Deloitte.

Asset and Liability Management in banks

Results of 2019 Deloitte Survey

Agenda

Introduction and context

Introduction

About the survey

In **2019** Deloitte asked **Central and Eastern European banks** to participate in a survey regarding ALM solutions applied.
The survey consisted of open and closed **53 questions** aimed at evaluation of current ALM practices adopted on the market. The questions focused on the following areas:

01 *Risk estimation and measurement:*

Division of responsibilities concerning planning

Approaches applied in relation to interest rate risk

Approaches applied in relation to liquidity risk

ALM model validation

xVA models and adjustments

02 *The role of ALM units in banks*

There were

33

institutions participating in the survey.

A large number of Polish banks participated due to high involvement of Polish Deloitte team.

*The survey included banks from **Central and Eastern European countries***

*The number of participants totalled **33 leading banks** varying in terms of size and business models*

Definition of current ALM practices

*The survey consisted of **53 questions** regarding ALM practices*

Executive summary

Executive summary

Material regulatory changes introduced in recent years, **along with ones projected for near future,** shall substantially affect the management of assets and liabilities in banks. Key challenges facing the banking sector in this respect include:

- **INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)**: new guidance of the European Banking Authority, introduced in 2018 and effective as of 1 July 2019.
- **BENCHMARK REQUIREMENTS** regard the manner of quoting benchmarks and calculating the reference interest rate indexes (LIBOR/EURIBOR, etc.) by banks.

The above changes posed substantial challenges for banks and required more effort from units in charge of ALM and market risk management.

Bearing in mind the changes in the regulatory environment, Deloitte surveyed **the existing market practices** regarding asset and liability management in banks, as well as the role of ALM units. The purpose of the survey was to indicate leading practices and to attempt to compare solutions applied by various CEE institutions.

The results of the survey indicate that **banks are still facing certain compliance challenges** related to IRRBB management requirements as presented by EBA in July 2018. The implementation status as presented in the report results from three factors: the substantial changes caused by the new regulations; the approach to the supervised banks in relation to IRRBB management, adopted by local regulators; the survey date falling soon after the effective date of the new regulations.

The role of the ALM function in banks growing in importance under the new regulations is another interesting observation derived from the survey. Based on the comparison to former Deloitte surveys and individual meetings with bank representatives in the course of the survey, we have noticed the growing role of the finance function, related to the responsibility for ALM. Quite frequently, the finance function is in charge of both setting strategic directions for balance sheet remodelling, analytical/operational support and of planning. From the long-term financial planning perspective, situating ALM in finance allows recognising business development and aligning the growth and structure of equity and liabilities with the planned growth of business operations. Out of 33 survey participants, in 21 **the ALM function was located in finance or reported to CFO.**

Regulatory background

Regulatory background

EBA IRRBB 2018

BCBS IRRBB, 07/2004

EBA/GL/2015/08, 05/2015

BCBS IRRBB, 04/2016

EBA/GL/2018/02, 07/2018

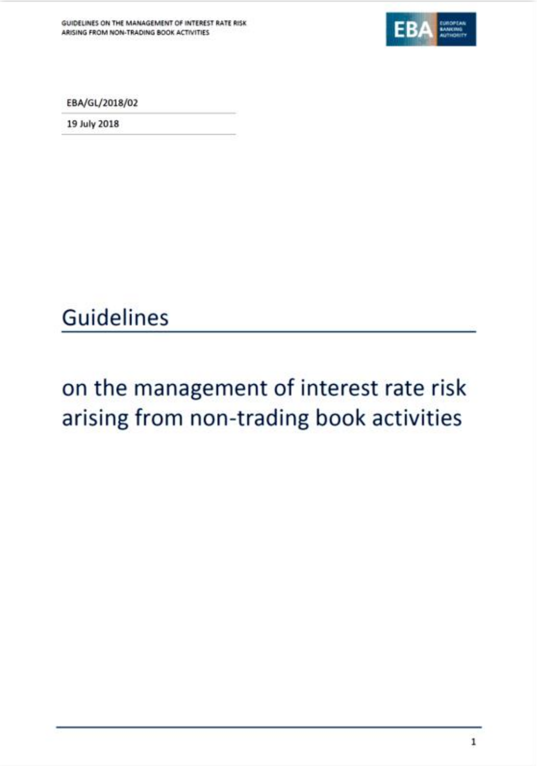
G Recommendation, 2Q 2019

Implementation of requirements: 06-12/2019

In **July 2018** **EBA** published updated guidelines on the management of interest rate risk arising from non-trading book activities.

The guidelines specify among others:

- Requirements regarding interest risk rate management and internal risk measurement framework.
- Solutions to be implemented by institutions to identify, assess and measure the interest rate risk resulting from non-trading book activities.
- General expectations for the identification and management of credit spread risk in the non-trading book (CSRBB).
- The scope of IRRBB is extended by the credit spread risk, non-performing and off-balance sheet exposures.
- Apart from parallel +/- 200 bps shocks, banks have to calculate the effects of six additional, initially defined scenarios that reflect non-parallel risks.


GUIDELINES ON THE MANAGEMENT OF INTEREST RATE RISK ARISING FROM NON-TRADING BOOK ACTIVITIES

EBA/GL/2018/02

19 July 2018

Guidelines

on the management of interest rate risk arising from non-trading book activities

1

Competent bodies should make sure that financial institutions use the guidelines as of 30 June 2019 and have them reflected in the ICAAP 2019 cycle.

Regulatory background

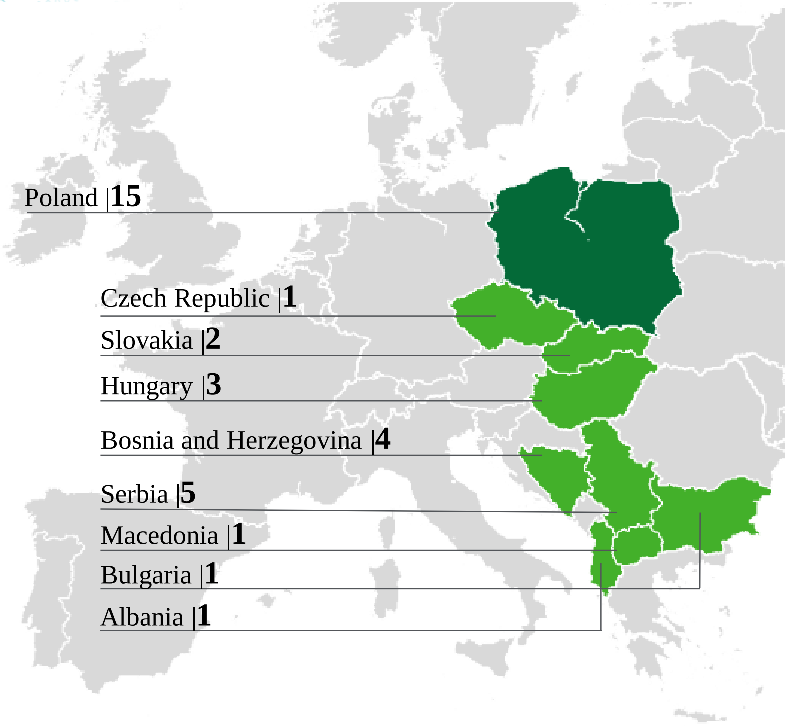
EBA IRRBB for financial institutions as per SREP

CATEGORY 1	CATEGORY 2	CATEGORY 3	CATEGORY 4
Conditional cash flow modelling	Conditional cash flow modelling	Unconditional cash flow modelling	Unconditional cash flow modelling
Dynamic balance sheet assumed	Dynamic balance sheet assumed	Static balance sheet assumed with simple projections	Static balance sheet assumed
Appropriate timeframes	Appropriate timeframes	Timeframes recommended by BIS	Timeframes recommended by BIS
Measuring net interest income under standard and stress shocks, considering client behaviour	Measuring net interest income under standard and stress shocks, considering margin projections	Measuring net interest income under standard shock	Measuring net interest income under standard shock
Economic value measure based on a set of scenarios and using option valuation and historical/Monte Carlo simulations	Economic value measure based on a set of scenarios, using option valuation	Economic value measure using recommended shocks	Economic value measure using recommended shocks
Daily risk factor update			

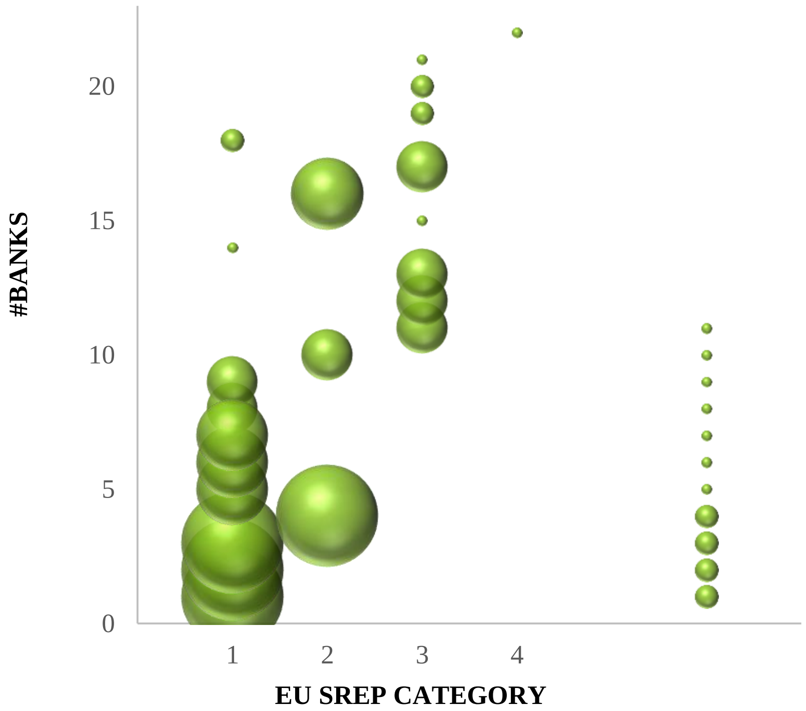
Results of Deloitte Survey

Introduction
Survey participants

In which country is the bank located?



