Pillar 3 Disclosures under Basel III

For the year ended 31st March 2017

For the year ended 31st March 2017 – made along with information available with the annual financial statements

Background

Punjab National Bank (International) Limited ('the Bank') is a UK incorporated subsidiary of Punjab National Bank – India, and is authorised 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.

With effect from 01.01.2014, the Bank has adopted the disclosure guidelines issued under the Capital Requirement Regulations and the Capital Requirement Directives (collectively known as CRD IV) under the Basel III regime.

Media and Location

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

Verification

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. The disclosure is intended to convey Bank's risk profile comprehensively to market participants. These disclosures 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 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.

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 FCA handbook BIPRU Chapter 11.

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. Its parent, Punjab National Bank, however, 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 consolidated basis.

1. Risk Management overview

1.1. 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.

1.2. 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.

1.3. 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.

1.4. 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 Audit and Compliance Committee (BACC)**

  The BACC is the Bank's senior audit committee with delegated authority from the Board to agree the Bank's audit universe and annual audit 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.

- **Board Risk Committee (BRC)**

  The BRC is the Bank's senior enterprise risk committee with delegated authority from the Board to recommend appetites, frameworks and policies for the approval of the Board and to monitor all of the Bank's risks, except for regulatory and compliance risks that are handled via the BACC

- Board Nomination and Remuneration Committee (BNRC)

The Nomination and Remuneration Committee (the "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.

- Board Credit Approval Committee (BCAC)

The BCAC is the Bank's senior credit committee, chaired by the MD, with responsibility for reviewing and agreeing all material individual customer credit approvals. The responsibility and powers of the BCAC are to sanction, review and, as appropriate, agree the renewal of all credit proposals beyond the delegated powers of MD.

- **Board Joint Recovery Committee (BJRC)**

The BJRC is a committee of the Board from which it derives its authority and to which it reports. It has been recently formed 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.

1.5. There are following key executive committees which help in overall risk governance across the bank.

- Executive Committee (EXCO)

The Executive Committee is the top management committee of the Bank. It derives its authority from the Board 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 MD.

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

ALCo is a sub-committee of the Executive Committee of the Bank from which it derives its authority and to which it reports, and meets on a monthly basis. The ALCo has a principal focus on monitoring the impact and potential risks to the Bank's balance sheet with particular reference to ensuring that the Bank meets its liquidity and regulatory capital requirements including appropriate levels of

buffer and contingency. Finance department calculates, monitors and reports capital requirements on daily basis to the senior executives of the Bank.

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

The RCC 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 and market risks which are monitored through CROC and ALCo respectively.

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

The CROC is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. 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.

- **Credit Recommendation Committee (CRC)**

The 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 above USD200,000 and/or below the threshold for proposals considered as a Large Exposure.

1.6. A ''Three Lines of Defence'' model has been adopted by the Bank for the effective oversight and management of risks across the Bank.

1.6.1. First line of defence

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 in line with the Board approved Risk Appetite.

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

1.6.2. Second line of defence

The Second line of defence is the risk management and compliance functions that are responsible for the effectiveness of risk management in operation including ensuring that procedures and controls are operating in a consistent and effective manner in order to manage risks. The Risk Management and Compliance Functions are independent risk management functions under the direction of the CRO and the Head of Compliance ("HOC").

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.

