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ASSETS AND LIABILITIES MANAGEMENT IN HDFC

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ABSTRACT

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. Non Performing Assets are one of the major concerns for banks in India.

NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value.

The issue of Non Performing Assets has been discussed at length for financial system all over the world. The problem of NPA is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade.

This project work deals with understanding the concept of NPAs, its magnitude and major causes for an account becoming non-performing.

I. INTRODUCTION

Assets and Liabilities 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.

If one has to define Asset and Liability management without going into detail about its need and utility, it can be defined as simply "management of money" which carries value and can change its shape very quickly and has an ability to come back to its original shape with or without an additional growth. The art of proper management of healthy money is **Assets and Liabilities Management (ALM)**

The Liberalization measures initiated in the country resulted in revolutionary changes in the sector. There was a shift in the policy approach from the traditionally administered market regime to a free market driven regime. This has put pressure on the earning capacity of co- operative, which forced them to foray into new operational areas thereby exposing themselves to new risks. As major part of funds at the disposal from outside sources, the management are concerned about RISK arising out of shrinkage in the value of asset, and managing such risks became critically important to them. Although co-operatives are able to mobilize deposits, major portions of it are high cost fixed deposits. Maturities of these fixed deposits were not properly matched with the maturities of assets created out of them. The tool called ASSETS AND LIABILITIES MANAGEMENT provides a better solution for this.

Asset Liability Management (ALM) is a portfolio management of assets and liability 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.

OBJECTIVE OF THE STUDY

- To study the functions and objectives of Asset-Liability Management.
- To identify the management of asset and liability of **company.**
- To analyze and find out degree of risks involved in each area.
- To suggest how to manage this area's risks for minimizing the risk.
- To suggest measures for the improvement of **company.**

II. ASSETS and LIABILITIE MANAGEMENT (ALM) SYSTEM:

In the normal course, they are exposed to credit and market risks in view of the asset liability transformation. With the liberalization in the Indian financial markets over the last few years and growing integration of domestic markets and with external markets the risks associated with operations have become complex, large, requiring stragic management. are now operating in a fairly deregulated environment and are required to determine on their own, interest rates on deposits and advance in both domestic and foreign currencies on a dynamic basis. The interest rates on investments in government and other securities are also now market related. Intense competition for business involving both the assets and liabilities, together with increasing volatility in the domestic interest rates, has brought pressure on the management of to maintain a good balance among spreads, profitability and long-term viability. Impudent liquidity management can put earnings and reputation at great risk. These pressures call for structured and comprehensive measures and not just adahoc action. The management of has to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. are exposed to several major risks in course of their business-credit risk, interest rate and operational risk therefore important than introduce effective risk management systems that address the issues related to interest rate, currency and liquidity risks.

Its need to address these risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability management (ALM) practices than has been done hitherto. ALM among other functions, is also concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity interest rate, foreign exchange and equity and commodity price risk of a that needs to be closely integrated with the business strategy. It involves assement of various types of risks altering the asset

liability portfolio in a dynamic way in order to manage risks.

The initial focus of the ALM function would be to enforce the risk management discipline, viz., and managing business after assessing the risks involved.

In addition, the managing the spread and riskiness, the ALM function is more appropriately viewed as an integrated approach which requires simultaneous decisions about asset/liability mix and maturity structure.

Risk Management in ALM

Risk management is a dynamic process, which needs constant focus and attention. The idea of risk management is a well-known investment principle that the largest potential returns are associated with the riskiest ventures. There can be no single prescription for all times, decisions have to be reversed at short notice. Risk, which is often used to mean uncertainty, creates both opportunities and problems for business and individuals in nearly every walk of life.

Risk sometimes is consciously analyzed and managed; other times risk is simply ignored, perhaps out of lack of knowledge of its consequences. If loss regarding risk is certain to occur, it may be planned for in advance and treated as to definite, known expense. Businesses and individuals may try to avoid risk of loss as much as possible or reduce its negative consequences.

Several types of risks that affect individuals and businesses were introduced, together with ways to measure the amount of risk. The process used to systematically manage risk exposure is known as **RISK MANAGEMENT.** Whether the concern is with a business or an individual situation, the same general steps can be used to systematically analyze and deal with risk.

ALM PROCESS:

The scope of ALM function can be described as follows:

- Liquidity Risk Management
- Interest Rate Risk Management
- Currency Risk Management
- Settlement Risk Management
- Basis Risk Management

The **RBI** guidelines mainly address Liquidity Risk Management and Interest Rate Risk Management.

III. RESEARCH METHODOLOGY

The study of **ALM Management** is based on two factors.

- Primary data collection.
- Secondary data collection

Primary Data Collection:

The sources of primary data were

- The chief manager – **ALM** cell
- Department Sr. manager financing & Accounting
- System manager- **ALM** cell
- athering the information from other managers and other officials of the organization.

Secondary Data Collection:

Collected from books regarding journal, and management containing relevant information about ALM and Other main sources were

- Annual report of the **company**
- Published report of the **company**
- **RBI** guidelines for **ALM.**

IV. CONCLUSION

The purpose of ALM is not necessarily to eliminate or even minimize risk. The level of risk will vary with the return requirement and entity's objectives. Financial objectives and risk tolerances are generally determined by senior management of an entity and are reviewed from time to time. All sources of risk are identified for all assets and liabilities. Risks are broken down into their component pieces and the underlying causes of each component are assessed.

Relationships of various risks to each other and/or to external factors are also identified. Risk exposure can be quantified 1) relative to changes in the component pieces, 2) as a maximum expected loss for a given confidence interval in a given set of scenarios, or 3) by the distribution of outcomes for a given set of simulated scenarios for the component piece over time. Regular measurement and monitoring of the risk exposure is required. Operating within a dynamic environment, as the entity's risk tolerances and financial objectives change, the existing ALM strategies may no longer be appropriate.

Hence, these strategies need to be periodically reviewed and modified. A formal, documented communication process is particularly important in this step.

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