CONCEPT

Financial Risk Management: Market, Credit and Liquidity Risk, VaR and Hedging



Financial Risk Management: Market, Credit and Liquidity Risk, VaR and Hedging

Introduction:

Interest rate moves, currency swings, commodity price shocks, counterparty defaults and funding squeezes can erase a year of earnings within weeks when exposures are not measured or hedged. This one-week Financial Risk Management course from Core Concept equips finance, treasury and banking practitioners to identify market, credit and liquidity exposures, quantify them with sensitivity measures, Value at Risk and stress tests, and control them through derivative hedges and risk limits. Working in spreadsheet models, each participant builds a Financial Risk Dashboard and Hedging Proposal for their own organisation.

Course Objectives:

- Map interest rate, foreign exchange, commodity, credit and liquidity exposures across the balance sheet and cash flow forecast
- Measure market risk with duration, DV01, option Greeks, Value at Risk and Expected Shortfall in a working spreadsheet model
- Estimate credit and counterparty exposure using probability of default, loss given default, exposure at default and potential future exposure
- Assess liquidity and funding risk with cash flow gap analysis, survival horizon testing and the Basel LCR and NSFR ratios
- Select and size hedges with forwards, futures, swaps and options and evaluate hedge effectiveness
- Set financial risk limits and produce a management risk report with stress test results and limit utilisation

Target Audience:

- Managers responsible for treasury operations, cash, funding and hedging decisions
- Managers who measure and monitor market, credit or liquidity risk in banks and financial institutions
- Finance managers accountable for budgets and forecasts exposed to rates, currencies or commodity prices
- Managers responsible for counterparty onboarding, credit limits and collateral arrangements
- Managers who prepare financial risk reports for executive committees and asset and liability committees

Course Outline:

Day 1: Financial Risk Landscape and Exposure Mapping

- Financial Risk Taxonomy: Market, Credit and Liquidity Risk
- Balance Sheet and Cash Flow Exposure Mapping Template
- Transaction, Translation and Economic Currency Exposure
- Commodity Price Exposure in Procurement and Revenue Contracts
- Current-State Financial Risk Profile Worksheet

Day 2: Market Risk Measurement: Sensitivities and Value at Risk

- Interest Rate Sensitivity with Duration, Convexity and DV01
- Option Sensitivities: Delta, Gamma and Vega
- Historical Simulation Value at Risk Spreadsheet Build
- Parametric and Monte Carlo Value at Risk Comparison
- Expected Shortfall and Value at Risk Backtesting

Day 3: Credit, Counterparty and Liquidity Risk

- Expected Loss Model: PD, LGD and EAD
- Counterparty Exposure: Current and Potential Future Exposure
- Netting, Collateral and Credit Limit Allocation
- Liquidity Gap Ladder and Survival Horizon Analysis
- Basel Liquidity Coverage Ratio and Net Stable Funding Ratio Calculation

Day 4: Hedging with Derivatives, Stress Testing and Risk Limits

- Forwards and Futures for Currency and Commodity Hedging
- Interest Rate Swaps for Fixed and Floating Debt Hedging
- Options and Collars for Downside Protection
- Hedge Ratio Sizing and Hedge Effectiveness Testing
- Historical and Hypothetical Stress Scenario Design

Day 5: Modelling Build: Financial Risk Dashboard and Hedging Proposal

- Multi-Sector Case Data Set: Manufacturer, Bank and Energy Trader
- Financial Risk Limit Framework with Stop-Loss and Concentration Limits
- Financial Risk Dashboard Build with Limit Utilisation Indicators
- Hedging Proposal with Cost and Residual Risk Analysis
- Committee Presentation and Peer Challenge of the Dashboard

Skills You Will Gain:

- Exposure Mapping
- Value at Risk Modelling
- Interest Rate Sensitivity Analysis
- Counterparty Credit Exposure Estimation
- Liquidity Gap Analysis
- Derivative Hedge Structuring
- Stress Scenario Design
- Financial Risk Reporting

Why Attend This Course:

- Replace intuition about rate, currency and price movements with numbers that show how much the organisation could lose and how often
- Practise every measurement technique in spreadsheet models that can be reused on your own positions the week you return
- Compare hedge instruments side by side on cost, protection and residual risk before recommending one to management
- Return with a tested Financial Risk Dashboard and Hedging Proposal ready for your treasury or risk committee

Conclusion:

Financial exposures rarely announce themselves until a rate change, currency move or counterparty failure has already hit earnings or cash. Across one week, participants progress from mapping exposures to measuring them with sensitivities, Value at Risk and stress tests, then to controlling them with derivative hedges and risk limits. The course closes with a modelling build in which each participant completes a Financial Risk Dashboard and Hedging Proposal, challenged by peers from banking, industry and energy, and ready to support decisions in their own organisation.