



CONTROLLING  
FINANCIAL RISK



# Analysing Interest Margin

Web Meeting – 28<sup>th</sup> November 2011

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# Interest Margin Variance Analysis (IMVA)

- To look at ways of reporting and understanding net interest margin and movements in net interest margin

What ALMIS currently does

What else should we do (e.g. FTP)

Using ALMIS report writer

# Margin & Balance Sheet Report

Balance including interest accrual and non interest items

Weighted average effective annualised interest rate

Balance interest is charged

Weighted average interest rate of interest items

The daily interest earned or paid  
= interest balance \* Ave Rate / days basis (eg 360)

= Net Margin \* days basis (eg 360) / Total interest assets

= Net Margin \* days basis / Total accounting assets

= Spread or Average % Assets – Average % Liabilities  
(adjusted for hedges)

**A** Margin Report - [Example (GBP)]

Product Name	Accounting Balance (000's)	CAR/APR Rate %	Interest Balance (000's)	Ave Rate %	Daily Margin
<b>ASSETS:</b>					
Liquidity	241,373	5.88	222,856	5.90	36,039
Residential Mortgages	117,096	5.34	117,096	5.34	17,131
Unsecured Loans	168,619	7.44	168,752	7.20	33,288
Commercial Loans	110,119	7.16	110,514	6.93	20,986
Personal Current a/c	227,592	3.88	227,832	3.85	24,052
Business Current a/c	151,210	7.48	151,143	7.24	29,988
Loss Provisions	-2,782	0.00	0	0.00	0
Fixed_Other Assets	24,422	0.00	0	0.00	0
<b>Total Assets</b>	<b>1,037,649</b>	<b>5.88</b>	<b>998,193</b>	<b>5.90</b>	<b>161,485</b>
<b>LIABILITIES:</b>					
Administered Savings	280,941	4.00	276,363	3.98	30,169
Tracker Savings	105,266	5.75	105,122	5.75	16,560
Fixed Rate Savings	163,989	6.51	159,802	6.48	28,352
Current a/c	135,255	1.30	135,255	1.30	4,817
Treasury Funding	131,075	5.91	129,547	5.90	20,945
Other Liabilities	4,628	0.00	0	0.00	0
Taxation	51,794	0.00	0	0.00	0
General Reserves	164,700	0.00	0	0.00	0
<b>Total Liabilities</b>	<b>1,037,648</b>	<b>3.61</b>	<b>806,089</b>	<b>4.57</b>	<b>100,843</b>
<b>HEDGES:</b>					
Swaps Receivable	19,250	4.95	19,250	4.95	2,611
Swaps Payable	19,250	5.60	19,250	5.60	-2,957
Forward Commitments	0	0.00	0	0.00	0
<b>Total Hedges</b>	<b>19,250</b>	<b>5.28</b>	<b>19,250</b>	<b>5.28</b>	<b>-345</b>
Net Margin :		2.22		1.29	60,297
Margin Over Interest Assets					2.20
Margin Over Total Assets					2.12

Copy Paste Summary Product Market Save Report Done Print Excel Settings

# Margin Month 1

- Asset
  - £100 Loan 4.50%
  - £30 Liquidity 1.25%
- Liability
  - £70 Variable Savings 1.80%
  - £60 Fixed Savings 3.10%

# Interest Margin

	Month 1		
Assets	£	%	
Lending	£100	4.50	
Liquidity	£30	1.25	
Total	£130	3.75	
Liabilities			
Variable	£70	1.80	
Fixed	£60	3.10	
Total	£130	2.40	
Net		1.35	

