

Annexure - E

**INVESTMENT POLICY OF JKDFC**

**(Private & Confidential)**

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## 1. Introduction

J&K Development Finance Corporation Ltd (JKDFC) is a Government of India Enterprise under the administrative control of the Ministry of Commerce & Industry, established to promote economic development in Jammu and Kashmir. JKDFC is registered with the Reserve Bank of India (RBI) as a Non-Deposit taking, Non-Banking Finance Company (NBFC-ND) and is governed by the Department of Non-Banking Supervision (DNBS) of the RBI.

As per the Master Directions – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 (as updated), the Board of Directors of NBFC shall frame investment policy of the Company and shall implement the same.

This policy outlines the framework for managing surplus funds, ensuring compliance with regulatory requirements, and achieving optimal returns while prioritizing safety, liquidity, and risk mitigation. It also covers criteria for classifying investments and periodicity for inter-class transfers.

## 2. Objectives

The primary objectives of this Investment Policy are to:

- **Prudent Investment:** Invest surplus funds judiciously in liquid and low-risk instruments.
- **Capital Preservation:** Ensure the preservation of capital while generating reasonable returns.
- **Liquidity Management:** Maintain adequate liquidity to meet operational and contingency needs.
- **Risk Mitigation:** Diversify investments to mitigate credit, interest rate, and market risks.
- **Regulatory Compliance:** Adhere strictly to statutory guidelines issued by the RBI and other relevant regulatory bodies.
- **Transparency & Governance:** Ensure accountability through proper delegation of authority, monitoring, and regular reporting to the Board.

## 3. Definitions

- **Current Investments:** All Investments made with the intention to hold for a period of less than 1 year shall be classified as current investment or Short Term Investment.
- **Long-term Investments:** All Investments other than Current Investments will be classified as long term investment.

- **HQLA (High-Quality Liquid Assets):** Assets that can be easily and immediately converted into cash with minimal loss of value.

#### **4. Regulatory Compliance**

##### **4.1 Prudential Exposure Limits**

As JKDFC is classified as a Base Layer NBFC, no mandatory Single Borrower Limit (SBL) or Group Borrower Limit (GBL) as prescribed for NBFCs under the RBI Master Direction – NBFC (Scale Based Regulation) Directions, 2023 are directly applicable.

However, in the interest of prudent risk management and to mitigate concentration risk, the Corporation shall adhere to the following internal exposure limits:

- Exposure to a single entity shall not ordinarily exceed 25% of Owned Funds / Net Worth.
- Exposure to a single group of connected entities shall not ordinarily exceed 40% of Owned Funds / Net Worth.
- Investments in Government Securities and instruments fully guaranteed by the Central/State Government shall be exempt from these limits.
- The Board / Investment Committee may, under exceptional circumstances and with recorded justification, approve temporary deviations, which shall be reported to the Board in the next meeting.

These limits shall be reviewed annually or earlier if warranted by changes in the regulatory framework or the Corporation's risk profile.

##### **4.2 Valuation of Investments:**

###### **4.2.1 Quoted Current Investments**

Quoted current investments are grouped into categories for valuation purposes: a) Equity shares b) Preference shares c) Debentures and bonds d) Government securities including treasury bills e) Units of mutual funds f) Others.

For each category, investments shall be valued at **cost or market value, whichever is lower**. This valuation is done scrip-wise, with the cost and market value aggregated for all investments within each category. If the aggregate market value for a category is less than its aggregate cost, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value exceeds the aggregate cost, the net appreciation shall be

ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

#### **4.2.2 Unquoted Current Investments**

- **Unquoted Equity Shares:** Valued at cost or fair value, whichever is lower.
- **Unquoted Preference Shares:** Valued at cost or face value, whichever is lower.
- **Unquoted Government Securities/Government Guaranteed Bonds:** Valued at carrying cost.
- **Unquoted Mutual Fund Units:** Valued at the Net Asset Value (NAV) declared by the mutual fund for each scheme.
- **Commercial Papers:** Valued at carrying cost.

