Managing Interest Rate Risk Using Financial Derivatives Institute Of Internal Auditors Risk Management Series

Practical tools and advice for managing financial risk, updated for a post-crisis world Advanced Financial Risk Management bridges the gap between the idealized assumptions used for risk valuation and the realities that must be reflected in management actions. It explains, in detailed yet easy-to-understand terms, the analytics of these issues from A to Z, and lays out a comprehensive strategy for risk management measurement, objectives, and hedging techniques that apply to all types of institutions. Written by experienced risk managers, the book covers everything from the basics of present value, forward rates, and interest rate compounding to the wide variety of alternative term structure models. Revised and updated with lessons from the 2007-2010 financial crisis, Advanced Financial Risk Management outlines a framework for fully integrated risk management. Credit risk, market risk, asset and liability management, and performance measurement have historically been thought of as separate disciplines, but recent developments in financial theory and computer science now allow these views of risk to be analyzed on a more integrated basis. The book presents a performance measurement approach that goes far beyond traditional capital allocation techniques to measure risk-adjusted shareholder value creation, and supplements this strategic view of integrated risk with step-by-step tools and techniques for constructing a risk management system that achieves these objectives. Practical tools for managing risk in the financial world Updated to include the most recent events that have influenced risk management Topics covered include the basics of present value, forward rates, and interest rate compounding; American vs. European fixed income options; default probability models; prepayment models; mortality models; and alternatives to the Vasicek model Comprehensive and in-depth, Advanced Financial Risk Management is an essential resource for anyone working in the financial field.

Interest Rate Modeling for Risk Management presents an economic model which can be used to compare interest rate and perform market risk assessment analyses. The key interest rate model applied in this book is specified under real-world measures, and the result is used as to generate scenarios for interest rates. The book introduces a theoretical framework that allows estimating the market price of interest rate risk. For this, the book starts with a brief explanation of stochastic analysis, and introduces interest rate models such as Heath-Jarrow-Morton, Hull-White and LIBOR models. The real-world model is then introduced in subsequent chapters. Additionally, the book also explains some properties of the real-world model, along with the negative price tendency of the market price for risk and a positive market price of risk (with practical examples). Readers will also find a handy appendix with proofs to complement the numerical methods explained in the book. This book is intended as a primer for practitioners in financial institutions involved in interest rate risk management. It also presents a new perspective for researchers and graduates in econometrics and finance on the study of interest rate models. The second edition features an expanded commentary on real world models as well as additional numerical examples for the benefit of readers.

Contains papers which consider the basic role of market discipline, how it may be applied to banking and more broadly to large financial institutions of various types.

In Interest Rate Risk Management experts Benton Gup and Robert Brooks explain how banks and other types of financial institutions can use derivative securities to reduce interest rate risk. Comprehensive and in-depth, the book examines the effects of interest rate risk; the effects of interest rate changes on the value of financial assets; traditional and state-of-the art asset

