

Disclosure under Basel II (Pillar 3) in terms of Revised Capital Adequacy Framework – for year ended 31.03.2011

Disclosures in this report pertain to Punjab National Bank (Solo). The Capital to Risk-weighted Assets Ratio (CRAR) of the bank and its eight subsidiaries on stand-alone basis are shown separately in para 3.7.

1. Scope of application

1.1. Punjab National Bank is the top bank in the group to which the revised capital adequacy framework applies. The bank has following five domestic subsidiaries:

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	PNB Gilts Ltd.	India	74.07
ii)	PNB Housing Finance Ltd.	India	74.00
iii)	PNB Investment Services Ltd.	India	100.00
iv)	PNB Principal Insurance Broking Pvt. Ltd.	India	81%
v)	Principal PNB Life Insurance Company Ltd.#	India	88%

not yet operationalised

Apart from these the Bank has three International Subsidiaries

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	Punjab National Bank (International) Ltd.	United Kingdom	100.00
ii)	Druk PNB Bank Ltd	Bhutan	51.00
iii)	JSC Dana Bank	Kazakhstan	63.64

1.2 Bank is having 20% or more stake in following entities

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	Everest Bank Ltd.	Nepal	20%
ii)	Asset Care & Reconstruction Enterprises Ltd.	India	30%
iii)	Principal PNB Asset Management Co. Pvt. Ltd	India	30%
iv)	Principal Trustee Co. Pvt. Ltd.	India	30%
v)	India Factoring and Finance Solutions Pvt. Ltd.	India	30%
iv)	Haryana Gramin Bank	India	35%
vii)	Himachal Gramin Bank	India	35%
viii)	Madhya Bihar Gramin Bank	India	35%
ix)	Punjab Gramin Bank	India	35%
x)	Rajasthan Gramin Bank	India	35%
xi)	Sarva UP Gramin Bank	India	35%

The above entities are consolidated as per Accounting Standard 23 of Institute of Chartered Accountants of India (ICAI).

- 1.3 The entities as given in para 1.1 and 1.2 are consolidated as per respective Accounting Standards of ICAI and no entity is pro rata consolidated and there is no entity that is neither consolidated nor deducted.

1.4 (Rs in crores)

Particulars	31.03.2010	31.03.2011
The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries	There is no capital deficiency in any of the subsidiaries	There is no capital deficiency in any of the subsidiaries

- 1.5 The bank presently is not involved in insurance manufacturing activity. However, bank has invested in the share capital in the following two insurance related subsidiaries:

S. No.	Name of the company	Country of Incorporation	Proportion of ownership	Face value (Rs./crore)	Book value (Rs./crore)
1.	PNB Principal Insurance Broking Pvt. Ltd.	India	81%	4.05	11.73
2.	Principal PNB Life Insurance Company Ltd.	India	88%	1.76	0.82

- 1.6 PNB Principal Insurance Broking Pvt. Ltd was licensed by Insurance Regulatory & Development Authority (IRDA) to carry out “Direct Broker” activity. The Bank had applied for corporate agency to IRDA. In terms of IRDA guidelines a Bank, having broking license or interest in a company having broking license, cannot have corporate agency. Hence, PNB Principal Insurance Broking Pvt. Ltd surrendered the broking license.

- 1.7 Principal PNB Life Insurance Company Ltd. is incorporated with an authorized capital of Rs.110.00 crore to commence life insurance business. The paid-up capital of the company is Rs.2.00 crore. This Company has not operationalised

- 1.8 The Bank has restructured Joint Ventures with Principal Financial Group (Mauritius) (PFG). Transactions for the same were completed on 12.01.2011 as under:

1. Punjab National Bank and Vijaya Bank will continue to support PFG in the Principal PNB Asset Management Co. Pvt. Ltd. and Principal Trustee Co. Pvt. Ltd for a period of three years.
2. The bank sold its entire stake in Distribution Company, PNB Principal Financial Planners Pvt. Ltd and came out of it.
3. Punjab National Bank has bought Principal and Berger Paints stake of 26% and 25% respectively in Broking Company, PNB Principal Insurance Broking Pvt.

Ltd. and the company has become subsidiary, as present stake has increased to 81%.

4. Punjab National Bank has bought Principal and U K Paints stake of 26% and 32% respectively in Principal PNB Life Insurance Company Ltd and the company has become subsidiary, as present PNB stake has increased to 88%.

