‘Investment Policy”

THE JANATA CO-OPERATIVE BANK LTD.

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INVESTMENT POLICY

The Investment Policy in vogue has been be reviewed by the Investment Sub-Committee taking into consideration the guidelines/circulars issued by Reserve Bank of India on investments by Primary (Urban) Co-operative Banks (as amended from time to time) and approved by the BoM/Board in its meeting held on 20/09.2023/26.09.2023 vide Resolution No.A1.(d)(ii) as under :

1. OBJECTIVE

The objective of this Investment Policy is to provide broad guidelines for management of the investment Portfolio.

The investment operations are conducted with a view to comply with statutory liquidity ratio requirements and to aim at achieving better returns while providing adequate source of liquidity and quality of the portfolio.

The broad objectives of Investment operations are :-

i) To deploy the surplus funds of the Bank after meeting credit/loan demands, fully and effectively.

ii) To provide short-term liquidity to meet potential withdrawls of Deposits and/or increase in Loan/Credit Portfolio.

iii) To maintain maturity pattern of investments consistent with the Bank need for funds and Asset Liability Management needs.

iv) To ensure optimum utilization of scarce capital to achieve higher scale of business with lower Average risk weightage so that overall bank Capital Adequacy Ratio is improved with higher yield.

v) In case of other Approved/State Loans/Non SLR securities

To provide adequate diversification between:-

a) Issuing Authorities
b) States
c) Industries
d) Security Types
e) Maturity Pattern

vi) To seek maximum yield within reasonable level of risk in consonance with liquidity management and quality objectives.

2. ALLOCATION OF RESOURCES

- The funds to be committed to strategic investments or for other corporate commitments may be allocated/reallocated as per requirements of the Bank from time to time.
- Investment portfolio would thus consist of the following segments :

		Segments	Resource Allocation
i)		Investment in Govt. and approved Securities (For maintaining Statutory Liquidity Ratio)	As per RBI directives from time to time.
ii)	a)	Investment in Non-SLR Securities & also excess SLR investments	As per need of the Bank from time to time depending upon liquidity, Demand for Credit, Interest rate scenario etc to maximize yield allowed under RBI Directives.
	b)	Strategic and other investments	As per requirements of the Bank allowed under RBI Directives.

3. RESTRICTIONS ON HOLDING SHARES IN OTHER CO-OPERATIVE SOCIETIES

Section 19 of the Banking Regulation Act, 1949 (AACS)) stipulates that no co-operative bank shall hold shares in any other co-operative society except to such extent and subject to such conditions as the Reserve Bank of India may specify in that behalf. However, nothing contained in the section applies to -

a) in the case of a primary (urban) co-operative bank (UCB), holding of shares in the central co-operative bank to which it is affiliated or in the state co-operative bank of the state in which it is registered and such holding shall not exceed 2% of its own capital and reserves..

4. CASH RESERVE RATIO

In terms of Section 18 of B.R. Act. 1949 (AACS) bank shall maintain in India on daily basis by way of cash reserve with itself; or by way of balance in current account with the Reserve Bank or the state co-operative bank of the State concerned; or by way of net balance in current accounts a sum equivalent to four per cent of its NDTL in India, as on the last Friday of the second preceding fortnight and shall submit in prescribed form, a return to Reserve bank of India on or before the 20th of the subsequent month.

5. STATUTORY (SLR) INVESTMENTS

In terms of provisions of section 24 of the BR Act 1949, (AACS), bank is required to maintain liquid assets which at the close of business on any day should not be less than 18% w.e.f. 11.04.2020 vide RBI Circular No.DOR No.RET.REC.32/12.01.001/2021-22 dated July 20, 2021 amended as on 06.04.2022 of its Net demand and time liabilities in India as on the last Friday of the second preceding fortnight in accordance with the methods of valuation specified by the Reserve Bank of India from time to time. SLR Investment shall include

(a) Surplus Cash, and balance in Current Accounts as required u/s 18 of B.R. Act 1949 (AACS)

(b) Gold as defined in Section 5(g) of the Banking Regulation Act, 1949 (AACS) (10 of 1949) valued at a price not exceeding the current market price: or

(c) Unencumbered investment in approved securities as defined in section 5(a) of the Banking Regulation Act, 1949 (10 of 1949) read with section 56 there of:

Provided that the instruments that have been acquired from Reserve Bank of India under reverse repo, shall be considered as eligible assets for SLR maintenance.

Provided further that the following securities shall not be treated as encumbered for the purpose of maintenance of SLR assets, namely

(a) securities lodged with another institution for an advance or any other credit arrangement to the extent to which such securities have not been drawn against or availed of;

(b) securities offered as collateral to the Reserve Bank for availing liquidity assistance under MSF up to the permissible percentage of the total NDTL in India, carved out of the required SLR portfolio of the bank concerned.

Explanation- For the purpose of these Directions,

(a) i) Securities lodged in the Gilt Account of the bank maintained with Clearing Corporation of India Ltd. (CCIL) under Constituent Subsidiary General Ledger account (CSGL) facilities remaining unencumbered at the end of any day can be reckoned for SLR purposes by the bank concerned.

ii) Funds borrowed under repo including tri-party repo in government securities shall be exempted from CRR/SLR computation and the security acquired under repo shall be eligible for SLR provided the security is primarily eligible for SLR as per the provisions of the Act under which it is required to be maintained.

iii) Borrowings by a bank through repo in corporate bonds and debentures shall be reckoned as liabilities for Cash Reserve Ratio/ Statutory Liquidity Ratio requirement and, to the extent these liabilities are to the banking system, they shall be netted as per Section 42 (1) (d) of the RBI Act, 1934.

(b) Bank shall maintain investments in Government Securities only in Subsidiary General Ledger (SGL) Accounts with Reserve Bank or in CSGL Accounts of scheduled commercial banks, Primary Dealers (PDs), State Co-operative Banks, and Stock Holding Corporation of India Ltd.(SHCIL) or in the dematerialised accounts with depositories such as National Securities Depositories Ltd (NSDL), Central Depository Services Ltd. (CDSL), and National Securities Clearing Corporation Ltd. (NSCCL).

Note:

1. With a view to disseminating information on the SLR status of a Government security, it has been decided that:

   i) the SLR status of securities issued by the Government of India and the State Governments will be indicated in the Press Release issued by the Reserve Bank of India at the time of issuance of the securities; and,

   ii) an updated and current list of the SLR securities will be posted on the Reserve Bank's website (**www.rbi.org.in**) under the link "Database on Indian Economy" under the head 'Statistics'.

2. The cash management bill shall be treated as Government of India Treasury Bill and thus be reckoned as SLR security.

6. MARGINAL STANDING FACILITY (MSF)

Banks permitted by Reserve Bank shall have the option to participate in the Marginal Standing Facility (MSF) Scheme introduced by the Reserve Bank. The features of the scheme are given in ensuing paragraphs:

(i) The eligible banks shall have the option to borrow up to three per cent of their respective NDTL outstanding at the end of the second preceding fortnight.

