

CZECH FINANCIAL ACADEMY

Featured Seminars:

INTEREST RATE RISK MANAGEMENT

October 4 - 6, 2010

LIQUIDITY RISK MANAGEMENT

October 7 - 8, 2010

3
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2

Registration Deadline: September 20, 2010

INTEREST RATE RISK MANAGEMENT

DATES: October 4 – 6, 2010 • PRICE: € 2,100 • LOCATION: Prague, Mövenpick Hotel

- **An ALM Framework for Managing Interest Rate Risk** ³⁺²
- **GAP and Duration GAP Analysis**
- **Customer Behaviour and Interest Rate Risk**
- **Measuring Interest Rate Risk on Core Deposits**
- **Measuring and Managing Prepayment Risk**
- **Measuring and Managing Value-at-Risk**
- **Using Derivatives to Hedge Interest Rate Risk**
- **Risk Management Organization, Procedures and Controls**

The purpose of this seminar is to give you a good understanding of tools and techniques for measuring and managing interest rate risk.

We start with a general introduction to interest rate risk and explain how this type of risk should be measured and managed within an asset-liability framework. We explain important concepts such as margin, spread, leverage, surplus, and balance sheet risk. We look at the balance sheets of “typical” institutions and discuss the funding/investment requirements and constraints that arise from the business nature of these institutions.

We then take a closer look at methods for measuring interest rate risk. We show how GAP and Dynamic GAP simulations can be used to identify repricing and spread risk, and we explain market-based measures such as Duration GAP, “Surplus”, “Surplus-at-Risk”, and “Value-at-Risk”. We also explain how the interest rate and spread risk on non-maturing liabilities (“core deposits”) can be estimated and integrated into the overall assessment of asset-liability risk. Further, we explain how interest rate risk on optional cash flows such as prepayable mortgages can be estimated using pre-payment models and option-adjusted analysis.

After this, we present, explain and demonstrate a variety of methods for managing interest rate risk at the micro and macro levels. These methods include immunization, contingent immunization, surplus management and the use of derivative instruments such as futures, swaps and interest rate options for synthetic risk transfer. We discuss some of the practical problems arising from the use of these methods, including some accounting considerations related to the accounting standards (IAS 39 and FAS 133).

Finally, we discuss sound interest rate risk management practices. We suggest appropriate risk management policies and procedures, and we discuss organizational considerations and monitoring, reporting, and internal controls requirements.

MONDAY, OCTOBER 4

09.⁰⁰–09.¹⁵

Welcome and Introduction

09.¹⁵–12.⁰⁰

General Introduction to Interest Rate Risk

- What is Interest Rate Risk?
- Profitability and Interest Rate Risk
 - Margins, leverage and ROE
 - Maturity transformation risk
 - Spread risk
- Interest Rate Risk in an ALM Framework
 - Asset-Liability risk
 - Surplus and surplus risk

Measuring Interest Rate Risk (1)

- NPV Risk vs. “Repricing” Risk
- GAP Analysis
 - Static GAP
 - Dynamic GAP
 - Case: GAP analysis in “NoHope Bank”
- Exercises

12.⁰⁰–13.⁰⁰

Lunch

13.⁰⁰–16.³⁰

Measuring Interest Rate Risk (2)

- Simulation Method
 - Simulating NII
 - Simulating effect of product mix and pricing
 - Monte Carlo simulation
- Duration Analysis
 - Duration explained
 - Duration GAP
- Yield Curve Analysis
 - Projection of re-pricing rates
 - Key rate duration
- Using Factor Models
- Case: Duration Analysis and Factor Analysis in NoHope Bank
- Exercises

TUESDAY, OCTOBER 5

09.⁰⁰–09.¹⁵

Recap

09.¹⁵–12.⁰⁰

Measuring Interest Rate Risk (3)

