

## Index

- 80/20 rule 509
- Accounting risk 283–4
- Accrued accounting  
examples 30–1  
general principles 29–30
- Adam, Laurent and Rebérioux demand deposit  
model 123–4
- Adam equivalents 322–6, 447
- AFS based income smoothing strategies  
459–60
- A/L manager presentation, of balance sheet  
splitting of books 22  
trading book isolation 19  
treasury book isolation 22
- ALCO (ALM committee) 87–92
- Allais paradox 310
- ALM book separation, *see* A/L manager  
presentation, of balance sheet
- American banking crisis of the 1980's  
real estate crisis 7  
savings and loans insolvency crisis 6–7
- Amortizing profile 63–4
- Amortizing swap 64
- Annual effective rate, of loan 143–4
- Arbitrage opportunity absence (AOA) 176
- Asset and liability management (ALM)  
and accounting 502–3  
ALM committee (ALCO) 87–92  
American banking crisis of the 1980's and  
6–7  
backtests and out-of-sample tests 350–2  
benchmarking 500  
capital consumption and capital attribution or  
allocation 386–7  
classic criticism of 500–2  
classification methods 354  
coherent risk measures 341–3  
company valuation process 383–6  
delta equivalent in 316–18  
departments 93–7  
diversity 497–8, 497–9  
earnings-at-risk (EaR) 343–4  
and financial analysis 391  
gamma equivalent in 321  
Gaussian framework 344  
and Hawks Martingale 461  
insurance industry and 7–9  
Markovitz optimization and CAPM 345–7  
Merton's model of financial options 391  
and model risk 503  
modern banking industry and 5–7, 13–14  
multivariate regression, confidence interval  
and tests 347–8  
non-parametric statistics 355  
objectives of teams 84–7  
organization 83–4  
other businesses and 9–13  
other indicators 383  
other statistical tools 355–6  
and performance indicators of a company  
381–2  
principal component analysis and interest  
rate example 352–3  
as profit centre 81–2  
relation with other departments 502  
seasonality treatments 352

- Asset and liability management (ALM)  
 (*Continued*)  
 stress testing 401–6  
 theoretical backgrounds about company  
 valuation 387–90  
 time series 348–50  
 value-at-Risk (VaR) 340–1  
 variance and standard deviation 339–40  
 vector models 350  
 Autocorrelogram 349  
 Available-for-sale financial assets (AFS) 36–7
- Backtests and out-of-sample tests, for ALM  
 350–2
- Balance sheet 20  
 delta hedging example of 448–52  
 in insurance industry 24–5  
 presentation by A/L manager 19–23  
 presentation in general 19
- Bank net economic income 425
- Banking Books 5, 13, 23  
 and balance sheet presentation by A/L  
 manager 23–4  
 economic value computation 408–13  
 statement of income 25–6
- Banking industry  
 1929 crisis 5  
 and ALM 5–7, 13–14  
 modern times 5  
 origin 3  
 in the 12th and 13th centuries 3–4  
 17th century to 20th century 4  
 types of banks 6
- Basel Committee regulation 5, 15  
 Basel accord 360  
 Basel I principles 360–1  
 Basel II glossary 363–5  
 Basel II Pillar 1 365–70  
 Basel II Pillar 2 370–5  
 Basel II Pillar 3 376–7  
 Basel II principles 361–3  
 for credit risk 222, 224–5, 230–1  
 criticisms 377–8  
 operational risk 281–2  
 stock market risk treatment in trading books  
 430
- Basis risk 236
- Behavioural modelling principles  
 backtesting of models 105–6  
 database constitution 101–3  
 event driven modelling 103–4  
 expert advice 105  
 model choices 101  
 strategy of the company 104
- Bermudan swaptions 443
- Black & Scholes formula, for stock price  
 295–6
- Black & Scholes model, for financial market  
 292–3
- Black market swaption prices 306
- Black model, for caps, floors, collars and  
 swaptions 522
- Bond accounting 30
- Bond strategies 197–8
- Book split 22–3
- Book value (BV) 383
- Bootstrapping method 355
- Brace Gatarek Musiela Market Model (BGM)  
 304–6
- Break-even FTP funding cost 213
- Break-even point liquidity gap 212–13
- Bridge loan 139
- Brownian motion  
 defined 287  
 of the Libor rate 123
- Budgetary outstanding 187
- Bullet loans 140
- Burnout phenomenon 157–9
- Business risk economic capital 430–2
- Business risks 282–3
- Cap or floors 43
- Capital allocation 386, 395–6
- Capital Asset Pricing Model (CAPM), measure  
 for ALM 345–7
- Capital Banking Book  
 products through FTP 75–6
- Capital Banking Book and IFRS 55
- Capital book 21, 24
- Capital consumption 386
- Capital cost 66
- Capital management team 96–7
- Carved out fair value hedge (COFVH) 45
- Cash flow hedge (CFH) 40, 42–3
- Cash flow statement 27
- Cash flows and financial markets 185
- CESR (Committee of European Securities  
 Regulators) 34
- Checking accounts 107
- CIR++ (Cox Ingersoll Ross two factors model),  
 of interest rate simulation 304
- Classic debt programmes 219

