

COMPANY REGISTRATION NUMBER 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

31 MARCH 2010

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
FINANCIAL STATEMENTS
AS AT 31 MARCH 2010

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PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
OFFICERS AND PROFESSIONAL ADVISERS
FOR THE YEAR ENDED 31 MARCH 2010

Company registration number 5781326 dated 13 April 2006

The board of directors

Kasargod Ramachandra Kamath,
Chairman– (appointed 19 February, 2010)

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)

Shashi Kant Dubey
(Appointed 18 August 2009)

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

Company secretary

Sukhdev Raj Sharma

Registered office

87 Gresham Street
EC2V 7NQ, UK
Tel : 020 77969600
Fax: 020 77961015
Email : md@pnbint.com

Auditor

Deloitte LLP

Chartered Accountants and Statutory Auditors

Accountants

King and King

Chartered Accountants

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010

The directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2010. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards as endorsed by the European Union.

RESULTS AND DIVIDENDS

The profit before taxation for the year ended March 31 2010 amounted to \$5,386,884 (2009: \$3,576,941) and the profit after taxation is \$3,854,901 (2009: \$2,593,269) which is transferred to reserves. The directors do not recommend the payment of a dividend (2009: NIL). At 31 March 2010 the Punjab National Bank (International) Limited (the 'company') had total assets of \$799,553,884 (2009: \$593,099,404).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Punjab National Bank (International) Limited (PNBIL) is a UK incorporated bank offering commercial banking services to customers 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 \$60.2 billion (previous year \$47.6 billion) as at 31 December 2009. 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 different types of 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 focusing on Retail Clients and the Gresham Street branch is concentrating on corporate clients. During the last financial year PNBIL opened one more branch at Leicester and this branch also focuses on retail clients. During the current financial year PNBIL opened its fourth branch at Birmingham and plan to add two more branches within the area of Greater London. 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 17,500 within a period of 34 months and expects this base to increase to more than 27,000 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 focusing 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 treasury for the first time started trading in investments during the financial year. All investments are done on its own account. The Indian Rupee (INR) remittance scheme of the Bank is gaining in popularity.

PNBIL launched a debit card for its current account holders and also started providing internet banking services, during the year 2008-2009. PNBIL has issued more than 10,200 debit cards to its clients by the end of March 2010.

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 subsequent years of operations including the current year. The profit after tax has increased by 48.65% during the current financial year.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010

FINANCIAL RESULTS

The financial statements for the reporting year ended 31 March 2010 are shown on pages 9 to 39. The profit after taxation for the year is \$3,854,901 (2009: \$2,593,269).

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 use of financial instruments, the policy for hedging, and an indication of the exposure to financial risk is provided in note 12.

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.

CAPITAL STRUCTURE

PNBIL has a capital base of \$106,639,809 comprising of net equity of \$81,639,809 and subordinated debt of \$25,000,000. During the year 25,000,000 (2009 : NIL) \$1 ordinary shares were issued at par, for cash consideration. This was fully subscribed by Punjab National Bank, India.

The subordinated debt is shown in the financial statements as a liability, however it counts as Lower Tier II capital for regulatory capital purposes. Further details of the Bank's regulatory capital ratios required under Basel II Pillar 3 are published in the Bank's website.

KEY PERFORMANCE INDICATORS

The key performance indicators used by the company for the current year centred on the opening of new accounts for customers, increasing Deposit base, origination of commercial loans and improving the profitability.

	2010	2009
<i>Figures in USD million</i>		
New accounts opened (number)	12,387	3,374
Customer deposits	\$405.13	\$146.08
Total loans	\$569.24	\$373.30
Investments	\$42.39	\$25.57
Interbank deposits	\$281.18	\$363.90
Interbank placements	\$169.39	\$171.62
Profit before tax	\$5.38	\$3.58

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010

FUTURE DEVELOPMENTS

PNBIL is set to re-launch its on- line deposit products in the coming months to its clients. The Bank is also planning to open a branch in Ilford, in April 2010 and its sixth branch in Wembley in the second quarter of the current year.

CHARITABLE DONATIONS

Charitable donations in the sum of \$1,898 were made during the year (2009: Nil).

