GLOBAL
CREDIT
CERTIFICATE

Preparing individuals to navigate the changing credit risk landscape

Global Credit Certificate Syllabus

GLOBAL INSTITUTE OF
CREDIT PROFESSIONALS

CONTENTS

The definitive credit risk qualification

The Global Credit Certificate, awarded by the **Global Institute of Credit Professionals**, is the ultimate qualification for those needing to navigate the changing credit risk landscape.

The certificate equips individuals and teams with the practical knowledge and skills to make better credit decisions. Built and delivered by industry experts, the GCC teaches both principles of credit analysis and practical application. With a focus on developing critical thinking and decision-making, the program uses real-life scenarios and case studies to emphasize real-world skills.

Easy to implement and manage, the Global Credit Certificate is designed to fit around business needs.

The certification is particularly suitable for those in:

- Corporate and commercial banking
- Credit analysis
- Risk management
- Capital markets
- Credit research
- Investment management

Relevant

Designed, created and delivered by practitioners for practitioners

Practical

Uses real-life examples that can be immediately applied to the workplace

Modern

Covers topical issues such as ESG; the latest trends in fintech; and the use of modern data analysis tools

Flexible

Offers flexible delivery options with a choice of online, virtual and in-person training

Focused

Focused on practical skills and knowledge designed to help individuals excel

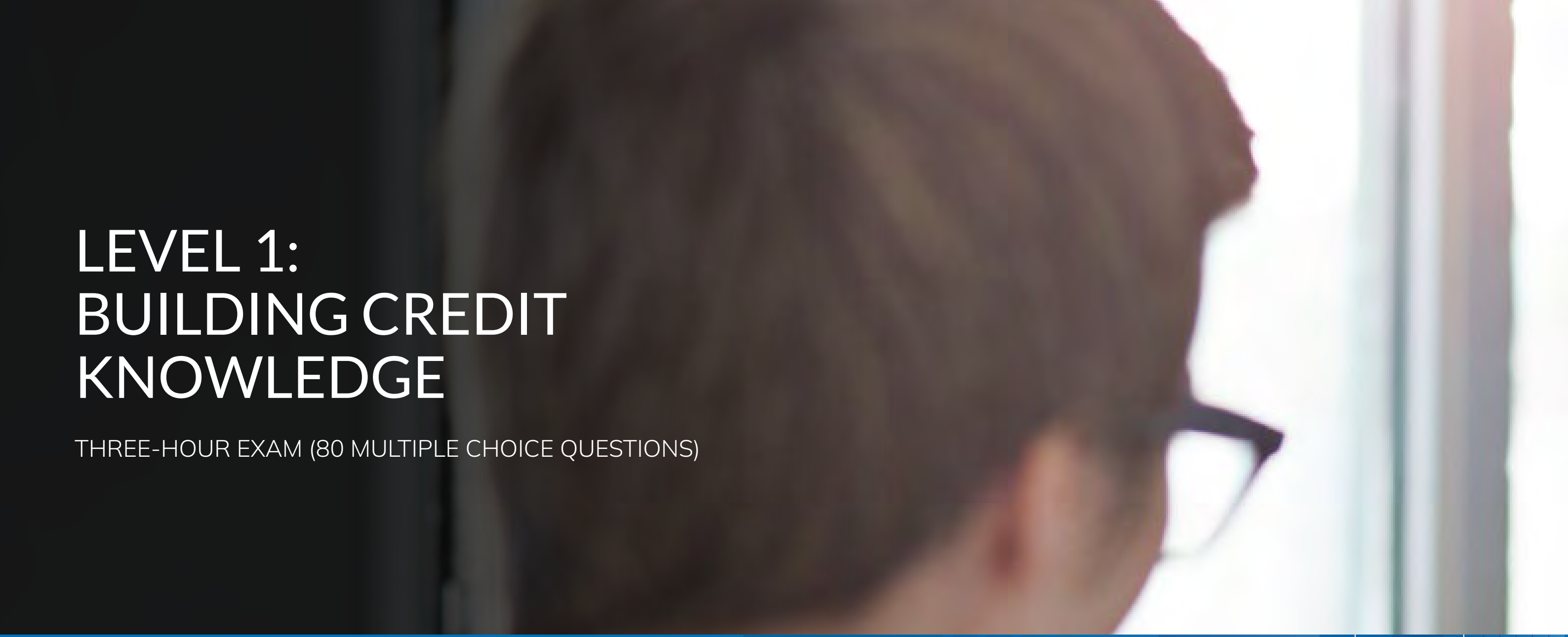
Consistent

A uniform training approach and rigoros exams for a consistent global standard

Candidate Resources

- Detailed study notes covering the entire syllabus
- eLearning based self study
- Bespoke, digital learning platform
- Instructor-led training
- Practice questions and case studies

The Global Institute of Credit Professionals (GICP) is the go-to destination for credit professionals, offering a wealth of resources and support to help its members stay ahead in a competitive industry. The GICP is dedicated to promoting the highest standards within the credit industry, providing its members with the tools they need to excel.



LEVEL 1: BUILDING CREDIT KNOWLEDGE

THREE-HOUR EXAM (80 MULTIPLE CHOICE QUESTIONS)

CHAPTER 1

Introduction to the Credit Decision Process

This chapter introduces the main concepts that underpin the credit decision process. We begin with the principle of credit risk, how we assess it through credit analysis, and how we manage it within a credit portfolio. We also introduce the idea of how credit decisions are made, and outline how this process has evolved over time.

