DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS

For the Quarter ended 30th June 2024

Reserve Bank of India (RBI) issued Basel III guidelines (Ref. No. RBI/DoR/2023-24/105 DoR.FIN.REC.40/01.02.000/2023-24) applicable with effect from April 1, 2024. The Basel III framework consists of three-mutually reinforcing pillars:

Pillar 1: Minimum capital requirements for credit risk, market risk and operational risk
Pillar 2: Supervisory review of capital adequacy
Pillar 3: Market discipline

Market discipline (Pillar 3) comprises set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the following sections.

Table DF-2: Capital Adequacy

1. Qualitative Disclosures

NaBFID (hereafter "the Bank"), actively maintains its capital to meet regulatory norms, current and future business needs considering the risks in its businesses and exposure in the competitive market.

The Bank has a comprehensive process for assessing its capital adequacy in relation to its risk profile and monitoring the same on an ongoing basis. The process provides an assurance that the Bank has adequate capital to support all risks inherent to its business.

Regulatory capital is the mandatory capital that is required to be held in line with Basel III regulations. Although Basel III focuses on the core banking risks such as credit, market and operational risk, the Bank performs a comprehensive assessment of its risk profile through Internal Capital Adequacy Assessment Process (ICAAP) conducted annually which determines the adequate level of capital required for the Bank to meet regulatory norms, current and future business needs.

The Bank has implemented a Board approved Stress Testing Policy which forms an integral part of the Bank's ICAAP. Stress testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed business conditions. The assessment of capital requirements also includes a buffer to take care of stressed situations on account of exceptional but plausible events. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

The Bank has an explicit Board approved business plan which spells out its objectives about the level of capital, the time horizon for achieving the objectives, the capital planning process and allocates responsibilities for that process. The capital assessment plan is approved by the Board and aligned with the Bank's risk appetite limit framework.

Monitoring and Reporting

The Board of Directors of the Bank maintains an active oversight over the Bank's capital adequacy levels. On a quarterly basis, an analysis of the capital adequacy position, the risk weighted assets and an assessment of the various aspects of Basel III on capital and risk management as stipulated by RBI, are reported to the Board. Further, ICAAP which is an annual process also serves as a mechanism for the Board to assess and monitor the Bank's capital adequacy position. The Bank has carried out capital assessment up to FY 2029 as a part of ICAAP framework.

All material risks faced by the Bank as identified in the Enterprise Risk Management & Risk Appetite Framework are addressed in the capital assessment process. Material risks are any risks large enough to threaten the success of the institution in any material way. Material risks for the Bank include the following:

- Credit Risk (including residual risk in collateral, counterparty credit risk, settlement risk etc.)
- Market Risk
- Liquidity Risk
- Operational Risk (including Legal, Compliance systems and People Risk)
- Concentration Risk
- Interest rate risk in the banking book
- Reputational Risk
- Strategic Risk
- Climate Related Financial Risk

The Bank has carried out risk assessment of all its material risks and has expressed it either quantitatively or qualitatively. The Bank has calculated the additional capital requirements as per the assessment methodologies in ICAAP for the risks identified.

2. Quantitative Disclosures

For Pillar 1 risk assessment, the Bank has adopted the following approaches for calculation of capital as per RBI directions:

1) Standardized Approach for Credit Risk
2) Standardized Duration Method for Market Risk
3) Basic Indicator Approach for Operational Risk

A summary of the Banks's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 30th June 2024 is given as here under:

Capital Requirements for various Risks	**Amount (Rs. Crs)**
A. Risk Weighted Asset (RWA) for Credit Risk	
1. Portfolios subject to Standardized Approach	25,190.86
2. Securitization Exposures	0
B. RWA for Market Risk	
Standardized Duration Approach	
1. Interest Rate Risk	0
2. Foreign Exchange Risk (including gold)	300.00
3. Equity Risk	0
C. RWA for Operational Risk	
1. Basic Indicator Approach	1,890.97
D. Other Residual Assets on B/S RWA	42.68
E. Total RWA (A+B+C+D)	**27,424.51**
F. Tier I Capital (CET1)	**28,987.88**
G. Tier II Capital	178.59
H. Total Capital (F+G)	**29,166.47**
Capital Adequacy Ratios	
1. Common Equity Tier-1 CRAR	105.70%
2. Tier -I CRAR Ratio (F/E)	105.70%
3. Tier -II CRAR Ratio (G/E)	0.65%
Total CRAR (H/E)	**106.35%**

