

Contents

Introduction	8
Chapter 1 REGULATING BANKING ACTIVITIES AND RATINGS	12
1.1. Requirements for Ratings and Their Target Audience	13
1.2. Assessing Risk and the Basel Accords	15
1.3. Ratings as a Measurement of Credit Risk	25
1.4. Regulating Banking and Rating Activities	30
Chapter 2 CREDIT RATING MODELS	37
2.1. Ratings Classification and a Comparative Analysis of the Methodology	37
2.1.1. Appointing Credit Ratings and Ratings Agencies	38
2.1.2. The Development of Ratings in Russia	41
2.1.3. Rating Agencies' Methodology	48
2.2. Principles of Formulating and Modelling Ratings	59
2.2.1. A Comparison of Russian Ratings Agencies' Methodologies	60
2.2.2. An Overview of Approaches Towards Analysing and Modelling Ratings	70
2.2.3. Ratings Builder	87
2.2.4. Domestic Ratings and Their Features	94
2.2.5. Econometric Models of Ratings	97
2.3. Econometric Models of Bank Ratings	99
2.3.1. Models of Russian Agencies' Ratings After the 1998 Crisis	99
2.3.2. Econometric Models of Moody's Ratings	101
2.3.3. A Comparative Analysis of the Bank Ratings of Foreign Agencies	110
2.3.4. A Comparative Analysis of Russian Bank Ratings	125
2.4. Models of the Ratings of Industrial Companies	136
2.5. Sovereign Ratings and Their Models	146
Chapter 3 MODELLING THE PROBABILITY OF DEFAULT	163
3.1. Defaults by Financial and Nonfinancial Companies	164
3.2. Classifying Models for Assessing the Probability of Default and the Models' Features	166
3.2.1. Models Based on Market Figures	166
3.2.2. Models Based on Fundamental Figures	169
3.2.3. Modern Approaches to Assessing the Probability of Default by a Borrower	176
3.2.4. The Specifics of Default Probability Models for Russian Banks	177
3.2.5. Certain Provisions of Assessing Mortgage Lending Risks	180
3.3. Models of Bank Default. The Russian Case	182
3.3.1. The Russian Banking System and the Problem of Stability	182
3.3.2. Models of Default Based on the Results of the Systemic Banking Crisis of 1998	186
3.3.3. Models of Default Based on Empirical Data from the Early 21 st Century in Russia	200
3.4. Probability of Default Models for Industrial Companies	217
3.5. Risk Management Models for Retail Mortgage Lending	223
3.6. Stress Testing for Credit Risks	230
3.6.1. Defining Stress Testing and Determining Research Directions	231
3.6.2. Monitoring Systematically Important Banks	232
3.6.3. An Analysis of the Sensitivity of Credit Risk Metrics and the Increased Number of Loans	

Issued to Macroeconomic Shocks	236
--------------------------------------	-----

Chapter 4	A COMPARATIVE ANALYSIS OF CREDIT RATINGS AND A COMPARISON OF RATING SCALES	242
4.1.	A Comparative Analysis of Credit Ratings	242
4.1.1.	Searching for Ratings Differences and the Reasons Behind Them	242
4.1.2.	Bringing Ratings into a Comparable Form	248
4.1.3.	An Analysis of the Approaches to Displaying Rating Scales	249
4.1.4.	Nonparametric Methods of Mapping Scales	253
4.1.5.	The Russian Example of Comparing Ratings	254
4.1.6.	Comparing Scales in Other Areas of Activity	255
4.2.	A Single Ratings Space	257
4.2.1.	Key Concepts and Assumptions	257
4.2.2.	Multiple Views in a Baseline Rating Scale	258
4.2.3.	A Single Ratings Space: Why Do We Need It?	260
4.2.4.	Approaches to Organising the Mapping of Multiple Rating Scales	261
4.3.	A Remote Method of Comparing Rating Scales	263
4.3.1.	Evaluating the Proximity of Baseline Rating Scales	263
4.3.2.	Forming a Database to Compare Russian Banks' Ratings	265
4.3.3.	A Remote Method for Converting Rating Scales	266
4.3.4.	Forming Models to Compare Ratings	269
4.3.5.	Analysing Figures and Tables of Rating Scale Congruence	271
4.3.6.	Comparing the Largest Agencies' Rating Scales for Foreign Banks	272
4.4.	Econometric Rating Models and a Comparison of Scales	278
4.4.1.	A Description of the Methodology	278
4.4.2.	Examples of the Methodology's Application	281
4.5.	Regulatory Possibilities Based on Tables of Rating Scale Congruence	285
	CONCLUSION	290
	SOURCES	292