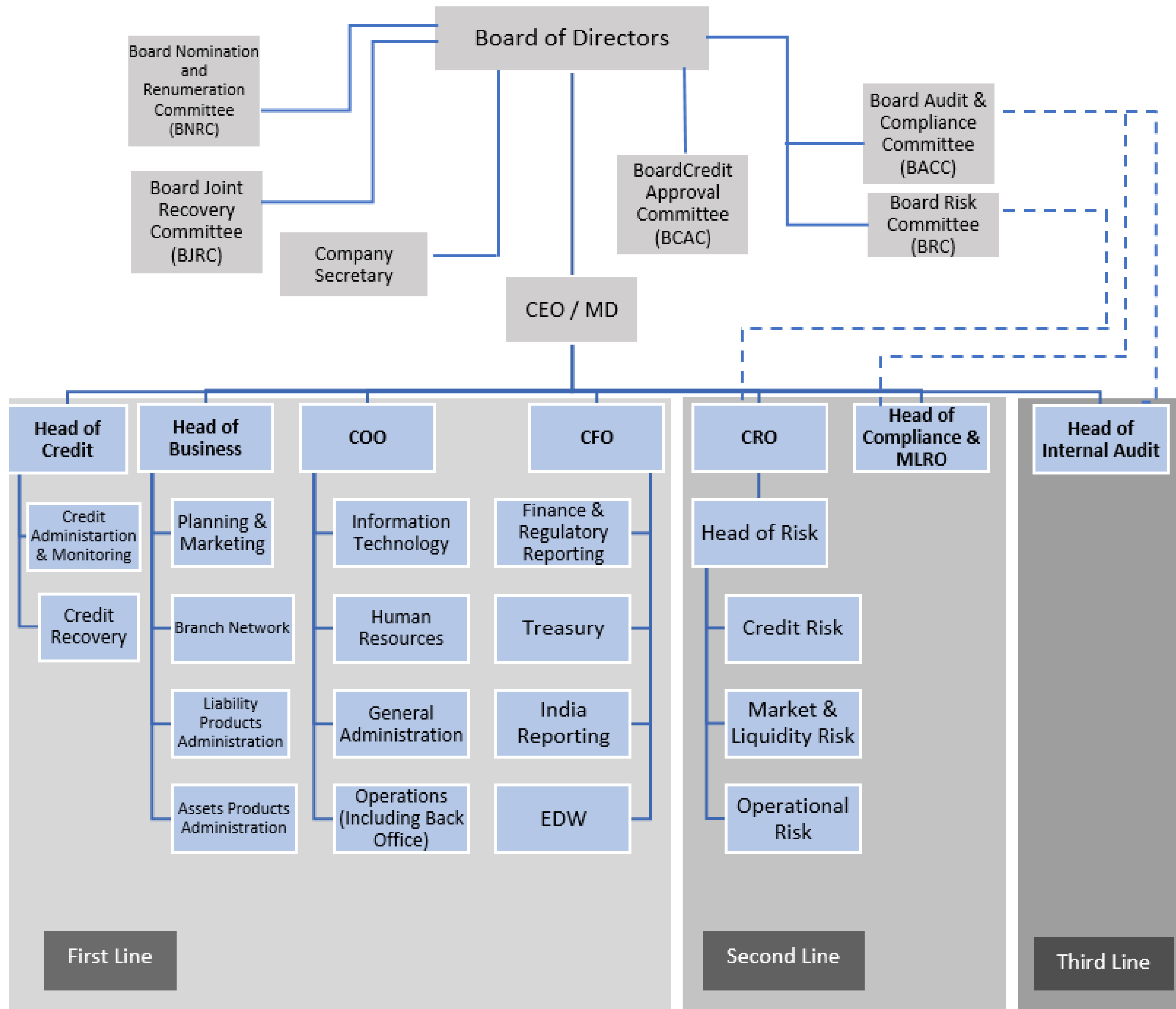
1.6.3. Third line of defence

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 in conjunction with the oversight responsibilities of BRC and BACC.

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

2. 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 a 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 and attaches the highest importance to compliance with applicable banking regulation at all times. 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 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 capital base, liquidity/ funding and regulatory constraints.
- Risk Appetite defines the maximum level and type of risk 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".

3. Capital Resources:

The details of the capital base of the Bank as on 31st March 2017 is as under:

		(Figures in Million)
Tier I	Equity Capital	254.6
	Reserve and Surplus	3.6
	Fair Value Reserve	(.03)
	Loss	(111.3)
	Less: Intangible Assets	(.05)
	Less: DTA	(25.8)
	Total Core Tier I Capital Before Material Holding	120.5
	Less Material Holding	-
	Total Core Tier I Capital	120.5
	Additional Tier I Capital	45.0
	Total Regulatory Tier I Capital	**165.5**
Tier II	Perpetual Tier II Capital	-
	Dated Tier II Capital	50.0

	Collective Impairment Provision	4.7
	Less Amortization of Dated Tier II capital maturing within five years	(0.4)
	Less Material Holding	(0.0)
	Total Tier II Capital	54.3
	Total Capital	**219.8**
	Risk Weighted Assets	1,013.0
	Tier I Ratio	16.3%
	Tier II Ratio	5.4%
	Total Capital to Risk Adequacy Ratio (CRAR)	21.7%

Brief Detail on Capital

Authorised share capital

Authorised share capital for the Bank was increased from $250 million to $400 million on 28 March 2017

Issued share capital

	No.	2017 $ in Million
Issued and fully paid		
Ordinary shares of £1 each	**2**	**0.0**
Ordinary shares of $1 each		
At start of year	**174,630,625**	**174.6**
New Issue of Share Capital	**125,000,000**	**125.0**
At end of year	**299,630,627***	**299.6**

During the financial year fresh equity capital of $80 million and additional tier I capital of $20 million was raised from the parent. Also one lower tier II bond of $25 million was converted into additional tier I bond.

