



Financial Institutions

# INSPIRED TO SUCCESSFULLY MANAGE INTEREST RATE RISK



## HOW WILL VOLATILITY IN TODAY'S INTEREST RATE ENVIRONMENT IMPACT YOUR BANK?

Given the uncertainty of today's interest rate environment and regulatory pressure to have strong practices for managing IRR, third-party IRR assessments are increasing in demand. Boards and senior management teams are required to not only understand the impact of changing rate environments on their institution's capital and earnings, but also be diligent in implementing strategies for mitigating significant adverse exposures identified.

Our procedures focus on interagency guidance to assess if interest rate risk administration is appropriate in achieving board expectations and are designed to assess:

- Board and senior management oversight
- Policies, procedures and established risk limits
- Management information systems
- Internal controls

## WAYS TO BOOST YOUR IRR PROGRAM

- 1** Update incomplete or outdated policies. It's challenging to perform an IRR review when the bank's IRR policy hasn't truly been updated to reflect its IRR practices.
- 2** Model results versus established risk parameters. Your board should be regularly reviewing this comparison at least quarterly.
- 3** Revisit outdated assumptions. When was the last time your ALCO reviewed model inputs and assumptions?

## HOW CAN WE HELP?

### Interest Rate Risk Review

An increasingly uncertain interest rate environment has increased expectations of risk administration by regulatory bodies, resulting in an increasing demand for third-party risk assessments. Financial institutions need to understand the various risks that interest rate changes can present and must further implement policies and procedures to prepare for the potential impacts to capital and earnings. An independent review of a financial institution's IRR policies, procedures and modeling platforms serves to identify potential issues and deficiencies with regulatory guidance. An assessment provides boards and senior management with greater confidence in the quality of the institution's IRR management.

### Consulting Services

A solid plan is the foundation for continued success. Interest rate volatility can directly impact earnings and the capital of every institution. While not feasible to eliminate IRR, boards and senior management can structure their IRR oversight to sufficiently prepare for rate uncertainty and develop action plans to help protect the institution from excessively adverse impacts. Having an independent third party perform an assessment helps ensure a sound foundation of IRR management practices are in place.

### An effective IRR assessment includes the following components:

- An assessment of board and senior management governance
- The appropriateness of and compliance with board approved policies, procedures and risk parameters
- Review of material assumptions used in the bank's IRR model assessment of accuracy and integrity of data input into the IRR model
- Review the adequacy of back-testing performed

### ABOUT US

We're a business advisory and accounting firm, helping our clients embrace the opportunities that change and innovation bring to the evolving business landscape and personal financial decisions. We offer our clients inspired ideas and solutions to tackle risk and spur growth.

**What inspires you, inspires us.**

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