



Auditing and Validating Asset/Liability Management Models: A Practical Guide for Community Financial Institutions

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Given today's complex, volatile market and resulting regulatory emphasis on risk management, accurate performance and proper validation of interest rate risk models is critical. Do you have confidence in your model, audits and validation processes?

Whether performed by internal staff or outsourced to a third party, this book will help you: Understand how Present Value, Net Interest Income and Interest Rate Risk are calculated; Review the theory, math and model's capacity to capture the characteristics of your current and future balance sheets; Use models effectively in your asset/liability management process to identify and manage your risk; Create a comprehensive audit plan including narratives, internal control questions, flowcharts, and test steps; Document findings and prepare recommendations for corrections and compliance with industry best practices; Evaluate the decision to use internal audit staff or outsource your model audit and validation

Financial reporting is part of sound corporate governance, and includes compliance with internal policy guidelines and parameters, external limits and ratios and regulatory requirements. Model audits and validations are an important part of the overall asset/liability management process by verifying that the data, assumptions, theory and methodologies to produce the most accurate results. Information that correctly depicts current and future positions will improve your risk management process, and can improve profits by making better decisions about products maturities and sensitivities.

A good model will help you Create financial projections that support strategic planning; Measure credit, liquidity, capital and interest rate risk; Analyze the impact of new business strategies, such as branching decisions, mergers, deposit and loan pricing or new product offerings; Make fair value assessments

Let this practical, hands-on publication guide you step-by-step through the complex and sometimes daunting task of creating an effective audit program for the validation and verification of your model.

This helpful book is divided into four parts. Part 1 provides a basic understanding of the way models work and how you should use your model as one component in the overall asset/liability management process to limit interest rate risk. The theory and application behind income simulation models and economic value models is discussed.

Part 2 covers the ALM IRR model program and specific components of the IRR audit. It provides a comprehensive plan focusing on the risks and audit tests that determine the adequacy of a model and the modeling process. You'll also see an audit plan with all of its components narratives, internal control questions, flowcharts, work papers and test steps.

Part 3 focuses on the model validation process, techniques for validating model results and the appropriateness of model outputs and reports. It describes the elements of a sound model validation policy, regulatory expectations and includes a sample policy.

Part 4 addresses practical considerations for implementing model audits and validations, including issues to

consider when deciding if you should outsource your model audits and validation, as well as a decision matrix for evaluating proposals and selecting and managing external resources.

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