



# Fundamentals of Credit Risk

## Graduate Certificate Program

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# Fundamentals of Credit Risk – Program Overview

Credit/ counterparty risk is the #1 risk factor for financial institutions and in top 3 for most corporate clients.

Our Fundamentals of Credit Risk program combines self-study (eLearning tutorials) with highly interactive workshops (classroom or virtual). The emphasis is on practical application including use of the firm's own case studies. The program has two elements to the Final Assessment; a group Case Study where they will present to a Credit Committee and MCQ to verify the skills gained.

The course is spread over five training days. It is assumed there are 6 effective training hours each day to allow for lunch and morning / afternoon coffee breaks. The course therefore has 30 hours training available.

The course has been designed to be appropriate for both front-line and Credit Risk staff. Ideally, they will have some experience with credit and financial analysis as this course is designed to refresh that knowledge and build it to a master-class level.



# Program Roadmap

Pre-Learning  
E-learning

E-learning – 13 Tutorials

Workshop 5-days  
Classroom learning

**Module 1** How Banks  
Handle and Measure Credit  
Risk

**Module 2** Credit Risk  
Fundamentals – Key Stages  
of Credit Risk Management

**Module 3** Business Analysis

**Module 4** Financial  
Analysis – Accounting  
Basics

**Module 8** Structure Risks



**Module 7** Financial Forecasting

**Module 6** Cashflow Analysis

**Module 5** Traditional Financial  
Analysis

**Module 9**  
Deal Monitoring and  
Documentation

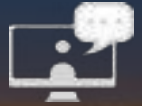
**Module 10**  
Problem Debt Management  
and Early Warning Indicators

 eLearning  
 Classroom  
 Assessment

Final assessment

Final Case Study and MCQ

# Part 1: Online Learning



PRE-WORK

## Online Learning

Know-How has a range of tutorials for study.  
There are 13 core tutorials which include the following:

- Credit Analysis – Introduction
- Credit Analysis – Balance Sheet Analysis
- Credit Analysis – Cashflow Analysis
- Credit Analysis – Forecasting
- Credit Analysis – Other Factors
- Credit Risk Appetite – Introduction
- Credit Risk Appetite – Customer & Industry Risk
- Credit Risk Customer Management – Covenant & Credit Decisions
- Credit Risk Customer Management – Credit Facilities
- Credit Risk Mitigation – Introduction
- Credit Risk Mitigation – Collateral
- Credit Risk Mitigation – Management & Realisation
- Credit Risk Mitigation – Other Types of Mitigant

## Credit Analysis Overview

Corporate credit analysis is a type of financial analysis that banks perform on borrowers to measure their ability to meet their debt obligations. Its purpose is to support decision-making in relation to whether to accept credit risk on these borrowers, as well as decisions about the size and nature of the risks that are deemed acceptable.

### Credit Analysis Objectives

On completion of this tutorial, you will be able to:

- Know the process of credit analysis
- Understand the role of financial forecasting in overcoming the backward-looking nature of audited financial statements
- Use cash flow forecasting and associated stress testing

# Part 2: Credit Workshop Overview



CLASSROOM  
SESSIONS

## Features



Breakout Room Exercises



Case Studies



Real-world Examples



Polling



Q&A



Instructor: Alastair Tyler

## Learning Objectives

**Target Audience:** Front Line and Credit Staff

- Understand the ways in which a business entity's structure, business model, and the industry in which it operates affect the size and complexity of the entity and its financial statements
- Determine key metrics, such as the debt/equity ratios and liquidity ratios, that can be derived from a company's balance sheet.
- Have a sound understanding of accounting fundamentals.
- Be able to build and sensitise financial forecast models.
- Be able to undertake cashflow analysis to determine debt appetite and appropriate debt finance solutions.
- Understand key financial and non-financial covenants.
- Understand the importance of effective deal monitoring and early problem loan detection.

