

...Engineering The PRICING MANAGEMENT of CREDIT RISK

...Managing Beyond Chance



24 - 25 FEBRUARY 2009
JW MARRIOTT
KUALA LUMPUR


Presented By:
Asia's Credit Derivatives
'Guru'
Vinod Kothari



"Excellent insight and knowledge of the subject
and the most insightful 2 day session."
Nedcor Investment Bank, South Africa



Researched & Developed By:



THE MARKETS DEALING WITH FINANCIAL PRODUCTS RELATED TO CREDIT RISK HAVE BEEN BOOMING OVER THE LAST YEARS. WITH AN ESTIMATED \$80,000BN IN TOTAL EXPOSURES WORLDWIDE, IMPROVED PROCEDURES FOR MEASURING, PRICING AND MANAGING CREDIT RISK ARE NO LONGER AN OPTION, THEY ARE AN ABSOLUTE NECESSITY.

- CEO, IBN INTERNATIONAL -

THE FLOW OF CREDIT IN GLOBAL FINANCIAL MARKETS HAS SLOWED FROM A GLACIAL PACE TO A VIRTUAL STANDSTILL...

...AND CREDIT MARKETS THREATEN TO STAY THAT WAY
DESPITE IMMENSE AMOUNTS OF CASH BEING PUMPED IN BY GOVERNMENTS
AND CENTRAL BANKS AROUND THE WORLD.

The bankruptcy of 158-year-old *Lehman Brothers* and the fire-sale of *Merrill Lynch*, the wipe-out of *Landsbanki* of Iceland to the demise of *Bear Stearns* in March 2008 have now bitten the dust.

THE GLOBAL CREDIT CRISIS HAS TAKEN ON A WHOLE NEW DIMENSION.

Given that, the immediate causes of this crisis are the now well-known; with irresponsible lending by financial institutions, and the creation of ever-more complex credit instruments that concealed the true extent of financial institutions' exposure...

...there are only three questions that are worth asking at this juncture.

IS THIS THE WORST IT IS GOING TO GET? WHAT CAN BE DONE IN THE SHORT AND MID-TERM TO MITIGATE THE EFFECTS? WHAT MEASURES CAN BE TAKEN TO PREVENT ANY RECURRENCE?

Credit risk is arguably the most significant form of risk, capital market participants face. It is often unmanaged, or at best poorly managed, and not well understood. It tends to be situation-specific, and it does not fit easily in the paradigm of modern portfolio theory. And yet, it is a critical consideration in most business and financial transactions. Managing credit risk exposure more effectively is crucial to improving capital market liquidity and efficiency.

With confidence in today's credit market at an all-time low, the need for financial institutions worldwide to identify, measure, monitor and control credit risk over the entire portfolio as well as in individual transactions are greater than ever. It has become hyper-critical for financial institutions to engage in effective credit risk management practices that can optimise risk-adjusted pricing and returns throughout the organisation.

Stressing high-level understanding, including numerous worked examples, and addressing technical issues, this workshop draws upon Vinod Kothari's 25 years of extensive market experience and research expertise to provide unparalleled practical insights into the effectiveness and efficiency of alternative methods and models for **PRICING** and **MANAGING** credit risks.

This workshop will be a valuable source for the financial community involved in pricing credit linked financial instruments.



THIS TASK-ORIENTED ACTION LEARNING MASTERCLASS WILL ENABLE YOU TO...

- # **COMPREHEND** the nature of pricing and credit risk management to assess Risk vs Return
- # **EVALUATE** the factors involved, information used and methods employed in assessing credit risk
- # **ACHIEVE** robust credit analytics to achieve higher long-term profitability
- # **ACCESS** and **AGGREGATE** credit data across disparate systems and sources
- # **EVALUATE** alternative strategies for pricing, hedging or transferring credit risk
- # **OPTIMISE** allocation of regulatory capital and economic capital
- # **MANAGE** the entire lifecycle of a loan – from origination, to servicing, to collection/recovery
- # **ASCERTAIN** the methods of calculating credit risk capital
- # **QUANTIFY** and **ANALYSE** the correlation in business life cycle
- # **IMPROVE** credit loss forecasting and implement of appropriate hedging strategies
- # **EXPAND** capital allocation strategies and **MAXIMISE** return from risk management investments
- # **MEET** the reporting and risk disclosure requirements within which credit risk management and Basel II operate
- # **CALCULATE** current and potential risk exposures – probability of default, exposure at default, regulatory capital, risk weighted assets, credit value at risk (CVaR) and economic capital
- # **MEASURE, MONITOR** and **REPORT** potential credit risk exposures on both single obligor and portfolio obligor credit risk

