

Total Revenue = Interest Income + Fee Income

Proposal 1:
 $(\$850 \text{ Million} \times 52.5bp) + (\$850 \text{ Million} \times 40bp)$
 $\approx \$4462500 + \3400000
 $\approx \$7862500$

Proposal 2:
 $(\$1 \text{ Billion} \times 47.5bp) + (\$1 \text{ Billion} \times 30bp)$
 $\approx \$4750000 + \3000000
 $\approx \$7750000$

Risk Adjusted Revenue (RAR) =
 Total Revenue - Total Expected Loss

Proposal 1:
 RAR = $\$7862500 - \1063282
 $\approx \$6799218$

Proposal 2:
 RAR = $\$7750000 - \2037750
 $\approx \$5712250$

Economic Revenue = RAR - Net Capital Charge

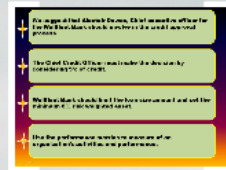
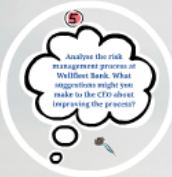
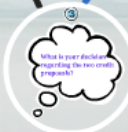
Proposal 1:
 ER = $\$6799218 - \2200000
 $\approx \$4599218$

Proposal 2:
 ER = $\$5712250 - \3800000
 $\approx \$1912250$

Economic Profit =
 Economic Revenue - Cost - Tax

Proposal 1:
 $\$4599218 - \$825713 - \$1500000$
 $\approx \$2273505$

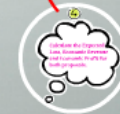
Proposal 2:
 $\$1912250 - \$3000000 - \$920000$
 $\approx \$692250$



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CASE STUDY 3:
RISK MANAGEMENT
OF WELLFLEET
BANK
"MegaDeals"



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Overview of Wellfleet bank



Core Business

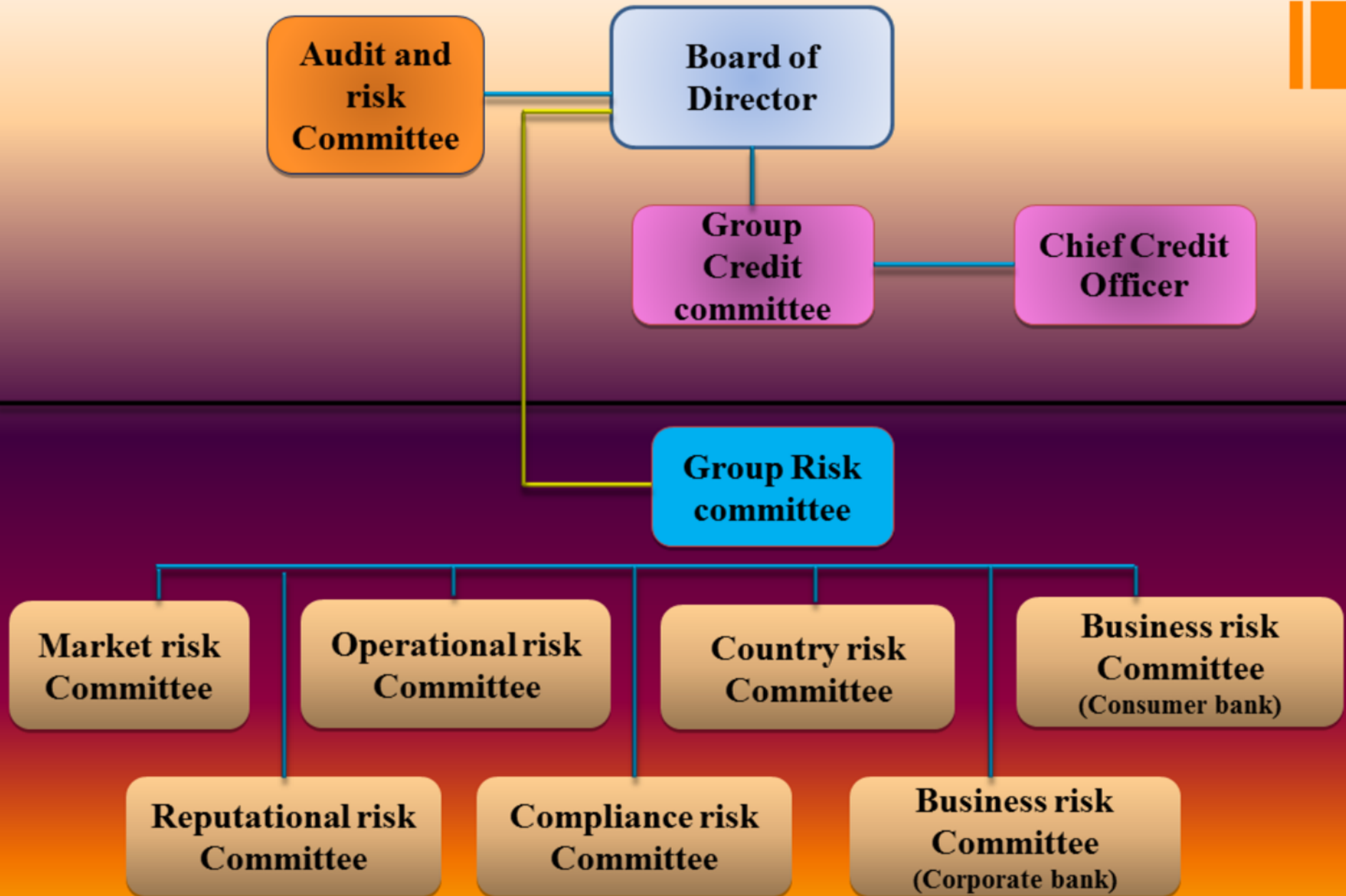


• **Corporate banking**

• **Consumer banking**

- Wellfleet bank focus more on the syndicated and leverage loan segment.
- The corporate bank recruited relationship managers from leading investment banks and hired a senior risk officer name Catherine Richards. This gave Wellfleet a risk perspective while analysing its proposals
- Wellfleet was based in London even though majority of its customers resided outside UK.
- Wellfleet Bank gave importance to internal controls and risk management as it considered them to be very crucial part of banking.
- The dilemma of this bank is the CEO Alastair Dawes wonder how to best evaluate the quality and riskiness of mega-deals.

WELLFLEET BANK ORGANIZATION CHART



1

**What kind of risks
does Wellfleet
Bank face?**

???

