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Risk Management Policy of Salem Erode Investments Limited as approved by the Board of Directors vide. meeting dated 27th day of August, 2021.

(This policy is in supersession of previous policy and consistence with provisions of the Companies Act, 2013, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the directions under Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016).

I. Background

Salem Erode Investments Limited (hereinafter referred to as "the Company") is an emerging financial service providing Company established and emerged in 16.05.1931 with a registration under the Companies Act, 1913 and expanded its operation into Non-Banking Financial Sector in 1998 with the approval of Reserve Bank of India (hereinafter referred to as "RBI"). Presently, the Company is planning to expand its operations to different parts of the Country in the coming Financial Years.

As the Company falls under the relevant provisions of the Companies Act, 2013 (hereinafter referred to as the "Act"), the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and directions under the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and amendments made thereunder, the constitution and maintenance of Risk Management Committee(hereinafter also referred to as "Committee")is mandatory. Being the Act mandates certain transactions to be monitored by the Risk Management Committee, continuance of the same in a fair and transparent manner is necessary.

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the Company's business objectives. The exposure to the consequences of uncertainty constitutes a risk. To ensure protection of shareholder value through the establishment of an integrated Risk Management Framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of all risks, the Board of Directors vide. meeting dated 27th August, 2021 reconstituted the existing Committee and approved the revised policy structure for the same. The Committee is established with the aim of enhancing confidence in the integrity of an Organisation's processes and procedures in managing various risks associated with the Company. The Committee provides an 'independent' reassurance to the Board through its oversight and monitoring role.

II. *Purpose*

The Policy would lay down the guiding principles for review and monitoring of all applicable risks such as Political Risks, Competition Risk, Reputational Risk, Force Majeure, Liquidity Risk, Credit Risk etc. associated with the Company. The main objective of the policy is to keep the Board of Directors and top management appraised of the applicable risks promptly and regularly and ensures growth with profitability within the limits of risk absorption capacity. It is expected to facilitate the Company to acquire and maintain a pre-eminent position amongst Non-Banking Finance Companies(hereinafter also referred to as "NBFCs").

The intent of the policy is to establish procedures for detection and timely reporting of risks to senior management for review and necessary action. The Policy will promote consistent legal and ethical organizational behavior by assigning responsibility for detection and prevention of risk and for establishment of procedures for preventing risk and providing guidelines for reporting and mitigation of risk elements.

III. *Applicability*

The policy shall be applicable to all the activities carried out by the Directors, Employees of the Company, Employees of Subsidiary or Group Companies, Security holders, other agencies deployed for the Company's activities, whether working from any of the Company's offices or any other location, contractors, vendors, suppliers or agencies (or any of their employees) providing any material or service to the Company, customers of the Company and any other person having an association with the Company. The policy shall effective from 27th August, 2021 to next meeting in which Policy is revised.

IV. *Chief Risk Officer*

To integrate basic operations at all the levels of the Company and develop strategic decision-making process, the Board of Directors have appointed a Chief Risk Officer (hereinafter also referred to as "CRO").In case of any clarification or information connected with the process of identification, measurement and mitigation of risks associated with the Company, any person concerned may make an enquiry with the CRO of the Company at the following address:

Chief Risk Officer
Salem Erode Investments Limited
V. K. K. Building, Main Road,
Irinjalakuda, Thrissur, Kerala – 680121
Ph: 0480 2828071, E mail: cro@salemerode.com

V. Organisational structure for risk management

1) Board of Directors

The Board shall have the overall responsibility for management of all risks associated with the Company. The Board shall decide the strategies, policies and procedures to manage all risks in accordance with the risk tolerance/limits decided from time to time.

2) Risk Management Committee

The Risk Management Committee, which reports to the Board and consisting of Managing Director/Whole Time Director and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the Company. The composition of the Committee shall be as follows:

a) The Committee shall have minimum three Directors as members, out of which at least one Director shall be an Independent Director.

b) The Committee may consists of Chief Financial Officer and other heads of various risk verticals of the Company. However, majority of members of the Committee shall consist of members of the Board of Directors.

c) The Committee shall be headed by the Managing Director of the Company.

d) All members of Committee shall be professionally sound enough in any one of the business areas of the Company like Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Researchetc. and at least one member shall have accounting or related financial management expertise.

e) The Chairperson of the Committee shall be the Managing Director/Whole Time Director and he shall be present at Annual General Meeting to answer shareholders' queries.

f) The Company Secretary shall act as the Secretary to the Committee.

g) The Board of Directors may, at its discretion reconstitute the Committee by inducting or removing any member, with or without any reasons.

3) *Asset-Liability Management Committee*

The Asset-Liability Management Committee(hereinafter also referred to as "ALCO") consisting of top management of the Company shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the risk management strategy of the Company. The role of the ALCO with respect to liquidity risk should include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions of all branches. The composition of the ALCO shall be as follows:

a) The ALCO shall have minimum three members, out of which Managing Director or Whole Time Directorshall be the Chairman.

b) The ALCO may consists of Chief Financial Officer, Deputy Chief Financial Officer, Finance Manager and the head of various departments like Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research, Marketing etc. as members.

c) The ALCO may consists of Senior Management Officials in following risk management positions:

    i. Finance Manager of the Company shall act as the Risk Controller.

    ii. Departmental heads of the Company shall act as Risk Managers.

    iii. Senior Managers or Deputy Managers or Assistant Managers shall act as Risk Officers of the Company.

d) Risk Controller shall be accountable to the CRO. The Risk Managers shall report to the Risk Controller for the implementation of this Policy within their respective areas of responsibility. Risk Managers will also be accountable to the Risk Controller for identification, assessment, aggregation, reporting and monitoring of the risk related to their respective areas. Risk Officers will be responsible for identification, preliminary assessment, reporting and monitoring the risks related to their individual projects and shall be accountable to Risk Managers.

e) All members of ALCO shall be professionally sound enough in any one of the business areas of the Company like Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research etc. and at least one member shall have accounting or related financial management expertise.

f) The Company Secretary shall act as the Secretary to the ALCO.

g) The Board of Directors may, at its discretion reconstitute the ALCO by inducting or removing any member, with or without any reasons.

4) *Asset Liability Management Support Group*

The Asset Liability Management Support Group (hereinafter referred to as “ALM Group”) consisting of the operating staff shall be responsible for analysing, monitoring and reporting the risk profile to the ALCO. Such support groups will be constituted depending on the size and complexity of liquidity risk management in the Company. The composition of the ALM Group shall be as follows:

a) The ALMGroupshall have minimum five Members, out of which Finance Manageror Operations Manager shall be the Chairman of the ALM Group.

b) The ALM Group may consists of Finance Manager, Operations Manager and the other officials in the rank of managerial and assistant managerial cadre of the Company as members.

c) The ALCO may, at its discretion reconstitute the ALMGroupby inducting or removing any member, with or without any reasons.

VI. Role and Responsibilities of the Risk Management Committee

1) Ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated and managed.

