

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.

After working your way through the chapters, you may take the final exam and, in passing it, receive certification from Sheshunoff showing completion of the ALM course. Instructions for requesting and completing the final exam are included behind the tab labeled Examination Instructions at the back of your manual.