COMPANY REGISTRATION NUMBER 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

31 MARCH 2013

CONTENTS **PAGES**

Company registration number	**5781326**
The board of directors*	***Kasargod Ramachandra Kamath,*** Chairman ***Bhupinder Singh Passi*** Managing Director and Secretary ***Muddoor Sadananda Nayak*** Executive Director ***Pendarell Hugh Kent*** ***Paresh Mashru*** ***Sushma Bali***

**There have been no changes during the year and subsequent to the year end.*

Company secretary	***Bhupinder Singh Passi***
Registered office	1 Moorgate London EC2R 6JH, 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 2013. 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 Bank has shown good progress in its business development during the financial year ended 31 March 2013. The total customer business of the Bank has increased from $1,741,025 thousand as at 31 March 2012 to $2,335,487 thousand as at 31 March 2013, a year-on-year increase of 34.14%. The operating profit for the year ended 31 March 2013 amounted to $21,103 thousand (2012: $15,946 thousand), a year on year increase of 32.34%. The profit before taxation for the year ended 31 March 2013 amounted to $6,978 thousand and the profit after tax is $5,374 thousand. Total comprehensive income attributable to equity shareholders is $8,852 thousand (2012:$4,394 thousand). As at 31 March 2013, the Punjab National Bank (International) Limited ('PNBIL' or the 'Company' or the 'Bank') had total assets of $1,517,429 thousand (2012: $1,197,252 thousand).

As in the previous years, the directors have not recommended any payment of dividend on equity share capital, however, dividend at the rate of LIBOR plus 4% amounting to $1,168 thousand (2012: $1,146 thousand) has been paid on the amount of Upper Tier II capital.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Punjab National Bank (International) Limited, a UK incorporated 100% subsidiary of Punjab National Bank – India, offers commercial banking services to customers and is authorised and currently regulated by the Financial Services Authority (till 31 March 2013) and by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) with effect from 1 April 2013. Our Parent is one of the leading public sector banks of India. Punjab National Bank has an asset base of $86.98 billion as at 31 December 2012 (prior year $79.44 billion as at 31 December 2011.) PNBIL started its operations on 10 May 2007 after obtaining regulatory approval on 13 April 2007 and its main business is to provide corporate and retail banking services to different types of customers, particularly to those with business or personal links with India and to UK residents.

PNBIL started its operations with two branches in London, one in Southall and a second branch at Gresham Street (since now moved to 1- Moorgate London) in Central London. Five new branches were opened since then, and the Bank is presently operating through its seven branches across UK. While the Central London branch mainly caters to corporate clients, all other 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.

Major activities of the Bank include accepting deposits from both retail and corporate clients, lending to retail and corporate clients, making rupee and other remittances for its clients and treasury operations to support its fund management and to meet cross currency transactions of its clients. During the year, total lending has increased to $1,136,138 thousand (2012: $883,759 thousand), which included UK commercial property loans. Bank has also built a portfolio of investments on its own account. The growth in investment portfolio during the year was from $122,790 thousand to $ 214,588 thousand. The basic strategy of treasury operations of the Bank continues to be the ability to maintain comfortable liquidity position throughout the financial year.

Offering basic banking products and relationship banking continues to be the strong selling point for the Bank. The Indian Rupee (INR) remittance scheme of the Bank has stabilised and gained popularity among the ethnic population. 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 23,000 (previous year: 19,000) debit cards to its clients by the end of March 2013. We are planning to re-issue these cards under Master Card from existing Maestro Card. The new card will also have the facility of contactless functionality and additional features of regional blocking with SMS alert, fraud transaction monitoring and charge back processing. New IBS server for the purpose of improving internet banking services was installed during the year. During the year under review, Cash ISA product was launched with variants of Variable Rate Cash ISA and Fixed Rate Cash ISA. PNBIL also established a dedicated in-house Help Line Service Centre with a view to improve its relationship banking and customer service.

Upon expiry of the lease of premises at 87 Guildhall House, Corporate Office and the Central London branch were moved to more spacious premises at 1 Moorgate London in the month of June 2012. Registered office of the Bank has also been changed to 1- Moorgate, London.

There was no change in management and governance structure of the Bank during the year. All existing directors are continuing since last year.

FINANCIAL RESULTS

The operating profit before provisions, tax and dividends for the current financial year has increased by 32.34% ($21,103 thousand at 31 March 2013 as against $15,946 thousand at 31 March 2012). This was led mainly by increase in net interest income by $8,730 thousand during the year. Total comprehensive income for the year attributable to equity shareholders amounted to $8,852 thousand (2012: $4,394 thousand). The financial statements for the reporting year ended 31 March 2013 are shown on pages 14 to 63.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Major risks faced by the Bank are credit risk on the loan portfolio, market risk on account of forex open position, interest rate risk in banking book and operational risk; as applicable for any internationally active Bank. The Bank has established appropriate mechanism to measure, monitor and manage these risks on on-going basis. The Board of the Bank has stipulated threshold risk limits for each of these major risks.

The Bank's strategies and policies regarding financial risk management, including the use of financial instruments, the policy for hedging, and an indication of the exposure to financial risk is provided in note 33. Note 33 to the financial statements also includes Bank's processes for managing its capital; its financial risk management strategy; details of its financial instruments and hedging activities; and exposure to credit, market, liquidity and other risks.

GOING CONCERN BASIS

The Bank has adequate resources to continue its operations for the foreseeable future, is profitable for the year ended 31 March 2013 and has a positive net worth position. The Bank has received sufficient support from the parent in the form of capital and operational support from time to time and the same will continue to be received. Similarly, it has maintained a stable liquidity position. Adequacy of liquidity is being ensured on a stand-alone basis, and liquidity coverage ratio as also the net stable funding ratio of the bank remain well above the threshold levels. There is a positive contribution to capital by way of retained earnings during the financial year, along with fresh capital injection during the year, as discussed in the 'capital structure' section. 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, subordinated debt, reserves and retained earnings. Bank has maintained its Core Tier I, Tier I and Tier II ratios at levels which exceed the current minimum requirements of the Prudential Regulation Authority (formerly Financial Services Authority) - the banking regulator in the UK and also the Reserve Bank of India, the banking regulator of the country of the Parent.

Capital ratios of the Bank remain strong. Based on interpretation of the Basel III new rules, Bank does not anticipate any shortfall in adequacy of capital on account of its implementation. 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 $193,583 thousand comprising share capital of $99,631 thousand, upper tier II capital of $25,000 thousand, lower tier II capital of $50,000 thousand and retained earnings of $18,952 thousand.

During the period under review, equity share capital of $12,500 thousand was raised from the parent company, Punjab National Bank, in order to augment the core tier I capital ratio and to support growth in business.

Upper Tier II Capital of $25,000 thousand was raised in the year 2011 by issuing perpetual notes to the parent company – Punjab National Bank. This amount is included under equity in the financial statements (see note 28).

During the year under review, lower tier II capital of $12,500 thousand was also raised by way of subordinated redeemable bonds. Total amount of lower tier II capital is now $50,000 thousand by way of subordinated redeemable bonds. This amount is shown in the financial statements as a financial liability (see note 26); 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 ('KPI's')

The key performance indicators used by the company for the current year are growth in loan portfolio, increase in the deposit base of the bank, number of branches operating during the year and profitability.

	2013	2012
Customer deposits	**$1,199 million**	$857 million
Total loans	**$1,136 million**	$884 million
Operating Profit	**$21 million**	$16 million
No. of branches	**7**	7

Personalized services and relationship with our customers helped the Bank achieve stable growth both in net interest income as well as in operating income. The main priority of the Bank will continue to be building stronger relationship with our clients and customers. Deep, long term client relationships have always been the foundation of our business and shall continue to be a key focus area.

As at 31 March 2013, the main industry concentration within the Bank's loans and receivable portfolio related to Banks (20%), real estate activities (14%), mining of coal and other material (4%) and iron and steel (4%). 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 (44%), UK (32%) and other G10 countries (15%).

The Bank does not have any sovereign exposures in the Euro zone and has limited overall direct exposure in the affected geographies within Euro Zone (including troubled countries of Greece, Ireland, Italy, Portugal, Spain and Cyprus). Bank continues to closely monitor its exposure to such troubled countries by keeping them in watch-list and having regular review.

Impairment on loans during the year has increased as compared to the previous year.

MARKET AND OPERATING ENVIRONMENT

MARKET UNCERTAINTY

The year saw difficult conditions due to the Eurozone crisis and a slowdown in economic growth, with both events adversely impacting client activities and funding markets. Headline GDP in UK is estimated to have grown by 0.2% over the year as a whole with some signs of slowing towards the end of the year. In the euro area, GDP had fallen by 0.6% in 2012 Q4. In the United States, GDP growth was estimated to be zero in 2012 Q4. India's GDP growth during the year was 5.2 percent.

There were downward revisions of global GDP forecasts by UK Treasury, US Fed, and a number of supranational bodies such as the IMF and the World Bank; with a worsening outlook on the pace of recovery following the recent economic crisis. This impacted income growth of the banking industry in general as customers and clients became more conservative. Volatility in global financial markets is likely to remain high and significant uncertainty continues within the Eurozone.

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 to their liquidity positions.