2. Capital Structure

2.1 Bank's Tier I capital comprises of Equity Shares, Reserves and Innovative Perpetual Bonds.

2.2 Bank has issued Innovative Perpetual Bonds (Tier 1 capital) and also other bonds eligible for inclusion in Tier 2 capital. Some of the important terms of the bonds are as under:

- a. Perpetual Unsecured Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Tier I bonds)

Series	Date of Allotment	Bond Amount (Rs in Crs)	Coupon Rate*	Tenor	Call option*	Put Option
I	20.07.2007	500	10.40% annual for first 10 Years. Step up Coupon Rate of 10.90% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
II	11.12.2007	300	9.75% annual for first 10 years. Step up Coupon Rate of 10.25% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment.	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
III	18.01.2008	300	9.45% annual for first 10 years. Step up Coupon Rate of 9.95% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
IV	19.01.2009	220.50	8.90% annual for first 10 years. Step up Coupon Rate of 9.40% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment.	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
V	28.08.2009	500	9.15% annual for first 10 years. Step up Coupon Rate of 9.65% annual for all subsequent years if call option is not exercised at	Perpetual	At par at the end of 10 th year from date of allotment and thereafter	None

			the end of 10 th year from the date of allotment.		on each coupon date (with prior RBI permission)	
VI	27.11.2009	200	9.00% annual for first 10 years. Step up Coupon Rate of 9.50% annual for all subsequent years if call option is not exercised at the end of 10 th year from the date of allotment.	Perpetual	At par at the end of 10 th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
TOTAL		2020.50				

* subject to RBI guidelines

b. Unsecured Redeemable Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Upper Tier 2 bonds).

Series	Date of Allotment	Bond Amount (Rs. in crores)	Coupon Rate*	Tenor	Call Option*	Put Option	Redemption/ Maturity*
I	08.12.2006	500	Interest at the rate of 8.80% p.a. payable annually. If the call option is not exercised at the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.30% payable annually for the last five years i.e. 11 th to 15 th year	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10 th year.
II	12.12.2007	500	Interest at the rate of 9.35% p.a. payable annually. If the call option is not exercised at the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.85% payable annually for the last five years i.e. 11 th to 15 th year	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10 th year.
III	05.03.2008	510	Interest at the rate of 9.35% p.a. payable annually. If the call option is not exercised at the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.85% payable annually for the last five years i.e. 11 th to 15 th year	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10 th year.
IV	27.03.2008	600	Interest at the rate of 9.45% p.a. payable annually. If the call option is not exercised at the end of 10 th year from date of allotment then the bonds shall carry the interest of 9.95% payable annually for the last five years i.e. 11 th to 15 th year	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10 th year.
V	29.09.2008	500	Interest will be paid at the rate of 10.85% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10 th year.

			interest of 11.35% payable annually for the last five years i.e. 11 th to 15 th year.				
VI	22.12.2008	500	Interest will be paid at the rate of 8.95% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 9.45% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year.
VII	18.02.2009	1000	Interest will be paid at the rate of 9.15% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 9.65% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
VIII	21.04.2009	500	Interest will be paid at the rate of 8.80% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 9.30% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
IX	04.06.2009	500	Interest will be paid at the rate of 8.37% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 8.87% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
X	09.09.2009	500	Interest will be paid at the rate of 8.60% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 9.10% payable annually for the last five years i.e. 11 th to 15 th year.	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
XI	27.11.2009	500	Interest will be paid at the rate of 8.50% p.a. payable annually. If the call option is not exercised at the end of 10 th year from the date of allotment then the bonds shall carry the interest of 8.87% payable annually for the last five years i.e. 11 th to	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year

			15 th year.				
XII	24.05.2010	500	Interest will be paid at the rate of 8.50% p.a. payable annually. If the call option is not exercised at the end of 10th year from the date of allotment then the bonds shall carry the interest of 8.87 % payable annually for the last five years i.e. 11t	15 years	At par at the end of 10 th year from the date of allotment (with prior RBI permission	NONE	At par at the end pf the 15 th year from the date of allotment, if the call is not exercised at the end of 10 th year
Total		6610.00					

*subject to RBI guidelines

c. Unsecured Redeemable Non Convertible Subordinated Bonds in the nature of Promissory Notes (Tier 2 bonds):

Sr. No.	Series	Date of Allotment	Bond Amount (Rs in Crs)	Coupon Rate (% p.a. payable annually)	Tenor (in months)	Date of Maturity
i)	VIII (ii)	18.07.2002	295.00	8.80	117	18.4.2012
ii)	IX	04.09.2003	265.00	5.80	116	04.5.2013
iii)	X	08.03.2004	500.00	5.90	111	08.6.2013
iv)	XI	16.06.2006	884.80	8.45	118	16.4.2016
v)	XII	16.08.2006	115.00	9.15	116	16.4.2016
vi)	XIII	08.09.2006	500.00	8.95	115	08.4.2016
Total			2559.80			

2.3 The Tier 1 capital of the bank comprises:

(Rs in Crores)

Particulars	31.03.2010	31.03.2010
i) Paid up share capital	316.81	315.30
ii) Reserves (excluding revaluation reserves)	19468.10	15807.96
iii) Innovative Perpetual Bonds	2020.50	2020.50
iv) Other Capital Instruments		--
v) Equity Investment in subsidiaries (50%)	409.45	293.23
vi) Intangible Assets (Deferred Tax Assets + Computer Software)	417.09	450.25
vii) Dep. for illiquid securities	0.00	172.98
Tier I Capital (i + ii + iii + iv –v –vi-vii)	20978.87	17227.30

