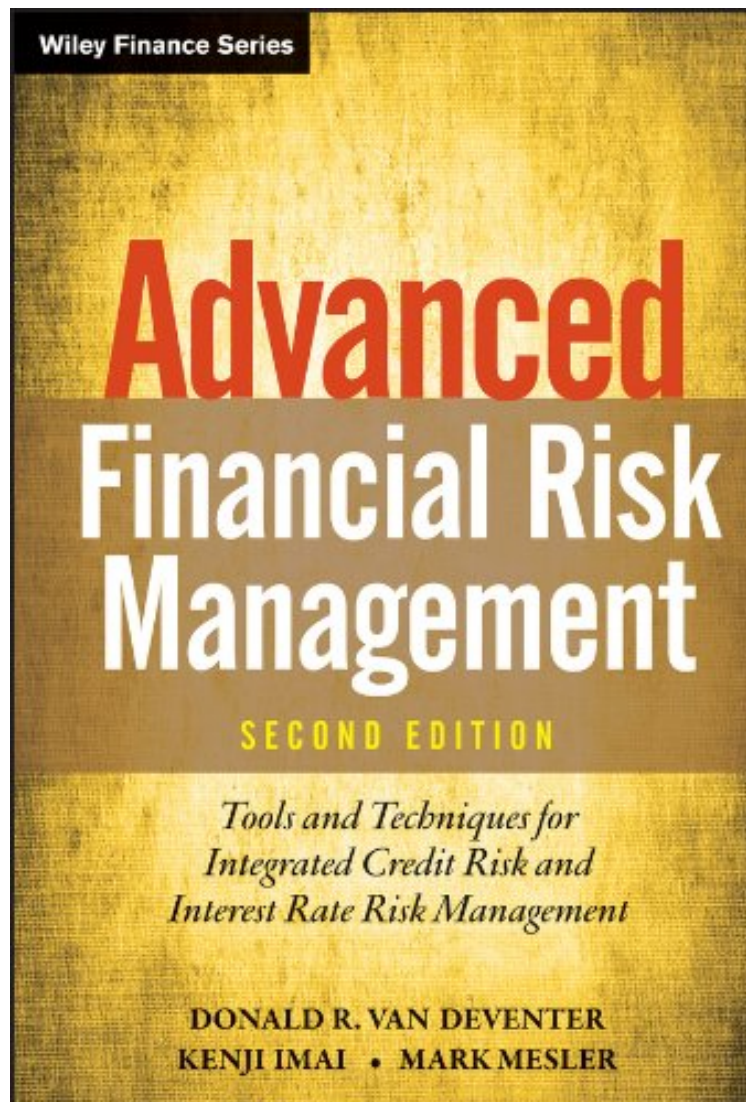


(Library ebook) Advanced Financial Risk Management: Tools and Techniques for Integrated Credit Risk and Interest Rate Risk Management

## Advanced Financial Risk Management: Tools and Techniques for Integrated Credit Risk and Interest Rate Risk Management

*Donald R. Van Deventer, Kenji Imai, Mark Mesler*  
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**Donald R. Van Deventer, Kenji Imai, Mark Mesler : Advanced Financial Risk Management: Tools and Techniques for Integrated Credit Risk and Interest Rate Risk Management** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Advanced Financial Risk Management: Tools and Techniques for Integrated Credit Risk and Interest Rate Risk Management:

10 of 11 people found the following review helpful. A high-level tour de forceBy Michael SacerdoteIf you haven't

read *Advanced Financial Risk Management* (2nd edition), your career in finance is at risk. This book teaches risk management at the highest levels. Although the preliminary chapters make brief detours through the basics of fixed-income pricing, the heart of this book focuses on developing a toolkit for measuring the market's consensus about future interest rates, quantifying the risk of numerous advanced instruments through bushy-tree and other models, and managing the risk of a credit portfolio. The authors emphasize interest rate realism, the integration of "big data" default probabilities, and quantitative metrics of market opinion throughout. Legacy techniques for interest rate modeling and credit risk are thoroughly debunked. Instead, the authors teach us how to build the best available models without making the mathematics any more painful than necessary. The discussion of how to model the complex twists in the yield curve is among the strongest in a very strong book. AFRM captures a generational change in the understanding of risk management. Individuals and institutions who can adapt the powerful techniques discussed by van Deventer and colleagues to their own trading and credit portfolios will be able to compete in modern financial markets. Conversely, market participants who cling to outdated legacy techniques may be able to survive while times are flush but will probably come to grief at the next downturn. I strongly recommend this book to all who have a serious interest in cutting-edge finance.

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.