How big are the bank's total assets and what is the bank's SREP category?



The size of the field reflects the sum of assets in the ranges: EUR 0-1 bn, EUR 1-5 bn, EUR 5-20 bn, EUR 20-45 bn, above EUR 45 bn

The total number of **33 CEE banks** of various sizes and using different business models participated in the survey, including **15 Polish banks**.

The participants included both banks operating in the EU member states (CEE EU) and outside the EU. Therefore, in order to ensure comparability of information, for 11 out of the 33 participants, the declared SREP category was not considered. This applies to banks operating in Albania, Bosnia-Herzegovina, Macedonia and Serbia.

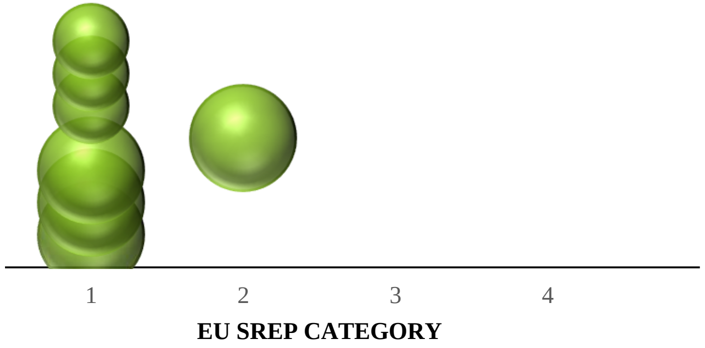
Depending on classification to an EU SREP category, banks undergo a variety of requirements, but the approach adopted by national oversight bodies with regard to this classification may vary by country. Most of the surveyed banks in Poland are classified as 1 SREP. We assume this is the result of the prudent approach adopted by the Polish regulator.

Introduction
Survey participants

TOP EU

Top universal banks from EU member states with the total assets above EUR 20 billion

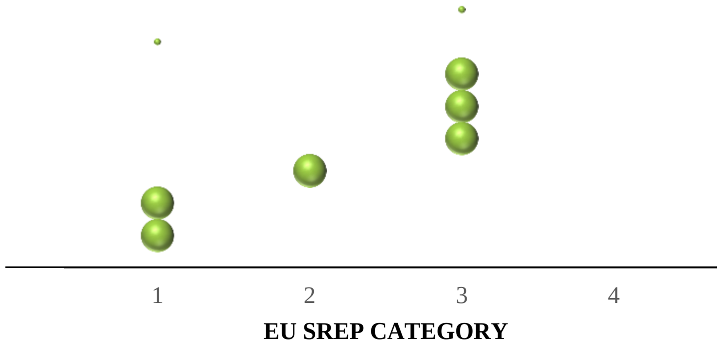
7 banks were included in this category



Non TOP EU

Other universal banks from EU member states with the total assets below EUR 20 billion

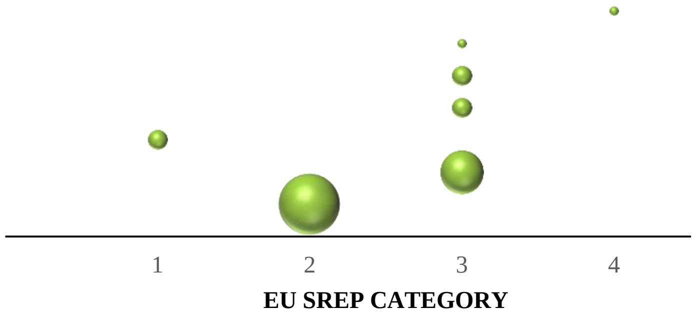
8 banks were included in this category



Spec EU

Specialised banks (mortgage, cooperative, mono-product) from EU member states

7 banks were included in this category



Non EU

Banks operating outside the EU (in non-member states)

11 banks were included in this category

Risk estimation and measurement

Division of responsibilities concerning planning

CEE

What is the source of data for the purpose of balance sheet forecasts?	*Finance*	*Risk*	*ALM*	*Business Units*	*Chief economist*	*External data*	*Other*
Market scenarios – interest rate risk	3	7	8		11	0	4
Market scenarios – liquidity risk	8	7	10		5	0	3
Balance sheet development scenarios – volumes / new production	11		1	18		0	3
Balance sheet development scenarios – margins / spreads	11	1	2	17		0	2
Balance sheet development scenarios – prepayments / early terminations	7	14		11		0	1
Balance sheet development scenarios – client options	7	14	1	11		0	
Balance sheet development scenarios – defaults & recovery non-interest costs	7	21	1	3		0	1
Balance sheet development scenarios – non-interest revenues & costs	25			7		0	1

Other include: internal workshops with Finance, ALM, risk department / parent company / ALM and Finance

Not applicable for the question

For the purposes of balance sheet development scenarios, most banks use data prepared by their business units (in particular new sales value and planned margins in all bank groups, or advance payments and client options in non-EU banks).

In all groups of banks risk is the key factor modelling risk related costs. Planning advance payments and client options are next factors considered.

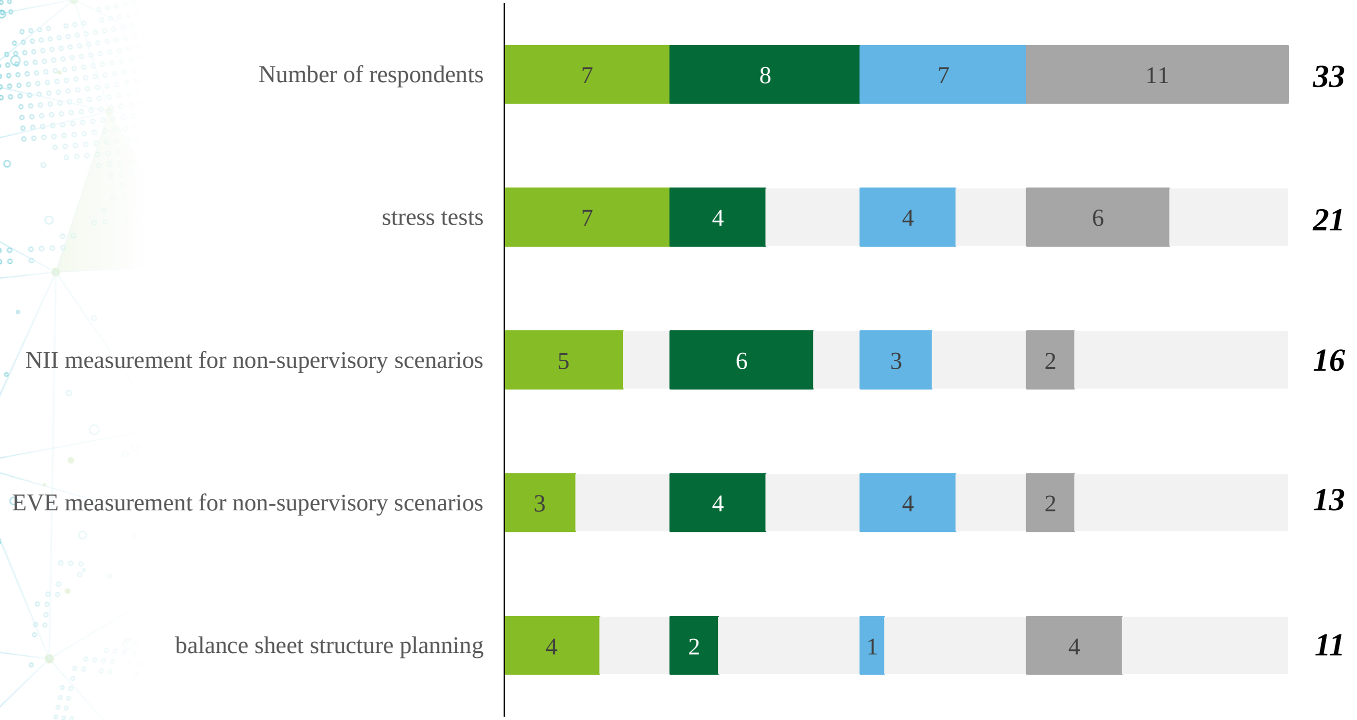
Finance units usually plan non-interest income and expense. Further, they plan the new sales value and margins.

ALM units participate in the development of market scenarios regarding liquidity and interest rate. This role may be performed by other units, such as risk or finance (for liquidity), or chief economist (for interest rate).

Risk estimation and measurement

Division of planning tasks and scenario analyses

Does the Bank include in the IRRBB measurement methodology and scenarios other than required by the regulator for:



Checking whether banks used methods and scenarios other than those defined by the regulator for IRRBB management purposes, Deloitte learned that 21 banks used additional methods and scenarios for at least two of the discussed processes.

All TOP EU banks adopted such an approach. The group of banks used at least two additional stress test scenarios.

Six banks used additional scenarios for all discussed processes.

Eight banks did not confirm the use of any additional scenarios or approaches than those defined by the regulator for IRRBB management purposes.

Risk estimation and measurement

Approaches applied in relation to interest rate risk

CEE | Leaders | Challengers | Pack

	LEADERS	CHALLENGERS	PACK
Does the bank use Economic value of equity (EVE) and Net interest income (NII) simulation to measure interest rate risk? *Is the approach to interest rate risk modelling based on multi – curve framework?* *Does the bank include dymamic balance sheet in the IRRBB measures?* *Does the bank follow partially or fully conditional cash flow modelling approach?*	The Leaders include banks that met all four conditions.	The Challengers include banks that met at least three out of the four conditions.	The Pack includes banks that met less than three conditions.
DESCRIPTION	Three TOP EU banks were considered Leaders.	The Challengers include 12 banks: • Two TOP EU banks, • Five Non TOP EU banks, • Three Spec EU banks, • Two Non EU banks.	The other banks are a varied group with two TOP EU banks included.

