Risk Management (Bank 405)

Part 1. Overview of Banking System

* Introduction
* Commercial Banking: What Banks Do?
  + Accept Deposit/Lending Credit
  + Provide Safety
  + Act as Payment Agent
* Economic Concepts in Banking
  + Settle payment
  + Credit intermediation
  + Maturity transformation
  + Money creation
* How Banks make money?
  + Source of funds
  + Use of funds

Part 2. Introduction of Risk Management

* Introduction
* Financial risk management
* What type of risk is being considered?
* Banks are in the risk business
* Risk forms
* Why do banks manage these risks?

Part 3. Banking Business Lines

* Business poles in the banking industry
* The banking and the trading books
  + The banking book
  + The trading portfolio
  + Off-balance sheet transactions
* Bank’s financial statement
  + Balance sheet
  + Income statement and valuation
  + Performance measures

Part 4. Banking Risks

* Introduction
* Credit risk
* Interest rate risk
* Liquidity risk
* Foreign exchange rate risk
* Market or trading risk
* Country and sovereign risk
* Operational risk
* Off-balance sheet risk
* Other risks
* Capital risk and solvency

Part 5. Banking Risks Management

* Introduction
* General risk management
* Credit risk management
* Managing the lending function
  + Retail lending
  + Credit checking and credit scoring
  + Managing the loan portfolio
* Managing interest rate risk
  + Gap analysis
  + Duration analysis
  + Simulation approaches
* Managing liquidity
  + Liquidity gap analysis and financing gap
* Managing market risk
  + RAROC
  + Value-at-Risk (VaR)
* Managing operational risk
* International risk assessment

Part 6. Banking Regulations

* Regulatory issues
  + The need for regulation
  + The dilemmas of the regulator
* Capital Adequacy
  + Risk-based capital regulations
  + Implications of capital requirements
* The “Current Accord” Capital Regulations
  + The Cooke ratio and credit risk
  + Market risk
  + Derivatives and Credit risk
  + Interest rate risk (Banking Portfolio)
* The New Basel Accord
  + Pillar I: Overall Minimum Capital Requirements
  + Pillar II: Supervisory Review Process
  + Pillar III: Market Discipline