

This subject introduces students to the theory and application of Asset and Liability Management, which seeks to maximise risk-adjusted returns to shareholders over the long term. It will equip students with a detailed understanding of the elements of asset and liability management, and how liquidity, gap and funding risk may be measured and managed through effective balance sheet management, particularly in respect to banks. The subject also discusses economic capital as an integrated risk, return, capital and value management tool.

Learning Outcomes

At the completion of this subject students should be able to:

- explain the key elements of asset and liability management
- describe how asset and liability management policy is developed
- explain the significance of asset and liability management in bank management
- identify the key interest rate risk characteristics of bank products
- analyse the measurement and management of the 'gap'
- explain the management of spreads and margins
- identify the critical aspects of liquidity risk and explain its management
- discuss the role of transfer pricing in asset and liability management
- describe the securitisation process and analyse the risks and rewards of securitisation.
- discuss economic capital as an integrated risk, return, capital and value management tool.

Subject content

- The asset and liability management process
- The asset and liability management policy of a bank
- Interest rate risk and measurement and management of the gap
- Managing margins and spreads
- Principles of liquidity and risk management
- Transfer pricing
- Asset securitisation, cost of funds and shareholder value
- Economic capital Part 1– ECAP measurement
- Economic capital Part 2 - ECAP management

Assessment

Assessment Type	Assessed	Weighting
Assignment	Week 6	50%
Examination	Week 12	50%

Delivery Method

Kaplan's delivery is primarily through distance education, supported by comprehensive print and online resources. Students will have access to subject notes, pre-recorded lectures, an online subject room, practitioner-led Discussion Forums, online exercises, library and further resources.

Pre-requisites

Students enrolling in a Masters level elective subject are assumed to have the pre-requisite knowledge in the four core subjects ([FIN111](#), [FIN112](#), [FIN113](#) and [FIN114](#)). This requirement can be waived where students are studying one or more core subjects concurrently with an elective, or they are studying single subjects and are not enrolled for the Masters, Graduate Diploma or Graduate Certificate courses. Completion or concurrent study of FIN114 is essential for this subject. Students enrolling into an elective subject without having completed all core subjects should ensure that they have, or have access to, the pre-requisite or assumed knowledge required for successful completion of the elective subject. For further information on pre-requisite study contact a student adviser.

Workload

This subject requires approximately 120 hours of student effort (11-12 hours per week). This includes time spent on activities such as: Reading and review of course notes and other reading material, attending to or listening to live or pre-recorded lectures, participating in e-learning activities, and assessment preparation and review.

Reading List

The following list of references provides the student with key and additional reading material.

Prescribed text

There are no prescribed texts for this subject.

Additional readings:

Bessis, J 2010, *Risk management in banking*, 3rd edn, John Wiley. ISBN 9780470019139
Call no.: 332.10681 BES (3ED)

Choudhry, M 2007, *Bank asset and liability management: strategy, trading, analysis*, John Wiley.
ISBN 9780470821350
Call no.: 332.1068 CHO

Dermine, J and Bissada, Y 2007, *Asset and liability management: the banker's guide to value creation and risk control*, FT Prentice Hall. ISBN 9780273710011
Call no.: 332.1068 DER