DIRECTORS

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

- Dr Kamallesh Chandra Chakrabarty (resigned before resuming his new assignment as Deputy Governor of Reserve Bank of India on 15 June 2009).
- Arun Kaul (resigned before resuming his new assignment as Executive Director on the Board of Central Bank of India on 23 April 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 director has 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 s418 of the Companies Act 2006.

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

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

Approved by the board on 30 April 2010
and signed on its behalf by

S.R.Sharma
Secretary Company number: 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2010

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have elected to prepare group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the accounts 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 Standards 1 requires that the directors are required to:

- 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 proper 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

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
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 together with a description of the principal risks and uncertainties that they face.

By order of the Board
Sukhdev Raj Sharma
Managing Director
30 April 2010

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 2010

We have audited the financial statements of Punjab National Bank (International) Limited for the year ended 31 March 2010 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's shareholders, 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 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 members as a body, for our audit work, for this report or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with 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 2010

Matters on which we are required to report by exception

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

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

Caroline Britton (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

30 April 2010

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 \$	2009 \$
Interest Income		26,047,354	15,732,116
Interest Expense		(17,402,057)	(12,756,290)
		8,645,297	2,975,826
Other operating income		3,676,777	4,950,423
Marketing costs		(125,614)	(170,155)
Administrative expenses		(5,516,049)	(4,179,153)
Provision on impaired assets	14	(1,293,527)	-
OPERATING PROFIT BEFORE TAX	4	5,386,884	3,576,941
Income tax expense	7	(1,531,983)	(983,672)
PROFIT FOR THE YEAR		3,854,901	2,593,269

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

The notes on pages 15 to 39 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

	2010	2009
	\$	\$
PROFIT FOR THE YEAR	3,854,901	2,593,269
Available for Sale Investments		
Fair value gains taken to equity on AFS investments	<u>217,835</u>	-
	217,835	-
Tax relating to movement on AFS investments	<u>60,995</u>	-
	<u>156,840</u>	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>4,011,741</u>	<u>2,593,269</u>

The notes on pages 15 to 39 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

31.3.2010

	Issued capital	AFS reserves	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 1 April 2009	49,630,629	-	2,997,439	52,628,068
Profit for the year	-	-	3,854,901	3,854,901
Fair value gains taken to equity on AFS securities	-	156,840	-	156,840
Total comprehensive income for the year	-	156,840	3,854,901	4,011,741
Issue of share capital	25,000,000	-	-	25,000,000
Balance at 31 March 2010	<u>74,630,629</u>	<u>156,840</u>	<u>6,852,340</u>	<u>81,639,809</u>

31.3.2009

	Issued capital	AFS reserves	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 1 April 2008	49,630,629	29,846	374,324	50,034,799
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 comprehensive 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>

The notes on pages 15 to 39 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2010

ASSETS	Notes	2010	2009
		\$	\$
NON CURRENT ASSETS			
Property, plant and equipment	8	1,141,541	952,194
Intangible assets	9	232,373	456,254
Deferred tax asset	10	-	5,330
Investments held to maturity	11	22,347,915	22,572,780
Loans and receivables	14	262,828,765	90,515,628
		<u>286,550,594</u>	<u>114,502,186</u>
CURRENT ASSETS			
Investments held to maturity	11	9,665,337	3,000,000
Loans and receivables	14	245,933,403	236,945,936
Available-for-sale financial assets	15	10,379,090	-
Trade and other receivables	17	3,778,329	2,522,733
Prepayments	18	394,833	1,107,583
Customer overdrafts	19	52,813,776	30,192,947
Cash and cash equivalents	19	188,239,960	191,659,715
Bills purchased		1,798,562	13,168,304
		<u>513,003,290</u>	<u>478,597,218</u>
TOTAL ASSETS		<u>799,553,884</u>	<u>593,099,404</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	20	74,630,629	49,630,629
AFS revaluation reserve	21	156,840	-
Retained profits		6,852,340	2,997,439
TOTAL EQUITY		<u>81,639,809</u>	<u>52,628,068</u>
NON CURRENT LIABILITIES			
Interest bearing borrowings	22	63,043,436	36,698,878
Deferred tax liability	10	5,483	-
		<u>63,048,919</u>	<u>36,698,878</u>
CURRENT LIABILITIES			
Interest bearing borrowings	22	611,787,039	488,853,893
Non-interest bearing borrowings	22	37,017,681	9,525,281
Tax payable		859,875	571,686
Trade and other payables	23	5,200,561	4,821,598
		<u>654,865,156</u>	<u>503,772,458</u>
TOTAL EQUITY AND LIABILITIES		<u>799,553,884</u>	<u>593,099,404</u>

