20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **ALM stands for Asset Liability Management, the process banks use to manage mismatches between assets and liabilities.**
   It keeps what a bank owns and what it owes in healthy balance over time.

2. **The core goals of ALM are to control liquidity risk, interest-rate risk, and market risk while protecting capital and profitability.**
   These objectives define the purpose of an effective ALM framework.

3. **Banks structurally borrow short through deposits and lend long through loans, creating a maturity mismatch.**
   ALM exists to anticipate and manage this liquidity and interest-rate mismatch.

4. **Gap Analysis compares the timing of asset maturities against liability maturities across time buckets.**
   A large mismatch in any time bucket signals risk that ALM must manage.

5. **Duration Gap Analysis measures how sensitive a bank's assets and liabilities are to interest-rate changes.**
   It estimates how the market value of both sides of the balance sheet shifts when rates move.

6. **Stress Testing simulates extreme scenarios like a sharp rate spike or sudden liquidity crisis to check balance-sheet resilience.**
   It exposes vulnerabilities before they turn into real losses.

7. **Interest-rate swaps let a bank exchange fixed-rate liabilities for floating-rate ones, or vice versa, to manage rate exposure.**
   This derivative tool helps reduce exposure to changing interest rates.

8. **ALCO stands for Asset Liability Committee, the senior management body responsible for ALM strategy inside a bank.**
   ALCO reviews risk profile, sets limits, and approves ALM policy within the board-approved framework.

9. **ALM primarily manages liquidity risk, interest-rate risk, and market risk, and also supports management of credit risk.**
   Each risk type behaves differently and is addressed through specific ALM tools.

10 **Liquidity risk is the risk of not having enough cash or liquid assets to meet short-term obligations.**
ALM manages this by analysing maturity structures and maintaining adequate liquidity buffers.

11 **Interest-rate risk is the risk that rate changes hurt earnings or the value of a bank's assets and liabilities.**
A bank overloaded with long-term fixed-rate assets can lose out when interest rates rise.

12 **Market risk includes the risk of losses from changes in market prices such as exchange rates and commodity prices.**
ALM monitors this exposure and adjusts the portfolio to limit potential losses.

13 **Gap analysis focuses on timing of maturities, while duration gap analysis focuses on value sensitivity to interest-rate changes.**
This is the key distinction between the two related ALM measurement tools.

14 **Banks may use liquidity buffers or short-term funding like the repo market to manage an expected liquidity crunch.**
These tools help institutions keep operations smooth when facing tight liquidity conditions.

15 **A duration gap analysis example in the guide involves a bank holding 10-year bonds funded by deposits due for renewal in 3 years.**
This scenario illustrates how ALM quantifies and responds to interest-rate risk from maturity mismatches.

16 **Confusing liquidity risk with interest-rate risk is listed as a common mistake ALM students make.**
Liquidity risk is about meeting obligations on time, while interest-rate risk is about value and earnings changing with rates.

17 **Skipping numerical practice on gap and duration problems is described as a way students lose easy TIRM marks.**
Most ALM exam marks come from applying formulas correctly, not just reciting definitions.

18 **ALM is described as a forward-looking, strategic function rather than a one-time calculation.**
It requires ongoing monitoring and adjustment as market conditions and balance sheets change.

19 **ALCO decides on pricing of deposits and loans as part of its ALM responsibilities.**
This pricing role is one of several governance functions performed by the Asset Liability Committee.

20 **For exact regulatory liquidity ratios like LCR or NSFR, the article advises confirming figures on the latest official IIBF notification and RBI guidelines.**
Such regulatory thresholds are revised periodically, so current figures should always be verified.