INVESTMENT POLICY F.Y. 2025-26

THE PRATAP CO OPERATIVE BANK LTD

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The Investment Policy in vogue has been be reviewed by the Board of Directors taking into consideration the guidelines/circulars issued by Reserve Bank of India on investments for UCB's made from time to time and approved in its meeting held on 19.07.2025

Coverage

1) Acceptance of deposit, issue of loan and advances and to invest in securities are the major fund activities of the Bank.

2) The Bank has to comply with various regulatory requirements, manager liquidity and ensure deployment of all available resources in earnings assets so as to generate income. For this, it is essential to often invest in securities and other investment instrument.

3) The Bank may make investments for its own investment a Account only. As per the Guidelines in force the Bank shall not undertake investments on behalf of its clients.

4) Investment by the Bank on its own account will be governed by this investment policy.

5) This policy has been farmed to ensure that investment operations are conducted in accordance with sound and acceptance business practice and as per various guidelines in force.

6) The Investment Policy of the Bank was formulated in 2002 and reviewed from time to time. The Policy was last reviewed in 2023.

7) The Policy has now been reviewed in terms of the latest Master Circular on Investment NORBI/2023-24/96 DOR.MRG.REC.01/00-00-011/2023-24 DATED April 1, 2023. issued by R.B.I. on Investment for UCB's.

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

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 Securities (from time to time
ii) a) Investment in Non-SLR securities and also excess SLR Investment	:-	As per need of the Bank also excess from time to time depending upon liquidity, Demand for Credit, interest rate scenario etc to maximise yield
b) Strategic and other investments	:-	As per requirements of the Bank.

The entire investment in govt. securities will be classified under following three categories -

a) Held To Maturity (HTM)

b) Held For Trading (HFT)

c) Available For Sale (AFS)

a) Held To Maturity (HTM)

As per the **Reserve Bank of India (RBI)** guidelines, the **Held to Maturity (HTM)** category of investments falls under the **prudential norms for classification, valuation, and operation of investment portfolios by banks**. Here's a concise overview of the **key norms related to HTM investments**, as per the **Master Circular – Investments by Primary (Urban) Co-operative Banks (UCBs)** and latest updates (including circulars like **RBI/2023-24/84 DOR.MRG.REC.45/03.04.002/2023-24** dated October 20, 2023):

Definition:

Investments classified under **Held to Maturity (HTM)** are those which the bank **intends to hold till maturity** (e.g., Government Securities, SDLs).

Instruments Eligible for HTM:

- **Central Government Securities**
- **State Development Loans (SDLs)**
- **Other approved securities** acquired with the intention to hold till maturity

HTM Limit:

- UCBs may classify **up to 25% of their total investments** under the HTM category.

Valuation:

- Investments under HTM are **not marked to market**.
- Carried at **acquisition cost**, unless purchased at a premium, in which case the **premium must be amortised over the remaining life** of the security.

Transfer to/from HTM:

- Shifting of securities **into or out of HTM** is allowed only **once a year**, typically at the beginning of the accounting year.

Sale of HTM Securities:

Sale is **generally not permitted**, except:

- Up to **5% of HTM portfolio** in a year (excluding one-time transfers).
- In case of **liquidity needs**, **interest rate risk management**, or **regulatory directions** (e.g., SLR shortfall).
- **Excess sales require RBI approval** and must be reported with justification.

b) Held For Trading (HFT)

Securities are acquired with the intention of earning profit due to short-term price / interest rate movements. Securities held under this category if not sold within 90 days due to exceptional circumstances must be shifted to AFS category. These reshuffling are permitted once in beginning of the financial year.

c) Available For Sale (AFS)

Definition:

- AFS category includes investments which the bank **does not intend to hold till maturity (HTM)** or **actively trade (HFT)**.
- These securities may be sold in response to **liquidity needs**, **interest rate movements**, or other **asset-liability management (ALM)** purposes.

Instruments Allowed:

- **Government securities (G-Secs)**
- **State Development Loans (SDLs)**
- **Approved securities**, bonds, debentures, PSU bonds, etc., as per RBI/Board-approved policy.

Valuation Norms:

- Securities under AFS are **marked-to-market (MTM)** at **quarter-end**.
- The **net depreciation** (if any) must be **fully provided** for.
- **Net appreciation** is **ignored** (not booked as income).
- **IFR should be done @5%**
- MTM should be done scrip-wise using prices published by **FIMMDA/FBIL** or as per RBI guidelines.

Shifting Between Categories:

- Shifting of investments **from AFS to HTM or HFT** and vice versa is permitted **only once in a year**, generally **at the beginning of the financial year**, with **Board approval**.

