

ADVANCED BANK TREASURY MANAGEMENT AND ALM MASTERCLASS

PRESENTED BY: BEATA LUBINSKA



**8TH - 10TH DECEMBER 2019 |
MUSCAT, OMAN**

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 3 -day course covers best practice in Asset - Liability Management (ALM), as well as ALM role's as a strategic function in financial institutions

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

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

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 of the Banking Supervision Standards) and provides the methodological support in the implementation of this requirement. The second part of the day is focused on the analysis of the balance sheet maturity transformation and liquidity risks. In particular, it aims to answer the question what is the proper size of the liquidity buffer in the financial institutions.

The third day provides the overview of the Funds Transfer Pricing process and the role of the ALM unit in the FTP framework. The second part of the third day is dedicated to the balance sheet optimization techniques and acts as an introduction to the concepts of quantification and optimization of asset and liability structures.



KNOW YOUR TRAINER : BEATA LUBINSKA

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.

OUTLINE DAY 1

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?

OUTLINE DAY 2

Basel Committee of 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

Introduction to the liquidity risk managed within ALM

- Maturity transformation as a main source of liquidity risk
- Contractual vs behavioural maturity ladder
- Short term liquidity risk and liquidity metrics
- Funding risk and medium long-term liquidity metrics
- Tactical liquidity management
- Liquidity buffer and counterbalancing capacity of a bank
- What is the proper size of the liquidity buffer?

Case study: calculation of the size of the liquidity buffer in a bank

Trade-off between hedging and funding strategies

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

Summary of the main take away messages for the IRRBB and liquidity management through ALM

OUTLINE DAY 3

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?
- Interest Rate positioning, extent of maturity transformation and the optimal amount of liquidity buffer – decisions taken within 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 **Introduction to the Balance Sheet Optimization techniques**

- Balance Sheet optimisation concept and the role of ALM in the optimisation process
- Balance Sheet optimisation through numerical optimisation
- What is the objective function in the optimisation exercise?
- What are the constraints functions in the optimization exercise?
- Quantification of the economic benefits coming from the optimisation exercise.

Conclusions and Questions

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

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