"IF DEPLOYED CORRECTLY AND EFFECTIVELY, CREDIT RISK MANAGEMENT CAN BE A VALUE ENHANCING ACTIVITY THAT GOES BEYOND REGULATORY COMPLIANCE AND CAN PROVIDE A COMPETITIVE ADVANTAGE TO INSTITUTIONS THAT EXECUTE IT APPROPRIATELY."

- "EFFECTIVE CREDIT RISK MANAGEMENT" REPORT, SAS, 2008 -



DAY ONE

SINGLE OBLIGOR CREDIT RISK

MODULE 1 UNDERSTANDING OF CREDIT RISK

- ✦ Components of Credit Risk
 - ↳ Risk of Default
 - ↳ Exposure at the Time of Default
 - ↳ Recovery Rate
- ✦ Understanding the Bankruptcy Process and Distribution of Assets Upon Bankruptcy
- ✦ Collateralised and Uncollateralised Credit
- ✦ Rules About Enforcement of Collateral Interests
- ✦ Senior and Subordinated Credit
- ✦ Essentials of Pricing of Credit Risk

MODULE 2 FINANCIAL STATEMENT ANALYSIS

- ✦ Significant Financial Ratios and Their Understanding
- ✦ Ratio Analysis: Significant Ratios
- ✦ Trend Analysis
- ✦ Peer Analysis
- ✦ Reading Through Financial Statements

MODULE 3 DISCRIMINANT ANALYSIS

- ✦ Use of Regression in Discriminant Analysis
- ✦ Altman's Zeta Score Model
- ✦ Logit and Probit Models for Understanding Credit Risk
- ✦ Derivation of Probability of Default from Logit and Probit Models
- ✦ Excel Examples

MODULE 4 MERTON'S STRUCTURAL ANALYSIS OF CREDIT RISK

- ✦ Factors Leading to Credit Risk
 - ↳ Leverage and Volatility of Assets
- ✦ Working of Merton's Model on Excel
- ✦ How to Get Volatility of Assets?
 - ↳ Is Stock Market Data the Best Indicator?
- ✦ Construction of Merton's Model in Cases of Unlisted Companies
- ✦ Construction of Merton's Model in Cases of Asset Backed Funding
- ✦ Merton's Model as a Generic Tool for Understanding and Quantification of Credit Risk

MODULE 5 INTENSITY APPROACH TO PRICING OF CREDIT RISK

- ✦ Deriving Credit Spreads From the Market
- ✦ Derivation of a Spread Curve and Understanding of Curve Fitting Devices
- ✦ Where to Get Relevant Information About Credit Spreads
- ✦ Use of Boot Strapping and Interpolation Devices

DAY TWO

PORTFOLIO CREDIT RISK

MODULE 6 PORTFOLIO APPROACH TO CREDIT RISK

- ✦ Understanding Probability of Default of Obligor and the Impact of Correlation
- ✦ What is Correlation and What Correlation is Relevant for Credit Risk
- ✦ Deriving Correlation Information from Equity Prices, Credit Spreads, etc
- ✦ Merton's Model and Correlation

MODULE 7 IMPACT OF CORRELATION IN A PORTFOLIO

- ✦ Lower Tranches of the Risk and Senior Tranches of the Risk
- ✦ Probability Distribution of Losses In Case of Portfolio of Credit Risks
- ✦ Drawing Up Probability Distribution Using Excel
- ✦ Use of Simulations on Excel to Draw Up Probability Distribution
- ✦ Business Cycles and Correlation – Factoring Business Cycle Risk in Portfolio Credit Risk

