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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