



## **RISK MANAGEMENT POLICY**

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## **RISK MANAGEMENT POLICY**

[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, RBI Directions]

The Board of Directors of Paisalo Digital Ltd have adopted the policy which comprises practices relating to identification, assessment, monitoring and mitigation of various risks to the business. Risk Management Policy of the Company seeks to minimize the adverse impact of risks on the business objectives and enhance the stake holders value.

### **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 Non-Banking Financial Companies (NBFCs). 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. Further, Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 also provides for constitution of Risk Management Committee. 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 Assessment 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 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.



## 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 apprised 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.

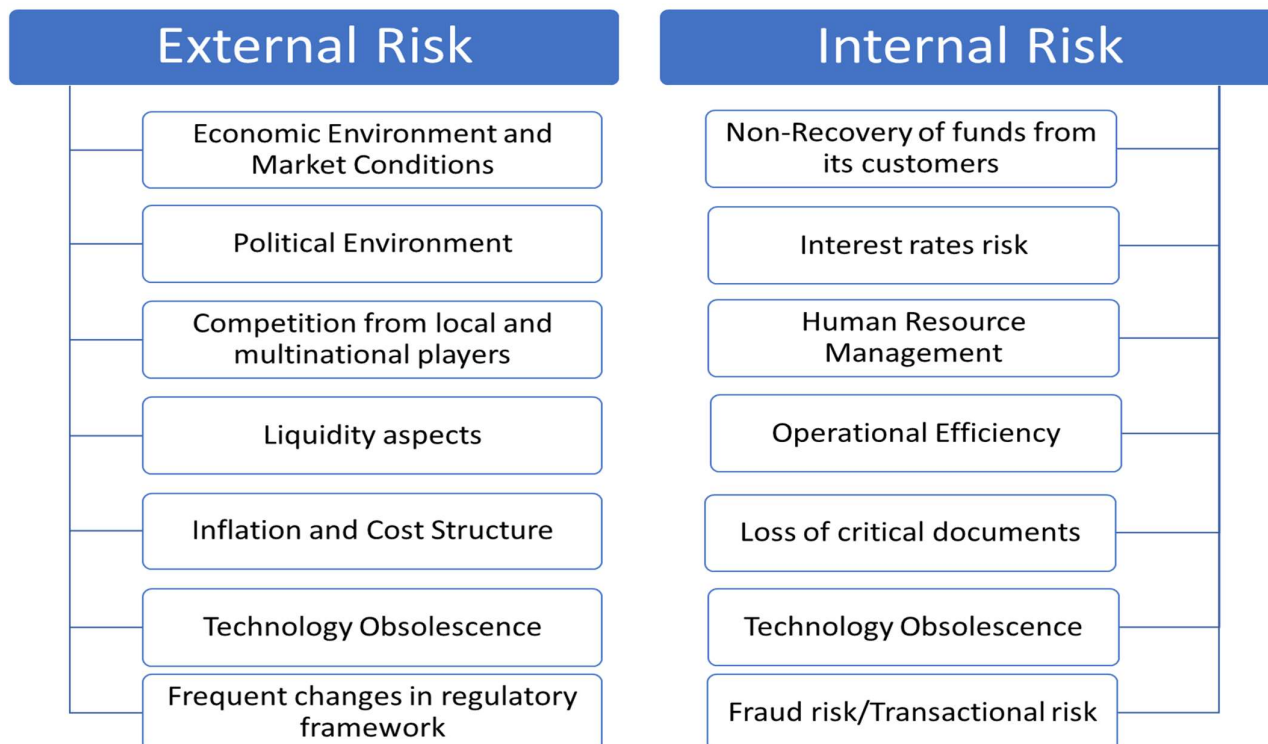
In order to achieve the key objectives, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues enabling the Company to make consistently profitable and prudent business decisions across all its offices.

This policy is prepared 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, Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 .



## 5. Common Risk Factors

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



## Interest Rate Risk is an External Risk.

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

NBFCs in the course of financial intermediation, are exposed to various financial and non-financial risks, of which credit risk is the one of the most significant risks. If not managed effectively, credit risk may have ramifications for a range of other risk categories too. As credit exposures of NBFCs encompass varied sectors, borrower types and products with their own idiosyncratic complexities as well as systemic implications due to interconnectedness among themselves, credit risk management of NBFCs involve a range of prudential tools, including statutory and regulatory restrictions / prohibitions on certain activities. Recognising this, the Reserve Bank has, from time to time, issued guidelines to strengthen credit risk management practices.

