

## **PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED**

### **PILLAR 3 DISCLOSURES**

**For the year ended 31<sup>st</sup> March 2012 – 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 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](http://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 31<sup>st</sup> March 2012 are as follows:

Equity Capital	\$ 87.13 Mn
Reserve and Surplus	\$ 11.27 Mn
Tier I Capital	\$ 98.40 Mn
Less intangible assets	\$ 0.27 Mn
Eligible Tier I capital	\$ 98.13 Mn
Upper Tier II Capital	\$ 25.34 Mn
Lower Tier II Capital	\$ 37.50 Mn
Total Capital	\$160.97 Mn
Risk Weighted Assets	\$869.70 Mn
Total Required Capital	\$ 142.97 Mn
*CRAR%	18.51%
Tier I Capital Ratio	11.28%

*\* 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 – Standardised Approach.
- Operational Risk – Basic Indicator Approach.
- Market Risk – Standardised Approach.

In line with the regulatory requirements of FSA, Bank periodically 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 of Directors.

Risk Weighted Capital Adequacy as on 31.03.2012 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	666.29	8%	53.30
	SFF and other Assets	13.41	8%	1.07
	Investment and Interbank	59.60	8%	4.77
	Unused Credit Limit	12.03	8%	0.96
	Non Fund Based Advances	0.90	8%	0.07
	Swaps	1.36		0.11
	<b>Sub-Total</b>	<b>753.59</b>		<b>60.28</b>
Market Risk	Exchange Risk	3.00	8%	0.24
	Capital Charge for Trading Books	78.63	Gen and Specific Risks	6.29
	<b>Sub-Total</b>	<b>81.63</b>		<b>6.53</b>
Operational Risk	Avg Gross Income for the last 3 Year	34.48	8%	2.76
	<b>Sub-Total</b>	<b>34.48</b>		<b>2.76</b>
	<b>TOTAL</b>	<b>869.70</b>		<b>69.58</b>
<b>TOTAL CAPITAL REQUIREMENT</b>				<b>69.58</b>

**Pillar 2 Capital requirement :**

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*

SI 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 2% movement in interest rates.	12.49
2	Credit Concentration Risk-Counter party	Whenever non-Bank individual or group exposure exceed 20% of LECB, additional capital of 8% of risk weights to be provided-31/03/2012. (no such cases).	NIL
3	Credit	Bank follows Herfindahl Hirschman	NIL

	Concentration Risk -Industrial Exposure	Index (HHI) to identify concentration of Industry exposure- no concentration as at 31/03/2012 as per this Index.	
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.	1.25
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.	0.05
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.	3.80
7	Key Personnel Risk	One year salary of Key personnel recruited locally.	0.24
8	Reputational Risk	Calculated at 5% of the gross revenue.	0.92
9	Miscellaneous Risk	Risk due to adverse economic conditions in United Kingdom and India	5.79
<b>Total capital requirement for Pillar 2 Risks.</b>			<b>24.54</b>

**The total Capital requirement is arrived at as follows-**

<i>(Amt. in Millions of USD)</i>			
<b>Capital Required</b>	Pillar 1	Capital Requirement under Basel II Norms	69.58
	Pillar 2	Capital Requirement under Pillar 2 Risks	24.54
	Total	Total Capital Requirement under Scenario 1	<b>94.12</b>
<b>Available Capital as on 31.03.2012</b>			<b>160.97</b>

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](http://www.pnbinternational.co.uk).

## **Analysis of Exposure**

### **(a) Industry-wise :**

<b>INDUSTRY CATEGORY</b>	<b>Exposure in USD (Mn)</b>	<b>% to total Assets</b>
Banks	161.78	21.03
Real estate activities	95.04	12.36
Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction	59.19	7.70
Manufacture of basic iron and steel and of ferro-alloys (ECSC)	53.42	6.95
Mining of coal and lignite; extraction of peat	33.23	4.32
Sea and coastal water transport	30.05	3.91
Private households with employed persons	25.92	3.37
General construction of buildings and civil engineering works	21.03	2.73
Other first processing of iron and steel not elsewhere classified; production of non-ECSC ferro-alloys	20.00	2.60
Manufacture of pharmaceutical preparations	18.79	2.44
Air transport	17.99	2.34
Manufacture of jewellery and related article	17.30	2.25
Manufacture of chemicals and chemical products	16.07	2.09
Software consultancy and supply	14.64	1.90
Wholesale of food, beverages and tobacco	13.09	1.70
Licensed restaurants	10.73	1.40
Other service activities not elsewhere classified	10.34	1.34
Human health activities	10.04	1.31
Aluminium production	10.00	1.30
Recycling of non-metal waste and scrap	10.00	1.30
Manufacture of steel tubes	9.97	1.30
Management activities of holding companies	9.88	1.28
Fund management activities	9.50	1.24
Business and management consultancy activities	9.04	1.18
Manufacture of office machinery and computers	9.01	1.17
Other supporting water transport activities	8.50	1.10
Manufacture of other non-metallic mineral products	8.25	1.07
Packaging activities	7.50	0.98
Telecommunications	7.11	0.92
Post and telecommunications	6.67	0.87
Manufacture of fabricated metal products except machinery and equipment	6.31	0.82
Other computer related activities	5.00	0.65
Hotels	4.91	0.64
Manufacture of machine tools	4.79	0.62
Agents involved in the sale of textiles, clothing, footwear and leather goods	4.37	0.57

Supporting and auxiliary transport activities; activities of travel agencies	3.15	0.41
Agents involved in the sale of a variety of goods	2.91	0.38
Wholesale of electrical household appliances and radio and television goods	1.76	0.23
Activities of religious organisations	0.71	0.09
Wholesale of other food including fish, crustaceans and molluscs	0.65	0.08
Legal, accounting, book-keeping & auditing; mkt research & public opinion polling; business, tax & mgmt consultancy	0.25	0.03
Manufacture of furniture	0.15	0.02
Education	0.11	0.01
Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles	0.02	0.00
<b>Total</b>	<b>769.18</b>	<b>100.00</b>

**(b) Geographic Distribution :**

Geographic distribution of exposure based on country of residence or domicile, as on 31<sup>st</sup> March 2012, was as follows:

<b>Country</b>	<b>As per Credit Policy</b>	<b>Actual Exposure in Millions of USD</b>	<b>Actual %</b>
UK	100%	379.42	29.96
India	80%	629.63	49.72
G-10	15%	141.77	11.20
Other OECD	10%	17.05	1.35
Others	20%	53.08	4.18
Singapore/HK	15%	45.40	3.59
NCCT	NIL	-	-
<b>TOTAL</b>		<b>1266.35</b>	<b>100.00%</b>

## **Impairment**

Provision on loans and receivables has been made to the extent of \$4.43 million (previous year \$10.03 million) in respect of the impairment of Bank exposure to counter-parties and USD 1.31 Mn on account of write down on fair valuation of Available for Sale (AFS) securities. This includes USD 0.34 Mn of collective provision on standard assets. Besides, provision on Held to Maturity (HTM) investment is held to the extent of \$3.35 million (provided in the previous year 2010-11) in respect of Bank exposure in security of one counterparty. Total provision in the books of Bank due to impaired assets is USD 14.46 Mn as at 31.03.2012.

## **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