slice
small finance bank

PILLAR III DISCLOSURE

Based on 31.03.2025 Audited position

Background:

Slice Small Finance Bank Limited (Erstwhile North East Small Finance Bank Limited) (the "Bank") is a public limited Company incorporated on July 25, 2016 under the provisions of the Companies Act, 2013, received in principle approval from the Reserve Bank of India ("RBI") to form a Small Finance Bank in the private sector under section 22 of the Banking Regulation Act, 1949 on September 16, 2015. The bank received license from the Reserve Bank of India (RBI) to operate as a Small Finance Bank under the Banking Regulation Act, 1949 with effect from March 31, 2017, and commenced its banking operations on October 17, 2017.

During the year, scheme for amalgamation of erstwhile Garagepreneurs Internet Private Limited and erstwhile RGVN (North East) Microfinance Limited with and into erstwhile North East Small Finance Bank Limited became effective from October 27, 2024, upon receipt of all requisite approvals and accordingly the financial statements for the financial year ended March 31, 2025 includes the operations of erstwhile Garagepreneurs Internet Private Limited and erstwhile RGVN (North east) Microfinance Limited from October 27, 2024 onwards.

Pursuant to the approval of shareholders and relevant regulatory authorities, the name of the Bank has been changed from North-East Small Finance Bank to slice Small Finance Bank, as per the fresh Certificate of Incorporation issued by the Registrar of Companies. Further, the name of the Bank has been changed to "slice Small Finance Bank Limited" in the Second Schedule to the Reserve Bank of India Act, 1934 by Notification DoR.LIC.No. S1134/16.13.216/2025-26 dated May 14, 2025, which is published in the Gazette of India (Part III-Section 4) dated May 16, 2025.

This document is a disclosure report which is prepared in compliance with the directions of Reserve Bank of India (RBI) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. The report provides a review as of 31st March 2025 of slice Small Finance Bank (formerly known as North-East Small Finance Bank) with key information on capital adequacy, the credit quality of its asset book, liquidity risk and operational risk.

The Bank has its registered office in Guwahati, Assam and there are no foreign operations of the Bank. The bank is engaged in providing a wide range of retail banking and financial services. The bank does not have any subsidiary, associate, or joint venture for consolidation purposes. Thus, disclosures in the document pertain to the Bank as a standalone and independent entity. Pillar 3 disclosures on the capital adequacy and risk management framework are detailed in the following sections:

1. Capital Adequacy Assessment

Capital Adequacy Assessment

The Bank is subject to the Basel II New capital adequacy framework (NCAF) as per the "Operating Guidelines for Small Finance Bank" from Reserve Bank of India (RBI). As per the capital adequacy framework, the Bank is required to maintain a minimum Capital to Risk Weighted Assets (CRAR) of 15% with minimum Tier I capital as 7.5%, of which common equity Tier 1 capital shall be at least 6% and balance 1.50% can be from additional Tier 1 capital and remaining shall be from Tier 2 Capital. As of now, capital conservation buffer and counter cyclical buffers are not applicable for small finance banks.

For capital adequacy, only credit risk is covered since there is no separate capital charge prescribed for Market risk and Operational risk as per the direction of RBI for Small Finance Banks. For credit risk, RBI has prescribed Basel II Standardized Approach and has permitted the use of external rating-based risk weights for rated exposure and regulatory retail approach for small retail loans.

The Bank has a process of assessing the capital requirements and a strategy to maintain its capital levels. Besides computing CRAR under the Pillar I requirement, the Bank also periodically undertakes stress testing to assess the impact on capital and risk weighted under various plausible stressed scenarios. The Bank has set up sound governance and control practices to identify, assess and manage risks. The Risk Management Committee of the Board periodically reviews the results of stress testing.

1.2 Capital Structure:

Qualitative Disclosure-

Bank's regulatory capital is classified into Tier- I and Tier- II capital as stipulated in BASEL II norms (NCAF) of the RBI. Tier-I Capital includes Paid up Equity Share Capital, Share Premium, Statutory Reserve, Other Disclosed Free Reserves. Tier - II Capital includes Subordinate debt instruments, General provision and Investment reserves.

The authorized share capital of the Bank stood at INR 1,855.08 crores (10,00,08,40,00 equity shares of INR 1/- each, 7,15,00,00,000 non-cumulative compulsory convertible preference shares of 1 each and 2,80,00,000 compulsory convertible preference shares of INR 50 each).

