSE CODE: 12744

COURSE HOURS: 32

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Course Description:

- This advanced program is designed for Managers and Senior Managers of the SME Sector, building their ability to analyze SME credit opportunities and detect financial statement manipulation and earnings-management indicators; design and structure appropriate lending solutions; assess portfolio credit risk through stress testing and scenario analysis; identify early warning signals of borrower deterioration; and evaluate credit policies while presenting, challenging, and defending credit recommendations before senior management.
- Across five progressive modules — Advanced SME Credit Analysis & Assessment; Advanced SME Credit Structuring & Risk Mitigation; SME Portfolio Credit Risk, Stress Testing & Scenario Analysis; Early Warning, Problem Exposures, Restructuring & Recovery; and Credit Governance, Policy & Senior-Level Credit Decision-Making — participants apply advanced financial, cash-flow, and quality-of-earnings analysis, risk-based structuring techniques, and case-based credit decision-making to real-world SME scenarios.
- By the end of the program, participants will be able to exercise the level of credit judgment, structured analysis, and governance expected of senior SME credit decision-makers, demonstrated through a capstone Credit Committee simulation in which they analyze a complex credit case, structure an appropriate solution, identify and mitigate key risks, and present, challenge, and defend their recommendation to a senior-level standard.

Target Audience:

- Managers & Senior Managers of the SME Sector.

Course Objectives:

By the end of this course, participants will be able to:

- Analyze SME credit opportunities and detect financial statement manipulation and earnings-management indicators affecting credit quality.
- Design and structure appropriate SME lending solutions, including collateral, guarantees, covenants, and risk-based pricing.
- Assess SME portfolio credit risk and apply stress testing and scenario analysis to evaluate adverse impacts on credit quality.
- Identify early warning signals of borrower deterioration and develop restructuring, workout, and recovery strategies.
- Evaluate credit policies and governance frameworks, and present, challenge, and defend credit recommendations before senior management.

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Course Outline:

Module 1: Advanced SME Credit Analysis & Assessment

- Section 1: Advanced Credit Assessment Framework
  - Business model risk: revenue model, cost model and operating leverage, working-capital model, and customer and supplier economics
  - Industry and sector risk: demand and cyclicality, input costs and pricing power, regulatory and operating environment, competition and substitution, and supply-chain, import and FX exposure
  - Management and ownership risk: track record, financial discipline, governance and controls, owner dependence and related parties
  - Reading management and ownership signals: possible interpretations and what to test
  - Practical application: Mini Case "Business Model Challenge"; Exercise "Spot the Business Model Red Flag"; Debrief & Knowledge Check
- Section 2: Advanced Financial Statement Analysis
  - Interpreting rather than calculating starting with movements and triangulating the P&L, balance sheet, cash flow and management information
  - Performance ratios interpreted for credit: revenue growth, gross margin, EBITDA, net profit, cash conversion cycle and working investment
  - Identifying financial strengths, weaknesses and unusual movements, and the credit questions they raise
  - Practical application: Mini Exercise 1 "Interpret the Ratios"; Exercise 2 "Spot the Unusual Movement" with debrief
- Section 3: Cash-Flow Analysis & Repayment Capacity
  - Cash-flow generation and sustainability: quality and consistency of operating cash flow, free cash flow, recurring vs. one-off working-capital movements, and the cash conversion cycle (DSO + DIO − DPO)
  - Profitability vs. cash flow and repayment: the SME liquidity paradox — "loans are repaid with cash, never with accounting profit"
  - Cash-flow metrics framework: DSCR, CFADS, CFO/EBITDA conversion, operating cash-flow margin, free cash flow and cash conversion cycle, with formulas and credit interpretation
  - Repayment capacity ratios in context: DSCR, Debt/EBITDA and interest coverage
  - Primary and secondary sources of repayment
  - Practical application: Numerical Exercise "Profit Up, Cash Down" (CFADS and DSCR); Mini Exercise 3 "DSCR Has Deteriorated — What Now?"
- Section 4: Financial Statement Manipulation & Earnings Management
  - Earnings vs. operating cash-flow quality: one-off gains, aggressive revenue recognition, capitalized expenses and related-party transactions
  - What makes earnings "high quality": core business, recurring streams and organic growth
  - Quality and sustainability of reported earnings: high-quality vs. low-quality (synthetic) earnings indicators

