

# POLICY ON CLASSIFICATION, VALUATION AND OPERATION OF INVESTMENT PORTFOLIO

(For Base Layer NBFC – Investment and Credit Company)

## 1. Preamble

This Policy is framed pursuant to:

- RBI Master Direction – Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023.
- Reserve Bank of India (Non-Banking Financial Companies – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.
- RBI (NBFC – Financial Statements: Presentation and Disclosures) Directions, 2025.
- *Applicable provisions of the Companies Act, 2013 (specifically Section 186 regarding Loans and Investments by the Company, and Section 133 regarding Accounting Standards).*
- Companies (Indian Accounting Standards) Rules, 2015 / Companies (Accounting Standards) Rules, 2021 (as applicable based on the Company's net worth).
- RBI Directions on Government Securities, Repo Transactions, and Corporate Bond Reporting.

This Policy governs the *end-to-end* framework for:

- Classification of investments.
- Valuation methodology.
- Inter-class transfers.
- Operational procedures *and trade settlements*.
- Risk management controls *and limits*.
- Regulatory reporting and *statutory* disclosures.

## 2. Objectives

The objectives of this Policy are:

1. To ensure prudent classification of investments in *strict* accordance with *the applicable statutory* accounting standards.
2. To establish transparent, *consistent*, and conservative valuation norms.
3. To prevent earnings management through arbitrary reclassification of *assets*.
4. To ensure compliance with RBI prudential requirements *and the Companies Act, 2013*.
5. To define *robust* operational controls over treasury activities.
6. To strengthen *the* risk governance of the investment portfolio *against market and credit shocks*.

## Part – Governance Framework

### 3. Role of the Board of Directors

*In exercise of its powers under Section 179(3)(e) of the Companies Act, 2013, the Board shall:*

- Approve this Investment Policy *and its periodic revisions.*
- Define *the* overall investment strategy and risk appetite.
- Prescribe exposure ceilings *for individual issuers, sectors, and asset classes.*
- Approve inter-class transfers (where applicable *under Non-Ind AS frameworks*).
- Review portfolio composition *and performance on a quarterly basis.*
- Ensure compliance with RBI and statutory requirements.
- Review stress testing results annually.

### 4. Role of Investment / Treasury Committee

The Investment Committee (if constituted *by the Board*) shall:

- Evaluate investment proposals within *its* delegated authority.
- Monitor compliance with *internal and regulatory exposure* limits.
- Review duration, liquidity, and *the* credit profile *of the portfolio.*
- Monitor mark-to-market (MTM) movements *and trigger stop-loss mechanisms if required.*
- Recommend provisioning where required *under the IRACP norms.*
- Escalate deviations *immediately to the* Board.

### 5. Segregation of Duties

The Company shall maintain *a strict and verifiable* segregation between:

- **Front Office:** Dealing *and trade execution.*
- **Mid Office:** Risk monitoring, limit control, *and independent valuation.*
- **Back Office:** Settlement, accounting, *and reconciliation.*  
No single officer shall perform all three functions, *ensuring a robust maker-checker control environment.*

## Part II – classification of investments

### 6. Classification at initial recognition

Investments shall be classified at the time of acquisition based on:

- Business model *objective.*
- Intention to hold.

- Liquidity profile.
- Risk-return characteristics.
- Accounting standards applicability (*Ind AS vs. IGAAP*).

### 6.1 For Ind AS Compliant NBFC

Investments shall be classified as:

- Fair Value Through Profit & Loss (FVTPL)
- Fair Value Through Other Comprehensive Income (FVOCI)
- Amortised Cost

Classification shall be *strictly* consistent with Ind AS 109 *and documented in the trade ticket at inception.*

### 6.2 For Non-Ind AS NBFC

Investments shall be classified as:

- **Current Investments:** Intended to be held for  $\leq 12$  months.
- **Long-Term Investments:** Intended to be held for  $> 12$  months.

Classification once made shall not be changed except in accordance with this Policy *and RBI guidelines.*

## Part III – inter-class transfer (Non-Ind As NBFC)

### 7. Principles

1. No ad-hoc transfers *are* permitted.
2. Transfers *are* allowed only at *the* beginning of *the* half-year:
  - April 1
  - October 1
3. Prior Board approval *is strictly* required *before execution.*
4. Transfer *is* to be effected scrip-wise.
5. Transfer value = Lower of book value or market value.
6. Full depreciation *is* to be recognized *immediately in the Profit & Loss account.*
7. Appreciation *shall be* ignored.
8. No netting *of depreciation and appreciation is permitted* across scrips or categories.

## Part iv – valuation norms (non-IND as NBFC)

### 8. Valuation of quoted current investments

Quoted current investments shall be grouped into categories:

1. Equity Shares
2. Preference Shares
3. Debentures & Bonds
4. Government Securities (including Treasury Bills)

5. Units of Mutual Funds
6. Others

Each category shall be valued at *the* lower of cost or market value, determined category-wise.

- If aggregate market value < aggregate cost → provision for depreciation *shall be created*.
  - If aggregate market value > aggregate cost → appreciation *shall be ignored*.
- No cross-category set-off *is* permitted.

## 9. Valuation of Unquoted Investments

### 9.1 Unquoted Equity Shares (Current)

Valued at *the* lower of:

- Cost; or
- Break-up value (*derived from the latest audited balance sheet of the investee company*).  
If financial statements *are* unavailable for two years → valued at ₹1.  
*The Company may adopt fair value if justified and certified by a Registered Valuer appointed under Section 247 of the Companies Act, 2013.*

### 9.2 Unquoted Preference Shares

Valued at *the* lower of:

- Cost; or
- Face value.