2) Establish a framework for the Company's risk management process and implementation.
3) Recommendation of a senior official in the hierarchy of the Company, who possess adequate professional qualification and experience in the area of risk management to the position of the Chief Risk Officer of the Company, along with terms and conditions including a fixed tenure, with the Board of Directors of the Company.

4) Provide necessary directions to the ALCO and ALM Group from time to time to ensure orderly and efficient execution of the risk management measures in accordance with this Policy.

5) Ensure that all provisions regarding disclosure of Risk Management Policy as required under the Companies Act, 2013, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 or such other acts, rules, regulations or guidelines are complied with.

6) Assist the Management in maintaining a culture of co-operation and openness between the Board of Directors, Management, Committee, ALCO, Statutory Auditors, Internal Auditors etc.

7) Periodically report to the Board inter alia all significant matters that have come to the knowledge of the Committee, covering internal controls, Financial Statements, policies and statutory/regulatory compliances.

8) Evaluate the on-going appropriateness and relevance of the Risk Management policy.

9) Review and recommend any amendments to be made in the Risk Management policy of the Company on annual basis.

10) Sign and submit copies of the Minutes or Resolutions of the meetings of the Committee with any judicial, quasi-judicial, regulatory, other government department or anyone concerned or interested in the matter signed by the Chairman of the Committee, whenever and wherever required.

11) Submit Minutes of the Committee meetings at the subsequent meeting of Board of Directors of the Company for consideration and approval.

12) Review and submit an Annual Report for the approval of Board of Directors of the Company.

VII. Role and Responsibilities of Asset-Liability Management Committee

1) Ensure the adherence to the risk tolerance/limits set by the Risk Management Committee as well as implementing the risk management strategy, policies and procedures of the Company.

2) Ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated and managed.

3) Support the Risk Management Committee to establish a framework for the Company's risk management process and implementation.

4) Constitute ALM Groupconsisting of the Finance Manager, Operations Manager and the other officials in the rank of managerial and assistant managerial cadre of the Company as members.

5) Provide necessary directions to ALM Group from time to time to ensure orderly and efficient execution of the risk management measures in accordance with this Policy.

6) Assist the Risk Management Committee in maintaining a culture of co-operation and openness between the Board of Directors, Committee, ALCO, Management, Statutory Auditors, Internal Auditors etc.

7) Periodically report to the Board inter alia all significant matters that have come to the knowledge of the ALCO, covering internal controls, Financial Statements, policies and statutory/regulatory compliances.

8) Review and recommend any amendments to be made in the Risk Management policy of the Company on annual basis with the Risk Management Committee.

9) Sign and submit copies of the Minutes or Resolutions of the meetings of the Committee with any judicial, quasi-judicial, regulatory, other government department or anyone concerned or interested in the matter signed by the Chairman of the Committee, whenever and wherever required.

10) Submit Minutes of the Committee meetings at the subsequent meeting of Board of Directors of the Company for consideration and approval.

11) Review and submit a Quarterly Reports on or before 20th day of closing of each quarter and an Annual Report on or before 20th day of closing of Financial Year before the Committee.

VIII. Role and Responsibilities of Asset Liability Management Support Group

1) Analysing, monitoring and reporting the risk profiles, especially liquidity riskprofile to the ALCO.

2) Review the on-going appropriateness and relevance of the Risk Management policy.

3) Review and recommend any amendments to be made in the Risk Management policy of the Company on annual basis with the ALCO.

4) Submit Minutes of the ALM Group at the subsequent meeting of ALCO of the Company for consideration and approval.

5) Periodically report to the ALCO inter alia all significant matters that have come to the knowledge of ALM Group, covering internal controls, Financial Statements, policies and statutory/regulatory compliances.

6) Review and submit a Quarterly Reports on or before 15th day of closing of each quarter and an Annual Report on or before 15th day of closing of Financial Year before the ALCO.

IX. Role and Responsibilities of Chief Risk Officer

1) Comply with and support implementation of this policy and any resultant standards, guidelines and procedures.

2) The CRO shall maintain independence in all activities related to the Company and shall not maintain any reporting relationships with the business verticals of the Company.

3) The CRO shall not hold any dual positions in the Company.

4) Assignment of responsibilities in relation to risk management shall be the prerogative of the CRO.

5) Periodically report to the Committee inter alia all significant matters that have come to the knowledge, covering internal controls, Financial Statements, policies, statutory/regulatory compliances etc.

6) Maintain a duly updated Risk Register, highlighting the key risks of the Company with appropriate rating and impact scale.

7) All documents shall be preserved for a period as specified in the applicable regulations and as per Board approved Record Maintenance and Document Retention Policy.

8) Review and submit a Quarterly Reports on or before 20th day of closing of each quarter and an Annual Report on or before 20th day of closing of Financial Year before the Committee.

X. Powers of Risk Management Committee

1) The Committee shall have authority to investigate into any matter in relation to the risk elements as described below or referred to it by the Board and for this purpose have full access to information contained in the records of the Company.

2) The 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.

3) The Committee may call for a meeting with the ALCO, ALM Group, Management, Internal Auditors, Statutory Auditors, external professionals etc. to review and discuss on the Company's risk management strategies undertaken or to be undertaken by the Company.

4) The Committee may call for periodical reports from ALCO, ALM Group, Internal Auditors, Chief Financial Officer, Company Secretary and Chief Risk Officer of the Company.

5) The Committee shall have full access to information pertains to the activities undertaken in relation to risk management strategies of the Company.

6) The Committee may retain external legal, accounting or other professional advisors, as the Committee deems necessary or appropriate to carry out its duties.

7) The Committee, at its discretion may invite the Finance Director, Head of the finance function, representatives of the Statutory Auditors, Internal Auditors, Secretarial Auditors etc. and any other executives to be present at the meetings of the Committee.

8) The Committee may require the hearing of Statutory Auditors, Internal Auditors, Key Managerial Personnel or any employees of the Company, when it considers the auditor's report and may seek information from such persons as deem fit.

XI. Powers of ALCO

1) The ALCO shall have authority to investigate into any matter in relation to the risk elements as specified below or referred to it by the Board and for this purpose and have full access to information contained in the records of the Company.

2) The ALCOshall 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.

3) The ALCO may call for a meeting with the ALM Group, Management, Internal Auditors, Statutory Auditors, external professionals etc. to review and discuss on the Company's risk management strategies undertaken or to be undertaken by the Company.

4) The ALCO may call for periodical reports from ALM Group, Internal Auditors, Chief Financial Officer, Company Secretary and Chief Risk Officer of the Company.

5) The ALCO shall have full access to information pertains to the activities undertaken in relation to risk management strategies of the Company.

6) The ALCO may retain external legal, accounting or other professional advisors as deems necessary or appropriate to carry out its duties.

7) The ALCO, at its discretion shall invite the Finance Director, Head of the finance function, representatives of the Statutory Auditors, Internal Auditors, Secretarial Auditors etc. and any other executives to be present at the meetings of the ALCO.