    - Financial statement manipulation signals: revenue and receivables, inventory and COGS, and liability understatement
    - Beneish M-Score concepts for bankers: benchmark thresholds, the credit officer's interpretation rule, and what the score can and cannot do
    - Practical application: Group Exercise "High Quality or Low Quality? Decide and Defend"; Quick Check "Detection & Red Flags"
- Section 5: Assessing the Credit Opportunity
    - Assessing the opportunity, not just the borrower: financing purpose, justified amount, facility fit with the cash-flow cycle, tenor and repayment sources
    - Corporate and commercial credit opportunities: transaction rationale and cash-flow logic, transaction-specific risks, concentrations and contractual dependencies, and information gaps
    - Project-related financing credit lens: contract quality and enforceability, counterparty strength, project cash flow and timing, completion risk and sponsor commitment
    - Trade and project financing rationale: assignment of contract proceeds, self-liquidating LC structures, milestone verification and performance-bond risk
    - Trade finance transaction-specific risk: trade cycle, supplier and buyer risk, payment and collection mechanics, FX mismatch, and inventory marketability
    - Practical application: Quick Check "Opportunity & Structure"
- Section 6: Credit Strengths, Weaknesses & Key Risk Factors
    - Identifying credit strengths, weaknesses and the key risk drivers that can materially change repayment capacity
    - Weighting rather than listing: why strong collateral does not offset weak repayment capacity
    - Synthesis as the direct input to the credit recommendation
    - Practical application: Knowledge Check "What Would You Do?"; Capstone Case Study "El-Delta Manufacturing"

Module 2: Advanced SME Credit Structuring & Risk Mitigation

- Section 1: Facility Types & Structuring Principles
    - Structure follows risk: matching the facility to the financing need — short-term self-liquidating needs, long-term asset needs and one-off transaction needs
    - Determining the facility amount: funding need × risk-adjusted eligibility, maximum debt capacity, peak funding gap, collateral advance rates, stress testing and credit discipline
    - Determining the facility tenor: matching tenor to the economic life of working capital, fixed assets and projects
    - Designing the repayment profile: repayment schedules and profile types — conventional, moratorium (grace period), unequal, ascending, balloon and bullet

    - Practical application: Debrief & Knowledge Check on facility type, amount, tenor and repayment profile
- Section 2: Working Capital vs. Term Financing
    - Comparing working-capital and term financing
    - Aligning the structure with cash-flow generation for short- and long-term needs
    - Reading cash-flow signals into structure: structuring implications and risks to challenge
    - Aligning term financing with repayment capacity: amortization mechanisms and cash-flow fit
    - Practical application: Mini Case "Spot the Mismatch"
- Section 3: Collateral, Guarantees & Valuation
    - Concept of collateral as the secondary line of defense
    - Selecting appropriate collateral: real estate, machinery and equipment, inventory and receivables, and personal and corporate guarantees
    - Collateral considerations and common valuation mistakes
    - Collateral is not a repayment substitute: collateral as the secondary source of repayment
    - Valuation and coverage considerations: independent valuations, loan-to-value and haircuts, coverage ratios and periodic re-valuation
    - Guarantees and sponsor support: guarantor net worth and enforceability, connected-exposure considerations and documented sponsor support
    - Practical application: Mini Case Study "Is This Collateral Coverage Real?"
- Section 4: Financial & Non-Financial Covenants via Ongoing Controls
    - Concept of covenants as ongoing contractual safeguards
    - Financial covenants and quantitative controls: leverage (Debt/EBITDA), interest coverage and DSCR, and minimum liquidity / working capital
    - Simulated covenant monitoring example: testing headroom against covenant thresholds
    - Advantages of financial covenants: security, control and rights
    - Non-financial covenants: affirmative covenants (financial disclosures, proceeds assignment, collateral insurance, legal compliance) and negative covenants (dividend limits, negative pledge, ownership changes and other restrictions)
    - Ongoing monitoring controls: site inspections, stock audits and account-turnover monitoring
- Section 5: Risk-Based Pricing Mechanisms
    - Why SME risk-based pricing is difficult: information asymmetry, heterogeneity, thin-file borrowers and cash-flow volatility
    - Credit model → price → monitor: data, model, risk view, price and decision
    - Expected loss and credit risk components: probability of default (PD), loss given default (LGD), exposure at default (EAD) and the credit conversion factor (CCF)
    - Practical application: Credit Pricing Case Study — Kairat Shalabay and Michael Hill