The financial statements were approved by the Board of Directors and authorised for issue on 30 April, 2010

K R KAMATH
Chairman

S R SHARMA
Managing Director

S K DUBEY
Director

M S NAYAK
Director

P H KENT
Director

P MASHRU
Director

30 April 2010, London

The notes on pages 15 to 39 form part of these financial statements

Company Registration No 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010

	2010	2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		<i>(Restated)</i>
Total Profit for the year	3,854,901	2,593,269
ADJUSTMENTS TO RECONCILE TO PROFIT FROM OPERATIONS		
Income tax expense	1,531,983	983,672
ADJUSTMENTS TO RECONCILE PROFIT FROM OPERATIONS	5,386,884	3,576,941
NON-CASH ADJUSTMENTS		
Amortisation of other intangible non-current assets	272,820	251,612
Impairment losses on property, plant and equipment	388,153	380,811
Unrealised gains on foreign currency exchange	(44,365)	(166,831)
NON-CASH ADJUSTMENTS	616,608	465,592
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL	6,003,492	4,042,533
(DECREASE)/INCREASE IN WORKING CAPITAL		
Increase in trade and other receivables	(169,930,861)	(275,791,356)
Increase in prepayments	(542,847)	(2,684,372)
Increase in customer overdrafts	(22,620,829)	(21,828,898)
(Increase)/Decrease in available-for-sale financial assets	(10,161,255)	10,427,492
(Decrease)/Increase in trade and other payables	(145,550)	326,614
Increase in accruals	549,590	3,784,017
Increase in other liabilities	176,770,104	390,250,690
(DECREASE)/INCREASE IN WORKING CAPITAL	(26,081,648)	104,484,187
CASH FLOWS FROM OPERATING ACTIVITIES	(20,078,156)	108,526,720
CASH FLOWS USED IN OTHER OPERATING ACTIVITIES		
Income taxes paid	(1,274,688)	(502,649)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(21,352,844)	108,024,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment	(577,500)	(443,561)
Payments to acquire intangible assets	(48,939)	(371,986)
Payments to acquire investments held to maturity	(12,440,472)	(19,567,003)
Receipts from sale of investments held to maturity	6,000,000	5,039,368
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(7,066,911)	(15,343,182)

The notes on pages 15 to 39 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010

CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from issue of equity share capital	25,000,000	-
Gross proceeds from other borrowings	-	25,000,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	25,000,000	25,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	(3,419,755)	117,680,889
Cash and cash equivalents as at 1 April	191,659,715	73,978,826
CASH AND CASH EQUIVALENTS AS AT 31 MARCH (NOTE 19)	188,239,960	191,659,715

The notes on pages 15 to 39 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

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 2010. Punjab National Bank (International) Limited is a limited company incorporated and domiciled in United Kingdom.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the company are set out in note 2.

Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the disclosures in these financial statements:

- IAS 1 (revised 2007) Presentation of Financial Statements;
- IFRS 8 Operating Segments; and
- Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures).

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

- IAS 23 (revised 2007) Borrowing costs;
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
- Embedded Derivatives (Amendments to IFRIC 9);
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation; and
- IFRIC 18 Transfer of Assets from Customers

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 1 (amended)/IAS 27 (amended): Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 9 Financial Instruments
- IFRS 3 (revised 2008): Business Combinations
- IAS 27 (revised 2008): Consolidated and Separate Financial Statements
- IAS 28 (revised 2008): Investments in Associates
- IFRIC 17: Distribution of Non-cash Assets to owners
- Improvements to IFRSs (April 2009)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for classification and presentation of financial assets and financial liabilities under IFRS 9.