liability management techniques; how to hedge interest rate risks using forwards, futures, swaps and various types of options; regulatory and accounting considerations; and interest rate risk management policies. Thorough appendices provide greater detail through discussion of technical details and mathematics. An extensive glossary is provided for quick reference. Two "virtuosos of risk management" show you how to close up the holes in your gap defenses--before the regulators call! Bankers Monthly dubbed them "virtuosos of risk management.[who have] raised A/L management to an art." And this hands-on approach to asset/liability management from Bitner and Goddard is exactly what you'd expect from such banking leaders. It's the first true action book in the field moving beyond simple gap analysis, theory, and fundamentals to show you how to apply the full range of today's sophisticated A/L management techniques--and comply with the latest banking regulations. You'll find. * Full discussions of interest rate exposures not measured by gap, but of vital interest to institutions and regulators alike: basis risk (the difference in the change of interest rates between instruments of identical maturities) and imbedded options (loan payoffs and early deposit withdrawals) * Helpful and informative insights from leading A/L management practitioners, consultants, and software developers Whether you're involved with a commercial bank, savings and loan association, or credit union, you can't afford to ignore the gap in your institution's risk defenses any longer. Put the "virtuosos of risk management" to work today.
Interest Rate Modeling for Risk Management introduces a theoretical framework - the ‘real-world’ model - that allows us to estimate the market price of interest rate risk based on practical and real life situations. The model can be briefly summarized as a process of estimating the market prices of risk through discretization of forward rates with a ‘space-state setup’ whilst considering historical data trends. The book starts with a brief explanation of interest rate stochastic analysis fundamentals before delving into standard models such as Heath-Jarrow-Morton, Hull-White and LIBOR models. The real-world model is then explained in subsequent chapters while applying different frameworks. Additionally, the book also explains some properties of the real-world model, along with the negative price tendency of the market price for risk and a positive market price for risk (with an example of this actually occurring). Readers will also find a handy appendix with proofs to complement the numerical methods explained in the book. This book is intended as a primer for practitioners in financial institutions involved in interest rate risk management. It also presents a new perspective for researchers and graduates in econometrics and finance on the study of interest rate models.
Risk management products and derivatives have grown ever more numerous and diverse since the late 1980s. Investors need to know which ones will best serve their needs in today's dynamic bond market. This book reveals how more than three dozen experts control and preserve the value of their own fixed income portfolios--from choosing the right risk management product to monitoring and evaluating the effectiveness of hedge management strategies. Shows investors how to make the best use of swaps, options, futures, and other risk management products in the market; identify and measure a portfolio's or corporation's risk exposure; and more.
Financial risk management is currently subject to much debate, especially the accounting for derivative products, and a number of commentators are objecting to the introduction of International Accounting Standard IAS 39 for Derivatives that will be in force by January 2005 for all EU companies. The topic of hedge accounting and the treatment of fair values may have a significant impact on many companies reported profits, and the volatility of earnings is likely to

increase. Uniquely this monograph focuses on interest rate risk management. Most studies of corporate risk management have typically dwelt on the topic of management of exchange rate risk, with interest rate risk management being neglected. The book's findings examine the views of UK corporate treasurers who are usually involved in the risk management strategies of their organisation and who have responsibility for implementing those strategies in practice. * The research is the first comprehensive UK study on this area * Relevant to the imminent arrival of IAS 39, the International Accounting Standard for Derivatives that will be in force by January 2005 for all EU companies. * The findings of the book have implications for government policy and regulators

Praise for Treasury Management The Practitioner's Guide "Steven Bragg has written a broad-based look at the treasurer's function that is as timely as it is complete. This book is an excellent choice for experienced treasury personnel, those new to the area, or the small business CFO needing to develop additional expertise." ?Matthew Boutte, Asset/Liability Manager, AVP, Sterling Bank "Cash is king! Steven Bragg's Treasury Management: The Practitioner's Guide peels back the onion on the most pressing topics facing today's treasurer?cash management, financing, risk management, and treasury systems." ?Geoffrey Garland, Controller, Staco Systems "This book gives an insight into the various intricacies, augmented with examples and flowcharts, involved in a treasury role. It gives a practical and detailed approach to cash management. A must-read for accounting heads of small businesses who have the additional responsibility of being a treasurer." ?Priya K Srinivasan, Owner, Priya K Srinivasan CPA Treasury Management: The Practitioner's Guide describes all aspects of the treasury function. This comprehensive book includes chapters covering the treasury department, cash transfer methods, cash forecasting, cash concentration, working capital management, debt management, equity management, investment management, foreign exchange risk management, interest risk management, clearing and settlement systems, and treasury systems. If you are a treasurer, CFO, cash manager, or controller, Treasury Management: The Practitioner's Guide allows you to quickly grasp the real world of treasury management and the many practical and strategic issues faced by treasurers and financial professionals today.

Financial institutions, private and public companies and governments can lose vast amounts of money from even minor changes in interest rates. Because of this, complex financial instruments have been developed to mitigate these exposures. But what happens when organisations hedge themselves to ill-advised and ill-formulated financial management strategies? Based on a proven analytical method, Mastering Interest Rate Risk Strategy explains, step-by-step, how to set up and run a sound interest rate risk strategy. Influenced by the author's work with leading companies and tested with banks, the book will help readers bring risk under control, raise profits and ensure healthy cash flows. Mastering Interest Rate Risk Strategy: § Shows you how to mitigate interest rate