(ii) The eligible entities shall also continue to access overnight funds under this facility against their excess SLR holdings.

(iii)In the event of banks' SLR holding falling below the statutory requirement up to three per cent of their NDTL, banks shall not have the obligation to seek a specific waiver for default in SLR compliance arising out of use of this facility in terms of notification issued under sub section (2A) of Section 24 of the Banking Regulation Act, 1949.

7. Returns in Form VIII/Form I (CRR) & (SLR)

a) The bank, shall submit a Return in Form I together with Appendix I, to the regional office concerned of the Reserve Bank, not later than 20 days after the end of the month to which it relates showing the position, *inter alia*, of cash reserves maintained by the bank under Section 18 of the B.R. Act, 1949 read with Section 56, *ibid*, as at the close of business on each alternate Friday during the month. Where such alternate Friday is a public holiday under Negotiable Instruments Act, 1881 for one or more offices of the bank, the Return shall give the preceding day's figure in respect of such office or offices, but shall nevertheless be deemed to relate to that Friday.

b) (i) The Bank is required to submit a Return in Form I under Section 24 of the BR Act, 1949 (AACS) every month showing the position of liquid assets maintained under the said Section as at the close of business on each alternate Friday during the month not later than twenty days after the end of the month to which it relates.

(ii)The bank is required to furnish Appendix II, as per proforma given in Annex 7, together with the Return in Form I showing the position of -

(a) statutory liquid assets required to be maintained under Section 24 of the BR Act,1949 (AACS).
(b) liquid assets actually maintained, and
(c) the extent of deficit/surplus for each day of the month.

(iii)The Bank should furnish the information w.r.t. valuation of securities for SLR, format for which is given in Annex 6. Information in the format may be furnished as an Annex, to return in Form I, only to the Regional Office concerned of Department of Supervision. The monthly Return should contain information of the fortnights following in the respective months.

c) Correctness of computation of NDTL to be certified by Statutory Auditors

The Statutory Auditors shall verify and certify that all items of outside liabilities, as per the bank's books had been duly compiled by the bank and correctly reflected under NDTL in the fortnightly/monthly statutory returns submitted to Reserve Bank for the financial year.

d) Register for daily position of liquidity

(i) The banks shall maintain a register, as per format given in Annex VIII, showing the daily position of cash reserve and liquid assets maintained under Sections 18 and 24 of the Banking regulation Act, 1949 read with Section 56 there of which shall be put up daily to Chief Executive Officer/Managing Director, who is responsible for ensuring compliance with the statutory liquidity requirements at the close of business every day.

8. DELEGATION OF AUTHORITY

The investment upto Rs.1.00 crore (Rupees One Crore only) in Govt. and other approved securities may be undertaken jointly by the Managing Director/CEO and any other two authorized officials/signatories of the Bank subject to post facto approval of the Board of Directors and above Rs.1.00 crore be undertaken jointly by the Managing Director/CEO and any other two officials/signatories of the Bank, with the approval of Chairman/Vice Chairman, Investment Sub-Committee subject to final post facto approval of the Board/BOM

9. PENALTIES FOR DEFAULT IN CRR AND SLR MAINTENANCE

a) The bank shall be liable to pay the Reserve Bank of India, Penal interest as envisaged in Sub-section (1-A) of Section 18 read with Section 56 of the Banking Regulation Act. 1949, in daily balance of the CRR maintenance with bank falls below the prescribed CRR. Bank shall required to furnish the particulars such as date, amount, percentage, reason for default in maintenance of requisite CRR and also action taken to avoid re-occurrence of such default.

The bank failure to submit the prescribed Statutory Returns under Section 18 and 24 of the Banking Regulation Act. 1949 read with Section 56 thereof, attract the provision of Section 46 (4) of Banking Regulation Act.1949 As applicable to the Co-operative Societies(AACS) and the banks are liable to imposition of penalty as indicated therein.

b) Penalties on defaults in SLR maintenance on the failure of the bank to maintain as on any day, the amount of SLR required to be maintained by the bank, the bank shall be liable to pay the Reserve Bank of India in respect of that default, Penal interest as envisaged in Section 24 read with Section 56 of the Banking Regulation Act. 1949.

c) Failure to submit the prescribed return in time will attract the provision of Section 46 (4) of the Act ibid.

10. Categorisation of Investments

10.1 Bank is required to classify their entire investment portfolio (including SLR and Non-SLR securities) under three categories viz. –

(i) Held to Maturity (HTM)
(ii) Available for Sale (AFS)
(iii) Held for Trading (HFT)

Bank should decide the category of the investment at the time of acquisition and the decision should be recorded on the investment proposals.

11. Held to Maturity

Securities acquired by the banks with the intention to hold them up to maturity shall be classified under HTM category.

11.1 .Held to Maturity (HTM)

(a) Securities acquired by the banks with the intention to hold them up to maturity shall be classified under HTM category.

(b) Investments under HTM category shall not exceed 25 per cent of the bank's total investments.

(c) Investments in following securities are eligible for inclusion under HTM category:

i. SLR securities upto the extent permitted.

ii. Non-SLR securities included under HTM category before September 18, 2007.

iii. Long-term bonds issued by companies engaged in infrastructure activities.

Provided that such bonds shall have minimum residual maturity of seven years at the time of investment.

Provided further that bank shall have the option to continue to classify these investments under HTM category even if the residual maturity falls below seven years subsequently.

(d) Bank shall have the option to exceed the limit of 25 per cent of their total investments under HTM category provided the excess comprises of:

i. SLR securities. However, the total SLR securities held in the HTM category shall not be more than 25 per cent of the Bank's NDTL as on the last Friday of the second preceding fortnight.

ii. Investments made by Bank under Targeted Long-term Repo Operations (TLTRO) as specified by the Reserve Bank of India.

(e) Profit on sale of investments from HTM category shall be first taken to the Profit and Loss account, and thereafter shall be appropriated to the 'Capital Reserve'. The amount so appropriated shall be net of taxes and the amount required to be transferred to statutory reserves. Loss on sale shall be recognized in the Profit and Loss account in the year of sale.

11.2 Held for Trading (HFT) and Available for Sale (AFS)

(a) Securities acquired with the intention to trade by taking advantage of the short-term price/interest rate movements shall be classified under HFT category. The investments classified under HFT shall be sold within 90 days.

(b) Securities which do not fall under HTM or HFT categories shall be classified under AFS category.

(c) Bank shall have the option to decide on the extent of investment holdings under AFS and HFT taking into account various aspects viz. basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills, capital position, etc.

(d) Profit or loss on sale of investments in HFT and AFS categories shall be taken to the Profit and Loss Account.

11.3 Shifting Among Categories in the Investment Portfolio

11.3.1. Shift to / from HTM

(a) Bank shall have the option to shift investments to/from HTM category with the approval of the Board of Directors once a year.
Provided that such shifting shall be done at the beginning of the accounting year.

(b) **Provided further that** additional shifting to/from HTM category shall not be done during the remaining part of that accounting year. Transfer of securities from AFS / HFT category to HTM category shall be made at the lower of book value or market value.

