
Introduction to Dynamic Risk Management

Overview of the DRM project



Better reflect:

- How interest rate risk management affects amount, timing and uncertainty of cash flows
- Effect of risk management activities on the financial statements

2014

DP: Portfolio
Revaluation
Approach

2017-2019

Developed
DRM core
model

Q4 2020-
Q2 2021

Identified key
issues
through
outreach

Q2 2021-
Q2 2022

Discussed
key issues
and
suggested
refinements

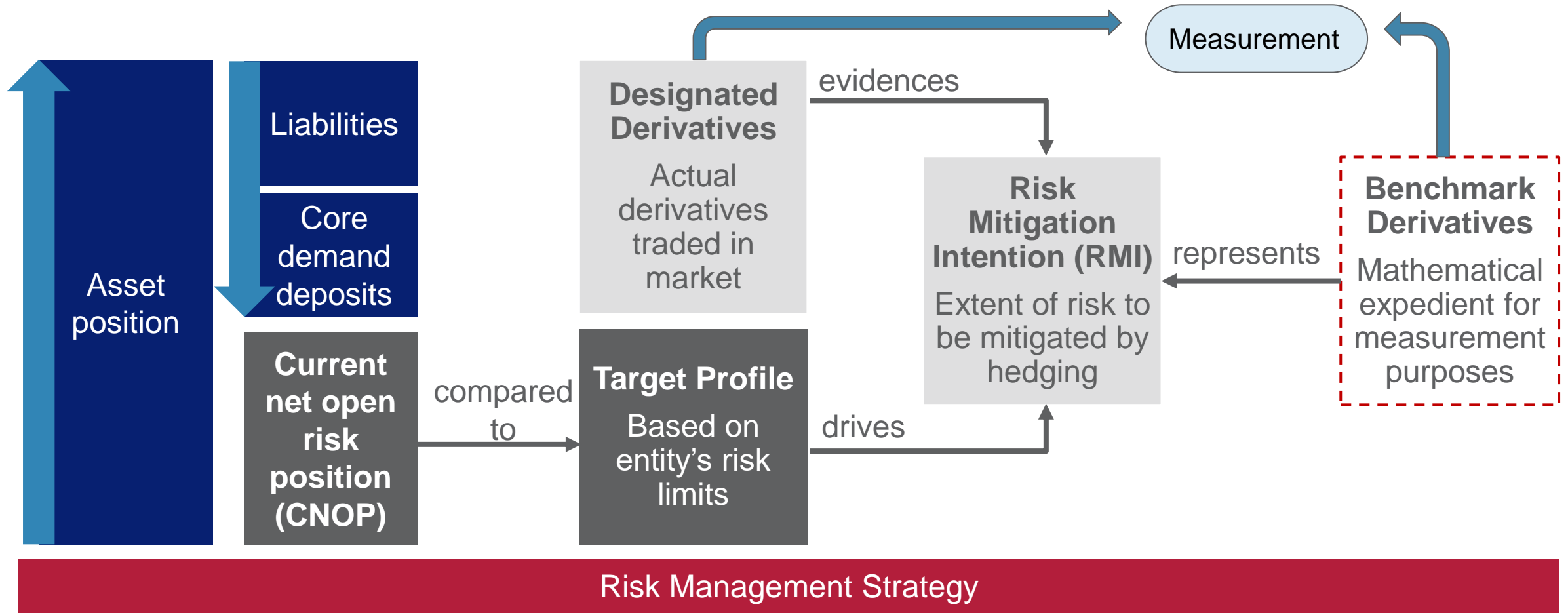
May 2022

Project status
changed to
'Standard
setting'

