

Tiruvalla East Cooperative Bank (TECB) Ltd No. 3260

INVESTMENT POLICY 2023

The need for framing an investment policy and periodical review arises as there are various avenues which are to be explored to maximize profit and to manage risk within the prevailing guidelines and master circular instructions of the Reserve Bank of India (RBI) and the provisions contained in the Kerala Co-operative Societies Act 1969 and Rules. Efficient fund management is critical and important in the present environment. The investment policy guidelines shall be implemented to ensure that operations in securities are conducted in accordance with sound and acceptable business practices.

The investment decisions/transactions of the Bank shall at all times view due considerations to the safety and liquidity aspect of its security portfolio. All investment proposals would be considered from the point of view of rating of the instrument, maturity, liquidity, yield, security and capital appreciation etc. The investment activities would be carried out by the concerned officials of the Bank under the overall supervision of MD/CEO. An investment committee will be formed to guide, control and monitor and ensure transparent conduct of treasury functions.

1. OBJECTIVES

Following are the Objectives of the Investment Policy:

- i. To maximize portfolio yield in a manner that is consistent with liquidity needs, pledging requirements, asset/ liability management strategies and safety of principal.
- ii. To comply with statutory liquidity ratio (SLR) requirements.
- iii. To effectively manage liquidity.
- iv. To attain the required maturity pattern of security, to earn trading profit.
- v. To establish a governance frame work to facilitate investment activities of the Bank.
- vi. To make investment within exposure limits, issue wise limits, issuer wise limits, rating requirements, management action triggers etc.
- vii. To sets the reporting and ratification requirements with regard to breach of exposure limits
- viii. To assist the operating personal to understand the investment management operations.
- ix. To invest the day to day surplus fund in call/term deposits for getting better returns on investible funds.
- x. Any other purpose asked may be deemed fit by the Board of Directors (BoD) of the Bank subject to the provisions KCS Acts and Rules and directives issued by RBI from time to time.

The investment policy of the Bank shall remain valid unless some changes are warranted/desired.

2. INVESTMENT COMMITTEE

The investment committee of the Bank is responsible for recommending to the BoD uniform investment policies and procedures which, while striving to maximize portfolio performance, will keep the management of the portfolio within the bounds of banking practice and satisfy the liquidity and legal requirements of the Bank.

The Investment committee of the bank would consist of the following members namely

- i. Chairman
- ii. Three Directors appointed by the BOD
- iii. The MD/CEO (Convenor)

The quorum for the meeting shall be three.

Frequency of meeting: Monthly or as and when required

3. FUNCTIONS OF INVESTMENT COMMITTEE

- i. To guide, suggest control, monitor and take other suitable action/steps to ensure smooth, transparent and effective conduct of treasury functions in consonance with the Bank's investment policy and regulatory guide lines.
- ii. To suggest overall strategy/approach to investment activities of the Bank.
- iii. To consider and sanction/confirmed/ratifying or otherwise investment proposals within the powers delegated to the committee.
- iv. To consider and recommend or otherwise to the BoD investment proposals beyond the power delegated to the committee.

4. DELEGATION OF POWER

- i. All investment decisions up to Rupees 50 lakhs can be taken by the MD/CEO in consultation with the Chairman.
- ii. Investment exceeding Rupees 50 lakhs will be made by the investment committee/BoD.

5. STATUTORY INVESTMENTS (STATUTORY LIQUIDITY RATIO-SLR)

5.1 Maintenance of SLR

Bank is required to maintain a uniform statutory liquidity ratio (SLR) of 18% minimum or as advised by RBI from time to time of the total demand and time liabilities as on the last Friday of the second preceding fortnight. The SLR is required to be maintained in

- a) Cash or
- b) Gold valued at current market price or
- c) Unencumbered approved securities or
- d) Net Balance in current accounts maintained with SBI and/any other bank notified by the Central Government/RBI
- e) Current account with Kerala State Co-operative Bank (Kerala Bank)
- f) Government securities and other approved securities as per RBI guidelines

5.2 Computation of demand and time liabilities

A) Demand liabilities are the liabilities which are payable on demand, they include

- i) Current deposits
- ii) Demand liabilities portion of Savings Bank deposits
- iii) Balances in overdue fixed deposits, Cash certificates and cumulative/recurring deposits less deposit loan
- iv) Outstanding demand drafts
- v) Unclaimed deposits
- vi) Credit balances in cash credit accounts
- vii) Deposits held as security for advances which are payable on the Bank

B) Time liabilities are those which are payable otherwise than on demand. They include:

- i) Fixed Deposits
- ii) Cash Certificates
- iii) Cumulative and recurring deposits
- iv) Time liabilities portion of savings bank deposits
- v) Staff security deposits
- vi) Margins held against letters of credit, if not payable on demand.
- vii) Fixed deposits held as securities for advances
- viii) India Development Bonds

C) Valuation of approved securities for SLR

Securities held at the end of every month so long as these are held continuously and are still in the Bank's portfolio should be valued by adopting the system of valuation as per the RBI's guidelines for classification and valuation of investments by bank. Bank has to undertake valuation of total investment portfolio every month.

