

COMPANY REGISTRATION NUMBER 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

31 MARCH 2009

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
FINANCIAL STATEMENTS
AS AT 31 MARCH 2009

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PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
OFFICERS AND PROFESSIONAL ADVISERS
FOR THE YEAR ENDED 31 MARCH 2009

Company registration number 5781326 dated 13 April 2006

FSA authorisation 459701 dated 13 April 2007

The board of directors

Dr. Kamlesh Chandra Chakrabarty,
Chairman– (appointed 13 July 2007)

Sukhdev Raj Sharma
Managing Director and Secretary
(Appointed 20 January, 2009)

Muddoor Sadananda Nayak
Executive Director (appointed 8 February 2008)

Pendarell Hugh Kent
(appointed 10 April 2007)

Paresh Mashru
(appointed 10 April 2007)

Arun Kaul
(appointed 10 May 2006)

Other directors in office during the year are shown in the directors' report.

Company secretary

Sukhdev Raj Sharma

Registered office

87 Gresham Street
London
EC2V 7NQ, UK

Tel : 020 77969600

Fax: 020 77961015

Email : md@pnbint.com

Website: www.pnbinternational.co.uk

SWIFT : PUNBGB22

Auditor

Deloitte LLP
Chartered Accountants and Registered Auditors

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2009

The directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2009. These financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards.

RESULTS AND DIVIDENDS

The profit before taxation for the year ended March 31 2009 amounted to \$3,576,941 (2008: \$587,963) and the profit after taxation is \$2,593,269 (2008: \$374,324).

The directors do not recommend the payment of a dividend. The balance of profit in the sum of \$2,593,269 (2008: \$374,324) will be retained in reserves.

At 31 March 2009 the Company had total assets of \$593,099,404 (2008: \$170,825,897).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Punjab National Bank (International) Limited (PNBIL) is a UK incorporated bank offering retail and commercial banking services and is authorised and regulated by the Financial Services Authority (FSA). PNBIL is a 100% subsidiary of Punjab National Bank, one of the leading public sector banks of India. Punjab National Bank has an asset base of \$47,571 million (previous year \$45,589 million) as at 31 December 2008. PNBIL started its operations on 10 May 2007 after getting approval from the FSA on 13 April 2007. PNBIL's main strategy is to provide normal banking services to corporate and retail customers, particularly to those with business or personal links with India.

PNBIL started its operations with two branches in London, one in Southall and a second branch at Gresham Street. As Southall is the hub of the Indian population, that branch is focussing on Retail Clients and the Gresham Street branch is concentrating on corporate clients. During the financial year PNBIL opened one more branch at Leicester and this branch will also focus on retail clients. Taking into account the good response received from clients, PNBIL is well on its way to building a strong brand image in the local market. PNBIL has been able to build a clientele base of more than 5500 within a period of 22 months and expects this base to increase to more than 15,000 by the end of the next financial year.

PNBIL has been able to establish a foothold in commercial lending business by way of bilateral loans, participation in syndicated lending and investment business. The commercial lending and investments has resulted in a good income generating source for the Bank. PNBIL is quite active in its treasury operations including inter-bank lending and borrowing. Treasury activities are also focussing on efficient liquidity and optimizing returns through appropriate investments. To strengthen its activities, it also focuses on building up correspondent relationship with various banks and to broad base the facility of money market lines. The Indian Rupee (INR) remittance scheme of the Bank is gaining in popularity and further innovations are under consideration with a view to making the scheme more customer friendly.

PNBIL launched a debit card for its current account holders and also started providing internet banking services, during the year.

In view of the low cost of set up and the low cost of operations and through effective management the Bank was able to post a net profit in its first year of operations itself after accounting for all set up costs and continued to post reasonable profit in the second year of operations.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2009

FINANCIAL RESULTS

The financial statements for the reporting year ended 31 March 2009 are shown on pages 9 to 35. The profit after taxation for the year is \$2,593,269 (2008: \$374,324).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company is subject to various operational and market risks in its day-to-day operations.

The company's objectives and policies regarding financial risk, including the policy for hedging, are set out in note 2 to the financial statements and an indication of the exposure to financial risk is provided both there and in note 11.

GOING CONCERN BASIS

After making enquiries, the directors have a reasonable expectation that the Bank has adequate resources to continue its operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. For further details please refer to Note 1 to the Financial Statements.

KEY PERFORMANCE INDICATORS

The key performance indicators used by the company in this year of operations centred on the opening of new accounts for customers and the making of commercial loans.

	2009	2008
New accounts opened	3,374	2250
Customer deposits	\$146,080,191	\$81,427,369
Total loans	\$373,308,309	\$97,797,605
Investments	\$25,572,780	\$22,076,928
Interbank deposits	\$363,901,711	\$38,350,350
Interbank placements	\$171,620,267	\$70,965,000
Profit before tax	\$3,576,941	\$587,963

FUTURE DEVELOPMENTS

PNBIL is set to embark on on- line deposit products in the coming months to its clients. The Bank is also planning to open a branch in Birmingham, in April 09.

