20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Gap in ALM analysis is calculated as Rate Sensitive Assets (RSA) minus Rate Sensitive Liabilities (RSL) in each time bucket.**
   This gap formula is the core calculation tested in CAIIB BFM numericals.

2. **A positive gap occurs when RSA exceeds RSL and benefits the bank when interest rates rise.**
   With a positive gap, asset yields reprice upward faster than funding costs.

3. **A negative gap occurs when RSL exceeds RSA and benefits the bank when interest rates fall.**
   With a negative gap, funding costs reprice faster than asset income when rates move.

4. **Change in NII equals Cumulative Gap multiplied by Change in Interest Rate multiplied by Time Period.**
   This formula quantifies how a rate move affects net interest income.

5. **The Periodic Gap measures the RSA-RSL mismatch within a single time bucket.**
   Periodic gap is bucket-specific, distinct from the cumulative gap.

6 **The Cumulative Gap is the sum of periodic gaps up to a chosen point in time.**
Cumulative gap in the one-year bucket is commonly used as a headline risk indicator.

7 **Asset Liability Management (ALM) is the structured process banks use to manage risks from asset-liability mismatches.**
ALM addresses interest rate risk, liquidity risk and market risk together.

8 **The Asset Liability Committee (ALCO) is the apex internal body governing ALM decisions in a bank.**
ALCO oversight shapes deposit pricing, lending rates, and liquidity strategy.

9 **Every scheduled commercial bank in India is expected to run a functioning ALCO.**
ALCO functioning is a regulatory expectation for managing asset-liability risk.

10 **RBI issued its original ALM guidelines for scheduled commercial banks in 1999.**
These guidelines have been refined periodically since their original issuance.

11 **The Statement of Structural Liquidity focuses on cash-flow mismatches across time buckets.**
This is one of two key ALM statements banks submit to RBI periodically.

12 **The Interest Rate Sensitivity Statement focuses on rate-sensitive positions across time buckets.**
This statement complements the Statement of Structural Liquidity in RBI's ALM framework.

13 **IRRBB stands for Interest Rate Risk in the Banking Book, a Basel III concept.**
IRRBB requires banks to measure rate-change impact on both NII and Economic Value of Equity.

14 **LCR requires banks to hold enough High Quality Liquid Assets to survive a 30-day stress scenario.**
The Liquidity Coverage Ratio is a Basel III liquidity standard integrated into ALM.

15 **NSFR ensures stable funding sources exceed stable funding needs over a one-year horizon.**
The Net Stable Funding Ratio is the longer-horizon counterpart to LCR.

16 **Behavioural modelling is used to bucket items like savings deposits and current accounts based on actual cash-flow patterns rather than contractual maturity.**
Such items lack fixed maturities, so statistical modelling improves bucket accuracy.

17 **A fixed-rate loan due for repricing or renewal within the measurement period is still classified as rate sensitive.**
Rate sensitivity depends on the repricing date, not the nature of the rate itself.

18 **Repricing risk arises when a bank funds long-term fixed-rate loans using short-term deposits.**
When short-term deposits renew at higher rates, funding costs rise while loan income stays flat.

19 **Typical Rate Sensitive Liabilities include maturing term deposits and floating-rate borrowings.**
RSL items reprice or mature within the measurement window, similar to RSA classification logic.

20 **One corrective action for a large negative gap facing rising rates is to issue more floating-rate loans.**
Increasing floating-rate assets helps close a negative gap ahead of a rate-rise scenario.