

THE KHORDHA CENTRAL CO-OPERATIVE BANK LTD; KHORDHA

INVESTMENT POLICY

PART – (A)

In pursuance of the latest directives and guidelines issued by Reserve Bank of India and National Bank for Agriculture and Rural Development, the Investment Policy of the Bank is as follows, which will be in force with immediate effect.

1. Objective

Keeping in view the provisions of the Banking Regulation Act 1949 (AACS) and the guidelines of Reserve Bank of India and National Bank for Agriculture and Rural Development and provisions of Orissa Cooperative Societies Act 1962, the Investment Policy of the Bank aims at management of cash/funds inflow and outflow on general banking business and deployment of surplus funds in profitable avenues with the objective of maximization of profit.

2. Modalities.

The following modalities shall be adopted for management of funds and for taking investment decisions.

2.1 Cash flow analysis and investment decisions:

- a) The daily position of cash shall be analyzed by the account section keeping in view the statutory provisions and other requirements under the notice of the competent authority for decision, if necessary.
- b) Receipt of interest and principal on investment of Government and other Trustee Securities held in CSDL/SGL/Demat accounts on the due dates shall be analyzed on a day to day basis.
- c) Receipt of interest on Inter Bank Deposits.
- d) Utilization of excess cash available in different branches
- e) Cash inflow and outflow depending upon release of refinance etc., repayment of borrowings and release of finance to branches.
- f) Deployment of surplus funds based on the daily position available in approved money market instruments.
- g) Borrowing of funds from counter-party Banks and Primary Dealers through approved instruments including Repo transactions.
- h) Utilization of average daily surplus on account of CRR requirement arising within the fortnight as per RBI stipulations.
- i) Funds available from Government, General Insurance Corporation etc for various purposes.
- j) Reconciliation of relevant transactions/ accounts.



3. Permissible investment.

The Bank shall go for investment in the following categories:

- a) Government of India dated securities
- b) State Government securities
- c) Government of India Treasury Bills
- d) Inter Bank Deposits
- e) Call / Notice Money investments
- f) Repurchase Agreement (REPO)

4. Exposure Limit

- (i) Following exposure limit are fixed against each type of investment.

Particulars	Limits
a) Govt. of India dated Securities	60% of the total deposit and own fund of the Bank
b) State Govt. Securities	
c) Govt. of India Treasury Bill	
d) Inter Bank deposit	To be fixed by the Investment Committee from time to time.
e) Call Money (Borrowing and Lending)	No exposure limit
f) Non-SLR	10% of previous year deposit.
1. "A" or equivalent and higher rated Commercial Papers (CPs), debentures and bonds.	
2. Units of Debt Mutual Funds and Money Market Mutual Funds.	
3. Shares of Market Infrastructure Companies (MICs), e.g. clearing Corporation of India Ltd. (CCIL), National Payments Corporation of India (NPCI), Society for Worldwide Inter-bank Financial Telecommunication (SWIFT).	

- (ii) For any particular Government Security maximum exposure shall be limited to Rs.300.00 crores.
- (iii) Total daily transaction (sale and purchase) shall not exceed Rs.20.00 crores.
- (iv) Trading exposure shall be limited to Rs.10.00 crores by the Investment Officer per day
- (v) Any deal beyond Rs.5.00 crores shall be decided by the Investment Officer up to a maximum amount of Rs.25.00 crores.
- (vi) Beyond Rs.25.00 crores any deal shall be approved by the Secretary
- (vii) In case of any odd lot deal, the Dealer is to take prior approval of the Investment Officer

5. Stop loss: The maximum permissible loss due to sale of any particular security by Investment Officer shall be limited to Rs.1/- (Rupee one only) per Rs.100/- in order to limit the loss on any transaction. In exceptional cases if it is considered advantageous to hold any security even though the stop loss limits breached taking into account the yield and marketability, approval of the Managing Director shall be obtained.

6. CSGL Procedure:

All investments in Government Securities shall be strictly dealt through CSGL account with SBI DFHI Ltd.

7. Dealing with Counter Party:

All purchase/sale of securities shall be dealt through Primary Dealers/ Banks. Negotiation of the price shall be based on the indicative rates available through reliable sources including information from various primary dealers and banks. Before finalizing the settlement, rates shall be obtained over phone/written quotations wherever available. In case of quotes obtained over telephone, the Dealer shall record the same in a register to be maintained for the purpose. After receipt of the quotes, the officer in charge of the mid-office shall examine the marketability, period and yield to maturity (YTM) etc. of the specific securities for taking an instant decision. There shall not be any transaction (sale or purchase) outside the CSGL account. On confirmation of the deal, letter of confirmation shall be obtained over FAX from Counter Party for reconfirmation.