The paid-up share capital of the Bank stood at INR. 1,072.33 crs comprising:

1. 8,96,43,09,249 equity shares of INR 1/- each & 30,99,36,000 partly paid equity shares of INR 0.9/- each having face value INR 1/- each and
2. 1,48,01,27,544 Non-cumulative Compulsory Convertible Preference Shares of INR 1/- each.

Quantitative Disclosure-

CAPITAL FUNDS POSITION AS ON MARCH 31, 2025	**Amount (in Cr)**
TIER - I CAPITAL:	
Common Equity	
Paid Up Capital (including ESOP reserves)	₹ 1,137.75
Less: Investment in Subsidiaries	₹ 0.00
Add: Reserves & Surplus:	
1) Statutory Reserve	₹ 38.46
2) Share Premium	₹ 35.55
3) Amalgamation reserve	₹ (603.39)
4) Other reserves	₹ 13.17
5) Balance in P&L A/c	₹ (216.70)
Less: Deductions from capital	₹ (102.05)
Total Tier I Common Equity	**₹302.79**
Additional Tier I Equity (Net of deductions)	**₹275.15**
Total Tier I Capital Funds	**₹ 577.94**
TIER - II CAPITAL:	
CCPS	₹ 148.01
Tier II Capital (eligible amount post haircut)	₹ 11.40
Provision for Standard Assets	₹ 11.23
Tier II Capital Funds	**₹ 170.64**
TOTAL CAPITAL FUNDS	**₹ 748.58**

Note:

1. Subordinated debt inclusion (post applicable haircut) in Tier II capital has been limited to 50% of Tier I capital.
2. The grandfathered FLDG exposure of GIPL group with respect to Co-lending transactions entered before the merger has been adjusted from the Tier I Capital.

1.3 Capital Adequacy

As per the RBI guidelines for small finance banks, the capital to risk weighted assets (CRAR) has been assessed using the Basel II standardized approach for credit risk. Further, RBI vide its communication dated November 08, 2017, has clarified that no separate capital charge is prescribed for market risk and operational risk, therefore the same has not been considered while computing CRAR ratio.

The Capital Management Framework of the Bank is administered by the Finance & Accounts Department and the Risk Management Department under the supervision of the Board and the Risk Management Committee of the Board (RMCB).

Capital Requirements for Various Risks	
Particulars	**Amount (Rs. in Cr)**
A. Credit Risk	**₹ 553.02**
B. Market Risk	-
C. Operations Risk	-
D. Total Capital Required for 15% CRAR (A+B+C)	**₹ 553.02**
E. Total Risk Weighted Assets (Credit)	**₹ 3686.82**
F. Total Capital Funds of the Bank	**₹ 748.58**

The Bank's capital management framework includes an Internal Capital Adequacy Assessment Process (ICAAP) which determines the adequate level of capital for the bank to meet the regulatory norms and current and future business needs. Under the ICAAP, the Bank performs stress testing to assess the impact on capital and risk weighted under various plausible stressed scenarios. The bank conducts stress tests on its various portfolios as prescribed by the RBI and assesses the impact on its capital ratios and the adequacy of capital for current and future periods.

CRAR	**(₹ In Crs)**
Capital Base	**Mar-25**
Tier 1 Capital	₹ 577.94
Tier 2 capital	₹ 170.64
Total Capital	**₹ 748.58**
Risk Weighted Assets	
Credit RWA	₹ 3,686.82
On Balance Sheet	₹ 3,686.82
Off Balance Sheet	-
Total RWA	**₹ 3,686.82**
Tier 1 Capital Ratio	15.68%
Tier 2 Capital Ratio	4.63%
Total Capital Ratio	**20.30%**

The Bank's CRAR as of March 31, 2025, is at 20.30%, which is above the regulatory threshold and the bank's internal risk appetite limit. The bank is meeting the minimum Pillar I CRAR requirement of 15%.

2. Credit Risk

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The objective of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable limits.

2.1 Credit Risk Governance Framework

The bank's Credit Risk Governance Framework consists of a tiered structure that defines, monitors and reviews policies and risk limits periodically with appropriate use of statistical techniques.