Critical accounting judgements and key sources of estimation uncertainty

In application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources and may make necessary provisions in accordance with their assumptions. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. In particular, loan impairment is a key area for the bank which is subject to critical accounting estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

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 Profit Before Tax of USD 5,386,884 resulting in an increase in retained earnings of USD 3,854,901 after making provision for tax. During the year the Bank has raised additional Tier 1 capital of USD 25 million. This amount has been raised by the issue of 25,000,000 ordinary shares of \$1 each to the parent company. Accordingly the Large Exposure Capital base (LECB) has been increased to USD 106.64 million. This will enable the bank to grow its balance sheet size and accordingly increase the earning capacity.

The liquidity position of the Bank remains stable and the Bank is able to have sufficient liquidity in the short run. Note 12 to the financial statements include the Bank's objectives, policies and processes for managing its capital; its Financial Risk Management objectives; details of its financial instruments and hedging activities; and exposure to its credit, market liquidity and other risks.

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.

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 a 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.

Financial assets

The Company classifies 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.

2. ACCOUNTING POLICIES (Continued)

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 initially measured at Fair value and 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 of 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.

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.

2. ACCOUNTING POLICIES (Continued)

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.

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.

Available for Sale assets

The company 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 come to the attention of the Company such as a major change in price due to deterioration of credit ratings which has an impact on the Company's estimated future cash flows of 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 income statement. 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 income statement.

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:

Fixtures including computers and accessories	3-5 years
Leasehold improvements	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
----------	------------------

2. ACCOUNTING POLICIES (Continued)

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.

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 lease 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 2010

3. OPERATING SEGMENTS

The Bank undertakes the business of 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.

Interest Income is derived from a range of products and the split of Interest earned is shown below:

	2010	2009
	\$	\$
Interest Income		
Over draft	1,798,283	1,625,765
Foreign Bills	40,670	604,634
Term Loan	15,733,884	9,511,655
Treasury Securities	4,873,922	1,210,553
Inter Bank Placements	3,600,595	2,779,509
	<u>26,047,354</u>	<u>15,732,116</u>

No revenue transaction with a single external customer or counter party amounted to 10% or more of the total revenue for the year.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

4. OPERATING PROFIT

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

	2010	2009
	\$	\$
Interest expense	17,402,057	12,756,290
Depreciation of property, plant and equipment	388,153	380,811
Amortisation of intangible assets	272,820	251,612
Operating leases:		
Lease rental expenses	322,063	370,486
Auditor's remuneration - audit services	189,775	157,905
Auditor's remuneration - non-audit services	28,319	7,685
	<u>218,094</u>	<u>165,590</u>
	2010	2009
	\$	\$
Included in other operating profit:		
Foreign exchange gains	577,791	1,129,178
Included in administrative expenses:		
Employee benefits expense	2,059,145	1,645,412
Depreciation and amortisation	661,973	632,423
	<u>2,720,118</u>	<u>2,277,835</u>

5. EMPLOYEE EXPENSES

	2010	2009
	\$	\$
Wages and salaries	1,441,178	1,214,510
Post employment expense for defined contribution plans	28,227	14,251
Other employee benefits	432,809	279,234
Social security costs	156,931	137,417
	<u>2,059,145</u>	<u>1,645,412</u>

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

	2010	2009
	No.	No.
Administration	13	11
Sales and marketing	<u>33</u>	<u>24</u>
	<u>46</u>	<u>35</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

6. DIRECTORS' EMOLUMENTS

	2010	2009
	\$	\$
Emoluments	<u>286,447</u>	<u>300,107</u>

The emoluments of directors disclosed above include the following in respect of the highest paid director.

	2010	2009
	\$	\$
	<u>124,370</u>	<u>100,825</u>

7. INCOME TAX

Components of income tax expense

	2010	2009
	\$	\$
Current income tax expense		
Current income tax charge	1,521,170	988,398
Deferred income tax expense		
Relating to origination and reversal of temporary differences	10,813	(4,726)
Income tax expense reported in income statement	<u>1,531,983</u>	<u>983,672</u>

Reconciliation of income tax charge to accounting profit

	2010	2009
	\$	\$
Profit Before Tax	5,386,884	3,576,941
Tax at the domestic income tax rate of 28%	1,508,327	1,001,543
Tax effect of non taxable revenues	(12,422)	(46,713)
Tax effect of non deductible expenses	36,078	28,842
Tax expense using effective rate	<u>1,531,983</u>	<u>983,672</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

