NESTOR ADVISORY

Asset Liability Management Module

Asset Liability Management

Assessment Report

PREPARED FOR

Institution X

Tier 2 · Regulated, deposit-taking financial institution · Sub-Saharan Africa

SAMPLE REPORT · Institution identifiers anonymised. Methodology and structure are representative of the deliverable provided to paying clients.

Walter Tukahiirwa, CFA, ACCA · Nestor Advisory · www.nestoradvisory.com · Kampala · 2 June 2026

Executive summary

Institution X is a Tier 2, regulated, deposit-taking financial institution. The Asset Liability Management (ALM) module shows the weakest performance across the Nestor Advisory diagnostic. The institution scores 24.5 of 59 possible points (42%) against the Tier 2 ALM benchmark - the Red band: foundational gaps requiring priority attention.

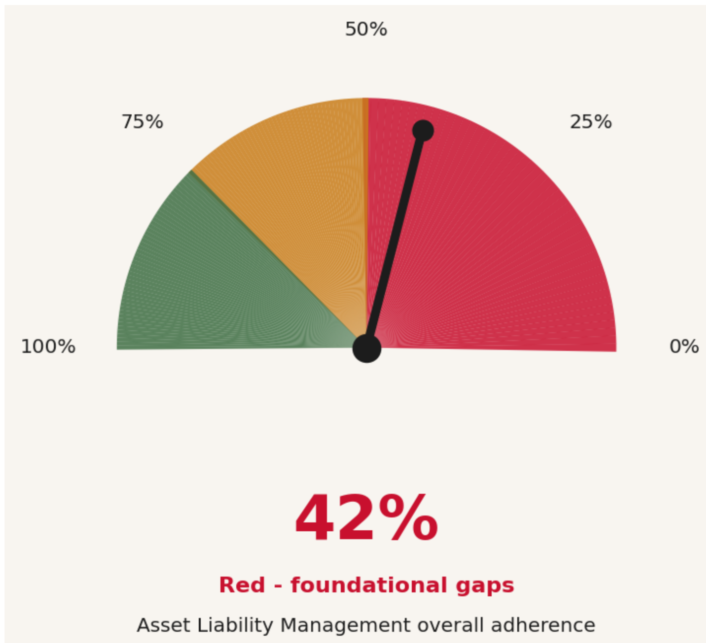

Figure 1. ALM overall adherence against Tier 2 expectations.

The picture is sharply uneven. Foreign exchange management is mature - formal policy, NOP limit, monthly volatility and quarterly exposure reporting all in place. Everything else is weak. There is no formal liquidity policy, no formal interest rate risk policy, no formal investment portfolio policy, and no internal capital adequacy limit.

