

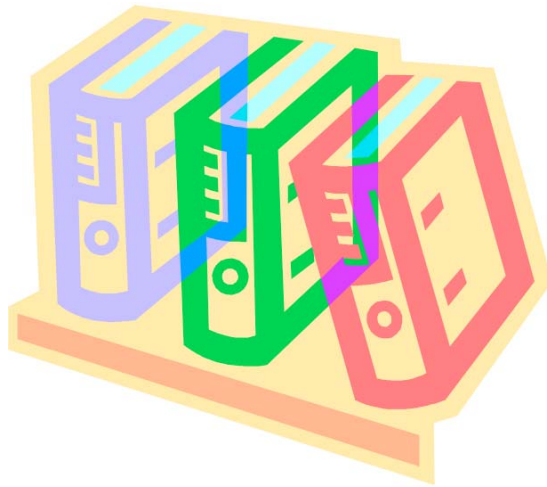


THE AMERICAN UNIVERSITY IN CAIRO

الجامعة الأمريكية بالقاهرة

*VTA's Executive Training Programs at  
the American University in Cairo*

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- Financial Modeling
- DCF & Advanced Excel
- Risk-Return Framework For Financial Institutions
- Leasing Fundamentals and Pricing
- Developing Consumer Finance Products



This document provides an overview of VTA's Executive Training Programs at the American University in Cairo.

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Training programs are focused, hands-on, and intellectually challenging. Participants require a laptop with Excel 2000 or higher.

Participants need to prepare for programs via background reading material. Where appropriate, case studies and problem solving workbooks are provided.

Without exception, all programs require participants to make intensive use of Excel (VBA for the Advanced Financial Modeling Program), which is the solution platform for all programs.

Course material is supplied in advance and includes, Reading Material, Program Slides, Case Studies, Scenarios, Hands-On Exercises and where relevant, Scenarios.

Participants receive a time-limited (3 Months) edition of 'CapInvest', VTA's Consumer Finance and Transaction Structuring Software, which also incorporates the 'Risk' Pricing Module. The software is used in class to illustrate concepts.

## Financial Modeling (4 Days Program)

*“A properly designed model enables a situation to be easily examined and its dimensions intricately manipulated to facilitate optimal decision making.”*

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The objective of the Financial Modeling Program is to expose participants to modeling technology and tools for building sophisticated and useful models in Finance, Marketing, Accounting, Human Resources, Econometrics, Public Policy, Astronomy, Chemistry, and other areas – functional area is of no consequence since the modeler is responsible for supplying functionality, whether it is Accounting, Option Pricing, Ship Building, or whatever. Thus, regardless of functionality, every situation is comprised of variables and the challenge in building a model is (a) to decompose a situation into constituent variables (b) to establish valid relationships amongst variables, and (c) to map variables (and relationships) to a modeling eco-system on a PC.

A properly designed model enables a situation to be easily examined and its dimensions intricately manipulated to facilitate optimal decision making, whether it is a Merger & Acquisitions Model, an Option Pricing Model, a Budget, a Model to analyze effects of Drugs, a Securitization Model, a Model to forecast operations of an Enterprise, a Tax Collections Model or a Lease Pricing Model.

To build sophisticated and useful models, participants must necessarily learn to work with Excel and its programming counterpart, Visual Basic for Application (VBA). Therefore, this program devotes a substantial amount of time to discussing Excel and Visual Basic and anchors the topics with examples of real-life models so that participants may emulate the process to develop models that address unique requirements. While Model Building is the end-objective, Excel and VBA constitute the tools for model building. Participants are supplied with reading material in Excel, Visual Basic for Applications, Program Slides, Scenarios and Hands-on Problem Solving Exercises. Participants require a laptop to attend the program and need to be proficient in the use of Excel. Participants are encouraged to bring situations from work for discussion in class.

This program is not a “How-To” on Excel – the program assumes participants use Excel in their day-to-day work and thus, discussions on Excel will focus only on advanced features, such as Arrays.

## DCF & Advanced Excel (4 Days Program)

*“To acquire skills in employing DCF, participants need to be familiar with a specialized branch of mathematics that is at the heart of DCF: financial mathematics.”*

Just as matter is composed of Atoms, every efficient financial transaction, whether in the corporate world, in a financial institution, in a non-profit institute, an educational institute, a municipality or Government, needs to be structured using Discounted Cash Flow concepts (DCF) - only a single yardstick of financial efficiency guides the investment decision: the return from Investment must be higher than the Cost of Capital of the Investment (after adjusting for Risk associated with the transaction). Return, in turn, comes from (a) increase in Revenue or (b) reduction in Cost, or both. Universally, the evaluation of efficiency is accomplished by employing the Discounted Cash Flow Framework.

Project Finance, Bond Pricing, Securitization, Venture Capital and Private Equity Investments, Capital Expenditure Budgets, Financial and Savings Products, Mergers and Acquisitions, Replacement of Machinery, Viability of a New Road, Research and Development, Prospecting for Oil, Establishing new Minefields, Feasibility of a new Sports Facility or a Recovery Facility for Drug Addicts, Build-Operate-Transfer Projects, and so on, are examples of financial transactions where DCF techniques are applied to ensure resources are deployed in line with Return on Investment objectives (ROI) of an enterprise.