First, best practices were identified in all analysed areas. Unfortunately, no conclusions could be drawn on this basis due to differences in implementation progress regarding each requirement. In general, **the implementation level of IRRBB management measures was lower than that observed in other analysed areas,** e.g. with regard to liquidity, mostly because the requirements have been introduced recently and not all financial institutions completed their implementation at the survey close date.

Key criteria underlying the definition of best market practices and IRRBB management trends include:

- **Application of EVE and NII**
- **IRR modelling approach**
- **Balance sheet assumptions**
- **Cash flow modelling approach**

In light of the above criteria, the survey participants were divided into three groups:

- **LEADERS:** banks that applied all or most of the listed practices
- **CHALLENGERS:** banks that applied selected measures and tools considered as best practices
- **PACK:** the other banks, not included in the former classes.

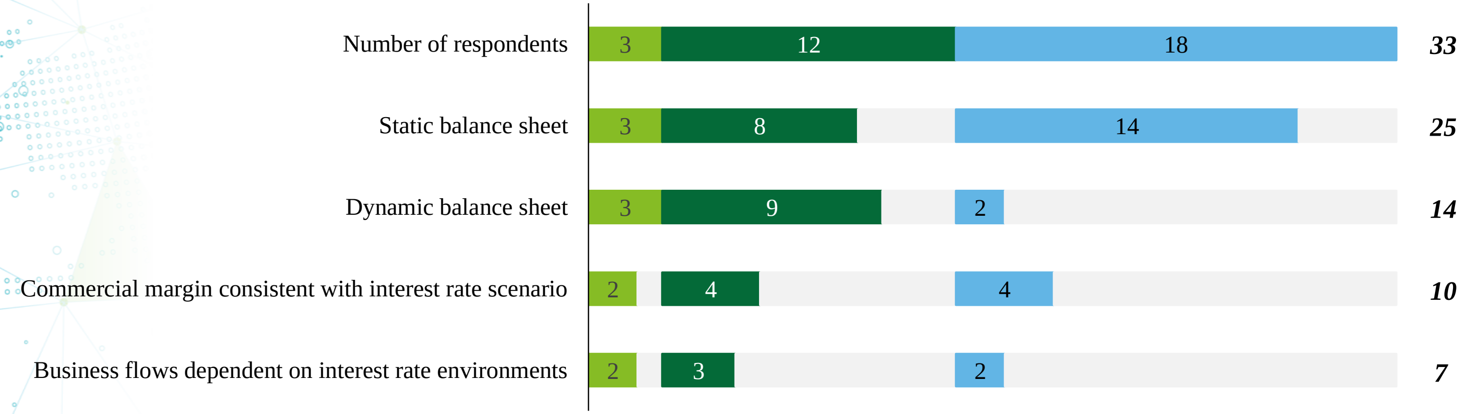
We are aware that not all financial institutions are required to apply all practices listed above (the requirements depend on the SREP category assigned), but they illustrate the maturity of tools used to measure the interest rate risk.

Risk estimation and measurement

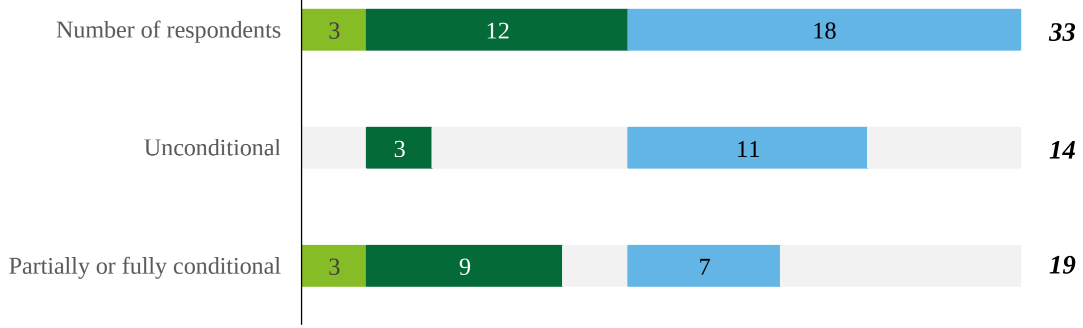
Approaches applied in relation to interest rate risk

CEE Leaders Challengers Pack

What assumptions related to the balance sheet are included in the IRRBB measures?



Which cash flow modelling approach does the Bank follow?



In line with EBA/GL/2018/02 guidance, **dynamic balance sheet** is a balance sheet incorporating future business expectations, adjusted for the relevant scenario in a consistent manner.

Constant balance sheet is a balance sheet with the constant value and structure of both on- and off-balance sheet items.

Survey results indicate that **14 out of 33 banks applied dynamic balance sheet assumptions** to estimate IRRBB.

Pursuant to EBA/GL/2018/02 **conditional cash flow modelling** is cash flow modelling under the assumption that the timing and amount of cash flows is dependent on the specific interest rate scenario.

As determined in the guidelines, **unconditional cash flow modelling** is cash flow modelling under the assumption that the timing and amount of cash flows is independent of the specific interest rate scenario.

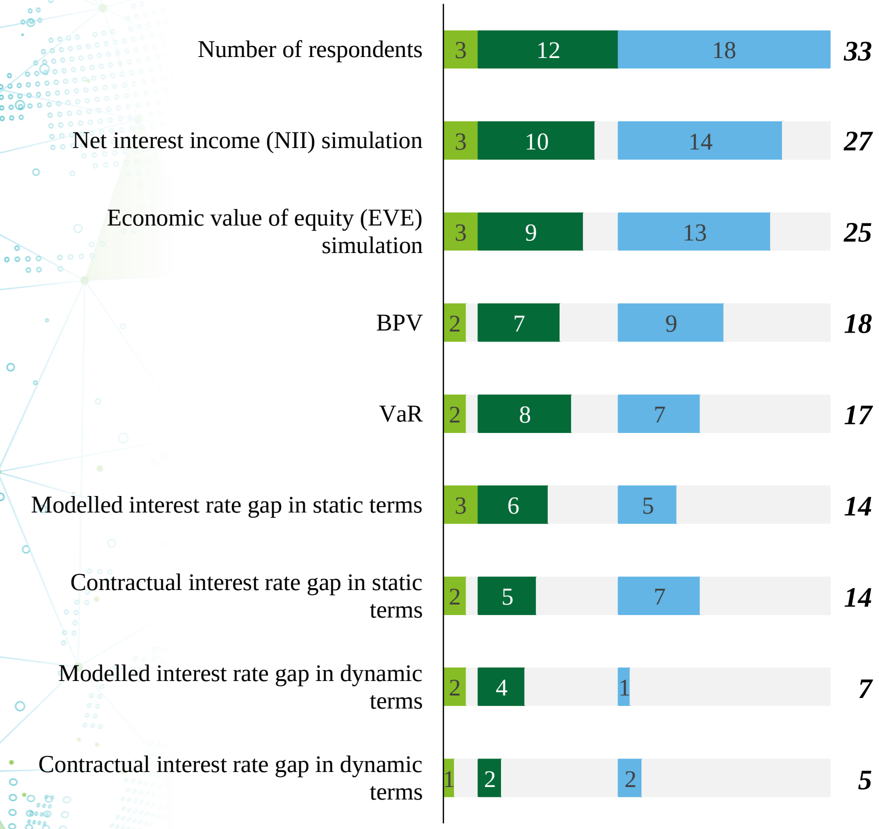
A majority of banks (19 of 33) participating in the survey used the conditional cash flow modelling.

Risk estimation and measurement

Approaches applied in relation to interest rate risk

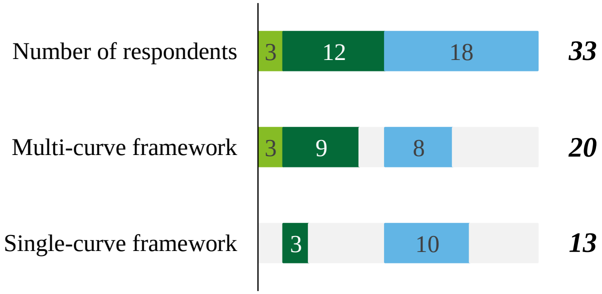
CEE Leaders Challengers Pack

Which measures are used to measure interest rate risk:



Other include: client behaviour risk, convexity risk, EVE+NII, EaR/EVE

Is the approach to interest rate risk modelling based on:



Most surveyed banks used both measures indicated in the EBA 2018/02 guidelines, i.e. NII and EVE.

EVE is still less popular, though.

Along with these two measures, banks continued using more traditional ones to measure IRRBB, such as BPV, VaR or gap modelling.

As far as the IRR modelling approach is concerned, **not all financial institutions have switched to the multi-curve framework**. The method is more complex and not supported by some IT systems used for IRR modelling.

Risk estimation and measurement

Approaches applied in relation to interest rate risk

What portfolios / products are covered by the ALM models:

	Non-Maturity Deposits (NMDs)	*Retail and corporate loans*	*Credit cards*	*Mortgage portfolios*	*Administered-rate products (not tied directly to market rates)*	*Other*
LEADERS	3	2	2	3	2	1
CHALLENGERS	7	7	4	5	3	1
PACK	12	10	11	8	6	3

Other include: term deposits, equity

What elements are included in the risk assessment of loan portfolios?

	Prepayments	*Regulatory non-linearities (0% floor, max-interest cap, etc.)*	*Client options*	*Commissions for early repayments*	*Pipeline*	*Other*
LEADERS	3	3	2	1	0	0
CHALLENGERS	11	10	5	6	4	2
PACK	14	8	5	5	4	0

Other include: utilization of credit lines

What elements are included in the risk assessment of Non-Maturity Deposits?

	Division into a core / non-core part	*Replicating portfolios*	*Dependence of the volume on interest*	*Other*
LEADERS	1	2	1	0
CHALLENGERS	6	7	5	1
PACK	11	2	2	2

Most banks use modelling for portfolios of:

- deposits without determined maturity dates
- mortgage loans
- retail and corporate loans

Most retail banks consider the following when evaluating loan portfolios:

- advance payments
- non-linear limitations (cap and floor).

