Pillar 3 Disclosures under Basel III Framework
For the period ended 31.12.2013

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 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(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 Chairman Cum Managing Director (CMD) is the top-level functional committee for Credit risk. The committee considers and takes decisions necessary to manage and control credit risk within the 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 feedback or changes 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 concentration.

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 processes 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 Heads 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, it shall continue its journey towards adopting Internal Rating Based Approaches(IRB).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 already submitted its "Letter of Intent" followed by "Information Kit" to RBI indicating its willingness to migrate to IRB approaches. **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 the Bank, corporate and sovereign the default rate has been arrived at based on individual ratings. The default rate for each year is calculated under each category of borrowers viz. Large Corporate, Mid Corporate and Small Loan borrowers. The default rates for large corporates and mid corporates 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 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 specialised 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 a 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, Over-night 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:

Bank has a well defined Organizational structure for management of Operational Risk with an executive level Operational Risk Management Committee (ORMC) to oversee the entire Operational Risk Management Function of the Bank. The Governance structure of the Bank for management of Operational Risk relies on three lines of defense. The first line of defense being Business Lines represented by various HO Divisions which are Control Units (CU), Business Units (BU) or Support Units (SU); Second line of defense represented by Corporate Operational Risk Management Function (CORF) with an independent Operational Risk Management Department (ORMD) to oversee Operational Risk Management, and the third line of defense being Audit Function which is a challenge function to the first two lines of defense represented by Inspection & Audit Division/Management Audit Division (IAD/MARD). 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. Board is actively involved in operational risk with a regular MIS to Board on Operational Risk Management aspects.

Bank has well defined Board approved policies for management of operational risk such as Operational Risk Management Policy, Business Line Mapping Policy, Policy for approval of New product and Activity, Policy on Business Continuity Plan. Bank has articulated its operational risk appetite through a Board approved Operational Risk Appetite and Tolerance Statement. Various tools for management of operational risk such as Internal Loss Data Framework, KRI Framework, Risk and

Control self Assessment Framework (RCSA) and Scenario Analysis Framework have been developed for management of Operational Risk.

All the operational risk aspects such as Analysis of internal loss data (including near miss events, attempted frauds & Dacoity, external loss events), etc. are placed to the ORMC on quarterly basis. Business Environment and Internal Control Factors are captured through RCSA and KRI Frameworks. RCSA survey results, Breaches in Key Risk Indicator(KRI) thresholds are placed to ORMC / RMC as appropriate.

Presently Bank is maintaining capital charge on Operational Risk under Basic Indicator Approach (BIA). Bank has obtained RBI's approval for parallel run of The Standardised Approach (TSA). Bank has also submitted its letter of intention to RBI for migration to Advanced Measurement Approach (AMA).

Quantitative Disclosures:

(b) Capital requirements for credit risk:

(₹ in million)

	31.12.2013
Portfolios subject to standardised approach	4293294.36
Securitization exposure	0.00

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

(₹ in million)

Risk Category	31.12.2013
i) Interest Rate Risk	19886.88
ii) Foreign Exchange Risk (including Gold)	266.89
iii) Equity Risk	5478.00
iv) Total capital charge for market risks under Standardised duration approach (i + ii + iii)	25631.77

(d) The capital requirement for operational risk::

(i)

(₹ in million)

Capital requirement for operational risk	31.12.2013
Basic indicator approach	35802.82

(ii)

(₹ in million)

Capital requirement for operational risk	31.12.2013
The Standardised approach (if applicable))	26280.04

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

Punjab National Bank (Group)

	31.12.2013
Common equity Tier 1 Capital ratio (%) (Basel- III	8.48
Tier 1 Capital ratio (%) (Basel- III)	8.83
Tier 2 Capital ratio (%) (Basel- III)	2.61
Total Capital ratio (CRAR) (%) (Basel- III)	11.45

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)
	31.12.2013	31.12.2013	31.12.2013	31.12.2013
PNB Gilts Ltd	20.78	20.78	NA	20.78
PNB Housing Finance Ltd	11.02	11.02	3.53	14.55
Punjab National Bank (International) Ltd.	11.20	11.20	5.64	16.84
PNB Investment Services Ltd.	NA	NA	NA	NA
Druk PNB Bank Ltd.	NA	NA	NA	NA
JSC SB PNB Kazakhstan	93.81	93.81	29.86	123.27
PNB Insurance Broking Pvt. Ltd.	NA	NA	NA	NA
PNB Life Insurance Co. Ltd.	NA	NA	NA	NA

Table DF-3: Credit Risk: General Disclosures

Qualitative Disclosures:

(a)

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 in case of Agricultural loans.