The bank has an approved delegation of authorities including a Credit Committee for credit approvals. The Credit Risk Management Committee (CRMC) at the management level proactively assesses portfolio quality, prudential limits and inherent risks. Governance control is vested with the Credit Risk Management Committee (CRMC) and Risk Management Committee (RMC) of the Board, which monitors and provides guidance on risk assessment and capital adequacy as well as ensuring timely and effective implementation of policies. Policies such as the Credit Risk Management Policy, Credit Policy, Collections and NPA Management Policy, Stress Testing Policy, Investment Policy are defined to effectively manage credit risk.

The risk management function in the Bank is clearly demarcated and independent from the Operations and Business units of the Bank. The Risk Management function is not assigned any business targets.

2.2 Credit Process & Policies

All credit risk related aspects are governed by the Board approved Credit Risk Management Policy and Credit Policy. These policies cover all customers and products of the Bank which possess credit risk. The key principles underlying the Policy framework at the Bank are as follows: -

1. The Bank constantly reviews and updates the delegation of Authority to accommodate for organizational restructuring, changing regulatory environment, competitive scenario etc. Any exposure greater than specified threshold follows the Credit Approval Committee approach.
2. The new products proposed to be offered by the Bank are approved as per the Policy for New Product Approval and are approved by the Product Approval Committee (PAC). Post PAC approval, the same is put up to the Board for final approval.

Credit Origination and Appraisal System

The Bank has established underwriting standards tailored to different client segments, based on factors such as ticket size, availability of security, and other relevant risk parameters. For digital loans, credit sanctions are provided through a proprietary business rule engine. For non-digital loans, sanctions are undertaken by experienced credit professionals in accordance with the delegation authority matrix, as defined in the Bank's Board-approved credit policy, and are based on a detailed credit appraisal memorandum that assesses the business and financial risks of the proposal.

Credit Rating Framework

The Bank's credit grading involves assessment of credit quality of the borrowers and assignment of risk scores using application data along with internal and external data (Bureau data, Customer declared data, Banking and Financial data, etc.). The Bank leverages mathematical models, rule-based logic as well as advanced ML based modelling techniques to devise the credit grading system

Credit Documentation

Collateral/security documents are finalized and registered in consultation with the legal and compliance department. The RM/RO and Credit Operations are jointly responsible for ensuring that proper documentation is obtained as per the checklist provided by the Credit, Legal and Compliance department. The Credit Operations and Central Processing Team (CPC) are responsible for the safe custody of all documentation.

Delegation of Power (DOP)

The authority for approval of credit proposals, within limits stipulated, is delegated by the Board of Directors to specific approval authorities. The authorities exercise their powers within the framework of the norms prescribed by the Board of Directors. Loans are approved at various levels. Approval powers accorded to the above authorities are guided by the Delegation matrix as per the board approved Credit Policy.

Post Sanction Monitoring

Credit monitoring involves follow-up and supervision of the Bank's exposures with a view to maintaining the asset quality at the desirable level, through proactive and corrective actions, aimed at controlling and mitigating the credit risk to the Bank. The process is governed by the board approved Credit Risk Management Policy.

Effective and on-going supervision of borrower accounts are important components in the Bank's credit monitoring process. The Bank accords special emphasis on credit monitoring across the entire loan lifecycle and continuously strives to improve monitoring practices.

Monitoring Standards – Portfolio level:

The Bank is performing portfolio monitoring through the daily MIS reviews and regular Credit Risk Management Committee meetings, with specific focus on the following key aspects:

- Portfolio origination performance – Number of applications/approvals, Priority Sector Lending (PSL) compliant loans, etc.
- Portfolio asset quality – Delinquencies in various buckets days and asset classes
- Portfolio concentration limits – Concentration across single/group borrower, geography, product, industry/sectors, etc.
- Account level monitoring for >=25L loans - delinquency days, outstanding and security cover

The Risk Management Department conducts regular portfolio level monitoring and publishes periodic risk reports to relevant stakeholders, including CRMC and RMCB.

Periodic Quality & Control Reviews:

Internal audit exercise is conducted by way of periodic reviews and checks to ensure adherence to established credit policies and procedures. On a periodic basis, a sample of applications and approvals & rejects are selected and checked for adherence to the credit filters, credit underwriting and verification criteria. Feedback provided to relevant teams; changes made to the process based on these reviews are documented.

Definition of Non-Performing Asset (NPA) -

The Bank classifies its loans and advances into performing and non-performing loans in accordance with, Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 2, 2024.

