20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Asset liability management (ALM) measures and controls mismatches in maturity, repricing and currency between a bank's assets and liabilities.**
   ALM is the framework banks use to keep the structure of what they own and owe from drifting into dangerous mismatches.

2. **Banks borrow short and lend long, so maturity and repricing mismatches are built into the business model, not accidents.**
   Taking short-term deposits and making longer-term loans is core banking, which is why mismatches always exist.

3. **The goal of ALM is to measure, monitor and keep mismatches within tolerable limits rather than eliminate them entirely.**
   ALM accepts that some mismatch is normal and instead focuses on containing it within board-approved tolerances.

4. **The Asset Liability Committee (ALCO) owns ALM policy and is typically chaired by the CEO or a senior executive director.**
   ALCO is the top executive body that turns ALM policy into day-to-day balance-sheet decisions.

5. **ALCO fixes deposit and lending rates, decides the funding mix, and enforces board-approved gap tolerance limits.**
   Pricing, funding strategy and limit enforcement are the core recurring duties of the ALCO.

6. **The ALM support group, often called the middle office, prepares the analytical statements that ALCO relies on.**
   A dedicated support team builds the gap and liquidity reports so ALCO can make informed decisions.

7. **ALM controls three interlocking risk dimensions: liquidity risk, interest rate risk and currency risk.**
   BFM organizes ALM theory around these three risks because most questions map back to one of them.

8. **Liquidity risk is the risk that a bank becomes unable to meet its payment obligations as they fall due.**
   A bank facing liquidity risk cannot honour withdrawals or maturing commitments on time.

9. **Interest rate risk is the risk that changes in market rates erode a bank's net interest income or economic value.**
   Rate movements can hurt either near-term earnings or the longer-term value of the balance sheet.

10. **Currency risk arises when a bank's foreign-currency assets and liabilities do not match in size or timing.**
    An open foreign-currency position exposes the bank to losses from exchange rate movements.

11 **The Statement of Structural Liquidity slots asset and liability cash flows into RBI-defined maturity time buckets.**
This statement gives a static, bucket-wise picture of a bank's inflows versus outflows.

12 **RBI time buckets for liquidity statements begin at the next day and extend out through buckets to over five years.**
Cash flows are classified across a graded sequence of near-term to long-term maturity buckets.

13 **The dynamic liquidity statement is forward-looking, overlaying expected business growth, drawdowns and deposit trends.**
Unlike the structural statement, it anticipates future funding needs rather than only reporting the present position.

14 **The Liquidity Coverage Ratio (LCR) requires banks to hold enough high quality liquid assets to survive a 30-day stress scenario.**
LCR is a Basel III ratio focused on a bank's short-term liquidity resilience.

15 **The Net Stable Funding Ratio (NSFR) promotes stable funding for a bank over a one-year horizon.**
NSFR is the Basel III counterpart to LCR that addresses longer-term funding stability.

16 **The repricing gap for interest rate risk is calculated as Rate Sensitive Assets minus Rate Sensitive Liabilities.**
RSA minus RSL gives the repricing gap, the key earnings-perspective measure in ALM.

17 **A positive repricing gap means rising interest rates increase net interest income, and falling rates reduce it.**
When RSA exceeds RSL, the bank's earnings move in the same direction as market rates.

18 **A negative repricing gap means rising interest rates reduce net interest income, and falling rates increase it.**
When RSL exceeds RSA, the bank's earnings move opposite to market rate movements.

19 **Duration gap analysis compares the weighted average duration of a bank's assets and liabilities, adjusted for leverage.**
Duration gap is the economic value perspective on interest rate risk, unlike the earnings-focused repricing gap.

20 **A positive duration gap under IRRBB means a bank's economic value of equity falls when interest rates rise.**
Interest Rate Risk in the Banking Book uses duration gap to capture long-term value erosion from rate moves.

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