risk using the most advanced risk management techniques § Provides you with an analytical method that is proven both academically and in practice § Uses examples and real life cases to support the transfer of knowledge and skills Interest rate changes will affect most firms because they will have interest bearing assets or liabilities. As a result, interest rate movements have an unfavourable impact and managing interest rate risk can be highly beneficial for the firm. But high-profile derivative blunders show that this is no easy task. In Mastering Interest Rate Risk Strategy, Victor Macrae shows you how to avoid the mis-selling of derivatives and derivatives blunders and how to set up an optimal interest rate risk strategy. Mastering Interest Rate Risk Strategy includes: ? Past derivatives blunders and how you can learn from them ? A proven analytical method for strategy formulation ? Hedging theory ? Bank financing for non-financial firms ? How movements in the financial markets may affect the firm ? Financial statement impact of interest rate risk ? The working and risks of using swaps, FRA's, caps, floors, collars and swaptions 'This is a wonderful and easy to read tour of interest rate risk and its management, and mismanagement. Anyone who wants to better understand why and how non-financial firms should be dealing with interest rate risk should read this book.' Gordon M. Bodnar, Professor on International Finance, Johns Hopkins University 'Macrae's guide is an excellent cookbook for financial managers. With many cases and examples, this book offers guidance in robust risk management techniques.' Abe de Jong, Professor of Corporate Finance and Corporate Governance at Rotterdam School of Management, Erasmus University

An advanced method for financial institutions to optimize Asset Liability Management for maximized return and minimized risk Financial institutions today are facing daunting regulatory and economic challenges. As they manage bank regulation and competition, institutions are also optimizing their Asset Liability Management (ALM) operations. The function of the ALM unit today goes beyond risk management related to the banking book into managing regulatory capital and positioning the balance sheet to maximize profit. Asset Liability Management Optimization: A Practitioner's Guide to Balance Sheet Management and Remodelling offers a step-by-step process for modeling and reshaping a bank's balance sheet. Based on the author's extensive research, it describes how to apply a quantifiable optimization method to help maximize asset return and minimize funding cost in the banking book. ALM ranks as a key component of any financial institution's overall operating strategy. Now, financial professionals can use an advanced solution for optimizing ALM. This book takes a closer look at the evolving role of the ALM function and the target position of the banking book. It provides strategies for active management, structuring, and hedging of a bank balance sheet, while also exploring additional topics related to ALM. A description of the Funds Transfer Pricing (FTP) process related to a bank's target position Detailed examinations of interest rate risk in the banking book (IRRBB) Discussion of Basel III regulatory requirements and maturity gap

analysis Overview of customer behavior, along with its impact on interest rate and liquidity risk Practical spreadsheet models (NII sensitivity and EVE volatility IRRBB model, simplified optimization model for minimization of average funding cost for a bank and an example of behavioral model for Non-Maturing Deposits) Explorations of model risk, sensitivity analysis, and case studies The optimization techniques found in Asset Liability Management Optimization can prove vital to financial professionals who are tasked with maximizing asset return and reducing funding costs as a critical part of business objectives.

The definitive and timeless guide to the principles of banking and finance, addressing and meeting the challenges of competition, strategy, regulation and the digital age. Moorad Choudhry Anthology compiles the best of renowned author Professor Moorad Choudhry's incisive writings on financial markets and bank risk management, together with new material that reflects the legislative changes in the post-crisis world of finance and the impact of digitization and global competition. Covering the developments and principles of banking from the 1950s to today, this unique book outlines the author's recommended best practices in all aspects of bank strategy, governance and risk management, including asset-liability management, liquidity risk management, capital planning, Treasury risk, and corporate framework, and describes a "vision of the future" with respect to a sustainable bank business model. You will gain the insight of a global authority on topics essential to retail, corporate, and investment/wholesale banking, including strategy, risk appetite, funding policies, regulatory requirements, valuation, and much more. The companion website is a goldmine for senior practitioners that provides templates that can applied in virtually any bank, including policy documents, pricing models, committee terms of reference, teaching aids and learning tools including PowerPoint slides and spreadsheet models. These facilitate a deeper understanding of the subject and the requirements of the senior executive, making this book an ideal companion for practitioners, graduate students and professional students alike. The intense demand for knowledge and expertise in asset-liability management, liquidity, and capital management has been driven by the regulatory challenges of Basel III, the European Union’s CRDIV, the Volcker Rule, Dodd-Frank Act, and a myriad of other new regulations. This book meets that need by providing you with a complete background and modern insight on every aspect of bank risk management. Re-engage with timeless principles of finance that apply in every market and which are the drivers of principles of risk management Learn strategic asset liability management practices that suit today's economic environment Adopt new best practices for liquidity models and choosing the appropriate liquidity risk management framework Examine optimum capital and funding model recommendations for corporate, retail, and investment/wholesale banks Dig deeper into derivatives risk management, balance sheet capital management, funding policy, and more Apply best-practice corporate governance frameworks that ensure a perpetual and viable robust balance sheet

