For the year ended 31st March 2014 – 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, is authorized by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). With effect from 01.01.2014, PNBIL has adopted the 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 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 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 III disclosures, in particularly the risk management objective and policies, is discussed in various notes to the financial statements, and in Directors and Strategic Report in the annual accounts. Annual report containing the financial statements is being published simultaneously on the website of the Bank and will also be filed with the Registrar of Companies. This report should be read in conjunction with the annual report and financial statements for completeness of the required disclosures.

1. Scope of Application:

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.

PNBIL is a full CRD firm and its accounting and disclosures are on 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.

2. **Capital Resources:**

The details of the capital base of PNBIL as on 31st March 2014 are as follows:

		$000
Tier I	Equity Capital	149,631
	Reserve and Surplus	24,706
	Fair Value Reserve	(5,006)
	Less: Intangible Assets	(168)
	Less: DTA	(20)
	Total Core Tier I Capital Before Material Holding	169,143
	Less Material Holding	Nil
	Total Core Tier I Capital	169,143
	Additional Tier I Capital	Nil
	Total Regulatory Tier I Capital	169,143
Tier II	Perpetual Tier II Capital	25,000
	Dated Tier II Capital	55,000
	Collective Impairment Provision	3,508
	Less Amortization of Dated Tier II capital maturing within five years	(14)
	Less Material Holding	(0.00)
	Total Tier II Capital (Subject To 100% Of T I)*	83,494
	Total Capital	252,637
	Risk Weighted Assets	1,654,759
	Tier I Ratio	10.22%
	Tier II Ratio	5.05%
	Total Capital to Risk Adequacy Ratio (CRAR)	15.27%

3. Capital Adequacy

(a) Approach to assessing the adequacy of capital to support current and future activities

Capital requirements are calculated on weekly basis, and it is ensured on ongoing basis that available capital is not short of requirement. Well before start of each financial year, based on projections of business growth, requirement of capital is assessed and presented to Board. Request is sent to the Parent, who, after obtaining permission from RBI, allows release of capital in phases as per requirement.

In UK, till 31.12.2013, Basel II norms were applicable. Basel III norms (CRD IV) have been made applicable from 01 January 2014.

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.

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

- For counterparty credit risk: under mark to market method.
- For credit valuation adjustment risk: under standardized method.
- For settlement/ delivery risk: under price difference method.

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.

Risk Management Objectives and Policies have been included in the financial statements at note 33.

(b) Capital Requirement under Pillar I

Requirement of capital under Pillar I, under CRR and taking into account the Individual Capital Guidance given to us, as on 31 March 2014, has been assessed as below:

Amt. in $000

	RWA (Before SME Benefit)	**SME BENEFIT***	**RWA After SME Benefit**	**Capital Required @ 8% under Pillar I**
Credit Risk - Balance Sheet Assets	1,478,936	6,830	1,472,106	117,768
Credit Risk - Off Balance Sheet Assets	19,388	99	19,289	1,543
CCR For Interest Rate Swaps	263	0	263	21
CCR For Forex Swaps	770	0	770	62
CCR For Repo Transaction	10,739	0	10,739	859
Credit Valuation Adjustment	1,178	0	1,178	95
Total Credit Risk	**1,511,274**	**6,929**	**1,504,345**	**120,348**
Market Risk - Forex PRR	29,307	0	29,307	2,344
Market Risk - Interest Rate PRR On Trading Book	29,739	0	29,739	2,379
Market Risk - Interest Rate PRR On Interest Rate Swap	26,569	0	26,569	2,126

Total Market Risk	**85,615**	**0**	**85,615**	**6,849**
Operational Risk	**64,799**	**0**	**64,799**	**5,184**
Capital Requirement	1,661,688	6,929	1,654,759	132,381

Capital relief availed on SMEs as at 31.03.2014 is of $554 thousand at 8% of RWA.