Provided that where the market value is higher than the book value at the time of transfer, the appreciation shall be ignored, and the security shall be transferred at the book value.

Provided further that in cases where the market value is lower than the book value, the provision for depreciation held against the security (including the additional provision, if any, required based on valuation done on the date of transfer) shall be adjusted to reduce the book value to the market value and the security shall be transferred at the market value.

(c) Transfer of securities from HTM to AFS / HFT category shall be subject to the following conditions:

i. Security originally placed under the HTM category at a discount, shall be transferred to AFS / HFT category at the acquisition price / book value.

ii. Security originally placed under the HTM category at a premium shall be transferred to the AFS / HFT category at the amortised cost.

iii. Securities shall be immediately re-valued consequent to transfer and resultant depreciation, if any, shall be provided.
Note: Regarding (i) above, banks shall not accrue the discount on the securities held under HTM category and such securities shall be held at acquisition cost till maturity.

(d) Bank shall not sell securities held in HTM category. However, if due to liquidity stress Bank is required to sell securities from HTM portfolio and shall do so with the permission of the Board of Directors and rationale for such sale shall be clearly recorded.

(e) In case of transfers of securities to/from HTM category, Bank shall make disclosure in the 'Notes to Accounts' to the Financial Statements as provided in Annexure III.C(3)(c) of Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021 dated August 30, 2021, as amended from time to time.

11.4 Shift from AFS to HFT or Vice Versa

(a) Bank shall have the option to shift investments from AFS category to HFT category with the approval of their Board of Directors.

Provided that in case of exigencies, shifting can be done with the approval of the Chief Executive of the Bank, but shall be ratified by the Board of Directors.

(b) Shifting of investments from HFT category to AFS category shall not be permitted.

Provided that the above prohibition shall not apply in exceptional circumstances where the bank is not in a position to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or market becoming unidirectional.

Provided further that such transfer shall be done only with the approval of the Board of Directors/Investment Committee.

(c) In the case of transfer of securities from AFS to HFT category or vice-versa, the securities need not be re-valued on the date of transfer and the provisions for the accumulated depreciation, if any, held shall be transferred to the provisions for depreciation against the HFT securities and vice-versa.

12. Valuation of Investments

12.1 Valuation Standards

(a) Held to Maturity (HTM)

i. Investments classified under HTM category need not be marked to market (MTM)

ii. The investment shall be carried at acquisition cost provided that it is less than the face value of the security.

iii. If acquisition cost is more than face value, the premium arising out of difference between face value and acquisition cost shall be amortised over the period remaining to maturity.

Note: The book value of the security shall continue to be reduced to the extent of the amount amortised during the relevant accounting period.

(b) Held for trading (HFT) and Available for Sale (AFS)

i. The individual securities in the HFT category shall be marked to market at monthly or at more frequent intervals.

ii. The individual securities in the AFS category shall be marked to market at quarterly or at more frequent intervals.

iii. The book value of individual securities in HFT and AFS shall not undergo any change after marking to market.

iv. Securities under AFS and HFT categories shall be valued security-wise and depreciation/appreciation shall be aggregated for purpose of arriving at net depreciation/appreciation of investments for each classification (viz. a) Government securities, b) other approved securities, c) Shares, d) Corporate Bonds, and e) others (to be specified)) separately for AFS and HFT. Net depreciation, if any, shall be provided for. Net appreciation, if any, should be ignored.

v. Net depreciation required to be provided for in any one classification shall not be reduced on account of net appreciation in any other classification.

13. Market Value

The 'market value' for the purpose of periodical valuation of investments included in the AFS and the HFT categories shall be as under :

13.1 Quoted Securities

The ‘market value’ for the quoted securities shall be the prices declared by the Financial Benchmarks India Pvt. Ltd. (FBIL) in accordance with RBI circular FMRD.DIRD.7/ 14.03.025/2017-18 dated March 31, 2018, as amended from time to time. For securities whose prices are not published by FBIL, market price of the quoted security shall be as available from the trades/quotes on the exchanges/ reporting platforms/ trading platforms authorized by RBI / SEBI and prices declared by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

13.2 Unquoted SLR Securities

(a) Central Government Securities

i. Unquoted Central Government securities shall be valued on the basis of the prices/YTM rates put out by the FBIL.

ii. Treasury Bills shall be valued at carrying cost.

(b) State Government Securities

i. State Government securities shall be valued on the basis of the prices / YTM rates put out by FBIL.

(c) Other Approved Securities

i. Other approved securities shall be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by FBIL.

13.3 Unquoted non-SLR Securities

(a) Corporate Bonds

i. All debentures/bonds shall be valued on the YTM basis.

ii. Debentures / bonds shall be valued by applying the appropriate mark-up over the YTM rates for Central Government securities as put out by FBIL/FIMMDA.

iii. The mark-up applied shall be determined based on the ratings assigned to the debentures/bonds by the credit rating agencies and shall be subject to the following:

a. The mark-up shall be at least 50 basis points above the rate applicable to a Government of India security of equivalent maturity for rated debenture/bonds.

b. The rate used for the YTM for un-rated debentures/ bonds shall not be less than the rate applicable to rated debentures/bonds of equivalent maturity.

Provided that the mark-up for the un-rated debentures/bonds should appropriately reflect the credit risk borne by the bank.

c. Where the debentures/bonds are quoted and there have been transactions within 15 days prior to the valuation date, the value adopted shall not be higher than the rate at which the transaction is recorded on the exchanges/trading platforms/reporting platforms authorized by SEBI/RBI.

(b) Special Securities1 issued by the Government of India

i. The special securities, which are directly issued by the Government of India and which do not carry SLR status, shall be valued at a spread of 25 bps above the corresponding yield on Government of India securities.

(c) Units of Mutual Funds

i. Investments in un-quoted Mutual Funds Units shall be valued on the basis of the latest re-purchase price declared by the Mutual Funds in respect of each Scheme.

ii. In case of funds with a lock-in period or any other fund, where repurchase price/market quote is not available, units shall be valued at Net Asset Value (NAV) of the scheme. If NAV is not available, then these shall be valued at cost, till the end of the lock-in period.

(d) Commercial Paper and Certificate of Deposits

i. Commercial paper and Certificate of Deposits shall be valued at the carrying cost.

(e) Zero coupon bonds (ZCBs)

i. ZCBs shall be valued in the books at carrying cost which shall be computed by adding the acquisition cost and discount accrued at the rate prevailing at the time of acquisition, which shall be marked to market with reference to the market value.

ii. In the absence of market value, the ZCBs shall be marked to market with reference to the present value of the ZCB.

Explanation: The present value of the ZCBs may be calculated by discounting the face value using the 'Zero Coupon Yield Curve', with appropriate mark up as per the zero-coupon spreads put out by FIMMDA/FBIL. In case the bank is still carrying the ZCBs at acquisition cost, the discount accrued on the instrument should be notionally added to the book value of the bond, before marking it to market.

(f) Securities issued by Asset Reconstruction Companies (ARC)

i. The SRs / PTCs / other securities issued by ARCs, in lieu of transfer of stressed loans, shall be valued as per paragraph 75-79 of the Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021, as amended from time to time.

