RISK MANAGEMENT POLICY

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PAISALO DIGITAL LIMITED
Formerly Known as S. E. Investments Limited
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Near Police Station, New Delhi -110019
CIN: L65921DL1992PLC120483

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[Pursuant to Regulation 17(9) of SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 read with provisions of Section 134 (3) and 177(4) of Companies Act, 2013]

1. Preface

Oxford Dictionary defines the term "risk" *as a chance or possibility of danger, loss, injury or other adverse consequences.*

We can contemplate that risks are those events with the potential to have a significant negative impact on the organisation and Risk Management is a set of activities to mitigate the impact of certain risks and to ensure the best possible outcome after the event and/or achieve the most predictable consequences."

Risk management in today's competitive environment is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence and then taking appropriate actions to address the most likely threats.

Risk mitigation or Risk management is one of the primary concerns for a NBFC. Non-Banking Financial Companies (NBFCs) in India hold a significantly large portfolio. Their smooth functioning is essential for the growth and development of the Indian economy thus it is vital that NBFCs are more resilient, well-regulated and properly governed in terms of liquidity or other risks vis-à-vis management of their assets and liabilities. Thus the various regulatory frameworks applicable to NBFCs impose different provisions for risk management.

2. Legal Framework

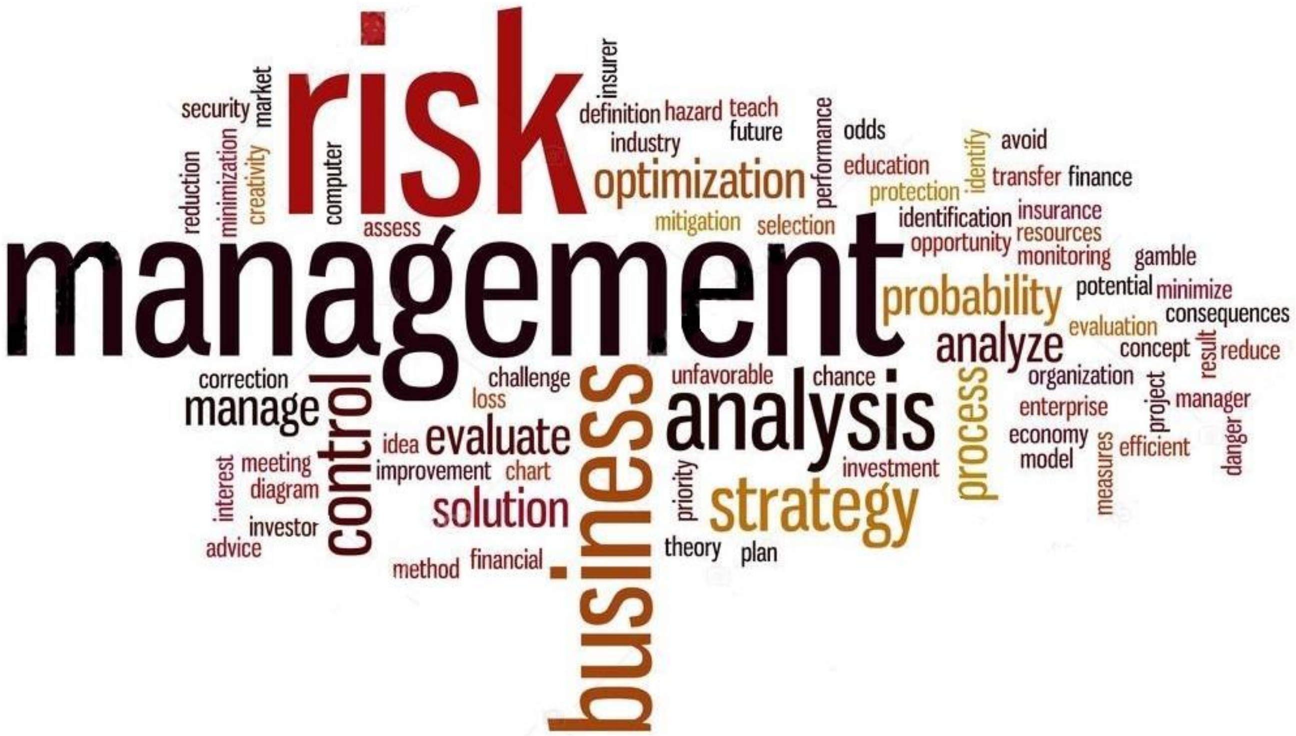
The Provisions of Section 134(3) of the Companies Act, 2013 states that the Board's Report should contain a statement indicating development and implementation of a Risk Management Policy for the Company including identification therein of elements risk, if any, which in the opinion of the Board may threaten the existence of the Company.

