SWARA
FINCARE

INVESTMENTS POLICY

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1. Introduction and Objective

- Swara Fincare Limited a Non-Banking Finance Company (NBFC) with the simple concept of providing loans to both urban poor and rural poor to meet their productive requirements in starting new business or for growing an existing business.

- In order to ensure uninterrupted supply of funds for business and also to plan its maturing liabilities, the company maintains sufficient amount of liquidity. The surplus funds lying in current account do not yield any interest. In order to minimize the impact of negative carry the company invests the funds in short term instruments viz. debt schemes of mutual funds, Commercial Papers and fixed deposits with banks etc.

- The main objective of the policy is to:

  - ✓ Establishes best policy and procedures for acquisition, accounting and disposal of Investments since being a Non-Banking Finance Company (NBFC), the Company will strictly adhere to the various guidelines issued by the Reserve Bank of India (RBI) from time to time. These procedures provide reasonable standards of compliance with statutory obligation.
  - ✓ Standardize the investments in accordance with the policy laid by the Company.
  - ✓ Emphasize accurate accounting records and strong internal controls must be in place to protect against misappropriation & wrong valuation of the Investments.

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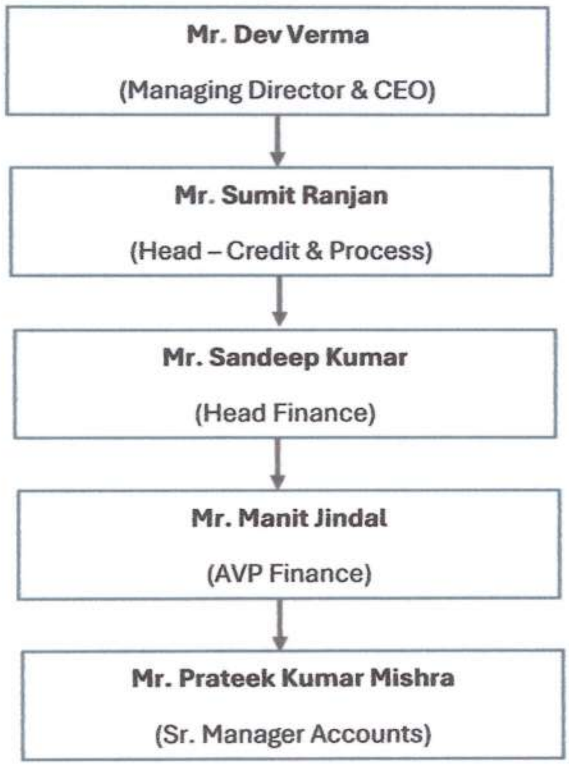
2. Organization Chart



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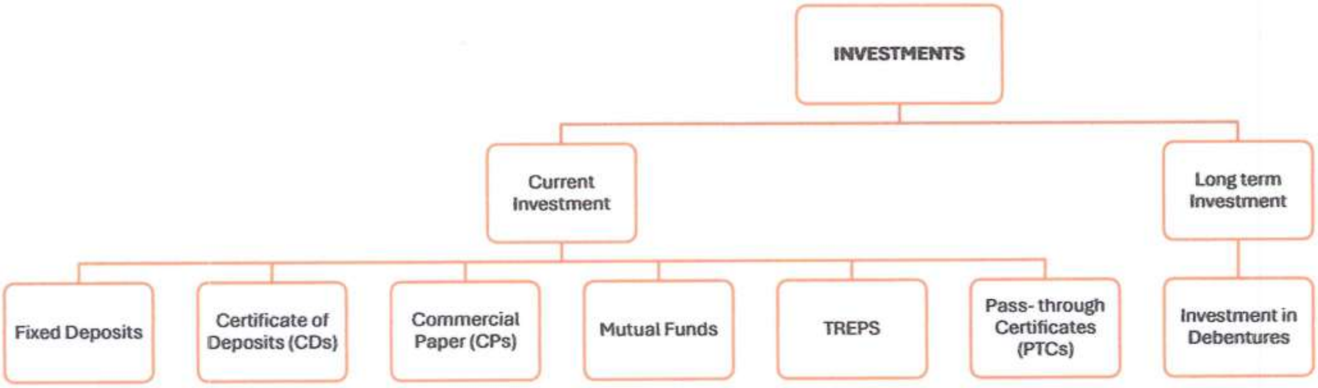
3. Categorization

- With respect to meeting the investments objectives, guidelines and parameters, Company has explored the available products in the market and found the following products which are consistent with the requirements of the Company's investment policy as well as statutory compliances. This list is inclusive and not exhaustive and thus any other investment avenue could be considered by the Board/Committee based on the prevailing market scenario. The Company invests in following categories of Investments.