(c) Capital Requirement under Pillar II

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:

Sl no	Risk	Details of calculation of capital requirement	Capital required – Amt. in $000
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.	4,514
2	Credit Concentration Risk- Counter party	Whenever non-Bank individual or group exposure exceeds 20% of LECB, additional capital of 10% of pillar I capital to be provided- (31/03/2014 - no such cases).	NIL
3	Credit Concentration Risk -Industrial Exposure	Bank follows Herfindahl Hirschman Index (HHI) to identify concentration of Industry exposure and has not assigned additional capital due to non-existence of concentration.	Nil
4	Credit Concentration - Country exposure	Largest country risk exposure is to India, Bank has decided to provide additional 10% of 8% of capital on credit risk to mitigate this risk.	12,035
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.	694
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.	6,158
7	Liquidity Risk	Based on negative mismatch beyond prescribed limit – nil identified as at 31 March 2014.	Nil
8	Key Personnel	150% of one year salary of Key personnel	549

	Risk	recruited locally.	
9	Reputational Risk	Calculated at 5% of the gross income – average for last three years	1,728
Total capital requirement for Pillar 2 Risks.			**25,678**

d) Total Capital Requirement under Pillar I and Pillar II

The total Capital requirement is arrived at as follows-

(*Amt. in thousands of USD)*

Capital required	Pillar 1	Capital Requirement under CRR	132,381
	Pillar 2	Capital Requirement under Pillar 2 Risks	25,678
	Total	Total Capital Requirement	**158,059**
Available Capital as on 31.03.2014			**252,637**

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.

(e) Leverage ratio, based on non-risk weighted assets, as on 31 March 2014 is as below:

Amt. in USD Million	31.01.2014	28.02.2014	31.03.2014
Item	LR Exposure : Month-1-value	LR Exposure : Month-2-value	LR Exposure: Month-3-value
Security Financing (REPO) Exposure	18.79	18.53	21.48
Derivatives: Market value	0.30	0.45	0.14
Derivatives: Add-on Mark-to-Market Method	4.78	4.04	4.14
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	71.93	44.73	40.68
Medium/low risk trade related off-balance sheet items	44.99	83.49	81.23
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	-	-	-
Other off-balance sheet items	44.44	58.02	58.62

Other assets	1775.84	1852.21	1904.68
Tier 1 capital - fully phased-in definition	156.18	154.93	169.14
Regulatory adjustments - Tier 1	(1.51)	(1.14)	(0.19)
Leverage Ratio -using a fully phased-in definition of Tier 1	7.97%	7.52%	8.01%

Leverage ratio calculated as the simple arithmetic mean of the monthly leverage ratio over a quarter	
Leverage Ratio -using a fully phased-in definition of Tier 1	7.83%

In terms of CRR, minimum leverage ratio required is 3.00%.

(f) Net Stable Funding Ratio of the Bank is as below:

Stable Funding Available:	**$ Million**		**$ Million**
Component	**Amount**	**Weighting**	**Stable Funding**
Non-dated capital (including perpetual Tier II capital)	194.00	100%	194.00
Type A wholesale fixed residual maturity > 1 year	99.64	100%	99.64
LE Type B wholesale fixed residual maturity > 1 year	69.09	100%	69.09
SME wholesale fixed residual maturity > 1 year	25.38	100%	25.38
Retail deposits fixed residual maturity > 1 year	362.00	100%	362.00
Non-financial corporates Type A and Type B	383.16	50%	191.58
SME wholesale open and residual maturity <= 1 year	147.82	85%	125.65
Retail Type A open and fixed residual maturity <= 1 year	207.65	80%	166.12
Retail Type B open and fixed residual maturity < = 1 year	113.11	90%	101.80
Type A wholesale Funding residual maturity < 1 year	252.96	0%	0
Total Liabilities / Stable Funding	1,854.82		**1,335.26**
Stable Funding Required:			
Component	**Amount**	**Weighting**	**Requirement**
Cash and Balance with BOE	159.95	0%	0
All security *holdings* maturing <= 1 year -Outright and reverse inflows	4.56	0%	0
Unsecured wholesale loans residual maturity <= 1 year	113.65	0%	0
Liquidity Buffer Assets and other government bonds with residual maturity > 1 year minus	109.98	5%	5.50

collateral upgrades and client collateral			
Retail Loans with residual maturity < 1 year	42.04	85%	35.74
Loans to all enterprises with residual maturity < 1 year	520.20	50%	260.10
All other assets loans	798.79	100%	798.79
All other assets securities	149.16	100%	149.16
Asset imbalance arising from sundry items and derivatives	-43.51	100%	-43.51
Total Assets	1854.82		
Off-balance sheet commitments	180.54	5%	9.03
Total Requirement			**1,214.81**
Net Stable Funding Ratio			**110%**