DIRECTORS

The current directors are listed on page 2. The following directors also served during the year:

- Madanjit Singh (resigned and re-joined the parent Bank , Punjab National Bank on 20 January, 2009)

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2009

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

ELECTIVE RESOLUTIONS

The company, being wholly-owned by Punjab National Bank, has elected to dispense with the requirement to hold annual general meetings, lay Directors' reports and financial statements before a general meeting and re-appoint auditors annually.

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors.

GENERAL MEETINGS

The company has elected, in pursuance of section 252 of the Companies Act 1985, not to lay accounts before the members in general meetings. Members, however, may by notice in writing to the company at its registered office require that the accounts are laid before the company in general meetings.

Approved by the board on 30 April 2009
and signed on its behalf by

SUKHDEV RAJ SHARMA
Secretary

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2009

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires faithful representation of the effect of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out on the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all situations, a fair presentation will be achieved by complying with all applicable IFRSs. In preparing these financial statements, the directors are also required to:

- select suitable accounting policies and then apply them consistently;
- 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that 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 1985. 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.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

We confirm to the best of our knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
2. The management report, which is incorporated into the directors' report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Sukhdev Sharma
Managing Director
30 April 2009

Muddoor Sadananda Nayak
Executive Director

**PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PUNJAB
NATIONAL BANK (INTERNATIONAL) LIMITED
FOR THE YEAR ENDED 31 MARCH 2009**

We have audited the financial statements of Punjab National Bank (International) Limited for the year ended 31 March 2009 which comprise the Income Statement, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to them in an auditors' 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 shareholders as a body, for our audit work, for this report or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit work in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in preparation of the financial statements, and of whether the accounting policies are appropriate for the company's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give a reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PUNJAB
NATIONAL BANK (INTERNATIONAL) LIMITED (continued)
FOR THE YEAR ENDED 31 MARCH 2009

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs adopted by the European Union, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's report is consistent with the financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

30 April 2009

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2009 \$	2008 \$
Interest Income		15,732,116	4,855,979
Interest Expense		(12,756,290)	(1,601,647)
GROSS PROFIT		2,975,826	3,254,332
Other operating income		4,950,423	460,547
Marketing costs		(170,155)	(178,022)
Administrative expenses		(4,179,153)	(2,948,894)
PROFIT BEFORE TAX	3	3,576,941	587,963
Income tax expense	6	(983,672)	(213,639)
PROFIT FOR THE YEAR		2,593,269	374,324

Profit for the current year and preceding year results solely from continuing operations.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2009

	Issued capital	Other reserve	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 1 April 2008	49,630,629	29,846	374,324	50,034,799
Total income for the year recognised directly in equity	-	-	29,846	29,846
Profit for the year	-	-	2,593,269	2,593,269
Transferred to retained earnings on sale of available for sale investments	-	(29,846)	-	(29,846)
Total recognised income for the year	-	(29,846)	2,623,115	2,593,269
Balance at 31 March 2009	<u>49,630,629</u>	<u>-</u>	<u>2,997,439</u>	<u>52,628,068</u>
	Issued capital	Other reserve	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 1 April 2007	4	-	-	4
Profit for the year	-	-	374,324	374,324
Profit or loss reserve allocation	-	29,846	-	29,846
Total recognised income for the year	-	29,846	374,324	404,170
Issue of share capital	49,630,625	-	-	49,630,625
Balance at 31 March 2008	<u>49,630,629</u>	<u>29,846</u>	<u>374,324</u>	<u>50,034,799</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
BALANCE SHEET
AS AT 31 MARCH 2009

	Notes	2009 \$	2008 \$
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	7	952,194	889,444
Intangible assets	8	456,254	335,880
Deferred tax assets	9	5,330	604
Investments held to maturity	10	22,572,780	11,045,145
Loans and receivables		90,515,628	43,525,041
Available-for-sale financial assets	13	-	10,427,492
		114,502,186	66,223,606
CURRENT ASSETS			
Investments held to maturity	10	3,000,000	-
Loans and receivables		236,945,936	20,530,871
Trade and other receivables	15	2,522,733	883,405
Prepayments	16	1,107,583	62,539
Cash and cash equivalents	17	221,852,661	82,342,875
Bills purchased		13,168,305	782,601
		478,597,218	104,602,291
TOTAL ASSETS		593,099,404	170,825,897
NON CURRENT LIABILITIES			
Interest bearing borrowings	20	36,698,878	1,132,020
CURRENT LIABILITIES			
Interest bearing borrowings	20	488,853,893	113,189,475
Non-interest bearing borrowings	20	9,525,281	5,505,867
Tax payables		571,686	251,807
Trade and other payables	21	4,821,598	711,929
		503,772,458	119,659,078
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	18	49,630,629	49,630,629
Reserves	19	-	29,846
Retained profits		2,997,439	374,324
		52,628,068	50,034,799
TOTAL EQUITY		52,628,068	50,034,799
TOTAL EQUITY AND LIABILITIES		593,099,404	170,825,897

