The Arya Vaishya Co-operative Bank Ltd., Regd. Office, Hosur, Hubli-580021.

INVESTMENT POLICY

(As updated in May 2024)

1. Preamble

In Banking, the major sources of deployment of resources are lending and investments. The investments must primarily be to satisfy the statutory requirements and then to create adequate and appropriate infrastructure for providing effective and efficient customer service. The investments are basic requirement in modern day banking. The investment portfolio involves both statutory and other investments. In order to handle the investment portfolio effectively and to be directive compliant, it is necessary to have a broad policy in view of risk and other factors involved.

With the introduction of prudential norms on capital adequacy, income recognition, asset classification and provisioning requirements, the financial position of banks in India has improved in the last few years. Simultaneously, trading in securities market has improved in terms of turnover and the range of maturities dealt with. In view of these developments and taking into consideration the evolving international practices, Reserve Bank of India (RBI) has been issuing guidelines on classification, valuation and operation of investment portfolio by banks from time to time. The Reserve Bank of India has advised all banks to frame Internal Investments Policy Guidelines.

2. Scope and objective

2.1 To ensure maximum returns on all investments.

2.2 To scout for a secured investment where in both principal and interest on due date can be received without any problem.

2.3 To increase the profitability of the Bank

2.4 To ensure safety and security of the investment

3. Authority

The Investment policy shall be framed and approved by the Board. The Board is the authority to amend, add, delete, and modify any terms / conditions referred there in. The Investment policy should be reviewed at least once in a year or such other regular intervals to match the prevailing market conditions, risks, asset liability management and such other relevant factors concerning the market risk management and to comply with the directives/ guidelines issued by Reserve Bank of India from time to time.

3.2 **Definition and Meaning**

(i) 'Bank' means ------- Co-operative Bank Limited, ---(Place).

(ii) 'Board' means the Board of Directors of --- Co-operative Bank Limited duly constituted as per the Byelaws of the Bank.

(iii) 'Chief Executive Officer' means the paid official of the Bank who is also called General Manager, Chief Manager, Managing Director and Secretary or by whatever name.

(iv) 'Investing Authority' means the authority empowered to place Bank's funds in profitable investments.

(v) 'SLR securities' means the approved securities for investing funds for the purpose of maintaining Statutory Liquidity under Section 24 of Banking Regulation Act, 1949.

(vi) 'Non-SLR securities' means the securities in which funds invested do not reckon for Statutory Liquidity Ratio.

(vii) 'Prudential Limits' means the limits prescribed by RBI up to which funds will be invested in different securities.

(viii) 'Exposure Limit' means the maximum limit fixed on the basis of Capital Funds comprising Tier I capital of the Bank as on March 31 of the previous year for investing funds.

(ix) 'Approved Securities' means securities as defined by Section 5 (a) (i) and (ii) of Banking Regulation Act, 1949 (AACS).

(x) 'Trustee Securities' means securities in which a Trustee may invest money under clause numbers (a), (b), (bb), or (d) of Section 20 of Indian Trust Act, 1882 and securities authorized by the Central Government under clause (f) of Indian Trust Act, 1882.

4. General:

4.1 Investment shall be made in Commercial Banks, Public Sector Banks, Co-operative Banks, Small Finance Banks, State/Central Government Securities/Stocks and debt/liquid mutual funds. The Bank can also subscribe to State/Central Government Loans and invest in other approved securities.

4.2 Investment shall be made in accordance with Reserve Bank of India guidelines and as per K.C.S. Act.

4.3 The Bank shall not undertake any purchase/ sale transactions with broking firms or other intermediaries on principal to principal basis.

4.4 No sale transaction should be put through by the bank without actually holding the security in its investment account i.e. under no circumstances the bank should hold an oversold position in any security.

4.5 For purchase of securities from the Reserve Bank through Open Market Operations (OMO), no sale transactions should be contracted prior to receiving the confirmation of the deal/advice of allotment from the Reserve Bank.

