

Masterclass on Asset Liability Management (ALM)  
Optimization

*Sharm El-Sheikh (Egypt)*

*1 - 5 December 2024*

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## Masterclass on Asset Liability Management (ALM) Optimization

Code: FA28 From: 1 - 5 December 2024 City: Sharm El-Sheikh (Egypt) Fees: 3700 Pound

### Introduction

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 utmost 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.

### Course 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.

### Course Outlines

#### Day 1: ALM Introduction and Overview

- IRRBB measurement, management and strategies.
- Case study: calculation of the NII sensitivity and EVE volatility under different interest rate scenarios.
- Case study: assessment of the basis risk through re-fixing gap analysis.
- Case study: analysis of the IRRBB metrics - is the IRRBB well managed?

#### Day 2: Introduction to the liquidity risk managed within ALM

- Case study: calculation of the size of the liquidity buffer in a bank.
- Trade-off between hedging and funding strategies.
- Case study: undertaking different hedging and funding strategies - what happens?
- Case study: Pros and Cons of the use of derivatives - practical example.
- Summary of the main take away messages for the IRRBB and liquidity.
- Basel Committee of Banking Supervision Standards and European Banking Authority - detailed analysis of the requirements for IRRBB.

#### Day 3: ALM role in the FTP framework

A graphic of a chessboard with several chess pieces (a king, a pawn, and a knight) on it. The text 'UK Training PARTNER' is overlaid on the board.

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- What is Funds Transfer Pricing?
- Case study: calculation of Net Interest Margin in business units and ALM.
- Case study: analysis of the ALM P&L components.
- Introduction to the Balance Sheet Optimisation techniques.
- Conclusions and Questions.

#### Day 4: Formulation of the Optimisation Process and Articulation of the Decision Model

- The Optimisation Method Applied to the Banking Book .
- Introduction of the Optimisation Concept.
- Definition of the Initial Banking Book Profile.
- Building the Objective and Constraint Functions in the Optimisation Process.
- The Importance of Model Sensitivity Analysis.
- Definition of the Sensitivity Parameters for the Optimisation Model.
- [Significant Changes in Interest Rates] Scenario.
- Changes in the Initial Proportions of the Asset Base.
- Changes in the Output of the Deposit Characterisation Model - Balance Volatility, Balance Sensitivity, and Average Life of the Product.
- Introduction of the CPR into the Model.

#### Day 5: Derivatives Hedging in ALM

- Derivatives hedge accounting under IFRS 9. What place for non-designated hedges with economic benefit?
- Review of key interest rate and FX derivatives used in ALM.
- Level 2 vs. Level 3 valuation.
- Using interest rate derivatives to manage net interest income, fair value portfolios, and funding management.
- Standard vs. non-standard derivatives.
- Operational and liquidity implications.
- Enhancing income through use of derivatives.
- ALM impact of clearing derivatives through central clearers vs. bilateral margining.
- Collateral and capital implications of new derivatives regulations.
- Impacts on capital and financial performance from derivatives applications.

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