The contemporary credit decision process that we employ involves a four-step analytical framework which examines the purpose of the credit application; the payback methods that may be employed; the lending risks; the lending structure that is required to make the application acceptable; and the importance of critical thinking to the credit analyst throughout the process.

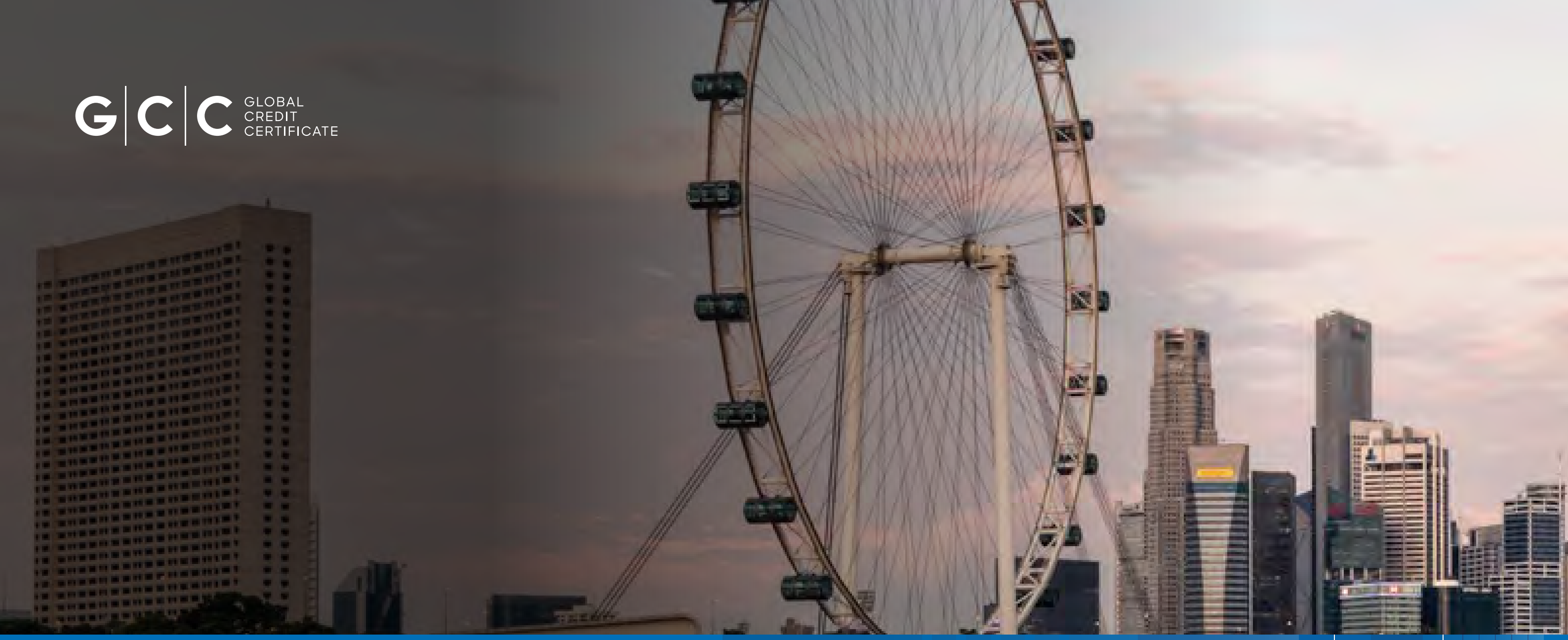
We also discuss credit portfolio theory and identify the importance of spreading credit risk exposure over many loans; the importance of correlation in the context of economic change; and variations between sectors, markets.

Finally, we examine the pricing of loans and how this may be affected by regulatory and behavioral considerations and the need for responsible credit management.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Credit decision process and the importance of credit risk assessment
- Individual credit risk assessment based on purpose, payback, risk and structure
- Portfolio credit risk assessment and the impact of diversification within a credit portfolio
- Credit pricing and the relevance of reference rates, default ratings and lending business costs



CHAPTER 2

Debt Financing Instruments

In this chapter we discuss various loan and credit types, key terminology regarding debt profiles, and credit and pricing considerations.

Many different forms of credit instruments exist, each with their own unique structures and risks. A robust credit decision requires an understanding of the purpose, pricing, and risks of credit related activities, and how they fit into the lender's credit portfolio.

This chapter develops an understanding of how different banking and financial products generate credit exposure. Traditional lending and bond products are described based on their purpose, credit risk and protections. We also consider the nature of trade finance and other specific finance products such as leasing and market-based trading products.

The accounting for credit exposures differs depending on the type of credit exposure, debt (loans and bonds), counterparty exposure from derivative transactions, exposures arising from transactional services, and leasing. This risk identification and aggregation is a critical component of estimating loss given default, an increasingly important concept as a counterparty approaches financial distress. A key element of this chapter is to understand the different types of credit exposure that these varied products create and how they may be aggregated.

