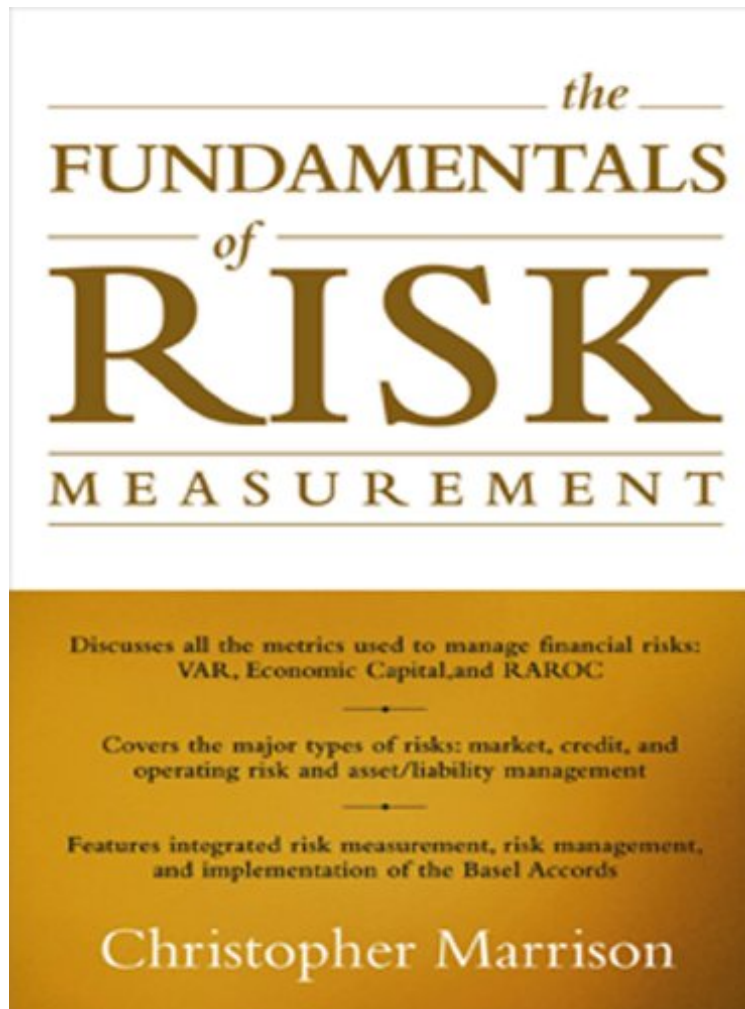


The Fundamentals of Risk Measurement

Christopher Marrison

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Christopher Marrison : The Fundamentals of Risk Measurement before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Fundamentals of Risk Measurement:

6 of 7 people found the following review helpful. Excellent overview of bank risk management By D. Zahner I really can't say enough about this book. From the perspective of a banker who wants to understand the fundamentals it is comprehensive, well organized and presented in a style that makes understanding the materials easy (or as easy as can be expected given the topic). I recently took a copy to an Fx class I presented to the central bank staff in Azerbaijan. They liked the book so much that I was forced (not literally - maybe 'encouraged' would be a better word) to leave my copy behind. I promptly ordered another on my return. While there are certainly more advanced texts on this same topic, I have yet to see one that does a better job of communicating the core concepts. Great job! 8 of 14 people found the following review helpful. Nice Overview By CT Ravens It was a nice overview of some existing models but it lacked the drill down needed for the next step. I did not find that it allowed you to handle actual data. 47 of 49 people

found the following review helpful. This is a practical guide to risk measurement and management. An earlier review suggested that the book's contents are not original and you can find the information elsewhere. This is not a thesis, it is a text book. The purpose of a thesis is to record original ideas and demonstrate the cleverness of the author. The purpose of a text book is to bring together an existing body of knowledge so that it can be easily understood and used by the reader. The book was written to be as clear as possible so as to remove the unnecessary mystery from risk management. It was written because most, if not all, other books on risk assume that you already have a good knowledge of the industry and its methodologies. Furthermore, most books deal with only one aspect of risk, rather than taking an integrated view. I suggest that this book does three things well:

- * It gathers information together, so that in one place you can get a good picture of the whole framework of risk measurement. If you want to delve into details later, then of course you should buy books that specialize in those corners.
- * For beginners, it gives foundation chapters on banking and statistics so that everyone will be able to understand the later chapters. For example if you have a science PhD you will first want to know how banks work, the meaning of capital and the difference between a credit risk derivative and credit risk for a derivative. If you are an MBA who has not recently done matrix math and statistics, you will probably appreciate the review in Chapter 3.
- * The book gives many specific examples so that you can quickly make your own risk calculations. In this respect it is more detailed than many other risk books. It minimizes the discussion of philosophy and history, to give the tools that the reader needs as quickly as possible. I believe that this book is a good way to quickly get to the heart of risk measurement. In 400 pages it is not possible (or even desirable) to cover every aspect of risk, but you can certainly give a solid introduction and overview. As such, I suggest that *The Fundamentals of Risk Measurement* does a good job both for the beginner and for those who already know one area of risk, but wish to have an integrated view of risk measurement for the whole bank. Even with several years in the industry, an open minded reader should still enjoy seeing everything brought together in this book.