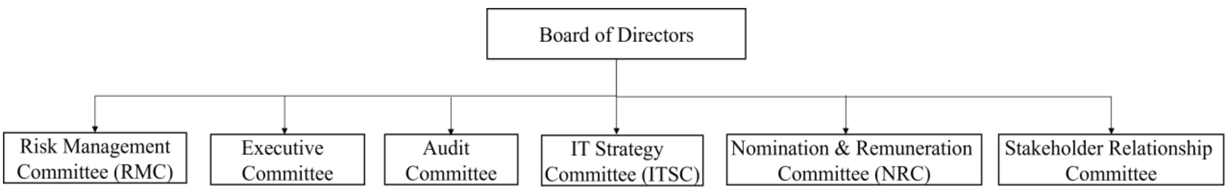
*Grant is considered as part of Tier I capital.

3. Risk exposure and assessment

3.1 General qualitative disclosure

Organization Structure for Governance and Risk Management

The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through the sub-committees of the Board of Directors. The Broad organizational structure of bank for governance and risk management is furnished below:



The various Risk related sub-committees are listed below: -

Credit & Expenditure Approval Committee (CEAC 1 & CEAC 2)	Credit risk, counterparty risk
Asset Liability Management Committee (ALCO)	Liquidity risk, market risk, interest rate risk
Operational Risk Management Committee (ORMC) and Business Continuity & Disaster Recovery Steering Committee (BC&DRSC)	Operational risk, people risk, process risk, technology risk, Continuity risk
Information Security Committee (ISC)	IT Risk, Information and cyber security risk

Credit Risk

Credit risk refers to the deterioration in the credit quality of the borrower or the counterparty adversely impacting the financial performance of the Bank. The losses incurred by the Bank in a credit transaction could be due to inability or wilful default of the borrower in honouring the financial commitments to the Bank. The Bank is exposed to credit risk through lending activities.

The Bank has a comprehensive Credit Policy with an objective to provide direction to the credit activities and provide a broad framework for the management of the credit risk in the portfolio while maintaining asset quality of the portfolio. The Credit Policy covers the broad guidelines for delivery of credit including projects/borrowing entities eligible for funding, statutory restrictions on loans and advances, forms of financing, exposure limits, appraisal standard, internal credit rating framework for assessing credit risk, pricing, approval process and security & documentation etc. Credit Risk is managed through detailed appraisal and independent risk vetting including internal credit rating of exposures at origination. A periodic review of the exposures throughout their lifecycle further supplements the same.

The Bank aims to maintain a minimum level of portfolio quality using internal credit ratings and through control of credit costs.

The Bank shall not originate loans/ investments which are internally rated as “nBB” or lower. Bank also expresses its credit risk appetite by establishing concentration risk limits for various parameters. Bank has established single and group borrower limits for certain exposure types which are below the regulatory exposure limits.

Credit Process

Credit Risk at Bank is managed by Credit Risk & Policy Department (CRPD). The CRPD is an independent unit under the Deputy Managing Director- Chief Risk Officer (DMD-CRO), which is responsible for management of the credit risk & policy and credit monitoring activities at the Bank. CRPD reports key credit related indicators on a timely basis to the RMC / Board as part of the Risk Management Reporting.

The Bank’s approach to credit risk management is well articulated in its credit policy which depicts the Bank’s robust credit appraisal and credit sanction processes, internal credit rating framework, credit risk pricing and credit monitoring through entire loan life cycle.

Credit Risk Management Framework

- A centralised credit risk evaluation process requires detailed risk analysis, mitigation strategies, analysis of debt servicing ability, evaluation of collateral, lending terms and conditions as appropriate to the risk profile of the borrower.
- CRPD, an independent department which does not have business targets, assesses the credit risk for all transactions throughout the loan lifecycle and assigns internal rating to them through board approved internal credit rating models. The internal credit rating models are also subject to periodic review to help the Bank arrive at prudent assessment of credit risk.
- The CRPD also prepares a rating rationale for each credit proposal, which details the strengths, weaknesses and key issues in the credit proposal along with an industry view which is presented to the recommending / sanctioning authority.
- Pricing of the loan is determined as per a Board approved Loan Pricing Framework (LPF) which is based on a cost-plus pricing model wherein all costs associated with extending credit are factored in for determining a lending rate.
- Lending decisions are taken by an appropriate sanctioning authority (namely Executive Committee (EC), Credit and Expenditure Approval Committee (CEAC) 1 and Credit and Expenditure Approval Committee (CEAC 2) through a well-defined delegation of authority framework under the Credit Approval Authorisation (which uses a combination of the proposed amount of the borrower / group exposure and its internal credit rating).
- The Bank has framework for asset quality review under the Credit Approval Authorisation which includes borrower review based on periodical schedule and event-based review. Under the mechanism, the quality of credit portfolio of the institution is monitored on a continuous basis by ensuring end use of the funds lent, monitoring of business and financial performance, events affecting credit risk and early detection of signs of any deterioration requiring timely remedial measures.