2.4 The amount of Tier 2 capital (net of deductions) is:

(Rs. in crores)

Particulars	31.03.2011	31.03.2010
The amount of Tier 2 capital (net of deductions)	9908.81	9536.26

2.4.1 The debt capital instruments eligible for inclusion in Upper Tier 2 capital are:

(Rs in Crores)

Particulars	31.03.2011	31.03.2010
Total amount outstanding	6610.00	6110.00
Of which amount raised during the current year	500.00	2000.00
Amount eligible to be reckoned as capital funds	6610.00	6110.00

2.4.2 The subordinated debts eligible for inclusion in Lower Tier 2 capital is:

(Rs in Crores)

	31.03.2011	31.03.2010
Total amount outstanding	2559.80	2559.80
Of which amount raised during the current year	0.00	0.00
Amount eligible to be reckoned as capital funds	1864.80	2076.80

2.5 Other deductions from capital, if any:

(Rs in Crores)

	31.03.2011	31.03.2010
Other deductions from capital, if any:	NIL	NIL

2.6 The total eligible capital comprises:

(Rs in Crores)

	31.03.2011	31.03.2010
Tier – I Capital	20978.87	17227.30
Tier – II Capital	9908.81	9536.26
Total Capital	30887.68	26763.56

3. Capital Adequacy

The bank believes in the policy of total risk management. The bank views the risk management function as a holistic approach whereby risk retention is considered appropriate after giving due consideration to factors such as specific risk characteristics of obligor, inter relationship between risk variables and corresponding return and achievement of various business objectives within the controlled operational risk environment. Bank believes that risk management is one of the foremost responsibilities of top/ senior management. The Board of Directors decides the overall risk management policies and approves the Risk Management Philosophy & Policy, Credit Management & Risk policy, Investment policy, ALM policy, Operational Risk Management policy, Policy for internal capital adequacy assessment process (ICAAP), Credit Risk Mitigation & Collateral Management Policy, Stress Testing Policy and Policy for Mapping Business Lines/Activities, containing the direction and strategies for integrated management of the various risk exposures of the Bank. These policies, inter alia, contain various trigger levels, exposure levels, thrust areas etc.

The bank has constituted a Board level subcommittee namely Risk Management Committee. The committee has the overall responsibility of risk management functions and oversees the function of Credit Risk Management Committee (CRMC), Asset Liability Committee (ALCO) and Operational Risk Management Committee (ORMC). The meeting of RMC is held at least once in a quarter. The bank recognizes that the management of risk is integral to the effective and efficient management of the organization.

3.1 Credit Risk Management

3.1.1 Credit Risk Management Committee (CRMC) headed by CMD is the top-level functional committee for Credit risk. The committee considers and takes decisions necessary to manage and control credit risk within overall quantitative prudential limit set up by Board. The committee is entrusted with the job of approval of policies on standards for presentation of credit proposal, fine-tuning required in various models based on feedbacks or change in market scenario, approval of any other action necessary to comply with requirements set forth in Credit Risk Management Policy/ RBI guidelines or otherwise required for managing credit risk.

Bank has developed comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. The risk rating system is drawn up in a structured manner, incorporating different factors such as borrower's specific characteristics, industry specific characteristics etc. Risk rating system is being applied to the loan accounts with total limits above Rs.50 lacs. Bank is undertaking periodic validation exercise of its rating models and also conducting migration and default rate analysis to test robustness of its rating models.

Small & Medium Enterprise (SME) and Retail advances are subjected to Scoring models which support "Accept/ Reject" decisions based on the scores obtained. All SME and Retail loan applications are necessarily to be evaluated under score card system. Scoring model Farm sector has been developed and implementation process is under progress. The bank plans to cover each borrowal accounts to be evaluated under risk rating/ score framework.

Recognizing the need of technology platform in data handling and analytics for risk management, the bank has placed rating/ scoring systems at central server network. All these models can be assessed by the users 'on line' through any office of the bank.

Additionally, to monitor the default rates, the pool/segment rating methodology is applied to the retails/ small loan portfolio. Default rates are assigned to identify pool/segment to monitor the trends of historical defaults. The pools are created based on homogeneity.

For monitoring the health of borrowal accounts at regular intervals, bank has put in place a tool called Preventive Monitoring System (PMS) for detection of early warning signals with a view to prevent/minimize the loan losses.

Bank is in the process of implementing enterprise-wide data warehouse (EDW) project, to cater to the requirement for the reliable and accurate historical data base and to implement the sophisticated risk management solutions/ techniques and the tools for estimating risk components {PD (Probability of Default), LGD (loss Given Default), EAD (Exposure at Default)} and quantification of the risks in the individual exposures to assess risk contribution by individual accounts in total portfolio and identifying buckets of risk concentrations.