The provisions of Section 177(4) of the Companies Act, 2013 requires that every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia include evolution of risk management.

Further, the Reserve Bank of India, vide circular DNBS (PD) CC NO. 288/03.10.001/2012-13 dated July 2, 2012, has envisaged the creation of a Risk Management Committee by all NBFCs. This Committee will be responsible for the identification and measurement of risks and also taking suitable measures to prevent the occurrence of such risks.

Furthermore, regulation 17(9) of SEBI (LODR) Regulations, 2015 also provides that the listed entity shall lay down procedures to inform members of the Board of Directors about Risk Management and Minimization procedures of risk. The Board of Directors shall be responsible for framing, implementing and monitoring the Risk Management Plan for the listed entity and for top 500 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year, Regulation 21 of SEBI (LODR) Regulations, 2015, provides for constitution of Risk Management Committee, its composition, chairman and its meeting.

Apart from legal requirement for Risk Management Policy, Risk Management is also a key aspect of Corporate Governance Principles and Code of Conduct which aim to improve the governance's practices across the business activities of the Company.



3. Background

The Company Paisalo Digital Limited (Formerly Known as S. E. Investments Limited) is a Category 'B' – Non-Deposit Accepting Systemically Important RBI registered NBFC.

Company was incorporated in the year 1992 as a Private Limited Company, converted itself in a Public Limited Company in the year 1995. PDL is working to be leading financial services provider recognized, admired and respected for high corporate governance, ethical practices and, social values.

PDL being an ND-SI-NBFC carries various internal and external risks and in today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: regulations, competition, business environment, technology, investments, return on investments, business cycle, increase in costs, limited resources, retention of talent and business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk etc.

