

PUNJAB NATIONAL BANK

Disclosure under Basel II (Pillar 3) in terms of Revised Capital Adequacy Framework – for year ended 31.03.2014

Disclosures in this report pertain to Punjab National Bank (Solo). The Capital to Risk-weighted Assets Ratio (CRAR) of the bank and its eight subsidiaries on stand-alone basis are shown separately in para 3.7.

DF1. Scope of application

1.1. Punjab National Bank is the top bank in the group to which the revised capital adequacy framework applies. The bank has following five domestic subsidiaries:

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
1	PNB Housing Finance Ltd	India	72.54%
2	PNB Gilts Ltd.	India	74.07%
3.	PNB Investment Services Ltd.	India	100.00%
4.	PNB Insurance Broking Pvt Ltd*	India	81.00%
5.	PNB Life Insurance Company Ltd**	India	NIL

*Steps are being taken for winding up of the company as the license has already been surrendered on 14.02.2011.

**The company wound up as per Hon'ble High Court order dated 16.04.2013.

Apart from these, the Bank has three International Subsidiaries

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	PNB International Ltd., UK	UK	100.00%
ii)	Druk PNB Bank Ltd	Bhutan	51.00%
iii)	JSC SB PNB Kazakhstan	Kazakhstan	84.375%

1.2 Bank is having 20% or more stake in following Domestic entities (Associates)

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	Assets Care & Reconstruction Enterprise Ltd.	India	30%
ii)	Principal PNB Asset Management Co. Pvt. Ltd	India	30%
iii)	Principal Trustee Co. Pvt. Ltd.	India	30%
iv)	Haryana Gramin Bank, Rohtak#	India	35%
v)	Himachal Pradesh Gramin Bank, Mandi	India	35%
vi)	Madhya Bihar Gramin Bank	India	35%
vii)	Punjab Gramin Bank, Kapurthala	India	35%
viii)	Sarva UP Gramin Bank, Meerut	India	35%
ix)	PNB Metlife India Insurance Company Ltd	India	30%

Haryana Gramin Bank and Gurgaon Gramin) Bank were amalgamated on 29/11/2013 into a new entity SarvaHaryana Gramin Bank, Rohtak(SHGB). Share of Syndicate Bank in erstwhile Gurgaon Gramin Bank was capitulated to Syndicate Bank (Rs. 35.00 lacs + 637.62 lacs, total Rs. 672.62 lacs) and like amount infused by PNB in SHGB, Rohtak. Hence the stake of PNB is 35% in the capital of SHGB, Rohtak as on 31/03/2014.



- India Factoring & Finance Solutions Pvt Ltd ceased to be PNB associate with effect from 31.03.2014

The Bank has one Associate outside India

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	Everest Bank Ltd.	Nepal	20%

1.3. Position of Capital

(₹.in crore)

Particulars	31.03.2014	31.03.2014
The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries	There is no capital deficiency in any of the subsidiaries	There is no capital deficiency in any of the subsidiaries

1.4. The bank is not directly involved in insurance manufacturing activity. However, bank has invested in the share capital of the following insurance related subsidiaries/Associates:

S. No.	Name of the company	Country of Incorporation	Proportion of ownership	Face Value (₹in crore)	Book value (₹in crore)
1.	PNB Insurance Broking Pvt. Ltd*	India	81%	4.05	11.73
2.	PNB Life Insurance Company Ltd**	India	NIL	NIL	NIL
3.	PNB Metlife India Insurance Company Ltd	India	30%	603.86	0.00007

*Steps are being taken for winding up of the company as the license has already been surrendered on 14.02.2011.

**The company wound up as per Hon'ble High Court order dated 16.04.2013



DF-2. Capital Structure

2.1 Bank's Tier I capital comprises of Equity Shares, Reserves and Innovative Perpetual Bonds.

Bank has issued Innovative Perpetual Bonds (Tier 1 capital) and also other bonds eligible for inclusion in Tier 2 capital. Some of the important terms of the bonds are as under:

a. Perpetual Unsecured Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Tier I bonds)

Series	Date of Allotment	Bond Amount (Rs in Crs)	Coupon Rate*	Tenor	Call option*	Put Option
I	20.07.2007	500	10.40% annual for first 10 Years. Step up Coupon Rate of 10.90% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
II	11.12.2007	300	9.75% annual for first 10 years. Step up Coupon Rate of 10.25% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment.	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
III	18.01.2008	300	9.45% annual for first 10 years. Step up Coupon Rate of 9.95% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
IV	19.01.2009	220.50	8.90% annual for first 10 years. Step up Coupon Rate of 9.40% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment.	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
V	28.08.2009	500	9.15% annual for first 10 years. Step up Coupon Rate of 9.65% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment.	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
VI	27.11.2009	200	9.00% annual for first 10 years. Step up Coupon Rate of 9.50% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment.	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
TOTAL		2020.50				

* subject to RBI guidelines

b. Unsecured Redeemable Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Upper Tier 2 bonds).

