Collateral Risk

Collateral risks arise due to the decrease in the value of collateral over time. The realizable price of a re-possessed asset may be lower than the total amount of loan and interest outstanding in such borrowing and we may be unable to realize the full amount due from our customers due to such a decrease in the value of collateral. We may also face certain practical and execution difficulties during the process of enforcing the collateral of defaulting customers. We work with local authorities to repossess such assets and take appropriate care in dealing with customers while enforcing on assets.

Information Security Risk

Information technology/ security risk is the risk arising on account of inadequacies or failure of technical infrastructure or IT systems which can have an adverse impact on the availability, integrity and confidentiality of the data and the IT infrastructure. We have an information security policy and cyber security policy that has been approved by our Board to manage our information security risk.

We also have a Senior Chief Manager – Information Security Officer reporting to Chief Risk Officer to monitor and control the risks associated with the use of technology across our various business processes.

Risk Management Architecture

In order to address the risks that are inherent to our business, we have developed a risk management architecture that includes monitoring by our Board through committees including the Audit Committee, the Asset Liability Management Committee and the Risk Management Committee.

- *Audit Committee*. Our Audit Committee is authorized to select and establish accounting policies, review reports of the statutory and the internal auditors and meet with them to discuss their findings, suggestions and other related matters. It also conducts a scrutiny of related party transactions, inter-corporate loans and investments and evaluates internal financial controls and risk management systems and procedures periodically.
- *Asset Liability Management Committee*. The Asset Liability Management Committee devises strategies to mitigate such risks by making appropriate adjustments to the pricing of our assets, liabilities and spreads and reports its findings to our Board periodically. It lays down policies and quantitative limits relating to assets, liabilities and yields, based on an assessment of the various risks involved in managing them. Its scope includes liquidity risk management, management of market risks, and funding and capital planning.
- *Risk Management Committee*. The Risk Management Committee supervises, guides, reviews and identifies current and emerging risks, develops risk assessment and measurement systems and establishes policies, practices and other control mechanisms to manage risks, develop risk tolerance limits for approval by our Board and senior management, and monitor positions against approved risk tolerance limits.
- *Executive Risk Management Committee*. The Executive Risk Management Committee discusses, deliberates and approves all policy and process changes, schemes, modification in products and funding schemes. It ensures stringent monitoring and management of special situations/problems and recommends policies and frameworks to the Board. It reviews risk appetite levels, portfolio and other limits, key risk indicators, portfolio quality, stress testing results and takes action.

Information Technology

Our business is dependent on information technology systems and we intend to continue making necessary investments to upgrade our systems, to improve our operational efficiency, customer service and decision making process while improving our business continuity and reducing the risk and negative impacts of system failures.

We continuously work on upgrading our IT systems to achieve these objectives. We have implemented digital solutions across various aspects of our business with these objectives in mind. Our credit underwriting, risk management and fraud detection teams utilize technology to centrally process loan applications, analyze credit risks, identify fraud and utilize an objective cognitive rule-based policy to make credit decisions. These technology-led initiatives allow us to increase our customer penetration through third party utilization for sourcing customers (as is the case with our digital Aadhar Mitras) while keeping credit appraisals in-house. Further, these technology solutions ensure data integration across all platforms and reduce manual intervention. The digitization of our work processes and functions improves the customer experience through more convenient accessibility, better customer service and engagement and faster turnaround time driven by faster decision making. Operationally, automation / digitization benefits us through improved underwriting processes, increased productivity, cost reduction and improved collections through data-driven early warning systems.

Till September 2021, we utilized an enterprise-wide loan management system, Synergy, to provide an integrated platform for loan processing, credit processing, general ledger, debt management and reporting. The Synergy platform assisted in loan processing and enables the automation of loan origination systems, credit underwriting processes, underwriting rules,