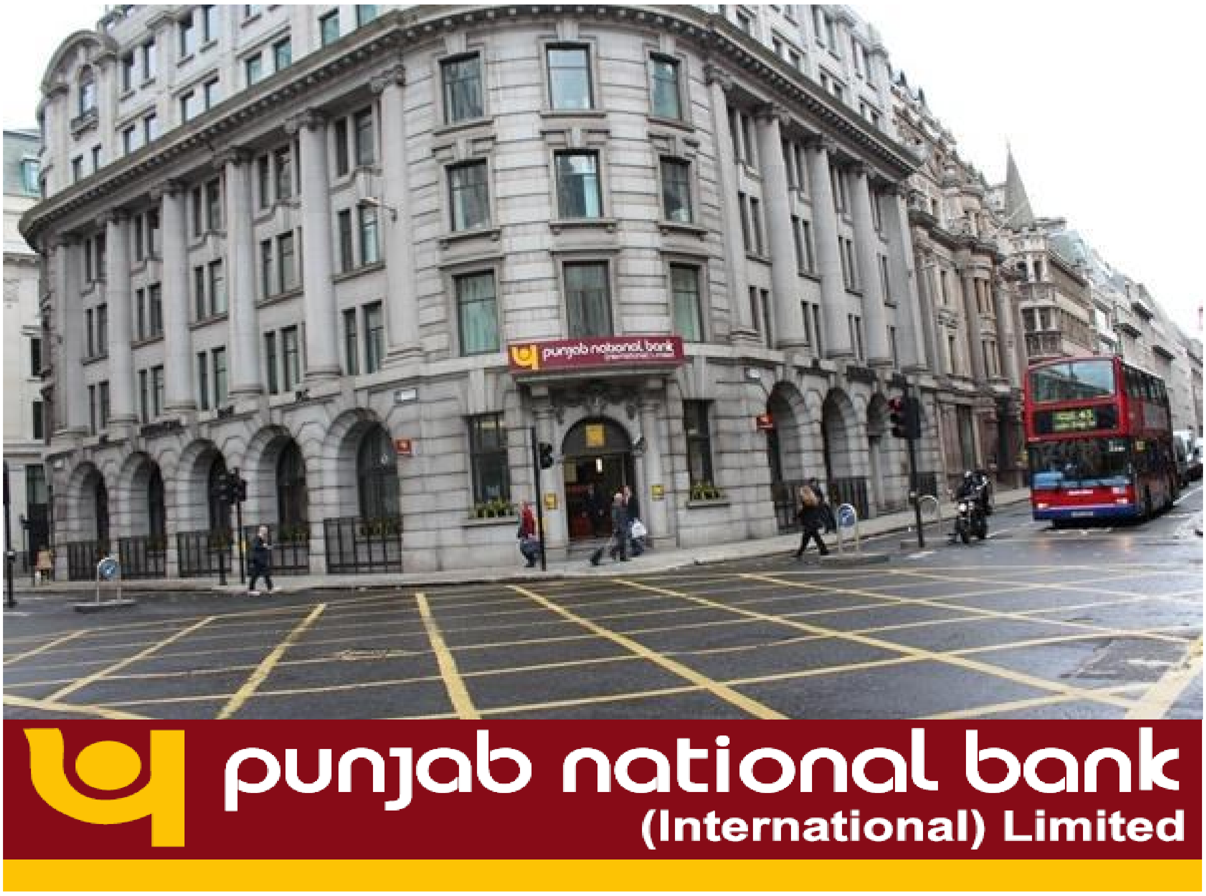


PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 31 MARCH 2018

CONTENTS ***PAGE/(S)***

1. Overview

1.1 Background

Punjab National Bank (International) Limited (''the Bank'') is a UK incorporated subsidiary of Punjab National Bank – India, and is authorized by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The Bank started its UK operations in May 2007 and is presently operating through its seven branches, four branches viz. Moorgate, Southall, Ilford and Wembley in London and three branches viz. Leicester, Birmingham and Wolverhampton in the Midlands. PNBIL's corporate office is at Moorgate in the City of London.

This document details the Pillar 3 disclosure requirements and is in addition to the consolidated Basel III - Pillar 3 disclosures made by Punjab National Bank Limited ("the Parent Bank'')

1.2 Media and Location

The Annual Report and the Pillar III disclosures will be published on the Bank's corporate website (www.pnbint.com).

1.2 Basis of disclosure

The Pillar 3 disclosures have been prepared for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks. These disclosures are intended to convey the Bank's risk profile comprehensively to market participants and do not constitute any form of financial statement and must not be relied upon in making any judgment on the Bank.

Some of the information required to be declared as part of the Pillar 3 disclosures, in particular the risk management objective and policies, is discussed in various notes to the financial statements, and in the Directors' and Strategic Reports in the Annual Report. This report should be read in conjunction with the Annual Report and Financial Statements for completeness of the required disclosures.

1.3 Scope of Application

The Pillar 3 disclosures have been prepared for the Bank in accordance with its own disclosure policy, as approved by the Board, and as per the rules laid out in the CRDIV guidelines as adopted by the PRA.

The Bank is a full CRD firm and its accounting and disclosures are on a solo basis. There is no subsidiary/ joint venture of the firm that is required to be consolidated for accounting or prudential purposes. However, its Parent, Punjab National Bank, has to consolidate financial statements, capital adequacy and other information required for accounting, prudential and market disclosure purposes, and reports the same to its regulators and market participants on a consolidated basis.

1.4 Frequency

This disclosure is made on an annual basis on the website of the Bank. The disclosures will be as at the Accounting Reference Date (ARD), i.e. as at March 31st, and will be published along with the publication of the Annual Report.

2. Risk Management overview

2.1. Effective risk governance is the key component of the Bank's strategy and it helps in delivering the objectives of Bank's overall business strategy. The overall business model of the Bank is supported by an embedded risk culture and sustainable risk appetite.

2.2. Overall risk management of the Bank is the ultimate responsibility of the Board of Directors of the Bank. The Board has set up its risk appetite and the risk limits. The Bank takes strategic decisions based on the capital position and the portfolio mix is used to optimise the use of capital. The long term business strategy of the Bank is aligned to the risk appetite and capital projections of the Bank.

2.3. Bank-wide Risk Management is designed to help PNBIL enhance value through a holistic approach to the identification, assessment, mitigation, monitoring and reporting of the Bank's risk portfolio in a cost effective manner. Value is maximised when management set strategy and objectives to attain an optimal balance between business growth and related risks.

2.4. The Bank has set up an independent risk management department which is headed by a Chief Risk Officer ("CRO") who reports to the MD & CEO ("MD") and the Board Risk Committee (BRC) chair. This department monitors various risk limits stipulated by the Board and prepares various management information reports for the information of Top Management and the Board. Any deviations or excesses are reported to the Board at its next meeting. The Risk Management Department also undertakes periodic stress testing and discusses the outcomes with Management, BRC and the Board.

2.5. The Bank's Board is supported by its sub-committees and other key executive Committees for managing risks as an integral part of day to day operations of the Bank at various levels.

- **Board Risk Committee (BRC)**

  The Board Risk Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior risk committee with delegated authority from the Board to agree appetites, frameworks and policies and to monitor all of the Bank's risks, except for regulatory and compliance risks that are handled via the BACC. The committee is chaired by an Independent Non-Executive Director.

- **Board Audit and Compliance Committee (BACC)**

  The Board Audit and Compliance Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Banks senior audit and compliance committee with delegated authority from the Board to agree the Bank's audit and compliance universe and annual audit and compliance plan, to review and agree the annual report and accounts, to review and monitor the external audit, and to monitor all "third line" audit activity in the Bank. It is also responsible for agreeing regulatory frameworks and policies, and for monitoring all regulatory, conduct and compliance (including Anti-Money Laundering) risks across the Bank. The committee is chaired by an Independent Non-Executive Director.

- **Board Credit Approval Committee (BCAC)**

The Board Credit Approval Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior credit committee with responsibility for reviewing and agreeing all material individual customer credit approvals. The Committee is chaired by the Managing Director (MD).

- **Board Nomination and Remuneration Committee (BNRC)**

The Nomination and Remuneration Committee with delegated authority from the Board to regularly review the structure, size and composition and succession (including the skills, knowledge, experience and diversity) of the Bank's Board and it's Executive and Senior Management and make recommendations to the Board with regard to any development needs or changes.

- **Joint Recovery Committee (JRC)**

The JRC is a committee of the Senior Executives of parent and PNBIL and it reports to PNBIL Board. Its main purpose is to monitor the recovery of India based stressed assets. Senior executives (General Managers from Credit & Recovery divisions) from the parent bank have also been admitted as members of this committee to have a better coordination in recovery efforts. The Committee is chaired by the MD

- **Executive Committee (EXCO)**

The Executive Committee is a sub-committee of the Board from which it derives its authority and to which it reports. EXCO is the leadership body for the Bank. It has a broad remit in terms of scope, covering as necessary significant business and operational issues, but its principal focus is the development of UK client and UK originated business and the oversight and control of key risks within the Bank. The committee is chaired by the Managing Director (MD).

