20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Asset Liability Management is the process of planning, acquiring and directing the flow of funds through an organisation.**
   Its aim is generating steady earnings and building equity while taking calculated business risk.

2. **Net Interest Income equals Interest Income minus Interest Expenses.**
   NII represents the rupee-value income from interest after subtracting the cost of earning it.

3. **Net Interest Margin equals Net Interest Income divided by Average Total Assets.**
   NIM expresses the spread on earning assets as a ratio rather than a rupee value.

4. **Economic Equity Ratio equals Shareholders' Funds divided by Total Funds.**
   This ratio measures the cushion of owners' capital against total resources.

5. **A positive gap exists when rate-sensitive assets exceed rate-sensitive liabilities.**
   A bank with a positive gap benefits when interest rates rise.

6 **A negative gap exists when rate-sensitive liabilities exceed rate-sensitive assets.**
A bank with a negative gap benefits when interest rates fall.

7 **A bank's balance sheet liabilities side includes Capital, Reserves, Borrowings, Deposits, Other Liabilities and Contingent Liabilities.**
These six categories represent the sources of funds for a bank.

8 **A bank's balance sheet assets side includes Cash and Balances with RBI, Balances with Banks, Advances, Investments, Fixed Assets and Other Assets.**
These six categories represent the uses of funds for a bank.

9 **Short-term interbank call money market loans are repayable within 15 days of being made.**
This is a commonly tested fact about call money loans in the assets category.

10 **Contingent liabilities are obligations that may arise depending on a future event.**
They include claims not acknowledged as debt, partly paid investments and forward exchange contract liabilities.

11 **Four drivers explain why ALM became important for banks: Volatility, Product Innovation, Regulatory Environment and Management Recognition.**
These forces pushed banks toward adopting formal ALM policies and frameworks.

12 **Volatility from deregulation of the financial system increased uncertainty around interest rates and price levels.**

This uncertainty is one of the key drivers that elevated ALM's importance.

13 **ALM operates at both a macro level and a micro level within a bank.**

The macro level covers policy formulation while the micro level covers price and maturity matching.

14 **At the micro level, ALM aims to achieve profitability through price matching and liquidity through maturity matching.**

This distinguishes micro-level ALM goals from broader macro-level policy goals.

15 **ALM manages interest-rate risk, exchange-rate risk and liquidity risk together.**

These three risk categories fall within the broader scope of Asset Liability Management.

16 **Income on investments is earned in the form of dividends and interest.**

This is distinct from other income, which may include profit from sale of investments or assets.

17 **Price matching in ALM aims to maintain the spread by ensuring assets are deployed at a rate higher than the cost of liabilities.**

This is central to protecting a bank's net interest margin.

18 **Cash credits, overdrafts and loans repayable on demand are all treated as loans repayable on demand for balance sheet purposes.**
This classification applies even if such loans carry a specific due date.

19 **Risk Management Unit 1 in CAIIB covers the balance sheet, ALM and key ratios like NII, NIM and Economic Equity Ratio.**
This unit is described as a high-scoring area due to its predictable, formula-based questions.

20 **Reserves and Surplus on a bank's balance sheet includes share premium and the balance in the profit and loss account.**
These are specific components often tested in objective questions on balance sheet composition.