punjab national bank
(International) Limited

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
CONTENTS
FOR THE YEAR ENDED 31 MARCH 2018

COMPANY REGISTRATION NUMBER 05781326

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Company registration number 05783126

The Board of Directors

Position	Directors	Appointment Date	Resignation Date
Chairman	Ms. Usha Ananthasubramanian	11.01.2016	05.05.2017
Chairman	Shri Sunil Mehta	14.07.2017	
Managing Director	Antanu Das	11.01.2016	
Executive Director	Muddoor Sadananda Nayak	08.02.2008	
Non-Executive Director	Nehal Ahad	23.06.2016	19.04.2018
Independent Non-Executive Director	David Hopton	27.01.2014	26.01.2018
Independent Non-Executive Director	Nicholas Charles Coleman	24.03.2017	

Company secretary **Camilla Shaw**

Registered office

1 Moorgate
London
EC2R 6JH
Tel : 020 77969600
Fax : 020 77961015

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

The Directors have pleasure in presenting the annual report and financial statements including the Strategic and Directors' reports of Punjab National Bank (International) Limited ('PNBIL' or 'Bank' or 'Company') for the year ended 31 March 2018. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards as adopted by the European Union

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) and PRA 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 third largest bank in India having more than 100 million customers and a network of over 6900 branches.

PNBIL's main business is to provide commercial, corporate and retail banking services to different segments of customers, which includes accepting deposits from both retail and corporate clients, lending to retail and corporate clients, making rupee and other remittances, treasury operations to support its funds management and to meet cross currency transactions of its customers. The Bank has also built a treasury portfolio on its own account, held mainly for liquidity management, including placement and borrowing of funds and investment in treasury and corporate securities. The main functions of the treasury operations continue to be to maintain a comfortable liquidity position throughout the financial year and provide guidance on the pricing of assets and liabilities.

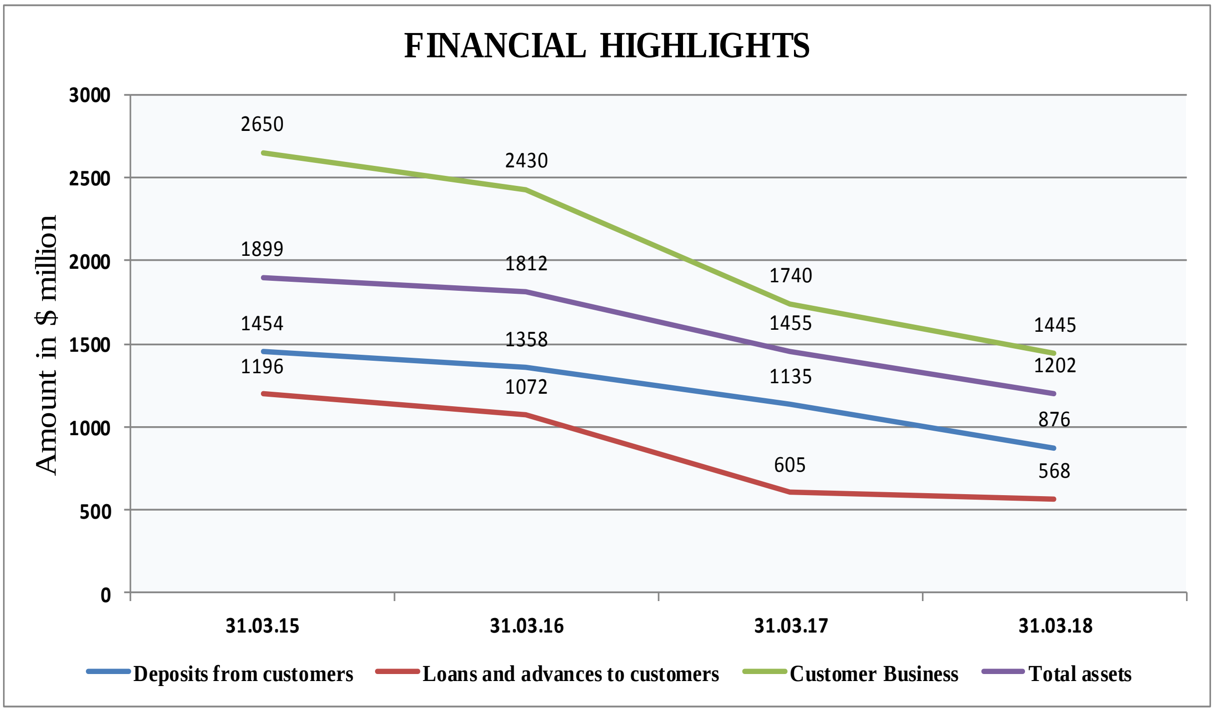
PNBIL started its operations with two branches in London, one in Southall and a second branch at Gresham Street (since moved to 1 Moorgate) in Central London. Five new branches have been opened since then, and consequently, the Bank is presently operating through seven branches in London and the Midlands. While the Central London branch caters mainly to corporate clients, all other branches focus on retail clients. PNBIL has received a good response from the market and built a brand image in the local UK market, due to delivering good customer services over the years and strength drawn from its Parent bank's brand.

KEY FINANCIAL HIGHLIGHTS

This is the eleventh year of operations for the Bank and it has total customer business of $1,445 million a decrease from $1,740 million as at 31 March 2017 due to the focus on the reduction in size of the balance sheet and the UK centric business strategy.

The Bank decided to undertake an extensive loan book review in 2017 in the wake of global economic slowdown and reduced growth in India in sectors such as Oil & Gas, Steel, Renewable Energy, Shipping and Infrastructure that led to an increase in stressed assets, which resulted in an increased recognition of impairment and reduction in the performing loan book.

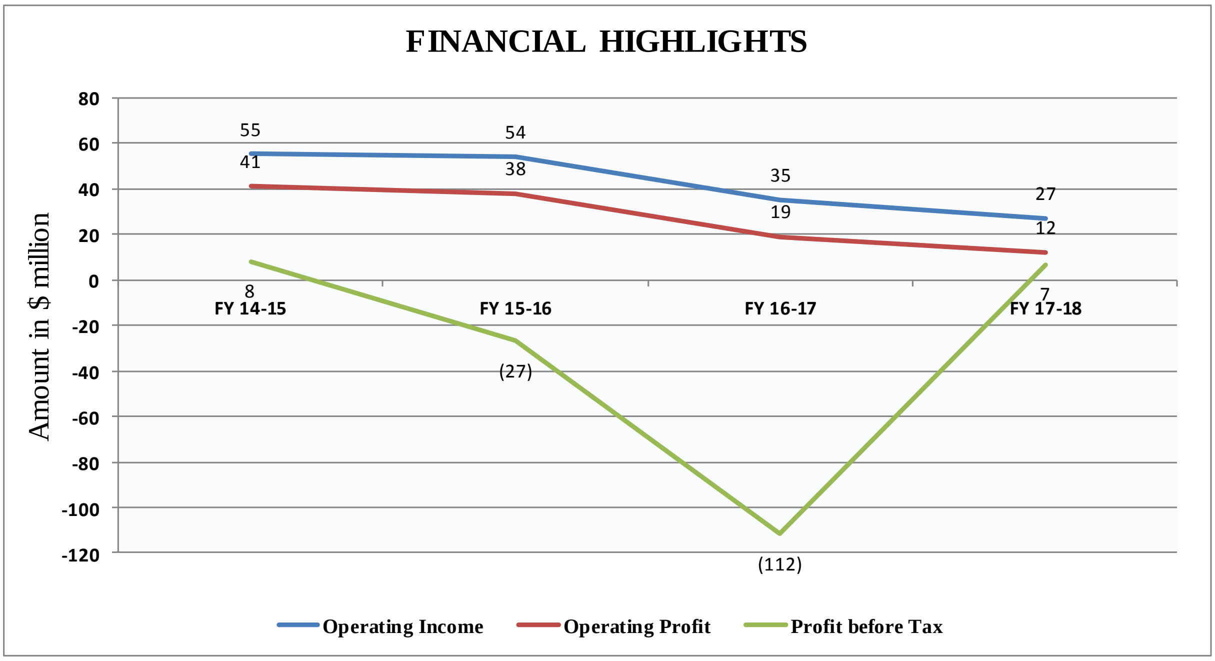
Key performance highlights of the Bank are as below:



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

The Bank's impaired loans and advances amounted to $318.47 million (2017: $299.39 million) and the total provision against impairment for loans as at 31 March 2018 is $267.88 million (2017: $258.56 million). Collective impairment provision on loans stood at $3.56 million at 31 March 2018 (2017: $4.72 million).

As at 31 March 2018, PNBIL had total assets of $1,202 million (2017: $1,455 million). During the year, total net advances decreased to $568 million (2017: $605 million) as the Bank sought to focus on recoveries and the implementation of the new UK centric strategy.



The profit before taxation for the year ended 31 March 2018 amounted to $6.62 million (2017: loss of $133.34 million). Operating profit for the year ended 31 March 2018 amounted to $11.93 million (2017: $18.80 million), a year on year decrease of 36.54%. The decrease in operating profit is mainly due to lower interest and fee income from the non-performing impaired assets, which were provisioned in the prior year, reduced size of loan book partially offset by lower funding costs as high cost deposits matured and were either repaid or re-priced.

As at 31 March 2018, the geographical concentration of the Bank's loans and advances to various counterparties is mainly UK at 34.62% (2017: 31.28%) and India at 37.54 % (2017: 45.27%) based on a risk origination basis. These geographic concentrations will change over time as the Bank pursues its UK centric strategy. The UK growth in 2018 was business originated through the branch network primarily in the area of Real Estate financing.

The main sectoral concentration within the Bank's loans and receivables portfolio at 31 March 2018 was UK real estate lending (21.51%), loans against Stand by letter of Credits and Letter of Credits of banks (18.85%), and loans against own deposits/deposits held with the Parent bank (7.75%). UK real estate lending consists of Buy to Let residential and commercial, Development finance and Hotel finance.

The Directors have reviewed various Brexit scenarios, and have concluded that impact of Brexit on the Bank's business and exposures will be minimal, given that the majority of exposures are to the UK and India.

The Branches have started the process of implementing the Board approved new business strategy and risk appetite by marketing the Bank's UK real estate capabilities in a controlled and modest manner in 2018. The approach to market will be expanded in 2019 using various communication channels to increase the contact with customers and to diversify the portfolio. Certain products included in the strategy have not been marketed in 2018 given reduced market opportunity. These products will be re-assessed as part of the normal strategic review process by the Board, whilst still continuing to focus on low risk UK and India centric business development.

The Bank has continued to focus on embedding an enhanced corporate governance framework, and an enhanced Risk Management framework,

The focus on delivering recoveries from the impaired book has been strengthened by a dedicated credit recovery department, which has been supplemented by senior officials from the Parent bank, given that the majority of impairment assets are associated with exposure to India.

GOING CONCERN BASIS

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 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 economic environment provides sufficient opportunities for business development and growth and the 2016 Brexit decision has been assessed as having a very low impact on the Bank’s business model or on its customers.

The Bank has continued to receive support from the Parent bank.

The Bank’s strategic plan, which was approved by the Board is being implemented at a realistic pace 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.

PRINCIPAL RISKS AND UNCERTAINTIES

Key risks for the Bank are credit risk on the loan portfolio, interest rate risk in the banking book 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 of customer advances continues to be the major business risk for the Bank, especially for a number of stressed and impaired accounts. Since the Bank has considerable exposure to India the successful execution of recent initiatives taken by the Indian Government is expected 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 to adopt a conservative and realistic approach and to take higher provisions in the last two years. Having undertaken an extensive review, the Directors have the confidence that the Bank has established appropriate mechanisms to measure, monitor and manage risks on an ongoing basis. The Board of the Bank has stipulated threshold risk limits for each of the major risks.

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.

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. It is further detailed in Note 41 to the financial statements. These structures aims to give strategic direction and challenge to management in implementing policies to encourage effective systems and controls and the embedding of the Board's 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 provides a forum for in-depth review and analysis of the risks to which the Company is subject.

The Bank's strategies and policies regarding financial risk management, including the use of financial instruments, the policy for hedging, and an indication of the exposure to financial risk is 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 hedging activities, and its exposure to credit, market, liquidity and other risks. Some of the issues concerning credit risk have been discussed in note 26.

MARKET CONDITIONS AND OUTLOOK

As per the International Monetary Fund's (IMF) Economic outlook, a pickup in growth has been seen, with notable upside surprises in Europe and Asia. Growth rates for many of the euro area economies have been marked up, especially for Germany, Italy, and the Netherlands, reflecting the stronger momentum in domestic demand and higher external demand.

Important long-standing commercial agreements, such as NAFTA and the economic arrangements between the United Kingdom and rest of the European Union, are under renegotiation. An increase in trade barriers and regulatory realignments, in the context of these negotiations or elsewhere, would weigh on global investment and reduce production efficiency, exerting a drag on potential growth in advanced, emerging market, and developing economies.

Among advanced economies, growth in the third quarter of 2017 was higher than projected in the autumn 2017, notably in Germany, Japan, Korea, and the United States. Key emerging market and developing economies, including Brazil, China, and South Africa, also posted third-quarter growth stronger than the autumn 2017 forecasts.

The increase in fuel prices raised headline inflation in advanced economies, but wage and core-price inflation remain weak. Among emerging market economies, headline and core inflation have ticked up slightly in recent months after declining earlier in 2017.

