

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2017

COMPANY REGISTRATION NUMBER 5781326





PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FOR THE YEAR ENDED 31 MARCH 2017

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PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2017

The Board of Directors for the year ended 31 March 2017

The Board of Directors, as shown below, have all served throughout the year ended 31 March 2017 except as noted:

Position	Directors	Appointment/ Approval Date	Resignation Date
Chairman	Ms.Usha Anan- thasubramanian		05.05.2017
Managing Director	Antanu Das		
Executive Director	Muddoor Sadananda Nayak		
Non-Executive Director	S K Mohanty		23.06.2016
Non-Executive Director	Nehal Ahad	23.06.2016	
Independent Non-Executive Director	David Hopton		
Independent Non-Executive Director	Malcolm McCaig		31.01.2017
Independent Non-Executive Director	Nicholas Coleman	24.03.2017	

Company secretary **Camilla Shaw**

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London
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Auditor **Deloitte LLP**
Chartered Accountants





The Directors have pleasure in presenting the annual report and the audited financial statements of Punjab National Bank (International) Limited ('PNBIL' or 'Bank' or 'Company') for the year ended 31 March 2017. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards as adopted by the European Union.

RESULTS AND DIVIDENDS

The Bank's operating profit before provisions, tax and dividends for the current financial year has decreased by 50.87% to \$18.80 million from \$38.26 million for the year ended 31 March 2016. This decline is against the background of the Directors' decision to reduce the size of loan portfolio in view of unfavourable macro-economic factors which had a particularly adverse impact on the Bank's exposure to Indian Corporates. Resultantly the size of loan portfolio before provisions reduced to \$1,077 million from \$1,476 million as at 31 March 2016 and level of customer deposits also lowered to \$1,135 million from \$1,358 million as at 31 March 2016.

Due to the reduced size of advances and increase in impaired assets, operating income has decreased by \$19.16 million (35.20%) from \$54.43 million to \$35.27 million. Net interest income has fallen by \$12.59 million and net trading income was \$6.65 million lower due to adverse market movement which affected treasury profitability. Expenditure increased by \$0.29 million (1.83%) from \$16.18 million to \$16.47 million.

The cost to income ratio has increased to 46.70% from 29.71% due to lower income outweighing a slight reduction in cost. However, the Bank seeks continually to strengthen its governance and control environment, and to invest in systems to enable it to meet the increasing business and regulatory challenges faced by all banks. In the year 2016-17 the Bank has undertaken a very thorough review of its overall governance, giving particular attention to its risk governance framework

With many of the Bank's customers being adversely affected by the slowdown and especially by the reduced economic growth in India (with consequent delay in flow of public funds to the much awaited infrastructure projects), the Directors initiated an extensive review of the Bank's credit exposures by applying the strictest credit review methodologies, which has resulted in an increase in cumulative gross impaired advances to \$299.39 million in 2017 (2016: \$144.99 million). Considering the increase in impaired assets, the Directors have taken conservative approach to provisioning, which has resulted in impairment provisions of \$152.13 in the year ended 31 March 2017 (2016: \$71.85 million),

The impact on the profit and loss after these increased provisions is a loss before tax for the year ended 31 March 2017 of \$133.34 million. The losses, the tax effects of movements in Available for Sale securities and other movements have created a tax credit of \$22.01 million resulting in a rise in the deferred tax asset which will offset the tax payable on future profits.

After careful consideration and detailed due diligence, Punjab National Bank ('PNB' or 'parent bank'), the Bank's parent, has supported PNBIL's review and analysis of its credit exposures and has enabled the booking of additional provisions through a \$100 million capital injection in March 2017, part of PNB Board's total approval of \$120 million capital injection for its subsidiary. This injection was in the form of further issuance of \$80 million of Ordinary share capital and of a \$20 million perpetual bond which is acceptable as Additional Tier 1 capital for capital adequacy purposes.



Following the parent's capital injection the Bank had a CRAR of 21.70% as at 31 March 2017, and met all other CET1 and Tier 1 regulatory capital requirements.

Having considered the impact of Brexit on its business and on the business of its customers, the Bank is satisfied that the impact will be low, however the Directors will continue to monitor the situation closely and will undertake a reappraisal should circumstances change.

The financial statements for the year ended 31 March 2017 are shown on pages 20 to 76. Performance highlights are given in the Strategic Report.

As in previous years, the Directors have not recommended the payment of dividend on ordinary share capital.

PRINCIPAL ACTIVITY AND REVIEW OF THE COMPANY

Punjab National Bank (International) Limited is a UK company incorporated in 2007 as a 100% subsidiary of Punjab National Bank – India (PNB). PNBIL is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The Bank's parent is one of the leading public sector banks in India. PNB had an asset base of \$105.16 billion as at 31 December 2016 (\$97.89 billion as at 31 December 2015). PNBIL's main business is to provide corporate and retail banking services to different segments of customers, particularly to those with business or personal links with India and U.K. residents.

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

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 funds management and to meet cross currency transactions of its clients. The Bank has also built a portfolio of investments on its own account, held mainly for liquidity management. The main functions of the treasury operations continue to be to source funding for the Bank, to maintain comfortable liquidity position throughout the financial year and provide guidance on the pricing of assets and liabilities.

NEW INITIATIVES/MILESTONES

During the financial year, the Directors took the opportunity to develop a new sustainable and viable five-year business strategy focusing on low risk areas which complement the Banks core competencies. In order to gain market intelligence, to enhance creative thinking and facilitate challenge, the Bank has taken expert insight from outside advisers.

In tandem with the new business strategy the Bank has reassessed and reformulated its risk appetite.

The Board of the Bank has determined that it has a lower risk appetite for its businesses in some of the



areas and now wishes to embark on a short period of consolidation after a period of rapid expansion. The severe stress in some part of its loan book has resulted in substantial provision and the Bank now wants to pursue a more cautious growth strategy over the next 3 to 5 years, building expertise and capacity in key business areas which have been identified as providing a 'lower risk, lower return' business model.

During the year the Bank has made some significant advancement on the IT to improve customer service that includes Enhanced SMS Alert mechanism, installation of local servers for Internet banking and Debit Cards. The Bank is also in the process of implementing Enhanced Internet Banking Platform and Mobile Banking Platform during the remainder of 2017.

The Senior Managers' Regime (SMR) which was implemented last year has now been further expanded to accommodate the wider certification regime. The overall corporate governance framework was reviewed and updated. Management team has been strengthened with the recruitment of a permanent Chief Financial Officer (SMF 2), Chief Risk Officer (SMF 4) and company secretary. A new Compliance Director holding SMF16 and SMF 17 and Head of Credit have also been recruited. In total, 20 members of staff are covered under certification regime while 8 members are having senior management functions (SMFs).

The Bank has also co-sourced the internal audit function to an external professional accountancy firm to further strengthen the audit function and has recruited a new Head of Internal Audit from the local UK market.

The project for the establishment of 'Enterprise Wide Data Warehouse' (EDW) is nearing the end of its first phase, which leads to automation of regulatory returns. EDW extracts, cleans, confirms and delivers data into a dimensional data store and provides queries and analysis for downstream use both in the context of regulatory returns and other important management information and reports.

The Bank has started its preparations for the adoption of the IFRS 9 – Financial Instruments Accounting standard which comes into effect from 1 January 2018.

During the year the Bank has been successful in upgrading its single customer view (SCV) software to incorporate new regulatory guidelines effective from 1 December 2016.

