BHARAT SCHOOL OF BANKING

Bank Assets and Liabilities

BankAssets

Assets are something that you **own,** meaning you are the **legal owner** of the **asset**. Similarly, **bank assets** are those **things** that a bank **owns**. It can be **physical** property (like land, equipment, buildings, etc.) or **financial** property.

Banks generally have **four** types of **assets** -

1. **Physical Assets** - These are relatively **minor** assets of banks, that generally doesn't earn **money** for bank. Physical assets include **land, furniture, equipment, buildings**, etc.
2. **Loans / Advances -** These are the **most important** assets of bank, because these are the **primary source** of their **earning**. Banks get **interest** from the **loans / advances** they lend to customer.
3. **Reserves -** Banks need to maintain some **reserves**, so that they can meet the **demands** of their customers and facilitate **daily transactions** (e.g., a customer comes to a bank, and **demands** to **withdraw** money, or **encash** a **cheque.** Banks need to maintain **reserve** in its **vault** to meet these).
4. **Investments -** Banks **invest** some of its money in **government securities**, or other **investment instruments** (like, buying shares, etc.). Investments are **less riskier** than **loan** (loans can become **NPA**), and have **less return** (loans bear **high interest** return) for a bank.

Bank Liabilities

Liabilities are something that you **owe**, meaning **assets** (of some other person) you hold, which you need to **return** to its original **owner**. Similarly, **bank liabilities** are those **things** that a **bank owes** to its **customers,** or **investors**. It includes **financial** property and **debts** (for **electricity**, **office supplie**s, employee **wages**, etc.)

Banks generally have several type of liabilities. (Note that this is not exhaustive list)

1. **Customer Deposits -** These are the **most important** liabilities of a **bank**. These are the **assets** for customers, but **liabilities** for banks. Banks need to return the money on **demand** or after a **maturity** period**.**
2. **Certificate of Deposits (CD)** - Banks issue **Certificate of Deposits** to the general public to raise money. These are also **liabilities** of a bank, because banks need to **return** the amount **invested** by the **investor**.
3. **Borrowings -** Banks can **borrow** from other **banks** or **financial institutions,** including **External Commercial Borrowings (ECB),** which need to be returned. These are also liabilities of a bank.
4. **Other liabilities -** There are several other type of liabilities, like **wages, taxes**, **leases, pension obligations**, etc.