Disclosure under Basel II (Pillar 3) in terms of Revised Capital Adequacy Framework – for year ended 31.03.2012

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 | 74.00% |
| 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 | 88.00% |

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) | India Factoring and Finance Solutions Pvt. Ltd. | India | 30% |
| v) | Haryana Gramin Bank | India | 35% |
| vi) | Himachal Gramin Bank | India | 35% |
| vii) | Madhya Bihar Gramin Bank | India | 35% |
| viii) | Punjab Gramin Bank | India | 35% |
| ix) | Rajasthan Gramin Bank | India | 35% |
| x) | Sarva UP Gramin Bank | India | 35% |

The Bank has one Joint Venture outside India

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

1.3. Position of Capital

| Particulars | 31.03.2011 | 31.03.2012 |
|---|---|---|
| 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 presently is not involved in insurance manufacturing activity. However, bank has invested in the share capital in the following two insurance related subsidiaries:

| S. No. | Name of the company | Country of Incorporation | Proportion of ownership | FaceValue (Rs.in crore) | Book value (Rs.in crore) |
|---|---|---|---|---|---|
| 1. | PNB Insurance Broking Pvt. Ltd. | India | 81% | 4.05 | 11.73 |
| 2. | PNB Life Insurance Company Ltd. | India | 88% | 1.76 | 0.82 |

PNB Insurance Broking Pvt. Ltd was licensed by Insurance Regulatory & Development Authority (IRDA) to carry out "Direct Broker" activity. It is a shell company and has surrendered the broking license to IRDA. Steps are being taken for winding up of the company.

PNB Life Insurance Company Ltd. was incorporated to commence life insurance business but not operationalized. The company is under liquidation and documents for the purpose have been filed with ROC on 07-03-2012.

**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 10th year from the date of allotment | Perpetual | At par at the end of 10th 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 10th year from the date of allotment. | Perpetual | At par at the end of 10th 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 10th year from the date of allotment | Perpetual | At par at the end of 10th 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 10th year from the date of allotment. | Perpetual | At par at the end of 10th 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 10th year from the date of allotment. | Perpetual | At par at the end of 10th 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 10th year from the date of allotment. | Perpetual | At par at the end of 10th 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 10th year from date of allotment then the bonds shall carry the interest of 9.30% payable annually for the last five years i.e. 11th to 15th year | 15 years | At par at the end of 10th 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 10th 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 the end of 10th year from date of allotment then the bonds shall carry the interest of 9.85% payable annually for the last five years i.e. 11th to 15th year | 15 years | At par at the end of 10th 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 10th 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 15th 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 15th 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 pf 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 pf 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 pf 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 pf 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 10th 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. 11th to 15th year. | 15 years | At par at the end of 10th year from the date of allotment (with prior RBI permission | None | At par at the end pf the 15th year from the date of allotment, if the call is not exercised at the end of 10th 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 10th year from the date of allotment then the bonds shall carry the interest of 9.10% payable annually for the last five years i.e. 11th to 15th year. | 15 years | At par at the end of 10th year from the date of allotment (with prior RBI permission | None | At par at the end pf the 15th year from the date of allotment, if the call is not exercised at the end of 10th 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 10th 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. 11th to 15th year. | 15 years | At par at the end of 10th year from the date of allotment (with prior RBI permission | None | At par at the end pf the 15th year from the date of allotment, if the call is not exercised at the end of 10th 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 10th 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. 11t | 15 years | At par at the end of 10th year from the date of allotment (with prior RBI permission | NONE | At par at the end pf the 15th year from the date of allotment, if the call is not exercised at the end of 10th year |
| Total | | 6610.00 | | | | | |

*subject to RBI guidelines

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

| Sr. No. | Series | Date of Allotment | Bond Amount (Rs in Crs) | Coupon Rate (% p.a. payable annually) | Tenor (in months) | Date of Maturity |
|---|---|---|---|---|---|---|
| i) | VIII (ii) | 18.07.2002 | 295.00 | 8.80 | 117 | 18.4.2012 |
| ii) | IX | 04.09.2003 | 265.00 | 5.80 | 116 | 04.5.2013 |
| iii) | X | 08.03.2004 | 500.00 | 5.90 | 111 | 08.6.2013 |
| iv) | XI | 16.06.2006 | 884.80 | 8.45 | 118 | 16.4.2016 |
| v) | XII | 16.08.2006 | 115.00 | 9.15 | 116 | 16.4.2016 |
| vi) | XIII | 08.09.2006 | 500.00 | 8.95 | 115 | 08.4.2016 |
| Total | | | 2559.80 | | | |