- **Risk and Compliance Committee (RCC)**

The Risk and Compliance Committee is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The RCC has a principal focus on ensuring that the Bank has appropriate mechanisms for the measurement, monitoring and amelioration of all its risks other than those relating to credit that are monitored via the CRC and the CROC. The committee is chaired by the Chief Risk Officer (CRO). In the absence of CRO, the Head of Compliance (HOC) shall chair the meeting.

- **Asset and Liability Committee (ALCO)**

  The Assets and Liabilities Committee is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. ALCO has a principal focus on managing funding and liquidity including monitoring the impact and potential risks to the Bank's Balance Sheet with particular reference to ensuring that the Bank meets its regulatory capital requirements for market and liquidity risk, including appropriate levels of buffer and contingency. The committee is chaired by the Chief Financial Officer (CFO).

- **Credit Recommendation Committee (CRC)**

  The Credit Recommendation Committee (CRC) is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The CRC has a principal focus on the review of credit proposals for the purpose of assisting the MD's decision-making responsibility in the sanction of all new credit and renewal proposals where the total exposure to the borrower is over $200k and below the threshold for proposals considered as a Large Exposure. The committee is chaired by the Chief Operating Officer (COO).

- **Credit Risk Oversight Committee (CROC)**

  The Credit Risk Oversight Committee (CROC) is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The CROC has a principal focus on the monitoring and review of the Bank's Credit Risk and its lending activities, including its watch-list and non-performing assets. The committee is chaired by the CRO.

2.6. A "three lines of defence" model has been adopted by the Bank for the effective oversight and management of risks across the Bank. Functions, teams and branches in the first line undertake frontline operational and support activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of controls. Each Head of First Line Function/Team carries responsibility for ensuring that activities undertaken are within the point in time, Board approved Risk Appetite.

2.6.1. First line of defence

Specific responsibilities of the first line of defence include:

- Embedding risk management frameworks, policies, and sound risk management practices into standard operating procedures.
- Adhering to frameworks, policies and procedures set by the Board.
- Reporting on the performance of risk management activities (including ongoing risk identification, assessment, mitigation, monitoring and reporting).

Accounting for the effectiveness of risk management in operation including ensuring that procedures and controls are operated in a consistent and ongoing basis in order to effectively manage risks.

2.6.2. Second line of defence

The Risk Management and Compliance Functions are independent risk management functions, under the direction of the CRO and HOC, and are a key component of the Bank's second line of defence. The Risk Management Department and the Compliance Department are responsible for the ongoing assessment and monitoring of risk-taking activities across the Bank.

The second line focusses on monitoring and review and is responsible for:

- Developing and monitoring the implementation of risk management frameworks, policies, systems, processes and tools.
- Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the First line.
- Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting and that they are being implemented.
- Establishing an early warning system for breaches of the Bank's Risk Appetite or Limits.
- Influencing or challenging decisions that give rise to material risk exposure.
- Reporting via the CRO and HOC, on all these items, including risk mitigating actions, where appropriate.

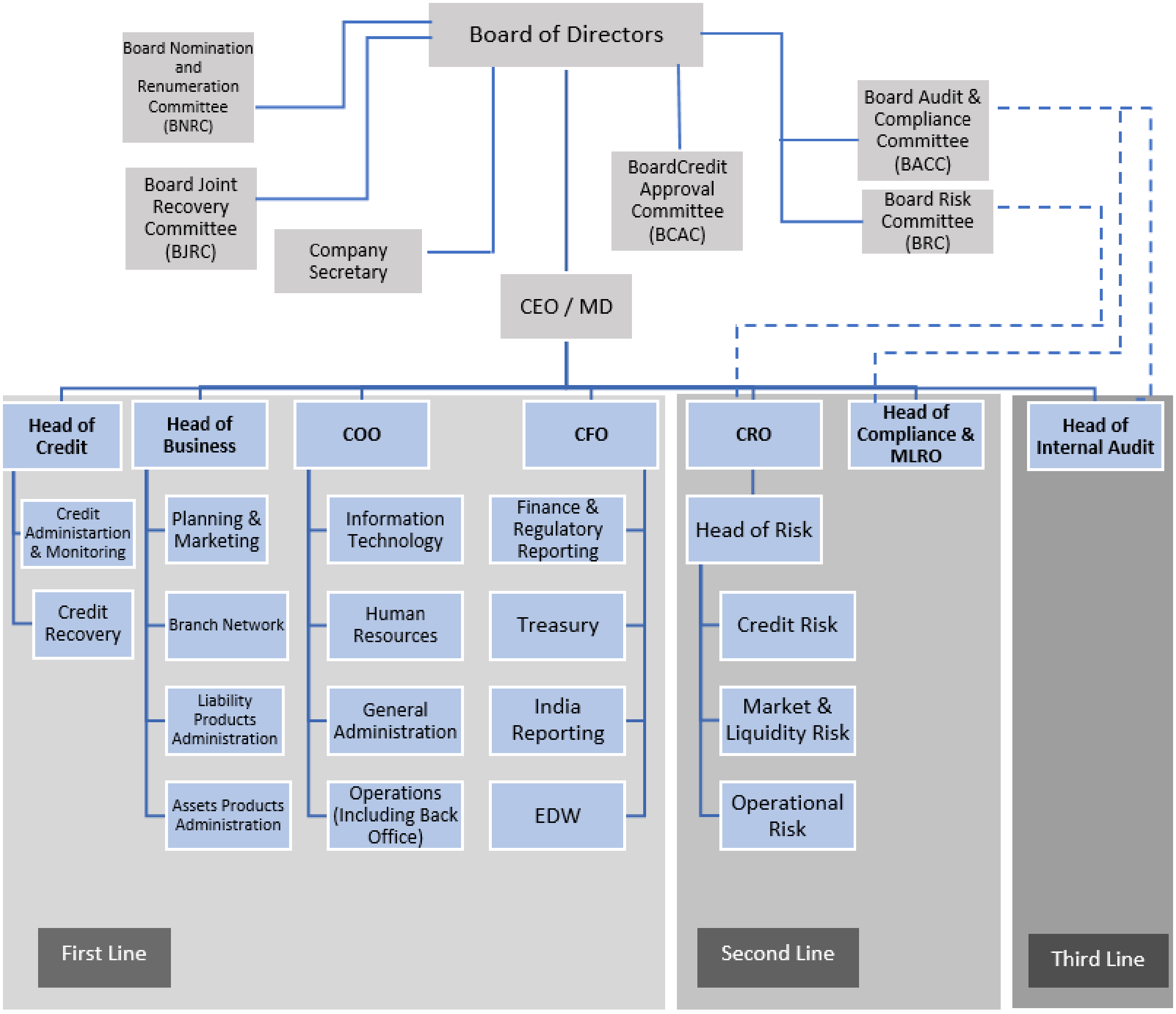
2.6.3. Third line of defence

The third line of defence comprises Internal Audit, which is responsible for:

- Independently reviewing the design and operating effectiveness of the Bank's internal controls, risk management and governance systems and processes.
- Periodically assessing the Bank's overall risk governance framework, including, but not limited to an assessment of:
- The effectiveness of the Risk Management and Compliance Functions.
- The quality of risk reporting to the Board and Senior Management.
- The effectiveness of the Bank's system of internal controls.
- Providing independent assurance to the Board on the above.
- Recommending improvements and enforcing corrective actions and assigning respective action owners where necessary.
- Tracking the implementation of all internal audit recommendations and external audit management letter points.
- Reporting to the Board on the status and progress of the above.

The Board and the Bank's MD have responsibility for overseeing the effective action and performance of all three lines of defence.

The diagram below illustrates the segregation of First, Second and Third line roles across relevant Bank functions, branches and teams:



The above organisation structure and governance & risk control framework has been designed and introduced to ensure that:

- The Bank has an appropriate '3 lines of defence' model to manage risk.
- There is appropriate segregation of duties and spans of control across senior management.
- Branches and credit are independent of each other.
- Roles and responsibilities are clearly defined, especially across functions and product groups.

3. Risk Appetite Framework

A Risk Appetite is an expression of boundaries (qualitative and quantitative) that provides clear guidance on the limits of risk exposure that are acceptable and in line with the Bank's long term strategies. Risk Appetite parameters provide the Board, agreed and transparent risk control framework within which the Bank's line management operate.

The Risk Appetite Statement is based upon a consideration of the Risk Function's enterprise wide analysis of current and potential future risk exposures, with due regard to the most practical and relevant level of appetite, limits and delegated authorities. The Board of the Bank has determined to have a low risk appetite for its businesses and decided to grow cautiously over the next 3 to 5 years, building expertise and capabilities in key business areas which have been identified for future (low risk) expansion operating under a 'low risk low return' trade-off with a targeted return on equity of 5-8%. The Board has no appetite for any breach in regulatory rules or requirements, attaches the highest importance to compliance with applicable banking regulation at all times and ensures risk transparency to the Board and Regulators to avoid surprises. Also, there is no appetite to undertake any activities that could endanger the reputation or good name of the Bank.