Sale of AFS Investments:

- **Freely permitted**, subject to:

- Investment policy approved by the Board
- Proper documentation.

- Profit/loss from sale is to be taken to **Profit & Loss account**.

Investment Ceiling:

- There is **no fixed ceiling** on AFS investment percentage.

Securities which do not fall under both HTM and HFT will be classified under AFS category. Investment committee may decide on the extent of Holding under this category.

Other Investments

The mutual fund investment will be restricted to Debt and Money market mutual funds along with daily surplus funds available after squaring off clearing operations to be invested in Liquid funds. Board of Directors in the Board meeting held on 26 June, 2015 have permitted investment of daily surplus funds in liquid funds with AAA+ ratings subject to returns being positive. However in terms of para 13.1.3 (d) of RBI Master Circular of Investments such investment will not rank for SLR.

Reserve Bank of India amended maintenance of Cash Reserve Ratio vide its circular RBI/2024-25/95 DoR.RET.REC.52/12.01.001/2024-25 dated December 06, 2024 decided to gradually reduce the CRR in two phases. Accordingly, banks are required to maintain the CRR at 4.25% of NDTL effective from the reporting fortnight beginning December 14 , 2024 and 4% of their NDTL effective from the effective fortnight beginning December 28, 2024. SLR has been kept as it is to 18%.

After complying with this statutory obligation, the Primary activity of the Bank will be lending to customers with satisfactory track record and backed by adequate prime and Collateral security.

Investment of surplus funds will be made in Govt. Securities (Central Govt/.State Govt.), Treasury bills and other approved securities, Fixed deposits in Nationalized Banks and other selected Schedule Cooperative Banks.

Prudential Inter - Bank (gross) exposure limit:

The total amount of deposits placed with other banks shall not exceed 20% of total deposit liabilities as on 31 March of the previous year. Moreover, the deposits with any single Bank should not exceed 5% of the total deposits as on 31st March of the previous year.

Investment committee

Investment committee consist following personnel

1. Shri C. K. Singh - Chairman
2 Shri K. S. Rathour, Vice-Chairman
3. Shri S. K. Singh - Director
4. Shri Narayan Atal - Director
5. Shri Surendra Singh - Director

The Investment Committee shall meet quarterly or from time to time and take decisions regarding Investment of Bank's fund in Govt./ Securities, other approved securities and fixed deposits in approved/eligible Banks etc. and to shuffle the existing investment in Govt. securities in the best interest of the Bank. Bank to provide 5% for Investment Fluctuation reserve and Investment Depreciation reserve on the investment in AFS and HFT category.

The Chief Executive Officer will carry out/ implement the decision of the Investment Committee.

The minutes of the Investment Committee will be properly recorded and put before the Board Meeting as early as possible for their perusal and approval.

The investment portfolio of the Bank should be kept in the form of CSGL. form and the CSGL A/c be opened in any institution approved by RBI guidelines.

Risk Management

The Investments of the bank are exposed to the following major risks.

a) Credit Risk.

b) Interest Rate Risk.

c) Liquidity Risk.

d) Market Risk.

The investment Committee shall monitor and control the above risk in terms of the broad policies enumerated below

a). Credit Risk

i. Credit risk is the risk of loss of Principal and Interest and the possibility that issuer will default on the obligation to the Bank Credit risk includes settlements risk.

ii. To Control Credit risk the Fund Departments shall follow credit rating and other standard principles as enumerated above in the policy.

iii. The Bank shall develop and adhere to the counter party exposure limits. Transactions in excess of limits fixed for inter bank transactions may be authorized by the CEO in exceptional cases and be got ratified from the BOD. The counter party should be reviewed annually or more frequently where required. Until the limits are reviewed, the previous limits will continue to apply.

Iv. The bank shall also develop an issuer wise investment limit for investments other than government securities. The limit could be related to the banks own funds as also the net worth of the issuer

b). Interest Rate Risk

i. Interest Rate Risk is the risk to the Bank due to adverse movement in the prices of the Securities due to changes in the market interest rates. The market movement of rates could result in loss of opportunity or value in the event of sale of such security the bank will have an immediate need to book losses due to fall in value if any.

ii. Interest Rate Risk cannot be avoided but can be managed. For this the fund department should develop as soon as possible as appropriate. System for calculating the interest rate sensitivity of the investment portfolio.

iii. The Fund department will prepare every fortnight short and medium term interest rate forecast for information of the investment committee. The funds departments will make such forecast on the basis of discussions with the market dealers as also paper reports.