An NPA is defined as a loan or an advance where: -

i. interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
ii. the account remains ‘out of order’ for 90 days in respect of an Overdraft/Cash Credit (OD/CC),
iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
iv. the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops, the installment of principal or interest thereon remains overdue for one crop season for long duration crops,
v. The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization.
vi. In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

2.3 Credit Concentration Risk

Credit Risk (including credit concentration risk) i.e. the risk of financial losses in credit assets (including off-balance sheet instruments) caused by deterioration in the current conditions of borrowers. The Bank has a Board approved Credit Policy applicable to all lending activities. The more nuanced product parameters applicable to each of the products are laid out in respective product documents encompassing the principles of Credit Policy.

However, concentration risk can arise due to the creation of large positions in a single product or sector or an individual or group of similar borrowers. As a prudential measure aimed at better risk management, the Bank has defined limits on exposure to single/group borrowers, industry/sector, and geography in line with the Reserve Bank of India guidelines on Small Finance Banks.

The Bank manages concentration risks using prudential limits. Credit Concentration in the bank’s portfolio is monitored for the following:

- Single/Group Party Exposure: The Bank has individual borrower-wise exposure limits as well as group-wise borrowing limits which are continuously tracked and monitored. As of 31st March 2025, the exposure for top 20 Borrowers for <0.50% of Total Advances.

- Industry Exposure: The Bank tracks the exposure to specific industries and sectors. The analysis further contributes to formulating the growth strategy of the Bank.

- Geography-wise Exposure: The Bank continuously monitors the geographic concentration of the business and factors the input into its strategic business planning. As of 31st March 2025, the bank’s advances book is well diversified across states with <15% advances from any single state.

Geographical Concentration as of March 31, 2025:

State	Gross Advances (in Rs Crs)	Gross Advances %	Deposits - Balances (in Rs Crs)	Deposits - Balances %
Assam	367.6	12%	1067.8	44%
Karnataka	417.7	14%	123.6	5%
Maharashtra	259.9	9%	75.2	3%

Telangana	296.2	10%	28.6	1%
Andhra Pradesh	274.4	9%	43.8	2%
Tamil Nadu	220.2	7%	35.6	1%
Uttar Pradesh	183.3	6%	70.2	3%
Meghalaya	19.5	1%	188.3	8%
Mizoram	15.5	1%	191.0	8%
West Bengal	81.4	3%	66.8	3%
Delhi	94.1	3%	51.7	2%
Manipur	29.3	1%	96.1	4%
Others	695.1	24%	379.7	16%
Grand Total	**2954.1**	**100%**	**2418.4**	**100%**

While the Bank's advances book was originally concentrated in the North East, it has diversified meaningfully over time—driven by the merger with the GIPL group, which had a PAN India diversified loan book, along with expansion in the MSME portfolio in other states to mitigate concentration risk. Despite this diversification, efforts to deepen and widen the portfolio in the North East remain integral to the Bank's strategy.

2.4 Portfolio Management

slice SFB monitors its portfolio across different parameters and analyzes the spread of risk among different asset classes. It also analyzes the portfolio performance of different customer segments within products as well as portfolio performance for known risk indicators. slice SFB monitors portfolio at risk (PAR), which is an overdue portfolio (1 day overdue and more) across products and business lines to identify any impending stress.

The business and collections team are answerable to the Credit Risk Management Committee, where the identified and impending stress segments are discussed and a final course of action is decided by the committee.

2.5 Credit Exposures and Risk Summary as of March 31, 2025

S. No.	Exposure Type	₹ in Crs
1	Fund Based – Loans & Advances (Book Value)	2954.03
2	Non-Fund Based	0
	Total	2954.03

Maturity Pattern of Assets and Liabilities:

The maturity pattern of assets as of March 31, 2025, is detailed in the table below: (**Amount in INR Crs)**

Sl. no.	Maturity buckets	Loans & advances	Investments	Deposits	Borrowings
1	1 day	25.16	225.08	45.49	-
2	2 days to 7 days	226.17	-	65.52	21.79
3	8 days to 14 days	3.35	-	36.75	4.17
4	15 days to 30 days	5.43	65.92	72.31	22.95
5	31 days to 2 months	300.30	18.30	82.56	29.99

6	Over 2 months & up to 3 months	288.86	14.02	71.05	14.95
7	Over 3 months & up to 6 months	766.55	44.90	200.54	75.51
8	Over 6 months & up to 1 year	852.61	139.60	725.21	139.21
9	Over 1 year & up to 3 years	273.98	268.22	1,118.53	534.67
10	Over 3 years & up to 5 years	136.83	1.88	0.34	-
11	Over 5 years	25.63	0.21	0.08	296.30
		2,904.87	**778.14**	**2,418.38**	**1,139.53**

***** *Kindly note that all the above numbers have been rounded off to the nearest second decimal place.*

2.6 Non-Performing Assets and their Classifications

Advances are classified as performing assets and non-performing assets (NPAs) in accordance with the RBI guideline on Income Recognition and Asset Classification (IRAC). Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. The advances are stated net of specific provisions made towards NPAs.