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4. Investment Process

4.1 Investment Acquisition Process

i. Internal and Regulatory Guidelines applicable to the Company

- Being a Non-Banking Finance Company (NBFC), the Company strictly adhere to the various guidelines issued by the Reserve Bank of India (RBI) from time to time while making investments. These guidelines include:
  - ✓ Master Direction- Non-Banking Financial Company- Non Systemically important Non-Deposit Taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, as amended.
  - ✓ The Company adhere to the provisions of the Companies Act, 2013 specifically adhering to the provisions of section 179, 186 and all other applicable provisions and amendments of the Act.
  - ✓ The Company always adhere to various guidelines and provisions issued by Securities and Exchange Board of India (SEBI) for investments in Capital market schemes and other related instruments.
  - ✓ Also adhere to various clarifications issued by RBI from time to time.

- Investment will be undertaken by the Company in a manner to ensure the safety of the princial in the overall investment portfolio. The idea of safety is to mitigate markets risks like Credit risk, Foreign exchange risk, Interest rate risk etc.

- The investment is governed by the Resolution passed by the Board of Directors or Working Committee of the Board of Directors and various intermediate reviews, observations and approvals by the Board or working committee of directors of the Company.

- All strategic investment decisions of the Company is taken only at the meeting of the Board of Directors. While investment decision to temporarily depoly the funds of the Company may be taken at Working Committee of the Board of Directors of the Company, the Board or Committee, may however, delegate the said power to any committee of directors, working committee, the managing director, the manager or the principal officer or any other employee (hereinafter collectively referred to as the "delegate") of the Company.

- The said resolution of the Board or Working committee shall specify the purpose, and total amount up to which the funds may be invested. While delegating the general authority to invest the Board/Committee shall clearly specify the delegate, instruments, nature/purpose of investments, maximum amount up to which investment can be made by the delegate.

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- The Company has laid down Board approved Investment policy which provides the guidelines for the investment options undertaken by the Company.

- For all approved Investments options, treasury department has board approved signatory matrix where signatories to execute all investment related documents.

- Company ensured that all financial dealers/Institutions being dealt with are registered with respective agencies like Securities Exchange Board of India (SEBI) or Reserve Bank of India (RBI) and funds floated by such dealers/institutions only is approved for the purpose of investment . Any investment in institution/entity which is not apporved by either SEBI or RBI will not qualify for investment unless prior apporval for the same is taken from Board of Directors/working committee of the Board of the Company.

ii) Current Investments

- For making various investments, surplus fund report is prepared by the Manager-Finance, same is being shared with VP & Head -Finance who then decides the investments accordingly in relation to investment policy and prevalent market conditions. After the selection of investment, approval needs to be obatained from the board approved signatories to execute all investment related documents.
- After getting the approvals along with instructions from VP & Head-Finance, transactions are processed by Manager - Finance as per authorized signatory matrix.
- Following investment made by the Company which are intended to be held for not more than one year from the date of such investments and which, by its nature, are readily realizable.

1) **Investment in Fixed Deposits** - As part of cash management exercise the Company reviews fund position and take decision for placement of funds in fixed deposit. Following are some factors which are considered while making investment in Fixed Deposits:
    - ✓ Public Sector banks (PSBs), Large Private Sector Banks and Small Finance Banks (SFBs) are preferred over small private banks (having less than one lakh crore BS size). Among the small private sector banks, the Company would prefer to invest in FD of the banks with whom the Company has credit limits.
    - ✓ The Company compare the prepayment penalties and shall consider the lesser or no penalty charge.

