punjab national bank
(International) Limited

Annual report and
Financial Statements
For the year ended 31 March 2021

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Company registration number 05781326

The Board of Directors

Position	Directors	Appointment Date	Resignation Date
Chairman	CH. S. S. Mallikarjuna Rao	31.01.2020	
Managing Director	Rajeeva	07.05.2019	
Executive Director	Vasudevan Mundokulam	31.05.2019	
General Manager Non-Executive Director	Vibha Aren	06.08.2020	
General Manager Non-Executive Director	Ashwini Vats	31.07.2018	05.08.2020
Independent Non-Executive Director	Sundeep Bhandari	31.07.2018	
Independent Non-Executive Director	Adrian John Stirrup	30.04.2019	

Company secretary **Camilla Shaw (Appointed on 02.03.2016)**

Registered office
1 Moorgate
London
EC2R 6JH
Tel: 0207 796 9600

Auditor
Mazars LLP
Tower Bridge House, St Katharine's Way
London, E1W 1DD
United Kingdom

Website **www.pnbint.com**

The Directors have pleasure in presenting the annual report and audited financial statements including the Strategic and Directors' reports of Punjab National Bank (International) Limited ('PNBIL' or 'Bank') for the year ended 31 March 2021. These financial statements have been prepared in accordance with the International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The Strategic report should be read in conjunction with the Directors' report where some of the requirements of the Strategic report have been discussed.

NATURE OF BUSINESS

Punjab National Bank (International) Limited was incorporated in the UK on 13 April 2006 and registered with the Companies House in England & Wales under No. 05781326. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by Financial Conduct Authority ('FCA') to conduct banking Business in UK under Registration No. 459701.

The Bank is the wholly owned subsidiary of Punjab National Bank ('PNB' or 'Parent bank'), India. PNB is the second largest public sector bank in India having more than 180 million customers and a network of over 11,000 branches.

PNBIL's main business is to provide commercial and retail banking services to different segments of customers, with a focus on the Asian community within the UK. This includes accepting deposits from both retail and corporate clients; lending to retail, SME's and corporate clients; transaction banking services such as currency remittances; and treasury operations to support its funds management. The main functions of the treasury operations continue to be to maintain a reasonable liquidity position throughout the financial year and provide guidance on the pricing of assets and liabilities to ALCO for approval of pricing for deposits and loans. The Bank also manages a portfolio for government bonds which are held mainly for liquidity management, including placement and borrowing of funds and management of interest rate risk.

PNBIL currently operates in the United Kingdom through a network of seven branches. While the Central London branch caters mainly to corporate clients, all other branches focus on retail and business clients. PNBIL has a strong client base and brand image in the local UK market, due to its focus on customer services over the years, and the strength drawn from its Parent bank's brand.

FUTURE BUSINESS STRATEGY

In financial year 2021-22, the Bank's focus will continue to be on UK based real estate loans with a combination of small and mid-ticket loans. Growth will span investment loans and development loans, with target customers being within and outside the Indian diaspora. The Bank will continue to monitor the market conditions and Covid-19 impact carefully.

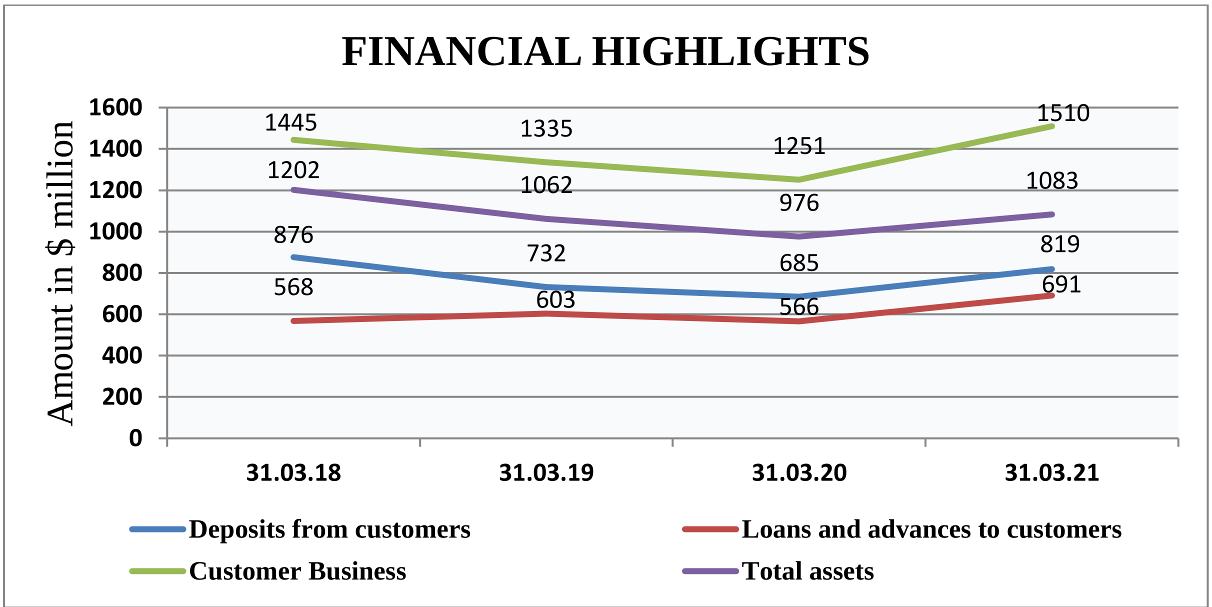
FUTURE BUSINESS STRATEGY (continued)

The Bank will continue to focus on de-risking the legacy portfolio through effective corporate governance, risk management, operational efficiency and compliance.

In order to build a stable and diversified funding mix and reinforce growth, the Bank is enhancing its deposit product and services. To further diversify lending, the Bank is focusing on other products such as secured SME lending and targeting the UK-India corridor for the remittance business.

KEY FINANCIAL HIGHLIGHTS

This is the fifteenth year of operations for the Bank. The total customer business has increased to $1,510 million as at 31 March 2021 (2020: $1,251 million) in line with the Bank's strategy to grow sustainably along with having a stable and diversified funding mix. The key performance highlights of the Bank are as below:



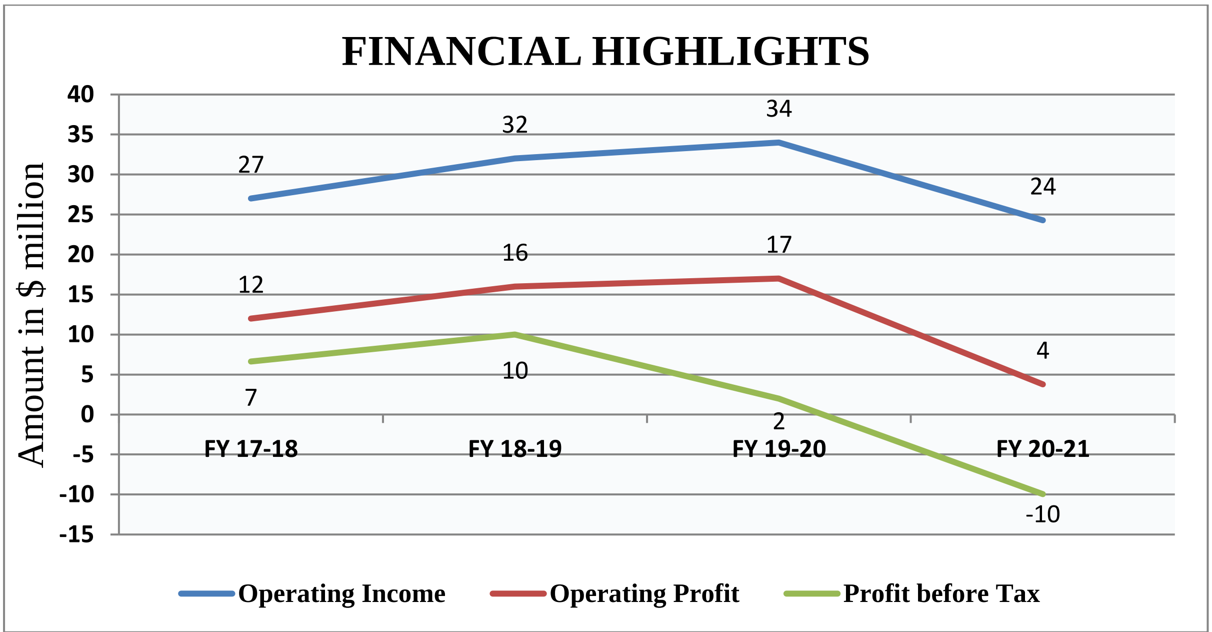
*Customer business is defined as customer loans and advances plus customer deposits.

At 31 March 2021, PNBIL had total assets of $1,083 million (2020: $976 million). During the year, total net advances to customers increased to $691 million (2020: $566 million). In line with the growth in advances, customer deposits also increased to $819 million (2020: $685 million).

The Bank's dedicated recovery team continues to focus on recoveries from impaired advances and ensuring that any potential cases are addressed at the first signs of weakness. This department includes senior officials from the Parent bank, given that the majority of impaired assets are associated with exposure to India. The Bank's impaired loans and advances reduced to $308.07 million (2020: $311.75 million) and the total provision against impairment for loans as at 31 March 2021 is $236.07 million

KEY FINANCIAL HIGHLIGHTS (continued)

(2020: $238.29 million). The Expected Credit Loss ('ECL') provision for Stage 1 & 2 loans stood at $1.85 million as at 31 March 2021 (2020: $2.89 million).



The loss before taxation for the year ended 31 March 2021 amounted to $9.95 million (2020: Profit of $1.82 million). The operating profit before impairment provisions for the year ended 31 March 2021 decreased to $3.77 million (2020: $17.02 million). The significant decrease in the operating profit is primarily due to reduced net interest income with increased provision levels and treasury losses resulting from unfavourable market movements.

Furthermore, the operating expenditure has increased in the year ended 31 March 2021 to $20.51 million from $17.04 million in 2020. This is primarily because the Bank continues to strengthen its governance and control environment, and invest in systems, people and processes to enable it to meet the increasing business and regulatory challenges. The level of ongoing operational expenses is expected to significantly reduce going forward.

As at 31 March 2021, the geographical concentration of the Bank's loans and advances to various counterparties is mainly in the UK at 57.32% (2020: 45.29%) and India at 21.51% (2020: 22.14%). These geographic concentrations will change over time as the Bank pursues its UK centric strategy. The UK growth in FY 2020-2021 was business originated through the branch network primarily in the area of Real Estate financing.

UK real estate lending amounted to 43.60% (2020: 32.30%) of the total portfolio. This is the largest segment within the Bank's loans and receivables portfolio as of 31 March 2021. UK real estate lending consists of Buy-to-Let (residential and commercial), Development finance and Hotel finance.

KEY FINANCIAL HIGHLIGHTS (continued)

The Bank is continuing to implement the Board of Directors (‘Board’) approved business strategy within the risk appetite by marketing the Bank’s UK real estate capabilities in a prudent manner. In FY 2021-2022, the Bank will continue to expand its marketing approach using various communication channels to expand its customer reach and to diversify the portfolio within real estate segments. The Bank will continue to mainly focus on secured low risk UK-centric business and moderate business associated with Indian financial institutions.

The Bank will continue to review its liquidity position and deposit growth in line with asset growth. It will focus on enhancements to existing deposit products and promoting digital channels to provide an enhanced customer experience.

The Bank considers effective corporate governance as a key factor underlying its strategies and operations. The Bank aims to deliver sustainable growth supported by strong corporate governance, compliance and risk management.

A dedicated credit recovery department continues to be focused on delivering recoveries from the impaired book.

PRINCIPAL RISKS AND UNCERTAINTIES

Key risks for the Bank are credit risk in the loan portfolio, interest rate risk in the banking book, market risk, liquidity risk and operational risk including cyber risk. These risks as well as the mitigation techniques followed by the Bank are discussed in note 41 of the financial statements.

Recovery in stressed and impaired accounts continues to be a key priority of the Bank. Since the Bank has considerable exposure to India, the successful execution of initiatives taken by the Indian Government, such as the Insolvency and Bankruptcy Code and faster decision making through the National Company Law Tribunal (‘NCLT’) are continuing to have a positive impact on recovery. Even though a large part of the Bank’s exposures under this segment are collateralised, the uncertainties associated with the ability to recover these exposures within a reasonable time have led the Board of Directors to adopt a conservative and realistic approach with respect to provisions. Having undertaken an extensive review, the Board of Directors remain confident that the Bank has established appropriate mechanisms to measure, monitor and manage risks on an ongoing basis.

The Company is firmly committed to the management of risks, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. The Directors have taken steps to ensure risk management is recognised by staff and given the highest priority throughout the Company and is integral to the management of the business.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Together, the operation of a three lines of defence model, the structure and composition of the Board and the functioning of Board Audit and Compliance Committee and Board Risk Committee have been designed with effective corporate governance in mind. This is further detailed in note 41 to the financial statements. These structures aim to give strategic direction and challenge to management in implementing policies to encourage effective systems and controls and the embedding of the Board of Directors' overall risk appetite. Risk limits are designed to provide assurance that no single event, or combination of events, will materially affect the well-being of the Company. The Bank's Executive Committee, Asset and Liability Committee and other Operating Committees assist in assessing market trends, economic and political developments and provide forums for in-depth review and analysis of the risks to which the Company is subject.

BREXIT

The UK exited the European Union on 31 Jan 2020. The Bank has carried out a detailed assessment on Brexit and its impact on its businesses. The Bank has assessed its loan book in terms of EU exposures as well as EU deposits and the risk in relation to Brexit is considered low. As of 31 March 2021, the Bank has minimal EU exposures comprising 6% of the total loan book. Furthermore, the revised business model of PNBIL is mainly focused on UK and India. The Bank does not expect any material impact on PNBIL's operations arising out of these relationships.

As per the PNBIL Board approved strategy, the primary focus since 2017 has been to expand its business in the UK Buy to Let market (residential, commercial and development segments). Any negative impact on the UK economy due to Brexit could lead to a reduction in property valuations in the Bank's real estate portfolio. However, this risk is mostly mitigated due to the Bank's real estate exposures having low average loan-to-value ratios of the portfolio. Furthermore, this potential reduction has been considered in the regular stress testing scenarios and the Bank has concluded that the downside risk is manageable.

The Bank has a limited exposure impacted by GBP-Euro exchange rate movements. The Bank also has no current borrowings or placements with European Banks and this situation will not change until there is some clarity on the legal situation post Brexit. PNBIL is not involved in any cross-border financings and this will not change as new business is focused on UK and India only.

From an operations perspective, the Bank has three major vendors which are based in the EU. The Bank has had detailed discussions with each of these vendors and has concluded that there will be minimal impact on the Bank's operations.

The Bank also has a small number of employees in non-critical roles who have EU citizenship.

COVID -19

On 11 March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. The impact of COVID-19, including changes in consumer behaviour, pandemic fears and market downturns, and restrictions on business and individual activities, has created significant volatility in the global economy and led to reduced economic activity.

PNBIL continues to monitor the situation carefully, our teams are responding well, staying close to our clients and we are committed to deploying our capital and liquidity to support our clients through the crisis. We expect a gradual recovery from the Covid-19 pandemic, although the pace will be heavily dependent on the efficacy of government stimulus initiatives and policies to ease restrictions, as well as the resilience of the Covid-19 virus itself.

The Bank has set up a committee to steer it through these uncertain times. The committee has carried out a detailed review of the business impact of the pandemic on both existing and new business. The Bank has had deferral requests from various customers and has continued to support them in these difficult times. The Bank has developed a framework for considering requests from borrowers in relation to deferment, extensions, etc. at the relevant credit committee. Retaining the goodwill of the Bank's existing clients while taking a cautious approach towards new business will help in achieving measured and prudent growth.

The Bank's operational and technology infrastructure has performed well under pressure, enabling colleagues to support customers effectively through all channels. All branches have remained open throughout the coronavirus outbreak and importantly, our digital banking proposition has remained fully operational throughout. We remain committed to supporting our customers and colleagues whom we remain grateful for their collaboration.