We conclude this chapter with a discussion of other behavioral concerns when approving credit exposures. The simple quantification of default risk and loss given default does not account for adverse correlations or wrong way risk. Ethical issues and environmental, social and governance (ESG) concerns should also be reflected in the approval process.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Features of credit facilities
- Types of credit facilities and loans
- Loan and bond pricing
- Forms of lending relationships
- Transactional credit exposures
- Leasing
- Securitization
- Covered bonds
- Derivatives
- Suitability and responsible lending

CHAPTER 3

Operating Environment and Sector Risk

A company's operating environment is the external macro- and micro-economic factors that influence the business and affect its performance. This can create both business opportunities as well as challenges. As a result, the analysis of their potential impact on a company's long term strategic and financial viability is a core part of the overall credit risk analysis. Good credit analysis is founded on a sound understanding of these external factors as they may influence or restrict the decision to approve a credit exposure.

Most financial and commercial institutions have internally agreed limits regarding maximum exposures they are willing to take in certain countries or sectors. Similarly, external rating agencies may 'cap' or notch the rating of a business with all its operations in a certain country relative to the credit rating of that country.

Additionally, based on the knowledge and analysis of industrial and financial sectors, credit rating agencies may also indicate the maximum rating level a debt issuer operating in that sector could achieve given the sector's operating constraints and geography.

This chapter examines the economic environment of the region or jurisdiction in which the company is located, examining issues such as governance and financial access of that country or region. We then address the sector-specific economic issues related to the company, such as the origins of raw materials and resources and the markets into which it sells its goods and services. Collectively, these factors determine the operating risk factors to which the company is exposed.

This chapter also explains the interconnectivity of sovereign and bank credit analysis, and why the operating environment is always the starting point for bank analysis.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Operating environment
- Political issues
- Economic environment
- Sociocultural issues
- Technological issues
- Environmental issues
- Legal issues
- Sector performance and trends
- Competitive intensity
- Sector specific critical success factors

CHAPTER 4

Business Profile, Management and Ownership

There are many factors to consider when assessing credit risk. As unpacked in the previous chapter, credit decisions or approvals are constrained by country and/or sector exposure limits a financial institution may set and by sector-wide systematic risk factors. This chapter examines the risks that are company specific and linked to the operations of the business, the non-systematic risk factors.

To analyze the company-specific risks we need to identify and understand the precise sector in which the business operates. We also need to fully understand the company's business strategy, ownership structure and management structure to evaluate how the business profile addresses critical success factors in that sector.

The ownership structure of a business and the owners' ultimate objectives determine the long-term direction and strategy of a company, and their support, control and influence will impact the overall creditworthiness of a business.

The governance of the business, i.e. the management and management effectiveness, is also important, as is any involvement of the owners in the management of the business (particularly in family businesses). Strong management has a clear strategy that will balance the need of all stakeholders in a business. A reporting structure with independent oversight as well as financial reporting and risk control systems are also part of the governance assessment.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Business profile
- Product life cycle and product/customer diversification
- Competitive position
- Ownership structure
- Shareholder types
- Investor return measures
- Cost of capital
- Management and corporate governance
- Management strategy
- Key performance indicators (KPIs) and funding strategy
- Management structure
- Management oversight
- Financial control, reporting and transparency

CHAPTER 5

Financial Statements

In order to understand a corporate and a bank's credit profile, it is important to understand the fundamentals of a company through its financial statements, i.e. how companies operate, how they are financed and what information is available in their financial statements that may help us assess potential returns and risks.

We begin with an overview of the guiding rules and accounting principles that are applied to the preparation of all financial statements.

We then examine how these rules are applied to the financial statements of an individual company that conducts all of its business in a single currency and prepares its financial statements in that currency. We introduce key terminology that the credit analyst may encounter, permitted accounting treatments, and accounting choices that are made.

Once the individual company analysis is completed, we move on to look at group accounts. It is important to note that group accounts must follow the same accounting rules, however they bring additional issues and complications that may be relevant to the analysis.

We round off our review of accounting by examining the impact of foreign currency and exchange rate fluctuations on companies or groups that have assets, liabilities, income or expenses denominated in a currency other than the reporting currency.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Nature, purpose and contents of financial statements
- Balance sheet or statement of financial position
- Statement of changes in equity
- Income statement and statement of comprehensive income
- Cash flow statement
- Notes to the accounts
- Nature, purpose and contents of group accounts and accounting for investments
- Impact of foreign currency on financial statements
- Bank regulatory disclosure

CHAPTER 6

Corporate Financial Statement Analysis

Financial analysis is a key component of credit analysis. In simple terms, a company raises financing from a number of sources and invests the proceeds in trading resources. This gives rise to two key facets of most corporate businesses – a trading side and a financing side. When we analyze accounts, we aim to ascertain the returns and risks arising from each of these two sides by considering:

- **Trading performance:** The returns from trading or operational activities
- **Trading risks:** The risks inherent in the way in which the business trades
- **Financial performance:** Returns being paid to investors
- **Financial risks:** The risks inherent in the way the business is financed

We begin this chapter by considering financial ratios which can help us understand these risks and performance, however they are not without limitations and are just one of several analytical tools available. They do, however, serve as a very good starting point to identify areas of strength or weakness in the company's profile.

