



## Interest Rate Risk

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### VI. Risk Limits & Mitigation

# Risk Limits & Mitigation Strategies



# Risk Limit Considerations



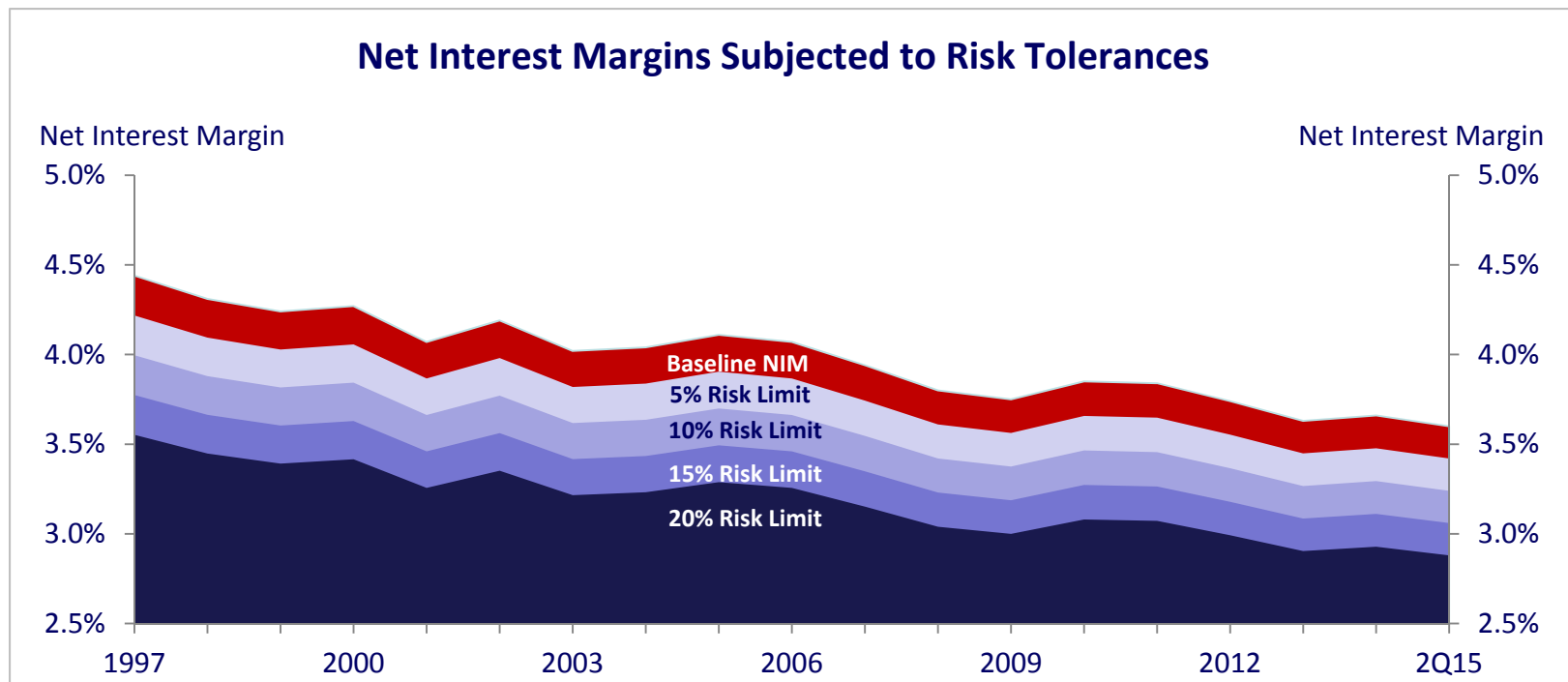
- ➔ Reflect the Institution's Risk Tolerance & Profile
- ➔ Consider Complexity, Earnings, & Capital
- ➔ Change with Risk Profile & Conditions
- ➔ Promote Discussion on Risk Mitigation Strategies

# Types of Risk Limits



- ➔ Earnings (Net Interest Income & Net Income)
- ➔ Extended Income Simulation Limits
- ➔ Capital-based Thresholds (EVE)
- ➔ Graduated & Stress Scenario Tolerance Levels

