Pillar 3 Disclosures under Basel III Framework
For the period ended 31.12.2014

Table DF-2: Capital Adequacy

(i)Qualitative Disclosures:

Capital Adequacy

(a)

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, interalia, contain various trigger levels, exposure levels, thrust areas etc.

The bank has constituted a Board level subcommittee namely Risk Management Committee(RMC). 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.

2.1. Credit Risk Management

2.1.1 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 has implemented 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.

2.1.2 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.

2.1.3 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 considered by Credit Approval Committee (CAC).

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

2.1.4 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.

Bank has implemented the Standardized Approach of credit risk and continues its journey towards adopting Internal Rating Based Approaches (IRB) and **bank has received RBI approval to participate in the parallel run process for Foundation Internal Rating Based (FIRB) approach of credit risk.** 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.

For Bank, corporate and sovereign the default rate has been arrived at based on individual ratings. The default rate for each year is calculated as under each category of borrowers viz. Large Corporate, Mid Corporate and Small Loan borrowers. The default rates for large corporate and mid corporate are combined to provide the default rates for the corporate asset class. PD is estimated using maximum likelihood estimator.

Bank has also put in place a mechanism to arrive at the LGD rating grade and facility apart from the default rating of a borrower. The securities eligible for LGD rating are identified facility wise and the total estimated loss percentage in the account is computed using supervisory LGD percentage prescribed for various types of collaterals and accordingly LGD rating grades are allotted.

Major initiatives taken for implementation of IRB approach are as under:

- Mapping of internal grades with that of external rating agencies grades : Bank has mapped its internal rating grades with that of external rating agencies grades. This exercise will help in unexpected loss calculation and PD estimation.

- Benchmarking of Cumulative Default Rates: Benchmark values of cumulative default rates for internal rating grades have been calculated based on the published default data of external rating agencies. The benchmark values will be used for monitoring of cumulative default rates of internal rating grades and PD validation.

- Bank has adopted supervisory slotting criteria approach for calculation of capital under specialised lending (SL) exposure falling under corporate asset class.

- Bank has put in place a comprehensive "Credit Risk Mitigation & Collateral Management Policy", which ensure that requirements of FIRB approach are met on consistent basis.

2.2 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.

2.2.1 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 has prescribed entry level barriers, exposure limits, stop loss limits, VaR limit, Duration limits and Risk Tolerance limit for trading book investments. 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. The risks under Forex operations are monitored and

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controlled through Stop Loss Limits, Overnight limit, Daylight limit, Aggregate Gap limit, Individual gap limit, Value at Risk (VaR) limit, Inter-Bank dealing and investment limits etc.

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

2.2.3 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.

2.2.4 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.

2.2.5 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.

2.3 Operational Risk:

The bank adopts three lines of defence for management of operational risk, the first line of defence represented by various HO Divisions which are Control Units (CU), Business Units (BU) or Support Units (SU); Second line of defence represented by independent Corporate Operational Risk Management Function (CORF) being Operational Risk Management Department (ORMD) to oversee Operational Risk Management, and the third lines of defence represented by Inspection & Audit Division/Management Audit Division (IAD/MARD) which is a challenge function to the first two lines of defence, Operational Risk Management Committee (ORMC) headed by CMD with all the EDs and key divisional heads as members is the Executive level committee to oversee the entire operational risk management of the bank. All the operational risk aspects like analysis of historical internal 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), Key Risk Indicators (KRIs) and Business Environment & Internal Control Factors (BEIFCs) 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.

(ii)Quantitative Disclosures:

(b) Capital requirements for credit risk:

(₹ in million)

	31.12.2014	31.12.2013
Portfolios subject to standardised approach	308753.56	4293294.36
Securitization exposure	0.00	0.00

(c) The capital requirements for market risk (under standardised duration approach) :

(₹ in million)

Risk Category	31.12.2014	31.12.2013
i) Interest Rate Risk	15869.20	19886.88
ii) Foreign Exchange Risk (including Gold)	333.89	266.89
iii) Equity Risk	7175.85	5478.00
iv) Total capital charge for market risks under Standardised duration approach (i + ii + iii)	23378.94	25631.77