8) The ALCO may require the hearing of Statutory Auditors, Internal Auditors, Key Managerial Personnel or any employees of the Company, when it considers the auditor's report and may seek information from such persons as deem fit.

XII. Risk Management Process

Risk management is a holistic, integrated, structured and disciplined approach of managing risks with the objective of maximizing shareholders value. Risk management process can be defined as identification, assessment and prioritization of risks followed by co-ordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. It aligns strategy, process, people, culture, technology and governance with the purpose of evaluating and managing the uncertainties faced by the Organization while creating value.

1) Risk Assessment

Risk assessment is defined as the overall process of risk identification, risk description, risk estimation and risk evaluation. The process of risk assessment shall cover the following:

a) Risk Identification and Categorisation

Risk identification and categorisation stage involves identification of sources of risk, areas of impacts, events (including changes in circumstances) and their causes and potential consequences. The aim of this step is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives. The Company is generally exposed to following types of risks.

i. Strategic Risks (External Risks)

Strategic Risks are potential business threats arises from events and trends that can adversely impact the Company's strategic growth trajectory and destroy shareholder value. Strategic risks includes the following:

a. Political/Government related Risks
b. Competition Risk
c. Reputational Risk
d. Force Majeure
e. Legal Risk
f. Regulatory & Compliance Risk
g. Credit Rates Risk

ii. Operating Risks (Internal Risks)

Operating risk is the level of uncertainty associated with the core operations of a business. Operating risks includes the following:

a. Liquidity Risk
b. Currency Risk
c. Interest Rate risk

d. Credit Risk
e. Employee Risk
f. Information Technology Risk
g. Fraud Risk

The aforesaid risks may be categorized on the basis of risk analysis as follows:

a. Controllable – C
b. Un-Controllable – UC
c. Partly Controllable – PC

b) Risk Description

Risk description helps in understanding the nature and quantum of risk and its likely impact and possible mitigation measures. Risk descriptions for each of the risks identified are to be documented and recorded in a structured format in each area where the risk is identified. The details to be covered in risk description shall be as follows:

Sl. No.	**Particulars**
a.	Name of risk Short description by which the risk may be referred to.
b.	Scope of risk Qualitative description of the events by which the occurrence of the risk may be identified, any measurement indicatingthe size, type, number of the events and their related dependencies.
c.	Nature of risk Strategic/ Operational.
d.	Stakeholders List of stakeholders affected and impact on their expectations.
e.	Quantification of risk

	Cost of impact, if risk materialises.
f.	Risk tolerance and trigger Probability of occurrence and size of potential losses.
g.	Risk treatment &control mechanisms Identification of protocols for monitoring and review of the process of treatment and control
h.	Potential action for improvement Recommendations to reduce the occurrence and/or quantum of adverse impact of the risk
i.	Strategy and policy developments Identification of function responsible for developing the strategy and policy for monitoring, control and mitigation of the risk

c) Risk Estimation

Risk estimation is the process of quantification of risks. The risks may be rated as follows:

Rating 01	Minor	• Minor impact on Stakeholders • Minor impact on operations • Cost of impact to be less than Rs.5 Lakhs per annum
Rating 02	Tolerable	• Moderate impact on Stakeholders • Moderate impact on operations • Cost of impact to be between Rs.5 Lakhs to Rs.10 Lakhs per annum
Rating 03	Major	• Major impact on Stakeholders • Major impact on operations • Cost of impact to be between Rs.10 Lakhs to Rs.50 Lakhs per annum
Rating 04	Devastating	• Significant impact on Stakeholders • Significant impact on operations

		• Cost of impact to be more than Rs.50 Lakhs per annum

d) Risk Evaluation

Risk Evaluation means comparison of estimated risks against risk criteria. It is to be used for making decisions about the significance of risks and whether each specific risk is to be accepted or treated.

i. Political/Government related risks

The Government policies have wide impact on NBFCs. Obviously there are some unauthorised practitioners operating in the market and such sowing will harmfully affect the business concerns who are complying with the Government regulations, policies & norms. Most economic offences are happened in financial related business. Henceforth, the Government will bring strict rules & conditions. Any change in Government policies, any localised social unrest and any event or development which could make business less economically beneficial and could have a material adverse effect on the business, financial position and results of operations of the Company.

The Company is subjected to supervision and regulation by the RBI as a Non - Systemically Important Non Deposit taking Non-Banking Finance Company and any changes in RBI's regulations in capital adequacy, exposure and other prudential norms governing the Company could adversely affect the business. The RBI also regulates the credit flow by banks to NBFCs and provides guidelines to commercial banks with respect to their investment and credit exposure norms for lending to NBFCs. The RBI's regulations of NBFCs could change in the future which may require the Company to restructure activities, incur additional cost or could otherwise adversely affect both business and financial performance. There can be no assurance that the Company will be able to raise adequate additional capital in the future on favourable terms or at all, which could result in non-compliance with applicable capital adequacy ratios and may adversely affect the growth of business.

Even though the RBI has not provided for any restriction on interest rates that can be charged by Non-deposit taking NBFCs, there can be no assurance that the RBI and/or the Government will not implement regulations or policies or legal interpretations of existing regulations, relating to or affecting interest rates, taxation, inflation or exchange controls, or otherwise take action, that could have an adverse effect on Non-deposit taking NBFCs. In addition, there can be no assurance that any changes in the laws and regulations relative to the Indian financial services industry will not adversely impact the business.

The ability to raise funds on acceptable terms and at competitive rates continues to depend on various factors including credit ratings, the regulatory environment and policy initiatives in India, developments in the international markets affecting the Indian economy, investors' and/or lenders' perception of demand for debt and equity securities of NBFCs, and current and future results of operations and financial condition. The capital and lending markets are highly volatile and access to liquidity has significantly reduced. In addition, it becomes more difficult to renew loans and facilities as many potential lenders and counterparties are also facing liquidity and capital concerns as a result of the stress in the financial markets. If any event of similar nature and magnitude occurs again infuture, it may result in increased borrowing costs and difficulty in accessing debt in a cost-effective manner. Moreover, the Company do not have access to public deposits. The RBI's and Ministry of Corporate Affairs' (hereinafter referred to as "MCA") strict guidelines on fund raising including restrictions on the minimum subscription amount for a single investor at Rs.20,000/-, limiting the issuance of private placement of NCDs to 200 investors for a maximum subscription of less than ₹1 crore which shall be fully secured, prohibition on providing loan against its own debentures etc. has resulted in limiting the Company's ability to raise fresh Debentures on private placement basis. As a NBFC, the Company also faces certain restrictions on ability to raise money from international markets, which may further constrain ability to raise funds at attractive rates. Any disruption in primary funding sources at competitive costs would have a material adverse effect on liquidity and financial condition.