Series	Date of Allotment	Bond Amount (Rs. in cr)	Coupon Rate*	Tenor	Call Option*	Put Option	Redemption/ Maturity*
I	08.12.2006	500	Interest at the rate of 8.80% p.a. payable annually. If the call option is not exercised at the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.30% payable annually for the last five years i.e. 11 th to 15 th year	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10 th year.
II	12.12.2007	500	Interest at the rate of 9.35% p.a. payable annually. If the call option is not exercised at	15 years	At par at the end of 10 th year from the date of allotment	None	At par at the end of the 15th year from the date of allotment, if the call option is not



			the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.85% payable annually for the last five years i.e. 11 th to 15 th year		(with prior RBI permission)		exercised at the end of 10 th year.
III	05.03.2008	510	Interest at the rate of 9.35% p.a. payable annually. If the call option is not exercised at the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.85% payable annually for the last five years i.e. 11 th to 15 th year	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call option is not exercised at the end of 10 th year.
IV	27.03.2008	600	Interest at the rate of 9.45% p.a. payable annually. If the call option is not exercised at the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.95% payable annually for the last five years i.e. 11 th to 15 th year	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call option is not exercised at the end of 10 th year.
V	29.09.2008	500	Interest will be paid at the rate of 10.85% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 11.35% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year.
VI	22.12.2008	500	Interest will be paid at the rate of 8.95% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 9.45% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year.
VII	18.02.2009	1000	Interest will be paid at the rate of 9.15% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 9.65% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
VIII	21.04.2009	500	Interest will be paid at the rate of 8.80% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 9.30% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
IX	04.06.2009	500	Interest will be paid at the rate of 8.37% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 8.87% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
X	09.09.2009	500	Interest will be paid at the rate of 8.60% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year



			shall carry the interest of 9.10% payable annually for the last five years i.e. 11 th to 15 th year.				
XI	27.11.2009	500	Interest will be paid at the rate of 8.50% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 8.87% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
XII	24.05.2010	500	Interest will be paid at the rate of 8.50% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 8.87 % payable annually for the last five years i.e. 11 to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	NONE	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
Total		6610.00					

*subject to RBI guidelines

c. Unsecured Redeemable Non Convertible Subordinated Bonds in the nature of Promissory Notes /Debenture (Tier 2 Bonds)

Sr. No.	Series	Date of Allotment	Bond Amount (Rs in Crs)	Nature	Coupon Rate (% p.a. payable annually)	Tenor (in months)	Date of Maturity
1	XI	16.06.2006	884.80	Promissory Notes	8.45	118	16.04.2016
2	XII	16.08.2006	115.00	Promissory Notes	9.15	116	16.04.2016
3	XIII	08.09.2006	500.00	Promissory Notes	8.95	115	08.04.2016
4	XIV	24.02.2014	1000.00	Debenture	9.65	120	24.02.2024
5	XV	28.03.2014	500.00	Debenture	9.68	120	28.03.2024
TOTAL			2999.80				

2.2. The Tier 1 capital of the bank comprises:

(₹ in crore)

Particulars	31.03.2014	31.03.2013
i) Paid up share capital	362.07	353.47
ii) Reserves (excluding revaluation reserves)	33661.99	30558.44
iii) Innovative Perpetual Bonds	2020.50	2020.50
iv) Other Capital Instruments		
v) Equity Investment in subsidiaries (50%)	830.11	660.56
vi) Intangible Assets (Deferred Tax Assets + Computer Software)	635.84	607.64
vii) Dep. for illiquid securities	0.00	0.00
Tier I Capital (i + ii + iii + iv –v –vi-vii)	34605.61	31664.21



2.3. The amount of Tier 2 capital (net of deductions) is:

(₹.in crore)

Particulars	31.03.2014	31.03.2013
The amount of Tier 2 capital (net of deductions)	11135.48	9608.45

2.4. The debt capital instruments eligible for inclusion in Upper Tier 2 capital are:

(₹ in Crores)

Particulars	31.03.2014	31.03.2013
Total amount outstanding	6610.00	6610.00
Of which amount raised during the current year	0.00	0.00
Amount eligible to be reckoned as capital funds	6610.00	6610.00

2.5. The subordinated debts eligible for inclusion in Lower Tier 2 capital is:

(₹ in crores)

	31.03.2014	31.03.2013
Total amount outstanding	2999.80	2264.80
Of which amount raised during the current year	1500.00	0.00
Amount eligible to be reckoned as capital funds	2099.92	899.88

2.6. Other deductions from capital, if any:

(₹ in crores)

	31.03.2014	31.03.2013
Other deductions from capital, if any:	NIL	NIL

2.7. The total eligible capital comprises:

(₹. in crores)

	31.03.2014	31.03.2013
Tier – I Capital	34605.60	31664.22
Tier – II Capital	11135.47	9608.45
Total Capital	45741.07	41272.67

DF.3. Capital Adequacy

The bank believes in the policy of total risk management. The bank views the risk management function as a holistic approach whereby risk retention is considered appropriate after giving due consideration to factors such as specific risk characteristics of obligor, inter relationship between risk variables and corresponding return and achievement of various business objectives within the controlled operational risk environment. Bank believes that risk management is one of the foremost responsibilities of top/senior management. The Board of Directors decides the overall risk management policies and approves the Risk Management Philosophy & Policy, Credit Management & Risk policy, Investment policy, ALM policy, Operational Risk Management policy, Policy for Internal Capital Adequacy Assessment Process (ICAAP), Credit Risk Mitigation & Collateral Management Policy, Stress Testing Policy, Policy for Mapping Business Lines/Activities and Group Risk Management Policy containing the direction and strategies for integrated management of the various risk exposures of the Bank. These policies, inter-alia, contain various trigger levels, exposure levels, thrust areas etc.