Key performance highlights, business review, capital structure, risks and uncertainties affecting the Bank and future strategy are covered in the Strategic Report included as part of this Annual Report.

DIRECTORS

During the year under review, there has been a change in the Non-Executive Director (NED) nominated from the parent bank. In addition one local Independent Non-Executive Director (INED) resigned from the Bank and a new local INED has been appointed by the Bank in his place. The regulatory approval is under process. Four other Directors i.e. the Chairperson, the Managing Director, the Executive Director, and one local INED have continued to serve on Board in the same capacity throughout the year. Directors who held office during the year are listed on page 3.

Subsequent to the end of the year the Chairman resigned her position from PNBIL following her



transfer to another Indian bank at the instigation of the Government of India

INTERNAL CONTROL AND FINANCIAL REPORTING

The Directors are responsible for establishing an effective internal control environment in the Bank and for reviewing its effectiveness. Although the Bank has well defined procedures for safeguarding assets against unauthorised use or disposition, the systems and control across the Bank are reviewed regularly and in particular, risk controls have been the subject of an extensive and detailed review. There is also control for maintaining proper accounting records and for ensuring the reliability of financial information used within the business or for publication. Such procedures are designed to contain and manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

The Directors have therefore maintained their efforts to design and establish procedures to provide effective internal control within the Bank. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the Bank have been considerably improved during the year ended 31 March 2017 and these procedures and control will continue to remain under review and oversight by the Directors.

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 vis-à-vis its risk appetite. In addition the Directors look to operating management and internal audit to ensure that key business risks are identified, evaluated and managed by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board Risk Committee is a sub-committee of the Board which monitors the management information it receives in order to identify, control and mitigate risks pertaining to all banking activities. The Board also receives regular reports from the Chief Risk Officer on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

The financial reports are presented regularly to the Board detailing the business results, variances and other performance data. The Board is also reviewing to further enhance its ability to oversee financial performance.

The effectiveness of the internal control system is reviewed regularly by operational management and internal audit, and the information from such reviews is presented to the Board Audit and Compliance Committee. The Board also receives reports of reviews undertaken by the co-sourced internal audit function as well as reports from the external auditor which include, among other important systems and control observation, details of internal control matters that they have identified as part of the financial statements audit. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

The Directors confirm that, apart from the resignation of the Chairman as noted under Directors above, there are no subsequent events after the balance sheet date, requiring changes or disclosure in these financial statements.



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 external auditor is unaware; and
- The Director has taken all steps that they ought to have taken to make them aware of any relevant audit information and to establish that the external auditor is aware of that information.

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

ELECTIVE RESOLUTIONS

The Company, being a wholly-owned subsidiary of Punjab National Bank, India, has elected to dispense with the requirement to hold annual general meetings, present Directors' reports and financial statements before a general meeting and re-appoint its auditor annually.

AUDITOR

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

GENERAL MEETINGS

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

Camilla Shaw

Company number: 5781326

Company Secretary
1 Moorgate, London, EC2R 6JH (UK)

26 June 2017



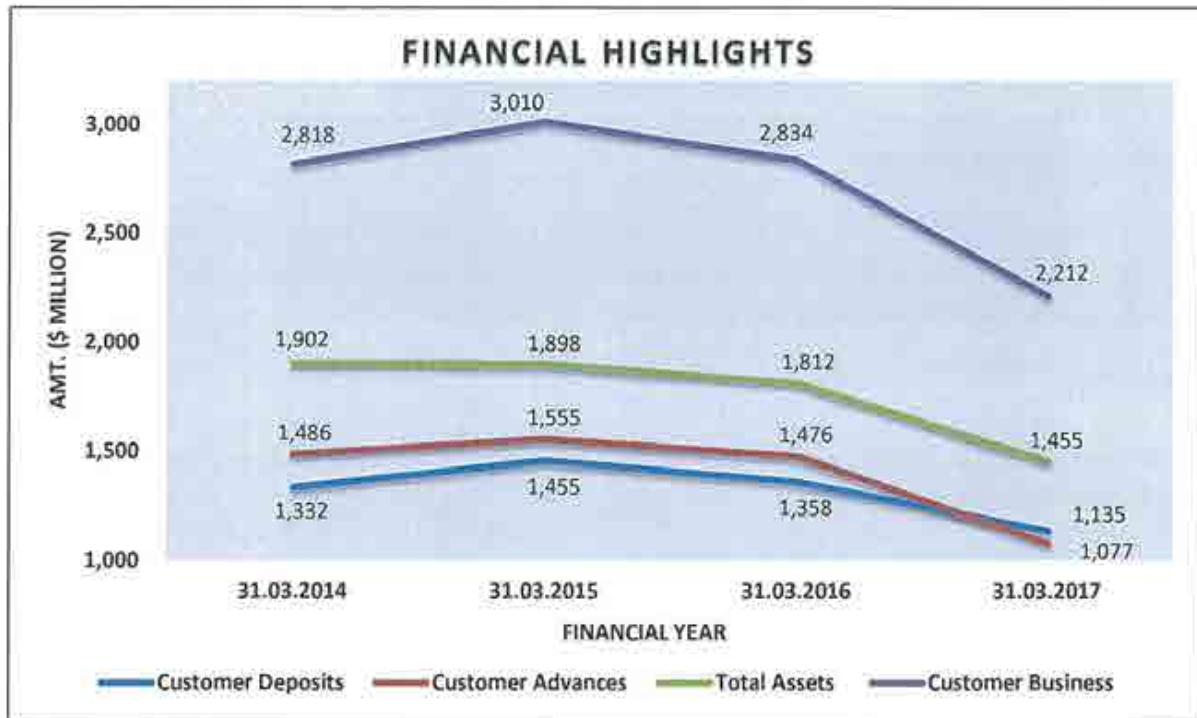
PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

This strategic report should be read in conjunction with the Directors' Report where some of the requirements of this report have been discussed.

FINANCIAL HIGHLIGHTS

Key performance highlights of the Bank are as below:



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



This is the tenth year of operations for the Bank and it has a total customer business of \$2,212 million. However, this has decreased from \$2,834 million as at 31 March 2016 with a year-on-year decrease of 21.95%. Operating profit for the year ended 31 March 2017 amounted to \$18.80 million (2016: \$38.26 million), a year on year decrease of 50.87%. Decrease in operating profit is mainly on account of the Bank's decision to reduce the loan portfolio and increase the impaired assets.

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

The increased impairment has been reflected in increased net provisions of \$152.13 million, which affected the Bank's capital position, and necessitated an injection of additional capital, by the parent. Accordingly the parent has provided additional capital of \$100 million during the current financial year and an additional \$ 20 million subsequent to the year end.

The Bank's impaired loans and advances amounted to \$299.39 million (2016: \$144.99 million) and the cumulative provision against impairment for loans as at 31 March 2017 is \$258.56 million (2016: \$108.62 million). Collective impairment provision on loans stood at \$4.72 million (2016: \$5.63 million).

The loss before taxation for the year ended 31 March 2017 amounted to \$133.34 million (2016: loss of \$33.59 million). The losses, plus movement in Available for Sale securities and other movements have led to a tax credit of \$22.01 million, and increase in the after tax loss to \$111.33 million compared to the prior year (2016: loss of \$27.23 million).

As at 31 March 2017, PNBIL had total assets of \$1,455 million (2016: \$1,812 million). During the year, total lending decreased to \$1,077 million (2016: \$1,476 million) as the Bank sought to consolidate its position and focus on the recoveries, rather than fresh lending.

