

ASSET AND LIABILITIES MANAGEMENT WITH REFERENCE TO HDFC BANK

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ABSTRACT

Asset and Liability Management (ALM) is a strategic approach of managing the balance sheet dynamics in such a way that the net earnings are maximized. This approach is concerned with management of net interest margin to ensure that its level and riskiness are compatible with the risk return objectives. Asset and Liability Management (ALM) defines management of all assets and liabilities (both off and on balance sheet items) of an organization. It requires assessment of various types of risks and altering the asset liability portfolio to manage risk. Asset and Liability Management is a key driver of an organization's profitability and long term sustainability and it is a portfolio management of assets and liabilities of an organization. This is a method of matching various assets with liabilities on the basis of expected rates of return and expected maturity pattern. In the context of ALM is defined as "a process of adjusting liability to meet loan demands, liquidity needs and safety requirements". This will result in optimum value of the same time reducing the risks faced by them and managing the different types of risks by keeping it within acceptable levels.

Keywords: Assets and Liability, Proposed Tools.

1. INTRODUCTION

ASSET AND LIABILITY MANAGEMENT

Asset and liability management (ALM) is a practice used by financial institutions to mitigate financial risks resulting from a mismatch of assets and liabilities. ALM strategies employ a combination of risk management and financial planning and are often used by organizations to manage long-term risks that can arise due to changing circumstances.

The practice of asset and liability management can include many factors, including strategic allocation of assets, risk mitigation, and adjustment of regulatory and capital frameworks. By successfully matching assets against liabilities, financial institutions are left with a surplus that can be actively managed to maximize their investment returns and increase profitability.

Understanding Asset and Liability Management

At its core, asset and liability management is a way for financial institutions to address risks resulting from a mismatch of assets and liabilities. Most often, the mismatches are a result of changes to the financial landscape, such as changing interest rates or liquidity requirements. A full ALM framework focuses on long-term stability and profitability by maintaining liquidity requirements, managing credit quality, and ensuring enough operating capital. Unlike other risk management practices, ALM is a coordinated process that uses frameworks to oversee an organization's entire balance sheet. It ensures that assets are invested most optimally, and liabilities are mitigated over the long-term.

Traditionally, financial institutions managed risks separately based on the type of risk involved. Yet, with the evolution of the financial landscape, it is now seen as an outdated approach. ALM practices focus on asset management and risk mitigation on a macro level, addressing areas such as market, liquidity, and credit risks. Unlike traditional risk management practices, ALM is an ongoing process that continuously monitors risks to ensure that an organization is within its risk tolerance and adhering to regulatory frameworks. The adoption of ALM practices extends across the financial landscape and can be found in organizations, such as banks, pension funds, asset managers, and insurance companies.

Pros and Cons of Asset and Liability Management

Implementing ALM frameworks can provide benefits for many organizations, as it is important for organizations to fully understand their assets and liabilities. One of the benefits of implementing ALM is that an institution can manage its liabilities strategically to better prepare itself for future uncertainties. Using ALM frameworks allows an institution to recognize and quantify the risks present on its balance sheet and reduce risks resulting from a mismatch of assets and liabilities. By strategically matching assets and liabilities, financial institutions can achieve greater efficiency and profitability while reducing risk.

2. REVIEW OF LITERATURE

ARTICLE:1

TITLE:

A Study on Asset Liability Management in Indian Bank

AUTHOR: Dr. K. Prince Paul Antony

Source: International Journal of Business Administration and Management

ABSTRACT:

Asset Liability Management is one of the vital tool for risk management in banks. The banks have to work properly with regard to the Asset Liability Management so as to increase their performance. Moreover, the function of asset liability management is not just protection from risk. The safety achieved through asset liability management also opens up opportunities for enhancing the net worth. To study the assets and liabilities in banks and evaluate the impact of Asset Liability Management on profitability of banks were using Ratio Analysis. The analysis of Asset Liability Management in Indian bank will be carried out for the sample period from 2014 to 2018. It provides the necessary framework to define measures, monitor, modify and manage these risks.

