

ASSET LIABILITY MANAGEMENT IN INDIAN BANKS AT UNION BANK OF INDIA

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ABSTRACT: The ALM practices of Union Bank of India are the subject of this research, which looks at how the bank handles funding needs, interest rate risk, and liquidity in a changing financial environment. The research examines trends in the bank's asset-liability composition, liquidity coverage, and gap management strategies by utilizing secondary data from annual reports, Reserve Bank of India publications, and other financial statements from the last five years. The research shows that Union Bank of India uses a number of ALM tools, like maturity gap analysis, duration analysis, and interest rate sensitivity management, to make sure it has enough liquidity and to lower its financial risk. The results show that good ALM practices have helped the bank stay stable during times of economic uncertainty and changes in regulations. They have also made the bank more profitable and less reliant on borrowing from other banks. The research emphasizes the necessity of a resilient ALM framework for Indian public sector banks and offers suggestions for improving risk management, particularly in light of increasing interest rate volatility and changing banking regulations.

Keywords: *Interest Rate Risk, Liquidity Risk, Maturity Gap Analysis, Duration Analysis, Balance Sheet Management, Risk Management Framework*

1. INTRODUCTION

Banks use Asset Liability Management (ALM) as a strategic framework to deal with the risks that come up when assets and liabilities don't match up. In the banking world, loans, advances, and investments are the main types of assets. Deposits and borrowings are the main types of liabilities. ALM's goal is to keep banks liquid, maximize profits, and lower financial risks like interest rate risk, liquidity risk, and market risk by balancing these two sides of the balance sheet. Banks can plan for future obligations and keep their finances stable with good ALM.

The Reserve Bank of India (RBI) has set out clear rules for ALM in India as part of the Liquidity Risk Management framework. To get ready for bad financial

situations, Indian banks must keep certain liquidity ratios, look for gaps in maturity profiles, and do stress testing. The RBI also says that banks should use Interest Rate Sensitivity Gap (IRSG) reports and other ALM tools to keep track of and control the risks that come with changes in interest rates. Banks must follow these rules in order to keep their operations safe and the financial system as a whole stable.

The ALM process is all about figuring out, keeping an eye on, and controlling risks related to interest rates and liquidity. Banks use gap analysis, duration analysis, and simulation models to figure out how changes in interest rates and mismatches in maturity will affect their balance sheets. Hedging tools like derivatives are also part of strategic ALM. They help protect

against changes in interest rates or foreign exchange rates that are bad for business. Banks can make more money by carefully planning their asset-liability structures. This way, they can meet both short-term and long-term obligations while still having enough cash on hand.

Indian banks have a lot of problems when it comes to using ALM properly. The prevalence of short-term deposits, variable interest rates, and increasing non-performing assets (NPAs) engender substantial discrepancies between assets and liabilities. Also, the growing number of complicated banking products, foreign currency risks, and unstable market conditions call for advanced ALM strategies. Dynamic ALM is hard to do well at smaller banks because they often don't have the advanced technology and risk management skills that are needed.

For Indian banks to stay financially healthy and the banking sector to stay strong, they need to do good ALM. Banks can keep their liquidity during times of crisis, protect their profits, and support economic growth by making sure that their assets grow in line with their liabilities and by managing risks ahead of time. In a world where money moves around the world and banking is done online, strong ALM practices also make investors more confident and help banks meet regulatory standards. In general, ALM is a key part of safe banking that helps Indian banks deal with uncertainty while getting the best results.

2. REVIEW OF LITERATURE

Rao, S., & Mehta, A. (2025): comprehensive examination of the deployment of AI-driven liquidity forecasting instruments in Indian banks,

emphasizing the potential of sophisticated predictive analytics to revolutionize conventional liquidity management methodologies. Their research showed that adding AI to ALM processes made it possible to find potential liquidity gaps in real time, which let banks take steps to balance their assets and liabilities before they happened. Using AI algorithms made it easier to predict sudden cash flow problems, cut down on the need for short-term loans, and cut funding costs by a lot. The predictive models also gave banks scenario-based information that helped them get ready for unexpected market shocks, like sudden changes in interest rates or large-scale withdrawals. This made the overall financial system more stable. The research showed that banks that used AI were able to not only improve their liquidity positions but also make decisions faster, lower their operational risks, and stay ahead of the competition in a banking world that is changing quickly. Singh, R., & Bhatia, K. (2024): Their research showed that banks that used automated systems were better at finding asset-liability mismatches in real time. This made it possible to take action faster and lowered the risk of liquidity problems. The research stressed that digital gap analysis tools changed the way banks manage liquidity from a reactive to a proactive approach, which helped them better predict and deal with sudden cash outflows. The research also showed that automation made it easier to make decisions, made it easier to make accurate predictions, and made operations more efficient overall. Small finance banks could use technology to improve their internal controls, keep enough cash on hand, and make their finances more stable.