# Part 3: Workshop Outline



CLASSROOM  
SESSIONS

## Day 1

### Introductions

- Getting to know each other
- Course objective, approach and what to expect over the 5 days
- Participants' expectations from the course
- Summary of e-Learning topics



### How Bank's Handle and Measure Credit Risk

- Banking risks and credit risks
- Expected loss
- The three lines of defence model
- Risk management and mitigation



### Credit Risk Fundamentals – Key Stages of Credit Risk Management

- Sanctioning
  - Business/non-financial analysis
  - Financial analysis
  - Deal structuring
- Monitoring – covenants and documentation
- Problem debt – EWI's and action planning

### Business Analysis

- What information is needed to undertake an analysis and where to get it
- Use of business models to understand risks and issues:
  - Industry analysis
  - PESTE
  - Porter's 5 forces and Porter's 3 generic strategies
  - Ansoff matrix
  - BCG product life cycle
  - SWOT
- Applying a non-financial analysis to a real-world case study

# Part 3: Workshop Outline cont.



CLASSROOM  
SESSIONS

## Day 2

### Financial Analysis

- Accounting Fundamentals :
  - IASB rules and objectives
  - Accounting principles and how they impact the user of accounts
  - The role and limitations of the auditor
  - Reading the audit statement
  - The accounting structure
- Creative accounting:
  - Exploring some of the most common methods used to boost profits
  - Understand the impact of creative accounting on the 3 key financial statement
  - How to spot creative accounting and how to avoid it clouding your analysis

### Traditional Financial Analysis (Day 2 + Day 3)

- The use of ratios to analyse historic accounts – calculation and application :
  - Profit and sales-based ratios
  - Working capital ratios
  - Leverage, gearing and debt ratios
  - Cash and debt capacity ratios
- The Du Pont pyramid of ratios
- Applying a traditional financial analysis to two real world case studies



# Part 3: Workshop Outline cont.



CLASSROOM  
SESSIONS

## Day 3

### Traditional Financial Analysis (Day 2 + 3)

- The use of ratios to analyse historic accounts – calculation and application :
  - Profit and sales-based ratios
  - Working capital ratios
  - Leverage, gearing and debt ratios
  - Cash and debt capacity ratios
- The Du Pont pyramid of ratios
- Applying a traditional financial analysis to two real world case studies

### Cashflow Analysis

- Understanding the rules governing cashflow statement production
- Direct and indirect cashflow layout and the 3 components of a cashflow statement
- Calculation of a derived cashflow statement
- Analysis of the cashflow statement including the 5 key cash drivers also including:
  - Tracking and measuring working capital moments
  - The distinction between expansionary and maintenance capex
  - Sustainable and unsustainable sources and use of cash
  - The difference between liquidity and cashflow
- Applying a cash-based analysis to a real-world case study

# Part 3: Workshop Outline cont.



CLASSROOM  
SESSIONS

## Day 4

### Financial Forecasting

- The importance of robust customer and bank forecasts
- How to analyse a customer financial forecast
- How to build a bank base case forecast
- Sensitising a forecast and scenario planning
- Applying a non-financial analysis to a real-world case study

### Structure Risks

- Matching loan products and tenor to the loan purpose
- Subordination risks including structural, contractual and effective subordination
- Collateral and guarantees

### Deal Monitoring and Documentation (Day4+5)

- Loan document standards and LMA based credit agreements
- Covenants – non-financial:
  - Use and applicability of key covenants
  - Event based controls
  - Restrictive covenants
  - Maintenance covenants
- Covenants – financial:
  - Typical financial covenants for balance sheet, profit and cash measures
  - Real estate specific covenants
  - Setting and monitoring financial covenants

# Part 3: Workshop Outline cont.



CLASSROOM  
SESSIONS

## Day 5

### Deal Monitoring and Documentation (Day 4 + 5)

- Loan document standards and LMA based credit agreements
- Covenants – non-financial:
  - Use and applicability of key covenants
  - Event based controls
  - Restrictive covenants
  - Maintenance covenants
- Covenants – financial:
  - Typical financial covenants for balance sheet, profit and cash measures
  - Real estate specific covenants
  - Setting and monitoring financial covenants

