

## Asset Liability Management (ALM)

*Malaga (Spain)*

*11 - 15 November 2024*

UK Training

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## Asset Liability Management (ALM)

Code: LM28 From: 11 - 15 November 2024 City: Malaga (Spain) Fees: 4700 Pound

### INTRODUCTION

SVB's collapse underscores that banks can fail due to more than just credit losses. Unmanaged mark-to-market losses can trigger withdrawals and bank runs, especially when uninsured depositors lose confidence. Younger bankers need to adapt to rising interest rates and understand the importance of managing interest rate risk.

An Asset Liability Management training course helps banks manage assets and liabilities effectively. It covers risk sources, strategies, funding stability, and interest rate risk management. The course equips participants with the knowledge and skills to understand and manage risks related to maturity intermediation in banking.

### OBJECTIVES

- Describe the role of the Asset Liability Management function within a bank
- Examine the regulations governing Asset Liability Management issues
- Develop strategies to manage Asset Liability Management risks
- Understand how the Asset Liability Management function can contribute to maximising the bank's return on equity while operating within the bank's risk appetite.

### course outlines

#### Day 1

##### Introduction to banking

- The unique nature of banking
- The structure of a bank balance sheet
- The manner in which banks generate income
- The risks to which banks are exposed
- The regulations imposed on banks
- Net interest margin
- The yield curve
- Discounted cash flow
- The various forms of regulatory capital and funding: CET1, Tier 1, Tier 2, MREL
- Requirements for capital: credit risk, market risk, operational risk, interest rate risk
- Regulatory capital requirements: Pillar 1, Pillar 2 and ICAAP
- Measuring bank performance: return on risk-adjusted capital RORAC, economic value added EVA

#### Day 2

A graphic of a chessboard with several chess pieces (a king, a queen, a rook, and a pawn) on it, set against a background of concentric circles.

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## Funding the Bank

- The nature of bank assets and liabilities
- Cash flow mismatch
- The optionality embedded in bank balance sheets
- The behavioural maturity of bank liabilities
- Deposit guarantees
- Liquidity regulations
- Loan-to-deposit ratio
- Regulatory requirements: Liquidity coverage ratio LCR, net stable funding ratio NSFR
- Funds transfer pricing
- ILAAP, L-SREP
- Liquidity stress test
- Contingency Funding Plan 2

## Day 3

### Market Risk in Banking

- Accrual accounting vs mark-to-market accounting
- Trading book vs banking book
- Fair value hierarchy
- Interest rate swaps, FRAs, cross-currency swaps
- Marking to market
- Valuation adjustments: CVA, DVA, FVA
- Price sensitivity of assets and liabilities
- Measures of price sensitivity: modified duration, basis point value
- Measuring market risk of portfolios: value-at-risk VaR and expected shortfall
- Optionality measures and convexity
- Capital for market risk-taking
- Using derivatives to manage market risks
- Counterparty credit risk
- Clearing, collateral and margining

## Day 4

### Interest Rate Risk in the Banking Book IRRBB

- Risks to net interest margin
- Gap analysis
- Sources of risk: fixed, floating and administered rate products
- Treatment of equity, non-maturity balances and free funds
- Structural hedging
- Types of risk: yield curve risk, customer optionality
- Pipeline and prepayment risk
- Non-performing loans
- Risk management: repricing gaps, derivatives
- Behaviour of non-maturity deposits
- Income measures of interest rate risk
- Economic value measures of interest rate risk

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- Economic value of equity EVE vs Earnings at risk EAR
- What to hedge, when to hedge, how much to hedge
- The trade-off between income and economic value
- The link between liquidity risk and interest rate risk
- Basel III IRRBB regulations Apr/16
- EBA IRRBB guidelines Jul/18
- PRA rules and guidance Dec/21 3

## Day 5

### The ALM Process

- The Asset Liability Committee ALCO
- ALCO roles and responsibilities
- Setting risk appetite
- Developing a contingency funding plan
- Designing stress tests
- Implementing the structural hedge

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