The survey results indicate that the practice adopted strongly depends on financial institution's maturity regarding IRRBB measurement:

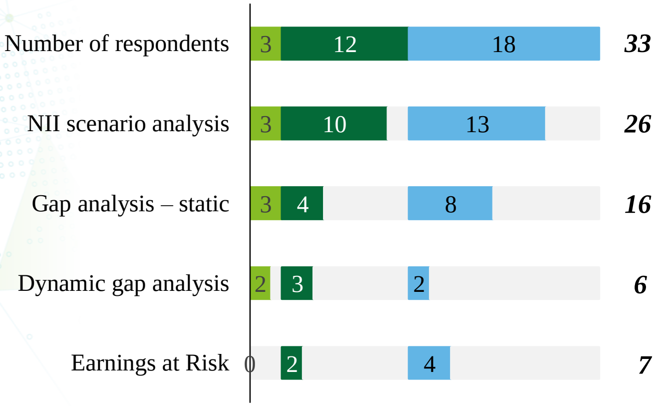
- **the most mature ones frequently use replication portfolios,**
- **most banks classify deposits as stable and unstable.**

Risk estimation and measurement

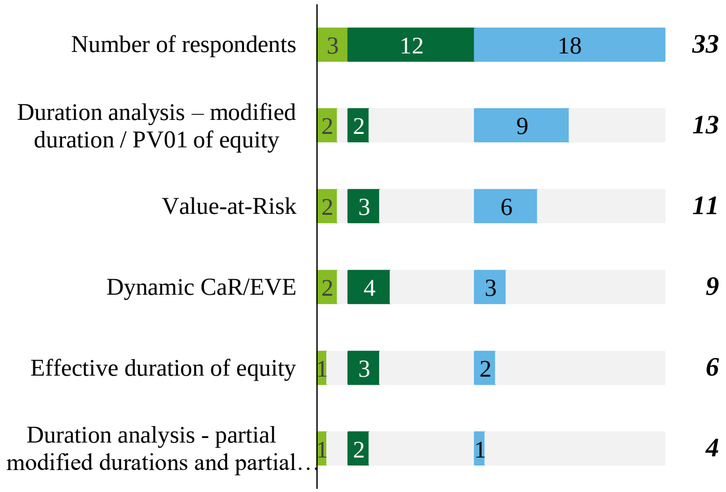
Approaches applied in relation to interest rate risk

CEE | Leaders | Challengers | Pack

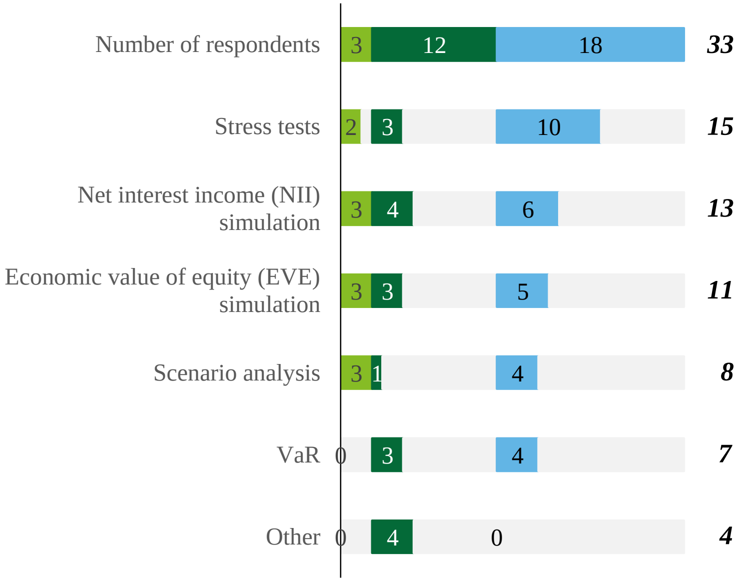
What methodology does the Bank apply for calculation of earnings measures?



What methodology does the Bank apply for calculation of EVE measures?



Methods of determination of capital under ICAAP:



Checking methodologies used by banks to estimate the effect of interest rate changes on performance, Deloitte learned that vast majority (26 out of 33 CEE banks and 14 out of 15 Polish banks) applied the scenario analysis of net interest income.

The most popular EVE for IRR estimating methods include duration / PV01 analysis of equity and Value at Risk.

Banks classified as 1 SREP used the broadest range of methods (at least one additional supplementing the first two).

Certain institutions failed to fully implement EVE based measures as at the survey close date. This is particularly true for smaller entities or those classified to lower SREP categories.

Stress-testing is the most popular method to estimate IRRBB-related internal capital, followed by simulation of net interest income and economic value of equity (or the two applied jointly).

The largest banks do not restrict the number of applied methodologies to just one and use several at the same time.

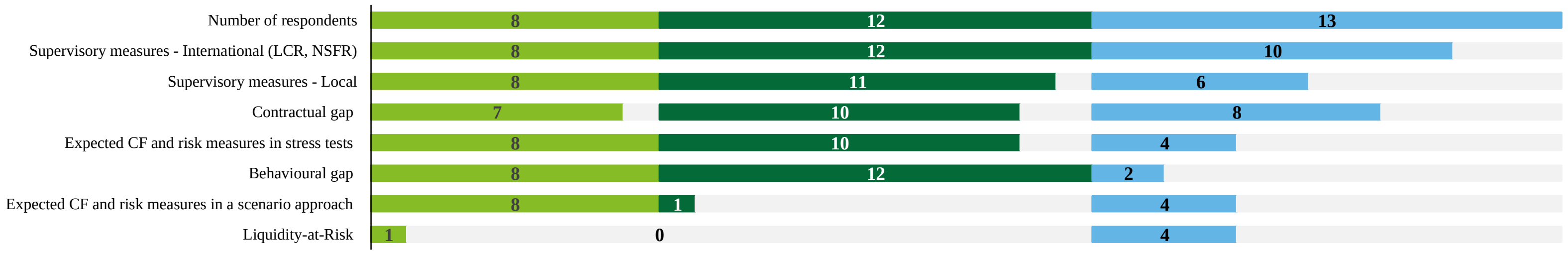
Risk estimation and measurement

Approaches applied in relation to liquidity risk

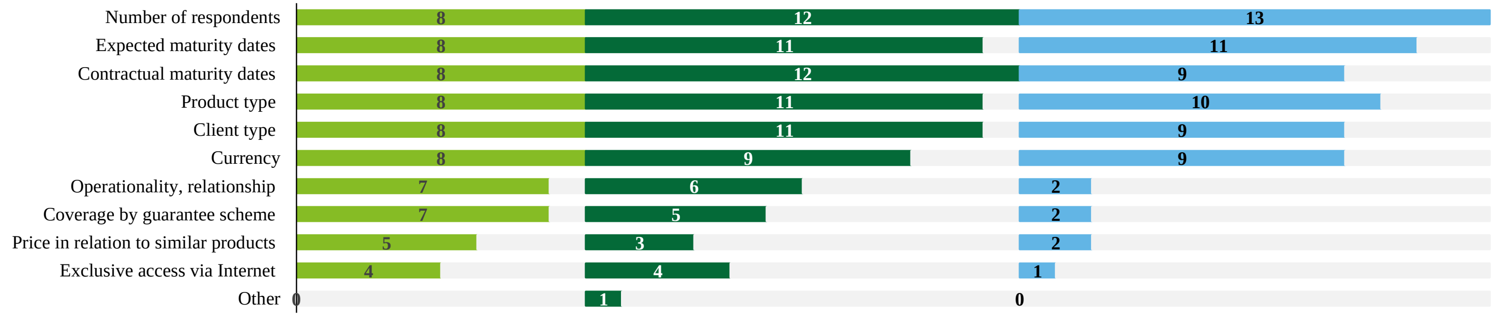
CEE Leaders Challengers Pack

LEADERS CHALLENGERS PACK

What measures are used to estimate liquidity risk:



What factors are taken into account by liquidity risk measures and models



DESCRIPTION

Leaders include eight banks, out of which five classified as 1 SREP and TOP EU. The other include one Non TOP EU bank, one Spec EU bank and one Non EU bank.

The Challengers include 12 banks:

- Two TOP EU banks,
- Two Non TOP EU banks,
- Three Spec EU banks,
- Five Non EU banks.

The other banks are a varied group of smaller entities (assets up to EUR 20 billion), Non TOP EU, specialised and Non EU banks. Some of them are classified as 1 or 2 SREP.

Measures used to evaluate liquidity risk, along with **factors included in risk measures and models,** are considered the key criteria allowing identification of best market practices and liquidity risk management trends.

In light of the above criteria, the survey participants were divided into three groups:

LEADERS: banks that use the broadest range of liquidity risk measurement methods

CHALLENGERS: banks that applied selected measures and tools considered as market standards or best practices

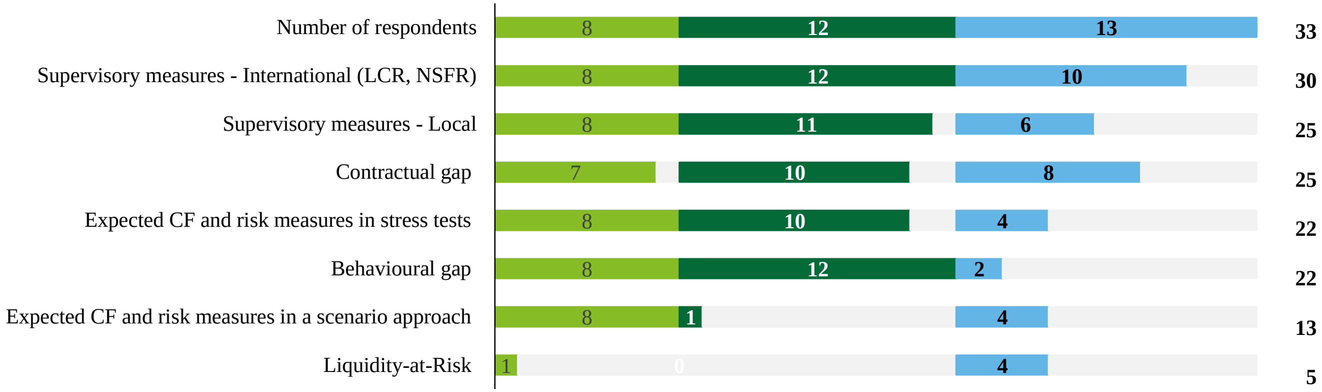
PACK: the other banks, not included in the former classes.