(g) Shares of Co-operative Institutions

i. Investment in shares of co-operative institutions i.e. DSCB Ltd. from which Bank have regularly received dividends shall be valued at face value.

ii. Bank shall make full provision in respect of their investments in shares of co-operative institutions which have either gone into liquidation or have not declared dividend at all.

iii. In case the latest balance sheet of co-operative institutions is not available for more than 18 months, the shares shall be valued at Re. 1/- per co-operative institution.

14. QUANTITY & QUALITY OF INVESTMENTS

14.1 The bank shall invest in Govt. Securities and State Government loan under the authority delegated in terms of para 8 of the policy.

14.2 Placement of Deposits with other Banks i.e. Public Sector Banks/ Scheduled private sector Banks and the State Cooperative Bank in Term Deposits, Certificate of Deposits, Current Deposits and/or any other Deposit Account, including Call Money as per prudential inter bank exposure limit and prudential inter bank counter party limit fixed by the Reserve Bank of India from time to time shall be undertaken jointly by Chief Executive Officer/MD with any of the two authorized officials/signatories of the Bank subject to prior or post facto approval of the Board. All the transactions shall be clearly recorded indicating full details and shall be put before the Investment Sub-Committee/ Audit Sub-Committee for periodic review of investment transactions and shall also be placed before the BOM/BOD for information.

14.3 Prudential Systems / Controls

Internal Control System

(a) Bank shall establish a robust internal control mechanism in respect of Investment transactions and shall, at a minimum, ensure the following:

i. There shall be a clear functional separation of (i) trading, (ii) settlement, (iii) monitoring and control, and (iv) accounting.

ii. There shall be a functional separation of trading and back-office functions relating to banks' own Investment Accounts, and other Constituents accounts, if any.

iii. All transactions shall be monitored to see that delivery takes place on settlement day. The fund account and investment account shall be reconciled on the same day before close of business.

iv. Deal Slips shall be serially numbered, properly accounted for and shall contain all the details of the deal such as name of the counterparty, details of security, amount, price, contract date and time, settlement date, confirmation mode to the counterparty. Back-office shall monitor timely receipt of confirmation from the counterparty, except where the requirement is waived off in terms of circular IDMD.No.766/ 10.26. 65A/2005-06 dated August 22, 2005 and circular FMRD.FMID.01/ 14.01.02/2014-15 dated December 19, 2014.”.

v. The books of accounts shall be updated independently, on the basis of vouchers passed, after verification of actual contract notes received from the counterparty and confirmation of the deal by the counterparty.

vi. Checks and balances such as periodic reconciliation of the investment book montly, procedure for recording, verification and passing vouchers, contract verification, valuation of portfolios, monitoring of prudential limits and risk limits, and monitoring of cancelled deals shall be put in place. Processes and controls for compliance with legal and regulatory requirements of reporting deals on various platforms shall be put in place.

vii. Bank shall hold their investments in securities and in dematerialised form/CSGL account mentioned in HDFC Bank. Securities held in physical form, if any, shall be properly recorded, held under joint custody and shall be subjected to quarterly verification by persons unconnected with their custody.

viii.CSGL Account balance shall be reconciled with the balances in the books of HDFC Bank at least at monthly intervals. Similarly, certificates shall be obtained at quarterly/half-yearly intervals in respect of securities lodged with other institutions. If the number of transactions so warrant, the reconciliation shall be undertaken at more frequent intervals.

ix. It should be ensured that the stockbrokers as directors on the Boards of banks or in any other capacity, do not involve themselves in any manner with the Investment Committee or in the decisions about making investments in shares, etc., or advances against shares.

x. Transactions in money market instruments (call/notice/term money, CPs, CDs, repo in corporate bonds and Government securities etc.), derivatives (wherever allowed) and other instruments shall be undertaken as per instructions issued by the Reserve Bank of India from time to time.

xi. Bank shall adhere to the FIMMDA code of conduct while executing trades in Government securities on NDS-OM and in the OTC market.

xii. Acquisition of non-SLR securities in the secondary market, shall be as guidelines in this policy.

15. GENERAL GUIDELINES

15.1 Bank should not undertake any purchase/sale transactions with broking firms or other intermediaries on principal-to-principal basis.

15.2 Bank shall exercise abundant caution to ensure adherence to these guidelines. The concurrent auditors should specifically verify the compliance with these instructions. The concurrent audit reports should contain specific observations on the compliance with the above instructions and should be incorporated in the monthly report to the Chairman/Managing Director/Chief Executive Officer of the bank and the half yearly review to be placed before the Board of Directors. CCIL will make available to all market participants as part of its daily reports, the time stamp of all transactions as received from NDS-OM. The mid office/back office and the auditors may use this information to supplement their checks/scrutiny of transactions for compliance with the instructions. Any violation noticed in this regard should immediately be reported to the concerned Regional Office of Department of Supervision, Reserve Bank of India. Any violation noticed in this regard would attract penalties as currently applicable to the bouncing of SGL even if the deal has been settled because of the netting benefit under DVP III, besides attracting further regulatory action as deemed necessary.

16. TRANSACTIONS THROUGH CSGL ACCOUNTS

16.1 CSGL Account

16.1.1 The bank is maintaining CSGL Account with HDFC Bank, Kasturba Gandhi Marg, New Delhi. All transactions in Government Securities for which CSGL facilities are available should be put through CSGL accounts only.

16.1.2 Before issue of CSGL transfer forms covering the sale transactions, bank should ensure that they have sufficient balance in the respective CSGL accounts. Under no circumstances, should an CSGL transfer form issued by a bank in favour of another bank, bounce for want of sufficient balance in the CSGL account. The purchasing bank should issue the cheques (or make payment by other eligible mode) only after receipt of the CSGL transfer forms from the selling bank.

16.1.3. In the event of bouncing of SGL transfer forms and the failure of the account holder concerned to offer satisfactory explanation for such bouncing, the Bank shall be liable to pay penalties as under:

i. Graded monetary penalties subject to a maximum penalty of Rs.5 lakhs per instance:

Sl. No.	Applicable to	Monetary penalty	Illustration [Penal amount on ₹5 crore default]
1	First three defaults in a financial year (April to March)	0.10 per cent (10 paise per ₹100 FV)	₹50,000/-
2	Next three defaults in the same financial year	0.25 per cent (25 paise per ₹100 FV)	₹1,25,000/-
3	Next three defaults in the same financial year	0.50 per cent (50 paise per ₹100 FV)	₹2,50,000/-

ii. On the tenth default in a financial year, the bank will be debarred from using the SGL/CSGL A/c for undertaking short sales in Government securities even to the extent permissible under circular IDMD.No/11.01.01(B)/ 2006-07 dated January 31, 2007 as amended from time to time, during the remaining portion of the financial year. In the next financial year, upon being satisfied that the Bank in question has made improvements in its internal control systems, RBI may grant specific approval for undertaking short sales by using the SGL/CSGL A/c facility.

iii. The monetary penalty may be paid by the Bank concerned by way of a cheque or through electronic mode for the amount favoring the Reserve Bank of India, within five working days of receipt of intimation of order imposing penalty from RBI.