Q3 2022

Working
towards
Exposure
Draft

Elements of the DRM model

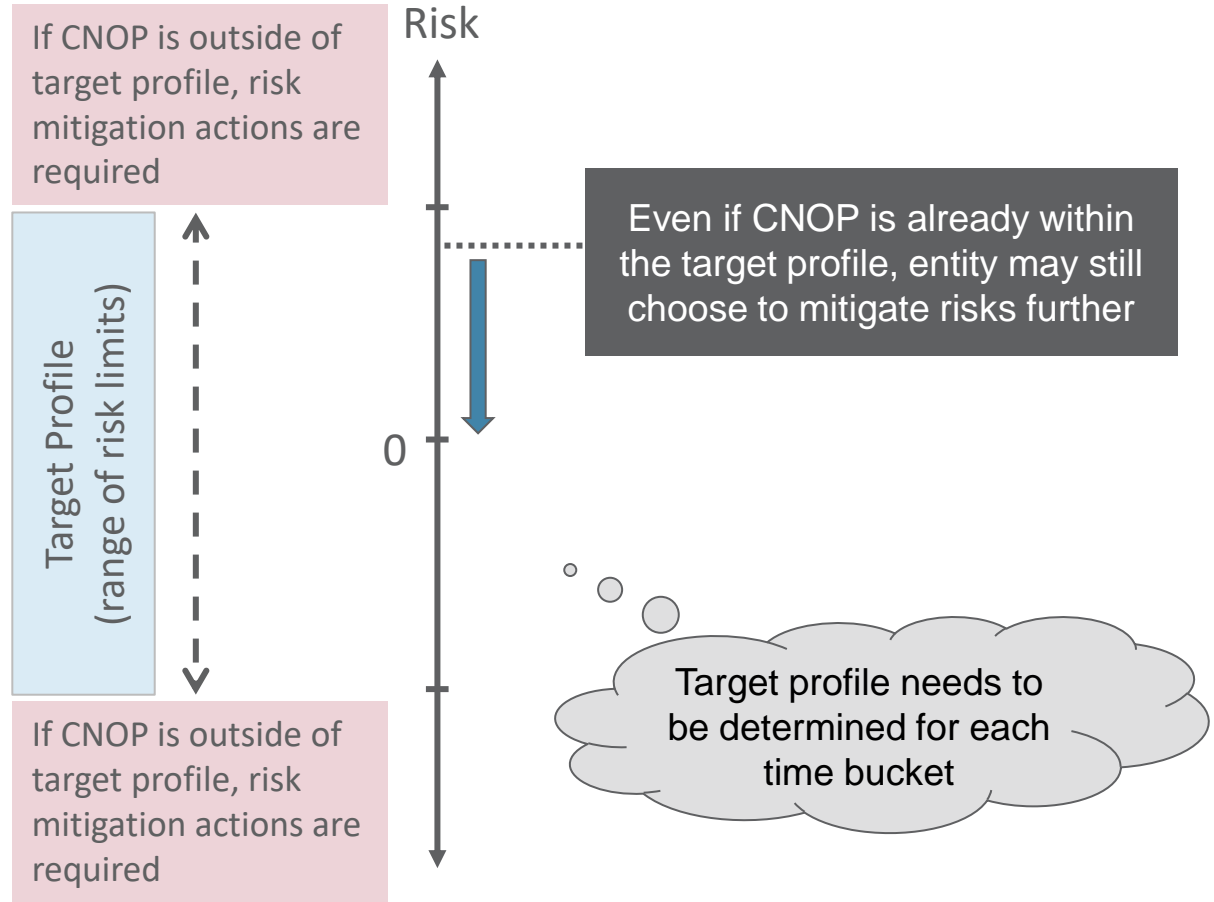


Risk management strategy and target profile

Risk Management Strategy (RMS)

- Basis for the other elements in the DRM model
- Expected to be kept consistent throughout the life of the DRM model and determines:
 - Process to approve and amend RMS
 - Risk management levels and scope
 - Risk metrics used
 - Range of acceptable risk limits (ie the target profile)
 - Risk aggregation method and risk management time horizon
 - Methodologies to estimate expected cash flows or core demand deposits
- Changes to RMS lead to discontinuation of the DRM model

Target Profile



Current net open risk position (CNOP)

