Managing Interest Rate Risk Using Financial Derivatives Institute Of Internal Auditors Risk Management Series

A practical guide to the practices and procedures of effectivelymanaging banking risks Managing Risks in Commercial and Retail Banking takes anin-depth, logical look at dealing with all aspects of riskmanagement within the banking sector. It presents complex processesin a simplified way by providing real-life situations andexamples. The book examines all dimensions of the risks that banksface—both the financial risks—credit, market, andoperational—and the non-financial risks—moneylaundering, information technology, business strategy, legal, andreputational. Focusing on methods and models for identifying,measuring, monitoring, and controlling risks, it provides practicaladvice backed up by solid theories, without resorting to the use ofcomplicated mathematical and statistical formulas. Author Amalendu Ghosh exposes topics that are usually absent inbooks on managing banking risk—such as design of controlframework, risk management architecture, credit risk rating,risk-based loan pricing, portfolio analysis, business continuityplanning, and corporate governance. Author has extensive experience with a variety of major banksand institutions worldwide and brings a fresh perspective in thewake of the global finance crisis Presents a novel approach using models of the credit riskrating of different types of borrowers, the methodology forassigning weights for deriving the rating, and the scoringprocess Covers the essentials of corporate governance and options forcredit risk assessment in line with the recommendations made in theNew Basel Capital Accord Explains the methodology of risk-based internal audit,including techniques to enable bank branches to switch over fromthe old transaction-based audit methods With its logical sequence of the aspects of risk management, thebook's layout is ideal for presentations, making it a handy toolfor risk management training

A comprehensive guide to managing global financial risk From the balance of payment exposure to foreign exchange and interest rate risk, to credit derivatives and other exotic options, futures, and swaps for mitigating and transferring risk, this book provides a simple yet comprehensive analysis of complex derivatives pricing and their application in risk management. The risk posed by foreign exchange transactions stems from the volatility of the exchange rate, the volatility of the interest rates, and factors unique to individual companies which are interrelated. To protect and hedge against adverse currency and interest rate changes, multinational corporations need to take concrete steps for mitigating these risks. Managing Global Financial and Foreign Exchange Rate Risk offers a thorough treatment of price, foreign currency, and interest rate risk management practices of multinational corporations in a dynamic global economy. It lays out the pros and cons of various hedging instruments, as well as the economic cost benefit analysis of alternative hedging vehicles. Written in a detailed yet user—friendly manner, this resource provides treasurers and other financial managers with the tools they need to manage their various exposures to credit, price, and foreign exchange risk. Managing Global Financial and Foreign Exchange Rate Risk covers various swaps in this geometrically growing field with notional principal in excess of $120 trillion. From caplet and corridors to call and put swaptions this book covers the micro structure of the swaps, options, futures, and foreign exchange markets. From credit default swap and transfer and convertibility options to asset swap switch and weather derivatives this book illustrates their simple pricing and application. To show real-world examples, each chapter includes a case study highlighting a specific problem, as well as a set of steps to solve it. Numerous charts accompanied with actual Wall Street figures provide the reader with the opportunity to comprehend and appreciate the role and function of derivatives, which are often misunderstood in the financial market. This detailed resource will guide the individual, government and multinational corporations safely through the maze of various exposures. A must-read for treasures, controllers, money mangers, portfolio managers, security analyst and academics, Managing Global Financial and Foreign Exchange Rate Risk represents an important collection of up-to-date risk management solutions. Ghassem A. Homaifar is a professor of financial economics at Middle Tennessee State University. He has Master of Science in Industrial Management from State University of New York at Stony Brook and PhD in Finance from University of Alabama in 1982. He is the author of numerous articles that have appeared in the Journal of Risk and Insurance, Journal of Business Finance and Accounting, Weltwirtschsftliches Archiv Review of World Economics, Advances in Futures and Options Research,Applied Financial Economics, Applied Economics, International Economics, and Global Finance Journal.