The bank has constituted a Board level subcommittee namely Risk Management Committee (RMC). The committee has the overall responsibility of risk management functions and oversees the function of Credit Risk Management Committee (CRMC), Asset Liability Committee (ALCO) and Operational Risk Management Committee (ORMC). The meeting of RMC is held at least once in a quarter. The bank recognizes that the management of risk is integral to the effective and efficient management of the organization.



3.1 Credit Risk Management

3.1.1 Credit Risk Management Committee (CRMC) headed by CMD is the top-level functional committee for Credit risk. The committee considers and takes decisions necessary to manage and control credit risk within overall quantitative prudential limit set up by Board. The committee is entrusted with the job of approval of policies on standards for presentation of credit proposal, fine-tuning required in various models based on feedbacks or change in market scenario, approval of any other action necessary to comply with requirements set forth in Credit Risk Management Policy/ RBI guidelines or otherwise required for managing credit risk.

Bank has developed comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. The risk rating system is drawn up in a structured manner, incorporating different factors such as borrower's specific characteristics, industry specific characteristics etc. Risk rating system is applied to loan accounts with total limits above Rs.50 lacs. Bank is undertaking periodic validation exercise of its rating models and also conducting migration and default rate analysis to test robustness of its rating models.

Small & Medium Enterprise (SME) and Retail advances are subjected to Scoring models which support "Accept/ Reject" decisions based on the scores obtained. All SME and Retail loan applications are necessarily to be evaluated under score card system. Scoring model Farm sector has been developed and implementation of the related software is under progress. The bank plans to cover each borrowal account to be evaluated under risk rating/ score framework.

Recognizing the need of technology platform in data handling and analytics for risk management, the bank has placed rating/ scoring systems at central server network. All these models can be assessed by the users 'on line' through any office of the bank.

Additionally, to monitor the default rates, the pool/segment rating methodology is applied to the retails/ small loan portfolio. Default rates are assigned to identify pool/segment to monitor the trends of historical defaults. The pools are created based on homogeneity.

For monitoring the health of borrowal accounts at regular intervals, bank has put in place a tool called Preventive Monitoring System (PMS) for detection of early warning signals with a view to prevent/minimize the loan losses.

Bank is in the process of implementing enterprise-wide data warehouse (EDW) project, to cater to the requirement for a reliable and accurate historical data base and to implement the sophisticated risk management solutions/ techniques and the tools for estimating risk components {PD (Probability of Default), LGD (loss Given Default), EAD (Exposure at Default)} and quantification of the risks in the individual exposures to assess risk contribution by individual accounts in total portfolio and identifying buckets of risk concentrations.

3.1.2 As an integral part of Risk Management System, bank has put in place a well-defined Loan Review Mechanism (LRM). This helps bring about qualitative improvements in credit administration. A separate Division known as Credit Audit & Review Division has been formed to ensure LRM implementation.

3.1.3 The credit risk ratings are vetted/ confirmed by an independent authority. The risk rating and vetting process are done independent of credit appraisal function to ensure its integrity and independency.

All loan proposals falling under the powers of GM & above at HO/ Field General Manager and Circle Head at field are considered by Credit Approval Committee (CAC).



The rating category wise portfolio of loan assets is reviewed on quarterly basis to analyze mix of quality of assets etc.

- 3.1.4 In order to provide a robust risk management structure, the Credit Management and Risk policy of the bank aims to provide a basic framework for implementation of sound credit risk management system in the bank. It deals with various areas of credit risk, goals to be achieved, current practices and future strategies.

Though the bank has implemented the Standardized Approach of credit risk, yet the bank shall continue its journey towards adopting Internal Rating Based Approaches. RBI has come out with the final guidelines on Implementation of the Internal Ratings Based (IRB) Approaches for calculation of Capital Charge for Credit Risk, vide their Circular No. RBI/ 2011-12/ 311 DBOD.No.BP.BC.67/ 21.06.202/ 2011-12 dated 22.12.2011. Bank has recently received approval from RBI for adoption of Foundation Internal rating based Approach (FIRB) on parallel run basis. As such, the credit policy deals with short term implementation as well as long term approach to credit risk management. The policy of the bank embodies in itself the areas of risk identification, risk measurement, risk grading techniques, reporting and risk control systems /mitigation techniques, documentation practice and the system for management of problem loans.

