PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
GUILDHALL HOUSE, 87, GRESHAM STREET,
LONDON EC2V 7NQ (UK0

PILLAR 3 DISCLOSURES

For the year ended 31st March 2011 – made along with information available with the annual financial statements

Background

Punjab National Bank (International) Limited (PNBIL) is a UK Bank regulated by the Financial Services Authority (FSA) and is a wholly owned subsidiary of Punjab National Bank. PNBIL has adopted the guidelines issued under the Basel II regime. The capital requirements Directive (Basel II) sets out new disclosure requirements for banks operating under framework.

The Pillar 3 disclosures have been prepared for PNBIL in accordance with its own Disclosure Policy, as approved by the Board and as per the rules laid out in the FSA handbook BIPRU Chapter 11.

Media and Location

The report will be published on the PNBIL corporate website (www.pnbinternational.co.uk) as part of the Annual Report.

Verification

The Pillar 3 Disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgment on the Bank.

The details of the capital base of PNBIL as on 31st March 2011 are as follows:

Equity Capital	$ 74.63 million
Reserve and Surplus	$ 8.02 million
Total Tier I Capital	$ 82.65 million
Upper Tier II Capital	$ 25.00 million
Lower Tier II Capital	$ 25.00 million
Total Capital	$132.65 million
Risk Weighted Assets	$626.06 million
Total Required Capital	$ 91.36 million
*CRAR%	21.19%
Tier I Capital Ratio	13.20%

**Capital to Risk Adequacy Ratio*

Pillar I Capital Requirement:

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

- Credit Risk – Standardized Approach.
- Operational Risk – Basic Indicator Approach.
- Market Risk – Standardized Approach.

In line with the regulatory requirements of FSA, Bank annually reviews its existing Internal Capital Adequacy Assessment Process (ICAAP), which is used to estimate the capital requirement in line with the risk appetite of the Bank. The ICAAP is approved by the Board and the Audit & Compliance Committee.

Risk Weighted Capital Adequacy as on 31.03.2011 has been assessed as below:

(*Amt. in Millions of USD)*

	Indicators	**Risk Weighted Exposure**	**Capital Required as per Basel II**	
			%	**Amt.**
Credit Risk	Corporate Credit/ Bank Exposure	456.41	8%	36.51
	SFF and other Assets	12.68	8%	1.01
	Investment and Interbank	68.52	8%	5.48
	Unused Credit Limit	25.46	8%	2.04
	Non Fund Based Advances	0.17	8%	0.02
	Total	563.24		45.06
Market Risk	Exchange Risk	3.00	8%	0.24
	Capital Charge for Swaps		8%	0.47
	Capital Charge for Trading Books	46.87	Gen and Specific Risks	4.22
	Total	49.87		4.93
Operational Risk	Avg. Gross Income for the last 3 Year	12.95	8%	1.04
	Total	12.95		1.04
Total		**626.06**		**51.03**

<u>Pillar 2 Capital requirements:</u>

Bank has also identified certain Risks under Pillar 2 and provided Capital for the same. The details are as under-

Amt. in Millions of USD

Sl. No	**Risk**	**Details of calculation of capital requirement**	**Capital required**
1	Interest Rate Risk in Banking Books	Capital requirement identified based on the Interest Rate Gaps in the Banking Book and testing these gaps against 1% movement in interest rates.	1.49
2	Credit Concentration Risk-	Whenever non-Bank individual or group exposure exceed 20% of	NIL

	Counter party	LECB, additional capital of 8% of risk weights to be provided-31/03/2011. (No such cases).	
3	Credit Concentration Risk -Industrial Exposure	Bank follows Herfindahl Hirschman Index (HHI) to identify concentration of Industry exposure- no concentration as at 31/03/2011 as per this Index.	NIL
4	Credit Concentration - Country exposure	Largest country risk exposure is to India and as such additional Capital at 15% to be provided on 50% of Non- Bank un-secured exposure to India.	0.67
5	System Risk	This is calculated based on total IT costs incurred in the last three years-5% of such costs is provided by way of additional Capital.	0.04
6	Residual Risk	Risk in realising the security obtained for loans- Capital provided at 0.50% of Individual and Non- Bank Corporate Loans, secured by collaterals other than Fixed Deposits.	1.94
7	Key Personnel Risk	One year salary of Key personnel recruited locally.	0.24
8	Reputational Risk	Calculated at 5% of the gross revenue.	0.65
		Total capital requirement for Pillar 2 Risks.	**5.03**

The total Capital requirement is arrived at as follows-

(*Amt. in Millions of USD)*

Capital Required	Pillar 1	Capital Requirement under Basel II Norms	51.03
	Pillar 2	Capital Requirement under Pillar 2 Risks	5.03
	Total	Total Capital Requirement under Scenario 1	**56.06**
Available Capital as on 31.03.2011			**132.65**

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 area. Details may be found in our annual accounts, copy of which is available on the website of the Bank i.e. www.pnbinternational.co.uk.

Analysis of Exposure

(a) **Industry-wise** :

INDUSTRY CATEGORY	Exposure in Millions of USD	% to total Assets
Banks	309.57	34.09
Wholesale of electrical household appliances and radio and television goods	127.05	13.99
Manufacture of basic iron and steel and of ferro-alloys (ECSC)	41.42	4.56
Manufacture of pharmaceutical preparations	37.17	4.09
Real estate activities	30.19	3.32
Software consultancy and supply	26.04	2.87
Private households with employed persons	25.71	2.83
Sea and coastal water transport	25.70	2.83
Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction	23.36	2.57
Security dealing on own account	19.94	2.20
Manufacture of chemicals and chemical products	17.97	1.98
Other supporting water transport activities	16.56	1.82
Manufacture of jewellery and related article	14.29	1.57
General construction of buildings and civil engineering works	13.77	1.52
Telecommunications	13.72	1.51
Mining of coal and lignite; extraction of peat	13.71	1.51
Other first processing of iron and steel not elsewhere classified; production of non-ECSC ferro-alloys	11.33	1.25
Packaging activities	10.50	1.16
Manufacture of steel tubes	10.01	1.10
Manufacture of office machinery and computers	10.00	1.10
Wholesale trade and commission trade, except of motor vehicles and motorcycles	10.00	1.10
All Others (below 1.00% each)	100.02	11.02
Total	**908.01**	**100.00**

(b) **Geographic Distribution :**

Geographic distribution of exposure based on country of residence or domicile, as on 31st March 2011, was as follows:

Country	As per Credit Policy	Actual Exposure in Millions of USD	Actual %
UK	100%	266.62	29.36%
India	80%	356.13	39.22%
G-10	15%	104.64	11.52%
Other OECD	10%	31.87	3.51%

Others	20%	68.17	7.51%
Singapore/HK	15%	80.58	8.88%
NCCT	NIL	-	0.00%
TOTAL		**908.01**	**100.00%**

Impairment

Provision on loans and receivables has been made to the extent of $6.68 million (previous year $1.29 million) in respect of the impairment of Bank exposure to two counter-parties. One of these accounts has become non-performing, while the other account is the subject of a restructuring plan. Besides, provision on HTM investment has been made to the extent of $3.35 million (previous year: Nil) in respect of Bank exposure in security of one counterparty.

Credit Assessment Institutions

The following ECAI's have been approved by the Board whose rating can be used for all exposure classes.

1. Standard and Poor's
2. Moody's
3. Fitch