The financial statements were approved by the Board of Directors and authorised for issue on 30 April, 2009

DR K C CHAKRABARTY
Chairman

S R SHARMA
Managing Director
30 April 2009, London, UK

M S NAYAK
Director

P H KENT
Director

P MASHRU
Director

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009

	2009	2008
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	2,593,269	374,324
ADJUSTMENTS TO RECONCILE TO PROFIT FROM OPERATIONS		
Income tax expense	983,672	213,639
NON-CASH ADJUSTMENTS		
Amortisation of other intangible non-current assets	251,612	143,948
Impairment losses on property, plant and equipment	380,811	247,661
Unrealised gains on foreign currency exchange	(166,831)	-
NON-CASH ADJUSTMENTS	<u>1,449,264</u>	<u>605,248</u>
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL	4,042,533	979,572
INCREASE IN WORKING CAPITAL		
Increase in trade and other receivables	(275,791,356)	(64,838,513)
Increase in prepayments	(2,684,372)	(945,944)
Decrease/(Increase) in available-for-sale financial assets	10,427,492	(10,427,492)
Increase in trade and other payables	326,614	30,544
Increase in accruals	3,784,017	706,158
Increase in other liabilities	390,250,690	119,827,362
INCREASE IN WORKING CAPITAL	<u>126,313,085</u>	<u>44,352,115</u>
CASH GENERATED BY OPERATIONS	130,355,618	45,331,687
Income taxes paid	(502,650)	-
NET CASH FROM OPERATING ACTIVITIES	129,852,968	45,331,687
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment	(443,561)	(1,137,105)
Payments to acquire intangible assets	(371,986)	(479,828)
Payments to acquire investments held to maturity	(19,567,003)	(11,002,508)
Receipts from sale of investments held to maturity	5,039,368	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(15,343,182)</u>	<u>(12,619,441)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from issue of equity share capital	-	49,630,625
Gross proceeds from other borrowings	25,000,000	-
NET CASH FROM FINANCING ACTIVITIES	<u>25,000,000</u>	<u>49,630,625</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	139,509,786	82,342,871
Cash and cash equivalents as at start of year	82,342,875	4
CASH AND CASH EQUIVALENTS AS AT END OF YEAR	<u>221,852,661</u>	<u>82,342,875</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2009

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS'S

The Company's financial statements for the year were authorised for issue on 30 April, 2009 and the balance sheet signed by the directors of the company and the Company Secretary. Punjab National Bank (International) Limited is a limited company incorporated and domiciled in England and Wales.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the company are set out in note 2.

Going Concern Basis

The Bank's business activities and future outlook are set out in the directors report.

The Bank has been able to generate net profit of USD 3,576,941 resulting in retained earnings of USD 2,593,269 after making provision for tax. During the year the Bank has been able to raise additional Tier II capital of USD 25 million. This amount has been raised by private placement of subordinated bonds with a maturity of ten years with the parent. Accordingly the Large Exposure Capital base (LECB) has been increased to USD 75 million. This will enable the bank to grow its balance sheet size and accordingly increase the earning capacity.

In spite of turbulent market conditions the assets of the Bank remain healthy and there is no impairment to any of the loan assets and the directors believe that the Bank is well placed to manage its business risks set out in Note 11 to the financial statements.

The liquidity position of the Bank remains comfortable and the Bank is able to have excess liquidity in the short run.

After making enquiries, the directors have a reasonable expectation that the Bank has adequate resources to continue its operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

2. ACCOUNTING POLICIES

Revenue Recognition

Interest income and expense for all interest bearing financial instruments are recognised in Interest and similar income and Interest expenses and similar charges in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Interest and other income is credited to the income statement as it accrues unless there is significant doubt that it can be collected.

Functional currency and foreign currency transactions

The directors consider the US Dollar as the currency of the primary economic environment in which the company operates. Accordingly, the US Dollar is regarded as being the functional currency of the Company, which is also the reporting currency of the Company.

Transactions in foreign currencies are recorded in US Dollars at the rate of exchange prevailing at the rates ruling at the end of the day in which the transaction arose. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at balance sheet date. Any resulting exchange differences are included in the income statement.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

2. ACCOUNTING POLICIES (continued)

Financial assets

The Company has classified its financial assets in the following categories: financial assets at fair value through the income statement; 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 selling in the short term or if so designated by management. Financial assets in this category are stated at fair value within any resultant gain or loss recognised in the Income Statement.

The Company's management has not identified any assets as falling into this category.

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 Company provides money or services to a debtor with no intention of trading the receivable. Loans and receivables are measured at amortized cost using the effective interest method less any impairment.

iii. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company'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 cost less impairment if any.

iv. Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. After initial recognition, investments which are classified as available for sale are carried at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in other reserves. Where the investment is disposed the cumulative gain or loss, previously recognised in other reserves is included in income statement for that period.