For Bank, corporate and sovereign the default rate has been arrived at based on individual ratings. The default rate for each year is calculated as under each category of borrowers viz, large corporate, Mid Corporate and small Loan borrowers. The default rates for large corporate and mid corporate are combined to provide the default rates for the corporate asset class. PD is estimated using maximum likelihood estimator.

Bank has also put in place a mechanism to arrive at the LGD rating grade and Facility apart from the default rating of a borrower. The securities eligible for LGD rating are identified facility wise and the total estimated loss percentage in the account is computed using supervisory LGD percentage prescribed for various types of collaterals and accordingly LGD rating grades are allotted.

Major initiatives taken for implementation of IRB approach are as under:

- Mapping of internal rating grades with that of external rating agencies grades: Bank has mapped its internal rating grades with that of external rating agencies grades. This exercise will help in unexpected loss calculation and PD estimation.
- Benchmarking of Cumulative Default Rates: Benchmark values of cumulative default rates for internal rating grades have been calculated based on the published default data of external rating agencies. The benchmark values will be used for monitoring of cumulative default rates of internal rating grades and PD validation.
- Bank has adopted supervisory slotting criteria approach for calculation of capital under specialized lending (SL) exposure falling under corporate asset class.
- Bank has put in place a comprehensive "Credit Risk Mitigation & Collateral Management Policy", which ensure that requirements of FIRB approach are met on consistent basis.



3.2 Market Risk & Liquidity Risk

The investment policy covering various aspects of market risk attempts to assess and minimize risks inherent in treasury operations through various risk management tools. Broadly, it incorporates policy prescriptions for measuring, monitoring and managing systemic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

3.2.1 Besides regulatory limits, the bank has put in place internal limits and ensures adherence thereof on continuous basis for managing market risk in trading book of the bank and its business operations. Bank has prescribed entry level barriers, exposure limits, stop loss limits, VaR limit, Duration limits and Risk Tolerance limit for trading book investments. Bank is keeping constant track on Migration of credit ratings of investment portfolio. Limits for exposures to counter-parties, industry segments and countries are monitored. The risks under Forex operations are monitored and controlled through Stop Loss Limits, Overnight limit, Daylight limit, Aggregate Gap limit, Individual gap limit, Value at Risk (VaR) limit, Inter-Bank dealing and investment limits etc.

3.2.2 For the Market Risk Management of the bank, Mid-Office with separate Desks for Treasury & Asset Liability Management (ALM) has been established.

3.2.3 Asset Liability Management Committee (ALCO) is primarily responsible for establishing the market risk management and asset liability management of the bank, procedures thereof, implementing risk management guidelines issued by regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhered to. ALCO is also entrusted with the job of fixing Base rate and pricing of advances & deposit products and suggesting revision of BPLR to Board.

3.2.4 The policies for hedging and/or mitigating risk and strategies & processes for monitoring the continuing effectiveness of hedges/mitigants are discussed in ALCO and based on views taken by / mandates of ALCO, hedge deals are undertaken.

3.2.5 Liquidity risk of the bank is assessed through gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limits fixed thereon. Advance techniques such as Stress testing, simulation, sensitivity analysis etc. are used on regular intervals to draw the contingency funding plan under different liquidity scenarios.

3.3 Operational Risk:

The bank adopts three lines of defense for management of operational risk, the first line of defense represented by various HO Divisions which are **Control Units (CU)**, **Business Units (BU)** or **Support Units (SU)**; Second line of defense represented by independent **Corporate Operational Risk Management Function (CORF)** being **Operational Risk Management Department (ORMD)** to oversee Operational Risk Management, and the third lines of defense represented by **Inspection & Audit Division/Management Audit Division (IAD/MARD)** which is a challenge function to the first two lines of defense, **Operational Risk Management Committee (ORMC)** headed by CMD with all the EDs and key divisional heads as members is the Executive level committee to oversee the entire operational risk management of the bank. All the operational risk aspects like analysis of historical internal loss data (including near miss events, attempted frauds & robberies, external loss events), etc. are placed to the ORMC on quarterly basis. **Risk Description Charts (RDCs)**, annual **Risk & Control Self Assessments (RCSAs)**, **Key Risk Indicators (KRIs)** and **Business Environment & Internal Control Factors (BEIFCs)** are also used to ascertain the inherent and residual risks in various activities and functions of the bank and initiating necessary corrective actions with respect to management/mitigation of the operational risks.

Internal Control is an essential pre-requisite for an efficient and effective operational risk management. Bank has clearly laid down policies and procedures to ensure the integrity of its operations, appropriateness of operating systems and compliance with the management policies. The internal



controls are supplemented by an effective audit function that independently evaluates the control systems within the organization.