Risk estimation and measurement

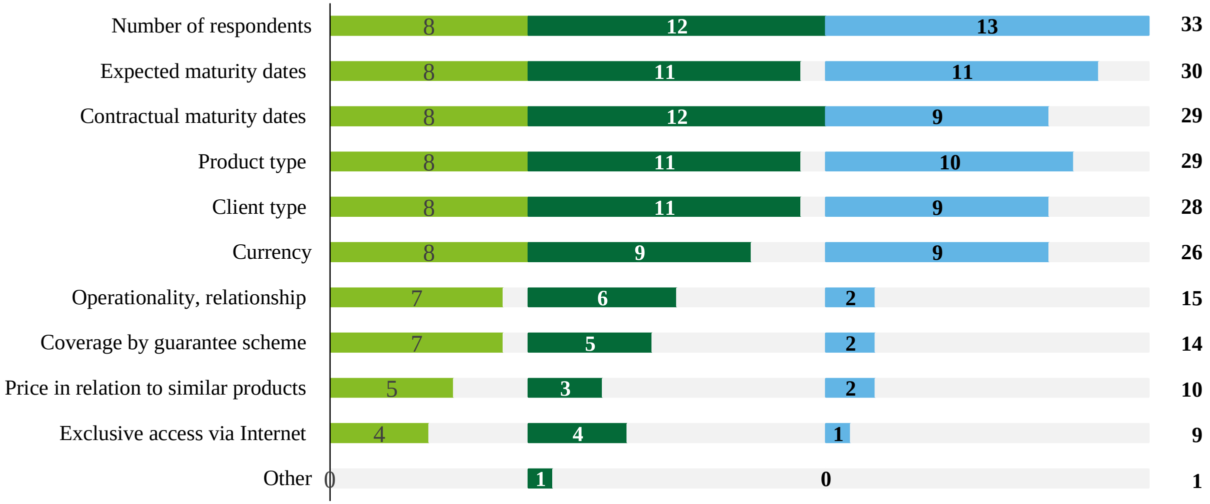
Approaches applied in relation to liquidity risk

CEE Leaders Challengers Pack

What measures are used to estimate liquidity risk:



What factors are taken into account by liquidity risk measures and models:



Vast majority of the surveyed countries use **liquidity indicators based on LCR / NFSR methodology**. If international measures are not applied, banks use **local supervisory measures**.

Out of the 30 banks that analyse liquidity gap, 17 apply both **contractual gap and behavioural gap.**

25 banks use **stress tests** and/or **scenarios**, with 10 using both solutions.

Most of the surveyed banks use both contractual and projected cash flows for liquidity risk management purposes. Further, they include product type, client type and currency.

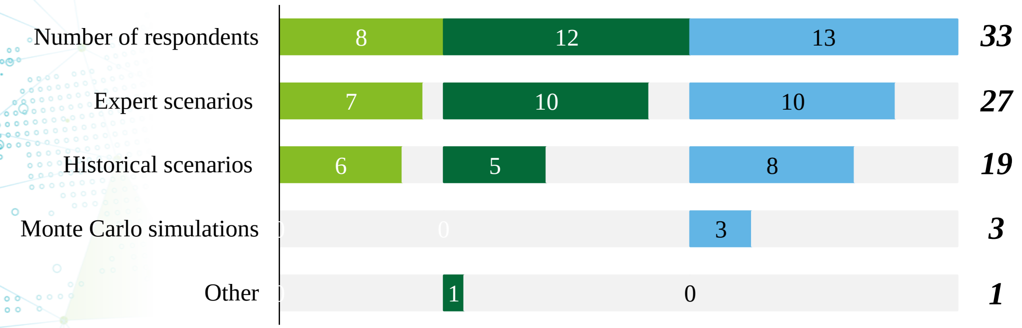
16 banks include **at least six of these factors in their liquidity risk models,** considering five key characteristics (except for one bank).

Risk estimation and measurement

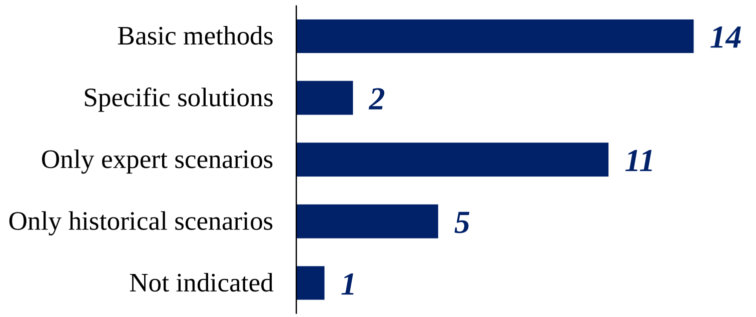
Approaches applied in relation to liquidity risk

CEE Leaders Challengers Pack

What stress test scenarios are used:

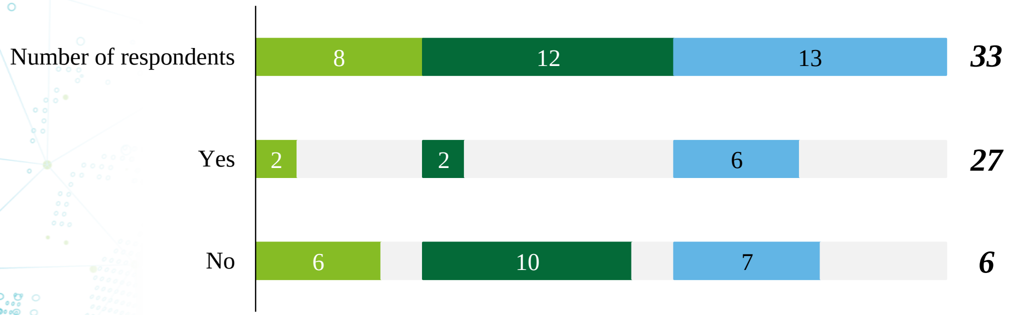


Other: Parametric sceanarios on model parameters



**Basic methods mean: historical and expert scenarios; two banks implemending basic methods also use Monte Carlo simulations*

Do the stress test scenarios include evolution of the interest rate term structure for next years:



Most banks use ***expert scenarios*** in stress-testing of liquidity risk.   Some supplement them with **historical scenarios.**

Only three entities (from Hungary, Czech Republic and Serbia) use the Monte Carlo simulation.

In most cases, for stress-testing purposes, banks do not assume changes in interest rates. Banks considered as Leaders follow the rule as well.

Banks that assume that the term structure of interest rates will evolve in subsequent years are mostly major local market players, out of which three are classified as TOP EU.

Risk estimation and measurement

Approaches applied in relation to liquidity risk

What portfolios / products are modelled for the purpose of estimating liquidity risk:

	Non-maturity deposits (NMDs)	Retail and corporate loans	Undrawn credit facilities	Mortgage portfolios	Credit cards	Securities' market liquidity	Collateral	Other
LEADERS	8	5	6	4	3	6	4	0
CHALLENGERS	8	9	7	8	8	4	6	2
PACK	7	7	6	7	6	4	4	0

Other include: term deposits

What modifications are applied to contractual cash flows:

	Prepayments	Contingent liabilities	Breaking deposits	Replicating portfolios	Collateral	Credit events	Pipeline	Other
LEADERS	8	4	5	3	5	3	3	0
CHALLENGERS	8	6	5	2	3	3	3	2
PACK	9	5	4	6	2	4	1	0

Other include: stickiness of term deposits

What elements are included in the risk assessment of Non-Maturity Deposits?

	Division into a core / non-core part	Dependence of the volume on interest	Replicating portfolios	Other
LEADERS	6	4	2	0
CHALLENGERS	6	1	2	3
PACK	6	4	5	1

Other include: type, stickiness of deposits, historical analysis of balances for NMD, historical scenarios, shocks

Most frequently, the modelling for liquidity risk estimation purposes includes such products as deposits of unspecified maturity, unused credit facilities, securities and loan types (mortgage, retail and corporate loans) offered by a given bank.

Six of the eight Leader banks modelled at least four of the above product groups.

All Leaders use advance payments to modify contractual cash flows.

Five of the eight Leader banks used at least four of the above factors to modify contractual cash flows.

Most banks use the core / non-core division for the purposes of liquidity assessment regarding deposits of unspecified maturity.

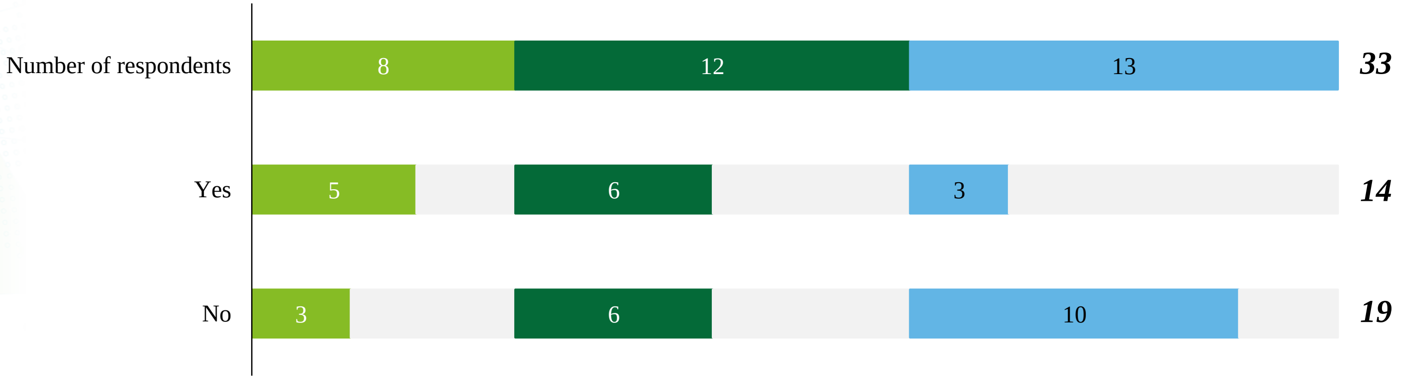
Only two banks used all elements to evaluate the risk of such deposits.