4.6 The 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 these instructions and should be incorporated in the monthly report to the Chief Executive Officer/The President 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. 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 Department of Co-operative Banks Supervision, Bengaluru and the Public Debt Office (PDO), Reserve Bank of India, Mumbai.

4.7 Any violation noticed in this regard would attract penalties by RBI as currently applicable to the bouncing of SGL forms even if the deal has been settled because of the netting benefit under DVP III, besides attracting further regulatory action as deemed necessary.

4.8 The Bank after being successful in the auction of primary issue of Government Securities, may enter into contracts for sale of the allotted securities in accordance with the terms and conditions as indicated below :

4.8.1 The contract for sale can be entered into only once by the Bank, on the basis of an authenticated allotment advice issued by Reserve Bank. A suitable noting/stamping is to be made on the allotment advice indicating the sale contract number etc., the details of which should be intimated to the buying entity. The buying entity should not enter into a contract to further resell the securities until it actually holds the securities in its investment account. Any sale of securities should be only on a T+0 or T+1 settlement basis.

4.8.2 The contract for sale of allotted securities shall be entered into by the bank only with entities maintaining SGL Account with Reserve Bank for delivery and settlement on the next working day through the DVP system.

4.8.3 The face value of securities sold should not exceed the face value of securities indicated in the allotment advice.

4.8.4 The sale deal should be entered into directly without the involvement of broker/s. Separate record of such sale deals should be maintained containing details such as number and date of allotment advice, description and the face value of securities allotted, purchase consideration, number, date of delivery and face value of securities sold, sale consideration, date and details of actual delivery i.e. SGL Form No., etc. This record should be made available to Reserve Bank for verification. The Bank has to immediately report any cases of failure to maintain such records.

4.8.5 Such type of sale transactions of Government Securities allotted in the auctions for primary issues on the same day and based on authenticated allotment advice should be subjected to concurrent audit and the relative audit report should be placed before the Board of Directors of the bank once every month. A copy thereof should also be sent to Department of Co-operative Banks Supervision of the concerned Regional Office of the Reserve Bank of India.

4.8.6 The Bank will be responsible for any failure of the contracts due to the securities not being credited to its SGL account on account of non-payment / bouncing of cheque, etc.

4.8.7 The Bank shall seek a scheduled commercial bank, a PD, a financial institution, another UCB, insurance company, mutual fund or provident fund, as counter-party for its transactions. Preference will be given for direct deals with such counter parties. It is desirable to check the prices from other banks or PDs with whom the Bank maintains CSGL account. The prices of all trades done in Government Securities, including those traded through NDS, are also available at Reserve Bank's website (www.rbi.org.in) which can be verified and ascertained.

4.8.8 **Negotiated Dealing System – Order Matching:** With effect from November 18, 2011, the Banks after fulfilling the eligibility criteria as stated in RBI circular IDMD. DOD. No. 13 /10.25.66 /2011-12 dated November 18,2011 will be allowed direct access to Negotiated Dealing System – Order Matching platform. The eligibility criteria are as under:

(a) Current account with RBI or a funds account with one of the Designated Settlement Banks (DSBs) chosen by Clearing Corporation of India Limited (CCIL) for funds settlement.

(b) Subsidiary General Ledger (SGL) Account with RBI.

(c) Membership of Negotiated Dealing System (NDS).

(d) Indian Financial Network (INFINET) connectivity.

(e) Membership of CCIL.

(f) Minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9%.

(g) Net Non-Performing Assets (NPA) of less than 5%.

(h) Minimum net worth of Rs. 25 crore.

4.8.9 The bank should obtain NDS-OM membership by applying to CGM-in-Charge, DCBR, RBI, CO, Mumbai for regulatory clearance before applying to IDMD for NDS-OM membership.

4.8.10 The bank should have the required infrastructure in place for NDS-OM membership and for direct access to NDS-OM should also bear the cost involved in setting up the infrastructure. The banks after opening a SGL account with the RBI (which is one of the several requirements to be fulfilled by a UCB for obtaining NDS-OM membership), cannot open / maintain a gilt account with a CSGL account holder. However, the bank can continue to bid for Government securities under the scheme of non-competitive bidding in Government securities.