3.4 The capital requirements for credit risk are:

	(₹ in crores)	
	31.03.2014	31.03.2013
Portfolios subject to standardised approach	28057.58	25102.24
Securitization exposure	NIL	NIL

3.5 The capital requirements for market risk (under standardised duration approach) are:

	(₹ in crores)	
Risk Category	31.03.2014	31.03.2013
i) Interest Rate Risk	1700.04	1226.47
ii) Foreign Exchange Risk (including Gold)	18.00	18.00
iii) Equity Risk	559.39	515.59
iv) Total capital charge for market risks under Standardised duration approach (i + ii + iii)	2277.43	1760.06

3.6. The capital requirement for operational risk:

	(₹. in crores)	
Capital requirement for operational risk	31.03.2014	31.03.2013
i) Basic indicator approach	2723.82	2521.21
ii) The Standardised approach (if applicable)	2688.75	2477.78

3.7. The capital ratios of the bank, (solo & group) and subsidiaries are:

Punjab National Bank (Solo) (Basel-II)		
	31.03.2014	31.03.2013
CRAR%	12.28%	12.72%
CRAR – Tier I capital	9.29%	9.76%
CRAR – Tier II capital	2.99%	2.96%

Punjab National Bank (Group) (Basel-II)		
	31.03.2014	31.03.2013
CRAR%	12.69%	13.16%
CRAR – Tier I capital (%)	9.50%	10.00%
CRAR – Tier II capital (%)	3.19%	3.16%

Subsidiaries:

Name of subsidiary	CRAR – Tier I capital (%) (Basel II)		CRAR – Tier II capital (%) (Basel II)		Total capital ratio CRAR (%) (Basel II)	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013	31.03.2014	31.03.2013
PNB Gilts Ltd	49.14	42.34*	-	-	49.14	42.34
PNB Housing Finance Ltd	10.18	9.78	2.95	4.62	13.13	14.40
Punjab National Bank (International) Ltd.	10.40	9.92	5.14	6.59	15.54	16.51
PNB	NA	NA	NA	NA	NA	NA



Investment Services Ltd.						
Druk PNB Bank Ltd.	12.61	12.79	2.34	3.31	14.95	16.10
JSC SB PNB Kazakhstan	94.45	95.68	5.64	16.11	100.09	111.79
PNB Insurance Broking Pvt. Ltd.	NA	NA	NA	NA	NA	NA
PNB Life Insurance Co. Ltd.	NA	NA	NA	NA	NA	NA

*CRAR (Including HTM stock) is 42.34% and CRAR regrouped is 48.13 %.

DF4. Credit risk: general disclosures

3.1. Any amount due to the bank under any credit facility is overdue if it is not paid on the due date fixed by the bank. Further, an impaired asset is a loan or an advance where:

- i) Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- ii) the account remains out of order in respect of an overdraft/cash credit for a period of more than 90 days.

Account will be treated out of order, if:

- the outstanding balance remains continuously in excess of the limit/drawing power.
 - in cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period
- iii) in case of bills purchased & discounted, the bill remains overdue for a period of more than 90 days
 - iv) the installment or principal or interest thereon remains overdue for two crop seasons for short duration and the installment of principal or interest thereon remains overdue for one crop season for long duration crops.

Credit approving authority, prudential exposure limits, industry exposure limits, credit risk rating system, risk based pricing and loan review mechanisms are the tools used by the bank for credit risk management. All these tools have been defined in the Credit Management & Risk Policy of the bank. At the macro level, policy document is an embodiment of the Bank's approach to understand, measure and manage the credit risk and aims at ensuring sustained growth of healthy loan portfolio while dispensing the credit and managing the risk. Credit risk is measured through sophisticated models, which are regularly tested for their predictive ability as per best practices.

4.2. The total gross credit risk exposures are:

Category	(₹. in crores)	
	31.03.2014	31.03.2013
Fund Based	359645.78	315244.03
Non Fund Based	83628.71	69735.66



4.3 . The geographic distribution of exposures is:

(₹. in crores)

Category	Overseas		Domestic	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Fund Based	40625.42	32121.14	319020.36	283122.89
Non-fund based	17433.20	4843.68	66195.51	64891.98

4.4 (a) Industry type distribution of exposures (Fund Based) is as under:

(₹. in crores)

S.NO	CODE	INDUSTRY	31.03.2014		31.03.2013	
			Amount of total exposure (1)	Out of (1) exposure of sub-head (wherever applicable)	Amount of total exposure (1)	Out of (1) exposure of sub-head (wherever applicable)
1	1	COAL	771.82		502.33	
2	2	MINING	1071.64		1155.90	
3	3	IRON AND STEEL	21550.18		19081.23	
4	4	OTHER METAL & METAL PRODUCTS	1190.87		805.66	
5	5	ALL ENGINEERING	6693.00		5343.48	
	5.1	Of which (005) Electronics		1071.54		799.02
6	6	ELECTRICITY	9673.13		8380.00	
7	7	COTTON TEXTILES	3767.90		3193.62	
8	8	JUTE TEXTILES	132.92		64.41	
9	9	OTHER TEXTILES	4671.23		4093.26	
10	10	SUGAR	5169.11		2992.93	
11	11	TEA	6.07		7.65	
12	12	FOOD PROCESSING	5308.10		3375.31	
13	13	VEGETABLE OILS AND VANASPATI	1334.54		521.41	
14	14	TOBACCO & TOBACCO PRODUCTS	31.34		21.43	
15	15	PAPER & PAPER PRODUCTS	1534.36		1492.97	
16	16	RUBBER & RUBBER PRODUCTS	578.20		462.75	
17	17	CHEMICALS, DYES, PAINTS, ETC.	6393.76		3124.91	
	17.1	Of which Fertilizers		2251.77		107.21
	17.2	Of which Petro-chemicals		384.60		206.06
	17.3	Of which Drugs & Pharmaceuticals		1372.25		1551.39
18	18	CEMENT	2473.24		1476.74	
19	19	LEATHER & LEATHER PRODUCTS	821.72		481.45	
20	20	GEMS AND JEWELLERY	4388.81		2665.78	
21	21	CONSTRUCTION	5016.71		4485.85	
22	22	PETROLEUM	1561.28		1674.68	