Classification of gross NPA: In crores

Particulars	31st March 2025 (Audited)
Sub- Standard	153.44
Doubtful	31.32
Loss	0.00
Total Gross NPA	**184.76**

Net NPA: In crores

Particulars	31st March 2025 (Audited)
Gross NPA	184.76
Less: Provisions	49.17
Net NPA before floating Provisions	135.59
Less: Floating Provision	-
Net NPA	**135.59**

Gross and Net NPA Ratios:

Particulars	31st March 2025 (Audited)
Gross NPA to Gross Advances	6.25%
Net NPAs to Net Advances	4.67%

Movement of Gross NPAs: In crores

Particulars	31st March 2025 (Audited)
Opening balance as on April 1 2024	99.20
Addition due to amalgamation	86.77
Additions during the year	108.09
Recoveries (excluding Recoveries made from upgraded accounts)	20.68

Upgradation	3.07
Increase in Same Category	-
Technical Write offs	85.55
Closing balance as of March 31, 2025	**184.76**

Note: Additions and reductions do not include accounts which turned NPA during a particular month and subsequently moved out of NPA in the same month.

Movement of Provisions for NPAs: In crores

Particulars	31st March 2025 (Audited)		
	NPA Provision	Provision Floating / Restructuring Provision	Total
Opening Balance as on April 1, 2024	32.14	-	32.14
Addition on account of amalgamation	21.69	-	21.69
Provisions made during the year	80.88	-	80.88
Write-back of excess provisions (including Write off – Technical and Actual)	85.55	-	85.55
Closing Balance as of March 31, 2025	**49.16**	-	**49.16**

Provisioning:

Specific loan loss provisions are made as per the rates prescribed by RBI and Bank's internal provisioning policy. The provisions towards Standard Assets is made as per the extant RBI notifications and are not netted from gross advances but the same is shown separately as ‘Provisions against Standard Assets’ under 'Other Liabilities and Provisions’. NPA accounts are written off based on Bank's internal policy and management judgement. Amounts recovered during the year against bad debts written off in earlier years are recognised in the Profit and Loss Account as Miscellaneous income under the head 'Other Income'. (Schedule - 14).

Floating Provision:

Provisions made in excess of the Bank’s policy for specific loan loss provisions for non-performing assets and regulatory general provisions are categorized as floating provisions. Creation of floating provisions is approved by the Board of Directors in accordance with the RBI guidelines. Floating provisions are used only for contingencies under extraordinary circumstances and for making specific provisions for impaired accounts as per Board approval and regulatory approval. Floating provisions, if any, are shown under “Other liabilities and Provisions” (Schedule 5).

Non-performing Investment: Currently, the bank does not have any non-performing investment. However, the bank had Security Receipts (SR) received as part of consideration towards sale of stressed assets to ARC in FY 2023-24. The book value of SR as of March 31, 2025, is INR 67.15 crores and the same is fully provided for as of March 31, 2025.

Provision for Standard Asset: (In crores)

Particulars	31st March 2025 (Audited)
Provision for standard assets	11.23

For exposure amounts after risk mitigation subject to the standardized approach, the amount of the Bank's exposure in the following four major risk buckets as well as those that are deducted: **(In crores)**

Particulars	31st March 2025 (Audited)
- Below 100% risk weight	1,555.35
- 100% risk weight	309.86
- More than 100% risk weight	2,362.63
- Deducted from capital	102.05

Note: The bank has applied an additional 25% risk weight on advances charged as security against grandfathered borrowings.

Securitization and Assignment:

The Bank undertakes securitisation / loan assignment transactions with the objective of maximizing return on capital employed, managing liquidity, and maximizing yield on asset opportunities.