Mitigation Strategies

Reviewing and monitoring the changes in rules and regulations in relation to NBFCs by the Government will help the Company to oversee the consequences and act accordingly to a certain extend.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Uncontrollable	Issue of guidelines or change in policies	Rating 03	Secretarial & Legal Department

ii. Competition Risk

The Competition risks are inevitable for all Companies in the market. The major competitors of the Company are other NBFCs, different type of Banking Companies including Public Sector/Private Sector Banks, Co-operative Banks, Foreign Banks etc., India Post, Local Money Lenders and other unorganized Financiers.

Nowadays investors are keenly watching which NBFCs or other kind of deposit accepting establishments are giving more interest rates or low interest on gold loan or other loans vice-versa. All Banking Companies are having access to low cost funds which enables them to enjoy higher margins and / or offer finance at lower rates. Moreover, the Banking Companies are trust worthy for customers as compared to NBFCs. Further, few middle and large level NBFCs are pooling funds from the market on public issue basis. This will impact the moderate NBFCs which raising funds on private placement basis from limited number of persons.

Every business there will be some unauthorised parties, those kinds of merchants are also operating in financial market too. Unauthorised financiers offers more money with a high interest rates without any adequate proofs, which results needy customers walk away from the Company. The said parties may also accept deposit from large public without complying government norms, attracting to high interest rates, people pool their sources to such establishments, this may adversely affect the sources of fund. All of these factors have resulted in facing increased competition from other lenders in each of lines of businesses.

The ability to compete effectively will depend, to some extent, on ability to raise low-cost funding in the future. Furthermore, as a result of increased competition in the finance sector, finance products are becoming increasingly standardized and variable interest rate and payment terms and lower processing fees are becoming increasingly common in the finance sector in India. There can be no assurance that the Company will be able to react effectively to these or other market developments or compete effectively with new and existing players in the increasingly competitive finance industry.

Increasing competition may have an adverse effect on net interest margin, and if the Company is unable to compete successfully, market share may decline and business and future financial performance may be adversely affected.

Mitigation Strategies

a. Public issue of debt and equity instruments is the ideal solution for low-cost funding in future. Further, awareness campaigns on the rules and regulations of RBI among the employees, stakeholders and public will help the Company to carve the unauthorized players from the market.

b. Keeping a close watch on competitor's strengths and weaknesses, competition dynamics etc.

c. Need to strive to meet the challenges by meeting customers' demands with product quality and best industrial practices in providing better services.

d. Need to have an internal quality check mechanism and strive towards zero defects and on-time delivery service.

e. Selection of technology, standardization of processes, upkeep of assets, provide employee training and development etc.

f. Adherence to business schedules, meeting targets etc.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Controllable	Continuous	Rating 03	Marketing Department

iii. Reputational Risk

The business is based on the trust and confidence of stakeholders and customers. Any damage to that trust and confidence may materially and adversely affect business, future financial performance and results of operations of the Company. Reputation risk is the loss caused to the Company due to its image or standing being smudged by certain incidents or actions arising from its business operations. Such incidents or actions may be attributable to the Company by employee(s) or executive(s) committed either consciously or otherwise. Reputation risk could result in loss of revenues, diminished shareholder value and could even result in bankruptcy in extreme situations. It can be caused by mere negative perceptions and could occur even if the Company is actually not at fault. Reputation risk is considered even more threatening to Company value as compared to say credit risk. In fact, good reputation is an intangible asset like goodwill. The Company recognizes that while reputation is built over years it can get blotted in a flash. The Company, therefore, considers protecting its reputation of paramount importance. Some common examples of actions resulting in fall in reputation are incorrect financial statements, deliberate dishonest actions of employees especially those in senior management level, recruitment of persons without proper screening process, frequent serious and/or large value frauds, data security breaches, violation of customer secrecy, dealing with criminals, extending loans for unlawful activities, poor security arrangements, obsolete system / procedures / practices, dealing with vendors having bad reputation, adopting illegal or unethical business practices, evasion of taxes, charging exorbitant interest rates, dishonouring commitments etc.

Nowadays internet has strong influence on people than newspaper, television and radio. Social media like Facebook, Whatsapp, Instagram etc. has become on finger tips and people are using social media to express their emotions. An employee, an investor, a customer or any person can degrade the Company's image by simply posting a picture or a post in social media. Sometimes it may not have much impact. But it will not be on all situations, sometimes the Company have to answer those questions in media. These kinds of petty issues are grabbing Company's time. Gold loans are major business of NBFCs. In Indian culture gold has some emotional attachments, if the customers are not close the gold loans or do not repay the interest will results auction. More auctions in a NBFCs is profit to the Company, but the Company's image may blurred by customers through medias.

Mitigation Strategies

a. Follow in strict sense Risk Management System Framework and Anti Money Laundering and Fraud Policies of the Company.

b. Ensure transparency, morality and accuracy in operations including the correctness of financial statements for public use.

c. Effective recruitment, screening and training programs shall be instituted to recruit and maintain talented and trustworthy employees.

d. Maintaining a robust and effective communication channel across the Company including all stakeholders, Directors, Regulators, Lenders, Customers, Employees, Vendors etc.

e. Encouraging and rewarding ethical behaviour amongst employees. Ensuring immediate but fair action against employees indulging in unethical action or behaviour.

f. Ensuring prompt compliance with regulatory directives and other laws both in letter and spirit.

g. Institutionalising customer service excellence supplemented with an efficient complaint redressal mechanism.

h. Constituting a 'crisis management team' to address sudden and unanticipated events.

i. Maintaining effective liaison with media and issuing prompt clarifications or rebuttals to negative reports.

j. Social media networking on continuous basis.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Partially Controllable	Continuous	Rating 03	Marketing & Operations Department

iv. Force Majeure

Natural calamities could have a negative impact on the Indian economy and cause business to suffer. India has experienced natural calamities such as earthquakes, tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determines their impact on the Indian economy. Further, prolonged spells of below normal rainfall or other natural calamities could have a negative impact on the Indian economy. Any present or future outbreak of natural calamities could have a material adverse effect on operations of the Company.

Covid 19 impact

The spread of Covid-19 may adversely affect the operations of the Company. The impact of the same will depend on a range of factors which are not able to accurately predict, including the duration, severity and scope of the pandemic, the geographies impacted, the impact of the pandemic on economic activity in India and the nature and severity of measures adopted by governments.While, the Company continue to monitor the developments of the Covid-19 situation closely, assess and respond proactively to minimize any adverse impacts on the financial position and operating results of the Company, it is possible that the Company's business, financial condition and results of operations could be adversely affected.

Mitigation Strategies

a. Indemnify the Company against possible losses by insuring entire assets.

b. Develop disaster management plan with delegation of responsibility and set up Nodal Disaster Management Committee to prevent any such loss.

c. Follow all rules and guidelines implemented by the Government in true letter and spirit.

d. Identify safe and secure area while opening of branches or other offices of the Company.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Uncontrollable	Continuous	Rating 01	Marketing & Operations Department

v. Legal Risk

Being a Financial institution, legal risks are much very high. Single law suit could damage the Company's reputation. Legal risks can be due to litigations initiated by stakeholders, customers, government etc. Legal risks from Government side are due to negligence/ ignorance from the employees' side. On the other hand due to any personal revenge/ grudge stakeholders, customers, competitors etc. can file a suit against the Company without any proper grounds, at the end the Company may conquer but has to invest time for such fraudulent things, on top of that it is mind disturbing to its promoters.