REGULATORY FACTORS

Regulatory environment in UK has undergone substantive changes during the year, with the legislation of Financial Services Act 2012. With effect from 1 April 2013, the role of Financial Services Authority (FSA) has been taken over by Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and the Financial Policy Committee (FPC). PRA functions within the Bank of England, with statutory objective of safety and soundness of the Banks. FCA is the independent regulator for enforcement of financial and market discipline. The third regulator, the Financial Policy Committee (FPC), is the subsidiary of Bank of England and will be responsible for supervision of financial market infrastructure and contribute to BOE's financial stability objectives.

Implementation of CRD IV, CRR and COREP reporting, which was earlier proposed to be implemented from January 2013, was delayed. On 16 April 2013, European Parliament has adopted the legislative package of CRD IV, covering prudential rules for Banks and Investment Firms in the European Union. It comprises of the Directive 'on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms' and the Regulation 'on prudential requirements for credit institutions and investment firms'. The CRR contains the Pillar I and Pillar 3 requirements and the CRD contains the requirements for Pillar 2, supervisory review and the buffers framework. The final text remains subject to a detailed review of legal drafting and translation into other official EU languages and its formal adoption by the council of ministers. If translation can be completed in time for the legislation to be published in the official journal before 1 July 2013, implementation of CRD IV will be from 1 January 2014, otherwise from 1 July 2014. PRA and FCA have indicated that they are currently planning on the basis of 1 January 2014 implementation. FPC has meanwhile directed that major UK Banks must achieve a risk weighted capital ratio on full Basel III basis with adjustments for expected losses by the end of 2013.

Issuance of CRD IV will also necessitate COREP and FINREP reporting to European Banking Authority besides to the national regulators. This will necessitate investment towards automation of process of generation of such returns and the required granularity of data thereto.

On 4 February 2013, the UK Government introduced the Financial Services (Banking Reform) Bill to the House of Commons. The Bill would give the UK authorities the power to implement the key recommendations of the Independent Commission on Banking (ICB) requiring, among other things, the ring-fencing of retail and SME activities of Banks. Recommendations of the Parliamentary Commission on Banking Standards are likely to also influence the UK Government policy and legislative proposals, possibly through amendment to the Banking Reform Bill which will be under debate through much of 2013.

In respect of impact of Dodd-Frank Act (DFA) becoming law in the US, its impact on UK banks still remains unclear. The rules are yet to be implemented and in some areas, yet to be proposed.

IMPACT OF MARKET FACTORS ON BANK

Our performance in 2012-13 was not materially impacted by the prevailing difficult economic conditions. Our capital, funding and liquidity positions remain a source of stability for us and provide assurance to our customers and clients and support us in meeting future regulatory requirements. Capital adequacy ratio, liquidity coverage ratio and net stable funding ratio of the Bank remained above the threshold levels of regulatory requirements and individual capital and liquidity guidance. Our funding is well diversified, majority of it being long term in nature. Besides, liquidity asset buffer and short term interbank placements and bank balances are maintained, keeping in view the immediate liquidity requirement, which may be triggered under stressed conditions. A minimum of 90 days survival period is considered for maintenance of the buffer.

The Bank’s capital to risk adequacy ratio is 16.17%, with core tier I capital ratio being at 9.88% - well above the requirements of CRD IV. Bank has taken steps to further augment its capital base during the coming year so as to support its planned business growth.

Necessary automation software to implement the COREP and FINREP reporting guidelines will be put in place during the year. The vendor for providing the necessary automation has already been finalized and steps will be taken to test generate the returns well in advance of actual implementation. The ring-fencing proposals are not expected to have any material effect on the operations and business model of the Bank. However, we will continue to assess the impact as we model our growth plans.

Implementation of Dodd-Frank Act may have effect on proprietary trading of the Banks. Keeping in view our profile of treasury operations, its impact on the Bank may be negligible. Necessary actions will be initiated as the guidelines become clear.

The Bank maintains a pro-active stance to regulation taking a serious approach to ensuring compliance with the resulting legislation and regulation.

Regulatory timeline

H1 2013	Implementation of RWA calculations under Basel 3 (CRD4)
H1 2014	Implementation of CRD4 and CRR
H1 2014	Implementation of COREP reporting
H2 2014	Implementation of FINREP reporting
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 STRATEGY

The Bank proposes to re-launch its on-line remittance product after obtaining regulatory approval for the same. New contact less debit card will also be issued early in the year 2013-14.

As a part of its expansion strategy in Europe, the Bank will explore the possibility of establishing an office in one of the European countries.

CHARITABLE DONATIONS

Charitable donations in the sum of $13,304 were made during the year (2012: $6,486).

EVENTS AFTER THE BALANCE SHEET DATE

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

DIRECTORS

There was no change in directors of the Bank during the year under review. Current directors are listed on page 2.

INTERNAL CONTROL AND FINANCIAL REPORTING

The directors are responsible for establishing effective 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 contain and 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 30 April 2013, the date of approval of the Annual Report for the year ended 31 March 2013.

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 on-going 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 directors at the date of approval of this annual report confirm 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, present 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. KPMG Audit Plc has indicated their willingness to continue as auditors of the Bank.

Accordingly, they will continue to be auditors of the Bank for the financial year 2013-14 as well, necessary resolution in this regard was approved by the Board in its meeting held on 20 July 2012.

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

1, Moorgate, London
EC2R 6JH (UK)

30 April 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

The directors are responsible for preparing the directors' report and 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and 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

30 April 2013

Independent auditor's report to the shareholders of Punjab National Bank (International) Limited

We have audited the financial statements of Punjab National Bank (International) Limited (the 'Bank') for the year ended 31 March 2013 set out on pages 14 - 63. 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 shareholders 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 (set out on page 11), 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2013 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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

30 April 2013

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013 $'000	2012 $'000 Restated*	01 April 2011 $'000 Restated*
Assets				
Cash and cash equivalents	9	**133,331**	63,908	49,302
Investment securities – held for trading	10	**119,857**	-	-
Derivative financial instruments	11	**1,169**	3,014	1,606
Loans and advances to banks	12	**274,216**	346,899	218,612
Loans and advances to customers	13	**895,209**	662,152	539,590
Investment securities - available for sale	14	**85,171**	99,177	71,894
Investment securities – held to maturity	15	**6,210**	20,264	20,852
Property, plant and equipment	20	**1,727**	1,014	1,320
Intangible assets	21	**192**	270	175
Deferred tax assets	22	**49**	33	-
Prepayments and other receivables	23	**298**	521	874
Total assets		**1,517,429**	1,197,252	904,225
Liabilities				
Derivative financial instruments	11	**5,836**	198	1,614
Deposits from banks	24	**115,808**	167,636	100,748
Deposits from customers	25	**1,194,617**	861,441	663,335
Current tax liabilities		**1,085**	610	57
Subordinated liabilities and other borrowed funds	26	**50,000**	37,500	25,000
Deferred tax liabilities	22	**-**	-	10
Other liabilities	27	**6,500**	6,468	5,810
Total liabilities		**1,373,846**	1,073,853	796,574
Equity				
Share capital	28	**124,631**	112,131	99,631
Retained earnings		**18,827**	14,621	8,254
Fair value reserve	29	**125**	(3,353)	(234)
Total parent company shareholders' equity		**143,583**	123,399	107,651
Total equity and liabilities		**1,517,429**	1,197,252	904,225

**Refer note 35 for details on specific line items where comparative balances have been restated.*

The financial statements were approved by the Board of Directors and authorised for issue on 30 April, 2013.

K R KAMATH
Chairman

BHUPINDER SINGH PASSI
Managing Director

M S NAYAK
Director

P H KENT
Director

P MASHRU
Director

Company Registration No 5781326

The notes on pages 20 to 63 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013 $'000	2012 $'000
Interest income	5	**70,132**	47,646
Interest expense	5	**(39,334)**	(25,578)
Net interest income		**30,798**	22,068
Net trading income	5	**873**	1,857
Fee and commission income		**734**	715
Other operating income	5	**941**	1,150
Operating income		**33,346**	25,790
Staff related costs	6	**(5,651)**	(4,400)
Operating lease expenses	5	**(693)**	(563)
Depreciation and amortisation	5	**(788)**	(848)
General administrative expenses	5	**(5,111)**	(4,033)
Provision on impaired financial assets	17	**(14,125)**	(5,739)
Profit before tax		**6,978**	10,207
Income tax expense	8	**(1,604)**	(2,694)
Profit after tax		**5,374**	7,513

The notes on pages 20 to 63 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 MARCH 2013

	2013 $'000	2012 $'000
Profit for the year	**5,374**	7,513
Net change in fair value on AFS investments	**524**	(4,688)
Tax relating to fair value change on AFS investments	**(126)**	1,219
	398	(3,469)
Net amount transferred to profit and loss (AFS investments)	**3,080**	350
Other comprehensive income for the year	**3,478**	**(3,119)**
Total comprehensive income attributable to equity shareholders	**8,852**	4,394

The notes on pages 20 to 63 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CHANGES IN EQUITY
AS AT 31 MARCH 2013

	Attributable to equity holders of the Bank			
31 March 2013	**Issued capital $'000**	**Fair value reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 April 2012	**112,131**	**(3,353)**	**14,621**	**123,399**
Total comprehensive income for the year				
Profit for the year	-	-	5,374	5,374
Other comprehensive income for the year				
Net change in fair value of AFS investments	-	398	-	398
Net amount transferred to profit and loss	-	3,080	-	3,080
Total other comprehensive income for the year	-	3,478	-	3,478
Total comprehensive income for the year	**-**	**3,478**	**5,374**	**8,852**
Transactions with owners recorded directly in equity				
Contributions by and distribution to owners of the group				
Issue of Share Capital[#]	12,500	-	-	12,500
Dividend on Upper Tier II Capital	-	-	(1,168)	(1,168)
Total contributions by and distributions to owners	12,500	-	(1,168)	11,332
Balance at 31 March 2013	**124,631**	**125**	**18,827**	**143,583**