ARTICLE:2

TITLE: Asset Liability Management

AUTHOR: Md. Salim Uddin, & Anamul Haque

Source:International Journal of Applied Research 2022; 8(3): 23-26

ABSTRACT:

Md. Salim Uddin, & Anamul Haque (2016) there is no underlying fact to ignore the importance of asset-liability management policy to ensure profitability and long-run sustainability of financial institutions in any economy. The study has been conducted to investigate the impacts of ALM policy on the profitability of sample banks working in Bangladesh. The rationality of this study is to observe the degree of relationship of different assets and liability variables with profitability through applying Statistical Cost Accounting (SCA) model using time series data from 2003 to 2014. To identify the relationship among the variables. After analysis, Loans & Advances is found to have a significant positive relationship with banks' profitability.

ARTICLE:3

TITLE: Assets Liabilities Models - A Literature Review

AUTHOR: Mihail Ioan Cociuba

SOURCE:American Sociological Review

ABSTRACT:

Financial crisis with its main component, the banking crisis, had a negative influence on the US and European banks, affecting mostly bank assets with its toxic assets subprime mortgages. The financial crisis has affected all the economies, has had and still has a negative impact on the entire banking system. The main component of the financial crisis was and remains the banking crisis, which continued with the sovereign debt crisis and then returned under a new form of the Cyprus banking crisis. In this paper, we analyzed the changes in the evolution of assets and liabilities of a sample of banks in Romania with a system of financial ratios. For this reason, we used the ratios method in the vertical and horizontal analysis for the period 2006-2015 in order to evaluate the bankers' decisions. In this research, we analyzed whether performance indicators such as ROA and ROE establish a causal connection with indebtedness indicators, liquidity ratios and solvency ratios. The results showed that in the case of the analyzed banks, there is a dependency relationship between the solvency ratios and the "Total Risk Ratio", "Return on Assets" and "Long Term Funds to Long Term Assets". We highlighted that ROE has an insignificant influence on bank solvency, while other asset and liability indicators do not influence the solvency of the banks studied. Finally, we established that the financial crisis started in 2007 continues today and it is likely that it will begin to manifest itself with this year after the BREXIT.

3. SRESEARCH METHODOLOGY

Need For The Study

The need of the study is to concentrates on the growth and performance of HDFC Bank and to calculate the growth and performance by using asset and liability management and to know the management of nonperforming assets. Bank manages the risk of Asset liability disparity by matching the assets and liabilities according to the maturity pattern or

the corresponding period [2016-20], by hedging and by securitization. ALM is concerned with strategic management of Balance Sheet by giving due weight age to market risks viz. Liquidity Risk, Interest Rate Risk & Currency Risk.

Scope Of The Study:

- ❖ This study will be helpful to know in managing the asset liability management & the profitability of management.
- ❖ This study also suggests the ways and means for improving the asset management in HDFC Bank Limited. It also helps to know the proper management of asset & liability management. This study is helpful to know the financial performance of the HDFC Bank Limited.
- ❖ We can gain the practical knowledge and experience of HDFC Bank Limited. The management will be helpful to identify the risk of the firm. The research will help the management to measures to overcome problems prevailing in the.

Data Collection

Dependent variable

Asset and Liability Management of HDFC Bank Limited

Independent variable

- Profitability
- Liquidity position
- Asset-liability position

4. RESEARCH DESIGN

Research is the systematic investigation into existing or new knowledge .It is used to establish or confirm facts, reaffirm the results of previous work, solve new or existing problems, support theorems, or develop new theories. A research project may also be an expansion on past work in the field. In order to test the validity of instruments, procedures, or experiments, research may replicate elements of prior projects, or the project as a whole. The primary purposes of basic research (as opposed to applied research) are documentation, discovery, interpretation, or the research and development of methods and systems for the advancement of human knowledge. Approaches to research depend on epistemologies, which vary considerably both within and between humanities and sciences.

Sources of Data:

After going through different methods of data collection, it was decided that both primary and secondary data are suitable for this survey.

Primary Data:

Primary data is the data and information collected through surveys and interaction with the people.

Secondary Data:

The secondary data is collected from published sources like annual reports of the company, media reports and printed text books.

- The data gathering method is adopted purely from secondary sources.
- The theoretical content is gathered from eminent texts books, reference and Internet.
- The financial data and information is gathered from eminent texts books and reference and library.