4. Objective, Purpose and Scope

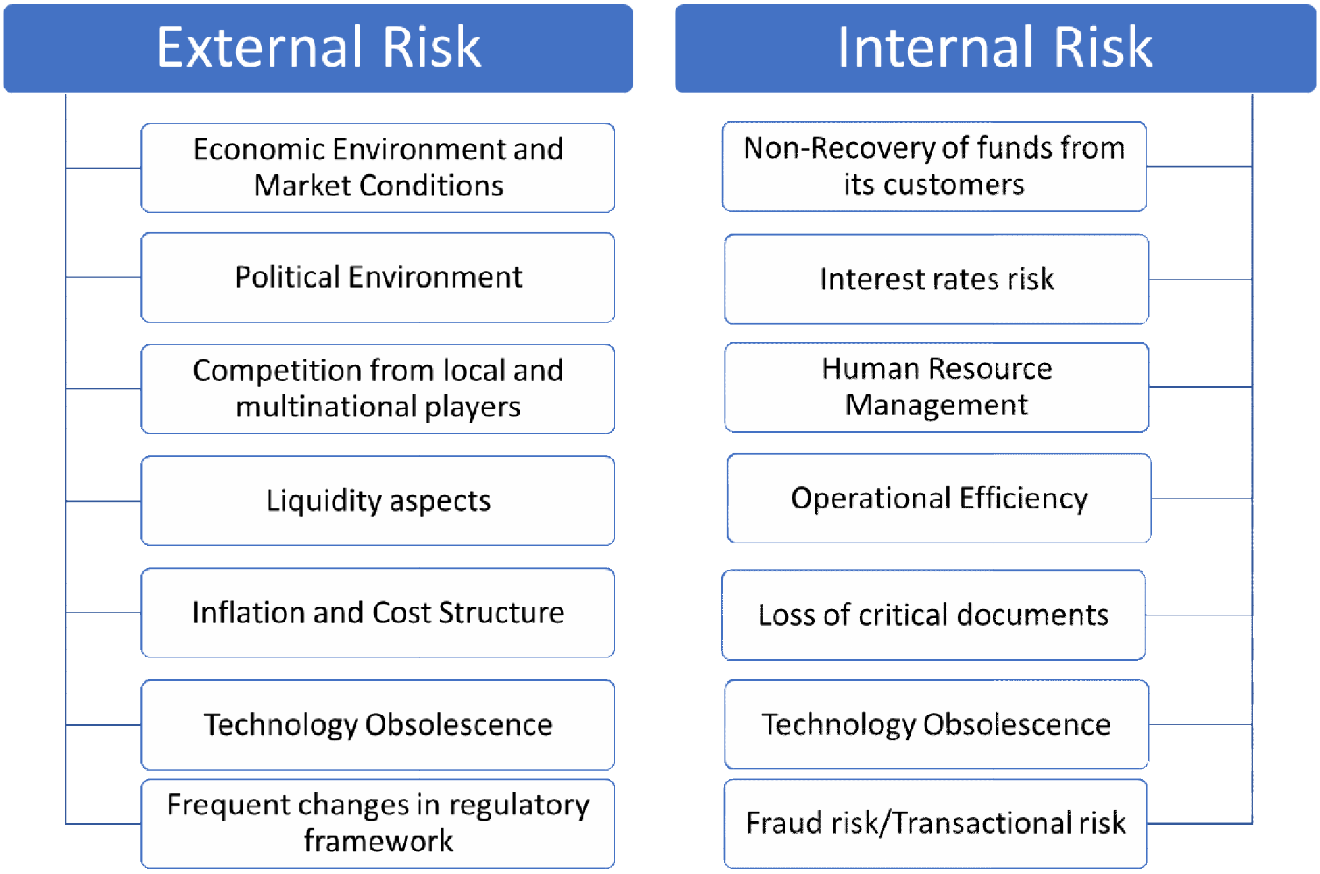
The main objective of this policy is to ensure sustainable business growth with stability and promote a proactive approach in reporting, evaluating and resolving risks associated with the Company's business along with keeping the Board of Directors and Top Management appraised of the applicable risks promptly and regularly.

The policy focus is to address unanticipated and unintended losses to the human resources & financial assets of the Company without unnecessarily limiting the activities that advance its mission and goals.

In order to achieve the key objectives, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues enabling the Company to make consistently profitable and prudent business decisions across all its offices.

5. Common Risk Factors

The Company is subject to a variety of external and internal risks in the course of its operations which includes:



In recent times every business, specifically NBFCs have been found to be constantly facing problems with managing their liquidity positions owing to multiple factors such as an increase in borrowing costs, asset -liability mismatches, repricing risks, nature of assets and reluctance of lenders/investors. Hence, considering the balance sheet size of PDL above risks though seems trivial issues are to be taken care of very vigilantly.