The Board is responsible for approving the Risk Appetite Statement (and any material changes proposed to it) on an annual basis. It is the line management's responsibility to ensure they function within the approved risk appetites at all times. Key metrics are as follows:

- Risk capacity is the maximum amount of risk the Bank can technically assume before breaching one or more of the capital base, liquidity/ funding and regulatory constraints.
- Risk Appetite defines the maximum level and type of risk that the Bank is willing to assume within its risk capacity. This is generally proposed by the CRO and Executive Management and has been agreed by the Board on the recommendation of BRC. In the Bank these are known as "Red Limits".
- Risk limits are also proposed by management and agreed by the Board and are set within the agreed Risk Appetite, so that monitoring can identify where the Risk Appetite Limits might be breached ("early warning mechanism"), so that corrective action can be taken. In the Bank these are known as "Amber Limits" or "Risk Tolerances".

4. Capital Resources:

The following tables below provide details of the capital base of the Bank as on 31st March 2018:

4.1 Reconciliation with Balance Sheet:

As at 31st March **(Figures in Million)**

Particulars	2018	2017
Shareholders' equity as per the balance sheet	274.6	254.6
Retained Earnings	(104.9)	3.6
Fair Value Reserve	(1.1)	(0.03)
Loss	-	(111.3)
Less: Intangible Assets	(0.5)	(0.05)
Less: DTA	(25.3)	(25.8)
Total Core Tier I Capital	**142.8**	**120.5**
Additional Tier I Capital	45.0	45.0
Total Tier I Capital	**187.8**	**165.5**
Eligible amount of Tier 2 instruments	50.0	50.0
General Credit Risk Adjustments (Collective Provisions)	3.5	4.7
Less Amortization of Dated Tier II capital maturing within five years	(4.1)	(0.4)
Total Tier II Capital	**49.4**	**54.3**
Total Regulatory Capital	**237.2**	**219.8**

4.2 Capital Ratios:

As at 31st March **(Figures in Million)**

Particulars	2018	2017
Risk Weighted Assets	**906.2**	**1,013.0**
Total Capital Ratio	**26.2%**	**21.7%**
CET 1 Ratio	**15.8%**	**11.9%**
Tier 1 Ratio	**20.7%**	**16.3%**
Tier 2 Ratio	**5.5%**	**5.4%**

4.3 Own funds disclosure and Capital instruments' main features template

The Own funds disclosure template is provided in Annexure I and disclosure on main features of the capital instruments is provided in Annexure II.

5. Capital Requirements

5.1. Approaches to assess minimum capital requirement under Pillar 1

The Bank determines its Pillar 1 regulatory capital requirement based on the following approaches:

- **Credit Risk:** Standardized approach
- **Market Risk:** Standardized approach
- **Operational Risk:** Basic Indicator approach

Besides, capital requirement on the following is also included in Pillar 1 requirements:

- Counterparty credit risk (CCR): Mark to market method / potential future exposure
- Credit valuation adjustment (CVA) risk: Standardized method
- Settlement / Delivery risk: Price Difference method

The capital requirement for all the above risks is then aggregated to arrive at the minimum capital requirement under Pillar 1.

5.2. Capital Requirement under Pillar 1:

Minimum Capital requirement under Pillar 1 under CRR as on 31 March 2018 has been assessed as under:

As at 31st March 2018 **(Figures in Million)**

Particulars	**RWA (Before SME Benefit)**	**SME Benefit***	**RWA After SME Benefit**	**Capital Required @ 8% under Pillar I**
Credit Risk - Balance Sheet Assets	770.1	3.4	766.7	61.3
Credit Risk - Off Balance Sheet Assets	3.6	-	3.6	0.3
CCR For Interest Rate Swaps	0.3	-	0.3	-
CCR For Forex Swaps	2.0	-	2.0	0.2
CCR For Repo Transaction	-	-	-	-
Credit Valuation Adjustment	2.1	-	2.1	0.2
Total Credit Risk	**778.1**	**3.4**	**774.7**	**62.0**
Market Risk - Forex PRR	16.2	-	16.2	1.3
Market Risk - Interest Rate PRR On Trading Book	11.0	-	11.0	0.9
Market Risk - Interest Rate PRR On Interest Rate Swap	37.3	-	37.3	3.0
Total Market Risk	**64.5**	-	**64.5**	**5.2**
Operational Risk	**67.0**	-	**67.0**	**5.4**
Capital Requirement	**909.6**	**3.4**	**906.2**	**72.6**

As at 31st March 2017 **(Figures in Million)**

Particulars	**RWA (Before SME Benefit)**	**SME Benefit***	**RWA After SME Benefit**	**Capital Required @ 8% under Pillar I**
Credit Risk - Balance Sheet Assets	827.0	5.8	821.2	65.7
Credit Risk - Off Balance Sheet Assets	5.8	-	5.8	0.5
CCR For Interest Rate Swaps	1.3	-	1.3	0.1
CCR For Forex Swaps	1.3	-	1.3	0.1
CCR For Repo Transaction	-	-	-	-
Credit Valuation Adjustment	1.3	-	1.3	0.1
Total Credit Risk	**836.7**	**5.8**	**830.9**	**66.5**
Market Risk - Forex PRR	14.4	-	14.4	1.2
Market Risk - Interest Rate PRR On Trading Book	32.3	-	32.3	2.6
Market Risk - Interest Rate PRR On Interest Rate Swap	47.2	-	47.2	3.8
Total Market Risk	**93.9**	-	**93.9**	**7.5**
Operational Risk	**88.3**	-	**88.3**	**7.1**
Capital Requirement	**1,018.8**	**5.8**	**1,013.0**	**81.0**

5.3 Capital Buffers

- **Countercyclical Capital Buffer:**

The tables below use the standard template issued by the EBA to show the distribution of relevant credit exposures for the calculation of an institution's countercyclical capital buffer (CCyB), using only the columns applicable to the Bank. The CCyB rates for only those countries that are recognized by the Financial Policy Committee (FPC) in the UK have been mentioned in the table.

As at 31st March 2018 **(Figures in Million)**

010 Breakdown by country	**Credit Exposures**	**Own Funds Requirements**		
	Exposure value	**Own funds requirements**	**Own funds weights**	**Countercyclical capital rate**
	Col 010	**Col 070**	**Col 110**	**Col 120**
Hong Kong	5.9	0.7	0.01	1.9%
All Other Countries	1179.8	61.1	0.99	0.0%
020 Total	**1185.7**	**61.8**	**1.00**	**1.9%**

As at 31st March 2017 **(Figures in Million)**

010 Breakdown by country	**Credit Exposures**	**Own Funds Requirements**		
	Exposure value	**Own funds requirements**	**Own funds weights**	**Countercyclical capital rate**
	Col 010	**Col 070**	**Col 110**	**Col 120**
Hong Kong	8.5	0.8	0.12	1.3%
All Other Countries	1411.6	65.6	0.88	0.0%
020 Total	**1420.1**	**66.4**	**1.00**	**1.3%**

- **Institution Specific Countercyclical Capital Buffer:**

The table below use the standard template issued by the EBA to show the value and rate of a firm's institution-specific countercyclical capital buffer requirement and shows the Bank's value and rate as under:

As at 31st March 2018 **(Figures in Million)**

010 Total risk exposure amount	906.2
020 Institution specific countercyclical capital buffer rate	**0.02%**
030 Institution specific countercyclical capital buffer requirement	**0.2**

As at 31st March 2017 **(Figures in Million)**

010 Total risk exposure amount	1013.0
020 Institution specific countercyclical capital buffer rate	**0.01%**
030 Institution specific countercyclical capital buffer requirement	**0.1**

5.3 Capital Requirement under Pillar 2A

The Bank's Individual Capital Guidance, (to be known as Total Capital Requirement – from 1st January 2018) applicable as at March 31st 2018 was 4.44% of Risk Weighted Assets.

6. Leverage Ratio:

The Bank's leverage ratio as at 31st March 2018 was 12.94%. The leverage tables below have been prepared using standard templates issued by the EBA but only display rows that are applicable to the Bank.