- Classification methods, of ALM 354  
 CMS floors 443  
 Coherent risk measures, for ALM 341–3  
 Collateralized debt obligations (CDOs) 232  
 Collateralized mortgage obligation (CMO)  
     199  
 Commercial banks 6  
 Commercial book 20–1  
 Commercial mortgage-backed security (CMBS)  
     199  
 Commissions 192–3  
 Community development banks 6  
 Company Market Value (MV) 383  
 Concentration credit risk 221  
 Confidence interval 400  
 Consolidation and IFRS 54–5  
 Constant maturity swap yield curve 239  
 Constant new production 187  
 Constant outstanding 187  
 Consumer loan 139  
 Contract cost modelling 103  
 Contract end date modelling 104  
 Contract life events modelling 104  
 Contract price modelling 103  
 Conventional schedule rules 67  
 Convertible debts 38, 39  
 Convexity change 242  
 Cooke ratio 360–1, 365  
 Copulas 509–11  
 Corporate balance sheet 23  
 Corporate loan 139  
 Corporate stock market risk 273–4  
 Corporate yield curve reconstitution 519–20  
 Correla equivalent  
     under forward neutral probability 324  
 Cost/income ratio (C/I R) 383  
 Counterparty default risk 221  
 Counterparty risk 277  
 Coupon paid, to the customers 195–6  
 Courba equivalent, under forward neutral  
     probability 324–5  
 Covered bonds 219  
 Credit cards loans 185  
 Credit default swaps (CDS) 232–3  
 Credit lines 212  
 Credit quality downgrading risk 221  
 Credit risk  
     cost 65  
     disclosures 52  
     economic capital computation 406–7  
     hedging of 232–5  
     impact on incomes 224  
     modelling and simulation of 225–32  
     monitoring of 224  
     nature and examples 221–4  
     sensitivity 225  
 Credit seniority/residual maturity, of  
     prepayment 157  
 CreditMetrics<sup>TM</sup> model 226  
 Cross-border funding 220  
 Cross-border risk 277  
 Cubic interpolation 516  
 Cumulative gap 212  
 Cumulative interest rate gap 243–4  
 Cumulative probability function 288  
 Currency risk  
     on earnings 270–2  
     economic capital 428  
     indicators for 272  
     investments and 266–9  
     net open currency position 266  
     simulation of 272–3  
     trading book 265  
 Curvature change 242  
 Customers' concentration risk ratio 207  
  
 Deeply subordinated bonds (DSB) 22  
 Delay effects 182–3  
 Delta equivalent computation  
     Adam equivalents 322–6  
     in ALM 316–18  
     associated break-even point 326–7  
     examples 327–33  
     and expected prepayment rates 331–2  
     forward neutral and risk neutral discounted  
         320–1  
     gamma equivalent computation in ALM  
         321  
     hedging error and gamma equivalent 334–8  
     horizontal and vertical delta equivalent  
         318–20  
     in trading activities 315–16  
 Delta equivalent method, for option conversion  
     245  
 Delta hedging error conclusions 334  
 Delta hedging strategies 444–8  
 Delta hedging techniques 315–16  
 Demand deposit accounting 30  
     application of LECG 415–16  
 Demand deposit accounts 107  
     modelling 111  
     replacement schedules 112–16

