

MANAPPURAM FINANCE LIMITED

INVESTMENT POLICY

(As approved by Board at its meeting held on 12th February, 2016)

Introduction: Manappuram Finance Ltd (MAFIL) is registered with the Reserve Bank of India as a Systemically Important, Non-Deposit taking, Non-Banking Finance Company (NBFC-ND-SI). It is a Public Limited Company listed in the Mumbai Stock exchange, National Stock Exchange and as such governed by the SEBI Rules and Regulations and the Companies Act, 1956, in addition to the oversight of the Department of Non-Banking Supervision (DNBS) of Reserve Bank of India.

Objective: MAFIL's principal business is granting of gold loans against the security of household gold ornaments and jewelry. It also undertakes in a small way Money Transfers and Foreign Exchange business. In addition, it can engage in other activities like Commercial Vehicle Finance, Loan Against Property, etc., MAFIL depends for funding on sources like Capital & Reserves, Non Convertible Debentures, Subordinated Secured Bonds, Credit lines from Banks, Commercial Papers, Internal accruals etc. Although MAFIL does not undertake Investments as a business activity, it does occasionally deploy funds in investments as Cash Collateral for loans sanctioned by Banks, other funds etc. Further, as per the Asset-Liability management policy for ensuring dynamic and structural liquidity framed on the lines stipulated by the Reserve Bank of India, MAFIL may have to place funds in approved, liquid investments should the short-term, cash outflows 1-30/31 days bucket exceed the cash inflows by more than 15%

Statutory: It is the policy of MAFIL to be compliant with the Rules and Regulations issued by the DNBS, RBI, who are the principal regulators for MAFIL and also with the provisions of SEBI Rules and Companies Act. The current instructions of DNBS, RBI in respect of Investments by NBFC-ND-SI are detailed in their Master Circular no: RBI 2012-13/37. DNBS (PD) CC No.279/03.02.001/2012-13 dated 2.7.2012 a copy of which is kept as Annexure I to this policy for the sake of comprehensiveness. Accordingly, in compliance with Clause 6 (1) a of the Notification referred to above, this policy which will govern all investments, including statutory investments, to be made by MAFIL, is framed and submitted to the Board of Directors for approval. The Policy will be reviewed and revised and got approved by the Board of Directors If there is any change in the statutory/regulatory provisions or annually, whichever is earlier.

In making such investments MAFIL will be guided by considerations of safety, liquidity, credit risk, Interest Rate Risk and yield of the investment in that order. Such investments will take into account the liquidity requirements if made under the statutory

provisions. Fixed deposits of Banks, Credit rated debt funds of reputed Mutual Funds, Financial institutions, etc are some of the instruments in which MAFIL may invest.

RBI has stipulated a ceiling of 15% beyond which cash outflows in the short term buckets 1-30/31 days bucket should not exceed cash inflows in the normal course. But as a prudent liquidity management measure, MAFIL's policy will strive to restrict the negative mismatch to not more than 10% of the cash outflows in this bucket.

The relevant clauses of the RBI Notification governing investments and MAFILS approach are as below:

Clauses	Brief, Relevant Particulars	MAFILS Policy
Clause 18(1) Concentration of credit/ Investment	<p>No systemically important non-deposit taking non-banking financial company shall(ii) invest in a) the shares of another company exceeding fifteen per cent of its owned fund; and (b) the shares of a single group of companies exceeding twenty five per cent of its owned fund (iii) lend and invest (loans/investments taken together) exceeding (a) twenty five per cent of its owned fund to a single party; and (b) forty per cent of its owned fund to a single group of parties.</p> <p>(3) These ceilings shall be applicable to the credit/investment by such a non-banking financial company to companies/firms in its own group as well as to the borrowers/ investee company's group.</p>	MAFIL's investments will fully comply with these stipulations.
Clause 4 (1) Income from Investment	<p>4. (1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis:</p> <p>Provided that the income from dividend on shares of corporate bodies may be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the non-banking financial company's right to receive payment is established.</p>	MAFIL will comply fully with these stipulations