Mitigation Strategies

a. Complying norms & regulations by the Government can control the legal risks from Government side. Through professional assistance the Company can implement this type of legal risk management.

b. Effective and timely customer care service and support will help to avoid customer or stakeholder complaints.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Partially Controllable	Continuous	Rating 02	Secretarial, Legal and Operations Departments

vi. Regulatory & Compliance Risk

Being a NBFC, the Company has to follow various acts including the Companies Act, 2013, The Securities Contracts (Regulation) Act, 1956, The Depositories Act, 1996, Foreign Exchange Management Act, 1999, Income Tax Act, 1961, Goods & Services Tax Act, 2017, other applicable labour laws and various regulations issued by the Securities and Exchange Board of India (hereinafter referred to as "SEBI") and RBI. Any non – compliance in relation to the above areas will lead to huge penalty and loss of reputation for the Company.

The Company may be subject to periodic or such other inspections by RBI, SEBI, Registrar of Companies, Labour Authorities, Tax Authorities etc. under above acts applicable to the Company. Any irregularities found during such investigations by such regulatory authorities could similarly, expose the Company to warnings, penalties and restrictions, which may in turn adversely affect reputation, business, operations and profitability of the Company.

Mitigation Strategies

a. The Company shall comply all the provisions under various acts applicable to the Company.

b. The Company shall be equipped with a compliance department to manage inspections by the above said authorities.

c. The Company shall retain well-structured professionals including Chartered Accountants, Company Secretaries, Cost Accountants, Advocates, high profile retired hands etc. to ensure all the compliances are being done in a fair and timely manner.

d. The Company shall constitute and maintain all required Committees along with defined policies to oversee the regulatory compliances.

e. The Company shall maintain Continuous Internal Audit, Concurrent Audit, Secretarial Audit, Labour Audit etc.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Controllable	Continuous	Rating 03	Secretarial, Finance& Legal Departments

vii. Credit Rates Risks

Any, downgrade of credit ratings would increase borrowing costs and constrain access to debt and bank lending markets and thus, would adversely affect business. In addition, downgrading of credit ratings could increase the possibility of additional terms and conditions being added to any new or replacement of financing arrangements.

Mitigation Strategies

a. Oversee the factors determining the credit ratings of the Company and act accordingly.

b. Communicate promptly with the Board of Directors of the Company, if there is any deviation from the budgets that leads to downgrading of ratings.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Partially Controllable	Continuous	Rating 03	Finance Department

viii. Liquidity Risk

Liquidity risk is a financial risk due to uncertain liquidity. Liquidity Risk management in NBFCs are defined as the risk of being unable either to meet their obligations to depositors or unable to invest to meet unacceptable costs or losses occured. Liquidity management needs to provide a cushion to cover anticipated Debenture withdrawals. Liquidity is the ability to efficiently accommodate Debentures as also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims. Liquidity risk is closely linked to other dimensions of the financial structure of the financial institution, like the interest rate and market risks, its profitability and solvency.

An effective Liquidity Risk Management Framework will ensures that the Company is maintaining sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. It shall spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc. The Company shall maintain a liquidity risk tolerance level on following factors:.

a. *Off-balance Sheet Exposures and Contingent Liabilities*

   The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. A wrong projected Financial Statements may leads to liquidity risks and thereby create reduction in operating profits of the Company.

b. *Funding Strategy - Diversified Funding*

   Most of the Company's borrowings are in the form of Non-Convertible Debentures, both short term and long term on a floating basis. This minimizes the impact of any adverse impact in the event of a credit shock in the banking system and any continuing effects of the same on overall interest rates in the economy and on the Company. However there is a risk of fund raising concentration from a single source. Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high cost emergency sources of funds. Further, concentration of funding sources can also result in a skewed maturity profile of liabilities and resultant Asset-Liability mismatch.

c. *Collateral Position Management*

The Company is not having sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes. Non availability of sufficient collateral that can be liquidated easily will be threat to the Company in contingent situations.

d. *Contingency Funding Plan*

The Company shall formulate a Contingency Funding Plan for responding to severe disruptions which might affect the ability to fund some or all of its activities in a timely manner and at a reasonable cost. Non availability of funds during contingency will leads to collapse the business of the Company.

e. *Intra Group transfers*

The Company is always exposed to Intra-Group transactions and exposures which will lead to regulatory issues and thereby disrupt operations of the Company.

Mitigation Strategies

a. The ALM Group shall maintain a reliable Management Information System designed to provide timely and forward-looking information on the liquidity position of the Company and report to the ALCO, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities and have the ability to furnish more granular and time-sensitive information during stress events.

b. The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure.

c. The Company shall retain independent party for regularly reviewing and evaluating the various components of the Company's liquidity risk management process.

d. Continuous Internal Audit shall be carried out to identify potential threats and opportunities arises from the said risks.

f. The Company shall develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

e. The Company shall maintain Maturity Profiling as a standard tool for measuring and managing net funding requirements and for arriving cumulative surplus or deficit of funds at selected maturity dates. The said tool will help in measuring the future cash flows of the Company in different time buckets as follows:

- 1 day to 7 days
- 8 days to 14 days
- 15 days to 30/31 days (one month)
- Over one month and upto 2 months
- Over two months and upto 3 months
- Over 3 months and upto 6 months
- Over 6 months and upto 1 year
- Over 1 year and upto 3 years
- Over 3 years and upto 5 years
- Over 5 years

f. Alternatively, the Company may also follow the concept of Trading Book which is as follows:

- The composition and volume are clearly defined;

- Maximum maturity/duration of the portfolio is restricted;

- The holding period not to exceed 90 days;

- Cut-loss limit prescribed;

- Defeasance periods (product-wise) i.e. time taken to liquidate the position on the basis of liquidity in the secondary market.

g. The Company shall adopt a “stock” approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits on the basis of liquidity risk management capabilities, experience and profile of the Company.

h. The Company shall prepare short term budgets on quarterly basis to identify any short term liquidity gaps and thereby take immediate corrective actions to bridge the same.

i. An effective diversified funding programme commensurate with the complexity, risk profile, and scope of operations of the Company will enhance the liquidity position. The liquidity risk management processes and funding programmes are expected to take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained. Process and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on raising of funds. To mitigate the risk of overdependence on Non-Convertible Debentures, the Company shall put in place diversified fund raising mechanism including Non-Convertible Debentures, Share Capital and bank loans. With part of the liabilities at the longer end of the spectrum ensures build-up of adequate cumulative surplus to meet its repayment obligations in the event of adverse impact on business.

j. The Company shall maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources.