As at 31 March 2017, the geographical concentration of the Bank's loans and advances to various counterparties is mainly in UK (31.28%) and India (45.27%) based on a risk origination basis. The main sector concentration within the Bank's loans and receivables portfolio was loans against SBLs and LCs of Banks (18.35%), UK real estate lending (14.30%) and loans against own deposits/deposits held with Parent (4.71%). UK real estate lending consists of credit facilities sanctioned against mortgages of immovable properties (buy to let/sell, office use, and property development). These facilities are extended with sufficient margin (on an average more than 30%) and spread over more than 141 accounts.

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

During the current financial year the Bank has devised and adopted a new business strategy and risk appetite for the next 5 years which has been developed in consultation with professional experts taking into account the areas where the Bank has been successful in the past and where it is believed the market offers opportunities which align with the Bank's revised and more conservative risk appetite.



The new strategy focuses on low risk UK and India centric business development.

In the light of its experience during the year and in keeping with its assessment of world economic prospects, the Bank has had a keen focus on devising and embedding an enhanced corporate governance framework, and an enhanced Risk Management framework, which it has taken steps to embed in its corporate culture and which it aims to review and strengthen further on a continual basis. Keeping the focus on recovery, an exclusive separate credit recovery department has been established and a senior official from parent bank has been given the charge of it, given the majority of impairments are associated with exposure to India. The department is guided and supported also from parent for recovery in India based exposures.

GOING CONCERN BASIS

The Bank has adequate resources to continue its operations for the foreseeable future.

Although there has been a loss for the year ended 31 March 2017 (on the account of provisions made for impaired assets) the Bank has adequate capital to support its current and proposed business. The Bank has a CRAR of 21.70% as at 31 March 2017 following the injection of fresh common equity of \$80 million and Additional Tier I capital of \$20 million raised in the year ended 31 March 2017.

The Bank has continued to receive sufficient support from the parent in the form of capital and operational assistance from time to time. The Bank's strategic plan suggests the Bank will return to profitability next year, as it embarks on its revised strategy focused on lower risk UK-based lending.

The Bank has maintained a strong liquidity position. The adequacy of liquidity continues to be ensured on a stand-alone basis, with the measures of liquidity coverage ratio and net stable funding ratio of the Bank remaining above the regulatory minimum levels.

Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

CAPITAL STRUCTURE

The capital structure of PNBIL consists of issued ordinary share capital (\$254.63 million), Additional Tier I capital (\$45 million), subordinated debt (\$50 million), Available for sale reserve and deficit of \$107.77 million and other deductibles as detailed in note 34 to the financial statements. The total amount of regulatory capital available as at 31 March 2017 was \$219.81 million.

The Capital to Risk Adequacy Ratio (CRAR) of the Bank continues to remain above the required level under the Capital Requirement Regulations (CRR) and also above that required under Individual Capital Guidance (ICG) given by the regulator to the Bank. CRAR as at 31 March 2017 is 21.70% with the Common Equity Tier I capital ratio being 11.90%. The components of regulatory capital, assessment of capital adequacy and the leverage ratio will be given in the Pillar III disclosure, to be published on the Bank's website.

The Bank was provided with fresh Ordinary share capital of \$80 million and additional tier I capital of \$20 million from the parent bank in March 2017, part of PNB Board's approval of a \$120 million capital injection for its subsidiary, together with an additional \$ 20 million on 2 June 2017. Also Tier II



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2017

Capital of \$25 million raised in 2009 by issuing floating rate subordinated notes to the parent company (Punjab National Bank) was converted into Additional Tier I capital on 16 February 2017 further strengthening the Total Tier I capital base of the Bank.

PNBIL's senior management monitors the Bank's capital position on a daily basis. The Board Risk Committee and the Board review the capital structure on a quarterly basis, or more frequently as required. The Bank reappraises the need for capital and funding throughout the year to ensure the ongoing stability and support of its business activities and compliance with regulatory requirements.

PRINCIPAL RISKS AND UNCERTAINTIES

Key risks for the Bank are credit risk on the loan portfolio, interest rate risk in the banking book and operational risk including cyber risk. These risks as well as the mitigation techniques followed by the Bank are discussed in note 33 of the financial statements. Recovery of customer advances continues to be the major business risk for the Bank, especially for a number of stressed and impaired accounts. Since the Bank has considerable exposure to India the successful execution of recent initiatives taken by the Indian Government is expected to have a positive impact on recovery. Even though a large part of our exposures under this segment are collateralised, the uncertainties associated with the ability to recover these within a reasonable time have led the Board to adopt a conservative approach and to take higher provisions in the last two years. Having undertaken an extensive review, the Directors have the confidence that the Bank has established appropriate mechanisms to measure, monitor and manage risks on an ongoing basis. The Board of the Bank has stipulated threshold risk limits for each of the major risks.

The Company is firmly committed to the management of risks, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. The Directors have taken steps to ensure risk management is given the highest priority throughout the Company and is integral to the management of the business.

Together, the operation of a three lines of defence model, the structure and composition of the Board and the functioning of Board Audit and Compliance Committee and Board Risk Committee have been designed with effective corporate governance in mind. These structures aim to give strategic direction and challenge to management in implementing policies to encourage effective systems and controls and the embedding of the Board's overall risk appetite. Risk limits are designed to provide assurance that no single event, or combination of events, will materially affect the well-being of the Company. The Bank's Executive Committee, Asset and Liability Committee and other Operating Committees assist in assessing market trends, economic and political developments and provides a forum for in-depth review and analysis of the risks to which the Company is subject.

The Bank's strategies and policies regarding financial risk management, including the use of financial instruments, the policy for hedging, and an indication of the exposure to financial risk is provided in note 33 to the financial statements. This note also includes the Bank's processes for managing its capital, its financial risk management strategy, details of its financial instruments and hedging activities, and its exposure to credit, market, liquidity and other risks. Some of the issues concerning credit risk have been discussed in note 18.



MARKET CONDITIONS

There has been a stronger-than-expected pickup in growth in advanced economies during the year, mostly due to a reduced drag from inventories and some recovery in manufacturing output as per IMF economic outlook. The outlook highlights that among advanced economies, activity rebounded strongly in the United States after a weak first half of 2016, and the economy is approaching full employment. Output remains below potential in a number of other advanced economies, notably in the Euro area. Preliminary third-quarter growth figures were somewhat stronger than previously forecast in some economies, such as Spain and the United Kingdom, where domestic demand held up better than expected in the aftermath of the Brexit vote.

UK economic growth remained relatively strong in the second half of 2016, increasing by around 2% in the year to the fourth quarter as consumer spending in particular remained resilient.

As per Asian Development Bank (ADB) India, Growth slowed to 7.1% in 2016 despite recovery in agriculture. It slowed to 7.1% in 2016 from 7.9% growth in 2015 partly due to currency demonetisation, and other reasons such as excess production capacity, problems that past overinvestment left on corporate balance sheets and new bank lending inhibited by too many stressed assets.

OUTLOOK

Economic activity in both advanced economies and emerging market and developing economies is forecast to accelerate in 2017–18, with global growth projected to be 3.4% and 3.6%, respectively as per IMF outlook.

Federal Open Market Committee of U.S. expects U.S. GDP growth to rise to 2.1% in 2017, better than the 1.9% estimated for 2016. The increase in gross domestic product is expected to remain at 2.1% in 2018 and drop to 1.9% in 2019. This forecast begins to take into account the impact of the new US president's policies. This may lead to interest rate rises in the US.