Global growth forecasts for 2018 and 2019 have been revised upward by 0.2 percentage points to 3.9 percent by the IMF. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. In the near term, the global economy is likely to maintain its momentum absent a correction in financial markets—which have seen a sustained run-up in asset prices and very low volatility, seemingly unperturbed by policy or political uncertainty in recent months. Such momentum could even surprise on the upside in the near term if confidence in the global outlook and easy financial conditions continue to reinforce each other.

Economic growth in the UK has slowed, with the perception that Brexit is partly to blame. On the brighter side, higher growth in the country’s trading partners and a cheaper pound have led to more demand for UK products abroad, which has, partially, offset weaker consumption and investment in the UK. The IMF’s growth projection for the UK economy for year 2018 is 1.5% against the estimate of 1.7% for 2017. As per Bank of England statistics, the third quarter has continued to see an increase in mortgage lending activity in the UK compared to the previous quarter. New commitments are at the highest level since 2008, and the proportion of loans to the highest loan-to-income borrowers continues to increase.

Emerging and developing Asian economies will grow at around 6.5 percent over 2018–19, broadly the same pace as in 2017. The region continues to account for over half of world growth. Growth is expected to moderate gradually in China (though with a slight upward revision to the forecast for 2018 and 2019 relative to the fall forecasts, reflecting stronger external demand), pick up in India, and remain broadly stable in the ASEAN-5 region. IMF growth projections for Indian economy for 2018 and 2019 are 7.4% and 7.8% respectively against the estimate of 6.7% for 2017.

REGULATORY FACTORS

On 20 October 2011, the European Commission adopted a legislative proposal for the revision of MiFID which took the form of a revised Directive and a new Regulation.

MiFID II, which has become effective from 3 January 2018, will affect everyone engaged in the dealing and processing of financial instruments, from business and operating models, systems and data, to data, people and processes. It will result in:

- Increased transparency of markets
- A shift in trading towards more structured marketplaces
- Lower cost market data

- Improved best execution
- Orderly trading behavior within markets
- More explicit costs of trading and investing

The Second Payment Services Directive (PSD2) came into effect from 13 January 2018. PSD2 is an EU Directive which sets requirements for firms that provide payment services, and affects banks and building societies, payment institutions, e-money institutions and their customers. It requires banks to open their payments infrastructure and customer data assets to third parties that can then develop payments and information services to the bank's customers. As well as promoting innovation, PSD2 aims to improve consumer protection, make payments safer and more secure, and drive down the costs of payment services.

The EU General Data Protection Regulation (GDPR) replaces the current EU Data Protection Directive and is designed to harmonize data privacy laws across Europe, to protect and empower all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy.

The primary objective of the GDPR is to give citizens back control of their personal data. GDPR will harmonise previous and other data protection regulations throughout the EU.

A new Data Protection Bill will, in effect, implement the GDPR, which came into force on May 2018, in the UK (before the UK is due to leave the EU). Regardless of Brexit, it will reiterate the UK's commitment to the privacy principles enshrined in the EU Regulation.

The new regulatory standards relating to Buy-to-Let underwriting and affordability testing represented an important area of focus for PNBIL. The PRA changes to affordability assessment and to underwriting standards for portfolio landlords have driven significant shifts within the Buy-to-Let market and mainly to Portfolio landlord category. PNBIL have made the changes in its underwriting procedures to respond effectively to the regulatory changes.

PNBIL continues to monitor and prepare for a number of regulatory capital developments taking effect over the next few years. Uncertainty remains around the implementation and impact of some regulatory developments, including the finalisation of Basel III, which will be subject to EU and UK implementation.

The Financial Policy Committee (FPC) in June 2017 announced the restoration of the countercyclical buffer (CCyB) to 0.5% with effect from June 2018. The FPC also confirmed on 28 November 2017 that the CCyB will increase from 0.5% to 1% with effect from November 2018. PNBIL is monitoring the updates on regular basis and factoring these changes into its capital planning processes.

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9:

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments. It is effective for accounting periods beginning on or after 1 January 2018. It replaces IAS 39, Financial Instruments: Recognition and Measurement. It is the Bank's intention to transition to the new standard from 1 April 2018.

The estimated transition impact is disclosed in Note 2 to the Financial Statements in accordance with IAS 8.

Disclosures included in these 31 March 2018 accounts are intended to provide users with an understanding of the estimated impact of the new standard, and as a result are more limited than the disclosure that will be included in the 2019 financial statements.

IMPACT OF MARKET FACTORS ON BANK

The rising interest rate differential between the US and the UK will add pressure on the cost of USD funds in the FX funding swaps undertaken by the Bank. Some of the additional cost will be compensated for by the expected increase in LIBOR costs which will be charged to customers.

Looking into the possible inflationary scenario, the Federal Reserve Bank of the USA has given a signal that there will be three rate hikes during 2018 which have already been factored into the market. The Bank is expecting that benchmark US 10 year treasury yields will not increase beyond 3% as once they touch 3%, money will shift from the equity to the bond market in search of returns, thus preventing further movement. This could have a negative impact on the mark to market of our USD Investment portfolio.

The Bank maintains a pro-active stance to compliance with the regulatory legislation and guidance.

FUTURE BUSINESS STRATEGY

The PNBIL Board has started the process of implementing the new UK and Indian centric strategy, based on a lower-risk business model where the Bank has the potential to win in the market and deliver a viable and sustainable business. This process will continue in 2018/2019.

The strategy is focused on UK secured lending and India exposures backed by Stand by letter of credit (SBLC) issued by Indian Public sector or selected Private banks. The strategy will be run in parallel with the recovery efforts on the impaired legacy portfolio.

Given the economic environment, the Bank plans to have cautious and controlled growth, particularly in new lending activities and will continue to focus and enhance its credit risk framework to make it more robust. Risk rating models will be kept updated based on the experience gained. Being a well-capitalised, highly liquid and having a diversified balance sheet, achieving disciplined growth will continue to be the core objectives for the year.

This report was approved by the Board of Directors on 24 July 2018 and signed on its behalf by Company Secretary.

Company Secretary
Camilla Shaw

30 July 2018

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

FINANCIAL RESULTS

PNBIL returned to profitability in the current year after two successive years of significant losses. The Bank made a net Profit before tax of $6.62 million for the year ended 31 March 2018 compared with a net loss before tax of $133.34 million in the previous year. This turnaround resulted from materially lower net provisions of $5.31 million in 2018 compared with $152.13 million in the prior year and early benefit from the Board's decision to shrink the balance sheet and embark upon a UK centric low risk strategy.

The Operating profit of $11.93 million for 2018 was down by 36.54% from $18.8 million for the year ended 31 March 2017 primarily because of lower income due to impaired assets that yielded no return and the run-off of the loan books. Operating income had decreased by $7.91 million to $27.35 million in 2018 from $35.27 million in 2017 due, mainly, to net interest income which has fallen by $4.51 million and a reduction in net trading income of $2.30 million resulting from unfavourable market movement impacting treasury profitability.

As a result the loans and advances to banks and customers (after provisions) increased to $903.83 million at 31 March 2018 from $810.36 million as at 31 March 2017 and level of customers' deposits were also lower at $876.21 million as at 31 March 2018 from $1,134.85 million as at 31 March 2017.

The Bank continues to strengthen its governance and control environment, and to invest in systems to enable it to meet the increasing business and regulatory challenges and is seeing the benefit of its expenditure in 2017. Operating expenditure has been reduced in the year ended 31 March 2018 to $15.42 million from $16.47 million in 2017.

The Bank's dedicated recovery team has been focused on delivering recoveries from gross impaired advances, which totaled $299.39 million as at 31 March 2017 and ensuring that any new cases are addressed at the first signs of weakness. Success has been evident in terms of recoveries of $13.50 million. However, the continued economic slowdown and reduced economic growth in India has meant that new exposures have become impaired, necessitating new provisions of $19.97 million. At 31 March 2018 gross impaired advances had increased slightly to $318.47 million.

The tax charge for the year of $0.73 million will be offset against prior year losses and will, in part, reduce the deferred tax asset to $25.31 million as at 31 March 2018 from $25.80 million as at 31 March 2018. Detail on the tax charge is given in note 16 and detail on the deferred tax asset is given in note 30.

The Bank has made an assessment about the possible impact of Brexit on its business and on the business of its customers. The Bank does not have any branch or representative office in EU countries. Not only are the Bank's exiting activities small in EEA but also the Bank's board has set an appetite to carry out business in UK and India over the next 4-5 years and as such the Bank does not perceive any significant impact, however the Directors will continue to monitor the situation closely and will undertake a reappraisal should circumstances change.

The financial statements for the year ended 31 March 2018 are shown on pages 29 to 90.

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 2018 (2017: nil), however, a dividend at the rate of 6 months LIBOR plus 5% amounting to $2.93 million (2017: nil) has been paid on the Additional Tier I Capital during the year ended 31 March 2018.

CAPITAL STRUCTURE

As at March 31, 2018, the issued and fully paid share capital of the Bank is $274.63 million (2017: $254.63 million), and Additional Tier 1 Capital is $45.00 million (2017: $45.00 million). The detail is given in Note 36.

The total amount of regulatory capital available as at 31 March 2018 was $237.25 million (2017: $219.82 million). Detail is given in note 42 to the financial statements.

The Bank has raised additional share capital of $20 million from its Parent bank during the financial year. The Capital to Risk Adequacy Ratio (CRAR) of the Bank continues to remain above the required level under the Capital Requirement Regulations (CRR) and also above that required under Individual Capital Guidance (ICG) given by the regulator to the Bank. CRAR as at 31 March 2018 is 26.18% with the Common Equity Tier I capital ratio being 20.72%.

As at the end of the year 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 interbank 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 given in the Pillar III disclosure, to be published on the Bank's website.

PNBIL's senior management monitors the Bank's capital position on a daily basis. The Board Risk Committee and the Board of Directors review the capital structure on a quarterly basis, 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.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after the balance sheet date as shown in note 43.

NEW INITIATIVES/MILESTONES

The Bank has been preparing for the introduction of the new accounting standard IFRS 9 Financial instruments, which comes into effect for the Bank's financial year beginning on 1 April 2018 (1 January 2018 for firms with a December 2017 year-end). External help was taken to develop an Expected Credit Loss model and the output of the model will be used from 1 April 2018 onwards, when IFRS9 is applicable to PNBIL.

The Bank has employed a UK Head of Internal Audit to strengthen the audit function and deliver a higher quality assurance, working with an external firm of accountants in a co-sourced arrangement.
The Credit function has been enhanced with the employment of an experienced UK Head of Credit who has developed enhanced product profiles to run alongside the current strategy, refined the approach to problem account strategy and improved the early warning monitoring systems. The Bank has also employed an experienced UK Head of Business to drive forward the strategy approved by the Board.

The Bank has set up a dedicated Credit Recovery team under the leadership of a senior executive to work on problem credits. The Bank has set up a Joint Recovery committee with the Parent bank to leverage their experience and involvement with common Indian exposures.

The core banking platform for the Bank (Finacle) was upgraded from Version 7 to Version 10 during the year to get the benefit of improved functionality and reporting.

To improve our customers' experience, the Bank has developed a mobile banking application, leveraging the knowledge and experiences of the Parent bank.

During the year the Bank has established a project office to ensure implementation of the various projects timely and professionally.

DIRECTORS

There have been three changes in Directors during the year. The Chairman of the Board, Ms.Usha Ananthasubramanian, resigned her position from PNBIL on 5 May 2017 following her transfer to another bank in India at the behest of the Government of India. She was replaced by Shri Sunil Mehta on the 14 July 2017.
Independent Non-Executive Director, David Hopton, completed his agreed term and retired from office on 26 January 2018. His replacement is currently being recruited.
The Non-Executive Director representing the Parent bank, Nehal Ahad, resigned his position on 26 April 2018. PNB will put forward a successor in due course.

Detail on Directors is given on Page 2.

DIRECTORS' INDEMNITIES

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

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 is also control 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 have therefore continued with their efforts to design and establish procedures to provide effective internal control within the Bank. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the Bank have considerably improved during the year ended 31 March 2018 and these procedures and controls will continue to remain under review and oversight by the Directors.

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 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 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 hedging, and an indication of the exposure to financial risk is 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 hedging activities, and its exposure to credit, market, liquidity and other risks. Some of the issues concerning credit risk have been discussed in note 26.

CHARITABLE DONATIONS

Charitable donations of £500 were made during the year (2017: nil).

POLITICAL CONTRIBUTION

The Bank made no political donation or incurred any political expenditure during the year.

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 Company's external auditor is unaware; and
- 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 Company'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 Company, 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

Deloitte LLP is the statutory auditor of the Bank and they have indicated their willingness to continue as the auditor of the Bank.

GENERAL MEETINGS

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

By order of the Board

Company Secretary
Camilla Shaw
30 July 2018

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 such financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS. 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 Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

We confirm that to the best of our 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 Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, 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 Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 24 July 2018 and is signed on its behalf by.

By order of the Board

Managing Director
Antanu Das
30 July 2018

Executive Director
Muddoor Sadananda Nayak
30 July 2018

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Punjab National Bank (International) Limited (the 'Company' or 'PNBIL') which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 43.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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 confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach	
Key audit matters	The key audit matters that we identified in the current year were: • loan impairment and provisioning • valuation of deferred tax asset • revenue recognition
Materiality	The materiality that we used in the current year was $6.41m which was determined on the basis of 3% of equity.
Scoping	All of the audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

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) that we identified. These matters included 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.