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	31.12.2013
Fund Based	3514260.04
Non Fund Based	816323.80

(c) The geographic distribution of exposures:

(₹ in million)

Category	Overseas	Domestic
	31.12.2013	31.12.2013
Fund Based	443010.86	3071249.18
Non-fund based	137935.20	678388.60

(d) (a) Industry type distribution of exposures (Fund Based) is:

(₹ in million)

S.NO.	CODE	INDUSTRY	31.12.2013	
			Amount of total Exposure (1)	Out of (1) Exposure of Sub-head (wherever applicable)
1	1	COAL	9217.93	
2	2	MINING	9767.79	
3	3	IRON AND STEEL	217520.92	
4	4	OTHER METAL & METAL PRODUCTS	8386.43	
5	5	ALL ENGINEERING	52673.29	
	5.1	Of which (005) Electronics		7953.15
6	6	ELECTRICITY	1200.12	
7	7	COTTON TEXTILES	27016.56	
8	8	JUTE TEXTILTES	1225.40	
9	9	OTHER TEXTILES	39105.43	
10	10	SUGAR	35925.16	
11	11	TEA	60.61	
12	12	FOOD PROCESSING	42719.78	
13	13	VEGETABLE OILS AND VANASPATI	6533.91	
14	14	TOBACCO & TOBACCO PRODUCTS	206.93	
15	15	PAPER & PAPER PRODUCTS	14036.25	
16	16	RUBBER & RUBBER PRODUCTS	13446.11	
17	17	CHEMICALS, DYES, PAINTS, ETC.	35538.19	
	17.1	Of which Fertilizers	0	1857.15
	17.2	Of which Petro-chemicals	0	2618.92

	17.3	Of which Drugs & Pharmaceuticals	0	15422.73
18	18	CEMENT	7208.10	
19	19	LEATHER & LEATHER PROOUCTS	4653.93	
20	20	GEMS ANO JEWELLERY	41642.52	
21	21	CONSTRUCTION	72223.59	
22	22	PETROLEUM	19120.34	
23	23	AUTOMOBILES INCLUDING TRUCKS	11408.20	
24	24	COMPUTER SOFTWARE	4775.09	
25	25	INFRASTRUCTURE	572884.57	
	25.1	Of which Power	0	321162.46
	25.2	Of which Telecommunications	0	65989.40
	25.3	Of which Roads & Ports	0	110746.30
26	26	NBFCs	117469.93	
27	27	TRADING	132789.18	
28	28	OTHER INDUSTRIES	260624.29	
		TOTAL	1759380.56	525750.11
29	29	Residuary Other Advances	3509543.19	
		GRANO TOTAL	3514260.04	525750.11

Industry exposure is more than 5% of gross fund based exposure:

1	3	IRON & STEEL	217520.92
2.		INFRASTRUCTURE	572884.57

(b) Industry type distribution of exposures (Non Fund Based) is:

(₹ in million)

S.NO.	CODE	INDUSTRY	31.12.2013	
			Amount of total Exposure (1)	Out of (1) Exposure of Sub-head (wherever applicable)
1	1	COAL	396.95	
2	2	MINING	9227.04	
3	3	IRON AND STEEL	102061.01	
4	4	OTHER METAL & METAL PRODUCTS	4215.57	
5	5	ALL ENGINEERING	68274.68	
	5.1	Of which (005) Electronics	0	355.40
6	6	ELECTRICITY	3255.31	
7	7	COTTON TEXTILES	1147.41	
8	8	JUTE TEXTILTES	116.54	
9	9	OTHER TEXTILES	4952.11	
10	10	SUGAR	3484.22	
11	11	TEA	0	
12	12	FOOD PROCESSING	2586.52	
13	13	VEGETABLE OILS AND VANASPATI	10850.10	
14	14	TOBACCO & TOBACCO PRODUCTS	29.89	
15	15	PAPER & PAPER PRODUCTS	2515.75	
16	16	RUBBER & RUBBER PRODUCTS	591.70	
17	17	CHEMICALS, DYES, PAINTS, etc..	7449.47	
	17.1	Of which Fertilizers	0	3011.23
	17.2	Of which Petro-chemicals	0	1405.44
	17.3	Of which Drugs & Pharmaceuticals	0	1673.01
18	18	CEMENT	962.26	0
19	19	LEATHER & LEATHER PRODUCTS	552.45	0
20	20	GEMS AND JEWELLERY	2430.32	00
21	21	CONSTRUCTION	3835.47	0
22	22	PETROLEUM	1498.21	0
23	23	AUTOMOBILES INCLUDING	1900.67	0