*Included within the share capital are two additional tier 1 bonds issued as perpetual floating rate subordinated notes mentioned hereunder

i. $25 Million issued on 16 February 2017 (Converted into Additional Tier I on 16 February 2017 from Lower Tier II raised by the Bank in 2009).
ii. $20 Million issued on 31 March 2017.

Based on the terms and conditions of the purchase agreement and in accordance with IAS 32 guidance, since the interest payments are discretionary and the Bank does not have an obligation to pay cash or any other financial asset in respect of its perpetual instrument nor there is any obligation to exercise its right to call the instrument, this is classified as equity in the financial statements.

Dated Tier II Capital

This represents Lower Tier II capital for $50 million received as follows:

i. $12,500,000 issued in January 2012, maturing in January 2022.
ii. $12,500,000 issued in October 2012, maturing in October 2022.
iii. $5,000,000 issued in December 2013 maturing in December 2028.
iv. $10,000,000 issued in August 2014 maturing in August 2024.
v. $10,000,000 issued in December 2015 maturing in December 2025.

Detail on these instruments are given in para 15.

4. Capital requirements

4.1. Introduction

The Basel II framework introduced the concept of three 'Pillars'. Pillar 1 sets out the minimum capital requirement firms are required to meet for credit, market and operational risk. Under Pillar 2 Risks, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1. The Basel II Accord was implemented in the European Union (EU) via the Capital Requirements Directive (CRD), which was designed to ensure the financial soundness of credit institutions (banks and building societies) and certain investment firms. The CRD came into force on 1 January 2007, with firms applying the advanced approaches from 1 January 2008.

Basel III guidelines have been implemented in the EU by application of CRD IV. CRD IV is an EU legislative package covering prudential rules for banks, building societies and investment firms. The EU text was formally published in the Official Journal of the EU on 27 June 2013 and subsequent corrigendum. The bulk of the rules contained in the legislation are applicable from 1 January 2014. CRD IV includes enhanced requirements for:

- the quality and quantity of capital,
- a basis for new liquidity and leverage requirements,
- new rules for counterparty risk, and
- new macro-prudential standards including a capital conservation buffer, countercyclical capital buffer and capital buffers for systemically important institutions

CRD IV also makes changes to rules on corporate governance, including remuneration, and introduces standardized EU regulatory reporting - referred to as COREP and FINREP. Implementing technical standards were adopted by the European Commission on 16 April 2014.

CRD IV is made up of:

- the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU, and

- the Capital Requirements Directive (CRD), which must be implemented through national law.

In order to implement the CRR and CRD and so as to decide on national discretions and limits for transitions, HM Treasury published its final guidance in December 2013. Regulations are enforced by PRA for PRA regulated institutions and by FCA for other institutions. PRA published its rules and supervisory statements complementing the EU legislative package on 19 December 2013. On 30 April 2014, the PRA published its policy statement, rules and supervisory statement on CRD IV capital buffers.

4.2. 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:** The Bank uses standardized approach for assessment of credit risk capital requirements
- **Market Risk:** The Bank uses Standardized approach for Market Risk
- **Operational Risk:** The Bank uses Basic Indicator Approach for Operational Risk

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

- For counterparty credit risk (CCR): under mark to market method / potential future exposure
- For credit valuation adjustment (CVA) risk: under standardized method
- For settlement / delivery risk: under price difference method

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

4.3. Capital Requirement under Pillar 1

Minimum Capital requirement under Pillar 1 under CRR as on 31 March 2017 has been assessed as under:

(Figures in Million)

	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	0.0	5.8	0.5
CCR For Interest Rate Swaps	1.3	0.0	1.3	0.1
CCR For Forex Swaps	1.3	0.0	1.3	0.1
CCR For Repo Transaction	0.0	0.0	0.0	0.0
Credit Valuation Adjustment	1.3	0.0	1.3	0.1
Total Credit Risk	836.7	5.8	830.9	66.5
Market Risk - Forex PRR	14.4	0.0	14.4	1.2
Market Risk - Interest Rate PRR On Trading Book	32.3	0.0	32.3	2.6
Market Risk - Interest Rate PRR On Interest Rate Swap	47.2	0.0	47.2	3.8
Total Market Risk	93.9	0.0	93.9	7.5
Operational Risk	88.3	0.0	88.3	7.1
Capital Requirement	1,018.8	5.8	1,013.0	81.0

Capital relief availed on SMEs as at 31.03.2017 is of $4.6 Million at 8% of RWA.

