UTKARSH MICRO FINANCE LIMITED

INVESTMENT POLICY

May 14, 2018

Version 1.1

Table of Contents	
Topic	**Page No**

Background

Terms and conditions of license issued to Utkarsh Small Finance Bank Ltd to commence small bank business stipulate amongst others that the promoting entity of the small finance bank shall be registered as a NBFC - Core Investment Company after the transfer of its business to the bank. Consequent upon transfer of business to the Bank and commencement of banking operations, request has been made to Reserve Bank of India for grant of certificate of registration to Utkarsh Microfinance Company as CIC-ND-SI(Core Investment Company-Non-Deposit taking- Systemically Important) and we received the said certificate of registration vide RBI letter KAN:DNBS:21.01.582/2017-2018 dated May 3, 2018 2018.

The governance, structure and functioning of the CIC is governed by master directions issued by Reserve Bank of India vide their DNBR:PD:003/03/.10.119/2016-17 dated 25th August 2016

Scope of the policy

Registration

Capital Requirement

Leverage Ratio

Investments and Financial Activities

Participation in Options/Futures/Interest Rate Futures

Overseas Investment

Income Recognition & Accounting Standards

Asset Classification

Issuance of Debentures on private placement

Entry into insurance business

Periodicity of Review

The Investment Policy is subject to annual review by the Board on an annual basis however this does not preclude the Company from undertaking reviews at more frequent intervals if the situation warrants or there are any regulatory changes impacting the business.

Approval Authority

The Board of Directors in its meeting held on May 14, 2018, approved the financial delegation per investment as per the below details.

Type of Investment	Amount	Authority
Fixed Deposit in Scheduled Bank Money Market Mutual Funds (MMMF), Government Securities	Not Exceeding ₹1 crore in once instance and up to ₹10 crore in a Month	Managing Director & CEO
Fixed Deposit in Scheduled Bank MMMF, Government Securities	Above ₹10 crore in one instance and up to ₹25 crore	A committee consisting of Managing Director & CEO, Chief Financial Officer and Company Secretary
Fixed Deposit in Scheduled Bank MMMF, Government Securities	Beyond ₹25 crore in one Instance	Management Committee Plus any one Independent Director out of Mr. G Sundararajan, or Mr. Atul
Investment in Equity and Debentures	Any amount	By the Board of Directors

Applicability

The investment policy and subsequent reviews, amendments etc. will come into force from the date of approval from the Board of the Company

The policy guidelines should be read in conjunction with the regulatory guidelines applicable as on date. All the future guidelines, circulars, clarifications issued by RBI will be deemed to be part of this policy applicable from the respective effective dates.

The Policy is drawn in line with the RBI master circular on CIC reference RBI/DNBR/2016-17/39 Master Direction DNBR. PD. 003/03.10.119/2016-17 August 25, 2016 (Updated as on November 09, 2017)

Objectives

The primary objective of the policy is

i. to conduct investment operations of the CIC on sound and best market practices within in the overall frame work of the regulatory compliance.

ii. to define the accounting standards and valuation methodology

iii. to define the structure, governance and to ensure to conduct operations as per terms and conditions laid down in the master directions issued by Reserve Bank of India vide DNBR.PD.003/03.10.110/2016-17 dated 25th August 2017.

Registration

The Company obtained the certificate of registration C.07.00781 dt.03rd May 2018 from Reserve Bank of India vide their letter KAN:DNBS/21.01.582/2017-2018 dated 3rd May 2018

Capital Requirements

The company would ensure that its Adjusted Net worth (ANW) is not below 30% of its aggregate risk weighted assets of on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet. The assets of on balance sheet and off balance sheet items and applicable weight in percent terms are given in the **Annexure I**

Leverage Ratio

The Company would ensure that its outside liabilities do not at all times, exceed 2.5 times of its ANW as on the date of last audited balance sheet.

Investments and Financial Activities

Various investments would be approved by the Board. However, investments in FDs, MFs and other short term liquidity related investments would be carried out with the approval of

CEO and CFO at market rates. These investments would be reviewed by the Board in the ensuing meeting.

All investments decisions undertaken by the management along with its current status would be reviewed by the Board at quarterly intervals.