Measuring and Controlling Interest Rate and Credit Risk provides keys to using derivatives to control interest rate risk and credit risk, and controlling interest rate risk in a mortgage-backed securities derivative portfolio. This book includes information on measuring yield curve risk, swaps and exchange-traded options, TC options and related products, and describes how to measure and control the interest rate of risk of a bond portfolio or trading position. Measuring and Controlling Interest Rate and Credit Risk is a systematic evaluation of how to measure and control the interest rate risk and credit risk of a bond portfolio or trading position, defining key points in the process of risk management as related to financial situations. The authors construct a verbal flow chart, defining and illustrating interest rate risk and credit risk in regards to valuation, probability distributions, forecasting yield volatility, correlation and regression analyses. Hedging instruments discussed include futures contracts, interest rate swaps, exchange traded options, OTC options, and credit derivatives. The text includes calculated examples and readers will learn how to measure and control the interest rate risk and credit risk of a bond portfolio or trading position. They will discover value at risk approaches, valuation, probability distributions, yield volatility, futures, interest rate swaps, exchange traded funds; and find in-depth, up-to-date information on measuring interest rate with derivatives, quantifying the results of positions, and hedging. Frank J. Fabozzi (New Hope, PA) is a financial consultant, the Editor of the Journal of Portfolio Management, and an Adjunct Professor of Finance at Yale University?s School of Management. Steven V. Mann (Columbia, SC) is Professor of Finance at the Moore School of Business, University of South Carolina. Moorad Choudhry (Surrey, UK) is a Vice President with JPMorgan Chase structured finance services in London. Moorad Choudhry (Surrey, England) is a senior Fellow at the Centre for Mathematical Trading and Finance, CASS Business School, London, and is Editor of the Journal of Bond Trading and Management. He has authored a number of books on fixed income analysis and the capital markets. Moorad began his City career with ABN Amro Hoare Govett Sterling Bonds Limited, where he worked as a gilt-edged market maker, and Hambros Bank Limited where he was a sterling proprietary trader. He is currently a vice-president in Structured Finance Services with JPMorgan Chase Bank in London.

A Guide to Managing Interest-rate Risk

The Handbook of Interest Rate Risk Management

Mastering Interest Rate Risk Strategy

A Best Practice Guide to Management and Hedging

The Practitioner's Guide

Managing Interest Rate Risk on Multiple Objectives

During the last several years, new techniques have emerged to improve treasury management, particularly in the area of interest rate risk. This timely book covers the principles of interest rate management and its accounting, tax, and administrative implications. Particularly valuable explanations are given of the more sophisticated techniques of interest rate swap guarantees, forward rate agreements, and interest rate swap options, with examples of each.

Financial institutions, private and public companies and governments can lose vast amounts of money from even minor changes in interest rates. Because of this, complex financial instruments have been developed to mitigate these exposures. But what happens when organisations hedge themselves to ill-advised and ill-formulated financial management strategies? Based on a proven analytical method, Mastering Interest Rate Risk Strategy explains, step-by-step, how to set up and run a sound interest rate risk strategy. Influenced by the author's work with leading companies and tested with banks, the book will help readers bring risk under control, raise profits and ensure healthy cash flows. Mastering Interest Rate Risk Strategy: § Shows you how to mitigate interest rate risk using the most advanced risk management techniques § Provides you with an analytical method that is proven both academically and in practice § Uses examples and real life cases to support the transfer of knowledge and skills Interest rate changes will affect most firms because they will have interest bearing assets or liabilities. As a result, interest rate movements have an unfavourable impact and managing interest rate risk can be highly beneficial for the firm. But high-profile derivative blunders show that this is no easy task. In Mastering Interest Rate Risk Strategy, Victor Macrae shows you how to avoid the mis-selling of derivatives and derivatives blunders and how to set up an optimal interest rate risk strategy. Mastering Interest Rate Risk Strategy includes: ? Past derivatives blunders and how you can learn from them ? A proven analytical method for strategy formulation ? Hedging theory ? Bank financing for non-financial firms ? How movements in the financial markets may affect the firm ? Financial statement impact of interest rate risk ? The working and risks of using swaps, FRA's, caps, floors, collars and swaptions 'This is a wonderful and easy to read tour of interest rate risk and its management, and mismanagement. Anyone who wants to better understand why and how non-financial firms should be dealing with interest rate risk should read this book.' Gordon M. Bodnar, Professor on International Finance, Johns Hopkins University 'Macrae's guide is an excellent cookbook for financial managers. With many cases and examples, this book offers guidance in robust risk management techniques.' Abe de Jong, Professor of Corporate Finance and Corporate Governance at Rotterdam School of Management, Erasmus University

