

BANK ASSET AND LIABILITY MANAGEMENT

Olimova Maftuna Komil kizi

Bank and Finance Academy Master's degree student

Tel: +998909044097

Mail: maftunaolimova970802@gmail.com

ANNOTATION

In globalized world Bank management can be defined in a variety of ways. Bank management, in general, refers to the process of managing the Bank's statutory activities. Here will be discussed some arguments according to scientists point of view .

Key words: Assets, liabilities, bank management, risk management, liquidity problem, cash flow, interest rate,

Bank management refers to the process of managing the Bank's statutory activity. Bank management is characterized by the specific object of management - financial relations connected with banking activities and other relations, also connected with implementation of management functions in banking.

The main objective of bank management is to build organic and optimal system of interaction between the elements of banking mechanism with a view to profit.

Successful optimization of the "profitability-risk" ratio in a bank lending operations is largely determined by the use of effective methods of bank management. Ability to take reasonable risk is one of the elements of entrepreneurship culture in general and banking culture in particular.

Reliability of the bank management is determined by the following characteristics:

- management expertise in strategic analysis, planning, policy development and management functions;
- quality of planning;
- risk management (credit, interest rate and currency risks);
- liquidity management;
- management of human resources;
- creation of control systems: audit and internal audit, monitoring of profitability and risks liquidity;
- unified information technology system: integrated automation of workflow, accounting, current analysis and control, strategic planning.

Asset and liability management is the one of major problem in banking. ALM plays a very important role bringing together the different activities of the bank. Appropriate liquidity and balance sheet management is a key factor in ensuring the bank's business and its continuity. More recently, even the major international financial institutions have been faced with serious liquidity problems and even took some outside help. This shows that the importance of APV was not evaluated or it was not properly executed. This has led to the financial market supervisory authorities around the world have taken action to ensure that financial institutions should have an effective ALM mechanism. Therefore relevance and importance of the problem being investigated enables to developed research in this area. The aim of this paper is to analyze Lithuanian banking sector ALM activity and make assumptions of how sustainable the sector was during the different business cycle stages and how banks can manage their risks according to business cycles. The article consists of five sections. The second section presents the literature review highlighting the principal role of ALM. Third section provides a brief methodological research techniques background and its application. Results of the study are presented in section four, and section five concludes the paper.

ALM¹ is a generic term that is used to refer to a number of things by different market participants. The principal objective of the ALM function is to manage interest-rate risk and liquidity risk. It also sets overall policy for credit risk and credit risk management, although tactical-level credit policy is set at a lower level within credit committees. Although the basic tenets of ALM would seem to apply more to commercial banking, rather than investment banking, in reality it is important that it is applied to both functions. A trading desk still deals in assets and liabilities, and these must be managed for interest rate risk and liquidity risk. In a properly integrated banking function, the ALM desk will have a remit covering all aspects of a bank's operations. ALM deals with the optimal investment of assets in view of meeting current goals and future liabilities. Choudhry said, that the definitions of assets, liabilities, and risks are specific to each institution, but, very generally, assets may be viewed as expected cash flows, and liabilities as expected cash outflows. Although shortterm risks arising from the possibility that an institution's assets will not cover its short-term obligations are important to assess and quantify, ALM is usually conducted from a long-term perspective. As such, ALM is considered a strategic discipline as opposed to a tactical one. Mitra & Schwaiger explain, that

¹ ALM- Asset and liability management

ALM is a financial (analytic) tool for decision making that sets out to maximize stakeholder value. Its overall objective is to make judicious investments that increase the value of capital, match liabilities and protect from disastrous financial events. An integrated asset and liability management model sets out to find the optimal investment strategy by considering assets and liabilities simultaneously. Simply stated, the purpose of such an approach is to reduce risk and increase returns. ALM is a future oriented process involving simultaneous asset and liability management to measure, monitor and control the impact of changing interest rates on the bank's earnings, asset value, liquidity and capital requirements. Summarize, the ALM is simply combines several bank portfolios - asset, liabilities, and the difference between the banks received and interest paid – management processes into a single coordinated process. In other words, Social and Behavioral Sciences 1082 – 1093 main feature of the ALM is coordinated and not broken the total bank's balance sheet management. ALM as a planning tool has evolved from the need to ensure the asset and liability time overlap for different time periods. Nowadays this process is much more complex, overlapping terms to ensure interest rate management using both static and dynamic simulations. The main ALM purpose is to connect different bank activities into a single unit, facilitating liquidity and balance sheet management, which is crucial for ensuring the normal operation of the bank, service delivery and consistent and profitable growth of the bank. ALM provides timely identification potential problems and risks of operating in the bank's balance sheet and income. The most common problem occurs when the bank's liability costs are rising faster than revenues from the asset, or when falling interest rates asset income is declining faster than the liability side. Birge & Judice research results enable simulation of bank balance sheets over time given a bank's lending strategy and provides a basis for an optimization model to determine bank ALM strategy endogenously. The main ALM functions are interest risk, the structural differences between asset and liability and simultaneous liquidity management. Structural imbalances in the balance management are one of the main functions of ALM This can be grounded on the fact that liquidity management is mainly focused on the short term, while ALM increasingly the focus of attention for a long period of time in an effort to balance asset and liability terms with the cash-flow on both sides of the balance sheet. The structural differences during ALM process are examined in several limits. The first is a static noncompliance evaluation, which consists of asset and liability division into groups according to the period and analysis of those groups reporting on funding shortages and surpluses during periods. Such an assessment must be carried out

regularly according all the time changing the structure of bank balance. This feature is important to evaluate the individual and the group's sensitivity to interest rate changes. Dynamic assessment of non-compliance is invoked when needed to assess possible ALM invoked hedging instruments, such as swaps the effect of discrepancies. More attention should give on ALM process management the interest rate sensitivity. There are some of the key interest rate sensitivity assessment and management techniques. The first, the sensitivity of non-compliance reports indicating the breakdown of cash flows over time should be taken with respect to the sensitivity of the asset and liability interest and revaluation options. DV01 or PVBP (Price Value of a Basis Point) ratio is used to evaluate how much change in the market value of the interest rate change of one basis point. Banks managing interest rate risk on its balance sheet often sets the visible range. Another measure is net interest income sensitivity changes to interest rates . Liquidity management feature is not limited to the management of liquidity gaps. Comprehensive ALM process involves the determination of policy and liquidity, contingency resolution plans and liquid asset holding, ensuring liquidity risk in the desired level.

REFERENCE LIST:

1. Amenc, N., Martellini, L., & Ziemann, V. (2007). Asset-Liability Management Decisions in Private Banking. An EDHEC Risk and Asset Management Research Centre Publication, 52.
2. Asset Liability Management: An Overview. (2009). Oracle. Available onlien at: <http://www.oracle.com/us/industries/financial-services/045581.pdf> [Ferbruary 2013].
3. Brick, J., R. (2012). Asset-Liability Management: Theory, Practice, and the Role of Judgment. BRICK & ASSOCIATES, INC.
4. Choudhry, M. (2007). Bank Asset and Liability Management: Strategy, Trading, Analysis. John Wiley & Sons.