Credit Monitoring

Bank has a Credit Monitoring Policy (CMP) which provides a monitoring mechanism (at both account and portfolio level) for the early identification of a borrower's credit deterioration and subsequent redressal of the situation throughout the loan lifecycle. The Policy also covers the governance structure, detailed workflow (including roles and responsibilities of relevant stakeholders), frequency of monitoring & reporting, Early Warning System (EWS) framework, etc.

Liquidity Risk

Liquidity risk appetite is expressed along the following dimensions:

1. Short term liquidity risk
2. Structural liquidity risk

3. Concentration risk/ contingent liability risk
4. Liquidity management under stress and contingency planning

Liquidity risk management at the Bank is governed by the Board approved Investment Policy and Asset Liability Management (ALM) Policy. Further, the Bank has defined Liquidity Maintenance ratio (LMR) for determining a minimum amount of liquid assets that could be used to meet cash outflows for debt servicing, committed disbursals, contingent liabilities, and other expenses during a prescribed survival horizon of 60 days.

Market Risk

Market risk is the risk that the value of the Bank's portfolio, either the investment portfolio or the trading portfolio, will decrease due to movements in market prices, for e.g. changes in value of interest rates, foreign exchange rates, equity prices and commodity prices.

The market risk appetite in the trading book is defined by limits set for value at risk ("VaR"), duration, stop loss limits and deal size limits. For managing foreign exchange risk, the Bank has defined a limit on the Net Overnight Open Position (NOOP) across the trading and the non-trading forex book. All the aforesaid market risk-based limits on the trading book are monitored and reported on regular basis.

An independent Treasury Middle Office (TMO), within the Risk department monitors and reports the various internal and regulatory risk limits set through the ALM and Investment Policy on a regular basis. Further, an independent market risk department provides oversight on treasury related activities with respect to implementation of the policies and processes and providing independent views on market risk related aspects.

Interest Rate Risk in Banking Book

Interest Rate Risk in Banking Book (IRRBB) refers to the current or prospective risk to financial institution's capital and earnings arising from adverse movements in interest rates that affect its banking book positions. The Bank in its ALM Policy has defined limits such as Interest rate gap limits, Earnings at Risk (EaR) limits and the Duration of Equity (DoE) to measure and monitor the interest rate risk.

Operational Risk

The Bank has documented key operational processes, SOPs. Roles and responsibilities towards various activities has been defined and internal control mechanism has been put in place. The Operational risk management framework of the Bank is governed by the Board approved Operational Risk Management policy. Further, the Bank has put in place Information Security Policy and Cyber Risk Policy. To ensure continuity of operations of the Bank, Business continuity management and disaster recovery policy has been put in place.

The Bank has recently gone live with Phase 1 of its Information Technology systems for the management of various activities, the key components of which include: Loan management system (LMS), Treasury management system, Finance and accounting system (Oracle GL), ALM system for preparation of a structural liquidity statement and interest rate risk statements, HR system (Darwin box).

Table DF-3: Credit Risk: General Disclosures

1. Qualitative disclosure

1.1 Definition and Classification of Non-performing Assets

Advances are classified into performing and non-performing assets (NPAs) as per Master Circular- Prudential norms on Income Recognition, Asset Classification & Provisioning norms pertaining to advances dated April 02, 2024.

A non-performing asset (NPA) is a loan or an advance where-

- Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- 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.
- NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A sub-standard asset is one, which has remained a NPA for a period less than or equal to 12 months. An asset is classified as doubtful if it has remained in the sub-standard category for a period of 12 months. A loss asset is one where loss has been identified by the Bank and the amount has not been written-off fully.

Guidelines for Classification of loans for Project under implementation as NPA

Further, the account may also be classified as NPA due to Deferment of Date of commencement of commercial operations (DCCO) criteria as per para 4.2.15 Projects under Implementation of Master circular on IRAC norms dated April 02, 2024.

I. Deferment of DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:
   1. The revised DCCO falls within the period of 2 years from the original DCCO stipulated at the time of financial closure for infrastructure projects; and
   2. All other terms and conditions of the loan remain unchanged.