# Evaluation of Risk Limits

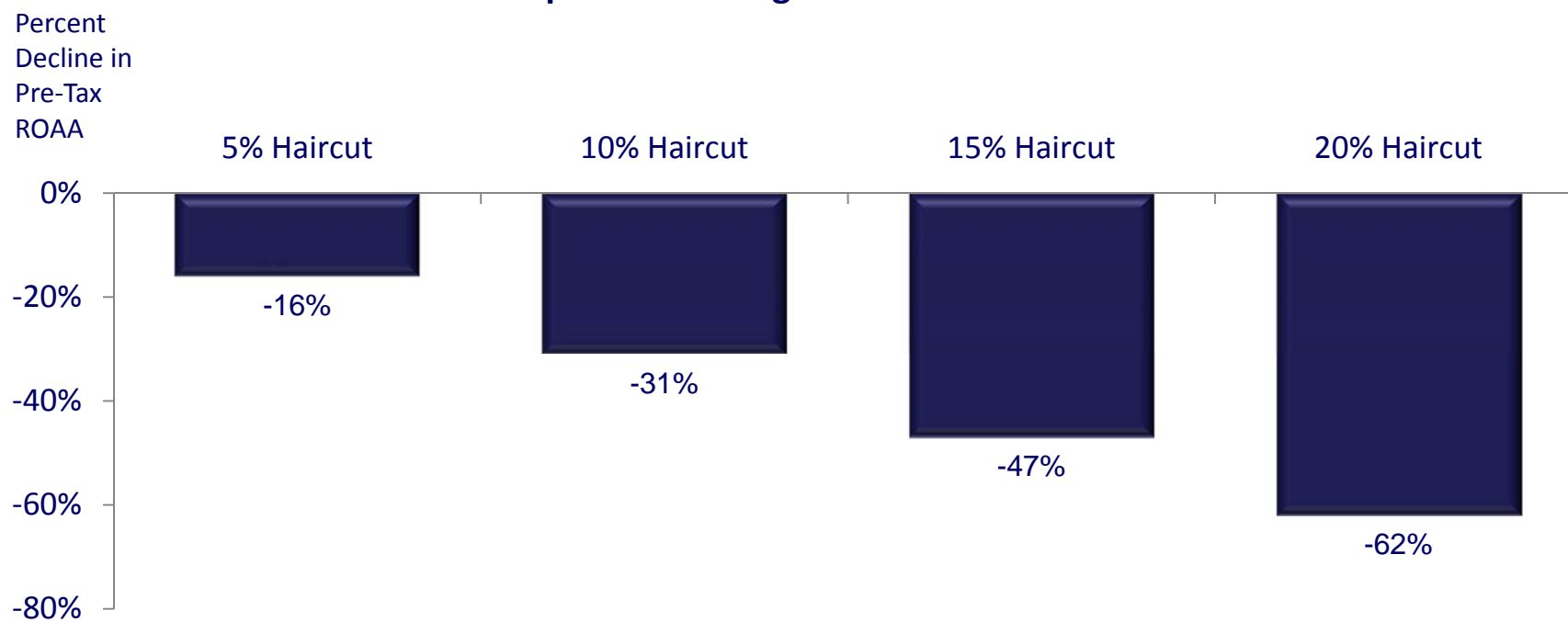


Source: Call Reports & TFRs. Baseline NIM based on historical median figures for all community banks. Limits are simple haircuts applied to baseline NIM.

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# Evaluation of Risk Limits

## Estimated Impact to Earnings if Net Interest Income Declines



Hypothetical impact to 2Q15 YTD median pre-tax ROAA (1.07%) for insured institutions under \$1B in assets.  
Based on applying simple haircut to net interest income, holding all other income drivers constant.

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# Risk Mitigation Techniques



- ➔ Asset Sales & Purchases
- ➔ Product Mix & Structure Alterations
- ➔ Strategic Growth & Initiatives
- ➔ Hedging Strategies (Swaps, Caps, Floors, Etc.)

# Summary

- **Effective risk limits should permit management to:**
  - Control IRR exposure
  - Initiate discussions about risk
  - Take appropriate action as identified in IRR policies and procedures
  
- **Risk limits should be re-evaluated for reasonableness**
  
- **Management should formulate effective risk mitigation strategies when the exposure approaches or exceeds risk limits**