

# New Basel II Capital Accord and Credit Risk

## Three-day Training Course for Banks and Software Companies

### Introduction

The participants will be exposed to the requirements of Basel II Accord and Credit Risk from both, the regulatory and practitioner perspective. The impact upon financial institutions and the implications for bank risk management, governance and disclosure will be reviewed. Specific attention will be given to credit risk and credit risk mitigation techniques.

### Objectives

1. To get an overall understanding of the content and implications of the Basel 2 Accord and techniques of Credit Risk measurement and mitigation

### 2. Pillar One - Credit, Market and Operational Risk

- Understand the concept of Credit Risk
- Designing of Credit Risk Models and understanding Default, Probability of Default, Loss Given Default and Exposure at Default
- Introduction of Standardized Approach and Internal Rating Based Approach – Foundation and Advanced Approach

### 3. Understanding in brief, Pillar Two - Supervisory Review

- Understanding in brief, importance of supervisory review
- Understanding in brief, four key principles for supervisory review

### 4. Understanding in brief, Pillar Three – The Market Discipline

### Course Contents

- Introduction to Credit Risk
  - Overview of Credit Risk
  - Concept of Default
  - Probability of Default (PD)
  - Loss Given Default (LGD)
  - Exposure at Default (EAD)
  - Effective Maturity (M)
  - Credit risk of on-balance sheet items
  - Credit risk of off-balance sheet items
  - Concept of risk based pricing
  - Characteristics of credit risk
    - Counterparty default
    - Collateral value volatility
    - Economic conditions

- Credit risk rating frameworks
  - Basic architecture
  - Operating design
  - Key outputs of CRF
  - Calibration of CRF
- External Credit Risk Rating Agencies (ECAI)
  - ECAI
  - Cherry picking
  - Credit rating migration
- Introduction to New Basel II Capital Accord
  - Need for the accord
  - Objectives
- Credit Risk Measurement under New Basel II Accord
  - Standardized approach
  - Internal rating based approach
- Credit Risk Mitigation Approaches
  - Terminology
  - Eligible financial collateral
  - The comprehensive approach
  - The simple approach
- Credit Risk Mitigation Techniques
  - Collateralized Transactions
  - On-balance Sheet Netting
  - Guarantees and Credit Derivatives
  - Interest Rate Swaps, Credit Default Swaps
  - Options and Derivatives
  - Traditional and Synthetic Securitization
  - Guarantees
  - Other securities including Physical Collaterals and Assets
- Basics of Credit Risk Modeling
  - Understanding Credit Risk Models
    - Altman's Z Scores
    - Merton's model
    - RiskMetrics
    - Moody's KMV
    - CSFP – CreditRisk+
    - McKinsey – Credit Portfolio View

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