- Deposit modelling, elements in  
   average amount by account 125  
   backtesting and validation 131  
   closing account probability 125  
   computation of demand deposit economic value 134–5  
   equilibrium relationships 129–30  
   expert advice in 131  
   FTP, representation in 136–7  
   hedging strategy 137  
   historical database construction 124–5  
   income sensitivities indicators, representation in 135  
   interest rate schedules, representation in 132–4  
   liquidity schedules, representation in 132  
   projection of customer production and pereguation 128–9  
   remuneration 125–6  
   seasonal effects 131  
   sensitivity 130–1  
   volume effects 127–8  
   wealth effect 127
- Deposits and savings  
   academic demand deposit models 118–24  
   demand deposit accounts 111–16  
   forms of 107  
   modelling based on customer behaviour modelling 124–37  
   and money supply 108–11  
   role of monetary aggregates 108  
   savings accounts, *see* Savings accounts  
   valuation formula for deposits 474
- Derivatives 38, 197  
 Disbursement delays 64, 66  
 Discounted cash flow analysis 59  
 Diversification, of liquidity sources 218–19  
 Doubtful credit amount 76  
 Dupré demand deposit model 119–20  
 Dynamic liquidity gaps 213
- EAD (Exposure At Default) 363  
 Early redemption 104  
 Earnings-at-risk (EaR), measure for ALM 343–4  
 EC (Economic capital) 364  
 Economic capital 220  
   allocation process and limit setting 453–4  
   in ALM 407–33  
   computation of 398–401  
   credit risk computation 406–7  
   goals 394–7  
   IFRS and regulation implications for ALM 433–5  
   implications of 393–7  
   indicators for the economic value approach 435–40  
   target investment demanded by the shareholder 397
- Economic equity distribution 400–1  
 Economic lever 387  
 Economic value (EV) 383  
   approach for replacement of deposit 112  
   of the future liquidity 206  
   of the liquidity book 214  
   produced by new clients 188
- Economic value management  
   A/L managers' views 463–5  
   applications to capital book 492–3  
   company's objectives and the "optimization programme" 467–70  
   delta hedging strategies 466–7  
   grid technology 470–1  
   impact on ALCO communication 465  
   in insurance companies 491–2
- Effective interest rate 40  
 EFRAG (European Financial Reporting Advisory Group) 34  
 EL (Expected Loss) 364  
 Embedded derivatives 38–9  
 Embedded option risk 236  
 Embedded options 186  
 EONIA swap yield curve 240  
 Equity cost (company) 385  
 Ethical banks 6  
 Euler relationship 341  
 Euribor rates 116, 240  
 Event driven modelling 103–4  
 Expert advice, by A/L managers 105  
 Extreme correlation points 509
- Fair value  
   defined 40  
   of financial instruments disclosures 53  
 Fair value hedge (FVH) 40, 43–5  
 Fair value option, IAS 39 40  
 Fannie Mae (FNMA) 198  
 Feynman-Kac formula 290, 295, 337  
 Financial asset, defined 36  
 Financial assets at fair value through profit or loss (trading assets) 36–7