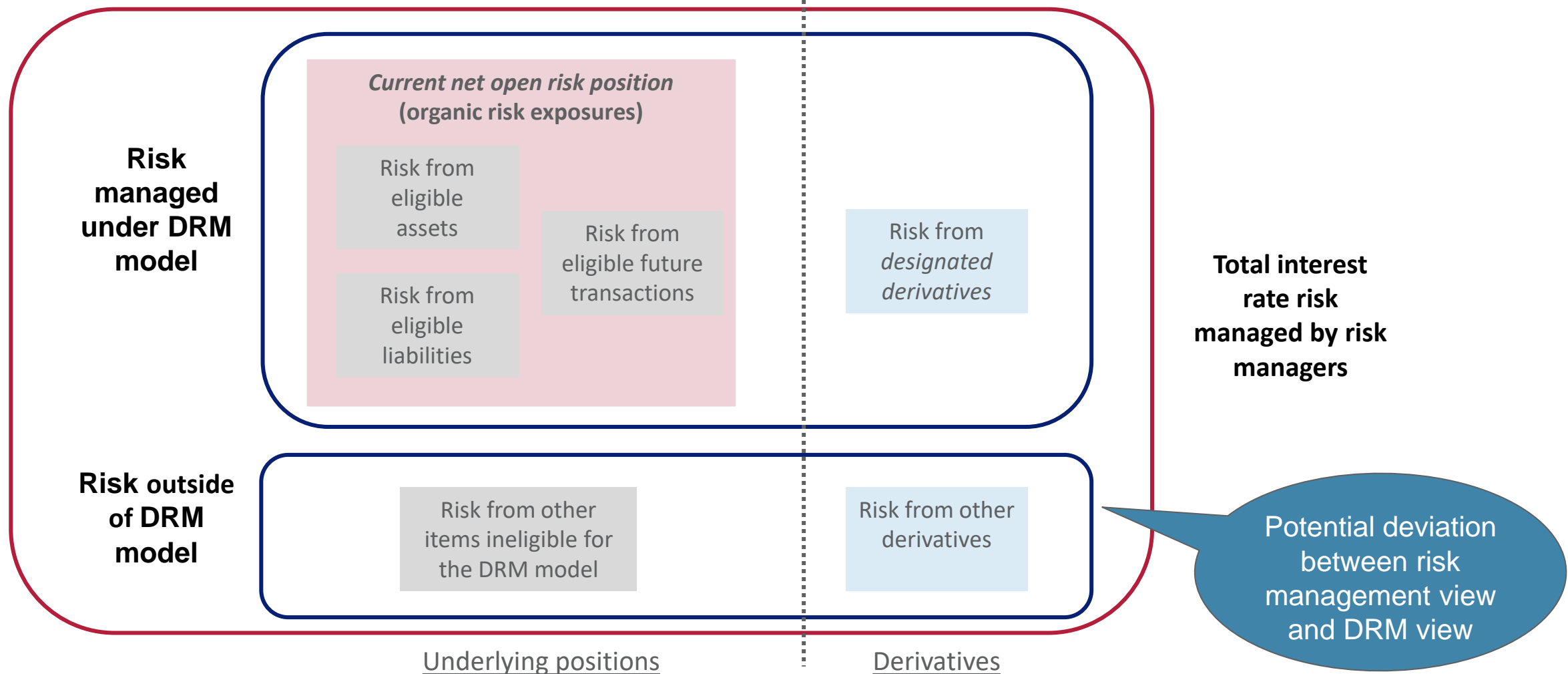
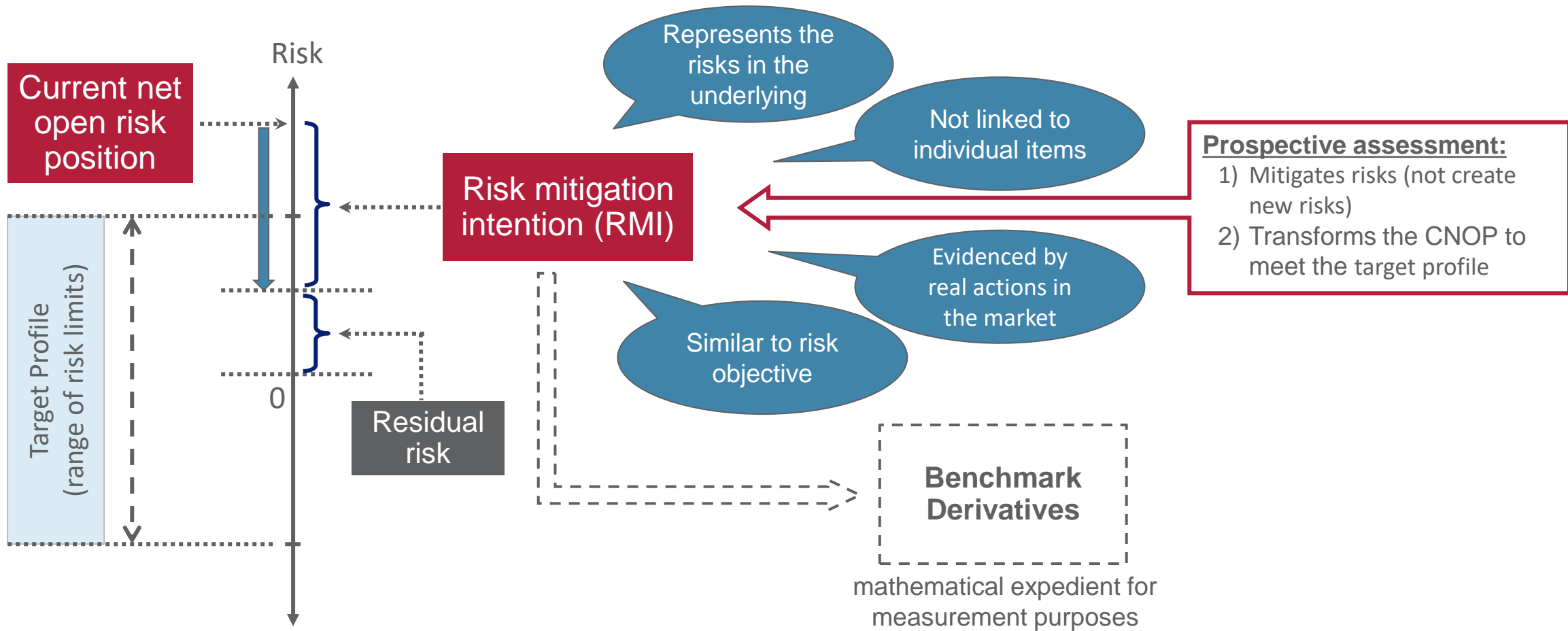