17. **SGL/CSGL Forms**

17.1.1 The SGL/CSGL transfer forms should be in the standard format prescribed by the Reserve Bank and printed on semi-security paper of uniform size. These should be serially numbered and there should be a control system in place to account for each SGL form.

17.1.2 SGL/CSGL transfer forms should be signed by two authorised officials of the bank whose signatures should be recorded with the respective PDO of Reserve Bank and other banks.

17.1.3 The SGL/CSGL transfer form received by the purchasing bank should be deposited in its SGL account immediately. No sale should be affected by way of return of SGL transfer form held by the bank.

17.1.4 Any bouncing of SGL/CSGL transfer forms issued by selling bank in favour of the buying bank should immediately be brought to the notice of the Reserve Bank by the buying bank.

18. Control, Violation and Penalty Provisions

18.1.1 Record of CSGL transfer forms issued/received should be maintained. Balances as per the bank books in respect of CSGL accounts should be reconciled with the balances in the books of HDFC Bank. The statement of Balance of CSGL Account can be obtained from the HDFC Bank on monthly basis for reconciliation of its CSGL balances as per its books and the position in this regard should be placed before the Audit Committee of the Board. This reconciliation should also be periodically checked by the internal audit department. A system for verification of the authenticity of the CSGL transfer forms received from other banks and confirmation of authorised signatories should be put in place.

18.1.2 Bank should also forward a quarterly certificate indicating that the balances held in the CSGL accounts with the HDFC Bank have been reconciled and that it has been placed before the Audit Committee of the Board. A copy thereof should be sent to the Regional Office concerned of the Department of Supervision, Reserve Bank of India.

18.1.3 Bank should put in place a system to report to the Top Management on a monthly basis the details of transactions in securities, details of bouncing of CSGL transfer forms issued by other banks and review of investment transactions undertaken during the period.

18.1.4 All promissory notes, debentures, shares, bonds, etc. should be properly recorded and held under joint custody. A separate register may be maintained to record the particulars of securities taken out/re-lodged. These should be subjected to periodical verification, say once in a quarter or half-year, by persons unconnected with their custody.

18.1.5 Certificates should be obtained at quarterly/half-yearly intervals in respect of securities lodged with other institutions. Similarly, it is necessary to reconcile the outstanding Bank Receipts with the counter-party at monthly intervals and reconciliation of CSGL Account balance with the HDFC Bank at monthly intervals.

18.1.6 The internal inspectors and concurrent auditors should peruse the transactions to ensure that the deals have been undertaken in the best interest of the bank. The Vigilance Cell should also make surprise sample checks of large transactions.

18.1.7 The concurrent auditors should certify that investments held by the bank, as on the last reporting Friday of each quarter and as reported to Reserve Bank, are actually owned/held by it as evidenced by the physical securities or the out-standings statement. Such a certificate should be submitted to the Regional Office of Department of Cooperative Banks Supervision having jurisdiction over the bank, within 30 days from the end of the relative quarter.

19. ENGAGEMENT OF BROKERS

19.1 Dealing through Brokers

19.1.1 The inter-bank securities transactions should be undertaken directly between banks through Primary Dealers such as SBI DFHI, STCI, PNB GUILT etc.

20. Non-SLR Instruments

(a)Bank shall have the option to invest in the following instruments under their non-SLR portfolio :

i. "A" or equivalent and higher rated corporate bonds.

Note: In addition to the minimum rating prescribed above and comparable market yields for the residual duration, Bank shall not invest in deep discount / zero coupon bonds unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government securities).

ii. “A2” or equivalent and higher rated Commercial Papers (CPs), and Certificate of Deposits (CDs)

iii. Units of Debt Mutual Funds and Money Market Mutual Funds.

iv. Equity shares of Market Infrastructure Companies (MICs) for acquiring membership.

Note: The MICs eligible for investments by Bank are Clearing Corporation of India Ltd., National Payments Corporation of India and Society for Worldwide Interbank Financial Telecommunication (SWIFT). The list of eligible MICs will be updated from time to time by the Reserve Bank of India.

v. Equity shares of Umbrella Organization of Bank sector for acquiring membership.

vi. Security Receipts (SRs) / Pass Through Certificates (PTCs) / other securities issued by Asset Reconstruction Companies (ARCs) received as consideration towards transfer of stressed loans in terms of provisions of Master Direction - Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021, DOR.STR.REC.51/21.04.048/2021-22 dated September 24, 2021. Bank shall not make any direct investment in the SRs/ PTCs/ other securities issued by ARCs.

vii. Equity Shares of concerned Central Co-operative Bank (CCB) and State Co-operative Bank (StCB).

viii. Share of co-operative societies as permitted under Section 19 of the Banking Regulation Act, 1949 read with Section 56 thereof.

Note: Bank shall also refer to ‘Restriction on Holding Shares in Other Co-operative Societies’ issued videcircularACD.BR.388/A.11(19)65-6 dated March 1, 1966, as amended from time to time[4].

(b) Bank shall not invest in the following non-SLR instruments:

i. Perpetual debt instruments.

ii. Units of Mutual Funds, other than units of Debt Mutual Funds and Money Market Mutual Funds.

iv. Instruments with an original maturity of less than one year, except units of Debt Mutual Funds and Money Market Mutual Funds, CPs and CDs.

iv. Shares of bodies or organizations other than in the co-operative sector, unless specifically permitted by RBI.

20.1 Prudential Limit

(a) Investments in non-SLR securities shall be limited to 10 per cent of the bank’s total deposits as on March 31 of the previous year subject to maximum Exposure fixed by the Board from time to time for single party and group of connected parties i.e. Rs.210.00 Lakh & Rs.360.00 Lakh respectively. The investment made for subscribing to the capital of the Umbrella Organization (UO), for acquiring its membership shall be exempted from the limits prescribed in para 2(i) and 2(iii) of the Circular No.UBD.(PCB).BPD.Cir.No.46/ 16.20.000/2008-09 dated January 30, 2009.

(b) Investment in unlisted non-SLR securities shall be subject to a minimum rating prescribed at paragraph 20(a)(i) and 20(a)(ii) above and shall not exceed 10 per cent of the bank’s total non-SLR securities as on March 31 of the previous year.

Note: Investments in non-SLR securities (both primary and secondary market) by banks where the security is proposed to be listed in the

Exchange(s) shall be considered as investment in listed security at the time of making investment. In case such security is not listed within the period specified between issuance and listing, the same shall be reckoned for the 10 per cent limit specified for unlisted non-SLR securities. In case such investments included under unlisted non-SLR securities lead to a breach of 10 per cent limit, the bank shall not make further investments in non-SLR securities (both primary and secondary market) till such time its investment in unlisted non-SLR securities comes within the limit of 10 per cent.