4. Credit Risk: General Disclosures

(a) ***Qualitative Disclosures***

Past due but not impaired loans

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 impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank. The amounts disclosed exclude assets measured at fair value through profit or loss.

Renegotiated and forborne loans

Loans that are renegotiated primarily to grant extended tenor to a customer who is facing some difficulties but who Banks believes is not impaired are known as 'other renegotiated loans'. Loans that are renegotiated on terms that are not consistent with those readily available in the market and/ or where Bank has granted a concession compared to the original terms of the loans, are considered to be subject to forbearance strategies and are known as 'forborne loans'. Forbearance strategies assist customers who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the customer, the bank or a third party and includes debt restructuring, such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

Once a loan is subject to forbearance or is renegotiated, the loan continues to be reported as such, until the loan matures or is otherwise derecognized.

Individually impaired loans

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.

Doubtful and Loss category

Loans under the doubtful category are those where there is an unlikeliness of collection of principal and/or interest sums due over time other than through sale of collateral or enforcement of security. Loans under loss category are those with probable or actual failure to collect sums even through the sale of business or collateral.

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 developed internal rating models in co-ordination with the Risk Management Division of Parent Bank. All non-bank credit counterparties (except those secured by deposits with Bank/ Parent and those with loans up to £10,000) are rated on these models. Scoring is given on various financial and non-financial parameters. Rating is allocated based on overall score on the financial strength, creditworthiness and repayment capacity of the borrower.

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 sanction 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 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.

The Bank does not have any significant credit risk exposure to any single counterparty. Any exposure to a single party or group in excess of 10% of its capital base is considered as large exposure as per regulatory guidelines and is monitored regularly. The carrying value of financial assets recorded in the financial statements represents the bank's maximum exposure to credit risk.

Quantitative Disclosures

(b) The total gross credit risk exposures:

(USD 000)

Category	31.03.2014
Fund Based	1,876,090
Non Fund Based	180,522
REPO Transaction	21,479
Derivatives	4,280
Total	2,082,371

(c) Exposure class wise bifurcation of exposure subject to credit risk is as below:

USD'000

Exposure Class***	Gross Original Exposure	*Net Exposure	**Exposure value	Risk Weighted Assets
Fund Based:				
Exposures to Central Govt. / Central Banks	206,837	206,837	206,837	0.00
Exposures to Institutions	84,319	410,153	410,153	265,199
Exposures to Corporates	1,296,573	815,625	815,625	888,772
Retail Exposures	36,046	14,161	14,161	12,186
Exposures secured by mortgages on Immovable Property	238,245	234,484	234,484	293,808
Other Items	14,070	161,305	161,305	12,141
Total Fund Based Exposures	**1,876,090**	**1,842,565**	**1,842,565**	**1,472,106**
Non Fund Based				
Exposures To Corporates	129,790	55,449	7,944	7,909
Retail Exposures	10,583	2,654	201	139
Exposures Sec. By Mortgages On Immovable Property	40,149	40,139	7,622	11,241
Other Items	0	82,280	82,280	0
Total Non-Fund Based Exposures	**180,522**	**180,522**	**98,047**	**19,289**
Counterparty Risk Exposure:				
REPO Transactions	21,479	21,479	21,479	10,739
Derivatives	4,280	4,280	4,280	1,033
Total Counterparty Risk Exposure	**25,759**	**25,759**	**25,759**	**11,772**
Total Exposure subject to Credit Risk	**2,082,371**	**2,048,846**	**1,966,371**	**1,503,167**
CVA Risk	1,178	1,178	1,178	1,178

Total	**2,083,549**	**2,050,024**	**1,967,549**	**1,504,345**

**after provisions, credit risk mitigation and substitution*

***after CCF for non-fund based exposure.*

****exposure in other exposure classes bifurcated into retail/ corporate and institutions and clubbed with the same.*

- 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 Bank in Capital Bonds of other Banks.