(d) The capital requirement for operational risk::

(i)

₹ in million)

Capital requirement for operational risk	31.12.2014	31.12.2013
Basic indicator approach	29460.22	35802.82

(ii)

(₹ in million)

Capital requirement for operational risk	31.12.2014	31.12.2013
The Standardised approach (if applicable))	40179.10	26280.04

(e) Common Equity Tier 1, Tier 1and Total Capital ratios:

Punjab National Bank (Group)

	31.12.2014	31.12.2013
Common equity Tier I Capital ratio (%) (Basel- III)	8.55	8.48
Tier I Capital ratio (%) (Basel- III)	8.83	8.83
Tier II Capital ratio (%) (Basel- III)	3.19	2.61
Total Capital ratio (CRAR) (%) (Basel- III)	12.02	11.45

For Significant Bank Subsidiaries:

Name of subsidiary	Common equity Tier I Capital ratio (%) (Basel- III	Tier I Capital ratio (%) (Basel- III)	Tier II Capital ratio (%) (Basel- III)	Total Capital ratio (CRAR) (%) (Basel- III)
	31.12.2014	31.12.2014	31.12.2014	31.12.2014
PNB Gilts Ltd	54.72	54.72	NA	54.72
	(20.78)	(20.78)	(NA)	(20.78)
PNB Housing Finance Ltd	11.84	11.84	3.84	15.68
	(11.02)	(11.02)	(3.53)	(14.55)
Punjab National Bank (International) Ltd.	10.74	10.74	5.91	16.65
	(11.20)	(11.20)	(5.64)	(16.84)
PNB Investment Services Ltd.	(NA)	(NA)	(NA)	(NA)
	(NA)	(NA)	(NA)	(NA)
Druk PNB Bank Ltd.	(NA)	(NA)	(NA)	(NA)
	(NA)	(NA)	(NA)	(NA)
JSC SB PNB Kazakhstan	79.08	79.08	9.27	88.35
	(93.81)	(93.81)	(29.86)	(123.27)
PNB Insurance Broking Pvt. Ltd.	(NA)	(NA)	(NA)	(NA)
	(NA)	(NA)	(NA)	(NA)

*Figures in brackets relate to previous corresponding period.

Table DF-3: Credit Risk: General Disclosures

(i)Qualitative Disclosures:

(a)

3.1 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 in case of Agricultural loans.

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.

(ii)Quantitative Disclosures:

(b) The total gross credit risk exposures:

(₹ in million)

Category	31.12.2014	31.12.2013
Fund Based	3960368.03	3514260.04
Non Fund Based	913800.00	816323.80

(c) The geographic distribution of exposures:

(₹ in million)

Category	Overseas	Domestic
	31.12.2014	31.12.2014
Fund Based	564413.52	3395954.50
Non-fund based	208279.43	705520.57

(d)
(i) Industry type distribution of exposures (Fund Based) is:

(₹ in million)

S.NO.	CODE	INDUSTRY	31.12.2014	
			Amount of total exposure (1)	Out of (1) exposure of sub-head (wherever applicable)
1	1	COAL	14815.45	
2	2	MINING	8387.84	
3	3	IRON AND STEEL	136706.02	
4	4	OTHER METAL & METAL	14376.03	

		PRODUCTS		
5	5	ALL ENGINEERING	47386.41	
	5.1	Of which (005) Electronics		6293.01
6	6	ELECTRICITY	97055.77	
7	7	COTTON TEXTILES	29609.30	
8	8	JUTE TEXTILTES	708.00	
9	9	OTHER TEXTILES	73671.01	
10	10	SUGAR	39975.60	
11	11	TEA	518.20	
12	12	FOOD PROCESSING	56490.25	
13	13	VEGETABLE OILS AND VANASPATI	10817.50	
14	14	TOBACCO & TOBACCO PRODUCTS	1304.95	
15	15	PAPER & PAPER PRODUCTS	16161.20	
16	16	RUBBER & RUBBER PRODUCTS	6842.10	
17	17	CHEMICALS, DYES, PAINTS, ETC.	43756.59	
	17.1	Of which Fertilizers		2663.10
	17.2	Of which Petro-chemicals		6679.08
	17.3	Of which Drugs & Pharmaceuticals		18948.41
18	18	CEMENT	20067.55	
19	19	LEATHER & LEATHER PRODUCTS	5820.50	
20	20	GEMS AND JEWELLERY	20703.99	
21	21	CONSTRUCTION	124870.38	
22	22	PETROLEUM	5190.04	
23	23	AUTOMOBILES INCLUDING TRUCKS	11881.77	
24	24	COMPUTER SOFTWARE	1309.66	
25	25	INFRASTRUCTURE	607462.48	
	25.1	Of which Power		338728.98
	25.2	Of which Telecommunications		63426.70