(c) Bank shall have the option to exceed the limits prescribed in paragraph 20.1(a) and 20.1(b) in respect of the following investments:

i. Equity shares of Market Infrastructure Companies (MICs), Umbrella Organization (UO) of Bank Sector and CCB / StCBs, if it becomes necessary to do so for acquiring membership of these entities.

ii. Shares of co-operative societies as permitted under Section 19 of the Banking Regulation Act, 1949 read with Section 56 thereof.

Note: Bank shall however continue to adhere to the limits prescribed in 'Restriction on Holding Shares in Other Co-operative Societies' issued vide circular ACD.BR.388/A.11(19)65-6 dated March 1, 1966, as amended from time to time.

iii. Investments in SRs / PTCs / other securities as referred in paragraph 20(a)(vi) of these Directions

v. PNCPS and Equity Warrants arising from Punjab and Maharashtra Co-operative Bank Limited (Amalgamation with Unity Small Finance Bank Limited) Scheme, 2022.

(d) All non-SLR investments shall be subject to the prescribed prudential single/group counter party exposure limits

20.3 Transactions in Commercial Papers (CPs) and Certificates of Deposits (CDs)

(a) In addition to the limit prescribed in paragraph 13(a)(ii) of these Directions, investment in CPs shall be as per guidelines given in Reserve Bank Commercial Paper Directions, 2017 issued vide circular no. FMRD.DIRD.2/14.01.002/2017-18 dated August 10, 2017, as amended from time to time.

(b) Investment in CDs shall be as per guidelines given in Master Direction - Reserve Bank of India (Certificate of Deposit) Directions, 2021 issued vide circular no. FMRD.DIRD.03/14.01.003/2021-22 dated June 4, 2021, as amended from time to time.

20.4 Restrictions

(a) Investment in perpetual debt instruments is not permitted.

(b) In terms of UBD.(PCB).BPD.Cir.No.14/16.20.000/2007-08 dated September 18, 2007, where banks have already exceeded the limit for investment in unlisted securities, no further investment in such securities will be permitted. Since there is a time lag between issuance and listing of securities, which are proposed to be listed but not listed at the time of subscription, banks may not be able to participate in primary issues of non-SLR securities. In view of this, investments in non-SLR debt securities (both primary and secondary market) by banks where the security is proposed to be listed in the Exchange(s) may be considered as investment in listed security at the time of making investment. However, if such security is not listed within the period specified, the same will be reckoned for the 10 per cent limit specified for unlisted non-SLR securities. In case such investments included under unlisted non-SLR securities lead to a breach of 10 per cent limit, the bank would not be allowed to make further investments in non-SLR securities (both primary and secondary market) till such time its investment in unlisted securities comes within the limit of 10 per cent.

(c) Investment in deep discount / zero coupon bonds should be subject to the minimum rating as stated above and comparable market yields for the residual duration. However, bank is not permitted to invest in Zero Coupon Bonds from February 18, 2011 as advised vide circular No.CB(PCB)BPD.Cir.No.36/ 16.20.000/2010-11 dated February 18, 2011 unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).

(d) Investment in units of Mutual Funds, other than units of Debt Mutual Funds and Money Market Mutual Funds, are not permitted. The existing holding in units of Mutual Funds other than Debt Mutual Funds and Money Market Mutual Funds, including those in UTI should be disinvested. Till such time that they are held in the books of the bank, they will be reckoned as Non-SLR investments for the purpose of the limit at 15.1.1 above. The banks should, however, review risk management policy in place that ensures that they do not have disproportionate exposure in any one scheme of a Mutual Fund.

(e) Non-SLR investment, other than in units of Debt Mutual Funds and Money Market Mutual Funds, and CPs, shall be in instruments with an original maturity of over one year.

(f) Fresh investments in shares of All India Financial Institutions (AIFIs) will not be permitted.

(g) All fresh investments under Non-SLR category should be classified under Held for Trading (HFT) / Available for Sale (AFS) categories only and marked to market as applicable to these categories of investments. However, investments in the long term bonds issued by companies engaged in executing infrastructure projects and having a minimum residual maturity of seven years may be classified under Held to Maturity (HTM) category

(h) All Non-SLR investments will be subject to the prescribed prudential single/group counter party exposure limits fixed by the Board from time to time.

i) All transactions for acquisition / sale of non-SLR investments in secondary market may be undertaken with mutual funds, pension / provident funds and insurance companies, in addition to undertaking transactions with commercial banks and primary dealers, subject to adherence to the instructions contained in Para 7 of RBI Master Direction FMRD.DIRD.2/14.01.002/2017-18 dated August 10, 2017.

20.5 Review of Non-SLR Investments

The Board should review the following aspects of Non-SLR investment at least at half-yearly intervals:

(a) Total business (investment and divestment) during the reporting period.
(b) Compliance with prudential limits prescribed for Non-SLR investment.
(c) Compliance with the prudential guidelines issued by Reserve Bank on Non- SLR securities.
(d) Rating migration of the issuers/issues held in the bank's books and consequent diminution in the portfolio quality.
(e) Extent of non-performing investments in the Non-SLR category and sufficient provision thereof.

20.6 Disclosure

The bank should disclose the details of the issuer-wise composition of Non-SLR investments and the non-performing investments in the 'Notes on Accounts' of the balance sheet.

20.7 Placement of deposits with other banks by Bank

(a) Bank shall not place deposits with public sector undertakings / companies / corporations / co-operative institutions (other than co-operative banks).

(b) Bank shall not place deposits with State Governments by way of deposits in treasury savings accounts.

20.8 Prudential inter-bank (gross) exposure limit

The total amount of deposits placed by the bank with other banks (inter-bank) for all purposes including call money/ notice money, and deposits, if any, placed for availing clearing facility, CSGL facility, currency chest facility, remittance facility and non-fund based facilities like Bank Guarantee, Letter of Credit, etc. shall not exceed 20 per cent of its total deposit liabilities as on March 31 of the previous year. The balances held in deposit accounts with commercial banks (including scheduled Small Finance Banks), scheduled Banks, State Cooperative Banks, District Central Cooperative Banks and investments in Certificate of Deposits issued by commercial banks, being inter bank exposures, will be included in this 20 per cent limit.

20.9 Prudential inter-bank counter party limit

Within the prudential inter-bank (gross) exposure limit, deposits with any single bank should not exceed 5 per cent of the depositing bank's total deposit liabilities as on March 31 of the previous year.

20.10 Acceptance of deposits

Bank shall not accept deposit from other Banks. Bank should review half yearly i.e. March & September position for placement of deposits with other banks keeping in view the prudential limits provided in part 15.2.1. & 15.2.2. above and place it before the BoD/BoM.

