The Bhiwani Central Coop. Bank Ltd. Bhiwani

REVISED INVESTMENT POLICY

Coverage

- Acceptance of deposit, issue of loan and advances and to invest in securities (primary and secondary market) are the major fund activities of the Bank.
- 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.
- 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.
- Investment by the Bank on its own account will be governed by this investment policy.
- 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.

1- Objectives:-

The investments securities portfolio of The Bhiwani Central Cooprative Bank Ltd; Bhiwani Shall be managed to maximize portfolio yield over the long term in a manner that is consistent with liquidity needs pledging requirements, asset/,liability management strategies and safety of principal.

Portfolio strategies will be utilized to assist the Bank through means established in this Policy and the investment Portfolio Strategy, in the attainment of a level of interest rate sensitivity consistent with the goals of the Assets/Liability Management Policy.

1) The Broad objectives of the Investment Policy shall be:

- Compliance of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) as per Banking Regulation Act 1949.
- Maximizing yields on investments with thrust of SLR category.
- Ensuring adequate liquidity to the investment portfolio
- To Manage interest rate Risk/market risk with appropriate risk management tools/systems.

2) Documentation:-

The Bank will exercise the same degree to care in bond portfolio transactions/government securities/mutual funds as it does in documenting loans or any of the other assets of the Bank. The retention of all supporting documentation will include the following.

- Description of each security purchased and reason for transaction
- Designation of portfolio segmentation (AFS Vs HTM) at Purchase Name of dealer

Trade date, Settlement date

- Issuer
- Coupon
- Price
- Yield
- Duration, average life, maturity
- Par value

3. Portfolio Management Philosophy:

As stated in the objective of the Policy, the investment portfolio will be managed to maximize income within certain parameters and limits. It is the philosophy of the bank to effective duration, rate shock analysis, as well as toll return to analyze and manage the investment portfolio and the determine the effect to interest rate movements on the yield and value of the Bank's portfolio. It is expected that as credit or market value risk increases, the yield should also increase. The primary strategy of the Investment portfolio will be to maximize total return by balancing all kind of risks.

4 Investment Committee:-

a) MD/CEO/General Managers(chairmen)
b) Incharge inspection Cell (member)
c) Incharge Accounts & Borrowings Section(Member & Secretary)

Minimum quorum shall consist of 2 Members

4.1 The Investment Committee shall be vested with all powers of investment/disinvestment as per the delegation of power granted by the Board.

4.2 The Committee shall meet as and when required at short notice.

4.3 The M.D./CEO/GM shall act as the Chairman of I.C. in his absence; Senior could act as a Chairman of IC. The quorums shall be two incharge LAS shall act as a Member cum secretary to the Committee.

4.4 The Investment Committee shall also function as Asset & Liability Management Committee (ALCO) & Meeting of ALCO Must be held at least once a month

4.5 The decision taken be the investment Committee along with a review of fund flow and investment details will be reposted to the Board of Directors/Administrator every half year.

5. Functions of investment Committee:-

- To approve investment transactions within the financial powers delegated to it by the Board.
- To review the investment transaction in doing so it will ensure compliance with the regulatory and statutory requirement and the investment policy.
- To review external/internal audit reports relating to the investment functions.
- To consider the cash flow, funds position, likely commitments review the interest rate scenario and other market developments.
- Issue guidelines for investment operations.
- To oversee the asset and liability management of the Bank.

6 Delegation of Powers.

No delegation of power is allowed for investment committee.

7 Statutory and Mandatory Investment

The RBI has stipulated that the Bank has to maintain a level of investment for compliance of reserve on account of SLR.

a) SLR investments consists of :-

- Central Government securities.
- State Government Securities.
- GOI Treasury Bills
- Balances in Current Accounts with notified bank.
- Excess CRR maintained.

b) Non SLR Investment:

The Bank may invest in NON-SLR investment portfolio subject to the following:

Prudential Limit:

Total Non SLR investment shall not exceed 10% of the total deposits of a bank as on March 31 of the preceding financial year.