4.8.11 The Bank should obtain Legal Entity Identifier Code from Legal Entity Identifier India Limited (CIN- U74900MH2015PLC268921) – A Wholly Owned Subsidiary of The Clearing Corporation of India Ltd. This code may be quoted in all Government security and money market transactions.

5. Investment Committee:

(i) The bank has to constitute an Investment Committee consisting of five members consisting of the President, vice-President two directors and Chief Executive Officer. The President of the Bank is the Chairman and Chief Executive Officer of the Bank is the Convener of the Investment Committee. In his absence, the President can authorize Vice-President or any other senior members to act on his behalf, to oversee the implementation of the Policy of the Bank. The quorum for the meeting is three members.

(ii) The Committee shall accord its approval for investments to be made by the authorized officials of the bank after examining the pros and cons of the deal.

(iii) The Committee should meet at least once in a month or at more frequent intervals, if needed. The decisions taken by the Committee regarding approvals / rejections of the proposals should be placed before the Board for ratification/confirmation in the next Board Meeting.

(iv) The Board should take a periodical review of the Policy and its implementation, transactions put through, profit / loss booked etc and make necessary suggestion required for strengthening and improving the investment portfolio.

(v) Decision on shifting of the securities from one category to another will be done as mentioned in paragraph 9 of the policy. Such shifting form one category to another will be done as per the prevailing guidelines issued by RBI.

6. Dealing in Securities and Delegation of Power:

6.1 Front Office:

(a) The Chief Executive Officer and a designated officer of the Bank will act as front office for the purpose of dealing in securities and will jointly deal in investment on behalf of the Bank. They will be required to put up proposals in respect of purchase and sale transaction to investment committee for approval. However, in emergent cases, as the decision of purchase and sale of securities is required to be taken on the spot in view of market conditions, the Chief Executive Officer shall be the authority to put through investment deals (as approved by the Board), and CEO shall get his action ratified by the President on deal to deal basis and place all the transactions before the Investment committee and Board once in a month. It should be ensured that all the transactions are clearly recorded indicating their full details. There should be clear demarcation of duties between back office and front office.

(b) All the authorized officials are required to watch the market trend every day. Before submitting any proposal to the investment committee for purchase / sale, they should call quotation from at least three active dealers in the field and put up recommendation for advantageous deal. The reason for accepting or rejecting the deal should be recorded in the deal slip and then pass on to the back office for necessary actions.

(c) The dealing staff should always ensure that there is no default in maintaining SLR requirements in order to comply with guidelines/instructions of Reserve Bank of India.

(d) The dealing staff and the back office staff should always adhere to the guidelines issued by Reserve Bank of India from time to time in connection with purchase / sale of securities.

(e) At no point of time the dealing staff should be at over bought or over sold position.

(f) The dealing staff should not carry out any deal regarding purchase and sell of securities except as otherwise mentioned in the policy.

(g) All purchase and sale slips should be serially numbered. The slips should give the details like date of deal, value of the deal, details of the purchaser or seller, commission or brokerage paid, if any, and profit or loss booked by the Bank.

(h) The dealer should indicate the category of the security in the deal slip at the time of purchase.

6.2 **Back Office**

(a) The one of the designated officers will act as back office and help the dealing staff in preparing documents for dealing, convey the deal to the other party, prepare documents, arrange for funds transfer and maintain records of dealing and also book profit / loss in the books of the bank. He can seek help of any senior assistant or other staff also in this regard.

(b) The back office should maintain necessary records / registers /files /deal slips in a chronological order.

(c) The front office as also the back office should always ensure that the total investment in any particular type of security does not exceed the prudential limits stipulated by Reserve Bank of India.

(d) The outstanding balances in SGL/CSGL and DEMAT accounts shall be reconciled on day to day basis to avoid any over payment or short payment or any discrepancies in the transfer of the Securities in the SGL/CSGL/DEMAT accounts. Any such discrepancy should be brought to the notice of the CEO.

(e) The interest payment dates as well as maturity dates of the securities shall be maintained in a dairy and the payment of periodical interest and maturity value on due dates shall be followed up with the issuer.