The safety of our staff and customers is of paramount importance and the Bank is taking proactive measures to support this. These include the following:

- Reduced branch opening hours and operating with reduced number of staff on rotational basis.
- The Back-office situated in Delhi, India is currently operating with reduced staff. The daily processing of payments, treasury transactions and day-end activities are being carried out by moving such critical operations back to UK operations team to ensure minimal inconvenience to our customers.
- Remote access for staff in the UK has been enabled to continue with business-as-usual activities to ensure minimal impact.
- Providing support for update on Covid-19 communication for customers through digital channels.

All the above steps have been taken while ensuring critical services are continuing to be offered to our customers.

CLIMATE RISK

The Board recognises that the impact of climate change can have an impact on our financial position in terms of the valuation of our assets, assumptions used in impairment testing, depreciation rate, decommissioning, restoration and other similar liabilities and financial risk disclosures. The Board of Directors accepts ownership and is accountable for managing the risks and opportunities associated with climate change risks and its impact on the resilience of the company's business model both in the immediate and longer term. Climate risk is also considered in the scenario planning and strategy of the Bank.

Based on the PRA's enhanced expectations regarding climate change in banks, PNBIL's Board Risk Committee has been tasked with monitoring and managing the Bank's response. The Chief Risk Officer is the designated SMF for managing the climate change risk in the Bank and embedding of climate related risk factors and associated mitigants in the Bank's Credit Risk Management Policy and ICAAP. Climate risk has been incorporated in the risk management practices in the bank. The Credit risk management policy has been updated to include the risk as one of the risks to be assessed in the analysis.

The Bank provides financing mainly to real estate based in the UK. The Bank's credit risk team checks the flood risk for all properties which are charged as collateral for the loan. All properties are also ensured to have minimum energy performance ratings as per regulations. If the property is found with lower than the minimum rating required, then adequate risk mitigation is used to ensure the property is upgraded before it is approved as collateral for the financing.

With an aim to reducing its own carbon footprint, the Bank consulted employees seeking suggestions and consequently ideas such as using energy efficient lighting and eliminating the use of single use plastic are being discussed for implementation.

REGULATORY FACTORS

The Bank continues to monitor and prepare for a number of regulatory capital developments such as CRR2 which is due to be implemented in the UK on 1 Jan 2022. Furthermore, in response to the COVID-19 pandemic, the PRA published a statement that sets out its views on certain amendments made to Capital Requirements Regulations (CRR and CRR2) via EU Regulation 2020/873 (CRR "Quick Fix") in June 2020. These changes had implications for the Bank's capital requirements and have been successfully implemented in line with the regulatory guidelines.

SECTION 172 REPORT

The Board of Directors understand their duties and responsibilities under the Companies Act 2006 (2006 Act). This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) of the 2006 Act.

SECTION 172 REPORT (continued)

The Board believes that effective stakeholder engagement is central to ensuring responsible and balanced outcomes, while also helping to both shape the Bank's strategy and align business activities with stakeholder expectations. When taking decisions, the Board balances the impact of those decisions on the Bank's various stakeholders whilst acting in a way that the Board considers will ensure the Bank maintains a reputation for high standards of business conduct and promotes the long-term success of the Bank.

To help mitigate the impact of the COVID-19 pandemic, the Bank is taking a supportive approach through this difficult time for customers. The bank has developed a framework for considering requests from borrowers in relation to deferment, extensions, etc. at the relevant credit committee.

As a regulated UK bank, the Bank is subject to the regulation of both the PRA and the FCA and the Board understands the importance of further developing relationships with both, liaising regularly on a range of topics. Board members have met with both the regulators to provide updates to the Bank's strategy, compliance and have provided proactive feedback where necessary.

Employee engagement is actively pursued with regular team meetings, comprehensive appraisals, and an open style of management with access of all staff to the most senior executives.

The Board assessed 'employee welfare' to be a key business priority throughout the pandemic. For the safety of staff and customers, a number of proactive steps were taken such as remote working, reduced branch operations hours, providing updates through various digital channels while ensuring critical services are continued to be offered to our customers. Furthermore, during the course of the pandemic, employees were sent regular communication around well-being and mental health to provide necessary support.

PNBIL is a wholly owned subsidiary of Punjab National Bank, India (PNB). There is regular dialogue and engagement with PNB on key performance, strategic and business matters. The Board composition also includes two members from the Parent Bank, including the Chairman who is also the MD & CEO of PNB.

The Bank's Corporate Social Responsibility (CSR) Policy was approved by the Board on 6 November 2020. The Bank has created a CSR Committee which is responsible for recommending CSR activities for approval in accordance with the Bank's Corporate Governance Framework and monitoring spend in line with approved budget. PNBIL's CSR activity is undertaken in three broad areas. They are as below:

- Initiatives to save the environment.
- Taking action to help/contribute to the local community.
- Working with registered charities/making charitable donations.

SECTION 172 REPORT (continued)

This is a new policy for the Bank. The intention is to start small and to increase CSR activity in future years. The first action included providing 42 new PCs for students in need at a High School in Ealing, London. During the year, the Bank also decided to fund re-useable water bottles for staff to reduce plastic waste. There is a desire to increase such activities in the future.

PNBIL is committed to functioning as a sustainable business and is therefore closely managing its wider social and environmental impacts. A number of additional steps have been taken in relation to tackling climate change and these are mentioned in the strategic report. The Directors ensure that the Bank's long-term interests are at the centre of the Board's decision-making process. Examples of this include decisions in relation to reducing the level of non-performing assets in the book as well as investments in modern technology to enhance banking operations.

Board decisions are always taken with stakeholders in mind. These decisions are always supported by fully reasoned recommendations, the subject of written reports and oral presentations by subject matter experts. This approach ensures that the Board consider factors relevant to its compliance with s.172.

This report was approved by the Board of Directors on 30 July 2021 and signed on its behalf by Company Secretary.

Camilla Shaw
30 July 2021

The Directors have pleasure in presenting the Directors' report which should be read in conjunction with the Strategic report.

FINANCIAL RESULTS

The financial statements for the reporting year ended 31 March 2021 are shown on pages 26 to 85.

DIVIDENDS

As in previous years, the Directors have not recommended the payment of a dividend on the ordinary share capital for the year ended 31 March 2021.

However, the Bank continued to pay a dividend on the Additional Tier I Capital bonds at the rate of 6 months LIBOR plus 5% amounting to $2.59 million (2020: $3.36 million) during FY 2020-21.

CAPITAL STRUCTURE

As at 31 March 2021, the issued and fully paid share capital of the Bank is $274.63 million (2020: $274.63 million), and Additional Tier 1 Capital is $45 million (2020: $45 million). In FY 2020-2021, there was no change in the capital structure of the Bank. Detail is given in note 35 to the financial statements.

The total amount of regulatory capital available as at 31 March 2021 was $206.58 million (2020: $225.70 million). Detail is given in note 42 to the financial statements.

The Total Capital Ratio of the Bank continues to remain above the required level under the CRR and also above the Total Capital Requirement ('TCR') given by the regulator to the Bank. The Total Capital Ratio as at 31 March 2021 is 26.33% with the Common Equity Tier I capital ratio being 17.13%.

As at 31 March 2021, the capital adequacy ratio, leverage ratio, liquidity coverage ratio and net stable funding ratio of the Bank are all above the minimum regulatory requirements and individual capital and liquidity guidance. The Bank's funding is well diversified and the liquidity asset buffer, short-term inter-bank placements and balances with the Bank of England are positively maintained, keeping in view the immediate liquidity requirement which may be triggered under stressed conditions. A minimum of 90 days' survival period is considered for maintenance of the buffer. The components of regulatory capital, assessment of capital adequacy and the leverage ratio will be disclosed separately in the Pillar III disclosures, to be published on the Bank's website.

PNBIL's senior management monitors the Bank's capital position on a weekly basis. The Board Risk Committee and the Board of Directors review the capital structure on a monthly and quarterly basis respectively, or more frequently as required. The Bank reappraises the need for capital and funding throughout the year to ensure the on-going stability and support of its business activities and compliance with regulatory requirements.

GOING CONCERN

The Bank has adequate resources to continue its operations for the foreseeable future.

The Bank has sufficient Capital for its existing business which allows for planned growth, and for staying comfortably in excess of the minimum regulatory guidelines. The Bank maintains a healthy liquidity position, in excess of the requirements demanded by the regulatory environment. There is a robust liquidity adequacy and monitoring process in place. The Bank has continued to receive support from the Parent bank. Assessments of the Bank's liquidity, capital adequacy, and risk management framework are performed on a regular basis.

The Bank has considered a range of possible Covid-19 scenarios and modelled the impact for both the short and long term with probabilities for each scenario. The management has concluded that there are no scenarios which would threaten the viability of the Bank or give rise to any material uncertainties in the judgements used in the preparation of these accounts.

The Bank continues to strengthen its governance and control environment to enable it to meet the regulatory challenges faced by all banks, based on best practice in the industry and underpinned by the industry-standard three lines of defence model.

The Bank's strategic plan, reviewed every year and approved by the Board, is being implemented and has shown to be capable of producing the viability and sustainability expected from the Board.

Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after the balance sheet date.

DIRECTORS

There have been two changes in Board Directors during the year. Details on the Board of Directors, including any changes during the year are given on page 2.

DIRECTORS' INDEMNITIES

The Bank provides Directors and Officers qualifying third party indemnity insurance which is reviewed annually up to the liability limit of £5,000,000 for each and every claim.

FUTURE BUSINESS DEVELOPMENTS

All the Future Business Development plans are outlined in the Strategic report.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Directors are responsible for establishing an effective internal control environment in the Bank and for reviewing its effectiveness. The Bank has well defined procedures for safeguarding assets against unauthorised use or disposition, the systems and control across the Bank are reviewed regularly and, in particular, risk controls have been the subject of an extensive and detailed review. There are controls for maintaining proper accounting records and for ensuring the reliability of financial information used within the business or for publication. Such procedures are designed to contain and manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

The Directors and executive management of the Bank have adopted policies which set out the Board's attitude to risk and internal control. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board vis-à-vis its risk appetite. In addition, the Directors look to operating management, compliance, risk and internal audit to ensure that key business risks are identified, evaluated and managed by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board Risk Committee is a sub-committee of the Board which monitors the management information it receives in order to identify, control and mitigate risks pertaining to all banking activities. The Board also receives regular reports from the Chief Risk Officer on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

The financial reports are presented regularly to the Board detailing the business results, variances, explanations and other performance data.

The effectiveness of the internal control system is reviewed regularly by operational management, compliance, risk and internal audit, and the information from such reviews is presented to the Board Audit and Compliance Committee ('BACC'). The BACC also receives reports of reviews undertaken by the co-sourced internal audit function as well as reports from the external auditor which include, among other important systems and control observation, details of internal control matters that they have identified as part of the financial statements audit. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

FINANCIAL INSTRUMENTS

The Bank's strategies and policies regarding financial risk management, including the use of financial instruments, the policy for managing currency risk, and an indication of the exposure to financial risk are provided in note 41 to the financial statements. This note also includes the Bank's processes for managing its capital, its financial risk management strategy, details of its financial instruments, and its exposure to credit risk, interest rate risk in the banking book, market risk, liquidity risk and operational risk. Some of the issues concerning credit risk have been discussed in note 25.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a Director at the date of approval of this annual report, confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Bank's external auditor is unaware;
- The Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

ELECTIVE RESOLUTIONS

The Bank, being a wholly owned subsidiary of Punjab National Bank, India, has elected to dispense with the requirement to hold annual general meetings, present Directors' reports and financial statements before a general meeting and re-appoint its auditor annually.

AUDITOR

Mazars LLP is the statutory auditor of the Bank.

GENERAL MEETINGS

In accordance with the Companies Act 2006 the Bank is not required to hold an annual general meeting.

By order of the Board

Company Secretary
Camilla Shaw
30 July 2021

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In preparing the Bank's financial statements for the year ended 31 March 2021, the Directors are also required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, confirm that applicable accounting standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Bank for that period. Each of the Directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

Approved by the Board of Directors and signed on behalf of the Board.

Mr. Rajeev
6 August 2021

Vasudevan Mundokulam
6 August 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

Opinion

We have audited the financial statements of Punjab National Bank (International) Limited (the 'company') for the year ended 31 March 2021 which comprise the Income Statement; Statement of Comprehensive Income; Statement of Financial Position; Statement of Changes in Equity; Cash Flow Statement and notes 1 to 41, 43 and 44 to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of the company's profit for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the company's future financial performance;
- Reviewing and challenging the appropriateness of the directors' key assumptions in their cash flow forecasts;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Assessing the historical accuracy of forecasts prepared by the directors;

- Assessing and challenging key assumptions and mitigating actions put in place in response to COVID-19;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	**How our scope addressed this matter**
Allowance for expected credit losses ('ECL') $241m, 2020: $244m *Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation. The ECL relating to the company's loan portfolio requires the Directors to make judgements over the ability of the company's customers to make future loan repayments.* *Individual impairment assessments are made for loans classified as stage 3. This is based on assumptions around the present value of future*	Controls testing • Evaluated the design and implementation of controls operating at the Bank in relation to credit provisioning. Test of detail - Assessed the Bank's overall methodology against the requirements of IFRS 9 including the method of identifying Significant Increase in Credit Risk and impact of Covid-19.

cash flows arising primarily from the sale or re-possession of collateral. For loans classified as stage 1 and 2, ECL is determined through the use of a model. *The most significant areas where we identified greater levels of management judgement in determining the ECL are:* • *Staging of loans and the identification of Significant Increases in Credit Risk;* • *Valuation of the stage 3 loan assets; and* • *Management overlay and the use of macroeconomic variables reflecting a range of future scenarios including the uncertainties around on-going economic impact of COVID-19.* *Refer to Note 4.1 critical accounting judgements and key sources of estimation uncertainty and Note 24 for Allowance for Expected Credit Losses.*	- Reviewed credit files in order to verify data used in the determination of increases in probability of default ('PD') assumptions. This was performed for loans across each stage on a sample basis, focusing on those loans with characteristics of heightened credit risk. Our review specifically focused on the calculation of the present value of the stage 3 loans. - Performed testing over the macroeconomic assumptions that are used within the Bank's economic scenario modelling. We independently assessed both the scenarios that were developed, and the weighting applied to each scenario. - We evaluated the adequacy and appropriateness of the disclosures made in the financial statements. **Our observations** We found the approach taken in respect of ECL to be consistent with the requirements of IFRS 9 and key judgements made were reasonable.
Deferred tax asset ***$24.7m, 2020: $25.0m*** *Management have recorded a deferred tax asset of £24.7m as at 31 March 2021. This asset relates primarily to unused tax losses.* *The decision to recognise an asset is based on management's assessment of future taxable profits of the company which is underpinned by significant assumptions such as the discount rate and expected growth, which may be subject to management bias given the increased subjectivity of the extended forecast period.* *Given the significant level of judgement required in relation to the measurement of the deferred tax asset, we consider this area to be a key audit matter.*	Our procedures included but were not limited to: • Evaluated the key controls around measurement of deferred tax asset, and the budgeting and forecasting processes. • Challenged management's assumptions within the business model, including future profitability and the recovery of the deferred tax asset. • Created an independent challenger model for the company's business model, using independent inputs to form a basis on which to challenge management's forecasting. • Assessed management's ability to accurately forecast through evaluation of the historical accuracy of management's forecasting process.