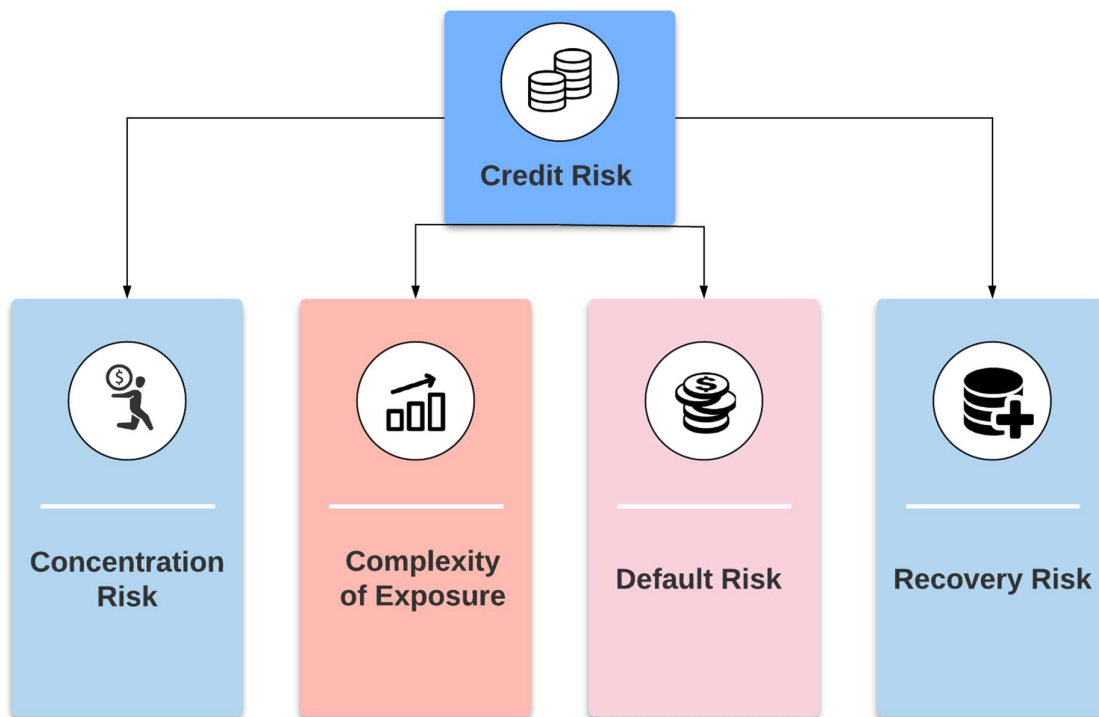
The key risk for NBFC or any other institution involved in lending business is Credit Risk. According to RBI, credit risk is defined as

- ✦ 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.

Risk Mitigation : PDL's Credit policy includes:

- ✦ Target segments,
- ✦ Risk acceptance criteria such as Debt Burden Ratio, Loan-to-Value, etc.
- ✦ Monthly repayment obligations are limited to 50% of monthly house hold income with a capping of 3 loans.
- ✦ Credit approving authority,
- ✦ Collateral management, and
- ✦ Legal scrutiny of collateral documents.
- ✦ Thorough verification of KYC documents and eliminating chances of Impersonation.



## 6.1.1 Concentration Risk

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

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:

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 <ul style="list-style-type: none"> <li>✚ Eligible borrowers,</li> <li>✚ Positive &amp; negative sectors</li> </ul>
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: <ul style="list-style-type: none"> <li>✚ Quantum of loan</li> <li>✚ Acceptable Debt burden ratio</li> <li>✚ Repayment terms, etc.</li> <li>✚ Frequency of EMI</li> </ul>

### 6.1.3 Default Risk

Risk that a borrower is unable to meet its 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

Operational Risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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 disbursements, 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.

PDL manage the operational activities right from risk identification, measurement and assessment, monitoring and control, mitigation, reporting to senior management and the Board of Directors on the risk exposures, Business Continuity Management, and learning through feedback for improvement.

Whistle Blower:

The Company advised to all its employees to report next higher authority, any non-compliance of any process or of any policy without hesitation. The employee name would be kept confidential. If any kind of issue is escalated, immediate enquiry will be conducted.

Fraud Prevention Policy: RBI vide Master Circular No. RBI/DOS/2024-25/120 DOS.CO.FMG .SEC.No.7/23.04.001/2024-25 dt 15.07.2024) issued directions on Fraud Risk Management with a view for providing framework on applicable NBFCs for prevention,

early detection, investigation and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), RBI and matters connected therewith or incidental thereto.

PDL monitor activities in credit facility / loan account / other financial transactions and remain alert on Early Warning Signals /activities which could potentially turn out to be fraudulent. In case where there is a suspicion / indication of wrongdoing or fraudulent activity, PDL carried out audit for further investigation in such accounts / incidents.

A periodic review of incidents of fraud, if any, shall be placed before appropriate Committee and on disclose the amount related to fraud reported in the company for the year in their Financial Statements – Notes to Accounts.