This dissertation examines interest rate risk disclosure and interest rate risk management in bank holding companies (BHCs). In the first essay, I examine the disclosure of interest rate risk in BHCs'10-K filings. I document that interest rate risk disclosures of BHCs from 1997 to 2009 vary cross-sectionally and change over time. While the number of BHCs disclosing maturity gap analysis as an interest rate risk measure declined from 1997 to 2009, there was an increase in interest rate risk simulation disclosures over the same time period. I hypothesize and find that interest rate risk disclosures are related to nontraditional banking activities, time deposit funding, derivative use and institutional investor ownership; the associations are different for large and small BHCs. In my second essay, I evaluate BHCs' management of interest rate risk as related to earnings. I first build an alpha-gap model that is based on alpha - the ratio of changes in rates of rate sensitive liabilities to changes in rates of rate sensitive assets - to explain how interest rate changes affect changes in net interest income. This model decomposes changes in net interest income into rate variances and volume variances, which reflect the outcome of managing interest rate risk and the outcome of changing the size and composition of assets and liabilities, respectively. Next, using a sample of bank holding companies from 1998 to 2010, I document that increases in net interest income are primarily driven by positive volume variances, suggesting that BHCs tend to grow net interest income by changing the size and composition of assets and liabilities and not by effectively managing interest rate risk. In investigating whether interest rate risk management affects the valuation of net interest income, I find that the persistence of net interest income varies positively with interest rate risk management. My study provides new insights into banks' disclosure practices and their management of interest rate risk. The evidence presented in this dissertation can help guide the efforts of the market regulators and accounting standard setter to enhance interest rate risk disclosures of financial institutions, and can help banking regulators monitor interest rate risk.

Interest Rate Risk Modeling

A Revised Framework

Introduction to Derivative Financial Instruments, Chapter 14 - Interest Rate Risk Management through Derivatives

Understanding and Managing Interest Rate Risks

Perspectives on Interest Rate Risk Management for Money Managers and Traders

Managing Interest Rate Risk in the Thrift Industry

Practical tools and advice for managing financial risk, updated for a post-crisis world Advanced Financial Risk Management bridges the gap between the idealized assumptions used for risk valuation and the realities that must be reflected in management actions. It explains, in detailed yet easy-to-understand terms, the analytics of these issues from A to Z, and lays out a comprehensive strategy for risk management measurement, objectives, and hedging techniques that apply to all types of institutions. Written by experienced risk managers, the book covers everything from the basics of present value, forward rates, and interest rate compounding to the wide variety of alternative term structure models. Revised and updated with lessons from the 2007-2010 financial crisis, Advanced Financial Risk Management outlines a framework for fully integrated risk management. Credit risk, market risk, asset and liability management, and performance measurement have historically been thought of as separate disciplines, but recent developments in financial theory and computer science now allow these views of risk to be analyzed on a more integrated basis. The book presents a performance measurement approach that goes far beyond traditional capital allocation techniques to measure risk-adjusted shareholder value creation, and supplements this strategic view of integrated risk with step-by-step tools and techniques for constructing a risk management system that achieves these objectives. Practical tools for managing risk in the financial world Updated to include the most recent events that have influenced risk management Topics covered include the basics of present value, forward rates, and interest rate compounding; American vs. European fixed income options; default probability models; prepayment models; mortality models; and alternatives to the Vasicek model Comprehensive and in-depth, Advanced Financial Risk Management is an essential resource for anyone working in the financial field.

