

“ *By failing to prepare,  
you are preparing to fail* ”

Benjamin Franklin

# The Role and Importance of the Asset & Liability Committee (ALCO)

## OVERVIEW

An ALCO is increasingly recognised as being pivotal to the successful management of a bank. Its role is to help ensure that profitability can be maximised, but within the constraints of having to maintain adequate liquidity, adequate capital and not incurring risks in excess of the bank’s stated appetite. In particular, it needs to ensure there are well rehearsed plans in place to deal with potential stresses – without such plans, mitigating actions are likely to be less effective and more costly.

GBRW’s training programme on the role of an Asset and Liability Committee (ALCO) gives participants a clear insight into the essential role that an ALCO performs in the management of a commercial bank. More importantly the course provides practical guidance on how an effective ALCO can be achieved, by looking in greater detail at its membership, its role and mandate within the bank’s governance framework, and at the type of information it should receive and review.

## WHO SHOULD ATTEND?

The programme is intended for current and prospective members of the Board of Management and other senior executives particularly those working in functional areas such as Liquidity Management, Capital Management, Finance, Planning and Risk.

If you are asking yourself any of the following questions, then this programme is for you:

- *What exactly is the purpose of the ALCO?*
- *Would the bank be more secure and profitable with a fully functioning ALCO?*
- *How do we enhance profitability and at the same maintain a comfortable level of liquidity?*
- *What is an appropriate level of liquidity for the bank to hold?*
- *Where should we concentrate our deposit gathering activities?*
- *What are the regulatory expectations of an ALCO?*
- *How can market risk, liquidity risk and capital maintenance all be optimised?*
- *What reporting should an ALCO typically receive?*

*sharing knowledge, developing skills*

# OUTLINE

## OBJECTIVES

Participants will come away from this course with:

- An understanding of the fundamental role of an ALCO in the management of a commercial bank
- An understanding of liquidity risk – both funding liquidity risk and asset liquidity risk
- An understanding of the importance of maintaining adequate capital and the different forms this may take
- An understanding of structural interest rate and foreign exchange risk
- An appreciation of the importance of the planning process in both setting an achievable profit target and in determining a commensurate appetite for risk
- An understanding of the ALCO's role in establishing appropriate controls over various risk types
- An appreciation of how properly articulated risk appetites provide a framework for avoidance of unrewarded risk and for maintaining profitability even in adverse circumstances

## WORKSHOP DELIVERY

- This is a two day course totaling **14 hours of delivery time**.
- It comprises **eight** tutorial modules of approximately one hour 45 minutes each.
- Each module comprises a mixture of traditional lecturing, practice examples and case studies as well as group discussion among participants on how the issues relate to their particular bank and local market.
- At the end of each module, participants will receive detailed printed notes on the subject matter covered.
- All hand-outs and instruction will be in English.
- The high level of participative group work on case studies and interactivity during tutorials strictly limits numbers to **no more than 20 participants**.
- The course can be customised to meet the requirements of the bank.

### TRAINING NEEDS ANALYSIS & POST-TRAINING EVALUATION:

To ensure that participants gain maximum benefit from the course, it is our practice to send a detailed questionnaire to all course participants to ensure we fully understand their specific training needs and objectives. The completed questionnaires are analysed by the course instructor who will tailor the course content and style of delivery to the requirements of the participants. Following completion of the course, participants are asked to measure and assess the effectiveness of the training. The results are collated and reviewed, and the analysis shared directly with the relevant client stakeholders.

# OUTLINE

## MODULE 1: GOVERNANCE AND STRUCTURE OF AN ALCO

- ⇒ Reporting line to the Board of Management
- ⇒ Authority – mandate and terms of reference
- ⇒ Membership
- ⇒ Support department (secretariat)
- ⇒ Appropriate frequency of meetings
- ⇒ Agenda and minutes

## MODULE 2: OBJECTIVES OF AN ALCO

- ⇒ Maintaining the security of the bank while maximising profit
- ⇒ Ensuring an appropriate balance sheet structure
- ⇒ Establishing controls and monitoring adherence to them
- ⇒ Ensuring compliance with regulations

## MODULE 3: CAPITAL ADEQUACY

- ⇒ The purpose of capital
- ⇒ Different forms of capital
- ⇒ Regulatory versus internal capital
- ⇒ The cost of capital
- ⇒ Dividends and other shareholder demands
- ⇒ Capital under stress

## MODULE 4: FUNDING MISMATCH

- ⇒ Importance of diversity of funding sources
- ⇒ The dangers of relying on “bought” money
- ⇒ The need for base of reliable retail deposits
- ⇒ Cheap deposits a valuable source of revenue
- ⇒ Assessing the reliability of the deposit base
- ⇒ Contractual v. Behavioural maturity
- ⇒ The importance of a contingency funding plan

## MODULE 5: LIQUIDITY

- ⇒ Funding v. Asset (market) Liquidity Risk
- ⇒ Contingent liquidity
- ⇒ What is a “liquid” asset?
- ⇒ Calculating the maturity mismatch ladder
- ⇒ Importance of stress testing
- ⇒ Appropriate metrics and ratios