6. Types of Risks

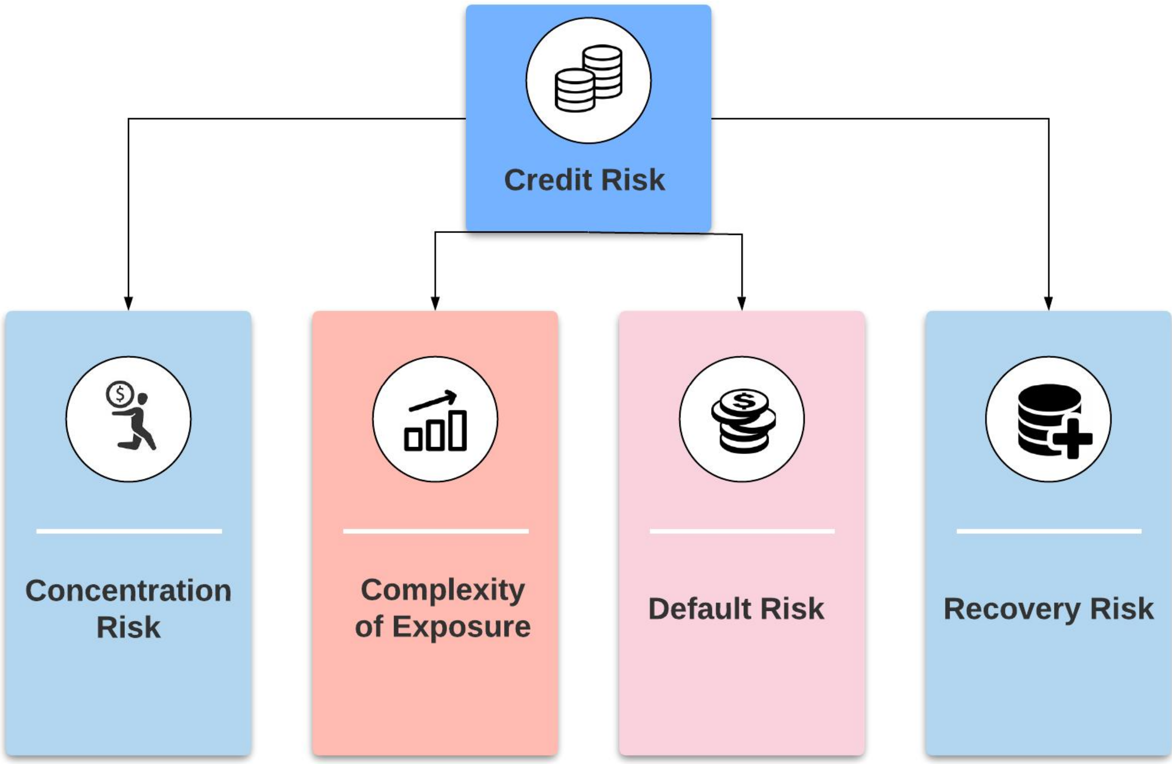
6.1 Credit Risk

The key risk for NBFC or any other institution involved in lending business is Credit Risk. According to RBI, credit risk is defined as

- Possibility of losses associated with a decline in the credit quality of borrowers or counter-parties,
- Default due to inability or unwillingness of a customer or counter-party to meet commitments in relation to lending, trading, settlement and other financial transactions, or
- Loss from the reduction in portfolio value (actual or perceived)

Hence, it is imperative for PDL to have a robust credit risk management system to address the above risk. The effective management of credit risk is a critical component of PDL's comprehensive risk management and is considered essential for the long-term success of the company.

PDL's Credit policy includes:
- Target segments,
- Risk acceptance criteria such as Debt Burden Ratio, Loan-to-Value, etc.
- Credit approving authority,
- Collateral management, and
- Legal scrutiny of collateral documents.



6.1.1 Concentration Risk

Risk which arises from the composition or concentration of companies' exposure to particular geography or borrower is the concentration risk. The details of the measures are:

Borrower concentration risk: This risk represents an uneven distribution of exposures to its borrowers. As a prudential measure aimed at better risk management and minimizing credit concentration risk, the Company has fixed prudential exposure limits as follows:

Particulars	Companies Cap
Single borrower	Less than 15% of PDL's net owned fund
Single group of borrower's exposure	Less than 25% of PDL's net owned funds
Invest in other Company	Less than 15% of PDL's net owned fund
Invest in single group of companies	Less than 25% of PDL's net owned funds
lend and invest (loans/investments taken together) to a single party	Less than 25% of PDL's net owned funds
lend and invest (loans/investments taken together) to a single group of parties	Less than 45% of PDL's net owned funds

6.1.2 Complexity of Exposures

This is the risk which arises from a variety of collateral, target customer segments, type of loans, etc. In this regard, the PDL has taken the following measures to address the same:

Particulars	Comments
Target customer	The credit policy shall cover details of - Eligible borrowers, - Positive & negative sectors
Collateral related risks	The company shall have a detailed guideline on selection of collaterals, valuations, inspections, safe custody, etc
Loan products	The credit policy shall define the nature of loans to be offered and the permissible end use of the loan. Additionally, the policy also covers the following with regard to loan terms: - Quantum of loan - Acceptable Debt burden ratio - Repayment terms, etc. - Frequency of EMI

6.1.3 Default Risk

Risk that a borrower is unable to meet it's periodic commitments. The company primarily caters to small businesses in urban, semi-urban and fast growing rural markets. All the loans are provided after due assessment of incomes. Certain section of borrowers are from unorganised segment and may not have formal proof for income generation even though they may have sufficient cash flows to repay the debt.