D) Categorisation of SLR portfolio

- i) SLR portfolio is to be split-up into two categories: Available For Sale and Held To Maturity.
- ii) Potential/Actual losses, if any on account on transfer from one category to another category should be recognised immediately and reported to CEO/MD. Investment committee and the Board of Directors.
- iii) This should update on a daily basis and statutory requirements such as maintenance of the SLR requirement and the 25 percentage HTM portfolio on total investments monitored.
- iv) The entries are to be passed by Accounts Department.

6. PERMISSIBLE INVESTMENTS

The following categories of investments are permitted

- i. Government of India dated securities
- ii. State Government bonds, Government of India treasury bills
- iii. Bonds and securities of financial institutions, public sector undertakings (PSU) approved under S.20 of the Indian Trust Act 1882, umbrella organization of Urban Co-operative banks.
- iv. Certificate of Deposits (CDs) and Commercial Papers (CPs)
- v. Approved debentures and bonds
- vi. Interbank deposits
- vii. Call/notice money investments
- viii. Term deposits in Kerala Bank/ small finance banks and other scheduled banks
- ix. Units of debt mutual fund and liquid fund
- x. Any other type of investment as permitted by RBI and the Kerala Co-operative Societies Act 1969 and Rules made there under from time to time.

7. EXPOSURE LIMIT FOR EACH TYPE OF INVESTMENTS

The Exposure Limit for each type of Investments shall be as per the guidelines issued by RBI from time to time.

8. INVESTIBLE FUNDS

Investible funds of the Bank shall be arrived at by taking the following factors into consideration

- i. Deposit position of the Bank
- ii. Credit requirements of the members of the Bank
- iii. Statutory commitments of the Bank
- iv. Any other commitments as envisaged by the Bank as per the directives of the RBI/RCS.
- v. The surplus funds of the bank shall be arrived and invested in greatest return portfolio as permitted by this policy.

9. INVESTMENT IN CALL/TERM DEPOSITS

The Bank shall consider investing in call/term deposits whenever it has enough surplus money. The Bank shall consider the following factors while investing in call/term deposits.

- i. No brokers are involved for call/term money operations
- ii. Call/term money deposits to be made with dealing bank/ Primary Dealers only
- iii. ALM of the bank to match short term requirements of the bank
- iv. Money intended for call/term deposits can be remitted by way of any mode as may be deemed fit by bank

- v. The bank in consultation with the executives of the dealing bank, officers at the treasury section will give instructions for investment in call/term deposits.
- vi. The bank shall clearly inform officers in treasury section about the number of days for which the term deposits to be made followed by confirmation by way of letter signed by the authorised officer.
- vii. The bank shall monitor the repayment of principal and periodical interest on such money invested in call/term deposits on due days

10. MODE OF INVESTMENT/ PURCHASE OF GOVT. SECURITIES

The Bank shall invest/ purchase Government securities issued by the Government of India/State Government by way of

- i. Auction (yield based, price based of floating rates)
- ii. Sale of securities with free announced rates
- iii. On-tap sale
- iv. Any other mode as may be notified by the RBI/GOI

11. PARAMETERS FOR INVESTMENT/ PURCHASE OF GOVERNMENT SECURITIES

The Bank shall consider the following factors while investing/ purchasing Government Securities

- i. The Yield to Maturity (YTM) for the security proposed to be purchased shall be at a minimum of 7% (The YTM shall be fixed by the BoD considering the cost of funds of the bank, rate of return on alternative investment avenues etc.)
- ii. The maximum premium that can be paid per security for the face value of Rs.100 shall be 5% (The management may fix a maximum ceiling for payment of premium over and above the face value i.e. (Rs.100 per securities) so that bank shall exercise more cautions on their investment.
- iii. The maximum value of security that can be invested/ purchased in a deal shall be at a maximum of 5 crores

12. INVESTMENT PROCEDURE FOR INVESTMENT/PURCHASE OF GOVT. SECURITIES

The Bank shall adopt the following procedures for investment/ purchases of Govt. securities

12.1 Investment in primary market

- a) The Bank after obtaining necessary approval from the investment committee/Board the MD/CEO shall request the PDS/dealing Bank in writing or by E-mail for subscription to the Govt. loan issued on tap-basis. The purchase/ investment request should be signed by the authorised officers of the bank.
- b) The Bank shall ensure adequate funds in its current account with dealing bank as at the close of business on the previous day to meet the investment proposal of the bank
- c) Purchase of Government securities shall only be in deemat form and DVP basis. The Government securities so purchased shall be kept in SGL account with RBI or CSG account with the dealing bank/PDS.
- d) The Bank shall not purchase G.Sec. in physical form except for a specific purpose as approved by the BoD.

12.2 Investment of G.Sec in secondary market

- a) The Bank shall identify G.Sec to be purchased based on the reports published in the Financial Dailies, information collected from Primary / Secondary market or information given by the Dealing Bank / PDs, etc.