Despite United Kingdom growth remaining relatively strong in second half of 2016, business investment was less strong last year and there have been some signs in early 2017 that higher inflation is starting to take its toll on retail sales growth. These less favourable trends seem likely to continue for the rest of 2017 and into 2018 assuming the outcome of the Brexit negotiations remains unclear and the pound continues to be relatively weak.

As per Asian Development Bank (ADB) India Outlook, the slowdown did reflect a continued slump in investment in India. Moderately higher growth is projected as consumption picks up and government initiatives boost private investment. ADB expects GDP growth rate of 7.4% and 7.6% for year 2017 and 2018, respectively.

The Bank's conservative approach is in alignment with less favourable trends in UK economy and slump in investment in India. However, moderately higher growth of Indian economy for year 2017 and 2018 and Indian government's initiative including tax reforms, real estate reforms and push on infrastructure are expected to have positive impact on Bank's recovery aspects.



REGULATORY FACTORS

On 19 December 2013, the PRA published its rules and supervisory statements which complement the EU legislative package known as “CRD IV”, covering prudential rules for banks, building societies and investment firms.

CRD IV is intended to implement the Basel III agreement in the EU. This includes enhanced requirements for quality and quantity of capital, a basis for new liquidity and leverage requirements, new rules for counterparty risk, and new macro-prudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions. CRD IV also makes changes to rules on corporate governance, including remuneration, and introduces standardised EU regulatory reporting - referred to as COREP and FINREP. These reporting requirements will specify the information firms must report to supervisors in areas such as own funds, large exposures and financial information.

The Banking Reform Act received Royal Assent in December 2013. It brings into law structural and cultural changes to the banking system by:

- introducing a ‘ring-fence’ around the deposits of people and small businesses, to separate the high street from the trading floor and protect taxpayers when things go wrong;
- making sure the Prudential Regulation Authority can hold banks to account for the way they separate their retail and investment activities, giving it powers to enforce the full separation of individual banks;
- imposing higher standards of conduct on the banking industry by introducing a criminal sanction for misconduct that leads to bank failure;
- giving depositors, protected under the Financial Services Compensation Scheme, preference if a bank enters insolvency;
- giving the government power to ensure that banks are more able to absorb losses; and
- Introducing a cap on payday loans.

Senior Managers and Certification Regimes: To strengthen Individual accountability in banking, the PRA has set forward a new Senior Managers Regime (SMR) including Certification Regime (CR) which has commenced from 7 March 2016. This has replaced the existing Significant Influence Function (SIF) element of the existing Approved Persons Regime. The new regime introduces a combined list of 18 Senior Management Functions to replace the existing controlled functions. Whilst the number of functions has stayed the same, accountability is focused on a narrower number of senior individuals in a firm, as some of the existing functions are now being covered by the certification regime. The ‘CR’ will operate alongside the Senior Persons Regime and apply to other Bank staff whose actions or behaviour could significantly harm the Bank, its reputation or its customers. This regime requires firms to assess that the Senior Managers and Certified Persons are fit and proper through review of qualifications, training, competence and personal characteristics. A new set of ‘Conduct Rules’ have been prescribed as applicable to all staff, with an additional set of conduct rules applicable to Senior Managers and Certification Staff.

Additional Liquidity Monitoring Metrics (ALMM): The ALMM has been designed to supplement the information about a bank’s liquidity that is already captured by the (LCR). There is an



overlap between the data that is needed to produce both reports. However, the ALMM also requires granular data that is not needed for the LCR, including information about a bank's top ten counterparties and top ten types of funding across a multitude of maturity buckets.

The ALMM legislation has been published in the Official Journal of the European Union and the first reporting reference date was 30 April 2016. The report has been submitted on a monthly basis since then always on or before due date.

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9: It is an accounting standard, which sets out the requirements for recognition, impairment, derecognition, and general hedge accounting of financial instruments. IFRS 9 will replace International Accounting Standard (IAS) 39, which dealt with the financial assets and financial liabilities, and will be mandatory for all companies reporting under IFRS. The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted. To cope with the new requirements the Bank has initiated a project to ensure compliance with the standard including a parallel run with IAS 39 during 2017.

IMPACT OF MARKET FACTORS ON BANK

The lag effect of structural infrastructure issue in Indian economy, and global slowdown were some of the contributing factors towards default in some of the PNBIL corporate exposures, resulting in higher level of impairment provisions. Even the ancillary units supporting infrastructure projects have suffered on account of this delay. However as per the IMF forecast and government of India's new initiative in tax legislation, real estate and push on infrastructure spending, the growth rate is expected to accelerate which may have positive impact on recovery aspect of PNBIL.

As at the end of the year the capital adequacy ratio, leverage ratio, liquidity coverage ratio and net stable funding ratio of the Bank are above the minimum regulatory requirements and individual capital and liquidity guidance. Our funding is well diversified and our liquidity asset buffer, short term inter-bank placements and balances with the Bank of England are positively maintained, keeping in view the immediate liquidity requirement which may be triggered under stressed conditions. A minimum of 90 days' survival period is considered for maintenance of the buffer. The Bank's capital to risk adequacy ratio is 21.70%, with core Tier I capital ratio being at 11.90%, above the requirements of CRD IV. Bank raised fresh capital of \$100 million in this Financial Year and converted \$25 million of Upper Tier II into Additional Tier I capital.

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

FUTURE STRATEGY

The PNBIL Board has adopted a new business strategy developed with the help of an external advisor whose research capability and expertise in the area were important contributors to the strategic planning exercise. The strategy is UK and India centric, based on a lower-risk business model where we have the potential to win in the market and deliver a viable and sustainable business.



The Bank will continue to align its business processes with changing times and with special emphasis on the updating and leverage of IT and Management Information System infrastructure. The Bank expects that the External Data Warehouse (EDW) project will be fully operational during the year and the Bank will be able to generate and submit system-generated returns for all regulatory reports. The Bank will further make an endeavour to generate other management reports to enable it to better manage and direct its business.

The Bank has nearly completed its preparations to enhance/upgrade the existing transaction system, Internet Banking Services Version updated with enhanced security features, introduction of mobile app, and online rupee remittance system for non-customers, etc. These all are expected to occur in the next financial year.

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

CHARITABLE DONATIONS

No charitable donations were made during the year (2016: \$9,918).

EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after the balance sheet date, other than the Chairman's resignation on 5 May 2017 and infusion of capital of \$ 20 million on 2 June 2017 being remainder of PNB Board's approval of a \$120 million capital injection.

Camilla Shaw
Company Secretary
Company number: 5781326
1, Moorgate, London
EC2R 6JH (UK)

26 June 2017



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

The Directors are responsible for preparing the Strategic Report and the Directors' Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

The management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board


Anjanu Das
Managing Director
26 June 2017


Muddoor Sadananda Nayak
Executive Director



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PUNJAB
NATIONAL BANK (INTERNATIONAL) LIMITED.
FOR THE YEAR ENDED 31 MARCH 2017

We have audited the financial statements of Punjab National Bank (International) Limited for the year ended 31 March 2017 which comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss 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.



