**RiskGPS: Understanding the Executive Summary**

The **Executive Summary** offers a concise overview of your bank’s **current and projected Interest Rate Risk (IRR) position**. It is organized into four distinct sections, each providing a targeted insight:

1. **Bank Statistics from the Latest Call Report**
2. **Net Interest Margin (NIM) Assessment and GAP**
3. **Economic Value of Equity (EVE) Risk**
4. **Projected Results**

More detailed explanations are available in their respective sections throughout the RiskGPS report.

**1. Bank Statistics from the Latest Call Report**

This section provides a **snapshot of your bank’s current financial position**. While not directly part of interest rate risk analysis, these metrics serve as a **baseline reference** and a **reality check** for the accuracy of your call report data. If any figures appear unusual, it’s worth discussing potential causes with your ALCO or management team.

**2. Net Interest Margin Assessment and Rate Sensitivity GAP**

**Net Interest Margin (NIM) Risk Assessment**

This portion estimates the **short-term impact** of market interest rate changes on your bank.

**Rate Sensitivity GAP**

The **12-Month GAP analysis** compares rate-sensitive assets (RSA) and rate-sensitive liabilities (RSL), offering a simplified view of your repricing position:

* **Positive GAP**: More assets reprice than liabilities → “Asset Sensitive”
* **Zero GAP**: Assets and liabilities are matched → “Matched”
* **Negative GAP**: More liabilities reprice than assets → “Liability Sensitive”

Although GAP alone is not a complete measure of IRR, large mismatches (e.g., >50% of total assets) warrant deeper investigation. Use caution when making policy decisions based solely on this figure.

**RSA/RSL Ratio**

This ratio supplements GAP by dividing rate-sensitive assets by rate-sensitive liabilities. A ratio of **1.00** indicates a perfect match, but that doesn’t mean the bank has no rate risk. **Extreme values** (below 0.50 or above 2.00) may warrant a closer look at the bank’s rate risk position. More GAP analysis details are available on **page 14** under *Rate Sensitivity GAP* in the report.

**3. Rate Shock Simulations (Parallel and Non-Parallel)**

This section evaluates income, expense, and capital impact over a period of 1-year after an immediate and sustained rate change on a **frozen balance sheet**.

**Parallel Yield Curve Shock**

Assumes that all interest rates in the market move by the same increment. RiskGPS shows parallel results for:

* A **400 basis point decrease**
* **No change (Flat)**
* A **400 basis point increase**

These results align with regulatory guidelines and are displayed on **page 15a** under *Net Interest Margin Simulations – 1 Year*. For 2-year projections, see **page 15b**.

**Key metrics to review:**

* **Net Income** under each scenario: will your bank’s earnings increase or decrease as rates move -400, Flat, +400
* **Adjusted Tier 1 Equity Ratios:** are these ratios within the bank’s guidelines for minimum Tier 1 Equity/Assets?
* **Percent Change in NIM:** is the percent change within your bank’s policy limits for maximum change allowed?

If results fall outside your policy thresholds, review the more detailed reports throughout RiskGPS.

**Non-Parallel Yield Curve Shock**

Explores more nuanced rate scenarios. The three columns are **ST Rise**, **Flat,** and **LT Fall**. The column to the left, **ST Rise**, is a worst-case analysis where the yield curve moves on the short end (like Fed Funds and Treasury Bills), but longer term rates stay at their current level.

To simulate this situation, RiskGPS treats all interest bearing liabilities as if they re-price at a 200 BP rate increase, but interest bearing assets are treated as if rates did not increase. There are some liabilities that are tied to longer term rates, so they wouldn’t change right away; some assets are shorter, and they would change. RiskGPS just takes the worst possible case - showing the maximum impact of this scenario with a short-term increase while long term rates stay the same.

The center column, **Flat**, is the same as the Flat column in the Parallel Rate Shock section.

The column on the right is **LT Fall**, a scenario that tests the impact of a drop in long-term rates while short-term rates stay the same. This potentially creates an inverted yield curve, where long term rates are lower than short term rates.

These scenarios, while unlikely, are intended to **stress test** the bank’s resilience. These scenarios typically produce income declines. When you evaluate the results, consider if your bank can survive the scenario results. If the net income is positive and the equity ratio is above your policy minimum, then yes – your bank can survive it.

Examiners often recommend setting **policy limits** on acceptable income changes for both parallel and non-parallel shocks. The non-parallel limits that you establish may be larger than the limits you establish on the parallel shock levels, because the parallel shock is more likely to occur. But the non-parallel limits probably shouldn’t be so large that capital impairment would occur before reaching the policy limit.

**4. Economic Value of Equity (EVE) Risk**

EVE is a **longer-term risk measure** required by regulators. It uses **Net Present Value (NPV)** to assess cash flows from assets and liabilities. NPV is also called “Fair Value”. NPV is calculated by using a market rate to discount those cash flows over the life of the instrument. The longer the maturity and the higher the discount rate, the lower the NPV will be.

* A **low NPV** is adverse for assets but beneficial for liabilities.
* EVE = Total NPV of Assets – Total NPV of Liabilities

This method is the way that many financial instruments are priced in securities markets. However, it is not a realistic way to price some of the bank’s other assets and liabilities, but it is a good indicator of the relative amount of long-term exposure to interest rates caused by mismatches in cash flow and repricings at the bank. EVE highlights **cash flow mismatches** and **repricing gaps** under five rate shock levels, -400, -100, Flat, +100, +400.

**What to Evaluate:**

1. Changes in **Asset Value**, **Liability Value**, and **EVE.** Are these changes reasonable? Do they reflect an acceptable amount of change for your bank’s risk profile?

* **EVE % Change** under rising or falling rates: Does the bank have exposure (negative change) when rates decline, when they increase, or both?
* **Minimum Equity**: Calculated by multiplying the asset fair value by the minimum equity ratio (as set in the Risk Tolerance assumptions). Is this Equity percentage prudent and appropriate?
* **Equity Cushion**: Should be **positive and large enough for comfort.**

This analysis helps determine if long-term exposure is within acceptable risk thresholds.

**5. Projected Results**

This final section projects **financial performance over the next year**, based on a mix of:

* **System default assumptions**
* **User-defined inputs**
* **An interest rate forecast** supplied by Plansmith

Key metrics include:

* **Projected Return on Assets (ROA)**
* **Net Income forecasts**

Review these projections to ensure they align with your bank’s expectations.

For assistance: **contact BankersGPS Support** at **800-323-3281**

For help developing ALM policies or IRR assumptions, request **Advisory Services**. Their staff includes former examiners with deep industry expertise.