

**Best Practices in Credit Risk Management: Observations from the Field**

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**Agenda**

- Panelist Introductions
- Credit Risk Management in 2011
- Open Discussion

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**Panelists**

- Andrew Bockelman (Moderator)
  - Senior Director
  - Moody's Analytics (New York)
- Yashan Wang
  - Director
  - Moody's Analytics (San Francisco)
- Anna Labowicz Bak
  - Associate Director
  - Moody's Analytics (San Francisco)

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### Credit Risk Management in 2011

- Creditors are still digesting the crisis
- Credit quality has generally improved
- Concerns persist about public sector risks
- Regulatory reforms are top of mind
- It's still a good time to be a credit risk manager

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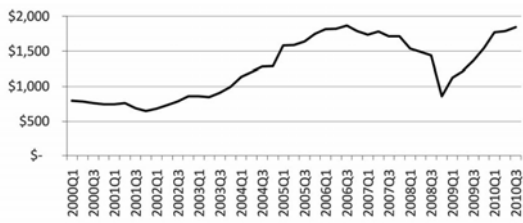
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### Corporate Profits



Source: US Bureau of Economic Analysis, Moody's Analytics



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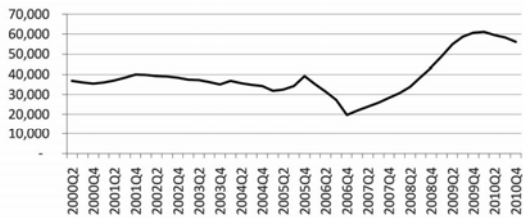
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### Business Bankruptcies



Source: US District Courts, Moody's Analytics



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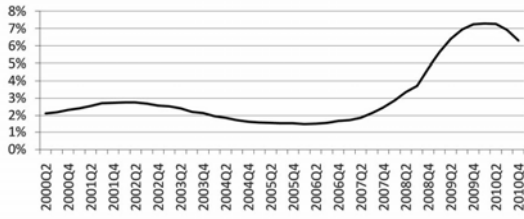
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### Delinquencies on Loans & Leases



Source: Federal Reserve, Moody's Analytics



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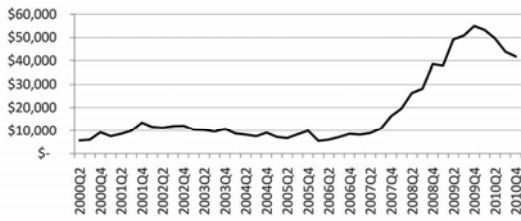
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### Net Charge-Offs



Source: FDIC, Moody's Analytics



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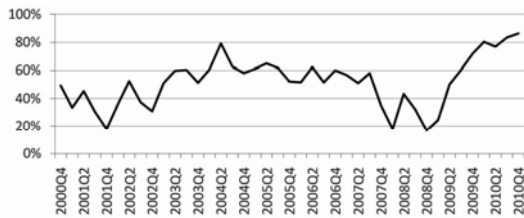
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### Favorables as % of Outlook Changes



Source: Moody's Investors Service



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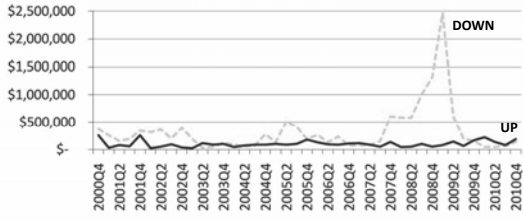
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### Downgraded vs. Upgraded Debt



Source: Moody's Investors Service



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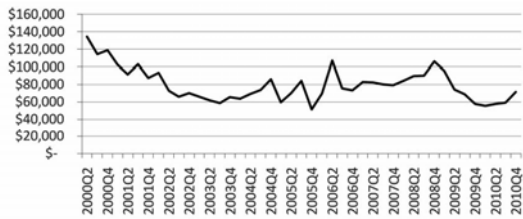
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### Volume of C&I Loans