Refer to Note 4.1 critical accounting judgements & key sources of estimation uncertainty and Notes 15 and 29.	• We evaluated the adequacy and appropriateness of the disclosures made in the financial statements **Our observations** Based on the work performed, we believe that the deferred tax asset balance is reasonable.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	*$2,045,000*
How we determined it	1% of net assets
Rationale for benchmark applied	Net assets are the main focus of the shareholder (the overseas parent) to assess the value of their investment. In addition, net assets approximate regulatory capital requirements,
Performance materiality	*$1,227,000* Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above *$61,000* as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the company and its industry, we identified that the principal risks of non-compliance with laws and regulations relate to regulations and supervisory requirements of the Prudential Regulation authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the company, the industry in which it operates and considered the risk of acts by the company which were contrary to the applicable laws and regulations;

- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the company's regulatory and legal correspondence and review of minutes of directors' meetings in the year.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;

- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions;
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board of directors on 30 November 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 March 2020 to 31 March 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Greg Simpson (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 October 2021

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 $'000	2020 $'000
Interest income	6	36,654	43,216
Interest expense	7	(10,970)	(12,647)
Net interest income		25,684	30,569
Net trading (loss)/profit	8	(2,386)	2,569
Charge on interest rate derivatives		-	(85)
Fee and commission income		859	842
Other operating income	9	127	158
Operating income		24,284	34,053
Staff costs	13	(12,748)	(9,883)
Interest on lease liabilities	37	(135)	(147)
Depreciation and amortisation expenses	10	(1,372)	(1,396)
General administrative expenses	11	(6,258)	(5,609)
Impairment provision	24	(13,722)	(15,197)
(Loss)/profit before tax		(9,951)	1,821
Tax (charge)/credit	15	(283)	905
(Loss)/profit after tax for the year		(10,234)	2,726

All amounts mentioned above relate to continuing activities.

The accompanying 'Notes to the financial statements' from page 29 to 80 are an integral part of the financial statements.

	Note	2021 $'000	2020 $'000
(Loss)/profit after tax for the year	**Income Statement**	**(10,234)**	**2,726**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss			
Investment securities - FVOCI			
Gains/(losses) arising during the year	**36**	**1,534**	**(794)**
Tax (charge)/credit relating to fair value change	**36**	**(281)**	**134**
		1,253	**(660)**
Reclassification adjustments for loss included in profit or loss		**71**	**12**
Other comprehensive income/(expense) for the year net of		**1,324**	**(648)**
Total comprehensive income/(expense) attributable to equity share holders		**(8,910)**	**2,078**

The accompanying 'Notes to the financial statements' from page 29 to 80 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note	2021 $’000	2020 $’000
Assets			
Cash and balances with central banks	16	**221,320**	**132,130**
Investment securities – FVTPL	17	**10,071**	**33,585**
Derivative financial instruments	18	**1,871**	**3,014**
Loans and advances to banks	19	**30,478**	**125,044**
Investment securities –FVOCI	21	**39,311**	**35,651**
Loans and advances to customers	20	**690,599**	**566,366**
Investment securities – Amortised cost	22	**58,332**	**49,467**
Prepayments and other receivables	30	**587**	**469**
Right of use lease assets	37	**4,066**	**4,383**
Deferred tax assets	29	**24,657**	**25,023**
Property, plant and equipment	27	**493**	**460**
Intangible assets	28	**962**	**539**
Total assets		**1,082,747**	**976,131**
Liabilities			
Derivative financial instruments	18	**25**	**1,458**
Deposits from banks	31	**865**	**16,126**
Deposits from customers	32	**819,493**	**685,120**
Subordinated bonds and other borrowed funds	33	**50,000**	**50,000**
Current tax liability	15	**-**	**-**
Lease liability	37	**4,181**	**4,443**
Other liabilities	34	**4,095**	**3,399**
Total liabilities		**878,659**	**760,546**
Net assets		**204,088**	**215,585**
Equity			
Share capital	35	**319,631**	**319,631**
Fair value reserve	36	**68**	**(1,256)**
Retained earnings		**(115,611)**	**(102,790)**
Equity attributable to owners of the Company		**204,088**	**215,585**
Total equity		**204,088**	**215,585**

The accompanying ‘Notes to the financial statements’ from page 29 to 80 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 6 August 2021. They were signed on its behalf by:

Managing Director
Mr. Rajeeva

Executive Director
Vasudevan Mundokulam

	Note	Attributable to equity shareholders of the bank			
		Share capital $'000	Fair Value reserve $'000	Retained Earnings $'000	Total equity $'000
Balance at 31 March 2020		319,631	(1,256)	(102,790)	215,585
Loss for the year	IS	-	-	(10,234)	(10,234)
Net change in fair value of Investment securities -FVOCI	36	-	1,253	-	1,253
Net amount transferred to Profit & Loss	36	-	71	-	71
Other comprehensive income of the year		**-**	**1,324**	**(10,234)**	**(8,910)**
Total comprehensive income of the year		**-**	**1,324**	**(10,234)**	**(8,910)**
Transactions with owners directly recorded in equity					
Dividend on additional Tier 1 capital	40	-	-	(2,587)	(2,587)
Balance at 31 March 2021		**319,631**	**68**	**(115,611)**	**204,088**

	Note	Attributable to equity shareholders of the bank			
		Share capital $'000	Fair Value reserve $'000	Retained Earnings $'000	Total equity $'000
Balance at 31 March 2019		319,631	(608)	(102,154)	216,869
Profit for the year	IS	-	-	2,726	2,726
Net change in fair value of Investment securities -FVOCI	36	-	(660)	-	(660)
Net amount transferred to Profit & Loss	36	-	12	-	12
Other comprehensive income of the year	**-**	**(648)**	**2,726**	**2,078**	**2,078**
Total comprehensive income of the year	**-**	**(648)**	**2,726**	**2,078**	**2,078**
Transactions with owners directly recorded in equity					
Dividend on additional Tier 1 capital	40	-	-	(3,362)	(3,362)
Balance at 31 March 2020		**319,631**	**(1,256)**	**(102,790)**	**215,585**

The accompanying 'Notes to the financial statements' from page 29 to 80 are an integral part of the financial statements.

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
(Loss)/profit after tax		(10,234)	2,726
Adjustments for:			
Amortisation of other intangible non-current assets	10	335	307
Depreciation of property, plant and equipment	10	222	315
Depreciation on right of use assets	10	815	774
Interest on lease liability	37	135	147
Provision for impairment losses on financial assets	24	13,722	15,197
Corporation tax charge/(credit)	15	283	(905)
		15,512	15,835
Changes in:			
Investment securities - FVTPL		23,514	(9,353)
Loans and advances to customers		(137,956)	21,170
Deposits from banks		(15,262)	(40,338)
Other liabilities and provisions		697	(1,309)
Investment securities – FVOCI		(2,029)	6,157
Fair value of derivatives		(291)	(286)
Loans and advances to banks		94,566	30,628
Trade and other receivables		(118)	166
Decrease in customer deposits		134,373	(46,852)
		97,494	(40,017)
Cash generated from/(used in) operating activities		102,772	(21,456)
Income tax paid		(215)	-
Net cash generated from/(used in) operating activities		102,557	(21,456)
Cash flows from investing activities			
Acquisition of property, plant and equipment	27	(255)	(241)
Acquisition of intangible assets	28	(758)	(485)
Purchase of investment securities at amortised cost	22	(8,865)	1,181
Net cash (used in)/generated from investing activities		(9,878)	455
Cash flows from financing activities			
Payment of lease liabilities	37	(902)	(860)
Dividend to perpetual additional Tier I capital bond holders	40	(2,587)	(3,362)
Net cash used in financing activities		(3,490)	(4,222)
Net increase/(decrease) in cash and balances with central banks		89,190	(25,223)
Cash and balances with central banks at beginning of year	16	132,130	157,353
Cash and balances with central banks at end of year	16	221,320	132,130

The accompanying 'Notes to the financial statements' from page 29 to 80 are an integral part of the financial statements.

1] General information

Punjab National Bank (International) Limited, "PNBIL" or "the Bank" is a private company limited by shares and incorporated under the Companies Act and is registered in England and Wales and domiciled in the United Kingdom. The address of the Bank's registered office is 1 Moorgate, London EC2R 6JH. The Bank does not have branches outside the UK. The Bank is a wholly-owned subsidiary of Punjab National Bank, one of the leading public-sector banks of India, having its corporate office at Plot No 4, Sector 10, Dwarka, New Delhi, 110075.

The principal activities of the Bank and the nature of the operations are set out in the Strategic report on pages 3 to 11. The financial statements are presented in US Dollars, because this is functional currency of the Bank.

2] Adoption of new and revised standards

The accounting standards applied are those issued by the International Accounting Standards in conformity with the requirements of the Companies Act 2006. The accounting policies adopted are consistent with those of the previous financial year. There was no other material or amended standards or interpretations that resulted in a material impact or a change in accounting policy.

The Bank continues to monitor new accounting standards/amendments/interpretations that have been issued and become mandatory in subsequent accounting periods.

2.1 Amendments to IFRSs that are mandatorily effective for the current year

The following accounting standard amendments/interpretations are mandatory for the financial year beginning 1 April 2020 but are either not relevant or do not have a material impact on the Bank's financial statements:

- Amendments to IFRS 3 'Business Combinations' – Definition of a Business
- Amendments to IAS 1 'Presentation of Financial Statements', IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of material
- Annual improvements to IFRS Standards 2018-2020 cycle

2.1.1 Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In March 2021, the FCA announced the ceasing of sterling and euro panel London Inter Bank Offered Rate (LIBOR) by end 2021 and stressed on all market participants to take appropriate action to remove dependencies on LIBOR. The Bank has set up a working group and a detailed impact analysis has been done. Work is currently underway for switching customers who have a LIBOR linked product to an alternative reference rate.

The LIBOR transition plan for the Bank's subordinated bonds will be done after 31 December 2021. The capital bonds are denominated in USD LIBOR which will continue to be published till

2] Adoption of new and revised standards (continued)

30 June 2023. The Bank will engage with all concerned stakeholders about a replacement reference rate and expects the exercise to be completed by the end of FY 2021-22.

3] Significant accounting policies

3.1 Statement of compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value;
- Investment securities at fair value through profit or loss (FVTPL) are measured at fair value; and
- Investment securities at fair value through other comprehensive income (FVOCI) are measured at fair value.

Detail on fair value is given in note 23.

3.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

For more information on going concern and the impact of Covid-19, refer to the Directors' report.

3.4 Functional and presentation currency

The Directors consider the US Dollar as the functional currency of the Bank as a significant component of earning assets (loans/investments) are priced in US Dollars and a significant component of funding is in US Dollars. In addition to that, the equity, other capital instruments and retained earnings of the Bank are denominated in US Dollars. Transactions in currencies other than USD are recorded in US Dollars at the rate of exchange prevailing at the end of the day in which the transaction arose. Any resulting exchange differences are included in the statement of profit or loss. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

3] Significant accounting policies (continued)

3.5 Accounting policies

a) Revenue recognition

Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Interest income and expense presented in the statement of profit or loss includes:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on Investment securities – FVOCI calculated on an effective interest basis;
- Arrangement fees recognised on an accrual basis. It is accounted when the services have been provided or the significant act of delivering the services contracted by the customer has been performed and is amortised over the life of the loan.

The interest income is calculated by applying the effective interest rate (‘EIR’) to the gross carrying amount for Stage 1 and Stage 2 assets but, for Stage 3 assets (not purchased or originated credit-impaired), it is calculated by applying the EIR to the amortised cost net of the credit allowance i.e. the carrying amount after the deduction of the loss allowance.

Fees and commission

Fees and commissions include remittance charges, bills collection charges, LC charges, incidental charges on deposit accounts, locker rent and late payment fees.

Revenue is recognised for remittance charges, bills collection charges, LC charges, late payment fees and incidental charges on deposit accounts when the service is delivered.

In case of lockers, revenue is recognised over the period the customer has access to the locker from the date possession is taken. Locker fees are billed on an annual basis with a standard set price payable dependent on the size of box.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.

3] Significant accounting policies (continued)

b) Measurement – financial instruments

A. Financial assets

The Bank classifies its financial assets in the following categories:

i. Financial assets at fair value through profit and loss (FVTPL)

A financial asset is classified in this category if acquired principally for the purpose of trading or, if so, designated by management if it meets the criteria as defined in IFRS 9. Financial assets held for trading are initially recognised and measured at fair value in the statement of financial position. All changes in fair value are recognised as part of trading income in profit and loss. For a purchase transaction, from trade date until settlement date, the asset remains an off-balance sheet asset and it is recognised on financial statements on the settlement date. For a sale transaction, the asset continues to be included in financial statements until settlement date and the transaction remains an off-balance sheet commitment until then.

ii. Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services to a debtor with no intention of trading the asset. Financial assets are initially measured at fair value plus any attributable transaction costs, and subsequently measured at amortised cost using the effective interest method less any specific impairment.

Investments securities at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments which are classified as investments securities at amortised cost are carried at amortised cost less impairment if any.

iii. Investment securities – Fair value through other comprehensive income (FVOCI)

Investment securities – FVOCI are non-derivative investments that are designated as fair value through other comprehensive income or are not classified as another category of financial assets. Investment securities – FVOCI comprise debt securities.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gain or losses on Investment securities - FVOCI are recognised in profit or loss and impairment losses are also recognised in profit or loss.

3] Significant accounting policies (continued)

B. Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

i. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct costs.

ii. Financial liabilities

All non-derivative financial liabilities (including deposits from customers, banks and subordinated bonds) are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

C. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in the absence of the most advantageous market to which the Bank has access at that date.

When available, the Bank measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using another valuation technique. For derivatives, the valuation technique chosen makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk – return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable market transactions.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique which includes only data from the observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument.

3] Significant accounting policies (continued)

D. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The impact of offsetting financial instruments is immaterial for the financial year.

E. De-recognition of financial assets and liabilities

Financial assets are de-recognised when the rights to receive cash flows from the assets have expired; or where the Bank has transferred its contractual right to receive the cash flows of the financial assets and either:

i. Substantially all the risks and rewards of ownership have been transferred; or
ii. Substantially all of the risks and rewards of ownership have neither been transferred nor been retained and the Bank has not retained control of the financial assets.

Financial liabilities are de-recognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expired.

F. Transfer of financial assets

The Bank enters into transactions involving sale and repurchase of securities resulting in the transfer of financial assets, primarily debt securities.

Sale and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it at a fixed price at a future date. The Bank continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. Financial liability is recognised for the obligation to pay the repurchase price. Because the Bank sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of arrangement.

G. Impairment of financial assets

The allowance for credit losses represents the Bank’s estimate of the expected credit loss (ECL) on receivables at the date of the statement of financial position. IFRS 9 requires expected credit losses to be applied to all types of financial assets, including loans and advances to banks and customers, investment securities at amortised cost and debt investment securities.

Two criteria are used to determine how financial assets should be classified and measured: Business model – how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both, and SPPI test – where contractual cash flows are consistent with a basic lending arrangement; that is whether cash flows solely comprise payments of principal and interest.

3] Significant accounting policies (continued)

Quantitative modelling has been used in conjunction with internal and external credit grades and ratings in assessing whether credit risk has significantly increased. The Bank monitors the effectiveness of the criteria used to identify any increase through regular reviews. Various macro variables such as Housing Price Index (HPI) growth forecast, unemployment rate, change in GDP, etc. have been used in modelling a forward-looking estimate for ECL. Statistical methods supported by the internal as well as external data have been adopted to build these models. This information used in ECL models is updated at regular intervals to capture any intrinsic or extrinsic changes.

IFRS 9 assesses on a forward-looking basis the ECL associated with the assets carried at amortised cost and FVOCI and recognises a loss provision for such losses at each reporting date.

Impairment provisions are driven by changes in credit risk of loans and securities, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial origination.

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three-stage ECL impairment model:

- Stage 1 (12-month ECL) – unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2 (Lifetime ECL not credit impaired) – following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.
- Stage 3 (Lifetime ECL credit impaired) – objective evidence of impairment and are therefore considered to be in default or credit impaired on which a lifetime ECL is recognised.

Definition of default: A default shall be considered to have occurred with regard to a particular obligor (debtor) when either or all of the following have taken place and the asset will be classified as Non-Performing Asset (Stage 3 asset):

- The payment due to the bank are overdue by more than 90 days. Interest accrued will be excluded from the criteria.
- Any exposure of the obligor that has been recognised credit - impaired in accordance with the IFRS 9 accounting framework.
- Debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

The Bank considers the following factors as risk drivers in assessing objective evidence of impairment. These are consistent with the staging criteria adopted for implementation of IFRS 9 accounting standards:

3] Significant accounting policies (continued)

- when an exposure to a counterparty is non-performing i.e. obligor is past due more than 90 days;
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation;
- where the Bank files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;
- where the Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;
- where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets.