- Financial instruments, under IFRS  
 derivatives and embedded derivatives 38–9  
 financial assets 36–8  
 financial liability and equity 38  
 measurement 39–40  
 recognition and derecognition 36  
 scope 35–6
- Financial liability 38
- Financial markets  
 and cash flows 185  
 costs and commissions with 185–6
- Financial prepayment option 65
- Financial risks  
 corporate stock market risk 273–4  
 counterparty risk 277  
 credit risk 220–35  
 cross-border risk 277  
 currency risk 265–73  
 inflation risk 259–65  
 interest rate risk 235–58  
 liquidity risk 203–20  
 real estate risk/property risk 274–7  
 volatility risk 277–9
- Fire insurance 8
- Firm interest rate risk 242
- Fixed Income Trader 13
- Fixed term deposits 108
- Floating rate loan 63
- Floors 43, 443
- Forward rates 240
- Frachot demand deposit model 119
- Freddie Mac 198
- French Savings rate 116
- FSLIC (Federal Savings and Loans Insurance Company) 6
- FTP interest rate break-even 247
- FTP rule based on the flows 68–9
- FTP rule based on the stock 67–8
- Fubini theorem 474
- Full fair value, of the insurance contract 196
- Fund transfer pricing (FTP)  
 advanced, including credit risk and expected return on economic capital 64–6  
 examples of rules 72–7  
 incorporating the cost of an implicit option in 66–7  
 perequation concept 77–9  
 principles 61–4  
 rules based on “stock” and “flows” 67–72
- Fund transfer pricing (FTP), in the balance sheet income 30–1
- Funding book, *see* Treasury book
- Future contracts 520
- Gap analysis 243–4
- Gap limit 454
- Gaussian distribution, *see* Normal distribution
- Gaussian framework, of ALM 344
- GDP growth and interest rates 110
- Geographical credit risk 221
- Geometric Brownian motion 289
- Girsanov theorem 291, 293
- Government bond yield curve reconstitution  
 bootstrap method 515  
 direct interpolation method 515–16  
 indirect interpolation method 516–19  
 theoretical method 514–15
- Granting scores 221
- Grid technology computing, of interest rate risk capital 421–4
- Gross economic capital (GEC) 413, 418
- Gross interest margin (GIM) 383
- Guaranty Funds 8
- H3 monotonicity 341
- H1 positive homogeneity 341
- H4 sub-additivity (risk diversification) 341
- H2 translation-invariance 341
- Hawks Martingale 461
- Hedge accounting, discontinuation of 41–2
- Hedge funds 10–11
- Hedging and IAS 39  
 application to senior debt instruments 47  
 carved out fair value hedge (COFVH) 45–6  
 cash flow hedge 42–3  
 discontinuation of hedge accounting 41–2  
 effectiveness 46–7  
 fair value hedge 43–5  
 hedge accounting 40–1  
 instruments 41  
 interest margin hedge (IMH) 46  
 internal contracts 47
- Hedging effectiveness 46–7
- Hedging instruments 41  
 bond strategies 197–8  
 derivatives 197  
 MBS (Mortgage-Backed Securities) 198–9
- Held-to-maturity investments (HTM) 36–7
- Heteroskedasticity models 350
- Historical cost measuring, *see* Accrued accounting
- Historical databases, construction of 101–3

- Home equity loan 139
- Horizon choices 400
- Horizon computation, of the income sensitivities 249–50
- Horizontal Equivalent delta 319
- Host contracts 38
- Hull & White interest rate models 528–31
- Hull & White one-factor model, of interest rate simulation 296–301
  
- IAS 39 35–48, 56–7
- IAS 30 and banks' disclosures 48–9
- IAS 32 (disclosure of financial instruments) and IFRS 7 (disclosures checklist) 49–53
- ICAAP (Internal Capital Adequacy Assessment Process) 394
- Idealized rates 223
- IFRS-EU 34
- Impairment and IAS 39 47–8
- Implicit or explicit options cost 63
- Implicit prepayment rate 161–3
- Implicit yield curves 238
- Income projection indicators, of economic capital 436–40
- Income sensitivity limit 455
- Income smoothing strategies
  - comments 457–8
  - examples 458–60
  - Hawks Martingale 461
- Inflation and money supply 108–9
- Inflation risk
  - in balance sheet 260
  - of bonds linked 262–3
  - factor simulation 264–5
  - hedging 265
  - impact on incomes 263
  - indicators 263–4
  - macroeconomic point of view 259–60
  - market 261–2
- Inflation risk economic capital 428–30
- In-life scores 221
- Instantaneous forward rate 241
- Insurance book 24–7
  - statement of income 26
- Insurance contracts 332
- Insurance industry
  - history 7–8
  - and IFRS 53–4
  - in modern times 8–9
  - types of 9
- Insurance products
  - FTP 77
  - mutual funds 195–6
  - unit of account contracts 195
- Insurance provisions 460
- Intensity based models, for credit derivatives pricing 231–2
- Interbank market 219
- Interest margin hedge (IMH) 46
- Interest rate risk
  - forms of yield curve 241–2
  - hedging 258
  - impacts on the incomes 242
  - indicators 242–57
  - nature and examples 235–6
  - simulation 257–8
  - types of interest rate 238–41
  - types of yield curves 236–8
- Interest rate risk capital
  - criticism 424–7
  - grid technology computation 421–4
  - sensitivity based computation 417–21
- Interest rate risk transfer 62–3
- Interest rate schedules, estimation of 245
- Interest rate spread, on prepayment
  - absolute 153
  - comparison between relative and absolute 154–6
  - impact 156, 157
  - lag on 156
  - non linear terms 156
  - relative 154
  - volatility impact 157
- Interest rate yield curve slope risk 236
- Interest risk profit centre 81–2
- Interest-only stripped mortgage-backed securities (IO) 199
- Internal transfer pricing, *see* Fund transfer pricing (FTP)
- International Accounting Standards Board (IASB) 33
- International Accounting Standards (IAS 39)
  - criticisms of 56–7
  - financial disclosures 48–53
  - hedging relations 40–7
  - impact on ALM 56
  - impairment of assets and loans including
    - credit risk impairment 47–8
    - and insurance 53–4
    - other specifications 54–5
  - recognition of financial instruments 35–40