# Interest Margin

## Basis Point Margin (BPM)

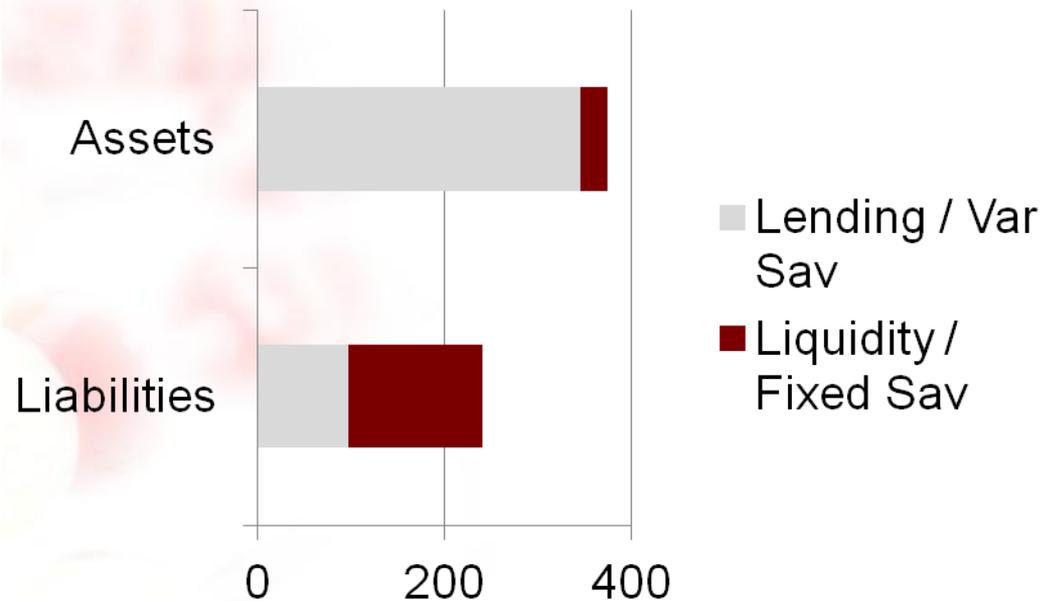
	Month 1		
Assets	£	%	BPM
Lending	£100	4.50	346
Liquidity	£30	1.25	29
Total	£130	3.75	375
Liabilities			
Variable	£70	1.80	97
Fixed	£60	3.10	143
Total	£130	2.40	240
Net		1.35	135

$BPM = \text{Amount} * \text{Rate} / \text{Total}$

And measures the actual basis point contribution for each category of the balance sheet

# Interest Margin Basis Point Margin (BPM)

	Month 1		
Assets	£	%	BPM
Lending	£100	4.50	346
Liquidity	£30	1.25	29
Total	£130	3.75	375
Liabilities			
Variable	£70	1.80	97
Fixed	£60	3.10	143
Total	£130	2.40	240
Net		1.35	135



# Margin Month 2

£10 new fixed funding, invested in liquidity

- Asset
  - £100 Loan 4.50%
  - £40 Liquidity 1.20%
- Liability
  - £70 Variable Savings 1.80%
  - £70 Fixed Savings 3.20%

	Month 1			Month 2		
Assets	£	%		£	%	
Lending	£100	4.50		£100	4.50	
Liquidity	£30	1.25		£40	1.20	
Total	£130	3.75		£140	3.56	
Liabilities						
Variable	£70	1.80		£70	1.80	
Fixed	£60	3.10		£70	3.20	
Total	£130	2.40		£140	2.50	
Net		1.35			1.06	

# Basis Point Margin

	Month 1			Month 2		
Assets	£	%	BPM	£	%	BPM
Lending	£100	4.50	346	£100	4.50	322
Liquidity	£30	1.25	29	£40	1.20	34
Total	£130	3.75	375	£140	3.56	356
Liabilities						
Variable	£70	1.80	97	£70	1.80	90
Fixed	£60	3.10	143	£70	3.20	160
Total	£130	2.40	240	£140	2.50	250
Net		1.35	135		1.06	106

# Margin Variance

	Month 1			Month 2			Variance
Assets	£	%	BPM	£	%	BPM	BPM
Lending	£100	4.50	346	£100	4.50	322	-24
Liquidity	£30	1.25	29	£40	1.20	34	5
Total	£130	3.75	375	£140	3.56	356	-19
Liabilities							
Variable	£70	1.80	97	£70	1.80	90	7
Fixed	£60	3.10	143	£70	3.20	160	-17
Total	£130	2.40	240	£140	2.50	250	-10
Net		1.35	135		1.06	106	-29

	Month 1			Month 2			Variance	Rate	Volume
Assets	£	%	BPM	£	%	BPM	BPM		
Lending	£100	4.50	346	£100	4.50	322	-24	0	-24
Liquidity	£30	1.25	29	£40	1.20	34	5	-1	6
Total	£130	3.75	375	£140	3.56	356	-19	-1	-18
Liabilities									
Variable	£70	1.80	97	£70	1.80	90	7	0	7
Fixed	£60	3.10	143	£70	3.20	160	-17	-5	-12
Total	£130	2.40	240	£140	2.50	250	-10	-5	-5
Net		1.35	135		1.06	106	-29	-6	-23

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