[#] *Equity capital by way of issuance of shares (see note 28).*

The notes on pages 20 to 63 form part of these financial statements

	Attributable to equity holders of the Bank			
31 March 2012	**Issued capital $’000**	**Fair value reserves $’000**	**Retained earnings $’000**	**Total equity $’000**
Balance at 1 April 2011	**99,631**	**(234)**	**8,254**	**107,651**
Total comprehensive income for the year				
Profit for the year	-	-	7,513	7,513
Other comprehensive income for the year				
Net change in fair value of AFS investments	-	(3,469)	-	(3,469)
Net amount transferred to profit and loss	-	350	-	350
Total other comprehensive income for the year	-	(3,119)	-	(3,119)
Total comprehensive income for the year	-	(3,119)	7,513	4,394
Transactions with owners recorded directly in equity				
Contributions by and distribution to owners of the group				
Issue of Share Capital[#]	12,500	-	-	12,500
Dividend on Upper Tier II Capital	-	-	(1,146)	(1,146)
Total contributions by and distributions to owners	12,500	-	(1,146)	11,354
Balance at 31 March 2012	**112,131**	**(3,353)**	**14,621**	**123,399**

[#] *Equity capital by way of issuance of shares (see note 28).*

The notes on pages 20 to 63 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2013

	2013 $'000	2012 $'000
Cash flows from operating activities		
Total Profit for the year	**5,374**	7,513
Adjustments for:		
Amortisation of other intangible non-current assets	**146**	186
Depreciation of property, plant and equipment	**642**	662
Provision for impairment losses on financial assets	**14,125**	5,828
Unrealised (profit)/ losses on exchange rate difference	**(131)**	15
Income tax expense	**1,604**	2,694
	16,386	9,385
	21,760	16,898
Changes in:		
Held for trading financial assets	**(119,857)**	-
Loans and advances to customers	**(241,431)**	(126,989)
Deposits from banks	**(51,828)**	56,823
Other liabilities and provisions	**(35)**	375
Available for sale financial assets	**13,031**	(33,030)
Fair value of derivatives	**7,483**	(2,825)
Loans and advances to banks	**72,594**	(128,287)
Trade and other receivables	**223**	352
Deposits from customers	**333,176**	208,171
Debt securities	**67**	(55)
	13,423	(25,465)
Cash flows from/ (used in) operating activities	**35,183**	(8,567)
Cash flows used in other operating activities		
Income taxes paid (net)	**(2,223)**	(633)
Net cash flows from/ (used in) operating activities	**32,960**	(9,200)
Cash flows from investing activities		
Acquisition of property and equipment	**(1,355)**	(350)
Acquisition of intangible assets	**(68)**	(287)
Acquisition of held to maturity investments	**-**	(2,035)
Proceeds from maturity of held to maturity investments	**14,054**	2,624
Net cash flows generated from/(used in) investing activities	**12,631**	(48)
Cash flows from financing activities		
Gross proceeds from issue of equity share capital	**12,500**	12,500
Gross proceeds from issue of subordinated liabilities	**12,500**	12,500
Dividend to subordinated debt holders	**(1,168)**	(1,146)
Net cash flows from financing activities	**23,832**	23,854
Net increase in cash and cash equivalents	**69,423**	14,606
Cash and Cash equivalents at 1 April	**63,908**	49,302
Cash and cash equivalents at 31 March (note 9)	**133,331**	63,908

The notes on pages 20 to 63 form part of these financial statements

1] Reporting Entity

Punjab National Bank (International) Limited is a limited company incorporated and domiciled in the United Kingdom. The Bank is a fully owned subsidiary of Punjab National Bank, one of the leading public sector banks of India. Address of the Bank's registered office is 1, Moorgate, London (UK) EC2R 6JH. 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 ended 31 March 2013 were authorised for issue on 30 April 2013.

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:

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

C. Functional and Presentation Currency

The Directors consider the US Dollar as the functional and reporting currency as the majority of the income generating financial assets and a significant component of the funding are denominated in US Dollar. Additionally 99.99% of equity capital and 100% of the Tier II capital of the Bank is denominated in US dollar.

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

D. Use of Estimates and Judgements (continued)

continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

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

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

The Bank periodically reviews their loans and advances to identify any early signs of financial deterioration. Additionally, for those loans where there is either a default or an objective evidence of impairment, judgement is required by management in the estimation of the amount and timing of expected cash flows to determine the level of impairment allowance to be recorded. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Management's estimates of future cash flows on individually impaired loans are based on historical experience for assets with similar credit risk characteristics. The expected recovery is subject to execution risks associated with the recovery of collateral in different jurisdictions.

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

A change of one month in emergence period will result in an impact of $ 164 thousand (2012: $ 114 thousand) on the value of the impairment provision.

- **Allowance for impairment of available for sale investments**

At each balance sheet date, the Bank assesses whether there is objective evidence that an available for sale asset is impaired. In case of securities in this category, where there has been significant decline in value, which is usually in excess of 20 percent, management applies judgement after considering other underlying circumstances to assess if an allowance for impairment is required. These factors include the collateral structure, market insight, the length of time over which the decline has been observed and the current and expected financial performance of the counterparty.

- **Held-to-maturity investment securities**

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

E. Going Concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future.

The Bank is a wholly owned subsidiary of Punjab National Bank. The Bank's business activities and future outlook are set out in the Directors' Report. The Bank has generated profit before tax of $6,978 thousand resulting in an increase in retained earnings and reserves of $7,684 thousand after making provision for tax and dividend and other fair value reserve movement. During the current year, the Bank has raised additional equity share capital of $12.50 million, subscribed 100% by the Parent. 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.

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 and disclosures in these financial statements but may impact the accounting for future transactions and arrangements.

- Amendment to IAS 12 Deferred Tax : Recovery of Underlying assets
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-Time Adoptors
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

b) Standards and Interpretations issued but not yet effective

The Bank is not required to adopt the following Standards and Interpretations which are issued by IASB but not yet effective (and in some cases have not yet been endorsed by the EU):

- IAS 1 (revised June 2011) Presentation of Financial Statements : Items of Other Comprehensive Income
- IAS 19 (revised June 2011) Employee Benefits
- IAS 27 (May 2011) 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
- IFRS 7 Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments – Classification and Measurement of Financial assets and – Accounting for Financial Liabilities and De-recognition (not yet endorsed by EU)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities

b) Standards and Interpretations issued but not yet effective (continued)

- IFRS 13 Fair Value Measurements
- Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27 – not yet endorsed by EU)
- Annual improvements to IFRS 2009 – 2011 cycle.

The Bank is currently evaluating the impact of the above and other new standards, amendments to standards, revisions and interpretations.

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

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

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on available-for-sale investment securities calculated on an effective interest basis;

Fees and commission

Fees and commissions including account servicing fees, remittance charges and bills collection charges are recognised on an accrual basis when the service has been provided or significant act performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

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

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 if it meets the criteria as defined in IAS 39. Financial assets held for trading are initially recognised and measured at fair value in the statement of financial position. All changes in fair value are recognised as part of trading income in profit and loss.

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 subsequently measured at amortised cost using the effective interest method less any specific impairment.

iii. Held-to-maturity

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

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

After initial recognition, investments which are classified as held to maturity are carried at amortised cost less impairment if any.

iv. Available for sale

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

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

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

Financial liabilities and equity instruments

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

i. Equity instruments

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

ii. Financial liabilities

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

c) Fair value measurement

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

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

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

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

d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

e) De-recognition of financial assets and liabilities

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

i. substantially all the risks and rewards of ownership have been transferred; or
ii. substantial control is not retained on the financial assets.

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

f) Impairment of financial assets

i) Loans and receivables

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 individually significant loans are assessed for specific impairment. Individually significant and non-significant loans found not to be impaired 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 rating.

ii) 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.

iii) 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 significant change in price in excess of 20 percent and prolonged decline over nine months; and 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.

g) Derivative Financial Instruments

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

h) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and carrying amount of the item) is recognised within other income in profit or loss.

h) Property and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

i) Intangible assets

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

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

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

j) Cash and cash equivalents

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

k) Share Capital and Reserves

(i) Upper tier II bonds

The Bank classifies capital instruments as equity instruments in accordance with the substance of contractual terms of the instruments. The Bank's perpetual bonds are not redeemable by the holders and bear an entitlement to the distributions that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as a component of issued capital within equity. Distributions thereon are generally recognised as dividend out of total comprehensive income attributable to the equity shareholders.