Source: Federal Reserve; Moody's Analytics



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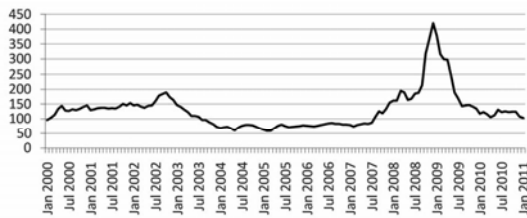
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### Average Spreads Over Treasuries



Source: Moody's Analytics



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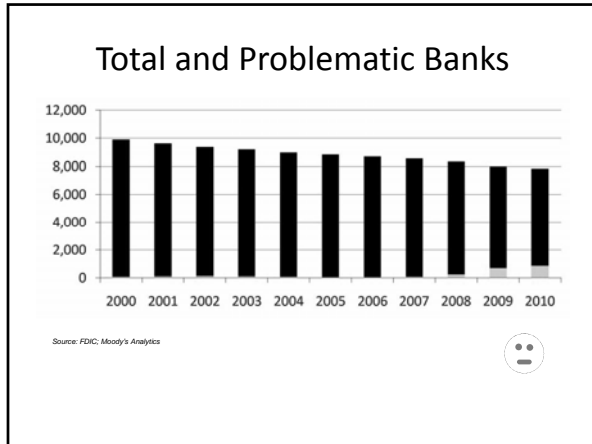
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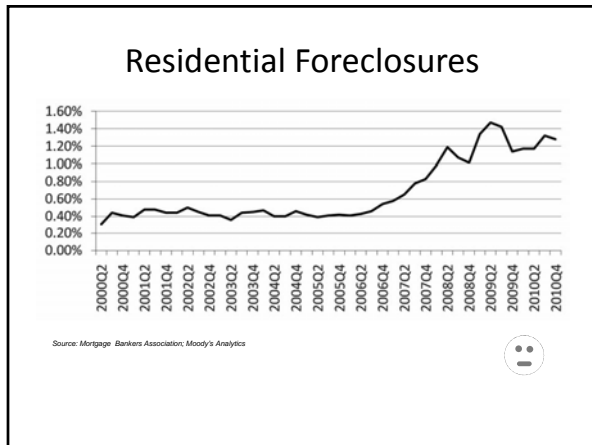
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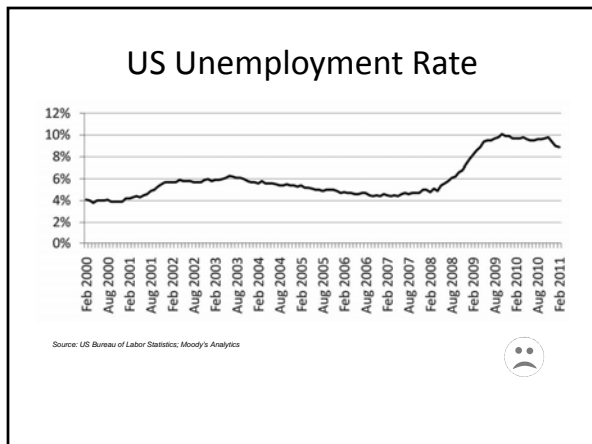
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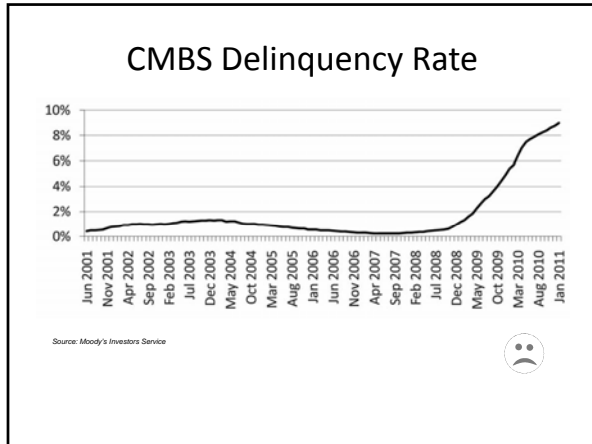
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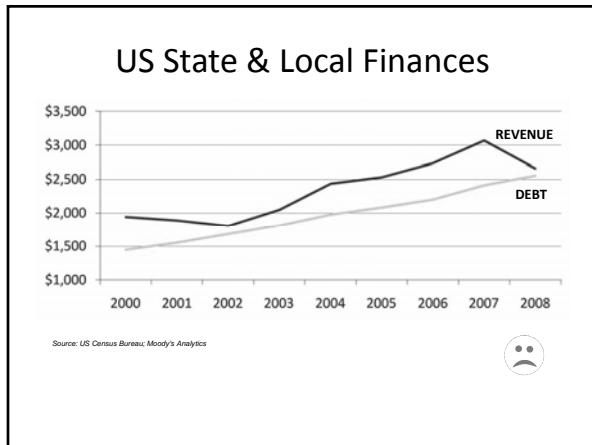
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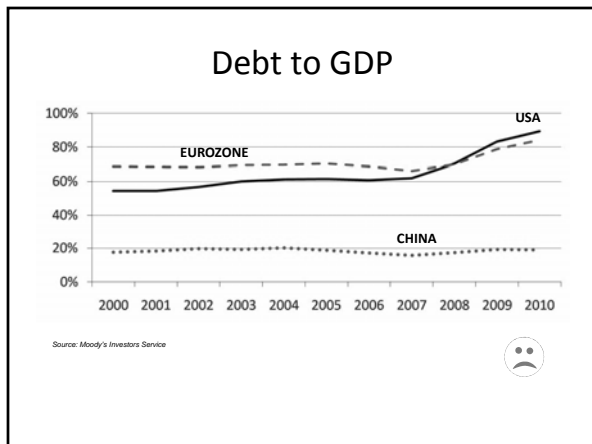
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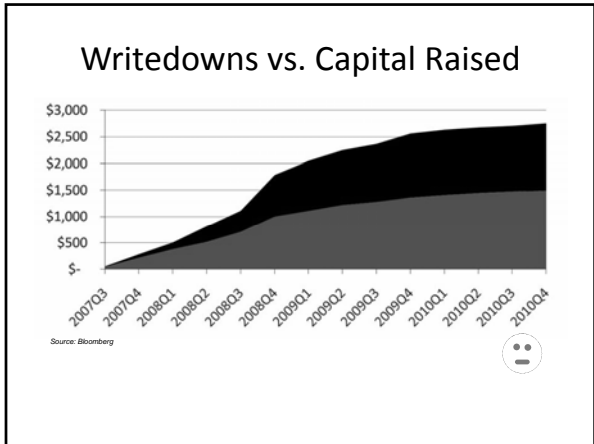
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- ### Regulatory Reforms
- Solvency II, Basel II, and Basel III
  - Dodd-Frank
    - Sections 165 and 404 (regulatory reporting)
    - Section 939 (decreased reliance on rating agencies)
    - Sections 941 and 945 (asset-backed securitizations)
  - Heightened Inquiry
    - Intensive exams
    - Launch of LISCC

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- ### Many Other Top of Mind Issues
- Next generation stress testing
  - Counterparty credit risk and CVA
  - Coping with wrong-way risk
  - Concerns about “high cost” credit protection
  - Rethinking covenant lite loans
  - Post-crisis review of credit models
  - Migration to IFRS
  - Risk-adjusted performance measurement (RAPM)
  - Liquidity risk in credit markets

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Question No. 1

- What are credit departments doing to implement the requirements of Dodd-Frank?

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Question No. 2

- How are credit risk models being re-thought now that the crisis is largely behind us?

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Question No. 3

- What are the latest frontiers of credit portfolio stress testing?

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Question No. 4

- What have practitioners learned in recent years about assessing the credit risk of CRE?

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Question No. 5

- How is sovereign risk factoring into the activities of credit departments?

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Question No. 6

- How are municipal debt concerns affecting credit departments?

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Question No. 7

- What are credit departments doing to better measure counterparty risk?

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Question No. 8

- What is the state of the art for credit EC?

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Question No. 9

- For all the talk about risk-based compensation, is the world any closer to credible RAROC and RAPM?

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**Question No. 10**

- On the systems front, what technologies are being adopted by leading credit practitioners?

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