Module 3: SME Portfolio Credit Risk, Stress Testing & Scenario Analysis

- Section 1: Portfolio Risk Lens
  - Individual borrower vs. portfolio credit risk: what changes when you zoom out
  - Borrower-level vs. portfolio-level perspective
  - Senior-level credit perspective: shared exposures across sector, geography, customers and suppliers, currency and funding structure
  - Practical application: Exercise 1 “Numerically Diversified or Economically Concentrated?”
- Section 2: Portfolio Concentration, Diversification & Correlation Risk
  - Portfolio concentration risk: single-name and connected, sector, geographic and other concentration dimensions
  - Diversification risk: number of borrowers ≠ portfolio diversification
  - Concentrated vs. diversified portfolio strategies
  - Correlation risk: common stocks such as currency depreciation, sector downturns and major customer failures
  - Senior management takeaway: identifying where risk is clustered
- Section 3: Risk Migration, Portfolio Quality & Risk Boundaries
  - Risk migration: is the portfolio becoming stronger or weaker?
  - Portfolio Risk Rating (PRR)
  - Portfolio quality indicators: NPL and impaired-exposure ratios, watchlist exposure, and past-due and delinquency trends
  - Portfolio risk boundaries — from risk appetite to risk limits: risk appetite, risk threshold, risk tolerance and risk limits
  - Risk limits and management action: set limits → monitor → identify breaches → escalate → take action
  - From snapshot to trend, and the senior management perspective
  - Practical application: Exercise 2 “Interpret the Risk Migration Trend”
- Section 4: Credit Stress Testing & Impact Assessment
  - Stress testing framework and key areas of assessment
  - Designing credit stress scenarios around typical SME stress drivers: FX, interest-rate, revenue and other shocks
  - From scenario to quantified impact: revenue → EBITDA → cash flow → debt-service capacity → risk grade → portfolio quality → expected credit loss
  - Borrower-level vs. portfolio-level impact
  - Practical application: Exercise 3 “Design and Apply a Stress Scenario”
- Section 5: Management Action
  - Turning numbers into decisions: reading base-case vs. stress-case results
  - What the stress test tells management: accelerating migration, rising weak-grade and watchlist exposure, and a weakening PRR
  - From result to management action against risk appetite, threshold, tolerance and limits

- Senior management actions: tightening underwriting standards, reducing new exposure to vulnerable segments and increasing monitoring of affected borrowers
- Practical application: Integrated Portfolio Case — EGP 10 billion SME portfolio

Module 4: Early Warning, Problem Exposures, Restructuring & Recovery

- Section 1: Early Warning Philosophy & Credit Deterioration
  - Early warning systems (EWS) in credit risk management, including AI-powered EWS
  - Early warning signal framework: financial, business and operational, and behavioral signals
  - Early warning indicator map: thresholds, credit concerns and immediate actions
  - Credit deterioration and risk migration: the deterioration path, individual-level migration and the continuum Performing → Early Warning → Watchlist → NPL mapped to IFRS 9 stages
  - Practical application: Mini Exercise 1 "Spot the Early Warning Signal"
- Section 2: Watchlist, Monitoring & Escalation
  - Watchlist management: core components and watchlist sources
  - Credit watchlist management and the credit watchlist action record
  - Watchlist classification: purpose and criteria
  - The watch list is as an active risk-management tool, not a parking area
  - Enhanced monitoring: what changes when an exposure is on the watchlist
  - Escalation matrix, and enhanced monitoring and escalation by severity
  - Practical application: Exercise 2 "Strategic Credit Assessment & Early Warning Signals"; Quick Check "Early Warning & Escalation"
- Section 3: Problem Exposure & NPL Management
  - The core question: temporary distress or structural failure?
  - Viability assessment framework: business viability, debt-structure viability, and borrower cooperation and capability
  - Problem exposure assessment
  - Practical viability matrix and scoring checklist: business model, cash flow, management, market position and recovery potential
  - Tier classification summary
  - Management decision framework: Scenario A — financial distress (viable business, unsustainable debt) and Scenario B — structural failure (non-viable business, weak recovery prospects)
- Section 4: Restructuring & Workout Strategies
  - Overview of debt restructuring and financial workouts
  - The three core pillars of evaluation: borrower viability, cash-flow prospects (DSCR) and recovery potential (NPV analysis)
  - Workout and restructuring alternatives: restructuring vs. liquidation NPV comparison