21 Prudential Systems/Controls

21.1 Internal Control System

(a) Bank shall establish a robust internal control mechanism in respect of investment transactions and shall, at a minimum, ensure the following:

i. There shall be a clear functional separation of (i) trading, (ii) settlement, (iii) monitoring and control, and (iv) accounting.

ii. There shall be a functional separation of trading and back-office functions relating to banks' own Investment Accounts, and other Constituents accounts, if any.

iii. All transactions shall be monitored to see that delivery takes place on settlement day. The fund account and investment account shall be reconciled on the same day before close of business.

vi. Deal Slips shall be serially numbered, properly accounted for and shall contain all the details of the deal such as name of the counterparty, details of security, amount, price, contract date and time, settlement date, confirmation mode to the counterparty, whether it is direct deal or through a broker, and if through a broker, name of the broker, brokerage payable etc. Back-office shall monitor timely receipt of confirmation from the counterparty, except where the requirement is waived off in terms of circular IDMD.No.766/10.26.65A/2005-06 dated August 22, 2005 and circular FMRD.FMID.01/14.01.02/2014-15 dated December 19, 2014.".

vii. The books of accounts shall be updated independently, on the basis of vouchers passed, after verification of actual contract notes received from the broker/counterparty and confirmation of the deal by the counterparty.

viii. Checks and balances such as periodic reconciliation of the investment book not later than once a quarter, procedure for recording, verification and passing vouchers, contract verification, valuation of portfolios, monitoring of prudential limits and risk limits, and monitoring of cancelled deals shall be put in place. Processes and controls for compliance with legal and regulatory requirements of reporting deals on various platforms shall be put in place.

vii. Notwithstanding paragraph 14.3(vii) of these Directions, securities held in physical form, if any, shall be properly recorded, held under joint custody and shall be subjected to quarterly verification by persons unconnected with their custody.

viii. CSGL Account balance shall be reconciled with the balances in the books of HDFC Bank Ltd. at least at monthly intervals. Similarly, certificates shall be obtained at quarterly/half-yearly intervals in respect of securities lodged with other institutions. If the number of transactions so warrant, the reconciliation shall be undertaken at more frequent intervals. ix. It should be ensured that the stockbrokers as directors on the Boards of banks or in any other capacity, do not involve themselves in any manner with the Investment Committee or in the decisions about making investments in shares, etc., or advances against shares.

x. Transactions in money market instruments (call/notice/term money, CPs, CDs, repo in corporate bonds and Government securities etc.), derivatives (wherever allowed) and other instruments shall be undertaken as per instructions issued by the Reserve Bank of India from time to time.

xi. Bank shall adhere to the FIMMDA code of conduct while executing trades in Government securities on NDS-OM and in the OTC market.

xii. Bank shall formulate internal control guidelines for acquisition of non-SLR securities in the secondary market duly approved by their Boards.

21.2 Investment Accounting

21.2.1 Accounting Standards

In order to bring about uniform accounting practice among banks in booking of income on units of mutual funds (debt mutual funds and money market mutual fund) and equity of AIFIs, as a prudent practice, such income should be booked on cash basis and not on accrual basis. However, in respect of income from Government Securities/bonds of public sector undertakings and AIFIs, where interest rates on the instruments are predetermined, income may be booked on accrual basis, provided interest is serviced regularly and is not in arrears.

21.2.2 Broken Period Interest - Government and Other Approved Securities

21.2.2.1 With a view to bringing about uniformity in the accounting treatment of broken period interest on Government Securities paid at the time of acquisition and to comply with the Accounting Standards prescribed by the Institute of Chartered Accountants of India, the banks should not capitalise the broken period interest paid to seller as part of cost, but treat it as an item of expenditure under Profit & Loss Account.

21.2.2.2 The above accounting treatment does not take into account taxation implications and hence the bank should comply with the requirements of income tax authorities in the manner prescribed by them.

21.2.2.3 **Accounting Procedure for investments in Government Securities – Settlement Date Accounting**

With a view to bringing in uniformity in the practice adopted by bank while accounting for investments in Government Securities, it has been decided that banks should follow "Settlement Date" accounting for recording both outright and ready forward purchase and sale transactions in Government Securities.

22. Audit, Review and Reporting

22.1 Audit

(a) Treasury functions viz. investments, funds management including inter-bank borrowings, bills rediscounting, etc. should be subjected to concurrent audit and the results of audit shall be placed before the Chief Executive of the Bank at monthly intervals.

(b) The concurrent audit shall, at the minimum:

i. Ensure that in respect of purchase and sale of securities, the concerned department has acted within its delegated powers.

ii. Ensure that investments held by the bank, as on the last reporting Friday of each quarter and as reported to Reserve Bank, are actually owned/held by it in CSGL from where applicable.

iii. Ensure that the sale or purchase transactions are done at rates beneficial to the bank.

iv. Scrutinize conformity with broker limits and include excesses observed in their periodical reports.

v. Specific observations on the compliance with instructions on transaction in Government Securities, prudential limits on non-SLR securities and prudential limits on placement of deposits.

Note: Any adverse observations of concurrent auditors shall also be incorporated in the half yearly review of the investment portfolio placed before the Board of Directors.

(c) The internal audit shall cover the transactions in securities on an ongoing basis, monitor compliance with the laid down management policies / prescribed procedures and report the deficiencies directly to the management. In the absence of internal auditors, audit shall be conducted by Chartered Accountants.

(d) Monthly reconciliation of CSGL account balance with HDFC Bank Ltd. and shall be periodically checked by the internal auditors and placed before the Audit Committee of the Board.

(e) Bank shall report on monthly basis to the Audit Committee of the Board, giving the details of trades on aggregate basis done on the exchanges and details of any 'closed-out' transactions on the exchanges.

(f) The results of internal audit shall be placed before the Board of Directors once in every quarter.

22.2 Review/ Reporting

(a) The Top Management of the Bank shall actively oversee investment transactions and undertake a monthly review of investment transactions. A copy of the monthly review, including the details of large transactions shall be put up to the Board once a month, for information.

(b) Bank shall forward a quarterly certificate to the PDO concerned, indicating that the balances held in the CSGL accounts with the HDFC Bank Ltd. have been reconciled and that it has been placed before the Audit Committee of the Board as required in paragraph 17.1(d) of these Directions.

(c) Bank shall undertake a half-yearly review (as of March 31 and September 30) of their investment portfolio which shall be placed before the Board within two months, i.e., by end-May and end-November. The review shall, at the minimum, cover operational aspects of investment portfolio including reconciliation of CSGL accounts with HDFC Bank Ltd., CSGL bouncing, amendments made to the investment policy, irregularities observed in all audit reports, position of compliance thereto and certify adherence to the laid down internal Investment Policy and procedures and Reserve Bank's guidelines.

(d) A copy of the half-yearly review report put up to the Board shall be forwarded to the concerned Regional Office of Department of Supervision by June 15 and December 15 respectively.

22.3 Penalties for Violation

Bank should scrupulously follow the above instructions. Any violation of these instructions will invite penal action against defaulting bank which could include raising of reserve requirements, withdrawal of refinance from the Reserve Bank, denial of access to money markets, denial of new branches/extension counters and advising the President of Clearing House to take appropriate action including suspension of membership of the Clearing House.

23. Accounting and Provisioning

Income Recognition

(a) BANKs shall recognize income on accrual basis for the following:

i. Government Securities and corporate bonds, where interest rates on the instruments are predetermined provided the interest is serviced regularly and is not in arrears.

ii. Securities of corporate bodies/public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the Central Government or a State Government, where interest rates on the instruments are predetermined provided the interest is serviced regularly and as such is not in arrears.

iii. Shares of corporate / co-operative institutions, provided the dividend has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payment is established.

