PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

PILLAR 3 DISCLOSURES

For the year ended 31st March 2013 – made along with information available with the annual financial statements

Background

Punjab National Bank (International) Limited ('PNBIL' or the 'Company' or the 'Bank') is a UK incorporated subsidiary of Punjab National Bank – India and is authorized and regulated by the Financial Services Authority (till 31 March 2013) and by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) with effect from 01 April 2013. 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 PRA handbook BIPRU Chapter 11.

Media and Location

The report will be published on the PNBIL corporate website (www.pnbint.com) 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 2013 are as follows:

Tier	Component	Amount $'000
Core Tier I Capital	Permanent Share Capital	99,631
	Profit and Loss Account and other Reserve	18,827
	Fair Value Reserve	125
	Deduction from Tier I Capital – Intangible Assets	(192)
	Total	118,391
Upper Tier II Capital	Perpetual Subordinated Debt	25,000
	Collective Impairment Provison	493
	Total	25,493
Lower Tier II Capital	Long Term Subordinated Debt	50,000
Deductions		Nil
Total Tier II Capital		75,493
Total Tier I and Tier II capital after deductions		193,884
Tier III Capital		Nil
Total Capital		193,884
Risk Weighted Assets		1,198,722
Capital to Risk Adequacy Ratio (CRAR)		16.17%
Tier I Capital Ratio		9.88%

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 PRA, 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.

Requirement of capital under Pillar I, as on 31 March 2013, has been assessed as below:

(Amt. in thousands of USD)

	Indicators	**Risk Weighted Exposure**	**Capital Required as per Basel II**	
			%	**Amt.**
Credit Risk	Corporate Credit/ Bank Exposure	923,404	8%	73,873
	Fixed Assets and other Non-Monetary Assets	9,967	8%	797
	Investments and Interbank Placements	45,618	8%	3,650
	Pipeline Investment Commitments	505	8%	40
	Unused Credit Limit	6,902	8%	552
	Non Fund Based Advances	6,042	8%	483
	Capital Charge for Forex Swaps	143		11
	Sub-Total	**992,581**		**79,406**
Market Risk	Exchange Risk	10,000	8%	800
	Capital Charge for Trading Book	144,633	Gen and Specific Risks	11,571
	Sub-Total	**154,633**		**12,371**
Operational Risk	Average Gross Income for the last 3 Year	51,508	Basic Indicator Approach	4,121
	Sub-Total	**51,508**		**4,121**
	TOTAL	**1,198,722**		**95,898**
Capital Planning Buffer				
TOTAL CAPITAL REQUIREMENT				**95,898**

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

Bank has also identified certain Risks under Pillar 2 and provided Capital for the same. Bank does not anticipate any requirement of additional capital under Business Risk, Strategic Risk, Legal Risk and Compliance Risk. Insurance Risk, Securitization Risk and Pension Obligation Risk are not applicable to the Bank. Based on existing business model of the Bank, additional capital requirement for applicable risks under Pillar II has been assessed as below:

Amt. in thousands 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 2% movement in interest rates.	8,784
2	Credit Concentration Risk- Counter party	Whenever non-Bank individual or group exposure exceed 20% of LECB, additional capital of 10% of pillar I capital to be provided- (31/03/2013 - no such cases).	NIL
3	Credit Concentration Risk -Industrial Exposure	Bank follows Herfindahl Hirschman Index (HHI) to identify concentration of Industry exposure- against benchmark of 1000 score for moderate concentration (additional capital of 10% of pillar I capital to be provided for higher concentration): no concentration as at 31/03/2013 as per this Index.	NIL
4	Credit Concentration -Country exposure	Largest country risk exposure is to India (44%). Bank has decided to provide additional 10% of 8% of capital on credit risk to mitigate this risk.	7,941
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.	50
6	Residual Risk	Risk in realizing the security obtained for loans- Capital provided at 0.50% of Individual and Non- Bank Corporate Loans secured by collaterals other than Fixed Deposits.	544
7	Liquidity Risk	Based on negative mismatch beyond prescribed limit – nil identified as at 31 March 2013.	Nil
8	Key Personnel Risk	150% of one year salary of Key personnel recruited locally.	450
9	Reputational Risk	Calculated at 5% of the gross income – average for last three years	1,373
Total capital requirement for Pillar 2 Risks.			**19,142**

The total Capital requirement is arrived at as follows-

(Amt. in thousands of USD)

Capital Requirement	Pillar 1	Capital Requirement under Basel II Norms	95,898
	Pillar 2	Capital Requirement under Pillar 2 Risks	19,142
	Total	Total Capital Requirement	**115,040**
Available Capital as on 31.03.2013			**193,884**

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.pnbint.com

Analysis of Exposure

(a) Industry-wise :

The largest eight sector-wise exposures as per HHI index, as at 31 March 2013, are as follows:

HERFINDAHL-HIRSHMAN (HHI) INDEX					
Name Of Industry	**Balance Outstanding**	**Adjusted Exposure**	**% Exposure as % Of Total**	**Adj Expo as % Of Total**	**Square of Proportion**
Banks	398.28	364.28	**26.06**	**29.54**	872.37
Real estate activities	158.74	153.71	**10.39**	**12.46**	155.33
Mining of coal and lignite; extraction of peat	54.66	54.66	**3.58**	**4.43**	19.64
Manufacture of basic iron and steel and of ferro-alloys (ECSC)	48.99	48.99	**3.21**	**3.97**	15.78
Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction	42.71	42.71	**2.79**	**3.46**	11.99
Construction of highways, roads, airfields and sports facilities	38.62	38.62	**2.53**	**3.13**	9.81
Manufacture of pharmaceutical preparations	31.62	31.62	**2.07**	**2.56**	6.57
Software consultancy and supply	30.87	30.87	**2.02**	**2.50**	6.27

It may be observed that the maximum exposure is to Banks which is at HHI score of 872, which is lower than the score of 1000 which applies for marginal concentration.

(b) Geographic Distribution :

Geographic distribution of exposure as on 31st March 2013 was as follows:

Country-wise Risk Exposure (fund based) - BALANCE -WISE		
Name of Country	**Actual Exposure (USD Mn)**	**Actual exposure as % of total**
UK	488	32
India	669	44
G-10	231	15
Other OECD	22	1
Others	98	6
Singapore/ Hong Kong	21	1
NCCT		0
TOTAL	**1528**	**100**

Country-wise Risk Exposure (fund based)- Risk weighted asset-wise			
Name of Country	**Actual RWA (USD Mn)**	**Actual RWA as % of total**	**As per Credit Policy**
UK	314	28	100%
India	485	43	60%
G-10	184	16	15%
Other OECD	22	2	10%
Others	101	9	20%
Singapore/ Hong Kong	21	2	15%
NCCT	0	0	NIL
TOTAL	**1127**	**100**	

Impairment

Provision on loans and receivables has been made to the extent of $8,464 thousand (previous year $4,427 thousand) in respect of the impairment of Bank exposure to counter-parties. This includes $152 thousand (previous year $341 thousand) of collective provision on standard assets. Besides, provision on Held to Maturity (HTM) investment is held to the extent of $3,350 thousand (provided in the 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 22,429 thousand as at 31.03.2013. Besides, Fair Value Reserve of Available for Sale (AFS) securities has been written down by amount of $5,661 thousand (previous year $1,311 thousand) on account of substantial impairment of some of such securities.