(ii) Fair Value Reserves

The fair value reserve comprises the cumulative net change in the fair value of available for sale financial assets until the assets are derecognised or impaired.

l) 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.

m) Operating lease commitments

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

n) Employee Benefits

The Bank has two pay groups of employees in UK – those on secondment to the Bank from the Parent Bank and those who are locally recruited. The employees on secondment are governed by the salary structure approved by the Government of India as well as by the Board of Directors of the Parent Bank. Their salary, perquisites and 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 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 debiting/ (crediting) the following:

	2013 $'000	2012 $'000
Interest expense	**39,334**	25,578
Depreciation of property and equipment	**642**	662
Amortisation of intangible assets	**146**	186
	788	848
Operating leases:		
Lease rental expenses	**693**	563
Auditor's remuneration*	**386**	420

*Auditor's remuneration in relation to the statutory audit amounted to USD 213 thousand (2012: USD 209 thousand). The following fees were payable by the Bank to the auditor, KPMG Audit Plc.:

	2013 $'000	2012 $'000
Fees payable to PNBIL auditors for the audit of PNBIL's annual accounts	**213**	209
Audit related assurance services	**29**	-
Non audit services	**144**	211
	386	420

	2013 $'000	2012 $'000
Included in net trading income:		
Income related to:		
Foreign exchange	**2,181**	1,857
Investment securities - held for trading	**(1,308)**	-
	873	1,857

	2013 $'000	2012 $'000
Included in operating income:		
Income on services related to:		
Payment and settlement	**718**	672
Retail banking	**220**	455
Other operating income	**3**	5
Positive fair value on interest rate derivatives	**-**	18
	941	1,150

5] Operating Profit (continued)

	2013 $'000	2012 $'000
Included in general administrative expenses:		
Marketing costs	**234**	237
Establishment expenses	**701**	533
Legal, professional and audit fees	**1,581**	1,330
Recruitment and training expenses	**39**	39
Other administration costs	**2,556**	1,894
	5,111	4,033

	2013 $'000	2012 $'000
Included in interest income:		
Interest received on overdraft accounts	**16,425**	5,794
Interest received on demand and term loans	**34,960**	25,747
Discount received on bills	**367**	644
Interest received on interbank placements	**3,511**	4,117
Coupon/premium received on investment securities	**10,619**	7,207
Arrangement fee on loans	**4,250**	4,137
	70,132	47,646

	2013 $'000	2012 $'000
Included in interest expense:		
Interest paid on term deposits	**33,688**	20,735
Interest paid on saving deposits	**180**	147
Interest paid on interbank borrowings	**3,435**	3,440
Interest paid on subordinated liabilities	**2,031**	1,256
	39,334	25,578

6] Employee Expenses

	2013 $'000	2012 $'000
Wages and salaries	**3,902**	2,935
Contribution towards defined employee benefit plan	**99**	84
Other employee benefits	**1,171**	979
Social security costs	**479**	402
	5,651	4,400

Included in other employee benefits are:	2013 $'000	2012 $'000
Accommodation cost	**668**	622
Medical insurance and expense	**113**	87
Pension contributions for staff in India	**7**	5
Other expenses	**383**	265
	1,171	979

There are no share based payments to employees.

7] Directors' Emoluments

	2013 $'000	2012 $'000
Emoluments	**445**	397

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

	2013 $'000	2012 $'000
Emoluments of highest paid director	**172**	151
Contributions to external pension scheme	**43**	41

8] Income Tax

Components of income tax expense

	2013 $'000	2012 $'000
Current income tax expense		
Current income tax charge	**1,633**	2,737
Previous year adjustment	**(13)**	-
Deferred income tax (credit) / expense		
Effect of rate changes	**1**	3
Relating to origination and reversal of temporary differences	**(17)**	(46)
Income tax expense reported in income statement	**1,604**	2,694

8] Income Tax (continued)

Reconciliation of income tax charge to accounting profit

	2013 $'000	2012 $'000
Profit before tax	**6,978**	10,207
Tax at the domestic income tax rate of 24% (2012: 26%)	**1,674**	2,654
Tax effect of non- deductible depreciation	**50**	32
Tax effect of other non - deductible expenses/non taxable income	**(24)**	15
Tax effect of rate changes	**(83)**	(7)
Previous year overprovision	**(13)**	-
Tax expense using effective rate	**1,604**	2,694

	2013 $'000	2012 $'000
Current income tax credited to equity		
(Charge)/ Credit arising on AFS reserve movement	**(125)**	1,219
Tax effective rate	**24%**	26%

On 21 March 2012, the Government announced that the corporation tax rate applicable from 1 April 2012 would be 24%. This change was enacted on 26 March 2012.

The Finance Act 2012, which passed into law on 17 July 2012, included a further reduction in the UK corporation tax rate from 24% to 23% with effect from 1 April 2013. It is further proposed that the UK corporation tax rate applicable from 1 April 2014 will be 21%. This reduction is expected to be substantively enacted in July 2013. In the UK budget announcement of 20 March 2013, the UK government announced its intention to further reduce the UK corporation tax rate to 20% with effect from 1 April 2015. This tax rate reduction is expected to be substantively enacted in 2014.

9] Cash and Cash Equivalents

	2013 $'000	2012 $'000 Restated*	01 April 2011 $'000 Restated*
Cash on hand	**670**	996	614
Cash at bank	**95,966**	13,428	9,403
Cash equivalent	**36,695**	49,484	39,285
	133,331	63,908	49,302

*Refer note 35

10] Investment Securities – Held For Trading

	2013 $000	2012 $000
Treasury bills	**119,857**	-

10] Investment Securities – Held For Trading (continued)

Bank has classified its holding of UK and US treasury bills as trading assets which have been measured at fair value through profit and loss. No asset held under this category is pledged and all remain unencumbered.

11] Exposure to Derivatives

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 392.26 million (previous year USD 323.07 million) and the net marked to market value of these exposures being USD (-)$4.67 million. As at 31 March 2013 Bank has no exposure to interest rate derivatives.

Fair value of all derivatives is as below:

	31 March 2013		**31 March 2012**	
	Positive Fair Value $'000	Negative Fair Value $'000	Positive Fair Value $'000	Negative Fair Value $'000
Cross currency swap	1,169	5,836	2,996	198
Interest rate swap	-	-	18	-
	1,169	5,836	3,014	198

12] Loans and advances to Banks

	31 March 2013	**31 March 2012**	**01 April 2011**
		Restated*	Restated*
	$'000	**$'000**	**$'000**
Bills Negotiated and Discounted	**26,439**	14,859	17,444
Overdrafts	**146**	-	-
Term loans against SBLC/buyers credit	**196,936**	202,040	146,168
Loans to banks	**5,022**	-	-
Interbank placements of original maturity of more than three months	**45,763**	130,000	55,000
	274,306	346,899	218,612
Less impairment provisions	**(90)**	-	-
Net Loans and advances to Banks	**274,216**	346,899	218,612

**Refer note 35.*

At 31 March 2013 $132,679 thousand (2012:$27,423 thousand) of loans and advances to Banks are expected to be recovered more than 12 months after the reporting date.

13] Loans and advances to Customers

	31 March 2013	31 March 2012	01 April 2011
		Restated*	Restated*
	$'000	$'000	$'000
Bills Negotiated and Discounted	**222**	149	318
Customer overdraft	**297,269**	186,077	74,379
Term loans	**617,201**	487,035	471,575
Total	**914,692**	673,261	546,272
Less impairment provisions[(1)]	**(19,483)**	(11,109)	(6,682)
Net Loans and advances to customers	**895,209**	662,152	539,590

*Refer note 35.

[1]Impairment provision includes specific provision of $18,990 thousand (2012:$10,768 thousand), (2011: $6,682 thousand) and collective provision of $493 thousand (2012:$341 thousand), (2011:$nil).

At 31 March 2013 $475,180 thousand (2012:$393,829 thousand) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date.

14] Investment Securities - Available-for-Sale

	2013	2012
	$'000	$'000
Marketable debt securities	**85,171**	99,177

15] Investment Securities - Held to Maturity (HTM)

	2013	2012
	$'000	$'000
Debt securities	**9,560**	23,614
Less: Impairment	**(3,350)**	(3,350)
Net book value of HTM securities	**6,210**	20,264

Refer to note 16 for details of fair value of investments which are Held to Maturity.

At 31 March 2013 $Nil (2012:$18,424 thousand) of investment securities – held to maturity are expected to be recovered more than 12 months after the reporting date.

16] Financial Instruments

A. Financial Instruments carried at amortised cost

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

	Carrying amount		Fair value	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Held to Maturity Securities	**9,560**	23,614	**6,250**	19,794
Less Impairment provision	**(3,350)**	(3,350)	**-**	-
Net Book Value	**6,210**	20,264	**6,250**	19,794

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

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

The fair value of financial instruments carried at amortised cost incorporates the Bank's estimate of the 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 economic benefits and costs that the Bank expects to flow from the instruments cashflows over their expected future lives.

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

	Carrying amount and fair value	
	2013	2012
	$'000	$'000
Assets		
Customer and bank overdrafts	**291,732**	180,414
Term and bank loans	**805,269**	683,629
Interbank placements	**82,459**	179,483
Bills purchased	**26,661**	15,008
Liabilities		
Interbank deposits	**84,645**	157,571
Subordinated debts	**50,000**	37,500
Savings accounts	**31,089**	20,233
Current accounts	**100,174**	53,072
Fixed term deposits	**1,094,517**	798,063
Bills payable	**190**	123
Call deposits and other	**-**	138

A. Financial Instruments carried at amortised cost (continued)

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

- Inter-bank deposits are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.
- Subordinated debts are carried at rate of LIBOR +4% and the interest rate is reset every six months. Consequently the resultant impact on fair value of the subordinated debts is considered insignificant.
- The fair value of savings accounts and current accounts with no fixed maturity is assumed to be equal to the carrying value.
- Fair value of term deposits is expected to approximate the carrying value, since there has been insignificant change in interest rates in GBP deposits (during the year) which constitute a significant proportion of the Bank's term deposit base.
- The majority of the overdrafts and term loans are floating rate loans with interest rate reset 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 placements are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.

