COMPANY REGISTRATION NUMBER 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

31 MARCH 2012

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
FINANCIAL STATEMENTS
AS AT 31 MARCH 2012

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Company registration number	**5781326 dated 13 April 2006**
The board of directors	***Kasargod Ramachandra Kamath,*** Chairman ***Bhupinder Singh Passi*** Managing Director and Secretary (Appointed 02 September, 2011) ***Muddoor Sadananda Nayak*** Executive Director ***Pendarell Hugh Kent*** ***Paresh Mashru*** ***Sushma Bali*** (Appointed 01 March 2012)
Company secretary	***Bhupinder Singh Passi***
Registered office	87 Gresham Street EC2V 7NQ, UK Tel : 020 77969600 Fax: 020 77961015 Email : md@pnbint.com
Statutory auditor	**KPMG Audit Plc** Chartered Accountants
Accountants	**King and King** Chartered Accountants

The directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2012. 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 31 March 2012 amounted to $10,207,475 (2011: $2,041,862) and the profit after tax is $7,513,734 (2011: $1,401,635). Total comprehensive income attributable to equity shareholders is $4,394,595 (2011:1,010,504). The directors do not recommend the payment of a dividend on equity share capital (2011: NIL), however, interest at the rate of LIBOR plus 4% amounting to $1,146,101 (2011: Nil) has been paid on the amount of Upper Tier II capital, which is recognised as part of dividend payment. As at 31 March 2012, the Punjab National Bank (International) Limited ('PNBIL' or the 'company' or the 'Bank') had total assets of $1,197,251,478 (2011: $904,224,071).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Punjab National Bank (International) Limited 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 ('PNB' or 'parent'), one of the leading public sector banks of India. Punjab National Bank had an asset base of $79.44 billion as at 31 December 2011 (previous year $76.87 billion as at 31 December 2010.) PNBIL started its operations on 10 May 2007 after obtaining approval from the FSA on 13 April 2007 and their main business is to provide banking services to different types of customers, particularly to those with business or personal links with India and UK residents.

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 financial year 2008-09 PNBIL, opened a branch at Leicester. During financial year 2009-10 it opened its fourth branch at Birmingham, while during 2010-11, it opened two more branches at Ilford and Wembley. The seventh branch of the Bank was opened at Wolverhampton in the month of April 2011. All new branches 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 37,294 within a period of 60 months and expects this base to increase to more than 45,000 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 on its own account. The commercial lending and investments have resulted in a good income generating source for the Bank. PNBIL is 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 relationships with various banks and to gain access to money market lines. The treasury started investment activities during the financial year 2009-10 and has already built a portfolio of more than $122 million in Investments (gross before impairment provisions), including AFS and HTM portfolios. All investments are made 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 in the year 2008-2009. PNBIL has issued more than 19,000 debit cards to its clients by the end of March 2012. PNBIL plans to offer on-line banking products and a Cash ISA product in the coming year.

FINANCIAL RESULTS

The operating profit before provisions, tax and dividends for the current financial year has increased by 47.93% ($15,946,058 as at 31 March 2012 as against $10,779,448 at 31 March 2011). The financial statements for the reporting year ended 31 March 2012 are shown on pages 12 to 59. The profit after taxation for the year is $7,513,734 (2011: $1,401,635).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board advised by the Risk Management Committee believes that major risks currently faced by the Bank are credit and liquidity risks. This judgement is mainly based on the uncertain outlook for the Eurozone and implications of this for the global banking system. In order to mitigate the risks, the Board has adopted a conservative lending criteria and liquidity management policy.

The Bank is subject to operational and market risk in its day-to-day operations. The Bank's objectives and policies regarding financial risk management, including the use of financial instruments, the policy for hedging, and an indication of the exposure to financial risk is provided in note 29. For further details please refer to Notes 1 to 3 to the Financial Statements. Note 29 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.

GOING CONCERN BASIS

The Bank has adequate resources to continue its operations for the foreseeable future. The Bank has posted profit for the year ended 31 March 2012 and has a positive net worth position. Similarly, it has maintained a stable liquidity position. The Bank has also received sufficient support from the parent from time to time and the same will continue to be received. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

CAPITAL STRUCTURE

The capital structure of PNBIL consists of equity attributable to equity holders comprising issued capital, sub-ordinated debt, reserves and retained earnings. Bank expects to maintain its Core Tier I, Tier I and Tier II ratios at levels which significantly exceed the current minimum requirements of the Banking Regulator in the UK.

Capital ratios of the Bank remain strong. Based on interpretation of the Basel III new rules, Bank is well equipped to deal with regulatory change as and when Basel III is implemented. PNBIL's Risk Management Committee (RMC) reviews the capital structure on a semi-annual basis.

Throughout the year the Bank reviews the need for the injection of capital and funding to ensure on-going stability and support of its business activities. PNBIL has a capital base of $160,898,807 comprising share capital of $87,130,629, upper tier II capital of $25,000,000, lower tier II capital of $37,500,000 and reserves of $11,268,178. During the period under review, equity share capital of $12,500,000 was raised from the parent company, Punjab National Bank. In the future, the Bank expects to raise further capital from its parent and from the market. Upper Tier II Capital of $25,000,000 was raised during the previous year by issuing perpetual notes to the parent company – Punjab National Bank. This amount is included under equity in the financial statements (see note 22).

During the year under review, lower tier II capital of $12,500,000 was raised by way of subordinated redeemable bonds. Total amount of lower tier II capital is now $37,500,000 by way of subordinated redeemable bonds. This amount is shown in the financial statements as a financial liability (see note 24); however it qualifies 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 on the Bank’s website.

KEY PERFORMANCE INDICATORS (KPIs)

The key performance indicators used by the company for the current year are, growth in loan portfolio, increasing the deposit base of the bank, growth in the number of customers and branches opened during the year and also profitability. Commentary on movement in these KPIs is discussed in the ‘Principal Activity and Review of the Business’ section.

	2012	**2011**
Customer deposits	$857.27 million	$654.66 million
Total loans	$883.76 million	$705.36 million
Profit before tax	$10.21 million	$2.04 million
No. of branches	7	6
No. of accounts	37,294	29,033
of which:		
Deposit accounts	36310	28135
Customer overdrafts	737	693
Demand and term loans	247	205

MARKET AND OPERATING ENVIRONMENT

2011-12 saw further clarity from regulators with implementation of the third Capital Requirements Directive and the final report from the Independent Commission on Banking. The year also saw difficult conditions due to the Eurozone crisis and a slowdown in economic growth, with both events adversely impacting client activity and funding markets.

BUSINESS CONDITIONS

Our performance in 2011-12 was not adversely impacted by the prevailing difficult economic conditions. Our capital, funding and liquidity positions remain a source of stability for our customers and clients and support us in meeting future regulatory requirements.

MARKET FACTORS

The year saw downward revisions of global GDP forecasts by a number of supranational bodies with a worsening outlook on the pace of recovery following the recent economic crisis. This impacted income growth of banking industry in general as customers and clients were more conservative. However, personalized services and relationship with our customers helped the Bank witness handsome growth both in net interest income as well as in operating income. Impairment on loans was contained effectively and was lower than the previous year.

As at 31 March 2012, the main industry concentration within the Bank’s loans and receivable portfolio related to Banks (21%), real estate activities (12%), petroleum and natural gas (7%) and iron and steel (7%). There are no significant exposures in any other individual industry.

Similarly, the geographical distribution of the bank's assets (i.e. Investments and loans & advances), based on country of residence or domicile, are mainly India (50%), UK (30%) and other G10 countries (11%).

The Bank does not have any sovereign exposures in the affected geographies within Euro zone (i.e. GIIPS) and has limited direct non-sovereign exposure in these geographies, as explained in note 18.

The funding requirements of certain Eurozone governments caused market dislocations through the year due to investor fears of government default and the risk of contagion to other countries. This made it difficult for some European banks to raise funding and added to pressures on their liquidity positions.

MARKET UNCERTAINTY

REGULATORY FACTORS

There has been continuing regulatory change in the wake of the financial crisis. The Bank maintains a proactive stance to regulation, taking a serious approach to ensuring compliance with the resulting legislation and regulation. Outlined below are the key regulatory uncertainties Banks are facing:

- Basel and the Capital Requirements Directive Regulations (CRD3) requiring banks to hold more capital for market risk were implemented on 31 December 2011. Further regulatory change linked to Basel 3/CRD4 will be implemented on 1 January 2013.
- Independent Commission on Banking (ICB) recommendations on reforms to the UK banking sector to promote financial stability and competition were submitted in September 2011. The Government is expected to announce a white paper on the future of UK banking regulation in 2012.
- Dodd-Frank Act (DFA) becoming law in the US in July 2010, the DFA impact remains unclear. The rules are yet to be implemented and, in some areas, yet to be proposed.