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  - ✓ The Company may also consider the FD investments with lower unit multiple, preferably in units of Rs one crore or lesser.
- The Company puts its surplus money based on its liquidity requirements and other factors into fixed deposits with Banks.
- The Company also keeps its balance with banks and financial institutions to the extent held as margin money deposits against borrowings and guarantees.
- The treasury department keeps a track for the fixed deposits placed as liens for treasury investments/guarantees and securitization/assignment pool. The finance team keeps a track for margin money deposits against borrowings.
- On maturity, the lien on fixed deposits is released via automatic route. In case the lien is required to be extended, a request is placed with the bank for extension of such lien.
- The placement of fixed deposit can be done in any bank in which the Company may or may not have current account and as per Board approved investment policy.
- Before investing, negotiation with different banks is executed and evaluated on the basis of tenure of fixed deposits, rate of interest, maturity date, auto renewal, taxation effects and aftwerwards final approval is obtained from authorized officials.
- In case the Company has an existing bank account with the concerned bank, a duly signed fund transfer resolution is issued to transfer the funds for investment in fixed deposit.
- In case the Company does not have an existing bank account, a duly signed investment resolution is used while making the application and transferring of funds to different bank account for investment in fixed deposit.
- After the application form is approved by the concerned bank, the funds are transferred to the designated current account of that bank for making the fixed deposits.
- Once the fixed deposits are executed, treasury team informs the Accounting team for further processing and recording of transactions. Renew or maturity of Fixed deposits is considered based on fund position and decision of authorised officials.
- Confirmation is received from Bank over email for creation of fixed deposit. Physical copies of fixed deposit may/may not be received. The Physical copes, if any, are kept under the custody of Treasury department under lock and key arrangements.
- On maturity of fixed deposits, the principal amount along with the interest accrued is credited to the designated bank account of the

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Company through NEFT/RTGS/ECS, based on the mandate provided by the Company.

- The accounts department receives quarterly confirmation from banks for all the fixed deposits and lien details on fixed deposits and reconciles the fixed deposits and lien details with books of accounts. The lien details are also disclosed in the annual financial statements. The confirmation also consists of interest income and TDS deducted thereon.
- The Company keeps a track and performs a recomputation of interest on each fixed deposit on a periodic basis. The interest income alongwith TDS is reconciled with TDS certificate received from bank and also reconciled with Form 26AS. In case there is a mismatch, rectification letter is issued to the bank.

2) **Investment in Mutual Fund -** The Company also invests in Mutual Funds' schemes within the guidelines of the NBFC and as per the Company's policy. Before investing in any mutual fund, a detailed assessment and evaluation is carried out based on the below listed criteria:
    - Company invest in Debt oriented schemes of mutual funds and SEBI as regulator.
    - Financial presence of the AMCs promotors in India along with minimum track record of 3 years (preferably 5 years) of AMC/scheme is also considered.
    - Portfolio and comparative performace of the schemes are reveiwed and documented periodically not less than quarterly.
    - Following are some schemes considered for investment
        - ✓ Overnight Funds- It is an open ended debt scheme investing in overnight securities. Investment in overnight securities having maturity of 1 day. Investment to be made only in MF scheme having AUM (Asset under Management) more than Rs 500 crores.
        - ✓ Liquid Funds- An open ended liquid scheme. Investment in debt and money market securities with maturity of up to 91 days only. Investment to be made only in MF scheme having AUM (Asset under Management) more than Rs 3000 crores.
        - ✓ Liquid Plus Schemes-
            - ➢ Ultra Short Duration Fund is an open ended debt scheme investing in instruments with Macaulay duration between 3 months and 6 months.
            - ➢ Low Duration Fund is an open ended low duration debt scheme investing in instruments with Macaulay duration between 6 months and 12 months.

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- ➢ Money Market Fund is an open ended debt scheme investing in money market instruments having maturity upto 1 year.
- ➢ Investment to be made only in MF scheme having AUM (Asset under Management) more than Rs 2000 crores.