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

USD'000

Country of incorporation/ domicile	Gross Original Exposure	Net Exposure	Exposure value	Risk Weighted Assets
UK	942,903	955,518	901,150	519,681
India	407,973	700,509	694,854	596,637
G-10 (other than UK)	215,769	192,344	186,944	188,212
Singapore/ Hong Kong	116,429	33,950	33,950	42,410
Other OECD	123,098	49,516	37,080	39,073
Others	277,377	118,187	113,571	118,332
Total	**2,083,549**	**2,050,024**	**1,967,549**	**1,504,345**

(e) Country wise bifurcation of fund based exposure to counterparties (USD 1926 mn), based on country of risk, is as below:

Country-wise Gross Exposure (Total Fund Based Assets)		
Name of Country	**31.03.2014 (Amount in USD Mn)**	**Actual exposure as % of total**
UK	821	43
India	752	39
G-10	206	10
Other OECD	37	2
Others	12	1
Singapore/Hong Kong	98	5
NCCT	0	0
TOTAL	**1,926**	**100**

Fund based exposure to India is 39% and UK 43% out of total fund based exposure.

(f) Country wise bifurcation (as per country of risk) based on risk weighted assets is as below:

Country-wise Risk Exposure (fund based)- Risk weighted assets pertaining to Credit Risk			
Name of Country	**31.03.2014 Actual RWA (USD Mn)**	**Actual RWA as % of total**	**Limit (% to total RWAs)**
UK	502	34	100
India	620	42	60
G-10	195	13	15
Other OECD	24	2	10
Others	115	8	20
Singapore/ Hong Kong	16	1	15
NCCT	0	0	0
TOTAL	**1472**	100	

RWAs to India are 42% and to UK are 34% of total RWAs for credit risk.

(g) Industry type distribution of exposures (FB and NFB) excluding pipeline commitments are as below:

Code	**Industry**	**Fund & Non Fund Based As at 31.03.2014**		
		Amt. O/s	**% to Total**	**Square Of %**
29.1	Banks	564,181.95	28.04	786.24
21	Real Estate	250,751.54	12.46	155.26
27.1	Loan Against Own Deposit	236,514.79	11.75	138.13
28	Other Industries	117,039.64	5.82	33.83
29.2	Central Governments (sovereign)	108998.01	5.41	29.27
27	Trading & Other Activities	82,809.80	4.11	16.93
29	Residuary Other Advances	72,591.48	3.61	13.01
5	All Engineering other than Electronics	68,757.36	3.42	11.67
3	Iron & Steel	68,191.40	3.39	11.48
22	Petroleum	61,445.48	3.05	9.32
17.3	Drugs & Pharmaceuticals	55,372.43	2.75	7.57
1	Coal	47,259.28	2.35	5.52
24	Computer Software	46,876.44	2.33	5.43
12	Food Processing	45,544.98	2.26	5.12
25.3	Infrastructure - Roads & Ports	38,808.57	1.93	3.72
6	Electricity	30,294.45	1.51	2.27
18	Cement	25,009.77	1.24	1.54
4	Other Metal & Metal Products	24,737.16	1.23	1.51
25.2	Infrastructure - Telecommunications	17,927.60	0.89	0.79
20	Gems & Jewellery	15,726.52	0.78	0.61
25.1	Infrastructure - Power	14,995.95	0.75	0.56
9	Other Textiles	9,198.92	0.46	0.21

2	Mining	5,339.31	0.27	0.07
23	Automobiles including Trucks	2,105.20	0.10	0.01
25	Infrastructure - Others	1,040.62	0.05	0.00
5.1	Electronics	879.39	0.04	0.00
	GRAND TOTAL	**2,012,398.04**	**100.00**	**1240.07**

Highest 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 including in account with Bank of England and interbank placements and investments in debt instrument of Banks.