	25.3	Of which Roads & Ports		130012.20
26	26	NBFCs	116210.34	
27	27	TRADING	86415.83	
28	28	OTHER INDUSTRIES	277922.94	
		TOTAL	1876437.70	
29	29	Residuary Other Advances	2083930.28	
		GRAND TOTAL	3960367.98	566751.48

Industry where fund –based exposure is more than 5% of gross fund based exposure:

1.	25	INFRASTRUCTURE	607462.48	

Note: Industries have been regrouped/reclassified as per latest guidelines of RBI.

(ii) - Industry type distribution of exposures (Non Fund Based) is:

(₹ in million)

S.NO.	CODE	INDUSTRY	31.12.2014	
			Amount of total exposure (1)	Out of (1) exposure of sub-head (wherever applicable)
1	1	COAL	10.30	
2	2	MINING	11846.30	
3	3	IRON AND STEEL	25382.70	
4	4	OTHER METAL & METAL PRODUCTS	1134.30	
5	5	ALL ENGINEERING	16262.30	
	5.1	Of which (005) Electronics		3130.00
6	6	ELECTRICITY	3786.50	
7	7	COTTON TEXTILES	897.80	
8	8	JUTE TEXTILTES	00	
9	9	OTHER TEXTILES	2494.50	
10	10	SUGAR	1294.50	
11	11	TEA	0	
12	12	FOOD PROCESSING	1663.03	
13	13	VEGETABLE OILS AND VANASPATI	1146.70	
14	14	TOBACCO &	1.20	

		TOBACCO PRODUCTS		
15	15	PAPER & PAPER PRODUCTS	518.50	
16	16	RUBBER & RUBBER PRODUCTS	706.80	
17	17	CHEMICALS, DYES, PAINTS, etc.	2560.40	
	17.1	Of which Fertilizers		363.60
	17.2	Of which Petro-chemicals		330.40
	17.3	Of which Drugs & Pharmaceuticals		1407.60
18	18	CEMENT	2157.90	
19	19	LEATHER & LEATHER PRODUCTS	0.20	
20	20	GEMS AND JEWELLERY	1194.50	
21	21	CONSTRUCTION	3071.10	
22	22	PETROLEUM	99.20	
23	23	AUTOMOBILES INCLUDING TRUCKS	900.89	
24	24	COMPUTER SOFTWARE	7.91	
25	25	INFRASTRUCTURE	103216.00	
	25.1	Of which Power		53444.80
	25.2	Of which Telecommunications		30769.60
	25.3	Of which Roads & Ports		8421.60
26	26	NBFCs	1028.10	
27	27	TRADING	29149.57	
28	28	OTHER INDUSTRIES	139152.77	
		TOTAL	349683.96	97867.60
29	29	Residuary Other Advances	564116.05	
		GRAND TOTAL	913800.01	97867.60

Industry where non-fund based exposure is more than 5% of gross non-fund exposure :

1.	25	INFRASTRUCTURE	103216.00	

Note: Industries have been regrouped/reclassified as per latest guidelines of RBI.