    - Executive banking decision: the workout/restructuring decision framework, the applied NPV rule, choosing the restructuring tool (deferral, extension or split) and the financial rationale
- Section 5: Recovery & Exit Strategies
    - Overview of strategic choices for a borrower in severe distress
    - Three strategic alternatives: exposure reduction, recovery (restructuring and turnaround) and exit (sale or liquidation)
    - The decision philosophy: rational economic realism
    - Strategy evaluation matrix: primary objective, NPV potential, risk profile and friction costs, and best-suited situations
- Section 6: Integrated Problem Loan Case
    - Assessing a deteriorating SME exposure from start to finish
    - Practical application: Business Case Study "Al-Sharq Food Industries & Packaging (SME)" — formulating and defending an integrated action plan

Module 5: Credit Governance, Policy & Senior-Level Credit Decision-Making

- Section 1: Credit Policy, Standards & Approval Framework
    - What a credit policy framework governs
    - Credit standards and approval requirements
    - Delegated authorities: why the structure matters
- Section 2: Risk Appetite, Limits & Credit Governance
    - Risk appetite and credit risk limits
    - From risk appetite to credit governance
    - Translating risk appetite into risk limits
    - Governance structures: who owns the decision
    - Governance and accountability in the credit process: warning signs of weak governance vs. what good governance looks like
- Section 3: Exception Management & Credit Decision Quality
    - Managing exceptions to policy
    - The three pillars of effective exception management: the nature of deviation, risk mitigation (the golden rule), and decision quality and preventing policy drift
    - When the rules should not bend policy red lines
    - The policy exception decision framework
    - What makes a credit decision high quality: hallmarks of a quality decision, and effective challenge and accountability
    - Practical application: Mini Exercise 1 "Genuine Exception or Quiet Erosion?"
- Section 4: Preparing High-Quality Credit Recommendations
    - Structuring a complex credit recommendation
    - Executive summary, risks, mitigants and data
    - The three-part framework: the senior-level executive summary, the risk–mitigant matrix, and preconditions vs. postconditions
    - Practical application: Mini Exercise 2 "Find the Gap in This Recommendation"
- Section 5: Senior-Level Credit Committee Decision-Making

    - Presenting to senior management and credit committees
    - Challenging assumptions as a challenger and defending recommendations as the presenter
- Section 6: Credit Leadership & Continuous Improvement
    - Leading credit discussions and credit teams
    - Promoting governance and continuous improvement: sources of learning and translating learning into action
    - Practical application: Final Capstone Case Study — Integrated Credit Committee Simulation

Assessment Strategy:

- Participation
- Group Exercises
- Role Play
- Formal End-of-course Test

Upon Successful Completion of this Course, participants will obtain:

- 2.6 CEUs

Course Language:

- **Training Material:** (English)
- **Facilitation:** (Bilingual)

Prerequisites:

Participants should have:

- Solid professional experience in SME banking, credit, corporate/commercial banking, credit risk, or a closely related banking function.
- Practical experience in credit assessment, lending, credit decision-making, or portfolio management.
- Strong working knowledge of financial statements, cash-flow analysis, lending products, and fundamental credit risk concepts.
- Familiarity with the bank's credit approval processes, credit policies, risk management framework, and relevant regulatory requirements.
- Prior managerial or supervisory experience within a banking environment is strongly recommended, given the advanced and decision-oriented nature of the program

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