(h) The residual contractual maturity break down of assets is: (` in 000)

Maturity Pattern	Advances (Net of Specific Provisions)*	Investments on Net Basis	Investments on Gross Basis	Other Assets
Next Day	155,901.53	192,752.93	192,752.93	634.69
2-7 days	219,959.40	11,166.71	11,166.71	5,102.52
8-14 days	234.83	0.00	0.00	0.00
15-28 days	32,098.60	0.00	0.00	0.00
29 days to 3 months	71,875.31	0.00	0.00	1,383.28
Over 3 months to 6 months	63,433.18	0.00	0.00	1,856.40
Over 6 months to 12 months	100,349.44	2,500.00	2,500.00	0.00
Over 1 year & up to 3 years	441,149.97	879.39	879.39	1,741.52
Over 3 years & up to 5 years	212,584.00	48,527.25	48,527.25	861.45
Over 5 years	157,440.06	181,372.96	183,653.02	700.18
Total	1,455,026.30	437,199.24	439,479.30	12,280.03

*Figures are shown on net basis.

(i) The gross Non-Performing Assets (NPAs) are as below:

Category	31.03.2014 (Amt. in $000)
Sub Standard	32,149.27
Doubtful – 1 (Upto 1 Yr)	17,870.99
Doubtful – 2 (1 - 3 Yrs)	8,998.70
Doubtful – 3 (> 3 Yrs)	-
Loss	7,773.86
Total NPAs (Gross)	66,792.82

(j) The amount of Net NPAs is:

Particulars	31.03.2014 (Amt. in $000)
Net NPA	37,037.96

(k) Information regarding Gross Advances and Net Advances:

	31.03.2014
Category	**(Amt. in $000)**
Gross Advances	1,486,270.47
Net Advances	1,455,025.72

(l) The NPA Ratios are as under:

NPA Ratios	**31.03.2014**
% of Gross NPAs to Gross Advances	4.4940%
% of Net NPAs to Net Advances	2.5455%

(m) The movement of gross NPAs is as under:

	31.03.2014
Movement of gross NPAs	**(Amt. in $000)**
i) Opening Balance at the beginning of the year	33,747.15
ii) Addition during the period	32,228.82
iii) Reduction during the period	(10.55)
iv) Other movements / exchange fluctuations	827.40
v) Closing Balance as at the end of the period (i + ii – iii+iv)	66,792.82

(n) The movement of provision for NPAs is as under:

	31.03.2014
Movement of provision for NPAs	**(Amt. in $000)**
i) Opening Balance at the beginning of the period	17968.74
ii) Provisions made during the period	11,102.22
iii) Write-off made during the period	
iv) Write –back of excess provisions made during the period	(10.55)
v) Other movements / Exchange Fluctuations	694.45
vi) Closing Balance as at the end of the period (i + ii - iii-iv + v)	29,754.86

(o) Forborne Accounts / Re-Negotiated Loans:

	Balance o/s	**Impairment Provision**
	(Amt. in $000)	**(Amt. in $000)**
i) Opening Balance at the beginning of the year	13659.49	1778.11
ii) Addition during the period	18882.52	302.27
iii) Reduction during the period	(7140.39)	(666.67)
iv) Other movements / exchange fluctuations	116.62	76.18
v) Closing Balance as at the end of the period (i + ii – iii+iv)	25518.24	1489.89

(p) Geographical bifurcation of impaired exposure is as below:

Country of incorporation	Amount of impaired assets	Provision Held
	(Amt. in $000)	**(Amt. in $000)**
UK	14,068.61	10,396.29
India	52,724.21	19,358.57
Other G-10	-	-
Others	-	-
Total	66,792.82	29,754.86

(q)Counterparty type bifurcation of impaired exposure (non performing) is as below:

Counterparty Type	Amount of impaired assets	Provision Held
	(Amt. in $000)	**(Amt. in $000)**
Corporates	66,512.83	29,482.82
Retail	279.99	272.04
Banks	-	-
Total	66,792.82	29,754.86