### 9.3 Unquoted Government Securities / Government Guaranteed Bonds

Valued at carrying cost.

### 9.4 Units of Mutual Funds (Unquoted)

Valued at *the latest* NAV declared by *the* respective fund.

### 9.5 Commercial Papers

Valued at carrying cost.

## 10. Long-term investments

Valued as per applicable Accounting Standards (*AS 13 for non-Ind AS entities*).  
Provision shall be made for *any* permanent diminution in value.

## 11. Unquoted debentures

Unquoted debentures shall be treated as:

- Term loans; or
- Credit facilities

for the purpose of income recognition and asset classification under *RBI's* IRACP norms.

## Part v – operation of investment portfolio

### 12. Permissible instruments

Subject to Board-approved limits *and Section 186 of the Companies Act, 2013*, the Company may invest in:

- Government Securities & Treasury Bills
- Corporate Bonds & Debentures
- Equity Shares & Mutual Funds
- Commercial Papers
- Alternative Investment Funds (*subject strictly to RBI downstream exposure compliance*)
- Other permitted instruments under RBI regulations.

### 13. Government securities transactions

Transactions shall be undertaken through:

- Gilt Account (*CSGL*)
- Demat Account
- Any RBI-permitted mechanism

*The Company shall comply with RBI circulars on:*

- Primary issuance
- T+1 settlement
- Repo transactions
- Secondary market dealings (*via NDS-OM*)

### 14. Corporate bond reporting

Secondary market OTC trades in corporate bonds shall:

- Be reported within 15 minutes *of execution*.
- Be reported on recognized stock exchange platforms (*e.g., NSE CBRICS, BSE NDS*).
- Comply with FIMMDA reporting requirements.

## Part vi – income from investments

### 15. Dividend income

Dividend income shall be recognized:

- On a cash basis.  
*Exception: On an accrual basis if declared in the AGM and the Company's right to receive the payment is legally established (as per Section 123 of the Companies Act, 2013).*

## 16. Interest income

Interest income on bonds, debentures, and Government securities shall be recognized on *an* accrual basis provided:

- *The rate is* predetermined.
- *Interest is* serviced regularly.
- *The account is* not in arrears.

If *an* investment is classified as *an* NPA under IRACP norms → income shall be recognized on a cash basis only.

## PART VII – INVESTMENTS IN AIFS

### 17. Prohibition – Downstream Exposure to Debtor Company

Pursuant to RBI circulars on investments in Alternative Investment Funds (AIFs), the NBFC shall not invest in *any* AIF scheme having downstream exposure (other than equity) to its *existing* debtor company.

If downstream exposure arises *post-investment*:

- Liquidate *the investment* within 30 days.
- If not liquidated → create a 100% provision on *the Company's proportionate* affected portion of *the investment*.

### 18. Subordinated units – priority distribution model

Investment in subordinated units of *an AIF with a priority distribution model*:

- Shall be fully deducted from *the Company's* capital funds.
- Deduction shall be made equally from Tier I and Tier II capital.

If downstream exposure exists → additional provisioning may be required as per regulatory mandates.

## Part viii – risk management framework

### 19. Risk limits

*The* Board shall prescribe limits for:

- Single issuer exposure
- Group exposure
- Sector exposure
- Unrated instruments
- AIF exposure

- Subordinated units
- Duration / interest rate risk

## 20. Market risk management

- Periodic MTM valuation.
- Duration gap analysis.
- Interest rate sensitivity analysis (*IRSA*).
- Stress testing for rate shocks (*at least annually*).

## 21. Credit risk assessment

Before investment in corporate instruments:

- Review *external* credit ratings.
- Review *the latest audited* financial statements.
- Assess leverage and liquidity *ratios*.
- Monitor rating migration *continuously*.

## 22. Liquidity risk management

The Portfolio shall maintain adequate liquid investments (*High-Quality Liquid Assets - HQLA*) to meet:

- ALM mismatches.
- Regulatory liquidity needs.
- Unexpected cash flow stress.

## Part ix – internal control & audit

### 23. Internal controls

- Maker-checker *system* for *all* accounting and deal-entry entries.
- Independent price validation (*IPV*) by the *Mid Office*.
- Periodic reconciliation of demat/gilt accounts with *bank and ledger balances*.
- Compliance certification *submitted to the Board* quarterly.

### 24. Internal audit

Pursuant to Section 138 of the Companies Act, 2013, the Internal audit function shall:

- Verify *the accuracy of the* valuation methodology.
- Check compliance with *Board-approved* exposure limits.
- Review regulatory reporting accuracy.

- Test *the validity and approvals* of inter-class transfers.

## 25. Disclosures

The Company shall disclose *in its Annual Financial Statements*:

- Investment classification *and* Valuation methodology.
- Depreciation provided *for the year*.
- Fair value disclosures (if Ind AS *is applicable*).
- AIF exposure *and related downstream provisioning*.
- Related party investments (*as per Section 188 of the Companies Act, 2013 and AS 18 / Ind AS 24*).

*As per RBI Financial Statement Directions and Schedule III of the Companies Act, 2013.*

## 26. Policy review

This Policy:

- Shall be approved by the Board.
- Reviewed annually.
- Amended upon *any material* regulatory change.
- Circulated to *all* relevant operational departments *for strict adherence*.

## 27. Effective date and approval

This **POLICY ON CLASSIFICATION, VALUATION AND OPERATION OF INVESTMENT PORTFOLIO** has been approved by the Board of Directors of **THIRUKOCHI FINCAP PRIVATE LIMITED** at its meeting held on **12/03/2026**.

**Effective Date: 12/03/2026.**