B. Financial Instruments carried at fair value

Financial instruments carried at fair value in the books of the Bank are Held for Trading securities (note 10), Available for sale securities (note 14) and Derivatives (note 11).

Categories of these assets are as below:

31 March 2013

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities – held for trading	**10**	119,857	-	-	119,857
Investment securities – available for sale	**14**	-	85,171	-	85,171
Derivative assets held for risk management	**11**	-	1,169	-	1,169
		119,857	**86,340**	**-**	**206,197**
Financial Liabilities:					
Derivative liabilities held for risk management	**11**	**-**	**5,836**	**-**	**5,836**

31 March 2012

Financial Assets:					
Investment securities – held for trading	10	-	-	-	-
Investment securities – available for sale	14	42,628	56,549	-	99,177
Derivative assets held for risk management	11	-	3,014	-	3,014
		42,628	**59,563**	**-**	**102,191**
Financial Liabilities:					
Derivative liabilities held for risk management	11	**-**	**198**	**-**	**198**

B. Financial Instruments carried at fair value (continued)

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.
- 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.

All liabilities, except for derivative financial liabilities, are carried at amortised cost.

17] Provision on Impaired Financial Assets

Loans and advances as at notes 12 and 13 above and HTM securities as at note 15 above include impaired assets as below:

	Loans and Advances	HTM Securities
	$000	$000
Gross balance of Impaired Assets	**52,013**	4,734
Less: specific impairment	**(19,079)**	(3,350)
Net Balance	**32,934**	1,384

Movement in impairment provision during the year:

Specific allowances for impairment	**2013**	2012
	$,000	$,000
Balance at 1 April	**14,117**	10,031
Impairment loss for the year		
Charge for the year	**8,312**	4,086
Recoveries/write offs	**-**	**-**
Balance at 31 March	**22,429**	14,117
Out of above		
Provision for impairment of loans and advances	**19,079**	10,767
Provision for impairment of HTM securities	**3,350**	3,350
	22,429	14,117
Collective allowances for impairment		
Balance at 1 April	**341**	-
Impairment loss for the year:		
Charge for the year	**152**	341
Balance at 31 March	**493**	341
Total allowances for impairment	**22,922**	14,458

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

	$'000
Impairment charge on loans and advances	**8,464**
Charge on account of permanent impairment of AFS securities	**5,661**
	14,125

18] 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 2013, 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 well spread across different sectors and geographies. The 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 $236,389 thousand when compared to March 2012 due to general business growth in the lending portfolio.

	31 March 2013 $'000	31 March 2012 $'000
On Balance sheet exposure		
Bilateral and syndicated loans and advances to customers	**914,470**	673,112
Loans and advances to customers under Letter of Credit/Stand by Letter of Credit/ Letter of Comfort by banks	**202,104**	202,040
Inter Bank placements and Cash balances with banks	**179,094**	192,912
Bills purchased directly from customers	**223**	150
Bills purchased under LC/Guarantee of banks	**26,439**	14,858
Securities Held to Maturity – banks	**8,539**	22,592
Securities Held to Maturity – Non banks	**1,021**	1,021
Derivative Financial Instruments	**1,169**	3,014
Total – A	**1,333,059**	1,109,699
Off Balance Sheet Exposure		
Non-Bank Commitments (LCs/LGs)	**72,128**	62,780
Commitments under LCs/Guarantees by Banks	**2,194**	4,678
Total – B	**74,322**	67,458
Undrawn Credit Facilities – Non Banks	**47,886**	41,454
Undrawn Credit Facilities - Banks	**-**	267
Total – C	**47,886**	41,721
Total Exposure subject to Credit Risk (A+B+C)	**1,455,267**	1,218,878

18] Exposure to Credit Risk and Availability of Collateral Security (continued)

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

	2013	2012
	$'000	$'000
Exposure on Banks	**419,539**	440,362
Non Bank Exposure	**1,035,728**	778,516
Total	**1,455,267**	1,218,878

Collateral:

Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types. Collateral types that are eligible for risk mitigation include: Deposits held under lien; residential, commercial and industrial property; fixed assets such as ship, 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 collaterally secured as below; as at 31 March 2013:

Amt. in $ Million

	Retail Loans		**Non Retail Loans**		**Total**	
	Exposure	**Amount Collateralised**	**Exposure**	**Amount Collateralised**	**Exposure**	**Amount Collateralised**
Neither past due nor impaired:						
Internally rated AAA to A*	19.82	19.75	270.16	256.20	289.98	275.95
Internally rated BB to B*	8.62	8.21	626.48	605.14	635.10	613.35
Total neither past due nor impaired	**28.44**	**27.96**	**896.64**	**861.34**	**925.08**	**889.30**
Past due but not individually impaired:						
30 to 90 days	0.55	0.53	30.20	30.20	30.75	30.73
Over 90 days	1.84	1.74	16.65	16.38	18.49	18.12
Total Past due but not individually impaired	**2.39**	**2.27**	**46.85**	**46.58**	**49.24**	**48.85**
Loans with renegotiated terms	**-**	**-**	**27.59**	**20.45**	**27.59**	**20.45**
Individually impaired loans:						
Doubtful category	-	-	26.75	26.75	26.75	26.75
Loss category	0.04	0.00	7.03	0.89	7.07	0.89
Total Impaired	**0.04**	**0.00**	**33.78**	**27.64**	**33.82**	**27.64**
Total	**30.87**	**30.23**	**1,004.86**	**956.01**	**1,035.73**	**986.24**

**Internal ratings based on PNBIL rating model.*

18] Exposure to Credit Risk and Availability of Collateral Security (continued)

Comparative data for 31 March 2012 is as below:

Amt. in $ Million

	Retail Loans		**Non Retail Loans**		**Total**	
	Exposure	**Amount Collateralised**	**Exposure**	**Amount Collateralised**	**Exposure**	**Amount Collateralised**
Neither past due nor impaired	30.19	28.53	709.68	687.69	739.87	716.22
Past due but not individually impaired:						
30 to 90 days	1.94	1.94	3.71	3.58	5.65	5.52
Over 90 days	0.73	0.71	3.38	3.38	4.11	4.09
Total Past due but not individually impaired	2.67	2.65	7.09	6.96	9.76	9.61
Loans with renegotiated terms	-	-	12.31	5.40	12.31	5.40
Individually impaired loans:						
Doubtful category	-	-	16.58	10.18	16.58	10.18
Loss category	-	-	-	-	-	-
Total Impaired	-	-	16.58	10.18	16.58	10.18
Total	**32.86**	**31.18**	**745.66**	**710.23**	**778.52**	**741.41**

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 have been adjusted for the effects of over-collateralization.

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

%age of value of collateral to exposure	**Exposure $ Million 2013**	**2012**
100%*	**906.20**	686.25
76% to 99%	**81.19**	49.09
51% to 75%	**0.31**	10.21
26% to 50%	**7.01**	1.21
11% to 25%	**5.32**	8.97
Below 10%	**5.50**	5.79
Unsecured	**30.20**	17.00
Total	**1,035.73**	778.52
Average %age of availability of Collateral*	**95.22%**	95.23%

**excluding impact of over-collateralisation.*

18] Exposure to Credit Risk and Availability of Collateral Security (continued)

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

Past due but not impaired loans

Past due but not impaired loans are those in respect of which the customer is in the early stages of delinquency and has failed to make a payment or a partial payment in accordance with the contractual terms of the loan agreement. This is typically when, based on management's analysis, there are no indicators of impairment and the value of collateral is sufficient to repay both the principal debt and all potential interest.

Loans with renegotiated terms and the forbearance policy

The contractual terms of a loan may be modified for a number of reasons, which include changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. Loans are classified as 'renegotiated loans' when their contractual payment terms have been modified because we have significant concerns about the borrowers' ability to meet contractual payments when due. For the purposes of this disclosure, the term 'forbearance' is synonymous with the renegotiation of loans.

Individually impaired loans

Loans under doubtful category are those where there is an unlikeliness of collection of principal and/or interest sums due over time other than through sale of collateral or enforcement of security.

Loans under loss category are those with probable or actual failure to collect sums even through the sale of business or collateral.

Internal Ratings

The Bank has developed internal rating models in co-ordination with Risk Management Division of Parent Bank. All non-bank credit counterparties (except those secured by deposits with Bank/ Parent and those with loans up to £10,000) are rated on these models. Scoring is given on various financial and non-financial parameters. Rating is allocated based on overall score on the financial strength, creditworthiness and repaying capacity of the borrower.