### Problem Debt Management and Early Warning Indicators

- The importance of effective deal monitoring
- The importance of early problem detection – why this really matters
- Early warning indicators:
  - Management warning signs
  - Financial warning signs
  - Non-financial signs
  - Real estate specific warning signs
- Action and options available to the bank on default
- Developing the customer dialogue and building an up-to-date information base
- Understanding strategy and application of the IFC coverage and viability matrix
- Development of options and need for speedy implementation and ongoing monitoring

### Final Case Study

# Part 4: Final Case Study



ASSESSMENT

## Final Case Study

- A final case study will be used to test the learnings on a significant corporate business – including:
  - Non-financial analysis
  - Financial analysis
  - Consideration of accounting issues
  - Cashflow analysis
- The case study will allow delegates to work together in small teams and will require delegates to make a formal credit decision on the case.

## Final Case Study

- It is intended that a real-life case study is used for each of the key sections under financial and non-financial analysis, to allow delegates to apply learnings to a more complex real-world case as they progress through the course.
- This case study including all supporting materials will be provided by Intuition and is in addition to the range of exercises and case studies used during the workshop.

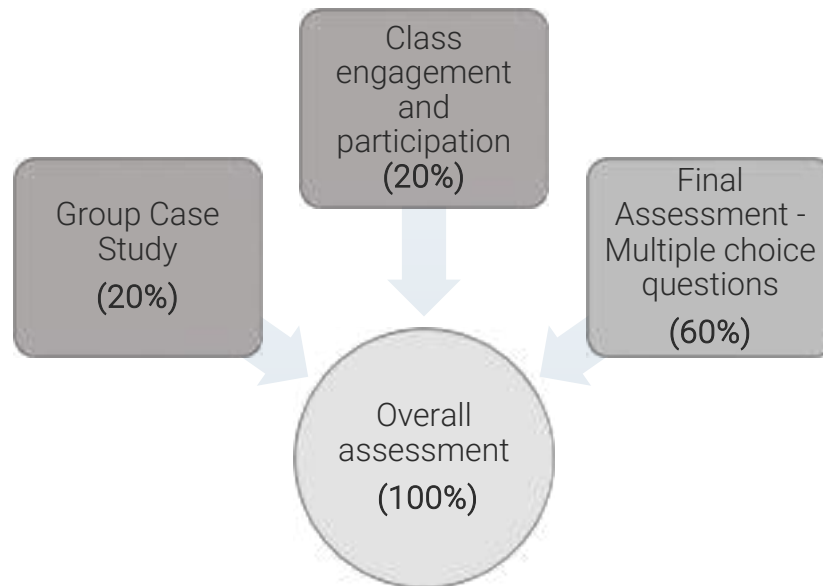


# Part 4: Assessment



ASSESSMENT

**The Assessment will have 3 components:**



**Certificate Accreditation**



## Group Case Study

- Teams of 4-5 will evaluate a large corporate credit case study..
- They will assess Credit appetite and propose relevant solution.
- They will prepare a short form Credit submission
- They will present to a Credit Committee panel including bank senior management

## Final Assessment

- Multiple choice questions
- Covering both e-learning and classroom topics
- Pass mark of 70%

## Class Engagement and Presentation

- Will be evaluated by the trainer
- Based on a pre-defined set of criteria

# Program Director

## *Alastair Tyler*

Alastair is a financial services and professional education expert specialising in Credit Skills and Risk Management. He is Head of Learning Services, EMEA at Intuition responsible for program needs analysis & design, faculty management and classroom delivery. He is Visiting Professor at LIBF where previously he was responsible for their international business. In 2018 he led a project to set up ADGM Academy.

Alastair worked for over twenty-five years in financial services in a range of senior front office roles for major UK banks (Barclays, RBS and Santander) specialising in asset finance (including number of major financings for oil and gas sector). Alastair was a Consultant at Deloitte in the Banking & Capital Markets group where he had a lead role on a Conduct review into one of the major UK international banks. He has taught banking and finance courses in many countries including Cuba, Egypt, KSA, Malaysia, Oman, UAE, UK, US and Uzbekistan. He has authored two textbooks; Corporate Lending (focussed on mid cap companies) and Bank Regulation & Economic Policy and from 2010-19 was the Chief Examiner for Corporate Lending at LIBF.





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