(r) The amount of non-performing investment is:

	31.03.2014
Particulars	**(Amt. in $000)**
Amount of non-performing investment	3597.23

(s) The amount of provisions held for non-performing investment is:

	31.03.2014
Particulars	**(Amt. in $000)**
Amount of provision held for non-performing investment	2280.06

(t) The movement of provisions for depreciation on investments is:

	31.03.2014
Movement of provisions for depreciation on investments	**(Amt. in $000)**
i) Opening balance at the beginning of the year	3350.00
ii) Provisions made during the period	-
iii) Write-off made during the period	-
iv) Write-back of excess provisions made during the period	1069.94
v) Closing balance as at the end of the period (i + ii –iii-iv)	2280.06

(u) Total Exposure in default (impaired and past due but not impaired) is as below:

Sub Class	Original Exposure	Specific Provision
	$000	**$000**
Non-Performing	61,960.15	30,188.99
Restructured with Diminished Value	25,518.24	1,489.89
Past Due but non Impaired – Fund Based	97,057.52	-
Past Due but non Impaired – Non Fund Based	3,048.85	-
Other accounts (regular) of past due customers – Fund Based	10,506.30	-
Other accounts (regular) of past due customers – Non Fund Based	98.74	-
Total	**198,189.80**	**31,678.88**

(v) Geographical distribution (based on country of incorporation) of exposure in default is as below:

Country of Incorporation	Original Exposure	Specific Provision	Of which, Specific Provision made in 2013-14
	$000	**$000**	
UK	45,263.31	10,396.29	3,391.77
India	90,192.73	17,713.44	8,593.70
G-10 (other than UK)	44,371.00	3,479.65	(891.47)
Hongkong and Singapore	16,968.53	0.00	0.00
Others	1,394.23	89.50	0.00
Total	**198,189.80**	**31,678.88**	**11,094.00**

(w) Counterparty wise distribution of exposure in default is as below:

Counterparty Type	Original Exposure	Specific Provision	Of which, Specific Provision made in 2013-14
	$000	**$000**	
Corporates	189,345.90	29,037.27	12,094.49
Retail	3,852.44	272.05	69.45
Institutions	4,991.46	2,369.56	(1,069.94)
Total	198,189.80	31,678.88	11,094.00

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

Qualitative disclosures

(a) 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 is 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.

- Internal Ratings:
  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.

Quantitative Disclosures

(b) 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:

	31.03.2014
Particulars	**(Amt. in $000)**
i) Below 100% risk weight exposure outstanding	755,542
ii) 100% risk weight exposure outstanding	972,443
iii) More than 100% risk weight exposure outstanding	320,861
iv) Deducted	33,525
Total	2,082,371

6. Credit Risk Mitigation: Disclosures for Standardized Approaches

Qualitative Disclosures

a) 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

Deposits with us and deposits with parent are the only collateral treated for risk mitigation. Balance in the deposit held under lien is treated as its valuation. Deposits either with ourselves or with parent are held under lien. For deposits with parent, equivalent exposure is treated to be on parent.
Besides, there is netting agreement with the parent, whereby exposure on them is netted by the amount of their exposure on us, and risk weight is applied only on the balance amount if any.

- a description of the main types of collateral taken by the bank

  Deposits with ourselves and deposits with parent are the only collateral treated for risk mitigation.

- the main types of guarantor counterparty and their credit worthiness
  Guarantees/ Stand-by letters of credit by Banks only are treated as guarantee. No private party's 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.

Quantitative Disclosures

	31.03.2014
	(Amt. in $000)
b) 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.	262,842
c) For credit risk portfolio, the total exposure (after, where applicable, on or off balance sheet netting) that is covered by guarantees/credit derivatives (substitution)	303,570*

*by way of substitution. Exposure shifted to the substituting mitigate and risk weight applied as applicable to the substitutes. Substitution effect is used by the Bank only where exposure is granted against LCs/SBLCs/guarantees of Banks.