- 
- International Financial Reporting Standards (IFRS)
    - financial disclosures 48
    - international organizations 33–4
    - rules 34–5
  - Intraday liquidity ratio 206–7
  - Investment banking 6
  - Investment management 9–10
  - Investment strategy modelling 104
  - IRB advanced approach 367
  - IRB (Internal Rating Based) Foundation approach 367
  - Italian banks 4
  - Itô lemma 290
  
  - Jarrow and Van Deventer demand deposit model 120–1
  - JP Morgan introduced RiskMetrics 417
  
  - Kernel smoothing 169–70
  - KMV™ model 226
  - KRI (Key Risk Indicator) 364
  
  - Laplace transform 289
  - Law invariance 341
  - Leasing 140
  - Least-square minimization 348
  - Letter of credit 3
  - LGD (Loss Given Default) 363
  - Libor in arrears investment 458
  - Libor indexed loans 141
  - Libor indexed rate 64
  - LIBOR rates 240
  - Life insurance companies 9
    - application of LECD 417
  - Limits policy
    - economic capital allocation process 453–4
    - gap limit 454
    - income sensitivity limit 455
  - Linear amortizing loans 140
  - Linear Gaussian Model with risk premium 311–13
  - Linear Gaussian model with two factors, of interest rate simulation 301–3
  - Linear interpolation 515–16
  - Liquid deposits 110
  - Liquidity book income 213
  - Liquidity crisis 205
  - Liquidity gap 208–9
  - Liquidity income 204–5
  - Liquidity information 206
  - Liquidity risk
    - funding cost 203–4
    - hedging 217–20
    - illiquidity 203
    - impact on net income 204–6
    - monitoring of 206–14
    - simulation of 215–16
  - Liquidity risk disclosures (IFRS 7) 52
  - Liquidity risk economic capital 427
  - Liquidity risk transfer 63
  - Liquidity schedule 195
  - Loan offers 181
  - Loan/capital ratio 207
  - Loans
    - definitions and formulae 141–4
    - types 139–41
  - Loans and receivables 36–7
  - Loans/deposit ratio 207
  - Lognormal distribution 288
  - Lombards, of Italy 4
  - Long-Term Capital Management (LTCM) 11
  - Loss given default (LGD) 223, 225
  
  - M (Maturity) 363
  - Macaulay duration 256
  - Marine insurance 8
  - Marked-to-market accounting
    - general principles 29–30
  - Market models, of interest rate simulation 304–6
  - Market options 333
  - Market risk 13
  - Market risk disclosures (IFRS 7) 52
  - Market yield curves 238
  - Markowitz optimization, measure for ALM 345–7
  - Markowitz Theory 10
  - Martingale notion 289–90
  - Maturity cap loans 141
  - MBS (Mortgage-Backed Securities) 198–9
  - McDonough ratio 361
  - Medium or long-term ratios 207–8
  - Merton's model of financial options 391
  - Micro hedging strategies, with structured products 443–4
  - Migration models, for rating credit risk 226–7
  - Mismatch risk 236