Write off policy - The Head of Credit Monitoring & Recovery department will evaluate the progress of each impaired loans on a case-to-case basis. The Head of Credit Monitoring & Recovery department and Head of Credit will recommend to CROC any new account specific or portfolio level provisions, write backs or write offs. Regardless of whether an exposure has been written off, Bank may continue to pursue any NPAs for recovery.

Significant increase in credit risk

Qualitative Criteria: All assets are evaluated using a set of qualitative parameters and rules defined by the bank to determine if there is a significant increase in credit risk. The qualitative assessment criteria are elaborated below:

a. Forborne/Restructured assets	• A forborne or restructured account. Forborne performing assets will be classified as stage 2 asset up to 180 days. After 180 days, it will be reviewed and reclassified depending upon its performance.
b. Adverse Financials	• Material deterioration in the financial health of the business. This can be worsening of the capital, liquidity, or profitability situation.
c. Adverse industry impact	• Deterioration of the industry, market segment of the borrower as a whole.
d. Other factors	• Insolvency (liquidation) process initiated; criminal action initiated etc. • Adverse media news affecting the company's soundness.

3] Significant accounting policies (continued)

e. SBLC's, Government & Corporate Securities, Nostro Accounts with other banks and Interbank exposures

• ISDA credit event declared.
• Bond trade (temporarily) suspended at primary exchange because of rumours/facts.

Quantitative Criteria: Any asset where any payment is overdue 30 days or more but less than 90 days

H. Derivative financial instruments

The Bank enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including exchange forward contracts, interest rate swaps and cross currency swaps. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

I. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and carrying amount of the item) is recognised within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment using the straight-line basis over their useful estimated life. Depreciation is recognised in the statement of profit or loss.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

3] Significant accounting policies (continued)

Equipment including computers and accessories	3-5 years
Property and plant	5 years or primary period of lease term, whichever is lower.

(The computers, mobile phones and related accessories are depreciated at 30% whereas property and plant are depreciated at 20%).

J. Intangible assets

Intangible assets of the Bank include software measured at cost less accumulated amortisation and any impairment in value.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software is three years or the licence term whichever is the lower.

K. Cash and balances with central banks

Cash and balances with central banks include notes and coins on hand, balances with banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value and are used by the Bank in the management of its short-term commitments.

L. Corporation tax/deferred tax

Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that are enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3] Significant accounting policies (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the statement of financial position or statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

M. Recognition and measurement of provisions and contingencies

A specific provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Under IFRS 9 and in accordance with the Impairment policy, the Bank will make a provision for expected credit losses.

N. Share capital and reserves

(i) Additional Tier I bonds

The Bank classifies capital instruments as equity instruments in accordance with the substance of contractual terms of the instruments. The Bank's perpetual bonds are not redeemable by the holders and bear an entitlement to the distributions that is non-cumulative and at the discretion of the Board of Directors. The Bank may elect at its discretion to cancel (in whole or in part) the interest amount otherwise scheduled to be paid on interest payment dates. In case of occurrence of the trigger event the bonds shall be converted into ordinary shares. Accordingly, they are presented as a component of issued capital within equity. Distributions thereon are generally recognised as a dividend out of total comprehensive income attributable to the equity shareholders.

(ii) Fair value reserves

The fair value reserve comprises the cumulative net change in the fair value of investment securities - FVOCI assets until the assets are de-recognised or impaired.

O. Right of use lease assets and liabilities

The bank adopted IFRS 16 'Leases' using the modified retrospective approach. The bank identified contracts impacted by IFRS 16 where the bank is the lessee, and this comprises of seven property leases for the bank's corporate office and its branches. The leases typically run for a period of 15 to 20 years with a break clause of 5 years for the Bank and the lessor. Lease payments are liable to be modified at break period to reflect market rentals.

When PNBIL acts as a lessee, it recognises a right-of-use asset representing its right to use the underlying leased asset with a corresponding lease liability on the date on which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and the finance

3] Significant accounting policies (continued)

charge. The finance charge is allocated to the income statement during the term of the lease in such a way as to produce a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the fixed lease payments over the entire term of the lease. Lease payments are discounted using the interest rate implicit in the lease. As the interest rate implicit in the lease is not readily determinable for PNBIL, the Bank used its incremental borrowing rate ('IBR') at the related date for the seven leases in scope of the standard.

The IBR is defined as the interest rate that a lessee would have to pay for borrowing, given a similar period to the duration of the lease and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. In order to construct an IBR, we have used a three-step approach:

- Determining the reference rate
- Determining the finance spread adjustment
- Determining a lease specific adjustment

P. Employee benefits

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 Government of India as well as by the Board of Directors of the Parent bank. Their salary, perquisites and provisions are fixed accordingly. Salary to the locally recruited staff is as per the Board approved Human Resource Policy.

No bonus, overtime or incentive is paid by the Bank to its employees.

The Bank has subscribed to a defined contribution pension plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Contributions to defined contribution pension plans are recognised in the profit and loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

4] Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. There have been no changes to the approach to the assumptions and estimation methodologies during the year.

4] Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Critical accounting judgements

Further information about key assumptions concerning the future and judgements, are set out in the relevant disclosure notes for the following areas:

- **Impairment of financial assets**

The Bank's accounting policy for recognising impairment arising from loans and advances and investment securities is described in Note 3 (G). The Bank uses the three stage impairment model in accordance with the IFRS 9 accounting framework. For stage 1 and 2 accounts, ECL model developed by the Bank is used for calculation of impairment allowance. For stage 3 accounts, the Bank is using the approach where each account is individually assessed for impairment allowances and provisions are made accordingly.

4.2 Key sources of estimation uncertainty

Further information about key sources of estimation uncertainty is set out in the relevant disclosure notes for the following areas:

- **Deferred Tax**

Key sources of estimation uncertainty in relation to the measurement of deferred tax assets include volumes of future business from key revenue streams, interest margins, impairment charges and recoveries in respect of loan assets, tax rates and the period over which future profitability is reliably estimable to support the valuation of the deferred tax assets.

The Bank has done a thorough analysis for the justification of the deferred tax balance. This analysis has gone through a rigorous governance framework through which the Bank has established a process to recover or write off the deferred tax balance as appropriate. As of 31 March 2021, the Bank estimates recovery of the deferred tax asset over an 11-year period. This period has been used because of the difficulty in reliably forecasting beyond this point in time.

The increase in deferred tax due to the current year loss is not being recognised. This unrecognized loss is in addition to the deferred tax balance not recognised in the previous year (see note 29). As per the process set up by the Bank, the unrecognized portion of the deferred tax balance will be recovered before recovery of the original deferred tax balance. Based on the internal projections by the Bank, the current deferred tax balance is justified at its present level and no impairment necessary. Should future business performance not meet profitability estimates, further material impairment adjustments to the carrying value of deferred tax assets will be done as per the established process. As of 31 March 2021, the deferred tax assets amounted to $24.66 million.

4] Critical accounting judgements and key sources of estimation uncertainty (continued)

- **Provisions for impairment assessment in Stage 3 accounts**

For all stage 3 accounts i.e. where there is either a default or an objective evidence of impairment, judgement is required by management in the estimation of the amount and timing of expected cash flows, realisability and valuation of collateral and in certain cases the availability and reliance on guarantees (including corporate and personal guarantees and critical assessment of willingness and ability of the guarantors) in order to determine the level of impairment provision to be recorded. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision. Management's estimates of future cash flows on individually impaired loans are based on historical experience for assets with similar credit risk characteristics. The expected recovery is subject to execution risks associated with the recovery of collateral in different jurisdictions; and fair assessment is thus derived from management's experience of such markets.

As of 31 March 2021, specific provisions for impairment of loans and receivables stood at $238.48 million (2020: 240.70 million).

- **Fair value measurement of financial instruments**

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. Details on valuation of fair value of financial instruments are provided in Note 23 of the financial statements.

6] Interest income

	2021 $'000	2020 $'000
Overdraft accounts	3,918	4,729
Demand and term loans	26,798	30,159
Discount on bills	459	446
Interbank placements	487	2,841
Coupon/premium on investment securities	3,576	3,620
Arrangement fees on loans*	1,416	1,421
Total Interest income	36,654	43,216

Total interest income is $33.50 million calculated using EIR method for each financial asset measured at amortised cost.
* Arrangement fees is treated as interest income.

7] Interest expense

	2021 $'000	2020 $'000
Term deposits	7,926	7,920
Saving deposits	306	327
Interbank borrowings	237	1,053
Subordinated bonds	2,501	3,347
Total Interest expense	10,970	12,647

8] Net trading profit

	2021 $'000	2020 $'000
Foreign exchange	(826)	(116)
(Loss)/income on investment securities - FVTPL	(1,560)	2,685
Net trading (loss)/profit	(2,386)	2,569

9] Other operating income

	2021 $'000	2020 $'000
Payment and settlement	93	110
Retail banking	34	48
Total Other operating income	127	158

10] Depreciation and amortisation expenses

	2021 $'000	2020 $'000
Depreciation of property, plant and equipment	222	315
Depreciation on right of use lease assets	815	774
Amortisation of intangible assets	335	307
Total Depreciation and amortization expenses	1,372	1,396

Further details are given in notes 27, 28 and 37 of the financial statements

11] General administrative expenses

	2021 $'000	2020 $'000
Legal, professional and audit fees	3,077	2,291
Administrative and office maintenance costs	1,524	1,699
Other administration costs	1,235	1,107
Postage and telephones cost	355	383
Marketing costs	67	129
Total General administrative expenses	6,258	5,609

12] Auditor's remuneration

Fees payable to the Bank's auditor for the audit of the Bank's annual accounts

	2021 $'000	2020 $'000
The audit of the Company	216	205
Total audit fee	216	205
Fees payable to the Bank's auditor for other services:		
- Audit related assurance services	23	18
Total non-audit fees	23	18

13] Staff costs

	2021 $'000	2020 $'000
Wages and salaries	9,952	7,621
Contribution towards defined employee contribution plan*	292	188
Other employee benefits	1,495	1,249
Social security costs	1,009	825
Total Staff costs	12,748	9,883

* Out of this $0.02 million is related to a director's employee contribution (note 14). The number of Directors receiving this benefit is one.

Included in other employee benefits are:	2021 $'000	2020 $'000
Accommodation cost	692	686
Medical insurance and expense	107	80
Pension contributions for staff in India	17	10
Other expenses**	679	473
	1,495	1,249
Average number of employees***	186	148

** Other expenses include rent, conveyance, insurance, staff welfare and other expenses for staff. There are no share-based payments to employees.
*** Out of the above, 24 back office employees are based in India.

The number of employees disclosed is the monthly average number in line with Section 411 of the Companies Act 2006.

14] Directors' emoluments

	2021 $'000	2020 $'000
Emoluments	475	497

The emoluments of Directors disclosed above include salary and Director Fees.

	2021 $'000	2020 $'000
Emoluments of highest paid Director (One director)	232	216
Contributions to external pension scheme	16	15

15] Corporation tax

Components of corporation tax credit/(charge)

	2021	2020
Analysis of tax credit/(charge) in the year	**$'000**	**$'000**
Current corporation tax charge	-	-
Credit in respect of prior years	-	316
Total current tax credit/(charge)	-	316
Deferred corporation tax credit/(charge)		
Effect of rate changes	-	2,883
Relating to origination and reversal of temporary differences	2,374	293
Deferred tax not recognised in relation to losses	(5,332)	(2,945)
Adjustments in respect of prior years	2,890	358
Total deferred tax credit/(charge)	(68)	589
Withholding tax paid	(215)	
Total tax credit/(charge) for the year	(283)	905

Reconciliation of corporation tax credit/(charge) to accounting profit

	2021 $'000	2020 $'000
Profit before tax	(9,951)	1,821
Corporation tax at 19% (2020: 19%)	1,891	(346)
Tax effect of non-deductible depreciation	-	1
Tax effect of other non-deductible expenses/non-taxable income	491	645
Tax effect of rate changes	-	2,884
Adjustments in respect of prior year	2,890	674
Deferred tax not recognised in relation to losses	(5,332)	(2,945)
Tax effect of Investment securities - FVOCI transitional adjustment	(8)	(8)
Withholding tax suffered	(215)	-
Tax credit/(charge)	(283)	905
Current corporation tax credited to other comprehensive income		
(Expense)/credit arising on FVOCI reserve movement	(281)	(134)
Tax effective rate	19%	19%

The standard rate of corporation tax rate for the year starting 1 April 2021 is 19% which is expected to increase to 25% from 2023 pending the enactment of Finance Bill 2021, which was not substantively enacted as at the year-end date.

16] Cash and balances with central banks

	2021 $'000	2020 $'000
Cash on hand	326	280
Cash at bank (including balance held with central banks)	220,994	123,850
Cash equivalent*	-	8,000
Total Cash and balances with central banks	221,320	132,130

*Placements up to 3 months are treated as cash equivalent.

17] Investment securities - FVTPL

	2021 $'000	2020 $'000
Treasury bills	10,071	33,585

The Bank has classified its holding of US treasury bills as Investment securities - FVTPL which were measured at fair value through profit and loss. No asset held under this category is pledged and all remain unencumbered.

The table below sets out the credit quality of trading debt securities.

	Rating	2021 $'000	2020 $'000
US Treasury Bills	AAA	10,071	33,585

Investments in the trading portfolio, along with treasury bills held under FVOCI, are held mainly to maintain a liquid asset buffer. Regular churning of such securities is made to ensure adequate marketability.

18] Derivative financial instruments

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long-term or short-term currency positions. These derivatives are revalued daily and any change in their fair value is recognised in the statement of profit or loss.

A major portion of the Bank's assets are on a floating rate of interest where base rate is floating and linked to LIBOR or BOE rate with a fixed margin thereupon. A major portion of liabilities of the Bank are at a fixed rate of interest. All the deals under cross currency foreign exchange swaps and interest rate swaps are over-the counter deals and none of them are with Central Governments.

18] Derivative financial instruments (continued)

The table below shows analysis of counterparty credit exposure arising from derivative transactions and fair value as at 31 March 2021:

	Nature of Counterparty	Nominal Amount-Buy Transaction	Nominal Amount-Sell Transaction	Positive Fair Value	Negative Fair Value
		$'000	$'000	$'000	$'000
Cross currency swaps	Bank	126,279	124,319	1,871	25
		126,279	124,319	1,871	25

The table below shows analysis of counterparty credit exposure arising from derivative transactions and fair value as at 31 March 2020:

	Nature of Counterparty	Nominal Amount-Buy Transaction	Nominal Amount-Sell Transaction	Positive Fair Value	Negative Fair Value
		$'000	$'000	$'000	$'000
Cross currency swaps	Bank	145,664	144,075	3,014	1,458
		145,664	144,075	3,014	1,458

19] Loans and advances to banks

	2021	2020
	$'000	$'000
Bills negotiated and discounted	14,848	13,867
Overdraft	3	-
Term loans against stand-by letters of credit/buyers' credit	16,061	40,860
Interbank placements of original maturity of more than three months	8,008	70,695
Total	38,920	125,422
Less impairment provisions *	(8,442)	(378)
Net Loans and advances to banks	30,478	125,044

*Impairment provisions includes Stage 3 ECL allowance of $8 million (2020: Nil) ECL provision (Stage 1 & 2) of $0.44 million (2020: $0.37 million).

At 31 March 2021 $15.18 million (2020: $14.28 million) of loans and advances to banks are expected to be realized more than twelve months after the reporting date.

20] Loans and advances to customers

	2021 $'000	2020 $'000
Customer overdrafts	164,239	157,221
Term loans	755,916	649,958
Total	920,155	807,179
Less impairment provisions **	(229,556)	(240,813)
Net loans and advances to customers	690,599	566,366

**Impairment provisions include Stage 3 ECL allowance of $228.07 million (2020: $238.29 million) and ECL provision (Stage 1 & 2) of $1.48 million (2020: $2.52 million).

At 31 March 2021 $344.97 million (2020: $246.86 million) of loans and advances to customers are expected to be realised more than twelve months after the reporting date. Detail on impaired financial assets and exposure to credit risk are further provided in notes 24 and 25 to the financial statements.