Instruments

The Bank may invest in the following instruments.

i. “A” or equivalent and higher rated Commercial Papers (CPs) Debentures and bonds.
ii. Units of Debt mutual Funds and Money Market Mutual Funds.
iii. Shares of Market infrastructure Companies(MICs) e.g. Clearing Corporation of India Ltd (CCIL) National Payments Corporation of India (NPCI) Society for World-wide inter Bank financial Telecommunication (SWIFT)

Restrictions for investment in Non-SLR investments (In terms of RBI Circular No DCBRBPDNo01/19.51.026/2016-17 dated 14-07-2016:

i. Investment in perpetual debt instruments in not permitted

ii. Fresh investments in equity of All India Financial Institutions (AIFIs) will not be permitted. The existing share-holding in these institutions. If any, may be phased out over a period of three years and till the time such investments are held in the books of the Bank, they will be reckoned as NON-SLR investments for the purpose of computing the limit prescribed as above.

iii. Investment in units of Mutual Funds, other than units of debt Mutual funds and money market Mutual Funds, is not permitted. The existing investment in units of Mutual Funds other the Debt/Money Market mutual Funds should be disinvited. Till the time such ineligible investments are held in the books of the bank they will be reckoned as NON-SLR investments for the purpose of commutating the limit of Non SLR investments. The banks shall review the risk management policy and ensure that they do not have disproportionate exposure in any one scheme of Mutual Funds.

iv. Investment in unlisted securities shall be subject to a minimum rating ("A or equivalent and higher rated commercial papers, debentures and bonds") above and shall not exceed 10 percent of the total NON SLR investments of a bank at any time. Where banks have already exceeded the said limit no further investment in such securities shall be made. Investment in NON SLR debit securities (Both primary and secondary market) where the security is proposed to be listed on stock exchange (s) may be considered as investment in listed security at the time of making the investment. If such security is not listed subsequently within the period specified, the same will be reckoned for computing the 10 percent limit prescribed for unlisted NON SLR securities. In case such investments under the unlisted Non SLR securities lead to breach of 10 percent limit the bank will not be allowed to make further investments in NONSLR securities (both primary and secondary market) till such time its investment in unlisted securities is brought within the limit of 10 percent.

v. Investment in deep discount/zero coupon bonds shall be subject to the minimum rating and comparable market yields for the residual duration. No Investment shall be made in zero coupon bonus unless the issuer has created a sinking fund for all accrued interest and keeps it invested in liquid instruments/securities (government bonds)

vi. NON SLR investment, other than in unit of Debt mutual funds and Money Market Mutual Funds, and CP,s shall be in instruments with an original maturity of over one year.

vii. All fresh investments under NON SLR category shall be classified under "Current Category only and marked to market as applicable to these categories of investments.

viii. All Non SLR investment shall be subject to the prudential limits prescribed for single/group counter-party exposure.

ix. The Bank may invest in Certificate of Deposits (CDs) issued by scheduled commercial banks (other than Regional Rural Banks and Local Area Banks) and select all India Financial Institutions that have been permitted by RBI to raise short term resources within the umbrellas limit fixed by the Reserve Bank of India. Investment in CDs will be treated as inter-Bank deposits and shall not be reckoned for computing the limit of Non SLR investments prescribed at above.

Other Investments:-

- The investments shall be made up liquid, short, medium and long term assets in the form of money market instruments, government securities including Treasury bill and FI/PSU bonds. Whereas the objective is maximization of the yield the risk factors such as credit risk (default risk) interest rate risk and liquidity risk will be taken into account in view of the likely fluctuations in the reserve requirements vis-a-vis the volume of investment as also to manage the liquidity the bank may have to trade (Buy and sell) in some securities. The bank may therefore buy and sell through a primary dealer or directly.
- Treasury Bills
- GOI Securities (specifically short listed for the same)

- Before starting trading in securities panel of primary Dealer & their limits shall be got approved from the BODs/BOAs

9. Acceptable security dealers and Brokers.

i. A list of security dealers and the brokers as per RBI Guidelines with whom the Bank is authorized to transact business shall be approved by the BOD after taking into account the dealer's credit worthiness and capital base.