Adopt strategy formulation principles that reflect the long-term imperative of the banking business In the 21st century more than ever banks need to "re-learn" traditional risk management principles and apply them every day. Every bank in the world needs to be up to speed on these issues, and Anthology from Professor Moorad Choudhry is the answer to this new global policy response.

The book is a systematic summary of modern term structure theories and how interest rate contingent claims are priced under such theories. This is the first book on such an attempt. The book reviews important term structure models and chooses one model to consistantly demonstrate contingent claim pricing. Well-known models are included and their relationships are thoroughly discussed. The book also provides a complete process of model implementation from parameter estimation to hedging. Examples are provided throughout. Contents:Bond PrimerTerm Structure ModelsOptions and FuturesCommon Interest Rate ContractsParameter EstimationHedging Interest Rate RisksCurrent Problems and Future ResearchBibliographyIndex Readership: Advanced student and practitioners of applied mathematics, finance and economics. keywords:Interest Rate Risk;Term Structure Models;Options;Futures;Hedging;Fixed Income Securities

A practical primer to the modern banking operation Introduction to Banking, Second Edition is a comprehensive and jargon-free guide to the banking operation. Written at the foundational level, this book provides a broad overview of banking to give you an all-around understanding that allows you to put your specialty work into context within the larger picture of your organization. With a specific focus on risk components, this second edition covers all key elements with new chapters on reputational risk, credit risk, stress testing and customer service, including an updated chapter on sustainability. Practical material includes important topics such as the yield curve, trading and hedging, asset liability management, loan origination, product marketing, reputational risk and regulatory capital. This book gives you the context you need to understand how modern banks are run, and the key points operation at all levels. Learn the critical elements of a well-structured banking operation Examine the risk components inherent in banking Understand operational topics including sustainability and stress testing Explore service-end areas including product marketing and customer service Banks continue to be the heart of the modern economy, despite the global financial crisis —they have however become more complex. Multiple layers and a myriad of functions contribute to the running of today's banks, and it's critical for new and aspiring bankers to understand the full breadth of the operation and where their work fits in. Introduction to Banking, Second Edition provides an accessible yet complete primer, with emphasis on the areas that have become central to sustainable banking operation.

As with previous titles in the IIA (Institute of Internal Auditors) series this is a clear and practical guide to a subject of key importance to financial managers. Whether borrowing, investing, saving or trading, a company will always have to take into account the cost of capital and therefore interest rate risk. The highly accessible style explains everything from the basic principles through to the techniques allowing those without prior knowledge to understand the nature and use of a variety of financial tools, including derivative instruments. This is the third part of the trilogy on market risk, the previous two being Managing Currency Risk and Managing Commodity Risk.

Managing Interest Rate RiskUsing Financial DerivativesWiley

A comprehensive guide to the current theories and methodologies intrinsic to fixed-income securities Written by well-known experts from a cross section of academia and finance, Handbook of Fixed-Income Securities features a compilation of the most up-to-date fixed-income securities techniques and methods. The book presents crucial topics of fixed income in an accessible and logical format. Emphasizing empirical research and real-life applications, the