Regulatory timeline

2011	Basel 2.5 (CRD3) implemented on 31 December
H1 2012	UK Government to publish White Paper on banking reform following ICB recommendations in 2011
Q1 2013	Implementation of RWA calculations under Basel 3 (CRD4)
H1 2013	Financial Services Act to be implemented which will change the structure of the UK regulatory bodies
2013 – 2015	Expected enactment of UK Government White Paper on banking reform
2014 – 2018	Phasing in of capital deductions under Basel 3 (CRD4)
2019	Implementation of UK Government White Paper on banking reform
2022	Full compliance with US Dodd-Frank Act

FUTURE DEVELOPMENTS

The Bank proposes to re-launch on-line remittance and deposit products after obtaining FSA approval for the same. The Bank is also launching an ISA product for small savers.

The existing lease of the Bank's premises is expiring in the year 2012-13. Bank has already entered into a lease contract for a building in the close vicinity and all arrangements are being made to move to the new premises during the first quarter of the year.

CHARITABLE DONATIONS

Charitable donations in the sum of $6,486 were made during the year (2011: $2,005).

EVENTS AFTER THE BALANCE SHEET DATE

There has been no reportable event after the balance sheet date.

DIRECTORS

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

- Sukhdev Raj Sharma resigned on 02 September 2011.
- Shashi Kant Dubey resigned on 31 December 2011.

INTERNAL CONTROL AND FINANCIAL REPORTING

The directors are responsible for internal control in the Bank and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

The procedures that the directors have established are designed to provide effective internal control within the Bank.

Such procedures for the on-going identification, evaluation and management of the significant risks faced by the Bank have been in place throughout the year and up to 4 May 2012, the date of approval of the Annual Report for the year ended 31 March 2012.

The directors and senior management of the Bank have adopted policies which set out the Board's attitude to risk and internal control. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

There are well established budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The effectiveness of the internal control system is reviewed regularly by the Board and the audit committee, which also receives reports of reviews undertaken by the internal audit function as well as reports from the external auditors which include details of internal control matters that they have identified. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who are a directors 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 auditor is 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 auditor is aware of that information.

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

ELECTIVE RESOLUTIONS

The company, being 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 its auditor annually.

AUDITOR

KPMG Audit Plc is the statutory auditor of the Bank. There was a change in the auditor of the Bank for the year ended 31 March 2012. M/s Deloitte LLP was the external auditor of the Bank for year ended 31 March 2011.

KPMG Audit Plc has indicated their willingness to continue as auditors of the Bank. Accordingly, a resolution is to be proposed at the next board of directors meeting for the re-appointment of KPMG Audit Plc as auditors of the Bank.

GENERAL MEETINGS

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

Bhupinder Singh Passi
Secretary
Company number: 5781326

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2012

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

Company law requires the directors to prepare the financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

By Order of the Board

Bhupinder Singh Passi	***Muddoor Sadananda Nayak***
Managing Director	Executive Director

04 May 2012

Independent auditor's report to the shareholders of Punjab National Bank (International) Limited
FOR THE YEAR ENDED 31 MARCH 2012

We have audited the financial statements of Punjab National Bank (International) Limited (the 'Bank') for the year ended 31 March 2012 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 33. 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 Bank'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 Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

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 and express an opinion on 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 statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Bank's affairs as at 31 March 2012 and of the 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.

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 Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank'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.

Paul Furneaux
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

04 May 2012

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012	2011 *Restated
		$	$
Interest income		**47,645,898**	35,578,195
Interest expense		**(25,578,179)**	(19,384,579)
Net interest income		**22,067,719**	16,193,616
Net trading income (foreign exchange)		**1,856,607**	987,896
Fee and commission income		**715,160**	596,629
Operating income	5	**1,150,103**	810,477
Staff related costs	6	**(4,399,811)**	(3,077,963)
General administrative expenses	5	**(5,443,720)**	(4,731,207)
Provision on impaired financial assets	16	**(5,738,583)**	(8,737,586)
OPERATING PROFIT BEFORE TAX		**10,207,475**	2,041,862
Income tax expense	8	**(2,693,741)**	(640,227)
PROFIT FOR THE YEAR		**7,513,734**	1,401,635

**Refer note 32 for details on specific line items where comparative balances have been restated*

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2012

	2012 $	*2011 $*
PROFIT FOR THE YEAR	**7,513,734**	1,401,635
Net change in fair value on AFS investments	**(4,687,622)**	(325,404)
Tax relating to fair value change on AFS investments	**1,218,782**	91,113)
	(3,468,840)	(234,291)
Net amount transferred to profit and loss (AFS investments)	**349,701**	(156,840)
Other comprehensive income for the year	**(3,119,139)**	(391,131)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY SHAREHOLDERS	**4,394,595**	1,010,504

The notes on pages 19 to 59 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CHANGES IN EQUITY
AS AT 31 MARCH 2012

31 March 2012	**Issued capital**	**AFS reserves**	**Retained earnings**	**Total equity**
	$	**$**	**$**	**$**
Balance at 1 April 2011	**99,630,629**	**(234,291)**	**8,253,975**	**107,650,313**
Total Comprehensive Income for the year				
Profit for the year	-	-	7,513,734	7,513,734
Other comprehensive income for the year	-	(3,119,139)	-	(3,119,139)
Total comprehensive income for the year	-	(3,119,139)	7,513,734	4,394,595
Issue of Share Capital[#]	12,500,000	-	-	12,500,000
Dividend on Subordinated Debt [##]	-	-	(1,146,101)	(1,146,101)
Balance at 31 March 2012	**112,130,629**	**(3,353,430)**	**14,621,608**	**123,398,807**

[#] *Equity capital by way of issuance of shares (see note 22).*
[##] *Interest paid for Upper Tier II Capital of $25 million.*

31 March 2011	**Issued capital**	**AFS reserves**	**Retained earnings**	**Total equity**
	$	**$**	**$**	**$**
Balance at 1 April 2010	74,630,629	156,840	6,852,340	81,639,809
Total Comprehensive Income for the year				
Profit for the year	-	-	1,401,635	1,401,635
Other comprehensive income for the year	-	(391,131)	-	(391,131)
Total comprehensive income for the year	-	(391,131)	1,401,635	1,010,504
Issue of Perpetual Notes*	25,000,000	-	-	25,000,000
Balance at 31 March 2011	**99,630,629**	**(234,291)**	**8,253,975**	**107,650,313**

** Perpetual Notes issued which qualify as Upper Tier II capital (see note 22)*

The notes on pages 19 to 59 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2012

	Notes	2012	2011 Restated*	1 April 2010 Restated*
ASSETS		$	$	$
NON CURRENT ASSETS				
Property and equipment	9	**1,013,649**	1,320,084	1,141,541
Intangible assets	10	**269,584**	174,480	232,373
Deferred tax asset	11	**33,542**	-	-
Investments held to maturity	12	**15,073,756**	17,873,869	19,151,223
Loans and receivables	15	**421,252,122**	309,676,745	267,215,582
		437,642,653	329,045,178	287,740,719
CURRENT ASSETS				
Investments held to maturity	12	**5,190,090**	2,978,525	8,393,127
Derivative financial instruments	30	**3,014,178**	1,605,579	-
Loans and receivables	15	**457,798,734**	393,524,669	304,239,596
Available for sale financial assets	13	**99,176,560**	71,894,107	14,847,992
Trade and other receivables	19	**521,555**	873,584	394,833
Cash in hand and bank	20	**193,907,708**	104,302,429	188,510,377
		759,608,825	575,178,893	516,385,925
TOTAL ASSETS		**1,197,251,478**	904,224,071	804,126,644
EQUITY				
ISSUED CAPITAL AND RESERVES				
Issued share capital	22	**112,130,629**	99,630,629	74,630,629
Available for sale reserve	23	**(3,353,430)**	(234,291)	156,840
Retained earnings		**14,621,608**	8,253,975	6,852,340
TOTAL EQUITY		**123,398,807**	107,650,313	81,639,809
NON CURRENT LIABILITIES				
Interest bearing borrowings	24	**205,276,470**	192,588,226	63,361,241
Deferred tax liability	11	**-**	9,791	5,483
		205,276,470	192,598,017	63,366,724
CURRENT LIABILITIES				
Interest bearing borrowings	24	**808,229,080**	551,337,831	615,779,313
Non-interest bearing borrowings	24	**53,195,176**	45,334,942	37,017,681
Derivative financial instruments	30	**198,012**	1,613,896	-
Tax payable		**732,383**	57,396	859,875
Trade and other payables	25	**6,221,550**	5,631,676	5,463,242
		868,576,201	603,975,741	659,120,111
TOTAL EQUITY AND LIABILITIES		**1,197,251,478**	904,224,071	804,126,644

**Refer note 12, 13, and 32 for details on specific line items where comparative balances have been restated*

Continued…..

The notes on pages 19 to 59 form part of these financial statements

Approval and authorisation by the board:

The financial statements were approved by the Board of Directors and authorised for issue on 04 May, 2012.

