Interest Rate Risk in the Banking Book (IRRBB)

The IRRBB (Interest Rate Risk for the Banking Book) guidelines published by the EBA came into force on 30 June 2019. They were transposed into national law in compliance with the BaFin Circular 06/2019 (BA) for all credit institutions not explicitly exempt from their application as defined in § 1(1) KWG (German Banking Act) and come into effect on 31 December 2019.

Product Information

INTEREST RATE RISK

The BCBS 368 standards provide a new definition of the so-called Basel interest rate shocks. The computation of the net present value changes now requires six (instead of two) interest rate scenarios.

The standard tests compute the changes of the net interest income applying a

a Parallel upward shift (by 200 basis points in each case)

b Parallel downward shift (by 200 basis points in each case)

and are deemed to be early warning indicators for the supervisory outlier test analogously to the following scenarios:

c Steepening (resulting from short-term down and long-term up shock)

d Flattening (resulting from short-term up and long-term down shock)

e Short-term up shock

f Short-term down shock

The simulated interest rate changes in the scenarios differ from one another depending on the currency.

Key Benefits

- ◊ Compliance with and monitoring of the regulatory guidelines
- ◊ Calculation of the new Basel standards *“Minimum Capital Requirements for Market Risk”*
- ◊ Flexibility in changing the shock scenarios
- ◊ Consideration and presentation of post-shock interest rate floor
- ◊ FX currency positions are taken into account
- ◊ In-depth representation of net present value changes and net interest income *EVE Delta* and *NII Delta*
- ◊ Graphical representation of the data in Excel (see figures on page 2)
- ◊ Individual reports
- ◊ Software can be used as stand-alone application and on a BPO (Business Process Outsourcing) basis
- ◊ **Please note:**

  Calculation of the market price, credit and liquidity risk in the context of identifying the risk-bearing capability

An institution where the economic value decrease of the banking book positions exceeds 20 % of the equity (when applying the standard tests) or 15 % of the tier 1 capital (when applying the early warning indicators) is classified as an "institution subject to an increased interest rate risk". As a consequence, this must be reported to relevant supervisory authorities immediately, and the capital requirements may be subject to a review as part of the supervisory review and evaluation process (SREP).

Post-Shock Interest Rate Floor

In this context, a maturity-dependent post-shock interest rate floor is taken into account as it is particularly relevant for short-term negative parallel shifts and short-term negative shocks (see scenarios b, c and f on page 1). In the low interest rate environment this means that a floor is applied to a wide range of positions.

Foreign Currency Positions

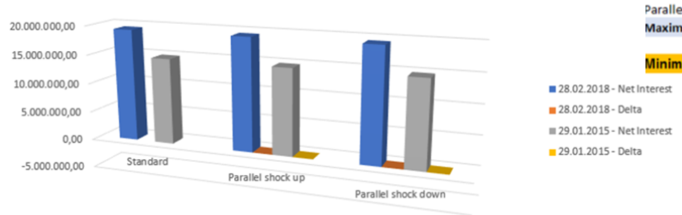
If the banking book is comprised of positions in different currencies, these positions must be taken into account if their share in the overall volume of the financial assets or liabilities equals or exceeds 5 %, with a sum of the positions included in the calculation however adding up to 90 % or more. The computed net present values are converted into portfolio currency and aggregated. They are subject to the reporting threshold described above, and a review is mandatory.

OLAP Reporting Integration

It is not only possible to export the computed data to Excel for the purpose of creating a table with the submitted data, an additional function has been integrated in Excel: Use the *OLAP Reporting* module in PMS to export the computed data to Excel and to invoke a graphical representation of the data via pivot table. This allows the users to filter the data and to view and print the relevant data.

Net Interest Income

	Spaltenbeschriftung			
	28.02.2018		29.01.2015	
Zeilenbeschriftungen	Net Interest	Delta	Net Interest	Delta
Standard	19.338.914,81		14.760.572,81	
Parallel shock up	19.338.553,71	361,10	14.760.267,95	304,86
Parallel shock down	19.339.275,90	-361,10	14.760.877,67	-304,86
Maximum	**28.02.2018**	**361,10**	**29.01.2015**	**304,86**
Minimum Required Capital 2	**28.02.2018**	**4.330,30**	**29.01.2015**	**2.745,94**



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