		INCLUDING TRUCKS			
24	24	COMPUTER SOFTWARE	75.58		31.28
25	25	INFRASTRUCTURE	58076.54		53277.13
	25.1	Of which Power		32747.28	27650.29
	25.2	Of which Telecommunications		6348.56	8116.12
	25.3	Of which Roads & Ports		12812.89	11145.24
26	26	NBFCs	13472.85		11051.58
27	27	TRADING	12993.68		12068.74
28	28	OTHER INDUSTRIES	28932.46		24951.10
		TOTAL	189457.93		159752.39
29	29	Residuary Other Advances	170187.85		155491.64
		GRAND TOTAL	359645.78		315244.03
Industry where fund-based exposure is more than 5% of gross fund based exposure:					
1	3	IRON AND STEEL	21550.18		19081.23
2	25	INFRASTRUCTURE	58076.54		53277.13
3		NBFC	-		-

4.4 (b) - Industry type distribution of exposures (Non Fund Based) is as under:

(₹. in crores)

S.NO.	CODE	INDUSTRY	31.03.2014		31.03.2013	
			Amount of total exposure (1)	Out of (1) exposure of sub-head (wherever applicable)	Amount of total exposure (1)	Out of (1) exposure of sub-head (wherever applicable)
1	1	COAL	45.53		40.03	
2	2	MINING	943.83		77.82	
3	3	IRON AND STEEL	9591.33		10235.27	
4	4	OTHER METAL & METAL PRODUCTS	320.90		508.73	
5	5	ALL ENGINEERING	5017.17		2503.04	
	5.1	Of which (005) Electronics		448.54		389.61
6	6	ELECTRICITY	525.53		92.00	
7	7	COTTON TEXTILES	241.22		108.54	
8	8	JUTE TEXTILTES	8.74		37.89	
9	9	OTHER TEXTILES	792.37		528.00	
10	10	SUGAR	400.48		211.46	
11	11	TEA	0.07		0.02	
12	12	FOOD PROCESSING	819.44		245.48	
13	13	VEGETABLE OILS AND VANASPATI	1626.57		1204.51	
14	14	TOBACCO & TOBACCO PRODUCTS	1.99		6.62	
15	15	PAPER & PAPER PRODUCTS	233.38		213.95	
16	16	RUBBER & RUBBER PRODUCTS	65.89		44.13	
17	17	CHEMICALS, DYES,	1481.30		471.22	



		PAINTS, etc..			
	17.1	Of which Fertilizers		289.42	113.18
	17.2	Of which Petro-chemicals		215.02	84.43
	17.3	Of which Drugs & Pharmaceuticals		377.82	150.84
18	18	CEMENT	271.29		129.54
19	19	LEATHER & LEATHER PRODUCTS	89.83		40.23
20	20	GEMS AND JEWELLERY	345.88		407.17
21	21	CONSTRUCTION	341.11		118.34
22	22	PETROLEUM	111.31		347.77
23	23	AUTOMOBILES INCLUDING TRUCKS	237.78		183.22
24	24	COMPUTER SOFTWARE	14.86		10.87
25	25	INFRASTRUCTURE	10281.83		10287.47
	25.1	Of which Power		5635.14	6321.84
	25.2	Of which Telecommunications		2767.64	2001.23
	25.3	Of which Roads & Ports		924.49	1133.12
26	26	NBFCs	125.16		167.75
27	27	TRADING	3603.68		5027.47
28	28	OTHER INDUSTRIES	6424.53		5720.02
		TOTAL	43437.47		38876.55
29	29	Residuary Other Advances	40191.24		30859.11
		GRAND TOTAL	83628.71		69735.66
Industry where non-fund-based exposure is more than 5% of gross non-fund based exposure:					
1	3	IRON AND STEEL	9591.33		10235.27
2	27	TRADING	-		5027.47
3	5	ALL ENGINEERING	5017.17		-
4.	25	INFRASTRUCTURE	10281.83		10287.47

4.5 . The residual contractual maturity break down of assets is:

(₹ in Crores)