6.1 LR Sum: Reconciliation of exposure measure to statement of financial position

As at 31st March **(Figures in Million)**

		2018	2017
1	**Total assets as per published financial statements**	**1,202.0**	**1455.4**
4	Adjustments for derivative financial instruments	16.8	9.7
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	8.6	10.0
7	Other adjustments	224.2	204.6
8	**Leverage ratio tool exposure measure**	**1,451.6**	**1,679.7**

6.2 LR Com: Breakdown of Leverage Exposure Measure and Calculation of Leverage Ratio

As at 31st March **(Figures in Million)**

		2018	2017
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, and fiduciary assets, but including collateral)	1,452.0	1,686.4
2	(Asset amounts deducted in determining Tier 1 capital)	(25.8)	(26.4)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**1,426.2**	**1,660.0**
	Derivative exposures		
4	Replacement cost associated with all derivatives transaction (i.e. net of eligible cash variation margin)	11.9	4.3
5	Add-on amounts for PPE associated with all derivatives transaction (mark to market method)	4.9	5.4
11	**Total derivatives exposures**	**16.8**	**9.7**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	45.4	44.5
18	(Adjustments for conversion to credit equivalent amounts)	(36.8)	(34.5)
19	**Other off balance sheet exposures**	**8.6**	**10.0**
	Capital and total exposures		
20	Tier 1 capital	187.8	165.5
21	**Total leverage ratio exposures**	**1,451.6**	**1,679.7**
22	**Leverage ratio**	**12.9%**	**9.9%**

6.3 LR Spl: Breakdown of Leverage Exposure Measure by Exposure Class

As at 31st March **(Figures in Million)**

		2018	2017
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	1452.0	1686.4
EU-2	Trading book exposures	-	
EU-3	**Banking book exposures, of which:**	**1452.0**	**1686.4**
EU-5	Exposures treated as sovereigns	165.3	493.0
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-	
EU-7	Institutions	392.9	59.6
EU-8	Secured by mortgages of immovable properties	161.0	119.4
EU-9	Retail exposures	13.8	17.4
EU-10	Corporate	218.7	476.8
EU-11	Exposures in default	416.6	403.2
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	83.6	116.9

6.4 LR Qua: Qualitative Disclosure on Management of Leverage Ratio

1	Description of the process used to manage the risk of excessive leverage	Leverage is managed within the Bank's Risk Appetite Framework and the Bank demonstrates a low risk appetite for excessive leverage at 12.94%
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	During the course of the financial year, the leverage ratio has increased from 9.9% at 31st March 2017 to 12.94% as at 31st March 2018. The increase in the ratio is primarily due to a reduction in assets combined with an increase in Tier 1 capital.

7. Asset Encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. As at 31st March 2018, the Bank has no encumbered assets. The tables in Annexure III include all relevant disclosures in relation to encumbered and unencumbered assets

8. Liquidity:

Liquidity risk is the possibility of being unable to meet present and future financial obligations as they become due. The Bank has implemented CRDIV liquidity guidelines as specified by the PRA. It maintains a Liquidity Coverage Ratio (LCR) as stipulated by the PRA. The Bank also tracks the Net Stable Funding Ratio (NSFR), though it is yet to be introduced as a regulatory requirement.

The table below shows the key liquidity ratios as at 31st March:

Key Liquidity Metrics	2018	2017
Liquidity Coverage Ratio (LCR)	1027%	1040%
Net Stable Funding Ratio (NSFR)	171%	180%

9. Credit Risk: General Disclosures

9.1 Qualitative Disclosures

- **Past due but not impaired**

Loans that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that there is no impairment on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

- **Commercially re-negotiated**

Loans in which renegotiation or refinancing did not qualify as forbearance. A refinancing or modification in terms and conditions of repayment on account of certain events, even if, the customer is not facing any financial difficulty are classified as commercially re-negotiated loans.

- **Forborne**

Loans are treated as forborne if a concession has been made and the debtor is facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

- **Non-Performing**

Loans which are more than 90 days past due or where the obligor has been found impaired in accordance with the IFRS accounting framework and/or the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

- **Impaired**

The Bank regards a loan and advance as impaired if there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.

Determination of Specific Impairment Provisions:

i) Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate. If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the statement of profit or loss.

ii) Available for Sale Assets

The Bank assesses at each Balance Sheet date whether there is objective evidence that an available for sale asset is impaired. Objective evidence that a financial asset is impaired includes observable data that come to the attention of the Bank such as a significant change in price in excess of 20 percent or prolonged decline over nine months; and due to deterioration of credit ratings which has an impact on the Bank's estimated future cash flows of the financial assets.

If an impairment loss has been incurred, the cumulative loss (measured as a difference between the original cost and the fair value) less any impairment loss on that asset previously recognised, is removed from equity and recognised in the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of profit or loss.

Internal Ratings

The Bank has in place internal rating and scoring models. All eligible non-bank credit counterparties are rated on these models. Rating / Scoring is given on various financial and non-financial parameters such as financial strength, creditworthiness and repayment capacity of the borrower. The Bank carries out periodical validation of these models.

Internal ratings are used while taking credit decisions. However, these ratings are not used for determining the risk weight for arriving at capital requirements. All exposures which are not rated by external approved rating agencies are treated as unrated, even though they may be rated internally for credit decision.

On request of the party, rating decisions are informed to SMEs and other corporate applicants for loans, also providing the rationale for such rating if asked.

Credit Risk Management Policy

Credit risk is defined as a potential financial loss on account of delay or denial of repayment of principal or interest with respect to a credit facility extended by the Bank, both fund and non-fund based. Credit risk can also arise on account of downgrading of counterparties to whom credit facilities are extended or whose credit instruments the Bank may be holding, causing the value of those assets to fall. Risks arising from adverse changes in the credit quality of borrowers or general deterioration in the economic conditions under which these counterparties operate could also affect the recoverability and value of Bank's assets and therefore its financial performance.

The following techniques are in place to mitigate the credit risks:

- ❖ The Bank has an approved lending policy wherein the types of credit facilities are defined as is the sanctioning authority which grants within specific financial limits;
- ❖ Every credit facility beyond a pre-determined limit is processed through the recommending committee and sanctioned by the credit approval committee;
- ❖ Credit risk under each loan above the threshold limit is assessed both on financial and non-financial parameters;

- Concentration risk is taken into account both with respect to individual or group exposures as well as industry/sector wide or country wide exposures;
- Most of the facilities are secured by either tangible securities or third party guarantees;
- With respect to large value facilities including under syndicated facilities, documentation is done through external solicitors;
- Periodic review and monitoring of facilities is undertaken to identify and attend to any observed weakness in any facility;
- All facilities above prescribed threshold limits are reported to the Board from time to time;
- Lending policies and limits are periodically reviewed by the Board; and
- Risk rating of individual proposals beyond cut-off limit is done as per the internal credit risk rating model.

9.2 Quantitative Disclosures

i. The total gross credit risk exposures were:

As at 31st March **(Figures in Million)**

Particulars	**2018**	**2017**
On-balance sheet exposures	1,418.7	1626.6
Off-balance sheet exposures	45.4	44.5
Derivatives	16.9	9.7
Total	**1,481.0**	**1680.8**

ii. Exposure class wise distribution of exposure subject to credit risk is as below:

As at 31st March 2018 **(Figures in Million)**

Exposure Class	Gross Original Exposure	Net Exposure[1]	Exposure value	Risk Weighted Assets
On Balance Sheet exposures:				
Exposures to Central Govt. / Central Banks	132.0	132.0	132.0	-
Exposures to Institutions	392.9	414.4*	414.4	191.8
Exposures to Corporates	218.7	159.6	159.6	159.2
Retail Exposures	13.8	2.8	2.8	1.7
Exposures secured by mortgages on Immovable Property	161.1	161.1	161.1	126.0
Exposures in Default	416.6	145.6	145.6	194.5
Other Items	83.6	133.0	133.0	93.5
Total On Balance Sheet Exposures	**1,418.7**	**1,148.5**	**1,148.5**	**766.7**
Off Balance Sheet exposures:				
Exposures To Corporates	14.2	8.3	1.3	1.3
Retail Exposures	6.4	2.6	-	-
Exposures Sec. By Mortgages On Immovable Property	7.7	7.7	-	-
Other Items	17.2	26.8	2.9	2.3
Total Off Balance Sheet Exposures	**45.4**	**45.4**	**4.2**	**3.6**
Counterparty Risk Exposure:				
Derivatives	16.9	16.9	16.9	2.3
Total Counterparty Risk Exposure	**16.9**	**16.9**	**16.9**	**2.3**
Total Exposure subject to Credit Risk	**1,481.0**	**1,210.8**	**1,169.5**	**772.6**
CVA Risk	-	-	-	2.1
Total	**1,481.0**	**1,210.8**	**1,169.5**	**774.7**

[1]*Net Exposure: Exposure after provisions, credit risk mitigation and substitution*
Exposure Value: Exposure after CCF for off-balance sheet exposures

