VOLUME-7, ISSUE-1, JANUARY-2018 • PRINT ISSN No 2277 - 8160

Original Research Paper

Commerce

A STUDY ON ASSET LIABILITY MANAGEMENT SYSTEM IN SYNDICATE BANK

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ABSTRACT

Managing assets and liabilities in banks has a major concern for all bankers. ALM is the process of decision-making to control risks of existence, stability and growth of system through the dynamic balancing of assets and liabilities. The Basel II and III proposals made to various banks across the globe have heightened the importance of asset-liability management in banks. The long term health and survival of financial services entity hinges upon its ability to understand, appreciate, quantify and manage the range of risks associated with its line business. This article provides a bird-eye view on Asset liability management system used by Syndicate bank and highlights the major tools used to manage liquidity risk and interest rate risk. The bank has Asset-Liability Management Committee (ALCO) for managing Market Risk and board approved ALCO policy. The syndicate bank is conducting ALCO meeting every month for managing Liquidity risk, Interest Rate risk and investment Risk. ALCO (Asset-Liability Management Committee) is responsible for management of the balance sheet of the Bank with a view to manage the market risk exposure. The last portion of in this article evaluates the financial health of Syndicate bank by using financial key ratios.

KEYWORDS :

INTRODUCTION

The syndicate Bank has Assets liability Management Committee (ALCO) to manage its market risk. ALM is the policy of the bank with regard to mix of assets and liabilities. Historically, bank concentrated on assets management, which was governed by the basic principles of liquidity and profitability. The assets were distributed in such a way that at a desired level of liquidity, the return would be at maximum. The asset structure can also be modified and turned to suit the desired liability structure. In ALM system, possible future behavior of variables under assets and liabilities is analyzed. In view of the above, Liquidity Management and Interest Rate Management are the most important factions of Assets liability management.

Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective operation of commercial banks. By assuring banks ability to meet its liabilities, as they become due, liquidity management can reduce the profitability of an adverse situation developing.

Structural Liquidity Statement

Structural liquidity statement of Syndicate bank consists of 10 buckets which are used for measuring the future cash flows of the bank in different time buckets. The time buckets and maturity pattern of assets and liabilities for the financial year ended 31 marches 2016 are as under

Table 1 Statement of Structural liquidity for the year ended 31st march 2016

THE MATURITY PATTERN OF LOANS AND ADVANCES, INVESTMENT, DEPOSITS AND BORROWINGS												
sl no.	As on 31-3-2016	1 day	2 -7days	8-14 days	15 to 28 days	29days to 3 months	3 months to over 6 moths	6 months to 1 year	over 1 year to 3 year	over 3 years to 5 years	over 5 years	Total
	CASH OUTFLOWS											
1	Deposits	1,506.26	10,202.69	6,990.66	7,686.38	44,262.91	39,653.00	58,404.26	81,220.30	10,135.20	1,673.67	2,61,735.34
2	Borrowings	21.24	3,655.00	2,296.00	0.00	140.88	24.21	4,388.68	5,253.59	3,357.96	6,363.63	25,501.20
3	Currency Liabilities	180.55	2,427.89	2,732.52	1,496.10	12,904.54	4,453.47	6,410.38	6,428.86	3,403.14	0.00	40,437.44
	Total cash outflows (A)	1,708.05	16,285.58	12,019.18	9,182.48	57,308.33	44,130.68	69,203.32	92,902.75	16,896.30	8,037.30	65,938.64
	CASH INFLOWS											
1	Advances	3,688.92	2,538.50	3,714.98	5,058.53	12,433.05	17,038.09	18,936.02	64,170.54	28,839.73	44,950.14	2,01,368.49
2	Investments	0.00	413.32	0.00	128.48	1,090.90	447.88	2,168.97	14,503.92	7,158.94	42,709.46	68,621.87
3	Currency Assets	211.90	1,696.78	2,608.29	3,568.24	7,254.27	7,357.71	6,404.04	2,411.00	3,003.52	5,549.20	40,064.95
	Total cash inflows (B)	3,900.82	4,648.60	6,323.27	8,755.25	20,778.22	24,843.68	27,509.03	81,085.46	39,002.19	93,208.80	108,686.82
	GAP C =(B-A)	2192.77	(11636.98)	(5695.91)	(427.23)	(36530.11)	(19287.00)	(41694.29)	(11817.29)	22105.89	85171.50	42748.18
	% of GAP to out flows	128.38	-71.46	-47.39	-4.65	-63.74	-43.70	-60.25	-12.72	130.83	1059.70	64.83

