

CONTEMPORARY CHALLENGES IN THE ASSET LIABILITY MANAGEMENT IN BANKS

22-23 MAJA 2018
WARSAW

WHO THE COURSE IS FOR:

- Liquidity managers and IRRBB managers
- Finance professionals
- Bank treasurers and treasury professionals
- ALM professionals
- Advisors at consultancy firms
- Bank supervisors

PRIOR KNOWLEDGE:

- Understanding of banking treasury/ALM aspects
- Familiarity with Basel III requirements
- Familiarity with the concept of Interest rate risk and liquidity risk in banks
- Familiarity with the FTP process

LEARNING OBJECTIVES:

- Understand the ALM role in a financial institution
- Gain knowledge on the IRRBB measurement techniques
- Gain knowledge on the IRRBB profitability enhancement strategies
- Overcoming the practical challenges related to the BCBS 368 requirement
- Gain knowledge on the pricing of liquidity
- Overview of the best practice in the Funds Transfer Pricing process
- Overview of the balance sheet optimization techniques

SHORT DESCRIPTION:

The role of the active management of the banking book in the banking industry is constantly growing. This is dictated by heavily regulated landscape and increased competition for resources such as liquidity and capital. Given the market pressure, the relentless pursuit for the most efficient and productive use of a bank's resources subject to consolidated risk and return appetite remains of upmost importance for banks of all size. Consequently, strategic ALM can significantly improve financial performance by delivering a better balance between returns and risks across the on and off-balance sheet items.

This advanced 2 -day course covers best practice in Asset - Liability Management (ALM), as well as ALM role's as zza strategic function in financial institutions.

OVERVIEW:

The first day of the course focuses on the role of the ALM function and its set up within the financial institution. It provides the audience with the overview of the best market practice to ALM and its evolving role in the overall profitability of the bank. During the first day, presenter walks the audience through techniques for the interest rate risk measurement and management in the banking book (IRRBB) and emphasizes the importance of the active management of IRRBB in ALM though undertaking profitability enhancement strategies.

The second day covers, in detail, the new regulatory requirements for IRRBB (Basel Committee on Banking Supervision Standards) and provides the methodological support in the implementation of this requirement. The second part of the day is fully focused on the role of the Funds Transfer Pricing process in balance sheet shaping.

BEATA LUBIŃSKA

Head of Market Risk, MeDirect Group, London, UK



Beata is a financial engineer with 15 years of practical experience gained in international financial institutions such as GE Capital, Deloitte and Standard Chartered Bank based both in Milan and London.

Currently she is a Head of Market Risk Department in MeDirect Group in London with the main focus on IRRBB, Market Risk and Balance Sheet Management. Beata is also pursuing the academic research.

In her PhD thesis she launches the hypothesis that the application of the optimization techniques improves the management of the banking book in terms of quantifiable economic impact on the P&L of the bank and that there is clear benefit from the integrated treatment of the interest rate risk and liquidity risk under one approach. She strongly promotes the proactive management of the Balance Sheet of a bank. The results of her research are published in Financial Sciences, Springer Proceedings in Business and Economics and Research Papers of Wroclaw University of Economics. Her recent publications include:

1. "Review of the static methods used in the measurement of the exposure to the interest rate risk" – Financial Sciences 2014
2. "Balance Sheet Shaping Through Decision Model and the Role of the Funds Transfer Pricing Process – Springer 2017
3. "Contemporary challenges in the Asset Liability Management" – Springer 2018

In addition, Beata is actively providing trainings for professionals from banking industry in Latvia and London.



OUTLINE:

Day One

ALM Introduction and Overview

- *The evolving role of ALM in financial institutions*
- *ALM role as a bank within the bank*
- *ALM as a business unit*
- *Maturity transformation as a main source of earnings*
- *ALM - Zero sum game*
- *Creation and categorization of assets and liabilities in the banking book*
- *Why is it important to transfer risks to ALM?*
- *Development of ALM in the future*

IRRBB measurement, management and strategies

- *Re-ricing Gap analysis as an important tool for the understanding of the IRRBB position of a bank*
- *Measuring Net Interest Income (NII) risks with static and dynamic sensitivity analysis*
- *Measuring Economic Value of Equity (EVE) and its sensitivity*
- *Analysis of the interest rate shocks*
- *Analysis of the impact of the automatic options on the EVE metric*
- *Re-investment and re-funding risks*

Case study: calculation of the NII sensitivity and EVE volatility under different interest rate scenarios

- *Analysis of the basis risks*
- *Analysis of the Credit Spread Risk in the banking book*
- *Discounting with commercial margin and without – external and internal view for IRRBB*
- *IRRBB stress testing and capital allocation*

Case study: assessment of the basis risk through re-fixing gap analysis

- *Interest Rate positioning – decisions taken within ALM*
- *Should we be able to increase risks to profit from expected market conditions?*
- *Interest rate treatment of items without deterministic maturity*
- *Structural hedging – margin compression*
- *Analysis of the IRRBB metrics*
- *VaR – calculation of interest rate risk in the investment portfolio*

Case study: analysis of the IRRBB metrics – is the IRRBB well managed?

Day Two

Basel Committee on Banking Supervision Standards and European Banking Authority – detailed analysis of the requirements for IRRBB

- *IRRBB metrics and shock scenarios*
- *Treatment of automatic options*
- *Treatment of behavioural options (CASA and prepayments)*
- *IRRBB governance*
- *Challenges with the BCBS 368 implementation*

What is Funds Transfer Pricing?

- *Sum of policies and methodologies for the use and generation of liquidity*
- *Robust model with different participants involved*
- *Maturity transformation as a main source of earnings*
- *External pricing versus internal pricing*
- *Objectives of FTP*

ALM role in the FTP framework

- *Match Maturity Transfer Pricing*
- *Separating interest and liquidity component within FTP*
- *Cost of contingent liquidity*
- *Why is it important to transfer risks to ALM?*

Case study: calculation of Net Interest Margin in business units and ALM

- *Interest Rate positioning, extent of maturity transformation and the optimal amount of liquidity buffer – decisions taken within ALM*

Case study: analysis of the ALM P&L components Conclusions and Questions

- *Measuring ALM economic performance*
- *Evolution of modelling requirements and the role of ALM*