Importantly, however, the ratios are just a starting point to the analysis. They help us identify trends and discontinuities (sudden trend changes) but they do not reveal why we see that trend or discontinuity, nor do they reveal their implications for the future.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Uses, limitations and important considerations of ratios in respect of assessing a company's/group's:
  - Trading performance
  - Trading risk
  - Financial risk
  - Financial performance
- Potential distortions and the need for critical thinking in analysis
- Other analysis tools that are available

CHAPTER 7

Bank Financial Statement Analysis

This chapter follows on from the previous chapter which examined corporate financial statements analysis to look at financial statement analysis for banks. A separate chapter is needed for analyzing a bank's financial statements because they are substantially different from those of non-financial corporates, as we set out in *Chapter 5 Financial Statements*. Bank analysts should also refer to *Chapter 6 Corporate Financial Statement Analysis* as much of the content is also applicable.

In essence, a bank raises financing from deposits and various sources and invests the funds in loans and other assets with the intention of earning more on its investments than it is paying for its funding and the running costs. When we are analyzing a bank's accounts, we are trying to understand its business risks and returns, its financing structure and the extent to which business risks are the bank's capital buffer.

In addition to the ratios we can extract from information in the financial statements, bank analyses uses regulatory ratios. Regulatory ratios are designed to ensure that banks maintain sufficient capital, funding and liquidity to keep them safe, which is an important part of what credit analysts want to understand. The ratios we extract from the financial statements serve as a good starting point when assessing both profitability and quality.

Once we have a set of key ratios, we look at these over time to determine whether they are strengthening or weakening, and we compare then to the ratios for the bank's peers to establish whether they are better or worse. We then need to understand the drivers for the trends and comparisons we identify, This can involve more in-depth quantitative analysis but usually leads us to finding out more about that qualitative aspects of the bank's risks, performance, funding and capital.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Nature, purpose and contents of a bank's financial statements
- Bank regulatory liquidity and funding ratios and related Pillar 3 disclosures
- Bank regulatory capital ratios
- Uses, limitations and important considerations of ratios in respect of assessing a bank's/banking group's business risk, profitability, funding and liquidity, and capital adequacy
- Potential distortions and the need for critical thinking when conducting bank analysis

CHAPTER 8

Corporate Business Profile

In this chapter we examine a company's business profile through a consideration of the trading returns generated and the trading risks involved.

Financial analysis is a cornerstone of credit risk analysis and is undertaken within the context of analysis of the operating environment, business profile, management and business owner's strategy. A common starting point in this process is the assessment of relevant accounting ratios.

Financial ratios are metrics that highlight the relationship between two absolute financial values and can help put these numbers in perspective, irrespective of the size of operations. Each ratio asks its own unique questions, and the resultant answers will assist in formulating an opinion of the creditworthiness of the company.

Ratios assist in the analysis of historical and forecasted trends, and in the comparison between peer companies across sectors and geographies. However, ratios should not be used as a standalone tool and great care should be taken when applying ratios and in interpreting findings.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Financial analysis
- Trading performance
  - Profitability ratios
  - Cash generation
  - Trading efficiency
- Trading risks
  - Cash conversion cycle
  - Working capital and net trading assets
  - Business risk and liquidity

CHAPTER 9

Bank Profitability and Risk

Financial analysis is a cornerstone of credit risk analysis and will be undertaken in the context of the sector, the business profile, the management and the business owner's strategy.
As with financial analysis for corporates in the previous chapter, a common starting point in bank financial analysis is the assessment of relevant accounting ratios.

Financial ratios are metrics that may be used to highlight the relationship between two absolute financial values and can help put these numbers in perspective, irrespective of size of the operations. Each ratio asks its own unique questions, and the resultant answers will assist in formulating an opinion of the bank's creditworthiness.

Ratios also assist in the analysis of historical and forecasted trends, and in the comparison between sector peer companies across international boundaries. However, ratios should not be used as a standalone tool and great care should be taken when applying the ratios and interpreting the findings.

In this chapter we examine the business risk and profitability of banks. In *Chapter 11 Bank Funding, Liquidity and Capital* we examine the funding and capital side of the business.

LEARNING OUTCOMES

By the end of the chapter you should be able to describe, explain, and evaluate the:

- Financial analysis
- Assessing business risk
  - Asset quality and credit risk
  - Market risk
  - Operational risk
- Bank profitability
  - Profitability ratios
  - Credit costs

CHAPTER 10

Corporate Funding Profile

In this chapter we consider the funding profile of the business and examine the potential lending returns and risks.

There is a variety of funding sources, from equity to different types of debt instruments, and it is important for the analyst to understand the commercial rationale for a business funding structure. The incentives of investors in different funding instruments can be conflicting, with a higher leverage increasing expected equity returns, but weighing on an obligor's creditworthiness. It is hence essential for the analyst to ascertain leverage limits or the debt capacity for an obligor.

Emphasis must also be placed on the business' ability, in the short- as well as longer-term, to carry and support the debt and its related charges, or debt servicing capacity. We also examine the impact of mismatches in funding instrument characteristics relative to the assets that could increase an obligor's financial risk.

