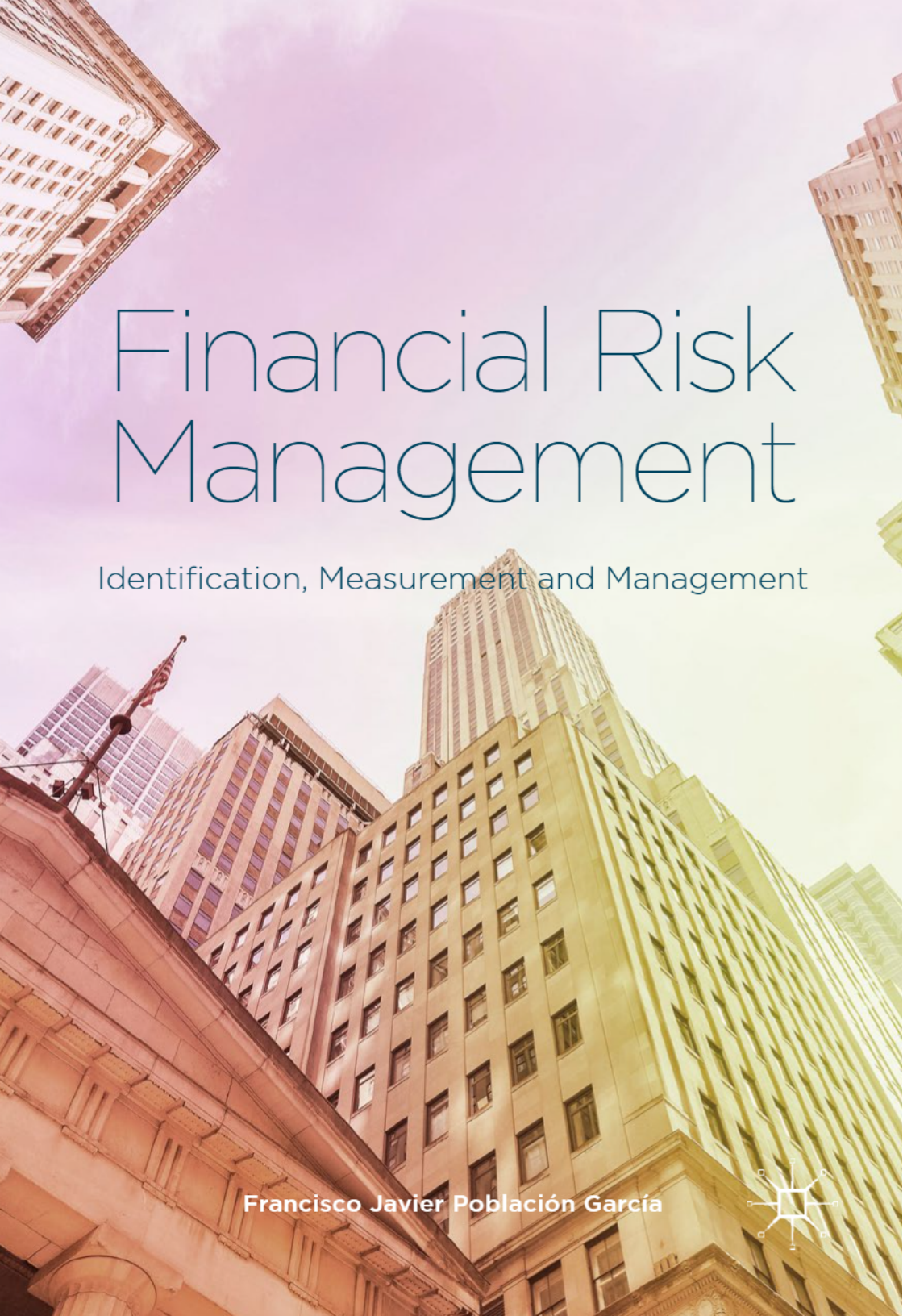

Financial Risk Management

Identification, Measurement and Management

Francisco Javier Población García

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Freedom, Sancho, is one of the most precious gifts that heaven has bestowed upon men; no treasures that the earth holds buried or the sea conceals can compare with it; for freedom, as for honour, life may and should be ventured . . .