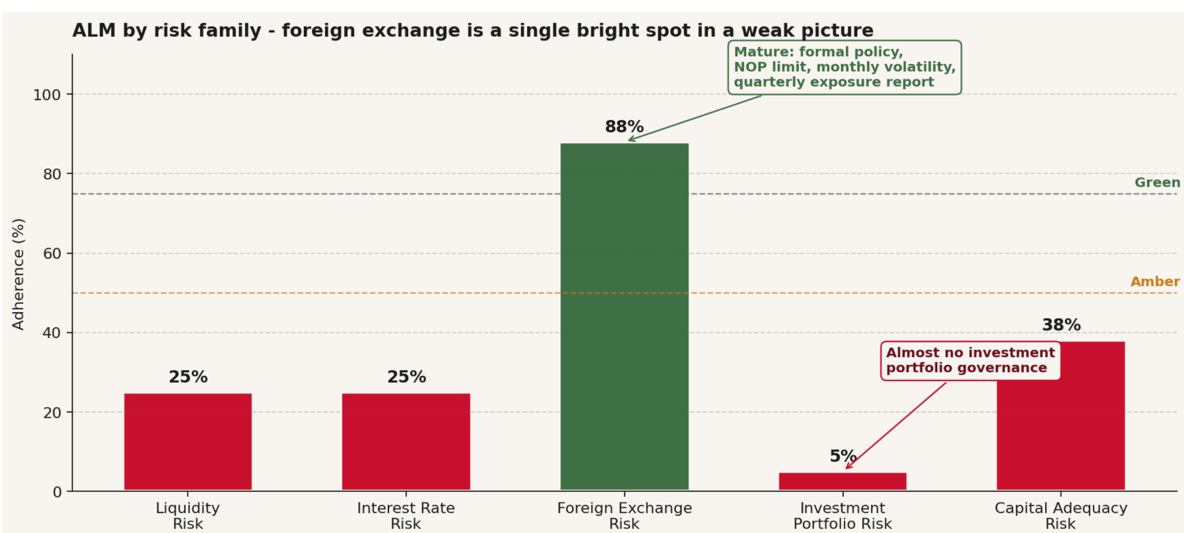

Figure 2. Adherence by ALM risk family. FX is the only family at a mature standard.

Top strengths

- Foreign exchange: formal policy in place; institution does not transfer FX risk to clients; NOP limit set; quarterly FX exposure report includes NOP, stressed sensitivity and limits comparison.
- Weekly projected cash flow report and monthly lender concentration report in production.
- Liquid investment accounts and pre-approved credit lines provide a basic liquidity buffer.
- Capital adequacy is monitored monthly with trend analysis.

Top gaps

- No formal liquidity policy; no depositor concentration limit; no liquidity contingency plan; no behavioural or dynamic liquidity modelling.
- No formal interest rate risk policy. Existing exposure limit flagged as potentially inappropriate. No repricing gap analysis. No net interest income sensitivity.
- No formal investment portfolio policy or concentration limits.
- No limit on debt-to-equity ratio or capital over risk-weighted assets - the core capital adequacy guardrail is absent.
- Funding plan owned by the CEO rather than the CFO - a structural governance flag.

Three urgent actions to start within the next 90 days

1. Approve and roll out a Liquidity Risk Policy including depositor and lender concentration limits, behavioural deposit assumptions, minimum net-liquid-asset ratios and a documented liquidity contingency plan. 2. Set an internal capital adequacy limit 200 to 400bps above the regulatory minimum, with explicit board escalation. 3. Reassign ownership of the funding plan from CEO to CFO, with a monthly funding paper to the ALCO.

Approach

This report applies the Nestor Advisory Risk Maturity Framework. The framework organises risk management into three tiers reflecting institutional maturity. The Asset Liability Management pillar covers five risk families: Liquidity, Interest Rate, Foreign Exchange, Investment Portfolio and Capital Adequacy. Each is assessed across four control dimensions - Policies, Limits, Risk management tools and Risk monitoring tools.

ALM as a discipline applies to any institution managing a balance sheet - retail banks, microfinance institutions, SACCOs, fintechs, asset finance companies and DFIs. Some items in this module specifically reference deposits; non-deposit-taking respondents mark those individually as 'Not applicable' and continue with the rest.

Scoring scale

Each requirement is rated Adheres (1.0), Partially adheres (0.5), Doesn't adhere (0.0) or Not applicable (excluded from the denominator). RAG bands: Green at or above 75% (mature), Amber 50 to 74% (emerging with gaps), Red below 50% (foundational gaps).

Institution X - five-year context

Indicator	2020	2021	2022	2023	2024	Change
Total assets (USD m)	10	15	20	26	30	+200%
Gross loan portfolio (USD m)	9	12	18	23	27	+200%
Active clients ('000)	33	45	63	70	78	+136%
Branches	10	13	16	21	25	+150%
PAR > 30	0.25%	0.60%	0.81%	1.00%	0.40%	-
Return on assets	+2.0%	+4.4%	+3.2%	-3.0%	+0.5%	-

Two features of the institution's profile drive the ALM assessment: deposit-taking and regulated (so liquidity controls and depositor concentration are first-order concerns), and rapid balance-sheet expansion (so capital adequacy build-back has not kept pace with asset growth, especially after the 2023 loss).