The RBI issued “Revised Securitisation Guidelines” on September 24, 2021 (hereinafter, the revised securitisation guidelines”) covering both Securitisation and Loan Assignment transactions separately. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. For loan assignment transactions, credit enhancement has been disallowed under the revised guidelines

Assets transferred through securitization and direct assignment of cash flows are de-recognized in the Balance Sheet when they are sold (true sale criteria being fully met with) and consideration is received. Sales / transfers that do not meet true sale criteria are accounted for as borrowings. For a securitization or direct assignment transaction, the Bank recognizes profit upon receipt of the funds, and loss is recognized at the time of sale.

Disclosure of transfer of loan exposures:

Particulars (Amount in Rs. Cr)	As on March 31, 2025
No of Accounts	78,490
Aggregate principal outstanding of loans transferred	50.71
Weighted average maturity of the loans transferred	11.6 months
Weighted average holding period of the loans transferred	5.42 months
Retention of economic beneficial interest	2.54
Aggregate consideration	48.17

The Bank also buys loans through the direct assignment route, which are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortized based on an effective interest rate method over the tenor of the loans.

Details of loans acquired through Direct assignment as on March 31, 2025:

Particulars (Amount in Rs. Cr)	From SCBs, RRBs, UCBs, StCBs, DCCBs, AIFIs, SFBs and NBFCs	From ARCs
Aggregate principal outstanding of loans acquired	57.60	Nil

Aggregate consideration paid	58.18	Nil
Weighted average residual tenor of the loans acquired*	38.50 Months	Nil

*Weighted average residual tenor is computed from the date of Acquisition till the maturity of loan accounts.

The Bank also enters into sale of stressed assets in-line with the Operating guidelines applicable for Small Finance Bank and Master Direction on "Transfer of loan exposure" dated September 24, 2021. In case of sale of stressed assets, the bank follows RBI guidelines on 'Transfer of Loan Exposures'. In accordance with RBI guidelines on sale of nonperforming advances, if the sale is at a price below the net book value (i.e., book value less provisions held), the shortfall is charged to the Profit and Loss Account and if the sale is for a value higher than the net book value, the excess provision is credited to the Profit and Loss Account in the year when the sum of cash received by way of initial consideration and / or redemption or transfer of security receipts issued by ARC exceeds the net book value of the loan at the time of transfer.

During the financial year ended March 31, 2025, the bank did not sell any stressed assets.

3. Credit Risk Mitigation – Disclosure for standardized approach

The Bank's Board Approved Credit Risk Management Policy includes the valuation process of acceptable security. The policy covers different aspects of types of collateral, documentation requirement, collateral valuation, and periodicity of valuation etc.

The acceptable security should have the following parameters:

- Specifically itemized and identifiable: The underlying security of the credit facility should be clearly identifiable and itemized in the Credit appraisal memo/ valuation report.
- Liquidity: The security should be in a form that can be liquidated in the event of default or bankruptcy of the borrower.
- Repossession: The Bank should have the legal right to repossess the security in case the borrower defaults and the collateral should be easy to repossess as per the provisions of law.
- Market value: The security is periodically revalued and therefore the current value of the security should be easily discoverable in the market.

The bank considers term deposits, securities issued by Central and State Governments, KVPs/NSCs, Life insurance policies, raw material, stock in trade, other goods, movable assets such as machinery, vehicles, animal husbandry, etc. as security.

Exposure cover by eligible financial collateral is as below (In crores)

Particulars	Amount
Total exposure covered by eligible financial collateral	
Loan against bank's own Fixed Deposits	31.72
Loans covered by CGTMSE guarantee scheme	190.86
Total	**222.58**

4. Leverage Ratios

The Bank is also assessing leverage ratio as per the Basel III framework. The leverage ratio is computed by dividing Tier I Capital by total exposures of the Bank. The leverage ratio is calculated to act as a credible supplementary measure to the risk-based capital requirements.

Leverage Ratio = Capital Measure (Tier I Capital) / Exposure Measure (In crores)

Tier 1 capital - (A)	577.94
Exposure Measure- (B)	4,206.70
Leverage Ratio (A/B)	13.74%

5. Market Risk

Market risk refers to the potential for loss resulting from adverse movements in market variables such as interest rates, credit spreads, and equity prices. At the bank, market risk is managed in accordance with the Market Risk Policy and the Investment Policy, both of which are approved by the Board of Directors. These policies ensure that all transactions in debt and capital markets are conducted in line with sound business practices and in compliance with applicable regulatory guidelines.