K R KAMATH Chairman	BHUPINDER SINGH PASSI Managing Director
M S NAYAK Executive Director	SUSHMA BALI Director
P MASHRU Director	P H KENT Director

4 May 2012, London

Company Registration No 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012

	2012	2011 Restated*
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Total Profit for the year	**7,513,734**	1,401,635
ADJUSTMENTS TO RECONCILE TO PROFIT FROM OPERATIONS		
Income tax expense	**2,693,741**	640,227
ADJUSTMENTS TO RECONCILE PROFIT FROM OPERATIONS	**10,207,475**	2,041,862
NON-CASH ADJUSTMENTS		
Amortisation of other intangible non-current assets	**186,112**	223,655
Depreciation of property, plant and equipment	**661,784**	577,211
Impairment losses on non-current financial assets	**340,980**	3,350,000
Impairment losses on current financial assets	**5,486,598**	5,387,586
Unrealised losses on exchange rate difference	**15,040**	16,240
NON-CASH ADJUSTMENTS	**6,690,514**	9,554,692
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL	**16,897,989**	11,596,554
DECREASE IN WORKING CAPITAL		
Increase in loans and advances	**(143,579,054)**	(170,694,877)
Decrease/(increase) in trade and other receivables	**352,029**	(478,751)
Increase in customer overdrafts	**(111,697,780)**	(21,438,947)
Increase in available for sale financial assets	**(33,029,862)**	(62,058,256)
Increase /decrease in fair value of derivatives	**(2,824,483)**	8,317
Increase/(decrease) in trade and other payables	**374,511**	455,863
Increase in interest/non- interest bearing liabilities	**277,439,727**	73,102,763
DECREASE IN WORKING CAPITAL	**(12,964,912)**	(181,103,888)
CASH FLOWS FROM OPERATING ACTIVITIES	**3,933,077**	(169,507,334)
CASH FLOWS USED IN OTHER OPERATING ACTIVITIES		
Income taxes paid (net)	**(633,680)**	(1,589,956)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**3,299,397**	(171,097,290)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire property and equipment	**(350,111)**	(755,754)
Payments to acquire intangible assets	**(286,454)**	(165,762)
Payments to acquire investments held to maturity	**(2,035,161)**	(3,097,542)
Receipts from maturity of investments held to maturity	**2,623,709**	10,908,400
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(48,017)**	6,889,342

**Refer note 21 for details on specific line items where comparative balances have been restated*

The notes on pages 19 to 59 form part of these financial statements

	2012 $	2011 Restated* $
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from issue of equity share capital	**12,500,000**	-
Gross proceeds from issue of perpetual notes	**-**	25,000,000
Dividend to subordinated debt holders	**(1,146,101)**	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	**11,353,899**	25,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**14,605,279**	(139,207,948)
Cash and cash equivalents as at 1 April 2011	**49,302,429**	188,510,377
CASH AND CASH EQUIVALENTS AS AT 31 MARCH 2012 (NOTE 21)	**63,907,708**	49,302,429

*

1) *Refer note 21 for details on specific line items where comparative balances have been reclassified and restated*

2) *In addition, the comparative balances of 2011 in the cash flow statement have been restated to reflect the effect of the restatements described in notes 12,13 and 32*

The notes on pages 19 to 59 form part of these financial statements

AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRSs

1] Reporting Entity

Punjab National Bank (International) Limited is a limited company incorporated and domiciled in the United Kingdom. Entire shareholding of the Bank is held by Punjab National Bank, one of the leading public sector banks of India. Address of the Bank's registered office is 87, Gresham Street London (UK) EC2V 7NQ. The Bank is primarily involved in corporate and retail lending and other banking activities.

2] Basis of Preparation

A. Statement of Compliance

The Bank'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 Bank are set out in note 3.

The Bank's financial statements for the year were authorised for issue on 04 May 2012.

B. Basis of Measurement

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

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

C. Functional and Presentation Currency

The directors consider the US Dollar as the currency of the primary economic environment in which the Bank operates. 99.99% of equity capital and 100% of the Tier II capital of the Bank is denoted in US dollar. The majority of the assets and liabilities of the Bank are also denoted in US dollar. Accordingly, US Dollar is regarded as being the functional currency of the Bank, which is also the reporting currency of the Bank.

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. Any resulting exchange differences are included in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date.

D. Use of Estimates and Judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

D. Use of Estimates and Judgements (continued)

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 and in any future periods affected.

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

- Impairment of financial assets (refer to note 16)
- Taxation (refer to note 8)

E. Going Concern

The Bank's business activities and future outlook are set out in the Directors' Report. The Bank has generated profit before tax of $10,207,475 resulting in an increase in retained earnings of $6,367,633 after making provision for tax and dividend (interest on upper tier II capital bonds). During the current year, the Bank has raised additional equity share capital of $12.50 million, subscribed to the extent of 100% by the parent Bank. Besides, the Bank has also raised additional lower tier II capital of $12.50 million. This amount had been raised by the issue of ten years Subordinated Notes (callable after five years) to the parent Bank. The Bank has also received support from the parent from time to time and the same will continue to be received. Accordingly, after considering the above factors, the Directors continue to adopt the going concern basis in preparing the financial statements.

F. Standards and Interpretations

a) **Standards and Interpretations effective in the Current Year**

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.

- Amendments to IAS 32 (October 2009) Financial Instruments: Classification of Rights Issues
- Amendments to IFRS 1 (2009) Additional Exemptions for First-time Adoptors
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

b) **Standards and Interpretations Issued but not yet Effective**

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):

- IAS 1 (revised June 2011) Presentation of Financial Statements : Items of Other Comprehensive Income
- Amendment to IAS 12 Deferred Tax : Recovery of Underlying assets
- IAS 19 (revised June 2011) Employee Benefits
- IAS 24 (revised November 2009) Related Party Disclosures
- Amendments to IAS 27 (May 2011) Consolidated and Separate Financial Statements
- Amendments to IAS 28 (May 2011) Investments in Associates and Joint Ventures

- Amendments to IAS 32 (December 2011) Financial Instruments Presentation – Amendments to Application Guidance on the Offsetting of Financial Assets and Financial Liabilities
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-Time Adoptors
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets
- IFRS 9 Financial Instruments – Classification and Measurement of Financial assets and – Accounting for Financial Liabilities and Derecognition
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurements
- Amendments to IFRIC 14 (November 2009) Prepayments of Minimum Funding Requirements

The Bank is assessing the impact of the above and other new standards, amendments to standards, revisions and interpretations. Based on an initial assessment, the above and the other new standards, amendments to standards, revisions and interpretations have no material impact on the financial statements of the Bank as at the reporting date.

The impact of IFRS 9 is likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project which is yet to be finalized.

3] ACCOUNTING POLICIES

a) Revenue recognition

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

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

b) Measurement

Financial assets

The Bank 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 with any resultant gain or loss recognised in the income statement. The Bank does not have any assets in this category for the year ended 31 March 2011 or 31 March 2012.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services to a debtor with no intention of trading the receivable. Loans and receivables are initially measured at fair value and measured at amortized cost using the effective interest method less any specific impairment.

iii. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as held to maturity are carried at amortized 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.

Financial liabilities and equity instruments

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

v. Equity instruments

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

vi. Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

vii. 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.

c) De-recognition of financial assets and liabilities

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

i. substantially all the risks and rewards of ownership have been transferred; or
ii. substantially all 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 expired.

d) Impairment of financial assets

The Bank 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 provided for 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.

The Bank considers the following factors in assessing objective evidence of impairment:

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

All loans are individually assessed for specific impairment if there is any objective evidence of impairment. All other loans are then collectively assessed for impairment that has been incurred, but not yet been identified. Loans subject to collective impairment testing are grouped to loan portfolios on the basis of similar risk, industry or country rating.

Assets carried at amortised cost

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

Available for Sale Assets

The Bank assesses at each Balance Sheet date whether there is objective evidence that an available for sale asset is impaired. Objective evidence that a financial asset is impaired includes observable data that come to the attention of the Bank such as a major change in price due to deterioration of credit ratings which has an impact on the Bank'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.

e) Derivative Financial Instruments

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

f) Property and equipment

Property 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 or primary period of lease term, whichever is lower.

g) 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 years or the licence term, whichever is lower.

h) 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.

i) 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 furthers excludes items that are never taxable or deductible. The Bank'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 Bank intends to settle its current tax assets and liabilities on a net basis.

j) Operating lease commitments

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

k) Employee Benefits

Bank has two pay groups of employees in UK – those on secondment to the Bank from the Parent Bank and those who are locally recruited. The employees on secondment are governed by the salary structure approved by the Government of India as well as by the Board of Directors of the Parent Bank. Their salary, perquisites and allowances are fixed accordingly. Salary to the locally recruited staff is as per Board approved Human Resource Policy.

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

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

4] 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.

The Bank has one class of business and all other services are ancillary to this. Its activities are currently managed on a centralized business model. The Chief of Decision Making (CODM) of the Bank is the Board of Directors. The Board reviews all the information for the business as a whole as these ancillary activities do not have their own standalone reporting environment and protocols internally.