4.4. Regulatory capital buffers

In 2016, CRR introduced new regulatory capital buffers of which following apply to the Bank:

4.4.1. **Capital Conservation Buffer (CCoB):** The CCoB is a buffer for all banks that can be used to absorb losses while avoiding breaching minimum capital requirements. The buffer is phased in from 2016 at the rate of 0.625% p.a. to reach 2.5% in 2019. As of 31st March 2017, the buffer was 1.25% of RWA.

4.4.2. **Countercyclical Capital Buffer (CCyB):** As per the rates declared by UK Financial Policy Committee (“FPC”), the Bank is maintaining CCyB of 1.25% on Hong Kong exposures.

4.5. Capital Requirement under Pillar 2

Pillar 2 consists of the add-on over Pillar 1 requirements on the basis of additional risks. As a part of internal assessment under ICAAP, the Bank assesses its own Pillar 2 capital requirements and submits it to its regulator (PRA). PRA as a part of supervisory Evaluation and Review Process (SREP) takes account of Bank's own assessment and issues Individual Capital Guidance (ICG) on amount and quality of capital resources the Bank requires.

The Bank recognizes that providing for capital is not the sole mitigation of risks it faces. The Bank has thus put in place robust Risk Management Policies and monitoring systems and procedures with laid down terms of reference for the various committees overseeing the risk areas. Details may be found in the annual accounts, copy of which is available on the website of the Bank i.e. www.pnbint.com.

4.6. Leverage ratio, based on non-risk weighted assets, as on 31 March 2017 is as below:

(Figures in Million)

Item	31.03.2017
	LR Exposure
Derivatives: Market value	4.3
Derivatives: Add-on Mark-to-Market Method	5.4
Other off-balance sheet items	44.5
Other assets	1686.4
Tier 1 capital - fully phased-in definition	165.5
Regulatory adjustments - Tier 1	-26.4
Leverage Ratio -using a fully phased-in definition of Tier 1	**9.7%**

4.7. Liquidity Ratios:

The CRR provided for two new liquidity safeguards. The Liquidity Coverage Ratio ("LCR") aims to improve the resilience of banks to liquidity risks over a 30 day period. The Net Stable Funding Ratio ("NSFR") aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one year period of extended stress.

4.7.1 Liquidity Coverage Ratio: The Bank's LCR as at 31 March 2017 was 1040 per cent.

4.7.2 Net Stable Funding Ratio: The Bank's NSFR as at 31 March 2017 was 180 per cent which is in excess of the minimum level of 100 per cent which is expected to apply from 2018 as proposed in the Basel 295 publication, pending finalisation of the EC Net Stable Funding Requirement delegated legislation.

5. Disclosure on Asset Encumbrance is as below:

(Figures in Million)

Item	Carrying amount of unencumbered assets			Fair value of unencumbered assets	
		of which: issued by other entities of the group	of which: central bank's eligible		of which: central bank's eligible
Assets of the reporting institution	1,460.1	42.0	60.0	-	-
Loans on demand	464.8	2.1	-	-	-
Equity instruments	-	-	-	-	-
Debt securities	122.8	-	60.0	120.0	59.0
of which: covered bonds	-	-	-	-	-
of which: asset-backed securities	-	-	-	-	-
of which: issued by general governments	60.0	-	60.0	59.0	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	39.9	-	-	-
of which: mortgage loans	-	-	-	-	-
Other assets	38.5	-	-	-	-

6. Credit Risk: General Disclosures

(a) *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 amortised 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 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.

(b)Quantitative Disclosures

i. The total gross credit risk exposures:

(Figures in Million)

Category	31.03.2017
Fund Based	1,626.6
Non Fund Based	44.6
Derivatives	9.6
Total	**1,680.8**

Further paragraph gives detail on different exposures[1] and their risk weights.