Various avenues of Investments and Financial Activities will be:

b. Investment Instruments:
   i. Bank deposits
   ii. Money market instruments including money market and liquid mutual fund schemes
   iii. Govt. Securities including T-Bills/CMB and State Development Loans
   iv. Bonds/Debentures issued by group companies
c. Loans to group companies
d. Issuance of guarantees on behalf of group companies

Access to Currency Options/Futures/Interest Rate Futures markets

The Company can participate in currency options and futures markets as a client on SEBI recognized exchanges for the purpose of hedging its underlying forex exposures. Similarly, Company can participate in interest rate future markets as a client on SEBI recognized exchanges to hedge its underlying exposures.

However, the Company will not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment.

Overseas Investment

Currently the Company does not intend to invest in Joint Ventures/Subsidiaries/Representative Offices in the both financial and non-financial sectors.

Income Recognition & Accounting

The Company would follow recognized accounting principles for income recognition

Income of any nature namely interest, discount, hire charges, lease rentals and/or any other changes on NPA would be recognized in the books of the Company upon actual realization.

Any such income referred above recognized in the books before the asset turned NPA and remained unrealized at the time of classifying such asset as NPA would be reversed from P/L accounts

Income from dividend on equity shares of corporate bodies and units of mutual funds would be taken into the account on cash basis provided that the income from dividend on equity shares would be taken into account on accrual basis when the Company's right to receive such payment is established based on the declaration of such dividend by the corporate body in its AGM.

Income from bonds and debentures of corporate bodies and Govt Securities would be taken into account on accrual basis provided the interest rate is predetermined and interest servicing regular not in arrears

Income on securities of corporates bodies or PSU undertakings the payment of interest and repayment of principal that have been guaranteed by Central Government or a State Government would be taken into account on accrual basis.

Classification of Investment Portfolio

The investment portfolio of the Company is categorized into two classes namely:

a. Current Investments
b. Long term Investments

An investment will be classified into either under Current or Long Term at the time of making such investment

Current Liabilities:

ii. An investment that could be readily realizable by its very nature
iii. An investment that is intended to be held for not more than one year while making such an investment

Long Term Investments:

iv. The intention at the time of making investment is to hold till maturity
v. At the time of making an investment there is a reasonable certainity of long term perspective in such investment

vi. By the very nature of investment, it is apparent that such investments are long term

vii. Investments made under directions/instructions from Reserve Bank of India/Governments/ regulators governing such investments/ legal authority to hold such investments till such time as required by the referred entities

viii. All other liabilities which are not in nature of Current are included under Long Term Liabilities

Investments other than long term as defined above, will be classified under Current Investments

Shifting amongst categories

i.No ad-hoc shifting between long and current investment categories to be undertaken

ii. Shifting shall be undertaken on April 1st and/or October 1st with approval from the Board

iii. Shifting will be undertaken scrip-wise between the current and long term categories at book value or market value whichever is lower

iv.Depreciation if any in each scrip shall be provided fully and appreciation if any to be ignored

v. Depreciation in one scrip cannot be off-set against appreciation in another scrip even under the same category

Valuation Methodology

I.Current Investments are subject to valuation on quarterly basis and for the purpose of valuation the current investment portfolio is classified into the following six categories:

i. Equity Shares
ii. Preference Shares
iii. Debentures/Bonds
iv. G-Sec including T-Bills/CMB
v. Units of Mutual Funds
vi. Others

a. Quoted current investments are valued category-wise at holding cost or market value that is lower. The valuation is undertaken individual scrip-wise and the aggregate market value for all the scrips under a particular category is less than the aggregate cost of such category, the net depreciation shall be provided or charges to P/L account. Net depreciation of a category can not be netted against appreciation of another category if any. Moreover, net appreciation for a particular category if any is to be ignored

b. In case of non-availability of quotes for equity shares under current category, shall be valued at cost or breakup value that is lower. However, the break-up could be replaced with fair value if the Company deems necessary.

c. In those cases of unquoted equity shares where balance sheet is not available for the last two years, such equity shares will be valued at INR 1/ company

d. Unquoted preference shares under current category will be valued at cost or face value that is lower

e.Unquoted G-Sec or Government guaranteed bonds will be valued at carrying cost

f.Unquoted investment in units of Mutual Funds will be valued at the NAV declared by the mutual fund in respect of such schemes where the investments are held

g. Investment in discounted instruments like Commercial Paper are valued at carrying cost

h. Unquoted bonds/debentures shall be treated as term loan or any other type of credit depending on the nature and tenor of such investments for income recognition and classification

II.Long term investment shall be valued in accordance with Accounting Standard issued by ICAI