7. Securitization Exposures: Disclosure for Standardized Approach

There is no securitization exposure of the Bank

8. **Market Risk in Trading Book**

Qualitative disclosures

(a) The general qualitative disclosure requirement for market risk including the portfolios covered by the standardized approach.

HFT securities are held in trading book. Securities presently held in HFT category are only of UK and US treasury securities. No other type of security is held in trading book. Portfolio is marked to market. Interest rate risk is arrived at by Simplified maturity method.

Quantitative disclosures

(b) The capital requirements for market risk are as under:

(`in 000)

Risk Category	Risk Weighted Assets	Capital Requirement @ 8% under CRR
i) Interest Rate Risk	56308.59	4504.69
ii) Equity Risk	-	-
iii) Foreign Exchange Risk (including Gold)	29306.79	2344.54
iv)Total capital charge for market risks under Standardised duration approach (i+ii+iii)	**85615.38**	**6849.23**

9. Operational Risk

Operational risk is calculated by Basic Indicator Approach method.

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

Qualitative Disclosures

a) 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.

Quantitative Disclosures:

(b) 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 is studied under this approach. Position as of Interest Rate Gaps as on 31.03.2014 is as below:

	Amount in $000				
Maturity Period	Gap (RSA-RSL) (`in 000)	Other Products (Intt. Rate Swaps)	Net Gap (1+2) (`in 000)	Total Assets (`in 000)	Impact of Int. Variation of 2%
Up to 3 months	835,539	(41,850)	793,689	1,526,791	1,996
>3 to 6 months	(132,175)	(41,662)	(173,837)	99,861	(1,311)
>6 to 12 months	(382,811)	-	(382,811)	92,861	(5,752)
>1 to 3 yrs.	(141,844)		(141,844)	120,171	(5,419)
>3 yrs	(10,554)	83,512	72,958	182,020	14,999
Non Sensitive Category	(168,155)	-	(168,155)	60,667	4,514

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. Large number of our loans and advances are although at Floating Rate of Interest, the only Floating component is LIBOR or BoE rate, and a fixed spread over that rate is charged to the customers. In real sense, the variation that the Bank can experience is only on account of variation in LIBOR / BoE Rate.

As a prudential measure a limit has been fixed for net duration gap of the assets and liabilities and the same is monitored at regular intervals.

11. **General Disclosure for Exposures Related to Counterparty Credit Risk**

Qualitative Disclosures

(a) **The general qualitative disclosure requirement with respect to derivatives and CCR : methodology used to assign economic capital and credit limits for counterparty credit exposures:**

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

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

Quantitative Disclosures

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

	Amount in $000		
	Positive Mark to Market Value	**Potential Future Exposure**	**Total Exposure**
Forex Swaps	35.67	3718.45	3754.12
Interest Rate Swaps	108.39	417.56	525.95
Total	144.06	4136.01	4280.08

An amount of $30 thousand has been given to one counterparty as cash margin against currency swaps entered with them.

Risk arising out of REPO transaction is as below:

Amount of Secured Borrowing Availed	Book Value of Securities Given	Exposure $000
65,917.98	44,439.19	21,478.79

Credit Valuation Adjustment (CVA) risk on counterparty risk is $1,177 thousand.

(c) Credit derivative transactions that create exposure to CCR: Nil

(d) Hedging Policy:

Bank does not deal into 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, bank has entered into interest rate swaps for GBP 50.00 mn (USD 83.51 mn). Similarly Bank has entered into currency swaps to mitigate forex risk, while managing its funds mis-match in different currencies.