As in *Chapter 8: Corporate Business Profile*, we examine financial ratios that help to characterize a company's business model and financial health – examining in particular ratios that assess the company's funding profile.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Funding sources and the capital structure
- Leverage levels
  - Balance sheet based measures
  - Income statement based measures
  - Cash flow based measures
- Servicing debt
  - Cash available for debt service
  - Debt service related ratios
- Controlling financial risk
  - Avoiding mismatches
  - Debt capacity

CHAPTER 11

Bank Funding, Liquidity and Capital

In this chapter we look at the financing structure of banks starting with building an understanding of the deposit base, a financing source unique to banks. We will also look at the other types of financing introduced in *Chapter 2 Debt Financing Instruments* and the choices made between unsecured or secured funding, short-term money market or long-term capital market sources.

A core part of any bank's analysis is the assessment of capital adequacy. In this chapter we refresh our knowledge of the regulatory common equity Tier 1 and leverage ratios from the Basel Committee on Banking and Supervision (BCBS). We also look at the BCBS' Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) requirement.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Bank’s funding sources and capital structure:
  - Deposits
  - Market funding
- Asset liquidity
- Management of funding and liquidity risk
- Capital adequacy

CHAPTER 12

ESG in Credit

Environmental, social and governance (ESG) factors have always been embedded in core credit analysis. Greater prominence of adverse ESG impacts on businesses and investments in recent years have increased regulatory and capital market focus on ESG issues. Companies and national authorities are facing new ESG reporting requirements and objectives, while companies' activities relating to ESG factors have the potential to impact on their business performance and hence creditworthiness.

To properly assess an obligor's credit profile, an analyst needs to integrate ESG considerations into the analysis and assess management's strategy to respond to ESG shocks. This chapter examines the various ESG factors involved, how they may be impacted by business activities, and the risks of ignoring them. Industry studies have shown that ESG integration techniques can help identify previously unrecognized or undervalued credit drivers and that material ESG issues can be key drivers of credit quality.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Impact of ESG on:
  - Credit decision-making processes and business activities
  - Long-term business performance and valuation
  - Credit-related policy and regulatory changes
- Challenges to integrating ESG issues in credit analysis
- Global sustainability standards and regulations
- ESG and climate reporting frameworks and standards

CHAPTER 13

Insolvency and Recovery

Understanding the protections and shortfalls of the legal documents underpinning credit instruments is just as important as understanding the obligor's creditworthiness. In this chapter we will consider how a credit instrument's covenants must be crafted to be legally effective.

This is hugely important as poorly crafted documentation may not afford the protection that is often assumed. Unfortunately, often the importance of documentation is only fully appreciated after the fact, for example, when the obligor or counterparty defaults. In such cases, the inadequacy of poorly drafted documentation becomes painfully (and expensively) evident.

A credit agreement is a formal contract and is only as good as the legal process that supports it. The location of where the credit agreement will 'reside' is important since each jurisdiction's laws will play a role in the ability to enforce payment from the borrower and the treatment in the event of an obligor's insolvency. This insolvency process determines the value of any recovery amount that the creditors may ultimately receive. The choice of law applicable to the contract is therefore a very important consideration in credit contracts.

In this chapter we also discuss the key components of the credit agreement and the considerations surrounding them. The agreement may afford three major forms of protection (priority, collateral, and covenants) that are related to protecting the credit provider's interests relative to other creditors and management/owners.

Finally, it is critical to understand that different jurisdictions have different rules related to insolvency or bankruptcy which may limit enforceability and recovery.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Legal risk and lending agreements
- Preconditions and representations and warranties
- Priority ranking and subordination
- Covenants
- Collateral/security
- Default
- Insolvency process
- Bank recovery and resolution
- Recovery

GCC GLOBAL CREDIT CERTIFICATE

LEVEL 2: APPLYING CREDIT SKILLS

THREE-HOUR EXAM (50 QUESTIONS)

CHAPTER 14

Qualitative Risk Factors

In Level 1, we learned the principles of credit analysis as well as the concepts of what drives successful credit decision-making.

In Level 2, we build on these principles, focusing on the application of these fundamental concepts and the construction and review of assumptions, scenarios and sensitivities to reflect changing conditions for our analysis.

We also examine more complex factors that can enter into the credit decision-making process, like the analyst's behavior and the institutional environment.

This first chapter of Level 2 expands on the ideas introduced in *Chapter 3: Operating Environment and Sector Risk* and *Chapter 4: Business Profile, Management and Ownership* relating to the qualitative element of corporate credit risk analysis.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- 4-step model for assessing credit risk
- Operating environment using the PESTEL (political, economic, sociocultural, technological, environmental, legal) framework
- Sector performance, trends, competitive intensity and specific critical success factors
- Business profile, diversification and competitive position
- Ownership structure and required investment returns
- Management and corporate governance
- Financial control and reporting transparency
- Bank regulation

CHAPTER 15

Business Profile Analysis

This chapter illustrates the practical application of many of the ideas we introduced in *Chapter 4 Business Profile, Management and Ownership* and *Chapter 9 Bank Profitability and Risk*.

Business profile analysis is a key component of any corporate credit risk analysis. It examines the commercial reason for the existence of the company, how effective and efficient it is, and any risks inherent in those trading activities. Similarly, profitability analysis for a bank examines its commercial success and ability to build up capital internally.

Business profile analysis uses quantitative tools, such as financial ratios and sector metrics which ultimately lead into a cash flow forecast. However, company trading profiles and bank performance may only be correctly interpreted when undertaken in the context of the earlier qualitative analysis covered in *Chapter 1 Introduction to the Credit Decision Process*. Consequently, this qualitative analysis is an essential prerequisite.