8. Accounting:

- a) On purchase of securities on payment of premium, the face value along with premium shall be charged to the Investment in Central Govt./ State Govt. securities Account (CSGL & premium). Interest paid on such investment, accrued from the date of last payment shall be paid from the "interest received on investment account". On sale of the security, the value shall be credited to the investment in Central Govt. / State Govt. securities Account (CSGL and Premium). The capital gains, if any, on trading shall be credited to the Profit on Sale of Securities account. Interest received on sale of securities will be take to the "Interest received on investment account". Capital loss on sale of securities will be charged to the "loss on sale of securities account".
- b) On purchase of securities on discount, the face value shall be debited to the Investment in Central Govt./ State Govt. securities Account (CSGL & premium) and the amount of discount received shall be paid to the credit of Investment in Central Govt./ State Govt. securities Account (CSGL & premium). While on sale, Investment in Central Govt. / State Govt. securities Account (CSGL & premium) account shall be credited to the extent of discounted value paid at the time of purchase and balance amount shall go to the "Profit on sale of securities".

c) Investment Fluctuation Reserve (IFR):

With a view to building adequate reserve to guard against market risks:

- (i) Bank should build up Investment Fluctuation Reserve (IFR) out of realized gains on sale of investments and subject to available net profit, of a minimum of 5percent of the investment portfolio. This minimum requirement should be computed with reference to investments in Current Category. It will not be necessary to include investment under permanent category for the purpose. However, banks are free to build up a higher percentage of IFR up to 10 percent of the portfolio, depending on the size and composition of their portfolio with the approval of the Board of Directors.
- (ii) Bank should transfer maximum amount of the gains realized on sale of investment in securities to the IFR. Transfer to IFR shall be as appropriation of net profit after appropriation to Statutory Reserve.
- (iii) The IFR, consisting of realized gains from the sale of investments from the current category, would be eligible for inclusion in Tier-II capital.
- (iv) Transfer from IFR to the Profit and Loss Account to meet depreciation requirement on investment would be a 'below the line' extraordinary item.
- (v) Bank should ensure that the unrealized gains on valuation of the Investment portfolio are not taken to the Income Account or to the IFR.
- (vi) Bank may utilize the amount held in IFR to meet in future, the depreciation requirement on investment in securities.
- (vii) Distinction between IFR & IDR.

It may be noted that Investment Fluctuation Reserve (IFR) is created out of appropriation from the realized net profits/out of profits earned on account of sale of investment initially held under permanent category but subsequently shifted to Current category and forms part of the reserves of the bank qualified under Tier-II capital. Whereas Investment Depreciation Reserve (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 provision against depreciation in investment.

- d) In case the bank opens CSGL accounts of different Constituent Banks, there will be "off balance sheet items" in the G.L. head as follows:

For CSGL Transaction.

- 1. CSGL for constituent banks with subsidiaries - Liabilities
- 2. CSGL with RBI for constituent banks with subsidiaries - Assets.

For SGL Transaction.

- 3. SGL with RBI - Liabilities and Assets
- 4. Demat account with SHCI - liabilities and Assets.

Interest received on behalf of constituent Banks will be paid to the current accounts of concerned banks. A certificate regarding securities position is to be issued to the constituent banks fortnightly.

In case of purchase and sale of securities by the constituents' banks, entries in their CSGL accounts with SBI DFHI Ltd along with their designated fund account will be affected based on their deal settlement. For all transactions in Government securities one Designated Fund account shall be opened by the constituent banks.

9. Record and Registers:

The following registers/records are to be maintained for recording the investment transactions.

- (i) Deal Settlement Receipt
- (ii) Counter Parts confirmation
- (iii) SGL/CSGL confirmation for deal
- (iv) Banker's confirmation
- (v) SGL/CSGL Balance Certificate
- (vi) Deal Settlement Register
- (vii) Security Register
- (viii) Purchase/ Sale Register
- (ix) Gain/ Loss Register
- (x) Stop Loss Register
- (xi) Investment Committee Minute Book.

10. Exceptions:

Any exceptional transactions beyond the policy shall be made with the prior approval of the Secretary.

11. Risk Management.

The investment policy has taken into consideration of the risk associated with trading and there is in-built system of creating Reserves as per Reserve Bank of India / NABARD guidelines.

12. Investment Committee / ALCO.

For the time being, till the ALM concept is made applicable to the Bank, the Investment Committee shall look after the functions of the Asset Liability Committee (ALCO).

13. Report and Return.

A daily report shall be presented by the Investment Officer to the Secretary. The monthly report shall be generated and presented to the Investment Committee while the quarterly report shall be submitted to RBI.

P A R T - (B)

The duties and responsibilities of the above Accounts Section shall be as under:

Investment Officer

- (i) He shall remain in overall charge of the Investment Committee.
- (ii) He shall make periodical review of the investment position both inside and outside the CSGL account and shall apprise the same to the the Secretary.
- (iii) He shall sign all the Deal settlement sheets arising out of Treasury Management.
- (iv) He shall place all the deals settled during a month in the Investment Committee for approval.

Assistant Investment Officer in Front Office.

