

Welcome students once again, the initiatives

taken by the Directorate of Higher

Education. today. I'll be dealing

with DSE 2.

That is bank management.

I'll be covering.

The module on asset liability management. So we'll try to

understand what is this concept of asset liability management

and how it is important in the

banking. The outline of my

session will be. First, we'll try to understand the meaning

and definition of asset

liability management. Then we'll try to understand need

significance, objectives and benefit of asset liability

management at the end of my session, you should be able to

understand the concept of asset liability management in banking.

Its significance and benefits or advantages. Now what do you mean

by asset liability management? We normally see this concept

even in the general balance sheet of the company.

So in case of banking also these assets and liability is

important and it needs to be

properly managed. So asset liability management is concerned with strategic balance sheet management. Which involves risk caused by changes in interest rate. Exchange rate.

Credit risk and liquidity position of bank.

The asset liability management concept is of recent one in India, which was introduced somewhere in 1999.

Why we should study the asset liability management? Just like how we look at the balance sheet of any company before doing the investment. Like that in the bank, the asset liability plays a very important role.

And how that is being managed will tell the efficiency of that particular bank. So the first importance or significance of asset liability management is volatility. As we can see, there is a lot of volatility or changes taking place in the market as also in the different areas.

So when there is a variation in the interest rate, Currency rates, We see that there is a direct impact on the balance

sheet of the banks also.

So from that angle, asset liability management is very important.

So the first one we have seen already volatility as a very important area which needs to be looked into while you are managing the asset liability of the bank, second product innovations and complexities.

Nowadays, the banking business has increased tremendously and many of the banks are coming out with various products. Those are being innovative. OK, in order to attract the customers.

This has also brought complexity in the banking business. And that is why you need to maintain your assets and liabilities in the proper frame. So it is the 2nd importance why we should study the asset liability management. Because of this complexity in the present day, many product innovations are taking place nowadays. Bank doesn't stick to the old products. They're coming out with a new new products with the new new innovations. And that is why we need to have understand properly the asset liability management. Third one is regulatory environment. What do you mean by regulatory

environment? Regulatory Environment is nothing but the legal environment. As far as banking is concerned, We always look at the Banking Regulation Act 1949. In the due course of time there are several changes that have happened or amendments are taken to this Banking Regulations Act. The RBI, in consultation with the Government of India, are making several changes from time to time in order to protect the interests of the customers. In order to strengthen the position of the banks. So because of which asset liability management is also very important. If you do not give the attention to these areas or whatever the changes that are happening in the legal framework then you'll be lost somewhere and that's why everybody has to look into this. And for that they need to strengthen their asset liability management recognition. This is another importance of asset liability. Matching your management needs to be recognized and if you are very efficient in order to manage these particular assets and liabilities of the bank, then you automatically get an recognition. Many times we see the companies are with the debt free. That means they are managing their assets and

liabilities properly, so sameway in banking also we look out

To know how the management has maintained the assets and

liabilities or how efficiently they have managed this

particular area. And that is how the prosperity of the banks will

take place. in the recent times we have seen that the government

has gone for merger of some of the public sector bank be'cause

they were not performing, their non performing assets were more.

That means that even in their asset liability management, there was

an imbalance. and that's why they are being

merged. Even now, the Finance Ministry And RBI is trying to

look into privatizing, Some of the public sector banks which

are not performing that means there is no proper recognition

for these particular banks .objectives of the asset

liability management. What are the objectives? First one

review the interest rate structure.

So that is the first objective of asset liability management . You can

review the rate, interest rate structure based on how you

manage your assets and

liabilities. Second, one,examine the role of an investment

portfolios. So you can examine how much loans you have

given, or how much advances they've been given and what are

your investment portfolio become. banks are also making investment in various portfolios, so based on your asset liability management position, you can examine these loans or advances an investment portfolios. Third, one, examine the credit risk and contingencies. Contingency risk means emergencies. So being a bank it always averse to this credit risk. So if your asset liability management is a better position, you can also examine your credit risk and contingency risk and accordingly you can revive that.

4th one review. The actual performance against the projected projected means estimated. So when you review the actual performance with the projections, you will able to find out what other deviations that are taking place with the actual performance with the projected so as to enable to overcome divisions that are taking place and what are the real problem and to find out what are the reasons for deviations in the actual performance And projected one. It Also helps to stabilize the short term profits and long term earnings of the bank. So if your asset liability management is good, Then you will be able to stabilize your short term

profits and will also be able to have good earnings in the long run. What are the benefits of asset liability management? It enables the bank to sustain their required growth rate by systematically managing market risk. Liquidity risk, capital risk, etc. It also helps the bank adjust the bank's liability in such a way that it can meet its liquidity, which is very important for the bank and safety needs. Besides being able to service the customers' demand for loans. It also helps in directing/controlling the flow of funds. Banks' asset liability management also helps in managing the assets and liabilities in such a way that interest rate risk is kept under check, which is very, very important for the bank. Then managing interest margin within the overall risk appetite of the bank is possible if you have a good asset liability management.

For further reading you can refer to Vijendra Kumar.

Or Vijay Raghavan and you can also browse through the sites which have been mentioned here. Thank you very much.