- Model and business risk economic capital 430–2
- Model backtesting 105–6, 172–4
- Model risks 282
- Modigliani-Miller theorem 389
- Monetary aggregates 108
- Monetary interbank rates 520
- Monetary policy 236
- Money market savings 107
- Money supply
- A/L manager formula 111
  - and M2 modelling by A/L managers 110
  - and M2 modelling by Central Banks 108–9
  - volume effects 110–11
- Money Zero Maturity (MZM) 108
- Moneychangers 4
- Monte Carlo simulation 329
- Moody's long-term bond ratings 237–8
- Mortgage loans 139
- new production of 188–91
- Mortgage-backed security (MBS) 174
- Multicurrency correla equivalent 333
- Mutual bank companies 6
- Mutual funds 195–6
- Nelson Siegel indirect interpolation models 517
- Net economic capital (NEC) 413, 414
- Net income 26
- Net investment hedge 40
- New insurance contracts modelling 191–2
- New production modelling
- commission and cost modelling 192–3
  - new contract production 187–92
  - perequation modelling 193
  - strategies 193–4
- Non-financial risk
- accounting risk 283–4
  - business risks 282–3
  - model risks 282
  - operational risks 281–2
  - risk correlations 283
- Non-interest-bearing deposits (demand deposits) 72–4
- Non-parametric prepayment modelling
- kernel smoothing 169–70
  - principles 169
  - weighted kernel smoothing 170
- Non-parametric statistics, of ALM 355
- Normal distribution 288
- Normalized equity 382
- Off-balance sheet 23
- Office of Thrift Supervision (OTS) demand deposit model 121–3
- Operating income 26
- Operation currency 63
- Operational costs 63
- Operational risks 281–2
- Optimization programme, applications
- banking book activities 473–82
  - credit risk book 483–4
  - for demand deposit income smoothing 487–9
  - global Banking Book including business and model risk 485–7
  - prepayment risk optimal hedging strategies 484–5
  - stock market book 482–3
- Optional interest rate risk 243
- Optional risk indicator, for market interest rate options 254–5
- Outstanding amount 444
- Overdrafts 139, 246
- P & L impact, of bond premium / discount 30
- Parametric prepayment modelling
- classic prepayment functions 166–8
  - logit models and cumulative prepayment functions 168
  - with mixed effects 168
- Pawnbrokers 4
- PD (Probability of Default) 363
- P/E ratio computations 383
- Penta equivalent
- computation of bank balance sheet 452
  - under forward neutral probability 323–4
  - under risk neutral discounted income delta hedging 325–6
- Perequation concept 77–9
- Perequation modelling 193
- Perfect positioning, in ALM 15
- Periodic gap 212
- P+I amortizing loans 140
- Pillar 1, of Basel II regulation
- and market risk 368
  - and operational risk 368–70
  - risk aggregation 370
- Pillar 2, of Basel II regulation 394
- implementation of economic capital 370–2
  - and interest rate risk governance 374–5
  - and interest rate risk in the banking book 372–4

- 
- Pillar 3, of Basel II regulation 376–7
  - Pipeline risk 181
  - Pipeline risk option 65
  - P&L net of carry, notion of 29
  - Point in time (PIT) 222
  - “Pool based” FTP rule 67
  - Positions at risk 419
  - Postal saving banks 6
  - Power options 443
  - Premium/discount cost 30
  - Prepayment modelling
    - advanced databases for 163–6
    - database for rudimentary modelling 160–3
    - expression of prepayment 159
    - model backtesting 172–4
    - non-parametric 169–71
    - parametric 166–8
    - rationale 148
    - renegotiation 171–2
    - through MBS-based models 174–7
  - Prepayments
    - application of optimization programme 484–5
    - borrower rating 152
    - burnout variable 157–9
    - competing risks 151–2
    - credit seniority/residual maturity 157
    - example 147
    - financial or rational 145, 146
    - interest rate spread 153–7
    - macroeconomic variables affecting 152–3
    - modelling, *see* Prepayment modelling
    - models 166–77
    - monitoring 178–9
    - penalties or compensation 146–7
    - renegotiation 146
    - scoring techniques 178
    - seasonal 153
    - sources of 148–9
    - statistical or sociological 145
    - transaction costs and penalties 150
    - types of 149–50
  - Price on earnings ratio (P/E ratio or PER) 383
  - Price to Book (PTB) 383
  - Prices grids 64
  - Principal-only stripped mortgage-backed securities (PO) 199
  - Private banks 6
  - Probability of default (PD) 225
  - Procyclic effects 222
  - Quantitative modelling, of new customer/contract production 188
  - RA (Risk Assessment) 364
  - Real estate crisis 7
  - Real estate investments 38
  - Real estate prices 191
  - Real estate risk/property risk 274–7
  - Real probability 291
  - Recovery rate risk 221
  - Regulated savings rate 116–17
  - Regulatory capital 393
  - Remunerated deposits without maturity 74
  - Renegotiation prepayment modelling 171–2
  - Repayment formula, of loans 142–3
  - Replicating portfolio approach, for replacement of deposit 112
  - Residential mortgage-backed security (RMBS) 199
  - Retail balance sheet 23
  - Retail banking books 23
  - Risk adjusted return on capital (RAROC) 382
  - Risk aggregation 432–3
  - Risk contribution computation facility 341
  - Risk correlations 283
  - Risk free auto-financing strategy 293
  - Risk management 14
  - Risk management, for assets and liability managers 201
  - Risk neutral delta hedging 321
  - Risk neutral probability 292
  - Risk premium level estimation 310–11
  - Risk reduction techniques, under Basel II regulation 367–8
  - Risk transfer, a market price 62
  - ROE (Return on Equity) 381
  - ROEC (Return on Economic Capital) 382, 425, 478
    - risk adjusted performance measurement with 395
  - Rome and banking activities 3
  - RONE (Return on Normalized Equity) 381
  - Rotation 242
  - RWA (Risk Weighted Asset) 364
  - Saint Louis Models, of money supply 109
  - Savings accounts
    - non-regulated 117–18
    - regulated 116–17
  - Savings and loans insolvency crisis 6–7
  - Savings banks 6