k. The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner.

l. The Company shall conduct stress tests on a regular basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

m. The Company shall formulate a Contingency Funding Plan for responding to severe disruptions which might affect the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.

n. The Group Chief Financial Officer of the Company shall develop and maintain liquidity management processes and funding programmes for all the Group Companies that are consistent with the complexity, risk profile, and scope of operations of the Companies in the Group. The Group liquidity risk management processes and funding programmes are expected to take into account lending, investment and other activities, and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. Process and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

ix. Currency Risk

Exchange rate volatility imparts a new dimension to the risk profile of the Company's balance sheets having foreign assets or liabilities. The Board should recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

Mitigation Strategies

a. The company should determine level above which a foreign currency exposure requires protective action, degree of fluctuation in corporate earnings resulting from adverse exchange rate movements and the amount of cash that the Company is willing to expend to reduce and protect exposures.

b. Oversee the factors determining the exchange rate fluctuations in the economy and act accordingly.

c. Communicate promptly with the Board of Directors of the Company, if there is any deviation from the budgets that leads to reduction in corporate earnings.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Partially Controllable	Continuous	Rating 03	Finance Department

x. Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The immediate impact of changes in interest rates is on the Company's earnings (i.e. reported profits) by changing its Net Interest Income. A long-term impact of changing interest rates is on the Company's Market Value of Equity or Net Worth as the economic value of Company's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The immediate impact of changes in interest rates may be classified under 'earnings perspective' and long term impact may be classified under 'economic value perspective'.

Mitigation Strategies

a. The Company may adopt traditional Gap Analysis as a suitable method to measure the Interest Rate Risk. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). Prudential limits on individual Gaps shall be fixed with the approval of the Board and comparison with the said limits will help the Company to mitigate interest rate risks.

b. The ALCO shall estimate the behavioural pattern of various components of assets and liabilities on the basis of past data / empirical studies to classify assets and liabilities in the appropriate time buckets.

c. The ALCO shall develop internal transfer pricing model by assigning values on the basis of current market rates to funds provided and funds used is an important component for effective implementation of ALM System. A well-defined transfer pricing system also provides a rational framework for pricing of assets and liabilities.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Partially Controllable	Continuous	Rating 03	Finance Department

xi. Credit Risk

Credit Risk is one of the major inevitable financial risks charged with every NBFC. It may be defined as the potential that a borrower or counter party will fail to meet their obligations in accordance with agreed terms. In short, Credit Risk is the probability of loss of interest income and the Company's inability to recover of the principal amount of the loan disbursed to the customers. It may arises due to the following:

a. Incorrect or misleading appraisal report.

b. Default due to over-indebtedness or business failure.

c. A volatile political presence in a region of exposure.

d. Exposure to activities with a high probability of variation in earnings.

Mitigation Strategies

a. Selection of location

The Marketing Department shall conduct a detailed survey before opening of a Branch of the Company and submit survey and feasibility report with the Branch Authorization Committee for further evaluation and appraisal. An apt survey report will mitigates the risk of operating in negative areas. The report shall cover the following factors:

- Credit Culture: Confirm a good credit culture and average level of financial literacy.

- Economic Activity: Confirm an economically active area not overly dependent on seasonal demands or on monsoons etc.

- Political Stability: Confirm history of local political influence on NBFC activities.

b. Credit Bureau

A credit check may also be done for customers through an automated system-to-system integration with the Credit Bureau. As part of this check, the following parameters are looked at to verify a customer's credit-worthiness and also ensure that they are not overburdened. This will help to mitigates the risk of customer defaults.

- Default history: Only those customers who have no default or write-off are approved.

- Multiple borrowings: Only those customers who do not have more than one existing loan are approved.

- Indebtedness: Total loan outstanding with such loan amount will be considered.

c. *Customer Verification*

The Company has established and maintained separate customer relationship (acquisition and maintenance) and customer evaluation (audit) personnel in order to ensure the quality of customers acquired as well as eliminate coerced borrowing practices which may lead to genuine customers becoming delinquent.

A Relationship Officer is responsible for customer acquisition and maintenance, while an Audit Officer is responsible for customer house verification and KYC validation. The Company shall have a dedicated Audit Officer in every branch, who carries out 100% pre-disbursement check in addition to that done by the Relationship Officer, which helps in establishing the customer's identity and address as provided in the Know Your Customer documentation.

The loan application is processed only after the Audit Officer approves the customer upon physically verifying the customer's address and documents provided. The Audit Officers are not outsourced personnel but full-time permanent employees on the payroll and they shall have a separate reporting hierarchy independent of the Relationship Officer and Branch Manager with a view to eliminate any conflict of interest in credit decisions. This mitigates the risk of ghost borrowing and ring leader issues. Different level of verification of Customers has to be completed before loan is approved.

d. *Recovery Management*

The Company shall have a well-defined legal verification and Recovery Management procedures to overcome the credit risks. Non-Performing Asset may be the key indicator of assessment of credit risks taken by the Company. If the level of NPAs in the Company's portfolio were to increase, its business would suffer. If the Company is not able to control level of non-performing assets, the overall quality of loan portfolio may deteriorate and results of operations may be adversely affected.

e. *Verify Credit Concentration Risk & Securitisation Risk*

Credit Risk also includes Credit Concentration Risk, arising out of concentrated exposure to a particular geographical location/territory or to an activity in which a large group of borrowers are engaged in, vulnerable to external events. Securitisation Risk, as an embedded part of credit risk for the originator, refers to the possible risk of foregoing cash collaterals, besides the need to top up or provide credit enhancement, in the event of deterioration in the quality of assets securitised.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Controllable	Continuous	Rating 04	Operations Department

xii. Employee Risk

The Company rely significantly on the performance of Board of Directors, Key Managerial Personnel and Top Level Management. Loss of any member from the said category may adversely affect business and results of operation. Identifying potential and calibre candidatures in right position of the Company and maintain them for future is another employee related risk. While the Company strive to attract, train, motivate and retain highly skilled employees, especially branch managers and gold assessment technical personnel, any inability to hire additional personnel or retain existing qualified personnel may impair ability to expand business and could lead to a decline of revenue. In addition, the Company may not be able to hire and retain enough skilled and experienced employees to replace those who leave, or may not be able to re-deploy and retain employees to keep pace with continuing changes in technology, evolving standards and changing customer preferences. The failure to hire key executives or employees or the loss of executives and key employees could have a significant impact on operations.

The major factors while developing the mitigation strategies to cover employee risks are Gender discrimination, analytical and problem solving skills, job satisfaction, emotional state of mind, physical/health condition, decision making skills, knowledge and skills, verbal and written communication skills, positive attitude, loyalty, timeliness, decent behaviour, comprehensive and integrative thinking, creativity, ensuring market standards in payments, workplace safety, pro-active to work etc.

