

Credit Risk: Introduction to Key Concepts

A one-day introductory level workshop offering an overview of the key tools and concepts of credit risk management in financial institutions and how they fit into Basel II capital allocation. The workshop is designed for back-office and support staff who wish to understand better how credit risk impacts their employers or clients.

TARGET AUDIENCE

The workshop is designed for non-credit analysts, such as support and administrative staff or sales and trading professionals within financial services companies. The content is also appropriate for a broader audience, e.g. law, insurance and broking professionals, who wish to understand better the impact and management of credit risk on their clients.

COURSE OBJECTIVES

The aim of this one-day introductory workshop is to enable participants to understand the key concepts of credit risk and credit risk management.

Specifically, participants will be equipped to:

- Identify the different types of credit risk and how they arise in different activities
- Understand how credit risk can be quantified, monitored and controlled and the role of credit portfolio management tools, such as collateral, documentation and credit derivatives
- Appreciate how capital is allocated against risk under Basel II capital adequacy and internal economic capital models.

CONTENT

OVERVIEW OF CREDIT RISK

- Role of credit risk in differing business lines
- Categories of credit risk - lending, contingent, issuer, pre-settlement, settlement, country/transfer, other
- Impact of credit risk on performance and financial standing of different types of company
- Quantifying credit risk - default, recovery and migration statistics
- Capital adequacy - economic capital - the need for adequate capital to meet unexpected losses;
- Basel II - measuring regulatory capital for credit risk under standardized and advanced measurement approaches.

CREDIT ANALYSIS

- Overview of debt ratings - understanding the types of rating and the criteria applied by the rating agencies
- Structured approach to credit analysis - Purpose, Payback, Risks and Structure
- Types of counterparty - corporates, financial companies, special purpose entities and holding companies
- Perspectives on analysis - debt and equity market indicators of credit risk.

CREDIT RISK MITIGATION

- Structuring credit exposures a four step approach - exposure profile, ranking, safeguards and pricing
- Exposure profile - key features of the main credit products offered or traded by the bank: loans, leases, derivatives, bonds etc.
- Ranking - senior, pari passu and junior positions – the role of collateral and structural subordination
- Safeguards - key issues to look out for in credit documentation
- Pricing - the need to be compensated for expected loss
- Portfolio management and techniques to spread risk - syndication, sub-participation, whole loan sales, credit derivatives, securitization.



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