Loan impairment and provisioning	
Key audit matter description	PNBIL holds $267.91 million of impairment provisions at year end against loans and advances to customers of $839.76 million. Management assess all customer exposures for indication of possible impairment and, if identified, then assess the extent of any incurred loss. For further details please refer to critical accounting estimates and judgements in note 4 and note 21 to the financial statements. We identified a key audit matter relating to loan loss provisioning of individually impaired loans and management's collective provision which addresses incurred but not reported losses ("IBNR"). There is inherent judgement required by management in assessing both individual customer cir-

	cumstances and inputs into the IBNR provision. Given the significant level of judgement there is potential for bias in determining these provisioning levels.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of controls related to lending and loan loss provisioning. We reviewed individual loan exposures to identify any customers with indications of impairment that had not been included in management's non-performing loan assessment. This includes reviewing exposure and testing completeness. For loans where management had identified an impairment indicator we independently prepared a discounted cash flow based on our assessment of the underlying performance of the borrower and nature and amount of collateral held. We compared our results to the specific provisions made by management. We reviewed the inputs, assumptions and methodology for the collective impairment provision to assess whether they are consistent with our understanding of current market conditions and the PNBIL's portfolio.
Key observations	We concurred with the assumptions used by management and we have not identified any material misstatements. Therefore, we concluded that the valuation of loan impairment and provisioning is appropriate.
Valuation of deferred tax asset	
Key audit matter description	Management have recorded a deferred tax asset of $25.31 million as at 31 March 2018. This asset relates primarily to unused tax losses. For further details please refer to the strategic report on page 3, critical accounting estimates and judgements note and note 30 in the financial statements. Specific conditions must be met in order for PNBIL to recognise the deferred tax asset in full or in part. The decision to recognise an asset is based on management's assessment of future taxable profit of the Company which is underpinned by significant assumptions such as the discount rate and ex-

	pected growth of the business which can be difficult to corroborate and is potentially subject to bias.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of key controls around the valuation of deferred tax assets including the budgeting and forecasting process. We considered the accuracy of the forecast models by reviewing the data inputs and evaluated the historical accuracy of management's forecasting by comparing 2018 results to the budget for that period. With the involvement of our tax specialists, we reviewed management's calculation of the deferred tax asset to assess the application of appropriate tax rates and restrictions regarding recognition of deferred tax assets. We challenged management's underlying assumptions related to future profitability and recovery of deferred tax assets by evaluating their linkage to the business strategy and medium-term plans. We challenged the period over which management considered their forecast to be sufficiently reliable to support the deferred tax asset.
Key observations	We concurred with management's assessment that sufficient profits are probable for the recoverable period and we have not identified any material misstatements. Therefore, we concluded that the valuation of deferred tax asset is appropriate.

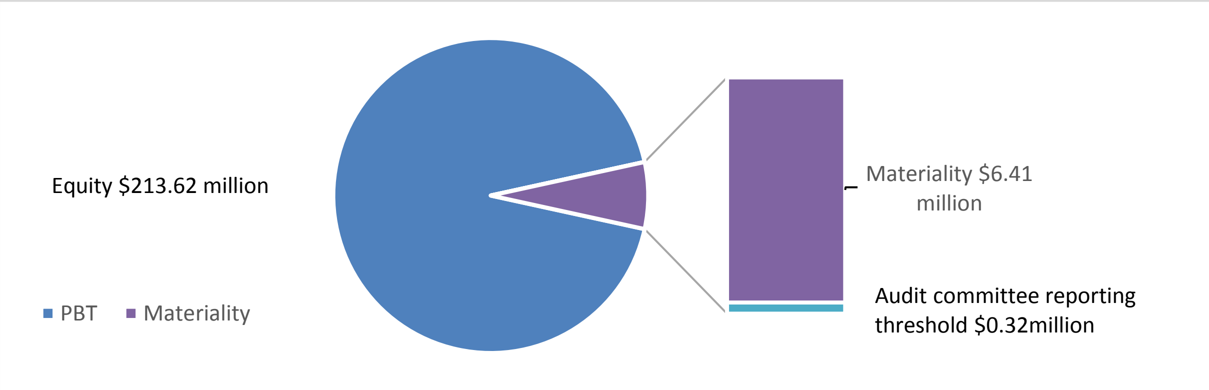
Revenue recognition	
Key audit matter description	The main revenue stream within PNBIL is interest income of $47.44 million which is recognised based on the effective interest rate method in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Additional revenues are earned from fees and commissions totaling $0.69 million charged to customers for transactions. For further details please refer to the statement of comprehensive income on page 19 and the critical accounting estimates and judgements note in the financial statements. The application of the effective interest rate method in deriving the interest income recognised involves management judgement specifically around the effective interest rates. In addition, the calculation and booking of fees and commissions are manual and therefore there is a greater risk of error arising from these manual processes.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of key controls around recognition of revenue. For a sample of financial assets and liabilities, we recalculated the interest income and reviewed the accounting treatment in accordance with the requirements of IAS 39. We considered all types of fees and commissions charged by PNBIL to its customers and assessed the accounting treatment adopted for each type by reference to the relevant contractual arrangements. For a sample of loan and overdraft facilities we recalculated the commission and fee income due based on the facility terms and checked whether the income had been recognised in the correct accounting period.
Key observations	Based on audit procedures performed, we concluded that revenue has been recognised in line with the Company's policy and the amounts recognised in the financial statements for the year ended 31 March 2018 is not materially misstated.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	$6.41 million
Basis for determining materiality	3% of equity balance.
Rationale for the benchmark applied	We determined materiality using equity, as we considered this to be the most appropriate measure because the parent bank and the regulators would be interested in capital ratios.



We agreed with the Board Audit & Compliance Committee that we would report to the Committee all audit differences in excess of $0.32 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit & Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

We have nothing to report in respect of these matters.

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our 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.

Report on other legal and regulatory requirements

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.

In the light of the knowledge and understanding of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Opinions on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 43 to the financial statements for the financial year ended 31 March 2018 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Board Audit and Compliance Committee, we were appointed by the Board of Directors on 10 September 2015 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 March 2016 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Board Audit and Compliance Committee we are required to provide in accordance with ISAs (UK).

Russell Davis, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

30 July 2018

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 $'000	2017 $'000
Interest income	6	47,445	65,554
Interest expense	7	(17,816)	(31,412)
Net interest income		29,629	34,142
Net trading (loss)/income	8	(3,544)	(1,240)
Income on interest rate derivatives		357	1,508
Fee and commission income		692	630
Other operating income	9	219	227
Operating income		27,353	35,267
Staff costs	14	(8,715)	(6,752)
Operating lease expenses	10	(540)	(756)
Depreciation and amortisation	11	(717)	(862)
General administrative expenses	12	(5,452)	(8,101)
Provision on impaired financial assets	25	(5,308)	(152,134)
Profit / (loss) before tax		6,621	(133,338)
Tax (charge)/credit	16	(728)	22,010
Profit / (loss) after tax for the year		5,893	(111,328)

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 $'000	2017 $'000
Profit/(loss) after tax for the year		**5,893**	**(111,328)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss		-	-
Available for sale (AFS) financial assets			
(Losses) arising during the year	**37**	**(1,122)**	**(679)**
Tax relating to fair value change	**37**	**237**	**(77)**
		(885)	**(756)**
Reclassification adjustments for (loss)/gain included in profit or loss		**(238)**	**332**
Other comprehensive (loss) for the year net of tax		**(1,123)**	**(424)**
Total comprehensive profit/(loss) attributable to equity shareholders		**4,770**	**(111,752)**

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
BALANCE SHEET
AS AT 31 MARCH 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	17	**131,368**	**490,010**
Investment securities – held for trading	18	**32,588**	**59,968**
Derivative financial instruments	19	**11,932**	**4,319**
Loans and advances to banks	20	**335,509**	**205,154**
Investment securities – available for sale	22	**46,547**	**53,936**
Loans and advances to customers	21	**568,317**	**605,202**
Investment securities – held to maturity	23	**48,624**	**8,936**
Prepayments and other receivables	31	**627**	**524**
Deferred tax assets	30	**25,310**	**25,802**
Property, plant and equipment	28	**694**	**962**
Intangible assets	29	**504**	**556**
Total assets		**1,202,020**	**1,455,369**
Liabilities			
Derivative financial instruments	19	**1,295**	**455**
Deposits from banks	32	**54,342**	**73,692**
Deposits from customers	33	**876,208**	**1,134,852**
Subordinated liabilities and other borrowed funds	34	**50,000**	**50,000**
Other liabilities	35	**6,553**	**4,513**
Total liabilities		**988,398**	**1,263,512**
Net assets		**213,622**	**191,857**
Equity			
Share capital	36	**319,631**	**299,631**
Fair value reserve	37	**(1,157)**	**(34)**
Retained earnings		**(104,852)**	**(107,740)**
Equity attributable to owners of the Company		**213,622**	**191,857**
Total equity		**213,622**	**191,857**

The financial statements were approved by the Board of Directors and authorised for issue on 24 July 2018. They were signed on its behalf by:

For and on behalf of the Board

Managing Director
ANTANU DAS

Director
M S NAYAK

	Attributable to equity holders of the Bank			
	Share capital	Fair value reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance at 1 April 2017	299,631	(34)	(107,740)	191,857
Prior period adjustment			(77)	(77)
Restated balance at the start of the year	**299,631**	**(34)**	**(107,817)**	**191,780**
Profit for the year	**-**	**-**	**5,893**	**5,893**
Net change in fair value of AFS investments	-	(885)	-	(885)
Net amount transferred to profit and loss	-	(238)		(238)
Other comprehensive loss for the year	-	(1,123)	-	(1,123)
Total comprehensive (loss)/profit for the year	**-**	**(1,123)**	**5,893**	**4,770**
Transactions with owners recorded directly in equity				
Issue of share capital	20,000	**-**	**-**	20,000
Dividend on perpetual additional Tier I capital	**-**	**-**	(2,928)	(2,928)
	20,000	**-**	(2,928)	17,072
Balance at 31 March 2018	**319,631**	**(1,157)**	**(104,852)**	**213,622**

*Prior year adjustment for tax credit arising on AFS reserve movement.

	Attributable to equity holders of the Bank			
	Share capital	Fair value reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance at 1 April 2016	**174,631**	**390**	**3,610**	**178,631**
Loss for the year	-	-	(111,328)	(111,328)
Other comprehensive loss for the year	-	(424)	(22)*	(446)
Total comprehensive (loss)/profit for the year	**-**	(424)	(111,350)	(111,774)
Transactions with owners recorded directly in equity				
Issue of share capital	125,000	-	-	125,000
Dividend on perpetual additional Tier I capital	-	-	-	-
	125,000	-	-	125,000
Balance at 31 March 2017	**299,631**	**(34)**	**(107,740)**	**191,857**

* Tax credit arising on AFS reserve movement.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 $'000	2017 $'000
Cash flows (used in)/from operating activities			
Profit / (loss) after tax		5,893	(111,328)
Adjustments for:			
Amortisation of other intangible non-current assets	11	261	197
Depreciation of property, plant and equipment	11	456	665
Provision for impairment losses on financial assets	25	5,308	152,134
Corporation tax charge/(credit)	16	728	(22,010)
		6,753	130,986
		12,646	19,658
Changes in:			
Held for trading financial assets		27,380	(10,241)
Loans and advances to customers		31,578	314,654
Deposits from banks		(19,350)	(103,272)
Other liabilities and provisions		2,040	(3,614)
Available for sale financial assets		7,389	68,324
Fair value of derivatives		(6,773)	(12,814)
Loans and advances to banks		(130,355)	105,299
Trade and other receivables		(103)	82
Deposits from customers		(258,644)	(223,257)
		(346,838)	135,161
Cash flows (used in)/from operating activities		(334,192)	154,819
Cash flows (used in)/from other operating activities			
Income tax credit		-	3,345
Net cash flow (used in)/from other operating activities		(334,192)	158,164
Investing activities			
Acquisition of property and equipment		(188)	(101)
Acquisition of intangible assets		(209)	(583)
Proceeds from maturity of held to maturity investments		(39,688)	(7,765)
Net cash flows (used in)/from investing activities		(40,085)	(8,449)
Financing activities			
Proceeds from issue of equity share capital	36	20,000	125,000
Proceeds from issue of subordinated liabilities		-	(25,000)
Dividend to perpetual additional Tier I capital bond holders		(2,928)	-
Net cash flows (used in)/from financing activities		17,072	100,000
Net (decrease)/increase in cash and cash equivalents		(357,205)	249,715
Cash and cash equivalents at beginning of year	17	490,010	240,205
Unrealised (gain)/loss on exchange rate difference		(1,437)	90
Cash and cash equivalents at end of year	17	131,368	490,010

1] General information

Punjab National Bank (International) Limited, "PNBIL" or "the Bank" is a limited company 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 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 10. The financial statements are presented in United States Dollars, because this is functional currency of the Bank.

2] Adoption of new and revised standards

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.