** Net exposure to Institutions has increased post substitution with other exposure classes*

As at 31st March 2017 **(Figures in Million)**

Exposure Class	Gross Original Exposure	Net Exposure	Exposure Value	Risk Weighted Assets
On Balance Sheet exposures:				
Exposures to Central Govt. / Central Banks	433.3	433.3	433.3	-
Exposures to Institutions	59.6	265.3	265.3	143.4
Exposures to Corporates	476.8	247.4	247.4	247.0
Retail Exposures	17.4	5.0	5.0	3.3
Exposures secured by mortgages on Immovable Property	119.4	119.4	119.4	114.5
Exposures in Default	116.9	152.2	152.2	116.7
Other Items	403.2	143.3	143.3	196.3
Total On Balance Sheet Exposures	**1,626.7**	**1,365.9**	**1,365.9**	**821.2**
Off Balance Sheet exposures:				
Exposures To Corporates	15.4	13.7	1.4	1.4
Retail Exposures	11.6	1.1	0.2	0.1
Exposures Sec. By Mortgages On Immovable Property	8.8	8.8	0.5	0.5
Other Items	8.7	20.9	2.6	3.8
Total Off Balance Sheet Exposures	**44.5**	**44.5**	**4.7**	**5.8**
Counterparty Risk Exposure:				
Derivatives	9.7	9.7	9.7	2.6
Total Counterparty Risk Exposure	**9.7**	**9.7**	**9.7**	**2.6**
Total Exposure subject to Credit Risk	**1,680.8**	**1,420.1**	**1,380.2**	**829.6**
CVA Risk	-	-	-	**1.3**
Total	**1,680.8**	**1,420.1**	**1,380.2**	**830.9**

- There is no exposure of the Bank in securitization/ re-securitization of assets.
- High risk and Equity exposures are under 'On Balance Sheet Exposures - Other Items'
- High risk exposure included above is against buy to sell IPs.
- Equity exposures include exposure of the Bank in capital bonds of other banks.

iii. Geographical distribution (based on country of risk) into major areas is as below:

As at 31st March 2018 **(Figures in Million)**

Geography	Gross Original Exposure	Net Exposure	Exposure value	Risk Weighted Assets	Actual RWA as % of total
India	564.6	472.0	470.6	334.6	43.3%
United Kingdom	550.3	502.8	465.1	250.7	32.5%
Euro area	113.1	60.9	59.0	62.6	8.1%
East Asia & Pacific	106.6	85.0	85.0	40.6	5.3%
Sub-Saharan Africa	32.8	30.9	30.9	39.2	5.1%
North America	97.2	46.1	46.1	32.1	4.2%
Eastern Europe & Central Asia	5.4	5.4	5.4	5.4	0.7%
South Asia excluding India	4.5	4.5	4.5	4.5	0.6%
Middle East & North Africa	6.5	3.1	2.8	2.8	0.4%
Total	**1,481.0**	**1,210.8**	**1,169.5**	**772.6**	**100.0%**

As at 31st March 2017 **(Figures in Million)**

Geography	Gross Original Exposure	Net Exposure	Exposure value	Risk Weighted Assets	Actual RWA as % of total
India	526.2	448.5	446.8	330.4	39.8%
United Kingdom	833.8	766.4	728.5	302.0	36.4%
Euro area	102.2	66.9	66.9	70.2	8.5%
East Asia & Pacific	49.4	31.0	30.9	31.0	3.7%
Sub-Saharan Africa	32.6	26.4	26.4	34.6	4.2%
North America	115.9	64.1	64.1	46.9	5.7%
Eastern Europe & Central Asia	3.7	3.7	3.7	3.8	0.5%
South Asia excluding India	5.9	5.9	5.9	5.9	0.7%
Middle East & North Africa	11.1	7.1	7.1	4.9	0.6%
Total	**1,680.8**	**1,420.1**	**1,380.2**	**829.6**	**100.0%**

iv. Industry wise distribution of exposures by asset class:

As at 31st March 2018 **(Figures in Million)**

Exposure class	Finance & Business	Manufacturing & Mining	Real Estate & Construction	Retail/Whole sale Trade	Transport & Storage	Exposure Value
Central Govts. or Central Banks	132.0	-	-	-	-	**132.0**
Corporates	46.6	86.8	0.1	20.0	7.3	**160.8**
Exposures in default	11.1	76.5	36.7	4.4	17.6	**146.3**
Equity	-	8.7	-	4.5	-	**13.2**
High Risk	-	-	38.5	-	-	**38.5**
Institutions	431.3	-	-	-	-	**431.3**
Secured by mortgages on immovable property	32.2	-	127.4	1.5	-	**161.1**
Other items	74.6	-	-	-	-	**74.6**
Retail	1.5	-	-	1.3	-	**2.8**
Inst. & Corp. with a short term credit assessment	9.0	-	-	-	-	**9.0**
Exposure Value	**738.2**	**172.0**	**202.8**	**31.7**	**24.9**	**1169.5**

As at 31st March 2017 **(Figures in Million)**

Exposure class	Finance & Business	Manufacturing & Mining	Real Estate & Construction	Retail/Whole sale Trade	Transport & Storage	Exposure Value
Central Govts. or Central Banks	433.3	-	-	-	-	**433.3**
Corporates	76.8	127.8	12.3	25.0	6.9	**248.8**
Exposures in default	12.0	73.4	33.9	4.7	19.4	**143.3**
Equity	5.3	9.9	-	5.9	-	**21.0**
High Risk	-	-	53.4	-	-	**53.4**
Institutions	274.9	-	-	-	-	**274.9**
Secured by mortgages on immovable property	24.1	-	91.3	4.4	-	**119.9**
Other items	19.8	8.7	-	22.6	-	**51.1**
Retail	3.3	-	-	1.8	-	**5.2**
Inst. & Corp. with a short term credit assessment	29.3	-	-	-	-	**29.3**
Exposure Value	**878.9**	**219.8**	**190.9**	**64.4**	**26.2**	**1380.2**

v. Exposure value subject to credit risk analysed by Credit Quality Step (CQS):

The Bank uses external credit ratings provided by Fitch, Moody's and Standard & Poor's. There has been no change in the usage of these ratings from last year.

The Bank assigns each of its exposures to one of the CQS with reference to relevant issuer and issue credit assessments. Risk weight percentage are then determined with reference to exposure class, CQS, and maturity of the exposure.

Types of exposure for which each agency is used as below:

- Specific product rating if available.
- General Long Term/ Short Term rating for long term /short term exposure respectively if no specific product rating.

Credit quality assessment scale as prescribed in supervisory statement SS10/13 by PRA is being followed. Further guidelines by PRA/ EBA as and when issued/ revised, will continue to be followed.

The following tables detail the standardised credit risk exposures by CQS for significant asset classes. All exposures are stated after specific impairment provisions and post application of credit risk mitigation (CRM) techniques with substitution effects on the exposure and after application of any conversion factors (CCF).

As at 31st March 2018 **(Figures in Million)**

Exposure Class	Corporates	Institutions	Retail	All Others	Exposure Value
On Balance Sheet exposures					
Credit Quality Step (CQS) 1	-	133.1	-	-	133.1
Credit Quality Step (CQS) 2	-	63.6	-	-	63.6
Credit Quality Step (CQS) 3	23.5	114.5	-	-	138.0
Credit Quality Step (CQS) 4	-	38.7	-	-	38.7
Credit Quality Step (CQS) 5	-	-	-	-	-
Credit Quality Step (CQS) 6	-	-	-	-	-
Unrated	136.1	205.4	2.8	430.8	775.0
Total On Balance Sheet exposures	**159.6**	**555.3**	**2.8**	**430.8**	**1,148.5**
Off Balance Sheet exposures					
Unrated	1.2	0.1	0.0	2.9	4.2
Total Off Balance Sheet exposures	**1.2**	**0.1**	**0.0**	**2.9**	**4.2**
Derivatives					
Credit Quality Step (CQS) 1	-	8.6	-	-	8.6
Credit Quality Step (CQS) 2	-	2.9	-	-	2.9
Credit Quality Step (CQS) 3	-	5.4	-	-	5.4
Total derivative exposures	-	**16.9**	-	-	**16.9**
Total	**160.8**	**572.3**	**2.8**	**433.6**	**1169.5**

As at 31st March 2017 **(Figures in Million)**

Exposure Class	Corporates	Institutions	Retail	All Others	Exposure Value
On Balance Sheet exposures					
Credit Quality Step (CQS) 1	-	433.6	-	-	433.6
Credit Quality Step (CQS) 2	-	24.9	-	-	24.9
Credit Quality Step (CQS) 3	20.6	211.2	-	1.5	233.3
Credit Quality Step (CQS) 4	-	25.0	-	4.2	29.2
Credit Quality Step (CQS) 5	-	-	-	-	-
Credit Quality Step (CQS) 6	-	-	-	0.0	-
Unrated	226.8	33.1	5.0	379.8	644.8
Total On Balance Sheet exposures	**247.4**	**727.9**	**5.0**	**385.5**	**1,365.8**
Off Balance Sheet exposures					
Unrated	1.4	0.0	0.2	3.1	4.7
Total Off Balance Sheet exposures	**1.4**	**0.0**	**0.2**	**3.1**	**4.7**
Derivatives					
Credit Quality Step (CQS) 1	-	1.9	-	-	1.9
Credit Quality Step (CQS) 2	-	6.6	-	-	6.6
Credit Quality Step (CQS) 3	-	1.2	-	-	1.2
Total derivative exposures	-	**9.7**	-	-	**9.7**
Total	**248.8**	**737.6**	**5.2**	**388.6**	**1380.2**

vi. The residual contractual maturity break down of exposures by asset class:

As at 31st March 2018 **(Figures in Million)**

Exposure Class	Upto 3 months	Over 3 months upto 1 years	Over 1 year upto 5 years	Over 5 years	Exposure Value
Central Govts. or Central Banks	121.7	-	6.4	3.8	132.0
Corporates	44.3	9.1	94.0	13.4	160.8
Exposures in Default	42.6	0.1	31.7	71.9	146.3
Equity	-	8.7	4.5	-	13.2
High Risk	11.8	6.9	15.5	4.3	38.5
Institutions	272.9	112.0	46.5	-	431.3
Secured by mortgages on immovable property	21.8	7.1	94.7	37.4	161.1
Other Items	47.2	27.2	0.1	0.1	74.6
Retail	1.5	0.8	0.4	-	2.8
Inst. & Corp. with a short term credit assessment	9.0	-	-	-	9.0
Exposure Value	**572.8**	**171.9**	**293.9**	**130.9**	**1,169.5**

As at 31st March 2017 **(Figures in Million)**

Exposure Class	Upto 3 months	Over 3 months upto 1 years	Over 1 year upto 5 years	Over 5 years	Exposure Value
Central Govts. or Central Banks	433.3	-	-	-	**433.3**
Corporates	59.2	3.9	127.2	58.5	**248.8**
Exposures in Default	31.9	21.8	40.1	49.6	**143.3**
Equity	-	-	5.9	15.2	**21.0**
High Risk	21.4	3.2	12.7	6.1	**53.4**
Institutions	38.3	87.7	132.0	17.0	**274.9**
Secured by mortgages on immovable property	19.6	0.7	66.9	32.7	**119.9**
Other Items	36.2	-	14.8	0.1	**51.1**
Retail	4.7	0.0	0.4	0.0	**5.2**
Inst. & Corp. with a short term credit assessment	29.3	-	-	-	**29.3**
Exposure Value	**673.9**	**127.3**	**399.9**	**179.2**	**1380.2**

The above tables show residual maturity of exposures with a breakdown by exposure class. All exposures are stated after specific impairment provisions and post application of credit risk mitigation (CRM) techniques with substitution effects on the exposure and after application of any conversion factors (CCF).

The maturity of exposures is shown on a contractual basis and does not take into account any instalments receivable over the life of the exposure. Hence, the actual maturity may be different.

vii. Credit Risk Adjustments

- **Provision on impaired financial assets:**

As at 31st March 2018 **(Figures in Million)**

Particulars	Loans & Advances	HTM Securities	Total
Gross balances of impaired assets	**318.5**	**2.3**	**320.8**
Less: specific impairment provision	**(267.9)**	**(2.3)**	**(270.2)**
Net Balance	**50.6**	**-**	**50.6**

As at 31st March 2017 **(Figures in Million)**

Particulars	Loans & Advances	HTM Securities	Total
Gross balances of impaired assets	**299.4**	**2.2**	**301.6**
Less: specific impairment provision	**(258.6)**	**(2.2)**	**(260.8)**
Net Balance	**40.8**	**-**	**40.8**

➢ **Reconciliation of movements:**

As at 31st March **(Figures in Million)**

Movement of Specific Impairment Provisions	**2018**	**2017**
Opening Balance at the beginning of the period	260.7	110.9
Charge for the year	22.8	155.3
Recoveries/reversals	(13.3)	(5.5)
Closing Balance as at the end of the period	**270.2**	**260.7**
Of which:		
➢ Provision for impairment on loans and advances	**267.9**	**258.6**
➢ Provision for impairment of held to maturity investment securities	**2.3**	**2.2**

As at 31st March **(Figures in Million)**

Movement of Collective Impairment Provisions	**2018**	**2017**
Opening Balance at the beginning of the period	4.7	5.6
Reversal of charge for the year	(1.1)	(0.9)
Closing Balance as at the end of the period	**3.6**	**4.7**

➢ **Charge to profit and loss in respect to impairment:**

Charge to profit and loss	**2018**	**2017**
Impairment charge on loans and advances	5.3	149.0
Impairment charge on investments held to maturity	0.0	(0.1)
Provision on doubtful interest receivable	-	3.2
Total charge to profit and loss	**5.3**	**152.1**

viii. Geographical distribution of impaired advances is as below:

As at 31st March **(Figures in Million)**

Country of incorporation	**2018**		**2017**	
	Amount of impaired advances	**Provision Held**	**Amount of impaired advances**	**Provision Held**
UK	52.1	39.8	35.2	32.9
India	135.2	114.2	135.8	108.9
G-10	42.3	38.0	81.5	73.6
Others	88.9	75.9	46.9	43.2
Total	**318.5**	**267.9**	**299.4**	**258.6**

ix. Counterparty type distribution of impaired advances is as below:

As at 31st March (Figures in Million)

Counterparty Type	2018		2017	
	Amount of impaired advances	Provision Held	Amount of impaired advances	Provision Held
Corporates	316.7	266.1	297.6	256.8
Retail	1.8	1.8	1.8	1.8
Total	**318.5**	**267.9**	**299.4**	**258.6**

x. Total Exposure at default is as below:

As at 31st March (Figures in Million)

Particulars	2018		2017	
Sub - Category	Exposure	Specific Provision	Exposure	Specific Provision
Impaired	318.5	270.2	301.6	260.7
Non Performing > 90 days but not impaired	98.1	-	109.2	-
Total	**416.6**	**270.2***	**410.8**	**260.7***

xi. Geographical distribution (based on country of incorporation) of specific provision:

As at 31st March (Figures in Million)

Particulars	2018			2017		
Geographical Distribution	Exposure	Specific Provision	Specific Provision 2017-18	Exposure	Specific Provision	Specific Provision 2016-17
United Kingdom	550.3	50.6	6.1	833.8	44.5	19.7
India	564.6	114.6	5.6	526.2	109.0	61.2
North America	97.2	51.1	(0.8)	115.9	51.8	29.2
Euro area	113.1	27.2	0.3	102.2	26.9	17.0
East Asia & Pacific	106.6	21.5	3.2	49.4	18.4	13.1
Sub-Saharan Africa	32.8	1.8	(4.4)	32.6	6.2	6.2
Middle East & North Africa	6.5	3.4	(0.5)	11.1	3.9	3.9
South Asia excluding India	4.5	-	-	5.9	-	-
Eastern Europe & Central Asia	5.4	-	-	3.7	-	-
Total	**1481.0**	**270.2***	**9.5**	**1680.8**	**260.7***	**149.8**

**Includes $2.3 million (2017: $2.2 million) of provision for HTM securities*

xii. Counterparty wise distribution of Specific provisions is as below:

As at 31st March **(Figures in Million)**

Particulars	2018			2017		
Counterparty Type	**Exposure**	**Specific Provision**	**Specific Provision 2017-18**	**Exposure**	**Specific Provision**	**Specific Provision 2016-17**
Corporates	1410.6	268.4	9.6	1629.3	258.9	149.3
Retail	43.6	1.8	(0.1)	51.5	1.8	0.5
Total	**1454.2**	**270.2***	**9.5**	**1680.8**	**260.7***	**149.8**

**Includes $2.3 million (2017: $2.2 million) of provision for HTM securities*

10. Credit Risk Mitigation: Disclosures for Standardized Approach

Policies and processes for, and an indication of the extent to which the Bank makes use of, on and off-balance sheet netting;

- **Policies and processes for collateral valuation and management**

The Bank has in place a 'Collateral Management Policy' which is used for collateral valuation and management.

The collateral management policy addresses the following basic objectives of credit management:

- Mitigation of credit risk & enhancing awareness on identification of appropriate collateral
- Optimizing the benefit of credit risk mitigation in computation of Capital Charge
- Mitigation of risks attendant to the use of credit Risk Mitigation techniques, e.g. legal risk and the documentation risk and to take timely action for seizure and realization of the collaterals by initiating legal action, if required, against the counterparty/ guarantor on his refusal to repay the Bank's dues.

- **A description of the main types of collateral taken by the Bank**

Deposits kept with us and deposits kept with parent against our exposure are the only collateral treated for credit risk mitigation. For deposits with the parent, equivalent exposure is treated to be an exposure with the parent. The Bank has a netting agreement with the parent, under which exposures with the parent are netted, and risk weights are only applied on the remaining exposure. The Bank has also put in place limits on net exposure to the parent and operates within those limits.

- **The main types of guarantor counterparty and their credit worthiness**

For mitigation purposes, only guarantees/Stand-by letters of credit (SBLC) issued by banks are treated as guarantees. No other guarantee is recognized for the purpose of risk mitigation. For guarantees/SBLC issued by banks, exposure is shifted to that bank.

- **Information about (market or credit) risk concentrations within the mitigation taken**

Except deposits (with us or the parent), SBLC's (primarily with Indian banks) are the only risk concentrations within the mitigation taken.

11. Securitization Exposures: Disclosure for Standardized Approach

There is no securitization exposures of the Bank.