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

5] OPERATING PROFIT

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

	2012	2011 *Restated
	$	$
Interest expense	**25,578,179**	19,384,579
Depreciation of property and equipment	**661,784**	577,211
Amortisation of intangible assets	**186,111**	223,655
	847,895	**800,866**
Operating leases:		
Lease rental expenses	**562,997**	569,872
Auditor's remuneration - audit services	**215,771**	203,079
Auditor's remuneration - non-audit services	**210,976**	112,757
	426,747	315,836

	2012	2011*
	$	$
Included in operating income:		
Income on services related to:		
-Payment and settlement	**671,778**	608,003
-Retail banking	**455,172**	199,244
Other operating income	**4,768**	3,230
Positive fair value on interest rate derivatives	**18,385**	-
	1,150,103	810,477
Included in general administrative expenses:		
Marketing costs	**236,681**	100,096
Depreciation and amortisation	**847,895**	800,866
Establishment expenses	**1,095,541**	1,052,948
Legal, professional and audit fees	**1,330,060**	777,528
Recruitment and training expenses	**38,970**	10,674
Other administration costs	**1,894,573**	1,989,095
	5,443,720	4,731,207

**Refer note 32*

6] STAFF RELATED COSTS

	2012	2011
	$	$
Wages and salaries	**2,934,727**	2,241,542
Contribution towards defined employee benefit plan	**83,851**	61,928
Other employee benefits	**979,196**	586,945
Social security costs	**402,037**	187,548
	4,399,811	3,077,963

6] STAFF RELATED COSTS (continued)

Included in other employee benefits are:	2012 $	2011 $
Accommodation cost	**621,736**	397,762
Medical insurance and expense	**86,823**	47,057
Pension contributions for staff in India	**5,587**	19,822
Other expenses	**265,050**	122,304
	979,196	586,945

There are no share based payments to employees.

7] DIRECTORS' EMOLUMENTS

	2012 $	2011 $
Emoluments	**396,585**	375,654

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

	2012 $	2011 $
	150,765	141,378
Contributions to external pension scheme	**41,087**	32,520

8] INCOME TAX EXPENSE

Components of income tax expense

	2012 $	2011 $
Current income tax expense		
Current income tax charge	**2,737,074**	635,919
Deferred income tax (credit) / expense		
Effect of rate changes	**2,795**	-
Relating to origination and reversal of temporary differences	**(46,128)**	4,308
Income tax expense reported in income statement	**2,693,741**	640,227

8] INCOME TAX (continued)

Reconciliation of income tax charge to accounting profit

	2012	2011
	$	$
Profit Before Tax	**10,207,475**	2,041,862
Tax at the domestic income tax rate of 26% (2011: 28%)	**2,653,944**	571,721
Tax effect of non- deductible depreciation	**31,507**	-
Tax effect of other non - deductible expenses	**15,209**	68,506
Tax effect of rate changes	**(6,919)**	-
Tax expense using effective rate	**2,693,741**	640,227

	2012	2011
	$	*$*
Current income tax credited to equity		
Credit arising on AFS reserve movement	**1,218,782**	91,113
Tax credit effective rate	**26%**	28%

The rate was reduced by 2% to 26% with effect from 1 April 2011.

Following the budget on 21 March 2012, the rate of corporation tax for the year commencing 1 April 2012 will be reduced to 24% with an expected further reduction of 1% each from 1 April 2013 and 1 April 2014.

9] PROPERTY AND EQUIPMENT

At 31 March 2012

	Leasehold improvements $	Fixtures and fittings $	Total $
Cost			
At 1 April 2011	872,304	2,041,616	2,913,920
Additions/ adjustments	193,834	165,651	359,485
At 31 March 2012	**1,066,138**	**2,207,267**	**3,273,405**
Depreciation			
At 1 April 2011	(353,927)	(1,239,909)	(1,593,836)
Charge for year/ adjustments	(242,619)	(423,301)	(665,920)
At 31 March 2012	**(596,546)**	**(1,663,210)**	**(2,259,756)**
Net book value			
At 1 April 2011	518,377	801,707	1,320,084
At 31 March 2012	**469,592**	**544,057**	**1,013,649**

At 31 March 2011

	Leasehold improvements $	Fixtures and fittings $	Total $
Cost			
At 1 April 2010	553,408	1,604,758	2,158,166
Additions	318,896	436,858	755,754
At 31 March 2011	872,304	2,041,616	2,913,920
Depreciation			
At 1 April 2010	(193,822)	(822,803)	(1,016,625)
Charge for year	(160,105)	(417,106)	(577,211)
At 31 March 2011	(353,927)	(1,239,909)	(1,593,836)
Net book value			
At 1 April 2010	359,586	781,955	1,141,541
At 31 March 2011	518,377	801,707	1,320,084

10] INTANGIBLE ASSETS

31 March 2012

	Software $
Cost	
At 1 April 2011	1,066,515
Additions/adjustments	277,080
At 31 March 2012	**1,343,595**
Amortisation	
At 1 April 2011	(892,035)
Charge for the year/ adjustments	(181,976)
At 31 March 2012	**(1,074,011)**
Carrying value	
At 1 April 2011	174,480
At 31 March 2012	**269,584**

31 March 2011

	Software $
Cost	
At 1 April 2010	900,753
Additions	165,762
At 31 March 2011	1,066,515
Amortisation	
At 1 April 2010	(668,380)
Charge for the year	(223,655)
At 31 March 2011	(892,035)
Carrying value	
At 1 April 2010	232,373
At 31 March 2011	174,480

11] DEFERRED TAX ASSET / (LIABILITY)

	2012 $	2011 *$*
At 1 April	**(9,791)**	(5,483)
Release / (charge) for year	**43,333**	(4,308)
At 31 March	**33,542**	(9,791)

Deferred tax is in respect of timing differences between the book value of fixed assets and their tax carrying value

Effective rate utilised to calculate deferred tax provision	**24%**	26%

12] INVESTMENTS HELD TO MATURITY (HTM)

Restatement
The Bank had, in the previous year, classified certain investments in Foreign Currency Convertible Bonds (FCCB) as Held to Maturity. The terms of these FCCBs provide an option to the Bank to convert them to equity of the issuer at any time during the tenor of the FCCBs. As per IAS 39, the classification of such FCCBs as held to maturity is not permitted. Accordingly, these FCCBs have been restated as available for sale investments. As the difference between amortised cost and fair value as at 31 March 2011 was not significant, there was no effect of this adjustment on the income statement or on equity as at 31 March 2011.

The table below summarises the effect of the restatement on HTM investments at 31 March 2011:

	As per 31 March 2011 financial statements	**Amount reclassified**	**Restated as at 31 March 2011**
Debt securities	48,179,592	(23,977,198)	24,202,394
Less: impairment	(3,350,000)	-	(3,350,000)
Net book value of HTM securities	**44,829,592**	(23,977,198)	20,852,394

The table below summarises the effect of the restatement on HTM investments at 1 April 2010:

	As per 31 March 2011 financial statements	**Amount reclassified**	**Restated as at 1 April 2010**
Debt securities	32,013,252	(4,468,902)	27,544,350

The effect of the reclassification of $23,977,198 (2010: $4,468,902) was to reduce investments held to maturity included within non-current assets by $5,541,427 (2010: $3,196,692) and reduce investments held to maturity included within current assets by $18,525,711 (2010: $1,272,210)

The table below sets out the position of HTM investments as at the respective period ends

	2012	2011 *Restated*	2010 *Restated*
	$	$	$
Debt securities	**23,613,846**	24,202,394	27,544,350
Less: Impairment	**(3,350,000)**	(3,350,000)	-
Net book value of HTM securities	**20,263,846**	20,852,394	27,544,350
Current	**5,190,090**	2,978,525	8,393,127
Non-current	**15,073,756**	17,873,869	19,151,223
	20,263,846	20,852,394	27,544,350

Refer note 14 for details of fair value of investments which are Held to Maturity.

13] AVAILABLE-FOR-SALE FINANCIAL ASSETS

Restatement

	2012	*2011 Restated*	*1 April 2010 Restated*
	$	*$*	*$*
Marketable debt securities	**99,176,560**	*71,894,107*	*14,847,992*

As discussed in note 12 the value as at 31 March 2011 and 31 March 2010 has been re-stated to include FCCBs that were previously classified as held to maturity. The table below sets out the adjustment to AFS investments at 31 March 2011 and 1 April 2010.

	2011			**2010**		
	As per 31 March 2011 financial statements	**Amount reclassified**	**Restated as at 31 March 2011**	**As per 31 March 2010 financial statements**	**Amount reclassified**	**Restated as at 1 April 2010**
Marketable Debt Securities	47,513,527	24,380,580*	71,894,107	10,379,090	4,468,902	14,847,992

**Adjustment includes $ 403,382(2010: $ NIL) relating to the accrued interest on AFS investments which was previously included in trade and other receivables. Refer note 32 (8) for explanation on reason for change.*

14] FINANCIAL INSTRUMENTS

A. FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

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

	Carrying amount			*Fair value*		
	2012	*2011 Restated*	*1 April 2010 Restated*	**2012**	*2011 Restated*	*1 April 2010 Restated*
	$	*$*	*$*	**$**	*$*	*$*
Held to Maturity Securities	**23,613,846**	24,202,394	27,544,350	**19,794,076**	*20,716,100*	*27,254,239*
Less Impairment charge	**(3,350,000)**	(3,350,000)	-	-	-	-
Net Book Value	**20,263,846**	20,852,394	27,544,350	**19,794,076**	*20,716,100*	*27,254,239*

The carrying amount and fair value as at 31 March 2011 and 1 April 2010 given above are after re-statement of the portfolio, as discussed in note 12.