ii. Transactions between the Bank and another Bank shall not be put through the Brokers accounts. The brokerage on the deal payable to the broker, if any (if the deal was put though with the help of a broker) should be clearly indicated on the deal slip put up to the top management seeking approval for undertaking the transactions and separate account of brokerage paid, broker wise shall be maintained.

iii. The role of the broker shall be restricted to that of bringing to two parties to the deal together.

iv. While negotiating the deal the broker is not obliged to disclose the identity of the counterparty to the deal. On conclusion of the deal, he shall disclose the counter party and his contract note should clearly indicate the name of the counterparty.

v. On the basis of the contract note disclosing the name of the counterparty, settlement of deals between bank viz both fund settlement and delivery of security shall be directly between the banks and the broker should have no role to play in the process.

vi. A limit of 5% of total transactions (both purchase and sales) entered into by the bank during a year shall be treated as the aggregate upper contract limit for each of the approved brokers. The limit shall cover both the business initiated by a bank and the business offered/brought to the bank by brokers. The bank hall ensures that the transactions entered into through. Individual brokers during a year normally do not exceed this limit. However, if for any reason it becomes necessary to exceed the aggregate limit for any broker. The specific reasons therefore should be recorded, in writing, by the authority empowered to put through the deals. Further, the board shall be informed of this, post fact. However, the norm of 5% would not be applicable to bank dealings through primary dealers.

vii. The concurrent auditor who audits the treasury operations shall scrutinize the business done through brokers also and include it in their monthly report to the chief executive officer of the bank. Besides, the business put through any individual broker or brokers in excess of limit. With the reasons therefore, shall be covered in the half-yearly review to the board of directors.

.Categorization of the securities.

. Categorization of securities shall be done in accordance with the RBI guidelines from time to time.

.Maturity pattern of investment portfolio:

The maturity pattern of investment shall be as given below:-

Tenor of security	Proposed position in %
Long dated> 10 years	25-30%
Medium -5-10 years	20-25%
Short dated 1-5 years	25-30%
Liquid< 1 years	20-25%

11.a. Investment Mix

The banks investments arise on account of statutory needs and other surpluses. The other surpluses are a function of deposits. Based on this bank shall opt for following investment mix

SLR investment	% of total statutory investment
State development loans	0-100%
Central Govt. Securities	0-100%
Treasury Bills	0-25%
Repos	0-20%
Bonds and debentures of other institutions reckoned for SLR purposes	0-20%
Other investments	% of temporary surplus
Govt. Securities (short maturities)	0-100%
Inter- bank deposit a) SBI & its subsidiaries b) Schedules Coop banks c) State coop banks d) Nationalized banks e) Bank/institutions approved by the state Govt Treasury bill	0-100% 0-25%
Units of mutual fund	0-10%
PSU of bonds/ banks institutions approved by the state Govt	0-25%

12. Classification of investment

Immediate term	Overnight inter-bank investment
Short term	. Up to 30 days . 31 days to 180 days . 181 days to 1 year
Mid term	1 year to 3 years Above 3 years to 5 years
Long term	Above 5 years

Investment in immediate terms and short term shall be to park temporary investible surplus as float in appropriate investments of matching maturity such as call money interbank deposit/fixed deposit, Treasury bills etc. In order to avoid money laying die in form of current account balance it should be ensured that the money is invested in call money. Other investments shall be made as for as possible by matching the sources and maturity of liabilities so as to minimize the instances of maturity gap and liquidity short fall.

13. Secondary Market Operations

Bank shall purchase only these securities in the secondary market where the scripts have record and registered in the name of the seller and such transactions except inter banks transactions should only be through recognized stock exchanges and registered stock brokers. However, in respect of the PSU bonds and NON SLR permitted securities. The bank shall access the primary market only all the securities will the done directly or through approved primary dealers and if bank may not use the stock of brokers.

14. Stop loss limit

i) Debt Market segment

Held for trading category

Stop Loss: Stop Loss means the level at which the investment officer has to sell the security. When the present market value falls below by 3% or more of the cost of the security. Stop loss is triggered.