Deposit growth running ahead of ALM controls

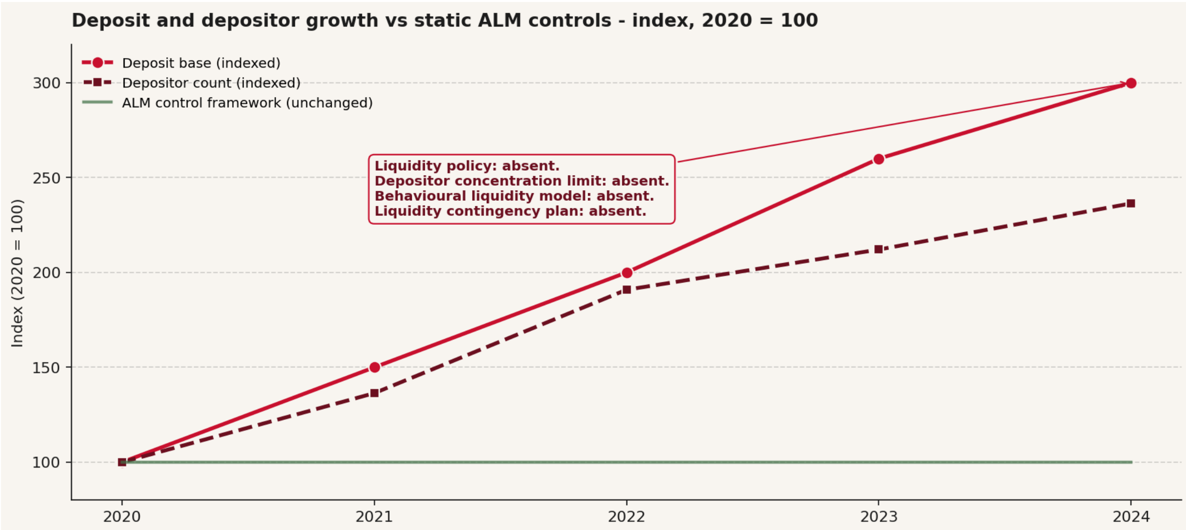

Figure 3. Deposit and depositor growth indexed against the (essentially static) ALM control framework.

Across 2020 to 2024 the deposit base has tripled. The number of depositors has more than doubled. Over the same five years the ALM control framework has not been formalised. The institution is running a 2024-size deposit book on a 2020-vintage ALM discipline.

Funding-side amplifiers of the 2023 event

With no liquidity contingency plan and no depositor concentration limit, any tightening of funding in 2023 had to be addressed reactively rather than from a pre-approved playbook. Without a behavioural liquidity report and a dynamic liquidity report, management was looking at point-in-time liquidity numbers without an understanding of how stable the underlying deposits actually were. Without an internal capital adequacy limit, the 2023 ROA loss eroded capital silently - no formal trigger forced a board conversation until prudential boundaries came uncomfortably close.