Risk estimation and measurement

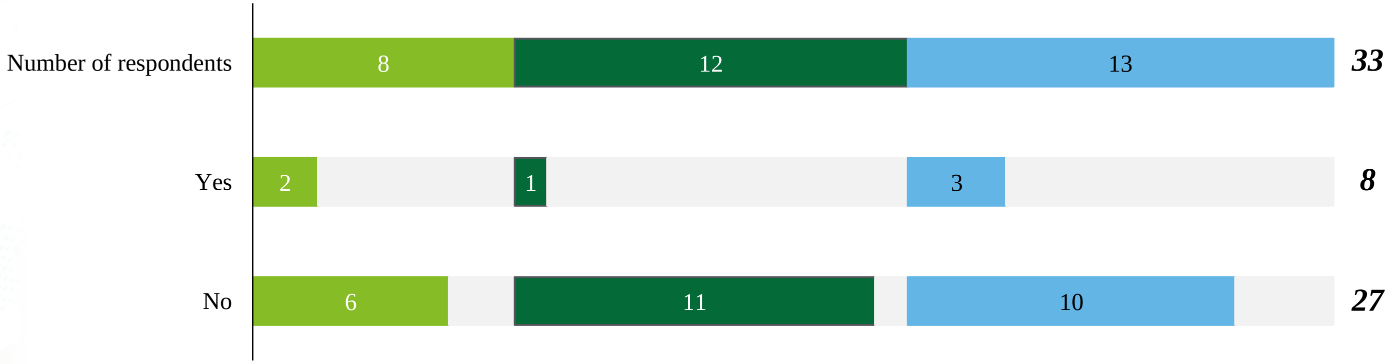
Approaches applied in relation to liquidity risk

CEE   Leaders   Challengers   Pack

Does the Bank apply intraday liquidity risk models?



Does the Bank apply liquidity risk models related to hedging counterparty credit exposures (collateral)?



Entities most advanced in terms of liquidity risk management:

- **apply mid-day liquidity risk management models and**
- **include collateral of counterparty risk in the liquidity risk model.**

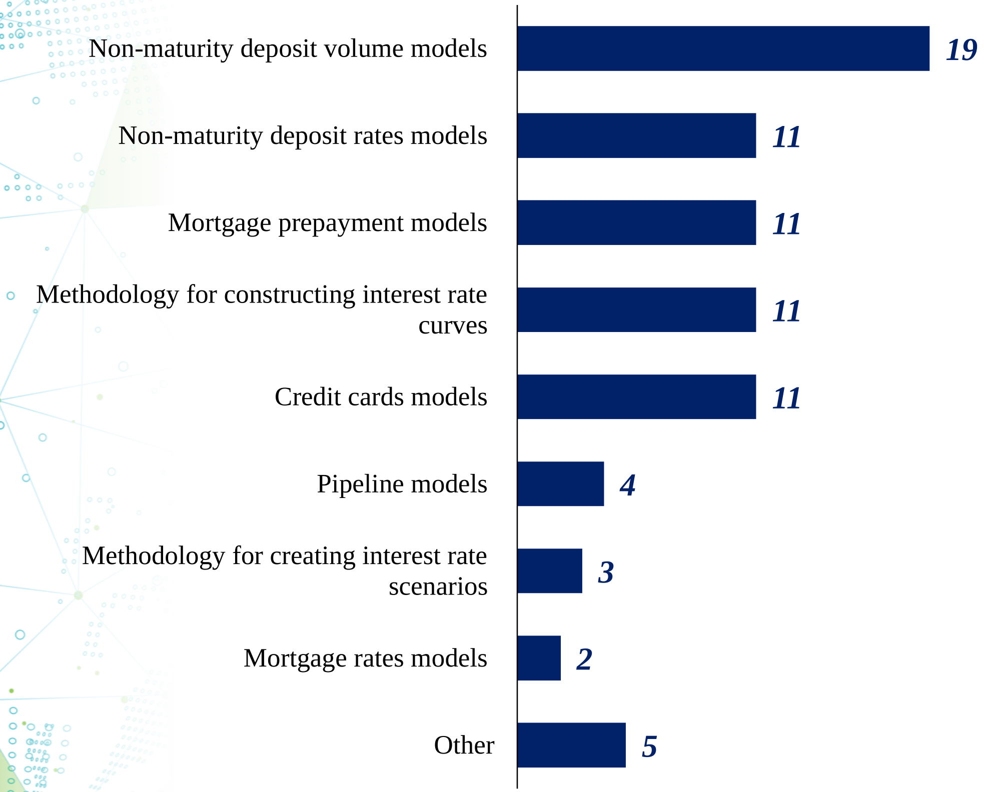
Most banks, though, do not apply these solutions. This includes the ones classified as Leaders in our survey.

These methods are used by the largest market players. **Five banks** that use the mid-day liquidity models are TOP EU ones. Three TOP EU banks use both components.

Risk estimation and measurement

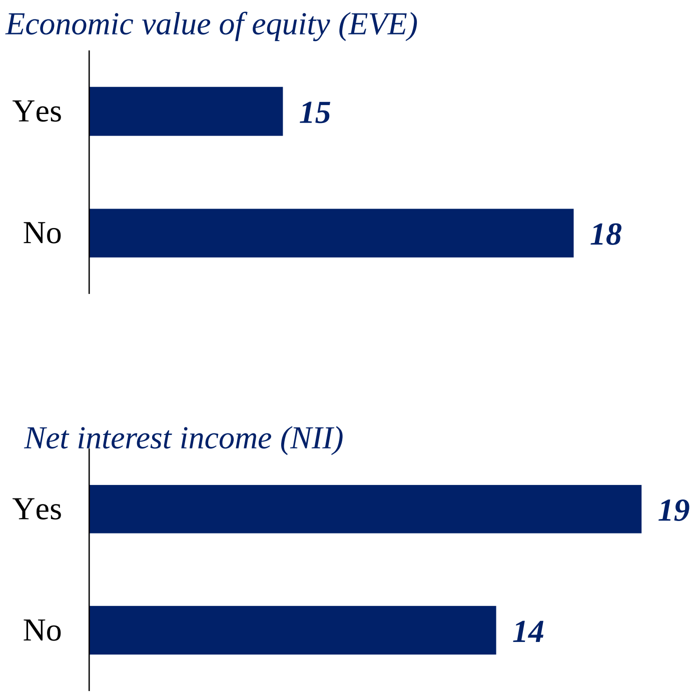
ALM model validation

Which - interest rate and liquidity - risk models are subject to validation:



Other include: any NIIaR, EVE, ICAAP models, deposit's volume stability

Is the estimation of risk measures subject to validation?



EBA Guidelines (EBA/GL/2018/02) have introduced model validation requirements. Financial institutions should make sure that the validation of IRRBB measurement and the assessment of the corresponding model risk are included in the formal IRRBB process, which should be reviewed and approved by a management body or its representatives.

Models of the volume of deposits of unspecified maturity most frequently undergo validation. The chart on the left side presents the most frequently validated model.

At the same time, **two of the 33 surveyed banks indicated that they did not validate their models**.

Most banks validate net interest income (NII) models, but **less than half validate economic value of equity (EVE).**

This is particularly true for smaller entities with the balance sheet total below EUR 5 billion.

Risk estimation and measurement

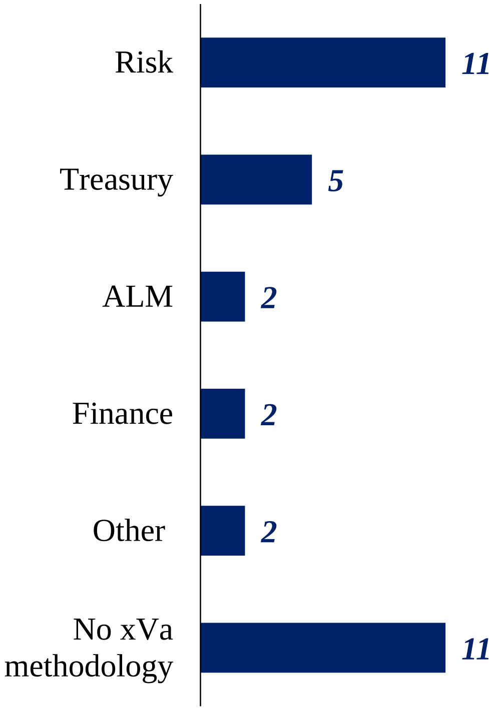
xVA models and adjustments

CEE

Did the Bank implement the xVA methodology?

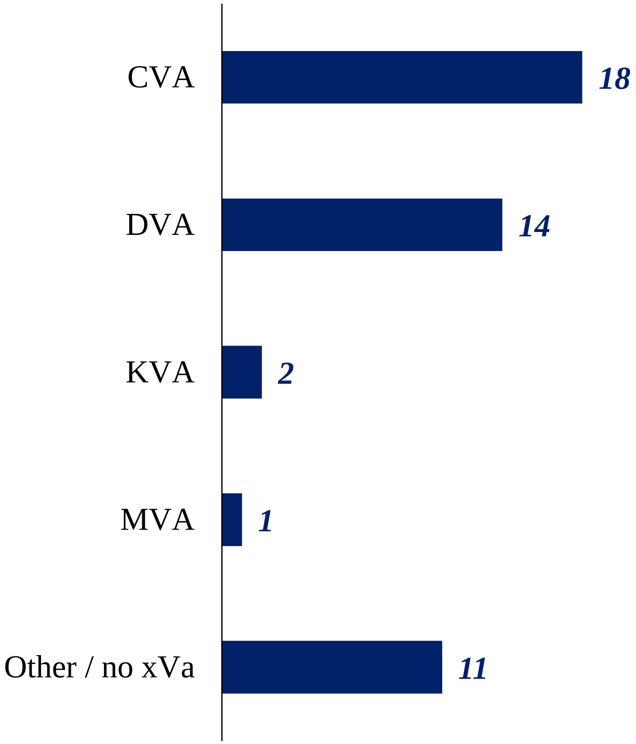
Basic methods oznaczają: scenariusze historyczne oraz scenariusze eksperckie; w pozycji znajdują się 2 banki wykorzystują metodę Monte Carlo

Where is located a unit responsible for the xVa management?