*Analyzing Banking Risk: A Framework for Assessing Corporate Governance and Risk Management provides a comprehensive overview of topics focusing on assessment, analysis, and management of financial risks in banking. The publication emphasizes risk management principles and stresses that key players in the corporate governance process are accountable for managing the different dimensions of financial and other risks. This fourth edition remains faithful to the objectives of the original publication. It covers new business aspects affecting banking risks, such as mobile banking and regulatory changes over the past decade—specifically those related to Basel III capital adequacy concepts—as well as new operational risk management topics such as cybercrime, money laundering, and outsourcing. This publication will be of interest to a wide body of users of bank financial data. The target audience includes the persons responsible for the analysis of banks and for the senior management or organizations directing their efforts. Because the publication provides an overview of the spectrum of corporate governance and risk management, it is not aimed at technical specialists of any particular risk management area. *** Hennie van Greuning was formerly a Senior Adviser in the World Bank's Treasury Unit and previously worked as a sector manager for financial sector operations in the World Bank. He has been a partner in a major international accounting firm and a controller and head of bank supervision in a central bank. Since retiring from the World Bank, he has chaired audit, ethics, and risk committees in various banks and has been a member of operational risk and asset-liability management committees. Sonja Brajovic Bratanovic was a Lead Financial Sector Specialist at the World Bank, after a career as a senior official in a central bank. With extensive experience in banking sector reforms and financial risk analysis, she led World Bank programs for financial sector reforms, as well as development projects. Since her retirement, she has continued as a senior consultant for World Bank development projects in the financial sector, as well as an advisor for other development institutions.*

Interest Rate Modeling for Risk Management presents an economic model which can be used to compare interest rate and perform market risk assessment analyses. The key interest rate model applied in this book is specified under real-world measures, and the result is used as to generate scenarios for interest rates. The book introduces a theoretical framework that allows estimating the market price of interest rate risk. For this, the book starts with a brief explanation of stochastic analysis, and introduces interest rate models such as Heath-Jarrow-Morton, Hull-White and LIBOR models. The real-world model is then introduced in subsequent chapters. Additionally, the book also explains some properties of the real-world model, along with the negative price tendency of the market price for risk and a positive market price of risk (with practical examples). Readers will also find a handy appendix with proofs to complement the numerical methods explained in the book. This book is intended as a primer for practitioners in financial institutions involved in interest rate risk management. It also presents a new perspective for researchers and graduates in econometrics and finance on the study of interest rate models. The second edition features an expanded commentary on real world models as well as additional numerical examples for the benefit of readers.

Managing Interest Rate Risk in a Community Bank Environment

Management of Interest Risk from a Corporate Treasury Perspective in a Service Enterprise

The Risk of Economic Crisis

Bank Asset and Liability Management

Duration Analysis

The definitive guide to fixed income valuation and risk analysis The Trilogy in Fixed Income Valuation and Risk Analysiscomprehensively covers the most definitive work on interest raterisk, term structure analysis, and credit risk. The first book oninterest rate risk modeling examines virtually every well-known IRRmodel used for pricing and risk analysis of various fixed incomesecurities and their derivatives. The companion CD-ROM containnumerous formulas and programming tools that allow readers tobetter model risk and value fixed income securities. Thiscomprehensive resource provides readers with the hands-oninformation and software needed to succeed in this financialarena.

This paper presents a simple approach to dynamically embed the risk of rising interest rates in any investment portfolio that includes fixed income securities. It illustrates the approach using a singular perturbation of U.S. treasury rates that can be used either to stress-test investment strategies, or to incorporate an investor's view on likely future interest rate moves in portfolio allocation decisions. This approach can be used by both discretionary and systematic investors without restriction on or prejudice to the particular investment philosophy that is employed.