Source: Annual reports of Syndicate Bank

The above Table Reveals the Structural liquidity position of the bank for the year 2015-2016 in terms of cash outflows, cash inflows, mismatch and the %age of mismatch to cash outflows for each buckets. The structural liquidity statement reflected that the total outflows falling in day 1 bucket 1,708.05 crores as compare to inflows 3,900.82 crores resulting in to a positive mismatch of 2192.77 crores. This constitute 128.38% % of positive gap in relation to total outflows which reveals a satisfactory position as a compared to a standard norms of negative cumulative mismatch not exceeds 5%. And it is also clear from the above table that for the succeeding 4 buckets that is 8-14 days, 15-28 days, over 3 years up to 5 years and over 5 years are positive mismatch. Further 5 buckets are 2-7 days, 29 days up to 3 months, over 3 months up to 6 months, over 6 months up to 1 year, over 1 year up to 3 years there is possibility of having negative gap of -11636.98, -5695.91, -427.23, -36530.11, -19287.00, -41694.29, -11817.29 crores respectively. This may have probable negative gap of -71.46%, -47.39%, -4.65%, -63.74%, -43.70%, -60.25%, and -12.72%. An overall review of structural liquidity encompassing all the time buckets has revealed that there is no mismatch which neither has the potentiality of producing gap nor a negative gap. Finally, it can be inferred that a negative gap for the later slabs should not be considered as indicator of insufficient liquidity as these slab are long term slabs which are likely to change from time to time. The bank has potentiality to mitigate and manage these imbalances by carefully planning implementations.

Table 2 Statement of Structural liquidity norms

Particulars	As per RBI guidelines	Actual	Remarks
1 day	Maximum of 5%	Positive Cumulative mismatch	Within the limit of RBI guidelines
2-7 days	Maximum of 10%	Negative cumulative mismatch	Within the limit of RBI guidelines
8-14 days	Maximum of 15%	Negative cumulative Mismatch	Within the limit of RBI guidelines
15-28 days	Maximum of 20% %	Negative cumulative mismatch	Within the limit of RBI guidelines

Source: Annual Report of Syndicate Bank

Interest rate risk at Syndicate bank

Interest rate refers to potential impact on Net interest income (NII) caused by change in market interest rate. Measurement and Computation of Interest rate risk in Banking Book is carried out by the Syndicate Bank on a monthly basis. Bank also calculates on a monthly basis, the likely drop in Market Value of Equity with change in interest rates. Earnings-at-Risk is measured on a monthly basis using Traditional Gap Analysis. The interest rate gap or mismatch risk is measured by calculating gaps over different time intervals at a given date for domestic and overseas operations.

Table 3 Impact of interest rate risk on Bank earnings from 31st March 2014 to 2016

(Figures in Millions)

	Interest rate fall rise by					
	2013-2014		2014-2015		2015-2016	
	100 bps	**200 bps**	100 bps	200 bps	**100 bps**	**200 bps**
INR	4818	9636	5304	10609	5366	10733
USD	(158)	(316)	(247)	(494)	(197)	(395)
Others	54	108	49	98	32	64
Total	**4714**	**9428**	5106	10213	**5201**	**10402**

Source: Basel III pillars 3 quarters of Syndicate bank for the year March 2014 to 2016

