

Course Description

This one day course covers the main techniques typically used to measure interest rate risk in the banking book and how (and why) these differ from those used to measure similar risks in a trading book.

It assumes no prior knowledge and is, therefore, suitable for those new to a bank or building society ALM/Market Risk function. It is also suitable for more experienced staff from:

- ALM
- Audit
- Finance
- IT Systems

who wish to understand better the wider context of the roles they perform. It would also benefit those from other disciplines who would like a short but *practical* overview of how interest rate risk is measured and managed.

Course Design

The course begins by introducing the basic tools such as discounted cash flow, how a bank balance sheet is structured and some fundamental accounting concepts. It then describes how both income and value measures are used to quantify exposure to interest rate moves as well as how such risks may be hedged; the final section covers some more problematic areas such as investment of net free reserves and how credit impairments can alter the interest rate risk profile.

All key concepts are re-enforced by short practical exercises during which participants will build their own simple excel spreadsheets to measure risk.

Course Content

Section 1 – The Basic Building Blocks

- Structure of a Bank Balance Sheet
- The link between Capital and Profit
- The Accrual Concept
- Time Value of Money and Discounting Cash Flows
- Distinction between Banking Book and Trading Book

Summary

Location:	Hosted by the Nationwide Building Society at the Alexandra House Hotel, Swindon
Level:	Basic
Participants:	Limited to a maximum of 16
PC:	Please provide your own laptop pre-loaded with Microsoft Excel

Enquires & Bookings

Caroline Dunn
FSMD Ltd
Lowry House
12 Kennerley's Lane
Wilmslow
Cheshire
SK9 5EQ

Tel: 01625 530050
Fax: 01625 523937
Email: caroline.dunn@fsmc.co.uk
Web: www.fsmc.co.uk

Fee:

£375 +VAT per delegate (members)

£750 + VAT (non-members)

(Price includes all refreshments, lunch and course documents).

Section 2 – Simple Interest Rate Risk Measures

- Overall Context and Objective
- The Re-Pricing Gap
- Deriving Simple Risk Metrics from Interest Rate Gaps
- Use of Interest Rate Swaps to Hedge Exposures
- Contractual versus Behavioural Re-Pricing
- Pipeline Risk and Pre-hedging
- Pros and Cons of Income versus Value Measures

Section 3 – More Complicated Issues

- Which cash flows to include on an interest rate gap?
- Concept of Dynamic Re-Pricing Gaps
- Treatment and Hedging of Net Free Reserves
- Problems with Impaired Assets
- Basis Risk
- Regulatory Requirements

Course Tutor

Paul Newson is currently Head of Banking Book Oversight in the Group Market Risk function of Lloyds Banking Group. His career has spanned finance, IT and, for the last ten years, market risk management.

Paul spent the bulk of his career at National Westminster Bank, and this was followed by a five year spell at the Financial Services Authority where he led the Traded Risk specialist team.

Paul also has extensive training experience; he originally qualified as a teacher and later worked for many years as an evening class lecturer at the City of London Polytechnic teaching the accountancy module of the Chartered Institute of Bankers diploma.



Interest Rate Risk in the Banking Book

ASSET AND LIABILITY
MANAGEMENT ASSOCIATION

28th June 2011

Booking Details

To book a place: please fill in the form below and fax or email to FSMD at: Lowry House, 12 Kennerley's Lane, Wilmslow, Cheshire, SK9 5EQ

For enquiries: contact Caroline Dunn at FSMD

Tel: 01625 530050 **Fax:** 01625 523937 **Email:** caroline.dunn@fsmd.co.uk

Course fee: (non-residential) for UK ALMA members £375 + VAT; non-members £750 + VAT.

Name _____ **Job Title** _____

Company _____

Address _____

Email address _____

Tel. _____ **Fax.** _____

Name of Authorising Manager _____

I enclose payment by cheque or please invoice my company

I enclose a cheque for £ _____ made payable to FSMD Limited

Signature _____ **Date** _____

To pay by BACs:

Bank: National Westminster Bank, FSMD Ltd

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