6.3 **Cut Loss:**

The officer in charge of investment department shall not allow the value of any security held in HFT or AFS category to fall below 2.5% of the acquisition price or the book value, whichever is lower. If the officer finds any indication in the market that the price of any security under the said two categories to fall beyond 2.5% of its acquisition price or book value, he should take immediate action to sell the security after obtaining permission from the CEO or Board, as the case may be, to avoid further loss to the Bank by virtue of holding the security.

7 Internal Control:

(i) To avoid the possibility of abuse, treasury functions viz. investment, funds management including inter bank borrowing etc will be subjected to concurrent audit and the report should be submitted to the investment committee/board. The Chief Executive Officer should ensure to comply with the observations of the audit report. The concurrent auditors should peruse the transactions to ensure that the deals have been undertaken in the best interest of the Bank.

(ii) The concurrent audit reports should contain specific observations on the compliance with the Reserve Bank of India instructions and should be incorporated in the monthly report to the Chief Executive Officer and the half yearly review to be placed before the Board of Directors. Chief Executive Officer should ensure that half yearly review is submitted to the Regional Office of Department of Banking Supervision, RBI, Bengaluru within April 30 and October 31 of the year.

8. Categorization of Investment

8.1 The investment portfolio has to be classified under different categories to comply with statutory/regulatory requirement. Normally investment can be categorized as SLR Investment and Non-SLR Investment for complying with Section 24 of Banking Regulation Act, 1949. *All UCBs are required to maintain a certain minimum level of their SLR holdings as a percentage of their Net Demand and Time Liabilities (NDTL). With effect from April 11,2020 the SLR for all UCBs is 18.00% of NDTL.* The SLR should be held in the form of cash, gold, Government securities, other approved securities and excess CRR. For the purpose of calculating excess CRR, balance held in current account with the DCC Banks and Karnataka State Co-operative Apex Bank should be ignored. Though, the SLR can be held in any of the above forms, the Reserve Bank of India has advised the UCBs to hold the entire SLR in the form of Government securities and other approved Securities. Therefore, the Bank should strive to hold entire SLR in Government securities and other approved securities.

For valuation purpose the investment portfolio will be classified under three categories viz, Held to Maturity, Held for Trading and Available for Sale.

8.2 Held to Maturity

8.2.1 Securities acquired by the Bank with the intention to hold them up to maturity will be classified under "Held to Maturity" category.

8.2.2 The Bank will ensure that investments included under "Held to Maturity" category do not exceed 25 per cent of the bank's total investments. However, the limit of 25 per cent of the total investments under HTM category can be exceeded provided,

(i) The excess comprises only of SLR securities

(ii) the total SLR securities held in the HTM category is not more than 25 per cent of NDTL as on the last Friday of the second preceding fortnight.

(iii) The 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 HTM category but these will not be counted for the purpose of specified ceiling under this category.

8.2.3 Securities held in HTM category shall not be sold. However, due to liquidity stress, securities from HTM portfolio may be sold with the permission of the Board after recording clearly the rationale for such sale.

8.3 Held for Trading

8.3.1 Securities acquired by the Bank with the intention to trade by taking advantage of the short-term price/interest rate movements will be classified under 'Held for Trading' category. The securities can be held under this category for not more than 90 days.

8.3.2 If the bank is not able to sell the security within 90 days due to exceptional circumstances such as tight liquidity conditions, or extreme volatility, or market becoming unidirectional, the security will be shifted to the 'Available for Sale' category, subject to the conditions stipulated by RBI.

8.4 Available for Sale

8.4.1 Securities which do not fall within the above two categories will be classified under 'Available for Sale' category.

8.4.2 The investment committee/board will decide on the extent of holdings under 'Available for Sale' category. Profit or loss on sale of investments in HFT & AFS categories will be taken to P&L Account.

9. Shifting of investment

9.1 The Bank will decide with the approval of board of directors to shift investments to/from 'Held to Maturity' category keeping in view the RBI guidelines. The Bank may shift investments to/from HTM category with the approval of the Board of Directors once in a year. Such shifting will normally be allowed at the beginning of the accounting year. No further shifting to/from this category will be allowed during the remaining part of that accounting year.