Mitigation Strategies

a. Equal opportunity in terms of position, remuneration etc. among employees shall be ensured.

b. Inculcate a sense of belonging & commitment and also effectively train them in spheres other than their own specialization.

c. Encourage to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas etc.

d. Compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance.

e. Training and Development programs shall be carried out by the Human Resource Department on a regular basis to motivate and retain talented employees.

f. Ensure that all the Human Resource Polices are in accordance with rules and regulations under various acts applicable to the Company.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Controllable	Continuous	Rating 02	Human Resource Department

xiii. Information Technology Risk

As the Company operates in a fully computerized accounting environment the health and efficiency of the Information Technology platform and architecture becomes extremely critical. Some of the general threats to Information Technology systems of the Company are:

a. Loss or corruption of data due to hardware and software failure.

b. Malware - malicious softwares and Viruses disrupting computer operations.

c. Spam, scams and phishing - unsolicited emails.

d. Incorrect data processing, careless data disposal or accidental opening of infected e-mail attachments by the employees.

e. Hackers who illegally break into computer systems, employees using a computer to alter data for illegal benefit, unauthorized accessing of systems, security breaches, theft of data or sensitive information etc.

Mitigation Strategies

a. Information Technology Security Policy has to implemented to minimise disruption of Information Technology services due to malware attacks and also pilferage of information.

b. Critical fixed assets such as computers & accessories, surveillance cameras, burglar alarms, safes etc. will be provided as per considered needs, effectively monitored and maintained in satisfactory working condition.

c. A Disaster Recovery Site as part of Business Continuity Plan has to be developed at an alternate location.

d. Technological obsolescence has to be evaluated on a continual basis and the necessary investments has to be done to bring in the best of the prevailing technology.

e. In order to compete, the Company should take up technology upgradation in a timely manner.

f. Suitable annual maintenance contracts with service level agreement has to be put in place for all the devices including computers & accessories, surveillance cameras, burglar alarms, safes etc. both as a preventive and curative measure for complaints.

g. As far as possible records shall be maintained in 'soft' form in the central storage system, both in the Data Centre and Disaster Recovery Centre. However, since manual records, registers, documents etc. are inevitable in certain situations, proper and secure storage of such records shall be ensured either on a localized or centralised basis.

h. A secured system of access control, both on-site and remote, including password management and secrecy will be in place and reviewed periodically.

i. Access to data / applications will be on a ‘need-to-know’ basis. Transaction rights will be conferred only on those requiring it by virtue of the nature of their duties. Suitable anti- virus software will be loaded in the central server and at all user points and updated regularly.

j. A regular ‘system audit’ will be conducted to cover both hardware and software and the irregularities immediately addressed. Only authorized and licenced software will be loaded in to the system – central and at various user points. The licencing position will be reviewed periodically to guard against violations of Copyrights / Laws. An efficient system to report and manage technical incidents and problems shall be in place across the network of offices.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Controllable	Continuous	Rating 02	Information Technology Department

xiv. Fraud Risk

Fraudulent risks arises from different types of frauds involving Directors, Employees of the Company, Employees of Subsidiary or Group Companies, Security holders, other agencies deployed for the Company’s activities, whether working from any of the Company’s offices or any other location, contractors, vendors, suppliers or agencies (or any of their employees) providing any material or service to the Company, customers of the Company and any other person having an association with the Company. It may consist of the following:

a. Misappropriation of funds, securities, supplies, or other assets, etc.

b. Criminal breach of trust.

c. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.

d. Unauthorised credit facilities extended for reward or for illegal gratification.

e. Negligence and cash shortages.

Negligence and cash shortages are to be reported as fraud only if the intention to cheat / defraud is suspected / proved. However, the following cases where fraudulent intention is not proved, at the time of detection, will be treated as fraud and reported accordingly:

i. cases of cash shortages more than Rs.10,000/- and

ii. cases of cash shortages more than Rs.5,000/- if detected by Management / Auditor / Inspecting Officer and not reported on the occurrence by the persons handling cash.

f. Cheating and forgery

i. Forgery or alteration of any document or account belonging to the Company.

ii. Forgery or alteration of a cheque, bank draft, or any other financial instrument, financial document and personal claims, etc.

g. Irregularities in foreign exchange transactions

h. Any other type of fraud not coming under the specific heads as above.

i. Willful suppression of facts/ deception in matters of appointments, placements, project appraisal, submission of reports, etc. as a result of which a wrongful gain(s) is made to one and /or wrongful loss(s) is caused to the others.

ii. Utilizing Company funds for personal purposes.

iii. Authorizing or receiving payments for goods not supplied or services not rendered.

iv. Destruction, disposition, removal of records or any other assets of the Company with an ulterior motive to manipulate and misrepresent the facts so as to create suspicion/ suppression/ cheating as a result of which objective assessment/ decision would not be arrived at.

v. Impropriety in the handling or reporting of money or financial transactions.

vi. Profiteering as a result of insider knowledge of Company's activities.

vii. Disclosing confidential and proprietary information to outside parties.

viii. Accepting or seeking anything of material value from contractors, vendors, lenders, borrowers and persons providing services/ materials to the Company in contravention of Company's Conduct, Discipline and Appeal Rules.

ix. Frauds committed by unscrupulous borrowers including Companies, Partnership Firms/Proprietary concerns and/or their Directors/Partners by various methods including the following:

- Fraudulent removal of pledged stocks/disposing of hypothecated stocks without the Company's knowledge/inflating the value of stocks in the stock statement and drawing excess finance;

- Diversion of funds outside the borrowing units, lack of interest or criminal neglect on the part of borrowers, their partners, etc. and also due to managerial failure leading to the unit becoming sick and due to laxity in effective supervision over the operations in borrowal accounts on the part of the Company functionaries rendering the advance difficult of recovery;

x. Any similar or related inappropriate conduct.

Mitigation Strategies

a. Ensure the Anti-Fraud Policy and Anti Money Laundering – KYC Policy are followed by all the employees of the Company.

b. Every employee of the Company will be transferred to a different branch outside the location of the existing Branch in every 2 years. This will support the mitigation of chances of collusion or fraud. All field employees are either transferred to another branch or rotated to another role in a programmed manner so as to mitigate the chances of collusion with other employees or customers. The policy ensures that the employees have the predictability of their movements without putting them into undue hardships. The

Company takes care of any additional expenses incurred on transfer to non-home base locations.

c. There must be periodically check of all areas of operations.

d. Employees should not hold the same post in the Company for long time.

e. Always have thorough check on credit appraisal of the customers by seeking professional support.

f. Security arrangements both physical and electronic.

g. Cash counting machines and fake note detectors will be provided at all branches and offices of the Company. All employees will be trained to distinguish between genuine and forged currency note.

h. Other than petty needs, the balance cash at branches should deposit into the bank on daily/weekly basis, as decided by the Management.

i. Separate Gold audit shall be carried out throughout all branches.

j. The Company recognizes the need for proper storage of documents as also their retrieval for audit and statutory requirements. The Company shall maintain all the documents in physical as well as in digital form.

k. The Company shall have comprehensive insurance cover with an Office Package Policy for Fixed Assets, Office Equipments, Cash in Office, Cash in Transit, Employee Fidelity etc.