3.1.2 As an integral part of Risk Management System, bank has put in place a well-defined Loan Review Mechanism (LRM). This helps bring about qualitative improvements in credit administration. A separate Division known as Credit Audit & Review Division has been formed to ensure LRM implementation.

3.1.3 The credit risk ratings are vetted/ confirmed by an independent authority. The risk rating and vetting process are done independent of credit appraisal function to ensure its integrity and independency.

All loan proposals falling under the powers of GM & above at HO/ Field General Manager and Circle Head at field are routed through Credit Committee. To ensure transparency and to give wider coverage, the committee consists of one representative each from risk management department, Credit Department and one representative from an area not connected with credit. The proposals are deliberated in the Credit Committee from business objectives, risk management objectives, and policies perspectives.

The rating category wise portfolio of loan assets is reviewed on quarterly basis to analyze mix of quality of assets etc.

3.1.4 In order to provide a robust risk management structure, the Credit Management and Risk policy of the bank aims to provide a basic framework for implementation of sound credit risk management system in the bank. It deals with various areas of credit risk, goals to be achieved, current practices and future strategies.

Though the bank has implemented the Standardized Approach of credit risk, yet the bank shall continue its journey towards adopting Internal Rating Based Approaches. As such, the credit policy deals with short term implementation as well as long term approach to credit risk management. The policy of the bank embodies in itself the areas of risk identification, risk measurement, risk grading techniques, reporting and risk control systems /mitigation techniques, documentation practice and the system for management of problem loans.

3.2 Market Risk & Liquidity Risk

The investment policy covering various aspects of market risk attempts to assess and minimize risks inherent in treasury operations through various risk management tools. Broadly, it incorporates policy prescriptions for measuring, monitoring and managing systemic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

3.2.1 Besides regulatory limits, the bank has put in place internal limits and ensures adherence thereof on continuous basis for managing market risk in trading book of the bank and its business operations. Bank is keeping constant track on Migration of credit ratings of investment portfolio. Limits for exposures to counter-parties, industry segments and countries are monitored and the risks are monitored and controlled through Stop Loss Limits, Overnight limit, Daylight limit, Aggregate Gap limit, Individual gap limit, Value at Risk (VaR) limit for Forex, Inter-Bank dealing and investment limits etc.

3.2.2 For the Market Risk Management of the bank, Mid-Office with separate Desks for Treasury & Asset Liability Management (ALM) has been established.

3.2.3 Asset Liability Management Committee (ALCO) is primarily responsible for establishing the market risk management and asset liability management of the bank, procedures thereof, implementing risk management guidelines issued by regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhered to. ALCO is also entrusted with the job of fixing Base rate and pricing of advances & deposit products and suggesting revision of BPLR to Board.

3.2.4 The policies for hedging and/or mitigating risk and strategies & processes for monitoring the continuing effectiveness of hedges/mitigants are discussed in ALCO and based on views taken by / mandates of ALCO, hedge deals are undertaken.

3.2.5 Liquidity risk of the bank is assessed through gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limits fixed thereon. Advance techniques such as Stress testing, simulation, sensitivity analysis etc. are used on regular intervals to draw the contingency funding plan under different liquidity scenarios.

3.3 Operational Risk:

Operational Risk Management Committee (ORMC) headed by CMD is the top-level functional committee for operational risk. All the operational risk aspects like analysis of historical loss data (including near miss events, attempted frauds & robberies, external loss events), etc. are placed to the ORMC on quarterly basis. Risk Description Charts (RDCs), annual Risk & Control Self Assessments (RCSAs) and Key Risk Indicators (KRIs) are also used to ascertain the inherent and residual risks in various activities and functions of the bank and initiating necessary corrective actions with respect to management/mitigation of the operational risks.

Internal Control is an essential pre-requisite for an efficient and effective operational risk management. Bank has clearly laid down policies and procedures to ensure the integrity of its operations, appropriateness of operating systems and compliance with the management policies. The internal controls are supplemented by an effective audit function that independently evaluates the control systems within the organization.

Bank has put in place detailed framework of Operational Risk Management with a well-defined ORM Policy. The bank has a separate Operational Risk Management Department.

