

F.No.7/79/2012-BOA
Ministry of Finance
Department of Financial Services

Jeevan Deep Building
Sansad Marg, New Delhi
Dated, the 6th July, 2012

**The CEOs of
All Public Sector Banks**

Dear Sir,

An analysis of Asset Liability Management (ALM) risk with respect to Public Sector Banks (PSBs) was done in this Department. From the analysis, it appeared that in order to garner deposits and increase balance sheet size, PSBs tended to raise deposits and Certificates of Deposits at very high rates, which were close to 12% p.a. It was felt that mobilization of such deposits at unsustainably high rates not only adversely affects the profitability of PSBs but also their ALM.

2. Accordingly, certain guiding principles for 'Prevention of Asset Liability Management (ALM) Risk' on account of excessive deposit taking by PSBs were formulated and sent to all PSBs on 27.04.2012 for their comments.

3. The comments from PSBs have since been received and the same have been analyzed in this Department. The analysis shows that there are banks which have solicited Bulk Deposits at higher differential rates than the rates suggested in the guiding principles. Details of the same as received from PSBs is given at Annexure-A.

4. Keeping in view the above and the fact that most of the PSBs are already, in practice, following the guiding principles while soliciting deposits, the following guidelines for 'Prevention of Asset Liability Management (ALM) Risk' on account of excessive deposit taking by PSBs have been evolved:

- i. Bulk Deposits at rates higher than Card Rates should not exceed more than 10% of the total deposits of the Bank at any given point of time during the year 2012-13; and thereafter*
- ii. Total of Bulk Deposits (at rates higher than Card Rates) and Certificates of Deposit should not exceed 15% of total deposits of the bank at any given point of time;*
- iii. An appropriate time-bound strategy for a monthly reduction of such existing bulk deposits should be put in place to achieve the target by March,2013;*
- iv. Only 25% of net bulk deposits (at rates higher than Card Rates) and Certificates of Deposit can be mobilized between 1st January and 31st March of the Financial Year; and*
- v. Asset-Liability Committee (ALCO) may decide to go beyond these norms in case of any exigency but the same be brought back within limits by the end of the next month. This has to be under exceptional circumstances only.*

5. You are requested to have an ALM policy of your bank drafted on the lines of the above guidelines and place the same before your Board for approval along with an appropriate time bound strategy for monthly reduction of such existing bulk deposits at the earliest. A copy of Board approved ALM Policy and time bound strategy for reduction of such existing high cost deposits may be forwarded to this Ministry.

Yours faithfully

Encl. as above.

Sd./-

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Copy to all Govt. Nominee Directors on the Boards of PSBs