## MODULE 6: MARKET RISK

- ⇒ Definition – what is it?
- ⇒ Distinction between discretionary and structural risks
- ⇒ Principal risk measures – gaps, income sensitivity and value sensitivity
- ⇒ Risk to “value” or to “margin”?
- ⇒ The role of the Treasury function
- ⇒ The importance of behavioural assumptions
- ⇒ Taking some level of short term risk to reduce costs

## MODULE 7: BRINGING IT ALL TOGETHER

- ⇒ Determining risk appetites
- ⇒ Establishing a limit framework
- ⇒ Equal importance of culture and incentives
- ⇒ Ensuring all policies are documented and transparent
- ⇒ Funds transfer pricing – a useful tool?
- ⇒ Link to the planning process
- ⇒ Maintaining the confidence of the regulator - a poor relationship wastes time and money

## MODULE 8: REPORTING TO ALCO

- ⇒ The balance between accuracy and timeliness
- ⇒ Typical reporting “pack”
- ⇒ Importance of understanding metrics
- ⇒ Regularly challenging assumptions
- ⇒ Are any risks not captured?

# DETAILS

## FREE TOOLS, MODELS & TEMPLATES

This course is supplemented with a range of practical exercises and examples designed to draw out participants' understanding of key concepts. Course participants will each receive a pack of relevant course materials for later reference and to adapt for use in their own workplaces.

Handouts for this course include:

- ➔ **Full written notes on each of the six modules.**
- ➔ **Soft copies of the spreadsheet models used in practical exercises**
- ➔ **Soft copies of all course exercises and answers.**

**EARLY BOOKING DISCOUNT!**  
SCHEDULE A COURSE BEFORE THE 31 MARCH 2016 FOR A 10% DISCOUNT ON COURSE FEES.

## TERMS & CONDITIONS

Total fee cost for the off-site delivery of the 2-day course as described is US\$ 8,800 (eight thousand eight hundred United States Dollars). This is EXCLUSIVE of:

- Flights (discounted business class);
- Accommodation (min. 4★) for every night required off-site;
- Local travel costs and subsistence; and
- Venue and equipment hire (if required) and materials production.

These additional items will be for the account of the client or, alternatively, we can provide an all-inclusive quote encompassing all expenses if that is more convenient.

GBRW Learning can also host the course on-site at or near our London headquarters for an all-inclusive fee of US\$ 10,560 including VAT. This includes venue and equipment hire but does NOT include the travel, accommodation and subsistence expenses of participants.

A 60% deposit is payable one-month prior to the scheduled course date, with the balance payable immediately following completion of the course.

Note: Discounts are available for multiple course bookings of the stand-alone course or other courses within the GBRW Learning programme.

For more information or to arrange a booking, please contact Jeremy Denton-Clark at [jeremy.denton-clark@gbrw.com](mailto:jeremy.denton-clark@gbrw.com)

**Note: Terms and Conditions valid until 30<sup>th</sup> June 2016**

# INSTRUCTOR



**Paul Newson**  
Course Instructor  
GBRW Learning

Paul Newson has worked in banking for over 30 years in a career that has spanned Finance, IT and Risk Management. Most recently he was Head of Non-Traded Market Risk Oversight at Lloyds Banking Group. From 1999 to 2005 he led the Traded Risk team at the UK Financial Services Authority, and, prior to that, was Head of Trading Risk Systems for NatWest Markets.

Paul, upon graduating from Oxford University, initially trained as a teacher. During his subsequent banking career, he has always maintained a keen interest in delivering training. He lectured for five years at the City of London Polytechnic preparing students for the UK Chartered Institute of Bankers' module in accountancy, has delivered many internal courses and, currently, runs the Interest Rate Risk in the Banking Book course for the UK Asset and Liability Managers Association.

Firmly believing that, in risk management, there is no such thing as a "stupid" question, Paul encourages the active participation of students. This approach enables participants to draw their own conclusions based on shared experience and open questioning.

## ABOUT GBRW LEARNING

GBRW Learning is the training and knowledge-sharing arm of GBRW Limited. Founded in London in 1995 by a group of senior bankers GBRW's mission is to provide first-class consulting and training to banks and bankers in Emerging Markets, to the same standard as would be expected in developed markets. From our London headquarters and subsidiary offices in Washington DC and Singapore we have served clients in more than 50 countries in Europe, the Middle East, Africa, Asia and the Caribbean. Our clients include banks and other financial institutions, governments, and economic development agencies and institutions.

Through our training programmes we share the experience and knowledge of our experts with bankers in Emerging Markets, supported by high quality materials and taking advantage of the latest technologies. Our courses are all highly interactive, and make use of carefully designed case studies and simulations.

We offer a range of training topics for banks and financial institutions including:

- Strategy & Management – Formulating, Implementing & Monitoring Strategy
- Risk Management – Credit, Market & Operational Risk
- Human Resources Management
- SME Banking – Customer Relationship Management; Credit Risk Management
- Retail Banking – Customer Relationship Management, Distribution Strategy, Product Management, Credit Risk
- Corporate Banking – Customer Relationship Management, Credit Risk Management
- Governance, Regulation & Compliance
- Financial Markets

For more information, visit our website at:

<http://www.gbrw.com/training>

To discuss your specific requirements email us at:

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