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

(Figures in Million)

Exposure Class	Gross Original Exposure	Net Exposure	Exposure value	Risk Weighted Assets
Fund Based:				
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	4.3	5.0	3.3
Exposures secured by mortgages on Immovable Property	119.4	119.4	119.4	114.5
Other Items	520.2	296.2	295.6	313.0
Total Fund Based Exposures	**1,626.7**	**1,626.7**	**1,626.7**	**1,626.7**
Non Fund Based				
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 Non-Fund Based 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 exposure included above is against buy to sell IPs.
- Equity exposures include exposure of the Bank in Capital Bonds of other banks.

[1] Net *Exposures: Exposure after provisions, credit risk mitigation and substitution*
Exposure Value: Exposure after CCF for non-fund based exposure.

iii. Geographical bifurcation (based on country of incorporation/domicile) into major areas is as below:

(Figures in Million)

Geography	Gross Original Exposure	Net Exposure	Exposure value	Risk Weighted Assets	Actual RWA as % of total
United Kingdom	833.8	766.4	728.5	302.0	36.4%
India	526.2	448.5	446.8	330.4	39.8%
North America	115.9	64.1	64.1	46.9	5.7%
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%
Middle East & North Africa	11.1	7.1	7.1	4.9	0.6%
South Asia excluding India	5.9	5.9	5.9	5.9	0.7%
Eastern Europe & Central Asia	3.7	3.7	3.7	3.8	0.5%
Total	**1680.8**	**1420.1**	**1380.2**	**829.6**	**100.0%**

RWAs to India based exposures are 39% and to UK based exposures are 36% of total RWAs for credit risk.

iv. Country wise bifurcation (as per country of risk) based on total assets is as below:

(Figures in Million)

Geography	RWA	RWA as % of total
United Kingdom	833.8	49.6%
India	526.2	31.3%
North America	115.9	6.9%
Euro area	102.2	6.1%
East Asia & Pacific	49.4	2.9%
Sub-Saharan Africa	32.6	1.9%
Middle East & North Africa	11.1	0.7%
South Asia excluding India	5.9	0.4%
Eastern Europe & Central Asia	3.7	0.2%
Total	**1680.8**	**100.0%**

v. Industry wise distribution of total assets:

(Figures in Million)

Sector	Total Exposure	% Exposure
Finance Industry	811.0	48.3%
Manufacturing	229.7	13.7%
Real estate	171.6	10.2%
Business Services & Other	165.8	9.9%
Mining & Quarrying	101.6	6.0%
Transport, Utilities & Storage	91.5	5.4%
Retail / Wholesale trade	64.1	3.8%
Construction	45.5	2.7%
Total	**1680.8**	**100.0%**

Largest exposure is to banks and exposure to banks includes loans to corporates against SBLCs of banks, Bills negotiated under LCs of banks, Balance in Nostro/ bank accounts and interbank placements and investments in debt instrument of banks.

vi. The residual contractual maturity Break down of assets/liabilities

(Figures in Million)

As at 31 March 2017	Up to 1 month	1-3 month	3-12 month	1-2 years	2-5 years	Over 5 years	Undated	Total
Cash and Cash Eqivalent	465.0	25.0						490.0
Investment Securiteis - held for trading	60.0							60.0
Derivative Financial Instruments	1.4	1.8	1.2					4.3
Loans and Advances to banks	10.5	7.5	46.4	90.2	20.1	30.5		205.2
Loans and Advances to Customers	179.5	4.8	58.7	73.1	188.9	100.2		605.2
Investment Securities - available for sale	1.8	0.4	1.9	7.2	15.7	27.0		53.9
Investment Securities - held to maturity			0.5		7.4	1.1		8.9
Property, plant and equipments							1.0	1.0
Intangible Assets							0.6	0.6
Defferred Tax Assets							25.8	25.8
Current Tax Liabilities								
Prepayments and other receivables	0.2		0.3					0.5
Total Assets	**718.4**	**39.4**	**109.0**	**170.4**	**232.1**	**158.7**	**27.3**	**1455.4**
Derivative Financial Instruments	0.0	0.2	0.2					0.5
Deposits from Banks	22.9				50.8			73.7
Deposits from Customers	329.9	110.6	293.0	225.6	175.7			1134.9
Subordinated liabilities					12.5	37.5		50.0
Deferred tax liability								
Other Liabilities	1.5	0.0	0.4	0.4	1.5	0.7		4.5
Share Capital							299.6	299.6
Reserve and retained earning							-107.7	-107.7
Fair Value Reserve							0.0	0.0
Total Liabilities	**354.4**	**110.8**	**293.6**	**226.1**	**240.4**	**38.2**	**191.9**	**1455.4**
Financial Gurantees & Letter of Credit-net of deposits	4.3	1.3	0.0					5.6
Irrevocable loan commitments	8.4							8.4
Total equity, liabilites and commitments	367.1	112.1	293.6	226.1	240.4	38.2	191.9	1469.4
Net liquidity gap	351.3	(73)	(185)	(56)	(8)	121	(165)	(14)
Cumulative Liquidity Gap	351.3	278.6	94.0	38.4	30.0	150.5	-14.0	

