
INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) MASTERCLASS

HOW TO IDENTIFY, MEASURE
AND MITIGATE IT?



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LED BY:
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HOW TO IDENTIFY, MEASURE AND MITIGATE IT?

Interest rate risk in the banking book (IRRBB) gained its importance through the regulatory requirements that have been growing and guiding this space for the last couple of years, with the deadline fast approaching, the importance of IRRBB is shifting for banks, away from 'just' a regulatory requirements through to actually having an impact on the broader governance of IRRBB across the bank. The objective of this course is to shed light on the best practice and regulatory requirements in order to support the participants with building the well governed

IRRBB framework in their institutions.

The first day of the course provides a deep dive onto the exploration of the updated IRRBB guidelines and key challenges in the overhaul of ALM systems across the banks: an integrated approach is required to ensure consistency in terms of data, methodology and avoid redundancies. It is also focused on addressing the question why the new generation of ALM systems need to be integrated and flexible and why it is so important.

In addition, it will touch base on the IRRBB strategy and steering approach to close regulatory gaps and will highlight questions which need to be answered in order to develop a comprehensive and feasible IRRBB strategy and steering approach. The second part of day 1 provides detailed introduction to the modelling of NMDs as a challenge driven by the updated IRRBB guidelines. The second part of the course is fully dedicated to the IRRBB stress testing and reverse stress testing framework and IRRBB risk subtypes. It also explains the role of ALM in managing IRRBB and how to transfer risk from Business unit to ALM.



- 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 how to create the IRRBB stress testing and reverse stress testing framework

WHO SHOULD ATTEND:

- 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

Beata is a financial engineer with over 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 a member of BTRM Faculty founded by Professor Moorad Choudhry in London.

Beata holds PhD granted by Wroclaw University of Economics in Poland. 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. "Balance Sheet Shaping through a Decision model and Funds Transfer Pricing", Research Papers of Wroclaw University of Economics, 2017

4. "Contemporary challenges in the Asset Liability Management" – Springer 2018

5. "Contemporary challenges in the Asset Liability Management" – Research Papers of Wroclaw University of Economics, 2018

6. "Modern Asset Liability management (ALM) needs to operate in the multidimensional world"- ALCO magazine, August 2018

7. "Interest Rate Risk in the Banking Book (IRRBB) – key challenges in the implementation of the revised European Banking Authority Guidelines and why it is so important" – ALCO magazine, November 2018



Beata is also finalising the book "Asset Liability Management Optimization – A practitioner's guide to balance sheet management and remodelling" ordered by Wiley and &Sons Ltd in London.

In addition, Beata is actively providing trainings for professionals from banking industry in Latvia, Warsaw, London and US. Her main areas of specialization include: Funds Transfer Pricing, Interest Rate Risk in the Banking Book, Asset Liability Management and Balance Sheet management through FTP and optimization.

DAY 1

Interest rate risk in the Banking Book - key challenges

- What is IRRBB is why is it important?
- Regulatory overview – the key changes introduced by the updated EBA guidelines
- What are main challenges in the implementation of the revised IRRBB framework?
- Comprehensive and feasible IRRBB strategy and steering approach – key questions to be answered
- Lessons learned through the implementation process
- IRRBB measurement, management and strategies
- Repricing 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

Introduction to modelling of Non- Maturing Deposits

- The reason for modelling of NMDs
- Finding an investment strategy – where do we draw the line?
- The benefits of the appropriate allocation of NMDs
- Deriving the initial value of NMD's
- Structural Interest Rate Risk – Structural Hedge – why correct modelling of NMD is so important?
- Assumptions about the behaviour of NMD's – regulatory expectations
- Propose approach for deposit modelling: balance volatility and rate sensitivity of NMDs
- Modelling average life of the product
- Challenges in NMDs modelling
- Conclusions

Case study: undertaking different hedging and funding strategies – what happens?

- Is it better to manage the ALM position through natural hedging or derivatives?

Case study: Pros and Cons of the use of derivatives – practical example

Case study: Margin compression and how to hedge it?

- Trade-off between hedging and funding strategies
- Impact of IRR and liquidity mismatches on NII
- Understanding the “trade off” between profitability & risk real challenge of ALM analysis
- Important links for liquidity management and transfer pricing through ALM

DAY 2

IRRBB risk subtypes for the definition of the Risk Appetite Statement for IRRBB

- Basis risk – what it is and how to measure it
- Repricing risk – what it is and how to measure it
- Option risk – automatic options and behavioural options
- Yield risk – what it is and how to measure it
- Credit spread risk in the banking book – the new IRRBB risk category

Case study: Calculation of impact of automatic options on the EVE metrics under 6 regulatory shocks

Managing IRRBB on ongoing basis in banks

- IRRBB strategy
- IRRBB identification
- IRRBB measurement through NIIS, EV, PV01, VaR
- IRRBB mitigation
- IRRBB monitoring and ALCO discussion

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

IRRBB stress testing and ICAAP

- Internal versus normative view in stress testing
- ICAAP methodology for IRRBB
- Objectives of stress testing
- Reverse stress testing

Case study: Creating IRRBB stress test scenario

IRRBB and ALM and FTP

- ALM role as a bank within the bank
- ALM as a business unit
- Maturity transformation as a main source of earnings
- Interest Rate positioning, extent of maturity transformation and the optimal amount of liquidity buffer – decisions taken within ALM

Conclusions

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MTE Global was started with a vision to work towards bridging the knowledge gap for business executive to handle ever changing & challenging business environment across the globe. We ensure this by delivering world class learning solutions for business executives across various sectors. Our learning solutions are well researched & valuated by subject matter experts for the concerns sectors, thus ensuring powerful content delivery to the executives and transfer of knowledge back to work place. Our constant lookout for upcoming disruptive trends has helped us to be ahead of curve .

We work along with independent professional organizations across the global to Develop, Design & Deliver our learning solutions to business executives, which plays important role in overcoming the present & future business challenges and impact the business outcome. Hence we have become trusted learning partners to various Multi National Corporations, Government agencies and regional conglomerates.

We have worked with our clients on customized requirements on learning solutions for their senior executives to enhance their performance outcome to impact business bottom lines.

Let us know if you're looking for something specific. We'll be more than glad to help out!

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