

How to Use This Manual

With new techniques for asset/liability management (ALM) gaining popularity, changes in the capabilities of ALM models, increasing regulatory pressures, and a host of new investment instruments available, the day-to-day responsibilities of asset/liability managers have grown increasingly complex. The *Self-Paced Asset/Liability Training and Certification* manual is intended for bankers who have a general knowledge of banking and bank accounting but less exposure to ALM issues. The manual is a self-paced study guide designed to improve your skills in this critical area of bank financial management. For those with less knowledge of this subject, the manual explains the basic aspects of ALM and clearly distinguishes one aspect from another. For more experienced asset/liability managers, the more advanced material will expand your knowledge and improve your effectiveness in this area.

The manual is designed to allow you to customize your approach to learning. Thus, you can read and study the entire book, or concentrate only on those chapters that suit your needs for enhanced knowledge. If you are familiar with ALM issues, you can complete the chapters in any order. If you have little or no prior knowledge, however, it is best to complete the chapters in the order they are presented.

The manual is divided into six broad topics subdivided into 20 chapters:

- *Role of ALM.* In Chapters 1 and 2 we consider the role of ALM in banks and other financial institutions. Chapter 2 presents two major, complementary approaches to evaluating interest rate risk.
- *Method of measuring interest rate risk.* Chapters 3 through 6 discuss alternative methods for measuring interest rate risk. Gap analysis is discussed in Chapter 3, income simulation in Chapter 4, duration analysis in Chapter 5, and economic value simulation in Chapter 6.
- *Rate risk measurement issues.* Specific rate risk measurement issues are discussed in Chapters 7 through 12. We begin with detailed discussions of the most thorny measurement problems: indeterminate maturity, administered rate, and putable deposits in Chapter 7 and loans and investments in Chapter 8. Then we provide an in-depth discussion of interest rate scenarios in Chapter 9. Chapters 10 and 11 focus on rate risk models. Finally, Chapter 12 covers noninterest income and expense followed by a rate risk measurement summary.
- *Rate risk management elements.* The fourth section consists of Chapters 13 and 14 and considers elements in the interest rate risk management process. First, in Chapter 13, we discuss ALM policies, management structures, and risk limits. Then in Chapter 14, we cover ALM decision making, implementation, and oversight.
- *IRR management tactics for specific assets and liabilities.* The fifth section considers specific rate risk management tactics and presents in-depth evaluations of the application of ALM to specific bank management topics. Chapter 15 discusses tactics for managing loans, investments, deposits, and borrowings to avoid, reduce, or hedge rate risk. Chapter 16 takes an in-depth look at how investment securities contribute to both rate risk and rate risk management. Chapter 17 then focuses on using off-balance sheet derivatives for managing interest rate risk.

- *Beyond interest rate risk.* The sixth section of the manual addresses ALM issues in a broader context than just interest rate risk. Chapter 18 discusses liquidity risk and Chapter 19 discusses optimizing the mix between loans and investments. Chapter 20 discusses interest rate risk and the business of banking.

In each chapter, the text is interrupted periodically by a block of questions to answer. You may be asked to respond to true/false, multiple choice, or open-ended questions that require a written response. The answers are given at the end of the block of questions, but do not look at them until you have answered the questions by yourself. If you miss a question, go back and review the material until you understand why you were mistaken. Consult your supervisor if you need additional help. Do not continue until you feel confident that you have mastered the given portion of the text.

Because this ALM course is self-paced, you should relax and cover the material at the speed you find comfortable. Take the time to learn the material well before proceeding.

Be sure to follow these guidelines:

- Use the book during uninterrupted time, at least one hour — preferably two — per study session. Set aside regular periods for your self-paced study.
- Schedule this time with your supervisor.
- Read the material carefully.
- Take time to consider what you are reading.
- Take notes as necessary. Underline or highlight significant passages in each chapter. This will be useful to you later as quick reference, especially after you complete the course.
- Meet periodically with your supervisor or another appropriate person to review the material and learn how it applies specifically to your bank's operations. Major variations are explained in the text, and discussing these with your supervisor will help ensure that the procedures required for your situation are followed.

Keep your completed *Self-Paced Asset/Liability Training and Certification* manual as your own professional reference book.

CERTIFICATION PROGRAM REQUIREMENTS

General Information

With the purchase of this book, one individual is eligible to receive the designation of Sheshunoff Certified ALM Specialist. Others within the same physical location of an institution may apply for certification at a discounted rate. Contact Customer Service at 1-800-456-2340 for more information on registering in the program.

You should read each course one lesson at a time. At the end of each lesson, there is a lesson review. Questions in the lesson review should be answered before proceeding to the next lesson. At the end of each course, there is a course assessment. You should complete these assessments and compare your answers with those

that are provided. Once you have completed both course assessments in this manual, you can request the final examination by calling Customer Service at 1-800-456-2340 or e-mailing certification@sheshunoff.com.

The exam is self-administered in your institution. Instructions will be sent to your proctor. Unofficial results will be immediately available upon completion of the exam. Official results and certificate will be mailed directly to the student via USPS within 30 days.

You must score 80 percent or higher on the final examination. After successfully completing the final exam, students receive a certificate. Certification is valid for two years from the date of certification. After your initial certification expires, you must receive recertification. To receive your recertification exam, you must have a current subscription to the manual.

In order to maintain *Sheshunoff Certified ALM Specialist* certification, you must complete five hours of continuing education credit each year. Acceptable hours include audio conferences, online courses, and self-paced study courses from Sheshunoff Information Services, A.S. Pratt and Sons, and AlexInformation, and other SIS-approved continuing education courses.

Sheshunoff reserves the right to modify the program's exam requirements and related fees at any time.

INSTRUCTIONS FOR EXAM

Exam Rules

The final exam is governed by the rules below. Failure to adhere to the rules will result in your disqualification from the certification program.

- The exam is the property of Sheshunoff Information Services, Inc. It may only be stored, and retransmitted, in whole or in part, by the proctor.
- You must certify that you took the test in accordance with the exam instructions. A senior officer in your institution must proctor your exam and certify your compliance with the exam requirements.
- Only the registered student may take the test. Another person may not take the test for the registered student.
- You may not reproduce the test and related materials.
- After you receive the exam instructions from your proctor, you have 75 minutes complete.
- To receive certification, you must score 80 percent or higher on the exam.
- Note that a student has two opportunities to pass the exam. After the second, unsuccessful attempt, the student must wait one year from the date of the second failed test before retesting.
- If the test taker is not a subscriber to this program, there will be a fee for each additional student, *if and only if* the primary subscription is current and the test taker is at the same physical location as the primary subscriber. If the institution has students at more than one location, there must be a primary subscriber at each location.

Taking the Test

- The exam is administered online and consists of multiple choice questions.
- Students are allotted 75 minutes to complete the timed exam. A timer will be clearly displayed on the screen during the exam.
- This is a closed-book test. You may not refer to other individuals or outside reference materials for answers or information while taking the test.