

Module Outline

Module Title:	Bank Asset and Liability Management
QF Level:	Reference is being taken and pitched to HKQF Level 6
QF Credit:	30 credits for Postgraduate Diploma for Certified Banker (15 contact hours and 3 examination hours)
Teaching/Training & Learning Activities:	Training Class
Pre-requisite:	N/A

Module Objective:

This module contributes to the achievement of the knowledge and skills embedded in the Programme Intended Learning 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 Learning Outcome (MILO) & Unit of Competencies (UoCs)

Upon completion of the module, learners should be able to:

MILO1:	Identify and critically evaluate how market factors impact the profitability of banks;	
MILO2:	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;	
MILO3	Demonstrate how market risks and liquidity risks overlap to exert pressure on banks' capital and identify strategic considerations in capital planning; and	
MILO4:	Identify how interest rate risks threaten banks' financial stability and evaluate critically the effectiveness of technical strategies in providing immunization against such risks.	

Assessment Activity

Type of Assessment Activity	MILOs	Weighting (%)
Examination	MILO 1-4	100

Examination Format and Duration

Time allowed: 3 hours

The examination consists 5 out of 7 essay questions

Passing mark for this subject is 50%

Syllabus

Chapter 1: Asset and Liability Management	
1	Managing Bank Profitability
1.1	- Current banking structure and regulation; <ul style="list-style-type: none"> ▪ Banking industry and bank organization - development post 2008 global financial crisis ▪ Meeting regulatory capital requirements - Tier 1 and Tier 2 capital adequacy under Basel II & Basel III framework
1.2	- Examine bank's financial statement <ul style="list-style-type: none"> ▪ Components of interest and non-interest income and profit ▪ Off-balance sheet items and non-financial information ▪ Ratios for performance measurement
1.3	- Evaluation of bank's profit <ul style="list-style-type: none"> ▪ Sources of income and profit ▪ Components of interest and non-interest revenues/expenses ▪ Cost of capital ▪ Basis of capital allocation
1.4	- Measuring Bank Profitability <ul style="list-style-type: none"> ▪ Cost of funds and internal transfer pricing, return on equity (ROE), return on assets (ROA) and net interest margin (NIM) ▪ Different approaches in balance sheet management ▪ Accounting profit Vs economic profit (risk adjusted return on capital RAROC)
2	Asset and Liability Management Committee (ALCO)
2.1	- The role and functions of Asset and Liability Management Committee (ALCO) in <ul style="list-style-type: none"> ▪ Asset and liability management ▪ Liquidity and funding risk management ▪ Formulating capital planning policy
2.2	- ALCO plan development <ul style="list-style-type: none"> ▪ Sustainable growth model that considers bank strategy, return target, capital, leverage (on and off balance sheet) and liquidity risk ▪ Medium and long term asset and liability management strategy
2.3	- ALCO pack <ul style="list-style-type: none"> ▪ Objective of ALCO information reporting ▪ Requirements of effective ALCO report – examples of ALCO pack
3	Managing Bank Assets and Liabilities
3.1	- Managing Bank Assets <ul style="list-style-type: none"> ▪ The loan portfolio ▪ The investment portfolio

3.2	<ul style="list-style-type: none"> - Liquidity management - assets - Managing Bank Liabilities <ul style="list-style-type: none"> ▪ Source of funds ▪ Deposit structure ▪ Impact of interest rate changes on net interest spread ▪ Liquidity management – liabilities
Chapter 2: Managing Liquidity Risk and Interest Rate Risk	
1	Capital and Liquidity Management
1.1	<ul style="list-style-type: none"> - Definition and measures of liquidity risk; liquidity standards under Basel III <ul style="list-style-type: none"> ▪ Liquidity Coverage ratio ▪ Net Stable Funding ratio ▪ BCBS principles for managing liquidity risk
1.2	<ul style="list-style-type: none"> - Determining the Bank's funding need <ul style="list-style-type: none"> ▪ Meeting legal reserve requirements ▪ Loan and deposit trends forecast ▪ Liquidity gap estimation ▪ Liquidity planning
1.3	<ul style="list-style-type: none"> - Stress Testing <ul style="list-style-type: none"> ▪ Formulating liquidity management strategies under normal and abnormal circumstances
2	Managing Interest Rate Risk
2.1	- Types of interest rate risk
2.2	- Interest rate Gap analysis
2.3	<ul style="list-style-type: none"> - Duration analysis <ul style="list-style-type: none"> ▪ Practical applications of duration gap
2.4	- Basis Point Value (BPV)
2.5	- Hedging interest rate risk
2.6	- Immunization and hedging interest rate risk
2.7	- Securitization
2.8	- Net Interest Income sensitivity analysis
3	Asset and Liability Management Strategies in Changing Market Conditions
3.1	- Lessons from the 2008 global financial crisis
3.2	- From stress testing to contingency plan execution
3.3	- ALM strategy and interest rate cycle

Essential Readings:

- HKIB. (2018). Bank Asset and Liability Management (1st ed.). Wiley
- Koch & MacDonald, S. (2015). Bank Management (8th ed.). Scott Cengage Learning.

Supplementary Readings:

- Moorad Choudhry. (2009). The Principles of Banking (1st ed.). South-Western Pub.
- Moorad Choudhry. (2011). An Introduction to Banking: Liquidity Risk and Asset-liability Management (1st ed.). Wiley.
- Jean Dermine & Youssef F. Bissada. (2007). Asset and Liability Management, The Banker's Guide to Value Creation and Risk Control (8th ed.). Prentice Hall.

Further Readings:

- Moorad Choudhry. (2010). The Future of Finance: A New Model for Banking and Investment (1st ed.). Wiley.
- Joseph F. Sinkey. (2002). Commercial Bank Financial Management (6th ed.). Prentice Hall
- Saunders and Cornett. (2010). Financial Institutions Management: A Risk Management Approach (7th ed.). McGraw-Hill (SC).

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