book explores a wide range of topics from the risk and return of fixed-income investments, to the impact of monetary policy on interest rates, to the post-crisis new regulatory landscape. Well organized to cover critical topics in fixed income, Handbook of Fixed-Income Securities is divided into eight main sections that feature: • An introduction to fixed-income markets such as Treasury bonds, inflation-protected securities, money markets, mortgage-backed securities, and the basic analytics that characterize them • Monetary policy and fixed-income markets, which highlight the recent empirical evidence on the central banks' influence on interest rates, including the recent quantitative easing experiments • Interest rate risk measurement and management with a special focus on the most recent techniques and methodologies for asset-liability management under regulatory constraints • The predictability of bond returns with a critical discussion of the empirical evidence on time-varying bond risk premia, both in the United States and abroad, and their sources, such as liquidity and volatility • Advanced topics, with a focus on the most recent research on term structure models and econometrics, the dynamics of bond illiquidity, and the puzzling dynamics of stocks and bonds • Derivatives markets, including a detailed discussion of the new regulatory landscape after the financial crisis and an introduction to no-arbitrage derivatives pricing • Further topics on derivatives pricing that cover modern valuation techniques, such as Monte Carlo simulations, volatility surfaces, and no-arbitrage pricing with regulatory constraints • Corporate and sovereign bonds with a detailed discussion of the tools required to analyze default risk, the relevant empirical evidence, and a special focus on the recent sovereign crises A complete reference for practitioners in the fields of finance, business, applied statistics, econometrics, and engineering, Handbook of Fixed-Income Securities is also a useful supplementary textbook for graduate and MBA-level courses on fixed-income securities, risk management, volatility, bonds, derivatives, and financial markets. Pietro Veronesi, PhD, is Roman Family Professor of Finance at the University of Chicago Booth School of Business, where he teaches Masters and PhD-level courses in fixed income, risk management, and asset pricing. Published in leading academic journals and honored by numerous awards, his research focuses on stock and bond valuation, return predictability, bubbles and crashes, and the relation between asset prices and government policies.

The definitive guide to fixed income valuation and risk analysis The Trilogy in Fixed Income Valuation and Risk Analysiscomprehensively covers the most definitive work on interest raterisk, term structure analysis, and credit risk. The first book oninterest rate risk modeling examines virtually every well-known IRRmodel used for pricing and risk analysis of various fixed incomesecurities and their derivatives. The companion CD-ROM containnumerous formulas and programming tools that allow readers tobetter model risk and value fixed income securities. Thiscomprehensive resource provides readers with the hands-oninformation and software needed to succeed in this financialarena.

A practical guide to the practices and procedures of effectivelymanaging banking risks Managing Risks in Commercial and Retail Banking takes anin-depth, logical look at dealing with all aspects of riskmanagement within the banking sector. It presents complex processesin a simplified way by providing real-life situations andexamples. The book examines all dimensions of the risks that banksface—both the financial risks—credit, market, andoperational—and the non-financial risks—moneylaundering, information technology, business strategy, legal, andreputational. Focusing on methods and models for identifying,measuring, monitoring, and controlling risks, it provides practicaladvice backed up by solid theories, without resorting to the use ofcomplicated mathematical and statistical formulas. Author Amalendu Ghosh exposes topics that are usually absent inbooks on managing banking risk—such as design of controlframework, risk management architecture, credit risk rating,risk-based loan pricing, portfolio analysis, business continuityplanning, and corporate governance. Author has extensive experience with a variety of major banksand institutions worldwide and

brings a fresh perspective in thewake of the global finance crisis Presents a novel approach using models of the credit riskrating of different types of borrowers, the methodology forassigning weights for deriving the rating, and the scoringprocess Covers the essentials of corporate governance and options forcredit risk assessment in line with the recommendations made in theNew Basel Capital Accord Explains the methodology of risk-based internal audit,including techniques to enable bank branches to switch over fromthe old transaction-based audit methods With its logical sequence of the aspects of risk management, thebook's layout is ideal for presentations, making it a handy toolfor risk management training

There are two types of tenn structure models in the literature: the equilibrium models and the no-arbitrage models. And there are, correspondingly, two types of interest rate derivatives pricing fonnulas based on each type of model of the tenn structure. The no-arbitrage models are characterized by the work of Ho and Lee (1986), Heath, Jarrow, and Morton (1992), Hull and White (1990 and 1993), and Black, Dennan and Toy (1990). Ho and Lee (1986) invent the no-arbitrage approach to the tenn structure modeling in the sense that the model tenn structure can fit the initial (observed) tenn structure of interest rates. There are a number of disadvantages with their model. First, the model describes the whole volatility structure by a sin gle parameter, implying a number of unrealistic features. Furthennore, the model does not incorporate mean reversion. Black-Dennan-Toy (1990) develop a model along tbe lines of Ho and Lee. They eliminate some of the problems of Ho and Lee (1986) but create a new one: for a certain specification of the volatility function, the short rate can be mean-fteeting rather than mean-reverting. Heath, Jarrow and Morton (1992) (HJM) construct a family of continuous models of the term struc ture consistent with the initial tenn structure data.