The total impairment charge recorded for Held to Maturity securities is towards Bank's investment in one credit linked note of an investment banking company which is currently in liquidation.

FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST (continued)

The charge for impairment is for the difference in amount between the book value and the market value of the credit linked note.

The value of financial instruments not carried at fair value incorporates the Bank's estimate of the amount at which financial assets could be exchanged, or liabilities settled between knowledgeable, willing counterparts in an arm's length transaction. It does not reflect the costs / benefits that the Bank expects to measure on the flows generated over the expected life of the instrument. Others may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

The fair values stated at a point in time may differ significantly from the amounts which will actually be paid on the maturity date or settlement dates of the instruments. In many cases it will not be possible to realise immediately the estimated fair values.

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

	Carrying amount and fair value		
	2012	2011 Restated*	1 April 2010 Restated*
	$	$	$
Interbank deposits	**157,571,146**	100,747,599	282,083,372
Subordinated debts	**37,500,000**	25,000,000	25,000,000
Savings accounts	**20,232,804**	16,256,294	12,431,722
Fixed term deposits	**798,063,115**	601,765,131	359,625,460
Current accounts	**53,071,909**	45,156,780	36,484,332
Bills payable	**123,267**	178,162	533,349
Call deposits and other	**138,485**	157,033	-
Bills purchased	**15,008,036**	17,761,305	1,798,562
Customer overdrafts	**180,413,611**	69,359,254	52,813,776
Term loans	**683,629,209**	616,080,855	516,842,840

**Refer note 32*

The basis of measurement of fair value which approximates to carrying value are as follows:

- The fair value of savings accounts and current accounts with no fixed maturity is assumed to be equal to the carrying value.
- Fair value of term deposits are expected to approximate the carrying value, since there has been insignificant change in interest rates in GBP deposits (during the year) which constitute a significant proportion of the Bank's term deposit base.
- Majority of the term loans are re-priced between 3 to 6 months and consequently the resultant impact on fair value of the term loans is considered insignificant. However, no adjustment has been made to the fair value for change in credit spreads of counterparties.
- Inter-bank deposits are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.
- Subordinated debts are carried at rate of LIBOR +4% and management believes that this is reflective of the fair value of these instruments.

B. FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Financial instruments carried at fair value in books of the Bank are Available for sale securities (note 13) and Derivatives (note 30). Categories of these assets are as below:

Level	**2012**	**2011**	1 April 2010
		Restated	*Restated*
	$	$	$
1	**42,628,267**	14,866,373	-
2	**59,364,459**	57,019417	14,847,992
3	**-**	-	-
Total assets at fair value	**101,992,726**	71,885,790	14,847,992

The amounts disclosed at 31 March 2011 and 1 April 2010 have been re-stated to include the AFS assets that have been reclassified from held to maturity, as discussed in note 12. These assets have been classified as level 2. The fair value hierarchy has the following levels:

- Level 1 – Valuations based on quoted prices available in active markets for the same instrument. Securities included in Level 1 are UK and US Treasury Bills.
- Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates or exchange rates). Securities included in Level 2 are all securities presently held in AFS other than UK and US Treasury Bills.
- Level 3 – Valuations based on inputs that are unobservable or for which there is limited market trades to determine the fair value. There are nil level 3 securities held by the Bank.

- No transfers between Level 1, Level 2 and level 3 have been made during the year.

15] LOANS AND RECEIVABLES

	2012	2011	1 April 2010
		*Restated**	*Restated**
	$	$	$
Bills purchased	**15,008,036**	17,761,305	1,798,562
Customer overdraft	**186,076,684**	74,378,904	52,813,776
Term loans	**689,074,641**	617,742,318	518,136,367
Total loans and receivables	**890,159,361**	709,882,527	572,748,705
Less: impairment charge[1]	**(11,108,505)**	(6,681,113)	(1,293,527)
Net loans and receivables	**879,050,856**	703,201,414	571,455,178
Out of Above:			
Non-current:			
Bills purchased	**12,829,053**	10,709,821	-
Term loans	**408,423,069**	298,966,924	267,215,582
Total non- current loans and receivables	**421,252,122**	309,676,745	267,215,582
Current:			
Bills purchased	**2,178,983**	7,051,484	1,798,562
Customer overdraft	**180,413,611**	69,359,254	52,813,776
Term loans	**275,206,140**	317,113,931	249,627,258
Total current loans and receivables	**457,798,734**	393,524,669	304,239,596

[1]*Impairment charge includes specific provision of $ 10,767,525 (2011: $6,681,113), (2010: $1,293,527) and $ 340,980 (2011: $NIL), (2010: $NIL) towards collective provision.*

**Refer note 32*

16] PROVISION ON IMPAIRED FINANCIAL ASSETS

Loans and Advances as at note 15 above and HTM securities as at note 12 above include impaired assets as below:

	Loans and Advances $	HTM Securities $
Gross balance of Impaired Assets	**28,240,817**	**5,000,000**
Less: specific impairment	**(10,767,525)**	**(3,350,000)**
Net balance	**17,473,292**	**1,650,000**

Movement in impairment provision during the year: .

	2012 $	2011 $
Balance as at 1 April	**10,031,113**	1,293,527
Add: impairment provision *(collective and specific)*	**4,427,392**	10,031,113
Less: impairment provision reversed	**-**	(1,293,527)
Balance as at 31 March	**14,458,505**	10,031,113
Out of above, specific provisions:		
Provision for impairment of loans and advances	**10,767,525**	6,681,113
Provision for impairment of HTM securities	**3,350,000**	3,350,000
	14,117,525	10,031,113
Collective impairment provision on loans and advances	**340,980**	**-**

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

	$
Amount debited to income statement for creation of specific impairment provision for loans and advances	**4,427,392**
Amount debited to income statement for permanent impairment of AFS securities	**1,311,191**
Total impairment debited to income statement for the year	**5,738,583**

17] EXPOSURE TO CREDIT RISK AND AVAILABILITY OF COLLATERAL SECURITY

The table below presents the Bank's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 March 2012, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts. Bank's exposure to credit risk is spread across different sectors and geographies. Bank is affected by the general economic conditions in the territories in which it operates. Bank has set limits on the exposure to any counterparty and group of counterparties, Industry Sector Exposure and Geographical Exposure; and credit risk is also spread over Banks, Retail and Corporate customers.

The Bank's exposure to credit risk has increased by $ 252.65 million when compared to March 2011 due to general business growth in the lending portfolio.

	31 March 2012	31 March 2011
		*Restated
On Balance sheet exposure	$	$
Bilateral and syndicated loans and advances to customers	**673,111,768**	544,977,789
Loans and advances to customers under Letter of Credit/Stand by Letter of Credit/ Letter of Comfort by banks	**202,039,557**	147,143,433
Inter Bank placements and Cash balances with banks	**192,911,735**	103,688,020
Bills purchased directly from customers	**149,598**	3,811,781
Bills purchased under LC/Guarantee of banks	**14,858,438**	13,949,525
Securities Held to Maturity – banks	**22,592,681**	24,202,394
Securities Held to Maturity – Non banks	**1,021,165**	-
Total – A	**1,106,684,942**	837,772,942
Off Balance Sheet Exposure		
Non-Bank Commitments (LCs/LGs)	**62,779,729**	62,601,045
Commitments under LCs/Guarantees by Banks	**4,678,186**	31,923,297
Total – B	**67,457,915**	94,524,342
Undrawn Credit Facilities – Non Banks	**41,453,691**	30,914,020
Undrawn Credit Facilities - Banks	**267,154**	-
Total – C	**41,720,845**	30,914,020
Total Exposure subject to Credit Risk	**1,215,863,702**	963,211,304

**Refer note 32*

17] EXPOSURE TO CREDIT RISK AND AVAILABILITY OF COLLATERAL SECURITY (continued)

The total exposure which is subject to credit risk into bank and non-bank exposure is as below:

	2012	2011
	$	$
Exposure on Banks	**437,347,751**	320,906,669
Non Bank Exposure	**778,515,951**	642,304,635
Total	**1,215,863,702**	963,211,304

Collateral:

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

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due or impaired, we have assessed the significance of the collateral held in relation to the type of lending. For loans and advances to banks and customers, the Bank held the following amounts of collateral, adjusted where appropriate.