A step-by-step guidebook for understanding and implementing integrated financial risk measurement and management. *The Fundamentals of Risk Measurement* introduces the state-of-the-art tools and practices necessary for planning, executing, and maintaining risk management in today's volatile financial environment. This comprehensive book provides description and analysis of topics including: Economic capital Risk adjusted return on capital (RAROC) Shareholder Value Added (SVA) Value at Risk (VaR) Asset/liability management (ALM) Credit risk for a single facility Credit risk for portfolios Operating risk Inter-risk diversification The Basel Committee Capital Accords. The banking world is driven by risk. *The Fundamentals of Risk Measurement* shows you how to quantify that risk, outlining an integrated framework for risk measurement and management that is straightforward, practical for implementation, and based on the realities of today's tumultuous global marketplace. Banks make money in one of two ways: providing services to customers and taking risks. In this book, we address the business of making money by taking risk. From the Introduction In *The Fundamentals of Risk Measurement*, financial industry veteran Chris Marrison examines what banks must do to succeed in the business of making money by taking risk. Encompassing the three primary areas of banking risk—market, credit, and operational—and doing so in a uniquely intuitive, step-by-step format, Marrison provides hands-on details on the primary tools for financial risk measurement and management, including: Plain-English evaluation of specific risk measurement tools and techniques Use of Value at Risk (VaR) for assessment of market risk for trading operations Asset/liability management (ALM) techniques, transfer pricing, and managing market and liquidity risk The many available methods for analyzing portfolios of credit risks Using RAROC to compare the risk-adjusted profitability of businesses and price transactions. In addition, woven throughout *The Fundamentals of Risk Measurement* are principles underlying the regulatory capital requirements of the Basel Committee on Banking Supervision, and what banks must do to understand and implement them. The requirements are defined, implications of the New Capital Accord are presented, and the major steps that a bank must take to implement the New Accord are discussed. The resulting thumbnail sketch of the Basel Committee, and specifically the New Capital Accord, is valuable as both a ready reference and a foundation for further study of this important initiative. Risk is unavoidable in the financial industry. It can, however, be measured and managed to provide the greatest risk-adjusted return, and limit the negative impacts of risk to a bank's shareholders as well as potential borrowers and lenders. *The Fundamentals of Risk Management* provides risk managers with an approach to risk-taking that is both informed and prudent, one that shows operations managers how to control risk exposures as it allows decision-making executives to direct resources to opportunities that are expected to create maximum return with minimum risk. The result is today's most complete introduction to the business of risk, and a valuable reference for anyone from the floor trader to the officer in charge of overseeing the entire risk management operation.

From the Back Cover Today's Most Detailed, Step-by-Step Guidebook for Understanding and Implementing Integrated Financial Risk Measurement and Management. Banks take financial risks, with their overall profits based on maximizing the returns from those risks. Losses—or in the case of Britain's Barings Bank, utter devastation—can occur when assumed risks are unregulated internally and become too large, either in relation to

potential returns or in the bank's ability to cover the risks. Between the two lies the effective measurement and management of financial risk. The *Fundamentals of Risk Measurement* introduces the state-of-the-art tools and practices necessary for planning, executing, and maintaining risk management in today's volatile financial environment. This comprehensive book provides description and analysis of topics including: Economic capital Risk adjusted return on capital (RAROC) Shareholder Value Added (SVA) Value at Risk (VaR) Asset/liability management (ALM) Credit risk for a single facility Credit risk for portfolios Operating risk Inter-risk diversification The Basel Committee Capital Accords

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About the Author Chris Marrison, Ph.D., is a veteran risk management consultant with experience in trading risk, credit risk, business control, asset/liability management, emerging markets, and project finance. A former managing principal with The Capital Markets Company and senior engagement officer with Oliver Wyman Co., Dr. Marrison has been a Royal Air Force officer and a technical consultant on major engineering projects in the United States, Bulgaria, and Brazil, and has given risk management advice to banks and governments throughout North America, Europe, Asia, and Africa.