#### **4.2.3 Long-term Investments**

Long-term investments shall be valued at cost, subject to provision for diminution in value in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI).

#### **4.3 Inter-class Transfer of Investments:**

- (i) There shall be no inter-class transfer on ad-hoc basis;
- (ii) The inter-class transfer, if warranted, shall be affected 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 scrips of the same category.

^Inter class transfer refers to transfer from current to long term categories of investments or vice versa. It is added that at the time of making each investment the same should be classified into current and long term.)

#### **4.4 Income Recognition**

- **Dividends:** Recognized on a cash basis, unless declared and receivable.

- **Interest:** Recognized on an accrual basis for bonds and Government securities with regular payment schedules.

#### **4.5 Risk Weights for Capital Adequacy**

<b>Instrument</b>	<b>Risk Weight (%)</b>
Term deposits with banks	0
Govt. securities	0
Bonds of public financial institutions	100
Equity shares/debentures	100

*Risk weights shall be applied as per prevailing RBI Master Directions on Capital Adequacy from time to time. The table in this policy is indicative and shall be updated whenever RBI revises applicable norms.*

#### **4.6 Operation Procedure**

- Treasury will identify the surplus funds on daily basis and decide for deployment of the surplus funds after taking into consideration the present yield on various mutual funds /bank deposits / Other Instruments considering the investment horizon and returns on the basis of surplus tenor and approved list and LCR requirement.
- For prospective investment decisions and to monitor the risk emanating from the investments, Treasury shall approach the Investment Committee (IC), as & when required. The investment committee would have the authority to modify investment limits across asset classes (subject to maintaining upper limits) basis available investment opportunity, prevalent market conditions and other factors that would impact the investment decision.
- Treasury team will close the investment after taking approval as per Authorisation matrix (below) & will give instruction to finance team for transfer of funds.
- Treasury team to ensure credit of securities in Demat account / CSGL account wherever applicable.
- Finance team will enter deal in accounting system.
- Treasury team to ensure Fixed Deposit receipts are delivered by Banks on time

#### **5. Investment Guidelines**

**Safety:** Safety of principal is the foremost objective of the investment policy. Investments will be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio and meeting Principal Business Criteria (PBC). The idea of safety is to mitigate credit risk, interest rate risk & Liquidity Risk.

## 5.1 Permissible Instruments

### 5.1.1 Current Investments (≤1 year)

- **Term Deposits with scheduled commercial Banks:** Maximum 50% of the investment portfolio.
- **Government Securities/Treasury Bills:** Minimum 25% of the investment portfolio.
- **AAA-rated Mutual Funds:** Debt and Arbitrage schemes of mutual funds with a Maximum limit of 25% of the investment portfolio.
- **Certificates of Deposit & Commercial Papers:** Minimum rating of CRISIL A1; maximum 10% % of the investment portfolio.

### 5.1.2 Long-term Investments

- **Bonds of Public Sector Undertakings (PSUs):** Maximum 25% of the long-term investment portfolio.
- **Government Securities (G-Sec & SDLs):** Minimum 25% of the long-term investment portfolio.
- **Term Deposits with scheduled commercial Banks:** Maximum 50% of the long- term investment portfolio.
- **AAA-rated Mutual Funds:** Debt and Arbitrage schemes of mutual funds with a Maximum limit of 25% of the long-term investment portfolio.

Investments in Mutual Funds, Certificate of Deposits and Commercial Papers shall be subject to prior approval from Board of Directors.

Government Securities (G-Sec & SDLs)	<p>A Government Security is a tradeable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation. These securities are short term and long term.</p> <ul style="list-style-type: none"><li>• G-Secs carry practically no risk of default and, hence, are called risk-free gilt-edged instruments.</li><li>• Interest is serviced at half-yearly intervals, and the principal is repaid on the maturity date.</li><li>• Dated securities issued by the Central Government and SDLs issued by the State Governments qualify for Statutory Liquidity Ratio (SLR)</li></ul>
Treasury Bills	<p>Treasury bills are securities which are short term with original maturities of less than one year, presently issued in three tenors, namely, 91-day, 182-day and 364-day.</p>