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

B. Non-Bank exposure is secured as below; as at 31 March 2012:

Amt. in $ Million

	Retail Loans				Non Retail Loans				Total			
	Total	Past Due but not Individually Impaired	Individually Impaired Loans	Neither past due nor impaired	Total	Past Due but not Individually Impaired	Individually Impaired Loans	Neither past due nor impaired	Total	Past Due but not Individually Impaired	Individually Impaired Loans	Neither past due nor impaired
Exposure	**32.86**	0.73	-	32.13	**745.66**	3.38	28.90	713.38	**778.52**	4.11	28.90	745.51
Amount Collateralized	**31.18**	0.71	-	30.47	**710.23**	3.38	15.58	691.27	**741.41**	4.09	15.58	721.74

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

While arriving at the value of collateral:

- Value of personal and corporate guarantees has not been considered.
- Value of securities which rank pari-passu has been considered pro-rata in proportion to the exposure in the entity.
- The collateral values reported are based on most recent information and have been adjusted for the effects of over-collateralization.
- At the time of periodic review of loans, the need for updated valuation wherever relevant, is considered.
- Due to non-availability of required information, comparatives are not provided.

17] EXPOSURE TO CREDIT RISK AND AVAILABILITY OF COLLATERAL SECURITY (continued)

Percentage of collateral held in Non Bank exposure is as below:

%age of Value of Collateral to Exposure	Exposure $ Million
100%*	686.25
76% to 99%	49.09
51% to 75%	10.21
26% to 50%	1.21
11% to 25%	8.97
Below 10%	5.79
Unsecured	17.00
Total	778.52
Average %age of availability of Collateral*	95.23%

**excluding impact of over-collateralisation.*

Though the value of personal and corporate guarantees has not been considered while arriving at collateralized exposure as above, Bank values the importance of guarantee by promoters, holding companies, associates and third parties as an effective tool of risk mitigation and feels that at most times they are even more effective than the tangible collateral securities.

18] SELECTED EUROPEAN COUNTRY EXPOSURE

The Bank has no direct sovereign exposure (as defined by the EBA) to Greece, Ireland, Italy, Portugal and Spain (defined as GIIPS countries).The Bank's non-sovereign exposures to GIIPS is $ 14.1 million as follows:

- The Bank has an exposure in the form of a credit facility to a corporate in Ireland, having an outstanding balance of $6.3 million. This counterparty is an Irish subsidiary of an Indian corporate and is fully guaranteed by the Indian parent. It is further fully secured by collateral security of more than 100% of the exposure.

- The Bank has an exposure in the form of a credit facility to a corporate in Spain, having an outstanding balance of $7.8 million. This counterparty is a Spanish subsidiary of an Indian corporate and is fully guaranteed by the Indian parent. It is further fully secured by collateral security of more than 100% of the exposure.

Both the accounts are regular in repayments and there are no signs of weakness in either of them. There was no objective evidence of impairment in respect of these exposures as at 31 March 2012.

The Bank has no direct sovereign exposure to other Euro zone countries. Non-sovereign exposure to other Euro zone countries is $49.7million ($ 1.95 million net of collateral), and primarily relates to France, Germany, Belgium, Cyprus and the Netherlands. Of this, $12.1 million relates to banks.

19] TRADE AND OTHER RECEIVABLES

	2012	2011 Restated*	1 April 2010 Restated*
	$	$	$
Current prepayments	**491,189**	825,271	394,833
Other receivables	**30,366**	48,313	-
	521,555	873,584	394,833

*Refer note 32

20] CASH IN HAND AND BANK

	2012	2011 *Restated	2010 *Restated
	$	$	$
Cash on hand	**995,973**	614,409	273,492
Cash at bank	**192,911,735**	103,688,020	188,236,885
	193,907,708	104,302,429	188,510,377

*Refer note 32

21] CASH AND CASH EQUIVALENTS

	2012	2011 Restated	1 April 2010 Restated
	$	$	$
Cash on hand	**995,973**	614,409	273,492
Cash equivalent	**62,911,735**	48,688,020	143,236,885
	63,907,708	49,302,429	143,510,377

As at 31 March 2011 and 31 March 2010, all interbank placements were included as part of cash and cash equivalents irrespective of the contractual maturity of the placements. These interbank placements have been restated, with only placements having an original maturity of up to three months being treated as cash equivalents.

The table below sets out the cash equivalents restated for 31 March 2011 and 31 March 2010:

	2011			2010		
	As per 31 March 2011 financial statements	**Amount reclassified**	**Restated as at 31 March 2011**	**As per 31 March 2010 financial statements**	**Amount reclassified**	**Restated as at 1 April 2010**
Inter Bank placements	106,228,700	(54,634,679)	*51,594,021	169,364,000	(44,729,583)	**124,634,417
Balance with banks	9,402,924	-	9,402,924	18,602,468	-	18,602,468
Less: Overdraft from banks	(12,308,925)	-	(12,308,925)	-	-	-
Cash equivalent	**103,322,699**	(54,634,679)	48,688,020	**187,966,468**	(44,729,583)	143,236,885

21] CASH AND CASH EQUIVALENTS (continued)

**Placements of $55 million being of original maturity of more than 3 months are not treated as part of cash equivalent.*

***Placements of $45 million being of original maturity of more than 3 months are not treated as part of cash equivalent*.

Corresponding changes have been made to restate the Statement of Cash Flows for the year ended 31 March 2011. The placements that were previously recorded in cash and cash equivalents have been classified as loans and advances for the purposes of completing the cash flow statement. Accordingly, the increase in loans and advances in 2011 has been increased by $54,634,679. The decrease in working capital, cash flows from operating activities, and net increase in cash and cash equivalents has also been restated accordingly.

22] SHARE CAPITAL

Issued share capital

	2012		*2011*	
	No.	**$**	*No.*	*$*
Issued and fully paid				
Ordinary shares of £1 each	**2**	**4**	*2*	*4*
Ordinary shares of $1 each				
At start of year	**99,630,625**	**99,630,625**	74,630,625	74,630,625
New Issue of Share Capital*	**12,500,000**	**12,500,000**	-	-
New issues of Perpetual Notes**	**-**	**-**	25,000,000	25,000,000
At end of year	**112,130,627**	**112,130,629**	99,630,627	99,630,629

** During the current year, Bank has issued equity share capital of $12,500,000 in favour of its parent company, Punjab National Bank, by way of 12,500,000 ordinary shares of $1 each.*

***During the previous year the Bank had raised Upper Tier II Capital of $25m from the parent, Punjab National Bank in the form of perpetual floating rate subordinated notes (callable at the option of the issuer after 10 years) which are now listed on the Channel Island Stock Exchange. The discretionary rate of interest payable is 4% above LIBOR and is non - cumulative.*

Based on the terms and conditions of the purchase agreement and in accordance with IAS 32 guidance, since the interest payments are discretionary and the bank does not have obligation to pay cash or other financial asset in respect of its perpetual instrument nor there is any obligation to exercise its right to call the instrument this is classified as equity in the financial statements.

23] AFS RESERVES

31 March 2012	**AFS reserve**
	$
As at 1 April 2011	(234,291)
Movement in the value of AFS investments, net of tax	(3,119,139)
As at 31 March 2012	(3,353,430)

The reduction in the value of the available-for-sale investments of $4,687,622 has been offset by attributable current income tax in the sum of $1,218,782. Movements are shown below:

	Gross	**Tax**	**Net**
	$	**$**	**$**
Balance at 1April 2011	**(325,404)**	**91,113**	**(234,291)**
Amount transferred to income statement	**485,696**	**(135,995)**	**349,701**
Reserve brought forward	**160,292**	**(44,882)**	**115,410**
Movement in AFS reserve in year	**(4,687,622)**	**1,218,782**	**(3,468,840)**
Balance at 31 March 2012	**(4,527,330)**	**1,173,900**	**(3,353,430)**

31 March 2011	**$**
At 1 April 2010	156,840
Movement in the value of AFS investments, net of tax	(391,131)
At 31 March 2011	(234,291)

The reduction in the value of the available-for-sale investments of $325,404 was offset by attributable current income tax in the sum of $91,113.

24] FINANCIAL LIABILITIES

	2012	2011 Restated*	1 April 2010 Restated*
	$	$	$
Non-current interest bearing borrowings			
Fixed term deposits	**167,776,470**	117,588,226	38,361,241
Subordinated debt**	**37,500,000**	25,000,000	25,000,000
Interbank deposits	**-**	50,000,000	-
	205,276,470	192,588,226	63,361,241
Current interest bearing borrowings			
Interbank deposits	**157,571,146**	50,747,599	282,083,372
Fixed term deposits	**630,286,645**	484,176,905	321,264,219
Savings accounts	**20,232,804**	16,256,294	12,431,722
Call deposits and other	**138,485**	157,033	-
	808,229,080	551,337,831	615,779,313
Current non – interest bearing borrowings			
Current accounts	**53,071,909**	45,156,780	36,484,332
Bills payable	**123,267**	178,162	533,349
	53,195,176	45,334,942	37,017,681
Total current financial liabilities	**861,424,256**	596,672,773	652,796,994

Refer note 32

****Subordinated Debt**

This represents:

1. 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. Bank has an option to recall these bonds and repay in 2014; and the rate payable is 4% over LIBOR.