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PUNJAB
NATIONAL BANK (INTERNATIONAL) LIMITED.
FOR THE YEAR ENDED 31 MARCH 2017

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

In our opinion the information given in note 36 to the financial statements for the financial year ended 31 March 2017 have been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

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

Caroline Britton ACA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 June 2017



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 \$'000	2016 \$'000
Assets			
Cash and cash equivalents	9	490,010	240,205
Investment securities – held for trading	10	59,968	49,727
Derivative financial instruments	11	4,319	5,994
Loans and advances to banks	12	205,154	310,453
Loans and advances to customers	13	605,202	1,071,990
Investment securities – available for sale	14	53,936	122,080
Investment securities – held to maturity	15	8,936	1,171
Property, plant and equipment	20	962	1,526
Intangible assets	21	556	170
Deferred tax assets	22	25,802	3,779
Current tax assets		-	3,891
Prepayments and other receivables	23	524	696
Total assets		1,455,369	1,811,682
Liabilities			
Derivative financial instruments	11	455	14,944
Deposits from banks	24	73,692	176,964
Deposits from customers	25	1,134,852	1,358,109
Subordinated liabilities and other borrowed funds	26	50,000	75,000
Deferred tax liabilities	22	-	-
Other liabilities	27	4,513	8,034
Total liabilities		1,263,512	1,633,051
Equity			
Share capital	28	299,631	174,631
Retained earnings		(107,740)	3,610
Fair value reserve	29	(34)	390
Total parent company shareholders' equity		191,857	178,631
Total equity and liabilities		1,455,369	1,811,682

The financial statements were approved by the Board of Directors and authorised for issue on 20 June 2017.


ANTANU DAS
Managing Director


M. S. NAYAK
Director



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 S'000	2016 S'000
Interest income	5	65,554	85,627
Interest expense	5	(31,412)	(38,895)
Net interest income		34,142	46,732
Net trading (loss) income	5	(1,240)	5,414
Income on interest rate derivatives		1,508	1,189
Net fee and commission income		630	631
Other operating income	5	227	468
Operating income		35,267	54,434
Staff related costs	6	(6,752)	(7,319)
Operating lease expenses	5	(756)	(658)
Depreciation and amortisation	5	(862)	(806)
General administrative expenses	5	(8,101)	(7,392)
Provision on impaired financial assets	17	(152,134)	(71,846)
Loss before tax		(133,338)	(33,587)
Total tax credit	8	22,010	6,362
Loss after tax		(111,328)	(27,225)

The notes on pages 26 to 76 form part of these financial statements.



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	2017 \$'000	2016 \$'000
Loss for the year	(111,328)	(27,225)
Other comprehensive loss		
Items that are or may be reclassified to profit or loss		
Net change in fair value on AFS investments	(679)	(1,612)
Tax relating to fair value change on AFS investments	(77)	322
	(756)	(1,290)
Prior year amount transferred to profit and loss on AFS investments - net of tax)	332	(71)
Other comprehensive loss for the year	(424)	(1,361)
Total comprehensive loss attributable to equity shareholders	(111,752)	(28,586)

The notes on pages 26 to 76 form part of these financial statements.



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

	Attributable to equity holders of the Bank			
	Issued share capital \$'000	Fair value reserves \$'000	Retained earnings \$'000	Total equity \$'000
31 March 2017				
Balance at 1 April 2016	<u>174,631</u>	<u>390</u>	<u>3,610</u>	<u>178,631</u>
Total comprehensive loss for the year				
Loss for the year	-	-	(111,328)	(111,328)
Other comprehensive loss for the year				
Net change in fair value of AFS investments	-	(756)	(22)*	(778)
Net amount transferred to profit and loss	-	332	-	332
Total other comprehensive loss for the year	-	(424)	(22)*	(446)
Total comprehensive loss for the year	-	(424)	(111,350)	(111,774)
Transactions with owners recorded directly in equity				
Contributions by the owners				
Issue of share capital	125,000	-	-	125,000
Dividend on perpetual tier II capital	-	-	-	-
Deferred tax benefit	-	-	-	-
Total contributions by and distributions to owners	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Balance at 31 March 2017	<u>299,631</u>	<u>(34)</u>	<u>(107,740)</u>	<u>191,857</u>

* Tax credit arising on AFS reserve movement.

The notes on pages 26 to 76 form part of these financial statements.



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

	Attributable to equity holders of the Bank			
	Issued share capital \$'000	Fair val- ue re- serves \$'000	Retained earnings \$'000	Total equi- ty \$'000
31 March 2016				
Balance at 1 April 2015	174,631	1,751	31,745	208,127
Total comprehensive loss for the year				
Loss for the year	-	-	(27,225)	(27,225)
Other comprehensive loss for the year				
Net change in fair value of AFS investments	-	(1,290)	-	(1,290)
Net amount transferred to profit and loss	-	(71)	-	(71)
Total other comprehensive loss for the year	-	(1,361)	-	(1,361)
Total comprehensive loss for the year	-	(1,361)	(27,225)	(28,586)
Transactions with owners recorded directly in equity				
Contributions by the owners				
Issue of share capital	-	-	-	-
Dividend on perpetual tier II capital	-	-	(1,137)	(1,137)
Deferred tax benefit	-	-	227	227
Total contributions by and distributions to owners	-	-	(910)	(910)
Balance at 31 March 2016	174,631	390	3,610	178,631

The notes on pages 26 to 76 form part of these financial statements.



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017

	2017 \$'000	2016 \$'000
Cash flows from operating activities		
Total loss for the year	(111,328)	(27,225)
Adjustments for:		
Amortisation of other intangible non-current assets	197	98
Depreciation of property, plant and equipment	665	707
Provision for impairment losses on financial assets	152,134	71,846
Unrealised loss on exchange rate difference	90	185
Income tax credit	(22,010)	(6,361)
	<u>137,076</u>	<u>66,475</u>
	19,748	39,250
Changes in:		
Held for trading financial assets	(10,241)	31,939
Loans and advances to customers	314,654	52,172
Deposits from banks	(103,272)	41,704
Other liabilities and provisions	(3,614)	(2,942)
Available for sale financial assets	68,324	(3,022)
Fair value of derivatives	(12,814)	(9,092)
Loans and advances to banks	105,299	28,429
Trade and other receivables	82	3,280
Deposits from customers	(223,257)	(96,834)
Debt securities	-	(287)
	<u>135,161</u>	<u>45,347</u>
Cash flows from operating activities	<u>154,909</u>	<u>84,597</u>
Cash flows used in other operating activities		
Income tax credit	3,345	(3,401)
Net cash flows from operating activities	<u>158,254</u>	<u>81,196</u>
Cash flows from investing activities		
Acquisition of property and equipment	(101)	(163)
Acquisition of intangible assets	(583)	(131)
Proceeds from maturity of held to maturity investments	(7,765)	397
Net cash flows from investing activities	<u>(8,449)</u>	<u>103</u>
Cash flows from financing activities		
Gross proceeds from issue of equity share capital	125,000	-
Gross proceeds from issue of subordinated liabilities	(25,000)	10,000
Dividend to subordinated debt holders	-	(1,136)
Net cash flows from financing activities	<u>100,000</u>	<u>8,864</u>
Net increase in cash and cash equivalents	<u>249,805</u>	<u>90,163</u>
Cash and cash equivalents at 1 April	240,205	150,042
Cash and cash equivalents at 31 March (note 9)	<u>490,010</u>	<u>240,205</u>



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 accepting deposits, corporate and retail lending and other banking activities.

2] Basis of Preparation

A. Statement of Compliance

Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 2017 were authorised for issue on 25 May 2017.

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. 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. Although Bank has recorded a loss in the current financial year which arises mainly due to provisioning taken for specific impairment in loans. During the current year, the Bank has raised additional ordinary share capital of \$80 million and Additional Tier I capital of \$20 million and also converted Tier II capital of \$25 million into Additional Tier I capital.