- Measuring Interest Risk of Non-Maturing Assets and Liabilities
 - Saving accounts, demand deposits, mortgages etc.
 - The importance of “core deposits”
 - Assessing the impact of structural changes on how customers withdraw their money or choose their amortization schedule
- Pre-Payment Analysis
 - Using OAS analysis to evaluate interest rate risk of pre-payable mortgages
- Value-at-Risk Analysis
 - Calculating VaR for interest sensitive assets and liabilities
- Case: Analyzing Optional Cash Flows and VaR in “NoHope Bank”
- Exercises

12.⁰⁰–13.⁰⁰

Lunch

13.⁰⁰–16.³⁰

Managing Interest Rate Risk (1)

- Structural Management
 - A/L mix and pricing
 - Balance sheet re-engineering
- Strategies for Interest Rate Risk in Portfolio Management
 - Matching
 - Classic immunization
 - Contingent immunization
 - Surplus management
 - Factor immunization
- Case: Immunization Strategies in “NoHope Bank”
- Exercises

WEDNESDAY, OCTOBER 6

09.⁰⁰–09.¹⁵

Recap

09.¹⁵–12.⁰⁰

Managing Interest Rate Risk (2)

- Overview of Derivative Instruments for Hedging of Interest Rate Risk
- Using FRAs and Futures to Manage Re-pricing Risk
- Using Interest Rate Swaps to Hedge Fixed and Floating Rate Assets and Liabilities Loans
- Using “Macro Swaps” to Hedge Loan and Deposit Portfolios
- Using Interest Rate Options to Cap Funding Costs
- Managing Pre-Payment Risk
- Managing Multi-Dimensional IRR
- Accounting Issues in Using Derivatives for Hedging of IRR
 - “Hedge accounting”
- Case: Using Derivatives in “NoHope Bank”

12.⁰⁰–13.⁰⁰

Lunch

13.⁰⁰–16.³⁰

Sound Interest Rate Risk Management Practices

- Interest Rate Risk Management Policies and Procedures
- Organizational Considerations in Interest Rate Risk Management
 - Management structure (board and senior managers)
 - Lines of responsibility and authority for managing interest rate risk
- Interest Rate Risk Monitoring and Reporting
- Capital Adequacy and Disclosure of Interest Rate Risk
- Internal Controls and Independent Audits

Evaluation and Termination of the Seminar

- **Liquidity Risk and Liquidity Crises** 3+2
- **The Links between Liquidity, Market and Credit Risk**
- **The Revised Regulatory Framework**
- **Assessing Bank and Market Liquidity Risk**
- **Liquidity Ratios, Liquidity Curves and Liquidity-at-Risk**
- **Liquidity Black Holes and Liquidity Stress Testing**
- **Tools for Liquidity Risk Management**
- **Liquidity Pricing**

The purpose of this seminar is to give you a good understanding of liquidity risk and of the tools and techniques for managing this type of risk.

We start with a general introduction to liquidity risk and explain the difference between “cash flow risk” and “market liquidity risk”. We explain how liquidity risk has become tightly integrated with market, credit and operational risk, and we give examples of how the complex interactions between these risks may result in major financial disasters and global liquidity crises, as was the case in the autumn of 1998 and again in 2007/2008 during the global, financial meltdown.

We then present and explain a number of tools for assessing liquidity risks, including liquidity risk indicators, cash flow projections and the “liquidity curve”. We look in detail into liquidity risk measurement within a financial institution using asset liquidity modelling, liquidity stress testing and long term liquidity profiling. We also explain how the liquidity risk of non-maturing assets and liabilities is linked to interest rate risk, and how this risk can be quantified using stochastic modelling techniques.

Further, we explain how liquidity risk can be managed within the context of an integrated risk management program. We review the latest regulatory developments for liquidity risk management, and we present a number of liquidity management tools, including “contingency planning” and financing instruments such as repos and money market facilities. We also explain how the “securitization” technique has been used to turn illiquid assets into marketable securities, and we discuss the role of this type of financing in a “post-crash” environment.