Hence the company adopts the following robust credit appraisal process:

- Multiple and Independent evaluation of credit worthiness and bankability of credit proposals. While appraising the credit proposal, the Company shall ensure that the financial statements / cash flows and income assessments of borrowers are reviewed diligently. The Company relies on both quantitative parameters and various qualitative proxies while assessing the income.

- Every credit proposal will also be subjected to evaluation and assessment of credit risk and measures proposed to minimize the risk.

- Comprehensive and transparent presentation would be made while making the credit assessment and approval duly adhering to various policy guidelines/ requirements/ benchmark parameters.

6.1.4 Recovery Risk

Risk that lender is unable to recover the loan from the borrower. Considering the basic characteristics of our lending, in which collateral value is critical, an unduly intensive post disbursement supervision of the loan with the borrower shall not be considered desirable under normal circumstances. Despite the availability of good security to cover the credit exposure, the Company recognises the importance of a well-calibrated approach for recovery. Maintaining a fine balance in the recovery / collection procedure is relevant for 3 important reasons: i) To consider customer sensitivities in such collateral driven loans. ii) To minimize the forced realization of the collateral through auction. iii) To comply with the income recognition and asset classification norms of the RBI.

6.2 Operational Risk

Another risk that is prevalent to many institutions is the inadequacy of processes to maintain checks and balances in its operations. Necessary controls are essential to ensure that there are no intentional or unintentional errors that creep into the process.

In this regard, the Company has set up an Operations and Finance Committee department, which is responsible for maintaining the necessary controls over the various processes. The operational staff shall independently carry out or check the various processes like data entry, preparation and verification of data, necessary checks before disbursals, scrutiny of documents at each stage as required, maintain safe custody of the property documents and the like. With such independent checks, it is envisaged that the errors would decrease significantly.

6.3 Liquidity & Interest Rate Risk

Another risk that is very specific to NBFCs or other institutions involved in the activity of lending is liquidity risk or the risk of inadequate liquidity to further the business. NBFCs depend on Banks, Financial Institutions and other NBFCs for their funding needs. In addition, NBFCs also resort to issue Non-Convertible Debentures, Commercial papers, Securitization transactions for meeting their funding requirements. Lack of adequate liquidity or non-availability of liquidity on time would seriously hamper the business prospects of NBFCs.

Our Company is also dependent on Banks and Financial Institutions and other funding structures for its funding and hence the liquidity risk needs to be managed efficiently in order to ensure smooth functioning. Availability of liquidity alone is not sufficient but managing the cost of funds is a very important indicator to ensure company profitability. The cost of funds charged by the Banks and Financial Institutions to NBFC depends on a multitude of factors (listed below) and it is the responsibility of the Risk Management Committee to keep a track of these factors and ensure that they stay in favour of the Company at all times.

- Company size - the larger the Company size, the lower the cost of funds
- Portfolio quality - Demonstration of a strong portfolio quality over long periods of time would help the Company get cheaper funds
- Capital adequacy and Leverage- the higher the capital adequacy and lower the leverage, the Company will be able to attract lower cost funds for its operations
- Credit rating - the better the credit rating of the Company, the lower would be its cost of funds
- Multiple sources of funds - A Company which has access to multiple sources of funds will be able to rationalize its costs better than a company which is dependent predominantly on a single source of funds

Another aspect to the liquidity risk is matching the asset-liability profile such that there is no negative asset-liability mismatch. In the event of the assets having a longer tenor as compared to the liabilities, the Company would have a negative ALM resulting in cash flow issues. While this risk needs to be monitored and managed by the Risk Management Committee, given the sophisticated nature of the risk, Asset Liability Management Committee is constituted and manage the ALM.

6.4 Financial Risk

Every Company especially NBFCs, which are in the process of lending and collecting moneys, needs to manage its finance risk in a prudent fashion. Financial risk could take the following forms:

- Compliance of applicable Accounting Principal- this is essential to ensure that the Company's financial including the balance sheet and profit & loss account reflect the true and fair picture of the Company's financial position.
- Adequacy of Internal Financial Controls – every company needs to develop its own set of Internal Financial Controls, which will serve as the check and balance to ensure the orderly and efficient conduct of its business.
- Clearly documented and consistent accounting policy- it is essential for every company to develop its set of accounting policies in line with the applicable accounting standards and maintain consistency in the adoption of such accounting policies over the course of financial years.