MODULE 8 USE OF PROBABILITY DISTRIBUTION OF PORTFOLIOS FOR COMPUTING ECONOMIC CAPITAL

- ✦ Concept of Expected and Unexpected Losses
- ✦ Economic Capital and Credit Value at Risk (CVaR)
- ✦ Allocation of Economic Capital and Pricing of Risk-Adjusted Return on Capital (RARoC)
- ✦ Examples on Computation of Economic Capital and Pricing of Credit Risk Based on Economic Capital

MODULE 9 REGULATORY CAPITAL AND CREDIT RISK

- ✦ Basel II Requirements of Capital Relating to Credit Risk
- ✦ Standardised Approach In Case of Stand Alone Corporate Borrowers
- ✦ Standardised Approach In Case of Portfolios
- ✦ IRB Approach to Computation of Risk Capital
- ✦ Examples and Exercises

MODULE 10 INTRODUCTION TO CREDIT DERIVATIVES

- ✦ Single Name and Portfolio Derivatives
- ✦ Types of Credit Derivatives – Credit Default Swaps, Total Return Swaps, Basket Derivatives
- ✦ Portfolio Default Swaps
- ✦ Introduction to Index Trades
- ✦ Use of Credit Derivatives for Hedging and Trading Purposes

HOW THE WORKSHOP

WOULD BE CONDUCTED ...

This dynamic, highly practical and MS Excel-based workshop would encompass practical models and Excel-based simulations exercises that will unquestionably benefit you in every aspect. Vinod will provide a comprehensive, clear and contemporary understanding on pricing and managing credit risk in your organisation. He will deliberate and illustrate an economic capital computation - a must for absorbing shocks of unexpected losses in credit risk management. **You will learn to 'PRICE' and 'MANAGE' credit risk using MS Excel sheet and simulation exercises to develop spreadsheets for pricing of individual and portfolio credit risk and various attributes associated with it.** By quantifying credit risk, both single obligor and portfolio risk, you will understand the benefits in assessing Risk vs. Return to generate higher bottom-line profits and minimising your organisation's risk management vulnerabilities.

PRE-REQUISITE:

Proficiency in MS Excel application is essential

100% Practical Workshop
with MS Excel Simulations
to Quantify and Price
Credit Risk!



Asia's Credit Derivatives 'Guru'... Vinod Kothari



Vinod Kothari is an internationally recognised author and expert in the area of securitisation, asset-based finance, structured finance, credit derivatives and derivatives accounting. He is the Executive Director of Asian Securitisation Forum, a website containing comprehensive resources on securitisation in Asia with links to securitisation materials elsewhere. The website also was ranked as the most popular site on securitisation by an independent web-ranking professional. Vinod, a Chartered Accountant and Company Secretary by profession, is the former chairman of the Institute of Company Secretaries of India. He is a visiting faculty at Indian Institute of Management and National University of Juridical Sciences, where he teaches structured finance and bankruptcy laws. He is unquestionably India's top leasing expert, where he is now the Director of Association of Leasing and Financial Services, a professional body comprising over 500 top leasing companies in India. He was also part of Asian Development Bank consulting group, a group that is responsible in advising the Government of India on reforms in secured lending law.

Vinod Kothari is the author of several international publications. His book entitled '*Securitisation: The Financial Instrument of the Future*', published by Wiley Finance, was regarded as one of the most comprehensive text on the subject featuring securitisation structures, markets in several countries, legal, accounting, taxation and regulatory issues. The book is read as an original text in over 30 countries worldwide. Apart from that, he also has authored '*Credit Derivatives and Synthetic Securitisation*' and his forthcoming edition of this book, '*Credit Derivatives and Structured Credit Trading*'. His book on leasing, '*Lease Financing and Hire-Purchase*', now in its 4th edition, is considered as the most authentic text on leasing in Asia. Vinod has co-authored a book with Frank Fabozzi entitled '*Introduction to Securitisation*' which has been published in July 2008. The book was regarded as a concise guide to securitisation and CDOs. His articles have appeared in numerous local and international journals such as *Euromoney's Securitisation Review*, *Euromoney's Leasing Yearbook*, *Duke Journal of Comparative & International Law*, *Journal of International Banking Law*, *Asset Finance*, *US Banker*, *El Exportador (Spanish)*, *Monitordaily*, *LeasingLife*, *Equipment Finance Journal* and *Trade and Forfeiting Review*.