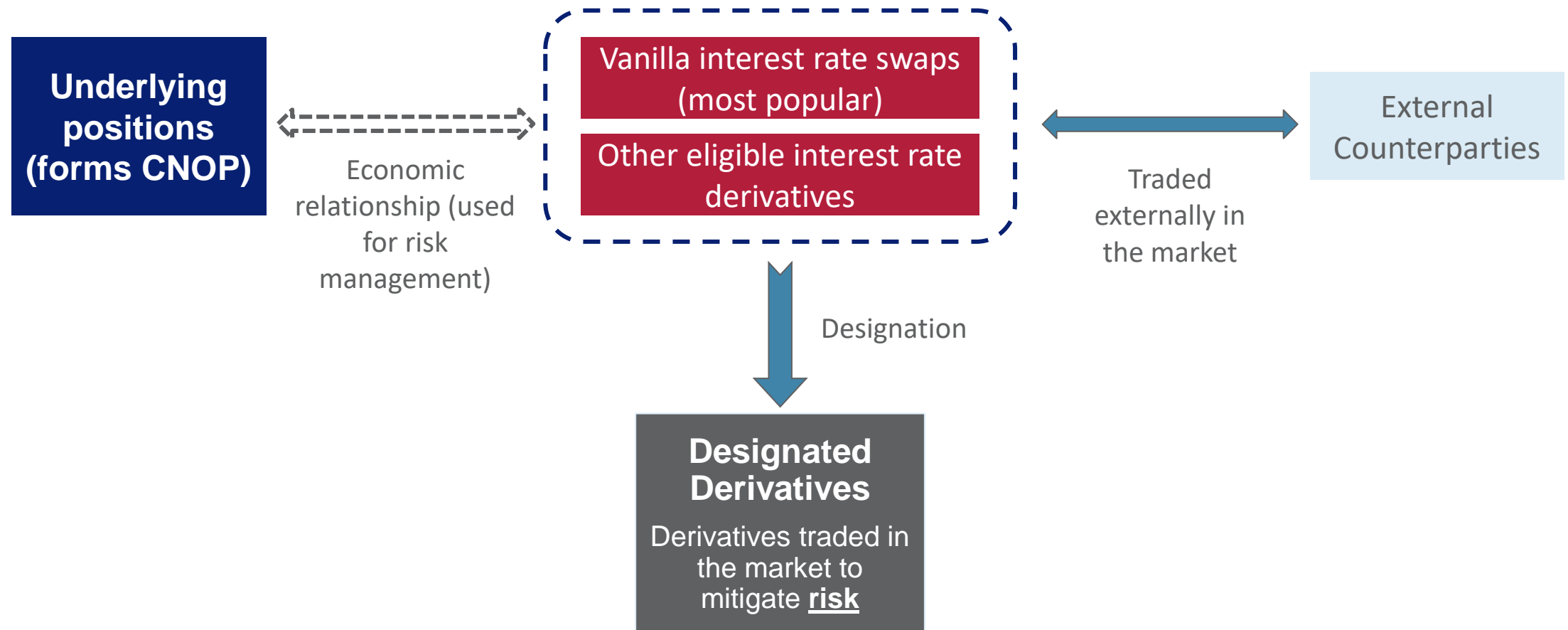