The measurement/forecasting of cash flow from an investment, the risk associated with cash flow, the discount rate to translate future flows to the present reflecting an appropriate cost of capital, constitute important components of DCF.

Since Excel is an important tool for implementing DCF, the first day of the program will examine advanced features of Excel. As participants need to be familiar with a specialized branch of mathematics that is at the heart of DCF, the second and third days of the program are devoted entirely to discussing theory and analytics. The last day will be devoted to understanding theory in a real-life setting: the use of DCF concepts in Project Finance and Appraisals, Securitizing Cash Flows, Bond and Stock Pricing, Developing Financial and Savings Products, Replacing Machinery, Developing a Housing Finance Product, Developing a Leasing Product, Developing Banking Products. Participants will receive training in the use of CapInvest and in developing new products using CapInvest.

## The Risk Return Framework for Financial Institutions (5 Days Program)

*“The optimal approach to addressing Risk requires a financial institution to integrate Risk into operations via the Pricing Mechanism. At the heart of the framework is the fact that Risk and Return go together. The Risk Return Framework dismantles barriers to lending to SMEs and other under-funded sectors of the economy.”*

Lending Risk is a fact of life for every financial institution, whether a commercial bank, a leasing company or a consumer finance company. There are two ways to deal with Lending Risk: (a) ignore Risk by dealing only in ‘Safe’ Transactions; for example, providing finance only for movable assets that can easily be repossessed in the event of default or movable assets having an active secondary market – this strategy limits the business a financial institution is able to participate in and thereby, its role and influence in the financial system. An unexpected side-effect of this risk-avoidance strategy is that a financial institution unwittingly assumes risk as its portfolio of assets tends to be confined to a ‘safe’ class of assets that do not necessarily represent a diversified portfolio of assets from a conventional viewpoint. A second limitation of this strategy is profitability: spreads and volume of business tends to be thinner.

The preferred approach to dealing with Risk requires a financial institution to integrate Risk into operations via the Pricing Mechanism: the Risk-Return Framework. At the heart of the framework is the fact that Risk and Return go together. Accordingly, high-risk transactions need to be priced higher compared to transactions with little or no Risk. This ensures a financial institution earns the expected rate of return, even with defaults, as these are statistically estimated and factored into Pricing. The Risk Return Framework dismantles barriers to lending to SMEs and other under-funded sectors of the economy while ensuring that a financial institution earns its target rate of return. Financial Institutions need to transition from a ‘Flat’ Pricing Structure to a ‘Risk’ based Pricing Structuring.

The Risk-Return framework requires a transaction be priced using several components:

- A Risk Free Rate, in turn derived from an Institution’s Cost of Capital;
- A Profit Mark-up, derived from competitive forces in an economy;
- A Risk Premium, derived from the Risk Categorization of a Transaction – the higher the Risk, the higher the Risk Premium.

The Risk-Return Framework is a ‘Portfolio’ approach to dealing with Risk, in much the same manner as Risk is addressed in the Stock Markets or in the Insurance Industry. The Portfolio concept is very powerful, yet simple: the ‘outcome’ of a Portfolio can be measured with greater precision than the outcome of an individual item.

This 5-day program provides in-depth exposure to the theory and practice underlying the induction of a Risk-Return Framework into a financial institution’s operations. Once the transition is completed, financial institutions can expect a significant transformation of their role and influence in the financial system along with enhanced profitability, as they would have mastered an essential ingredient of operating in a World where Risk is a fact of life.

## Leasing Fundamentals and Pricing (4 Days Program)

*“To assist in mastering lease pricing concepts, participants are trained in the use of the ‘Universal Finance Equation’ and its employment in a wide array of DCF situations – the Universal Finance Equation is at the heart of all pricing strategies for leasing companies as well as other financial institutions.”*

Drawing on the extensive consulting work carried out by the Program Director in advising international financial institutions such as the World Bank and the International Finance Corporation to establish leasing projects in developing countries and drawing on the Program Director’s qualifications and experience in the areas of Accounting, Taxation and Corporate Finance, this program uses a ‘hands-on’ approach to expose participants to leasing concepts and analytical tools for profitable leasing operations.

Day One the Program discusses fundamental concepts providing an overview of leasing.

Day Two of the Program sets the stage for understanding and appreciating ‘Discounted Cash Flow’ concepts underpinning lease pricing – an area offering tremendous innovation in developing leasing products. Fundamental DCF Concepts need to be mastered before participants can evolve pricing strategies. To assist in mastering concepts, participants are trained in the use of the ‘Universal Finance Equation’ and its employment in a wide array of DCF situations – the equation is at the heart of all pricing strategies for leasing companies as well as other financial institutions.

Day Three of the Program exposes participants to a valuable framework for lease pricing, structuring and product development: ‘CapInvest’ - participants are trained to execute lease pricing strategies with the software – the many features and uses of the software are discussed along with built-in portals for specialized tasks such as developing Financial and Savings products, the Post Tax Lease Pricing Module, the Lease Vs. Buy Module, the Profiled Leasing Module and the Equated Module – CapInvest handles a wide array of transactions and in the process, participants become intimately familiar with aggressive and innovative leasing practices.

