

## Module Outline

### Certified Banker (CB Stage)

### Bank Asset and Liability Management

<b>Benchmarked HKQF Level:</b>	6
<b>No. of Credits:</b>	30
<b>Total Notional Learning Hours:</b>	300
<b>a) Class contact hours:</b>	30 hours (3-hour per session x 10)
<b>b) Self-study hours:</b>	267 hours
<b>c) Assessment hours:</b>	3 hours
<b>Pre-requisite:</b>	NA

### Module Objective

This module contributes to the achievement of the knowledge and skills embedded in the Programme Intended Outcomes by setting a scene for the learners to extend critical thinking over the practical areas of asset-liability management. By making thorough application of their accounting and professional knowledge, the learners are expected to demonstrate the ability to consider external factors and risks when strategizing over a range of internal problem areas.

### Module Intended Outcomes (MIOs) and Units of Competencies (UoCs)

Upon completion of the Module, candidates should be able to:

<b>MIOs</b>	<b>Intended Outcomes / Competence</b>	<b>*Unit of Competencies (UoCs)</b>
MIO-1	Identify and critically evaluate how market factors impact the profitability of banks.	107550L6 / 109533L6 107551L6 / 109534L6
MIO-2	Compare and select different approaches of bank asset and liability management from ALCO's perspectives and evaluate the appropriateness of particular strategies in fulfilling the bank's stated objectives.	109262L6 109295L6 109304L6 109305L6
MIO-3	Demonstrate how market risks and liquidity risks overlap to exert pressure on banks' capital and identify strategic considerations in capital planning.	109555L6
MIO-4	Identify how interest rate risks threaten banks' financial stability and evaluate critically the effectiveness of technical strategies in providing immunization against such risks.	

*\*Note: For the details of the UoCs, please refer to the Specification of Competency Standards (SCS) of [Retail Banking](#) and [Corporate & Commercial Banking](#) which were developed by HKCAAVQ.*

## Assessment

<b>Examination duration:</b>	3 hours
<b>Examination format:</b>	5 out of 7 essay questions
<b>Pass mark:</b>	50%

## Syllabus

<b>Chapter 1: Managing Bank Profitability</b>	
<b>1.1</b>	<b>Banking regulations</b>
<b>1.2</b>	<b>Financial statement</b>
1.2.1	- Market risk
1.2.2	- Leverage ration
1.2.3	- Capital buffer
1.2.4	- Countercyclical Capital Buffer
1.2.5	- Large exposure
<b>1.3</b>	<b>Loan-loss provision</b>
<b>1.4</b>	<b>Regulatory updates</b>
<b>Chapter 2: Asset and Liability Management Committee (ALCO)</b>	
<b>2.1</b>	<b>Role and functions of ALCO</b>
2.1.1	- Asset and liability management
2.1.2	- Liquidity and funding risk management
2.1.3	- Formulating capital planning policy
<b>2.2</b>	<b>The application of Fund Transfer Pricing (FTP) in ALM</b>
<b>2.3</b>	<b>Bank asset allocation decisions</b>
<b>2.4</b>	<b>The use of securitization in balance sheet management</b>
<b>2.5</b>	<b>China banking/capital market reform and ALM decisions</b>
<b>Chapter 3: Managing Bank Assets and Liabilities</b>	
<b>3.1</b>	<b>Managing bank assets</b>
3.1.1	- The loan portfolio
3.1.2	- The investment portfolio

3.1.3	- Liquidity management - assets
<b>3.2</b>	<b>Managing bank liabilities</b>
3.2.1	- Source of funds
3.2.2	- Deposit structure
3.2.3	- Impact of interest rate changes on net interest spread
3.2.4	- Liquidity management – liabilities
<b>3.3</b>	<b>Liquidity transfer pricing</b>
<b>3.4</b>	<b>Capital planning</b>
<b>Chapter 4: Liquidity Management</b>	
<b>4.1</b>	<b>Definitions and measures of liquidity</b>
<b>4.2</b>	<b>Capital and liquidity management</b>
<b>4.3</b>	<b>Stress test</b>
<b>4.4</b>	<b>Case study of liquidity risk management</b>
<b>Chapter 5: Managing Interest Rate Risk</b>	
<b>5.1</b>	<b>Definition and measures of liquidity risk</b>
<b>5.2</b>	<b>Basel and HKMA Principles</b>
<b>5.3</b>	<b>ALM and hedging policies</b>
<b>5.4</b>	<b>Use of interest rate swap to hedge interest rate risk</b>
<b>5.5</b>	<b>Fundamentals of derivatives and interest rate swap (IRS)</b>
<b>5.6</b>	<b>Regulatory updates on derivatives and interest rate swap (IRS)</b>
<b>5.7</b>	<b>Dynamic approach to Asset and Liability Management</b>
<b>5.8</b>	<b>ALM Compliance</b>
<b>5.9</b>	<b>Liquidity Stress Test</b>
<b>5.10</b>	<b>Interest Rate Stress Test</b>
<b>Chapter 6: Asset and Liability Management Strategies in Changing Market Conditions</b>	
<b>6.1</b>	<b>Lessons from the 2008 global financial crisis</b>
<b>6.2</b>	<b>From stress testing to contingency plan execution</b>
<b>6.3</b>	<b>ALM strategy and interest rate cycle</b>
<b>Chapter 7: Case Studies</b>	
<b>7.1</b>	<b>Liquidity Risk: Lehman Brothers (2008)</b>
<b>7.2</b>	<b>Liquidity Risk: Royal Bank of Scotland Fails Stress Test (2016)</b>

<b>7.3</b>	<b>Liquidity Risk: Silicon Valley Bank (2023)</b>
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## Recommended Readings

### ***Essential Readings:***

1. HKIB Study Guide of CB Stage – BALM: Bank Asset and Liability Management (1<sup>st</sup> ed.). Wiley. (2018).
2. HKIB Supplementary Note Pack of CB Stage – BALM: Bank Asset and Liability Management HKIB. (2024).
3. Koch & MacDonald, S. (2015). Bank Management (8<sup>th</sup> ed.). Scott Cengage Learning.

### ***Supplementary Readings***

1. Choudhry, M. (2009). The Principles of Banking (1<sup>st</sup> ed.). South-Western Pub.
2. Choudhry, M. (2011). An Introduction to Banking: Liquidity Risk and Asset-liability Management (1<sup>st</sup> ed.). Wiley.
3. Koch & MacDonald, S. (2015). Bank Management (8<sup>th</sup> ed.). Scott Cengage Learning.
4. Dermine, J., & Bissada, Y. (2007). Asset and Liability Management, The Banker's Guide to Value Creation and Risk Control (8<sup>th</sup> ed.). Prentice Hall.

### ***Further Readings***

1. Choudhry, M. (2010). The Future of Finance: A New Model for Banking and Investment (1<sup>st</sup> ed.). Wiley.
2. Saunders, A., and Cornett, M. (2010). Financial Institutions Management: A Risk Management Approach (7<sup>th</sup> ed.). McGraw-Hill (SC).
3. Sinkey, J. (2002). Commercial Bank Financial Management (6<sup>th</sup> ed.). Prentice Hall.
4. Managing and Reporting Liquidity Risks: Silicon Valley Bank Case (<https://dergipark.org.tr/en/download/article-file/3162494>)

For more details, please refer to further reading session at end of each chapter.