21] Investment securities – FVOCI

	2021 $'000	2020 $'000
Net marketable debt securities	39,311	35,651

At 31 March 2021, expected credit losses of $0.37 million (2020: $0.35 million) have been recognised on Investment securities – FVOCI.

The fair value movements of debt securities through other comprehensive income (FVOCI) are accumulated and recognised in reserves within other comprehensive income.

At 31 March 2021, $28.32 million (2020: $28.52 million) of Investment securities - FVOCI are expected to be realised more than twelve months after the reporting date.

22] Investment securities – amortised cost

	2021 $'000	2020 $'000
Debt securities	60,554	51,702
Less: Impairment provision*	(2,222)	(2,235)
Net book value of investment securities at amortised cost	58,332	49,467

* There are two impaired investment securities at amortised cost which have been fully provided for in the year ended 2021.

Refer to note 23 for details of fair value of investment securities which are at amortised cost. At 31 March 2021, $41.39 million (2020: 48.56 million) of investment securities at amortised costs are expected to be realised more than twelve months after the reporting date.

23] Financial instruments

A. Financial instruments carried at amortised cost

The following table summarises the carrying amounts and incorporates the Bank's estimate of fair values of the investment securities at amortised cost which are not presented on the Bank's balance sheet at fair value. The fair values in the table below may be different from the actual amount that will be received / paid on the settlement or maturity of the financial instrument.

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2021	2021	2020	2020
	$'000	$'000	$'000	$'000
Investment securities – amortised cost	60,554	60,195	51,702	47,077
Less impairment provision	(2,222)	-	(2,235)	-
Net Book Value	58,332	60,195	49,467	47,077

The total impairment provision recorded for investment securities at amortised cost includes the Bank's investment in one credit linked note of an investment banking company which is in liquidation and one corporate investment security at year ended 31 March 2021. The provision for impairment is the difference in amount between the book value and the market value of the credit linked note.

The fair value of financial instruments carried at amortised cost incorporates the Bank's estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date in the principal market or in the absence of that to the most advantageous market to which the Bank has access at that date.

The fair value of all remaining financial instruments carried at amortised cost approximates the book value, as given below:

	Carrying amount and fair value	
	2021	2020
	$'000	$'000
Assets		
Customer and bank overdrafts	78,281	71,761
Term and bank loans	628,043	535,473
Interbank placements	8	78,616
Bills purchased	14,745	13,983
Liabilities		
Interbank deposits	199	15,656
Subordinated bonds	50,000	50,000
Savings accounts	110,967	101,678
Current accounts	115,018	108,454
Fixed term deposits	594,173	474,988
Bills payable	154	151

23] Financial instruments (continued)

The basis of measurements of fair value which approximates to carrying value is as follows:

- Inter-bank deposits are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.
- Subordinated bonds are carried at rate of 6-month LIBOR + 4/5% and the interest rate is reset every six months. Consequently, the resultant impact on fair value of the subordinated bonds is considered insignificant.
- The fair value of savings accounts and current accounts with no fixed maturity is assumed to be equal to the carrying value.
- Fair value of fixed term deposits is expected to approximate the carrying value, since there has been insignificant change in interest rates in GBP deposits (during the year) which constitute a significant proportion of the Bank's term deposit base.
- The majority of the overdrafts and term loans are floating rate loans with the interest rate reset between one to six months and consequently the resultant impact on fair value of the term loans is considered insignificant. However, no adjustment has been made to the fair value for change in credit spreads of counterparties. Impaired loans are reflected at net carrying value net of provision which is the best estimate of fair value for such loans.

B. Valuation of Financial instruments

Financial instruments carried at fair value in the financial statements are investment securities - FVTPL (note 17), investment securities – FVOCI (note 21) and Derivatives (note 18).

Financial instruments carried at amortised cost in the financial statements are loans and advances to banks (note 19), loans and advances to customers (note 20), investment securities – amortised cost (note 22), deposits from banks (note 31) and deposits from customers (note 32).

Categories of these assets are as below:

2021

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
		$'000	**$'000**	**$'000**	**$'000**
Investment securities – FVTPL	17	**10,071**	**-**	**-**	**10,071**
Investment securities – FVOCI	21		**39,311**	**-**	**39,311**
Derivative financial instruments	18	**-**	**1,871**	**-**	**1,871**
Loans and advances to banks	19	**-**	**30,478**	**-**	**30,478**
Loans and advances to customers	20	**-**	**-**	**690,599**	**690,599**
Investment securities – amortised cost	22	**7,112**	**51,220**	**-**	**58,332**
		17,183	**122,880**	**690,599**	**830,662**

23] Financial instruments (continued)

Financial Liabilities	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivative financial instruments	18	-	25	-	25
Deposits from banks	31	-	865	-	865
Deposits from customers	32	-	-	819,493	819,493
		-	890	819,493	820,383

2020

Financial Assets:	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investment securities – FVTPL	17	33,585	-	-	33,585
Investment securities – FVOCI	21	5,460	30,191	-	35,651
Derivative financial instruments	18	-	3,014	-	3,014
Loans and advances to banks	19	-	125,044	-	125,044
Loans and advances to customers	20	-	-	566,366	566,366
Investment securities - amortised cost	22	7,125	42,342	-	49,467
		46,170	200,591	566,366	813,127

Financial Liabilities:	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivative financial instruments	18	-	1,458	-	1,458
Deposits from banks	31	-	16,126	-	16,126
Deposits from customers	32	-	-	685,120	685,120
		-	17,584	685,120	702,704

The fair value hierarchy has the following levels:

- Level 1 – Valuations based on quoted prices available in active markets for the same instrument. Securities included in Level 1 are US/UK Treasury Bills.
- Level 2 – Valuations based on quoted prices in markets that are not active or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates or exchange rates). Securities included in Level 2 are all investment securities – FVOCI except US/UK treasury bills, and investment securities at amortised cost, as they are not as liquid as US/UK treasury bills are. Other items are loans and advances to banks, Deposits from banks, and all derivatives.
- Level 3 – Fair value measurements that include unobservable inputs that have a significant effect on the fair value measurement in its entirety. The financial instruments included in level 3 are loans and advances to customers, deposits from customers.
- No transfers between Level 1, Level 2 and Level 3 have been made during the year.

24] Allowance for Expected Credit Losses ('ECL')

The allowance for credit losses represents the Bank's estimate of the expected credit loss on receivables at the date of the statement of financial position. The adequacy of the allowance for credit losses is assessed monthly and the assumptions and models used in establishing the allowance are evaluated regularly.

Factors affecting loan loss provision

The loan loss provision recognised in the period is impacted by a variety of factors:

- Transfers between stage 1 and stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period and the consequent 'step up' (or 'step down') between 12 months or lifetime ECL.
- Additional allowances for new financial instruments recognised during the period.
- Impact on the measurement of ECL due to changes made to models and assumptions.
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis.
- Financial assets de-recognised during the period and write-offs of allowances related to assets that were written off during the period.

Impact of Covid-19 on ECL

At the beginning of the pandemic, PNBIL had undertaken a detailed impact analysis on the impact of the Covid-19 pandemic on expected credit losses. The Bank had stressed the ECL model under four different stress scenarios differing based on longevity of the downturn and expected recovery time due to the pandemic. The different scenarios used previously had a time range between 6 and 48 months.

During the course of the current financial year, the Bank has a clearer view of the effect of the pandemic on its portfolio. With UK government also providing clear guidance on the path to recovery and the vaccination drive in full swing, the Bank has determined that out of the four scenarios assumed last year, only three are now relevant i.e. Short-term sharp recovery, medium term and longer-term recovery in line with scenarios specified by Office for Budget Responsibility. The details of the revised scenario assumptions, scope of study, methodology adopted have been approved by the PNBIL Board.

Revised Macroeconomic factors such as UK GDP changes, India growth rate, UK unemployment rate, Bank of England base rate were stressed across the three scenarios. In addition to macroeconomic factors, probability of default, loss given default, forced sale haircuts and external rating downgrades were stressed under each scenario.

The ECL impact has been calculated using the weighted average approach considering the possibility of all scenarios. The Bank expects the effect of the pandemic to be closer to scenarios with longer term downturn and recovery periods and hence more weighting has been given to those scenarios. Based on the impact analysis, an overlay of $1,095,000 has been made as of 31 March 2021 (2020: $567,000).

24] Allowance for Expected Credit Losses (continued)

Quantitative disclosures

The following table explain the changes in the loan loss provision between the beginning and the end of the period:

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loss allowance as at 1 April 2020	2,495	580	240,701	243,776
New receivables originated or purchased	702	-	8,000	8,702
Transfers between stages	2	(2)	-	-
Decrease in allowance for existing portfolio	(1,163)	(363)	(1,624)	(3,150)
Increase in allowance for existing portfolio	153	-	9,870	10,023
Write-offs	-	-	(18,829)	(18,829)
Receivables matured during the period	(460)	-	-	(460)
Other movements*	195	(27)	360	528
Loss allowance as at 31 March 2021	1,924	188	238,478	240,590

*Other movements relate to the impact on the Bank's expected credit losses due to Covid-19

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loss allowance as at 1 April 2019	3,222	962	262,345	266,529
New receivables originated or purchased	325	-	-	325
Transfers between stages	239	(239)	-	-
Decrease in allowance for existing portfolio	(1,116)	(257)	(1,836)	(3,209)
Increase in allowance for existing portfolio	139	35	16,878	17,052
Write-offs	-	-	(35,783)	(35,783)
Receivables matured during the period	(652)	-	(1,053)	(1,705)
Other movements*	338	79	150	567
Loss allowance as at 31 March 2020	2,495	580	240,701	243,776

The total charge to profit and loss in respect of impairment is as below:

	2021 $'000	2020 $'000
Impairment charge on loans and advances	13,726	15,093
Impairment charge on investments	(4)	104
Total impairment charge	13,722	15,197

24] Allowance for Expected Credit Losses (continued)

The following table provides a breakdown of loans & advances at amortised cost by product:

As at 31 March 2021		Real Estate $'000	Deposit backed loans $'000	Loans to Banks $'000	Invest-ment securities $'000	Other Loans $'000	Total $'000
Gross Exposure							
Stage 1		381,559	59,891	29,991	58,427	70,589	600,457
Stage 2	Not past due	16,265	-	-	-	22,288	38,553
	> 30 ≤ 90 days	6,603	-	-	-	381	6,984
Stage 3		1,424	-	8,746	2,127	361,336	373,633
Impairment Allowance							
Stage 1		172	-	611	131	883	1,797
Stage 2	Not past due	-	-	-	-	188	188
	> 30 ≤ 90 days	-	-	-	-	-	-
Stage 3		695	-	8,000	2,127	227,377	238,199
Net Exposure							
Stage 1		381,387	59,891	29,380	58,296	69,706	598,660
Stage 2	Not past due	16,265	-	-	-	22,100	38,365
	> 30 ≤ 90 days	6,603	-	-	-	381	6,984
Stage 3		729	-	746	-	133,959	135,434

As at 31 March 2020		Real Estate $'000	Deposit backed loans $'000	Loans to Banks $'000	Invest-ment securities $'000	Other Loans $'000	Total $'000
Gross Exposure							
Stage 1		253,772	40,845	132,174	49,571	70,589	546,951
Stage 2	Not past due	33,503	-	-	-	23,714	57,217
	> 30 ≤ 90 days	-	-	-	-	-	-
Stage 3		6,468	-	493	2,131	362,671	371,763
Impairment Allowance							
Stage 1		254	-	378	104	1,349	2,085
Stage 2	Not past due	23	-	-	-	478	501
	> 30 ≤ 90 days	-	-	-	-	-	-
Stage 3		609	-	-	2,131	237,533	240,273
Net Exposure							
Stage 1		253,518	40,845	131,796	49,467	69,240	544,866
Stage 2	Not past due	33,480	-	-	-	23,236	56,716
	> 30 ≤ 90 days	-	-	-	-	-	-
Stage 3		5,859	-	493	-	125,138	131,490

24] Allowance for Expected Credit Losses (continued)

The following table provides a breakdown of investment securities at fair value through other comprehensive income (FVOCI) by product:

		2021		2020	
		Investment securities $'000	Total $'000	Investment securities $'000	Total $'000
Gross Exposure					
Stage 1		38,269	38,269	36,211	36,211
Stage 2	Not past due	-	-	-	-
	> 30 ≤ 90 days	-	-	-	-
Stage 3		409	409	409	409
Impairment Allowance					
Stage 1		128	128	72	72
Stage 2	Not past due	-	-	-	-
	> 30 ≤ 90 days	-	-	-	-
Stage 3		278	278	278	278
Net Exposure					
Stage 1		38,141	38,141	36,139	36,139
Stage 2	Not past due	-	-	-	-
	> 30 ≤ 90 days	-	-	-	-
Stage 3		131	131	131	131

25] Exposure to credit risk and availability of collateral security

The table below presents the Bank’s maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 March 2021, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet including impairment allowances. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts. The Bank’s exposure to credit risk is well spread across different sectors. The Bank is affected by the general economic conditions in the territories in which it operates. The Bank has set limits on the exposure to any counterparty and group of counterparties, industry sector exposure and geographical exposure; and credit risk is also spread over the Bank’s retail and corporate customers.

	2021 $’000	2020 $’000
On balance sheet exposure		
Bilateral and syndicated loans and advances to customers	690,599	566,366
Loans and advances to customers under SBLC by banks	15,725	40,681
Interbank placements and cash balances with banks	221,328	202,756
Bills purchased under LC/Guarantee of banks	14,745	13,738
Securities at amortised cost – banks	21,116	22,162

25] Exposure to credit risk and availability of collateral security (continued)

Securities at amortised cost – non-banks	**37,216**	**27,305**
Investment securities – FVOCI - banks	**20,985**	**23,996**
Investment securities – FVOCI - non-banks	**17,322**	**12,273**
Investment securities – FVTPL – non- banks	**10,134**	**33,493**
Derivative financial instruments	**1,871**	**3,014**
Total – A	**1,051,041**	**945,784**
Off balance sheet exposure		
Non-bank commitments (LCs/LGs)	**1,452**	**1,457**
Total – B	**1,452**	**1,457**
Undrawn Credit Facilities – Non-banks	**75,156**	**59,331**
Total – C	**75,156**	**59,331**
Total Exposure subject to Credit Risk (A+B+C)	**1,127,649**	**1,006,572**

Bifurcation of total exposure subject to credit risk into bank and non-bank exposure is as below:

	2021 $’000	2020 $’000
Exposure on banks	**295,770**	**306,347**
Non-bank exposure*	**831,879**	**700,225**
Total	**1,127,649**	**1,006,572**

*Includes loan and advances exposure (both on and off-balance sheet exposure, including commitments and undrawn credit facilities) of $767.21 million (2020: $627.15 million) and $64.67 million (2020: $73.07 million) of investment securities exposure.

Collateral:

Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types. Collateral types that are eligible for risk mitigation include: Deposits held under lien, residential, commercial and industrial property, fixed assets such as ships, plant and machinery, marketable securities, commodities, current assets including book debts, bank guarantees and letters of credit. For certain types of lending – typically asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default.

For loans and advances to banks and customers, the Bank held the following amounts of collateral, adjusted where appropriate.

A. Exposure on banks: Both for direct exposure to banks (Placements and bank balances) and for exposure on banks due to Letter of Credit/Guarantee/Letter of Comfort issued by the banks, there are no separate collateral securities.

