

Acknowledgments ix

Introduction xi

Chapter 1

Risk Ratings System Design 1

Overview 1

The Use of Credit Risk Assessment Templates in IRRS 2

The Use of Quantitative Models in IRRS 6

The Use of Hybrid Models in IRRS 10

The Use of Retail Models in IRRS 14

The Use of LGD Models in IRRS 16

The Choice of LGD Discount Rate 19

Discount Rate for Workout Recoveries: An Empirical Study 21

Conclusions 63

Chapter 2

Risk Ratings System Quantification 65

Overview 65

Risk Rating Philosophy 67

Long-run PD 77

Downturn LGD 96

Downturn EAD 122

Downturn LGD: A Case Study 124

Establishing a Master Scale 134

Stress Testing 138

EAD Estimation 171

Chapter 3**Validation of Internal Risk Rating System 183**

Overview 183

Confirmation of the Conceptual Soundness and Initial Risk Quantification
of the Design of the IRRS 184

Confirmation of Risk Rating System Operations 200

Annual Examination of the Overall Performance
of the Risk Rating System 203Validation of Mappings between Internal and
External Risk Rating Systems 269

Annual Health Check 271

Governance 271

Conclusions 278

Chapter 4**Pillar II, Challenges, and Dealing with Procyclicality 281**

Introduction 281

Background Definitions 282

Some Pillar II Implementation Issues 290

Capital Planning and Capital Adequacy Assessment
Framework with Respect to Pillar II 296

Conclusions 303

Notes 305**Index 319**