		TRUCKS		
24	24	COMPUTER SOFTWARE	156.60	0
25	25	INFRASTRUCTURE	115169.40	0
	25.1	Of which Power	0	71944.10
	25.2	Of which Telecommunications	0	21608.61
	25.3	Of which Roads & Ports	0	9883.74
26	26	NBFCs	5203.63	0
27	27	TRADING	46116.98	0
28	28	OTHER INDUSTRIES	58018.33	0
		TOTAL	456998.59	109881.53
29	29	Residuary Other Advances	359325.21	0
		GRAND TOTAL	816323.80	109881.53

Industry where non- fund based outstanding is more than 5% of gross non-fund based outstanding.

1	3	IRON AND STEEL	102061.01
2	27	TRADING	46116.98
3		ALL ENGG.	68274.68
4.	25	INFRASTRUCTURE	115169.40

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

Maturity Pattern	Advances*	Investments (Gross)	Foreign Currency Assets*
Next day	249044.75	6495.16	8257.32
2 - 7 days	61767.99	2667.55	29847.57
8 -14 days	55797.98	21131.66	15128.06
15- 28 days	53146.01	3774.72	35049.58
29days - 3months	299422.40	29556.11	153884.59
>3months-6months	230543.01	45709.49	102107.96
>6months-1yr	232320.91	56271.77	100233.25
>1yr-3yrs	1596154.53	180071.52	56961.65
>3yrs-5yrs	261396.16	230669.49	11669.65

70

>5yrs	408339.07	933605.37	7563.34
Total	3447932.79	1509952.85	520702.97

*Figures are shown on net basis.

(f) The gross NPAs are:

(₹ in million)

Category	31.12.2013
Sub Standard	76139.54
Doubtful – 1	50237.45
Doubtful – 2	34252.51
Doubtful – 3	2832.01
Loss	6912.58
Total NPAs (Gross)	170374.08

(g) The amount of Net NPAs is:

(₹ in million)

Particulars	31.12.2013
Net NPA	93319.31

(h) The NPA Ratios are as under:

NPA Ratios	31.12.2013
% of Gross NPAs to Gross Advances	4.82
% of Net NPAs to Net Advances	2.72

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

(₹ in million)

Movement of gross NPAs	31.12.2013
i) Opening Balance at the beginning of the year	136518.84
ii) Addition during the period	73834.12
iii) Reduction during the period	39978.90
iv) Closing Balance as at the end of the period (i + ii - iii)	170374.06

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

(₹ in million)

Movement of provision for NPAs	31.12.2013
i) Opening Balance at the beginning of the period	62040.89
ii) Provisions made during the period	36776.42
iii) Write-off made during the period	22838.14
iv) Write –back of excess provisions made during the period	8.22

v) Closing Balance as at the end of the period (i + ii - iii-iv)	75970.95

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

(₹ in million)

Particulars	31.12.2013
Amount of non-performing investment	2808.01

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

(₹ in million)

Particulars	31.12.2013
Amount of provision held for non-performing investment	2076.36

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

(₹ in million)

Movement of provisions for depreciation on investments	31.12.2013
i) Opening balance at the beginning of the year	5589.74
ii) Provisions made during the period	6250.76
iii) Write-off made during the period	0.00
iv) Write-back of excess provisions made during the period	43.31
v) Closing balance as at the end of the period (i + ii –iii-iv)	11797.19

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	31.12.2013
i) Below 100% risk weight exposure outstanding	1946280.73
ii) 100% risk weight exposure outstanding	1622323.83
iii) More than 100% risk weight exposure outstanding	683968.05
iv) Deducted	81178.52