3.4 The capital requirements for credit risk are:

	(Rs. in crores)	
	31.03.2011	31.03.2010
Portfolios subject to standardised approach	19747.03	15180.27
Securitization exposure	NIL	NIL

- 3.5 The capital requirements for market risk (under standardised duration approach) are:

(Rs. in crores)

Risk Category	31.03.2011	31.03.2010
i) Interest Rate Risk	521.05	293.57
ii) Foreign Exchange Risk (including Gold)	18.00	9.00
iii) Equity Risk	402.91	363.85
iv) Total capital charge for market risks under Standardised duration approach (i + ii + iii)	941.96	666.42

- 3.6 The capital requirement for operational risk under Basic indicator approach is :

(Rs. in crores)

Capital requirement for operational risk	31.03.2011	31.03.2010
Basic indicator approach	1699.37	1165.60

- 3.7 The capital ratios of the bank, (solo & group) and subsidiaries are:

Punjab National Bank (Solo)

	31.03.2011	31.03.2010
CRAR%	12.42%	14.16%
CRAR – Tier I capital (%)	8.44%	9.11%
CRAR – Tier II capital (%)	3.98%	5.05%

Punjab National Bank (Group)

	31.03.2011	31.03.2010
CRAR%	13.01%	14.82%
CRAR – Tier I capital (%)	8.82%	9.68%
CRAR – Tier II capital (%)	4.19%	5.14%

Subsidiaries:

Name of subsidiary	CRAR – Tier I capital (%)		CRAR – Tier II capital (%)		CRAR%	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010	31.03.2011	31.03.2010
PNB Gilts Ltd	86.63%	41.59%	NIL	NIL	86.63%	41.59
PNB Housing Finance Ltd	9.23%	11.99%	7.35%	4.94%	16.58%	16.93%
Punjab National Bank (International) Ltd.	13.20%	18.13%	7.99%	5.56%	21.19%	23.69%
PNB Investment Services Ltd.	NA	NA	NA	NA	NA	NA

Druk PNB Bank Ltd.	10.95%	64.64%	NIL	NIL	10.95%	64.64%
JSC Dana Bank	NA	NA	NA	NA	NA	NA
PNB Principal Insurance Broking Pvt. Ltd.	NA	NA	NA	NA	NA	NA
Principal PNB Life Insurance Co. Ltd.	NA	NA	NA	NA	NA	NA

4. Credit risk: general disclosures

4.1 Any amount due to the bank under any credit facility is overdue if it is not paid on the due date fixed by the bank. Further, an impaired asset is a loan or an advance where:

- (i) interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- (ii) the account remains out of order in respect of an overdraft/cash credit for a period of more than 90 days.

Account will be treated out of order, if:

- the outstanding balance remains continuously in excess of the limit/drawing power.
- in cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period
- (iii) in case of bills purchased & discounted, the bill remains overdue for a period of more than 90 days
- (iv) the installment or principal or interest thereon remains overdue for two crop seasons for short duration and the installment of principal or interest thereon remains overdue for one crop season for long duration crops.

4.2 Credit approving authority, prudential exposure limits, industry exposure limits, credit risk rating system, risk based pricing and loan review mechanisms are the tools used by the bank for credit risk management. All these tools have been defined in the Credit Management & Risk Policy of the bank. At the macro level, policy document is an embodiment of the Bank's approach to understand, measure and manage the credit risk and aims at ensuring sustained growth of healthy loan portfolio while dispensing the credit and managing the risk. Credit risk is measured through sophisticated models, which are regularly tested for their predictive ability as per best practices.

4.3 The total gross credit risk exposures are:

(Rs in Crores)

Category	31.03.2011	31.03.2010
Fund Based	243998.78	188306.11
Non Fund Based	59173.86	48743.46

4.4 The geographic distribution of exposures is:

(Rs in Crores)

Category	Overseas		Domestic	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
Fund Based	12765.23	6973.14	231233.55	181332.97
Non-fund based	989.59	131.60	58184.27	48611.86

4.5. (a) Industry type distribution of exposures (Fund Based) is as under:

(Rs. in crores)

S.NO.	CODE	INDUSTRY	31.03.2011		31.03.2010	
1	1	COAL		153.09		75.20
2	2	MINING		1549.74		953.85
3	3	IRON AND STEEL		15933.54		9823.67
4	4	OTHER METAL & METAL PRODUCTS		1357.47		1025.25
5	5	ALL ENGINEERING		5974.00		4810.02
	5.1	Of which (005) Electronics	578.85		1300.95	0.00
6	6	ELECTRICITY		6656.50		2666.65
7	7	COTTON TEXTILES		2257.49		1697.53
8	8	JUTE TEXTILTES		92.46		127.46
9	9	OTHER TEXTILES		4311.20		3416.07
10	10	SUGAR		3327.54		2196.55
11	11	TEA		4.59		5.44
12	12	FOOD PROCESSING		3837.67		3297.09
13	13	VEGETABLE OILS AND VANASPATI		849.63		540.31
14	14	TOBACCO & TOBACCO PRODUCTS		25.86		30.01
15	15	PAPER & PAPER PRODUCTS		1519.92		1352.48
16	16	RUBBER & RUBBER PRODUCTS		219.29		189.88
17	17	CHEMICALS, DYES, PAINTS, ETC.		2916.34		2942.85
	17.1	Of which Fertilisers	113.74		94.00	0.00
	17.2	Of which Petro-chemicals	398.02		580.24	0.00
	17.3	Of which Drugs & Pharmaceuticals	1453.71		1356.80	0.00
18	18	CEMENT		976.50		1266.91
19	19	LEATHER & LEATHER PRODUCTS		605.31		388.43