Vinod is an accomplished trainer, having trained more than 10,000 executives on securitisation, credit derivatives and structured finance in New York, Washington, London, Milan, Frankfurt, Luxembourg, Sydney, Singapore, Hong Kong, Kuala Lumpur, Johannesburg, Mumbai, Delhi, Kolkata, Shanghai, Shenzhen, Colombo, Colombia (South America), Dubai, Kuwait, Dhaka, Zambia, Jordan and Egypt. His clients admire his tenacity, practical insights, hands-on experience and structured approach to delivering value at every conceivable opportunity.

In 1987, a voluntary organisation of Calcutta chose him as the **Outstanding Young Person of Calcutta** in the field of Finance and Taxation. Vinod is currently based in Calcutta, India.

FROM THE SPEAKER'S DESK...



Dear Delegate (s),

In the present volatile world of globalised business, credit risk is the **BIGGEST** single challenge of our times. Credit Risk Management is obviously engaging the centerpiece of every one's mind right now. Over the last three decades, several advancements have been taken in the way we understand credit risk. A business cycle is a case of correlation - and correlation may be quantified, analysed and priced. From a purely subjective or 'face reading' type approach, credit risk is turning more and more quantitative. In this workshop, we will have a clear objective in pricing and management of credit risk. The workshop will explain and illustrate economic capital computation, a must for absorbing shocks on unexpected losses. You also would be able to understand the risk of business cycles on portfolio credit correlation. We will spend most of our time in quantifying, with the assistance of MS Excel-based simulation tools, credit risk, both single obligor and portfolio risk.

I do not pretend to have the magical solution to quantify uncertainty, but we surely can move towards a methodical approach to understanding risk. Ultimately, my goal is that you are able to take away some useful tools and achieve continuous benefits through subsequent implementation of the methods.

I look forward to seeing you in Kuala Lumpur!

Vinod Kothari

"Presenter has very good knowledge; Very patient too."

- Uschi Phuah, Straits Lion, Singapore

"Very knowledgeable. Able to convey in simple way."

- Chan Peng Fun, ABN Amro

"Great person, education with philosophy."

- Tatsaya Imade, UFJ Institute, Japan

"Vinod definitely knows his stuff!"

- Bank of Finland, Helsinki

"Vinod is very knowledgeable and professional."

- Letitia Chan, J P Morgan

"He has mastery over the subject matter."

- Francia T Manlapaz, SEC, Philippines

"Very knowledgeable..."

- Teo Kok Liang, Mizuho Corporate Bank

"Excellent insight and knowledge on the subject matter. Very insightful."

- Peter Van den Heever, Nedcor Investment Bank, South Africa

REGISTRATION

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PAYMENT

A confirmation letter and invoice will be sent upon receipt of your registration. Please note that full payment must be received prior to the event. Two easy way to pay:

• Telegraphic Transfer / Cheque

Bank : Maybank Berhad
Branch : Desa Pandan, Kuala Lumpur
Malaysia
A/C No : 514543111415
Swift Code : MBB EMY KL

• Foreign Demand Draft in USD to be drawn in a MALAYSIAN Bank.

All payments by cheque should be made in favour of:-

Intelligence Business Networks (M) Sdn. Bhd.
152-4-14, Kompleks Maluri
Jalan Jejaka, Taman Maluri
55100 Kuala Lumpur
Malaysia

Note: Payments must be received within 7 days upon issuance of invoice.

HOTEL RESERVATION DETAILS

JW Marriott Hotel
Kuala Lumpur
183 Jalan Bukit Bintang
55100 Kuala Lumpur, Malaysia
Tel : 603 2715 9000
Fax : 603 2715 7013



Room Reservation can be made by delegates directly with the hotel. To enjoy privileged room rates, please state you're attending an event organised by IBN International. Please call Mr. Yap Wai Ming at 603 2719 8106 or email at waiming@ytlhotels.com.my

CANCELLATION POLICY

Due to contractual obligations, cancellation charges are as follow:

- *20 to 10 days notice : 50% of the workshop fee
 - *9 to 3 days notice : 70% of the workshop fee
 - *2 days or less notice : 100% of the workshop fee
- (* Based on working days only)

However, complete sets of documentation will be sent to you. Substitutions are welcomed at any time. All cancellations of registration must be made in writing.