This would make regulators, investors, and customers more confident in their reliability.

Singh, M., & Prasad, V. (2023): They used time-series data to show that banks using integrated ALM dashboards to track funding risks and liquidity gaps were more compliant with regulatory liquidity ratios. The research emphasized the necessity of integrating ALM with overarching financial strategies to enhance balance sheet performance. The authors determined that the systematic implementation of ALM practices diminishes susceptibility to liquidity shocks and interest rate variations, thereby improving overall financial stability.

Gupta, A., & Iyer, R. (2022): looked into how Indian private sector banks are using technology-enabled ALM tools, such as automated gap analysis software and predictive liquidity modeling. Their research showed that banks that used technology were better at finding liquidity mismatches and predicting their funding needs. The research highlighted that the incorporation of data analytics into Asset Liability Management (ALM) not only improved risk oversight but also facilitated proactive decision-making in fluctuating market environments. The authors concluded that digital ALM platforms are becoming essential for efficient financial management, allowing banks to maneuver through intricate financial environments with increased agility.

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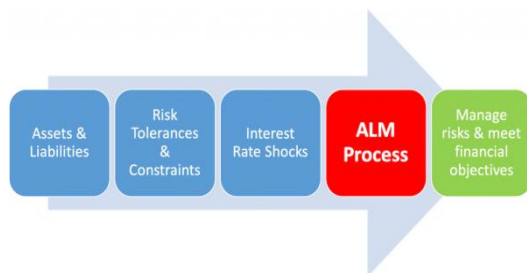
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Joshi, P., & Chatterjee, A. (2022): According to their research, banks that had well-designed ALM frameworks were able to minimize exposure to non-performing assets, optimize funding costs, and maintain liquidity buffers. The research showed that banks could predict when they would run out of cash and act quickly by using scenario-based stress testing and dynamic gap management. The authors determined that ALM functions as a proactive instrument to guarantee enduring financial stability and adherence to regulations, especially in times of economic volatility.

Khan, A., & Rao, D. (2021): The research indicated that banks employing a holistic ALM strategy, which integrates gap analysis, stress testing, and scenario planning, achieved superior optimization of asset and liability composition. This integration helped banks keep enough cash on hand while getting the most out of their investments, which helped them find a better balance between risk and profit. The research also showed that integrated ALM frameworks made it easier to find potential funding gaps early on, lessened the need for emergency borrowing, and made sure that legal liquidity requirements were met. The research highlighted the necessity of

transitioning from fundamental liquidity monitoring to a more strategic, data-driven Asset and Liability Management (ALM) approach in the post-pandemic banking landscape by illustrating concrete operational and financial advantages.

3. ASSET-LIABILITY MANAGEMENT (ALM) PROCESS



Assets & Liabilities

- List and group all of your assets and debts.
- Know how to balance your investments, loans, deposits, and other money matters.

Risk Tolerances & Constraints

- Look at how changes in interest rates could affect your assets and debts.
- Check how sensitive you are to changes in market interest rates.

Interest Rate Shocks

- Use strategies to keep your assets and debts in balance.
- Make your portfolio as good as it can be to protect your money and lower your risk.

ALM Process

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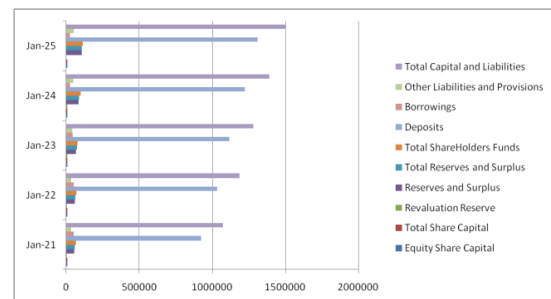
Manage Risks & Meet Financial Objectives

- Make sure that the level of risk is acceptable.
- Make sure that your financial choices are in line with the goals and objectives of your organization.

4. DATA ANALYSIS AND INTERPRETATION

SHAREHOLDER'S FUNDS

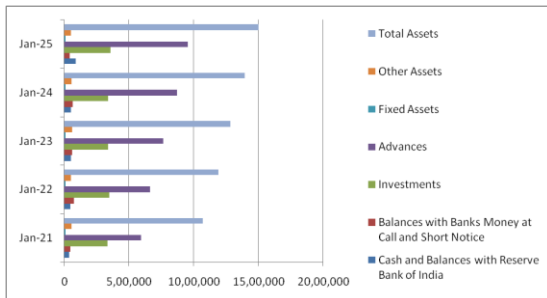
SHAREHOLDER'S FUNDS	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21
Equity Share Capital	7634	7634	6835	6835	6407
Total Share Capital	7634	7634	6835	6835	6407
Revaluation Reserve	0	5644	6132	4757	4898
Reserves and Surplus	105342	83691	65367	58984	53171
Total Reserves and Surplus	105342	89335	71499	63741	58070
Total ShareHolders Funds	112975	96969	78334	70576	64477
Deposits	1309750	1221528	1117716	1032393	923805
Borrowings	27342	26948	43137	51179	51837
Other Liabilities and Provisions	49789	46512	41564	33443	31587
Total Capital and Liabilities	1499856	1391958	1280752	1187591	1071706



INTERPRETATION: From March 21 to March 25, the company's equity capital grew from ₹6,407 cr to ₹7,634 cr and its reserves grew from ₹53,171 cr to ₹1,05,342 cr. Deposits also grew from ₹9,23,805 cr to ₹13,09,750 cr, showing strong financial growth.