20	20	GEMS AND JEWELLERY		1676.38		1183.89
21	21	CONSTRUCTION		3902.69		2377.63
22	22	PETROLEUM		3502.89		1080.52
23	23	AUTOMOBILES INCLUDING TRUCKS		1480.37		1542.40
24	24	COMPUTER SOFTWARE		81.45		39.02
25	25	INFRASTRUCTURE		35699.28		24520.32
	25.1	Of which Power	16298.85		9913.67	0.00
	25.2	Of which Telecommunications	8413.91		5748.40	0.00
	25.3	Of which Roads & Ports	6501.32		5062.46	0.00
26	26	NBFCs		7966.16		5493.36
27	27	TRADING		10234.11		8853.70
28	28	OTHER INDUSTRIES		18264.65		14296.11
		TOTAL		135376.12		96192.60
29	29	Residuary Other Advances		108622.66		92113.51
		GRAND TOTAL		243998.78		188306.11
						0.00
		Industry exposure is more than 5% of gross fund based exposure				0.00
1	3	IRON AND STEEL		15933.54		9823.67
2.	25.	INFRASTRUCTURE		35699.28		24520.32

(b) - Industry type distribution of exposures (Non Fund Based) is as under:

(Rs. in crores)

S.NO.	CODE	INDUSTRY	31.03.2011		31.03.2010	
1	1	COAL		52.39		4.54
2	2	MINING		601.08		361.08
3	3	IRON AND STEEL		8650.50		5549.24
4	4	OTHER METAL & METAL PRODUCTS		595.88		293.51
5	5	ALL ENGINEERING		5272.42		3841.86
	5.1	Of which (005) Electronics	671.45		238.35	0.00
6	6	ELECTRICITY		50.35		34.11
7	7	COTTON TEXTILES		38.77		86.94
8	8	JUTE TEXTILTES		18.06		72.50
9	9	OTHER TEXTILES		607.64		469.74
10	10	SUGAR		283.64		635.77
11	11	TEA		0.00		0.00
12	12	FOOD PROCESSING		857.02		838.21
13	13	VEGETABLE OILS AND VANASPATI		1126.81		836.25
14	14	TOBACCO & TOBACCO PRODUCTS		21.04		6.33
15	15	PAPER & PAPER PRODUCTS		110.13		76.73
16	16	RUBBER & RUBBER		81.21		68.04

		PRODUCTS				
17	17	CHEMICALS, DYES, PAINTS, ETC.		1178.21		845.55
	17.1	Of which Fertilisers	7.04		10.08	0.00
	17.2	Of which Petro-chemicals	466.65		410.43	0.00
	17.3	Of which Drugs & Pharmaceuticals	368.83		291.12	0.00
18	18	CEMENT		460.83		241.25
19	19	LEATHER & LEATHER PRODUCTS		25.27		19.18
20	20	GEMS AND JEWELLERY		1927.65		497.06
21	21	CONSTRUCTION		293.36		120.18
22	22	PETROLEUM		632.09		67.87
23	23	AUTOMOBILES INCLUDING TRUCKS		219.17		172.96
24	24	COMPUTER SOFTWARE		1.25		1.64
25	25	INFRASTRUCTURE		7685.47		9504.03
	25.1	Of which Power	4953.59		3770.54	0.00
	25.2	Of which Telecommunications	2040.12		2937.50	0.00
	25.3	Of which Roads & Ports	256.19		1126.14	0.00
26	26	NBFCs		124.02		836.93
27	27	TRADING		3569.31		3545.16
28	28	OTHER INDUSTRIES		4130.95		4661.24
		TOTAL		38614.52		33687.90
29	29	Residuary Other Advances		20559.34		15055.56
		GRAND TOTAL		59173.86		48743.46
		Industry where non- fund based outstanding is more than 5% of gross non-fund based outstanding.				
1	3	IRON AND STEEL		8650.50		5549.24
2	27	TRADING		3569.31		3545.16
3	5	ALL ENGINEERING		5272.42		3841.86
4.	25	INFRASTRUCTURE		7685.47		9504.03

4. 6 The residual contractual maturity break down of assets is:

(Rs in Crores)

Maturity Pattern	Advances*	Investments (gross)	Foreign Currency Assets*
Next day	9918.47 (3773.76)	0.00 (0.00)	357.75 (341.61)
2 - 7 days	4940.21 (3767.69)	99.89 (469.63)	322.61 (144.76)
8 -14 days	4864.84 (2983.13)	262.34 (242.01)	478.74 (293.86)
15- 28 days	6726.54 (4205.28)	668.97 (1354.63)	1471.68 (328.39)