   As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.40%.

II. Banks may restructure project loans, by way of revision of DCCO beyond the time limits quoted in the paragraph above and retain the 'standard' asset classification, if the fresh DCCO is fixed within the following limits, and the account continues to be serviced as per the restructured terms:

- Infrastructure Projects involving court cases:
  Up to another 2 years (beyond the 2 years period quoted in paragraph I (1) above, i.e., total extension of 4 years), in case the reason for extension of DCCO is arbitration proceedings or a court case.
- Infrastructure Projects delayed for other reasons beyond the control of promoters:
  Up to another 1 year (beyond the 2 years period quoted in paragraph I (1) above, i.e., total extension of 3 years), in case the reason for extension of DCCO is beyond the control of promoters (other than court cases).

III. A loan for a project may be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue). It is further re-iterated that the dispensation at paragraph (II) is subject to the condition that the application for restructuring should be received before the expiry of period mentioned at paragraph I (1) above and when the account is still standard as per record of recovery.

IV. In order to facilitate revival of the projects stalled primarily due to inadequacies of the current promoters, if a change in ownership takes place any time during the periods mentioned above or before the original DCCO, Bank may permit extension of the DCCO of the project up to two years in addition to the periods quoted above, as the case may be, without any change in asset classification of the account subject to specific conditions stipulated in the aforesaid circular. Bank may also consequentially shift/extend repayment schedule, if required, by an equal or shorter duration.

2. Quantitative Disclosures

The total gross credit risk outstanding are:

Category	Amount (Rs. Crs)
Fund Based	44,708.81
Non-Fund Based	710.34
Total	**45,419.14**

Geographic distribution of outstanding:

(Rs. Crs)

Particulars	June 30, 2024		
	Fund Based	Non-Fund Based	Total
Domestic	44,708.81	710.34	**45,419.14**
Overseas	0	0	0

Industry type distribution of outstanding (Fund Based and Non-Fund Based):

(Rs. Crs)

Sr. No	Industry Name	Fund Based	Non-Fund Based
1	Energy	29,338.29	270.00
2	Transport and Logistics	15,045.53	440.34
3	Water and Sanitation	100.00	0
4	Communication	224.99	0
Total		**44,708.81**	**710.34**

As of June 30, 2024 NaBFID has nil NPA, so the values of net NPA and NPA ratios remains nil.

The Amount of NPAs (Gross) are:

(Rs. Crs)

Category	Amount
Sub Standard	0
Doubtful – 1	0
Doubtful – 2	0
Doubtful – 3	0
Loss	0
Total NPAs (Gross)	**0**

The movement of gross NPAs is as under:

Particulars	Amount (Rs. Crs)
Opening Balance at the beginning of the year	0
Additions during the year	0
Reductions during the year	0
Closing Balance	0

The movement of Specific Provision (Provisions for NPAs) is as under:

Particulars	Amount (Rs. Crs)
Opening Balance at the beginning of the year	0
Provisions made during the period	0
Write-off/Write-back of excess provisions	0
Closing Balance	0

The movement of General Provision (Provisions for standard assets) is as under:

Particulars	Amount (Rs. Crs)
Opening Balance at the beginning of the year	141.37
Provisions made during the period	37.07
Write-off	0
Write –back of excess provisions	0
Any other adjustments including transfers between provisions	0
Closing Balance	178.44

The movement of provisions for depreciation on investments is as under:

Particulars	Amount (Rs. Crs)
Opening Balance at the beginning of the year	0
Provisions made during the period	0
write-off	0
Write –back of excess provisions	0
Closing Balance	0

By major industry or counterparty type:

Particulars	Amount (Rs. Crs)	
	Gross NPA	Specific Provision
Energy	0	0
Transport and Logistics	0	0
Water and Sanitation	0	0
Communication	0	0
Total	**0**	**0**

Geographic distribution of NPAs and Specific Provisions:

Rs. Crs

Geography	Gross NPA	Specific Provisions	General Provisions
Domestic	0	0	0
Overseas	0	0	0
Total	**0**	**0**	**0**

The residual maturity breakdown of assets:

(Rs. Crs)