	<ul style="list-style-type: none"> <li>• T-bills are money market instruments</li> <li>• T-bills are zero coupon securities and pay no interest. Instead, they are issued at a discount and redeemed at the face value at maturity</li> </ul>
Corporate Bonds	<p>Corporate bonds are debt securities issued by companies to raise capital. Key points about corporate bonds include:</p> <ul style="list-style-type: none"> <li>• Corporate Bonds are rated by Credit rating agency</li> <li>• Investors who hold corporate bonds receive interest payments from the issuer of these bonds.</li> <li>• Corporate bonds may be actively traded on the secondary market.</li> <li>• Corporate bonds are backed by the payment ability of the company and sometimes collateralized with assets</li> <li>• They generally have higher interest rates than government bonds.</li> <li>• Corporate bonds are less volatile than equity stocks but provide lower returns over time</li> </ul>
Corporate Bonds (principal and interest guaranteed by Central / State government)	Central government / State government may guarantee or service interest payments and principal on maturity for corporate bonds issued by public sector undertaking
Fixed Deposits	<p>A fixed deposit (FD) is a tenured deposit account provided by banks or non-bank financial institutions which provides investors a higher rate of interest than a regular savings account, until the given maturity date.</p> <ul style="list-style-type: none"> <li>• Fixed deposits can be opened for various tenures, and the interest rate remains unchanged throughout the term.</li> <li>• Fixed deposits are both callable and non-callable</li> <li>• Fixed deposits cannot be traded in secondary market</li> </ul>
Certificate of Deposit	Certificate of Deposits (CDs) are short term borrowing instruments issued by commercial banks and financial institutions
Commercial Papers	Commercial Papers (CPs) are short term instruments issued by corporates to meet their short term borrowing requirements

## 5.2 Prohibited Investments

JKDFC shall not invest in the following instruments:

- Derivatives (e.g., options, futures, swaps).
- Unrated/unlisted securities.
- Structured products (e.g., Market-Linked Debentures).

## 6. Risk Management

### 6.1 Credit Risk

Credit risk is the probability of a financial loss resulting from a borrower's failure to repay an obligation. Essentially, credit risk refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection.

- **Mitigation:** Pre-qualify issuers based on their creditworthiness and diversify investments across various sectors to minimize concentration risk.

### 6.2 Liquidity Risk

Liquidity risk is the risk that a business will have insufficient funds to meet its financial commitments in a timely manner. The two key elements of liquidity risk are short-term cash flow risk and long-term funding risk.

- **Mitigation:** Maintain at least 20% of the total investment portfolio in High-Quality Liquid Assets (HQLA) to ensure sufficient liquidity to meet unforeseen obligations. Treasury shall periodically conduct liquidity stress tests (e.g., sudden withdrawal of funds, downgrade in credit quality of counterparties) to ensure resilience of the portfolio.

### 6.3 Interest Rate Risk

Interest rate risk refers to the potential for a decrease in the value of an asset due to unexpected changes in interest rates. This risk is particularly significant for fixed-income securities, such as bonds, where fluctuations in interest rates can directly impact the asset's price.

**Mitigation:** Match the maturities of investments with anticipated cash flow needs to minimize the impact of interest rate fluctuations & Invest operating funds primarily in

shorter- term securities.

## **7. Governance & Delegation**

### **7.1 Investment Committee**

An Investment Committee is constituted to oversee the implementation of this policy. The committee comprises:

- Managing Director (MD) – Chair
- General Manager
- AGM (P/F)
- AGM(A/c)/Chief Financial Officer (CFO)
- Any other member as decided by the MD

### **7.2 Board Oversight**

The Board of Directors shall conduct reviews of the investment policy every two years and annual portfolio performance to ensure adherence to established guidelines and objectives.

## **8. Reporting & Compliance**

- **Yearly Reports:** Detailed portfolio reports shall be submitted to the Board on a yearly basis.
- **Half-yearly Review:** A comprehensive valuation and review of the investment portfolio shall be conducted semi-annually.