29days - 3months	11127.40 (7609.84)	7617.13 (1920.97)	4026.77 (3765.37)
>3months-6months	13277.89 (10877.95)	1541.26 (3517.11)	6456.26 (5076.07)
>6months-1yr	31700.45 (24836.45)	2518.16 (2496.84)	4467.88 (2661.82)
>1yr-3yrs	109496.67 (84440.35)	10302.92 (9148.75)	2465.73 (1189.68)
>3yrs-5yrs	23555.58 (22238.30)	14558.75 (10708.30)	541.08 (462.33)
>5yrs	26498.62 (21868.46)	57943.63 (48199.46)	747.56 (841.15)
Total	242106.67 (186601.21)	95513.05 (78057.70)	21336.06 (15105.04)

*Figures are shown on net basis
(Figures in brackets relate to previous year)

4.7 The gross NPAs are:

(Rs. in Crores)		
Category	31.03.2011	31.03.2010
Sub Standard	2643.16	1925.98
Doubtful – 1	852.13	336.91
Doubtful – 2	343.06	451.68
Doubtful – 3	202.65	287.94
Loss	338.39	211.90
Total NPAs (Gross)	4379.39	3214.41

4.8. The amount of net NPAs is:

(Rs. in Crores)		
Particulars	31.03.2011	31.03.2010
Net NPA	2038.63	981.69

4.9 The NPA ratios are as under:

NPA Ratios	31.03.2011	31.03.2010
% of Gross NPAs to Gross Advances	1.79%	1.71%
% of Net NPAs to Net Advances	0.85%	0.53%

4.10 The movement of gross NPAs is as under:

(Rs. in Crores)		
Movement of gross NPAs	31.03.2011	31.03.2010
i) Opening Balance at the beginning of the year	3214.41	2506.90
ii) Addition during the year	4336.70	2838.14
iii) Reduction during the year	3171.72	2130.63
iv) Closing Balance as at the end of the year (i + ii - iii)	4379.39	3214.41

4.11 The movement of provision for NPAs is as under:

	(Rs in Crores)	
Movement of provision for NPAs	31.03.2011	31.03.2010
i) Opening Balance at the beginning of the year	2180.05	2215.41
ii) Provisions made during the year	904.11	722.06
iii) Write-off made during the year	102.69	304.76
iv) Write –back of excess provisions made during the year	684.72	452.66
v) Closing Balance as at the end of the year (i + ii - iii-iv)	2296.75	2180.05

4.12 The amount of non-performing investment is:

	(Rs. in crores)	
Particulars	31.03.2011	31.03.2010
Amount of non-performing investment	38.19	71.92

4.13 The amount of provisions held for non-performing investment is:

	(Rs. in crores)	
Particulars	31.03.2011	31.03.2010
Amount of provision held for non-performing investment	38.19	71.92

4.14 The movement of provisions for depreciation on investments is as under:

	(Rs in Crores)	
Movement of provisions for depreciation on investments	31.03.2011	31.03.2010
i) Opening balance at the beginning of the year	333.23	375.48
ii) Provisions made during the year	114.88	208.31
iii) Write-off made during the year	0.00	0.00
iv) Write-back of excess provisions made during the year	97.40	250.56
v) Closing balance as at the end of the year (i + ii –iii-iv)	350.71	333.23

5. Credit Risk: Portfolios subject to the Standardized Approach

Qualitative disclosures

5.1 Bank has approved the following 4 domestic credit rating agencies accredited by RBI for mapping its exposure with domestic borrowers under standardized approach of credit risk

- CRISIL
- CARE
- FITCH India
- ICRA

Bank has also approved the following 3 international credit rating agencies accredited by RBI in respect of exposure with overseas borrowers

- Standard & Poor
- Moody's
- FITCH

No agency has been added/deleted by the Bank during the year.

These agencies are being used for rating (Long Term & Short Term) of fund based/non fund based facilities provided by the bank to the borrowers. The bank uses solicited rating from the chosen credit rating agencies.

5.2 The ratings available in public domain are mapped according to mapping process as envisaged in RBI guidelines on the subject.

5.3 The exposure amounts after risk mitigation (subject to the standardised approach) in different risk buckets are as under:

Particulars	(Rs in Crores)	
	31.03.2011	31.03.2010
i) Below 100% risk weight exposure outstanding	148165.42	109933.74
ii) 100% risk weight exposure outstanding	171379.78	116113.22
iii) More than 100% risk weight exposure outstanding	23782.78	12544.66
iv) Deducted	NIL	NIL

6 Credit Risk Mitigation: disclosures for standardized approaches

Qualitative disclosures

6.1. Bank has put in place Board approved 'Credit Risk Mitigation and Collateral Management Policy' which, inter alia, covers policies and processes for various collaterals including financial collaterals and netting of on and off balance sheet exposure. However, the bank is not making use of the on-balance sheet netting in its capital calculation process.