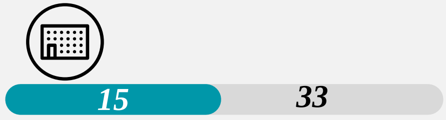
Other include: Middle Office, Group

What xVA measures are used?



Other include: AVA, BVA, FVA

Fifteen of the 33 survey participants did not implement the xVA methodology.



Usually, survey participants from such countries as Poland, Hungary, Slovakia, Serbia and Bosnia-Herzegovina implemented xVA methodologies.

Vast majority **(86%)** of banks that failed to implement xVA methodology are smaller entities with the balance sheet total below EUR 5 billion.

The role of ALM units in banks

Situation of ALM unit in the organisational structure

Where ALM function is located in the organisation structure and what are ALM reporting lines**:		TOP UE AND NON TOP UE	SPEC UE	NON UE	TOTAL***
Finance		**8**		**5**	**13**
	CFO	8		4	12
	Treasury	1			1
	CEO	1			1
	CRO	1			1
Treasury* / Financial markets division		**4**	**7**	**5**	**16**
	CFO	3	4	2	9
	Treasury	2	2	2	6
	CRO	1		1	2
	CEO		1	2	3
	CMO			1	1
Other		**3**		**1**	**4**
Total no. banks		**15**	**7**	**11**	**33**

** The term "Treasury" is vague as it may refer to units operating on its own portfolio (e.g. trading), ones directly cooperating with clients and ALM units managing the banking book portfolios.*
*** Two banks: one non-universal (Treasury) and the other Non EU (Finance) did not indicate any of the above reporting lines.*
**** The numbers show how many times each answer was selected.*

Recently the role of finance functions in the ALM area has grown.

On the one hand, the location of an ALM unit in the bank's structure closely depends on the type of entity, on the other hand determining its reporting scheme.

In most of **EU universal banks, the ALM unit is located in the Finance Function or reports to CFO**. Polish TOP EU banks adopt other specific solutions, including:

- a separate ALM unit reporting directly to the Management Board
- the ALM role being distributed among several departments (Risk, Treasury and Finance) with the central role assigned to ALCO, which reports directly to the Management Board
- division into strategic ALM, being the responsibility of the Finance Function and operational ALM, being the responsibility of business units (the reporting lines include CFO and Treasury).

The adopted reporting solutions vary for banks whose ALM units are situated in the Treasury Department.

In the ***Spec EU*** group ALM is a part of the Treasury Department, usually provided with a detailed CFO reporting path.

In the ***Non EU*** group, no unified solution has been adopted in terms of ALM unit location, while reporting schemes are similar to those adopted by EU banks.

The role of ALM units in banks

ALM objectives

INDEPENDENCE

GOALS*	SUFFICIENT - 21	LIMITED - 2	NOT INDICATED - 7
Analytical - 11	**In eight banks** the ALM role is limited to analytics, despite five of them having situated the ALM unit in Treasury. These banks separate the contributor role from transaction concluding. In the remaining three banks, ALM units are located in the Finance Function.	**In one bank** a Chinese wall has been implemented to separate the contributor role from transactions, with the role of ALM being limited to analytics and the unit itself being located in the Finance Function.	**In two banks**, where ALM is located in Treasury, no principles of separating the contributor role from transaction concluding have been specified, but there ALM performs analytical role only.
Both - 11	**In seven banks** ALM is both in charge of analytics and works as a profit centre, but these banks separate the contributor role from transaction concluding. In four banks, ALM units are located in Treasury; in two, within the Finance Function and one adopted another solution.		**Four banks** have not indicated separation of contributor and transaction concluding roles (ALM being a profit centre). In these banks, ALM is located in Treasury (one bank) or in the Finance Function (three banks).
Profit - 8	**In six banks** ALM works only as a profit centre, but these banks separate the contributor role from transaction concluding. In four banks ALM is located in the Finance Function, in the other two - in Treasury.	**In one bank** a Chinese wall has been implemented to separate the contributor role from transactions, with the role of ALM being limited to a profit centre and the unit itself being separate and reporting to the Management Board.	**In one bank** the contributor role is not separated from transaction concluding, with the ALM unit located in Treasury and working solely as a profit centre.

Most banks separate the contributor role from transaction concluding if ALM works also as a profit centre.

* *Three banks did not indicate an ALM function and therefore were excluded from the above analysis.*

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UE – Biggest universal banks (TOP EU)

Other universal banks (Non TOP EU)

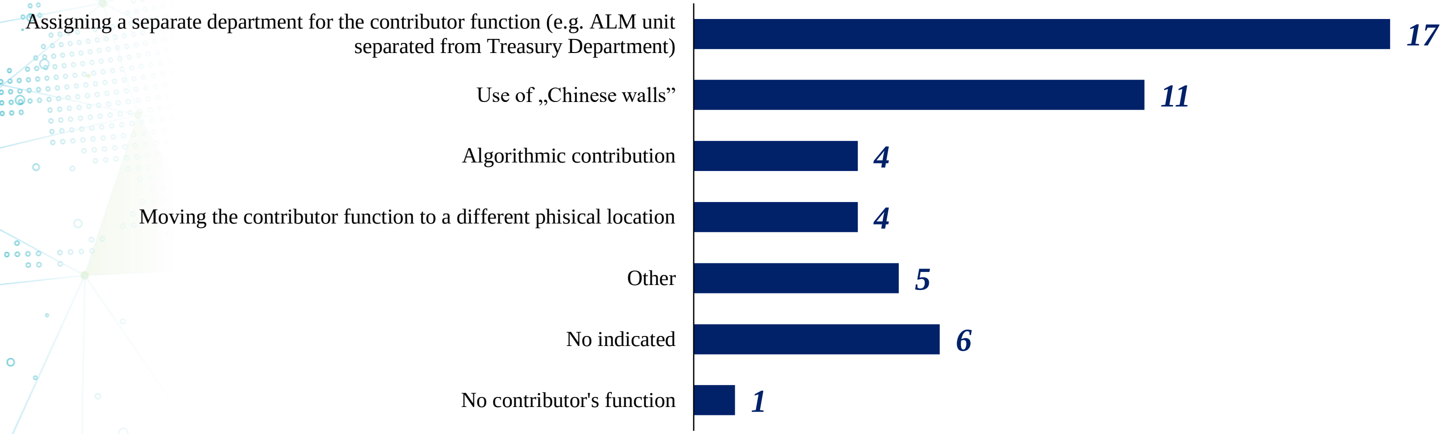
UE – Specialised banks (Spec EU)

Banks operating in non-member states (Non EU)

The role of ALM units in banks

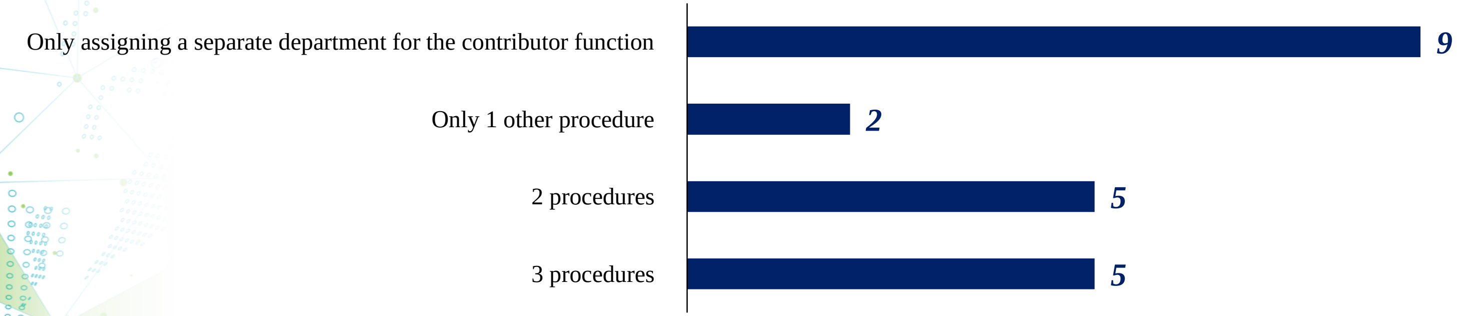
Ensuring separation of the ALM unit

How does the Bank guarantee the independence of the contributor's function from concluding transactions?



Other include: conflict of interest management / dedicated process (and people) and control functions / different business units in the same Department / Internal policy / no contribution / risk controlling supervision

Procedures to guarantee independence



The following solutions adopted by the banks in order to ensure the independence of the contributor role from transaction concluding are considered sufficient:

- separating the contributor role in the form of a separate organisational unit (the most frequent solution)
- separating the location of the contributor role
- algorithmic quoting

The power of “Chinese walls” depends on specific technical and organisational solutions adopted; therefore, the method cannot be considered sufficient based solely on the survey data.

Twenty one of the 33 banks have adopted at least one solution deemed sufficient.

Nine banks have separated the contributor role in the form of a separate unit.

Ten banks have adopted at least two different procedures to ensure independence of the contributor role from transaction concluding.

Two banks opted for separate location and algorithmic quoting.

Two banks used Chinese wall as the only separation measure**.**

No preferred method was observed in terms of ensuring independence in various groups of banks.