Maturity Buckets	Cash and Bank Balances	Balances with banks and money at call and short notice	Investments	Advances	Fixed Assets	Other Assets	Total
Day - 1 to 14 days	0.03	16.58	-	6.12	-	99.72	**122.45**
15-28 Days							**0.00**
29 Days & upto 3 months		-	-	199.01	-	3.06	**202.07**
Over 3 Months and upto 6 months		9,842.22	-	179.32	-	829.48	**10,851.02**
Over 6 Months and upto 1 year		4,351.00	-	415.20	-	78.07	**4,844.27**
Over 1 Year and upto 3 years		-	-	2,715.61	-	-	**2,715.61**
Over 3 Year and upto 5 years		-	100.00	5,054.40	-	-	**5,154.40**
Over 5 years and upto 7 years		-	-	6,502.49	-	-	**6,502.49**
Over 7 years and up to 10 years		-	-	9,083.96	-	110.19	**9,194.15**
Over 10 years		-	-	20,453.75	10.15	503.01	**20,966.91**
Total	**0.03**	**14,209.80**	**100.00**	**44,609.86**	**10.15**	**1,623.53**	**60,553.37**

Table DF-4: Credit Risk Disclosures for Portfolios subject to Standardized Approach

1. Qualitative Disclosures

Credit rating agencies

The Bank is using the ratings assigned by the following domestic external credit rating agencies, approved by the RBI:

- CARE Ratings Limited
- CRISIL Ratings Limited
- ICRA Limited
- India Ratings and Research Private Limited
- Acuite Ratings and Research Limited
- Infomerics Valuation and Rating Private Limited

Issue Specific Ratings

All long term and short-term ratings assigned by the credit rating agencies specifically to the Bank's long term and short-term exposures respectively are considered by the Bank as issue specific ratings.

- For assets in the Bank's portfolio that have contractual maturity less than or equal to one-year, short term ratings accorded by the chosen credit rating agencies are considered relevant. For other assets, which have a contractual maturity of more than one-year, long term ratings accorded by the chosen credit rating agencies areconsidered relevant.

- Long term ratings issued by the chosen domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the standardised approach. The rating to risk weight mapping furnished below was adopted for domestic corporate exposures, as per RBI guidelines:

Long Term Rating	AAA	AA	A	BBB	BB & below	Unrated*
Risk weight	20%	30%	50%	100%	150%	100%

- In respect of issue specific short term ratings, the following risk weight mapping has been adopted by the Bank, as provided in the RBI guidelines:

Short Term Rating equivalent	A1+	A1	A2	A3	A4 & D	Unrated*
Risk weight	20%	30%	50%	100%	150%	100%

* Claims on corporates and NBFCs, except Core Investments Companies (CICs) having aggregate exposure from banking system of more thanRs.100 crore which were rated earlier and subsequently have become unrated are applied a risk weight of 150%. Additionally, all unrated claims on corporates and NBFCs, except CICs having aggregate exposure from banking system of more than Rs. 200 crores are applied a risk weight of 150%.

Further, in line with the RBI circular dated 16th November 2023 “Regulatory measures towards consumer credit and bank’s credit to NBFCs”, for all NBFCs excluding CICs, HFCs and NBFCs which are eligible for classification under priority sector lending, the Bank applies an additional 25% risk weight over and above the extant risk weight corresponding to an external rating where the extant risk weight is below 100%.

- Where multiple issue specific ratings are assigned to the Bank’s exposure by the various credit rating agencies,the risk weight is determined as follows:
    - If there is only one rating by a chosen credit rating agency for a particular claim, then that rating is used to determine the risk weight of the claim.
    - If there are two ratings accorded by chosen credit rating agencies, which map into different risk weights, higher risk weight is applied.
    - If there are three or more ratings accorded by chosen credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights are referred to and the higher of those two risk weightsis applied, i.e., the second lowest risk weight.

2. Quantitative Disclosures

Particulars	**Amount (Rs. Crs)**
Below 100% risk weight exposure outstanding	57,961.68
100% risk weight exposure outstanding	161.25
More than 100% risk weight exposure outstanding	5,329.30
Deduction	0
Total	**63,452.23**

Table DF-18: Leverage ratio common disclosure template

Leverage Ratio

The leverage ratio has been calculated using the definitions of capital and total exposure. The Bank's leverage ratio, calculated in accordance with the RBI guidelines:

S.No	Items	Leverage ratio framework (Rs. in Crs)
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	60,453.69
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	60,453.69
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	332.70
5	Add-on amounts for PFE associated with all derivatives transactions	572.50
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(0.24)
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**904.96**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	18,675.04
18	(Adjustments for conversion to credit equivalent amounts)	(11,956.86)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**6,718.18**
	Capital and total exposure	
20	Tier 1 capital	28,987.88
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**68,076.83**
	Leverage ratio	
22	**Basel III leverage ratio (20/21)**	**42.58%**