2. Lower Tier II capital received during the year from the Parent Company, Punjab National Bank, in the sum of $12,500,000 in the form of floating rate subordinated notes maturing in 2022 which have been listed on the Channel Islands Stock Exchange. Bank has an option to recall these bonds and repay in 2017; and the rate payable is 4% over LIBOR.

25] TRADE AND OTHER PAYABLES

	2012	2011 *Restated**	*1 April 2010 Restated**
	$	$	$
Other payables	**165,395**	43,155	160,796
Un-amortised arrangement fees on loans and advances	**5,792,541**	5,286,245	4,572,760
Accrued liabilities	**263,614**	302,276	729,686
	6,221,550	5,631,676	5,463,242

**Refer note 32*

26] OPERATING LEASE COMMITMENTS

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

	2012	2011
	$	$
Less than one year	**480,610**	564,664
Later than one year but less than five years	**591,466**	995,576
	1,072,076	1,560,240

27] OTHER COMMITMENTS AND CONTINGENCIES

Commitments

Commitments in respect of equipment and building contracts at the balance sheet date amounted to $NIL (previous year $260,697).

Commitments in respect of financial instruments were as follows:

	2012	2011
	$	$
Guarantees issued to third parties	**3,435,753**	1,805,061
Letters of credit issued	**62,372,162**	60,852,275
Letters of credit confirmed	**1,650,000**	31,867,006

There were undrawn loans of $23,053,286 and un-availed portion of sanctioned overdraft limits to the extent of $18,667,559 as at 31 March 2012.

Bills amounting to $7,096,391 were sent/ received in collection on behalf of customers. Bank did not have any balance sheet exposure on such bills for collection.

28] RELATED PARTY TRANSACTIONS

The ultimate controlling party of the company is Punjab National Bank, a Public sector bank incorporated in India which is both the immediate parent company and ultimate controlling party. The consolidated financial statements of Punjab National Bank are publically available at 7 Bhikaji Cama Place, New Delhi 110607, India.

The company regards Punjab National Bank (including all its branches in India and abroad) and its subsidiaries as related party in view of 100% shareholding of Punjab National Bank in the company. Entire equity capital, upper tier II capital and lower tier II capital of the company is held by Punjab National Bank.

Other liabilities and assets outstanding on the balance sheet of the Bank as on 31 March 2012 is as below:

	2012 $	2011 $
Liabilities		
Fixed Deposits	10,066,255	2,591,009
Borrowings	50,361,216	99,298,698
Current Accounts	3,428,590	1,111
Assets		
Balance in Nostro Accounts	1,092,692	1,850,954
Buyers Credits Given to Corporates on Letter of Comfort by Punjab National Bank	35,733,601	1,867,849
Bills accepted/ confirmed by PNB discounted to Corporates	864,383	225,594

Excluded from the above are loans sanctioned to corporates on Stand By Letters of Credit of Punjab National Bank amounting to $ 28,383,866.

Contingent exposure on Punjab National Bank is as below:

Nature	2012 $	2011 $
Letters of Credit and Guarantees Confirmed	4,678,187	23,579,019
Cross Currency Swaps (notional) – Sell	17,809,250	126,329,213
Cross Currency Swaps (notional) – Buy	17,981,750	127,388,550

28] RELATED PARTY TRANSACTIONS (continued)

Detail of transactions of a revenue nature with Punjab National Bank is as below:

Nature	Particulars	2012	2011
Receipts:		**$**	$
Interest Earned	Interest on Inter Bank Placements	30,683	184,549
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	221,487	237,285
B. Interest Paid on	Borrowings	1,059,533	1,364,633
	Fixed Deposits	432,366	9,000
C. Interest Paid on Capital Bonds	Upper Tier II Capital Bonds of $25.00 Mn.	1,146,101	-
	Lower Tier II Capital Bonds of $25.00 Mn.	1,156,049	1,140,558
	Lower Tier II Capital Bonds of $12.50 Mn.	99,888	-

**These charges were 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 are 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.

Other transactions with related parties include remuneration paid to directors which the bank considers as key management are disclosed in Note 7. The Bank considers that the cost of secondment of executives to or from the parent company is not material.

29] FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Governance

The Board of Directors have overall responsibility of risk management in 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.

29] FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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)

- 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 periodic 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.

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, finalizing provisioning requirements, taking stock of any breaches in any of the policies, identifying the resolution there to, periodical review of business strategy and branch expansion plans.

29] 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 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.

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 non-fund 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.

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.

29] FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, documentation is done through external solicitors;
- Periodic 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.
- For all lending against security of commercial properties, the same are normally valued by independent valuers.

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 and is monitored regularly.

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, most 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 2012.

29] FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The bank is monitoring its interest rate mismatches on a regular basis, and the potential loss on account of upward or downward movement of interest rates by 2% based on exposure as at 31 March 2012 is presented below.

Re-pricing analysis as at 31 March 2012

PARTICULARS	UP TO 1 Month	1 TO 3 Months	3 TO 6 Months	6 – 12 Months	1-3 years	Over 3 Years	Non Sensitive Category	TOTAL
ASSETS	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**
Non Current Assets								
Property and Equipment	-	-	-	-	-	-	1,014	1,014
Intangible Assets	-	-	-	-	-	-	270	270
Inv Held to Maturity	3,856	11,218	-	-	-	-	-	15,074
Loans and Receivables	171,125	164,786	65,398	12,941	6,266	735	-	421,251
Deferred Tax Asset	-	-	-	-	-	-	34	34
Current Assets								
Inv held to Maturity	1,040	-	2,500	-	-	1,650	-	5,190
Positive value of Derivatives	3,014	-	-	-	-	-	-	3,014
Loans and Receivables	228,539	107,166	88,817	25,435	7,074	768	-	457,799
Available for Sale Financial assets	14,803	16,450	66,793	1,130	-	1	-	99,177
Trade, other Receivables and assets	-	-	-	-	-	-	520	520
Cash in Hand and Bank	47,922	90,000	10,000	30,000	-	-	15,986	193,908
Total	**470,299**	**389,620**	**233,508**	**69,506**	**13,340**	**3,154**	**17,824**	**1,197,251**
LIABILITIES								
Issued Share Capital	-	-	25,000	-	-	-	87,131	112,131
Reserves & Retained Profits	-	-	-	-	-	-	11,268	11,268
Total Equity	**-**	**-**	**25,000**	**-**	**-**	**-**	**98,399**	**123,399**
Non Current Liabilities								
Interest Bearing Borrowings	-	-	38,221	-	111,589	55,467	-	205,277
Current Liabilities								
Interest Bearing Borrowings & Deposits	64,165	223,521	261,969	258,574	-	-	-	808,229
Non Interest Bearing Borrowing	53,072	-	-	-	-	-	123	53,195
Negative Fair Value of Derivatives	198	-	-	-	-	-	-	198
Tax Payables	-	-	-	-	-	-	732	732
Trade and other Payables	-	-	-	-	-	-	6221	6221
Total	**117,435**	**223,521**	**325,190**	**258,574**	**111,589**	**55,467**	**105,475**	**1,197,251**
Interest Rate Gap	**352,863**	**166,099**	**(91,682)**	**(189,068)**	**(98,248)**	**(52,313)**	**(87,651)**	**-**
Impact of Interest Variation of 2%	**294**	**553**	**688**	**2,836**	**3,930**	**4,185**	**-**	**12,486**

The bank has stipulated limit for open position and the actual open position is measured and monitored regularly.

29] 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 is measuring and monitoring this open position on a daily basis.

The bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long or short currency positions. These derivatives are re-valued daily and any change in their fair value is recognized immediately in profit and loss. The total notional amount of outstanding currency exchange contracts to which the Bank is committed is $323.07 million.

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 prevailing 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 prevailing exchange rate on the balance sheet date. Resulting gains or losses on these translations are included in the income statement.