Day Four of the Program is devoted to developing several leasing transactions: a plain vanilla leasing transaction, a profile transaction where repayments vary in response to customer or leasing company requirements, post tax lease pricing transactions, zero interest leasing products, a US style ‘operating’ lease product, a customer friendly leasing product that uses ‘ingredients’ to ostensibly lower the cost of leasing without sacrificing a lessor’s profit objective, and so on.

To participate aggressively and innovatively in the leasing market, leasing companies require exposure to fundamental analytical skills - this program trains participants in all of the above.



## Developing Consumer Finance and Savings Products (4 Days Program)

*"The IT enabled world offers a cornucopia of opportunities to Finance professionals and institutions to deliver cutting edge, innovative solutions and products to customers."*

As a country transitions to a full-fledged Market Economy where Customer is King, financial institutions such as Banks, Leasing and Hire Purchase Companies, Housing Finance Companies and others, can expect to come under increasing pressure to abandon the 'selling' approach, wherein a financial institution offers 'off-the-shelf', existing products, disregarding specific customer requirements, in favor of a 'marketing' approach, wherein an institution goes to the drawing board to develop products that address specific requirements of customers. The competition unleashed by market forces requires strong responses from financial institutions.

To operate profitably, financial institutions require to develop market-driven, user-friendly, financial and savings products, that are vibrant on both sides of the financial intermediation equation: on the borrowings side, institutions require Savings Products driven by customer requirements with a view to attracting Savings; on the lending side, institutions require to develop customer-specific financial products that also enable profitable investment of resources.

Developing Financial and Savings Products requires a core set of analytical skills enshrined in 'Discounted Cash Flow' concepts and Financial Mathematics and implemented using specialized software; entities need to move from rudimentary tools such as financial calculators and homegrown spreadsheets to sophisticated decision tools and financial models.

Day 1 of the program is devoted to a discussion of 'Advanced' aspects of Excel. Day 2 discusses fundamental 'Discounted Cash Flow' and Financial Mathematics Concepts. Day 3 introduces participants to 'CapInvest', a specialized software package for developing financial products. Day 4 discusses the underlying equations and architecture of a range of financial and savings products.

- Characteristics of Financial and Savings Products
- Example of Financial and Savings Products
- Creating a Housing Finance Product
- Creating a personalized Savings Product for a Bank
- Creating a Leasing Product
- DCF Examples from different industries – stock and bond pricing, bank lending, venture capital investments, leasing investments, optimum machine replacements, zero coupon bonds, raw cash flow of a tax-optimized lease
- Using the RePricing Portal to Reprice in a floating rate scenario, in an arrears scenario, to add principal to an existing transaction or to deduct principal from an existing transaction
- Using the Zero Rate Portal to create zero finance or concessional finance products
- Using the Rate Conversion Portal to handle ticklish rate conversion scenarios in a bank or in other deposit accepting institutions
- Using the Product Developer Portal to create Advanced Financial and Savings Products
- Using the Reverse Function to develop flexible repayment transactions wherein a customer develops the repayment schedule
- Discussion of Operating Lease via Case Study
- A Lease Vs. Buy Analysis to convince customers of superiority of leasing vis-à-vis borrowing from a bank
- Leveraging the Taxation system to develop competitive lease products using the Post Tax Module
- Using the Power Pack Portal
- Pricing Variables
- Cost of Capital
- Time Value of Money
- Universal Financial Equation
- 5 Components of Equation
- Excel Equivalents
- Discounted Cash Flow Equations
- Viewing Transactions in the form of underlying equations

## About Your Program Director

Viswanath is Principal Consultant of Vish Tumu Associates, a U.S. and India based financial institution consulting firm that advises international financial institutions, including, the World Bank, the International Finance Corporation, and the Inter-American Development Bank. He has carried out assignments in more than 24 countries. The firm employs specialist consultants from the United States and developing countries and has been involved in a wide range of assignments on behalf of institutional and private sector clients.



Viswanath holds a Masters degree in International Finance from Columbia University, New York and is a Chartered Accountant from the Institute of Chartered Accountants of India and is also a Company Secretary from the Institute of Company Secretaries of India. He is a co-author of an authoritative text on Leasing “The Principles and Practice of Leasing” published from the U.K. in 1990. The New York Financial Writers Association awarded him the prestigious ‘Maurice Feldman’ scholarship for financial writers. He has several published articles to his credit and is a regular contributor to the World Leasing Yearbook, published by Euromoney Publications, U.K.

Viswanath is an official Beta tester for Microsoft Office.

Viswanath has more than 14 years of experience in Financial Modeling and Microsoft Excel, has single-handedly developed ‘CapInvest’ a sophisticated financial model that is used by financial institutions to create a range of financial and savings products. In the past, he worked with the ICICI Bank, the premier development bank in India and AF Ferguson & Co., (part of Ernst and Young), a premier management consulting company in India.