
Asset Liability Management

Overview

The increasing complexity and volatility of financial markets has made mismanaged Asset Liability Management (ALM) exposures especially costly, resulting in investors, regulators, rating agencies, credit and equity analysts placing more importance on Asset Liability Management. The best practices in ALM have become increasingly important in order to gain a competitive advantage and ensure survival during financial crises or in difficult market environments.

Learning Outcome Statements

- Understand the importance of Asset Liability Management and ways to manage it
- Learn the fundamental concepts behind management of assets and liabilities
- Learn about quantification of interest rate risk
- Learn how to identify and proactively manage asset/liability exposures to both accounting earnings and market risk

Key Contents

- Scope of ALM Function
 - Interest Rate Exposure Management
 - Integration of Market risk and Credit risk within the business
 - Budgeting, Funding and Capital Planning
 - FX Management
 - Trading Risk Management
- ALCO and its Objectives
 - Asset, Liability Committees
 - Role, Composition, and Tasks
 - Policies and Procedures
- Analytical Framework on Interest Rate Risk Management
 - Zero coupon yield curves
 - Par curve & rates
 - Discount factors
 - Derivatives and their role in ALM
- Duration & Convexity

- Role of duration in risk management
- Convexity
- Duration of Single Items, Portfolios, and Balance Sheet
- Techniques to manage Duration

- Measuring Risk - Simulation Techniques
 - Interest Rate shocks
 - Path risk analysis
 - Monte Carlo techniques

- Capital Adequacy Norms
 - Credit Risk Capital
 - Market Risk Capital
 - Risk-adjusted Return on Capital (RAROC)

- GAP Analysis
 - Mechanics, Assumptions, and Limitations
 - Static, cumulative and dynamic reports
 - The Relationship Between Gap and Income Statement

- Interest Rate Exposure (IRE)
 - Types of Gaps
 - IRE calculations
 - Re-pricing profiles
 - Defeasance period
 - IRE Time Frame
 - Cost to Close (CTC)
 - Relationship between IRE and CTC
 - Accrual Triggers

- Liquidity Management
 - Liquidity risk
 - Balance Sheet Management
 - Liability Management
 - Asset Management
 - Liquidity ratios
 - Stress testing and Triggers

- Funds Transfer Pricing and Performance Measurement
 - Transfer Pricing for Interest Rate risk
 - Loan and Deposit Pricing Implications
 - Segregation of Interest Rate Risk
 - Accountability of Risk management

- Performance Measurement
 - Principles of measurement
 - Performance measurement issues
 - Risk management and performance
 - Designing a performance measurement

- Strategies for ALM
 - Business Strategies: Mix/Pricing of Assets, Liabilities
 - On-Balance Sheet Investment and Funding Strategies
 - Off-Balance Sheet Hedging Strategies
 - Various strategies for Interest Rate Risk in Portfolio Management
 - ALM's pivotal role in enterprise-wide Risk Management
 - Management of Foreign Exchange and Other Risks
 - ALM in a Multi-currency Balance Sheet