After risk management and interest risk management in particular was primarily relevant for banks in the past, it is a crucial competition factor for all enterprises today. With increasing volatile financial markets and global competition CFOs are focusing more and more on an efficient measurement and management of interest rate risk. In this context this book aims to point out the risks of an adverse change in interest rates for a corporate portfolio of interest-bearing positions and show possibilities to measure and manage these risks. First the scene for interest risk management in a corporate treasury of a service enterprise is set by providing essential knowledge about financial risk management and giving an insight into the characteristics of a service enterprise as well as the responsibilities of a corporate treasury and the factors that influence the treasury risk management approach. This is followed by a process-oriented instruction of how to quantify interest rate risk and how to manage it. Besides the risk measures duration and convexity, two different approaches to value at risk, the historical simulation and the variance-covariance-approach, will be examined. For the management of the interest rate risk an overview of possible hedging instruments to reduce interest risk exposure will be given and their different strategies examined. All approaches will be measured against their practical feasibility and for both, the quantification and the management of interest rate risk, implications for the implementation in a service enterprise will be provided.

Risk Management and Shareholders' Value in Banking

Treasury Management

Interest Rate Risk Management

A Duration Based Approach

Analyzing Banking Risk (Fourth Edition)

A Guide to Asset/liability Models Used in Banks and Thrifts

Praise for Treasury Management The Practitioner's Guide "Steven Bragg has written a broad-based look at the treasurer's function that is as timely as it is complete. This book is an excellent choice for experienced treasury personnel, those new to the area, or the small business CFO needing to develop additional expertise." ?Matthew Boutte, Asset/Liability Manager, AVP, Sterling Bank "Cash is king! Steven Bragg's Treasury Management: The Practitioner's Guide peels back the onion on the most pressing topics facing today's treasurer?cash management, financing, risk management, and treasury systems." ?Geoffrey Garland, Controller, Staco Systems "This book gives an insight into the various intricacies, augmented with examples and flowcharts, involved in a treasury role. It gives a practical and detailed approach to cash management. A must-read for accounting heads of small businesses who have the additional responsibility of being a treasurer." ?Priya K Srinivasan, Owner, Priya K Srinivasan CPA Treasury Management: The Practitioner's Guide describes all aspects of the treasury function. This comprehensive book includes chapters covering the treasury department, cash transfer methods, cash forecasting, cash concentration, working capital management, debt management, equity management, investment management, foreign exchange risk management, interest risk management, clearing and settlement systems, and treasury systems. If you are a treasurer, CFO, cash manager, or controller, Treasury Management: The Practitioner's Guide allows you to quickly grasp the real world of treasury management and the many practical and strategic issues faced by treasurers and financial professionals today.

Introduces practical approaches for optimizing management and hedging of Interest Rate Risk in the Banking Book (IRRBB) driven by fast evolving regulatory landscape and market expectations. Interest rate risk in the banking book (IRRBB) gained its importance through the regulatory requirements that have been growing and guiding the banking industry for the last couple of years. The importance of IRRBB is shifting for banks, away from 'just' a regulatory requirement to having an impact on the overall profitability of a financial institution. Interest Rate Risk in the Banking Book sheds light on the best practices for managing this importance risk category and provides detailed analysis of the hedging strategies, practical examples, and case studies based on the author's experience. This handbook is rich in practical insights on methodological approach and contents of ALCO report, IRRBB policy, ICAAP, Risk Appetite Statement (RAS) and model documentation. It is intended for the Treasury, Risk and

Finance department and is helpful in improving and optimizing their IRRBB framework and strategy. By the end of this IRRBB journey, the reader will be equipped with all the necessary tools to build a proactive and compliant framework within a financial institution. Gain an updated understanding of the evolving regulatory landscape for IRRBB Learn to apply maturity gap analysis, sensitivity analysis, and the hedging strategy in banking contexts • Understand how customer behavior impacts interest rate risk and how to manage the consequences Examine case studies illustrating key IRRBB exposures and their implications Written by London market risk expert Beata Lubinska, Interest Rate Risk in the Banking Book is the authoritative resource on this evolving topic.