Maturity Pattern	Advances*	Investments (gross)	Foreign Currency Assets*
Next day	27967.49	0.00	2300.44
	(19421.08)	(0.00)	(1923.24)
2 days-7days	7613.36	0.00	2854.49
	(3051.88)	(249.67)	(1154.05)
8-14 days	7406.58	0.00	1093.66
	(2497.00)	(383.04)	(1212.04)
15-28 days	7808.87	518.71	5106.29
	(3051.88)	(241.00)	(2185.68)
29 days to 3 months	24228.29	4740.50	21513.39



	(22195.52)	(4860.01)	(14827.72)
Over 3 Months to 6 months	15117.06	679.83	15291.26
	(17478.97)	(5084.45)	(14405.42)
Over 6 Months to 1 year	33052.27	7740.42	15475.82
	(78886.53)	(3362.39)	(6904.31)
Over 1Year to 3 Years	167152.9	19238.88	11578.09
	(61658.75)	(16498.34)	(2342.70)
Over 3 Years to 5 Years	25928.51	23357.34	2904.12
	(30079.60)	(19932.98)	(1605.29)
Over 5 Years	32993.80	88698.82	529.54
	(73533.19)	(79823.80)	(1682.90)
Total	349269.13	144974.50	78647.10
	(308725.21)	(130435.68)	(48243.35)

*Figures are shown on net basis. (Figures in brackets relate to previous year)

4.6. The gross NPAs are:

(₹in crores)		
Category	31.03.2014	31.03.2013
Sub Standard	7267.72	6670.52
Doubtful – 1	6428.89	3353.60
Doubtful – 2	3217.90	1683.32
Doubtful – 3	1135.92	362.64
Loss	829.63	1395.71
Total NPAs (Gross)	18880.06	13465.79

4.7. The amount of net NPAs is:

(₹in crores)		
Particulars	31.03.2014	31.03.2013
Net NPA	9916.99	7236.50

4.8. The NPA ratios are as under:

NPA Ratios	31.03.2014	31.03.2013
% of Gross NPAs to Gross Advances	5.25%	4.27%
% of Net NPAs to Net Advances	2.85%	2.35%

4.9. The movement of gross NPAs is as under:

(₹in crores)		
Movement of gross NPAs	31.03.2014	31.03.2013
i) Opening Balance at the beginning of the year	13465.79	8719.62
ii) Addition during the year	10809.97	8647.04
iii) Reduction during the year	5395.70	3900.87
iv) Closing Balance as at the end of the year (i + ii - iii)	18880.06	13465.79

4.9.1 The movement of provision for NPAs is as under:

(₹in crores)		
Movement of provision for NPAs	31.03.2014	31.03.2013
i) Opening Balance at the beginning of the year	6102.84	4184.06
ii) Provisions made during the year	5365.62	2961.11
iii) Write-off made during the year	117.30	116.74



iv) Write –back of excess provisions made during the year	2614.00	925.59
v) Closing Balance as at the end of the year (i + ii - iii-iv)	8737.16	6102.84

4.10. The amount of non-performing investment is:

(₹in crores)		
Particulars	31.03.2014	31.03.2013
Amount of non-performing investment	144.94	112.89

4.11. The amount of provisions held for non-performing investment is:

(₹in crores)		
Particulars	31.03.2014	31.03.2013
Amount of provision held for non-performing investment	141.69	79.42

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

(₹in crores)		
Movement of provisions for depreciation on investments	31.03.2014	31.03.2013
i) Opening balance at the beginning of the year	*491.63	517.77
ii) Provisions made during the year	697.51	213.89
iii) Write-off made during the year	0.00	0.00
iv) Write-back of excess provisions made during the year	0.15	163.65
v) Closing balance as at the end of the year (i + ii –iii-iv)	1188.99	491.63

* Figures of the previous period have been regrouped / rearranged / re-classified wherever necessary, to conform to current period's classification.

DF5. Credit Risk: Portfolios subject to the Standardized Approach

Qualitative disclosures

5.1. Bank has approved the following 6 domestic credit rating agencies accredited by RBI for mapping its exposure with domestic borrowers under standardized approach of credit risk

- CRISIL
- CARE
- India Ratings
- ICRA
- Brickwork
- SMERA

Bank has also approved the following 3 international credit rating agencies accredited by RBI in respect of exposure with overseas borrowers

- Standard & Poor
- Moody's
- FITCH



These agencies are being used for rating (Long Term & Short Term) of fund based/ non fund based facilities provided by the bank to the borrowers. The bank uses solicited rating from the chosen credit rating agencies.

The ratings available in public domain are mapped according to mapping process as envisaged in RBI guidelines on the subject.