- A approval for investments in mutual funds is obtained from authorised signatories designated by the Board.
- Swara made the investments in mutual funds through offline and online model, once the mutual fund is selected for investment.
- CAMS (Computer Age Management Services) model is used while investing through online model. CAMS is a professionally managed, institutionally owned, SEBI regulated entity engaged as an IT enabled service solution partner to BFSI players in India. Around 14-15s AMCs are registered on CAMS. The access to CAMS is given to the authorised personnel only.
- Apart from CAMS, the Company also invests through offline model by processing Common Transaction Form (CTF) duly filled and signed by authorised signatories directly through AMC (Asset Management Company).
- Each investment is required to be approved authorised signatories designated by the Board.
- Prior to the approval on CAMS/CTF, each investment is approved on mail by VP & Head Finance, basis which approval is carried out by authorised signatories designated by the Board.
- Post all the approvals, transfer of funds is initiated before the cut off time to close the deal on a same day.
- After that, confirmation is obtained from AMCs in relation to purchase of mutual funds and also reconcile the same with mutual fund statement received from AMCs on next day.
- Daily Transaction Summary for Purchase and Sale/Maturity of Investments is shared with accounts department for entering in LMS software. Further, BRS is prepared and entries are checked by accounting team for any missing and unreconciled item.
- Company also reviews the Mutual Funds portfolio taken from AMCs weekly basis.
- Financial results and credit ratings are also reviewed on quarterly basis for the counterparties where Company has direct exposure. In addition, market related current affairs are gone through on daily basis.
- XIRR Report is prepared for MF investments and reviewed on monthly basis by the senior management.
- With respect to Interest Risk , investments are done for tenure matching the outflows. Tenure of the investments is decided based on

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expected interest rate movements, considering the economic conditions and RBI actions.

3) **Investment in Commercial Paper (CPs)** – Commercial Paper, as defined by RBI, is an unsecured money market instrument issued in the form of a promissory note. It is issued by corporate as source of short - term borrowings. CPs are issued at discount and redeemable at par; difference between CP value and issue price is recognized as income over the period of the CPs. The Company buy such securities directly from issuing institutions. Following are some factors which are considered while making investment in CPs:
    - ✓ Only standalone AAA rated issuers shall be considered for CP investments
    - ✓ Public Sector Entities (PSEs) CPs are preferred than the private owned companies in the same risk and return matrix.
    - ✓ Financial presence of the Holding company and company promoters in India are considered along with global factors and secondary market liquidity.
    - ✓ Investment to be made only in CPS with remaining tenor up to one year.
    - ✓ Currently, Company is not dealing in investment in "Commercial Papers" but planning to do so in near future.

4) **Investment in Certificate of deposit (CD)** – Certificate of Deposit is a negotiable money market instrument and issued in dematerialised form or as a Usance Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India (RBI).
    - ✓ Certificate of deposits are issued at a discount; difference between CD value and issue price is recognized as income over the period of the CDs. Minimum amount of a CD should be Rs.1 lakh and in multiples of Rs. 1 lakh thereafter.
    - ✓ The maturity period of CDs issued by banks should not be less than 7 days and not more than one year, from the date of issue.
    - ✓ CDs in physical form are freely transferable by endorsement and delivery. CDs in demat form can be transferred as per the procedure applicable to other demat securities. There is no lock-in period for the CDs.
    - ✓ All OTC trades in CDs shall necessarily be cleared and settled under VP & Head Finance through the authorised clearing houses {National Securities Clearing Corporation Limited (NSCCL), Indian Clearing

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Corporation Limited (ICCL) and Clearing Corporation Limited (CCL)} of the stock exchanges.

- ✓ The Company buy such securities directly from issuing institutions as well as from secondary market.
- ✓ The difference between a CD and CP is that a CD is issued by a banking entity while a CP is issued by a non-banking entity.
- ✓ Following are some factors which are considered while making investment in CDs:
    - ➢ Public Sector banks (PSBs) CDs are preferred than the private banks. Among the private banks, the Company would like to invest in CDs of the banks where the Company are having operations.
    - ➢ Global factors and Secondary market liquidity shall be considered before making any investment in CDs.

- CPs/CDs are purchased through a authorised dealer from the primary market or secondary market.
- Company try to purchase CD/CPs from primary market rather from secondary market.
- The primary market consists of directly placed and dealer-placed paper. Directly placed commercial paper is sold directly to the investor by the issuer without the services of a securities firm. Buyer and Seller decide upon price and quantity of securities to be transacted. Settlement of funds is between the parties as agreed between them post maturity of deal.
- The Company also trades in CPs/CDs through CCIL, i.e., secondary market. In such case, a purchase is executed after obtaining dual approval from the authorised signatories (Group A and B) and transfer the funds to CCIL account and in turn CCIL credited securities in Swara's account.
- No brokerage is paid by the Company while dealing in CPs or CDs whether in primary market or secondary market.
- CPs are redeemed automatically at the time of maturity. Whereas, in case of redemption of CDs/CPs before maturity, a duly signed and approved DEMAT form duly approved by authorised signatories (Group A and B) is required to be submitted to CCIL for debit of units. Also, in case of redemption of CDs on maturity, DEMAT slip is given to holder after obtaining dual approval from Group A and B signatories and request letter is shared to intimate the bank for transfer of funds.
- Daily Transaction Summary for Purchase and Sale/Maturity of CPs/CDs is shared with accounts department for entering in software. Further, BRS is prepared and entries are checked by accounting team for any missing and unreconciled item.