2.2. The Tier 1 capital of the bank comprises:

(Rs. in Crores)

| | Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|---|
| i) | Paid up share capital | 339.18 | 316.81 |
| ii) | Reserves (excluding revaluation reserves) | 25734.66 | 19468.10 |
| iii) | Innovative Perpetual Bonds | 2020.50 | 2020.50 |
| iv) | Other Capital Instruments | | |
| v) | Equity Investment in subsidiaries (50%) | 559.26 | 409.45 |
| vi) | Intangible Assets (Deferred Tax Assets + Computer Software) | 455.11 | 417.09 |
| vii) | Dep. for illiquid securities | 0.00 | 0.00 |
| Tier I Capital (i + ii + iii + iv –v –vi-vii) | | 27079.97 | 20978.87 |

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

(Rs. in Crores)

| Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|
| The amount of Tier 2 capital (net of deductions) | 9772.62 | 9908.81 |

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

(Rs. in Crores)

| Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Total amount outstanding | 6610.00 | 6610.00 |
| Of which amount raised during the current year | 0.00 | 500.00 |
| 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:

(Rs. in Crores))

| | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Total amount outstanding | 2559.80 | 2559.80 |
| Of which amount raised during the current year | 0.00 | 0.00 |
| Amount eligible to be reckoned as capital funds | 1352.84 | 1864.80 |

2.6. Other deductions from capital, if any:

(Rs. in Crores)

| | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Other deductions from capital, if any: | NIL | NIL |

2.7. The total eligible capital comprises:

(Rs. in Crores)

| | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Tier – I Capital | 27079.97 | 20978.87 |
| Tier – II Capital | 9772.62 | 9908.81 |
| Total Capital | 36852.59 | 30887.68 |

**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 and Policy for Mapping Business Lines/Activities, containing the direction and strategies for integrated management of the various risk exposures of the Bank. These policies, interalia, contain various trigger levels, exposure levels, thrust areas etc.

The bank has constituted a Board level subcommittee namely Risk Management Committee. 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 being applied to the 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 process is under progress. The bank plans to cover each borrowal accounts 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 the 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 routed through Credit Committee. To ensure transparency and to give wider coverage, the committee consists of one representative each from risk management department, Credit Department and one representative from an area not connected with credit. The proposals are deliberated in the Credit Committee from business objectives, risk management objectives, and policies perspectives.

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. 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.

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) as envisaged under Basel guidelines ; 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 both the EDS and key divisional heads as members is the Executive level committee to oversee the entire operational risk management of the bank.

3.4 The capital requirements for credit risk are:

(Rs. in Crores)

| | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Portfolios subject to standardised approach | 22805.17 | 19747.03 |
| Securitization exposure | NIL | NIL |

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

(Rs. in Crores)

| Risk Category | 31.03.2012 | 31.03.2011 |
|---|---|---|
| i) Interest Rate Risk | 856.67 | 521.05 |
| ii) Foreign Exchange Risk (including Gold) | 18.00 | 18.00 |
| iii) Equity Risk | 525.33 | 402.91 |
| iv) Total capital charge for market risks under Standardised duration approach (i + ii + iii) | 1400.00 | 941.96 |

3.6. The capital requirement for operational risk under Basic indicator approach is :

(Rs. in Crores)

| Capital requirement for operational risk | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Basic indicator approach | 2064.27 | 1699.37 |

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

Punjab National Bank (Solo)

| | 31.03.2012 | 31.03.2011 |
|---|---|---|
| CRAR% | 12.63% | 12.42% |
| CRAR – Tier I capital (%) | 9.28% | 8.44% |
| CRAR – Tier II capital (%) | 3.35% | 3.98% |

Punjab National Bank (Group)

| | 31.03.2012 | 31.03.2011 |
|---|---|---|
| CRAR% | 13.12 | 13.01% |
| CRAR – Tier I capital (%) | 9.56 | 8.82% |
| CRAR – Tier II capital (%) | 3.56 | 4.19% |