The above table shows that the base points of 100 i.e., 1% changes in interest rise by bank it will affect the Indian Rs increases as 100 base point 4818 millions in the year 2014, and 5304 millions in the year 2015 and 5366 millions in the year 2016 and 200 base points i.e., 2% rises if changes in interest rate will affect the 9636 millions in the year 2014, 10609 millions in the year 2015 and 10733 millions in the year 2016. and us dollar is decreases negative Impact on Us dollar i.e., -158 millions in the year 2014, -247 millions in the year 2015, and -197 million in the year 2016 and 200 base points i.e., 2% rise in the interest rate changes will affect the -316 millions in the year 2014, -494 millions in the year 2015, and -395 millions in the year 2016. It indicates the rupees values are increasing in this 3 financial year as compare to us dollar. And the changes of interest rate is affect changes of total amount of 4714 million and 9428 millions in the year of 2014 , 5106 million and 10213 millions in the year 2015 and 5201 million and 10402 millions in the year 2016.

Table 4 Key Financial ratios of the bank

Financial Ratios	Years		
	2013-2014	**2014-2015**	**2015-2016**
Return on Assets	0.78%	0.58%	-0.56%
Net Interest margin	2.79%	3.38%	2.28%
Earnings per share	28.21	24.39	-24.82
Book value per share	189.63	197.24	175.41
Net NPA	1.56%	1.90%	4.48%
Gross NPA	2.62%	3.13%	6.70%

Source: Basel III discloser and annual reports of Syndicate bank for the year March 2014 to 2016

The Return on Assets of the bank is showing decreasing trend during the three years of the study. It is decreased to -0.56 % in 2015-16 as compared 0.78 per cent in 2013-14 and 0.58 % in 2014-15. It will show the how profitable a bank is relative to its total assets. And lower ROA is shows are inefficiently bank managed its total assets to produce its profit during the year. The Bank's Net Interest Margin (NIM) decreased at 2.28 per cent in 2015-16 as compared to2.79 per cent in 2013-14 and 2.38 per cent in 2014-2015 because of bank did not make an optimal decision, and bank profit gap between interest rate they receive on their assets and the rate that they pay on liabilities, because interest expenses were greater than the amount of returns generated by investments. The cost of deposits of the Bank decreased 6.27 per cent in 2015-16 as compared to 6.73 per cent in 2013-14 and 6.53 per cent in 2014-15. It shows the decrease in the banks profit and to improve the bank position in the future period.

The Earning per share (EPS) of the Bank decreased as compared to –24.82 in 2015-16 as compared to 28.21 in 2013-14 and 24.38 in 2014-15 shows decline in the stock price and declined in the profit. The Book Value per share of the Bank improved from 189.63 in 2013-14 to 197.24 in 2014-15. The Book Value per share of the Bank stood at 175.41 in 2015-2016 as against 197.24 in 2014-15 it is the positive position in the bank.

The Net NPA percentage to net advances increased at 4.48 per cent in 2015-16 as compared to1.56 per cent in 2013-14 and 1.90 per cent in 2014-15. It indicates as result of assets liability mismatch, means debt which is given by the bank is unable to recover. The Gross NPA percentage to Gross Advances increased at 6.70 per cent in 2015-2026 as compared to 2.62 per cent in 2013-14 and 3.13 per cent in 2014-2015. It is found from the study that Return on Asset ratio, Net Interest margin ratio are in decreasing and gross and Net NPA ratios are increasing in trend are not good for the financial conditions of bank. It is a sign of deteriorate. Therefore, the bank has to adopt turnaround strategies to come out from adverse situation.

To conclude it can said that assest liability management practices relating liquidity is found satisfactory as its matained it maturities of assets and laibities as per RBI guidelines. The decreasing trend experienced in asset quality and profitability is a matter of serious concern. Hence, it is advisable for bank to think over the issue strategically to reverse such as decreasing.

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