8. PROPERTY, PLANT AND EQUIPMENT

At 31 March 2010

	Leasehold improvements \$	Fixtures and fittings \$	Total \$
Cost			
At 1 April 2009	371,564	1,209,102	1,580,666
Additions	181,844	395,656	577,500
At 31 March 2010	<u>553,408</u>	<u>1,604,758</u>	<u>2,158,166</u>
Depreciation			
At 1 April 2009	(110,528)	(517,944)	(628,472)
Charge for year	(83,294)	(304,859)	(388,153)
At 31 March 2010	<u>(193,822)</u>	<u>(822,803)</u>	<u>(1,016,625)</u>
Net book value			
At 1 April 2009	<u>261,036</u>	<u>691,158</u>	<u>952,194</u>
At 31 March 2010	<u>359,586</u>	<u>781,955</u>	<u>1,141,541</u>

At 31 March 2009

	Leasehold improvements \$	Fixtures and fittings \$	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	<u>184,491</u>	<u>704,953</u>	<u>889,444</u>
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 2010

9. INTANGIBLE ASSETS

31 March 2010

	Software
	\$
Cost	
At 1 April 2009	851,814
Additions	48,939
At 31 March 2010	<u>900,753</u>
Amortisation	
At 1 April 2009	(395,560)
Charge for the year	(272,820)
At 31 March 2010	<u>(668,380)</u>
Carrying value	
At 1 April 2009	<u>456,254</u>
At 31 March 2010	<u>232,373</u>

31 March 2009

	Software
	\$
Cost	
At 1 April 2008	479,828
Additions	371,986
At 31 March 2009	<u>851,814</u>
Amortisation	
At 1 April 2008	(143,948)
Charge for the year	(251,612)
At 31 March 2009	<u>(395,560)</u>
Carrying value	
At 1 April 2008	<u>335,880</u>
At 31 March 2009	<u>456,254</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

10. DEFERRED TAX (LIABILITY) / ASSET

	2010	2009
At 1 April	\$	\$
Release / Charge for year	5,330	604
	<u>(10,813)</u>	<u>4,726</u>
At 31 March	<u>(5,483)</u>	<u>5,330</u>

11. INVESTMENTS HELD TO MATURITY

	2010	2009
Marketable debt securities	\$	\$
	<u>32,013,252</u>	<u>25,572,780</u>
Current	9,665,337	3,000,000
Non-current	<u>22,347,915</u>	<u>22,572,780</u>
	<u>32,013,252</u>	<u>25,572,780</u>

For details of Fair Value on held to Maturity Investments, refer to Note 13

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Governance

The Board of Directors have overall responsibility of risk management of the Bank. The Board has formed an Audit and Compliance Committee (ACC) and a Risk Management Committee (RMC) 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 and Compliance Committee (ACC)

- review financial statements and the Annual Report and Accounts of the company and recommend them to the Board;
- review the effectiveness of internal controls and monitor the implementation of any remedial actions;
- review effectiveness of risk management; and report to the Board;
- review MLRO Annual Report;
- review Internal Audit reports;
- review external audit reports, the annual audit plan and the External Auditor's annual management letter;
- review policy exchanges and other major reports to or from the regulators;
- review other compliance reports; and
- 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;
- finalize 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;
- finalize provisioning policy for the Bank and submit for the approval of the Board;
- review periodical stress test on Capital requirement of the Bank; and
- 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.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. 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.

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 ACC 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; and
- to review and recommend changes to the control processes from time to time;

12. 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 of 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; and
- 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 other than one for which an impairment reserve has been made.

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 2010

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The top five exposures of the Bank as on 31 March 2010 are as follows

Sr. No	Industry	Country of exposure	Type of account	Amount of Loan
1	Packaging	Mauritius	Term Loan	\$ 12,000,000
2	Aluminium Manufacturing	Netherlands	Syndication	\$ 11,800,000
3	Iron & Steel Manufacturing	India	Syndication	\$ 10,714,285
4	Diamond Trading	Belgium	Overdraft	\$ 10,065,641
5	Pipes Manufacturing	India	Syndication	\$ 10,000,000
	Pharmaceutical	Singapore	Syndication	\$ 10,000,000
	Paper Manufacturing	Netherlands	Syndication	\$ 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's Trading Book portfolio is very small, 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 assets held under the Trading book are marked to market as on 31 March 2010.

