

COURSE OUTLINE

Credit Portfolio Management



The Financial Crisis demonstrated the importance of minimising the risk of concentrated and correlated exposures - a credit portfolio is not simply the sum of the individual exposures.

Credit Portfolio Management (CPM) is a key function that is increasingly used to price portfolio risk and allocate capital at origination.

The aim of this course is to help participants develop a conceptual understanding of how portfolio risk is measured and modelled.

This will be demonstrated practically by building CPM models during the class.

Course Objectives

- Understand how risk drivers interact within a credit portfolio and the impact of default correlation.
- Understand how exposures within a portfolio are measured and quantified
- Appreciate the main approaches to modelling unexpected loss for credit portfolios, the key issues involved and the important structural decisions
- Understand how Monte Carlo Simulation is used in calculating unexpected loss and the key constraints, benefits and limitations of this approach
- Appreciate the different ways Credit Portfolio Management is used by different financial institutions, and the key strategic decisions to be made
- Understand the different techniques available for portfolio management, and the practical issues involved in post-Financial Crisis markets

High Level Course Outline

Key concepts of Credit Portfolio Management

- Recap of credit risk components, Probability of default (PD), Loss Given Default (LGD), Exposure at Default (EAD).
- Relationship between expected loss and unexpected loss and their respective treatment for credit pricing purposes
- Challenges of Credit Portfolio Modelling: comparing with market risk modelling
- Why correlation (default dependency) is so important in measuring the risk in Credit Portfolios

Important statistical concepts used in modelling Credit Portfolios

- From Volatility to Value at Risk and Expected Shortfall: understanding importance of tail risk
- Challenges of modelling, and estimating observed, correlation
- Important probability distributions used in modelling credit risk: Normal, Binomial, Poisson, Beta
- Modelling credit migration: Markov chains and transition matrices
- Monte Carlo simulation: mechanics, constraints to be taken into account and how these can be modelled, uses and limitations
- Use of copula functions to model correlation: advantages and risks

Credit Portfolio Models

- Categorising credit portfolio models:: structural, reduced form and econometric models, default vs. migration models, conditional vs. unconditional models
- Structural model: overview of approaches: use of factor models and systematic vs. idiosyncratic risk
- Application to Credit Risk Weights in the Basel Internal Ratings Based (IRB) Approach
- Building a structural model for a corporate loan portfolio using Monte Carlo simulation
- How CPM models link to other forms of stress testing and economic capital for capital purposes
- Alternative approaches: outline of the CreditRisk+ and CreditPortfolioView frameworks
- Additional considerations with portfolio modelling for retail portfolios

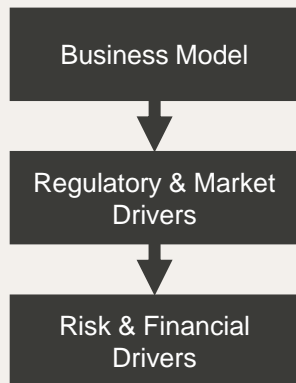
Managing portfolio risk

- Key criteria for determining modelling requirements
- CPM approaches: Risk Controller, Risk Optimiser, Active Credit Portfolio Management
- CPM and transfer pricing with origination desks
- Tools for managing portfolio and concentration risk: traditional (securitisation, syndication, sub-participation, etc.) and more recent approaches (synthetic securitisation, single name and index CDS)
- Managing portfolio risk in the post Financial Crisis environment: dealing with liquidity, basis risk and wrong way risk

Find out more about our approach to risk and regulatory training

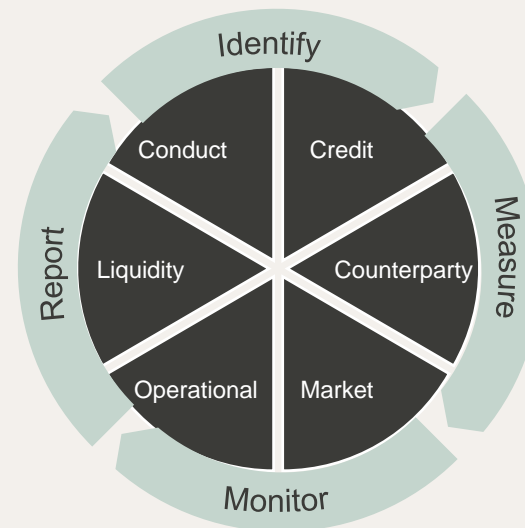
CORE CONCEPTS

Enable staff at all levels to better understand risk in the context of the bank's strategy, regulatory and business drivers.



MASTER CLASSES

Develop capability to respond to key risk and regulatory challenges. Support professional and leadership development.



Key features of our approach:

- Modular: we work with you to design a program of learning that fits with your talent development goals
- Blended: independent learning develops core knowledge; interactive classes focus on practice and application; post-course reflection and reinforcement
- Customised: reflecting your risk management frameworks, tools and strategy
- Multi-media: workshops, videos, eWorkbooks, webinars, assessments, surveys, assignments, credit clinics



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