This chapter comes from Derivative Financial Instruments, written by a renowned corporate financial advisor. This timely guide offers a comprehensive treatment of derivative financial instruments, fully covering bonds, interest swaps, options, futures, Forex, and more. The author explains the strategic use of derivatives, their place in portfolio management, hedging, and the importance of managing risk.

Practical guide for asset-liability managers faced with the decision as to whether to build or buy a financial model Topics include modeling cash flows, net investment income versus net portfolio value, projections of interest rates, and volatility A guide for asset-liability managers and other investment professionals who are faced with the decision of whether to build or buy a financial model to measure, monitor, and help manage their institution's risk exposure. It reviews the evolution of interest rate risk models and evaluates the state-of-the-art models in use. Includes Modeling cash flows; modeling the term structure; OAS technology; net interest income versus net portfolio value; build versus buy analysis; practical methods for deriving input assumptions; prepayment rates; deposit decay rates; projections of interest rate and volatility.

The traditional role of a bank was to transfer funds from savers to investors, engaging in maturity transformation, screening for borrower risk and monitoring for borrower effort in doing so. A typical loan contract was set up along six simple dimensions: the amount, the interest rate, the expected credit risk (determining both the probability of default for the loan and the expected loss given default), the required collateral, the currency, and the lending technology. However, the modern banking industry today has a broad scope, offering a range of sophisticated financial products, a wider geography -- including exposure to countries with various currencies, regulation and monetary policy regimes -- and an increased reliance on financial innovation and technology. These new bank business models have had repercussions on the loan contract. In particular, the main components and risks of a loan contract can now be hedged on the market, by means of interest rate swaps, foreign exchange transactions, credit default swaps and securitization. Securitized loans can often be pledged as collateral, thus facilitating new lending. And the lending technology is evolving from one-to-one

meetings between a loan officer and a borrower, at a bank branch, towards potentially disruptive technologies such as peer-to-peer lending, crowd funding or digital wallet services. This book studies the interaction between traditional and modern banking and the economic benefits and costs of this new financial ecosystem, by relying on recent empirical research in banking and finance and exploring the effects of increased financial sophistication on a particular dimension of the loan contract.

After risk management and interest risk management in particular was primarily relevant for banks in the past, it is a crucial competition factor for all enterprises today. With increasing volatile financial markets and global competition CFOs are focusing more and more on an efficient measurement and management of interest rate risk. In this context this book aims to point out the risks of an adverse change in interest rates for a corporate portfolio of interest-bearing positions and show possibilities to measure and manage these risks. First the scene for interest risk management in a corporate treasury of a service enterprise is set by providing essential knowledge about financial risk management and giving an insight into the characteristics of a service enterprise as well as the responsibilities of a corporate treasury and the factors that influence the treasury risk management approach. This is followed by a process-oriented instruction of how to quantify interest rate risk and how to manage it. Besides the risk measures duration and convexity, two different approaches to value at risk, the historical simulation and the variance-covariance-approach, will be examined. For the management of the interest rate risk an overview of possible hedging instruments to reduce interest risk exposure will be given and their different strategies examined. All approaches will be measured against their practical feasibility and for both, the quantification and the management of interest rate risk, implications for the implementation in a service enterprise will be provided.