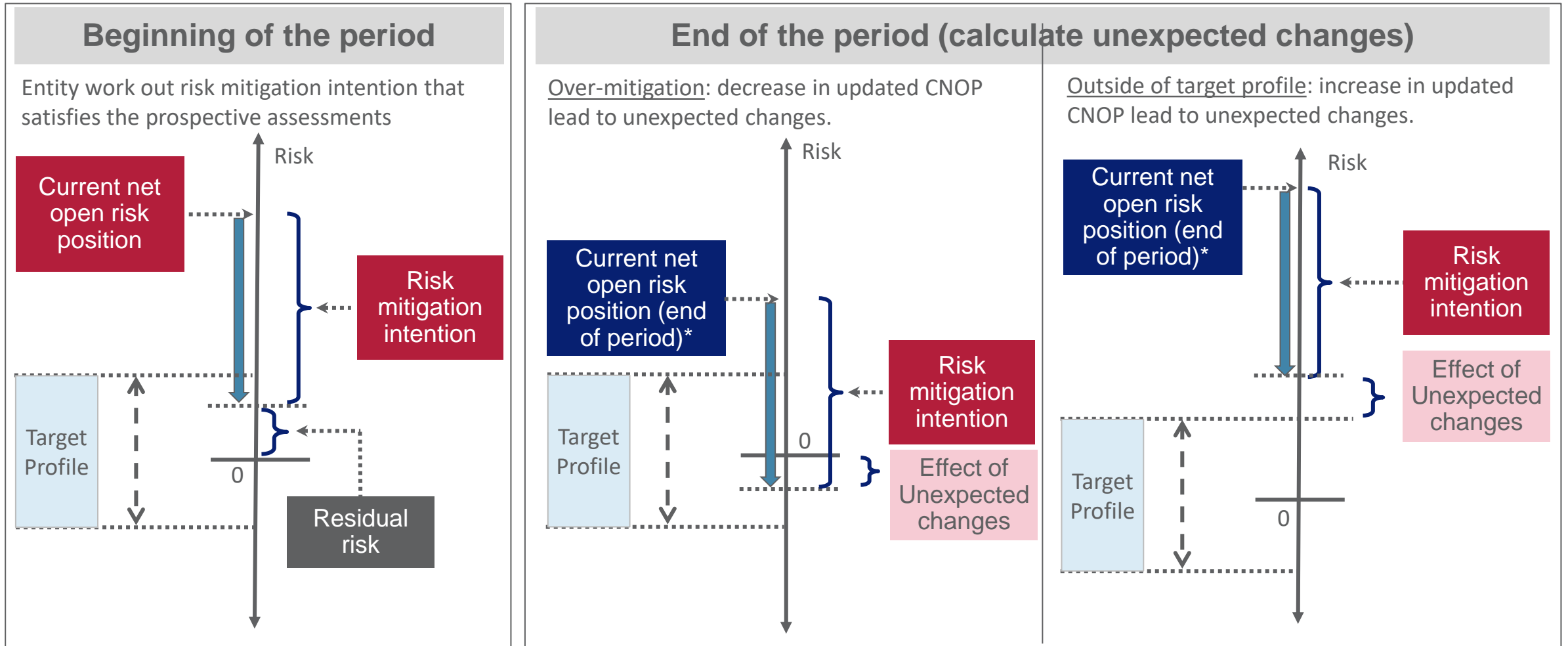
Illustration of RMI bringing CNOP within target profile