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

In the current year, the Bank has applied amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 April 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 11 Accounting for acquisitions of Interests in Joint Operations
- Amendments to IAS 27 Equity Method in Separate Financial Statements

2.2 New and revised IFRSs in issue but not yet effective

At the date of approval of these financial statements, the Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective and (in some cases) had not yet been adopted by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers
- IAS 16: Leases
- IAS 2 (amendments): Classification and measurement of Share-based Payment Transactions
- IAS 7 (amendments): Disclosure Initiative
- IAS 12 (amendments): Recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 10 & IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

- IFRS 9 will impact both the measurement and disclosures of financial instruments; and
- IFRS 15 may have an impact on revenue recognition and related disclosures.

IFRS 9

There have been and are expected to be a number of significant changes to the Bank's financial reporting after 2018 as a result of amended or new accounting standards that have been or will be issued by the IASB. The most significant of these is IFRS 9. Recognition and Measurement is effective for periods beginning on or after 1 April 2018 and was endorsed by the EU in November 2016.

IFRS 9 defines three new classification and measurement approaches: Measured at amortised cost, measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit and loss (FVTPL)

IFRS 9 applies the classification approach to all types of financial assets, including Loans and Advances to banks and customers, Held to maturity investment securities 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.

Quantitative modelling will be used in conjunction with internal and external credit grades and ratings in assessing whether credit risk has significantly increased. The Bank will monitor the effectiveness of the criteria used to identify any increase through regular reviews.

IFRS 9 assesses on a forward-looking basis the expected credit loss (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.

Based on assessments undertaken to date, the total estimated adjustment for the adoption of IFRS 9 is in the range of $8 to $12 million. The above assessment is preliminary and the actual impact may change as we refine and finalise our ECL modelling.

The transition impact IFRS 9 will be mitigated by the reversal of the Collective Provision which currently stands at $3.56 million.

For Capital planning purposes the Bank will take advantage of the transitional guidelines issued by the Prudential Regulation Authority (PRA) of phasing in the full impact of IFRS 9 adoption over a period of 5 years.

IFRS 15

The majority of the Bank's revenue is net interest income which is accounted for under IAS 39. Accordingly, the majority of our revenues were not affected. Non-interest income revenue streams which are within the scope of the new standard are immaterial and therefore management believes the impact of adopting the standard is not material.

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 IFRS adopted by the European Union and therefore the Bank's financial statements comply with Article 4 of the RU IAS Regulation.

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;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Available for sale financial assets are measured at fair value.

Detail on fair value is given in note 24.

3.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company 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.

The Bank is a wholly-owned subsidiary of Punjab National Bank. The Bank has recorded a profit after taxation of $5.89 million in the current financial year and has raised ordinary share capital of $20 million from the Parent bank.

The Bank is adequately capitalised at 31 March 2018 and exceeds all the capital ratios required by the regulators. The authorised share capital for the Bank is $400 million. The Bank's capital position, and its derivation, is set out in full in Note 42 to these financial statements.

3.4 Functional and presentation currency

The Directors consider the US Dollar as the primary currency of the Bank (and hence the functional currency of the Bank) as the majority of earning assets (loans/investment) 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 foreign currencies 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.

3.5 Accounting policies

a) Revenue recognition

Interest

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 Available for sale investment securities calculated on an effective interest basis; and
- Arrangement fees recognised on an accruals 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.

Fees and commission

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

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 annual basis with a standard set price payable dependent on the size of box.

Net trading income

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

b) Measurement – financial instruments

A. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through the statement of profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets.

i. Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. 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 IAS 39. 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. Loans and receivables

Loans and receivables 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 receivable. Loans and receivables 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.

iii. Held to maturity

Held to maturity investments 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 held to maturity are carried at amortised cost less impairment if any.

iv. Available for sale

Available for sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available for sale investments comprise debt securities.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gain or losses on available for sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised as other comprehensive income and presented in the fair value reserve in equity. When the investment is sold, the gain or loss accumulated in equity is re-classified to profit or loss.

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 liabilities) 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.

iii. Deferred income

The arrangement fee received on long-term corporate loans is amortised during the tenure of the loan, the un-amortised amount is recognised as deferred income in the financial statements.

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 whose valuables include only data from the observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument.

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

i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held to maturity

investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate. If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it is now excessive by reducing the loan impairment provision account.
The amount of any reversal is recognised in the statement of profit or loss.

ii) Available for Sale assets

The Bank assesses at each balance sheet date whether there is objective evidence that an available for sale asset is impaired. Objective evidence that a financial asset is impaired includes observable data that has come to the attention of the Bank such as a significant change in price in excess of 20% or prolonged decline over nine months and due to deterioration of credit ratings which has an impact on the Bank's estimated future cash flows from the financial assets.

If an impairment loss has been incurred, the cumulative loss (measured as a difference between the original cost and the fair value) less any impairment loss on that asset previously recognised, is removed from equity and recognised in the statement of profit or loss. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of profit or loss.

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 and equipment

(i) Recognition and measurement

Items of property 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 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:

Fixtures including computers and accessories	3-5 years
Leasehold improvements	5 years or primary period of lease term, whichever is lower.

(The computers, software, mobile phones and related accessories are depreciated at 33% whereas furniture and Fixtures 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 cash equivalents

Cash and cash equivalent 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

The corporation tax charge in the profit and loss represents the amount that is offset against the deferred tax asset which was created due to the prior year losses.

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 furthers excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using applicable tax rates.

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.

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 profit or loss, 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 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publically. Future operating losses are not provided for.

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 available for sale financial assets until the assets are derecognised or impaired.

O. Operating lease commitments

Operating leases payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

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 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. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required for impaired loans and receivables as well as provisions for impairment provision for available for sale investment securities. 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.

Further information about key assumptions concerning the future, and other key sources of estimation and judgement, are set out in the relevant disclosure notes for the following areas:

- **Identification of impairment of financial assets**

The Bank assesses on a quarterly basis whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are provided for if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Bank considers the following factors in assessing objective evidence of impairment:

- When the counterparty is in default of principal or interest payments;
- 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; or
- Where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets.

- **Provisions for impairment of loans and receivables**

The Bank periodically reviews their financial assets carried at amortised cost to identify any early signs of financial deterioration. Additionally, for those loans 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.

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against performing loans which represents an interim step pending the identification of impairment losses on individual assets in the group of financial assets that are collectively assessed for impairment. This takes into consideration factors such as the risk rating of the counterparty, the probability of default, the loss given default, recent loss history and the emergence period. The Bank considers an emergence period of 3 months to be appropriate based on the nature of the counterparties, frequency of the review of loan portfolio done by the management and past loan loss experience.

A change of one month in emergence period will result in an impact of $1.18 million (2017: $1.57 million) on the value of the impairment provision.

- **Impairment losses on available for sale investments**

At each balance sheet date, the Bank assesses whether there is objective evidence that an available-for-sale asset is impaired. In case of securities in this category, where there has been significant decline in value, and due to deterioration of credit ratings which has an impact on the Bank's estimated future cash flows of the investments, management applies judgement after considering other underlying circumstances to assess if an provision for impairment is required.

These factors include the collateral structure, market insight, the length of time over which the decline has been observed and the current and expected financial performance of the counterparty.

- **Held to maturity investment securities**

The Bank follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investment securities to maturity. In the event the Bank fails to keep these investments to maturity other than for specific circumstances, it will be required to reclassify the entire held to maturity portfolio as available for sale and the Bank will be prevented from classifying investment securities as held to maturity for the current and the following two financial years.

- **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.

- **Deferred Tax**

For the purposes of measuring the deferred tax asset relating to unused tax losses, management has estimated the future profitability of the Bank to assess the extent to which unused tax losses are recoverable against future taxable profits. Key judgements included in the estimation of future profitability 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 asset. Management determined that the deferred tax revenue recognition criteria have been met.

5] Operating segments

The Bank undertakes the business of corporate and commercial banking which is carried on within the United Kingdom. Its activities are currently managed on a centralised business model so the revenue and the costs are not attributable to any one operating or geographic segment.

The Bank has one class of business and all other services are ancillary to this. The Board reviews all the information for the business as a whole as these ancillary activities do not have their own standalone reporting environment and protocols internally.

No single customers contributed 10% or more to the Bank’s revenue in either financial year 2018 or 2017.

6] Interest income

	2018 $'000	2017 $'000
Overdraft accounts	6,076	10,846
Demand and term loans	33,015	45,159
Discount on bills	28	34
Interbank placements	3,751	1,245
Coupon/premium on investment securities	3,308	5,712
Arrangement fees on loans*	1,267	2,558
Total Interest income	47,445	65,554

*Arrangement fees on loans is treated as interest income.

7] Interest expense

	2018 $'000	2017 $'000
Term deposits	13,763	25,453
Saving deposits	36	287
Interbank borrowings	1,121	1,888
Subordinated liabilities	2,896	3,784
Total Interest expense	17,816	31,412

8] Net trading (loss)/income

	2018 $'000	2017 $'000
Foreign exchange	(3,468)	1,318
Investment securities - held for trading	(76)	(2,558)
Total Net trading (loss)/income	(3,544)	(1,240)

9] Other operating income

	2018 $'000	2017 $'000
Payment and settlement	137	174
Retail banking	82	52
Other operating income	-	1
Total Other operating income	219	227

10] Operating lease expenses

	2018 $'000	2017 $'000
Lease rental expenses	540	756
Total Operating lease expenses	540	756

11] Depreciation and amortisation

	2018 $'000	2017 $'000
Depreciation of property and equipment	456	665
Amortisation of intangible assets	261	197
Total Depreciation and amortisation	717	862

Further details are given in notes 28 and 29 to the financial statements

12] General administrative expenses

	2018 $'000	2017 $'000
Marketing costs	134	78
Administrative and office maintenance costs	1,200	738
Legal, professional and audit fees	2,497	4,446
Postage, telephones and telegrams costs	307	352
Other administration costs	1,314	2,487
Total General administrative expenses	5,452	8,101

13] Auditor's remuneration

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

The audit of the Company	531	168
Total audit Fee	531	168
Fees payable to the Bank's auditor for other services:		
- Audit related assurance services	13	308
- Non-audit services	-	37
Total non-audit Fees	13	345

14] Staff costs

	2018 $'000	2017 $'000
Wages and salaries	6,376	4,577
Contribution towards defined employee contribution plan*	106	113
Other employee benefits	1,564	1,442
Social security costs	668	620
Total Staff costs	8,714	6,752

* Out of this $0.05 million is related to a Director's employee contribution (note 15). The number of Directors receiving this benefit is one.

Included in other employee benefits are:	2018 $'000	2017 $'000
Accommodation cost	959	868
Medical insurance and expense	121	114
Pension contributions for staff in India	7	8
Other expenses**	477	452
	1,564	1,442
Average number of employees***	140	106

** Other expenses include rent, conveyance, insurance, staff welfare and others expenses for staff. There are no share-based payments to employees.
*** Back office employees (22) based in India are also included in 2018.

The number of employees disclosed is the monthly average number in line with the Companies Act requirement.

15] Directors' emoluments

	2018 $'000	2017 $'000
Emoluments	476	419

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

	2018 $'000	2017 $'000
Emoluments of highest paid Director	221	200
Contributions to external pension scheme included above	51	47

16] Corporation tax

Components of corporation tax (charge)/credit

	2018 $'000	2017 $'000
Current corporation tax credit		
Current corporation tax (charge)/credit	-	(62)
Deferred corporation tax (charge)/credit		
Effect of rate changes	-	586
Relating to origination and reversal of temporary differences	(728)	21,486
Total tax (charge)/credit	(728)	22,010

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

	2018 $'000	2017 $'000
Profit/(loss) before tax	6,621	(133,338)
Corporation tax at 19% (2017: 20%)	(1,258)	26,668
Tax effect of fair value profits direct to reserves	-	73
Tax effect of non-deductible depreciation	(33)	(73)
Tax effect of other non-deductible expenses/ non-taxable income	582	(3)
Tax effect of FX and rate changes	-	(4,586)
Previous year overprovision	-	(69)
Tax effect of AFS transitional adjustment	(19)	-
Tax (charge)/credit	(728)	22,010

	2018 $'000	2017 $'000
Current corporation tax credited to equity		
Credit arising on AFS reserve movement	237	(22)
Tax effective rate	19%	16%

The Finance Act 2013 enacted a reduction in the UK corporation tax rate to 20% with effect from 1 April 2015. Finance (No. 2) Act 2015 and Finance Act 2016 enacted further reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020, respectively. These reductions in the tax rate will impact the current tax charge in future periods.

17] Cash and cash equivalents

	2018	2017
	$'000	$'000
Cash on hand	293	250
Cash at bank (including balance held with central banks)	131,075	464,760
Cash equivalent*	-	25,000
Total Cash and cash equivalents	131,368	490,010

*Placements upto 3 months are treated as cash equivalent.

18] Investment securities – held for trading

	2018	2017
	$'000	$'000
Treasury bills	32,588	59,968

The Bank has classified its holding of US treasury bills as held for trading 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	2018	2017
		$'000	$'000
US Treasury Bills	AAA	32,588	59,968

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

19] 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. The Bank uses interest rate swaps to eliminate interest rate risk in various reset buckets. The Fair value of all derivatives is as below:

19] Derivative financial instruments (continued)

	2018		2017	
	Positive Fair Value $'000	Negative Fair Value $'000	Positive Fair Value $'000	Negative Fair Value $'000
Cross currency swap	11,899	502	4,097	455
Interest rate swap	33	793	222	-
	11,932	1,295	4,319	455

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. The table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2018.