The analyst must first gain an understanding of the regulatory environment and competitive dynamics of the market the corporate or bank operates within, as well as an appreciation of macroeconomic developments that may affect its performance. The analyst must also gain an understanding of the company's or bank's business profile and strategy as well as its management. Shareholders' influence will also have to be assessed. Only with this knowledge is the analyst able to correctly interpret what is being revealed by the financial ratios considered and apply this to any cash flow forecast or stressed company analysis.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Corporate trading performance: revenue growth and risks; profitability; cash generation; trading efficiency
- Corporate trading risks: capital investment; cash conversion cycle; working capital and net trading assets; business risk and liquidity
- Bank business risk: asset quality and credit risk, market risk and operational risk
- Bank profitability: revenue sources, operating expenses and credit costs

CHAPTER 16

Funding and Capital Analysis

For non-financial corporates, funding profile analysis is the second key component of evaluating the credit risk profile of a company, and follows on from the business profile analysis covered in the previous chapter. It examines the existing nature and sources of the funding of the company, the suitability of the overall funding structure based on how well it is matched to the nature of the business, and the ability of the company to service those debt instruments. The analyst would assess these factors to evaluate risks in the company's funding structure.

For banks, funding analysis begins with an assessment of deposits, before moving on to look into the bank's use of alternative funding sources. Analysis in this chapter covers banks' liquidity risk management by matching the timing of cash outflows from financing and other operations to cash inflows from assets.

As with trading profile analysis, the corporate funding and capital analysis is also built around the use of financial metrics, with liquidity and capital stresses being tightly aligned with regulatory requirements

The funding profile of any company or bank may only be correctly interpreted when undertaken on the context of earlier qualitative analysis covered in *Chapter 1 Introduction to the Credit Decision Process.*

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Corporate financial risks: risks inherent in corporate funding sources and funding structure; assessing leverage levels; servicing debt; controlling financial risk
- Corporate debt serviceability: under a range of scenarios
- Bank funding and liquidity risks: risks in deposits and market funding sources and bank funding structures
- Bank capital: regulatory, capital, stress testing and hybrid capital
- Financial profile: of a company or bank in the context of location, sector and company specific factors

CHAPTER 17

Comprehensive Financial Analysis: Corporates and Banks

This chapter brings together ideas discussed previously in the syllabus for the practical application to a sample company or bank, using a comprehensive case study financial analysis, beginning with the qualitative overview.

Financial profile analysis is an important part of evaluating the credit risk profile of a company or bank from a credit perspective. It is an analysis using quantitative tools such as financial ratios, sector metrics and cash flow forecasts and will depend on the context of the qualitative analysis undertaken earlier.

The analysis and interpretation of a company or bank's financial profile is only possible after gaining an understanding of the regulatory environment and competitive dynamics of the market it operates in, as well as an appreciation of macroeconomic developments that may affect its performance. A company or bank's business profile and strategy as well as its management and shareholders' influence will have to be assessed.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Corporate trading profile:
  - Trading performance: revenue growth and risks, profitability; cash generation; trading efficiency
  - Trading risks: capital investment; cash conversion cycle; working capital and net trading assets; business risk and liquidity
- Corporate funding and liquidity profile:
  - Corporate financial risks: risks inherent in the funding sources and funding structure; assessing leverage levels; servicing debt; controlling financial risk
  - Corporate debt serviceability: under a range of scenarios
- Bank business risks and profitability
  - Risks: asset quality and credit risk, market risk and operational risk
  - Profitability: revenue sources, operating expenses and credit costs
- Bank funding and capital
  - Bank funding and liquidity risks: risks in deposits and market funding sources and bank funding structures
  - Bank capital: regulatory capital stress testing and hybrid capital
- Financial profile: of a company or bank in the context of location, sector and company specific factors

CHAPTER 18

Cash Flow Forecasting

Cash flow forecasting is an integral part of an analyst's toolkit. A comprehensive cash flow forecast (or model) will typically comprise a forward-looking set of financial statements that are prepared to assist the analyst in forming a view of the credit risk profile of the borrower and how that is likely to evolve over time, enabling them to make a recommendation on the proposed lending transaction.

These forecast financial statements usually include a profit or loss or income statement, a balance sheet or statement of financial position and a cash flow statement or statement of cash flows, along with key financial metrics, all of which help to form a view on the debt servicing ability and hence debt capacity profile and capital/funding structure of the company. To derive this information, the analyst is required to make a number of assumptions regarding the company's future operating and financial performance and health. These assumptions are key inputs for the cash flow forecasting model, hence their sense and realism are essential.

It is important to note that a cash flow forecasting model can only predict the ability of the company to generate sufficient cash flows to service future debt obligations and cannot predict the willingness of the borrower to service these future debt obligations. This is why we must also consider the qualitative issues such as management honesty and integrity. A cash flow forecasting model is simply one of the many tools in the analyst's toolkit when it comes to conducting a robust and comprehensive credit risk analysis. It is a very important tool, but it is never sufficient on its own.