5.2. The exposure amounts after risk mitigation (subject to the standardized approach) in different risk buckets are as under:

Particulars	(₹ in crores)	
	31.03.2014	31.03.2013
i) Below 100% risk weight exposure outstanding	181711.37	178339.99
ii) 100% risk weight exposure outstanding	170229.88	129644.21
iii) More than 100% risk weight exposure outstanding	83696.25	66762.61
iv) Deducted	NIL	NIL

DF6. Credit Risk Mitigation: disclosures for standardized approaches

Qualitative disclosures

- 6.1 Bank has put in place Board approved 'Credit Risk Mitigation and Collateral Management Policy' which, inter-alia, covers policies and processes for various collaterals including financial collaterals and netting of on and off balance sheet exposure. However, the bank is not making use of the on-balance sheet netting in its capital calculation process.
- 6.2 The collaterals used by the Bank as risk mitigants comprise of the financial collaterals (i.e. bank deposits, govt./postal securities, life policies, gold jewellery, units of mutual funds etc.). A detailed process of calculation of correct valuation and application of haircut thereon has been put in place by developing suitable software.
- 6.3 Guarantees, which are direct, explicit, irrevocable and unconditional, are taken into consideration by Bank for calculating capital requirement. Use of such guarantees for capital calculation purposes is strictly as per RBI guidelines on the subject.
- 6.4 Majority of financial collaterals held by the Bank are by way of own deposits and government securities, which do not have any issue in realization. As such, there is no risk concentration on account of nature of collaterals.
- 6.5. The total exposure for disclosed credit risk portfolio (under the standardized approach) is covered by:

	(₹ in Crores)	
	31.03.2014	31.03.2013
a) For each separately disclosed credit risk portfolio, the total exposure (after, where applicable, on or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts.	24399.12	19769.49
b) For each separately disclosed, the total exposure (after, where applicable, on or off balance sheet netting) that is covered by guarantees/credit derivatives (wherever specifically permitted by RBI)	13704.63	11118.57



DF7. Securitization: Standardized Approach

Bank does not have any securitization exposure.

DF8. Market Risk in Trading Book

8.1. RBI prescribed Standardized Measurement Method (duration based) for computation of capital charge for market risk has been adopted by Bank. Being fully compliant with Standardized Measurement Method as per RBI guidelines, now Bank is preparing for the Internal Model Approach (Advanced Approach on Market risk) based on Value at Risk (VaR) model, which is under implementation.

8.2. The capital requirements for market risk are as under:

(₹ in Crores)

Risk Category	31.03.2014	31.03.2013
i) Interest Rate Risk	1700.04	1226.47
ii) Equity Risk	559.39	515.59
iii) Foreign Exchange Risk (including Gold)	18.00	18.00
iv) Total capital charge for market risks under Standardised duration approach (i+ii+iii)	2277.43	1760.06

DF-9. Operational Risk

9.1. As per RBI directives, the bank has been maintaining capital for operational risk under Basic Indicator approach (BIA) w.e.f. 31.03.2008. The capital requirement as per BIA is ₹2723.82 crores as on 31.03.2014.

Bank had applied to RBI for migration to the next advanced approach viz. "The Standardized Approach (TSA) and RBI had permitted parallel run of TSA advising bank to continue to maintain capital charge under BIA till such time final permission is granted by them for TSA.

DF-10. Interest Rate Risk in the Banking Book (IRRBB)

10.1. The interest rate risk is managed through gap analysis and duration gap analysis. Duration gap analysis is being carried out at monthly intervals to assess the interest rate risk of both banking book and trading book. Prudential limits have been fixed for impact on Net Interest Income (NII), Net Interest Margin (NIM), minimum ROA & minimum duration gap for the bank.

Behavioral studies are being done for assessing and apportioning volatile and non-volatile portion of various non-maturity products of both assets and liabilities.

10.2. The tools used are:

Earning Approach – (Interest rate sensitivity Statement- Net Gaps)

Table 1: Interest rate sensitivity - net gaps

Maturity Period	Gap	Other Products*	Net Gap	Total Assets	Net Gaps as % to
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	(RSA-RSL) (₹in crores)	(Intt. rate)	(1+2) ₹in crores)	(₹in crores)	Total Assets
	1	2	3	4	5
1-28 days	-737.82	-675.00	-1412.82	54659.30	-3%
29days - 3 months	119302.07	0.00	119302.07	188822.27	63%
>3 to 6 months	-41849.91	0.00	-41849.91	18595.75	-225%
>6 to 12 months	-48952.82	0.00	-48952.82	39320.83	-124%
>1 to 3 yrs.	-120546.03	0.00	-120546.03	83949.15	-144%
>3 to 5 yrs.	17292.46	0.00	17292.46	31877.60	54%
Over 5 years	79372.78	0.00	79372.78	90731.62	87%

* Other products include: FRAs, Swaps, Futures, Options & other derivatives

The repricing assumptions on assets and liabilities are taken as per RBI guidelines. The floating rate advances are assumed to be repriced in 29 days to 3 months bucket.
Earning at Risk: Impact of 0.5 % adverse change in interest rate on NII.

(₹in Crores)	
Remaining Period	Estimated impact on NII with adverse change in rate of interest by 0.50%
Up to 6 months	₹170.25 crores
Up to 1 year	₹299.16 crores

10.2.2 Economic Value Approach:

The economic value i.e. impact on the capital fund due to change in interest rate by 200 bps on the economic value is assessed on regular intervals through duration gap method. As a prudential measure, a limit has been fixed for net duration gap of the assets and liabilities and the same is monitored at regular intervals.