Internal Audit:

Immediately after sanction of loans, documents are scrutinised and if any irregularities/lapses observed, those would be rectified promptly.

### 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's 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.

Interest rate risk is the risk where changes in market interest rates, because of external macro-economic factors, RBI policies, or Govt policies, might affect adversely on the Company's earnings stream and Profitability. This may also affect lower growth in credit. As such to mitigate this risk, all co-lending loans and most of other loans are being extended at fixed rates of interest and also for short term viz., less than 5 years. While fixing interest rates, interest rate risk is taken care of.

## 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 – The Company developed its own set of Internal Financial Controls, which will serve as the checks and balances to ensure the orderly and efficient conduct of its business.
- ✚ Clearly documented and consistent accounting policy- The Company developed 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- declared closures. Which may have significant adverse impact 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 constituted following committees:

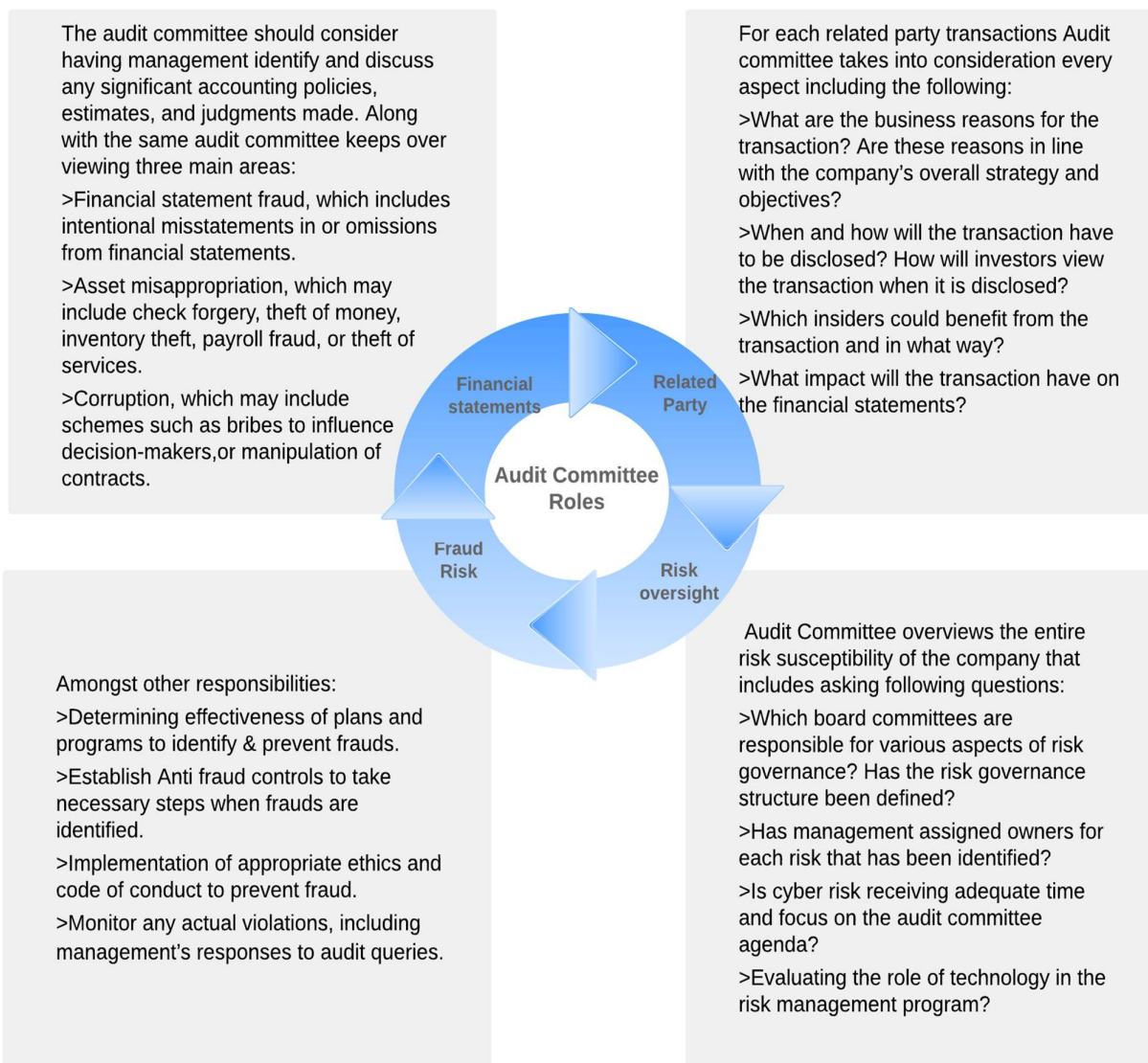


### 7.1. Audit Committee

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.