(b) Income from units of mutual funds (debt mutual funds and money market mutual funds) shall be booked on cash basis.

(c) In respect of investments in Government securities and approved securities, Bank shall not capitalise the broken period interest paid to seller as part of cost but treat it as an item of expenditure under Profit & Loss Account.

Note : This accounting treatment does not take into account the tax implications and Bank shall comply with the requirements of income tax authorities as prescribed.

24. Investment Fluctuation Reserve (IFR)

24.1 Creation of IFR and Minimum Requirement

(a) Bank shall make suitable provision for depreciation in the value of investments held under 'AFS' or 'HFT' categories out of current profits of the bank (i.e., charge the same to the Profit & Loss Account) and show the same as "Investment Depreciation Reserve (IDR). i.e. S.No.24.2(c) (i).

(b) In the event that IDR created on account of depreciation in investments, as provided in paragraph 24.1(a) above, is found to be in excess of the required amount in any year, the excess shall be credited to the Profit & Loss Account and an equivalent amount (net of taxes, if any, and net of transfer to Statutory Reserves as applicable to such excess provision) shall be appropriated to the IFR Account.

(c) In addition to as provided in paragraph 24.1(b) above, Bank shall build IFR out of realised gains on sale of investments, subject to availability of net profit.

(d) Bank shall maintain minimum IFR of 5 per cent of the investment portfolio. This minimum requirement shall be computed with reference to investments in HFT and AFS categories. Bank may, at their discretion, build up a higher percentage of IFR depending on the size and composition of their portfolio, with the approval of their Board of Directors.

(e) Bank shall transfer maximum amount of the gains realised on sale of investment in securities to the IFR until it meets the minimum IFR requirement of 5 per cent. Transfer to IFR shall be as an appropriation of net profit after appropriation to Statutory Reserve.

(f) IFR shall be eligible for inclusion in Tier II capital.

(g)Bank shall ensure that the unrealised gains on valuation of the investment portfolio are not taken to the Income Account or to the IFR.

24.2 Draw-down from IFR

(a)Bank may, at its discretion, draw down the balance available in IFR in excess of 5 per cent of its investment in AFS & HFT for credit to the balance of profit / loss as disclosed in the profit and loss account at the end of any accounting year. Such draw down from IFR shall be utilised to meet the depreciation requirement on investment in securities.

(b) In the event the balance in the IFR is less than 5 per cent of its investment in AFS & HFT, a draw down shall be permitted subject to the following conditions:

i. The drawn down amount is used only for meeting the minimum Tier I capital requirements by way of appropriation to free reserves or reducing the balance of loss, and

ii. The amount drawn down is not more than the extent to which the Mark to Market provisions made during the aforesaid year exceed the net profit on sale of investments during that year.

(c) Accounting Principles

i. IDR required to be created on account of depreciation in the value of investments held under 'AFS' or 'HFT' categories in any year (as stated in para 24.1(a) above) shall be debited to the Profit & Loss Account and an equivalent amount (net of tax benefit, if any, and net of consequent reduction in the transfer to Statutory Reserve) or the balance available in the Investment Fluctuation Reserve (IFR) Account, whichever is less, shall be transferred from the IFR Account to Profit & Loss Account.

ii. The amounts debited to the Profit & Loss Account for depreciation provision and the amount credited to the Profit & Loss Account for reversal of excess provision (as stated in para 24.1(a) and 24.1(b) above) shall be debited and credited respectively under the head "Expenditure - Provisions & Contingencies".

iii. The amounts appropriated from the Profit & Loss Account/ to IFR, and the amount transferred from IFR to the Profit & Loss Account to meet depreciation requirement on investments shall be shown as 'below the line' extraordinary item after determining the profit for the year.

Note: IFR is created out of appropriation of net profits or reversal of excess IDR as provided in paragraph 24.1(b) and 19.1(c) above. IDR is a provision created by charging the diminution in value of investments to Profit and Loss Account. While the amount held in

IFR should be shown in the balance sheet as such, the amount held in IDR should be reported as Contingent provisions against depreciation in investment.

25. Non-Performing Investments (NPI)

(a) In respect of securities where interest/principal is in arrears, the Bank shall not reckon income on the securities and shall also make appropriate provisions for the depreciation in the value of the investment. Bank shall not set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

(b) The criterion used to classify an asset as Non-Performing Asset (NPA) shall be used to classify an investment as Non-Performing Investment (NPI) i.e., an NPI is one where Interest/ instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.

(c) In the event the investment in the shares of co-operative institutions is valued at Re.1 per institution on account of the non-availability of the latest financial position in accordance i.e.page 14 g(iii) of these Directions, those shares shall be reckoned as NPI.

(d) if any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer shall also be treated as NPI and vice versa.

(e) In case of conversion of principal and/or interest into equity, debentures, bonds, etc., such instruments shall be treated as NPA ab initio in the same asset classification category as the loan, if the loan's classification is substandard or doubtful on implementation of the restructuring package and provision shall be made as per the norms.

(f) Government guaranteed investment i. Investment in State Government Guaranteed securities, shall attract prudential norms for identification of NPI and provisioning, when interest/ instalment of principal (including maturity proceeds) or any other amount due to the bank remains unpaid for more than 90 days. ii. Bank investments in bonds guaranteed by Central Government shall not be classified as NPI until the Central Government has repudiated the guarantee when invoked. However, this exemption from classification as NPI is not for the purpose of recognition of income.

26. Distinction between IFR and Investment Depreciation Reserve (IDR)

It may be noted that IFR is created out of appropriation from the realised net profits and forms part of the reserves of the bank qualifying under Tier II capital.

IDR is a provision created by charging diminution in investment value to Profit and Loss Account. While the amount held in IFR should be shown in the balance sheet as such, the amount held in IDR should be reported as Contingent provisions against depreciation in investment.

27. Modifications/Additions in Policy.

Any modification/addition in the Investment Policy will be taken up and review to effect and incorporate changes, arising as result of changes in monitory fiscal & regulatory policy of the Government of India, Reserve Bank of India & Registrar of Co-operative Societies from time to time. It is clarified that bank will endeavor to meticulously adhere to the provisions of the Master Direction No.DOR.MRG.REC.01/00-00-011/2023-24 April 01, 2023 on investment by Primary (Urban Co-operative Banks) as updated from time to time.

28. Conclusion.

This policy will be taken up for review as and when there are major changes in the environment arising out of changes in the monetary policy of Reserve Bank of India, fiscal policy of Government of India and changes in the nature and types of instruments and players in the financial market. However, in the absence of any such major changes in the economic and banking scenario, this policy will continue to be in force. The changes made by the RBI and Government of India must be complied with the Policy should be revised/rectified/ amended thereafter. Investment policy is a dynamic concept which has to keep pace with the market changes. Keeping this in mind, this policy has been framed and shall be valid till it is revised.