The Risk Management Department is responsible for the timely identification and escalation of market risk exposures. It plays a key role in ensuring that market risks are systematically identified, assessed, monitored, and reported to support effective decision-making by management.

The Treasury Mid-Office, which reports to the Chief Risk Officer (CRO), independently values the investment portfolio and monitors associated market and interest rate risks. It provides regular reports to the Asset-Liability Committee (ALCO) and the Risk Management Committee of the Board (RMCB).

As of now, the bank's investment portfolio comprises only sovereign securities, including Treasury Bills (T-Bills), State Development Loans (SDLs), and Government Securities (G-Secs). The bank does not hold any positions in foreign exchange (FX), derivatives, or equities.

For market risk purposes, securities held under the Available for Sale (AFS), FVTPL (Fair Value through Profit and Loss) and Held for Trading (HFT) categories are considered part of the trading book. However, since the regulatory capital charge for market risk under Pillar 1 is currently not applicable to Small Finance Banks (SFBs), it is not assessed separately.

6. Interest Rate risk in Banking Book

Interest Rate Risk in the Banking Book (IRRBB) refers to the potential adverse impact on a bank’s financial position arising from changes in interest rates. As a financial intermediary, managing interest rate risk is an inherent and critical part of banking operations. Improper management of IRRBB can significantly affect the bank’s earnings and capital base.

The Changes in interest rates affect the bank in two key aspects:

- **Short-term Impact:** Changes influence the Net Interest Income (NII), which is the difference between interest earned on assets and interest paid on liabilities.

- **Long-term Impact:** Fluctuations in interest rates affect the economic value of the bank’s assets, liabilities, and off-balance sheet items, ultimately impacting the bank’s capital.

The bank’s **Asset-Liability Committee (ALCO)** oversees the management of IRRBB, setting the overall risk management framework and limits with the approval of the Board. The **Treasury Department** is responsible for executing interest rate risk management strategies in consultation with ALCO. Meanwhile, the **ALM Risk Team**, part of the Risk Management Department, independently measures, monitors, and reports interest rate risk in accordance with the bank's policies.

The bank uses the following key metrics to assess IRRBB:

- **Earnings at Risk (EaR):** A short-term measure estimating the potential impact on Net Interest Income due to changes in interest rates. EaR evaluates the effect on interest income from rate-sensitive assets and interest expenses on rate-sensitive liabilities, including off-balance sheet exposures.

- **Market Value of Equity (MVE):** A long-term measure that estimates the change in the economic value of the bank's equity due to interest rate movements, calculated using the **Duration Gap Approach**.

To quantify the impact of interest rate changes, the bank applies the following methodologies as per regulatory and internal guidelines:

- **IRST (Traditional Gap Approach):** Used to compute Earnings at Risk (EaR) and assess the effect on NII.

- **IRSD (Duration Gap Approach):** Used to calculate the impact on the Market Value of Equity (MVE) by assessing changes in the economic value of assets and liabilities.

The table below shows the effect of parallel interest rate shocks on Earnings and Market Value of Equity as of March 31, 2025 (amounts in Rs. Crores):

Interest Rate Risk	+200 bps	-200 bps
Earnings at Risk (EAR)	14.52	- 14.52
Impact on Market Value of Equity (MVE)	- 10.95	+ 10.95

7. Liquidity Risk

Liquidity risk refers to the possibility that the bank may not be able to meet its financial obligations as they arise, whether these obligations are expected or unexpected. This includes the bank's ability to fund asset growth, handle the withdrawal of liabilities, and meet both cash and collateral requirements in a timely and cost-effective manner, without negatively impacting its financial condition.

The management and oversight of liquidity risk fall under the purview of the Asset-Liability Management Committee (ALCO). Liquidity risk is managed in accordance with the Asset Liability Management (ALM) Policy, which is approved by the Board of Directors. This policy provides a structured framework for identifying, monitoring, and mitigating liquidity risk on a standalone basis. A key aspect of the bank's liquidity strategy is maintaining a diversified funding profile, with a strong emphasis on building and retaining a robust retail deposit base.

Liquidity risk is evaluated from both a long-term structural perspective and a short-term dynamic perspective. The bank uses a variety of assessment methods, including the stock approach, the cash flow approach, and stress testing. A core component of liquidity risk assessment is liquidity gap analysis. This involves evaluating mismatches between projected cash inflows and outflows across different time periods. These cash flows are categorized based on the remaining maturity or expected behavior of the bank's assets, liabilities, and off-balance sheet items.