## 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.

The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary

#### 7.2.1 Composition of RMC:

- i) RMC shall comprise of minimum three members with majority of them being members of the board of directors, including at least one independent director.
- ii) The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.
- iii) The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.

7.2.2 Frequency of Meeting: RMC shall meet at least twice in a financial year and its findings shall be presented to the Board in the subsequent Board meeting. The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than two hundred and ten days shall elapse between any two consecutive meetings.

#### 7.2.3. Among other responsibilities, this Committee performs following functions:

##### 7.2.3.1. To formulate a detailed risk management policy which shall include:

- (a) A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
- (b) Measures for risk mitigation including systems and processes for internal control of identified risks.
- (c) Business continuity plan.

7.2.3.2. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;

7.2.3.3. To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;

7.2.3.4. To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;

7.2.3.5. To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;

7.2.3.6. The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee.

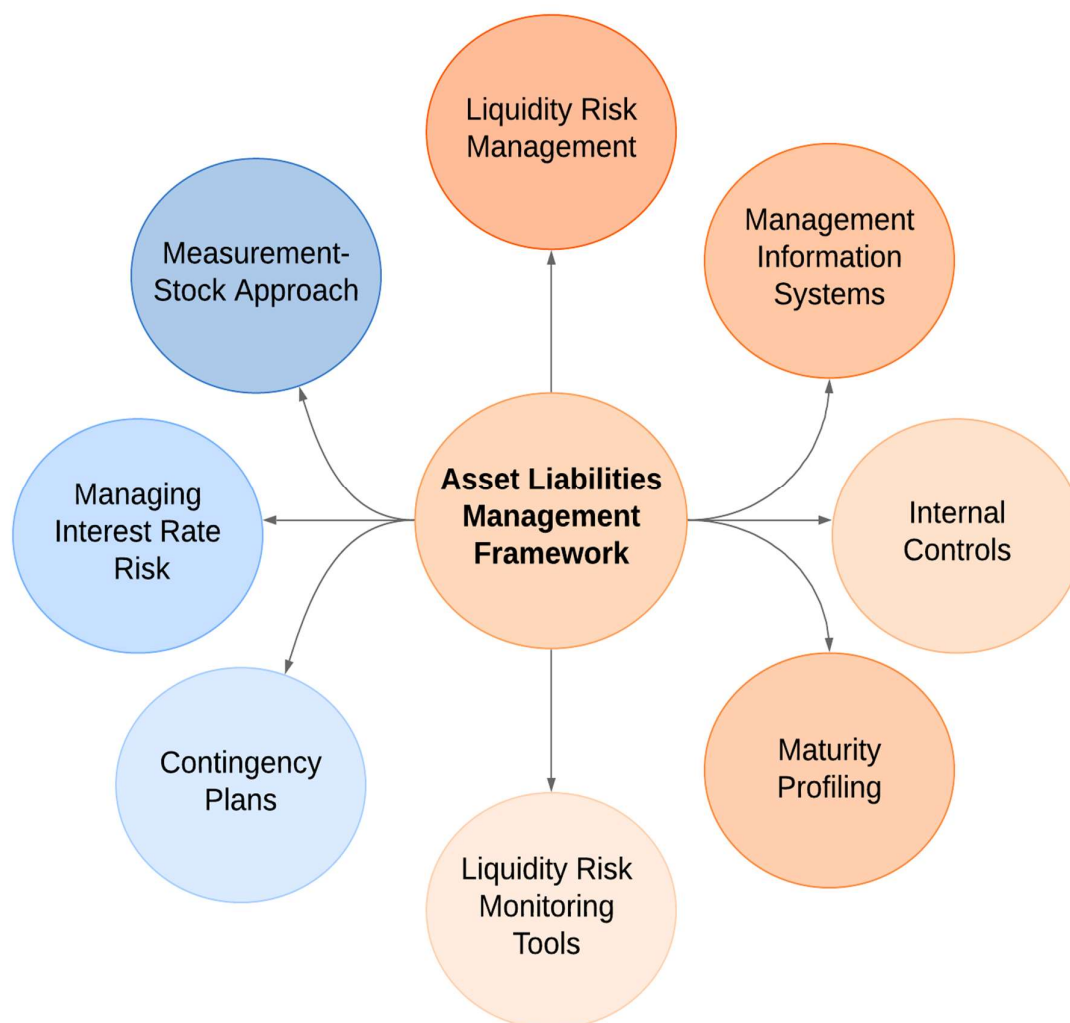
7.2.3.7. The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.

7.2.3.8. To monitor and review the risk management plan

7.2.3.9. To review cyber security risk management.

### 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 overseeing 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.