9.2 Bank will consider shifting investments from 'Available for Sale' category to 'Held for Trading' category with the approval of the Board of Directors. In case of exigencies, such shifting will be done with the approval of the Chief Executive, subject to ratification by the Board of Directors.

9.3 Shifting of investments from 'Held for Trading' category to 'Available for Sale' category will generally be not done. However, it will be done only under exceptional circumstances as per RBI guidelines and subject to depreciation, if any, applicable on the date of transfer, with the approval of the Board of Directors/Investment Committee.

9.4 Transfer of scrips from one category to another, will be done at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer will be fully provided for.

9.5 In case of transfers of securities to/from HTM category, a disclosure is to be made in the 'Notes to Accounts' to the Financial Statements as prescribed by RBI from time to time.

10. Classification of Investments in the Balance Sheet

For the purpose of Balance Sheet, the investments shall be classified in the following categories:

(a) Government securities

(b) Other approved securities

(c) Shares

(d) Bonds of PSU

(e) Others

11. Valuation of Investments

11.1 Valuation of securities held under different categories will be carried out as per the prevailing RBI guidelines.

11.1.1 Investments classified under HTM category need not be marked to market and will be carried at acquisition cost unless it is more than the face value, in which case the premium should be amortized over the period remaining to maturity. The book value of the security shall to be reduced to the extent of the amount amortised during the relevant accounting period.

11.1.2 The individual scrip in the AFS category will be marked to market at the year-end or at more frequent intervals. The book value of the individual securities would not undergo any change after the revaluation.

11.1.3 The individual scrip in the HFT category will be marked to market at monthly or at more frequent intervals. The book value of individual securities in this category would not undergo any change after marking to market.

11.1.4 Securities under AFS and HFT categories shall be valued scrip-wise and depreciation/appreciation shall be aggregated for each classification as indicated at paragraph 10 above separately for AFS and HFT. Net depreciation, if any, shall be provided for. Net appreciation, if any, should be ignored. Net depreciation required to be provided for in any one classification should not be reduced on account of net appreciation in any other classification. Similarly net depreciation for any classification in one category should not be reduced from appreciation in similar classification in another category.

11.1.5 Investment Depreciation Reserve (IDR) required to be created on account of depreciation in the value of investments held under 'AFS' or 'HFT' categories in any year should 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 IFR Account, whichever is less, shall be transferred from the IFR Account to Profit & Loss Account.

11.1.6 . In the event that IDR created on account of depreciation in investments is found to be in excess of the required amount in any year, the excess should 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) should be appropriated to the IFR Account to be utilised to meet future depreciation requirement for investments.

11.1.7 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 should be debited and credited respectively under the head "Expenditure - Provisions & Contingencies".

11.1.8 The amounts appropriated from the Profit & Loss Account/ to IFR and the amount transferred from the IFR to the Profit & Loss Account should be shown as 'below the line' items after determining the profit for the year.

11.1.9 In respect of securities included in any of the three categories where interest/principal is in arrears, income on the securities should not be reckoned and appropriate provisions for the depreciation in the value of the investment should be made. There should not be any set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

11.2 Value

11.2.1 Quoted Securities

It should be ensured that the 'market value' for the purpose of periodical valuation of investments included in the "Available for Sale" and the "Held for Trading" categories is the market price of the scrip as available from the trades/quotes on the stock exchanges, SGL account transactions, price list of RBI, prices declared by Financial Benchmark India Pvt. Ltd. (FBIL)/ Fixed Income and Money Market Dealers' Association (FIMMDA) periodically.

11.2.2 Unquoted SLR Securities

The unquoted Central Government securities should be valued on the basis of the prices/YTM rates put out by the Financial Benchmark India Pvt. Ltd. (FBIL)/ FIMMDA at periodical intervals. Treasury Bills should be valued at carrying cost. State Government securities will 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 periodically. Other approved securities will 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/FIMMDA periodically.

