



BERAR FINANCE LIMITED INVESTMENT POLICY

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BERAR FINANCE LIMITED

INVESTMENT POLICY

I. Background

Berar Finance Limited ("**BFL**" or "**Company**") is a public limited company incorporated under the Companies Act, 1956 and registered with the Reserve Bank of India ("**RBI**") as a deposit taking non-banking finance company ("**NBFC**").

As per the RBI Master Directions DNBR.PD.008/03.10.119/2016-17 dated September 1, 2016 and updated on February 17, 2020, NBFCs are required to frame an investment policy and implement the same. Accordingly, the Board of Directors ("**Board**") of the Company has adopted an Investment Policy ("**Policy**") to lay down guidelines and procedures to be adhered to while undertaking investments by the Company.

II. Objectives of the Policy

The key objectives of the Policy are as follows:

- Provide for an investment medium for surplus funds that are not needed to meet immediate loan demand;
- Comply with RBI and other statutory guidelines with regard to investments;
- Optimize yields from investments considering liquidity and risk standards;
- Maintain adequate buffer/ develop a contingency strategy for creating liquidity in the event of requirement of funds for unforeseen circumstances;
- Create a well-diversified portfolio of different instruments across varied maturities with sufficient measures taken to safeguard against liquidity risk, credit risk and interest rate/ exchange risk;
- Maintain effective internal control on the operations/ execution of investment transactions; and
- Ensure proper recording/ accounting of the investment transactions.

III. Guiding Principles for Investments

- **Safety**

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The idea of safety is to mitigate credit risk and interest rate risk.

- **Credit Risk**

BFL will minimize credit risk or the risk of loss due to the failure of the security issuer or banker, by diversifying the portfolio so that potential losses on individual securities will be minimized.

- **Interest Rate Risk**

BFL will minimize the risk that it will carry owing to reduction in market value of securities in the portfolio arising from changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; or
- Investing operating funds primarily in shorter- term securities.

- **Liquidity**

The investment portfolio of the Company shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrently with cash requirements to meet anticipated demands. Further, since it might not be possible to forecast all possible cash demands, at least 75% of the portfolio shall be in securities with active secondary or resale markets and which can be liquidated within 48 hours.

- **Yield/Returns**

The investment portfolio shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives. To ensure long-term objectives are met, securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal; or
- Liquidity needs of the Company require that the security be sold.

IV. Permitted Investments

The Company shall make investments in the following instruments:

- Government of India Securities and Government guaranteed securities for Statutory Liquidity Requirement (“**SLR**”) purpose;
- Fixed deposits or certificate of deposits with scheduled commercial banks. This shall specifically exclude any co-operative bank;
- Debt and money market schemes of mutual funds regulated by Securities and Exchange Board of India (“**SEBI**”). The debt and money market schemes shall be only in Overnight Funds (investment in overnight securities having maturity of 1 day), Liquid Funds (investments in debt and money market securities and maturity up to 91 days) and Ultra Short Term Fund (investments in debt and money market instruments which have duration of the portfolio is between 3 ,months to 6 months); and
- Deposits with financial institutions or corporates with rating not below CRISIL AA or equivalent by recognized credit rating agencies in India.

Investment in any real estate, equity, equity linked securities, preference shares, instruments which are commonly considered a "derivative" investment (e.g. options, futures, swaps, caps, floors, collars etc.) or any other similar instrument is prohibited.

V. Risk and Prudential Exposure Ceiling

The following principles and exposure limits shall apply at all times:

- In the case of investment in CD or FDs in banks, not more than 33% of the surplus funds at any time shall be in any single bank;
- In case of investment in money market schemes or mutual funds, the schemes should not have more than 25% of the securities in AA rates bonds;
- Given that the investments are only for a short tenure, no duration risk should be taken by the Company; and
- Investment in SLR securities shall be in accordance with the RBI guidelines specified in this regard and shall be only to comply with the RBI's SLR requirements on account of the Company accepting fixed deposits.

VI. Investment Classification

At the time of making the investment, the investment so made by the Company is to be classified into the following categories:

- Long Term Investment: Any investment, which is made for a period of 1 year or above, is to be classified as Long Term Investment; and
- Short Term Investment: Any Investment made in liquid funds or for a period lesser than 1 year, is to be classified as Short Term Investment.

VII. Approval Authority

All investment decisions shall be taken by the following members of the management team:

Investment Type	Approving Member(s)
For SLR purposes	Jointly by Executive Chairman and Managing Director
For non-SLR purposes	
• Up to Rs. 5 Lacs	By Managing Director
• Above Rs. 5 Lacs but below Rs. 10 Lacs	By Executive Chairman
• Above Rs. 10 Lacs	Jointly by Executive Chairman and Managing Director

VIII. Accounting of Investments

All the investments shall be classified into current and long-term investments and shall be subject to the following conditions:

- There shall be no *inter-se* transfer between long-term and short-term securities on an ad-hoc basis; and
- Such transfer, if absolutely necessary, shall be effected only at the beginning of each half year (on April 1 or October 1), with the prior approval of the Board;
- Valuation of investments shall be in accordance with RBI guidelines;
- Depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;
- Depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category;
- Income recognition and asset classification with respect to investments shall strictly be in accordance with RBI norms; and
- Investments shall be assigned risk weight as per directions of RBI for computing capital adequacy.

IX. Standards of Care

• Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The Company recognizes that no investment is totally free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Company.

• Ethics and Conflicts of Interest

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Executive Chairman and Managing Director. The Executive Chairman and Managing Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

X. Investment Transactions

The Executive Chairman and Managing Director is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the Company's internal auditor. The internal control structure shall be designed to ensure that the assets of the Company are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived.

The Company will ensure that all financial dealers/institutions being dealt with are registered with respective agencies like SEBI or RBI and funds floated by such dealers/institutions only will be approved for the purpose of investment. Any investment in institution/entity which is not

approved by either SEBI or RBI will not qualify for investment unless prior approval for the same is taken from the Board.

XI. Performance Review and Reporting

The investment portfolio shall be reviewed at every ALCO meeting and shall also form part of the monthly MIS reports. Any investment not in compliance with this Policy shall be redeemed/ exited / sold within 48 hours of the Approving Authority having knowledge of the non-compliance of such investment.

Investments held at the end of each quarter will be disclosed in quarterly balance sheets and quarterly performance of the investment portfolio of the Company shall be presented to the Board for its consideration.

XII. Record Keeping and Safe Keeping

A designated employee shall be responsible for recording all investment transactions and for securing all documents relative to such transactions. He/she will ensure credit in demat are received in reasonable time and filed. He/she will further ensure that all certificates for other investments are received in reasonable time, are accurately recorded and securely filed away. Also, the monthly interest accruals and quarterly market value adjustments will be his/her responsibility.

XIII. Policy Exceptions

Any investment currently held that does not meet the guidelines of this Policy shall be exempt from the requirements of the Policy. At maturity or liquidation, such monies shall be reinvested only as provided by the Policy.

XIV. Validity of the Policy

The Policy shall be reviewed by the Board once every year. The Board can make amendments based on the recommendations of the Executive Chairman and the Managing Director. The Policy is subject to change changes in accordance with guidelines/ directions issued by the RBI.