The said limit may be relaxed to 4% by the Investment Committee only under exceptional circumstances like not being able to sell due to tight liquidity conditions, extreme volatility or market becoming unidirectional. Further the same should be put up before Investment Committee for its review in the next scheduled meeting. Book profit means the level at which the investment officer should book the profit by selling the underlying investment when the present market price is more by 3% of the cost of security.

The said limit may be extended to 5% by the investment Committee depending upon the market conditions.

15. Dis-investment.

(a) Disinvestment of excess SLR securities/money market instruments like COD/debt instruments shall be vested with the investment committee.

(b) In case of Govt Securities disinvestment shall be decided by the investment Committee depending on prevailing market conditions and cost of different debts Transactions shall be through CSGL A/C at Mumbai.

16. 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 Managing Directors/District Manager in exceptional cases and be got ratified from the BOD. The counter party should be reviewed annually or more frequently where required. Till 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/borrower.

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 has been prescribed in the investment policy. Further investment fluctuation reserve has been created to minimize the impact of market risk.

17.Provisions for Exceptions:

In those situations when it may be prudent to make investment moves which would differ from current operating policy and when it would be impossible for the entire committee to convene the Senior Investment Officer and on the other investment Committee member may act for the entire committee. The policy is intended to be flexible to deal with rapidly changing conditions in the money and bond markets therefore the policies and procedure enumerated in this statement of policy can be emended by a vote of the investment committee. Any amendments to this policy will be recommended for approval by the Board of Directors as its next Board Meeting.

18. Internal Control:

For every transaction entered into a deal slip should be prepared which should contain details relating to name of the counter-party, whether it is direct deal or through a broker, details of security amount, price, contract date and time for each deal there must be a system of issue of confirmation to the counterparty. The Deal Slips should be serially numbered and controlled separately ensure that each deal slip has been properly accounted for.

On the basis of vouchers passed after verification of actual contract notes received from the broken/counter party and confirmation of the deal by the counter-party the Accounts Section should independently write the books of accounts.

A record of broker-wise details of deals put through and brokerage paid should be maintained.

The Internal Audit Department should audit the transactions in Securities on an ongoing basis and monitoring and monitor compliance with the laid down management policies and prescribed procedures and report the deficiencies directly to the management of the bank.

19. Concurrent Audit:

The bank shall undertake half yearly review as on 30 September and 31 March 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 month.

GENERAL GUIDELINES

1. Bank should ensure clear functional separation of Trading Settlement, monitoring & Control Accounting.
2. For every transaction the trading desk should prepare a deal slip with details of counter party/broker, security, amount, price, Contract date & time etc.
3. Depending on the availability of funds, the Board of Directors should phase the maturity pattern of investment to ensure regular flow of funds so that liabilities falling due at regular intervals are covered by at least an equal amount of realization assets.
4. No sale transaction should be put through by banks without actually holding the security in its investment account. The Sale transaction will settle either in the same settlement cycle as the preceding purchase contract, or in a subsequent settlement cycle.
5. No transactions in Government securities by the bank should be understand in physical form with any broker.
6. Banks may take advantage of the non-competitive bidding facility in the auction of Government of India dated securities, provided by RBI. Under this scheme, banks may bid upto Rs. Two Crore (face value) in Any auction of Government of India dated securities, either directly, through a bank or through a primary dealer.
7. Bank should maintain a separate account for each investment in the investment ledger and post there in actual Cost of security, the face value of security from whom purchased, last endorser brokerage, scrip number and number of pieces and date and place of Collection of interest etc. At the end of the financial year, all securities including fixed deposit receipts etc. Should be physically verified by the HO/Branch Manager where it should be ensured that the interest due on them is duly collected.
8. Specific arrangements may be made for safe custody of securities.
9. Test checks should be conducted at periodical intervals to study the variation in the rates at which transaction were affected when compared with the prevailing market rates.
10. In regard to subsidiary general ledger facility the precautions are as under.