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.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

2. ACCOUNTING POLICIES (continued)

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 Company 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 the risks and rewards have neither been retained nor transferred but control is retained.

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

Impairment of financial assets

The Company assesses at each balance sheet date 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 incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') 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.

Once a financial asset or group of similar assets has been written down as a result of an impairment loss, interest income is thereafter recognised when the cash flows are actually received.

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.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

<i>Fixtures including computers and accessories</i>	3-5 years
<i>Leasehold improvements</i>	5 years

Intangible assets

Intangible assets are stated at cost or fair value on recognition less accumulated amortisation and any impairment in value.

Amortisation is calculated so as to write off the cost or valuation of intangible assets over their estimated useful lives, using the straight-line method, on the following bases:

Software	Over 3 - 4 years
----------	------------------

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash, notes and coin, treasury bills and other eligible bills, loans and advances to banks, and certificates of deposit.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred income tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

2. ACCOUNTING POLICIES (continued)

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 income statement, 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 company intends to settle its current tax assets and liabilities on a net basis.

Other liabilities

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Operating lease commitments

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

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2009 \$	2008 \$
Interest expense	<u>12,756,290</u>	<u>1,601,647</u>
Depreciation of property, plant and equipment	<u>380,811</u>	<u>247,662</u>
Amortisation of intangible assets	<u>251,612</u>	<u>143,948</u>
Operating leases:		
Present value of minimum lease payments	<u>370,486</u>	<u>202,251</u>
Auditor's remuneration - audit of annual accounts	<u>157,905</u>	<u>139,020</u>
Auditor's remuneration – non- audit services (company secretarial services)	<u>7,685</u>	<u>5,383</u>
	<u>165,590</u>	<u>144,403</u>
	2009	2008
	\$	\$
Included in other operating income:		
Foreign exchange profit	<u>1,129,178</u>	<u>204,962</u>
Included in administrative expenses:		
Employee benefits expense	<u>1,645,412</u>	<u>1,164,807</u>
Depreciation and amortisation	<u>632,423</u>	<u>391,610</u>
	<u>2,277,835</u>	<u>1,556,417</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

4. EMPLOYEE EXPENSES

	2009	2008
	\$	\$
Wages and salaries	1,214,510	862,229
Post employment expense for defined contribution plans	14,251	-
Other employee benefits	279,234	236,442
Social security costs	137,417	66,136
	<u>1,645,412</u>	<u>1,164,807</u>

The average monthly number of employees during the year was made up as follows:

	2009	2008
	No.	No.
Administration	11	11
Sales and marketing	24	11
	<u>35</u>	<u>22</u>

5. DIRECTORS' EMOLUMENTS

	2009	2008
	\$	\$
Emoluments	<u>300,107</u>	<u>360,420</u>

The emoluments of directors disclosed above include the following in respect of the highest paid director. The directors are not accruing any pension contributions.

	2009	2008
	\$	\$
	<u>100,825</u>	<u>154,612</u>

6. INCOME TAX

Components of income tax expense

	2009	2008
	\$	\$
Current income tax expense		
Current income tax charge	988,398	214,243
Deferred income tax expense		
Relating to origination and reversal of temporary differences	(4,726)	(604)
Income tax expense reported in income statement	<u>983,672</u>	<u>213,639</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

6. INCOME TAX (continued)

Reconciliation of income tax charge to accounting profit

	%	2009 \$	%	2008 \$
Tax at the domestic income tax rate of	28	1,001,543	30	176,388
Tax effect of non taxable income	28	(46,713)		
Tax effect of non deductible expenses	28	28,842	30	37,207
Effect of a change in tax rate		-		44
Tax expense using effective rate	<u>28</u>	<u>983,672</u>	<u>30</u>	<u>213,639</u>

7. PROPERTY, PLANT AND EQUIPMENT

At 31 March 2009

	Leasehold improvements \$	Fixtures and fittings including computer and accessories \$	Total \$
Cost			
At 1 April 2008	230,616	906,489	1,137,105
Additions	140,948	302,613	443,561
At 31 March 2009	<u>371,564</u>	<u>1,209,102</u>	<u>1,580,666</u>
Depreciation			
At 1 April 2008	(46,125)	(201,536)	(247,661)
Charge for year	(64,403)	(316,408)	(380,811)
At 31 March 2009	<u>(110,528)</u>	<u>(517,944)</u>	<u>(628,472)</u>
Net book value			
At 1 April 2008	184,491	704,953	889,444
At 31 March 2009	<u>261,036</u>	<u>691,158</u>	<u>952,194</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

7. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 March 2008

	Leasehold improvements \$	Fixtures and fittings including computer and accessories \$	Total \$
Cost			
Additions	<u>230,616</u>	<u>906,489</u>	<u>1,137,105</u>
Depreciation			
Charge for year	<u>(46,125)</u>	<u>(201,536)</u>	<u>(247,661)</u>
Net book value			
At 31 March 2008	<u>184,491</u>	<u>704,953</u>	<u>889,444</u>