Note: It may be necessary for reasons beyond control, to change the content and timing of the event, speaker(s) or venue, every effort will be made to inform the participants of the change.

IBN INTERNATIONAL'S CERTIFICATE

Delegates who successfully complete this course will receive the prestigious IBN's Certificate of Achievement; a statement of Intelligence endorsed by world renowned subject matter experts.

VISA REQUIREMENT

Delegates requiring visas should contact their Respective Embassies or High Commissions in their country of residence as soon as possible

PROGRAM CUSTOMISATION

To get the most value out of this workshop, participants will be required to complete a Pre-Course Questionnaire. This information will be used to tailor the workshop content and delivery methods to meet your specific needs. The Questionnaire will be sent to delegates immediately upon receiving the registration form.

24 - 25 FEBRUARY 2009
JW MARRIOTT, KUALA LUMPUR

Investment

**2-DAY
WORKSHOP FEE
RM 5290**

**EARLY BIRD REGISTRATION
RM 4990**
(register before 31st December 2008)

**GROUP DISCOUNT
SAVE ADDITIONAL 10 %**
(for the 3rd and subsequent delegate from the same organisation)

Please complete this form immediately and fax to 603 - 9200 7946

PARTICIPANT DETAILS

Name 1 _____ Job title _____
Name 2 _____ Job title _____
Name 3 _____ Job title _____
(name in full)

INVOICE SHOULD BE DIRECTED TO

Company _____
Business Address _____
Name _____ Job title _____ Dept _____
Email _____ Tel No _____ Fax No _____
Name of Authorising Manager _____ Job title _____
Signature _____ Date _____

This Booking Is Invalid Without A Signature

INFORMATION
For further information on this event,
please contact our Program Managers
at 603 9206 5800 or email
ibn@intel-biznet.com

Workshop Schedule	Registration	0830
	Course begins	0900
	Morning Refreshment	1030
	Luncheon	1300
	Afternoon Refreshment	1530
	End of the day	1700



IMPORTANT: To translate and expedite classroom learning to real-world applications, participants are **REQUIRED** to bring along their Personal Notebook Computer to develop spreadsheets for credit risk pricing and practice the simulation exercises given in the workshop.

RE-REQUISITE: Proficiency in MS Excel application is essential.

Who Should Attend & Who Will I Meet...

Chief Risk Officers, Managing Directors, Financial Controllers, Country Risk Officers, Executive Directors, Senior Bankers, Vice Presidents, Directors, Head of Departments, Senior Managers, Managers, Auditors, Analysts, Consultants and Executives who are responsible for:

- ⊕ Credit Risk Management
- ⊕ Credit Risk & Compliance
- ⊕ Credit Risk Analysis
- ⊕ Banking Risk
- ⊕ Risk Management
- ⊕ Risk Resiliency & Management
- ⊕ Risk, Compliance & Risk Services
- ⊕ Risk Methodologies & Analytics
- ⊕ Risk and Contingency
- ⊕ Basel II Projects
- ⊕ Quantitative Analysis & Strategic Risk
- ⊕ Compliance & Audit
- ⊕ Corporate / Retail Banking
- ⊕ Investment Banking
- ⊕ Retail & Monetary Regulatory
- ⊕ Credit Ratings

FROM:

- ⊕ Commercial Banks
- ⊕ Private Banks
- ⊕ Capital Management
- ⊕ Asset Management
- ⊕ Credit Unions
- ⊕ Non-Banking Financial Institutions
- ⊕ Islamic Banks
- ⊕ Investment Banks
- ⊕ Development Financial Institutions
- ⊕ Government-Owned Financial Institutions
- ⊕ Central Banks
- ⊕ Financial Regulatory Bodies