	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	345,846	335,219	11,899	502
Interest rate swaps	Bank	293,943	294,611	33	793
		639,789	629,830	11,932	1,295

The table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2017.

	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	325,871	322,696	4,097	455
Interest rate swaps	Bank	419,386	419,383	222	-
		745,257	742,079	4,319	455

20] Loans and advances to banks

	2018	2017
	$'000	$'000
Bills negotiated and discounted	9	58
Term loans against stand-by letters of credit/buyers credit	158,198	196,942
Interbank placements of original maturity of more than three months	177,302	8,154
Net Loans and advances to banks	335,509	205,154

At 31 March 2018 $47.20 million (2017: $140.69 million) of loans and advances to banks are expected to be realised more than twelve months after the reporting date.

21] Loans and advances to customers

	2018	2017
	$'000	$'000
Bills negotiated and discounted	-	734
Customer overdrafts	229,973	230,533
Term loans	609,789	640,413
Total	839,762	871,680
Less impairment provisions [(1)]	(271,445)	(266,478)
Net Loans and advances to customers	568,317	605,202

[1]Impairment provisions include specific credit provisions of $267.88 million (2017: $258.56 million) and collective provision of $3.56 million (2017: $4.70 million).

At 31 March 2018 $232.15 million (2017: $377.27 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 25 and 26 to the financial statements.

22] Investment securities – available for sale

	2018	2017
	$'000	$'000
Marketable debt securities	46,547	53,936

At 31 March 2018, $43.58 million (2017: $49.82 million) of available for sale investment securities are expected to be realised more than twelve months after the reporting date.

23] Investment securities - held to maturity

	2018 $'000	2017 $'000
Debt securities	50,955	11,122
Less: Impairment provision*	(2,331)	(2,186)
Net book value of held for maturity investment securities	48,624	8,936

* There are two impaired held to maturity investment securities which have been fully provided for in the year ended 2018 (one in the year ended 2017).

Refer to note 24 for details of fair value of investment securities which are held to maturity (HTM). At 31 March 2018, $33.91 million (2017: $8.90 million) of held to maturity investment securities are expected to be realised more than twelve months after the reporting date.

24] 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 held to maturity investment securities 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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Held to maturity securities	50,955	11,122	47,738	8,895
Less Impairment provision	(2,331)	(2,186)	-	-
Net Book Value	48,624	8,936	47,738	8,895

The total impairment provision recorded for held to maturity investment securities 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 2018. 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 or paid to transfer a liability 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:

24] Financial instruments (continued)

	Carrying amount and fair value	
	2018	2017
	$'000	$'000
Assets		
Customer and bank overdrafts	131,028	133,178
Term and bank loans	595,496	668,232
Interbank placements	177,302	33,154
Bills purchased	-	792
Liabilities		
Interbank deposits	52,833	71,068
Subordinated debts	50,000	50,000
Savings accounts	164,747	139,540
Current accounts	149,495	147,763
Fixed term deposits	563,475	850,173
Bills payable	1,037	992

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 debts 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 debts 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.
- Inter-bank placements are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.

24] Financial instruments (continued)

B. Financial instruments carried at fair value

Financial instruments carried at fair value in the financial statements are held for trading securities (note 18), available for sale securities (note 22) and Derivatives (note 19).

Financial instruments carried at amortised cost in the financial statements are loans and advances to banks (note 20), loans and advances to customers (note 21), investment securities held to maturity (note 23), deposits from banks (note 32) and deposits from customers (note 33).

Categories of these assets are as below:

2018

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities – held for trading	18	32,588	-	-	32,588
Investment securities – available for sale	22	10,236	36,311	-	46,547
Derivative financial instruments	19	-	11,932	-	11,932
Loans and advances to banks	20	-	335,509	-	335,509
Loans and advances to customers	21	-	-	568,317	568,317
Investment securities - held to maturity	23	-	48,624	-	48,624
		42,824	**432,376**	**568,317**	**1043,517**

Financial Liabilities	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	19	-	1,295	-	1,295
Deposits from banks	32	-	54,342	-	54,342
Deposits from customers	33	-	-	876,208	876,208
		-	**55,637**	**876,208**	**931,845**

24] Financial instruments (continued)

2017

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities – held for trading	18	59,968	-	-	59,968
Investment securities – available for sale	22	-	53,936	-	53,936
Derivative financial instruments	19	-	4,319	-	4,319
Loans and advances to banks	20	-	205,154	-	205,154
Loans and advances to customers	21	-	-	605,202	605,202
Investment securities - held to maturity	23	-	-	8,936	8,936
		59,968	**263,409**	**614,138**	**937,515**

Financial Liabilities:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	19	-	455	-	455
Deposits from banks	32	-	73,692	-	73,692
Deposits from customers	33	-	-	1,134,852	1,134,852
		-	**74,147**	**1,134,852**	**1,208,999**

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 securities presently held in AFS except US/UK treasury bills, & held to maturity securities, 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.

25] Provision on impaired financial assets

An amount of $270.21 million ($267.88 million against loans and advances and $2.33 million against held to maturity investment securities) has been provided against impaired asset of USD $320.80 million ($318.47 million against loans and advances and $2.33 million against held to maturity investments securities) at 31 March 2018. Loans and advances as in notes 20 and 21 above and held to maturity investment securities as in note 23 above include impaired assets and assets with renegotiated terms as below:

	Loans and Advances	HTM Securities	Total
	$000	$000	$000
Gross balance of impaired assets	318,465	2,331	320,796
Less: specific impairment provision	(267,881)	(2,331)	(270,212)
Net Balance	50,584	-	50,584

Movement in impairment provision during the year:

Specific provisions for impairment	2018	2017
	$,000	$,000
Balance at 1 April	260,744	110,900
Charge for the year	22,782	155,354
Recoveries/reversals	(13,314)	(5,510)
Balance at 31 March	270,212	260,744
Out of above		
Provision for impairment of loans and advances*	267,881	258,558
Provision for impairment of held to maturity investment securities	2,331	2,186
	270,212	260,744
Collective provisions for impairment		
Balance at 1 April	4,720	5,630
Reversal of charge for the year	(1,156)	(910)
Balance at 31 March	3,564	4,720
Total provisions for impairment	273,776	265,464

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

	2018	2017
Impairment charge on loans and advances	5,256	149,028
Impairment charge on investments held to maturity	52	(94)
Provision on doubtful interest receivable	-	3,200
	5,308	152,134

* *Includes reserves on renegotiated loans for discounting the expected cash flows at current market yields.*

26] 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 2018, 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. 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.

The Bank's primary exposure to credit risk has decreased by $354.70 million when compared to March 2017 primarily due to repayment of loans by customers.

Otherwise the loans and advances have decreased by $69.92 million.

	2018 $'000	2017 $'000
On balance sheet exposure		
Bilateral and syndicated loans and advances to customers	839,762	870,947
Loans and advances to customers under SBLC by banks	158,207	196,941
Interbank placements and cash balances with banks	308,670	498,164
Bills purchased directly from customers	-	734
Bills purchased under LC/Guarantee of banks	-	58
Securities held to maturity – banks	34,155	5,615
Securities held to maturity – Non-banks	16,800	5,507
Securities available for sale – banks	28,562	26,381
Securities available for sale – Non-banks	17,986	27,555
Derivative financial instruments	11,932	4,319
Total – A	1,416,074	1,636,221
Off balance sheet exposure		
Non-bank commitments (LCs/LGs)	1,620	1,507
Total – B	1,620	1,507
Undrawn Credit Facilities – Non-banks	35,546	38,842
Total – C	35,546	38,842
Total Exposure subject to Credit Risk (A+B+C)	1,453,240	1,676,570

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

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

	2018 $'000	2017 $'000
Exposure on banks	541,526	731,478
Non-bank exposure*	911,714	945,092
Total	1,453,240	1,676,570

*Includes loan and advances exposure (both on and off-balance sheet exposure, including commitments and undrawn credit facilities) of $876.93 million and $34.78 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.
B. Non-bank exposure is collaterally secured as below as at 31 March 2018:

Amount in $ million	Retail exposure		Non-retail exposure		Total	
	Exposure	Amount Collateralised	Exposure	Amount Collateralised	Exposure	Amount Collateralised
Internally rated AAA to A*	5	5	35	35	40	40
Internally rated BB to B*	27	27	260	196	287	223
Internally rated C&D	-	-	15	11	15	11
Others Exempted Category	17	16	67	37	84	53
Fully Performing	**49**	**48**	**377**	**279**	**426**	**327**
Performing past due below 90 days	2	2	26	23	28	25
Performing Forborne: Un-Impaired	-	-	-	-	-	-
Performing Forborne: Impaired	-	-	-	-	-	-
Performing Impaired- Other	-	-	5	-	5	-
Total Performing	**51**	**50**	**408**	**302**	**459**	**352**
Non-Performing more than 90 days past due-Non Impaired	2	-	413	162	415	162
Non-Performing Impaired	1	-	2	2	3	2
Total Non-Performing	**3**	**-**	**415**	**164**	**418**	**164**
Total	**54**	**50**	**823**	**466**	**877**	**516**

Retail loans are loans to individuals and small enterprises up to Euro 1 million.
**Internal ratings based on PNBIL rating model and also include loans where internal rating is exempted viz. loans against deposits/SBLCs etc.*

The above is shown based on the current credit policy categorisations.

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

Comparative data for 31 March 2017 is as below:

Amount in $ million	Retail exposure		Non-retail exposure		Total	
	Exposure	Amount Collateralised	Exposure	Amount Collateralised	Exposure	Amount Collateralised
Internally rated AAA to A*	5	4	58	39	63	43
Internally rated BB to B*	25	24	219	147	244	171
Internally rated C&D*	-	-	7	6	7	6
Others Exempted Category	24	22	75	35	99	57
Fully Performing	**54**	**50**	**359**	**227**	**413**	**277**
Performing past due below 90 days	6	5	62	56	68	61
Performing Forborne: Un-Impaired**	4	4	51	46	55	50
Performing Forborne: Impaired	-	-	14	13	14	13
Performing Impaired- Other	1	1	10	3	11	4
Total Performing	**65**	**60**	**496**	**345**	**561**	**405**
Non-Performing more than 90 days past due-Non Impaired	2	2	106	86	108	88
Non-Performing Impaired	1	1	276	169	277	170
Total Non-Performing	**3**	**3**	**382**	**255**	**385**	**258**
Total	**68**	**63**	**878**	**600**	**946**	**663**

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

Retail loans are loans to individuals and small enterprises up to Euro 1 million.

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 held to maturity securities, current market value of the security has been considered.

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.

Age-wise bifurcation of performing exposure as at 31 March 2018:

(Amount in $ million)

Regular	Past due less than 60 days	Past due 61 to 90 days	Performing impaired	Total Performing
426	19	9	5	459

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

Percentage of collateral held in non-bank exposure is as below:

Percentage of value of collateral to exposure	**Exposure $ million**	
	2018	**2017**
100% and above*	495	633
76% to 99%	24	27
51% to 75%	2	32
26% to 50%	49	6
11% to 25%	15	25
Below 10%	23	11
Unsecured	269	210
Total	877	944
Average percentage of availability of Collateral*	85.08%	74.82%

**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.

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.

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

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

	2018 $'000	2017 $'000
Impaired loans and advances to customers at 1 April	299,392	144,987
Net repayments in existing impaired loans and advances	(10,325)	(44)
Classified as impaired during the year	26,250	156,048
Other movements/exchange rate fluctuations	3,148	(1,599)
Impaired loans and advances to customers at 31 March	318,465	299,392

Details of the impairment provision for loans and advances are given at Note 25.

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

	2018 $'000	2017 $'000
Impaired investments held to maturity at 1 April	2,186	2,429
Net Repayments in existing impaired investments	145	(243)
Impaired investments held until maturity at 31 March	2,331	2,186

Details of the impairment provision for held to maturity investment securities are given in Note 25.

Internal ratings/scoring

The Bank has developed internal rating/scoring 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.

27] Exposure to Eurozone countries

The Bank has no direct sovereign exposure (as defined by the European Banking Authority 'EBA') to any of the Eurozone countries. Gross exposure to other counterparties in the Eurozone countries as at 31 March 2018 is as below:

$'000

	2018			2017		
Name of the Country	**Exposure to banks**	**Exposure to Corporates**	**Total Exposure**	**Exposure to banks**	**Exposure to Corporates**	**Total Exposure**
Belgium	249	26,229	26,478	341	25,233	25,574
Romania	-	5,365	5,365	-	-	-
Germany	565	5,221	5,786	123	10,986	11,109
France	-	-	-	9	2,652	2,661
Ireland	-	8,563	8,563	-	7,986	7,986
Netherland	-	10,917	10,917	-	10,489	10,489
Luxembourg	-	25,006	25,006	-	-	-
Total	814	81,301	82,115	473	57,346	57,819

An amount of $5.80 million is to be received after twelve months.