Subsidiaries:

| Name of subsidiary | CRAR – Tier I capital (%) | | CRAR – Tier II capital (%) | | CRAR (%) | |
|---|---|---|---|---|---|---|
| | 31.03.2012 | 31.03.2011 | 31.03.2012 | 31.03.2011 | 31.03.2012 | 31.03.2011 |
| PNB Gilts Ltd | 74.72 | 94.72 | - | - | 74.72 | 94.42 |
| PNB Housing Finance Ltd | 11.52 | 12.16 | 6.27 | 8.67 | 17.79 | 20.83 |
| Punjab National Bank (International) Ltd. | 11.31 | 13.20 | 7.20 | 7.99 | 18.51 | 21.19 |
| PNB Investment Services Ltd. | NA | NA | NA | NA | NA | NA |
| Druk PNB Bank Ltd. | 11.40 | 10.11 | 3.59 | 0.31 | 7.81 | 9.80 |
| JSC Dana Bank | NA | NA | NA | NA | NA | NA |
| PNB Insurance Broking Pvt. Ltd. | NA | NA | NA | NA | NA | NA |
| PNB Life Insurance Co. Ltd. | NA | NA | NA | NA | NA | NA |

**DF4. Credit risk: general disclosures**

4.1. 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:

(Rs. in Crores)

| Category | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Fund Based | 297892.57 | 243998.78 |
| Non Fund Based | 76531.91 | 59173.86 |

4.3 . The geographic distribution of exposures is:

(Rs. in Crores))

| Category | Overseas | | Domestic | |
|---|---|---|---|---|
| | 31.03.2012 | 31.03.2011 | 31.03.2012 | 31.03.2011 |
| Fund Based | 21784.83 | 12765.23 | 276107.74 | 231233.55 |
| Non-fund based | 3161.48 | 989.59 | 73370.43 | 58184.27 |

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

(Rs. in Crores)

| S.NO. | CODE | INDUSTRY | 31.03.2012 | | 31.03.2011 | |
|---|---|---|---|---|---|---|
| 1 | 1 | COAL | | 35.38 | | 153.09 |
| 2 | 2 | MINING | | 755.09 | | 1549.74 |
| 3 | 3 | IRON AND STEEL | | 17963.86 | | 15933.54 |
| 4 | 4 | OTHER METAL & METAL PRODUCTS | | 1227.53 | | 1357.47 |
| 5 | 5 | ALL ENGINEERING | | 4572.36 | | 5974.00 |
| | 5.1 | Of which (005) Electronics | 610.93 | | 578.85 | |
| 6 | 6 | ELECTRICITY | | 5950.47 | | 6656.50 |
| 7 | 7 | COTTON TEXTILES | | 1406.63 | | 2257.49 |
| 8 | 8 | JUTE TEXTILTES | | 71.99 | | 92.46 |
| 9 | 9 | OTHER TEXTILES | | 3044.80 | | 4311.20 |
| 10 | 10 | SUGAR | | 2086.53 | | 3327.54 |
| 11 | 11 | TEA | | 6.91 | | 4.59 |
| 12 | 12 | FOOD PROCESSING | | 3741.94 | | 3837.67 |
| 13 | 13 | VEGETABLE OILS AND VANASPATI | | 653.55 | | 849.63 |
| 14 | 14 | TOBACCO & TOBACCO PRODUCTS | | 23.25 | | 25.86 |
| 15 | 15 | PAPER & PAPER PRODUCTS | | 1145.44 | | 1519.92 |
| 16 | 16 | RUBBER & RUBBER PRODUCTS | | 586.90 | | 219.29 |
| 17 | 17 | CHEMICALS, DYES, PAINTS, ETC. | | 1906.77 | | 2916.34 |
| | 17.1 | Of which Fertilizers | 8.17 | | 113.74 | |
| | 17.2 | Of which Petro-chemicals | 523.70 | | 398.02 | |
| | 17.3 | Of which Drugs & Pharmaceuticals | 823.72 | | 1453.71 | |
| 18 | 18 | CEMENT | | 1401.98 | | 976.50 |
| 19 | 19 | LEATHER & LEATHER PRODUCTS | | 290.96 | | 605.31 |
| 20 | 20 | GEMS AND JEWELLERY | | 918.30 | | 1676.38 |
| 21 | 21 | CONSTRUCTION | | 3686.18 | | 3902.69 |
| 22 | 22 | PETROLEUM | | 2181.53 | | 3502.89 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 23 | 23 | AUTOMOBILES INCLUDING TRUCKS | | 1175.57 | | 1480.37 |
| 24 | 24 | COMPUTER SOFTWARE | | 28.13 | | 81.45 |
| 25 | 25 | INFRASTRUCTURE | | 45892.98 | | 35699.28 |
| | 25.1 | Of which Power | 23370.10 | | 16298.85 | |
| | 25.2 | Of which Telecommunications | 7896.60 | | 8413.91 | |
| | 25.3 | Of which Roads & Ports | 7249.80 | | 6501.32 | |
| 26 | 26 | NBFCs | | 15395.70 | | 7966.16 |
| 27 | 27 | TRADING | | 11381.37 | | 10234.11 |
| 28 | 28 | OTHER INDUSTRIES | | 23617.98 | | 18264.65 |
| | | TOTAL | | 151150.08 | | 135376.12 |
| 29 | 29 | Residuary Other Advances | | 146742.49 | | 108622.66 |
| | | GRAND TOTAL | | **297892.57** | | **243998.78** |
| | | | | | | |
| Industry exposure is more than 5% of gross fund based exposure | | | | | | |
| 1 | 3 | IRON AND STEEL | | 17963.86 | | 15933.54 |
| 2. | 25. | INFRASTRUCTURE | | 45892.98 | | 35699.28 |
| 3 | | NBFC | | 15395.70 | | 7966.16 |