Asset Classification

The loans and advances portfolio including lease/hire purchase assets, is classified into the following classes based on the sound and well defined principles of credit strength and nature, availability and realizable value of underlying collateral:

i. Standard Assets

ii. Sub-standard Assets

iii. Doubtful Assets

iv.Loss Assets

The definitions and provisioning requirements are provided in the **Annexure II**

Raising resources through private placement of debentures (maturity of more than 1 year)

1.The Company shall have a Board approved policy for resource planning, planning horizon and the periodicity of intended private placement

2.The minimum prescribed subscription per investor is not less than INR 20,000

3. The issuance will be in two categories/per investor

   i. maximum subscription of less than INR 1 crore

   ii. minimum subscription of INR 1 crore and above

4. The number of subscribers for issuance of NCDs with a maximum subscription of less than INR 1 crore shall be not more than 200 subscribers for a every finance year

5. There is no limit on the number of subscribers in respect of issuances with a minimum subscription of INR 1 crore and above

6. No loans against security of its own debentures to be extended by the Company irrespective of such issue is privately placed or a public issue

7. For issuance of NCDs with a maturity upto one year, the guidelines issued by Reserve Bank of India vide its circular Issuance of Non-Convertible Debentures Directions 2010 dated 23rd June 2010 shall be applicable

General Guidelines

1. Transactions in Government Securities shall be undertaken through CSGL or proprietary SGL

2. Lending by the company against its own shares is not permitted activity

3. the Company shall not contribute to the capital of a partnership firm/LLP/Association of persons or become a partner of such a firm

4. Direct investment in activities prohibited under FEMA are permissible to be undertaken by the Company

5. The Company would need prior approval from Reserve Bank of India for opening Representative Offices abroad for purposes of liaison, market study and research but not for any funded activities

6. KYC directions issued and as amended from time by Reserve Bank of India would be adhered by the Company

7. The Company would furnish the information on the movement of ratings assigned to any financial product like Commercial Paper, Debentures etc issued by the Company, to the concerned regional office of Reserve Bank of India with 15 days of such a change in the rating

Annexure I

On Balance Sheet Items

Risk Asset	Risk Weight(%)
Cash and bank balances including FD/CD with the banks	0
Investments	
Approved Securities	0
Bonds of PSU Banks	20
FD/CD/Bonds of public financial institutions	100
Equity Shares and Bonds/Debentures and Units of Mutual Funds	100
Current Assets	
Stock on hire(book value)	100
Inter-corporate Loans/Deposits	100
Loans /Advances secured against deposits held	0
Loans to Staff	0
Other secured loans and advances	100
Bills Purchased/Discounted	100
Others	100
Fixed Assets(net of depreciation)	
Assets leased out(net book value)	100
Premises	100
Furniture & Fixtures	100
Other Assets	
Income Tax deducted at Source(net of provision)	0
Advance Tax paid(net of provision)	0
Interest due on Government Securities	0
Others	100
Domestic Sovereign	
Fund based claims on Central Government	0
Direct loan/credit/OD exposure and investment in State Government Securities	0
Central Government Guaranteed Claims	0

State Government Guaranteed Claims that are not in default or in default for more than 90 days	20
State Government Guaranteed claims remained in default for more than 90 dayss	100

Off Balance Sheet Items

Financial and other guarantees	100
Share/debenture underwriting obligations	50
Partly paid shares/debentures	100
Bills Discounted/Purchased	100
Lease contracts entered but yet to be executed	100

Annexure II

Definitions of Asset Classification

Standard asset shall mean:

The assets in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business

Sub-standard asset shall mean:

(a) an asset which has been classified as non-performing asset for a period not exceeding 18 months; provided that the period 'not exceeding 18 months' stipulated in this sub-clause shall be 'not exceeding 16 months' for the financial year ending March 31, 2016; 'not exceeding 14 months' for the financial year ending March 31, 2017; and 'not exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

(b) an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms:

Doubtful asset shall mean:

(a) a term loan, or

(b) a lease asset, or

(c) a hire purchase asset, or

(d) any other asset, which remains a sub-standard asset for a period 'exceeding 18 months' for the financial year ended March 31, 2015; 'exceeding 16 months' for the financial year ended March 31, 2016; 'exceeding 14 months' for the financial year ending March 31, 2017 and 'exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

Loss asset shall mean: (a) an asset which has been identified as loss asset by the CIC-ND-SI with asset size of ₹ 500 crore and above or its internal or external auditor or by the company during its inspection, to the extent it is not written off by it; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower

Non-Performing Asset (NPA) shall mean:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more; Provided that the period of 'six months or more' stipulated in sub-clauses (a) to (f) shall be 'five months or more' for the financial year ending March 31, 2016; 'four months or more' for the financial year ending March 31, 2017 and 'three months or more', for the financial year ending March 31, 2018 and thereafter.

