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## INTEREST RATE RISK MANAGEMENT IN REGIONAL RURAL BANKS: A CASE STUDY OF KRISHNA GRAMEENA BANK

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### ABSTRACT:

Managing an account business is primarily of managing others cash by method for activating store and organization of assets through loaning and speculation. Premium got on credits and advances is income and premium paid on store to clients is use for the bank. An adjustment in the financing costs influences the income, as well as the market estimations of all settled rate instruments. The administration of loan cost chance is major to sound practice. In the event that inadequately dealt with, a bank can encounter income, liquidity and eventually capital ampleness issues. Loan fee chance administration is the apparatus to quantify and control the monetary hazard in the bank, which emerges because of befuddle between the benefits and liabilities. There are different strategies for evaluating loan cost hazard the executives in bank viz., development hole, rate balanced hole, length examination, reenactment systems, Value at Risk (VaR), subordinates and so on. The present paper endeavored to examine development hole method of loan cost hazard in Regional Rural Banks of Krishna Grameena Bank over a time of seven years from 2005-06 to 2011-12. The goal of this paper is to think about the effect of progress in financing cost on the profit of the bank. At last, the paper offers reasonable proposals dependent on the discoveries of the examination to conquer the loan fee danger of the bank.



**Keywords:** Local Rural Banks, Krishna Grameena Bank, Interest Rate Risk Management, Net Interest Income, Net Interest Margin

### INTRODUCTION

Interest rate risk denotes the changes in interest income and consequent possibility of loss due to changes in the rate of interest. The management of interest rate risk is fundamental to sound practice. If poorly managed, a bank can experience earnings, liquidity and ultimately capital adequacy problems. A change in interest rates affects not only earnings, but also the market values of all fixed rate instruments. With the deregulation of interest rates, banks have been exposed to

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the interest rate risk. The net interest income (nii) and the net interest margin (nim) of banks is dependent on the movements in the interest rates and its impact on the profitability as well as net worth of the bank. Therefore, the managing of interest rate risk is considered an integral part of the banking business.

### Statement of the Problem

The Krishna Grameena Bank is working in Gulbarga, Bidar and Yadgir regions of Karnataka state since 1978. The general population of Hyderabad-Karnataka territory are in reverse financially and instructively. The Krishna Grameena Bank was built up with a view to give the budgetary help to the provincial individuals with the end goal of improvement of agribusiness, exchange, trade and industry in the country regions especially to little ranchers, negligible agriculturists and horticultural workers. A considerable lot of the parts of this bank are situated in the provincial territories. The general population of this zone are benefiting gigantic measures of budgetary help from the bank. It has brought a beam of seek among the country individuals after their inside and out advancement. It is fundamental to gauge, oversee and control the assets viably and effectively.

There are numerous scientists who have attempted investigation on loan cost chance administration of business banks in India and furthermore directed many research deals with hypothetical parts of Krishna Grameena Bank. In any case, the examination on financing cost chance administration of Krishna Grameena Bank isn't embraced broadly so far which is uncovered from the audit of prior investigations. In this manner, the present work entitled "Loan Cost Risk Management in Regional Rural Banks – a case study of Krishna Grameena Bank" has been an endeavor to fill this hole.

### Significance of the Study

Krishna Grameena Bank built up as far as arrangements of Regional Rural Banks Act, 1976 and was supported by the State Bank of India. The bank is working in Gulbarga, Bidar and Yadgir locale of Karnataka State since 01.12.1978. The present branch organize is 149 of which 114 branches are working in provincial zones, obliging the requirements of cultivating network, country craftsmans, and other rustic masses. The principle vision of Krishna Grameena Bank is to be the favored saving money foundation of the general population of this zone, resolved to enhance the expectations for everyday comforts of the majority in order to accomplish comprehensive development with supported suitability.

Loan fee Risk the executives is the apparatus to quantify and control the money related dangers in the bank, which emerges because of crisscrosses between the benefits and liabilities. The investigation on loan fee hazard the board will concentrate on the structure of advantages and liabilities of bank, proficiency in controlling the costs and in winning the incomes and assessing the general productivity of the bank.

This examination estimates financing cost hazard and vulnerabilities with the end goal to oversee and control the assets in the bank.

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