This dissertation examines interest rate risk disclosure and interest rate risk management in bank holding companies (BHCs). In the first essay, I examine the disclosure of interest rate risk in BHCs'10-K filings. I document that interest rate risk disclosures of BHCs from 1997 to 2009 vary cross-sectionally and change over time. While the number of BHCs disclosing maturity gap analysis as an interest rate risk measure declined from 1997 to 2009, there was an increase in interest rate risk simulation disclosures over the same time period. I hypothesize and find that interest rate risk disclosures are related to nontraditional banking activities, time deposit funding, derivative use and institutional investor ownership; the associations are different for large and small BHCs. In my second essay, I evaluate BHCs' management of interest rate risk as related to earnings. I first build an alpha-gap model that is based on alpha - the ratio of changes in rates of rate sensitive liabilities to changes in rates of rate sensitive assets - to explain how interest rate changes affect changes in net interest income. This model decomposes changes in net interest income into rate variances and volume variances, which reflect the outcome of managing interest rate risk and the outcome of changing the size and composition of assets and liabilities, respectively. Next, using a sample of bank holding companies from 1998 to 2010, I document that increases in net interest income are primarily driven by positive volume variances, suggesting that BHCs tend to grow net interest income by changing the size and composition of assets and liabilities and not by effectively managing interest rate risk. In investigating whether interest rate risk management affects the valuation of net interest income, I find that the persistence of net interest income varies positively with interest rate risk management. My study provides new insights into banks' disclosure practices and their management of interest rate risk. The evidence presented in this

dissertation can help guide the efforts of the market regulators and accounting standard setter to enhance interest rate risk disclosures of financial institutions, and can help banking regulators monitor interest rate risk.

In recent years, there has been increased focus on the universal banking model as well as new regulations focusing on asset and liability management (ALM) practices. In an environment of low interest rates and expansionary monetary policy, there is increased competition around loan and deposit businesses, as well as moves to integrate trading book assets and liabilities into the ALM framework. Consequently, ALM is at the top of banks agendas. Edited by industry experts Andreas Bohn and Marije Elkenbracht-Huizing, The Handbook of ALM in Banking brings together key contributions from those implementing new ALM frameworks in light of these latest developments. The book examines the intricacies of loans and deposits in the context of revisions to statutory deposit protection schemes. It also assesses the demands on banks liquidity reserves and collateral, as well as funding implications. The increased regulatory focus on earnings at risk and on capital and balance sheet consumption is also under the spotlight, with the book clarifying issues on funds transfer pricing, capital management and balance sheet requirements. The Handbook of ALM in Banking provides a full overview of methods and methodologies being applied in cutting-edge ALM management. This book is a must-read for ALM managers, risk managers, balance sheet managers, accountants, treasurers.

Introduces practical approaches for optimizing management and hedging of Interest Rate Risk in the Banking Book (IRRBB) driven by fast evolving regulatory landscape and market expectations. Interest rate risk in the banking book (IRRBB) gained its importance through the regulatory requirements that have been growing and guiding the banking industry for the last couple of years. The importance of IRRBB is shifting for banks, away from ‘just’ a regulatory requirement to having an impact on the overall profitability of a financial institution. Interest Rate Risk in the Banking Book sheds light on the best practices for managing this importance risk category and provides detailed analysis of the hedging strategies, practical examples, and case studies based on the author’s experience. This handbook is rich in practical insights on methodological approach and contents of ALCO report, IRRBB policy, ICAAP, Risk Appetite Statement (RAS) and model documentation. It is intended for the Treasury, Risk and Finance department and is helpful in improving and optimizing their IRRBB framework and strategy. By the end of this IRRBB journey, the reader will be equipped with all the necessary tools to build a proactive and compliant framework within a financial institution. Gain an updated understanding of the evolving regulatory landscape for IRRBB Learn to apply maturity gap analysis, sensitivity analysis, and the hedging strategy in banking contexts • Understand how customer behavior impacts interest rate risk and how to manage the consequences Examine case studies illustrating key IRRBB exposures and their implications Written by London market risk expert Beata Lubinska, Interest Rate Risk in the Banking Book is the authoritative resource on this evolving topic.

Seminar paper from the year 2006 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 1,0, Reutlingen University (sib - school of international business Reutlingen), course: International Financing, 45 entries in the bibliography, language: English, abstract: Risk management within companies is