12. Market Risk in Trading Book

12.1 Qualitative disclosures

The general qualitative disclosure requirement for market risk, including the portfolios covered by the standardized approach:

Bank's HFT Portfolio includes US and UK treasury securities; this portfolio is subject to marked to market which is recognized through profit and loss. Capital charge for Interest rate risk is arrived at by standardized approach.

12.2 Quantitative disclosures

As at 31st March **(Figures in Million)**

Particulars	**2018**		**2017**	
Risk Category	**Risk Weighted Assets**	**Capital Requirement @ 8%**	**Risk Weighted Assets**	**Capital Requirement @ 8%**
i) Interest Rate Risk	48.4	3.9	79.5	6.4
ii) Foreign Exchange Risk (incld. Gold)	16.2	1.3	14.4	1.2
iii)Total capital charge for market risks under Standardized duration approach (i + ii)	**64.6**	**5.2**	**93.9**	**7.6**

13. Operational Risk

Operational risk is calculated by Basic Indicator Approach method.

As at 31st March **(Figures in Million)**

Particulars	**2018**		**2017**	
Risk Category	**Risk Weighted Assets**	**Capital Requirement @ 8%**	**Risk Weighted Assets**	**Capital Requirement @ 8%**
Total capital charge for operational risk	67	5.4	88.3	7.1

14. Interest Rate Risk in the Banking Book (IRRBB)

14.1 Qualitative Disclosures

Key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.

A two percent shift either way is considered for arriving at interest rate risk in the banking book. Assets and liabilities on floating rate of interest are placed as per the next interest rate reset date. Those with fixed rate of interest are placed as per the contractual maturity date. Assets/ liabilities not sensitive to rate of interest are treated as non-sensitive for the purpose of this calculation. Non-performing assets are also treated as non-sensitive. Non maturity deposits are placed in the first bucket. IRRBB is measured on a quarterly basis. The risk calculated on this account is treated as a Pillar 2 risk and capital is provided accordingly.

14.2 Quantitative Disclosures

The tools used is Earning Approach – (Interest rate sensitivity Statement - Net Gaps)

The impact of change in rate of interest on the economic value of assets and liabilities including off balance sheet items is analysed under this approach. Position as of Interest Rate Gaps as on 31st March 2018 is as below:

As at 31st March 2018 **(Figures in Million)**

Maturity Period	Gap	Other Products	Net Gap	Total Assets	Impact of Int. Variation of 2%
	(RSA-RSL)*	(IRS)	(1 + 2)		
Up to 3 months	299	(31)	268	902.3	(0.7)
>3 to 6 months	(60)	(43)	(103)	86.3	0.8
>6 to 12 months	(30)	84	54	40.7	(0.8)
>1 to 3 yrs.	(83)	-	(83)	70.9	2.6
>3 yrs.	(29)	-	(29)	44.5	1.1
Non Sensitive Category	(97)	(10)	(107)	107.7	

As at 31st March 2017 **(Figures in Million)**

Maturity Period	Gap	Other Products	Net Gap	Total Assets	Impact of Int. Variation of 2%
	(RSA-RSL)*	(IRS)	(1 + 2)		
Up to 3 months	656.6	(35.2)	621.4	1240.5	1.6
>3 to 6 months	(126.4)	(223.9)	(350.3)	53.6	(2.6)
>6 to 12 months	158.1	0.01	158.1	20.6	(2.4)
>1 to 3 yrs.	(251.0)	262.3	11.3	61.9	0.6
>3 yrs.	(35.8)	0.0	(35.8)	52.7	(1.3)
Non-Sensitive Category	(85.3)	(3.2)	(88.5)	75.4	

*RSA: Rate Sensitive Assets, RSL: Rate Sensitive Liabilities, IRS: Interest Rate Swaps

The impact of interest variation by 2% is calculated and treated as a Pillar 2 requirement of capital. Most of our liabilities are at fixed rate of interest and any change in interest is not applicable to liabilities contracted in past. Most of our loans and advances are at floating rate of interest. The floating component is LIBOR or Bank of England rate, and a fixed spread over that rate is charged to the customers. Therefore, the impact on the Bank is mostly limited to variation in LIBOR / Bank of England Rate.

As a prudential measure, a limit has been fixed for impact on economic value of equity and the same is monitored on a regular basis.

15. General Disclosure for Exposures Related to Counterparty Credit Risk

15.1 Qualitative Disclosures

The general qualitative disclosure requirement with respect to derivatives and CCR methodology used to assign economic capital and credit limits for counterparty credit exposures is as below:

The Bank has forex swaps and interest rate swaps as derivatives in our books. No derivative is entered for clients. Forex swaps are entered to cover own positions. Similarly, interest rate swaps are also entered so as to minimize own interest rate risk in banking book. Capital for Counterparty Credit risk is provided on exposure value of forex swaps and interest rate swap arrived at by adding positive mark to market value with potential future exposure at prescribed rates as per maturity of the contract. Besides, interest rate risk is also provided for interest rate swaps under standardized method. Further, Credit Valuation adjustment (CVA) on derivatives is being calculated based on standardized approach.

Counterparty exposure for security financing transaction is arrived at by netting the amount of securities lent from the secured financing obtained. The present exposure is nil.

Policies for securing collateral and establishing credit reserves:

Not applicable

Policies with respect to wrong-way risk exposures:

The Bank mitigates the credit risk of derivatives by entering into International Swaps and Derivative Association (ISDA) master netting agreements. Under these agreements, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the terminal value is assessed and only a single net amount is due or payable in settlement of all transactions. The Bank’s sale and repurchase transactions are also covered by master agreements with netting terms similar to ISDA master netting agreements. The ISDA and similar master netting agreements create for the parties to the agreement a right to the set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events.

Discussion of the impact of the amount of collateral the Bank would have to provide given a credit rating downgrade.

Not applicable

15.2 Quantitative Disclosures

a) Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure.

b)

As at 31st March **(Figures in Million)**

Particulars	2018			2017		
	Positive Mark to Market Value	**Potential Future Exposure**	**Total Exposure**	**Positive Mark to Market Value**	**Potential Future Exposure**	**Total Exposure**
Forex Swaps	11.9	3.5	15.4	3.6	3.3	6.9
Interest Rate Swaps	-	1.5	1.5	0.7	2.1	2.8
Total	**11.9**	**5.0**	**16.9**	**4.3**	**5.4**	**9.7**

The Bank has no borrowings against the REPO transaction as on 31st March 2018.

Credit Valuation Adjustment (CVA) risks on counterparty is $2.1 million.

b) Credit derivative transactions that create exposure to CCR: Nil

c) Hedging Policy:

The Bank does not deal in derivatives for customers. Derivatives are used for hedging own positions. Currency swap and interest rate swap are the major derivatives used by the Bank. In order to hedge interest rate risk in banking book, the Bank has entered into interest rate swaps for USD 294 Million. Similarly, the Bank has entered into currency swaps to mitigate forex risk, while managing its funds mismatch in different currencies.

16. Remuneration Policy:

The PRA has defined certain requirements relating to remuneration, referred to as the Remuneration Code ("the Code"). Firms that fall within the scope of the Code (which includes banks) must establish, implement and maintain remuneration policies, procedures and practices that are consistent with, and promote, sound and effective risk management.

The Bank's Remuneration Policies are designed to comply with the Code and the Bank is committed to adherence to its practices and guidelines in respect of Code Staff.

The Chairman of the Board and one of the Non-executive directors are from Parent Bank and the Bank doesn't pay any remuneration to them. The Managing Director is a Parent Bank Appointee on a secondment basis and his remuneration is guided by Standing Committee set up by Government of India for determining salary and other service conditions of officers of public sector banks posted abroad. Two independent Non-Executive Directors are paid fixed salary/fees and allowances per annum. The other executive director and Key persons are on special contract or negotiated pay, which is annually reviewed by The Nomination and Remuneration Committee.

Other than Director's remunerations, the Bank has two pay groups of employees in UK – those on secondment to the Bank from the Parent Bank and those who are locally recruited. The employees on secondment are governed by the salary structure approved by the Standing Committee set up by Government of India for determining salary and other service conditions of officers of public sector banks posted abroad; as well as by the Board of Directors of the Parent Bank. Their salary, perquisites and allowances are fixed accordingly and include certain fixed net of tax basic pay, payment of tax and NI and reimbursement of furnished accommodation, utility bills, telephone, newspaper and medical expenses. Salary to the locally recruited staff is as per Board approved Human Resource (HR) Policy. HR policy of the Bank is approved by the Board on recommendation of the audit and compliance committee of the Board.

Bank has its independent back office in India. At the Back Office, there are two groups of employees. Senior officers are on deputation from the Parent Bank, and are paid salary as per the salary structure of nationalized banks in India. In addition, each of them is paid a deputation allowance. Junior staff is on contract from an employee management agency, and are treated as employees of the contractor.