Risk matrix

Category	Risk Trigger point	Risk Rating	Responsibility
Controllable	Continuous	Rating 03	Secretarial, Finance& Legal Department

2) Risk Treatment Strategy

Risk treatment strategy of a Company defines the Company's standpoint towards dealing with various risks associated with the business. Based on the risk appetite/risk tolerance level determined and reviewed from time to time, the Company should formulate its risk treatment strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk treatment can be planned using the following key strategies:

a) *Risk Avoidance (eliminate, withdraw from or not become involved)*

   By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.

b) *Risk Transfer: (transfer - outsource or insure)*

   Sharing, with another party, the burden of loss or the benefit of gain, from a risk.

c) *Reduction (optimize - mitigate)*

   Risk reduction or "optimization" involves reducing the severity of the loss or the likelihood of the loss from occurring, by employing methods/solutions that reduce the severity of the loss. Acknowledging that risks can be positive or negative, optimizing risks means finding a balance between negative risk and the benefit of the operation or activity; and between risk reduction and effort applied.

d) *Sharing (transfer - outsource or insure)*

   Sharing, with another party, the burden of loss or the benefit of gain, from a risk.

e) *Risk Retention (accept and budget)*

   Involves accepting the loss, or benefit of gain, from a risk when it occurs. Risk retention is a viable strategy for risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible. This may also be acceptable if the chance of a very large loss is small or if the cost to insure for greater coverage amounts is so great it would hinder the goals of the organization too much.

XIII. Retention of Documents

Risk Register and such other registers, documents, disclosures etc. pertains to the risk management framework shall be retained for a minimum period of 8 years under the custody of the Chief Risk Officer of the Company.

XIV. Guidelines for convening meetings.

1) Any Member of the Committee may, at any time, summon a meeting of the Committee and the Secretary or where there is no Secretary, any person authorized by the Committee in this behalf, on the requisition of a Member, shall convene a meeting of the Committee, in consultation with the Chairman or in his absence, any Independent Director.

2) The Committee shall meet at least two times in a year.

3) The quorum for the meeting shall either be two members or one third of the members of the Committee, whichever is greater, with at least one Independent Director.

4) Every meeting shall have a serial number and may be convened at any time and place, on any day.

5) The Chief Financial Officer, Chief Risk Officer and Internal Auditor may be requested to be present as invitees for the meetings of the Committee.

6) The Committee may invite such of the executives, as it considers appropriate (particularly, the head of the finance function), to be present at the meetings of the Committee. Such persons shall not have the right to vote. On occasions considered necessary, the Committee may also meet without the presence of any executive of the Company.

7) Notice convening a meeting along with agenda and notes shall be given at least seven days before the date of the meeting. To transact urgent business, the notice, agenda and notes on agenda may be given at shorter period of time than stated above, if at least Chairman or majority of Independent Directors, if any, shall be present at such Meeting. Notice of the meeting shall clearly mention a venue, whether Registered Office or otherwise, to be the venue of the meeting and all the recordings of the proceedings of the meeting, if conducted through electronic mode, shall be deemed to be made at such place. Notice in writing of every meeting shall be given to every Member by hand or by speed post or by registered post or by facsimile or by e-mail or by any other electronic means. Notice shall be issued by the Secretary or where there is no Secretary, any Member or any other person authorized by the Committee for the purpose.

8) The Chairman of the Committee shall be decided by the Board of Directors of the Company from time to time. The Chairman of the Committee shall conduct the meetings of the Committee. If the Chairman is unable to attend the meeting, the Members present at the meeting shall elect one of the Independent Directors to chair and conduct the meeting, unless otherwise informed by the Board of Directors of the Company.

9) The Committee shall maintain attendance register in a bounded form for the meetings of the Committee. The pages of the attendance register shall be serially numbered. The attendance register shall be in the custody of the Secretary.

10) The Committee shall keep Minutes of all Committee meetings in a Minutes Book. The Minutes of the meeting shall be recorded by the Secretary or in absence, by any Member, nominated by the Chairman of the meeting and may maintain in physical or electronic mode. Within fifteen days from the date of the conclusion of the meeting of the Committee, the draft Minutes thereof shall be circulated by hand or by speed post or by registered post or by courier or by e-mail or by any other recognized electronic means to all the Members of the Committee, as on the date of the meeting, for their comments. Minutes shall be entered in the Minutes Book within thirty days from the date of conclusion of the meeting. Minutes of the meeting of the Committee shall be signed and dated by the Chairman of the meeting or by the Chairman of the next meeting. Within fifteen days of signing of the Minutes, a copy of the said signed Minutes, certified by the Secretary or where there is no Secretary by any Member authorized by the Committee, shall be circulated to all the Members of the Committee. Minutes of the meetings of the Committee shall be noted at a Meeting of the Board held immediately following the date of entry of such Minutes in the Minutes Book.

11) Any actions of the Members of the Committee beyond the scope of their authorities will attract civil and criminal liabilities. The Board of Directors of the Company always reserves the power to appoint, expel or replace any Member of the Committee, as and when required.

12) The Committee shall follow the principles enunciated in the Secretarial Standard-1 (SS-1) on “Meetings of the Board of Directors”, issued by the Council of the Institute of Company Secretaries of India, unless otherwise stated herein or stipulated by any other applicable Guidelines, Rules or Regulations.

13) The aforesaid guidelines for convening meeting of the Committee shall mutatis mutandis apply to ALCO.

XV. *Sitting Fees*

Members of the Committee or ALCO shall receive such sitting fees, if any, for their services as Members, as may be determined by the Board at its sole discretion.

XVI. *Committee Evaluation*

The Committee and ALCO shall undergo an Annual Self Evaluation of its performance and report the result to the Board of Directors of the Company. Indicative areas for evaluation as part of this exercise include:

- Degree of fulfillment of key responsibilities.
- Adequacy of composition.
- Effectiveness of meetings.
- Committee dynamics.
- Quality of relationship with the Board and the Management.

XVII. *Conflict of Interest*

Where any activity ordisclosure concerns any member of the Committee or ALCO, that member of the Committee or ALCO shall be prevented from acting in relation to that activity or disclosure. In case of doubt, the Chairman of the Board of Directors shall be responsible for determining whether a member of the Committee or ALCO must recuse himself or herself from acting in relation to such activity or disclosure.

XVIII. *Amendment*

The Risk Management Policywill be guided by terms of reference as decided by the Risk Management Committee, Asset-Liability Management Committee and Board of Directors of Company from time to time and subject to the requirements under the Companies Act, 2013, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015) and Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and such other applicable acts, rules, regulations or guidelines. This policy can be modified at any time by the Board of Directors of the Company.

By order of Board,
For **Salem Erode Investments Limited**

Sd/-
K.G. Anilkumar
Managing Director
(DIN: 00766739)