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- Currently, Company is not dealing in investment in "Certificate of Deposit" but planning to do so in near future.

5) **Triparty Repo Dealing and Settlement (TREPS)-** Triparty repo was introduced by RBI on November 5, 2018. CBLO has been discontinued from November 2018.

- Tri-party repo or TREPS is a type of repo contract where a third entity (apart from the borrower and lender), called a tri-party agent, acts as an intermediary between the two parties to the repo to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction.
- The member needs to be registered with "The Clearing Corporation of India Limited" (CCIL) under TREPS Segment. They (borrower) are required to contribute collateral in the form of cash and government securities as notified by CCIL from time to time.
- CCIL will maintain a gilt account for each member in its books and the securities shall be debited (for security withdrawals) and/or credited (for securities deposits) to the respective gilt account of the member.
- CCIL will be a triparty repo agent, maintaining gilt accounts for members of securities segment who would be undertaking borrowing and lending of funds under triparty repo trades.
- Trading done on securities with maturity of minimum period of one day and maximum period of one year.
- The member (borrower) has to ensure the utilization towards borrowing limit by depositing adequate eligible collaterals. They also have to deposit the requisite initial margin.
- Clear Corp provides the triparty repo dealing system. The triparty repo dealing system facilitates the dealing and trading on an anonymous basis i.e. where the identity of the original counterparties to a trade will not be disclosed at any time either on a pre-order and/ or a post-trade basis.
- Once a lender and a borrower notify the CCIL on the transactions, it matches the transaction amount, conditions and, if successful, processes the transaction. It automatically selects from the securities of account of the seller, sufficient collateral that satisfies the credit and liquidity criteria set by the buyer.
- The triparty agent is responsible for taking care of services like collateral selection, payment, settlement, custody and management. Introduction of tri-party repos will likely contribute to better liquidity in the bond market, thereby providing markets an alternate repo instrument to government securities repo.

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- Currently, Company is not dealing in Tri-party repo or TREPS but planning to do so in near future.

6) **Pass Through Certificate (PTC)-** Pass Through Certificate (PTC) is an instrument that transfers the risk of receivables to the holders of PTC. By investing in PTC, the Company buys a participating interest in the pool of receivable and receives the payment in the form of interest and principal as per agreed terms. Instrument rated BBB and above shall be considered for investments. Moreover, Company shall evaluate credit risk, counterparty risk and market risk by analysing the originator, pool, counterparties, market conditions and such other parameters as may be considered necessary.
Currently, Company is not dealing in Pass through certificates but planning to do so in near future.

iii) Long Term Investments

- Any other investment, other than the aforesaid current investments will be considered as Long-term investment.

4.2 Execution of trade and accounting

- The following guidelines have been established to enhance the integrity and transparency for investing Company funds and accounting for those investments.

  - ✓ Treasury department and other persons designated in writing to act as Investment Officers will be authorised to transact investment business on behalf of Swara.
  - ✓ Accounts department shall help Treasury department for smooth banking operations regarding investments transactions and can also carry out the transaction post approval /request by Treasury.
  - ✓ All trade confirmations will be sent directly to the Accounts department where transaction details will be recorded, compared and verified.
  - ✓ The accountant shall review also investment transactions subsequent to execution by the Treasury Manager or other person designated as investment officer.
  - ✓ All journal entries will be signed by a senior accounts officer not conducting the transaction and entered into the general ledger by Swara's accounts officer.
  - ✓ The Treasury Manager and other officers authorized to transact investment business on behalf of Swara are expressly prohibited from posting transactions regarding investments into Company's general ledger.
  - ✓ In case of redemption of investments, projected cash flow report is prepared by the Manager Finance, same is being shared with VP & Head -Finance who then decides the redemptions accordingly as per investment policy and prevalent market conditions. After getting the instructions from VP & Head Finance, transactions are done by Manager Finance as per authorized signatory matrix.