19] Exposure to Eurozone Countries

The Bank has no direct sovereign exposure (as defined by the European Banking Authority 'EBA') to any of the Eurozone countries. Gross exposure to other counterparties in the Eurozone countries as at 31.03.2013 is as below:

$'000

Name of the Country	As on 31 March 2013			As on 31 March 2012		
	Exposure to Banks	**Exposure to Corporates**	**Total Exposure**	Exposure to Banks	Exposure to Corporates	Total Exposure
Belgium	**3,849**	**22,920**	**26,769**	5,406	10,058	15,464
Cyprus	**-**	**4,583**	**4,583**	-	6,580	6,580
Germany	**329**	**-**	**329**	10,691	-	10,691
Spain	**-**	**7,250**	**7,250**	-	7,770	7,770
France	**-**	**5,135**	**5,135**	899	5,396	6,295
Ireland	**-**	**5,249**	**5,249**	-	6,310	6,310
Netherland	**1,071**	**28,707**	**29,778**	1047	15,555	16,602
Total	**5,249**	**73,844**	**79,093**	18,043	51,669	69,712
of which – to troubled Eurozone countries*	**-**	**17,082**	**17,082**	-	20,660	20,660

**GIIPS (Greece, Ireland, Italy, Portugal and Spain) and Cyprus.*

An amount of USD 25,226 thousand (USD 9,593 thousand from troubled Eurozone countries) is to be received after 12 months

At 31 March 2013 the Bank's non-sovereign exposure to GIIPS and Cyprus amounting to $ 17.08 million was as follows:

- The Bank has an exposure in the form of a credit facility to a corporate in Ireland, having an outstanding balance of $5.25 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 $7.25 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.

- The Bank has an exposure in the form of a credit facility to a corporate incorporated in British Virgin Island and having its operations in Cyprus, having an outstanding balance of $4.58 million. This counterparty is a BVI subsidiary of an Indian corporate and is fully guaranteed by the Indian promoters. It is further fully secured by collateral security of more than 100% of the exposure.

All the above loans are in performing category; and there is no objective evidence of impairment.

20] Property and Equipment

At 31 March 2013

	Leasehold improvements $'000	Fixtures and fittings $'000	Total $'000
Cost			
At 1 April 2012	1,066	2,208	3,274
Additions	977	378	1,355
Disposals	(109)		(109)
At 31 March 2013	**1,934**	**2,586**	**4,520**
Depreciation			
At 1 April 2012	(597)	(1,663)	(2,260)
Charge for year	(339)	(303)	(642)
Disposals	109		109
At 31 March 2013	**(827)**	**(1,966)**	**(2,793)**
Net book value			
At 1 April 2012	469	545	1,014
At 31 March 2013	**1,107**	**620**	**1,727**

At 31 March 2012

	Leasehold improvements $'000	Fixtures and fittings $'000	Total $'000
Cost			
At 1 April 2011	872	2,043	2,915
Additions/ adjustments	194	165	359
At 31 March 2012	**1,066**	**2,208**	**3,274**
Depreciation			
At 1 April 2011	(354)	(1,240)	(1,594)
Charge for year/ adjustments	(243)	(423)	(666)
At 31 March 2012	**(597)**	**(1,663)**	**(2,260)**
Net book value			
At 1 April 2011	518	802	1,320
At 31 March 2012	**469**	**545**	**1,014**

21] Intangible Assets

31 March 2013

	Software $'000
Cost	
At 1 April 2012	1,344
Additions	68
At 31 March 2013	**1,412**
Amortisation	
At 1 April 2012	(1,074)
Charge for the year	(146)
At 31 March 2013	**(1,220)**
Carrying value	
At 1 April 2012	270
At 31 March 2013	**192**

31 March 2012

	Software $'000
Cost	
At 1 April 2011	1,067
Additions/adjustments	277
At 31 March 2012	**1,344**
Amortisation	
At 1 April 2011	(892)
Charge for the year/ adjustments	(182)
At 31 March 2012	**(1,074)**
Carrying value	
At 1 April 2011	175
At 31 March 2012	**270**

22] Deferred Tax Asset / (Liability)

	2013 $'000	2012 $'000
At 1 April	**33**	(10)
Release / (charge) for year	**16**	43
At 31 March	**49**	33

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	**23%**	24%

23] Prepayments and other Receivables

	2013 $'000	2012 $'000
Current prepayments	**269**	491
Other receivables	**29**	30
	298	521

24] Deposits from Banks

	31 March 2013 $'000	31 March 2012 Restated* $'000	01 April 2011 Restated* $'000
Current accounts from banks	**15,735**	-	-
Overdrafts in Nostro accounts with banks	**2,269**	-	-
Fixed term deposits	**13,159**	10,065	-
Inter bank borrowings	**84,645**	157,571	100,748
Total deposits from banks	**115,808**	167,636	100,748

**Refer note 35.*

At 31 March 2013 $8,355 thousand (2012: $120 thousand) of deposits from Banks are expected to be settled more than 12 months after the reporting date.

25] Deposits from Customers

	31 March 2013 $'000	31 March 2012 Restated* $'000	01 April 2011 Restated* $'000
Current accounts	**82,170**	53,072	45,157
Savings accounts	**31,089**	20,233	16,256
Call deposits and others	**-**	138	157
Fixed term deposits	**1,081,358**	787,998	601,765
Total deposits from customers	**1,194,617**	861,441	663,335

**Refer note 35.*

At 31 March 2013 $420,355 thousand (2012:$167,776 thousand) of deposits from customers are expected to be settled more than 12 months after the reporting date.

26] Subordinated Liabilities and other Borrowed Funds

	2013 **$'000**	2012 Restated* $'000	*01 April 2011* Restated* $'000
Subordinated debt	**50,000**	37,500	25,000

**Refer note 35*

This represents lower tier II capital received from the parent company as follows:

- $25,000,000 issued in March 2009, maturing in March 2019.
- $12,500,000 issued in March 2012, maturing in March 2022.
- $12,500,000 issued in October 2012, maturing in October 2022.

These subordinated Bonds are listed on the Channel Islands Stock Exchange, bearing non-discretionary coupons of 4% over LIBOR, are redeemable by the holder; and are therefore included within subordinated liabilities.

At 31 March 2013 $50,000 thousand (2012:$37,500 thousand) of subordinated liabilities are expected to be settled more than 12 months after the reporting date.

27] Other liabilities

	2013 **$'000**	2012 Restated* $'000	*01 April 2011* Restated* $'000
Bills payable	**190**	123	178
Other payables and accrued liabilities	**2,267**	552	345
Deferred income	**4,043**	5,793	5,287
	6,500	6,468	5,810

**Refer note 35*

28] Share Capital

Issued share capital

	2013 **No.**	**2013** **$**	*2012* *No.*	*2012* *$*
Issued and fully paid				
Ordinary shares of £1 each	**2**	**4**	*2*	*4*
Ordinary shares of $1 each				
At start of year	**112,130,625**	**112,130,625**	99,630,625	99,630,625
New Issue of Share Capital*	**12,500,000**	**12,500,000**	12,500,000	12,500,000
At end of year	**124,630,627**	**124,630,629**	112,130,627	112,130,629

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

28] Share Capital (continued)

Included within the share capital is the Upper Tier II capital of $25,000 thousand raised by the Bank in the year 2011 in the form of perpetual floating rate subordinated notes. 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.

29] Fair Value Reserves

31 March 2013	**Gross $'000**	**Tax $'000**	**Net $'000**
Balance at 1April 2012	**(4,527)**	**1,174**	**(3,353)**
Amount transferred to income statement	**4,162**	**(1,082)**	**3,080**
	(365)	**92**	**(273)**
Movement in AFS reserve in year	**524**	**(126)**	**398**
Balance at 31 March 2013	**159**	**(34)**	**125**

31 March 2012	Gross $'000	Tax $'000	Net $'000
Balance at 1April 2011	(325)	91	(234)
Amount transferred to income statement	485	(136)	349
	160	(45)	116
Movement in AFS reserve in year	(4,687)	1,219	(3,469)
Balance at 31 March 2012	(4,527)	1,174	(3,353)

30] Operating Lease Commitments

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

	2013 $'000	2012 $'000
Less than one year	**796**	481
Later than one year but less than five years	**1,376**	591
	2,172	1,072

The Bank leases premises for its corporate office and branches. The leases typically run for a period of 15 to 20 years with a break clause of 5 years for the Bank and the lessor. Lease payments are increased at break period to reflect market rentals. The new premises for Corporate Office and Central London branch have a rent free period of one year out of initial five years of lease. Rent for this incentive period has been calculated on a straight line basis over the lease term and kept as provision that is included in other liabilities (note 27).

31] Other Commitments and Contingencies

Commitments in respect of financial instruments were as follows:

	2013	2012
	$'000	$'000
Guarantees issued to third parties	**5,317**	3,436
Letters of credit issued	**69,005**	62,372
Letters of credit confirmed	**-**	1,650
Commitment to buy treasury securities	**4,051**	-
Commitment to sell treasury securities	**3,047**	-

There were undrawn loans of $24,817 thousand (previous year: $23,053 thousand) and un-availed portion of sanctioned overdraft limits to the extent of $23,068 thousand (previous year:$18,668 thousand) as at 31 March 2013. Bills amounting to $11,142 thousand (previous year: $7,096 thousand) were sent/ received in collection on behalf of customers. The Bank did not have any balance sheet exposure on such bills for collection.

32] 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 parties 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.

Liabilities and assets outstanding to the related parties on the balance sheet of the Bank as on 31 March 2013 are as below:

	2013	**2012**
	$’000	**$’000**
Liabilities		
Fixed Deposits	**12,805**	10,066
Borrowings	**56,388**	50,361
Current Accounts	**2,323**	3,429
Assets		
Balance in Nostro Accounts	**568**	1,093
Buyers Credits Given to Corporates on Letter of Comfort by Punjab National Bank	**-**	35,734
Bills accepted/ confirmed by PNB discounted to Corporates	**864**	864
Placements	**1,628**	-

Excluded from the above are loans sanctioned to corporates on Stand By Letters of Credit of Punjab National Bank amounting to $ 23,044 thousand (previous year: $28,383 thousand).