Finally, we look at liquidity costs and liquidity pricing factors, and we explain the process of “liquidity pricing” in an ALM context.

The course will be highly practical and will provide you with tools that you can use in your day-to-day and strategic liquidity management.

THURSDAY, OCTOBER 7

09.⁰⁰–09.¹⁵

Welcome and Introduction

09.¹⁵–12.⁰⁰

General Introduction to Liquidity Risk Management

- Liquidity Risk and the Global Crisis
- The Integration of Liquidity Risk with Market and Credit Risk
- Case Studies: Northern Rock, Bear Stearns, Lehman Brothers etc.
- Regulatory Reactions: Initiatives to Strengthen Liquidity and Liquidity Risk Management in Banks and other Institutions

Assessing Bank Liquidity Risk

- An ALM Framework for Assessing Liquidity Risk
- Factors that Affect Bank Liquidity
 - Financial Market Access
 - Balance Sheet Structure and Earnings
- Balance Sheet Analysis
 - Core vs. Non-Core Deposits
 - Available-for-Sale vs. Held-to-Maturity Securities
- Sources of Cash Flow Uncertainty
- Contingent Cash Flows (MBS, Derivatives)
- Assessing Liquidity Risk Using Cash Flow GAP Analysis
- Stochastic Liquidity Modelling (PC-simulations)
 - Modelling Static and Uncertain Cash Flows of Maturing/Non-Maturing Deposits, Assets with Pre-Payment Risk, Derivatives, Margin Payments, “Liquidity at Risk” etc.
- Practical Case Studies and Exercises

12.⁰⁰–13.⁰⁰

Lunch

13.⁰⁰–16.³⁰

Assessing Market Liquidity Risk

- The Relationship between Market and Liquidity Risk

Measuring Market Liquidity Risk of Treasuries

- Bid/ask Spread
- Trading Volume, Size and Frequency
- Price Impact
- Price Volatility and Yield Spread
- Measuring Market Liquidity Risk of Corporate Bonds
 - Liquidity Indicators
 - How to Separate Liquidity Spread from Credit Spread
- Liquidity Risk of Emerging Market Investments
- Measuring Liquidity in Futures and Swaps Markets
 - Open Interest and Volume
 - Liquidity and Swap Spreads
- Liquidity Shocks and Liquidity “Black Holes”
- Practical Case Studies:
 - LTCM, “Subprime” and other Liquidity Crises
- Exercises

FRIDAY, OCTOBER 8

09.⁰⁰–09.¹⁵

Brief recap

09.¹⁵–12.⁰⁰

Managing Liquidity Risk in Practice

- Sound Practices for Liquidity Risk Management
 - Developing a Structure for Managing Liquidity Risk
 - Measuring and Monitoring Net Funding Requirements
 - Managing Market Access
 - Contingency planning
 - Foreign Currency Liquidity Management
 - Examples of Liquidity reporting
 - Internal Controls for Liquidity Risk Management
- The Regulator Perspective
 - Systemic Implications of Liquidity Risk
 - How Liquidity Risk Management is Incorporated in Pillar II of the New Basel Framework

– The Updated Basel Framework:

- “Principles for Sound Liquidity Risk Management”
- A Closer Look at Practical Tools for Liquidity Management
 - The Source Continuum
 - Contingency Funding Planning
 - Liquidity and Underwriting Facilities
 - MTNs, CDs, CPs, asset-backed CPs and Repos
 - Securitization and Synthetic Securitization
 - Gaining Access to Central Bank Liquidity in a Crisis Situation
- A Rating Agency’s Perspective on Liquidity Risk management
- Practical Case Studies and Exercises

