PUNJAB NATIONAL BANK
Pillar 3 Disclosures under Basel III Framework
For the Quarter ended 30.06.2014

Table DF-2 :Capital Adequacy

Qualitative Disclosures:

Capital Adequacy

(a)

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.

2.1. Credit Risk Management

2.1.1 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. 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.

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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 accessed 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.

2.1.2 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.

2.1.3 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.

2.1.4 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 ensures that requirements of FIRB approach are met on consistent basis.

2.2 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.

2.2.1 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.

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

2.2.3 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.

2.2.4 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.

2.2.5 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.

2.3 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.

Quantitative Disclosures:

(b) Capital requirements for credit risk:

(₹ in million)

	30.06.2014
Portfolios subject to standardised approach	293817.14
Securitization exposure	NIL

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

(₹ in million)

Risk Category	30.06.2014
i) Interest Rate Risk	16387.17
ii) Foreign Exchange Risk (including Gold)	272.20
iii) Equity Risk	6783.80
iv) Total capital charge for market risks under Standardised duration approach (i + ii + iii)	23443.17

(d) The capital requirement for operational risk:

₹ in million)

Capital requirement for operational risk	30.06.2014
(i)Basic indicator approach	40074.19
ii) The Standardised approach (if applicable)	27276.49

(e) Common Equity Tier 1, Tier 1and Total Capital ratios:

Punjab National Bank (Group)

	30.06.2014
Common equity Tier 1 Capital ratio (%) (Basel- III	9.00
Tier 1 Capital ratio (%) (Basel- III)	9.31
Tier 2 Capital ratio (%) (Basel- III)	2.59
Total Capital ratio (CRAR) (%) (Basel- III)	11.90

For Significant Bank Subsidiaries:

Name of subsidiary	Common equity Tier 1 Capital ratio (%) (Basel- III	Tier 1 Capital ratio (%) (Basel- III)	Tier 2 Capital ratio (%) (Basel- III)	Total Capital ratio (CRAR) (%) (Basel- III)
	30.06.2014	30.06.2014	30.06.2014	30.06.2014
PNB Gilts Ltd	36.21	36.21	NIL	36.21
PNB Housing Finance Ltd	9.44	9.44	2.68	12.12
Punjab National Bank	10.48	10.48	5.31	15.79

(International) Ltd.				
PNB Investment Services Ltd.	NA	NA	NA	NA
Druk PNB Bank Ltd.	NA	NA	NA	NA
JSC SB PNB Kazakhstan	99.45	99.45	5.30	104.75
PNB Insurance Broking Pvt. Ltd.	NA	NA	NA	NA

Table DF-3: Credit Risk: General Disclosures

Qualitative 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) 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:

- 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) 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.

Quantitative Disclosures:

(b) The total gross credit risk exposures:

(₹ in million)

Category	30.06.2014
Fund Based	3763944.72
Non Fund Based	906399.76

(c) The geographic distribution of exposures:

(₹ in million)

Category	Overseas	Domestic
	30.06.2014	30.06.2014
Fund Based	478765.14	3285179.58
Non-fund based	183387.83	723011.93

(d)

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

(₹ in million)

S.NO.	CODE	INDUSTRY	30.06.2014	
			Amount of total Exposure (1)	Out of (1) Exposure of Sub-head (wherever applicable)
1	1	COAL	10110.74	
2	2	MINING	9438.64	
3	3	IRON AND STEEL	222135.87	
4	4	OTHER METAL & METAL PRODUCTS	10364.72	
5	5	ALL ENGINEERING	61227.90	
	5.1	Of which (005) Electronics	0	8830.40
6	6	ELECTRICITY	101546.98	
7	7	COTTON TEXTILES	32032.70	
8	8	JUTE TEXTILTES	1369.70	
9	9	OTHER TEXTILES	47247.40	
10	10	SUGAR	50926.70	
11	11	TEA	49.70	
12	12	FOOD PROCESSING	53997.34	
13	13	VEGETABLE OILS AND VANASPATI	10126.60	
14	14	TOBACCO & TOBACCO PRODUCTS	306.70	
15	15	PAPER & PAPER PRODUCTS	15633.80	

16	16	RUBBER & RUBBER PRODUCTS	5752.90	
17	17	CHEMICALS, DYES, PAINTS, ETC.	55592.83	
	17.1	Of which Fertilizers	0	14226.10
	17.2	Of which Petro-chemicals	0	3663.60
	17.3	Of which Drugs & Pharmaceuticals	0	16455.73
18	18	CEMENT	25454.24	
19	19	LEATHER & LEATHER PRODUCTS	6451.60	
20	20	GEMS AND JEWELLERY	42515.38	
21	21	CONSTRUCTION	151919.29	
22	22	PETROLEUM	18425.20	
23	23	AUTOMOBILES INCLUDING TRUCKS	11381.30	
24	24	COMPUTER SOFTWARE	3562.90	
25	25	INFRASTRUCTURE	602414.17	
	25.1	Of which Power	0	338735.50
	25.2	Of which Telecommunications	0	63493.47
	25.3	Of which Roads & Ports	0	132082.50
26	26	NBFCs	122958.21	
27	27	TRADING	144823.49	
28	28	OTHER INDUSTRIES	289328.99	
		TOTAL	200743.46	
29	29	Residuary Other Advances	1756541.26	
		GRAND TOTAL	3763944.72	

Industries where exposure is more than 5% of gross fund based exposure:

1	3	IRON AND STEEL		222135.87
2.	25	INFRASTRUCTURE		602414.17

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

S.NO.	CODE	INDUSTRY	30.06.2014

			Amount of total Exposure (1)	Out of (1) Exposure of Sub-head (wherever applicable)
1	1	COAL	452.100	
2	2	MINING	24981.100	
3	3	IRON AND STEEL	107064.00	
4	4	OTHER METAL & METAL PRODUCTS	2047.50	
5	5	ALL ENGINEERING	42260.40	
	5.1	Of which (005) Electronics	0	5136.20
6	6	ELECTRICITY	5196.90	
7	7	COTTON TEXTILES	2629.40	
8	8	JUTE TEXTILTES	214.20	
9	9	OTHER TEXTILES	6611.80	
10	10	SUGAR	2764.50	
11	11	TEA	0.71	
12	12	FOOD PROCESSING	2589.10	
13	13	VEGETABLE OILS AND VANASPATI	14489.70	
14	14	TOBACCO & TOBACCO PRODUCTS	30.30	
15	15	PAPER & PAPER PRODUCTS	2304.50	
16	16	RUBBER & RUBBER PRODUCTS	511.80	
17	17	CHEMICALS, DYES, PAINTS, etc.	11244.50	
	17.1	Of which Fertilizers	0	3278.00
	17.2	Of which Petro-chemicals	0	1265.20
	17.3	Of which Drugs & Pharmaceuticals	0	1954.90
18	18	CEMENT	4695.80	
19	19	LEATHER & LEATHER PRODUCTS	900.80	
20	20	GEMS AND JEWELLERY	2750.60	
21	21	CONSTRUCTION	4376.02	
22	22	PETROLEUM	6175.70	
23	23	AUTOMOBILES INCLUDING TRUCKS	2757.00	
24	24	COMPUTER SOFTWARE	162.92	
25	25	INFRASTRUCTURE	104033.00	
	25.1	Of which Power	0	50152.60
	25.2	Of which Telecommunications	0	27676.40
	25.3	Of which Roads & Ports	0	8883.50
26	26	NBFCs	1251.50	

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27	27	TRADING	41321.44	
28	28	OTHER INDUSTRIES	70494.84	
		TOTAL	459115.22	
29	29	Residuary Other Advances	447284.54	
		GRAND TOTAL	906399.76	

Industries where exposure is more than 5% of gross non- fund based exposure:

1	3	IRON AND STEEL		107064.00
4.	25	INFRASTRUCTURE		104033.00

(e) The residual contractual maturity break down of assets is: (₹ in million)

Maturity Pattern	Advances*	Investments (Gross)	Foreign Currency Assets*
Next day	217089.88	0	16190.83
2 - 7 days	60546.79	25044.09	16578.34
8 -14 days	49704.24	2706.35	10315.99
15- 28 days	59063.54	1840.07	24783.70
29days - 3months	235885.45	19947.37	116301.83
>3months-6months	221713.89	54390.74	96136.57
>6months-1yr	412863.03	32560.14	113995.65
>1yr-3yrs	1721160.61	178452.65	22357.31
>3yrs-5yrs	330249.60	225389.96	10311.53
>5yrs	381356.99	903797.96	2148.12
Total	3689634.01	1444129.33	429119.87

*Figures are shown on net basis.

(f) The gross NPAs are:

(₹ in million)

Category	30.06.2014
Sub Standard	85523.18
Doubtful – 1	50733.31
Doubtful – 2	38704.47
Doubtful – 3	4703.02
Loss	22727.33
Total NPAs (Gross)	202391.31

(g) The amount of Net NPAs is:

(₹ in million)

Particulars	30.06.2014
Net NPA	108114.85

(h) The NPA Ratios are as under:

NPA Ratios	30.06.2014
% of Gross NPAs to Gross Advances	5.33
% of Net NPAs to Net Advances	2.94

(i) The movement of gross NPAs is as under:

(₹ in million)

Movement of gross NPAs	30.06.2014
i) Opening Balance at the beginning of the year	193873.94
ii) Addition during the period	30986.65
iii) Reduction during the period	22469.27
iv) Closing Balance as at the end of the period (i + ii - iii)	202391.31

(j) The movement of provision for NPAs is as under:

(₹ in million)

Movement of provision for NPAs	30.06.2014
i) Opening Balance at the beginning of the period	89798.96
ii) Provisions made during the period	8297.35
iii) Write-off made during the period	169.32
iv) Write –back of excess provisions made during the period	7304.12
v) Closing Balance as at the end of the period (i + ii - iii-iv)	90622.87

(k) The amount of non-performing investment is:

(₹ in million)

Particulars	30.06.2014
Amount of non-performing investment	1753.38

(l) The amount of provisions held for non-performing investment is:

(₹ in million)

Particulars	30.06.2014
Amount of provision held for non-performing investment	1653.68

(m) The movement of provisions for depreciation on investments is:

(₹ in million)

Movement of provisions for depreciation on investments	30.06.2014
i) Opening balance at the beginning of the year	12137.98
ii) Provisions made during the period	0.47
iii) Write-off made during the period	5.74
iv) Write-back of excess provisions made during the period	4268.99
v) Closing balance as at the end of the period (i + ii –iii-iv)	7863.72

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Table DF-4 - Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

Qualitative Disclosures:

(a)

4.1. 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.

Quantitative Disclosures :

(b) For exposure amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in the following three major risk buckets as well as those that are deducted;are as under:

(₹ in million)

Particulars	30.06.2014
i) Below 100% risk weight exposure outstanding	1897422.22
ii) 100% risk weight exposure outstanding	1890891.95
iii) More than 100% risk weight exposure outstanding	819663.43
iv) Deducted	90226.36