32] Related Party Transactions (continued)

Contingent exposure to Punjab National Bank is as below:

Nature	2013 $'000	2012 $'000
Letters of Credit and Guarantees Confirmed	**2,194**	4,678
Cross Currency Swaps (notional) – Sell	**328,765**	17,809
Cross Currency Swaps (notional) – Buy	**324,695**	17,982

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

Nature	Particulars	2013 $'000	2012 $'000
Receipts:			
Interest Earned	Interest on Inter Bank Placements	**143**	31
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	**191**	221
B. Interest Paid on	Borrowings	**570**	1,060
	Fixed Deposits	**421**	432
C. Interest Paid on Capital Bonds	Upper Tier II Capital Bonds of $25.00 Mn.	**1,168**	1,146
	Lower Tier II Capital Bonds of $25.00 Mn.	**1,168**	1,156
	Lower Tier II Capital Bonds of $12.50 Mn.	**584**	100
	Lower Tier II Capital Bonds of $12.50 Mn. (Received this year)	**279**	-

**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 (including 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.

33] Financial Risk Management Objectives and Policies

Risk Governance

The Board of Directors have overall responsibility for 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.

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.
- Review regularly the status of restructured accounts.

Risk Management Committee (RMC)

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

- Oversight of management of Operational Risk, Market Risk, Credit Risk and residual risks;
- Implementation of obligations under ICAAP document submitted to FSA;
- Review and modification to ICAAP;
- Maintaining adequate capital, based on the capital adequacy ratio stipulated by the regulator;
- Finalize credit rating module for the Bank and submit for the approval of the Board;
- Modify credit policy and submit for the approval of the Board;
- Finalize provisioning policy for the Bank and submit for the approval of the Board;
- Review 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 return on Bank's funds.

Credit Recommendation Committee

The credit recommendation committee assesses the loan applications above $ 200 thousand and puts up its recommendation to the sanctioning authority.

33] Financial Risk Management Objectives and Policies (continued)

Management Committee of the Board (MCB)

The MCB, comprising of four directors, including two non-executive directors, act as sanctioning committee for all proposals above USD 7 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 thereto, periodical review of business strategy and branch expansion plans.

Compliance

The Bank's Risk Management function is the responsibility of the Compliance Department. The Risk and Compliance Department has been delegated responsibility for the day-to-day monitoring of the individual risks by the Managing Director. The purpose of each of the areas is to ensure that market, credit and operational risk in the Bank is kept within the guidelines set by the Board.

The Managing Director is responsible for providing an oversight function that will consider all the risks on a consolidated basis and, in this respect, chairs the main risk committees. The credit and market risk, and operational risk functions report to the Risk and Compliance Director.

In order to manage its risks, the Bank adopts the following approach:

- The Bank follows the framework for policies and procedures put in place by the Board, covering all the Bank's operations. Policies are developed covering all operational areas, as well as credit risk, liquidity risk, concentration risk, trading book risk and provisioning.
- The Risk and Compliance Department is in place to establish appropriate systems for the Bank in proportion to its scale, nature and complexity. Systems are in place to address credit risk, market risk, liquidity risk, and operational risk.
- As part of the control process, the Bank's operations are reviewed by the Internal Audit function and they report their findings to the audit committee on a periodic basis.

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 Internal Audit department monitors compliance with policies and standards and the effectiveness of internal control structures across the Bank through its programme of business audits.

The Head of Internal Audit reports regularly to the Audit Committee and the Bank's Managing Director where immediate corrective action is taken.

33] Financial Risk Management Objectives and Policies (continued)

Risk Categorisation

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

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

- The bank has an approved lending policy wherein the types of credit facilities are defined as is the sanctioning authority which grants within specific financial limits;
- Every credit facility beyond a pre-determined limit is processed through the 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 is undertaken to identify and attend to any observed weakness in any facility;
- All facilities above prescribed threshold limits are reported to the Board from time to time; and
- Lending policies and limits are periodically reviewed by the Board.

The Bank does not have any significant credit risk exposure to any single counterparty.

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.

33] Financial Risk Management Objectives and Policies (continued)

Market Risk

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

The most significant forms of market risk to which the Bank is exposed are identified as interest rate risk, exchange risk and price risk. Most of Bank's liabilities are on fixed rate of interest while most of bank assets are on floating rate of interest. Bank regularly analyses the same and has fixed limits for maximum mismatch. Exchange risk arises mainly on account of open position. This is also monitored on a daily basis and an upper limit is fixed for the same. Assets held under the trading book are regularly marked to market and carried at fair value.

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 $392.26 million (2012 $323.07 million).

The open position of the Bank as on 31 March 2013 is as follows:

Currency	**Open Position**	**USD Equivalent**
	'000	**$'000**
Indian Rupees	169,020	3,114
Pound Sterling	(712)	(1,080)
Euro	(457)	(587)
UAE Dirham	162	44
Canadian Dollar	29	28
Norwegian Kroner	205	35
Nepalese Rupees	4,340	50
Japanese Yen	1,048	11
Australian Dollar	(5)	(5)
Total Long Position in US Dollars		**3,282**
Total Short Position in US Dollars		**1,672**

Upward or downward movement of exchange rate by 10% may impact profitability of the Bank by USD 328 thousand.

33] Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk (Re-pricing analysis as at 31 March 2013)

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 2013 is presented below:

Particulars	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 – 12 Months	1-3 years	Over 3 Years	Non Sensitive Category	Total
ASSETS	$ (000s)	$ (000s)	$ (000s)	$ (000s)	$ (000s)	$ (000s)	$ (000s)	$ (000s)
Cash and cash equivalent	133,331	-	-	-	-	-	-	133,331
Investment securities – held for trading	-	-	-	-	-	119,857	-	119,857
Derivative financial instruments	999	112	58	-	-	-	-	1,169
Loans and advances to banks	11,892	79,906	50,872	44,093	87,453	-	-	274,216
Loans and advances to customers	507,659	250,548	92,351	11,144	6,812	10,743	15,952	895,209
Investment securities – available for sale	-	-	-	-	27,723	57,448	-	85,171
Investment securities – held to maturity	-	-	2,500	1,305	-	2,405	-	6,210
Property, plant and equipment	-	-	-	-	-	-	1,727	1,727
Intangible assets	-	-	-	-	-	-	192	192
Deferred tax assets	-	-	-	-	-	-	49	49
Prepayments and other receivables	-	-	-	-	-	-	298	298
Total	653,881	330,566	145,781	56,542	121,988	190,453	18,218	1,517,429
LIABILITIES								
Derivative financial instruments	3,030	2,218	588	-	-	-	-	5,836
Deposits from banks	25,338	75,419	3,132	3,564	8,355	-	-	115,808
Deposits from customers	247,168	85,429	245,563	196,102	216,330	204,025	-	1,194,617
Current tax liabilities	-	-	-	-	-	-	1,085	1,085
Subordinated liabilities	-	-	50,000	-	-	-	-	50,000
Other liabilities	-	-	-	-	-	-	6,500	6,500
Share Capital	-	-	-	-	-	-	124,631	124,631
Reserve and retained earnings	-	-	-	-	-	-	18,952	18,952
Total	275,536	163,066	299,283	199,666	224,685	204025	151,168	1,517,429
Interest Rate Gap	378,345	167,500	(153,502)	(143,124)	(102,697)	(13,572)	(132,950)	-
Impact of Interest Variation of 2%	315	558	1,151	2,147	4,108	1,086	-	9,365

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

33] Financial Risk Management Objectives and Policies (continued)

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 significant additional cost. The bank has documented liquidity policy in place, within the guidelines issued by the Prudential Regulation Authority (PRA), formerly Financial Services Authority (FSA). The Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed by the Board and/ or the regulator. The following table analyses the Bank's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date:

As at 31 March 2013	Up to 1	1-3 m	3-12 m	1-5 yr	Over 5	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash and cash equivalent	133,331	-	-	-	-	-	133,331
Investment securities – held for trading	119,857	-	-	-	-	-	119,857
Derivative financial instruments	999	112	58	-	-	-	1,169
Loans and advances to banks	5,168	41,331	95,038	132,679	-	-	274,216
Loans and advances to customers	313,589	17,181	89,259	350,148	125,032	-	895,209
Investment securities – available for sale	-	-	-	27,723	57,448	-	85,171
Investment securities – held to maturity	-	-	1,305	2,500	2,405		6,210
Property, plant and equipment	-	-	-	-	-	1,727	1,727
Intangible assets	-	-	-	-	-	192	192
Deferred tax assets	-	-	-	-	-	49	49
Prepayments and other receivables	236	-	-	62	-	-	298
Total assets	**573,180**	**58,624**	**185,660**	**513,112**	**184,885**	**1,968**	**1,517,429**
Derivative financial instruments	3,030	2,218	588	-	-	-	5,836
Deposits from banks	25,338	237	81,878	8,355	-	-	115,808
Deposits from customers	247,168	85,429	441,665	420,355	-	-	1,194,617
Current tax liabilities	1,085	-	-	-	-	-	1,085
Subordinated liabilities	-	-	-	-	50,000	-	50,000
Other liabilities	1,443	302	1,663	3,092			6,500
Share capital	-	-	-	-	-	124,631	124,631
Reserves and retained	-	-	-	-	-	18,952	18,952
Total equity and liabilities	**278,064**	**88,186**	**525,794**	**431,802**	**50,000**	**143,583**	**1,517,429**
Net liquidity gap	295,116	(29,562)	(340,134)	81,310	134,885	(141,615)	-
Cumulative Liquidity Gap	295,116	265,554	(74,580)	6,730	141,615	-	-