	<p>(2) Income from bonds and debentures of corporate bodies and from Government securities/bonds may be taken into account on accrual basis:</p> <p>Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.</p> <p>(3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government may be taken into account on accrual basis</p>	
<p>Clause 6 (1) a Accounting of Investments</p>	<p>6. (1)(a) The Board of Directors of every non-banking financial company shall frame investment policy for the company and implement the same;(b) The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy;(c) Investments in securities shall be classified into current and long term, at the time of making each investment;(d) (i) There shall be no inter-class transfer on ad-hoc basis;(ii) The inter-class transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board;(iii) The investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;(iv) The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;(v) The 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 scrip of the same</p>	<p>This Investment policy is framed accordingly</p> <p>MAFIL will fully comply with the accounting principles stipulated</p>

category.

(2) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.,(a) equity shares, (b) preference shares, (c) debentures and bonds, (d) Government securities including treasury bills, (e) units of mutual fund, and(f) others.

Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

(3) Unquoted equity shares in the nature of current investments shall be valued at cost or breakup value, whichever is lower. However, non-banking financial companies may substitute fair value for the breakup value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.(4) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.(5) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.(6) Unquoted

	<p>investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.(7) Commercial papers shall be valued at carrying cost.(8) A long term investment shall be valued in accordance with the Accounting Standard issued by ICAI.</p> <p><u>Note:</u> Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.</p>	
Clause 16 (1) Capital adequacy	<p>a) Approved securities [Except at (c) below] 0%</p> <p>(b) Bonds of public sector banks 20%</p> <p>(c) Fixed deposits/certificates of deposits/ bonds of public financial institutions 100%</p> <p>(d) Shares of all companies and debentures/bonds/commercial papers of all companies and units of all mutual funds 100%</p>	MAFIL will strictly follow these norms while computing Capital adequacy

The relevant clauses of the MCA Notification governing investments and MAFILS approach are as below:

MCA General Circular No.4/2013 dated 11 Feb 2013- Debenture Redemption Reserve- Public issue of NCD as per SEBI(Issue and Listing of Debt Securities) Regulations 2008	<p>NBFC required to create DRR must deposit /invest in the prescribed investments a sum equal to 15% of the amount of its debentures maturing during the year ending on 31st March next following on or before 30th April. Prescribed instruments are as follows</p> <ul style="list-style-type: none"> • Deposit with scheduled commercial bank free from charge or lien 	MAFIL will deposit in prescribed instruments in full compliance with MCA guidelines
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	<ul style="list-style-type: none"> • Un encumbered securities of the Central or any state Governments • Unencumbered securities as provided in clauses (a) to (d) & (ee) of Section 20 of the Indian Trust Act,1882 • Unencumbered bonds issued by any other company which is notified under clause (f) of section 20 of the Indian Trust Act1882. 	
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Delegation of Powers: All investment decisions will be taken by an Investment Committee consisting of the following members:

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| 1. Managing Director & CEO | Chairman |
| 2. Executive Director | Member |
| 3. Chief Financial Officer | Member |
| 4. Head – Risk Management Department | Member |

Quorum: The Chairman, one of the Executive Directors and one other member will constitute the quorum.

The investment portfolio will be managed by the Chief General Manager (Finance & Accounts), who will strive to invest with the judgment and care that prudent individuals would exercise in the execution of their own affairs, to maintain the safety of principal, maintain liquidity to meet cash flow needs and to provide competitive investment returns for MAFIL.

From time to time investments will be managed through external programs, facilities and professionals. To constitute compliance these must be managed in a manner consistent with this policy.

Investment Objectives

1. 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, interest rate risk.

1.1. Credit Risk

MAFIL will minimize credit risk, the risk of loss due to the failure of the security issuer or banker, by:

1. Pre qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which MAFIL will do business.
2. Diversifying the portfolio so that potential losses on individual securities will be minimized.

1.2. Interest Rate Risk

MAFIL will minimize the risk that it will carry because of market value of securities in the portfolio will fall due to changes in general interest rates, by:

1. 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.
2. Investing operating funds primarily in shorter- term securities

1.3. Liquidity

The investment portfolio 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 concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. Negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposed.

1.4. Yield

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:

1. A security with declining credit may be sold early to minimize loss of principal.
2. Liquidity needs of the portfolio require that the security be sold.