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

(Rs. in Crores)

| S.NO. | CODE | INDUSTRY | 31.03.2012 | | 31.03.2011 | |
|---|---|---|---|---|---|---|
| 1 | 1 | COAL | | 42.26 | | 52.39 |
| 2 | 2 | MINING | | 208.00 | | 601.08 |
| 3 | 3 | IRON AND STEEL | | 9845.18 | | 8650.50 |
| 4 | 4 | OTHER METAL & METAL PRODUCTS | | 650.24 | | 595.88 |
| 5 | 5 | ALL ENGINEERING | | 3911.77 | | 5272.42 |
| | 5.1 | Of which (005) Electronics | 383.50 | | 671.45 | |
| 6 | 6 | ELECTRICITY | | 105.12 | | 50.35 |
| 7 | 7 | COTTON TEXTILES | | 78.10 | | 38.77 |
| 8 | 8 | JUTE TEXTILTES | | 14.01 | | 18.06 |
| 9 | 9 | OTHER TEXTILES | | 586.80 | | 607.64 |
| 10 | 10 | SUGAR | | 99.92 | | 283.64 |
| 11 | 11 | TEA | | 0.02 | | 0.00 |
| 12 | 12 | FOOD PROCESSING | | 561.78 | | 857.02 |
| 13 | 13 | VEGETABLE OILS AND VANASPATI | | 2564.30 | | 1126.81 |
| 14 | 14 | TOBACCO & TOBACCO PRODUCTS | | 6.38 | | 21.04 |
| 15 | 15 | PAPER & PAPER PRODUCTS | | 200.68 | | 110.13 |
| 16 | 16 | RUBBER & RUBBER PRODUCTS | | 39.43 | | 81.21 |
| 17 | 17 | CHEMICALS, DYES, PAINTS, etc.. | | 573.75 | | 1178.21 |
| | 17.1 | Of which Fertilizers | 70.42 | | 7.04 | |
| | 17.2 | Of which Petro-chemicals | 699.05 | | 466.65 | |
| | 17.3 | Of which Drugs & Pharmaceuticals | 220.11 | | 368.83 | |
| 18 | 18 | CEMENT | | 340.72 | | 460.83 |
| 19 | 19 | LEATHER & LEATHER PRODUCTS | | 54.17 | | 25.27 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 20 | 20 | GEMS AND JEWELLERY | | 234.19 | | 1927.65 |
| 21 | 21 | CONSTRUCTION | | 331.34 | | 293.36 |
| 22 | 22 | PETROLEUM | | 135.54 | | 632.09 |
| 23 | 23 | AUTOMOBILES INCLUDING TRUCKS | | 157.53 | | 219.17 |
| 24 | 24 | COMPUTER SOFTWARE | | 9.48 | | 1.25 |
| 25 | 25 | INFRASTRUCTURE | | 9502.03 | | 7685.47 |
| | 25.1 | Of which Power | 6183.03 | | 4953.59 | |
| | 25.2 | Of which Telecommunications | 2468.85 | | 2040.12 | |
| | 25.3 | Of which Roads & Ports | 1295.09 | | 256.19 | |
| 26 | 26 | NBFCs | | 161.99 | 4953.59 | 124.02 |
| 27 | 27 | TRADING | | 4169.38 | | 3569.31 |
| 28 | 28 | OTHER INDUSTRIES | | 4935.74 | | 4130.95 |
| | | TOTAL | | 39519.84 | | 38614.52 |
| 29 | 29 | Residuary Other Advances | | 37012.07 | | 20559.34 |
| | | GRAND TOTAL | | **76531.91** | | 59173.86 |
| Industry where fund based outstanding is more than 5% of gross fund based outstanding | | | | | | |
| 1 | 3 | IRON AND STEEL | | 9845.18 | | 8650.50 |
| 2 | 27 | TRADING | | 4169.38 | | 3569.31 |
| 3 | 5 | ALL ENGINEERING | | 3911.77 | | 5272.42 |
| 4. | 25 | INFRASTRUCTURE | | 9502.03 | | 7685.47 |

