

## Asset & Liability Management for Banking Institutions Course

As the banking industry continues to experience a continued low interest rate and low margin environment, the focus on efficiently and effectively managing the interest rate risk and liquidity risk of the balance sheet remains critical. In addition, fixed rate lending and the related higher interest rate risk demands better interest rate management techniques.

This course covers all aspects of measuring and managing your interest rate risk using best practice techniques. It covers all aspects of ALM from the operation of the ALCO committee, the measurement and management of interest rate risk, interest rate risk appetite setting, through to reporting to management and Board. In addition, the measurement and management of liquidity risk is covered as an essential component of managing the balance sheet.

Lastly, “transfer pricing” is considered in terms of its use in assisting the pricing committee to determine optimal pricing for products and more importantly, the relative contribution of each product to the institution’s performance.

**Covers all aspects of the ALM function including interest rate risk measurement and management, liquidity measurement and transfer pricing.**

### Gain an understanding of:

- The requirements of APS 117: Interest Rate Risk in the Banking Book and APS 210: Liquidity Risk
- How to measure interest rate risk using the common techniques of gap analysis, accrual simulation, economic sensitivity, Value at Risk and stress testing.
- The various assumptions in your measurement including prepayments and sticky rates.
- Measuring liquidity risk using a range of techniques: cash flow forecasting, stress testing including the LCR ratio and HQLA management.
- Best practice reporting for ALM—to ALCO, BRC and the Board.
- How to manage your interest rate risk using strategic and tactical techniques.
- The essential components of transfer pricing and how to use transfer pricing in your business.

### Course Presenter

*David Tattam is a director of Protecht Pty Ltd. He is a specialist in all facets of risk management and in particular operational and enterprise wide risk management. He is recognised internationally as an authority on the discipline. Prior to setting up Protecht, David held roles as the Head of Operations and Risk Management at WestB Bank and the Industrial Bank of Japan in Australia and 7 years with PricewaterhouseCoopers. He currently consults to, and trains in, a range of industries in relation to setting up risk management functions and implementing systems to ensure successful Enterprise Wide Risk Management. He has also been instrumental in the development of a fully integrated ERM software solution. He is an Associate of the Institute of Chartered Accountants in Australia, a Fellow of the Institute of Chartered Accountants in England and Wales, and a Fellow of the Financial Services Institute of Australia.*

### Course Outline

#### 1. Defining Asset and Liability Management (ALM)

- Objectives of ALM
- Scope of ALM. What assets and liabilities are covered?

#### 2. ALM Organisation & Policy

- ALCO Committee: Membership, terms of Reference, responsibilities, functions, operation
- ALCO Policy
- External requirements: APS 117: Interest Rate Risk in the Banking Book

#### 3. Risks in managing Assets and Liabilities

- Interest rate, Liquidity risk, Credit risk

#### **4. Analysing Interest Rate Risk**

- Exposures and Positions. Re-pricing periods, mismatches
- Risk Factors: Par rates and zero coupon rates, Credit spreads
- Outright, Basis and Curve Risk
- Impact of interest rate movements in profitability: Earnings and Economic Value based methods
- Calculation of Economic Value

#### **5. Understanding Interest Rates**

- Term structure of interest rates and the yield curve
- Simple/compound, Normal/Forward rates
- Calculation of zero coupon rates and discount factors
- Interpolating rates

#### **6. Identifying exposures**

- Exposure: Which transactions?
- Interest bearing
- Non interest bearing
- Dealing with capital
- Obtaining data: Sources and what data is required?
- GAP Analysis and position mapping

#### **7. Earnings based measures**

- Net interest margin / interest simulation
- Setting up and running a simulation
- Using and interpreting the simulation results

#### **8. Economic Value based measures**

- Sensitivity Analysis: 1 basis point
- Stress testing: multiple basis points
- Value-at-Risk (VAR)

#### **9. Defining risk appetite and limits**

- What measures to use for appetite and limit purposes
- Setting the risk appetite and limits and trigger points
- Defining an overall limit structure

#### **10. ALM Strategy**

- Changing the interest rate profile
- Changing the asset and liability structure on and off balance sheet
- Using derivatives
- Interest and currency swaps
- Forward rate agreements
- Interest rate futures
- Interest rate options
- Determining ALM strategy

#### **11. Reporting for ALM**

- Content and format of the ALCO report
- Reporting to the Board and Risk Committees

#### **12. Measuring and Managing Liquidity Risk**

- Incorporating liquidity risk into the ALM process

### **13. Capital calculation for interest rate risk**

- Calculating the ICAAP requirements for interest rate risk
- APS 117 requirements

### **14. Transfer pricing**

- What is transfer pricing
- Using transfer pricing for profitability analysis and as an input into product pricing decisions
- Setting up a transfer pricing capability.

*In keeping with our policy of maintaining video resources to around 1 hour viewing time the Asset & Liability Management for Banking Institutions Course is offered in two videos.*