The Bank is adequately capitalised at 31 March 2017 and exceeds all the capital ratios required by the regulators. The Bank's capital position, and its derivation, is set out in full in Note 34 to these financial statements



2] Basis of Preparation (continued)

The authorised share capital for the Bank was increased from \$250 million to \$400 million on 28 March 2017.

After considering the above factors, the Directors continue to adopt the going concern basis in preparing the financial statements.

D. Functional and Presentation Currency

The Directors consider the US Dollar as the primary currency of the Bank (and hence the functional currency of the Bank) as the majority of the income generating financial assets and a significant component of the funding including the Equity and Tier II capital of the Bank are denominated in US Dollars. Transactions in foreign currencies are recorded in US Dollars at the rate of exchange prevailing at the rates ruling at the end of the day in which the transaction arose. Any resulting exchange differences are included in the statement of profit or loss. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

E. Use of Estimates and Judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for available-for-sale investment securities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

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

- **Identification of impairment of financial assets**

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



2] Basis of Preparation (continued)

- 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.

• Allowances for impairment of loans and receivables

The Bank periodically reviews their financial assets carried at amortised cost to identify any early signs of financial deterioration. Additionally, for those loans where there is either a default or an objective evidence of impairment, judgement is required by management in the estimation of the amount and timing of expected cash flows, realisability and valuation of collateral and in certain cases the availability and reliance on guarantees (including corporate and personal guarantees and critical assessment of willingness and ability of the guarantors) in order to determine the level of impairment 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; and fair assessment is thus derived from management's experience of such markets.

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, frequency of the review of loan portfolio done by the management and past loan loss experience.

A change of one month in emergence period will result in an impact of \$1,573 thousand (2016: \$1,877 thousand) on the value of the impairment provision.

• Impairment Losses on available for sale investments

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



2] Basis of Preparation (continued)

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

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

• Fair value measurement of financial instruments

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

F. Standards and Interpretations

a) Standards and Interpretations effective in the Current Year

In the current year, the Company has applied amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 April 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-2014 Cycle

b) Standards and Interpretations issued but not yet effective

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



2] Basis of Preparation (continued)

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers
- IAS 16 & IAS 38 (amendments): Clarification of acceptable methods of depreciation and amortisation
- IAS 16 & IAS 41 (amendments): Agriculture: Bearer Plants
- IAS 19 (amendments): Defined Benefit Plans: Employee Contributions
- IAS 27 (amendments): Equity Method in Separate Financial Statements
- IFRS 10 & IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to IFRSs: 2010-2012: Amendments to : IFRS2: Share-based Payments, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets.
- Annual Improvements to IFRSs: 2011-2013: Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property.
- Annual Improvements to IFRSs: 2012-2014 Cycle Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact the measurement, disclosures and provisioning of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

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 profit or loss includes:



3] Accounting policies (continued)

- 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.
- Arrangement fees recognised on an accrual basis. It is accounted when the services have been provided or the significant act of delivering the services contracted by the customer has been performed and is amortised over the life of the loan.

Fees and commission

Fees and commissions include remittance charges, bills collection charges, LC charges, incidental charges on deposit accounts, locker rent etc. 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 loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

b) Measurement – financial instruments

A. Financial assets

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

i. Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of 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. For a purchase transaction, from trade date until settlement date, the asset remains an off balance sheet asset and it is recognised on financial statements on the settlement date. For a sale transaction, asset continues to be on financial statements until settlement date and the transaction remains an off balance sheet commitment until then.



3] Accounting policies (continued)

ii. Loans and receivables

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

iii. Held-to-maturity

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

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments which are classified as held to maturity are carried at amortised cost less impairment if any.

iv. Available for sale

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

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

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

B. Financial liabilities and equity instruments

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

i. Equity instruments

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



3] Accounting policies (continued)

ii. Financial liabilities

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

iii. Deferred Income

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

c) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in the absence of the most advantageous market to which the Bank has access at that date.

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

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

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



3] Accounting policies (continued)

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.

De-recognition of financial assets and liabilities

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

- i. substantially all the risks and rewards of ownership have been transferred; or
- ii. substantially all of the risks and rewards of ownership have neither been transferred nor been retained and the Bank has not retained control of the financial assets.

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

e) Transfer of financial assets

The Bank enters into transactions involving sale and repurchase of securities resulting in the transfer of financial assets, primarily debt securities.

Sale and repurchase agreements are transactions in which Bank sells a security and simultaneously agrees to repurchase it at a fixed price at a future date. Bank continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. Financial liability is recognised for the obligation to pay the repurchase price. Because the Bank sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of arrangement.

f) Impairment of financial assets

1) 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 statement of profit or loss.



3] Accounting policies (continued)

ii) Available for Sale Assets

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

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

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.

(ii) Subsequent costs

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



3] Accounting policies (continued)

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment using the straight line basis over their useful estimated life. Depreciation is recognised in the statement of profit or loss. The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

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

(The computers, software, mobile phones and related accessories are depreciated at 30% whereas furniture and Fixtures are depreciated at 20%).

(j) 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.

(k) Cash and cash equivalents

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

(l) Corporation tax/ deferred tax

The negative corporation tax charge in the profit and loss as a result of the loss situation represents the sum of the tax which can be used to offset past or future tax on profits.

Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using applicable tax rates.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method.



3] Accounting policies (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the statement of profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

(m) Recognition and measurement of provisions and contingencies

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the liability.

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

(n) Share Capital and Reserves

(i) Additional tier I bonds

The Bank classifies capital instruments as equity instruments in accordance with the substance of contractual terms of the instruments. The Bank's perpetual bonds are not redeemable by the holders and bear an entitlement to the distributions that is non-cumulative and at the discretion of the Board of Directors. Bank may elect at its full discretion to cancel (in whole or in part) the interest amount otherwise scheduled to be paid on interest payment dates. In case of occurrence of the trigger event the bonds shall be converted into ordinary shares. Accordingly, they are presented as a component of issued capital within equity. Distributions thereon are generally recognised as dividend out of total comprehensive income attributable to the equity shareholders.



3] Accounting policies (continued)

(ii) Fair value reserves

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

(o) Operating lease commitments

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

(p) Employee benefits

The Bank has two pay groups of employees in UK – those on secondment to the Bank from the Parent Bank and those who are locally recruited. The employees on secondment are governed by the salary structure approved by the Government of India as well as by the Board of Directors of the Parent Bank. Their salary, perquisites and allowances are fixed accordingly. Salary to the locally recruited staff is 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 Board reviews all the information for the business as a whole as these ancillary activities do not have their own standalone reporting environment and protocols internally.