11.3 Unquoted Non-SLR securities

11.3.1.1 Debentures/Bonds

These will be valued with appropriate mark-up over the YTM rates for Central Government securities as put out by FBIL/FIMMDA periodically.

11.3.1.2 Shares of Co-operative Institutions

If dividends have been received regularly from co-operative institutions, then their shares should be valued at face value. Where no dividend has been declared full provision has to be made on such shares. In cases where the financial position of co-operative institutions in whose shares bank has made investments is not available, the shares have to be taken at Re. 1/- per co-operative institution.

11.4 Units of Mutual funds

Investments in quoted debt/money market Mutual Fund Units should be valued as per stock exchange quotations. Investments in non-quoted Mutual Funds Units are to be valued on the basis of the latest re-purchase price declared by the Mutual Funds in respect of each particular Scheme. In case of funds with a lock-in period, or where repurchase price/market quote is not available, units could be valued at Net Asset Value (NAV). If NAV is not available, then these could be valued at cost, till the end of the lock-in period.

12. Non- SLR Investments

In order to contain risks arising out of the non-SLR investment portfolio of bank, the following guidelines should be adhered to:

12.1 Prudential Limit

The Non-SLR investments will be limited to 10% of a Bank's total deposits as on March 31 of the previous year. However, Investment in the equity shares of the Umbrella Organization, for acquiring its membership, shall be exempt from the prudential limits for investments in Non- SLR / unlisted securities.

12.2 Instruments

The Bank will restrict its fresh investment in the following instruments and ensure to adhere to Reserve Bank of India guidelines on restrictions on non-SLR investment:

(a) "A" or equivalent and higher rated Commercial Papers (CPs), debentures and bonds.
(b) Units of Debt Mutual Funds and Money Market Mutual Funds.
(c) Shares of Market Infrastructure Companies (MICs)
(d) Equity Shares of the Umbrella Organization (UO) for the UCB Sector.

12.3 Restrictions

(a) Investment in perpetual debt instruments will not be done.

(b) Investment in unlisted securities will be subject to a minimum rating prescribed above and it will not exceed 10% of the total Non-SLR investments at any time.

(c) Investment in deep discount / zero coupon bonds will be subject to the minimum rating as stated above and comparable market yields for the residual duration, provided the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).

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

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

(f) All fresh investments under Non-SLR category will be classified under Held for

Trading (HFT) / Available for Sale (AFS) categories only and marked to market as applicable to these categories of investments.

(g) All Non-SLR investments will be subject to the prescribed prudential single/group counter party exposure limits.

(h) All transactions for acquisition / sale of non-SLR investments in secondary market will be undertaken only with commercial banks / primary dealers as counterparties.

(i) Details of the issuer-wise composition of non-SLR investments and the non-performing investments shall be disclosed, as indicated in Annexure III - C.3(d) of RBI Master Direction on Financial Statements - Presentation and Disclosures dated August 30, 2021.

13. Review by the Board and reporting

A half-yearly review (as of 31st March and 30th September) of investment portfolio should be placed before the Board within a month, in order to ensure that the laid down internal investment policy and procedures and RBI guidelines are adhered to. Any violation noticed in this regard should immediately be reported to the Regional office concerned of Department of Co-operative Banks Supervision and the Public Debt Office (PDO), Reserve Bank of India, Mumbai. The Chief Executive Officer will be responsible to ensure that the review is undertaken timely as per RBI guidelines.

The front office and the back office staff are jointly responsible for submitting a periodical statement on quarterly basis (within 10^{th} of the succeeding month after the quarter). The statement should contain the information regarding type of securities dealt, price paid/received, profit or loss made, how accounted for, provisions made or funds transferred to investment depreciation reserve and investment fluctuation reserve etc., together with comments of Investment Committee. The report and the accounting done by the dealing / Bank Staff should be verified and confirmed by the concurrent auditor, before the reports are submitted to investment Committee or to the Board.

The Board should also review the counterparty exposure risk at least at half yearly intervals.