a) Transfer through SGL/CSGL accounts by such banks can be made only if they maintain a regular Current account with RBI/notified banks.
b) Before issue of SGL/CSGL transfer from covering then safety transaction banks should ensure that they sufficient balance in then incentive SGL account.
c) SGL/CSGL transfer from received by purchasing bank should be deposited in their SGL/CSGL account immediately.
d) SGL/CSGL transfer from should be recorded with the respective PDO and other banks
e) SGL/CSGL from should be on the standard format and serially numbered.

f) Bank should be forward a quarterly certificate to the concerned PDO, indicating that the balances held in the SGL/CSGL account with the PDO/RBI have been reconciled and that it has been placed before the Audit Committee of the Board. A copy thereof should be sent to the concerned Regional Office of the Urban Banks Department.

g) Banks should put in place a system to report to the top management on a monthly basis the details of transactions in securities, details of bouncing of SGL transfer form issued by other banks and review of investment transaction undertaken during the period.

11. Instruction regarding bank receipts.

a) No BR should be issued in respect to transaction in Government securities for which SGL/CSGL facility is available.

b) BR should be issued only for ready transactions.

12. When dealing through brokers.

a) Is should be ensured that the role of the broker should be restricted to bringing both the parties to the deal together.

b) With the approval of Board of Directors of the bank, an approved panel of brokers should be prepared Broker should be empanelled after verifying their credentials.

ACCOUNTING POLICY

The accounting policy and procedures adopted by the bank is as stipulated by the Reserve Bank of India which includes the following:-

a) Classification of Investment
b) Shifting of Investments
c) Valuation of investments
d) Accounting methods adopt Profit/loss on redemption
e) Accounting of Overdue investments

1. CLASSIFICATION INVESTMENT

The entire Investment portfolio of the Bank will be classified under 3 categories

a) Held to maturity.
b) Held for trading.
c) Available for sale.

This classification is only for the purpose of prudent monitoring of Investment.

However, in the books of accounts of Bank/Balance Sheet the Investments will continue to be disclosed as per the existing five Classifications.

i. Govt. Securities
ii. Other approved securities
iii. Shares
iv. Debentures and bonds
v. Other i.e. FD/Call Money etc.

Held to Maturity: The Securities acquired by the bank with the intention to held them till maturity will be classified under “Held to Maturity”.

Held to trading: The securities acquired by the bank with the intention trade by taking into advantage of the Short Term/interest rate movements will be classified under “Held for Trading”

Available to Sale: - The Securities which do not fall within the above categories will be classified under “Available for sale”.

1. Bank should decide the Category of Investment at the time of acquisition and the decision should be recorded on the investments proposals.
2. The Bank shall not sell securities under 'Held to Maturity' category freely but if any such security is sold any loss of profit on the transaction shall be first taken into the profit and loss account and thereafter appropriated to the Capital reserve account.
3. The Bank will have freedom to decide the extent of holding under available for Sale and held for trading. This will be decided by the Bank after considering various aspects such as basis of interest, trading Strategies, risk management, capabilities. Tax planning, manpower skills, position of the capitals etc.
4. The investment classified under "held for trading" category would be that form which the bank expects to make a gain by the movement in the interest rates, market rates these securities are to be sold within 90 days. If the bank is not able to sell the securities within 90 days due to exceptional circumstance such as high liquid conditions, or extreme volatility of market become unidirectional the securities should be shifted to the available for sale category, other than reasons mentioned above shifting of investments from "held for trading category to available for sale category are not allowed.

2. SHIFTING OF INVESTMENTS FROM ONE CATEGORY TO ANOTHER.

   Bank may shift investments to/from held to maturity category with the approval of the Board of direction 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 the accounting year.

   Shifting of Securities from 'available for sale' category to held for trading" category shall be done by the investment committee but should be ratified by the Board of Directors.

   Transfer of Scripts from One Category to another under all Categories should be done at book value of market value on the date of transfer whichever is least.

3. **VALUATION OF INVESTNENTS.**

   The "permanent" investments should be valued at Cost and in case the cost price is higher than, the face value, the premium should be amortized over the remaining period of maturity of the Security On the other hand, where the cost price is less than the face value, the difference should not be taken to income since the amount represents unrealized gain.