PERIOD OF STUDY:

Made a study for the period of 5 years .2018-19 to 2022-23.

ANALYTICAL TOOL

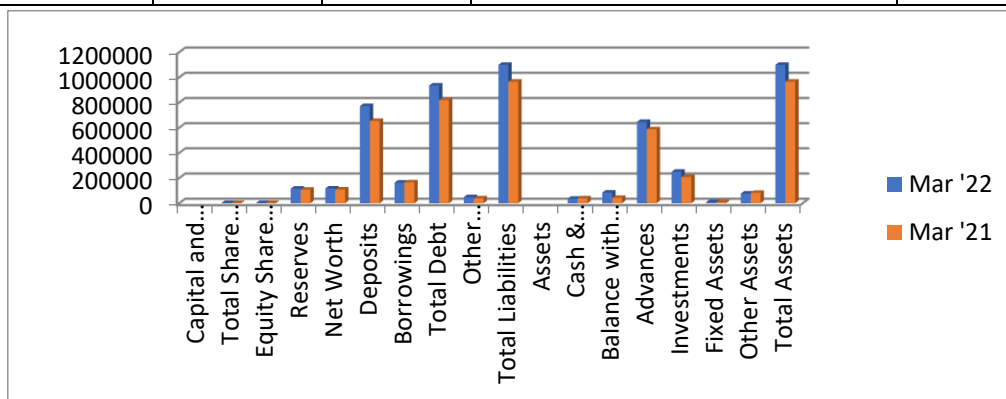
- Trend analysis,
- Ratio analysis,
- Comparative and Common Size Statements,
- Gap analysis

5. DATA ANALYSIS & INTERPRETATION

COMPARATIVE ASSET LIABILITY SHEET AS ON 31ST MARCH 2021-22

PARTICLES	Mar '22	Mar '21	Increase (+) / Decrease (-) (in Cr)	Percentage (%)
Capital and Liabilities:				
Total Share Capital	1294.76	1289.46	5.3	0.409342272

Equity Share Capital	1294.76	1289.46	5.3	0.409342272
Reserves	115,209.65	107,078.59	8131.06	7.057620607
Net Worth	116,504.41	108,368.05	8136.36	6.983735637
Deposits	770,968.99	652,919.67	118049.32	15.3118117
Borrowings	162,896.76	165,319.97	-2423.21	-1.487574093
Total Debt	933,865.75	818,239.64	115626.11	12.38144883
Other Liabilities & Provisions	47,994.99	37,851.46	10143.53	21.13456009
Total Liabilities	1,098,365.15	964,459.15	133906	12.19139191
Assets				
Cash & Balances with RBI	35,283.96	37,858.01	-2,574.05	-7.295241237
Balance with Banks, Money at Call	83,871.78	42,438.27	41,433.51	49.40101426
Advances	645,289.97	586,646.58	58,643.39	9.087912834
Investments	249,531.48	207,732.68	41,798.80	16.75091255
Fixed Assets	8410.29	7931.43	478.86	5.693739455
Other Assets	75977.67	81,852.17	-5,874.50	-7.731877011
Total Assets	1,098,365.15	964,459.14	133,906.01	12.19139282