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more; Provided that the period of 'twelve months or more' stipulated in this sub-clause shall be 'nine months or more' for the financial year ending March 31, 2016; 'six months or more' for the financial year ending March 31, 2017; and 'three months or more' for the financial year ending March 31, 2018 and thereafter.

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset: provided that in the case of lease and hire purchase transactions, the Company shall classify each such account on the basis of its record of recovery.

Provision Requirement

1.The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted is as follows:

Loss Assets	The entire asset needs to be written off. If the assets are permitted to remain in the books, 100% of the outstanding to be provided for
Doubtful Assets	a.100% to be provided for the amount not covered by realizable value of security b. besides the provision as above(a) depending on the period for which the asset has remained doubtful, provision to be made to the extent 20% - 50% of the secured portion
Period for which the asset has been considered doubtful	Provision (%)
Upto 1 year	20
1-3 years	30
More than 3 years	50
Sub-standard Assets	General provision of 10% of total outstanding

(2) Lease and hire purchase assets - The provisioning requirements in respect of hire purchase and leased assets shall be as under:

(i) Hire purchase assets - In respect of hire purchase assets, the total dues (overdue and future instalments taken together)

a) the finance charges not credited to the profit and loss account and carried forward as un-matured finance charges

(b) the depreciated value of the underlying asset, shall be provided for. Explanation: (1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method

(2) in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset. Additional provision for hire purchase and leased assets.

(ii)In respect of hire purchase and leased assets, additional provision shall be as follows:

Hire purchase or lease rentals are overdue not exceeding 1 year	0
Overdue for more than 12 months and upto 24 months	10% of net book value
Overdue for more than 24 months to 36 months	40% of the net book value
Overdue for more than 36 months to 48 months	70% of the net book value
Overdue for more than 48 months	100% of the net book value

Note: on expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value shall be fully provided for.

The amount of caution money/margin money or security deposits kept by the borrower with the CIC-ND-SI in pursuance of the hire purchase agreement shall be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement shall be deducted only against the provisions stipulated under clause (ii) above.

(2) The amount of security deposits kept by the borrower with the CIC-ND-SI in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement shall be deducted only against the provisions stipulated under clause (ii) above.

(3) It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised shall not be taken as reason for not making provision.

(4) An asset which has been renegotiated or rescheduled as referred to Sub-standard (b) of the above shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision shall be made as applicable to such asset till it is upgraded.

(5) All financial leases written on or after April 1, 2001 shall attract the provisioning requirements as applicable to hire purchase assets

Annexure III

Accounting Standard 13: Accounting for Investments

- Current investments and long-term investments be disclosed distinctly with further sub-classification into government or trust securities, shares, debentures or bonds, investment properties, others unless it is required to be classified in other manner as per the statute governing the enterprise.
- Cost of investment to include acquisition charges, including brokerage, fees and duties.
- Investment properties should be accounted as long-term investments. It includes investment in land or building that are not intended to be occupied substantially for use by or in the operations of investing enterprise.
- Current investments be carried at lower of cost and fair value either on individual investment basis or by category of investment but not on global basis.
- Long-term investments be carried at cost. Provision for diminutions in value (other than temporary) to be made for each investment individually.
- If an investment is acquired by issue of shares/securities or in exchange of an asset, the cost of the investment is the fair value of the securities issued or the assets given up. Acquisition cost may be determined considering the fair value of the investments acquired.
- Changes in the carrying amount and the difference between the carrying amount and the net proceeds on disposal be charged or credited to the statement of profit and loss.
- Disclosure is required for the accounting policy adopted, classification of investments; profit/loss on disposal and changes in carrying amount of such investment.
- Significant restrictions on right of ownership, realisability of investments and remittance of income and proceeds of disposal thereof be disclosed.
- Disclosure should be made of aggregate amount of quoted and unquoted investments together with aggregate value of quoted investments.
- Disclosure to be made of income from long-term and current investment separately statement of profit and loss.