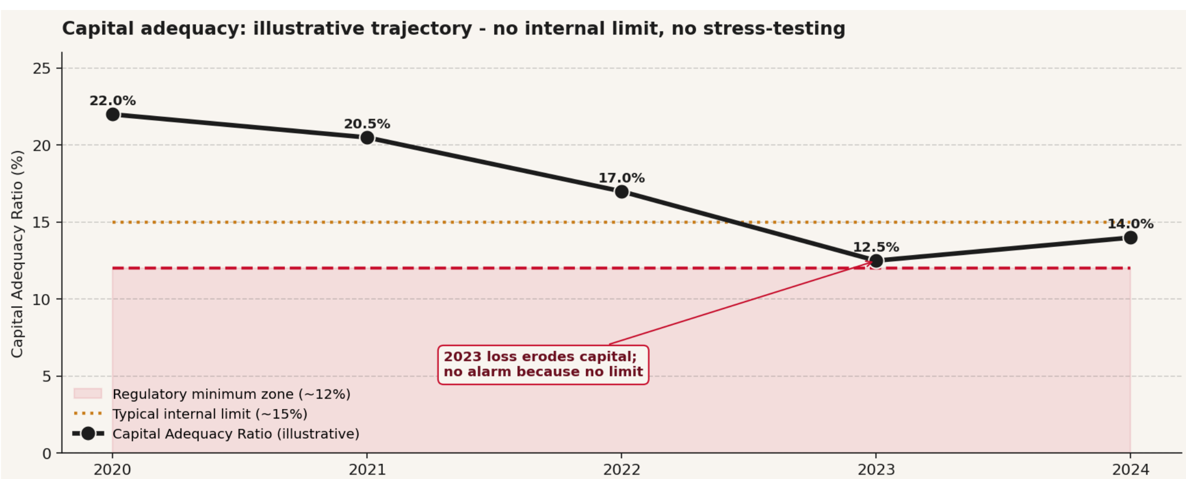

Figure 4. Illustrative capital adequacy trajectory against indicative reference lines.

Figure 4 is illustrative; actual capital adequacy ratios were not in scope of the self-assessment. The shape is consistent with the institution's reported profitability path. The structural point is that without an internal limit above the *regulatory minimum, there is no early-warning system to force a capital response before the regulatory minimum is approached.*

Findings - Liquidity Risk

Policies and limits

There is no formal liquidity policy. None of the depositor or lender concentration limits, net-liquid-asset ratios or time-band coverage limits required at Tier 2 are formally board-approved.

Requirement	Current state
Lender concentration limits	No formal per-bank limit
Depositor concentration limits	Not in place
Net liquid assets vs total assets	Not in place
Net liquid assets vs deposits up to 90 days	Not in place
Time-band coverage under behavioural / dynamic scenarios	Not in place

Risk management and monitoring tools

Liquid investment accounts and pre-approved credit lines are in place. Coherent product/funding strategies and the funding plan are partial. There is no liquidity contingency plan.

Governance flag

The funding plan currently sits with the CEO rather than the CFO. ALM practice expects the CFO (or treasurer) to own the funding plan and present it to the ALCO. CEO ownership conflates execution responsibility with oversight responsibility and dilutes the role of the ALCO.

Reporting: weekly cash flow and monthly lender concentration reports are in production; depositor concentration report, monthly behavioural liquidity report and monthly dynamic liquidity report are absent. The monthly liquidity indicators report exists but lacks trend analysis and full limits comparison.

Findings - Interest Rate Risk

No formal IRR policy. An exposure limit exists but was flagged by the assessor as potentially inappropriate - it satisfies the existence test but may not be calibrated to actual sensitivity. Limits on net interest income sensitivity and on the sensitivity of economic value of equity are absent.

What this means in practice

An exposure limit that has not been calibrated to the institution's repricing profile is a tick-the-box artefact. The likely path is to commission a repricing gap analysis, calculate net interest income sensitivity under a parallel 200bp shock, and recalibrate the limit from that empirical base.

Risk management tools: product and funding strategies for repricing mismatches are partial. No IR contingency plan; no use of derivative instruments. Monitoring: quarterly IR volatility report and quarterly exposure report (with limits comparison) are in place. Repricing gap analysis, NII sensitivity and IR stress-testing are absent.

Findings - Foreign Exchange Risk

Mature: what good looks like

Formal FX policy in place. Institution does not transfer FX risk to clients. NOP limit set. Monthly currency volatility report and quarterly FX exposure report (including NOP, stressed FX income sensitivity and limits comparison) produced. Coherent product and funding strategies avoid currency mismatches at source. Non-derivative instruments deployed for residual exposure. Biennial FX risk mapping in place.