25] Exposure to credit risk and availability of collateral security (continued)

B. Non-bank exposure is collaterally secured as below as at 31 March 2021:

Amount in $ '000	Retail exposure		Non-retail exposure		Total	
	Exposure	Amount Collateral-ised	Exposure	Amount Collater-alised	Exposure	Amount Collateral-ised
Internally rated AAA to A*	70,032	66,154	89,817	78,559	159,849	144,713
Internally rated BB to B*	49,143	49,057	299,680	285,319	348,823	334,376
Internally rated C&D	14	14	-	-	14	14
Others Exempted Category	23,001	20,784	54,289	54,131	77,290	74,915
Stage 1	**142,190**	**136,009**	**443,786**	**418,009**	**585,976**	**554,018**
Stage 2 > 30 ≤ 90 days	-	-	7,034	6,481	7,034	6,481
Stage 2 - Not past due	689	689	40,482	40,482	41,171	41,171
Stage 2	**689**	**689**	**47,516**	**46,963**	**48,205**	**47,652**
Stage 3	**2,021**	**1,261**	**360,560**	**146,051**	**362,581**	**147,312**
Total	**144,900**	**137,959**	**851,862**	**611,023**	**996,762**	**748,982**

Comparative data for 31 March 2020 is as below:

Amount in $ '000	Retail exposure		Non-retail exposure		Total	
	Exposure	Amount Collateral-ised	Exposure	Amount Collateral-ised	Exposure	Amount Collateral-ised
Internally rated AAA to A*	3,336	3,248	57,247	48,191	60,583	51,439
Internally rated BB to B*	26,330	25,918	281,594	264,028	307,924	289,946
Internally rated C&D*	18	18	-	-	18	18
Others Exempted Category	17,999	17,657	35,550	34,607	53,549	52,264
Stage 1	**47,683**	**46,841**	**374,391**	**346,826**	**422,074**	**393,667**
Stage 2> 30 ≤ 90 days	-	-	-	-	-	-
Stage 2 - Not past due	1,263	1,263	60,249	60,089	61,512	61,352
Stage 2	**1,263**	**1,263**	**60,249**	**60,089**	**61,512**	**61,352**
Stage 3	**1,219**	**556**	**383,162**	**159,601**	**384,381**	**160,157**
Total	**50,165**	**48,660**	**817,802**	**566,516**	**867,967**	**615,176**

*Internal ratings based on PNBIL rating model and include loans where internal rating is exempted i.e. loans against deposits/SBLCs etc.

More details on staging classification as per IFRS 9 can be found in note 24 of the financial statements.

While arriving at the value of collateral:

- Value of personal and corporate guarantees has not been considered.
- Value of securities in accounts where Bank has pari-passu charge is based on the book value in the latest available audited financial statements, where available, and is considered pro-rata in proportion to the exposure in the entity.
- The collateral values reported have been adjusted for the effects of over-collateralization.
- For non-bank investment securities at amortised cost, current market value of the security has been considered.

25] Exposure to credit risk and availability of collateral security (continued)

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due nor impaired, we have assessed the significance of the collateral held in relation to the type of lending. While doing so, where corporate or personal guarantees exist, they are not classified as secured exposures. On a case-by-case basis, the guarantees could be relevant as an important risk mitigation measure. The percentage of collateral held in non-bank exposure is as below:

Percentage of value of collateral to exposure	Exposure $ '000	
	2021	**2020**
100% and above*	**730,644**	**592,616**
76% to 99%	**19,157**	**18,128**
51% to 75%	**3,546**	**8,580**
26% to 50%	**29,242**	**33,791**
11% to 25%	**5,751**	**12,386**
Below 10%	**11,851**	**11,898**
Unsecured	**196,571**	**190,568**
Total	**996,762**	**867,967**
Average percentage of availability of collateral*	**93.6%**	**90.8%**

*excluding impact of over-collateralisation.

Past due but not impaired

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 there is no impairment on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

Commercially re-negotiated

Loans in which renegotiation or refinancing did not qualify as forbearance. A refinancing or modification in terms and conditions of repayment on account of certain events, even if the customer is not facing any financial difficulty, is classified as a commercially re-negotiated loan.

Forborne

Loans are treated as forborne if a concession has been made and the debtor is facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Non-Performing

Loans which are more than 90 days past due or where the obligor has been found impaired in accordance with the IFRS accounting framework and/or the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

25] Exposure to credit risk and availability of collateral security (continued)

Impaired

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. The table below sets out a reconciliation of changes in the gross amount of impaired loans and advances.

	2021	2020
	$'000	$'000
Impaired loans and advances at 1 April	311,754	339,114
Net repayments in existing impaired loans and advances	(5,982)	(3,175)
Written off loans and advances	(9,485)	(36,836)
Classified as impaired during the year	8000	19,400
Other movements/exchange rate fluctuations	3,781	(6,749)
Impaired loans and advances at 31 March	308,068	311,754

The table below sets out a reconciliation of changes in the gross amount of impaired investment securities:

	2021	2020
	$'000	$'000
Impaired investments at 1 April	2,409	2,521
Net Repayments in existing impaired investments	(4)	(112)
Impaired investments at 31 March	2,405	2,409

Details of impairment provision for loans and advances and investment securities are given in note 24.

Internal ratings/scoring

The Bank has developed internal rating models in co-ordination with the risk management division of the parent bank. All non-bank credit counterparties (except those secured by deposits with the Bank/Parent bank, temporary overdrafts, ad hoc facilities and loans to staff members) 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.

Derivatives, sale and repurchase agreements

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 provide a right of set-off following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events.

26] Exposure to Eurozone countries

The Bank has no direct sovereign exposure to any of the Eurozone countries. Gross exposure to other counterparties in the Eurozone countries is as below:

	2021			2020		
	$'000	$'000	$'000	$'000	$'000	$'000
Name of the Country	**Exposure to Banks**	**Exposure to Corpo-rates**	**Total Exposure**	**Exposure to Banks**	**Exposure to Corpo-rates**	**Total Exposure**
Belgium	412	24,172	24,584	5,016	23,204	28,220
Romania	-	3,044	3,044	-	3,547	3,547
Germany	-	3,545	3,545	2,151	4,387	6,538
France	-	-	-	-	679	679
Ireland	-	8,226	8,226	-	8,831	8,831
Netherlands	-	11,617	11,617	-	12,287	12,287
Luxembourg	-	40,358	40,358	-	25,349	25,349
Total	412	90,962	91,374	7,167	78,284	85,451

27] Property, plant and equipment

	2021			2020		
	Property and plant	**Equipment**	**Total**	**Property and plant**	**Equipment**	**Total**
Cost	$'000	$'000	$'000	$'000	$'000	$'000
At 1 April	2,382	4,710	7,092	2,382	4,469	6,851
Additions	-	255	255	-	241	241
Disposals	-	-	-	-	-	-
At 31 March	2,382	4,965	7,347	2,382	4,710	7,092
Depreciation						
At 1 April	(2,382)	(4,250)	(6,632)	(2,326)	(3,991)	(6,317)
Yearly charge	-	(222)	(222)	(56)	(259)	(315)
Disposals	-	-	-	-	-	-
At 31 March	(2,382)	(4,472)	(6,854)	(2,382)	(4,250)	(6,632)
Net Book Value						
At 1 April	-	460	460	56	478	534
At 31 March	-	493	493	-	460	460

28] Intangible assets

Software	2021	2020
Cost	**$'000**	**$'000**
At 1 April	3,117	2,633
Additions	758	484
At 31 March	3,875	3,117
Amortisation		
At 1 April	(2,578)	(2,271)
Yearly charge	(335)	(307)
At 31 March	(2,913)	(2,578)
Carrying Value		
At 1 April	539	362
At 31 March	962	539

29] Deferred tax assets

Deferred Tax Assets	2021	2020
	$'000	$'000
At 1 April	25,023	24,301
Tax (charge)/credit to profit and loss for the year	(68)	590
Tax (charge)/credit relating to change in fair value of Investment securities - FVOCI	(298)	132
At 31 March	24,657	25,023

A Deferred Tax Asset (DTA) is assessed and recognised as recoverable on the basis of available evidence including projected profits and capital. The utilisation of a DTA is dependent on future taxable profits. The management makes an assessment of a DTA which is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. DTA is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Accordingly, a DTA of $5.33 million in respect of tax losses has not been recognised this year. In addition, $2.97 million of DTA from previous years continued to be unrecognized. The deferred tax on losses has been recognised on the basis that there is a 50% loss offset restriction effective from 1 April 2017. This restriction therefore extends the time period over which losses could be recovered.

The DTA relates to unused tax losses. DTA decreased by $0.37 million primarily due to deferred tax treatment on unrealised gains on investment securities – FVOCI during the year tax. The Bank has no deductible temporary differences, unused tax losses and unused tax credits which are not recognised as part of the DTA in the balance sheet.

The Finance Act 2016 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017. This rate is currently applicable and is expected to increase to 25% from 2023 pending the enactment of Finance Bill 2021, which was not substantively enacted as at the year-end date.

30] Prepayments and other receivables

	2021 $’000	2020 $’000
Prepayments	575	467
Other receivables	12	2
Total prepayments and other receivables	587	469

31] Deposits from banks

	2021 $’000	2020 $’000
Inter bank borrowings	199	15,656
Current accounts from banks	663	467
Overdrafts in Nostro accounts with banks	3	3
Total deposits from banks	865	16,126

Deposits from banks includes deposits from a related party, detail of which is given in note 40 to the financial statements. At 31 March 2021 Nil (2020: Nil) deposits from banks are expected to be settled more than twelve months after the reporting date.

32] Deposits from customers

	2021 $’000	2020 $’000
Current accounts	114,352	108,454
Savings accounts	110,967	101,678
Fixed term deposits	594,174	474,988
Total deposits from customers	819,493	685,120

At 31 March 2021 $117.87 million (2020: $195.06 million) of deposits from customers are expected to be settled more than twelve months after the reporting date.

33] Subordinated bonds and other borrowed funds

	2021 $’000	2020 $’000
Subordinated bonds	50,000	50,000

33] Subordinated bonds and other borrowed funds (continued)

More information in relation to Subordinated bonds is shown in the table below:

	Tier II Capital Bonds	Tier II Capital Bonds	Tier II Capital Bonds	Tier II Capital Bonds
Issuer	Punjab National Bank (International) Ltd.	Punjab National Bank (International) Ltd.	Punjab National Bank (International) Ltd.	Punjab National Bank (International) Ltd.
Face value	US$ 25.0 million	US$ 10.0 million	US$ 5.0 million	US$ 10.0 million
Original date of issuance (amount on each issue date given in brackets)	30.01.2012 (12.5) 04.10.2012 (12.5)	30.12.2015	23.12.2013	19.08.2014
Original maturity date	10 Years	10 Years	15 Years	10 Years
Coupon rate & related index	6M LIBOR + 400 bps	6M LIBOR + 450 bps	6M LIBOR + 450 bps	6M LIBOR + 450 bps

At 31 March 2021 $37.50 million (2020: $50 million) of subordinated bonds are expected to be settled more than twelve months after the reporting date.

34] Other liabilities

	2021 $'000	2020 $'000
Bills payable	154	151
Other payables and accrued liabilities	1,564	1,391
Deferred income	2,377	1,857
Total other liabilities	4,095	3,399

Other payables and accrued liabilities include advance interest amount of $0.35 million at 31 March 2021 (2020: $0.25 million) received on loans.

35] Share capital

Authorised share capital

Authorised share capital for the Bank is $400 million.

	2021 No.	2021 $	2020 No.	2020 $
Issued and fully paid				
At start of year				
Ordinary shares of £1 each:	2	3	2	3
Ordinary shares of $1 each:	274,630,625	274,630,625	274,630,625	274,630,625
Issue of new ordinary shares of $1 each	-	-	-	-
At end of year	274,630,627	274,630,628	274,630,627	274,630,628
Additional Tier 1 Capital*				
At start of year		45,000,000		45,000,000
At end of year		45,000,000		45,000,000
Total Share Capital at end of the year	274,630,627	319,630,628*	274,630,627	319,630,628*

35] Share capital (continued)

All ordinary shares issued are non-redeemable ordinary shares conferring on each member the right to one vote on a show of hands and one vote per share on a poll and with full, equal and unfettered rights to participate in dividends and capital distributions, whether on a winding up or otherwise.

*Included within the share capital are two additional Tier 1 bonds issued as perpetual floating rate sub-ordinated notes mentioned below:

i. $25 million issued on 16 February 2017.
ii. $20 million issued on 31 March 2017.

Based on the terms and conditions of the purchase agreement and in accordance with IAS 32 guidance, since the interest payments are discretionary and the Bank does not have an obligation to pay cash or any other financial asset in respect of its perpetual instrument nor there is any obligation to exercise its right to call the instrument, this is classified as equity in the financial statements. The entire share capital is raised from Parent bank which is a related party.

36] Fair value reserve

	Gross	Tax	Net
31 March 2021	**$'000**	**$'000**	**$'000**
Balance at 1 April 2020	(1,538)	282	(1,256)
Amount transferred to statement of profit or loss	88	(17)	71
Movement in FVOCI reserve in year	1,534	(281)	1,253
Balance at 31 March 2021	84	(16)	68

	Gross	Tax	Net
31 March 2020	**$'000**	**$'000**	**$'000**
Balance at 1 April 2019	(758)	150	(608)
Amount transferred to statement of profit or loss	14	(2)	12
Movement in FVOCI reserve in year	(794)	134	(660)
Balance at 31 March 2020	(1,538)	282	(1,256)

37] Right of use assets and lease liabilities

Information about leases where the bank is a lessee is shown below:

Right of use assets	2021	2020
	$'000	$'000
Balance at 1 April 2020	4,383	5,417
Addition of right of use assets during the year	47	-
Depreciation charge during the year	(815)	(774)
Exchange rate differences	451	(280)
Balance at 31 March 2021	4,066	4,383

37] Right of use assets and lease liabilities (continued)

Lease liabilities

The total cash outflow of lease liabilities was $0.90 million (2020: $0.86 million). The amounts contractually due on lease liabilities as of 31 March 2021 is shown below:

Maturity Analysis – contractual cash flows	2021 $'000	2020 $'000
Within 1 year	946	845
Between 1 and 5 years	1,548	1,971
Later than 5 years	2,539	2,513
Less: Present value discount	(852)	(886)
Total lease liabilities at 31 March 2021	4,181	4,443

Amounts recognized in profit & loss	2021 $'000	2020 $'000
Interest on lease liabilities	135	147

38] Other commitments and contingencies

Commitments in respect of financial instruments were as follows:

	2021 $'000	2020 $'000
Guarantees issued to third parties	1,452	1,457

There were undrawn loans of $43.61 million (2020: $34.97 million) and un-availed portions of sanctioned overdraft limits to the extent of $31.55 million (2020: $24.35 million) as at 31 March 2021.

39] Parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Punjab National Bank (PNB or Parent bank), a public-sector bank incorporated in India. The consolidated financial statements of PNB are publicly available at Plot No 4, Sector 10, Dwarka, New Delhi 110075, India.

40] Related party transactions

The Bank regards PNB (including all its branches in India and abroad) and its subsidiaries as related parties in view of its 100% shareholding. PNBIL financials forms part of the group financial statements of parent, PNB. The entire ordinary share capital and 70% of Tier II capital of the Company is held by PNB, being the parent company of the PNB Group of companies. No other group company holds any shares in PNBIL.

The CEO and Managing Director of the Parent bank is also the Chairman of PNBIL. The Bank also has the benefit of another Non-Executive Director from the Parent bank. The Bank does not pay any remuneration to these Directors.

40] Related party transactions (continued)

Liabilities and assets outstanding to the related parties on the balance sheet of the Bank as on 31 March 2021 are as below:

	2021 $'000	2020 $'000
Liabilities		
Borrowings	-	15,387
Current accounts	663	462
Assets		
Balance in Nostro accounts	902	1,813
Placements	-	8,006

Excluded from the above are equity and subordinated bonds, which are given in note 42 of the financial statements. All non-capital transactions are carried out on an arm's length basis.

Contingent exposure to PNB is shown below:

Nature	2021 $'000	2020 $'000
Cross Currency Swaps (notional) – Sell	-	2,700
Cross Currency Swaps (notional) – Buy	-	2,696

Detail of transactions of a revenue nature with PNB is shown below:

Nature	Particulars	2021 $'000	2020 $'000
Receipts:			
Interest Earned	Interest on Interbank Placements	72	613
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	224	397
B. Interest Paid on	Borrowings	140	575
C. Interest Paid on Capital Bonds (unaudited)	Additional Tier I Capital Bonds $45.00 million	2,587	3,362
	Tier II Capital Bonds $12.50 million	592	807
	Tier II Capital Bonds $12.50 million	592	807
	Tier II Capital Bonds $10.00 million	529	692

*These charges were levied by PNB, for support services provided during the year. The services provided include IT hosting, maintenance and support services to PNBIL and are backed by an SLA.