Financial risk management is currently subject to much debate, especially the accounting for derivative products, and a number of commentators are objecting to the introduction of International Accounting Standard IAS 39 for Derivatives that will be in force by January 2005 for all EU companies. The topic of hedge accounting and the treatment of fair values may have a significant impact on many companies reported profits, and the volatility of earnings is likely to increase. Uniquely this monograph focuses on interest rate risk management. Most studies of corporate risk management have typically dwelt on the topic of management of exchange rate risk, with interest rate risk management being neglected. The book's findings examine the views of UK corporate treasurers who are usually involved in the risk management strategies of their organisation and who have responsibility for implementing those strategies in practice. * The research is the first comprehensive UK study on this area * Relevant to the imminent arrival of IAS 39, the International Accounting Standard for Derivatives that will be in force by January 2005 for all EU companies. * The findings of the book have implications for government policy and regulators

Managing Risks in Commercial and Retail Banking

Interest Rate Modeling for Risk Management: Market Price of Interest Rate Risk (Second Edition)

Managing Interest Rate Risk with Bond Futures

Managing Global Financial and Foreign Exchange Rate Risk

A practical guide to managing corporate financial risk

Evidence on Interest Rate Risk Management and Derivatives Usage by Commercial Banks

This chapter comes from Derivative Financial Instruments, written by a renowned corporate financial advisor. This timely guide offers a comprehensive treatment of derivative financial instruments, fully covering bonds, interest swaps, options, futures, Forex, and more. The author explains the strategic use of derivatives, their place in portfolio management, hedging, and the importance of managing risk.

In Interest Rate Risk Management experts Benton Gup and Robert Brooks explain how banks and other types of financial institutions can use derivative securities to reduce interest rate risk. Comprehensive and in-depth, the book examines the effects of interest rate risk; the effects of interest rate changes on the value of financial assets; traditional and state-of-the art asset liability management techniques; how to hedge interest rate risks using forwards, futures, swaps and various types of options; regulatory and accounting considerations; and interest rate risk management policies. Thorough appendices provide greater detail through discussion of technical details and mathematics. An extensive glossary is provided for quick reference.

The book is a systematic summary of modern term structure theories and how interest rate contingent claims are priced under such theories. This is the first book on such an attempt. The book reviews important term structure models and chooses one model to consistantly demonstrate contingent claim pricing. Well-known models are included and their relationships are thoroughly discussed. The book also provides a complete process of model implementation from parameter estimation to hedging. Examples are provided throughout.

An Empirical Examination of Interest Rate Risk Disclosure and Management in Bank Holding Companies

Interest Rate Risk and Banks

The Fixed Income Valuation Course

A Framework for Assessing Corporate Governance and Risk Management

Interest Rate Risk in the Banking Book

Proceedings of the Seventh Annual Conference, December 10-11, 1981, San Francisco, California

Managing Interest Rate RiskUsing Financial DerivativesJohn Wiley & Sons Incorporated

Risk management products and derivatives have grown ever more numerous and diverse since the late 1980s. Investors need to know which ones will best serve their needs in today's dynamic bond market. This book reveals how more than three dozen experts control and preserve the value of their own fixed income portfolios--from choosing the right risk management product to monitoring and evaluating the effectiveness of hedge management strategies. Shows investors how to make the best use of swaps, options, futures, and other risk management products in the market; identify and measure a portfolio's or corporation's risk exposure; and more.

This book tackles the subject of interest rate risk, a matter of key importance to all businesses, whether borrowing, investing, saving or trading.

A Tactical Approach to Managing Interest Rate Risk in Investment Portfolios

Financial Risk Management

Measuring and Controlling Interest Rate and Credit Risk

Interest Rate Dynamics, Derivatives Pricing, and Risk Management

International Convergence of Capital Measurement and Capital Standards

The Banker's Guide to Using Futures, Options, Swaps and Other Derivative Instruments

"Created for banking and finance professionals with a desire to expand their management skillset, this book focuses on how banks manage assets and liabilities, set up governance structures to minimize risks, and approach such critical areas as regulatory disclosures, interest rates, and risk hedging. It was written by the experts at the world-renowned Hong Kong Institute of Bankers, an organization dedicated to providing the international banking community with education and training"--

The stunning collapse of the thrift industry, the major stock slump of 1987, rising corporate debt, wild fluctuations of currency exchange rates, and a rash of defaults on developing country debts have revived fading memories of the Great Depression and fueled fears of an impending economic crisis. Under what conditions are financial markets vulnerable to disruption and what economic consequences ensue when these markets break down? In this accessible and thought-provoking volume, Benjamin M. Friedman investigates the origins of financial crisis in domestic capital markets, Paul Krugman examines the international origins and transmission of financial and economic crises, and Lawrence H. Summers explores the transition from financial crisis to economic collapse. In the introductory essay, Martin Feldstein reviews the major financial problems of the 1980s and discusses lessons to be learned from this experience. The book also contains provocative observations by senior academics and others who have played leading roles in business and government.

