Value at Risk (VaR)

Value at Risk (VaR) is a ratio that specifies the maximum loss on a portfolio for a time horizon within a confidence level. The portfolio, time horizon and confidence level have to be specified. Therefore, a 1-day-99%-VaR for 10 million euros for a portfolio means that the probability of not losing more than 10 million euros in one day is 99%.

The following methods for calculating VaR are supported in FlexFinance:

- Monte Carlo simulation
- Historical approach

Both methods can be used to calculate VaR at portfolio level as the total maximum loss within a time horizon and confidence level. Portfolios can be defined freely using business criteria such as deal type, counterparty type, bank segment, organisation unit etc. The interest rates, volatilities and correlations, required by the approach that is used, can be imported via the import of market data.