6.2 The collaterals used by the Bank as risk mitigants (for capital calculation under standardized approach) comprise of the financial collaterals (i.e. bank deposits, govt./postal securities, life policies, gold jewellery, units of mutual funds etc.). A detailed process of calculation of correct valuation and application of haircut thereon has been put in place by developing suitable software.

6.3 Guarantees, which are direct, explicit, irrevocable and unconditional, are taken into consideration by Bank for calculating capital requirement. Use of such guarantees for capital calculation purposes is strictly as per RBI guidelines on the subject.

6.4 Majority of financial collaterals held by the Bank are by way of own deposits and government securities, which do not have any issue in realization. As such, there is no risk concentration on account of nature of collaterals.

6.5 The total exposure for disclosed credit risk portfolio (under the standardized approach) is covered by:

	(Rs. in crores)	
	31.03.2011	31.03.2010
a) For each separately disclosed 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.	19132.74	12715.82
b) For each separately disclosed, the total exposure (after, where applicable, on or off balance sheet netting) that is covered by guarantees/credit derivatives (wherever specifically permitted by RBI)	11873.27	8563.01

7. Securitization: Standardized Approach

7.1 Bank does not have any securitization exposure.

8. Market Risk in Trading Book

8.1 RBI prescribed Standardized Measurement Method (duration based) for computation of capital charge for market risk has been adopted by Bank. Being fully compliant with Standardized Measurement Method as per RBI guidelines, now Bank is preparing for the Internal Model Approach (Advanced Approach on Market risk) based on Value at Risk (VaR) model, which is under implementation.

8.2 The capital requirements for market risk are as under:

	(Rs. in crores)	
Risk Category	31.03.2011	31.03.2010
i) Interest Rate Risk	521.05	293.57
ii) Equity Position Risk	402.91	363.85
iii) Foreign Exchange Risk (including Gold)	18.00	9.00
iv) Total capital charge for market risks under Standardised duration approach (i+ii+iii)	941.96	666.42

9. Operational Risk

9.1 As per RBI directives, the bank has been maintaining capital for operational risk under Basic Indicator approach (BIA) w.e.f. 31.03.2008. The capital requirement as per BIA is Rs. 1699.37 crores as on 31.03.2011.

9.2 Bank is now preparing itself for 'The Standardized Approach' and 'Advanced Measurement Approach' of operational risk. The bank has already applied to RBI for migration to "The Standardized Approach" (TSA) under operational risk.

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

Qualitative disclosures

10.1 The interest rate risk is managed through gap analysis and duration gap analysis. Duration gap analysis is being carried out at quarterly intervals to assess the interest rate risk of both banking book and trading book. Prudential limits have been fixed for impact on Net Interest Income (NII), Net Interest Margin (NIM), minimum ROA & minimum duration gap for the bank.

Behavioral studies are being done for assessing and apportioning volatile and non-volatile portion of various non-maturity products of both assets and liabilities.

10.2 The tools used are:

10.2.1 Earning Approach – (Interest rate sensitivity Statement- Net Gaps)

Table 1: Interest rate sensitivity - net gaps

Maturity Period	Gap	Other Products*	Net Gap	Total Assets	Net Gaps as % to Total Assets
	(RSA-RSL)	(Intt. rate)	(1+2)		
	1	2	3	4	5
1-28 days	-9982.56	-750.00	-10732.56	31209.12	-34%
29days - 3 months	97889.70	0.00	97889.70	153532.75	64%
>3 to 6 months	-114140.37	0.00	-114140.37	10122.50	-1128%
>6 to 12 months	-45054.20	0.00	-45054.20	20763.38	-217%
>1 to 3 yrs.	17233.55	0.00	17233.55	53780.62	32%
>3 to 5 yrs.	17554.55	0.00	17554.55	24637.48	71%
Over 5 years	48806.34	0.00	48806.34	62778.35	78%

* Other products include: FRAs, Swaps, Futures, Options & other derivatives

The repricing assumptions on assets and liabilities are taken as per RBI guidelines. The sensitive portion of saving fund deposit is assumed to be repriced in 3 months to 6 months whereas the floating rate advances are assumed to be repriced in 29 days to 3 months.

Earning at Risk: Impact of 0.5 % change upward/downward in interest rate on NII

(Rs. in crores)

Remaining Period	Estimated impact on NII with adverse change in rate of interest by 0.50%
Up to 6 months	67.75
Up to 1 year	56.03

The impact on the net interest income due to changes in the interest rate upward or downward from 25 bps to 200 bps (Earning at Risk Model) is assessed on monthly basis on the rate sensitive assets and liabilities of the Bank. The impact at 0.5% as assessed through EaR model is tested against prudential limit on the NII fixed by the bank as part of risk management exposure for earnings

10.2.2 Economic Value Approach:

The economic value i.e. impact on the capital fund due to change in interest rate by 200 bps on the economic value is assessed on regular intervals through duration gap method. 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.