I	Outi	ine	1
2	Banl 2.1	k Management and Steering	3
		2.1.1 Process of Planning	3 6
	2.2	Strategy Planning: Tools	8
		2.2.1 EaR/CaR: Overall Aggregation	9
	2.3	2.2.2 Scenario Based Assessment/Stress Testing	13 23
3	Ban	ks in Their Regulatory and Economic Environment	25
_	3.1	Economic and Political Aspects	25
	3.2	Types of Banks	26
	3.3	Banks in Different Legislations	27
	3.4	Role of the Banks' Credit Rating	28
	3.5	Role of Rating Agencies	28
	3.6	Role of the International Swaps and Derivatives Association	
		(ISDA)	29
	3.7	Regulatory Environment	29
		3.7.1 BIS	29
		3.7.2 BIS and the Great Depression: History in a Nutshell	30 30
		3.7.3 Basel II	32
		3.7.5 Basel III	32
	3.8	Issue Overview	35
	3.9	Issue Complexity and Risk Identification	36
	5.5	3.9.1 Sale- and Lease-Back-Transactions	36
		3.9.2 Securitization and Subprime	37
4	Risk	Modeling and Capital: Credit Risk (Loans)	39
	4.1	Pricing and Expected Loss	39
		4.1.1 Adverse Selection	40
		4.1.2 Risk Adjusted Pricing and RoE	40



	4.2	Loan Loss Provisioning	40
	4.3	Capital: Relevant Points	41
		4.3.1 Default Definition	42
		4.3.2 Maturity	43
		4.3.3 Granularity of Rating Engines	45
		4.3.4 Classification of Assets	46
		4.3.5 Recent Bubbles	48
		4.3.6 Downturn PD	49
		4.3.7 Missing Values	50
	4.4	PD-Rating Tools and LGD-Tools	51
	4.5	Rating Tools (PD)	51
		4.5.1 Development of Rating Tools	51
		4.5.2 Calibration of the Rating Tools	53
		4.5.3 Example of a Corporate Rating Tool	55
	4.6	LGD-Tools	57
		4.6.1 LGD-Tool for Machinery Like Cars, Trucks, Planes,	
		Construction Machines	58
		4.6.2 LGD-Tool for Mortgages	60
	4.7	Backtesting Within Credit Risk	63
		4.7.1 Backtesting Versus Validation	63
		4.7.2 Backtesting	63
		4.7.3 Backtesting Framework PD	65
		4.7.4 Backtesting Framework LGD	67
5	Risk	Modeling and Capital: Counterparty Credit Risk (EPE)	69
	5.1	Cash Flows and Exposure	69
		5.1.1 Consideration of Collateral	71
		5.1.2 Parameters Within EPE	72
	5.2	American Monte Carlo	
		Simulation/Longstaff-Schwarz-Regression	72
	5.3	Wrong Way Risk (WWR)	72
6	Risk	Modeling and Capital: Credit Risk (Securitizations)	75
7	Risk	Modeling and Capital: Market Risk	77
	7.1	Pricing	77
	7.2	VaR	77
	7.3	Risks Not Covered in VaR	78
	7.4	Backtesting	79
8	Risk	Modeling and Capital: Operational Risk	81
	8.1	AMA Model: Scenarios	81
	8.2	AMA Model: Modeling and Simulation	84
	8.3	Internal Data/External Data	91
	8.4	Controls	91
	8.5	Backtesting	92

Contents xiii

9	9.1	Modeling: Asset Liability Management (ALM)  New Measures LCR and NSFR  9.1.1 LCR  9.1.2 NSFR  Impact on Liquidity Planning and Business  Impact of the Corporations' Own Rating	93 93 94 94 96 96
10	Appe	endix: A-IRB Formulas for the Derivation	
		sk-Weighted Assets	97
	10.1	Residential Mortgage Exposure	97
	10.2	Qualifying Revolving Retail Exposures	98
	10.3	Other Retail	98
	10.4	Corporate, Sovereign, Banks and Financial Institutions	98
	10.5	Big Banks and Financial Institutions	99
	10.6	Corporate: SME	99
	10.7	Specialized Lending	100
	10.8	Granularity Adjustment	100
11	Appe	endix: Credit Portfolio Modeling	101
12	Арре	endix: Country Risk/Issuer Risk	103
13	Appe	endix: Settlement Risk and Systemic Risk	105
14	Appe	endix: Historical Data	107
Abl	orevia	tions	111
Glo	ssary		115
Rih	lingra	nhv	110