8. INTANGIBLE ASSETS

	2009 \$	2008 \$
Cost		
At beginning of year	479,828	-
Additions during the year	371,986	479,828
At end of year	851,814	479,828
Amortization		
At beginning of year	(143,948)	-
Additions during the year	(251,612)	(143,948)
At end of year	(395,560)	(143,948)
Carrying Value	<u>456,254</u>	<u>335,880</u>

9. DEFERRED TAX

	<i>Balance sheet</i>		<i>Income statement</i>	
	2009 \$	2008 \$	2009 \$	2008 \$
Deferred tax assets				
Relating to depreciation in excess of capital allowances	<u>5,330</u>	<u>604</u>	<u>4,726</u>	<u>604</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

10. INVESTMENTS HELD TO MATURITY

	2009	2008
	\$	\$
Marketable debt securities	<u>25,572,780</u>	<u>11,649,436</u>
Current	3,000,000	604,291
Non-current	<u>22,572,780</u>	<u>11,045,145</u>
	<u>25,572,780</u>	<u>11,649,436</u>

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Governance

The Board of Directors have overall responsibility of risk management of the Bank. The Board has constituted an Audit, Risk and Compliance Committee (ARCC) for overseeing the risk management function. There are various other committees formed with the role and responsibility to manage defined aspects of risk management.

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

Audit Risk and Compliance Committee (ARCC)

Audit, Risk and Compliance Committee is a committee of non-executive directors and certain executives with only non-executive directors having the voting rights.

This Committee is primarily responsible for oversight of the Bank's risk management, compliance and audit. The terms of reference of the ARCC are:

- a) review financial statements and the Annual Report and Accounts of the company and recommend them to the Board;
- b) review the effectiveness of internal controls and monitor the implementation of any remedial actions;
- c) review effectiveness of risk management ; and report to the Board;
- d) review MLRO Annual Report;
- e) review Internal Audit reports;
- f) review external audit reports, the annual audit plan and the External Auditor's annual management letter;
- g) review policy exchanges and other major reports to or from the regulators;

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

h) review other compliance reports; and

i) review regularly its own terms of reference and its own effectiveness.

Risk Management Committee (RMC)

The RMC is formed as an executive committee and is responsible for :

- Oversight of management of Operational Risk, Market Risk, Credit Risk and residual risks;
- Implementation of obligations under ICAAP document submitted to FSA;
- Review and modification to ICAAP;
- Maintaining adequate capital, based on the capital adequacy ratio stipulated by the regulator;
- Finalise credit rating module for the Bank and submit for the approval of the Board;
- Modify credit policy and submit for the approval of the Board;
- Finalise provisioning policy for the Bank and submit for the approval of the Board;
- Review periodical stress test on Capital requirement of the Bank;
- Periodically apprise the Board on Risk management issues.

Asset and Liability Management Committee (ALCO)

The ALCO is an executive committee, which monitors and manages the Bank's balance sheet, interest rate on deposits, and liquidity. The ALCO will also strive to optimize the Bank's net interest income.

Credit Recommendation Committee

The credit recommendation committee assesses the loan applications and puts up its recommendation to the sanctioning authority.

Management Committee of the Board (MCB)

MCB comprising of four directors including two non executive directors is formed mainly to act as sanctioning committee for all proposals over and above USD 5 million with effect from 10/10/2008. The committee is also responsible for approval of all new products, review and enhancement to existing products, periodical review of stressed assets and finalizing provisioning requirements, taking stock of any breaches in any of the policies and identifying the resolution there to and periodical review of business strategy and branch expansion plans.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Compliance

The main responsibility of Compliance is to support the Board and senior management in fulfilling their financial services regulatory obligations and to help maintain the Bank as a 'fit and proper' institution, in whatever form of business it undertakes, by helping to ensure compliance with the voluntary codes, principles, rules and regulations established by the various financial services regulatory organizations.

Compliance sets the overall regulatory governance arrangements and provides information, advice and guidance to business on financial services regulations. It also monitors business activities to ensure that improper conduct and failures to comply with regulatory requirements are brought to the attention of management for appropriate corrective action.

Compliance provides a focal point to coordinate communications and consultations with regulatory authorities and also carries out reviews of relevant business units against applicable rules, guidance and the Bank's internal policies and procedures.

The Executive Director has the responsibility of oversight into the compliance aspects of the Bank and he is assisted by the Money Laundering Reporting Officer and Internal auditor for effective oversight.

Internal Audit

The Bank has appointed an internal auditor and his main role is:

- To produce formal reports periodically on the adequacy and effectiveness of the control processes to the Managing Director and other operational heads;
- To produce a quarterly report to the ARCC on the operations of control processes and management's response in addressing identified issues;
- To obtain commitment from the management in undertaking remedial actions based on its findings;
- To review and recommend changes to the control processes from time to time;

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Categorization

The Bank has categorized various risks under following heads:

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 fund and nonfund based. Credit Risk can also arise on account of downgrading of counterparties to whom credit facilities are extended or whose credit instruments the Bank may be holding, causing the value of those assets to fall.