(*Don Quixote of La Mancha*, Chapter LVIII, second part: *The Ingenious Gentleman Don Quixote of La Mancha*, Miguel de Cervantes Saavedra)

To my father

Preface

In recent times, risk analysis and management has become of great importance in the world of business, but unfortunately, as highlighted by the deep economic crisis we have become immersed in, this management has not always been based on purely financial criteria, mainly due to ignorance of such in certain areas. Perhaps that is what has driven me to write this book.

However, I think my underlying motivation to continue and complete this task has been the desire to show that risk is not something negative but quite the opposite, something very positive, as it is the inevitable consequence of freedom. In other words, if there were no risk, there would be no freedom, and as was taught by the famous one-armed man of Lepanto (the name given to Cervantes after fighting in the Battle of Lepanto) through his most famous fictional character, the ingenious gentleman Don Quixote of La Mancha: "Freedom is one of the most precious gifts that heaven has bestowed upon men." Certainly the existence of freedom, and therefore risk, allows humankind to acquire human dignity, as one can read in another bestseller completed in the Middle East almost 2,000 years ago.

For this reason, the fact that risk exists must be thought of not as a problem but as an opportunity—an opportunity for people to reach their full potential. In any event, this is neither the time nor the place to further discuss this

interesting theological dilemma, because this book is not about risk in general but specifically about financial risk and, more specifically, financial risk in an industrial company.

On another subject and to conclude this short prologue, I would like to mention that I wrote the first version of this book in Spanish and in doing so received a tremendous amount of help. First of all, I would like to thank my former graduate students from CUNEF, Ana Belen Calvo Gago and Manuel Esteban García González, who collaborated closely with me on the preparation of this manuscript.

Secondly, I especially appreciate the help I received from Rachel Well in translating the book from Spanish to English. I have to say that Rachel is one of the best professionals with whom I have worked.

I would also like to thank Andrés García Mirantes, Juan Manuel Martín Prieto and Gregorio Serna Calvo for sharing so many years of work with me, during which I have learnt everything I know about risk analysis and management. Without them I would not have been able to write this book.

I would also like to thank, and dedicate this book to, all the members of the risk department at Repsol YPF—whether I have worked with them or not—the creation of which was inspired by Luis Manas Anton and which was so efficiently directed by Juan Manuel Martín Prieto.

Finally, I cannot fail to mention the fact that it is God who makes everything possible, including of course the elaboration of this book.

Contents

Part I Introduction and Perspectives 1

1 Introduction 3
- 1.1 General Principles 3
  - 1.1.1 Risk 4
  - 1.1.2 The Purpose of Corporate Risk Management: The Natural Risk Profile 4
  - 1.1.3 Cost–Benefit Analysis 7
  - 1.1.4 Hedging Versus Trading 8
  - 1.1.5 Accounting Recognition 9
  - 1.1.6 Corporate Strategies: Systemic Risk Versus Idiosyncratic Risk 11
- 1.2 Individual and Savings Bank Risk Management 12
  - 1.2.1 Individual Risk Management 12
  - 1.2.2 Risk Management in Savings Banks 14

2 Risk Quantification 17
- 2.1 Basic Concepts 17
  - 2.1.1 Long Positions and Short Positions 18
  - 2.1.2 Derivative Assets 19

2.1.2.1 Greek Letters 25
2.1.3 Linear Exposure 26
2.1.4 Option Type Exposure 28
2.2 Types of Risk 30
2.2.1 Market Risk 30
2.2.1.1 Equity 30
2.2.1.2 Interest Rate 31
2.2.1.3 Exchange Rate 32
2.2.1.4 Commodities 33
2.2.2 Credit Risk 34
2.2.2.1 Counterparty Risk 35
2.2.3 Other Risks 36
2.2.3.1 Operational Risk 36
2.2.3.2 Liquidity Risk 37
2.3 The Accounting Impact of Hedging 37

Part II Market Risk 39

3 One-Dimensional Market Risk; Equity Risk 41
3.1 Basic Concepts 41
3.1.1 Terminology 42
3.2 Probabilistic Model 44
3.3 Value at Risk (VaR) 49
3.3.1 Concept 49
3.3.2 Theoretical Calculation and Examples 53
3.3.3 Empirical VaR Calculation 56
3.3.3.1 Numerical Simulation (Monte Carlo Experiment) 56
3.3.3.2 Historical Simulation 60
3.3.3.3 Concrete Simulation Scenarios 62
3.4 Incremental and Marginal Measures 65
3.4.1 General Ideas 65
3.4.2 Formal Definition 67