12. Summary Information on Terms and Conditions of the main features of capital resources is as below:

	Disclosure template for main features of regulatory capital instruments	**Equity Share Capital**	**Perpetual Tier II Capital Bonds**	**Dated Tier Capital II Bonds**	**Dated Tier Capital II Bonds**
1	Issuer	PNBIL	PNBIL	PNBIL	PNBIL
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Non Demat	Non Demat	Non Demat	Non Demat
3	Governing law(s) of the instrument	Channel Island Stock Market	Channel Island Stock Market	Channel Island Stock Market	Channel Island Stock Market
	Regulatory treatment				
4	Transitional CRR rules	Available to full extent	Will have to be converted into additional tier I	Available to the extent of 100% of Tier I in year I, 75% in year II, 50% in year III.	Available to the extent of 100% of Tier I in year I, 75% in year II, 50% in year III.
5	Post-transitional CRR rules	Available to full extent	Will have to be converted into additional tier I. Otherwise shall account for tier II.	Available to the extent of 33.33% of Tier I	Available to the extent of 33.33% of Tier I
6	Eligible at solo/group/ group & solo	Solo	Solo	Solo	Solo
7	Instrument type	Ordinary shares	Subordinated perpetual debt	Subordinated dated debt	Subordinated dated debt
8	Amount recognized in regulatory capital (USD in thousand)	149,631	25,000	50,000	5,000

9	Par value of instrument	149,631	25,000	50,000	5,000
10	Accounting classification	Equity share capital	Semi equity	Subordinated debt	Subordinated debt
11	Original date of issuance (amount on each issue date given in brackets in USD thousand)	Issued on various dates	31.03.2011	31.03.2009 (25,000), 31.01.2012 (12,500), 04.10.2012 (12,500)	23.12.2013
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	Undated	Undated	10 Years	15 Years
14	Issuer call subject to prior supervisory approval	NA	10 Years	5 Years	10 Years
15	Optional call date	NA	31.03.2021	31.03.2014, 31.01.2017, 04.10.2017	23.12.2023
	Contingent Call Dates	NA	Nil	Nil	Nil
	Redemption Amount	NA	25,000	50,000	5,000
16	Subsequent call dates, if applicable	NA	Nil	Nil	Nil
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	Nil	6M LIBOR + 400 bps	6M LIBOR + 400 bps	6M LIBOR + 450 bps
19	Existence of a dividend stopper	Nil	Nil	Nil	Nil
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Fully Discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	NA	Non-Convertible	Non-Convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA	NA
30	Write-down feature	NA	Nil	Nil	Nil
31	If write-down, write-down trigger(s)	NA	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA	NA
33	If write-down, permanent or	NA	NA	NA	NA

	temporary				
34	If temporary write-down, description of write-up mechanism	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
36	Non-compliant transitioned features	Nil	Nil	Nil	Nil
37	If yes, specify non-compliant features	Nil	As above	As above	As above
38	Other information	Nil	There is no convertibility/ write off incorporated, as such treated as tier II. Being perpetual, not to be amortized.	To be amortized in the last five years.	To be amortized in the last five years.

None of the capital instruments, except the equity share capital, issued by the Bank are included in tier I. For all the tier II capital instruments issued by the Bank, there is no incentive to redeem in any of the instruments.

13. **Remuneration Policy**:

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. Two of the key staff members (ED and MLRO), out of local staff, are on special contract on negotiated pay. Two independent Non-Executive Directors are paid fixed salary and allowances per annum.

Bank has its independent back office in India. At the Back Office, there are two group 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.

Highest amount of salary paid to a single employee in the year 2013-14 was USD 227 thousand. None of the employee of the Bank falls in the category of high earners. There is no separate remuneration committee of the Bank. No external consultant has been engaged for the purpose. No bonus, overtime or incentive is paid by the Bank to its employees. There is no link between pay and performance. There is no deferral policy. There is no variable pay. All employees are paid annual increments as per their scale of pay. The annual increase of ED and MLRO is decided by the Board.

Aggregate quantitative information on the expenditure on staff during the year 2013-14 was as below:

	$000
Staff in UK	
India based officers (IBOs) and secondment from Parent	3878
Local Staff including ED and MLRO	2664
Medical Insurance of UK staff (IBOs as well as Local)	110
Canteen/ other common expenses	118
Total expenditure on UK staff	**6770**
Expenditure on India staff	150
Total Staff Expenses	**6920**
Out of above:	
Remuneration to staff whose actions have a material impact on risk profile of the Bank (MD, ED and two NEDs)	569

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.