

**Basic Hedge Strategies
for Interest Rate Risk Management**

Expectations:

Market Forward Rate
Vs.
Internal Rate Projection:

**Market Forward Rate
is Lower than
Internal Rate Projection**

**Market Forward Rate
is Higher than
Internal Rate Projection**

Scenarios:

A. Projecting greater rise in rates
than the market

A. Projecting a greater fall in rates
than the market

B. Projecting a smaller fall in rates
than the market

B. Projecting smaller rise in rates
than the market

Assets:

Hedge Type:

Fair Value Hedge

Cash Flow Hedge

Hedged Asset:

Fixed Rate

Floating Rate (or unknown fixed)

Swap / Derivative:

Pay Fixed, Receive Floating

Pay Floating, Receive Fixed

Effect:

Income goes from Fixed
to Floating

Income goes from Floating
to Fixed

Liabilities:

Hedge Type

Cash Flow Hedge

Fair Value Hedge

Hedged Liability:

Floating Rate (or unknown fixed)

Fixed Rate

Swap / Derivative:

Pay Fixed, Receive Floating

Pay Floating, Receive Fixed

Effect:

Expense goes from Floating
to Fixed

Expense goes from Fixed
to Floating