12.⁰⁰–13.⁰⁰

Lunch

13.⁰⁰–16.⁰⁰

Liquidity Pricing

- Reasons for Liquidity Costs
- Defining Liquidity Costs and the Pricing Factors
 - Structural Liquidity Costs
 - Contingent Liquidity Costs
- A Liquidity Traders View
 - Long vs. Short cash
 - Rate paid vs. Rate Achieved
- Balancing the Costs of Overfunding/Underfunding
- Liquidity Cost Curves
- Fund Transfer Pricing
 - Transfer Prices for Liquidity
 - Liquidity Pricing for Specific Asset and Liability Classes
 - The Role of FTP in Economic Capital Allocation and Risk Adjusted Performance Measurement
- Practical Case Studies and Exercises

Evaluation and Termination of the Seminar

Terms and Policies of the Czech Financial Academy

CZECH FINANCIAL ACADEMY

The Czech Financial Academy is a joint venture between the consultancy companies MONECO and BASISPOINT that offers a comprehensive programme of English-language seminars, trainings and practical workshops lectured by qualified tutors. Our objective is to provide the industry professionals with advanced financial know-how and up-to-date analytical methods and skills.

SEMINAR VENUE

All Czech Financial Academy seminars are held at the international four-star Mövenpick Hotel in Prague at Mozartova 1 (Mozart Street). Accommodation is not included in the seminar price, but we are happy to offer hotel reservations at discounted prices for our clients.

TUITION LANGUAGE

Seminar tuition is in English language, as are all manuals, training software etc. Therefore, in order to benefit from participation, at least a passive knowledge of English, including common financial phrases and related terminology, is required.

REGISTRATION

Clients who decided to participate, should submit us in advance a registration for a particular seminar (letter, fax, internet etc.). Subject to availability, the participant will then receive a confirmation of participation. The number of participants is always strictly limited in order to secure an effective and focused learning environment.

SEMINAR PRICES

The quoted seminar prices are per person and include all the training manuals, lunches and refreshments, certification diploma in English and selected software solutions used at the seminar. The price does not include hotel accommodation. Quoted prices are exclusive of local V.A.T. "Bundle" prices represent the total fee for participation in mutually related seminars (i.e. "Models 3+2, 2+3, 2+2, 1+3, 3+1, 1+2+2 and 2+2+1"). "Bundle" prices are provided in the Calendar of the Czech Financial Academy Seminars.

DISCOUNTS

Bulk discounts are offered when submitting an application for the participation of more than one person. A 10% discount is offered when at least two participants from one company register for a seminar or one participant registers at once for two or more seminars. The discounts do not apply for "bundle" prices, as these already represent discounted prices.

INVOICING AND PAYMENT

An invoice for the seminar price will be sent to the participants no later than 3 weeks prior to the beginning of the seminar. **Full payment of the invoice must be made before the start of the seminar as a precondition of participation.**

TERMS OF CANCELLATION

If for whatever reasons a registered participant is unable to attend, a substitute delegate may be appointed to participate instead. For cancellations received 20 days or more before the beginning of the seminar, a 10% cancellation fee of the full price will be invoiced i.e. 90% of the price is refunded. **For cancellations received less than 20 days prior to the beginning of the seminar, the full price is payable i.e. no refunding will be provided. All cancellations must be in writing.** The organizers of the Czech Financial Academy reserve the right to cancel the individual participation or cancel the entire seminar or part of it for whatever unspecified reasons, including possible force majeure. In this case, the price paid will be refunded in full or in part, accordingly.

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REGISTRATION FORM

**Registration Deadline:
September 20, 2010**

<input type="checkbox"/> Interest Rate Risk Management	<input type="checkbox"/>	October 4 – 6, 2010	€ 2,100	€ 3,000 3+2 <input type="checkbox"/>
<input type="checkbox"/> Liquidity Risk Management	<input type="checkbox"/>	October 7 – 8, 2010	€ 1,500	

COMPANY

Name:

Approving Manager:

Person responsible for training:

Address:

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Mr/Mrs/Ms

E-mail: Position:

2. Title: Name: Phone:
Mr/Mrs/Ms

E-mail: Position:

3. Title: Name: Phone:
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E-mail: Position:

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