The undertaking credit risk with a view to earn a return is the main feature of the Bank's business. Risks arising from changes in credit quality and recoverability of the credit facilities from the counterparties are inherent across most of the Bank's activities. Adverse changes in the credit quality of borrowers or general deterioration in the economic conditions under which these counter parties operate could also affect the recoverability and value of Bank's assets and therefore its financial performance.

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

- The bank has an approved lending policy wherein the types of credit facilities are defined as also the sanctioning authority with specific financial limits;
- Every credit facility beyond a pre-determined limit sanctioned is processed through recommending committee and sanctioned by the credit sanction committee;
- Credit risk under each loan above the threshold limit is assessed both on financial and non-financial parameters;
- Concentration risk is taken into account both with respect to individual or group exposures as well as industry wide or country wide exposures;
- Most of the facilities are secured by either tangible securities or third party guarantees;
- With respect to large value facilities other than under- syndicated facilities, documentations are done through external solicitors;
- Periodical review and monitoring of facilities undertaken to identify and attend to any observed weakness in any facility;
- All facilities above prescribed threshold limits are reported to the Board from time to time;
- Lending policies and limits are periodically reviewed by the Board.

The Directors consider that there are no impaired assets or amounts past due in the books of PNBIL.

PNBIL does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

PNBIL measures and monitors large exposures on a daily basis. Any exposure to a single party or group in excess of 10% of its capital base is considered as large exposure as per regulatory guidelines.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The top five exposures of the Bank as on 31 March 2009 are as follows

Sr. No	Industry	Country of exposure	Type of account	Amount of Loan 0/s
1	Diamond Trading Company	Belgium	Overdraft	\$10,109,664
2	Oil rig operators	British Virgin Island	Syndication	\$9,000,000
3	Industrial Fasteners manufacturing	Ireland	Overdraft & Term Loan	\$9,376,330
4	Helicopter operating company	UK	Term Loan	€6,279,301
5	BPO services	USA	Term Loan	\$10,000,000

The carrying value of financial assets recorded in the financial statements represents the bank's maximum exposure to credit risk.

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 and exchange risk. Considering the fact that the Bank does not have a trading book, more than 90% of Bank's assets and liabilities are based on floating interest rates; the Bank is exposed to market risk mainly due to the extent of maturity mismatches of its assets and liabilities and the exchange risk to the extent of its open position.

The bank is monitoring its maturity mismatches on a regular basis, and the potential loss on account of movement of interest rates by 1% based on exposure 31 March 2009, has been calculated as follows:

(Please refer next page for the table)

SIMPLIFIED MATURITY TABLE AS ON 31/03/2008							
PARTICULARS	UP TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 - 12 MONTHS	1-3 YEARS	Non Sensitive Category	TOTAL
	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)
ASSETS							
Non Current Assets							
Prop Plant and machinery						952	952
Def tax assets						5	5
Intangible Assets						456	456
Inv Held to Maturity		16,000	5,000		4,573		25,573
Available for sale fin Assets							
Loans and Receivables	49,890	26,401	14,224				90,515
Current Assets							
Loans and Receivable	79,616	93,277	63,883	171			236,947
Trade and other receivables						2,523	2,523
Prepayments						1,108	1,108
Cash and cash equivalents	109,044	82,809	30,000				221,853
Bills Purchased	246	12,654	268				13,168
Total Inflows	238,796	231,141	113,375	171	4573	5044	593,100
LIABILITIES							
Equity							
Issued Capital & Reserves							
Issued Share Capital						49,631	49,631
Reserves & Retained profits						2,997	2,997
Total Equity						52,628	52,628
Non Current Liabilities							
Interest bearing borrowings		10,421	25,000		1278		36,699
Current Liabilities							
Interest bearing borrowings	169,304	197,926	87,185	34,438			488,854
Non Interest bearing borrowing	9,432					93	9,525
Tax Payables						572	572
Trade and other payables						4,822	4,822
Total Outflows	178,736	208,347	112,185	34,438	1278	58,115	593,100
Inflows-Outflows	60,060	22,794	1,189	-34,267	3,295		
						Total Impact	
Variation 1%	25	28	3	-171	49	276	

The bank has stipulated limit for open position and the actual open position is measured and monitored on a daily basis.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Exchange Risk

The bank is exposed to foreign exchange risk to the extent of its open position in each currency. The bank has stipulated an internal limit for maximum open position and it is measuring and monitoring this open position on a daily basis.

The bank is dealing in various currencies and it is not always possible to match the asset and liability in each currency. The financial statements are drawn up in US Dollars, which represent the currency of the primary economic environment in which the Bank operates and a significant portion of the banking assets and liabilities, revenues and expenses are transacted in US Dollars.