13.1 Review by the Board of Non-SLR investment

The Board will review the following aspects of Non-SLR investment 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) Extent of non-performing investments in the non-SLR category and sufficient provision thereof.

e) Rating migration of the issuers/issues held in the Bank's books and consequent diminution in the portfolio quality.

13.2 Disclosure

The details of the issuer-wise composition of Non-SLR Investments and the non-performing investments should be disclosed in the 'Notes on Accounts' of the balance sheet as per the format prescribed by Reserve Bank of India from time to time.

14. Placement of deposits with other banks

14.1 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 (BG), Letter of Credit (LC), etc should not exceed 20% of our 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 UCBs, State Cooperative Banks, District Central Cooperative Banks and investments in Certificate of Deposits issued by commercial banks, being interbank exposures, will be included in this 20 per cent limit.

If the Bank is facing difficulty in withdrawal of deposits from a weak State Cooperative Bank/District Central Cooperative Bank, a provision to the extent of 10 per cent per annum on the exposure to such State Cooperative Banks/District Central Cooperative Banks shall be made. The interest receivable on such deposits shall not be recognised as income. Further, deposits placed with a UCB under All-inclusive Directions (AID) shall be fully provided within five years at the rate of 20 per cent annually and interest receivable on such deposits shall not be recognised as income.

14.2 Prudential inter-bank counter party limit

Within the prudential inter-bank (gross) exposure limit, deposits with any single bank will not exceed 5% of the total deposit liabilities as on March 31, of the previous year. **However, considering the counter party risk, deposit with any single scheduled UCB/ Small Finance Bank (SFB) should not exceed 2% of the total deposit liabilities as on March 31, of the previous year. No deposits shall be kept with non-scheduled UCBs.** The Board shall review the position at least at half yearly intervals.

14.3 Restriction on placement of deposits with other Urban Co-operative banks

14.3.1 Being a non-scheduled UCB, deposits can be placed with strong scheduled UCBs/SFBs complying with the following norms:

i. Applicable minimum CRAR plus 1 per cent.
ii. Gross NPAs of less than 7% and Net NPAs of not more than 3%.
iii. Net profit for at least three out of the preceding four years subject to it not having incurred a net loss in the immediate preceding year.
iv. No default in the maintenance of CRR/ SLR during the preceding financial year.
v. Sound internal control system with at least two professional directors on the Board.
vi. Core Banking Solution (CBS) fully implemented.
vii. If the Scheduled Urban Co-operative Bank/SFB fails to meet the above norms in the future, the Bank shall not place fresh deposit with them and shall phase out 10% of existing deposits by March 31 of the financial year in which it became ineligible to accept such deposits and 40%, 70% and 100% by the end of the following financial years.

14.3.2 Acceptance of deposits from UCBs by the other UCB will also be subject to the following conditions:

i) The total inter-UCB deposits accepted by a UCB should not exceed 10% of its deposit liabilities as on 31st March of the previous financial year.

ii) The rate of interest offered on such deposits should be market related.

iii) Scheduled UCBs should not, however, place deposits non-scheduled UCBs.

iv) Scheduled UCBs may place deposits with other scheduled UCBs fulfilling the norms prescribed at para 14.3.1 above only as a part of arrangement for providing specific services.

14.3.3 Non-scheduled UCBs may place deposits with other non-scheduled UCBs fulfilling the norms prescribed at para 14.3.1 above only as a part of arrangement for clearing and/or remittance facility.

14.4 Funds which are not required for immediate use shall be temporarily invested in call money with banks/institution approved by the RBI or in Debt/ Money Market (liquid) Mutual funds approved by SEBI and RBI.

14.5 Keeping in view the prescribed prudential limits, bank may formulate a policy taking into account funds position, liquidity and other needs for placement of deposits with other banks, the cost of funds, expected rate of return and interest margin on such deposits, the counter party risk, etc and place it before the Board of Directors. The Board may review the position at least at half yearly intervals.

14.6. Provisioning on interbank exposure of UCBs

(a) The interbank exposures arising from deposits placed with a UCB under All-inclusive Directions (AID) shall be fully provided within five years at the rate of 20 per cent annually. Further, the interest receivable on such deposits shall not be recognised as income.