iv. Based on the interest rate forecast the investment Committee will formulate the investment Strategies.

c). Liquidity Risk

i. Liquidity risk is the inability to exit an instrument when warranted. This could be further complicated by the fact that the bank may not be able to sell/divest at a reasonable price at short notice.

ii. Investment in short term money market instruments, securities with ready forwarded facilities and Securities that have a Secondary market helps to reduce liquidity risk.

iii. Therefore investment in long dated Securities should be made only when the cash availability is certain and that the investment is made on Asset/Liability Management Consideration.

iv. In order to ensure liquidity it is necessary to keep the investment diversified.

d). Market Risk

i. The market preference of an investor caused by tangible and intangible factors related to market behavior may cause decline in the price of a particular Security. This is called Market risk. To minimize the risk stop loss limit may be prescribed in the investment policy. Further investment fluctuation reserve has been created to minimize the impact of market risk.

Concurrent Audit:

The bank shall undertake half yearly and quarterly review as on 30 September and 31 March along quarterly review for Jun and December with of their investment portfolio and certify the adherence to laid down investment policy procedures and guidelines and put a notice board. Treasury transactions of all banks should be subjected to consumed audit and results thereof placed before the chairman every quarterly.

General guidelines:

a) The Bank shall not undertake purchase/sale transactions with any broking firms except they are of repute & registered and with the approval of the Board.

b) The Bank shall seek a scheduled commercial Bank (SCB), State co-operative bank as a primary dealer (PD) or a financial institution (FI) as a counter-party for their transactions.

c) Preference should be given to direct deals with such counter parties. The committee should check prices from the Banks or PDs with whom they maintain constituent SGL account (CSGL).

d) The Bank should take advantage of the non-competitive bidding facility provided for acquiring Government of India securities in the Primary auctions by the Reserve Bank as far as possible.

e) Only brokers registered with NSE/BSE/OTCEI should be utilized for acting intermediary. Disproportionate part of the business should not be transacted with through one or a few brokers. Banks should have a list of approved brokers. as or

f) Brokers should not be used in the settlement process at all. Both fund settlement and delivery of security should be done through the counter parties directly.

g) CSGL accounts should be used for holding securities. For all transactions, delivery versus payment must be insisted upon.

h) All transactions must be monitored to see that delivery takes place on settlement day. The funds account and investment account should be reconciled on the same day before close of business.

i) Dealing and back-up functions should be properly segregated. Officials deciding about purchase and sale transactions should be separate from those responsible for settlement and accounting.

j) All investment transactions should be recorded and approved by Investment committee and perused by the Board at least once a month.

k) All deal confirmation sheets should be kept in tact for the verification of the Auditors/inspectors.

1) Proper risk management system for making investment in non SLR securities which shall include entry level minimum credit rating/ quality standards and industry wise, maturity wise etc. limits to mitigate the adverse impact of concentration and liquidity risk.

m) investment proposals shall be subjected to the same degree of credit risk analysis as any loan proposal.

Delegation of Powers

1) Investment in Govt. (Central/State) Securities and other approved securities other than Fixed Deposits in Notified Banks:

The power to invest in the Govt. (Central & State) securities be vested with the Investment Committee of the Board. The Investment Committee through a Resolution (passed with majority votes) of members present will take decisions regarding investment in Govt. (Central/State) securities and other approved securities. The CEO will implement the decision of the Investment Committee and report the same to the Board for approval. However in case of emergency when the Bank is offered a lucrative deal from govt. Auction etc. which could be profitable to the Bank, in such case Chairman is authorized to take necessary decision in the interest of the Bank and give approval which will be subsequently ratified by the committee.

2) Investment in Fixed Deposits with Notified Banks:

The CEO of the Bank will have power to invest in Fixed Deposits with Notified Banks upto a maximum amount of Rs.300.00 lakhs at a time. Investment in Fixed deposits with Notified Banks above Rs.300.00 lakhs at a time will be vested with the approval of Investment Committee. The Committee will take investment decisions by a Resolution passed with majority votes of members present. The CEO will implement the decision of the Investment Committee of the Board and report the same as well as the Investment decisions made by himself in the next Board meeting.. However in case of emergency when the Bank is offered a lucrative bulk Deposit rate by Bank which could be profitable to the Bank, in such case Chairman is authorized to take necessary decision in the interest of the Bank and give approval which will be subsequently ratified by the committee.

This Investment Policy was presented before the members of the Board in the meeting held on 19.07.2025 for review and approval.

The Policy is discussed and adopted in the Board Meeting held on 19.07.2025.

Chief Executive Officer   Chairman