This book presents an integrated framework for risk measurement, capital management and value creation in banks. Moving from the measurement of the risks facing a bank, it defines criteria and rules to support a corporate policy aimed at maximizing shareholders' value. Parts I - IV discuss different risk types (including interest rate, market, credit and operational risk) and how to assess the amount of capital they absorb by means of up-to-date, robust risk-measurement models. Part V surveys regulatory capital requirements: a special emphasis is given to the Basel II accord, discussing its economic foundations and managerial implications. Part VI presents models and techniques to calibrate the amount of economic capital at risk needed by the bank, to fine-tune its composition, to allocate it to risk-taking units, to estimate the "fair" return expected by shareholders, to monitor the value creation process. Risk Management and Shareholders' Value in Banking includes: * Value at Risk, Monte Carlo models, Creditrisk+, Creditmetrics and much more * formulae for risk-adjusted loan pricing and risk-adjusted performance measurement * extensive, hands-on Excel examples are provided on the companion website www.wiley.com/go/rmsv * a complete, up-to-date introduction to Basel II * focus on capital allocation, Raroc, EVA, cost of capital and other value-creation metrics

From Risk Measurement Models to Capital Allocation Policies

Measuring and Managing Interest Rate Risk

Managing Interest Rate Risk in Depository Financial Institutions

Advanced Financial Risk Management

A Compilation of Articles

Managing Interest Rate Risk

There are two types of tenn structure models in the literature: the equilibrium models and the no-arbitrage models. And there are, correspondingly, two types of interest rate derivatives pricing fonnulas based on each type of model of the tenn structure. The no-arbitrage models are characterized by the work of Ho and Lee (1986), Heath, Jarrow, and Morton (1992), Hull and White (1990 and 1993), and Black, Dennan and Toy (1990). Ho and Lee (1986) invent the no-arbitrage approach to the tenn structure modeling in the sense that the model tenn structure can fit the initial (observed) tenn structure of interest rates. There are a number of disadvantages with their model. First, the model describes the whole volatility structure by a sin gle parameter, implying a number of unrealistic features. Furthennore, the model does not incorporate mean reversion. Black-Dennan-Toy (1990) develop a model along tbe lines of Ho and Lee. They eliminate some of the problems of Ho and Lee (1986) but create a new one: for a certain specification of the volatility function, the short rate can be mean-fteeting rather than mean-reverting. Heath, Jarrow and Morton (1992) (HJM) construct a family of continuous models of the term struc ture consistent with the initial tenn structure data.

Interest rate volatility can wreak havoc with the balance sheets of institutional investors, traders, and corporations. In this important book, leading experts in the field discuss methods for measuring and hedging interest rate risk. The book covers basic techniques, as well as state-of-the-art applications. Specific topics include portfolio risk management, value-at-risk, yield curve risk, interest rate models, advanced risk measurements, interest rate swaps, and measuring and forecasting interest rate volatility.

This study provides evidence on the Interest Rate Risk (IRR) management activities of commercial banks including their use of derivatives. We find that (i) banks primarily focus on managing interest rate sensitivity of net income rather than the interest rate sensitivity of stock returns, (ii) the level of IRR taken by banks is directly related to liquidity, and inversely related to managerial quality and bank size, (iii) derivative users as a group have lower mean and median exposure than non-users, and (iv) for the majority of users, derivative usage reduces exposure. These findings are inconsistent with the view that derivatives threaten the viability of the banking system.

Controlling and Managing Interest-rate Risk

Tools and Techniques for Integrated Credit Risk and Interest Rate Risk Management

Using Financial Derivatives