6.5 Human Resources Risk

The success of any institution lies in the strength of its people. It is essential for a company to attract and recruit the right set of people, manage their monetary and non-monetary expectations so that they are able to contribute towards the growth of the Company. Some of the tenet of the risk management framework to manage the HR risk are given below:

- Ensure availability of dedicated workforce of good vintage
- Ensure a pool of resource which can be tapped into should there be a need for additional resource
- Benchmarking salaries and incentives with the industry standards so that the attrition levels are managed

6.6 Risk Associated With Pandemic

In addition to above External Risk, Internal Risk Common Risk for NBFC, recently World, Country and Company exposed to the risk associated with pandemic, such as COVID-19 crisis, Governmental-decried closures. Which may have significant adverse on the business and may have accounting and reporting implications for the Company. To mitigate risk associated with the pandemic the Company should take appropriate measures which includes follow the Governmental Directive and Guidelines for the pandemic; issue internal guidelines according the situation for the time being for the employee and associates; preparation of plan and protocol according the situation and fix the responsibility for implementing the plan; provisioning for training of employee to face and mitigate the impact of relevant risk; appropriate insurance for Company's Assets and Employees and upgradation of technology and information system of the Company.

7. Risk Management through various Committees

In line with better corporate governance, effective risk management system and subject to provisions of applicable laws the Board of Directors of the Company shall constitute following committees:

7.1. Audit Committee

The Audit Committee is a central pillar of effective corporate governance and is in the best position to offer effective oversight of the performance, independence and objectivity of the auditor and the quality of the audit.

Audit Committee Members are drawn from the independent members of the Board of Directors, with a Chairperson selected from among the Committee Members. We believe periodic review is a more appropriate and effective approach for risk mitigation, which is the main objective of Audit Committee.

The Audit Committee is responsible for overseeing the entire financial reporting process and determine that they are designed effectively. Also, it helps in establishing and maintaining adequate internal control over financial reporting, and evaluating the effectiveness of the same.

The audit committee should consider having management identify and discuss any significant accounting policies, estimates, and judgments made. Along with the same audit committee keeps over viewing three main areas:

>Financial statement fraud, which includes intentional misstatements in or omissions from financial statements.

>Asset misappropriation, which may include check forgery, theft of money, inventory theft, payroll fraud, or theft of services.

>Corruption, which may include schemes such as bribes to influence decision-makers,or manipulation of contracts.

For each related party transactions Audit committee takes into consideration every aspect including the following:

>What are the business reasons for the transaction? Are these reasons in line with the company's overall strategy and objectives?

>When and how will the transaction have to be disclosed? How will investors view the transaction when it is disclosed?

>Which insiders could benefit from the transaction and in what way?

>What impact will the transaction have on the financial statements?

Amongst other responsibilities:

>Determining effectiveness of plans and programs to identify & prevent frauds.

>Establish Anti fraud controls to take necessary steps when frauds are identified.

>Implementation of appropriate ethics and code of conduct to prevent fraud.

>Monitor any actual violations, including management's responses to audit queries.

Audit Committee overviews the entire risk susceptibility of the company that includes asking following questions:

>Which board committees are responsible for various aspects of risk governance? Has the risk governance structure been defined?

>Has management assigned owners for each risk that has been identified?

>Is cyber risk receiving adequate time and focus on the audit committee agenda?

>Evaluating the role of technology in the risk management program?

7.2. Risk Management Committee

The role of this Committee is to perform an oversight function. In doing so, it considers the risk policy and plan, determine the Company's risk appetite and risk tolerance, ensure that risk assessments are performed regularly, and ensure that the Company has and maintains an effective on-going risk assessment process, consisting of risk identification, risk quantification and risk evaluation. This risk assessment process (using a generally recognised methodology) should identify risks and opportunities, and measure their potential impact and likelihood. The Committee receives assurance from internal and external assurance providers regarding the effectiveness of the risk management process.