vii. The Gross impaired advances are as below:

Particulars	31.03.2017 (Figures in Million)
Gross Impaired Advances	**299.4**

viii. The amount of Net impaired advances is:

Particulars	31.03.2017 (Figures in Million)
Net Impaired Advances	**40.8**

ix. Information regarding Gross Advances and Net Advances:

	31.03.2017
Category	**(Figures in Million)**
Gross Advances	1,059.4
Net Advances	800.8

x. The Impaired Ratios are as under:

Impaired Ratios	31.03.2017
% of Gross impaired advances to Gross Advances	28.3%
% of Net impaired advances to Net Advances	5.1%

xi. The movement of Gross Impaired Advances is as under:

	31.03.2017
Movement of Gross Impaired Advances	**(Figures in Million)**
i) Opening Balance at the beginning of the year	145.0
ii) Addition during the period	156.0
iii) Reduction during the period	(1.6)
iv) Closing Balance as at the end of the period (i + ii – iii)	**299.4**

xii. The movement of provision for Impaired Advances is as under:

	31.03.2017
Movement of provision for Impaired Advances	**(Figures in Million)**
i) Opening Balance at the beginning of the period	108.6
ii) Provisions made during the period	157.3
iii) Write-off made during the period	(0.4)
iv) Write-back of excess provisions made during the period	(5.0)
v) Other movements / Exchange Fluctuations	(1.9)
vi) Closing Balance as at the end of the period (i+ii-iii-iv+v)	**258.6**

xiii. Geographical bifurcation of impaired advances is as below:

(Figures in Million)

Country of incorporation	Amount of impaired advances	Provision Held
UK	35.2	32.9
India	135.8	108.9
Other G-10	81.5	73.6

Others	46.9	43.2
Total	**299.4***	**258.6**

*Amount including interest accrued is US 301 million

xiv. Counterparty type bifurcation of impaired advances is as below:

(Figures in Million)

Counterparty Type	Amount of impaired advances	Provision Held
Corporates	297.6	256.8
Retail	1,.8	1.8
Total	**299.4**	**258.6**

*Amount with interest receivable is US 301 million

xv. The amount of impaired investment is:

	31.03.2017
Particulars	**(Figures in Million)**
Amount of impaired investment	2.2

xvi. The amount of provisions held for impaired investment is:

	31.03.2017
Particulars	**(Figures in Million)**
Amount of provision held for impaired investment	2.2

xvii. The movement of provisions for impaired investment is:

	31.03.2017
Movement of provisions for depreciation on impaired investments	**(Figures in Million)**
i) Opening balance at the beginning of the year	2.2
ii) Provisions made during the period	-
iii) Write-off made during the period	-
iv) Write-back of excess provisions made during the period	-
v) Closing balance as at the end of the period (i + ii –iii-iv)	**2.2**

xviii. Total Exposure at default is as below:

(Figures in Million)

Sub Class	Exposure	Specific Provision
Impaired	301.6	260.7
Non Performing > 90 days but non Impaired	109.2	0.0
Total	**410.8**	**260.7**

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

(Figures in Million)

Geographical Distribution	Exposure	Specific Provision	Out of this Specific Provision Made in Year 16-17
United Kingdom	833.8	44.5	19.2
India	526.2	109.0	61.2
North America	115.9	51.8	29.2
Euro area	102.2	26.9	17.0
East Asia & Pacific	49.4	18.4	13.1
Sub-Saharan Africa	32.6	6.2	6.2
Middle East & North Africa	11.1	3.9	3.9
South Asia excluding India	5.9	0.0	0.0
Eastern Europe & Central Asia	3.7	0.0	0.0
TOTAL	**1680.8**	**260.7**	**149.8**