   Investments should be shown in the balance sheet net of depreciation. It would however be open to the bank, for disclosure purpose, to show in the balance sheet the book value of investments, the depreciation there against and net amount of investment separately

   'Investments under "Current" category should be carried at lower of cost or market value, on a consistent basis and the valuation should be done on a quarterly basis.

   Gain on Sale of Securities in the "permanent" category should be first taken to the profit and loss account and thereafter it could be appropriated to the "capital reserve" account.

4. **ACCOUNTING OF INTEREST/DIVIDEND.**
   a) For the purpose of Balance Sheet, interest income, including DIVIDEND shall be classified under 3 heads viz, interest received, interest accrued and due and accrued and not due.
   b) For SLR securities for provision of interest under interest accrued and not due shall be reckoned as 360 days and month as 30 days.
   c) Interest on all central loans and State loans shall be accounted on accrual basis.
   d) Interest or other approved Securities/PSU bond, shall be accounted on accrual basis if the investment continues to be classified as standard otherwise same shall be accounted on Cash basis only.
   e) Interest on FD's and treasury bills shall be accounted on accrual basis.
   f) In respect of Securities where interest/principal is in arrears, the bank should not reckon income on the Securities.
   g) All type of accounting pertaining to securities transactions including other investments shall be done at HO in accounts and investment Section. For all practical purpose account Section will be at present treated, front office and back office.

h) Profit on sale of Securities in cases of Securities available for Sale Category shall be accounted at the time of each such sale and credited with commission account.

i) Costs such as brokerage/commission/stamp duty, taxes etc, incurred at the time of acquisition/sale of Securities shall be treated as Revenue Expenditure and debited to General Charges Account.

5. PROFIT/LOSS ON REDEMPTION.

a) Profit or loss on redemption shall be accounted on the due date of redemption in case of SLR Securities.

b) In Case of Non-SLR securities, profit on redemption shall be accounted only on receipt of the redemption proceeds while the loss on redemption shall be accounted on the due date of redemption.

6. ACCOUNTING OF OVERDUE INVESTMENT.

All investments including govt. guaranteed bonds shall be transferred to Sundry assets on the due date and followed up In case of debentures/bonds, matured for payment, even if roll over/extension proposal in under consideration the investment shall be transferred to Sundry assets and shall be accounted under investment only after obtaining permission from the appropriate authority.

7. INVESTMENT DEPRECIATION RESERVE.

The provisions required to be created on account of depreciation in the current category year by year should be debited to the Profit & Loss Account and an equivalent amount to tax benefit, it any, and net of consequent reduction in the transfer to Statutory Reserve) or the balance available in the investment Depreciation Reserve Fund Account, whichever is less, shall be transferred from the Investment Depreciation Reserve Fund Account to the Profit and Loss Account. If the event of provisions created on account of deprecation in the current category are found to be in excess of the required amount in any year the excess should be credited to the Profit and equivalent amount (net to taxes__ and ne of transfer to Statutory Reserves as applicable to such excess provisions) should be appropriated to the Investment in this category. The amount debited to Profit and Loss account for provision and the amount credited to Profit and Loss Account for reversal of excess provision should be debited and credited respectively under the head “Expenditure and Contingencies Provisions and Congeners” The accounts appropriated form the Profit and Loss Account should be shown as Balance of the item after determining the profit for the year.

8. INVESTIVE IN FLUCTUATION RESERVE.

With a view to building up of adequate reserve to guard against market risk because of reversal of interest rate environment in future due to unexpected development, banks are advised to build up Investment Fluctuation Reserve (IFR) out at the realized gains on the sales of investment act subject to the availability of net profits, of a minimum 5 percent of the investment portfolio, IFR should be computed with reference to investments in current category. It will not be necessary to include Investment under Heid to Maturity category for the purpose of computation of IFR. However, bank is 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 their Board of Directors.

Bank should transfer maximum amount of the gains realized on sale of investment in securities to the IFR. The IFR, consisting of realized gain from the sale of investment from the Current Category would be eligible for inclusion in Tier 2 capital.