The bank has established internal limits for net cumulative negative mismatches in various maturity buckets as specified in its ALM Policy. These limits specify that net cumulative cash outflows for the buckets 1 day, 2-

7 days, 8-14 days, 15- 30 days should not exceed -5%, -10%, -15%, -20% respectively. The bank has remained well within these limits and has not reported any breaches of either internal or regulatory thresholds.

To manage potential liquidity stress scenarios, the bank has a Contingency Funding Plan (CFP) that is approved by the Board. This plan sets out the procedures to be followed in the event of a liquidity crisis (systemic or bank-specific). During such an event, the ALCO is responsible for guiding the bank's response and implementing necessary actions

8. Liquidity Coverage Ratio (LCR)

The Bank calculates the Liquidity Coverage Ratio (LCR) to manage short-term liquidity risk. This ensures that the bank has enough high-quality liquid assets to cover net cash outflows during a 30-day period of financial stress. Required under the Basel III framework, the LCR helps strengthen financial stability, builds market confidence, and reduces liquidity risk by encouraging banks to hold assets that can be quickly turned into cash. It also supports the bank's stress testing and contingency planning efforts, allowing for early response to potential short-term liquidity challenges. The LCR is reported regularly to ALCO, the Risk Management Committee of the Board (RMCB), and the Reserve Bank of India (RBI). As of March 31, 2025, the Bank's LCR stood at 272.58%, well above the regulatory minimum of 100%.

9. Operational Risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people, systems, or external events, including legal risk. Effective identification, monitoring and mitigation of operational risks is embedded across all activities of slice SFB.

Governance and Oversight: Operational risk is governed by the Operational Risk Management Committee (ORMC) and the Risk Management Committee of the Board (RMCB). These bodies oversee the identification, monitoring, and mitigation of operational risk, and ensure alignment with the Bank's risk appetite and regulatory expectations.

Risk Management Structure: slice SFB follows a Three Lines of Defense model:

- First Line: Business units own and manage operational risks
- Second Line: Risk and Compliance teams provide independent oversight
- Third Line: Internal Audit ensures control effectiveness and policy adherence

Policy Architecture: The Bank has a Board-approved Operational Risk and Resilience Policy aligned with RBI's 2024 guidance, which includes:

- Risk and Control Self-Assessment (RCSA)
- Key Risk Indicators (KRIs)
- Internal Loss Data Management (actual and near-miss)
- New Product and Process Risk Evaluation
- Outsourcing Risk and Vendor Risk Management (VRM)
- Business Continuity Planning (BCP) and Operational Resilience

Risk Identification and Monitoring Tools: slice SFB uses internal loss databases, KRI dashboards, fraud monitoring, outsourcing risk assessments, and BCP tests to evaluate operational risk exposures.

Reporting and Escalation: Significant risk events emerging out of loss data and near miss repository, external events, thematic reviews and RCSA outcomes are reported to ORMC and RMCB. All major incidents undergo gap analysis, and control gaps are remediated with tracked action plans.

Operational Resilience: The Bank integrates resilience planning into operations through periodic BCP and DR drills and critical process mapping to ensure continuity under stress scenarios.

Lessons Learnt, Interconnectedness and Interdependencies: slice SFB ensures that all significant operational risk events undergo Root Cause Analysis, with key lessons documented and used to strengthen controls and processes. Recognizing the interconnectedness across systems, vendors, and business units, the Bank maps critical interdependencies and incorporates them into RCSA, BCP, and resilience planning. These insights are reviewed by ORMC to enhance preparedness and service continuity.

10. IT & Information Security

The Bank has an independent information security department, which addresses information and cyber security related risks. The Information security department is headed by the Chief Information Security Officer (CISO) who reports to the MD & CEO. The Bank has a defined governance structure in place under the IT Steering Committee and Information Security Committee. All these risks are periodically presented to the IT Strategy Committee and Risk Management Committee of the Board.

The bank has implemented a layered security defense system through implementation of various preventive and detective security controls. A dedicated incident management team monitors all security events on a 24x7 basis. The bank is in compliance with RBI's Cyber Security framework and various other industry standards like ISO 27001, PCI DSS etc.

The Disaster recovery and Business Continuity Plan (BCP) has been established for significant businesses to ensure continuity of operations and minimal disruption to customer services. These plans are periodically tested and reviewed to ensure their effectiveness.