From the Inside Flap If the global credit crisis has taught us anything about financial risk management, it's that the traditional "silo" approach falls fatally short of the mark when it comes to understanding and circumventing the array of institutional risks inherent in virtually all financial and business activities. While the limitations of pre-digital technologies may once have made it seem natural to treat credit risk, market risk, asset and liability management, and performance measurement as separate disciplines, developments in financial theory and computer science not only make it possible for those risks to be analyzed on a fully integrated basis, they mandate it. Written by a team of internationally recognized experts in the field, *Advanced Financial Risk Management, Second Edition* schools you in proven tools and techniques for fulfilling that mandate. The authors lay out a comprehensive strategy for integrating risk management measures, objectives, and hedging techniques that apply to all types of financial institutions. Just as importantly, they develop a framework for creating a dynamic, fully integrated, multi-model risk management system tailored to your specific institutional needs and goals. Thoroughly updated and revised to reflect the many changes wrought by the 2008 credit crisis, this new edition of the acclaimed guide bridges the gap between idealized assumptions about valuation and the realities of day-to-day risk management actions with: Detailed explanations of which models performed well during the credit crisis, as well as the reasons why other models failed to measure up Proven tools and techniques for constructing a risk management system that protects institutional assets while measuring risk-adjusted shareholder value Guidance on how to construct continuous yield curves for everything from equity options to mortgage-backed securities Performance measurement techniques that go far beyond traditional methods of capital allocation and measuring risk-adjusted shareholder value creation Clear, accessible expositions of fixed income mathematics, duration, convexity, term structure models, risk-neutral instruments, derivatives, advanced hedging, and more Detailed discussions of the analytics of interest rate risk, credit risk, foreign exchange risk, and capital allocation In-depth discussions of the false assumptions behind many accepted risk management models and how to avoid falling prey to them A strong case for why a realistic computer simulation that has no "closed form" mathematical solution is, in most cases, the best, most accurate way to describe risk. Describing a strategic integrated multi-model approach to risk management designed to insulate institutions from catastrophic events such as those that

unfolded during the credit crisis, *Advanced Financial Risk Management, Second Edition* is an indispensable working resource for commercial bank lenders, insurance company lenders, credit derivatives dealers, securities firms and bankers. From the Back Cover High Praise for *Advanced Financial Risk Management* "Advanced Financial Risk Management is a superb presentation of current risk management methods, including both the HJM interest rate and credit risk models. The writing is crisp and clear. The topic coverage is relevant and comprehensive. There is no doubt that his book should be on every CEO's, CFO's, and risk manager's desk." —Robert Jarrow, Ronald P. and Susan E. Lynch Professor of Investment Management Johnson Graduate School of Management, Cornell University "The first edition of *Advanced Financial Risk Management* was already a valuable resource for anyone responsible for risk-based portfolios, or even just trying to understand risk analysis, in complex modern setting. With the new material that van Deventer, Imai and Mesler have added following the financial crisis, it's become essential. The sorry history of the crisis and what caused it is replete with the mistakes key decision-makers made, in private risk management and the public policy arena too. With this analysis in hand, there is no excuse for repeating them." —Benjamin M. Friedman, William Joseph Maier Professor of Political Economy, Harvard University "Recent events have clearly demonstrated, once again, the importance of sound risk management techniques. Even the largest most sophisticated institutions have stumbled and lost billions of dollars. In this second edition of *Advanced Financial Risk Management*, the authors include a comprehensive review of events leading to the collapse of the 'bubble.' I found the chronological list of events leading up to the meltdown of 2008 a most effective way of demonstrating that the early warning signs were all there but ignored by the markets and most market participants. "The authors draw on lessons from the past as well as their own practical experience in presenting a comprehensive review of risk management techniques. The authors also review and dissect previous models to determine what went wrong and use this as a basis to develop new and better models. This candid discussion was very helpful they didn't make excuses! "The book is very comprehensive in that it includes an in-depth discussion across a broad cross section of asset classes. The use of case studies as well as drawing on the authors' own experience greatly enhances the value of the book. Lastly, the book strikes a good balance between quantitative, qualitative and anecdotal examples." —Edward Emmer, Retired Executive Managing Director, Standard Poor's "The global financial crisis has made it abundantly clear that shortcuts in risk management create the preconditions for catastrophe. This timely volume explains risk management without shortcuts: an integrated understanding of multiple risks from multiple underlying instruments, based on careful empirical analysis rather than convenient simplifications. Despite its rigorous approach, the book is a pleasure to read and should be owned by every risk manager." —John Y. Campbell, Morton L. and Carole S. Olshan Professor of Economics, Harvard University

**ABOUT THE AUTHOR**  
**DONALD R. VAN DEVENTER** founded the Kamakura Corporation in April 1990 and is currently Chairman and CEO. In 2003, he was voted into the Risk Hall of Fame for having made a profound contribution to the field of risk management. He has been involved in financial advisory assignments involving both risk management and mergers and acquisitions. Prior to founding Kamakura Corporation, he was senior vice president of the investment banking department of Lehman Brothers. From 1982 to 1987, he was the treasurer for First Interstate Bancorp in Los Angeles. He holds a PhD in business economics, a joint degree of the Harvard University Department of Economics and the Harvard Graduate School of Business Administration. Kenji Imai has headed Software Development for Kamakura for sixteen years. Mr. Imai is member of the Managing Committee of Kamakura. Prior to Kamakura, Mr. Imai worked in the derivatives structuring/trading and risk management groups at the Sanwa Bank and S.G. Warburg. He graduated from the University of Tokyo with a BS in civil engineering and from the Sloan School of the Massachusetts Institute of Technology with a MS in management, concentrating on finance. Mark Mesler is Managing Director and heads Kamakura Risk Information Services, Kamakura's innovative Basel II and III compliant default probability service. Mr. Mesler is in charge of the daily production of the KRIS Merton model, Jarrow reduced form model, and hybrid model default probabilities. Mr. Mesler has twenty-seven years' experience in the financial services information and systems field and is a veteran of State Street Bank, KPMG, Oracle, and the Bank of America. Prior to joining Kamakura Corporation, Mr. Mesler was vice president at Askari Risk Management Solutions, at that time a subsidiary of State Street Bank in Boston.