Monetary assets and liabilities denominated in other currencies are translated into US Dollars at the exchange rates ruling at the balance sheet date. Similarly income and expenses denominated in foreign currencies are converted into US Dollars from time to time at the prevailing exchange rate and remaining balances on the balance sheet date are translated into US Dollars at the ruling exchange rate on the balance sheet date. Resulting gains or losses on these translations are included in the income statement. Forward foreign exchange contracts are valued at the market rates applicable to their respective maturities at the balance sheet date, and the resulting profit or loss is included in the income statement for the year.

The open position of PNBIL as on 31 March 2009 is as follows

<u>Currency</u>	<u>Open position (in 000')</u>	<u>USD equivalent (in 000')</u>
Euro	+ 88.11	+117.10
Pound Sterling	-345.00	-495.00
Indian Rupees	+27818.89	+548.48
Nepalese Rupees	+225.31	+2.78
US Dollar	+246.63	+246.63
UAE Dirham	+367.27	+1348.94
Japanese Yen	+24302.66	+245.61
Canadian Dollar	-26.88	-21.40

Total open position in US Dollars was 1260.67 thousand.

Liquidity 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 additional cost. The bank has documented liquidity policy in place, within the guidelines issued by the Financial Services Authority.

ALCO is primarily responsible for overseeing the smooth implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis. Bank considers the funding ability before committing additional credit facility and closely monitors the upcoming payment obligations.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The Bank undertakes stress tests on its liquidity position taking into account worst case scenarios, based on its own past experiences as well as industry level guidelines. The Bank has also put in place contingency plans to meet its liquidity obligations under stressed scenarios. The Bank is also holding near liquid assets (marketable assets) in its portfolio to meet its liquidity obligations. The liquidity positions are reported to the Board from time to time and the policy is reviewed periodically to meet the changing needs.

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 as IT security, internal and external fraud, process errors, money laundering risks 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, including IT Security Policy, Maker checker for all financial transactions, A Business Continuity Plan in case of a disaster, documentation of processes and procedures, AML/CFT guidelines, staff handbook, TCF policy, Records retention policy, compliance code of conduct etc.

Capital management

The capital structure of PNBIL consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

PNBIL's Audit Risk and Compliance Committee (ARCC) reviews the capital structure on a semi annual basis.

	Note	2009 \$	2008 \$
Debt	20	535,078,052	119,827,362
Less: Cash and cash equivalents	17	(221,852,661)	(82,342,875)
Net Debt		<u>313,225,391</u>	<u>37,484,487</u>
Equity	18	<u>49,630,629</u>	<u>49,630,629</u>
Total capital		<u>49,630,629</u>	<u>49,630,629</u>
Net Debt to Equity ratio		6.31	0.75

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity management

The following table analyses the Company'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.

As at 31 March 2009	Up to 1 month (000s) \$	1-3 months (000s) \$	3-12 months (000s) \$	1-5 years (000s) \$	Over 5 years (000s) \$	Undated (000s) \$	Total (000s) \$
Loans and advances to banks	221,697						221,697
Loans and advances to customers	93,566	89,986	53,394	80,227	10,289		327,462
Debt securities			3,000	22,573			25,573
Other assets	247	12,653	268			5,200	18,368
Total assets	315,510	102,639	56,662	102,800	10,289	5,200	593,100
Deposits from banks	122,301	171,080	70,523				363,904
Other deposits	60,127	27,965	46,290	11,698			146,080
Parent Company loan notes					25,000		25,000
Other liabilities and shareholders funds						58,116	58,116
Total equity and liabilities	182,428	199,045	116,813	11,698	25,000	58,116	593,100
Net liquidity gap	133,082	(96,406)	(60,151)	91,102	(14,711)	(52,916)	

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

12. FINANCIAL INSTRUMENTS

	<i>Carrying amount</i>		<i>Fair value</i>	
	2009	2008	2009	2008
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	221,852,661	82,342,875	221,852,661	82,342,875
Available-for-sale financial assets	-	10,427,492	-	10,427,492
Loans and receivables	340,629,869	64,838,513	340,629,869	64,838,513
HTM Securities	25,572,780	11,045,145	25,572,780	11,045,145
Other Assets	3,630,316	945,944	3,630,316	945,944
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities				
Other payables	(4,123)	-	(4,123)	-
Fixed rate borrowings	(128,307,795)	(67,191,119)	(128,307,795)	(67,191,119)
Floating rate borrowings	(397,244,976)	(47,130,376)	(397,244,976)	(47,130,376)
Non interest bearing loans and borrowings	(9,525,281)	(5,505,867)	(9,525,281)	(5,505,867)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2008
	\$	\$
Marketable debt securities at fair value - listed	<u> </u>	<u>10,427,492</u>

14. RELATED PARTY TRANSACTIONS

Ultimate controlling party

The ultimate controlling party of the company is Punjab National Bank, a company incorporated in India and which is both the immediate parent company and ultimate controlling party. The consolidated financial statements of Punjab National Bank are publicly available at 7 Bhikaji Cama Place, New Delhi 110007, INDIA.

Related parties

The company regards Punjab National Bank, registered in India, as being a related party in view of its 100% shareholding in the company.