Limited remaining gaps: stressed FX income sensitivity is reported but not yet set as a formal limit; FX contingency plan and Value-at-Risk analysis are not in place (Tier 1-leaning); quarterly FX stress-testing report not yet produced - data inputs already exist so this is a low-effort upgrade.

Findings - Investment Portfolio Risk

Investment portfolio risk arises from holdings of financial instruments and placements with other financial institutions. This family is essentially undeveloped.

Requirement	Current state
Formal investment portfolio policy (selection criteria, responsibilities)	Not in place
Concentration limits by institution and maturity	Not in place
Committee for permitted institutions, instruments and concentrations	Role of Board Finance Committee not clearly defined
Mapping and monthly investment portfolio report	Not applicable in current state (limited positions)

Why this matters

Several items are recorded 'Not applicable' because investment positions are currently small. The risk is not position size; it is the absence of any governance frame should the institution begin to hold liquid investments more actively - which Tier 2 institutions of this scale typically do. The fix is structural - issue a policy, define the committee, set concentration limits - regardless of current position size.

Findings - Capital Adequacy Risk

Dividend distribution policy is partial. Minimum percentage of profits to be capitalised is partially defined. The single most consequential gap is the absence of an internal limit on the debt-to-equity ratio or on adjusted capital over risk-weighted assets.

The internal-limit gap

Without an internal capital adequacy limit set above the regulatory minimum, the institution operates with no early-warning trigger. The 2023 ROA loss of -3.0% will have eroded capital meaningfully (Figure 4 illustrates a plausible path). The absence of internal escalation suggests there was no trigger to escalate against. A typical Tier

2 internal limit sits 200 to 400bps above the regulatory minimum, with a defined corrective action path.

Monitoring: monthly capital adequacy monitoring exists with the relevant ratio and trend analysis. Comparison to internal limits is absent (consistent with the limit gap). Capital adequacy stress-testing is not performed.

Scoring summary

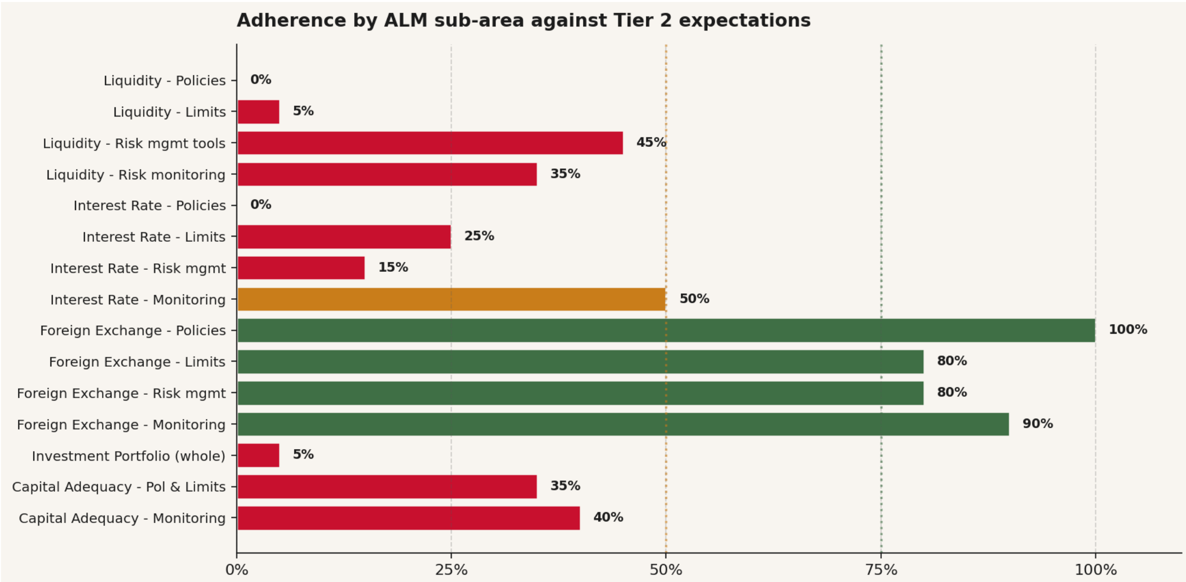

Figure 5. Adherence by ALM sub-area.