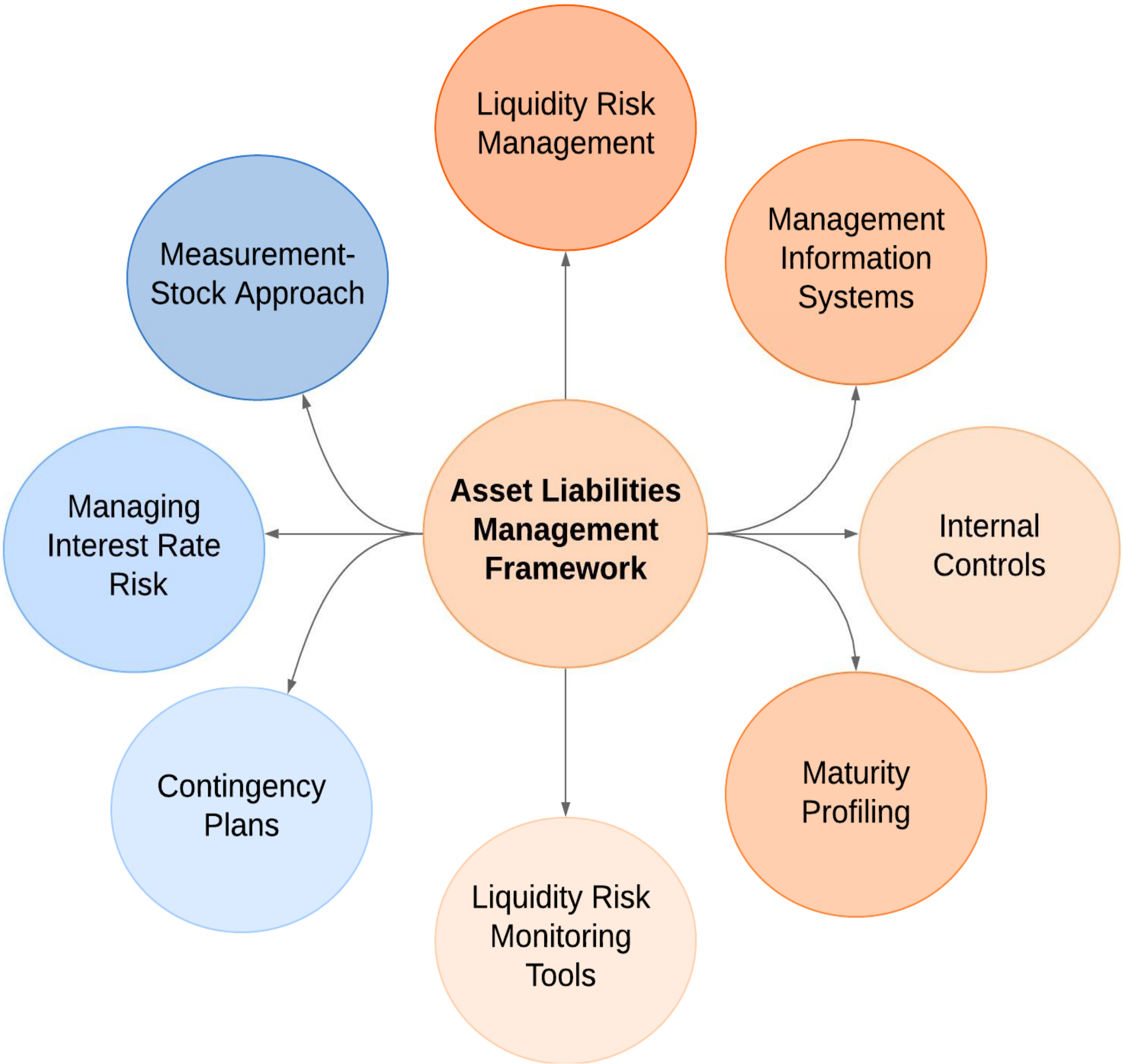
Among other responsibilities, this Committee performs following functions:

