CREDIT RISK ANALYSIS

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BASEL REGULATORIES

RISK ANALYSIS

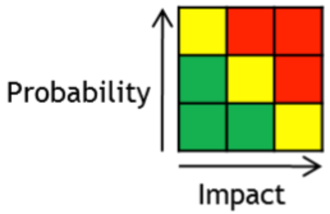
TOOLS AND IMPLEMENTATION

BASEL REGULATORIES

- BIS (Bank for International Settlements)
- Basel is a list of comprehensive reforms whose goal is to strengthen the regulation, supervision and risk management of the banking sector.
- Basel I – 1989, Basel II – 2004, Basel III – 2010

GOALS

- Capital Adequacy
- Reserve Transparency
- Monetary and Financial Stability



RISK ANALYSIS

What is Probability and Impact ?

- Probability – Probability of Default
- Impact – Capital Loss

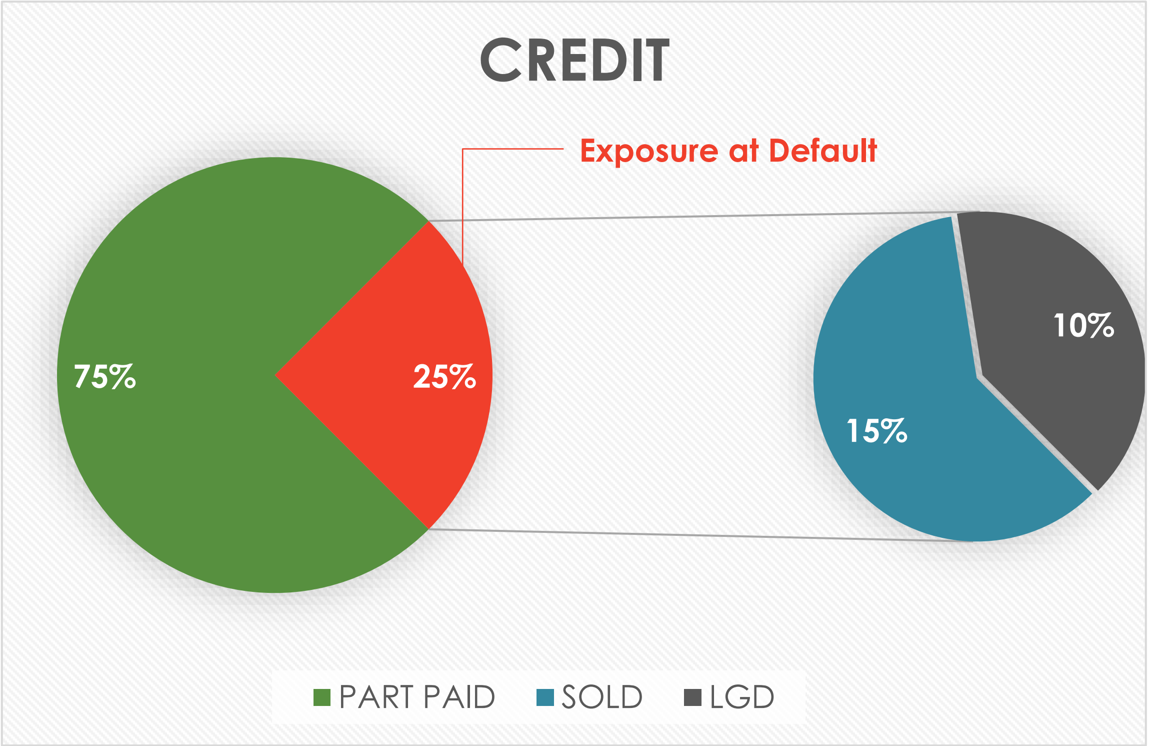
RISK	IMPACTS	PROBABILITIES
LOSS (Expexted Loss)	EXPOSURE AT DEFAULT x LOSS GIVEN DEFAULT	PROBABILITY OF DEFAULT

Expected Loss = PD x EAD x LGD

EAD = Exposure at Default

LGD = Loss Given Default

PD = Probability of Default



Exposure at Default: Not paid part when borrower defaults. (quantity)

Loss Given Default: Unsold part of EAD. (ratio, proportion)

Basel Approaches

Standardized Approach: The banks are required to use ratings from External Credit Rating Agencies to quantify required capital for credit risk.

F-IRB: Banks calculate their own PD parameter while the other risk parameters are provided by the bank's national supervisor.

A-IRB: An advanced internal rating-based (AIRB) approach to credit risk measurement is a method that requests that all risk components be calculated internally within a financial institution.

	PD	EAD	LGD
SA	×	×	×
F-IRB	✓	×	×
A-IRB	✓	✓	✓

TOOLS AND IMPLEMENTATION

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