The shape of the heat map is concentrated rather than balanced. Foreign exchange risk dominates the green and amber zones. Liquidity, interest rate, investment portfolio and most of capital adequacy sit in the red zone. The action plan mirrors this concentration: urgent build-out in liquidity policy and limits and capital adequacy limits, followed by interest rate risk policy and analytics.

Prioritised action plan

Urgent (within 90 days)

#	Action	Verifiable indicator
U1	Issue formal Liquidity Risk Policy with ALCO mandate, lender and depositor concentration limits, NLA ratio limits, behavioural deposit assumptions, and a liquidity contingency plan with named triggers and actions.	Policy approved; first monthly ALCO pack uses the new framework.
U2	Set an internal capital adequacy limit (D/E or capital/RWA) 200 to 400bps above the regulatory minimum. Define breach escalation path.	Limit approved; embedded in monthly capital monitoring; comparison to limit visible in first monthly report.
U3	Reassign funding plan ownership from CEO to CFO. Monthly funding paper to ALCO from CFO.	Reassignment documented; first monthly funding paper at the ALCO.
U4	Add a monthly depositor concentration report and a monthly behavioural liquidity report.	Reports produced; reviewed at the ALCO.

Short-term (3 to 12 months)

#	Action	Verifiable indicator
S1	Issue formal IRR Policy. Commission repricing gap analysis. Calculate NII sensitivity under +/- 200bp shock. Recalibrate exposure limit.	Policy approved; repricing gap report produced; recalibrated limit in place.
S2	Issue formal Investment Portfolio Policy. Define responsible committee. Set concentration limits by institution and maturity even if positions are currently small.	Policy and committee mandate approved.
S3	Add monthly dynamic liquidity reporting and sight-deposit volatility report. Build out monthly liquidity indicators report (trend, full limits comparison).	Revised monthly liquidity pack to the ALCO.
S4	Issue formal dividend distribution policy with explicit capital preservation gates.	Policy approved.
S5	Begin biennial mapping cycles for liquidity, interest rate and investment portfolio risks.	First formal mapping exercises completed.

Medium-term (12 to 24 months)

#	Action	Verifiable indicator
M1	Introduce quarterly IR stress-testing. Move toward EVE sensitivity reporting.	First quarterly IR stress-test report.
M2	Introduce quarterly capital adequacy stress-testing.	First quarterly capital stress-test report.
M3	Add Value-at-Risk analysis to FX monitoring; quarterly FX stress-testing report; FX contingency plan.	VaR report; FX stress-test report; FX contingency plan approved.

How this report is used

The ALM Module is one of three paid modules in the Nestor Advisory Risk Diagnostic. The deliverable shown here represents the standard scope:

- Scored assessment against the Tier 2 (or Tier 1 / Tier 3) benchmark in the Nestor Advisory Risk Maturity Framework.
- Findings narrative across the five ALM risk families, with explicit linkage to historical operating outcomes.
- Heat map and visual diagnostic for board, ALCO or executive committee consumption.
- Prioritised action plan structured into urgent, short-term and medium-term tiers, each with verifiable indicators.
- 60-minute review call with Walter Tukahiirwa, CFA, ACCA - included in the module fee.

Sector-specific tailoring (retail bank, fintech, asset finance company, SACCO, MFI, DFI) is added in real engagements.

- END OF SAMPLE REPORT -

To request a real assessment for your institution, visit www.nestoradvisory.com or contact Walter Tukahiirwa at tukahiirwaw@gmail.com.