2. Standards of Care

2.1. 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. MAFIL 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 MAFIL.

Investment Officials acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the Board of Directors and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2.2. Ethics & Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions in which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officials shall refrain from undertaking personal investment transactions with the same individual or company with which business is conducted on behalf of MAFIL.

2.3. Delegation of Authority

Authority to manage the investment program is granted to the CGM (Finance & Accounts), who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CGM (Finance & Accounts). The CGM (Finance & Accounts) shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

2.4. Checks & Balances

The following guidelines have been established to enhance the integrity and transparency of MAFIL's internal procedures for investing MAFIL's funds and accounting for those investments. The CGM (Finance & Accounts), the Direct Accounts Officer and other persons designated in writing to act as Investment Officers will be authorized to transact investment business on behalf of MAFIL. All trade confirmations will be sent directly to the Accountant where transaction details will be compared and verified against internal records. The Accountant shall review all investment transactions subsequent to execution by the CGM (Finance & Accounts) or other person designated as investment officer. All journal entries will be signed by a senior officer not conducting the transaction and entered into the general ledger by one of MAFIL's posting officers. The CGM (Finance & Accounts) and other officers authorized to transact investment business on behalf of MAFIL are expressly prohibited from posting transactions regarding investments into MAFIL's general ledger.

3.3. Eligible Investment

Board had delegated powers to Financial Resource and Management Committee and The Investment Committee the power to make current investments up to Rs.1000.crore outstanding at any point of time. The current investments shall be in SEBI registered mutual funds, Fixed Deposits, Certificate of Deposits of Banks or all India Financial Institutions and the investment in a single fund shall not exceed 10% of the owned funds of the company

3.4. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of MAFIL's funds, the investment portfolio will be subject to the following restriction: Investment in any instrument, which is commonly considered a "derivative" investment (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.

4. Classification of Investments: The investments, the Company will hold will be treated as assets of the Company made for the purpose of providing cash collateral or for meeting negative maturity mismatches over and above statutorily permitted ceilings etc. However, such investments should earn income for the Company by way of dividends, interest and/or capital appreciation and should be in full compliance with RBI stipulations wherever applicable. The investments of MAFIL will be classified into the following two categories.

Classification	Nature of Investment
Current	Investment which are intended to be held for not more than one year

	from the date on which the investments are made and which are by its very nature readily realizable.
Non Current Investments	Any other investment other than the current investments.

5 Custody of Scrip: The scrips relating to the investment will be kept in the custody of Responsible official in the ALM dept. , who will also be responsible for the collection of interest/ dividend, if any, periodically. Renewal of the investments will be treated as a fresh investment and dealt with accordingly.

6. Transfer of Investments: MAFIL does not intend to make any inter- class transfer of investments. If it becomes absolutely necessary then such transfers shall be effected at the beginning of the half year on 1st April or 1st. October with the approval of the Board.

7. Valuation: Valuation of the investments shall be strictly in accordance with the provisions of the Reserve Bank of India Notification reproduced above.

8. Depreciation and Appreciation; Depreciation in value compared to market rates, if any, in any scrip shall be provided for fully and appreciation, if any, shall be fully ignored. The depreciation in one scrip shall not be set off against appreciation in another scrip even in respect of scrip of the same category or during inter class transfer.

9. Income Recognition and Asset Classification: RBI norms regarding Income Recognition reproduced above shall be strictly complied with while recognizing income from investments. Such investments shall be classified in strict conformity with the current RBI norms.

10. Risk Weight: The investments shall be assigned the Risk weight indicated by RBI in their Notification and reproduced above for calculating Capital adequacy.

11. Performance Review & Reporting

The CFO (Chief Financial Officer) will periodically establish a benchmark yield for MAFIL's investments, and will set targets for portfolio growth and diversification. Investments held at the end of each quarter will be disclosed in quarterly balance sheets being put up for board's consideration.

13. Policy Consideration

13.1 Exception

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

13.2 Revision

The CFO (Chief Financial Officer) shall review the policy annually and shall recommend all necessary changes for consideration and adoption.

13.3 Adoption

This policy and any changes made during the annual reviews shall be adopted by resolution of the Board of Directors.