40] Related party transactions (continued)

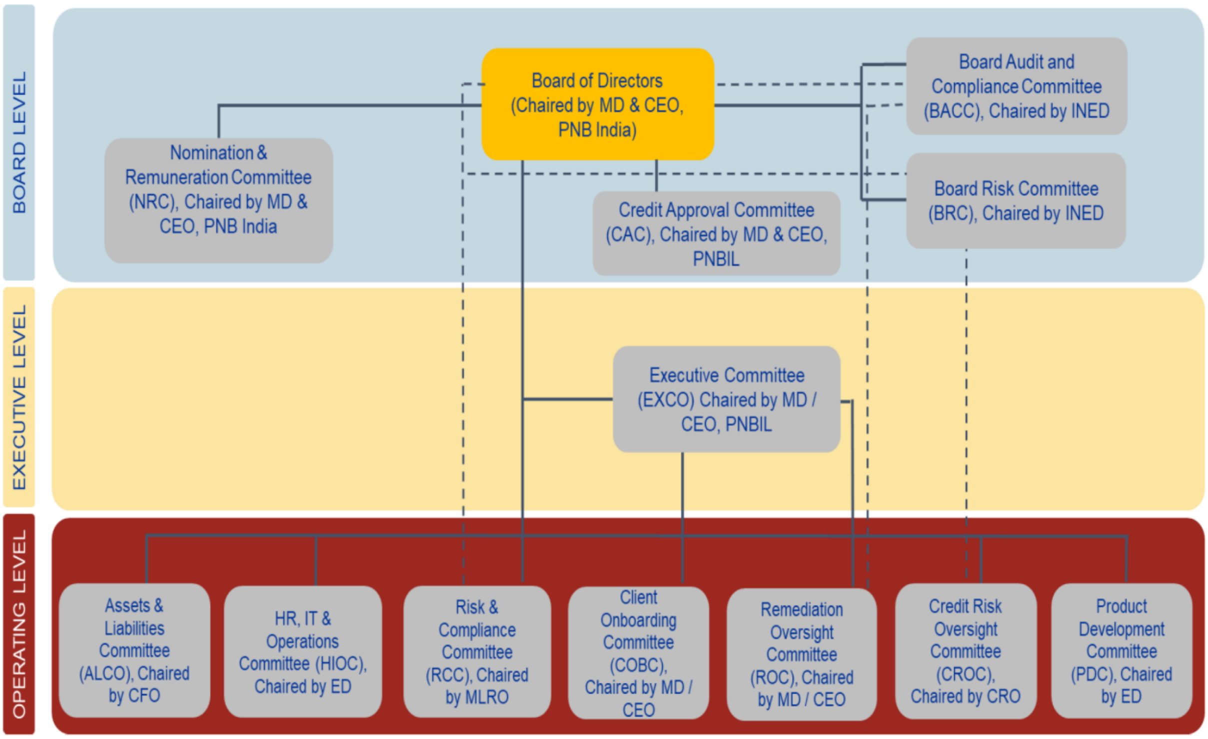
Other transactions with related parties (including remuneration paid to Directors who the Bank considers as key management) are disclosed in note 14. The Bank considers that the cost of secondment of executives to or from the Parent bank is not material.

Related party equity and subordinated bonds are outlined in note 35 and note 33 respectively to the financial statements.

41] Financial risk management objectives and policies

Risk governance

The Governance Framework of PNBIL is depicted below:



Board of Directors

The Board, through the Board Risk Committee and the Board Audit and Compliance Committee is responsible for establishing mechanisms and structures to control and manage risks across the Bank. The Board is responsible for ensuring there is a culture and awareness of Risk and Risk Management principles throughout the Bank. The Board sets the Bank's Risk Appetite, its Frameworks and Policies, reviews and approves the ICAAP and ILAAP, oversees the Bank's Risk profile, and considers Risk when setting the Bank's Strategy and taking decisions on behalf of the Bank.

41] Financial risk management objectives and policies (continued)

Senior Management is accountable for Risk Management, either as members of the First or Second line of defence. This means that they each have accountabilities either collectively via EXCO or individually via their functional roles for active risk management.

Board Risk Committee (BRC) and Board Audit and Compliance Committee (BACC)

Both BRC and BACC are chaired by independent non-executive directors. BRC is the Bank's senior enterprise risk committee with delegated authority from the Board to agree appetites, frameworks and policies and to monitor all of the Bank's risks, except for regulatory and compliance risks that are handled via the BACC.

BACC agree the Bank's audit universe and annual audit plan, review and agree the annual report and accounts, monitor all "third line" audit activity in the Bank, and review and monitor the external audit. It is also responsible for agreeing regulatory frameworks and policies, and for monitoring all regulatory, conduct and compliance (including Anti- Money Laundering) risks across the Bank.

Embedding Risk Management is central to the successful implementation of this Risk Governance Framework, and EXCO members have prime responsibility to promote and embed this in their areas of responsibility. Summary details of the committees' terms of reference are provided below:

Board Credit Approval Committee (BCAC)

The Board Credit Approval Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior credit committee with responsibility for reviewing and agreeing all customer credit approvals. The Committee is chaired by the MD with the CFO and CRO as other voting members.

Executive Committee (EXCO)

The Executive Committee derives its authority from the Board, to which it reports. EXCO is the leadership body for the Bank. It has a broad remit in terms of scope, covering as necessary significant business and operational issues. The committee is chaired by the Managing Director (MD). EXCO has nine sub committees as follows:

- Risk and Compliance Committee (RCC) chaired by MLRO
- Asset and Liability Committee (ALCO) chaired by CFO
- Credit Risk Oversight Committee (CROC) chaired by CRO
- HR, IT & Operations Committee (HIOC) chaired by ED
- Remediation Oversight Committee (ROC) chaired by MD
- Client Onboarding Committee (CBOC) chaired by MD
- Product Development Committee (PDC) chaired by ED
- Covid Emergency Committee (CEC) chaired by ED
- Corporate Social Responsibility Committee (CSRC) chaired by CRO

41] Financial risk management objectives and policies (continued)

Three lines of defence model

A "Three Lines of Defence" model has been adopted by the Bank for the effective oversight and management of risks across the Bank. A clearly defined organisation structure and governance & risk control framework has been introduced to ensure that:

- PNBIL has an appropriate '3 lines of defence' model to manage risks
- There is appropriate segregation of duties and span of control across senior management
- Branches / business and credit are independent of each other
- Roles and responsibilities are clearly defined, especially across functions and product groups

Functions, teams and branches in the first line undertake frontline operational and support activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of controls.

Specific responsibilities of the First Line include:

- Embedding risk management frameworks, policies, and sound risk management practices into standard operating procedures
- Adhering to frameworks, policies and procedures set
- Reporting on the performance of risk management activities (including ongoing risk identification, assessment, mitigation, monitoring and reporting)
- Accounting for the effectiveness of risk management in operation including ensuring that procedures and controls are operated in a consistent and ongoing basis in order to effectively manage risks.

Risk Management Department and Compliance Department forms the second line of defence that are responsible for the effectiveness of risk management including ensuring that procedures and controls are operating in a consistent and effective manner to manage risks. The Risk Management and Compliance Functions are independent risk management functions, under the direction of the CRO and the Head of Compliance ("HOC") respectively

The Second Line is responsible for:

- Developing and monitoring the implementation of risk management frameworks, policies, systems, processes and tools
- Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the First Line
- Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting and that they are being implemented.
- Establishing an early warning system for breaches of the Bank's Risk Appetite or limits
- The department ensures each department perform their own RCSA and address shortcomings.
- Independent verification of all risk ratings as per the ratings model
- Reporting via the CRO, on all these items, including risk mitigating actions, where appropriate

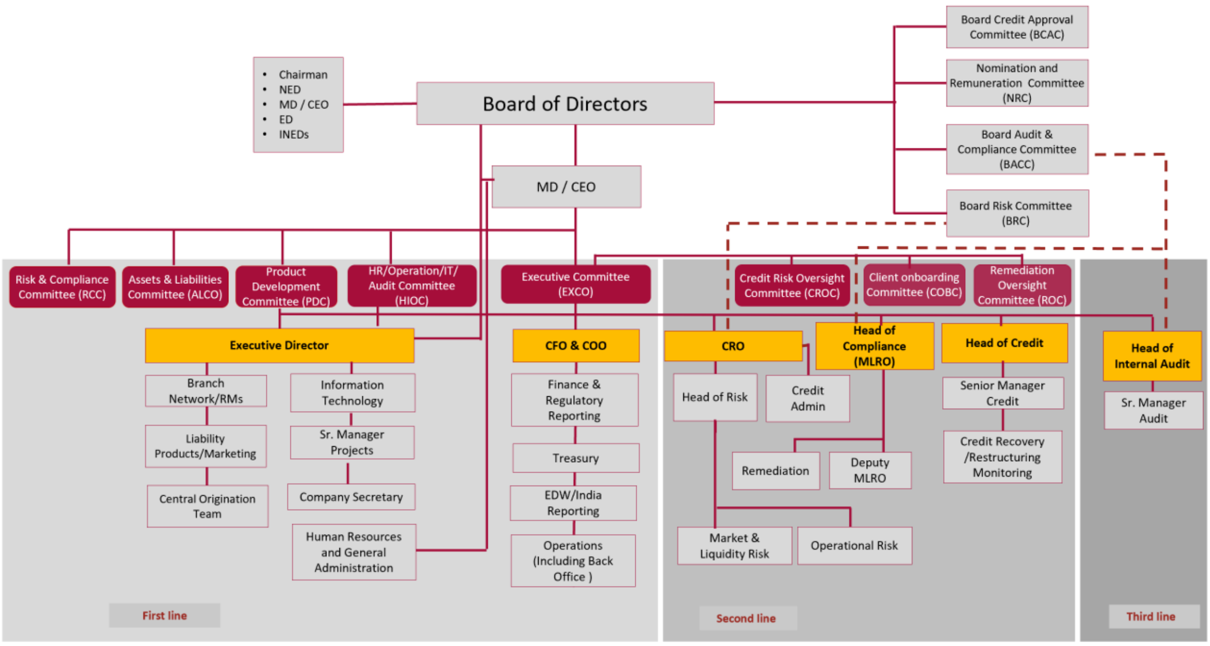
41] Financial risk management objectives and policies (continued)

The Third Line of Defence comprises Internal Audit who are responsible for:

- Independently reviewing the design and operating effectiveness of the Bank's internal controls, risk management and governance systems and processes
- Providing independent assurance to the Board on the above
- Recommending improvements and corrective actions where necessary
- Tracking the implementation of all internal audit recommendations and external audit management letter points
- Reporting to the Board on the status and progress of the above

The Board and the Bank's MD have responsibility for overseeing the effective action and performance of all three lines of defence.

The diagram below illustrates the segregation of First, Second and Third Line roles across relevant bank functions, branches and teams:



Risk management function:

The Risk Management Function is owned by CRO. The function bears primary responsibility for the independent assessment and management of key risks faced by the Bank, and the monitoring and reporting of the Bank's risk profile using the following:

- Developing and monitoring the implementation of the Bank's Risk Management Frameworks, Policies, Systems, Processes and Tools
- Advising - providing information and guidance on the deployment of Risk Management Frameworks and Tools across the Bank
- Monitoring and reporting the overall risk profile of the Bank

41] Financial risk management objectives and policies (continued)

Compliance function:

The function is headed by Head of Compliance (HOC) who is also the MLRO. The function safeguards the reputation of the Bank and to maintain professional relationships with regulatory supervisors while independently providing assurance to the Board on the management of Compliance Risk. HOC also has responsibility for Anti Money Laundering (AML) and Counter Terrorist Financing (‘TF) activity (SMF17). The HOC is responsible for ensuring an appropriate, fit for purpose, compliance methodology and framework is in place which leads to effective compliance oversight and to minimize the exposure of the Bank to Financial Crime. The HOC reports to the MD and the Chairman of the BACC.

Internal audit

The Head of Internal Audit (HIA) is accountable for the Bank's internal audit work (SMF5) and for deciding the action to be taken on the outcome of the findings from Audit work. The role of HIA is to provide independent assurance that an organisation’s risk management, governance and internal control processes are operating effectively.

The HIA reports to the MD and the Chairman of the BACC.

Risk categorisation

As a part of its ICAAP, the Bank has identified a number of material risks in its product portfolio and these are discussed below:

Credit risk

Credit risk is defined as potential financial loss and can 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.

The following techniques are in place to mitigate the credit risks:

- Revised low risk appetite under credit risk focusing on areas where the Bank has expertise, skill, knowledge and positive prior experience.
- Focus on low default and low loss given default portfolio.
- The credit risk is managed by a number of policies such as Credit Risk Management Policy and Procedures, Credit Risk Mitigation & Collateral Management Policy, Asset Classification and Impairment Policy and Debt Recovery Policy and Credit procedure.
- A separate credit team at the corporate office headed by UK experienced personnel working independently from the Business function.
- An independent credit admin function at corporate office to ensure efficient post-sanction control.
- Various prudent exposure norms, pertaining to Individual exposure, Industry exposure, geographical exposure etc.

41] Financial risk management objectives and policies (continued)

Market risk

Market risk is defined as the potential adverse change in the Bank's income or net worth arising from movements in interest rates, exchange rates, equity prices and/or other market prices. Effective identification and management of market risk is required for maintaining stable net interest income.

The Bank carries an investment book (mainly consisting of corporate bonds, banks / FI's bond and US treasury Securities). The Bank does use derivatives and swaps for hedging purposes. These derivatives are re-valued daily and any change in their fair value is recognised immediately in profit and loss. Market risk is monitored through various limits such as net overnight open position, daylight open position, modified duration, stop loss, cumulative trading losses and mark to market loss limits.

The total notional amount of outstanding currency exchange contracts to which the Bank is committed is $126.28 million (2020: $145.66 million).

The open position of the Bank is as below:

	2021		2020	
Currency	**Open Position**	**$ Equivalent**	**Open Position**	**$ Equivalent**
	'000	**$'000**	**'000**	**$'000**
Indian Rupees	**65,779**	**899**	**151,079**	**2,004**
Pound Sterling	**(7,795)**	**(10,727)**	**(4,059)**	**(5,020)**
Euro	**5,202**	**6,100**	**4,646**	**5,087**
Nepalese Rupees	**1,844**	**16**	**4,802**	**40**
Total Long Position in US $		**-**		**2,111**
Total Short Position in US $		**3,712**		**-**

Upward or downward movement of exchange rates by 10% may impact profitability of the Bank by $0.37 million (2020: $0.21 million).

The value of Investment securities - FVTPL as at 31 March 2021 is $10.07 million (2020: 33.59 million). An upward or downward movement of prices of investment securities - FVTPL by 10% may impact profitability of the Bank by $1.00 million (2020: $3.39 million).

Interest Rate Benchmark (IBOR) reform

The Bank had put in place a transition plan to shift from LIBOR in 2019 and communicated the same to regulator as well. ALCO has approved the shift from LIBOR to the alternate risk-free rate (RFR) for the new loans being originated and all the new loans sanctioned since December 2019 have been linked to an alternate RFR.

The process to transition the Bank's existing portfolio linked to LIBOR is well underway. The Bank finalised its communication strategy for transitioning existing customers with the help of an external consultant. A generic communication was sent to customers in May 2021 which aimed at educating the customers about transitioning from LIBOR and thereafter a bespoke communication has been sent to customers. The Bank plans to complete the transition for existing customers by October 2021.

41] Financial risk management objectives and policies (continued)

Interest rate risk in banking book (Re-pricing analysis as at 31 March 2021)

Interest rate risk in the banking book (IRRBB) more specifically refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the institution's banking book positions. The Bank monitors its interest rate mismatches on a regular basis through Economic value at risk (200 basis point parallel rate shock), gap monitoring and monitoring of fixed rate lending.

