



Weekly Post: Management Executive Summary

Dear Clients:

Challenge:

Regulatory guidelines on IRR go much beyond EVE and EaR reports.

- OCC 2011-12a and FDIC 2014-08-21 Model Validation outline internal processes to measure, monitor and control risks.
- Interagency Policy Statement on Funding and Liquidity Risk Management 2010 outlines the Contingency Funding methodology.
- OCC 2012-16 Guidance for Evaluating Capital Planning and Adequacy describes the importance of what-ifs simulations in capital planning.
- Supervisor Insight Winter 2014 on Internal/3rd Party Audit

These guidelines are just some examples illustrating the importance of using risk models for your ALM planning.

- How to use the risk models to do what-if analysis for budget/capital/strategic planning?
- How to integrate risk management processes into the current banking operation efficiently?

Solution:

Risk Officer TM covers all these regulatory requirements. You may consider providing THC the data below for the June cycle reports:

- *Growth Plan*, input data (volume growth and non-interest income/expense), format available in the PATH file. You will get: **Management Executive Summary** (free) including the **Pro forma Risk Profile**, important for planning, see below. Also, you can use FinSim (Financial Simulations) to conduct what-ifs analysis on your planning.
- *Policy limits*: These policy limits are used in Directors Dashboard, Management Summary Report, ALM dashboard. The policy limits need not be confined to EVE and EaR under regulatory rate shocks, but can also be liquidity limits for ALM.

The **Management Executive Summary** is available to you (free) enabling you to implement a risk-based planning.

Numerical Example: Pro-forma Risk Profile

The Management Executive Summary includes the Pro-forma Risk Profile, which is important to your planning. In your planning, the balance sheet may become increasingly liability sensitive to increase the margin. But you need to ensure that the balance sheet will not exceed the EVE policy limits in one year time. Pro-forma Risk Profile provides such as answer. The results are illustrated below with a hypothetical bank's balance sheet.



	Policy	Current	Status	12mo	Status
EVE	#N/A	12,531		13,021	
EVE Duration	#N/A	2.10		6.03	
EVE ratio	10.00%	13.51%	PASS	12.01%	PASS
EVE (-100) %chg	-15.00%	-2.42%	PASS	2.51%	PASS
EVE (+100) %chg	-15.00%	-3.45%	PASS	-10.55%	PASS
EVE (+200) %chg	-30.00%	-12.08%	PASS	-23.03%	PASS
EVE (+300) %chg	-45.00%	-19.79%	PASS	-25.49%	PASS
EVE (+400) %chg	-60.00%	-28.65%	PASS	-40.10%	PASS

Conclusions

We need to consider what-if scenarios in our budgeting/capital planning and model risk management. Provide THC your plan in the PATH file for the June cycle and make use of the Management Executive Summary.

Please do not hesitate to contact me or my colleagues if you have any questions on providing THC data for the June Cycle reports.

Regards,

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