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(e) The residual contractual maturity break down of assets is: (₹ in million)

Maturity Pattern	Advances*	Investments (Gross)	Foreign Currency Assets*
Next day	225076.02	178.20	22810.40
	(249044.75)	(6495.16)	(8257.32)
2 - 7 days	55258.26	31283.23	29163.67
	(61767.99)	(2667.55)	(29847.57)
8 -14 days	61210.43	4391.14	27671.17
	(55797.98)	(21131.66)	(15128.06)
15- 28 days	68153.35	14704.58	71256.73
	(53146.01)	(3774.72)	(35049.58)
29days - 3months	323148.18	59752.24	230969.39
	(299422.40)	(29556.11)	(153884.59)
>3months-6months	210341.08	24883.60	134199.67
	(230543.01)	(45709.49)	(102107.96)
>6months-1yr	307927.50	36939.34	151567.56
	(232320.91)	(56271.77)	(100233.25)
>1yr-3yrs	1810445.61	196923.04	99596.01
	(1596154.53)	(180071.52)	(56961.65)
>3yrs-5yrs	362989.87	229183.90	30721.59
	(261396.16)	(230669.49)	(11669.65)
>5yrs	454199.20	897692.55	27708.49
	(408339.07)	(933605.37)	(7563.34)
Total	3878749.51	1495931.82	825664.68
	(3447932.79)	(1509952.85)	(520702.97)

*Figures are shown on net basis. (Figures in brackets relate to previous corresponding period.)

(f) The gross NPAs are:

(₹ in million)

Category	31.12.2014	31.12.2013
Sub Standard	118571.29	76139.54
Doubtful – 1	59508.75	50237.45
Doubtful – 2	44947.22	34252.51
Doubtful – 3	4761.61	2832.01
Loss	1480.89	6912.58
Total NPAs (Gross)	229269.75	170374.08

(g) The amount of Net NPAs is:

(₹ in million)

Particulars	31.12.2014	31.12.2013
Net NPA	142660.31	93319.31

(h) The NPA Ratios are as under:

NPA Ratios	31.12.2014	31.12.2013
% of Gross NPAs to Gross Advances	5.77	4.82
% of Net NPAs to Net Advances	3.69	2.72

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

(₹ in million)

Movement of gross NPAs	31.12.2014	31.12.2013
i) Opening Balance at the beginning of the year	193806.25	136518.84
ii) Addition during the period	115042.81	73834.12
iii) Reduction during the period	79579.31	39978.90
iv) Closing Balance as at the end of the period (i + ii - iii)	229269.75	170374.06

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

(₹ in million)

Movement of provision for NPAs	31.12.2014	31.12.2013
i) Opening Balance at the beginning of the period	89854.70	62040.89
ii) Provisions made during the period	55460.22	36776.42
iii) Write-off made during the period	48436.99	22838.14
iv) Write –back of excess provisions made during the period	14353.31	8.22
v) Closing Balance as at the end of the period (i + ii - iii- iv)	82524.62	75970.95

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

(₹ in million)

Particulars	31.12.2014	31.12.2013
Amount of non-performing investment	178.20	2808.01

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

(₹ in million)

Particulars	31.12.2014	31.12.2013
Amount of provision held for non-performing investment	143.72	2076.36

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

(₹ in million)

Movement of provisions for depreciation on investments	31.12.2014	31.12.2013
i) Opening balance at the beginning of the year	12033.55	5589.74
ii) Provisions made during the period	0.00	6250.76
iii) Write-off made during the period	8735.06	0.00
iv) Write-back of excess provisions made during the period	0.00	43.31
v) Closing balance as at the end of the period (i + ii –iii-iv)	3298.49	11797.19

Table DF-4 - Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

(i)Qualitative Disclosures:

(a)

4.1. Bank has approved the following 6 domestic credit rating agencies accredited by RBI for mapping its exposure with domestic borrowers under standardized approach of credit risk

- CRISIL
- CARE
- India Ratings
- ICRA
- Brickwork
- SMERA

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

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.

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

(ii) Quantitative Disclosures :

(b) For exposure amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in the following three major risk buckets as well as those that are deducted; are as under:

(₹ in million)

Particulars	31.12.2014	31.12.2013
i) Below 100% risk weight exposure outstanding	2076292.41	1946280.73
ii) 100% risk weight exposure outstanding	2146028.01	1622323.83
iii) More than 100% risk weight exposure outstanding	592772.60	683968.05
iv) Deducted	0.00	81178.52