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 ≤ 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 LIMITED** at its meeting held on **12/03/2026**.

Effective Date: 12/03/2026.

Version:1