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



5] Operating profit

Operating profit is stated after charging the following:

	2017 \$'000	2016 \$'000
Interest expense	31,412	38,895
Depreciation of property and equipment	665	708
Amortisation of intangible assets	197	98
	<u>862</u>	<u>806</u>
Operating leases:		
Lease rental expenses	756	658
Fee payable to the Bank's auditor for the audit of the Bank's annual accounts	168	259
Fee payable to the Bank's auditor for other services:		
- Audit related assurance services	308	28
- Non-audit services	37	26
	<u>345</u>	<u>54</u>

	2017 \$'000	2016 \$'000
Included in net trading income:		
Income related to:		
Foreign exchange	1,318	3,853
Investment securities - held for trading	(2,558)	1,561
	<u>(1,240)</u>	<u>5,414</u>



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5] Operating Profit (continued)

	2017 \$'000	2016 \$'000
Included in operating income:		
Income on services related to:		
Payment and settlement	174	339
Retail banking	52	127
Other operating income	1	2
	<u>227</u>	<u>468</u>

	2017 \$'000	2016 \$'000
Included in general administrative expenses:		
Marketing costs	78	175
Establishment expenses	738	896
Legal, professional and audit fees	4,446	3,898
Cost on postage, telephones and telegrams	352	471
Other administration costs	2,487	1,952
	<u>8,101</u>	<u>7,392</u>

	2017 \$'000	2016 \$'000
Included in interest income:		
Interest accrued on overdraft accounts	10,846	14,844
Interest accrued on demand and term loans	45,159	57,391
Discount on bills	34	36
Interest accrued on interbank placements	1,245	1,009
Coupon/premium accrued on investment securities	5,712	8,888
Arrangement fee on loans	2,558	3,459
	<u>65,554</u>	<u>85,627</u>

	2017 \$'000	2016 \$'000
Included in interest expense:		
Interest expenses on term deposits	25,453	33,477
Interest expenses on saving deposits	287	342
Interest expenses on interbank borrowings	1,888	1,907
Interest expenses on subordinated liabilities	3,784	3,169
	<u>31,412</u>	<u>38,895</u>



6] Employee Expenses

	2017	2016
	S'000	S'000
Wages and salaries	4,577	4,971
Contribution towards defined employee contribution plan	113	139
Other employee benefits	1,442	1,599
Social security costs	620	608
	<u>6,752</u>	<u>7,319</u>

Included in other employee benefits are:

	2017	2016
	S'000	S'000
Accommodation cost	868	972
Medical insurance and expense	114	100
Pension contributions for staff in India	8	8
Other expenses	452	520
	<u>1,442</u>	<u>1,600</u>

Average number of employees 106 104

There are no share based payments to employees.

7] Directors' Emoluments

	2017	2016
	S'000	S'000
Emoluments	<u>419</u>	<u>457</u>

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

	2017	2016
	S'000	S'000
Emoluments of highest paid Director	<u>200</u>	<u>211</u>
Contributions to external pension scheme included in the above	<u>-</u>	<u>-</u>



8] Corporation Tax

Components of corporation tax credit

	2017 \$'000	2016 \$'000
Current corporation tax credit		
Current corporation tax charge	62	(3,042)
Deferred corporation tax credit		
Effect of rate changes	(586)	-
Relating to origination and reversal of temporary differences	(21,486)	(3,320)
Total tax credit	(22,010)	(6,362)

Reconciliation of corporation tax charge to accounting profit

	2017 \$'000	2016 \$'000
Loss before tax	(133,338)	(33,587)
Corporation tax at 20% (2016: 20%)	(26,668)	(6,717)
Tax effect of fair value profits direct to reserves	(73)	(19)
Tax effect of non-deductible depreciation	73	71
Tax effect of other non-deductible expenses/non-taxable income	3	(30)
Tax effect of FX and rate changes	4,586	333
Previous year overprovision	69	-
Tax credit	(22,010)	(6,362)

	2017 \$'000	2016 \$'000
Current corporation tax credited to equity		
Credit arising on AFS reserve movement	22	322
Tax effective rate	16%	19%

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



9] Cash and cash equivalents

	2017	2016
	\$'000	\$'000
Cash on hand	250	557
Cash at bank (including balance held with central banks)	464,760	239,648
Cash equivalent	25,000	-
	<u>490,010</u>	<u>240,205</u>

10] Investment securities - Held For Trading

	2017	2016
	\$'000	\$'000
Treasury bills	<u>59,968</u>	<u>49,727</u>

The Bank has classified its holding of 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.

The table below sets out the credit quality of trading debt securities.

	Rating	2017	2016
		\$'000	\$'000
Government Treasury Bills			
US Treasury Bills	AAA	<u>59,968</u>	<u>49,727</u>
Total		<u>59,968</u>	<u>49,727</u>

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

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 statement of profit or loss.

A major portion of the Bank's assets are on floating rate of interest where base rate is floating and linked to LIBOR or BOE rate with a fixed margin thereupon. A major portion of liabilities of the Bank are on fixed rate of interest. The Bank uses interest rate swaps to eliminate interest rate risk in various reset buckets. Fair value of all derivatives is as below:



11] Exposure to Derivatives (continued)

	2017		2016	
	Positive Fair Value \$'000	Negative Fair Value \$'000	Positive Fair Value \$'000	Negative Fair Value \$'000
Cross currency swap	4,097	455	4,187	14,944
Interest rate swap	222	-	1,807	-
	<u>4,319</u>	<u>455</u>	<u>5,994</u>	<u>14,944</u>

All the deals under cross currency foreign exchange swaps and interest rate swaps are over-the-counter deals and none of them is with Central Counterparties. Table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2017.

Nature of Counterparty		Nominal Amount – Buy Transaction \$'000	Nominal Amount – Sell Transaction \$'000	Positive Fair Value \$'000	Negative Fair Value \$'000
Cross currency swaps	Bank	325,871	322,696	4,097	455
Interest rate swaps	Bank	419,386	419,383	222	-
		<u>745,257</u>	<u>742,079</u>	<u>4,319</u>	<u>455</u>

Table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2016.

Nature of Counterparty		Nominal Amount – Buy Transaction \$'000	Nominal Amount – Sell Transaction \$'000	Positive Fair Value \$'000	Negative Fair Value \$'000
Cross currency swaps	Bank	482,898	493,595	4,187	14,944
Interest rate swaps	Bank	253,692	251,885	1,807	-
		<u>736,590</u>	<u>745,480</u>	<u>5,994</u>	<u>14,944</u>



12] Loans and advances to banks

	2017	2016
	\$'000	\$'000
Bills negotiated and discounted	58	20,365
Term loans against stand-by letters of credit/buyers credit	196,942	286,483
Direct loans to banks	-	-
Interbank placements of original maturity of more than three months	8,154	3,605
	205,154	310,453
Less impairment provisions	-	-
Net Loans and advances to banks	205,154	310,453

At 31 March 2017 \$140,687 thousand (2016: \$215,025 thousand) of loans and advances to banks are expected to be realised more than 12 months after the reporting date.

13] Loans and advances to customers

	2017	2016
	\$'000	\$'000
Bills negotiated and discounted	734	98
Customer overdrafts	230,533	315,414
Term loans	640,413	870,728
Total	871,680	1,186,240
Less impairment provisions ⁽¹⁾	(266,478)	(114,250)
Net Loans and advances to customers	605,202	1,071,990

¹ Impairment provisions include specific credit provisions of \$258,558 thousand (2016: \$108,620 thousand), other provisions of \$3,200 thousand and collective provision of \$4,720 thousand (2016: \$5,630 thousand).

At 31 March 2017 \$377,271 thousand (2016: \$561,112 thousand) of loans and advances to customers are expected to be realised more than 12 months after the reporting date.



14] Investment Securities - Available for Sale

	2017	2016
	\$'000	\$'000
Marketable debt securities	53,936	122,080

At 31 March 2017, \$49,822 thousand (2016: \$122,080 thousand) of investment securities (available for sale) are expected to be realised more than 12 months after the reporting date.