The role of ALM units in banks

ALM responsibilities

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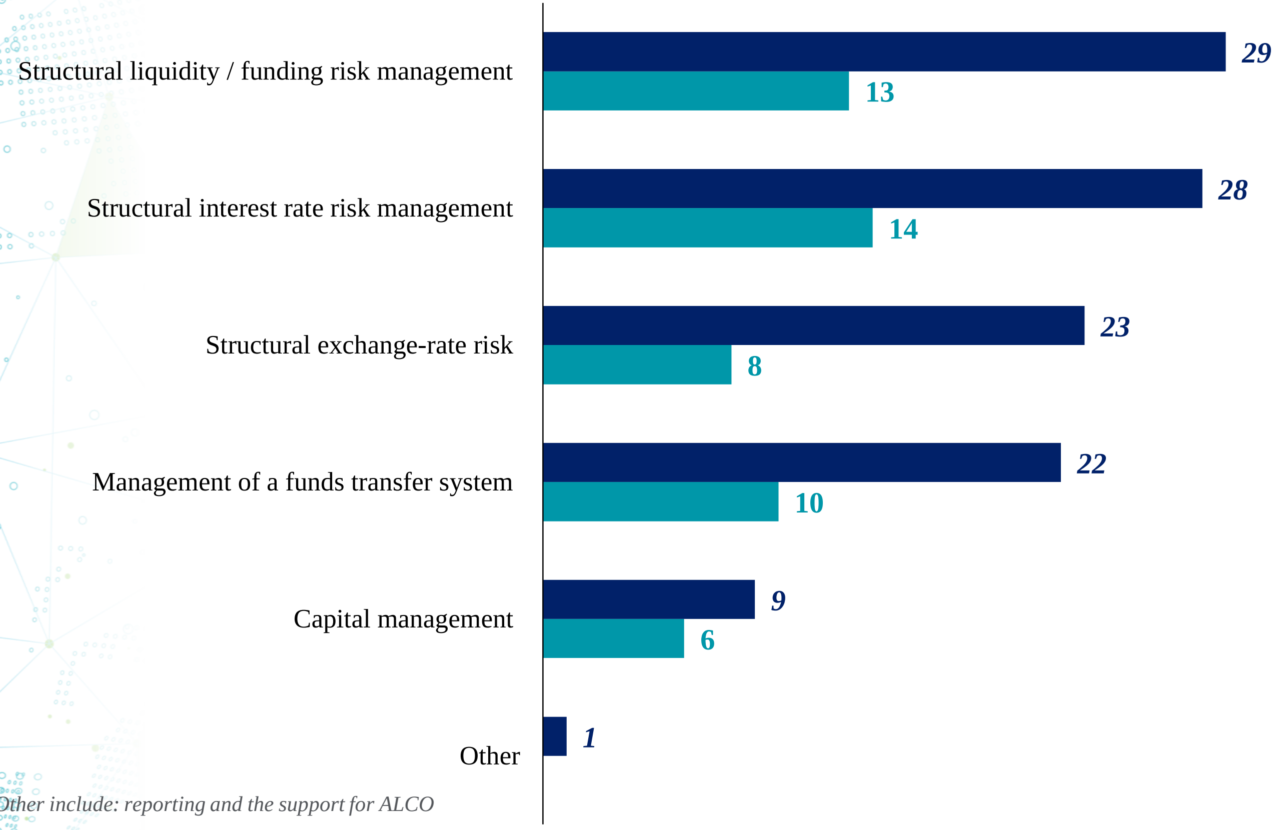
What is the scope of ALM's activity:



Other include: reporting and the support for ALCO

ALM unit’s responsibilities usually include structural management of liquidity and interest rate risk. Additionally, in most banks, ALM units are in charge of structural management of currency risk and funds transfer pricing (FTP) management.

In nineteen banks ALM units are in charge of at least four of these processes.

The role of ALM units in banks

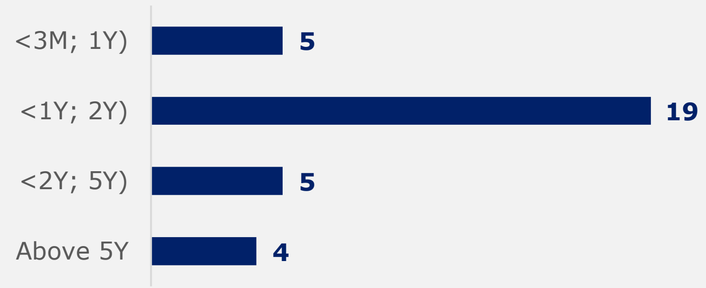
Division of risk management related tasks

Which department/ unit is responsible for:	*Treasury*	*ALM*	*Finance*	*Other*
making transactions related to short-term liquidity risk management:	23	8	1	1
making transactions related to long-term liquidity risk management:	16	11	4	2
making transactions related to short-term interest rate risk management:	21	8	1	3
making transactions related to long-term interest rate risk management:	18	10	1	4
origination of short-term debt, incl. deposits from wholesale corporate clients:	20	6	1	6
origination of long-term / structural / MREL debt:	12	11	6	4
making transactions related to the management of exchange-rate risk in the banking book:	23	7	1	2
the development of hedging relationships (defining hedge accounting relations)?	11	10	5	7
providing data for the purpose of setting reference rates	19	8		6

Not applicable for the question

In most banks the Treasury Department is in charge of all these activities. We observe an increasing ALM role related to long-term liquidity and interest rate management, where the long-term horizon means mostly 1-2 years as indicated on the following chart. Similarly, in most cases ALM units are in charge of long-term financing issues.

What definition of 'long term' for the purpose of liquidity risk the Bank uses:



Further, most large banks make their ALM units responsible for hedge accounting. The role is characteristic for ***TOP EU*** banks.

In ***Spec EU*** banks all roles listed above are performed by the Treasury Team. In smaller banks, the Finance Function role grows, which is often accompanied by the combining of Treasury and ALM roles.

Non EU banks tended to indicate a major role of their ALM units compared to Treasury.

The role of ALM units in banks

FTP management

FTP - WHAT UNIT PLAYS THE ROLE OF:	***Treasury***	***ALM***	***ALCO***	***Management Board***	***Finance***	***Risk***	***Compliance***	***Internal Audit***
Business owner	●	●	○		○			
Assessment, review and validation			●			○		
Operational unit					●	○		**!**
First line of control		●	●		●			
Second line of control						●		

The role of the FTP business owner may be assigned to various units, in particular to **Treasury, ALM, ALCO or Finance**. No "typical" business owner can be identified, but the largest banks tend to assign the role to ALM or ALCO.

In specialised banks, **Treasury** is the most frequent business owner of FTP.

Non EU banks have a similar ownership model, i.e. it is assigned to **ALCO, ALM or Treasury**, alternatively to the Management Board or Finance Function.

As far as control responsibilities are concerned, division of tasks regarding assessment, review, validation and control (the first and second defence line) seems neither precise, nor clear enough. The observation complies with the outcome of former FTP surveys carried out by Deloitte.

In two Spec EU and one Non EU bank, the entire process is located in **Treasury**.

No identical solutions for the process have been found in the surveyed sample, with two exceptions (in total five banks presented the same solutions).

Other related Deloitte publications

Other related Deloitte publications

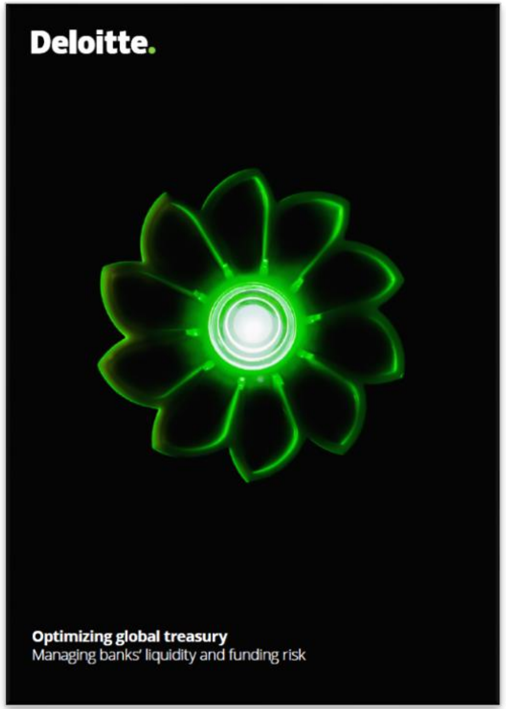
Optimizing global treasury – 2019 Deloitte Report

Following the introduction of material regulatory changes regarding liquidity, financing and capital adequacy, in 2019 Deloitte prepared a report on optimisation of the treasury operations.

The report focused on the presentation of the global regulatory landscape for banking, discussion of challenges faced by banks and high-level recommendations regarding treasury optimisation.

Focus of the report:

- presentation of regulatory changes and their effect on treasury,
- discussing challenges regarding management, operating model, processes, controls, data and reporting, as well as system architecture,
- setting the direction to optimise treasury operations in order to prepare banks for regulatory inconsistencies and to achieve the objective in the form of integrated, improved comprehensive liquidity and financing framework.



https://www2.deloitte.com/global/en/pages/financial-services/articles/optimizing-global-treasury-managing-banks-liquidity-and-funding-risk.html

Global regulatory landscape

Challenges **for banks**

High-level recommendations regarding **optimisation of Treasury operations**

Managing **liquidity and financing risk**

How can we help you?

Deloitte services related to the Report contents

Services for market risk area

- Calculating zero-coupon curves, financial instruments valuation
- Complex implementation of new requirements eg FRTB
- Review and implementation of IRRBB and liquidity risk management methodologies
- Support during tests and implementation of treasury and risk management systems

ADVISORY SERVICES

We offer a full range of advisory support regarding regulations. Our services include:

Services for ALM and Treasury

- Design and adjustment of treasury processes to regulatory requirements
- Complex implementation of new requirements eg BMR, MIFID, PRIIPS, EMIR etc.
- Building and review of FTP methodology
- Hedge accounting solutions

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