getting more and more important. The reasons for this development are varied. The most important factor is doubtless the internationalisation of companies. Acting on international markets offers on the one hand numerous chances for an enterprise but on the other hand it also holds an additional risk potential concerning losses. This negative aspect is mainly caused by a lack of information regarding political risk and exchange rate risk. Risk management is also necessary referring to change in interest rates. It is possible to limit, control and organize the interest rate risk as well as other risks of the company. As the financial outcome of a company gains importance risk management concerning interest rates and exchange rates is thus essential. To face these risks and other problems that derive of variations in stock markets, interest markets or exchange markets derivative instruments play a significant role. In April 2003 the International Swaps and Derivatives Association (ISDA) published a survey of derivatives usage by the world's 500 largest companies. According to this study 85% of the companies use derivatives to help manage interest rate risk and 78% of them use derivatives to help manage currency risk. Only 8% of the 500 largest companies do not use derivatives. There are many different kinds of financial instruments which are very complex in their function. This paper has its focus on interest rate and currency swaps. By using these instruments it is possible to hedge interest rate risks or currency risks. The first chapter gives an overview about existing derivatives and about the structure and function of swaps. Moreover the different kinds of traders with emphasis on hedging will be described. Afterwards the impact of interest risks on companies as well as OTC instruments that are used for hedging are explained. Subsequently the definition of an interest rate swap follows plus the application of this instrument with regard to hedging. In chapter five the currency risk management and types of exchange rate risks are illustrated. After that it will be explained how to hedge these exchange rate risks. The paper then gives a description of currency swaps and their application. Reasons for swaps in general as well as possible risks will also be pointed out. [...]

It is an oft-repeated mantra that "munis are different" and that standard analytical tools are irrelevant to managing them. Andrew Kalotay certainly agrees that munis are different. In fact, they are more complex than just about any other bond category. Munis are rich in options, their pricing is tax-dependent, the benchmark curves are comprised of callable bond yields ... and the list goes on. Dr. Kalotay argues that the complexities of munis actually mandate the use of modern fixed income analytics. He demonstrates the necessity for option-adjusted spread (OAS) technology, and exposes the potential pitfalls of risk management by "yield-to-worst." And he offers an in-depth discussion of the de minimis tax effect, which depresses the prices of discount munis. The breakthrough concept of tax-neutral OAS analysis accurately captures this effect. Without tax-neutral OAS, discount munis look deceptively cheap, and their durations are grossly underestimated. Risk managers should sit up and take notice.

A comprehensive guide to managing global financial risk From the balance of payment exposure to foreign exchange and interest rate risk, to credit derivatives and other exotic options, futures, and swaps for mitigating and transferring risk, this book provides a simple yet comprehensive analysis of complex derivatives pricing and their application in risk management. The risk posed by foreign exchange transactions stems from the volatility of the exchange rate, the volatility of the interest rates, and factors unique to individual companies which are interrelated. To protect and hedge against

adverse currency and interest rate changes, multinational corporations need to take concrete steps for mitigating these risks. Managing Global Financial and Foreign Exchange Rate Risk offers a thorough treatment of price, foreign currency, and interest rate risk management practices of multinational corporations in a dynamic global economy. It lays out the pros and cons of various hedging instruments, as well as the economic cost benefit analysis of alternative hedging vehicles. Written in a detailed yet user–friendly manner, this resource provides treasurers and other financial managers with the tools they need to manage their various exposures to credit, price, and foreign exchange risk. Managing Global Financial and Foreign Exchange Rate Risk covers various swaps in this geometrically growing field with notional principal in excess of $120 trillion. From caplet and corridors to call and put swaptions this book covers the micro structure of the swaps, options, futures, and foreign exchange markets. From credit default swap and transfer and convertibility options to asset swap switch and weather derivatives this book illustrates their simple pricing and application. To show real-world examples, each chapter includes a case study highlighting a specific problem, as well as a set of steps to solve it. Numerous charts accompanied with actual Wall Street figures provide the reader with the opportunity to comprehend and appreciate the role and function of derivatives, which are often misunderstood in the financial market. This detailed resource will guide the individual, government and multinational corporations safely through the maze of various exposures. A must-read for treasures, controllers, money mangers, portfolio managers, security analyst and academics, Managing Global Financial and Foreign Exchange Rate Risk represents an important collection of up-to-date risk management solutions. Ghassem A. Homaifar is a professor of financial economics at Middle Tennessee State University. He has Master of Science in Industrial Management from State University of New York at Stony Brook and PhD in Finance from University of Alabama in 1982. He is the author of numerous articles that have appeared in the Journal of Risk and Insurance, Journal of Business Finance and Accounting, Weltwirtschsftliches Archiv Review of World Economics, Advances in Futures and Options Research,Applied Financial Economics, Applied Economics, International Economics, and Global Finance Journal.