28] Property, plant and equipment

At 31 March 2018

	Leasehold improvements	Fixtures and fittings	Total
	$'000	$'000	$'000
Cost			
At 1 April 2017	2,382	4,050	6, 432
Additions	-	191	191
Disposals	-	(3)	(3)
At 31 March 2018	2,382	4,238	6,620
Depreciation			
At 1 April 2017	(2,113)	(3,357)	(5,470)
Charge for the year	(123)	(333)	(456)
Disposals	-	-	-
At 31 March 2018	(2,236)	(3,690)	(5,926)
Net book value			
At 1 April 2017	269	693	962
At 31 March 2018	146	548	694

At 31 March 2017

	Leasehold improvements	Fixtures and fittings	Total
	$'000	$'000	$'000
Cost			
At 1 April 2016	2,382	3,949	6,331
Additions	-	101	101
Disposals	-	-	-
At 31 March 2017	2,382	4,050	6,432
Depreciation			
At 1 April 2016	(1,828)	(2,977)	(4,805)
Charge for the year	(285)	(380)	(665)
Disposals	-	-	-
At 31 March 2017	(2,113)	(3,357)	(5,470)
Net book value			
At 1 April 2016	554	972	1,526
At 31 March 2017	269	693	962

29] Intangible assets

31 March 2018

	Software $’000
Cost	
At 1 April 2017	2,294
Additions	209
At 31 March 2018	**2,503**
Amortisation	
At 1 April 2017	(1,738)
Charge for the year	(261)
At 31 March 2018	**(1,999)**
Carrying value	
At 1 April 2017	556
At 31 March 2018	**504**

31 March 2017

	Software $’000
Cost	
At 1 April 2016	1,711
Additions	583
At 31 March 2017	**2,294**
Amortisation	
At 1 April 2016	(1,541)
Charge for the year	(197)
At 31 March 2017	**(1,738)**
Carrying value	
At 1 April 2016	170
At 31 March 2017	**556**

30] Deferred tax assets

Deferred Tax Asset	2018 $’000	2017 $’000
At 1 April 2017	**25,802**	**3,779**
(Charge)/credit to profit and loss for the year	**(728)**	**22,023**
Credit on available for sale loss for the year	**236**	**-**
At 31 March 2018	**25,310**	**25,802**

30] Deferred tax assets (continued)

The deferred tax asset relates to unused tax losses. The deferred tax asset was reduced by $0.70 million due to utilisation of tax losses for current year profit offset, partially, by an addition of $0.24 million due to available for sale losses.

The Finance Act 2013 enacted a reduction in the UK corporation tax rate to 20% with effect from 1 April 2015. Finance (No. 2) Act 2015 and Finance Act 2016 enacted further reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020, respectively. These reductions in the tax rate will impact the current tax charge in future periods.

The Bank has no deductible temporary differences, unused tax losses and unused tax credits which are not recognised as part of the deferred tax asset in the balance sheet.

The Bank has suffered losses in the preceding periods. 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 the deferred tax asset is dependent on future taxable profits. The management makes an assessment of a deferred tax asset 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. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The deferred tax on losses has been recognised on the basis that there will be a 50% loss offset restriction effective from 1 April 2017. This restriction would therefore extend the time period over which losses could be recovered.

31] Prepayments and other receivables

	2018 $'000	2017 $'000
Prepayments	624	518
Other receivables	3	6
Total prepayments and other receivables	627	524

32] Deposits from banks

	2018 $'000	2017 $'000
Current accounts from banks	1,509	2,624
Overdrafts in Nostro accounts with banks	6	6
Inter bank borrowings	52,827	71,062
Total deposits from banks	54,342	73,692

Deposits from banks includes deposits from a related party, detail of which is given in note 40 to the financial statements. At 31 March 2018 Nil (2017: Nil) deposits from banks are expected to be settled more than twelve months after the reporting date.

33] Deposits from customers

	2018 $'000	2017 $'000
Current accounts	147,986	145,139
Savings accounts	164,747	139,540
Fixed term deposits	563,475	850,173
Total deposits from customers	876,208	1134,852

At 31 March 2018 $225.38 million (2017: $394.34 million) of deposits from customers are expected to be settled more than twelve months after the reporting date.

34] Subordinated liabilities and other borrowed funds

	2018 $'000	2017 $'000
Subordinated debt	50,000	50,000

Subordinated debt represents Lower Tier II capital of $50 million received as follows:

i. $12,500,000 issued in January 2012, maturing in January 2022.
ii. $12,500,000 issued in October 2012, maturing in October 2022.
iii. $5,000,000 issued in December 2013 maturing in December 2028.
iv. $10,000,000 issued in August 2014 maturing in August 2024.
v. $10,000,000 issued in December 2015 maturing in December 2025.

Bonds at Serial No. i, ii and v are subscribed by the related party, i.e. Parent bank while Bonds at Serial No. iii and iv are issued by other banks of Indian origin.

The Serial No. i and ii subordinated bonds are listed on the Channel Islands Stock Exchange and have non-discretionary interest payment coupons of 4% over 6 months LIBOR. The Serial No. iii, iv and v subordinated bonds have non-discretionary interest payment coupons of 4.5% over 6 months LIBOR. All the bonds are redeemable by the issuer and are therefore included within subordinated liabilities.

At 31 March 2018 $50 million (2017: $50 million) of subordinated liabilities are expected to be settled more than twelve months after the reporting date.

35] Other liabilities

	2018 $'000	2017 $'000
Bills payable	1,037	992
Other payables and accrued liabilities	3,881	1,776
Deferred income	1,635	1,745
Total other liabilities	6,553	4,513

Other payables and accrued liabilities includes advance interest amount of $3.36 million at 31 March 2018 (2017: $0.74 million) received on loans.

36] Share capital

Authorised share capital

Authorised share capital for the Bank was increased from $250 million to $400 million on 28th March 2017.

	2018		2017	
	No.	$	No.	$
Issued and fully paid				
At start of year				
Ordinary shares of £1 each:	2	3	2	4
Ordinary shares of $1 each:	254,630,625	254,630,625	174,630,625	174,630,625
Issue of new ordinary shares of $1 each	20,000,000	20,000,000	80,000,000	80,000,000
At end of year	274,630,627	274,630,628	254,630,627	254,630,629
Additional Tier 1 Capital				
At start of year		45,000,000		25,000,000
At end of year		45,000,000		45,000,000
Total Share Capital at end of the year	274,630,627	319,630,628*	254,630,627	299,630,629

During the financial year new ordinary share capital of $20 million was raised from the Parent bank.

*Included within the share capital are two additional Tier 1 bonds issued as perpetual floating rate subordinated notes mentioned hereunder

i. $25 million issued on 16 February 2017 (Converted into additional Tier I on 16 February 2017 from Lower Tier II raised by the Bank in 2009).
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.

37] Fair value reserves

	Gross	Tax	Net
31 March 2018	$'000	$'000	$'000
Balance at 1 April 2017	43	(77)	(34)
Amount transferred to statement of profit or loss	(315)	77*	(238)
Movement in AFS reserve in year	(1,122)	237	(885)
Balance at 31 March 2018	(1,394)	237	(1,157)

	Gross	Tax	Net
31 March 2017	$'000	$'000	$'000
Balance at 1 April 2016	413	(23)	390
Amount transferred to statement of profit or loss	309	23	332
Movement in AFS reserve in year	(679)	(77)	(756)
Balance at 31 March 2017	43	(77)	(34)

* Prior period adjustment to reserve.

38] Operating lease commitments

Where the Bank is a lessee, the future minimum lease payments under non-cancellable operating leases are:

	2018 $'000	2017 $'000
Less than one year	579	649
More than one year but less than five years	226	626
Total operating lease commitments	805	1,275

The Bank leases premises for its corporate office and 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. The new premises for Corporate Office and Central London branch have a rent-free period of one year out of initial five years of lease. Rent for this incentive period has been calculated on a straight-line basis over the lease term (till next reset/break clause) and kept as provision that is included in other liabilities (note 35).

39] Other commitments and contingencies

Commitments in respect of financial instruments were as follows:

	2018 $'000	2017 $'000
Guarantees issued to third parties	1,620	1,507

There were undrawn loans of $21.63 million (2017: $22.68 million) and un-availed portions of sanctioned overdraft limits to the extent of $13.91 million (2017: $16.16 million) as at 31 March 2018. Bills amounting to $6.08 million (2017: $4.14 million) were sent/received in collection on behalf of customers. The Bank does not have any balance sheet exposure on such bills for collection.

40] Related party transactions

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

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 2018 are as below:

	2018 $'000	2017 $'000
Liabilities		
Borrowings	52,560	50,329
Current accounts	1,479	2,605
Assets		
Balance in Nostro accounts	374	2,119
Placements	50,257	20,030

The related party exposure as at 31 March 2018 is all with the Parent bank except for current account exposure of $0.18 million

Excluded from the above are loans sanctioned to corporates on Stand By Letters of Credit (SBLC) of PNB amounting to $0.79 million (previous year: $19.89 million), and equity and subordinated debts, which are given in note 42 to the financial statements. All non-capital transactions are carried out on an arm's length basis.

Contingent exposure to PNB is shown below:

Nature	2018 $'000	2017 $'000
Cross Currency Swaps (notional) – Sell	115,766	52,336
Cross Currency Swaps (notional) – Buy	119,379	52,951

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

Nature	Particulars	2018 $'000	2017 $'000
Receipts:			
Interest Earned	Interest on Interbank Placements	1,095	29
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	174	166
B. Interest Paid on	Borrowings	1,294	1,008
	Fixed Deposits	-	14
C. Interest Paid on Capital Bonds (unaudited)	Additional Tier I Capital Bonds of $45.00 million (2017: $25.00 million Tier II has been converted and $ 20.00 million new AT I issued)	2,928	-
	Lower Tier II Capital Bonds of $50.00 million ($25.00 million converted into AT1Capital Bonds in Feb 2017)	-	1,115
	Lower Tier II Capital Bonds of $12.50 million	690	634
	Lower Tier II Capital Bonds of $12.50 million	690	634
	Lower Tier II Capital Bonds of $10.00 million	610	559

**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 anSLA.*

40] Related party transactions (continued)

The Bank enters into commercial transactions with the Parent bank in the ordinary course of business on an arm's length basis.

Other transactions with related parties (including remuneration paid to Directors who the Bank considers as key management) are disclosed in note 15. The Bank considers that the cost of secondment of executives to or from the Parent bank is not material.

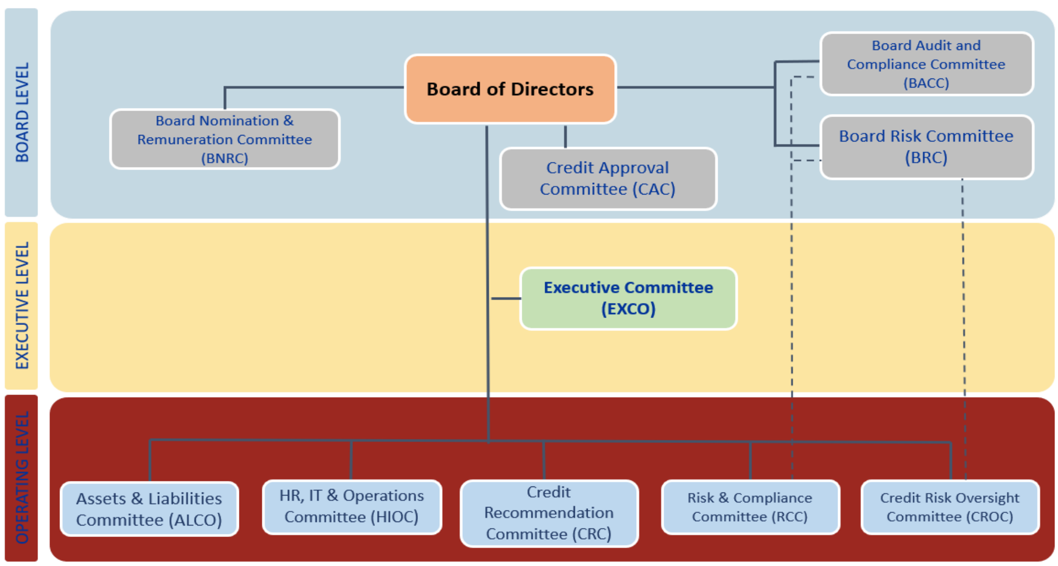
Related party Equity and subordinated loans are outlined in note 34 and note 36 respectively to the financial statements.

41] Financial risk management objectives and policies

Risk governance

The Bank's approach to holistic risk management is set out within this Risk Governance Framework (RGF) document. The Governance Framework of PNBIL is depicted below:

PNBIL Governance Structure



The role and responsibilities of various risk management committees are set out in the following paragraphs.

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.

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 Risk Committee (BRC)

The Board Risk 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 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. The committee is chaired by an Independent Non-Executive Director.

Board Audit and Compliance Committee (BACC)

The Board Audit and Compliance Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Banks senior audit committee with delegated authority from the Board to agree the Bank's audit universe and annual audit plan, to review and agree the annual report and accounts, to review and monitor the external audit, and to monitor all "third line" audit activity in the Bank. 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. The committee is chaired by an Independent Non-Executive Director.

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 material individual customer credit approvals. The Committee is chaired by the Managing Director (MD).

Executive Committee (EXCO)

The Executive Committee is a sub-committee of the Board from which it derives its authority and 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, but its principal focus is the development of UK client and UK originated business and the oversight and control of key risks within the Bank. The committee is chaired by the Managing Director (MD).

Risk and Compliance Committee (RCC)

The Risk and Compliance Committee is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The RCC has a principal focus on ensuring that the Bank

41] Financial risk management objectives and policies (continued)

has appropriate mechanisms for the measurement, monitoring and amelioration of all its risks other than those relating to credit that are monitored via the CRC and the CROC. The committee is chaired by the Chief Risk Officer (CRO). In the absence of CRO, the Head of Compliance (HOC) shall chair the meeting.