Risk Management Committee

- Identify areas of risks as also various types of risks involved in the business of the Company.
- Review and approve the frameworks, process and practices of the Company related to risk management.
- Committee shall ensure that Company is taking the appropriate measures to achieve prudent balance between risk and reward in both ongoing and new business activities.
- Ensure the regulatory compliance on risk management and prudential norms sets by RBI/Governments.
- Endeavour to improve the assets quality
- Risk Management Committee shall set internal process and systems to control the implementation of action plans.
- Risk Management Committee shall set internal process and systems to control the implementation of action plans.
- Evaluation of significant risk exposures of the Company and assess management's actions to mitigate the exposures in a timely manner (including one-off initiatives, and ongoing actives such as business continuity planning and disaster recovery planning & testing).
- Risk Management Committee shall make required report/recommendations to the Board of the Directors.
- Risk Management Committee will coordinate its activities with the Audit Committee in instances where there is any overlap with audit activities (e.g. internal or external audit issue relating to risk management policy or practice).

7.3. Asset Liability Management Committee

The Committee primarily performs the role of Risk Management in pursuance of the Risk Management guidelines issued periodically by RBI and the Board. This Committee focuses on areas mentioned below:



7.3.3. Liquidity Risk Management

Appropriate governance is imperative for the implementation of a Sound Liquidity Risk Management framework. In order to integrate the day-to-day operational aspects and strategic decisions with Liquidity Risk Management, a comprehensive governance structure is created. Liquidity risk tolerance limits are created for each business segments which are articulated in both quantitative and qualitative terms.

Another important aspect is effective Liquidity Risk Management is that of funding. The NBFC sector is dependent on low-cost short-term funding and for non-deposit taking NBFCs like PDL there is heavy reliance on bank and market borrowings. If supply from these two sources dries up, problems may arise. A funding strategy is established with effective diversification in terms of sources and tenor. There is no over-reliance on a single source and concentration in sources of funds are monitored in a regular fashion.

In terms of monitoring, the amount of funds raised from each source are represented as a percentage of total funding to provide a true picture of the funding mix and any concentration (that may arise) to the senior management, alerting them to take any necessary action.

7.3.4. Maturity Profiling

The entire book debts is segregated across various time limits starting from as low as loans maturing within 7 days, for determining the short term or long-term liquidity of the Company. This information is available on real time basis to the management to facilitate them in making an informative decision about various financial situations.

7.3.5. Stock Approach

PDL monitor liquidity risk based on the 'stock approach' that essentially measures comparable positions of different parameters at a particular point.

Suitable indicators/ratios pertaining to liquidity risk are calculated and set as predefined internal limits upon board approval. The desired levels are decided based on their significance to the business of the PDL as well as industry averages—for example, regulatory ratios like total liabilities and total assets, non-convertible debentures (NCDs; original maturity less than one year) to total assets, debt equity ratio etc.

7.3.6. Management Information

Institutions with immediate access to all pertinent liquidity risk information are always in a better position to manage their liquidity profile more effectively. PDL has created a reliable MIS system to provide timely and adequate information on the liquidity position of the institution both under normal and stress situations.
Daily, fortnightly, monthly and quarterly MIS is generated for each business process of the Company.

7.3.7. Stress testing

It is a good practice to make stress testing an integral part of the overall liquidity risk management culture. Stress tests are conducted periodically for a set of short-term scenarios comprising institution-specific, general market and combined scenarios. Also, PDL have developed mechanisms to survive the minimum stress period.

8. Role of the Board of Directors

The Board of Directors of the Company shall discharge its roles and responsibilities in following manner to manage risk appropriately:

- The Board shall be responsible for framing, implementing and monitoring the risk management plan of the Company.

- The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit. Such function shall specifically cover cyber security.

- The Board shall ensure that the appropriate systems for management are in place.

- The Independent Directors shall help in bringing an independent judgement to bear on the Board's deliberations on issue of risk management and satisfy themselves that the systems of risk management are robust and defensible; participation in major decisions affecting the company's risk profile,

- Board shall ensure that an appropriate accountability framework is working in risk management system of the Company.

- Board shall constitute committees that are deemed necessary to manage and control the risk adequately.

- Board shall ensure that risk management is integrated into Board Reporting and annual reporting mechanism.

9. Compliance and Control

All the Senior Executives under the guidance of Board and Committees has the responsibility for overviewing management's process and results in identifying, assessing and monitoring risk associated with the Company's business operations and implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control.