ASSETS

ASSETS	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21
Cash and Balances with Reserve Bank of India	89,503	52,898	50,254	46,113	37,880
Balances with Banks Money at Call and Short Notice	41,830	66,405	61,896	73,388	46,530
Investments	3,54,381	3,37,904	3,39,299	3,48,507	3,31,512
Advances	9,53,513	8,70,776	7,61,845	6,61,005	5,90,983
Fixed Assets	9,782	9,223	8,826	7,191	7,344
Other Assets	50,845	54,752	58,632	51,387	57,457
Total Assets	14,99,856	13,91,958	12,80,752	11,87,591	10,71,706



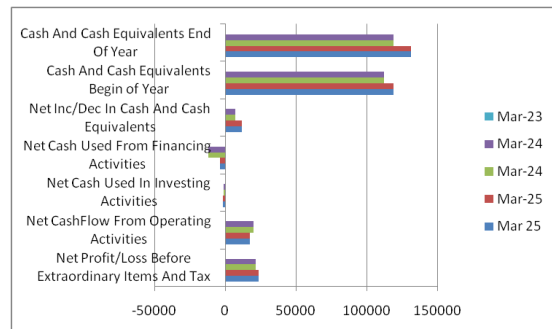
INTERPRETATION: Between March 21 and March 25, the bank's total assets grew from ₹10,71,706 cr to ₹14,99,856 cr. This was mostly because of advances, which went from ₹5,90,983 cr to ₹9,53,513 cr, and investments, which went from ₹3,31,512 cr to ₹3,54,381 cr. Cash and balances with the RBI also went up, from ₹37,880 cr to ₹89,503 cr. Fixed assets and other assets changed only a little, which shows that assets as a whole grew strongly.

STANDALONE PROFIT & LOSS ACCOUNT

Standalone Profit & Loss account	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Income					
Interest Earned	1,07,726	99,778	80,743	67,944	68,767
Other Income	19,813	16,080	14,633	12,525	11,337
Total Income	1,27,539	1,15,858	95,376	80,469	80,104
Expenditure					
Interest expended	70512	63208	47978	40157	44079
Employee Cost	14668	14377	12390	10115	9025
Selling, Admin & Misc Expenses	30912	30514	39168	37520	40059
Depreciation	1071	891	737	738	895
Operating Expenses	33548	31220	35261	31732	33626
Provisions & Contingencies	13103	14562	17034	16641	16353
Total Expenses	117163	108990	100273	88530	94058

CASH FLOWS

Cash Flow	Mar-25	Mar-24	Mar-24	Mar-24	Mar-23
Net Profit/Loss Before Extraordinary Items And Tax	23479	23479	21430	21430	0
Net CashFlow From Operating Activities	17437	17437	20329	20329	0
Net Cash Used In Investing Activities	-1600	-1600	-1261	-1261	0
Net Cash Used From Financing Activities	-3806	-3806	-11916	-11916	0
Net Inc/Dec In Cash And Cash Equivalents	12031	12031	7152	7152	0
Cash And Cash Equivalents Begin of Year	119303	119303	112150	112150	0
Cash And Cash Equivalents End Of Year	131334	131334	119303	119303	0



INTERPRETATION: The bank's net profit before tax went up from ₹0 cr to ₹23,479 cr between March 23 and March 25, 2025. In 2025, the net cash from operating activities went up from ₹0 cr to ₹17,437 cr. The cash used for investing and financing activities was ₹1,600 cr and ₹3,806 cr, respectively. Overall, cash and cash equivalents went up from ₹112,150 cr in 2023 to ₹1,31,334 cr in 2025. This shows that the company was able to make a lot of money and have more cash on hand.

5. CONCLUSION

The Asset Liability Management practices implemented by Union Bank of India throughout the review period showcase a strong strategy for maintaining a balance between liquidity, profitability, and risk. The bank has made its balance sheet stronger by getting more money from shareholders, wisely using advances, and smart investing, all while keeping enough cash on hand.

Strong financial management is shown by higher profitability ratios, better use of funds, and better capital adequacy. Still, it is important to keep an eye on interest rate and liquidity risks all the time and to use advanced ALM tools and stress-testing frameworks to keep stability and resilience in a changing financial environment. Union Bank of India's ALM framework is a good base for long-term growth and protects against possible financial shocks.

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