33] Financial Risk Management Objectives and Policies (continued)

Comparative analysis as at 31 March 2012 was as below:

31 March 2012	Up to 1	1-3 m	3-12 m	1-5 yr	Over 5	Undated	Total
Assets	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalent	62,767	790	351	-	-	-	63,908
Derivative financial instruments	-	-	3,014	-	-	-	3,014
Loans and advances to banks	45,924	145,127	127,561	28,287	-	-	346,899
Loans and advances to customers	189,884	16,752	63,246	298,894	93,376	-	662,152
Investment securities – available for sale	44,648	2,124	52,405	-	-	-	99,177
Investment securities – held to maturity	-	-	5,190	14,053	1,021	-	20,264
Property, plant and equipment	-	-	-	-	-	1,014	1,014
Intangible assets	-	-	-	-	-	270	270
Deferred tax assets	-	-	-	-	-	33	33
Prepayments and other receivables	30	-	491	-	-	-	521
Total assets	**343,253**	**164,793**	**252,258**	**341,235**	**94,397**	**1,317**	**1,197,252**
Derivative financial instruments	-	-	198	-	-	-	198
Deposits from banks	4,694	16,156	146,666	120	-	-	167,636
Deposits from customers	111,561	203,802	378,420	167,658	-	-	861,441
Current tax liabilities	-	-	610	-	-	-	610
Subordinated liabilities	-	-	-	-	37,500	-	37,500
Other liabilities	131	-	3,735	-	2,602	-	6,468
Share capital	-	-	-	-	-	112,131	112,131
Reserves and retained earning						11,268	11,268
Total equity and liabilities	**116,386**	**219,958**	**529,629**	**167,778**	**40,102**	**123,399**	**1,197,252**
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	-	

ALCO is primarily responsible for overseeing the implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis. The Bank considers the funding ability before committing additional credit facility and closely monitors the upcoming payment obligations. The Bank has an Individual Liquidity Adequacy Assessment (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. The Bank is holding a Liquidity Asset Buffer in form of UK and US Treasury Bonds and balance with Bank of England to the extent of $ 192.66 million as at 31 March 2013.

Operational Risk

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process, systems, people or external events. Major sources of operational risks for the Bank are identified by management as IT security, internal and external fraud, process errors,

Operational Risk (continued)

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 etc. These are tested periodically.

34] Capital Management (un-audited)

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

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

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:

Tier	Component	2013 $'000	2012 $'000
Core Tier One Capital	• Permanent Share Capital	**99,631**	87,131
	• Profit and Loss Account and Other Reserves	18,827	14,621
	• Fair Value Reserve	125	(3,353)
		118,583	98,399
Deduction for Intangible Assets		(192)	(270)
Total		**118,391**	98,129
Upper Tier II Capital	• Perpetual Subordinated Debt	25,000	25,000
	• Collective Impairment Provision	493	341
Lower Tier II Capital	• Long term subordinated debt	50,000	37,500
		75,493	62,841
Deductions		-	-
Total Tier II Capital		**75,493**	62,841
Total Tier I and Tier II Capital after Deductions		**193,884**	160,970
Tier III Capital		-	-
Total Capital		**193,884**	160,970

34] Capital Management (continued)

The Bank is required at all times to monitor and demonstrate compliance with the relevant regulatory capital requirements of the Financial Services Authority (till 31 March 2013) and of the Prudential Regulation Authority (with effect from 01 April 2013). The Bank has put in place processes and controls to monitor and manage the Bank's capital adequacy. No breaches were reported to the Financial Services Authority during the year.

35] Reclassification

The Bank previously presented the Statement of Financial Position, distinguishing current from non – current assets and liabilities. Financial Institutions, most commonly, present assets and liabilities broadly in the order of liquidity as the presentation provides more relevant and reliable information.

Considering the guidance contained in IAS 1, the Bank has decided to present assets and liabilities in the broad order of liquidity going forward. This required the reclassification of certain amounts relating to the previous year within the current year Statement of Financial Position. In respect of such amounts, the Bank has restated the comparative financial information for the year ended 31 March 2012 and accordingly also presented a third Statement of Financial Position as at 1 April 2012 as required by IAS 1.

The effect of these reclassifications is summarised below:

Comparative reclassified balances as at 31 March 2012

Amount in $

As at 31 March 2012				
As per previous year audited financial statements		Amount re-classified/ regrouped	Balance as per current year audited financial statements	
Financial Statement Captions	Balance		Financial Statement Captions	Balance
Cash in hand and bank (current)	193,908	(130,000)[(1)]	Cash and Cash Equivalent	63,908
Loans and receivables (noncurrent)	421,252		Loans and advances to banks[(2)]	346,899
Loans and receivables (current)	457,799		Loans and advances to customers[(2)]	662,152
Loans and receivables (total – current and non-current)	879,051	130,000[(1)]	Loans and advances total	1,009,051
Interest bearing borrowings (noncurrent)	205,276		Deposits from banks[(4)]	167,636
Interest bearing borrowings (current)	808,229		Deposits from customers[(4)]	861,441
Non-interest bearing borrowings (current)	53,195		Subordinated liabilities and other borrowed funds[(4)]	37,500
Total borrowings	1,066,700	(123)[(3)]		1,066,577
Trade and other payables (current)	6,222	123[(3)]	Other liabilities	6,468[(6)]
Current tax liability	733	123 [(5)]	Current tax liability	610

35] Reclassification (continued)

Comparative reclassified balances as at 01 April 2011

Amount in $

As at 01 April 2011				
As per previous year audited financial statements		Amount re-classified/ regrouped	Balance as per current year audited financial statements	
Financial Statement Captions	Balance		Financial Statement Captions	Balance
Cash in hand and bank (current)	104,302	(55,000)(1)	Cash and Cash Equivalent	49,302
Loans and receivables (noncurrent)	309,677		Loans and advances to banks(2)	218,612
Loans and receivables (current)	393,525		Loans and advances to customers(2)	539,590
Loans and receivables (total – current and non-current)	703,202	55,000(1)	Loans and advances total	758,202
Interest bearing borrowings (noncurrent)	192,588		Deposits from banks(4)	100,748
Interest bearing borrowings (current)	551,338		Deposits from customers(4)	663,335
Non-interest bearing borrowings (current)	45,335		Subordinated liabilities and other borrowed funds(4)	25,000
Total borrowings	789,261	(178)(3)		789,083
Trade and other payables (current)	5,632	178(3)	Other liabilities	5810(6)

Reasons for change

1) The Bank previously recorded the amount of ‘cash in hand and bank’ as part of its current assets in the statement of financial position. This included Inter-bank placements having original maturity of more than three months. In the current year financial statements, amount of ‘cash and cash equivalent’ (instead of ‘cash in hand and bank’) has been shown in the statement of financial position. Amount of placements having original maturity of more than three months has now been reclassified such that this has been added to the carrying value of ‘Loans and advances to banks’ and has been reduced from ‘cash and cash equivalent’. There has been no impact on the net assets or profit for the period. This amount would have been reclassified irrespective of change in balance sheet presentation in order of liquidity.

2) The Bank previously recorded ‘loans and receivables’ both to Banks and to customers together, further classifying them as current and non-current. Total of loans and advances has now been reclassified into ‘loans and advances to banks’ and ‘loans and advances to customers’. ‘Loans and advances to banks’ also now include interbank placements of original maturity more than three months, as per 1 above. There has been no impact of this reclassification on the net assets or profit for the period.

3) The Bank previously recorded ‘bills payable’ as part of ‘current non-interest bearing borrowing’. This has now been reclassified such that ‘bills payable’ has been added to ‘other liabilities’ and reduced from deposits/ borrowings. There has been no impact on the net assets and liabilities or profit for the period.

35] Reclassification (continued)

4) The Bank previously recorded all deposits and borrowings from customers and banks, the amount of subordinated debt and bills payable together as ‘non current interest bearing borrowings’, ‘current interest bearing borrowings’ and ‘current non interest bearing borrowings’. Total of deposits and borrowings (except ‘bills payable which has now been reclassified as ‘other liabilities’ as per 3 above) have now been bifurcated into ‘Deposits from banks’, ‘Deposits from customers’ and ‘Subordinated liabilities and other borrowed funds’. There has been no impact on the net assets and liabilities or profit for the period.

5) The Bank previously recorded tax deducted at source out of interest on deposits of customers as part of ‘current tax liability’. This has now been reclassified into ‘other liabilities’. There has been no impact on the net assets and liabilities or profit for the period.

6) The Bank previously recorded ‘trade and other payables’ as a current liability. This together with amount of ‘bills payable’ (as per 3 above) and amount of tax deducted at source from interest on deposits (as per 5 above) has now been reclassified into ‘Other liabilities’. There has been no impact on the net assets and liabilities or profit for the period.

There has been no restatement of the income statement of the previous year.

36] Events after the Balance Sheet date

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