Asset and Liability Committee (ALCO)

The Assets and Liabilities Committee is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. ALCO has a principal focus on managing funding and liquidity including monitoring the impact and potential risks to the Bank's Balance Sheet with particular reference to ensuring that the Bank meets its regulatory capital requirements for market and liquidity risk, including appropriate levels of buffer and contingency. The committee is chaired by the Chief Financial Officer (CFO).

Credit Recommendation Committee (CRC)

The Credit Recommendation Committee (CRC) is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The CRC has a principal focus on the review of credit proposals for the purpose of assisting the MD's decision-making responsibility in the sanction of all new credit and renewal proposals where the total exposure to the borrower is over $200k and below the threshold for proposals considered as a Large Exposure. The committee is chaired by the Chief Operating Officer (COO).

Credit Risk Oversight Committee (CROC)

The Credit Risk Oversight Committee (CROC) is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The CROC has a principal focus on the monitoring and review of the Bank's Credit Risk and its lending activities, including its watch-list and non-performing assets. The committee is chaired by the CRO.

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. 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. Each Head of First Line Function/Team carries responsibility for ensuring that activities undertaken are within the point in time, Board approved Risk Appetite.

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)

41] Financial risk management objectives and policies (continued)

- 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

The Risk Management and Compliance Functions are independent risk management functions, under the direction of the CRO and HOC, and are a key component of the Bank's second line of defence. The Risk Management Department and the Compliance Department are responsible for the ongoing assessment and monitoring of risk-taking activities across the Bank.

The second line focusses on real-time monitoring and review and 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
- Establishing an early warning system for breaches of the Bank's Risk Appetite or Limits
- Influencing or challenging decisions that give rise to material risk exposure
- Reporting via the CRO and HOC, on all these items, including risk mitigating actions, where appropriate

The third line of defence comprises Internal Audit who is responsible for:

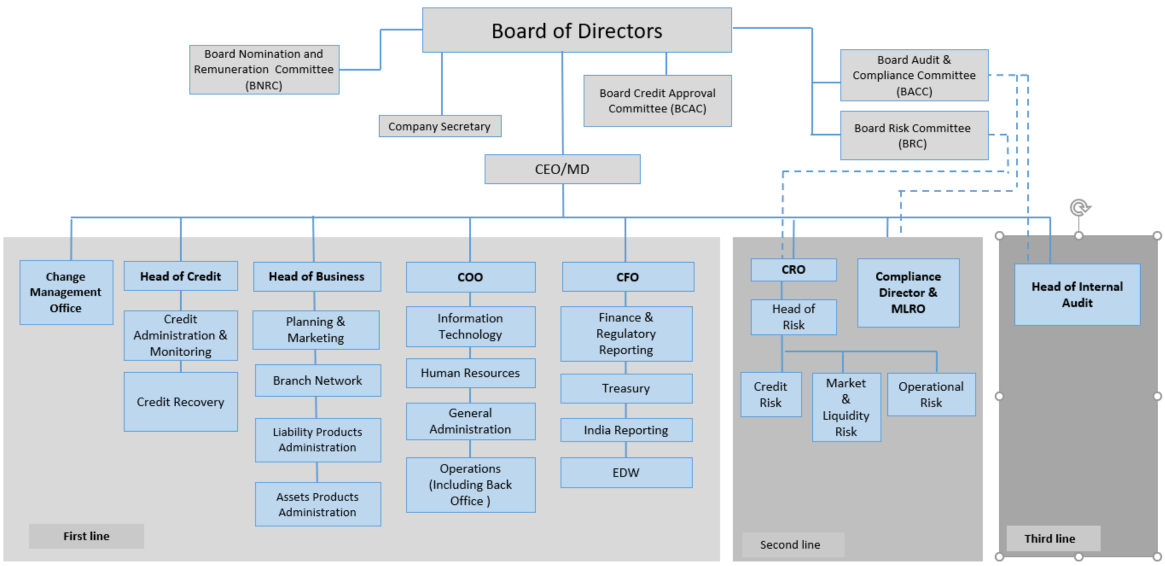
- Independently reviewing the design and operating effectiveness of the Bank's internal controls, risk management and governance systems and processes
- Periodically assessing the Bank's overall risk governance framework, including, but not limited to, an assessment of:
- the effectiveness of the Risk Management and Compliance Functions
- the quality of risk reporting to the Board and Senior Management
- the effectiveness of the Bank's system of internal controls
- Providing independent assurance to the Board on the above
- Recommending improvements and enforcing 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.

41] Financial risk management objectives and policies (continued)

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

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
Organisational Chart



Risk management function:

The Risk Management 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.

The broad objectives of the Risk Management Function are to:

- Oversee risk-taking activities across the Bank with a view to ensuring excessive risk-taking is avoided
- Provide independent review and assessment of the risks facing the Bank
- Instill a strong risk culture and disciplines across the Bank

It fulfils these objectives through:

- 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

As outlined in the Basel Committee on Banking and Supervision Guidelines: Corporate Governance Principles for Banks (July 2015): The risk management function compliments the business line's risk

41] Financial risk management objectives and policies (continued)

activities through its monitoring and reporting responsibilities. Among other things, it is responsible for overseeing the Bank's risk-taking activities and assessing risks and issues independently from the business line. The function should promote the importance of senior management and business line managers in identifying and assessing risks critically rather than relying only on surveillance conducted by the risk management function.

The CRO has overall responsibility for overseeing the development and implementation of the Bank's Risk Management Function, including development of the Bank's risk management systems, policies, processes, models, tools and reports and ensuring they are sufficiently robust to support delivery of the Bank's strategic objectives and all of its risk-taking activities.

The CRO has independent oversight of the Bank's enterprise-wide risk management activities across broadly all key risk categories except for conduct and regulatory matters that are the responsibility of the Head of Compliance. The CRO is responsible for identifying, assessing, measuring, mitigating and reporting all material risks to which the Bank is, or may become, exposed. The CRO is a member of the Bank's Executive Committee and all of the risk committees within the Bank, and directly manages the Bank's Risk Management team. The CRO reports independently to the Bank's MD and the Chairman of the Board Risk Committee.

The CRO is responsible for supporting the Board in its engagement with, and oversight of, development of the Bank's Risk Appetite and Risk Appetite Statement and for translating the approved Risk Appetite into limits which cascade throughout the business. Together with management, the CRO is actively engaged in monitoring the Bank's performance relative to risk limit adherence. The CRO's responsibilities also encompass independent review and participation in strategy and planning, capital and liquidity planning, and the development and approval of new products.

Compliance function:

Compliance sits outside the Risk Management function in PNBIL, with the HOC and MLRO reporting to the MD. The mandate of Compliance is to support management to achieve business objectives in a compliant manner that 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 (including independent annual monitoring, through the Annual Compliance Monitoring Plan).

At PNBIL Compliance is an independent function, managed by the HOC. As such the HOC also has the right of independent access to the BACC in respect of statutory responsibilities attaching to an approved SMR HOC role. At PNBIL the HOC also has responsibility for Anti Money Laundering (AML) and Counter Terrorist Financing (CTF) activity (SMF17).

The HOC provides assurance to the Bank's MD and to the Board that the Bank will comply with all relevant regulatory requirements and thus continues to receive from its key stakeholders (Shareholders; Customers, Partners, and the Market; and Regulators) its various licenses to operate.

41] Financial risk management objectives and policies (continued)

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.

Key stakeholders include the Board Chair, Non-Executives, BACC, MD, Executive Committee, PRA, FCA, NCA, ICO, other law enforcement, trade associations, business / functional leaders.

Internal audit

The Head of Internal Audit (HIA) is accountable for the Bank's internal audit work 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 occupies a "SMF5-Head of Internal Auditor" role under the new PRA Senior Manager regime. Appointments to this role are subject to pre-approval under the regime. The HIA reports to the Chairman of BACC and to the MD.

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 on account of delay or denial of repayment of principal or interest with respect to a credit facility extended by the Bank, both on a funded and non-funded basis. Credit risk can also arise on account of downgrading of counterparties to whom credit facilities are extended or whose credit instruments the Bank may be holding, causing the value of those assets to fall.

Risks arising from adverse changes in the credit quality of borrowers or general deterioration in the economic conditions under which these counterparties operate could also affect the recoverability and value of the Bank's assets and therefore its financial performance.

Counterparty credit risk is also part of overall credit risk of the Bank. Counterparty credit risk arises from the potential default of the counterparty in relation to OTC derivatives and Security Financing (REPO) transactions. Besides, Credit Valuation Adjustment (CVA) risk also arises on OTC derivatives and REPO transactions of the Bank.

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
- Credit Policy, Collateral Management Policy, Asset Classification and Investment Policy Credit Manual

41] Financial risk management objectives and policies (continued)

- Separate Credit team at corporate office headed by UK experienced personnel working independently from Business
- Lines 1 and 2 do independent evaluation and risk rating/scoring
- Chief Risk Officer part of Credit Recommendation Committee / Credit Approval Committee
- Delegated authorities for credit approval decisions
- Various prudent exposure norms, pertaining to Individual exposure, Industry exposure, geographical exposure etc.
- Policies and Manuals being modified for better classification and monitoring
- Portfolio Monitoring and periodic review of accounts
- Independent Credit Risk Oversight Committee
- Separate Recovery unit focusing on even one day past due.

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 most significant forms of market risk to which the Bank is exposed are identified as interest rate risk in trading book and exchange risk. The Bank carries investment book (mainly consisting of corporate bonds, banks / FI's bond and UK/US treasury Securities).

Foreign Exchange risk is the risk of losses arising on account of movement in exchange rates under currency open positions. PNBIL deals in 3 major currencies namely GBP, USD and EUR. The income and expenditure generated out of assets in each category may not always match on account of which FX open position will arise. The open position can also arise on account of trading in currencies for own account as well as on account of cross currency transactions of its customers.

The Bank does not trade in commodities, equities and derivatives and consequently, it is not exposed to these risks. However, the Bank does use derivatives for hedging purposes and these derivatives are considered part of the trading book.

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 or short currency positions. These derivatives are re-valued daily and any change in their fair value is recognised immediately in profit and loss. The total notional amount of outstanding currency exchange contracts to which the Bank is committed is $345.86 million (2017: $324.80 million).

41] Financial risk management objectives and policies (continued)

The open position of the Bank as on 31 March 2018 is as follows:

Currency	Open Position	$ Equivalent
	’000	$’000
Indian Rupees	104,595	1,606
Pound Sterling	(1,196)	(1,678)
Euro	(947)	(1,165)
Japanese Yen	52	-
Canadian Dollar	(13)	(10)
Nepalese Rupees	2,690	26
Total Long Position in US Dollars		-
Total Short Position in US Dollars		(1,221)

Upward or downward movement of exchange rates by 10% may impact profitability of the Bank by $ 0.12 million (2017: $ 0.42 million).

Interest rate risk in banking book (Re-pricing analysis as at 31 March 2018)

Interest rate risk analysis is undertaken by examining details of interest sensitive assets and liabilities to establish when they will next reprice (i.e. be subject to a change in interest rate), and then tabulating those which re-price within set time periods (known as ‘time buckets’, within which all items repricing are grouped together). Interest rate sensitive items are those assets and liabilities that are subject to contractual change in interest rates, or which mature (fall due for repayment) during the period of the return.

The Bank is monitoring its interest rate mismatches on a regular basis, and the potential loss on account of upward or downward movement of interest rates by 2% based on exposure as at 31 March 2018 is presented below:

41] Financial risk management objectives and policies (continued)

Amount in $ Thousands								
Particulars	**Up to 1 Month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 3 years**	**Over Three Years**	**Non Sensitive Category**	**Total**
ASSETS								
Cash and cash equivalent	210,475	81,081	-	-	-	-	-	**291,556**
Investment securities – held for trading	-	-	-	-	-	-	32,588	**32,588**
Derivative financial instruments	6,436	5,360	46	90	-	-	-	**11,932**
Loans and advances to banks	54,288	75,592	27,203	1,042	17,196	-	-	**175,321**
Loans and advances to customers	320,700	91,488	56,798	33,214	18,348	714	47,055	**568,317**
Investment securities – available for sale	2,028	-	-	1,135	14,687	28,419	278	**46,547**
Investment securities – held to maturity	10,225	-	431	4,056	19,577	14,335	-	**48,624**
Property, plant and equipment	-	-	-	-	-	-	694	**694**
Intangible assets	-	-	-	-	-	-	504	**504**
Deferred tax assets	-	-	-	-	-	-	25,310	**25,310**
Prepayments and other receivables	280	-	-	347	-	-	-	**627**
Total	**604,432**	**253,521**	**84,478**	**39,884**	**69,808**	**43,468**	**106,429**	**1,202,020**
LIABILITIES								
Derivative financial instruments	830	249	171	45	-	-	-	**1,295**
Deposits from banks	3,952	50,390	-	-	-	-	-	**54,342**
Deposits from customers	361,268	79,128	133,019	71,303	157,008	74,482	-	**876,208**
Subordinated liabilities	-	15,000	35,000	-	-	-	-	**50,000**
Other liabilities	1,294	-	-	-	-	-	5,259	**6,553**
Share Capital	-	-	45,000	-	-	-	274,631	**319,631**
Reserve and retained earnings	-	-	-	-	-	-	(104,852)	**(104,852)**
Fair Value Reserves	-	-	-	-	-	-	(1,157)	**(1,157)**
Total	**367,344**	**144,767**	**213,190**	**71,348**	**157,008**	**74,482**	**173,881**	**1,202,020**
Interest Rate Gap	237,088	108,754	(128,712)	(31,464)	(87,200)	(31,014)	(67,452)	**-**
Interest Rate Swap for Hedging	-	(42,119)	(41,824)	-	83,943	-	-	**-**
Net Gap	237,088	66,635	(170,536)	(31,464)	(3,257)	(31,014)	(67,452)	**-**
Impact of Interest Variation of 2%	198	222	(1,279)	(472)	(130)	(2,481)	-	**(3,943)**