- (i) He shall place before the Investment Officer daily funds position of the Bank with reference to maintenance of SLR and CRR and indicate the NDTL position of surplus/ deficit of funds at the opening of the day.
- (ii) He shall make trading of Govt. securities and other Trustee securities by sale and purchase as per the rules specified in the Investment Policy of the Bank.
- (iii) He shall record the negotiated price after discussion with the SGL account holders and keep the same under his custody for future reference and take instant decision for purchase/ sale of GoI securities after consultation with SGL account holders and after examining the marketability, YTM and premium to be paid etc.
- (iv) For deployment of daily cash surplus, he shall contact the SGL account holder to ascertain daily call money market rate and shall remit the available surplus cash in consultation with Investment Officer for investment in call money market.
- (v) In case of requirement of funds, he shall also contact the SGL account holders for borrowing from call money market in consultation with the Investment Officer and borrow maintaining all formalities.
- (vi) For deployment of seasonal surplus funds, he shall contact the local Commercial Banks/ Private Banks and invest / withdraw along with renewals considering the market trend and future requirement of funds of the Bank in consultation with the Investment Officer.
- (vii) He shall attend to all other duties as may be assigned by the Investment Officer from time to time.
- (viii) He shall ensure collection of half yearly interest and principal on its dues dates on all type of securities held in NABARD/CGL/De-mat and in the safe custody.
- (ix) He shall obtain deal settlement sheets from the SGL account holders on the same day and ensure maintenance of up to date accounts in the CSGL account.
- (x) He shall maintain all records of daily transactions and prepare vouchers accordingly.

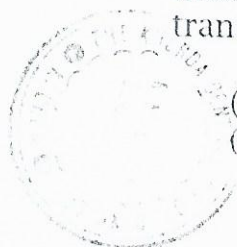


- (xi) In absence of the Dealer, he shall exercise the powers of the Dealer subject to control under Investment Officer.
- (xii) He shall maintain all Registers and Records of the TMC and shall prepare all the reports including valuation of securities relating to the Treasury Management.
- (xiii) He shall reconcile all the deposit accounts and CSGL account and Demat Account maintained by the Treasury Management of the Bank.
- (xiv) He shall attend other duties relating to TMC as may be assigned by the Dealer and Investment Officer.
- (xv) He shall verify the daily funds position of the Bank with reference to maintenance of SLR and CRR and indicate the NDTL position of surplus/ deficit of funds at the opening of the day.
- (xvi) He shall verify and recommend the trade of Govt. securities and other trustee securities by sale and purchase as per the rules specified in the Investment Policy of the Bank.
- (xvii) He shall take instant decision for purchase/ sale of GoI securities after consultation with SGL account holders and after examining the marketability, YTM and premium to be paid etc and recommend the deal for approval of the Investment Officer.
- (xviii) He shall recommend to the Investment Officer for deployment of daily cash surplus, after confirming daily call money market rate.
- (xix) In case of requirement of funds, he shall recommend to the Investment Officer for borrowing from call money market after maintaining all formalities.
- (xx) For deployment of seasonal surplus funds, he shall recommend the Investment Officer about the market trend and future requirement of funds of the Bank.
- (xxi) He shall remain in overall charge of the investment portfolio of the Bank subject to control of the Investment Officer.
- (xxii) He shall ensure that deal settlement sheets from the SGL account holders are collected on the same day and ensure maintenance of up to date accounts in the CSGL account.
- (xxiii) He shall approve all vouchers prepared and certify the correctness of the statements, reports and returns to be submitted to various quarters by the Bank Office of the Cell.
- (xxiv) He shall ensure maintenance of all Registers and Records of the TM and shall recommend compliance reports relating to the Treasury Management.

Investment Committee:

An Investment Committee comprising the following Officers of the Bank shall monitor and review the functioning of the TM on a monthly basis or more frequent intervals as may be decided by the Managing Committee from time to time and approve the loss if any incurred through any of the individual transactions enter into by the TM.

- (i) Secretary – Chairman
- (ii) Asst.General Manager, HRMD & Board Matters and General Administration



- (iii) Asst.General Manager, Loans & Supervision
- (iv) Asst.General Manager, Accounts & Operation - Investment Officer and Member Convener

The Investment Committee shall meet at least once every month to take stock of the activities of the TMC during the previous month and approve all deals. The Investment Officer shall produce all the relevant records and an analytical note on the functioning of the TMC in the preceding month before the Investment Committee.

Audit Control.

The internal Audit of accounts of TM shall be entrusted to a Chartered Accountant whose fees shall be decided by the Secretary, he (CA) will be responsible for checking the books of accounts of TM as per the approved rules, guidelines of RBI/NABARD and adherence to the Investment Policy in the day-to-day functioning of the TM. A Quarterly Audit Report shall be submitted to the Secretary. In turn, the Audit Report along with the compliance, if any, shall be placed before the Committee of Management at half-yearly intervals for onward transmission to RBI/ NABARD by 15th May and 1st November.

Sd-

Chief Executive Officer,


Khordha Central Cooperative Bank Ltd,
Khordha,

Sd-

President

Khordha Central Cooperative Bank Ltd,
Khordha,

True copy attested.


Chief Executive Officer,
Khordha Central Co-op. Bank Ltd.
KHORDHA