Included in the financial statements is a service charge of \$190,728 (previous year \$201,500), levied by Punjab National Bank, for support services provided during the year. The services provided include IT Hosting, maintenance and support services to PNBIL and is backed by a Service Level Agreement (SLA). The company enters into commercial transactions with its parent company in the ordinary course of business on an arm's length basis.

Lower Tier II capital was received from the parent company, Punjab National Bank, in the sum of \$25,000,000 (previous year NIL) in the form of floating rate subordinated notes maturing in 2019. Repayment can be called in 2014 and rate payable is 4% over LIBOR.

The Bank recovered \$5.1 million in cash from the parent, being the book value of an investment of the Bank.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

14. RELATED PARTY TRANSACTIONS continued

At 31 March 2009 the company held bank balances/ made Inter bank placements, with its parent company totalling \$5,107,425 (previous year \$405,791) and bank balances repayable / inter bank placements to its parent company totalling \$ 97,655,133 (previous year \$25,438,569). Other transactions with related parties include remuneration paid to directors which the bank considers as key management is disclosed in Note 5. The Bank considers that the cost of secondment of executives to or from the parent company is not material.

15. TRADE AND OTHER RECEIVABLES

	2009	2008
	\$	\$
Accrued income	<u>2,522,733</u>	<u>883,405</u>

16. PREPAYMENTS

	2009	2008
	\$	\$
Current		
Prepayments	<u>1,107,583</u>	<u>62,539</u>

17. CASH AND CASH EQUIVALENTS

	2009	2008
	\$	\$
Cash on hand	155,314	138,698
Cash at bank	19,884,133	2,270,837
Short-term deposits	201,813,214	79,329,049
Other cash and cash equivalents	-	604,291
	<u>221,852,661</u>	<u>82,342,875</u>

18. SHARE CAPITAL

Authorised share capital

	2009		2008	
	No.	\$	No.	\$
Ordinary shares of £1 each	2	4	2	4
Ordinary shares of \$1 each	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>
	<u>100,000,002</u>	<u>100,000,004</u>	<u>100,000,002</u>	<u>100,000,004</u>

Issued share capital

	2009		2008	
	No.	\$	No.	\$
Issued and fully paid				
Ordinary shares of £1 each	2	4	2	4
Ordinary shares of \$1 each				
At start of year	49,630,625	49,630,625	-	-
New issues of share capital	-	-	49,630,625	49,630,625
At end of year	<u>49,630,627</u>	<u>49,630,629</u>	<u>49,630,627</u>	<u>49,630,629</u>

All issued share capital is classified as equity.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

19. RESERVES

	Available-for-sale financial assets reserve
	\$
At 1 April 2008	29,846
Transfer to retained profits on sale	(29,846)
At 31 March 2009	<u>-</u>

20. FINANCIAL LIABILITIES

	2009	2008
	\$	\$
Non-current		
Interest bearing other loans	<u>36,698,878</u>	<u>1,132,020</u>
	2009	2008
	\$	\$
Current		
Deposits from banks	363,904,334	38,350,575
Interest bearing fixed term deposits	116,608,917	66,074,672
Savings accounts	8,340,642	8,764,228
Non-interest bearing current accounts	9,431,761	5,456,449
Bills payable	93,520	49,418
	<u>498,379,174</u>	<u>118,695,342</u>
Bank loans and other borrowings		
	2009	2008
	\$	\$
Floating rate deposits from banks	363,904,334	38,350,575
Other floating rate borrowing	25,000,000	15,573
Other floating rate borrowing	8,340,642	8,764,228
Other fixed rate borrowing	128,307,795	67,191,119
Other non-interest bearing borrowing	9,431,761	5,456,449
Bills payable	93,520	49,418
	<u>535,078,052</u>	<u>119,827,362</u>
Less: current instalments due on loans and borrowings	<u>(498,379,174)</u>	<u>(118,695,342)</u>
	<u>36,698,878</u>	<u>1,132,020</u>

A maturity analysis for financial liabilities is shown in note 11.

Other floating rate borrowing

Lower Tier 11 Capital was received from the Parent Company, Punjab National Bank, in the sum of \$25,000,000 in the form of floating rate subordinated notes maturing in 2019. Repayment can be called in 2014 and the rate payable is 4% over LIBOR.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2009

21. TRADE AND OTHER PAYABLES

	2009	2008
	\$	\$
Other payables	331,423	5,771
Accrued liabilities	4,490,175	706,158
	<u>4,821,598</u>	<u>711,929</u>

22. OPERATING LEASE COMMITMENTS

As lessee, annual commitments payable in future periods

	2009	2008
	\$	\$
Less than one year	304,336	157,175
Later than one year but less than five years	817,288	437,000
	<u>1,121,624</u>	<u>594,175</u>

23. OTHER COMMITMENTS AND CONTINGENCIES

Commitments

Commitments in respect of equipment and building contracts at the balance sheet date totalled \$207,000 (previous year \$42,000).

24. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between the year end and the date of approval of the accounts which would require a change or additional disclosure in the accounts.