

Internal Capital Adequacy Assessment Process (ICAAP)

ALM & Liquidity Risk with Basel III updates

30th & 31st May 2011

Holiday Villa Hotel & Suites Subang Malaysia

This advanced ICAAP workshop modules focus on issues related to modelling using **Interest Rate simulations, Interest Rate Mismatch and Liquidity Risk with Basel III updates** for ICAAP.

Starting with a balance sheet model, we quickly introduce **tools and traditional models including gap analysis and earnings at risk, stress testing, scenario planning, policy making and simulations**, followed by structured analysis required for ICAAP submissions, reporting and recommendations.

Key Areas:

- a) **Introduction of framework** of ALM target accounts for ALCO, Liquidity, Capital Adequacy and risk reporting purposes
- b) **Link the same target accounts** with interest rate models
- c) **Run the BancOne case** to walk through how (a) and (b) work together
- d) **Run the Live 'Kill the Bank' simulation** to see how decisions around Interest Rate Mismatch, Asset Allocation, Liquidity and Funding pan out over the next 12 months in stable, volatile, upward sloping and downward sloping interest rate environments.

The live simulations will help senior members of the ALCO, Treasury and Risk teams to realize the impact of their decisions and choices in real time. Strategies reviewed and discussed during the live simulation include:

- a) **Extending Gaps** in stable rate environments
- b) **Asset choices** between treasury paper and commercial assets
- c) **Managing Capital Adequacy** and Bank P&L
- d) **Tracking Liquidity and P&L**

Finally the 'Kill the Bank' simulation takes participants through the cycle of running out of capital using only interest rate risk as a tool and then rebuilding the bank and profitability using only Interest Rate Mismatch as a tool.

(All simulations are run on a proprietary Alchemy ALM Model that simulates interest rates, credit defaults, P&L, Balance Sheet, Liquidity and ALM Target Accounts).

Key Takeaways:

- * **Understand** the capital charge calculation basis for capturing Interest Rate Mismatch Risk for ICAAP.
- * **Work with** the primary tools required to measure and manage ALM risk profile of a financial institution.
- * **Measure** liquidity and quantify the effectiveness of traditional measurement tools.
- * **Use scenario based methods**, stress testing and simulations to highlight ALM and liquidity risk profile for ICAAP.
- * **Develop assumptions** for testing Maturity mismatch and liquidity risk for ICAAP

Training Pre-requisite: Familiarity with basic liquidity concepts, local markets, portfolio management and the Basel II framework.

All participants are requested to arrange Laptops with a functional version of Microsoft Excel.