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

Liquidity and funding risk

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations with respect to customer deposits or any borrowing or obligations under any other assets or liabilities, within stipulated time and without significant additional cost. The Bank has Board approved Internal Liquidity Adequacy Assessment Process (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. The following table analyses the Bank's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date:

41] Financial risk management objectives and policies (continued)

	Amount in $ Thousands							
Particulars	Up to 1 Month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Undated	Total
ASSETS								
Cash and cash equivalent	131,368	-	-	-	-	-	-	131,368
Investment securities – held for trading	32,588	-	-	-	-	-	-	32,588
Derivative financial instruments	6,437	5,360	135	-	-	-	-	11,932
Loans and advances to banks	84,494	89,242	114,577	2,084	45,112	-	-	335,509
Loans and advances to customers	191,471	4,616	93,027	55,730	142,663	80,810	-	568,317
Investment securities – available for sale	2,028	-	1,135	13,175	21,078	9,131	-	46,547
Investment securities – held to maturity	10,225	-	4,487	18,562	14,658	692	-	48,624
Property, plant and equipment	-	-	-	-	-	-	694	694
Intangible assets	-	-	-	-	-	-	504	504
Deferred tax assets	-	-	-	-	-	-	25,310	25,310
Prepayments and other receivables	280	-	347	-	-	-	-	627
Total assets	458,891	99,218	213,708	89,551	223,511	90,633	26,508	1,202,020
LIABILITIES								
Derivative financial instruments	830	249	216	-	-	-	-	1,295
Deposits from banks	3,952	-	-	50,390	-	-	-	54,342
Deposits from customers	361,268	79,128	204,323	115,944	115,545	-	-	876,208
Subordinated liabilities	-	-	-	-	12,500	37,500	-	50,000
Other liabilities	1,530	13	317	215	3,814	664	-	6,553
Share capital	-	-	-	-	-	-	319,631	319,631
Reserves and retained earnings	-	-	-	-	-	-	(104,852)	(104,852)
Fair Value reserves	-	-	-	-	-	-	(1,157)	(1,157)
Total Liabilities	367,580	79,390	204,856	166,549	131,859	38,164	213,622	1,202,020
Financial guarantees and letters of credit –	-	1,473	147	-	-	-	-	1,620
Irrevocable Loan commitments	25,117	-	-	-	-	-	-	25,117
Total equity, liabilities and commitments	392,697	80,863	205,003	166,549	131,859	38,164	213,622	1,228,757
Net liquidity gap	66,194	18,355	8,705	(76,998)	91,652	52,469	(187,114)	(26,737)
Cumulative Liquidity Gap	66,194	84,549	93,254	16,256	107,908	160,377	(26,737)	

The Bank is also holding 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 is also maintaining 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 2017 is shown below:

Amount in $ Thousands								
Particulars	Up to 1 Month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Undated	Total
ASSETS								
Cash and cash equivalent	465,010	25,000	-	-	-	-	-	**490,010**
Investment securities – held for trading	59,968	-	-	-	-	-	-	**59,968**
Derivative financial instruments	1,382	1,769	1,168	-	-	-	-	**4,319**
Loans and advances to banks	10,518	7,500	46,449	90,157	20,063	30,467	-	**205,154**
Loans and advances to customers	179,527	4,753	58,710	73,105	188,905	100,202	-	**605,202**
Investment securities – available for sale	1,793	387	1,874	7,182	15,738	26,962	-	**53,936**
Investment securities – held to maturity	-	-	506	-	7,353	1,077	-	**8,936**
Property, plant and equipment	-	-	-	-	-	-	962	**962**
Intangible assets	-	-	-	-	-	-	556	**556**
Deferred tax assets	-	-	-	-	-	-	25,802	**25,802**
Prepayments and other receivables	227	-	297	-	-	-	-	**524**
Total assets	**718,425**	**39,409**	**109,004**	**170,444**	**232,059**	**158,708**	**27,320**	**1,455,369**
LIABILITIES								
Derivative financial instruments	10	245	200	-	-	-	-	**455**
Deposits from banks	22,933	-	-	-	50,759	-	-	**73,692**
Deposits from customers	329,943	110,574	293,012	225,649	175,674	-	-	**1,134,852**
Subordinated liabilities	-	-	-	-	12,500	37,500	-	**50,000**
Other liabilities	1,542	13	372	412	1,470	704	-	**4,513**
Share capital	-	-	-	-	-	-	299,631	**299,631**
Reserves and retained earnings	-	-	-	-	-	-	(107,740)	**(107,740)**
Fair Value reserves	-	-	-	-	-	-	(34)	**(34)**
Total Liabilities	**354,428**	**110,832**	**293,584**	**226,061**	**240,403**	**38,204**	**191,857**	**1,455,369**
Financial guarantees and letters of credit –	4,329	1,301	13	-	-	-	-	**5,643**
Irrevocable Loan commitments	8,373	-	-	-	-	-	-	**8,373**
Total equity, liabilities and commitments	367,130	112,133	293,597	226,061	240,403	38,204	191,857	**1,469,385**
Net liquidity gap	351,295	(77,724)	(184,593)	(55,617)	(8,344)	120,504	(164,537)	**(14,016)**
Cumulative Liquidity Gap	351,295	275,871	93,978	38,361	30,017	150,521	(14,016)	

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 Bank considers the funding ability before committing additional credit facility and closely monitors the upcoming payment obligations. The Bank has an Individual Liquidity Adequacy Assessment Process (ILAAP) document taking into account the revised guidelines issued by the regulator.

As a part of the liquidity risk mitigation tools, the Bank has in place liquidity stress testing mechanisms to assess the Bank's ability to be able to withstand a range of different stress events and an adequately diversified funding structure and access to funding sources. Detailed liquidity stress testing methodology has been approved by the Board as part of ILAAP document and the periodicity of the stress test have been defined as monthly.

Stress testing is conducted on a monthly basis using the Liquidity Monitoring Metric ("LMM") sheet with altered haircuts and rollover factors in each scenario. Unlike the original focus of the LMM on a 90 days period, PNBIL have extended the stress scenario to focus on a 180 days period, with the Bank able to monitor the worst point during the stress alongside the cumulative end result.

41] Financial risk management objectives and policies (continued)

In addition, the Bank also continues to run the scenarios for 14 days, 30 days, as well as a 180 day period to analyse the short-term and longer-term impact that each stress scenario may have.

The Bank's stress testing assesses two idiosyncratic stresses (IS), two market wide stresses (MS), one wholesale stresses (WS) and two combined scenario (CS) with different stressed factors being applied under multiple scenarios. The outflow factors and the haircuts applied to inflows differ in each scenario.

Operational risk

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process, systems, people or external events. 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 etc. 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. Some of the key Operational Risk Mitigation tools are as under:

- Compliance & Risk Policies and Procedures
- New Risk Incident Reporting Template
- Key Risk Indicator framework in place
- RCSA framework in place and complete roll out planned this year (FY 2018-19)
- Comprehensive Business Continuity Plan (BCP) and procedure including Cyber Incident Response Plan in place
- Regular fire drills and testing of BCP
- Provision of DR sites for key IT systems and their regular testing (as part of BCP testing)
- Training for imbibing risk culture and spreading awareness
- Cyber Insurance with coverage of up to 2mn obtained w.e.f. 14 Jul 2017 and valid for a period of 445 days.
- Cyber simulated disaster recovery/stress testing of cyber response plan
- Legal opinion addressed to the Bank. The Bank or its solicitor ensures that counterparties are legally authorised to enter into documentation and that any appropriate filings or registrations in a relevant jurisdiction are affected

41] Financial risk management objectives and policies (continued)

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.

Following are the key mitigation steps taken to mitigate this risk:

- Comprehensive Compliance policies
- Governance via BACC
- The Bank has appointed HOC & MLRO, CFO, Head of Credit and other senior officers with local banking knowledge
- HOC updates the Risk and Compliance Committee about the changes/ new guidelines happening in regulation and compliance. These compliance issues are monitored on an ongoing basis and deliberated upon in the quarterly BACC meetings. As per recommendations of the BACC, appropriate strategy / remedial actions are devised
- Regulatory updates are being received through various consultancy firms/PRA to keep abreast of the latest developments

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.
For the purpose of the PRA assessment conduct risk losses are defined as losses in the Basel loss event category 'Clients, Products and Business Practices' (CPBP). Currently, conduct and legal losses make up the bulk of CPBP losses. In the current environment CPBP losses are considered a proxy of conduct risk losses.

Following key risk mitigations have been put in place to mitigate conduct risk:

- Comprehensive Compliance policies
- Governance via BACC
- Regular Monitoring by Compliance department
- Product set of the Bank is relatively straightforward at present and as such believe that the level of conduct risks the business faces is low. Even under the revised business strategy, no new products are introduced
- No regulated sales activity and no staff incentives
- Very good track record on customer interaction and complaints handling, which is prompt. Low level of complaints

41] Financial risk management objectives and policies (continued)

- The amount of compensation paid out to the customers since its inception with regards to conduct matters (CPBP) is minimal/negligible given the Bank offers few and basic vanilla products to customers and has a simple business model
- The customer service is of paramount importance and the Bank provides personalised services as the branches are easily accessible for the customers
- Regular training for staff on regulatory/ compliance policies such as Treating Customer Fairly (TCF), Know your Customer (KYC) & Anti Money Laundering (AML) etc. is given, both online and classroom, enabling them to fit into risk/compliance-oriented culture

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. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

Following key risk mitigations have been put in place to mitigate strategic & Business risk:

- Low risk business model based on modest growth
- Targeted segments where the Bank has experience, knowledge, skill set and can build capabilities
- Focus on existing, profitable products and services and strengthen the foundations
- On one hand, PNBIL is not venturing into any new product and on the other, the framework of credit underwriting and sanction is undergoing change. In this process the Bank has recruited a local Head of Credit and is developing credit analysts at branches with a team at Back Office, India for regular monitoring and support
- The basic work for Implementation of strategy initiated
- Project Manager identified by the Board who has the prior experience of working on implementation of wider remediation programme

Reputational risk

Reputation risk is the threat of the Bank's image being tarnished and subsequent loss in business due to events that may be beyond the control of the Bank, e.g. an unrelated event in India, an event impacting the Parent bank or another Indian bank.

Reputational risk at PNBIL is defined as the risk of possible damage the PNBIL's brand and reputation, and the associated risk to earnings, capital or liquidity arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Bank's values and beliefs.

41] Financial risk management objectives and policies (continued)

To manage and mitigate reputational risk in PNBIL, the following measures have been taken:

- Reputational Risk Framework Policy is in place approved by the Board
- The Bank has no risk appetite to undertake any activities that could endanger the reputation or good name of the Bank
- Put in place various policies (part of the risk governance framework), procedures, staff hand-book for management of various risks
- actively involved in corporate social responsibilities as part of corporate strategy to build and sustain reputation
- Close management of operations via policies and procedures
- Efficient Complaints handling procedure
- Compliance policies

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 PNB.
- Limits on net exposure of the Parent bank
- Performance of Parent bank and its likely impact on PNBIL being assessed regularly
- Operational and Compliance Policies

Further, our reliance on PNB with regards to capital and liquidity has reduced.

42] Capital management

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 and the European Banking 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 (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	2018 $'000	2017 $'000
Core Tier I Capital	• Permanent Share Capital	**274,631**	**254,631**
	• Profit and Loss Account and Other Reserves	**(104,852)**	**(107,740)**
	• Available for sale Reserve	**(1,157)**	**(34)**
		168,622	**146,857**
Additional Tier I	• Perpetual Subordinated Debt	**45,000**	**45,000**
	• Intangible Assets	**(504)**	**(556)**
	• Deferred Tax Assets	**(25,310)**	**(25,802)**
Total Tier I Capital		**187,808**	**165,499**
Tier II Capital			
	• Long term dated subordinated debt	**50,000**	**50,000**
	• Collective Impairment Provision	**3,564**	**4,720**
		53,564	**54,720**
Deductions from Tier II	• Amortisation of dated Tier II capital, maturing within five years	**(4,121)**	**(404)**
Total Tier II Capital		**49,443**	**54,316**
Other Regulatory Deductions		**-**	**-**
Total Capital (unaudited)		**237,251**	**219,815**

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 2018

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 IFRS principles as adopted by the European Union, 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 2018.

Country	Turnover ($'000)	Profit before tax ($'000)	Corporate income tax (Paid/received) ($'000)	Full time equivalent No of employees
United Kingdom	**27,353**	**6,621**	**-**	**140**

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 held for trading', 'net gains on financial instruments designated at fair value through profit or loss', 'net gains on available for sale financial assets', 'interest income' net of 'interest expense' and 'other income'.

Profit before tax represents Accounting profits under IFRS accounting as adopted by the European Union.

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.