

Challenges from New Risk Management Developments

Welcome

In collaboration with *The Banks Association of Turkey*

Istanbul, 27th of April, 2004
Dilek Yardim

<http://www.deutsche-bank.com/rms>

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Agenda

Section

- 1 Introduction: Challenges from New Risk Management Developments
- 2 Advanced Market Risk Management Approach for the Turkish Market
- 3 Traditional vs. Value-Based Approach for Asset-Liability Management
- 4 Credit Risk Management in the Light of Basel II
- 5 Implementing an Operational Risk Management Organisation
- 6 Questions & Answers

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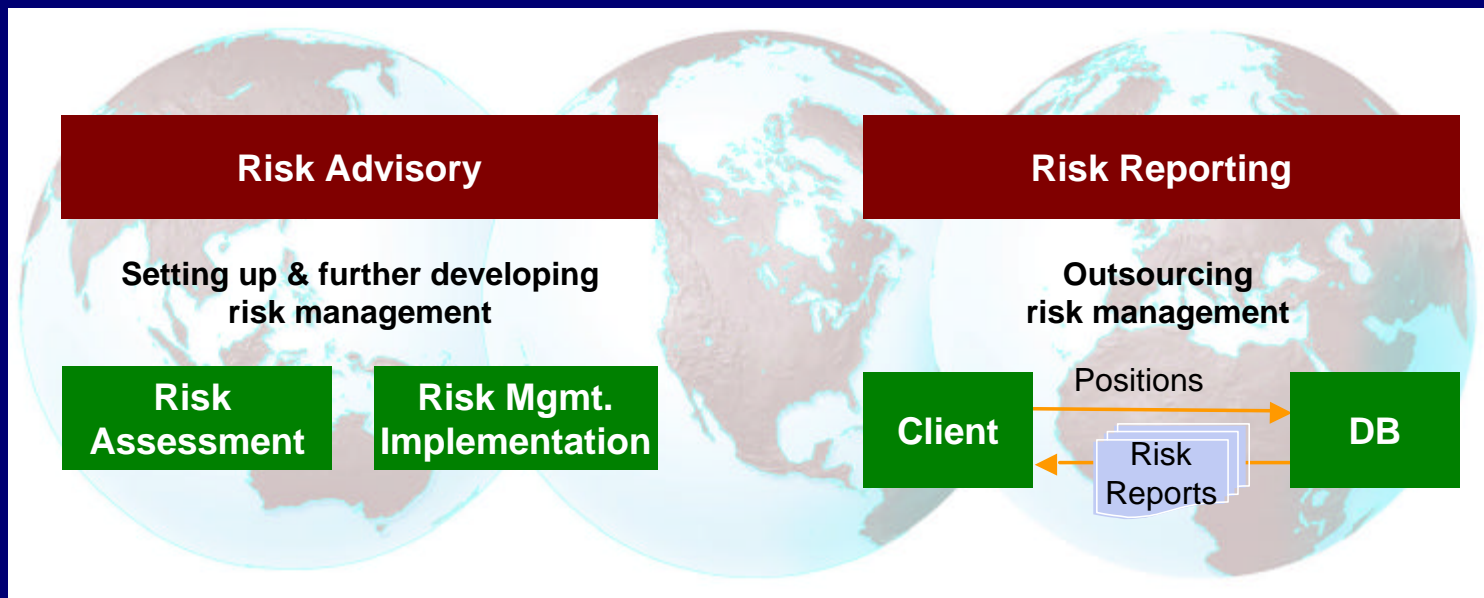
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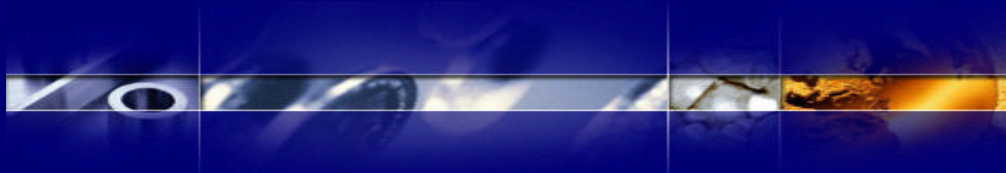
Risk Management Services

30 outstanding management consultants



**The raw material of banking
is not money.**

It is risk!



The early practices of risk management

4000 B. C.	There is some evidence that there may have been rice futures traded in China
2000 B. C.	It is believed that futures trading may date back to India
0 B. C.	Futures trading subsequently appeared in Greco-Roman times . However, there was no concept of measuring uncertainty.
12 th century	The trading methods of modern futures markets probably trace their origins to the medieval fairs of France and England .
17 th – 18 th century	There are examples of organized futures markets in Europe and Japan in the 17th and 18th centuries.

Foundations of modern risk management

1738, St. Petersburg	Daniel Bernoulli: „Exposition of a New Theory on the Measurement of Risk “
1848, Chicago	Foundation of the Chicago Board of Trade (CBOT)
1849 - 1865	First Agricultural Futures Contracts at the CBOT
1946	J. von Neumann proposes modern computer architecture with „stored program“
1953	J. von Neumann and O. Morgenstern: „Theory of Games and Economic Behavior“

Break-through of modern risk management

1952, 1959	H. M. Markowitz, „Portfolio Selection“
1964	W. F. Sharpe „Capital Asset Prices: A Theory of Market Equilibrium Under Conditions of Risk“
1973	F. Black and M. Scholes, „The Pricing of Options and Corporate Liabilities“
1975	CBOT launches futures on GNMA's, its first financial futures contract
1977	CBOT introduces the U.S. Treasury bond futures contract
1982	CBOT launches Options on U.S. Treasury bond futures
1987	CBOT evening trading sessions inaugurated for interest rate futures and options on futures

The regulatory catch-up

1987	Stock market crash
1988	Basel Accord : Capital requirements for banks are based on risk measures
1993	G-30 -study on Derivatives: Practices and Principles
recently	<ul style="list-style-type: none">– US GAAP: Changes in accounting for derivatives, from off-balance sheet to on-balance sheet– IAS / IFRS– Basel II

Parallel developments in other industries

Since the 80's	Computers revolutionize the business e.g. car industry
Since the late 80's	1988 CAD: computer aided design
Currently	Crash simulations

Why do you want to risk your company and not an electronic dummy?

Modern corporate management considers the risk/return trade-off

Risk/Return-Profile