The potential loss on account of upward or downward movement of interest rates by 2% based on exposure as at 31 March 2021 is presented below:

Amount in $ thousands								
Particulars	Upto 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Cash and cash equivalent	221,320	-	-	-	-	-	-	221,320
Investment securities – FVTPL	10,071	-	-	-	-	-	-	10,071
Derivative financial instruments	349	816	702	4	-	-	-	1,871
Loans and advances to banks	3	14,805	14,745	-	-	-	925	30,478
Loans and advances to customers	413,790	13,635	37,365	11,136	51,208	28,954	134,511	690,599
Investment securities – FVTOCI	-	1,515	513	7,898	26,230	2,021	1,134	39,311
Investment securities – Amortised Cost	-	3,023	6,815	7,093	22,654	18,747	0	58,332
Property, plant and equipment	-	-	-	-	-	-	493	493
Right of use lease assets	-	-	-	-	-	-	4,066	4,066
Intangible assets	-	-	-	-	-	-	962	962
Deferred tax assets	-	-	-	-	-	-	24,657	24,657
Current tax Assets	-	-	-	-	-	-	-	-
Prepayments and other receivables	-	-	-	-	-	-	587	587
Total Assets	**645,533**	**33,794**	**60,140**	**26,131**	**100,092**	**49,722**	**167,335**	**1,082,747**
Liabilities								
Derivative financial instruments	22	2	1	-	-	-	-	25
Deposits from banks	666	188	11	-	-	-	-	865
Deposits from customers	256,670	91,632	142,072	209,726	102,004	17,389	-	819,493
Current Tax Liability	-	-	-	-	-	-	-	-
Subordinated liabilities	-	15,000	35,000	-	-	-	-	50,000
Deferred tax Liability	-	-	-	-	-	-	-	-
Lease Liability	-	-	-	-	-	-	4,181	4,181
Other liabilities	154	-	-	-	-	-	3,941	4,095
Share capital	-	-	45,000	-	-	-	274,631	319,631
Reserves and retained earnings	-	-	-	-	-	-	- 115,611	- 115,611
Fair Value reserves	-	-	-	-	-	-	68	68
Total Liabilities and Equity	**257,512**	**106,822**	**222,083**	**209,726**	**102,004**	**17,389**	**167,210**	**1,082,747**
Interest Rate Gap	388,021	- 73,028	- 161,943	- 183,595	- 1,912	32,333	125	-
Interest Rate Swap for Hedging								
Net gap	**388,021**	**- 73,028**	**- 161,943**	**- 183,595**	**- 1,912**	**32,333**	**125**	**-**
Impact of Interest Variation of 2%	**323**	**- 243**	**- 1,215**	**- 2,754**	**- 76**	**2,587**		**- 1,378**

The Bank has a stipulated limit for open positions and the actual open position is measured and monitored regularly.

41] Financial risk management objectives and policies (continued)

Liquidity and funding risk

The Bank has a Board approved ILAAP in place, in line with the guidelines issued by the Prudential Regulation Authority (PRA). The Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed by the Board and/ or the regulator. Liquidity monitoring mechanism supplemented by regular liquidity stress testing gives sufficient advance signals for envisaging liquidity requirements. The ALCO is primarily responsible for overseeing the implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis.

The following table analyses the Bank's assets, liabilities and equity (based on undiscounted cashflows) into relevant maturity groupings based on the remaining period to the contractual maturity date as at 31 March 2021:

Amount in $ thousands								
Particulars	Upto 1 month	1-3 month	3-12 month	1-2 year	2-5 year	Over 5 years	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Cash and cash equivalent	221,320	-	-	-	-	-	-	221,320
Investment securities – FVTPL	10,071	-	-	-	-	-	-	10,071
Derivative financial instruments	349	817	705	-	-	-	-	1,871
Loans and advances to banks	3	-	14,848	-	14,710	-	917	30,478
Loans and advances to customers	52,479	59,429	97,735	102,570	234,091	10,021	134,274	690,599
Investment securities – FVOCI	134	1,558	8,643	22,973	6,002	-	1	39,311
Investment securities – amortised cost	-	3,026	13,917	3,003	26,152	12,234	-	58,332
Property, plant and equipment	-	-	-	-	-	-	493	493
Right of use lease assets	-	-	-	-	-	-	4,066	4,066
Intangible assets	-	-	-	-	-	-	962	962
Deferred tax assets	-	-	-	-	-	-	24,657	24,657
Prepayments and other receivables	-	-	-	-	-	-	587	587
Total Assets	**284,356**	**64,830**	**135,848**	**128,546**	**280,955**	**22,255**	**165,957**	**1,082,747**
Liabilities and Equity								
Derivative financial instruments	22	2	1	-	-	-	-	25
Deposits from banks	672	-	2	2	123	66	-	865
Deposits from customers	256,670	91,632	351,799	72,822	46,570	-	-	819,493
Subordinated liabilities	-	-	12,500	12,500	20,000	5,000	-	50,000
Lease Liability	-	-	-	-	-	-	4,181	4,181
Other liabilities	154	-	-	-	-	-	3,941	4,095
Share capital	-	-	-	-	-	-	319,631	319,631
Reserves and retained earnings	-	-	-	-	-	-	-115,611	-115,611
Fair Value reserves	-	-	-	-	-	-	68	68
Total Liabilities and Equity	**257,518**	**91,634**	**364,302**	**85,324**	**66,693**	**5,066**	**212,210**	**1,082,747**
Financial guarantees and letters of credit – net of deposit	20	1,376	55	-	-	-	-	1,451
Irrevocable Loan commitments	1,024	-	-	-	-	-	-	1,024
Total equity, liabilities and commitments	258,562	93,010	364,357	85,324	66,693	5,066	212,210	1,085,222
Net liquidity gap	**25,794**	**-28,180**	**-228,509**	**43,222**	**214,262**	**17,189**	**-46,253**	**-2,475**
Cumulative Liquidity Gap	**25,794**	**-2,386**	**-230,895**	**-187,673**	**26,589**	**43,778**	**-2,475**	

The Bank holds sufficient high-quality liquid assets (HQLA) in approved securities and balance with the Bank of England to meet the obligations for 90 days under stressed conditions. The Bank also maintains no negative mismatch under wholesale fund flow for 90 days.

41] Financial risk management objectives and policies (continued)

The comparative analysis as at 31 March 2020 is shown below:

Amount in $ thousands								
Particulars	Upto 1 month	1-3 month	3-12 month	1-2 year	2-5 year	Over 5 years	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Cash and cash equivalent	124,130	8,000	-	-	-	-	-	132,130
Investment securities – FVTPL	33,585	-	-	-	-	-	-	33,585
Derivative financial instruments	2,746	268		-	-	-	-	3,014
Loans and advances to banks	-	73,261	37,187	13,738	-	-	858	125,044
Loans and advances to customers	81,810	21,422	128,328	70,054	150,494	30,067	84,191	566,366
Investment securities – FVOCI	128	6,464	975	2,953	19,670	5,461	-	35,651
Investment securities – amortised cost	1,011	-	-	12,271	20,907	15,278	-	49,467
Property, plant and equipment	-	-	-	-	-	-	460	460
Right of use lease assets	-	-	-	-	-	-	4,383	4,383
Intangible assets	-	-	-	-	-	-	539	539
Deferred tax assets	-	-	-	-	-	-	25,023	25,023
Prepayments and other receivables	-	-	-	-	-	-	469	469
Total Assets	**243,410**	**109,415**	**166,490**	**99,016**	**191,071**	**50,806**	**115,923**	**976,131**
Liabilities and Equity								
Derivative financial instruments	401	703	354	-	-	-	-	1,458
Deposits from banks	471	15,655	-	-	-	-	-	16,126
Deposits from customers	227,922	41,937	259,859	115,963	39,439	-	-	685,120
Subordinated liabilities	-	-	-	12,500	12,500	25,000	-	50,000
Lease Liability	-	-	-	-	-	-	4,443	4,443
Other liabilities	151	-	-	-	-	-	3,248	3,399
Share capital	-	-	-	-	-	-	319,631	319,631
Reserves and retained earnings	-	-	-	-	-	-	- 102,790	- 102,790
Fair Value reserves	-	-	-	-	-	-	- 1,256	- 1,256
Total Liabilities and Equity	**228,945**	**58,295**	**260,213**	**128,463**	**51,939**	**25,000**	**223,277**	**976,131**
Financial guarantees and letters of credit – net of deposit	-	1,389	68	-	-	-	-	1,457
Irrevocable Loan commitments	14	-	-	-	-	-	-	14
Total equity, liabilities and commitments	228,959	59,684	260,281	128,463	51,939	25,000	223,277	977,602
Net liquidity gap	**14,451**	**49,731**	**- 93,791**	**- 29,447**	**139,133**	**25,806**	**- 107,354**	**- 1,471**
Cumulative Liquidity Gap	**14,451**	**64,182**	**- 29,609**	**- 59,056**	**80,077**	**105,883**	**- 1,471**	

Operational risk

Operational risk is the risk of losses on account of inadequate or defective systems and processes, human or technical failures, or external events. Operational risk is monitored continuously through the KRI framework, Incident reporting, RCSA framework of the Bank. Major sources of operational risks for the Bank are identified by management (as part of ICAAP) as IT and cyber security risk, data security risk, people risk, internal and external fraud, business process risk, financial crime, legal risk, change risk, outsourcing risk and external events like failure of transportation, non-availability of utilities etc. The Bank has identified each of such possible eventualities and established mitigation processes and internal controls to avoid such risks.

The Bank has also created new teams such as the Financial Crime Operations Team, Mid-Office and Compliance Conduct Risk team for strengthening the quality, controls and processes.

41] Financial risk management objectives and policies (continued)

Credit Concentration Risk

Credit concentration risk denotes the overall spread of a Bank's outstanding accounts over the number or variety of debtors to whom the Bank has lent money. The risk is monitored through various concentration limits in exposure to existing counterparties, new counterparties, banks, sectoral limits, geographical limits, etc.

Regulatory and compliance risk

Regulatory and Compliance Risks are risks arising from failure to comply with laws, regulations, rules, standards and codes of conduct applicable to the Bank's activities. The Bank maintains a separate independent compliance function that manages and monitors these risks through policies, staff training and regular monitoring. Bank has in place well defined policies and procedures along with a robust and well embedded governance structure to address the regulatory and compliance risk. These compliance issues are monitored on an ongoing basis and deliberated upon in the quarterly Board Audit and Compliance Committee meetings. As per recommendations of the BACC, appropriate strategy / remedial actions are devised.

Conduct risk

Conduct risk relates to a failure or an inability to comply with laws, regulations and codes relating to the fair treatment of customers. In a way it touches every part of the risk enterprise framework. Conduct risk management is to ensure compliance to new conduct risk rules, managing conflicts of interest, preventing market abuse, or building robust audit procedures. A conduct risk framework is in place and a report on conduct risk is presented to the Board annually and monitored regularly through KRI's.

Strategic & business risk

Strategic risk is the current and prospective impact on earnings of capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Business risk is any risk to the Bank arising from changes in its business, including the risk that the Bank may not be able to carry out its business and its desired strategy. These risks are mitigated by the modest growth business model and working with the target segments where the Bank has experience, knowledge, skill set. The Bank focusses on existing, profitable products and services and strengthen the foundations, cost rationalisation, and regularly reviewing the performance.

Reputational risk

Reputational risk at PNBIL is defined as the risk of possible damage to PNBIL's brand and reputation. To mitigate this risk, the Bank has developed a reputational risk framework policy and the Bank has no risk appetite to undertake any activities that could endanger the reputation of the Bank.

41] Financial risk management objectives and policies (continued)

Bank is actively involved in corporate social responsibilities as part of corporate strategy to build reputation in UK. Efficient Complaints handling policy is in place and regularly monitored through Reputational Risk Scorecard.

Group risk

Group Risk is the risk associated with being a subsidiary in a wider group. This will also include strategic and business risks associated with the parent, impacting upon the reputation, focus and direction of PNBIL's business. The use of services from the Parent bank such as IT is also included.

These risks are mitigated through:

- Increased involvement and interaction between senior management from PNBIL and the Parent bank
- Limits on net exposure of the Parent bank
- Performance of the Parent bank and its likely impact on PNBIL being assessed regularly
- Operational and Compliance Policies

Further, our reliance on the Parent bank with regards to capital and liquidity has reduced.

42] Capital management (unaudited)

The Bank manages its capital base to maximise shareholders' value by optimising the level and mix of its capital resources. The Bank's authority to operate as a bank is dependent upon the maintenance of adequate capital resources. The Bank is required to meet minimum regulatory requirements in the UK and in other jurisdictions where regulated activities are undertaken. The Bank operates a centralised capital management model considering regulatory and economic capital. The Bank's capital management objectives are to:

- Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the Prudential Regulation Authority;
- Maintain sufficient capital resources to support the Bank's risk appetite and economic capital requirements; and
- Allocate capital to support the Bank's strategic objectives, including optimising returns on economic and regulatory capital

42] Capital management (unaudited) – (continued)

The actual capital of the Bank, including equity capital, Additional Tier I capital and Tier II capital eligible to be considered as capital based on the regulatory guidelines is as under:

Tier	Component	2021 $'000	2020 $'000
Core Tier I Capital	• Permanent share capital	274,631	274,631
	• Profit and loss account and other reserves	(115,611)	(102,790)
	• FVOCI reserve	68	(1256)
	• IFRS 9 transitional adjustment	1,465	1,779
		160,553	172,364
Additional Tier I	• Additional Tier 1 capital	45,000	45,000
Adjustments	• Intangible Assets	(961)	(539)
	• Deferred tax assets	(24,657)	(25,023)
	• Due to prudential filters	(507)	(746)
Total Tier I Capital		179,428	191,056
Tier II Capital			
	• Long term dated subordinated bonds	50,000	50,000
		50,000	50,000
Deductions from Tier II	• Amortisation of dated Tier II capital, maturing within five years	(22,850)	(15,356)
Total Tier II Capital		27,150	34,644
Total Capital (unaudited)		206,578	225,700

The Bank is required at all times to monitor and demonstrate compliance with the relevant regulatory capital requirements of the Prudential Regulation Authority and those prescribed under Capital Requirement Regulations and Directives. The Bank has put in place processes and controls to monitor and manage the Bank's capital adequacy.

43] Events after the balance sheet date

There have been no reportable events after the balance sheet date.

44] Country-by-country reporting for the year ended 31 March 2021

Article 89 of the Capital Requirements Directive ("CRD IV") sets out a Country-by-Country Reporting ("CBCR") obligation on CRD IV regulated entities. This obligation was transposed into UK law under Statutory Instrument 2013 No. 3118 Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Turnover and profit/(loss) before tax amounts are reported in accordance with International Accounting Standards in conformity with the requirements of the Companies Act, whilst corporate income tax amounts disclosed below are on a cash paid basis, in accordance with CBCR requirements. Corporate income tax paid and received in the year will not directly correspond to accounting profits and losses reported in the same year due to timing differences as an element of the payments will relate to prior years.

Information disclosed below contains details of corporate income tax paid and received; however, PNBIL incurs a range of other taxes which do not form part of this disclosure, including withholding taxes, UK Bank Levy, social security and VAT. If these taxes had been disclosed this would have significantly increased the value of taxes paid by PNBIL during the year ended 31 March 2021.

Country	Turnover	Loss before tax	Corporate income tax (paid/received)	Full time equivalent number of employees
	$'000	$'000	$'000	
United Kingdom	24,284	(9,951)	-	186

Balances disclosed above are rounded to the nearest $000's with respect to turnover, profit before tax and corporate income tax received.

Country location under which an entity's activity is reported is primarily based on the country of incorporation/legal registration and on other factors such as the tax residence. In most cases all of these factors are consistent; however, where they differ the tax residence of an entity has been used as the determining factor in classifying activities.

Turnover is defined as 'net gains on financial instruments classified as FVTPL', 'net gains on financial instruments designated at fair value through profit or loss', 'net gains on investment securities - FVOCI', 'interest income' net of 'interest expense' and 'other income'.

Profit before tax represents Accounting profits under IFRS accounting in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. Corporate income tax received details the value of corporate income tax received on a cash basis.

Full time equivalent number of employees is the average full time equivalent number of employees for the year legally employed by PNBIL, including staff of back office and excluding contractors.