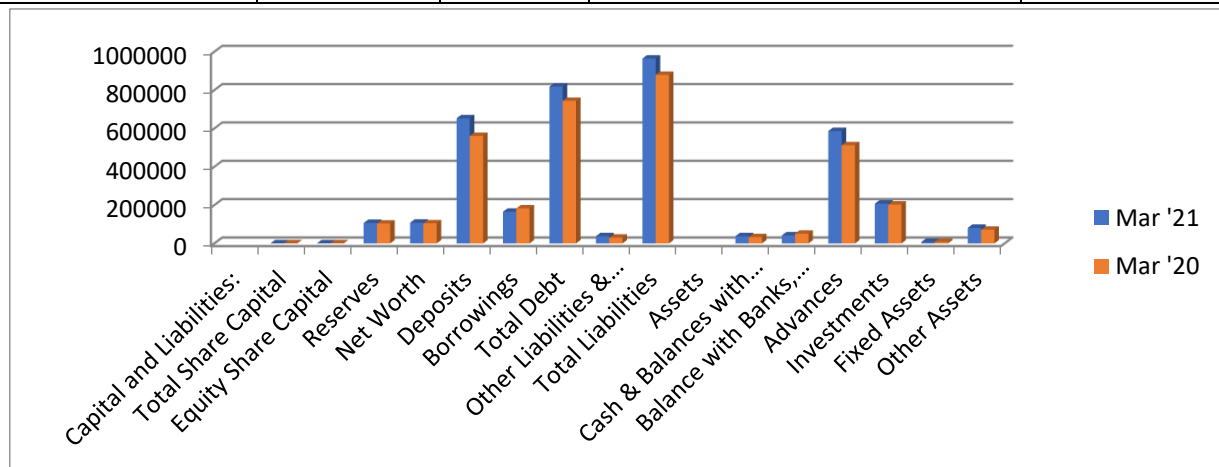
Interpretation

From the above table and graph Equity Share Capital increased 0.409% , Reserves 7.5%, Net worth 6.9%, Deposits 15.3%, Borrowings decreased to -1.49%, Other Liabilities & Provisions increased 21.13% and overall Liabilities are increase to 12.19% compare to 2022 to 2021. Coming to Assets Cash in Bank Balance with RBI decreased to -7.29%, Balance with Banks increased 49%, Advances 9.08%, Investments 16.75%, fixed assets 5.69% and other assets are decreased to -7.73%, over all Total Assets increased 12.9% compare to 2021.

COMPARATIVE ASSET LIABILITY SHEET AS ON 31ST MARCH 2020-21

PARTICLES	Mar '21	Mar '20	Increase (+) / Decrease (-) (in Rs)	Percentage (%)
Capital and Liabilities:				
Total Share Capital	1289.46	1285.81	3.65	0.283064228
Equity Share Capital	1289.46	1285.81	3.65	0.283064228
Reserves	107,078.59	103,873.13	3205.46	2.993558283
Net Worth	108,368.05	105,158.94	3209.11	2.9613064

Deposits	652,919.67	560,975.21	91944.46	14.0820478
Borrowings	165,319.97	182,858.62	-17538.65	-10.60891192
Total Debt	818,239.64	743,833.83	74405.81	9.093400804
Other Liabilities & Provisions	37,851.46	30,196.40	7655.06	20.22394909
Total Liabilities	964,459.15	879,189.17	85269.98	8.841222565
Assets				
Cash & Balances with RBI	37,858.01	33,102.38	4,755.63	12.56175377
Balance with Banks, Money at Call	42,438.27	51,067.00	-8,628.73	-20.33242637
Advances	586,646.58	512,395.29	74,251.29	12.65690324
Investments	207,732.68	202,994.18	4,738.50	2.281056596
Fixed Assets	7931.43	7903.51	27.92	0.352017228
Other Assets	81,852.17	71,726.80	10,125.37	12.37031346
Total Assets	964,459.14	879,189.16	85,269.98	8.841222657



Interpretation

From the above table and graph Equity Share Capital increased 0.28% , Reserves 2.99%, Net worth 2.96%, Deposits 14.08%, Borrowings decreased to -10.60%, Other Liabilities & Provisions increased 20.22% and overall Liabilities are increase to 8.84% compare to 2021 to 2020. Coming to Assets Cash in Bank Balance with RBI increased to 12.56%, Balance with Banks decreased -20.33%, Advances 12.65%, Investments 2.28%, fixed assets 0.35% and other assets are increased to 12.3%, over all Total Assets increased 8.84% compare to 2020.

6. CONCLUSION

The two types of banks' balance sheet risks include interest rate risk and liquidity risks. Their regular monitoring and managing is the need of the hour. Banks should use the information about these risks as key input in their strategic business planning process. While increasing the size of the balance sheet, the degree of asset liability mismatch should be kept in control. Because, the excessive mismatch would result in volatility in earnings. Banks can also use sensitivity analysis for risk management purpose. This study used gap analysis for measuring the interest rate risk under different assumptions such as introduction of negative and positive interest rate shock, adjusting and counter balancing the portfolio. It is found that the bank is exposed to interest rate risk.

7. REFERENCES

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