Designated Derivatives

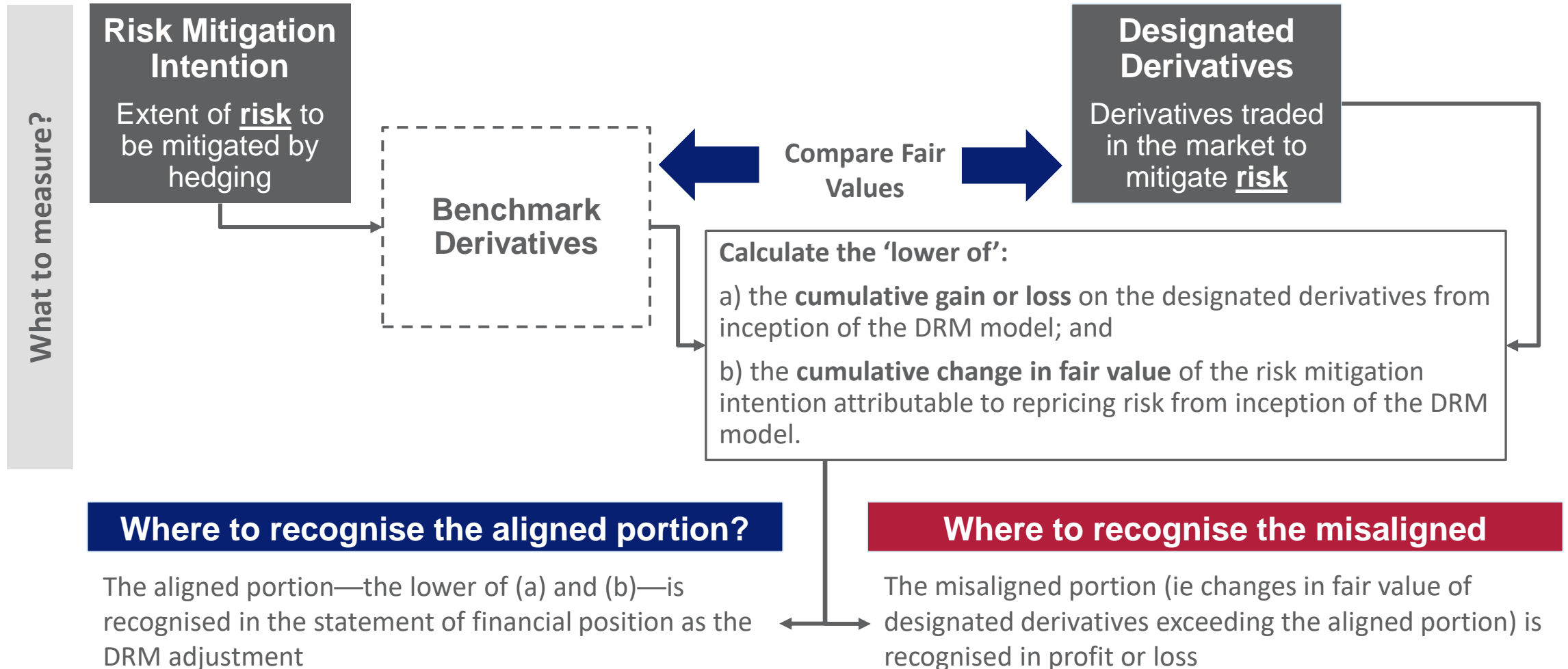


Retrospective assessment

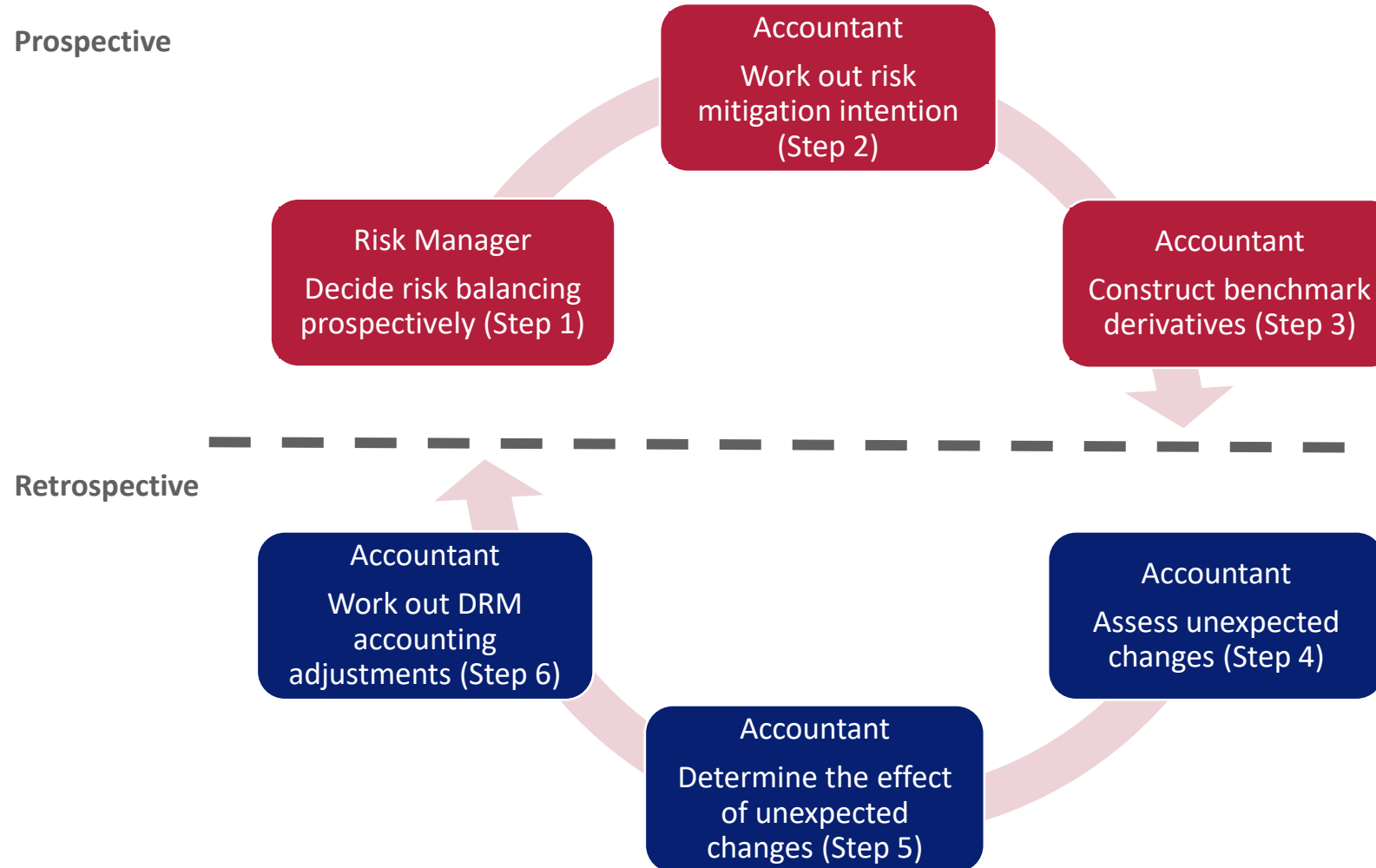


* This is the current net open risk position at the end of the period, excluding new business generated and funding raised.

Mechanics of the DRM Model—Measurement



DRM model cycle



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