- Schedule with prepayments 210  
Scoring 102  
Seasonality treatments, of ALM 352  
Sector concentration credit risk 221  
Securitization 219, 232–5  
Securitization and IFRS 54–5  
Securitization price 65  
Selvaggio demand deposit model 118  
Senior debt instruments 47  
Sensitivity based computation, of interest rate risk capital 417–21  
Sensitivity indicator 248–54  
Shareholder system of reference, of economic capital 394  
Shareholder's constraints 477–8  
Shareholder's equity 382  
Short-term interest rate risk 243  
Short-term liquidity ratio 206  
Simulating liquidity risk 215–16  
Simulation tools, for interest rates and other financial indexes  
  equity market simulation 292–6  
  generic models 306–9  
  interest rate simulation 296–306  
  market simulations including risk premiums 309–13  
  stochastic calculation 287–92  
Solvency II European directive  
  objective 378  
  and pillars of Basel II 378–9  
Spearman  $\rho$  509  
Special purpose vehicles (SPVs) 232  
Spectral risk measures (SRM) 343  
Spline models 518–19  
Spot mixed with forward deals 459  
Stable liabilities ratio 208  
Standard and Poor's (S&P) ratings 237  
Standard normal distribution 288  
Statement of income 25–6  
Statistical prepayment option 65  
Stock conventional schedule 70  
Stock investment portfolios and latent economic capital gains (LECG) 414–15  
Stock market risk economic capital 430  
Stock options and IFRS 55  
Stress testing, of ALM 401–6  
Structural interest rate risk 243  
Structural models, for estimating defaults 228–30  
Student loan 139  
Super-savings 117–18  
Swap contracts 521  
Swap interbank yield curve reconstitution 520–1  
Swap rates 239–40  
Swaptions 43  
Term deposits 107–8  
Theory of arbitrage opportunity absence (AOA) 293–5  
Through the cycle (TTC) 222  
Tier 1 and Tier 2 capital 22  
Time series assessment, of ALM 348–50  
Trade date 63  
Trade maturity date 63  
Trading books 13  
  isolation of 19  
Transformation, defined 15  
Translation 242  
Treasury book 22  
UL (Unexpected Loss) 364  
Unit of account contracts 195  
United States Securities and Exchange Commission (SEC) 33  
US GAAP 33  
Value-at-Risk (VaR), measure for ALM 340–1  
VaR (Value-at-Risk) 13, 364  
Variance and standard deviation, measure for ALM 339–40  
Vasicek indirect interpolation models 517–18  
Vasicek stochastic model, for the evolution of interest rates 523–8  
Vector models, of ALM 350  
Volatility risk 277–9  
Volume effects 183  
von Neumann-Morgenstern axioms 310  
Weighted Average Cost of Capital (WACC) 388  
Weighted average life (WAL), of loan 143  
Weighted kernel smoothing 170  
Whistle effect, *see* Delay effects  
Wiener process 287  
Yield curve evolution modelling  
  reconstitution of 513–21  
  stochastic interest rate models 521–31  
Yield to Maturity (YTM) for bonds 238–9  
Zerocoupon bond schedules 481  
Zero-coupon loans 140











