

# Credit Risk Practice

*Credit Value: 0.5*

## **AIMS**

### **GENERAL AIM**

To develop an extensive, detailed and critical knowledge and understanding of credit risk practices of the Head Office functions of banks, credit risk practices in the retail units of banks and credit risk practices in the business/commercial units of banks.

### **SPECIFIC AIMS**

1. To provide an extensive, detailed and critical knowledge and understanding of how the credit risk functions, as part of the Head Office Risk Management, and how it plays its part in managing risk for a banking business. This introduces how a bank manages their internal risks and acts as an introduction as to how customers should manage their credit risks.
2. To develop knowledge of credit risk practices in retail and private banking. This will focus mainly on effective problem solving and decision making using appropriate quantitative and qualitative skills including identifying, formulating and solving business problems and assessing and managing risk and using the decision-assist tools of credit scoring.
3. To develop cognitive skills of critical thinking, analysis and synthesis in relation to industry, business, and financial risks, etc.

## **CONTENT**

### **1. CREDIT RISK PRACTICES OF THE HEAD OFFICE FUNCTIONS OF BANKS**

- The risk management framework
- How risk is managed and overviewed
- Credit risk
- Asset and liability risk (including liquidity risk)
- Market risk
- Insurance and investment risk
- Operational risk
- Legal and regulatory risk or external risks
- Strategy risk
- Audit Committee
- Basel II

## **2. CREDIT RISK IN RETAIL UNITS OF BANKS - CREDIT SCORING**

- Introduction to the credit scoring system
- The benefits and boundaries of all credit scoring solutions
- The credit scoring system
- Credit scoring in practice
- Behavioural scoring and its application
- Monitoring credit scoring
- Proposed developments in credit scoring
- Credit reference agencies (CRAs)
- Summary of credit scoring

## **3. CREDIT RISK PRACTICES IN RETAIL UNITS OF BANKS - HIGHER VALUE LENDING**

- Other areas that impact on retail credit
- Higher value lending
- Analysing the credit risk

## **4. CREDIT RISK IN BUSINESS UNITS OF BANKS - MARKET OR INDUSTRY RISK ASSESSMENT**

- Risk analysis and assessment
- Risk management strategy
- Elements in the analysis and assessment process
- Market or industry risk assessment
- A structure for market or industry risk analysis
- Continuing with the business risk assessment

## **5. CREDIT RISK IN BUSINESS UNITS OF BANKS - BUSINESS RISK ASSESSMENT**

- Business risk assessment

## **6. CREDIT RISK IN BUSINESS UNITS OF BANKS - FINANCIAL RISK ASSESSMENT**

- Financial risk assessment
- Operational risk
- Audit risk
- Financial statements
- Asset and liability risk
- Borrowing cause, structure and packaging of facilities
- Financial repayment risk

## **7. CREDIT RISK IN BUSINESS UNITS OF BANKS - DOCUMENTATION AND PRICING RISK**

- Insurance (collateral)
- Legal risk
- Investment risk and regulatory risk
- Pulling it all together
- Pro forma credit risk write up