This chapter focuses on the theory and application of cash flow forecasting from a corporate credit analyst's perspective. It assumes a working knowledge of Microsoft Excel, as well as a thorough understanding of how to analyze and interpret financial statements and financial ratios.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Importance and limitations of cash flow forecasting models
- Key elements of cash flow forecasting model design
- Construction of a forecast of a company's revenues, costs and funding based on appropriate inputs
- Sensitivity of the forecast model to a range of potential scenarios
- Serviceability of a company's debt under a range of potential scenarios

CHAPTER 19

Critical Thinking and Behavioral Biases

It is important to recognize biases and how they may play out in the credit extension process. Biases creep into our analysis, often without realization, and may influence our analysis and credit decision-making process.

Some biases could be draped in pride of country, for example, a US based credit analyst favoring companies or banks in the United States. Some biases could be based on comfort with the management team. It is important to realize that some might be more comfortable doing business with someone who looks like themselves and this could cloud judgment. People can often base their credit decisions on biases and often subconsciously, hence groupthink and herding may come into play.

We see the world through our own lens, filtered by bias. A behavioral bias is a pre-conceived belief that prevents an objective assessment of the data or situation and influences our decision process. Understanding bias can help you mitigate the potential negative impact of biases and enable clearer decision-making.

Our focus in this chapter is the examination of the nature, causes, effects and potential solutions to biases. We also review the critical thinking process that may help to overcome biases, and how this should be incorporated into the credit decision process.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate:

- Critical thinking: the importance of critical thinking and the techniques and processes used
- Behavioral finance: the cognitive and emotional biases that may impact on the credit decision-making process, and how we may recognize their effects

CHAPTER 20

Decision-Making Principles

In the previous chapter we touched upon how biases could creep into the analysis and detailed steps to improve critical thinking. In this chapter we will focus on the institutional decision-making process. Specifically, we will discuss risk culture.

Regulatory requirements dictate a basic standard of risk culture responsibilities, however each financial institution's risk culture varies. Even institutions within the same jurisdiction operating under the same regulatory regime might have different risk appetites and cultures. Some are more conservative while others may be aggressive.

A strong risk culture in an organization means that employees know what a company stands for, the boundaries within which it can operate, and that they can openly discuss the risk exposures to assume, mitigate or manage in order to achieve the company's long-term strategic goals.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Risk culture and governance
- Credit approval cycle
- Accounting considerations that impact the decision-making process
- Additional credit decision considerations
- Purpose of the transaction
- Proposed transaction payback alternatives
- Credit pricing and portfolio modeling

CHAPTER 21

Effective Decision-Making Framework

In the previous chapter we focused on the decision-making process. Credit analysts have to deal with uncertainty about the future to make forecasts about how the obligor's business and the environment it operates within will unfold and predict the probability of default, the loss given default and the exposure at default. To be effective, a decision framework must be appropriate to the level of risk and aligned with the particular institution's model and risk culture.

In this chapter we will also explore the nature of more streamlined financial analysis, effective risk identification and communication of credit risk approvals. Preparation and knowledge (of subject and the presentation itself) are the prerequisites for a successful credit committee presentation, that form the basis of a confident and compelling delivery to various stakeholders.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Relative choices related to depth of the analytic process
- Analysis approach to separately sourced standardized financial data
- Tools for monitoring credit performance
- Constraining risk scenarios and risk appetite
- Decision ownership and the need for transparency
- Importance of communications in making recommendations, taking credit decisions and conducting reviews

CHAPTER 22

Trends in New Technologies and their Impact on Credit

Over the last decade, the broader financial industry has seen rapid adoption of new technologies. This chapter provides an overview of key themes and trends related to technology adoption across various credit functions, and the associated emerging risks.

Credit functions such as risk measurement, reporting and stress testing have benefited from greater technological sophistication. This development has been in tandem with an increase in the volume and quality of data sources from traditional channels, alternative data sources and textual data. Technology is transforming the credit profession, evolving processes in credit analysis and investment management where automation of data sourcing, tools for portfolio management, transaction support and automated trading have become or are becoming commonplace.

This chapter also examines increasingly prevalent risks to businesses and banks as a result of technological advancements and economic integration – cybersecurity risk and third-party risk. Cybersecurity risk events are becoming more frequent and have affected many prominent global businesses. Their impact can range from negligible to undermining governance quality and impairing reputation, operational risk and even creditworthiness. Similarly, trends in outsourcing to third-party suppliers increase the importance of managing third-party risks to avoid business disruptions or reputational risks from complex supply chains.

LEARNING OUTCOMES

By the end of this chapter you should be able to describe, explain and evaluate the:

- Nature of the data utilized by financial institutions, how this may affect an institution's credit risk
- Emergence of technology as both a driver and a facilitator of change in the financial services sector
- Benefits of technology in general and the nature and benefits offered by recent technological developments
- Nature and management of cybersecurity risks in light of developing laws and regulations
- Effect of technology on the credit assessment process

FREQUENTLY ASKED QUESTIONS

ABOUT THE QUALIFICATION

What Is The Global Credit Certificate (GCC)?

The Global Credit Certificate (GCC) is a professional qualification for whose roles relate to credit. It teaches the principles of credit analysis and their practical application, focusing on practical knowledge and real-life scenarios tools. It is awarded by the Global Institute of Credit Professionals.

Who Is The Global Credit Certificate (GCC) For?

The qualification is relevant to both buy and sell-side professionals, particularly those in:

- Corporate and commercial banking
- Risk management
- Credit departments
- Capital markets
- Credit research
- Investment management

Why Should A Candidate Take The GCC?

