

Asset Liability Management

2 Days

COURSE OVERVIEW

The assets and liabilities management (ALM) of a bank is both an art as well as a science, and is a cornerstone of a bank's financial market risk management. Banks and other financial institutions are in the business of taking risk, using their expertise in risk valuation to generate returns. Therefore, when assessing risk exposure it is important to consider the bank's balance sheet as a whole.

A bank's ALM committee (ALCO) will take just this approach, managing a bank's assets and liabilities, and being responsible for overseeing liquidity and market risks at the highest level.

Liquidity, the ability of a bank to generate cash at short notice and low cost, is key to the smooth running of the financial system. Similarly, market risk exposure, including yield curve risk and gap risk, requires careful management and reporting.

In managing these risks, no single measurement or ratio gives the complete picture. To assess liquidity risk, we need to consider the entire balance sheet, as well as the off-balance sheet business of a bank.

Hence, it is important to gain a good understanding of the ALM process, as well as the various classes of assets and liabilities impacting the ALM management process, from many interested parties within the Bank.

LEVEL

Intermediate

WHAT WILL I GET OUT OF IT?

The course provides participants with a basic understanding of the fundamental issues involved in the management of the assets and liabilities of a bank, as well as a good understanding of the various asset classes and types of liabilities and their impact on the balance sheet and P/L of a Bank.

WHO'S IT FOR?

- Finance
- Middle and Back Office Staff

COURSE CONTENT

DAY 1

Introduction/Opening Remarks

Module 1: Asset-Liability Management

- Basic Concepts
- Definition and Illustration
- Liquidity Gap
- Concept of a Matched Book
- Managing the Gap with assets & liabilities
- Managing liquidity
- The Funding Gap
- Liquidity Ratios as applicable for a Bank

Module 2: A Look at the Assets and Liabilities Profile of a Bank

- Interest Income, Fees & Commission and Trading Income
- A Review of Banking Business & Bank Capital
- The Banking Book and Trading Book of a Bank
- Financial Statements and ratios

Module 3: The Money Markets

- Money Market Deposits
- Bankers Acceptances
- Commercial Papers
- Asset Backed Commercial Paper

DAY 2

Module 4: Review of Asset-Liability Management concepts and theories

- The concept of Internal Transfer Pricing
- Bond Instrument - Review of the Bond Market
- Bond Pricing & Yield - the traditional approach

Module 4: Introduction of a hypothetical ALM & Profile of a Bank

- Funding and ALM
- ALM report
- Asset Liquidity profile
- Liabilities - aims and objectives
- Application of cost of funds
- Funding cost allocation
- Interest rate hedge
- Cash management
- AML and Funding report
- ALM Procedure
- The Treasury Liquidity Book
- Review of a hypothetical Monthly Gap Report for 12 months, reflecting gapping positions

Module 5: Interest rate risk as it affects the Banking Book

- Source of Interest Rate Risk
- What is Gap Risk, Yield Curve Risk, Basis Risk, run-off risk?
- Assumptions of Gap Analysis

Module 6: The ALM Desk

- Traditional ALM
- Developments in ALM in other market centres
- The concept of securitization
- Basel I and Basel II Proposals - a review

Concluding remarks