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

(Figures in Million)

Counterparty Type	Exposure	Specific Provision	Out of this Specific Provision Made in Year 16-17
Corporates	1629.3	258.9	149.3
Retail	51.5	1.8	0.5
Grand Total	**1680.8**	**260.7**	**149.8**

7. Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

8.1 Qualitative disclosures

For portfolios under the standardized approach:

- Names of credit rating agencies used, plus reasons for any changes
  - FITCH, MOODY'S and Standard and Poor. No change since last year.
- Types of exposure for which each agency is used:
  1. Specific product rating if available.
  2. General Long Term/ Short Term rating for long term /short term exposure respectively if no specific product rating.
- Association of the external rating with the credit quality step:

  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.
- A description of the process used to transfer public issue ratings onto comparable assets in the banking book:

  Rating is generally used for an exposure in case rating for that specific type of exposure is available. Otherwise, general long term/ short term rating as per

the exposure are used. Deposits and short term interbank placements with banks are treated as short term deposits and for them short term deposit rating is used. For investments, issue rating for the particular ISIN is used.

8.2 Quantitative Disclosures

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

	31.03.2017
Particulars	**(Figures in Million)**
i) Below 100% risk weight exposure outstanding	712.2
ii) 100% risk weight exposure outstanding	541.8
iii) More than 100% risk weight exposure outstanding	166.0
Total	**1420.1**

8. Credit Risk Mitigation: Disclosures for Standardized Approaches

9.1 Qualitative Disclosures

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 '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 parent, equivalent exposure is treated to be exposure on parent. The Bank has netting agreement with the parent, under which exposure on parent is netted, and risk weight is applied only on remaining exposure only. The Bank has also put in place limits on net exposure to the parent and operates within limits.

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

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

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

  Except deposits (with us or with parent), SBLCs, mostly of Indian banks are the only risk concentrations within the mitigation taken.

9.2 Quantitative Disclosures

(Figures in Million)

Description	Amount
a) For credit risk portfolio, the total exposure (after, where applicable, on or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts.	48.3*
b) For credit risk portfolio, the total exposure (after, where applicable, on or off balance sheet netting) that is covered by guarantees/credit derivatives (substitution)	226.9**

*The exposure is after netting arrangement.
**By way of substitution. Risk weights are calculated as per substitution treatment. Substitution effect is used by the Bank only where exposure is granted against LCs/SBLCs/guarantees of banks.

9. Securitization Exposures: Disclosure for Standardized Approach

There is no securitization exposure of the Bank

10. Market Risk in Trading Book

11.1 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 Simplified maturity method approach.

11.2 Quantitative disclosures

The capital requirements for market risk are as under:

(Figures in Million)

Risk Category	Risk Weighted Assets	Capital Requirement @ 8% under CRR
i) Interest Rate Risk	79.5	6.4
ii) Foreign Exchange Risk (including Gold)	14.4	1.2
iii)Total capital charge for market risks under Standardized duration approach (i+ii)	**93.9**	**7.6**

11. Operational Risk

Operational risk is calculated by Basic Indicator Approach method.

(Figures in Million)

RWA	Capital Requirement
88.3	7.1

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

13.1 Qualitative Disclosures

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

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

13.2 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 studied under this approach. Position as of Interest Rate Gaps as on 31.03.2017 is as below:

	Figures in Million				
Maturity Period	Gap (RSA-RSL)	Other Products (Intt. Rate Swaps)	Net Gap (1+2)	Total Assets	Impact of Int. Variation of 2%
Up to 3 months	656.6	-35.2	621.4	1,240.5	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

The impact of interest variation by 2% is calculated and treated as a Pillar II requirement of the Capital. Most of our Liabilities are at Fixed Rate of Interest and any change in interest is not applicable to the 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 impact on 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 at regular intervals.

13. General Disclosure for Exposures Related to Counterparty Credit Risk

14.1 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:

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 simplified maturity 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

14.2 Quantitative Disclosures

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

b)

	Figures in Million		
	Positive Mark to Market Value	**Potential Future Exposure**	**Total Exposure**
Forex Swaps	3.6	3.3	6.9
Interest Rate Swaps	0.7	2.1	2.8
Total	**4.3**	**5.4**	**9.7**

The Bank has no borrowings against the REPO transaction as on 31.03.2017.