None of the employees of the Bank falls in the category of high earners. As a matter of policy, the Bank does not pay any bonus to its employees. There is no deferral policy. There is no variable pay. All employees are paid annual increments as per their scale of pay.
Aggregate quantitative information on the expenditure on staff during the year 2017-18 was as below:

As at 31st March **(Figures in Million)**

Description	**2018**	**2017**
India based Officers (IBO) including MD & CEO and secondment from Parent	2.5	3.4
Local Staff including ED	5.9	3.1
Medical Insurance of UK staff	0.1	0.1
Total expenditure on UK staff	**8.5**	**6.6**
Expenditure on India staff	0.2	0.2
Total Staff Expenses	**8.7**	**6.8**
Out of above		
Remuneration to staff whose actions have a material impact on risk profile of the Bank (MD, ED, and NEDs)	**0.5**	**0.3**

The entire remuneration, as above, is fixed, and there is no variable remuneration. No sign-on or severance payment wages were made.

Annexure I

Own funds disclosure template:

The table below uses the standard template issued by the EBA to show the composition of the Bank's own funds but only displays the rows of the template that are applicable.

As at 31st March **(Figures in Million)**

	Particulars	2018	2017
	Common Equity Tier 1 (CET1) capital: instruments and reserve		
1	Capital instruments and the related share premium accounts	274.6	254.6
2	Retained earnings	(104.9)	3.6
3	Accumulated other comprehensive income	(1.1)	(0.03)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**168.6**	**258.2**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-	(111.3)
8	Intangible assets (net of related tax liability) (negative amount)	(0.5)	(0.6)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	(25.3)	(25.8)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(25.8)**	**(137.7)**
29	**Common Equity Tier 1 (CET 1) capital**	**142.8**	**120.5**
	Additional Tier 1 (AT1)capital: regulatory adjustments		
30	Capital instruments and share premium accounts	45.0	45.0
45	**Tier 1 capital (T1= CET1+AT1)**	**187.8**	**165.5**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	50.0	50.0
50	Credit risk adjustments	3.5	4.7
	Tier 2 (T2) capital: regulatory adjustments		
57	**Total Regulatory adjustments to Tier 2 (T2) capital**	(4.1)	(0.4)
58	**Tier 2 (T2) capital**	49.4	54.3
59	**Total capital (TC=T1+T2)**	**237.2**	**219.8**
60	**Total risk weighted assets**	**906.2**	**1013.0**
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.76%	11.90%
62	Tier 1 (as a percentage of total risk exposure amount)	20.72%	16.34%
63	Total capital (as a percentage of total risk exposure amount)	26.18%	21.70%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	1.90%	1.26%
65	of which: capital conservation buffer requirement	1.88%	1.25%
66	of which: countercyclical buffer requirement	0.02%	0.01%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.76%	4.90%

	Amounts below the thresholds for deduction (before risk weighing)		
75	DTA arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	25.3	25.8
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	3.5	4.7
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	11.3	12.7

Annexure II

Capital Instruments Main Features:

Disclosure template for main features of regulatory capital instruments	**Equity Share Capital**	**Additional Tier I Capital Bonds**	**Additional Tier I Capital Bonds**	**Dated Tier II Capital Bonds**	**Dated Tier II Capital Bonds**	**Dated Tier II Capital Bonds**	**Dated Tier II Capital Bonds**
Issuer	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	Punjab National Bank	Punjab National Bank	Canara Bank	Bank of Baroda
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Non Demat	Non Demat	Non Demat	Non Demat	Non Demat	Non Demat	Non Demat
Governing law(s) of the instrument	English Law	English Law	English Law	English Law	English Law	English Law	English Law
Regulatory treatment							
Transitional CRR rules	Common Equity Tier I	Additional Tier I	Additional Tier I	Tier II	Tier II	Tier II	Tier II
Post-transitional CRR rules	Common Equity Tier I	Additional Tier I	Additional Tier I	Tier II	Tier II	Tier II	Tier II
Eligible at solo/group/ group & solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo
Instrument type	Common Equity Tier I	Additional Tier I	Additional Tier I	Subordinated dated debt	Subordinated dated debt	Subordinated dated debt	Subordinated dated debt

Amount recognized in regulatory capital	274.6	25.0	20.0	20.8	10.0	5.0	10.0
Par value of instrument	274.6	25.0	20.0	25.0	10.0	5.0	10.0
Accounting classification	Equity share capital	Equity Share Capital	Equity Share Capital	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
Original date of issuance (amount on each issue date given in brackets	Issued on various dates	Converted to AT1 on 15.03.16	31.03.2017	31.01.2012 (12.5), 04.10.2012 (12.5)	30.12.2015	23.12.2013	19/08/2014
Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated
Original maturity date	Undated	Undated	Undated	10 Years	10 Years	15 Years	10 Years
Issuer call subject to prior supervisory approval	NA	5 Years	5 Years	5 Years	NA	10 Years	NA
Optional call date	NA	Each interest payment date on or after 5 years.	Each interest payment date on or after 5 years.	Each interest payment date on or after 5 years.	NA	23.12.2023	NA
Redemption Amount	NA	25.0	20.0	25.0	10.0	5.0	10.0
Subsequent call dates, if applicable	NA	Nil	Nil	Nil	Nil	Nil	Nil
Coupons / dividends							
Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating	Floating
Coupon rate and any related index	Nil	6M LIBOR + 500 bps	6M LIBOR + 500 bps	6M LIBOR + 400 bps	6M LIBOR + 450 bps	6M LIBOR + 450 bps	6M LIBOR + 450 bps
Existence of a dividend stopper	Nil	Yes	Yes	Nil	Nil	Nil	Nil

Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Fully Discretionary	Fully Discretionary	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
Noncumulative or cumulative	Non-cumulative	Non-Cumulative	Non-Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	NA	Convertible	Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If convertible, conversion trigger(s)	NA	CET1 Ratio falls below required	CET1 Ratio falls below required	NA	NA	NA	NA
If convertible, fully or partially	NA	Fully	Fully	NA	NA	NA	NA
If convertible, conversion rate	NA	USD 1.00	USD 1.00	NA	NA	NA	NA
If convertible, mandatory or optional conversion	NA	Mandatory	Mandatory	NA	NA	NA	NA
If convertible, specify instrument type convertible into	NA	Ordinary Shares	Ordinary Shares	NA	NA	NA	NA
If convertible, specify issuer of instrument it converts into	NA	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	NA	NA	NA	NA
Write-down feature	NA	Nil	Nil	Nil	Nil	Nil	Nil
If write-down, write-down trigger(s)	NA	NA	NA	NA	NA	NA	NA
If write-down, full or partial	NA	NA	NA	NA	NA	NA	NA

If write-down, permanent or temporary	NA	NA	NA	NA	NA	NA	NA
If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA	NA	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First	Subordinated to all other creditors	Subordinated to all other Creditors	Subordinated to all other Creditors	Subordinated to all other Creditors	Subordinated to all other Creditors	Subordinated to all other Creditors
Non-compliant transitioned features	Nil	Nil	Nil	Nil	Nil	Nil	Nil
If yes, specify non-compliant features	Nil	As above	As above	As above	As above	As above	As above
Other information	Nil	Being perpetual, not to be amortized.	Being perpetual, not to be amortized.	To be amortized in the last five years.	To be amortized in the last five years.	To be amortized in the last five years.	To be amortized in the last five years.

Annexure III

Disclosure on Asset Encumbrance

Table A – Encumbered and Unencumbered Assets

As at 31st March 2018 **(Figures in Million)**

Particulars	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	010	040	060	090
Assets of the reporting institution	-	-	1,207.0	-
Loans on demand	-	-	131.1	-
Equity instruments	-	-	-	-
Debt securities	-	-	128.9	123.4
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	-	-	43.5	42.4
of which: issued by financial corporations	-	-	60.8	59.6
of which: issued by non-financial corporations	-	-	24.6	23.8
Loans and advances other than loans on demand	-	-	898.2	-
of which: mortgage loans	-	-	-	-
Other assets	-	-	48.8	-

As at 31st March 2017 **(Figures in Million)**

Particulars	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	010	040	060	090
Assets of the reporting institution	-	-	1,460.1	-
Loans on demand	-	-	464.8	-
Equity instruments	-	-	-	-
Debt securities	-	-	122.8	120.0
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	-	-	60.0	59.0
of which: issued by financial corporations	-	-	31.8	29.5
of which: issued by non-financial corporations	-	-	31.1	31.4
Loans and advances other than loans on demand	-	-	834.0	-
of which: mortgage loans	-	-	-	-
Other assets	-	-	38.5	-

Table B – Collateral Received

As at 31st March 2018 **(Figures in Million)**

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	**040**
130	**Collateral received by the reporting institution**	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

As at 31st March 2017 **(Figures in Million)**

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	**040**
130	**Collateral received by the reporting institution**	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

Table C – Encumbered assets/collateral received and associated liabilities

As at 31st March **(Figures in Million)**

		2018		2017	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030	010	030
010	**Carrying amount of selected financial liabilities**	-	-	-	-

Table D – Information on importance of encumbrance

As at 31st March 2018, the Bank does not have any encumbered assets.