(b) In case the bank choose to convert such deposits into long term perpetual debt instruments (e.g., Innovative Perpetual Debt Instrument - IPDI) which may be recognised as capital instrument under a scheme of restructuring/ revival of a UCB under AID, provision on the portion of deposits converted into such instruments shall not be required.

(c) Further, in case the bank is facing difficulty in withdrawal of deposits from the weak Karnataka State Cooperative Apex Bank/Central Cooperative Bank, a provision is to be made to the extent of 10 per cent per annum on our exposure to State Cooperative Bank/Central Cooperative Banks. The interest receivable on such deposits shall not be recognized as income by the UCBs.

15. Investment Fluctuation Reserve (IFR)

15.1.1 Bank should build up IFR out of realised gains on sale of investments, and subject to available net profit, of a minimum of 5 per cent of the investment portfolio. This minimum requirement should be computed with reference to investments in two categories, viz. HFT and AFS. It will not be necessary to include investment under HTM category for the purpose. However, Bank is free to build up a higher percentage of IFR. The maximum amount of the gains realised on sale of investment in securities should be transfer to the IFR.

15.1.2 The IFR, consisting of realised gains from the sale of investments from the two categories, viz., HTF and AFS, would be eligible for inclusion in Tier II capital.

15.1.3 Transfer to IFR shall be as an appropriation of net profit after appropriation to Statutory Reserve.

15.1.4 It should be ensured that the unrealised gains on valuation of the investment portfolio are not taken to the Income Account or to the IFR.

15.1.5 The IFR may be utilised to meet, in future, the depreciation requirement on investment in securities.

15.1.6 In the event that IDR created on account of depreciation in investments is found to be in excess of the required amount in any year, the excess should be appropriated to the IFR Account to be utilised to meet future depreciation requirement for investments as explained at paragraph 11.1.6 above.

15.1.7 A bank may, at its discretion, draw down the balance available in IFR in excess of 5% of 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.

15.1.8 In the event the balance in the IFR is less than 5 percent of its investment in AFS & HFT, a draw down will be permitted subject to the following conditions:

a) 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

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

16. **Investment Accounting**

16.1 **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.

16.2 Broken Period Interest - Government and Other Approved Securities

With a view to bring 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 broken period interest paid to seller as part of cost shall not capitalised, but treat it as an item of expenditure under Profit & Loss Account. It is to be noted that the above accounting treatment does not take into account taxation implications and hence the requirements of income tax authorities in the manner prescribed by them shall be complied with.

16.3 Accounting Procedure for investments in Government Securities – Settlement Date Accounting

With a view to bringing in uniformity in the practice adopted by banks while accounting for investments in Government Securities, "Settlement Date" accounting for recording both outright and ready forward purchase and sale transactions in Government Securities should be followed.

Hubli.

Date :30-05-2024 Gen. Manager Director Director Chairman

Annexure 1
Deal Note cum Confirmation

Deal No. ------ Date--------------

To

Dear Sir/Madam,

We hereby confirm the following transactions

Transaction	
PURCHASE/SALE	
Security type	
Name of issuer	
Coupon Rate	
Maturity Date	
Interest Payment Date	
Face Value	
Market Price	
Call/Put Option	
Last Interest Payment Date	
Accrued Interest Payable for Broken Period (No. of days ----------)	From------------------to----------------
Deal Date	
Settlement Date	
Settlement Mode	Credit/Debit the amount to our Current A/C .No.---------with ---------Bank-------- Branch.
Mode of Delivery	Credit/ Debit our CSGL/ SGL/ DEMAT account No ----- with -------- Bank, ------- Branch
Classified under HTM/AFS/HFT	
Counter Party's Name	

Please confirm the above details immediately and bring any discrepancy in this note to our notice forth with over phone no. --------- / Fax at no. ----------/ E-mail.

Signature of Purchaser/ Seller Confirmed

Signature of Counter Party

Verified and approved the transaction. Forwarded to Accounts Section for accounting.

General Manager/CEO.