Credit Valuation Adjustment (CVA) risks on counterparty is $1.3 million.

c) Credit derivative transactions that create exposure to CCR:

Nil

d) 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 420 Million. Similarly the Bank has entered into currency swaps to mitigate forex risk, while managing its funds mismatch in different currencies.

14. Summary Information on Terms and Conditions of the main features of capital resources is as below (Figures in Million):

	Disclosure template for main features of regulatory capital instruments	**Equity Share Capital**	**Additional I 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**
1	Issuer	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited	Punjab National Bank (International) Limited
2	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
3	Governing law(s) of the instrument	English Law	English Law	English Law	English Law	English Law	English Law	English Law
	Regulatory treatment							
4	Transitional CRR rules	Common Equity Tier I	Additional Tier I	Additional Tier I	Tier II	Tier II	Tier II	Tier II
5	Post-transitional CRR rules	Common Equity Tier I	Additional Tier I	Additional Tier I	Tier II	Tier II	Tier II	Tier II
6	Eligible at solo/group/ group & solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type	Common Equity Tier I	Additional Tier I	Additional Tier I	Subordinated dated debt	Subordinated dated debt	Subordinated dated debt	Subordinated dated debt
8	Amount recognized in regulatory capital	254.6	25.0	20.0	24.6	10.0	5.0	10.0
9	Par value of instrument	254.6	25.0	20.0	25.0	10.0	5.0	10.0
10	Accounting classification	Equity share capital	Subordinated Perpetual Contingent Conversio	Subordinated Perpetual Contingent Conversion additional	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt

			n additional Tier I bond	Tier I bond				
11	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
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated
13	Original maturity date	Undated	Undated	Undated	10 Years	10 Years	15 Years	10 Years
14	Issuer call subject to prior supervisory approval	NA	5 Years	5 Years	5 Years	NA	10 Years	NA
15	Optional call date	NA	Each interest payment date on or after 5 years.	Each interest payment date on or after 5 years.	31.01.2017, 04.10.2017	NA	23.12.2023	NA
	Redemption Amount	NA	25.0	20.0	25.0	10.0	5.0	10.0
16	Subsequent call dates, if applicable	NA	Nil	Nil	Nil	Nil	Nil	Nil
	Coupons / dividends							
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating	Floating
18	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
19	Existence of a dividend stopper	Nil	Yes	Yes	Nil	Nil	Nil	Nil
20	Fully discretionary, partially discretionary or mandatory	Fully Discretion ary	Fully Discretion ary	Fully Discretionar y	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-Cumulativ e	Non-Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	NA	Convertibl e	Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA	CET1 Ratio falls below required	CET1 Ratio falls below required	NA	NA	NA	NA
25	If convertible, fully or partially	NA	Fully	Fully	NA	NA	NA	NA
26	If convertible, conversion rate	NA	USD 1.00	USD 1.00	NA	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	Mandatory	Mandatory	NA	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	Ordinary Shares	Ordinary Shares	NA	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	Punjab National Bank (Internatio nal)	Punjab National Bank (Internationa l) Limited	NA	NA	NA	NA

			Limited					
30	Write-down feature	NA	Nil	Nil	Nil	Nil	Nil	Nil
31	If write-down, write-down trigger(s)	NA	NA	NA	NA	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA	NA	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA	NA	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA	NA	NA
35	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
36	Non-compliant transitioned features	Nil	Nil	Nil	Nil	Nil	Nil	Nil
37	If yes, specify non-compliant features	Nil	As above	As above	As above	As above	As above	As above
38	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.

Bank has redeemed its Perpetual Tier II bonds issued on 31.03.2011 on 15.03.2016 for $25 Million and issued Additional Tier I bonds for $25 Million on the same day. Both the bonds were subscribed by PNB India (Parent).

15. 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. 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 2016-17 was as below:

Figures in Million

Description	Amount
India based officers (IBOs) and secondment from Parent	3.4
Local Staff including ED and MLRO	3.1
Medical Insurance of UK staff (IBOs as well as Local)	0.1
Total expenditure on UK staff	**6.6**
Expenditure on India staff	0.2
Total Staff Expenses	**6.8**
Out of above:	
Remuneration to staff whose actions have a material impact on risk profile of the Bank (MD, ED and two NEDs)	**0.3**

The entire remuneration, as above, is fixed, and there is no variable remuneration. No sign-on or severance payment was paid to any employee/ director.