The open position of the Bank as on 31 March 2012 is as follows:

Currency	Open Position	USD Equivalent
Indian Rupees	123,114,440	2,419,939
Pound Sterling	1,118,634	1,787,913
Euro	367,281	489,403
UAE Dirham	243,030	66,168
Canadian Dollar	48,531	48,590
Norwegian Kroner	191,418	33,576
Nepalese Rupees	581,310	7,185
Japanese Yen	1,169,326	14,204
Australian Dollar	87,568	90,694
Total Open Position in US Dollars		**4,957,676**

Since the open position in individual currencies are 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. Bank is willing to accept limited liquidity risks resulting from their business model. Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed

29] FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

by the Board and/ or the regulator. The following table analyses the Bank's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date:

As at 31 March 2012	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	107,695	145,916	127,912	28,287	-	-	409,810
Loans & advances to customers	189,884	16,753	63,246	298,894	93,376	-	662,153
Debt securities	44,648	2,124	57,595	14,053	1,021	-	119,441
Other assets	1,026	-	3,504	-	-	1,317	5,847
Total assets	**343,253**	**164,793**	**252,257**	**341,234**	**94,397**	**1,317**	**1,197,251**
Deposits from banks	4,694	16,156	144,156	120	-	-	165,126
Other deposits	111,643	203,802	368,092	163,786	-	-	847,323
Other liabilities and shareholders' funds	49	-	17,380	3,872	40,102	123,399	184,802
Total equity and liabilities	**116,386**	**219,958**	**529,628**	**167,778**	**40,102**	**123,399**	**1,197,251**
Net liquidity gap	226,867	(55,165)	(277,371)	173,456	54,295	(122,082)	-
Cumulative Liquidity Gap	226,867	171,702	(105,669)	67,787	122,082	-	

As at 31 March 2011 *Restated	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	69,405	-	35,237	-	-	-	104,642
Loans & advances to customers	122,998	35,090	226,346	270,076	25,706	-	680,216
Debt securities	25,154	10,233	33,633	23,325	-	-	92,345
Other assets	-	3,762	4,895	10,710	-	7,654	27,021
Total assets	**217,557**	**49,085**	**300,111**	**304,111**	**25,706**	**7,654**	**904,224**
Deposits from banks	27,461	22,918	-	50,000	-	-	100,379
Other deposits	123,404	86,323	379,215	65,897	-	-	654,839
Other liabilities and shareholders' funds	-	-	4,675	-	52,225	92,106	149,006
Total equity and liabilities	**150,865**	**109,241**	**383,890**	**115,897**	**52,225**	**92,106**	**904,224**
Net liquidity gap	66,692	(60,156)	(83,779)	188,214	(26,519)	(84,452)	-
Cumulative Liquidity Gap	66,692	6,536	(77,243)	110,971	84,452	-	

*Refer note 32

29] FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. The Bank considers their funding ability before committing to any additional credit facility and closely monitors the upcoming payment obligations. The Bank has an ILAA document taking into account the revised guidelines issued by the regulator.

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 (unaudited)

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, anti bribery policy, records retention policy, compliance code of conduct and others. These are already in place and tested periodically.

30] DERIVATIVE FINANCIAL INSTRUMENTS

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long or short term currency positions. These derivatives are revalued daily and any change in their fair value is recognised in the income statement. The total notional amount of outstanding cross currency swap contracts to which the Bank is committed is USD 323.07 million and the net marked to market value of these exposures being $2.8 million.

Bank has also entered into a two year interest rate swap of GBP 2.00 million expiring on 3 April 2013. Under the contract, Bank pays floating rate interest at the rate of six months Sterling LIBOR and receives fixed interest of 1.91% on a half yearly basis. The market value of this swap as on 31 March 2012 is USD 18,385.

30] EXPOSURE IN DERIVATIVES (continued)

Fair value of all derivatives is as below:

	As on 31 March 2012		As on 31 March 2011 Restated*	
	Positive Fair Value $	Negative Fair Value $	Positive Fair Value	Negative Fair Value
Cross Currency Swap	2,995,793	198,012	1,605,579	1,613,896
Interest Rate Swap	18,385	-	-	-
	3,014,178	198,012	1,605,579	1,613,896

**Refer note 32*

31] CAPITAL MANAGEMENT

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

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

Regulatory Capital Requirements and its Adequacy (unaudited):

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

31] CAPITAL MANAGEMENT (continued)

Tier	Component	Amount in $
Core Tier One Capital	Permanent share capital	87,130,629
	Profit and loss account and other reserves	14,621,608
	Available for sale Reserve	(3,353,430)
Total tier I capital		98,398,807
Deduction from Tier I capital	Intangible assets	269,584
Total Tier I capital after deductions		98,129,223
Upper Tier II Capital	Perpetual subordinated debt	25,000,000
	Collective impairment provision	340,980
Lower Tier II capital	Long term subordinated debt	37,500,000
Total Tier II capital		62,840,980
Deduction from Tier II capital		-
Total upper Tier II capital after deductions		62,840,980
Total Tier I capital and Tier II capital after deductions		160,970,203
Tier three capital		Nil
Total capital after deductions		160,970,203
Risk Weighted Assets		869,700,190
Capital to Risk Adequacy Ratio		18.51%
Tier I Capital Ratio		11.28%

32] RECLASSIFICATION

In the current year, the company has reclassified certain amounts within its statement of financial position and income statement and has restated the comparative financial statements as at 31 March 2011 and 01 April 2010 to make them consistent with the current year. The effect of those reclassifications on the comparative statement of financial position and income statement can be summarised as follows:

Comparative reclassified balances as at 31 March 2011 and for the year then ended 31 March 2011

Amount in $

As at 31 March 2011			
Financial statement captions	**Balance as per previous year audited financial statements**	**Amount reclassified/ regrouped**	**Balance as per current year audited financial statements**
Balance Sheet			
Loans and receivables (Current)	388,895,261	2,403,834(1) 2,225,574(2)	393,524,669
Loans and receivables (Non-current)	304,499,361	2,116,713(1) 3,060,671(2)	309,524,669
Trade and other receivables (Current)	6,162,834	(4,520,547)(1) (365,321)(4) (403,382)(5)	873,584
Cash in hand and bank (Current)	103,937,108	(365,321)(4)	104,302,429
Interest bearing borrowings (Current)	543,986,255	7,351,576(3)	551,337,831
Interest bearing borrowings (Non-current)	190,897,350	1,690,876(3)	192,588,226
Trade and other payable (Current)	9,396,200	(9,042,452)(3) 5,286,245(2) (8,317)(6)	5,631,676
Income Statement			
Interest income	37,711,730	3,902,962(7) (6,036,498)(8)	35,578,195
Interest expense	25,421,076	(6,036,498)(8)	19,384,579
Net interest income	12,290,654	3,902,962(7)	16,193,616
Operating income	6,297,964	(3,902,962)(7) (1,584,525)(9)	810,477

32] RECLASSIFICATION (continued)

Comparative reclassified balances as at 01 April 2010

Amount in $

As at 01 April 2010			
Financial statement captions	**Balance as per 31 March 2010 audited financial statements**	**Amount reclassified/ regrouped**	**Balance as per current year audited financial statements**
Balance Sheet			
Loans and receivables (Current)	300,545,741	1,700,305(1) 1,993,550(2)	304,239,596
Loans and receivables (Non-current)	262,828,765	1,807,607(1) 2,579,210(2)	267,215,582
Trade and other receivables (Current)	4,173,162	(3,507,912)(1) (270,417)(4)	394,833
Cash in hand and bank (Current)	188,239,960	270,417(4)	188,510,377
Interest bearing borrowings (Current)	611,787,039	3,992,274(3)	615,779,313
Interest bearing borrowings (Non-current)	63,043,436	317,805(3)	63,361,241
Trade and other payables (Current)	5,200,561	(4,310,079)(3) 4,572,760(2)	5,463,242

Reasons for change

Balance Sheet

1) The Bank previously recorded accrued interest on loans and receivables as part of ‘trade and other receivables’. This has now been reclassified such that accrued interest has been added to the carrying value of ‘Loans and Receivables’ and reduced from ‘Trade and other receivables’. There has been no impact on the net assets or profit for the period. The impact of this reclassification on current and non-current assets is shown in the table above.

2) The Bank previously recorded (netted off) unamortised fees as part of ‘Loans and Receivables’. This has now been reclassified such that unamortised fees have been appropriately included within ‘Trade and other payables’. The effect of this adjustment led to an increase in total assets and total liabilities and equity as at 31 March 2011 by $5,286,245 (as at 1 April 2010: $4,572,760). The impact of this reclassification on current assets, non-current assets and current liabilities is shown in the table above.

32] RECLASSIFICATION (continued)

3) The Bank previously recorded interest accrued and payable on deposits as part of 'Trade and other payables'. This has now been reclassified such that interest accrued has been added to the carrying value of 'Interest bearing borrowings' and reduced from 'Trade and other payables'. There has been no impact on the net assets or profit for the period. The impact of this reclassification on current and non-current liabilities is shown in the table above.

4) The Bank previously recorded interest accrued and receivable on short term inter-bank placements as 'Trade and other receivables'. These have now been included within 'cash at bank' as they are part of the closing cash balance.

5) The Bank previously recorded interest accrued and receivable on AFS securities within 'Trade and other receivables'. These amounts have now been included within the carrying value of the 'AFS securities' to which they relate. See note 13.

6) The Bank previously recorded the fair value derivative financial instruments at net fair value within 'Trade and other receivables'. In the current year, gross positive and negative fair value of derivative financial instruments have been presented as separate balance sheet captions.

Income Statement

7) The Bank previously recorded fees earned in lieu of interest as part of 'Other operating income'. In the current year, such fees have been included within 'Interest income' in the income statement.

8) In applying the effective interest rate method, the Bank previously included amortisation of premiums paid on the purchase of investments and presented it separately as a component of 'Interest expense' in the income statement. In the current year, these amounts have been adjusted from 'Interest Income'.

9) In the current year, 'fee and commission' and 'net trading income' have been presented separately in the income statement rather than being presented as part of 'other operating income'.

33] EVENTS AFTER THE BALANCE SHEET DATE

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