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- ✓ To view all treasury transactions, there is separate generic mail ID which is maintained and registered with AMCs, Banks and other such FIs to transact, information sharing among the concerned employees and to make sure that only authorized treasury personnel have the sending rights using that mail ID for doing transactions. The respective rights are authenticated and maintained by the IT department.

4.3 System of Booking

- All investments are booked / accounted in Finpage. The Accounts department is responsible for recording all investments transactions in general ledger (GL). It will ensure respective credit and debit transactions in bank accounts are happening timely and filed. The accounts department will further ensure that all required certificates/documents for recording such investments transactions are received in reasonable time, are accurately recorded and securely filed away. Treasury department helps Accounts department in getting all these documents from the respective banks/mutual funds etc. Also, the monthly interest accrual and quarterly market value adjustments will be taken care by the Accounts department.
- W.r.t DEMAT transactions, current Company is not having any DEMAT accounts but in future planning to open DEMAT accounts and then the treasury department verifies each investment in DEMAT mode with the statement of DEMAT account on regular basis. The accounts department obtains the quarterly confirmation for all the DEMAT securities which are reconciled with books of accounts.

4.4 Portfolio Exposure

- The investments portfolio shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific investments class or scheme, currency, Country or economic sector. Diversification strategies shall be periodically reviewed. The current policy guidelines which are not applicable to deposits with banks are as follows and are adhered to before making any investment:
  - ✓ Maximum investment exposure to Single Company/Party/Scheme of fund not to exceed 25% of owned funds of Swara as per the last audited Balance Sheet.
  - ✓ Maximum investment exposure to a single group of companies/Parties/Schemes of particular Asset Management Company (AMC) not to exceed 35% of owned funds of Company as per last audited Balance Sheet.
- Current investment is the most usual type of investment that Company do follow. Hence, the guidelines have been detailed to ensure the Compliance thereof by the Committee/Delegate. With respect to the current investment's portfolio, the Company maintain the following mix of instruments:

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Investments Options	Scheme (if applicable)	% of available Surplus Funds
Debt Mutual Funds	Overnight Funds Liquid Funds Liquid Plus	No upper limit (subject to Liquid Plus Scheme investments <=20%)
Certificate of Deposits (CDs)		0%............75%
Fixed Deposits		No upper limit
Commercial Papers (CPs)		0%............25%
TREPS		No upper limit
Pass Through Certificates (PTCs)		As per specific approval
Other		As per specific approval

- The above limits are calculated based upon the previous month end surplus funds.
- Three months rolling projected cash flow is prepared by the treasury team every month after taking the necessary data from the concerned stakeholders/departments, considering the below listed parameters:
  a) Inputs for cash inflows:>
    - ✓ Estimated collection (principal + interest), Collection on additional disbursement, processing fees and other facilitation fees on additional disbursements from operations team
    - ✓ Long term fixed deposits which are lien marked
    - ✓ Estimated Collections from Jana Bank with respect to BC Funding from operations team

  b) Inputs for cash outflows:>
    - ✓ Estimated loan disbursements from operations team
    - ✓ Estimated term loan repayments (principal and interest)
    - ✓ Estimated expenditure taken from admin department

  The above cash flow forecast is reviewed and amended (if required) by VP & Head - Finance and shared with for their review. Fund raising and Investment decisions are taken based on same.
- With respect to Interest Risk , investments are done for tenure matching the outflows. Tenure of the investments is decided based on expected interest rate movements, considering the economic conditions and RBI actions.
- With respect to credit risk, the investments in mutual funds are reviewed on weekly basis. Other investments are reviewed on on-going basis, where all the financial and non-

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financial parameters are reviewed and studied by the finance team. Financial parameters are reviewed on quarterly basis.

4.5 Performance Review

- The treasury manager will periodically (Monthly) submit the MIS about the performance of investment portfolio to the management.

4.6 Internal Audit

- The Treasury manager is responsible for establishing and maintaining an internal control structure that will be reviewed annually with Swara's internal auditor. The internal control structure shall be designated to ensure that the assets of Swara 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.

5. Scope of Updation

- In the subsequent years, there may be an amendment in this SOP based on practical experience.
- Each amendment must be made by way of Official Notice made by Requesting Department Head, Authorized by VP & Head Finance & Approved by Board of Director.

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