4.5 . The residual contractual maturity break down of assets is: (Rs. in Crores)

| Maturity Pattern | Advances* | Investments (gross) | Foreign Currency Assets* |
|---|---|---|---|
| Next day | 13860.94 | 3.58 | 1602.28 |
| | (9918.47) | (00.00) | (357.75) |
| 2 - 7 days | 6390.20 | 843.30 | 2940.97 |
| | (4940.21) | (99.89) | (322.61) |
| 8 -14 days | 4261.42 | 174.58 | 1364.86 |
| | (4864.84) | (262.34) | (478.74) |
| 15- 28 days | 6151.19 | 248.55 | 1960.94 |
| | (6726.54) | (668.97) | (1471.68) |
| 29days - 3months | 12000.26 | 11355.08 | 9871.91 |
| | (11127.40) | (7617.13) | (4026.77) |
| >3months-6months | 9310.24 | 3020.94 | 10185.25 |
| | (13277.89) | (1541.26) | (6456.26) |
| >6months-1yr | 50070.74 | 3378.19 | 3568.67 |
| | (31700.45) | (2518.16) | (4467.88) |
| >1yr-3yrs | 134808.53 | 13208.57 | 4334.87 |
| | (109496.67) | (10302.92) | (2465.73) |
| >3yrs-5yrs | 27842.53 | 18492.21 | 1823.24 |
| | (23555.58) | (14558.75) | (541.08) |
| >5yrs | 29078.72 | 72422.26 | 1236.51 |
| | (26498.62 | (57943.63) | (747.56) |
| Total | 293774.76 | 123147.26 | 38889.50 |
| | (242106.67) | (95513.05) | (21336.06) |

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

4.6. The gross NPAs are:

(Rs. in Crores)

| Category | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Sub Standard | 5576.41 | 2643.16 |
| Doubtful – 1 | 1766.81 | 852.13 |
| Doubtful – 2 | 726.11 | 343.06 |
| Doubtful – 3 | 293.34 | 202.65 |
| Loss | 356.95 | 338.39 |
| Total NPAs (Gross) | 8719.62 | 4379.39 |

4.7. The amount of net NPAs is:

(Rs. in Crores)

| Particulars | 31.03.2012 | 31.03.2010 |
|---|---|---|
| Net NPA | 4454.23 | 2038.63 |

4.8. The NPA ratios are as under:

| NPA Ratios | 31.03.2012 | 31.03.2011 |
|---|---|---|
| % of Gross NPAs to Gross Advances | 2.93% | 1.79% |
| % of Net NPAs to Net Advances | 1.52% | 0.85% |

4.9. The movement of gross NPAs is as under:

(Rs. in Crores)

| Movement of gross NPAs | 31.03.2012 | 31.03.2011 |
|---|---|---|
| i) Opening Balance at the beginning of the year | 4379.39 | 3214.41 |
| ii) Addition during the year | 6671.64 | 4336.70 |
| iii) Reduction during the year | 2331.41 | 3171.72 |
| iv) Closing Balance as at the end of the year (i + ii - iii) | 8719.62 | 4379.39 |