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 2010, has been calculated as follows:

(Please refer next page for the table)

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

PARTICULARS	UP TO 1 Months	1 TO 3 Months	3 TO 6 Months	6 - 12 Months	1-3 years	Over 3 Years	Non Sensitive Category	TOTAL
	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)		\$ (000s)	\$ (000s)
ASSETS								
Non Current Assets								
Prop Plant & machinery	0	0	0	0	0	0	1,142	1,142
Intangible Assets	0	0	0	0	0	0	232	232
Inv Held to Maturity	0	12,694	2,500	0	7,154	0	0	22,348
Available for sale fin Assets	0	0	0	1,080	4,210	5,089	0	10,379
Loans and Receivables	100,429	108,965	51,648	1,796	0	0	0	262,838
Current Assets								
Inv held to Maturity	0	6,421	0	3,234	0	0	0	9,655
Loans and Receivable	126,573	56,322	62,854	184	0	0	0	245,933
Trade and other receivables	0	0	0	0	0	0	3,778	3,778
Prepayments	0	0	0	0	0	0	395	395
Customer Overdrafts	52,814	0	0	0	0	0	0	52,814
Cash and cash equivalents	75,903	49,919	62,418	0	0	0	0	188,240
Bills Purchased	274	847	678	0	0	0	0	1,799
Total Inflows	355,993	235,168	180,098	6,294	11,364	5,089	5,547	799,553
LIABILITIES								
Equity								
Issued Capital & Reserves								
Issued Share Capital	0	0	0	0	0	0	74,631	74,631
Reserves & Retained profits	0	0	0	0	0	0	7009	7,009
Total Equity							81,640	81,640
Non Current Liabilities								
Interest bearing borrowings	0		25,000	0	36,764	770	0	62,534
Current Liabilities								
Interest bearing borrowings	191,895	215,143	102,335	102,923	0	0	0	612,296
Non Interest bearing borrowing	37,018	0	0	0	0	0	0	37,018
Tax Payables	0	0	0	0	0	0	865	865
Trade and other payables	0	0	0	0	0	0	5201	5,201
Total Outflows	228,913	215,143	127,335	102,923	36,764	770	87,705	799,553
Inflows-Outflows	127,080	20,025	52,763	-96,629	-25,400	4,319		
Total Impact								
Variation 1%	53	25	132	-483	-381	65	-	589

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 2010

12. 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.

The open position of PNBIL as on 31 March 2010 is as follows:

Currency	Open position (in 000')	USD equivalent (in 000')
Euro	-43.83	-59.30
Pound Sterling	-691.14	-1049.29
Indian Rupees	+39256.92	+874.49
Nepalese Rupees	+93.97	+1.31
UAE Dirham	+364.62	+99.28
Japanese Yen	-1204.73	-12.90
Canadian Dollar	+114.45	+16.62
Norwegian Kroner	-4.92	-0.83
Total open position in US Dollars was 2,114,020.		

As per the Bank's Treasury and Investment Policy, the limit for the open position is stipulated at GBP 1.5 million or equivalent. Since the open position is insignificant in relation to the Balance Sheet size the impact of the changes on account of movement of exchange rate is not considered material and therefore no sensitivity analysis has been presented.

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. Bank has already prepared an ILAA document taking into account revised guidelines issued by the regulator.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

12. 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 is already in place and tested periodically.

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 Risk Management Committee (ARCC) reviews the capital structure on a semi annual basis.

	2010	2009
	\$	\$
Debt	711,848,156	535,078,052
Less: Cash and short term deposits		
	(188,239,960)	(191,659,715)
Net debt	523,578,196	343,418,337
Equity	74,630,629	49,630,629
Total capital	74,630,629	49,630,629

The bank has complied in full with all its externally imposed capital requirement.