- The syllabus provides a compact, rigorous grounding in credit, designed specifically for those who work in credit-focused roles.
- GCC is a practical and modern qualification which focuses on applying credit skills and covers current topics such as ESG and impact of tech on credit.
- With an enhanced skillset, candidates will be equipped to make better credit decisions and communicate more effectively across the institution.
- The program is designed and delivered by top credit practitioners, so participants will gain relevant and contemporary knowledge.
- Successful candidates will be awarded a certificate, will be invited to join the Global Institute of Credit Professionals, and will be allowed to use the MICP designation ('Member of the Global Institute of Credit Professionals').

What Is Covered In The GCC Syllabus?

The qualification covers both credit knowledge, and practical application of credit analysis, and examines institutional and behavioral elements affecting credit decision processes. The syllabus explores contemporary issues including ESG, AI and the impact of financial technology on both corporate creditworthiness, and on the tools credit professionals use.

The Level 1 Exam focuses on building credit knowledge and covers qualitative and quantitative credit risk analysis principles.

The Level 2 Exam focuses on analytical application of learnings from Level 1 Exam through practical examples and case-studies. It examines topics in behavioral finance and the credit decisioning environment. Level 2 Exam also includes a spotlight on ESG in credit and other contemporary issues affecting institutional credit.

GCC Syllabus

Level 1: Building Credit Knowledge

1. Introduction to the Credit Decision Process
2. Debt Financing Instruments
3. Operating Environment and Sector Risk
4. Business Profile, Management and Ownership
5. Financial Statements
6. Corporate Financial Statement Analysis
7. Bank Financial Statement Analysis
8. Corporate Business Profile
9. Bank Profitability and Risk
10. Corporate Funding Profile
11. Bank Funding, Liquidity and Capital
12. ESG in Credit
13. Insolvency and Recovery

Level 2: Applying Credit Skills

14. Qualitative Risk Factors
15. Business Profile Analysis
16. Funding and Capital Analysis
17. Comprehensive Financial Analysis: Corporates and Banks
18. Cash Flow Forecasting
19. Critical Thinking and Behavioral Biases
20. Decision Making Principles
21. Effective Decision–Making Framework
22. Trends in New Technologies and their Impact on Credit

What Is The Experience And Qualifications Of The Trainers/Instructors?

All of the GCC trainers have 15+ years of credit experience working for major financial institutions, and have extensive training experience.

GLOBAL CREDIT CERTIFICATE

FREQUENTLY ASKED QUESTIONS

Which Regions Is GCC Delivered In?

GCC is delivered in all major regions: EMEA, APAC and Americas.

Can Individuals And/Or Businesses Register For The Global Credit Certificate (GCC)?

The GCC is open to both institutional clients and individuals. You can purchase the GCC in our **registration page**. If you would like to learn more about the available options, you can **contact us**.

How Can I Sign Up To The Course?

You can sign up for the course in our **registration page**. For larger groups, please email **institute@gicp.org**.

ABOUT THE STUDY OPTIONS

What Are The Study Options For The Global Credit Certificate (GCC)?

Available study options include live training (in-person and virtual), and a self-study option.

Candidates learn using detailed study notes covering the entire syllabus and via the eLearning resources. Candidates also have access to practice questions, mock exams and case studies. All of the candidate learning resources are available via the online **learning portal**.

How Long Is The GCC Study Time?

We expect the qualification to take between 50–100 hours of study for each of the two levels. The time will vary depending on the candidate's prior level of experience. Candidates with no previous experience, who are starting fresh, are likely to need around 100 hours of study (including classroom). Active professionals are likely to need around 50 hours (including classroom).

What Is The Shortest Time You Can Complete The Certification In?

The shortest time to complete the qualification is 3–6 months for both levels combined, depending on candidate's experience.

What Preparation Should Candidates Do In Advance Of Commencing The Course?

Candidates can access course materials and eLearning via the online learning portal as soon as they have been registered. It is recommended that the candidates complete self-study before coming to the classroom training. Candidates starting the GCC are recommended to follow the **study guide**.

Are There Options To Customize The Course?

As the GCC is a designated qualification, customization is not possible. There is, however, flexibility in the delivery method (online-only, in-person, and self-study), as well as the remotely invigilated exams.

ABOUT THE EXAMS

What Is The GCC Exam Structure?

There are 2 levels of exams.

Level 1 Exam has 80 multiple choice questions and lasts 3 hours.

Level 2 Exam has 50 multiple choice questions of which 80% are case study based. It lasts 3 hours.

The exams are remotely invigilated so can be taken in a place and at a time of candidate's choice.

What Is The Pass Mark?

The GCC pass mark is not published. However, we recommend that candidates aim to achieve 75–80% in the mock exams for both levels. Achieving the score means that they should be well prepared to pass the actual exams.

When Do Candidates Receive The Certificate?

Candidates will receive their certificate after successfully passing Level 1 and Level 2 exams. Successful candidates will also be eligible to use the professional designation 'MICP' (Member of the Global Institute of Credit Professionals).

What Is MICP?

When candidates pass the Global Credit Certificate, they are eligible to use the professional designation 'MICP' (Member of the Global Institute of Credit Professionals) to demonstrate their expertise. The Institute offers exclusive benefits to GCC alumni.

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CERTIFICATE

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