4.9. The movement of provision for NPAs is as under:

(Rs. in Crores)

| Movement of provision for NPAs | 31.03.2012 | 31.03.2011 |
|---|---|---|
| i) Opening Balance at the beginning of the year | 2296.75 | 2180.05 |
| ii) Provisions made during the year | 2576.11 | 904.11 |
| iii) Write-off made during the year | 126.29 | 102.69 |
| iv) Write –back of excess provisions made during the year | 562.51 | 684.72 |
| v) Closing Balance as at the end of the year (i + ii - iii-iv) | 4184.06 | 2296.75 |

4.10. The amount of non-performing investment is:

(Rs. in Crores)

| Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Amount of non-performing investment | 94.65 | 38.19 |

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

(Rs. in Crores)

| Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Amount of provision held for non-performing investment | 57.70 | 38.19 |

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

(Rs. in Crores)

| Movement of provisions for depreciation on investments | 31.03.2012 | 31.03.2011 |
|---|---|---|
| i) Opening balance at the beginning of the year | 350.71 | 333.23 |
| ii) Provisions made during the year | 368.90 | 114.88 |
| iii) Write-off made during the year | 0.00 | 0.00 |
| iv) Write-back of excess provisions made during the year | 201.91 | 97.40 |
| v) Closing balance as at the end of the year (i + ii –iii-iv) | 517.77 | 350.71 |

**DF5. Credit Risk: Portfolios subject to the Standardized Approach**

Qualitative disclosures

5.1. Bank has approved the following 4 domestic credit rating agencies accredited by RBI for mapping its exposure with domestic borrowers under standardized approach of credit risk

- CRISIL
- CARE
- FITCH India
- ICRA

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

No agency has been added/deleted by the Bank during the year.

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:

(Rs. in Crores)

| Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|
| i) Below 100% risk weight exposure outstanding | 171138.43 | 148165.42 |
| ii) 100% risk weight exposure outstanding | 136736.98 | 171379.78 |
| iii) More than 100% risk weight exposure outstanding | 38857.42 | 23782.78 |
| 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, interalia, 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 (for capital calculation under standardized approach) 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:

(Rs. in Crores))

| | 31.03.2012 | 31.03.2011 |
|---|---|---|
| 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. | 22306.36 | 19132.74 |
| 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) | 16088.49 | 11873.27 |

**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:

(Rs. in Crores)

| Risk Category | 31.03.2012 | 31.03.2011 |
|---|---|---|
| i) Interest Rate Risk | 856.67 | 521.05 |
| ii) Equity Position Risk | 525.33 | 402.91 |
| iii) Foreign Exchange Risk (including Gold ) | 18.00 | 18.00 |
| iv)Total capital charge for market risks under Standardised duration approach (i+ii+iii) | 1400.00 | 941.96 |

**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 `2064.27 crores as on 31.03.2012.

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 quarterly 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 (RSA-RSL) | Other Products* (Intt. rate) | Net Gap (1+2) | Total Assets | Net Gaps as % to Total Assets |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 1-28 days | -7940.67 | -125.00 | -8065.67 | 34446.02 | -23% |
| **29days - 3 months** | 136464.68 | 0.00 | 136464.68 | 182912.86 | 75% |
| >3 to 6 months | -36968.14 | 0.00 | -36968.14 | 21100.27 | -175% |
| >6 to 12 months | -66925.11 | 0.00 | -66925.11 | 13300.31 | -503% |
| >1 to 3 yrs. | -100904.58 | 0.00 | -100904.58 | 66774.43 | -151% |
| >3 to 5 yrs. | 10560.77 | 0.00 | 10560.77 | 24757.94 | 43% |
| Over 5 years | 61387.78 | 0.00 | 61387.78 | 79360.87 | 77% |

* 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.
Earning at Risk: Impact of 0.5 % change upward/downward in interest rate on NII/NIM

(Rs. in Crores)

| Remaining Period | Estimated impact on NII with adverse change in rate of interest by 0.50% |
|---|---|
| Up to 6 months | Rs. 186.70 cr. |
| Up to 1 year | Rs. 331.60 cr. |

10.2.2 Economic Value Approach :

The impact of change in rate of interest on the economic value of assets and liabilities is studied under this approach. The impact of change in interest rate by 200 bps on the capital fund 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.