- b) The Bank shall then call up the Dealing Bank / PDs to ascertain the latest price for the G.Sec identified by the Bank. It shall also ascertain the latest price trend in the Debt Market and decide the G.Sec to be purchased.
- c) Based on the quotes obtained and other relevant factors, the Authorized Official of the Bank, after getting necessary approval of the Investment committee/BoD the MD/CEO, shall place orders with the Dealing Bank/PDs for purchase of the G.Sec over phone or E-mail followed by confirmation in writing.
- d) The Bank shall ensure adequate funds with dealing bank as at the close of business on the previous day to meet the cost, interest accrued on the G.Sec.
- e) The Bank shall receive the deal confirmation from the Dealing Bank / PDs. On receipt of which the Bank shall pass necessary entries in the books, it shall check the deal confirmation for correctness of transaction and if found in order, the Bank shall return the deal confirmation duly signed by the Authorized official.
- f) The Bank shall receive a statement of account from the Dealing Bank / PDs with whom the transaction was done showing the transactions during the fortnight.

13. SALE OF GOVERNMENT SECURITIES

The Bank may consider to sell the securities in the 'Held for Trading' at a 5% or higher than the cost price or the average price of the security (whichever is less). However the Bank may with the permission of the Investment committee/BoD the MD/CEO sell the securities at less than the cost price in order to maintain liquidity of the Bank or to meet unforeseen circumstances of the Bank or to minimize the loss in anticipation of steep fall in the price of securities in the Debt Market.

14. PROCEDURE FOR SALE OF GOVERNMENT SECURITIES:

- a) The Bank shall identify the G.Sec for sale among its G.Sec portfolio.
- b) It shall obtain the quotes from the identified scripts from dealing Bank/PDs/Online Service. Based on the quotes obtained and other relevant factors, the authorized officials of the Bank shall get the necessary approval of the Investment committee/BoD the MD/CEO place orders with Dealing Bank/PDs for the sale of the identified G.Sec over phone or E-mail followed by confirmation in writing.
- c) The Bank shall ensure that the intended G.Sec. is in the credit of CSGL Account with Federal Bank / PDs be available as at the close of business on the previous day.
- d) The Bank shall receive the deal confirmation from the Dealing Bank/PDs on receipt of which the Bank shall pass necessary entries in their books, it shall also check the deal confirmation for the correctness of the transaction and if found in order the Bank shall retransmit a copy of the deal confirmation to the Dealing Bank/PDs duly signed by the Authorized officials.
- e) The Bank shall receive a statement from the Dealing Bank/PDs with whom the transactions was done showing the transactions done in the CSGL account during the fortnight.

15. INVESTMENT IN NON-SLR BONDS:

The Bank may invest their surplus funds in Non-SLR investment upto 10% to total Deposit as on March 31st of the previous year, subject to the conditions as containing Circular issued by RBI from time to time. The Bank shall invest in the following investments:-

- a) 'A' or equivalent and higher rated Commercial Papers (CPS) debenture and Bonds.
- b) Units of Debt Mutual Funds and Money Market Mutual Funds.

In order to contain risks arising out of the Non SLR Investment Portfolio of the Bank, the bank shall keep the restrictions as specified by RBI from time to time.

16. REPORTING OF TRANSACTIONS:

i. Daily Report

The Bank shall prepare a Daily report on the transactions showing the details of purchase/ sales securities and put up to the MD/CEO for ratification.

ii. Monthly Report

A report on the transactions done during the previous month viz., investments in primary issues and purchase in secondary market sale/ redemption of securities shall be placed in the following month in the BoD for ratification.

iii. Quarterly Report

A report on the transaction done during the quarters ended June, September, December and March viz., investments in primary issues and Purchase in Secondary market, sale/ redemption of securities shall be placed in the Board Meeting on or before the 15th of following month of the quarters for information.

iv. Half-yearly report

A report of the transaction done during the half-year ended September and March viz., investment in primary issues and purchases in secondary market sales redemption of securities shall be placed in the BoD on or before 15th of the following month of the half year for information. Similar reports as required by RBI by 15th November and 15th of May respectively.

17. AUDITING:

The internal, concurrent and external auditors shall ensure that proper control exists and are functioning properly. Securities transactions of the Bank shall be separately subjected to concurrent audit by Internal Auditors and results of the audit shall be placed before the Chairman/MD/CEO once in a month.

18. VALUATION AND CLASSIFICATION OF SECURITIES:

The Bank shall follow the guidelines issued by RBI from time to time for classification and valuation of investment of UCBs.

19. CATEGORISATION OF INVESTMENTS:

The entire Investment Portfolio (including SLR and Non-SLR securities) are classified into three categories viz.,

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

The decision regarding the category of investments shall be decided at the time of acquisition and the decision shall be recorded on the investment committee minutes.

(i) Held to Maturity

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

(ii) Held for Trading

Securities acquired by the Banks with the intention to trade by taking advantage of the short-term price/ interest rate movements will be classified under "Held for Trading" category

20. AUDIT AND INSPECTION

The internal, concurrent and external auditors shall ensure that proper control exists and are functioning properly. Securities transactions of the Bank shall be separately subjected to Internal Audit and Concurrent Audit and results of the audit shall be placed before the Chairman / MD/CEO once in a month.