Net Debt to Equity ratio	7.01	6.91
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PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

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 2010	Up to 1 m (000s) \$	1-3 m (000s) \$	3-12 m (000s) \$	1-5 yr (000s) \$	Over 5 yrs (000s) \$	Undated (000s) \$	Total (000s) \$
Loans and advances to banks	80,513	39,161	50,423	0	0	0	170,097
Loans & advances to customers	125,390	60,733	125,884	183,353	14,196	0	509,556
Debt securities	3,567	296	7,116	28,900	2,000	0	41,879
Other assets	73,085	295	2,157	509	523	1,452	78,021
Total assets	282,555	100,485	185,580	212,762	16,719	1,452	799,553
Deposits from banks	76,240	153,472	52,729	0	0	0	282,441
Other deposits	105,616	30,105	196,039	24,681	0	0	356,441
Other liabilities and shareholders funds	49,232	124	186	0	0	111,129	160,671
Total equity and liabilities	231,088	183,701	248,954	24,681	0	111,129	799,553
Net liquidity gap	51,467	-83,216	-63,374	188,081	16,719	-109,677	0

As at 31 March 2009	Up to 1 m (000s) \$	1-3 m (000s) \$	3-12 m (000s) \$	1-5 yr (000s) \$	Over 5 yrs (000s) \$	Undated (000s) \$	Total (000s) \$
Loans and advances to banks	221,697	0	0	0	0	0	221,697
Loans & advances to customers	93,566	89,986	53,394	80,227	10,289	0	327,462
Debt securities	0	0	3,000	22,573	0	0	25,573
Other assets	247	12,653	268		0	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	0	0	0	363,904
Other deposits	60,127	27,965	46,290	11,698	0	0	146,080
Other liabilities and shareholders funds	0	0	0	0	0	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)	0

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

13. FINANCIAL INSTRUMENTS

For financial assets and liabilities carried at amortised cost, the directors do not anticipate the fair values to be materially different from the book values considering the underlying nature of portfolios except for the following

	<i>Carrying amount</i>		<i>Fair value</i>	
	2010	2009	2010	2009
Held To Maturity Securities	<u>32,013,252</u>	<u>25,572,780</u>	<u>31,694,139</u>	<u>24,874,841</u>

14. LOANS AND RECEIVABLES

	2010	2009
	\$	\$
Loans and receivables	510,099,695	327,461,564
Less Provision on impaired asset	(1,293,527)	-
	<u>508,762,168</u>	<u>327,461,564</u>
Non Current	262,828,765	90,515,628
Current	245,933,403	236,945,936
	<u>508,762,168</u>	<u>327,461,564</u>

Loans and receivables has been reduced by the sum of \$1,293,527 in respect of the impairment of a counterparty Bank exposure which is the subject of a restructuring plan.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010	2009
	\$	\$
Marketable debt securities	<u>10,379,090</u>	<u>-</u>

All the above Securities are Level 1 securities where fair value measurements are derived from prices quoted in active markets for identical assets and liabilities.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

16. RELATED PARTY TRANSACTIONS

Ultimate controlling party

The ultimate controlling party of the company is Punjab National Bank, a Public sector bank 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 \$201,605 (previous year \$190,728), 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.

Additional Tier I capital was received from the parent company, Punjab National Bank, in the sum of \$25,000,000 (previous year NIL) in the form of Share capital. The Company issued 25 million shares of \$1 each to the parent for a cash consideration (Refer to Note 20).

The Bank has made a claim of \$ 5,107,906 to Lehman Brothers which, if received, is payable to Punjab National Bank.

At 31 March 2010 the company held bank balances/ made Inter bank placements, with its parent company totalling \$727,947 (previous year \$5,107,425) and bank balances repayable / inter bank placements to its parent company totalling \$73,266,362 (previous year \$97,655,133). The Bank has earned \$9,921 (previous year \$48,546) through deposits and placements with its parent and the total expenditure incurred for the deposits and placements by the parent and the SLA charges mentioned above, for the year, was \$1,559,875 (previous year \$2,742,464)

Other transactions with related parties include remuneration paid to directors which the bank considers as key management is disclosed in Note 6. The Bank considers that the cost of secondment of executives to or from the parent company is not material.

17. TRADE AND OTHER RECEIVABLES

	2010	2009
	\$	\$
Accrued income	<u>3,778,329</u>	<u>2,522,733</u>

18. PREPAYMENTS

	2010	2009
	\$	\$
Current prepayments	<u>394,833</u>	<u>1,107,583</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

19. CASH AND CASH EQUIVALENTS

	2010	2009
	\$	\$
Cash on hand	273,492	(Restated) 155,314
Cash at bank	187,966,468	191,504,401
	<u>188,239,960</u>	<u>191,659,715</u>
Customer Overdraft	<u>52,813,776</u>	<u>30,192,947</u>

The Cash and Cash equivalents prior year balance has been restated to exclude customer overdrafts. Accordingly customer overdrafts of \$52,813,776 (2009 : \$30,192,947) are shown separately on the face of the Balance Sheet.

