



## **Best Practice in Risk Management in Banks**

*A Two-day Practical Workshop*

### **The Workshop Objective:**

Bank managers will understand how risks are identified, quantified in terms of their impact on earnings, monitored and managed within banks. Program participants will become better equipped to:

- Identify and quantify the bank's vulnerability to credit, market, liquidity, operational, regulatory and reputational risks.
- Understand and learn best practice procedures to monitor and manage these risks and their impact on revenues.
- Relate these risks to bank capital.

## **CONTENT**

### **I. ANALYTIC OVERVIEW**

#### **Overview**

- Why risk management is critical to banks
- Value drivers and business model of a bank.
- Understanding differing perspectives: shareholders, regulators, and debt providers.

#### **Risk management**

- Major risk groups: credit, market, liquidity, operational.
- Management objectives – risk versus return.
- Lessons learned from recent risk management failures: sub-prime, CLOs, leveraged loans, trading losses and etc.

#### **Capital allocation**

- Types of capital: shareholder, regulatory and economic capital.
- Economic capital: key management assumptions.
- Regulatory capital Basel 1 versus Basel 2.
- Managing capital structures: comparisons between banks.

### **II. CREDIT RISK**

#### **Identifying and quantifying the risk**

- Seven categories of credit risk: lending, contingent, issuer, pre-settlement, settlement, country/transfer, other.
- Systems and procedures for quantifying and aggregating exposures.



### **Managing credit risk**

- Limits and safeguards – policy, process and procedures.
- Credit approval authorities and transaction approval process.
- Aggregating exposure limits by customer, sector and correlated credits.
- Credit mitigation techniques: collateral; termination clauses, re-set clauses, cash settlement, netting agreements.
- Documentation: covenant packages, ISDA and CSA and other collateral agreements.
- Portfolio techniques
- Portfolio management objectives: balancing the risk appetite and diversification to maximise risk adjusted returns.
- Diversification, granularity and correlation concepts.
- Techniques to spread risk: syndication, sub-participation, whole loan sales, credit derivatives, securitisation.

## **III. MARKET RISK**

### **Identifying and quantifying the risk**

- Portfolio versus transaction approach.
- Trading Book v Banking Book.
- Value at Risk (VaR): holding periods, confidence levels and disclosure.
- Volatility of trading profits.
- Systems and procedures for aggregating exposures.

### **Managing the risk**

- Risk appetite and capital requirements.
- Capital treatment of market risk under Basel I and II.
- Key sensitivities to and interest rate and/or FX positions.
- Setting and monitoring transaction and portfolio limits.

## **IV. LIQUIDITY RISK**

### **Identifying, defining and quantifying the risk**

- Types of liquidity risk: funding and transactional.
- Gap management: interest, currency, and maturity mismatches.
- Concepts of cash capital.

### **Managing the risk**

- Asset and liability management techniques: gap limits and regulatory requirements.
- Contingency liquidity.
- Use of securitisation: impact on capital, credit quality and liquidity.

## **V. OPERATIONAL RISK**

### **Identifying, defining and quantifying the risk**

- Examples of operational risk failures in financial institutions.
- Best practice systems and management procedures.
- Evidence of lack of integrity – features of institutions where fraud has occurred.
- “Know Your Customer”, money laundering and ultra vires issues.
- Statistical challenge of high value, low frequency losses.
- Capital requirements under Basel II: standardised versus models based approaches.

## **VI. REGULATORY AND REPUTATION RISK**

### **Identifying, defining and quantifying the risk**

- Review of key regulations Basel II – impact of changing regulations on banks.
- Benchmarking strong and weak supervision: memoranda of understanding and cease and desist orders in the US market.
- Market manipulation, regulatory and good conduct breaches.
- Quantifying reputation and regulatory losses: fines and loss of business.

## **CLOSE AND RECAP**

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