



Asset Liability Management Three Days Programme

Thierry Fuller

Agenda

Asset Liability Management Objectives

By the end of the program, participants will be able to:

- ▶ Identify the key risk factors acting on your balance sheet and how they can be minimized
- ▶ How all forms of financial exposure can be defined, measured, monitored and managed
- ▶ Benchmark your current ALM practices and develop an action plan to bring your practices to the highest standard
- ▶ Adopt effective cash flow management and Value at Risk (VAR) techniques
- ▶ How to manage and hedge interest rate and liquidity exposures
- ▶ Understand new BIS regulations on market and liquidity risks
- ▶ Understand the ALM process in the ICAAP supervision process

Day One

Session 1 Introduction

Session 2 What is Asset-Liability Management?

By the end of this section, participants will understand asset liability risks and the function of ALM in the bank

- ▶ What are the ALM risks
- ▶ ALM market risk
- ▶ ALM liquidity risk
- ▶ ALM and making money
- ▶ ALM and business strategy of the bank

Session 2 Roles and Responsibilities in ALM

By the end of this session, participants will be able to identify the roles and responsibilities of management members in ALM

- ▶ BIS 3 and the new roles and responsibilities of BOD
- ▶ Business Strategy
- ▶ ALCO Strategy
- ▶ Capital Allocation
- ▶ Market Risk and Liquidity Risk Appetite Policies
- ▶ Risk Management Policies and Procedures
- ▶ Risk Management Systems, Process and Organisation
- ▶ Best Practice: Working with EXCO, ALCO, Risk Management Department/Committee, Treasury, and Audit Department/Committee

Session 3 ALM and Assessing Market Risk

By the end of this session, participants will be able to use the key tools in identifying and assessing market risk on the balance sheet

- ▶ Identify and Quantify Market Risk in ALM
- ▶ Earnings at Risk
- ▶ Net interest income
- ▶ Types of interest rate risk
 - Gap
 - Yield curve
 - Duration and Convexity
 - Optionality
 - Basis
- ▶ EVE analysis in ALM market risk
 - Mark-to-market and portfolio valuation
- ▶ BOD ALM reporting:
 - Market Risk Gap analysis, EAR report
 - Long Term EVE analysis
- ▶ Business Strategy and ALM Market Risk forecast
- ▶ Impact of economic and interest rate change on bank balance sheet

Session 4

ALM and Managing Market Risk

By the end of this session, participants will be able to implement the key tools to manage ALM Market Risk.

- ▶ Managing ALM Market Risk
- ▶ Limit system
 - Limit reporting and sanctions
 - Tools to Manage ALM Market Risk
- ▶ Match Funding
- ▶ Interest Rate Swaps
- ▶ Foreign Exchange
- ▶ Cross- Currency swaps

Day Two

Session 5

ALM and Managing Liquidity Risk

By the end of this session, participants will be able to identify the key steps in identifying, quantifying and managing liquidity risk in the bank.

- ▶ Liquidity Products: Overnight, Libor, repo, etc..
- ▶ Diversification and concentration
- ▶ ALM ranking of liquidity
- ▶ Stability and sustainability of funding sources
- ▶ Measurement metrics and monitoring
- ▶ Key metrics: Cash forecast, roll-off forecast, liquidity forecast
- ▶ Scenario and back testing
- ▶ Limits
- ▶ Types and use and Sanctions
- ▶ Internal funds transfer pricing
- ▶ Liquidity Premium
- ▶ Setting policy
- ▶ Liquidity asset buffer
- ▶ Choosing appropriate assets and business strategy
- ▶ Managing the asset portfolio

Session 6

ALM and BIS 3 New Liquidity Regulations

By the end of this section, participants will be able to identify the new regulations on liquidity risk, namely LCR and NSFR, and their impact on the ALM

- ▶ New BIS ratios: Why?
- ▶ Liquidity Coverage Ratio
 - Definition
 - High Quality Liquid Assets
 - Levels 1 2A an 2B
 - Limits
 - Calculate Net Stressed Outflow
 - Impact on Banks and ALM
- ▶ Net Stable Funding Ratio
 - Definition
 - Calculate Available Stable Funding
 - Calculate Required Stable Funding
 - Impact on ALM

Day Three

Session 7

ALM and Basel 3 Regulations on Capital Ratios

By the end of this section, the participants will be able to identify the new Basel 3 regulations on bank capital and their impact on the bank's business and the treasury function

- ▶ Improve Bank Capital Base:
 - Quality and Quantity: CET1 4.5% from 2%
 - Capital Conservation Buffer: 2.5% from 0%
 - Countercyclical Buffer: 0% to 2.5% from 0%
- ▶ Leverage Ratio 3%
- ▶ New Capital regulations and impact on ALM

Session 8

ICAAP and SREP for in ALM

By the end of this section, participants should be able to use best practices in conducting ICAAP and supervisory reviews especially for ALM. Scenario analysis on the reduction of QE and sovereign buy in will be discussed

- ▶ How to conduct ICAAP in banks
- ▶ ICAAP and stress testing for market and liquidity risks
- ▶ Scenario analysis
- ▶ Best Practice ICAAP reporting for BOD, supervisors and market disclosure
- ▶ SREP for Treasury Products with Pillar 2 add-on
- ▶ Supervisory review of capital needs and Pillar 2 add-ons of capital
- ▶ ICAAP and RISK Appetite Policies

Session 9

Final Thoughts and Future Steps on ALM

Target Audience:

- ▶ Risk manager
- ▶ Financial control

Faculty

Thierry Fuller

Since 1997, Thierry Fuller has worked as a consultant and trainer with the Top Three Investment Banks in the World (Goldman Sachs, Morgan Stanley, Merrill Lynch), most of the largest Top 20 Banks in the World (including Citi, J.P. Morgan Chase, Standard Chartered, BBVA, Commerzbank), all Top 4 Audit/Tax Accounting Firms, commodity trading companies and other prestigious financial institutions.

Recently, Thierry has worked with Central Banks (such as Bank Indonesia) in the area of supervisory and Basel 2/3 implementation. He has also worked with emerging market banks in Indonesia (such as BNI, Panin, BCA) in corporate transformation. His area of expertise includes banking strategy, bank transformation, mergers and acquisitions for banks, corporate finance, trading room IT, commercial banking, consumer banking, investment banking, private banking, risk management, capital markets and derivative products.

Thierry's banking experience includes starting, developing and managing the Investment Banking, Capital Markets and Derivatives businesses for Wachovia Banks, America's fourth largest bank at the time. He also assisted in the development of business strategy, operations and infrastructure for the investment banking, corporate banking and consumer banking business. His banking experience also includes working in corporate finance/investment banking, especially concerning M&A for financial institutions, and asset management at Brown Brother Harriman in New York.

Thierry has also worked for several years as a management consultant at McKinsey & Company in strategic consulting and organizational changes. He has also led the Corporate Finance/Treasury Consulting Practice at KPMG in New York where corporate finance, derivatives, risk management, auditing and compliance were high priority.

Thierry was a Joseph Lauder Fellow at the Wharton School where he received his MBA. He also graduated with an MA in International Studies and an MA in Political Science from the University of Pennsylvania. Mr. Fuller completed his undergraduate studies at Columbia University.