20. SHARE CAPITAL

Authorised share capital

	2010		2009	
	No.	\$	No.	\$
Ordinary shares of £1 each	2	4	2	4
Ordinary shares of \$1 each	100,000,000	100,000,000	100,000,000	100,000,000
	<u>100,000,002</u>	<u>100,000,004</u>	<u>100,000,002</u>	<u>100,000,004</u>

Issued share capital

	2010		2009	
	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	49,630,625	49,630,625
New issues of share capital	25,000,000	25,000,000	-	-
At end of year	<u>74,630,627</u>	<u>74,630,629</u>	<u>49,630,627</u>	<u>49,630,629</u>

All issued share capital is classified as equity.

21. RESERVES

31.3.2010

	AFS reserve
	\$
As at 1 April 2009	-
Movement in the value of AFS investments, net of deferred tax	156,840
As at 31 March 2010	<u>156,840</u>

The uplift in the value of the available-for-sale investments of \$217,835 has been offset by attributable current income tax in the sum of \$60,995.

31.3.2009

	\$
At 1 April 2008	29,846
Transferred to retained earnings on sale of AFS investments	(29,846)
At 31 March 2009	<u>---</u>

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2010

22. FINANCIAL LIABILITIES

	2010	2009
	\$	\$
Non-current		
Fixed Term Deposits	38,043,436	11,698,878
Subordinated Debt	<u>25,000,000</u>	<u>25,000,000</u>
Current	63,043,436	36,698,878
Interest Bearing borrowings		
Inter Bank Deposits	281,183,961	363,904,334
Fixed term deposits	318,180,176	116,608,917
Savings accounts	<u>12,422,902</u>	<u>8,340,642</u>
	611,787,039	488,853,893
Non Interest Bearing Borrowings		
Current accounts	36,484,332	9,431,761
Bills payable	<u>533,349</u>	<u>93,520</u>
	37,017,681	9,525,281
Total Current Liabilities	<u>648,804,720</u>	<u>498,379,174</u>
Bank loans and other borrowings		
	2010	2009
	\$	\$
Inter Bank Deposits	281,183,961	363,904,334
Subordinated Debt (as per note below)	25,000,000	25,000,000
Savings account	12,422,902	8,340,642
Fixed term deposits	356,223,612	128,307,795
Current accounts	36,484,332	9,431,761
Bills payable	<u>533,349</u>	<u>93,520</u>
	711,848,156	535,078,052
Less: Total Current Liabilities	<u>(648,804,720)</u>	<u>(498,379,174)</u>
	<u>63,043,436</u>	<u>36,698,878</u>

Subordinated Debt

This represents Lower Tier II Capital 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 which have been listed on the Channel Islands Stock Exchange. 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 2010

23. TRADE AND OTHER PAYABLES

	2010	2009
	\$	\$
Other payables	160,796	331,423
Accrued liabilities	5,039,765	4,490,175
	<u>5,200,561</u>	<u>4,821,598</u>

24. OPERATING LEASE COMMITMENTS

Where Bank is the lessee, the future minimum lease payments under non cancellable operating leases

	2010	2009
	\$	\$
Less than one year	364,474	304,336
Later than one year but less than five years	<u>727,833</u>	<u>817,288</u>
	<u>1,092,307</u>	<u>1,121,624</u>

25. OTHER COMMITMENTS AND CONTINGENCIES

Commitments

Commitments in respect of equipment and building contracts at the balance sheet date totalled \$321,099 (previous year \$207,000).

Commitments in respect of financial instruments not reflected in the body of these financial statements were as follows:

	2010	2009
	\$	\$
Guarantees issued to third parties	3,704,440	1,039,591
Letters of credit issued	1,383,259	7,034,388
Letters of credit confirmed	17,664,525	-

26. EVENTS AFTER THE BALANCE SHEET DATE

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