15] Investment Securities - Held to Maturity (HTM)

	2017	2016
	\$'000	\$'000
Debt securities	11,122	3,451
Less: Impairment	(2,186)	(2,280)
Net book value of HTM securities	8,936	1,171

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

At 31 March 2017 \$8,936 thousand (2016: \$1,171 thousand) of HTM investments are expected to be realised 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	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Held to Maturity Securities	11,122	3,451	8,895	1,112
Less Impairment provision	(2,186)	(2,280)	-	-
Net Book Value	8,936	1,171	8,895	1,112

The total impairment provision recorded for Held to Maturity securities is against the 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.



16] Financial Instruments (continued)

The fair value of financial instruments carried at amortised cost incorporates the Bank's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or in the absence of that to the most advantageous market to which the Bank has access at that date.

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

	Carrying amount and fair value	
	2017 \$'000	2016 \$'000
Assets		
Customer and bank overdrafts	133,178	266,355
Term and bank loans	668,232	1,092,020
Interbank placements	33,154	3,605
Bills purchased	792	20,463
Liabilities		
Interbank deposits	71,068	164,201
Subordinated debts	50,000	75,000
Savings accounts	139,540	142,878
Current accounts	147,763	134,177
Fixed term deposits	850,173	1,093,817
Bills payable	993	212

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 6 month LIBOR +4/5% and the interest rate is reset every six months. Consequently, the resultant impact on fair value of the subordinated debts is considered insignificant.
- The fair value of savings accounts and current accounts with no fixed maturity is assumed to be equal to the carrying value.
- Fair value of 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. Impaired loans are reflected at net carrying value



16] Financial Instruments (continued)

- net of provision and that is the best estimate of fair value for such loans.
- Inter-bank placements are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.

B. Financial Instruments carried at fair value and amortised cost

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

Financial instruments carried at amortised cost in the financial statements are loans and advances to banks (note 12), loans and advances to customers (note 13), investment securities held to maturity (note 15), deposits from banks (note 24) and deposits from customers (note 25).

Categories of these assets are as below:

2017

Financial Assets:	Note	Level 1	Level 2	Level 3	Total
Investment securities – held for trading	10	59,968	-	-	59,968
Investment securities – available for sale	14	-	53,936	-	53,936
Derivative assets held for risk management	11	-	4,319	-	4,319
Loans and advances to banks	12	-	205,154	-	205,154
Loans and advances to customers	13	-	-	605,202	605,202
Investment securities held to maturity	15	-	-	8,936	8,936
		<u>59,968</u>	<u>263,409</u>	<u>614,138</u>	<u>937,515</u>

Financial Liabilities	Note	Level 1	Level 2	Level 3	Total
Derivative liabilities held for risk management	11	-	455	-	455
Deposits from banks	24	-	73,692	-	73,692
Deposits from customers	25	-	-	1,134,852	1,134,852
		<u>-</u>	<u>74,147</u>	<u>1,134,852</u>	<u>1,208,999</u>



16] Financial Instruments (continued)

2016						
Financial Assets:	Note	Level 1	Level 2	Level 3		Total
Investment securities – held for trading	10	49,727	-	-		49,727
Investment securities – available for sale	14	-	122,080	-		122,080
Derivative assets held for risk management	11	-	5,994	-		5,994
Loans and advances to banks	12	-	310,453	-		310,453
Loans and advances to customers	13	-	-	1,071,990		1,071,990
Investment securities held to maturity (amortised cost)	15	-	-	1,171		1,171
		<u>49,727</u>	<u>438,527</u>	<u>1,073,161</u>		<u>1,561,415</u>
Financial Liabilities:						
Derivative liabilities held for risk management	11	-	14,944	-		14,944
Deposits from banks	24	-	176,964	-		176,964
Deposits from customers	25	-	-	1,358,109		1,358,109
		<u>-</u>	<u>191,908</u>	<u>1,358,109</u>		<u>1,550,017</u>

The fair value hierarchy has the following levels:

- Level 1 – Valuations based on quoted prices available in active markets for the same instrument. Securities included in Level 1 are US Treasury Bills.
- Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates or exchange rates). Securities included in Level 2 are all securities presently held in AFS except US treasury bills, loans and advances to Banks, Deposits from Banks, all derivatives and some investments held to maturity.
- Level 3 – Fair value measurements that include unobservable inputs that have a significant effect on the fair value measurement in its entirety. The financial instruments included in level 3 are loans and advances to customers, deposits from customers and some investments held to maturity.
- No transfers between Level 1, Level 2 and Level 3 have been made during the year.



17] Provision on Impaired Financial Assets

Loans and advances as in notes 12 and 13 above and HTM securities as in note 15 above include impaired assets and assets with renegotiated terms as below:

	Loans and Ad- vances \$000	HTM Securities \$000
Gross balance of impaired assets	299,392	2,186
Less: specific impairment	(258,558)	(2,186)
Net Balance	40,834	-

Movement in impairment provision during the year:

Specific allowances for impairment

	2017 \$,000	2016 \$,000
Balance at 1 April	110,900	37,784
Impairment loss for the year		
Charge for the year	155,354	76,144
Recoveries/Reversals	(5,510)	(3,028)
Write offs	-	-
Balance at 31 March	260,744	110,900
Out of above		
Provision for impairment of loans and advances*	258,558	108,620
Provision for impairment of HTM securities	2,186	2,280
	260,744	110,900

Collective allowances for impairment

Balance at 1 April	5,630	6,900
Impairment loss for the year:		
Charge for the year	(910)	(1,270)
Balance at 31 March	4,720	5,630
Total allowances for impairment	265,464	116,530

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

Impairment charge on loans and advances	149,028	71,846
Impairment charge on investments held to maturity	(94)	-
Allowance on doubtful interest receivable	3,200	-
	152,134	71,846

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



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 2017, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts. The Bank's exposure to credit risk is well spread across different sectors. The Bank is affected by the general economic conditions in the territories in which it operates. The Bank has set limits on the exposure to any counterparty and group of counterparties, Industry Sector Exposure and Geographical Exposure; and credit risk is also spread over the Banks, Retail and Corporate customers.

The Bank's primary exposure to credit risk has decreased by \$305,289 thousand when compared to March 2016 primarily due to paying off the loans by the customers.

Otherwise the loans and advances have decreased by \$404,737 thousand.

	2017 \$'000	2016 \$'000
On balance sheet exposure		
Bilateral and syndicated loans and advances to customers	870,947	1,186,142
Loans and advances to customers under Letter of Credit/Stand by Letter of Credit/ Letter of Comfort by banks	196,941	286,483
Inter Bank placements and Cash balances with banks	498,164	243,811
Bills purchased directly from customers	734	98
Bills purchased under LC/Guarantee of banks	58	20,365
Securities Held to Maturity – Banks	5,615	2,429
Securities Held to Maturity – Non Banks	5,507	1,022
Securities available for sale – Banks	26,381	68,427
Securities available for sale – Non Banks	27,555	53,653
Derivative Financial Instruments	4,319	5,994
Total – A	1,636,221	1,868,424
Off balance sheet exposure		
Non-Bank Commitments (LCs/LGs)	1,507	1,972
Commitments under LCs/Guarantees by Banks	-	1,653
Total – B	1,507	3,625
Undrawn Credit Facilities – Non Banks	38,842	109,810
Undrawn Credit Facilities – Banks	-	-
Total – C	38,842	109,810
Total Exposure subject to Credit Risk (A+B+C)	1,676,570	1,981,859



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:

	2017	2016
	\$'000	\$'000
Exposure on Banks	731,478	629,260
Non-Bank Exposure	945,092	1,352,599
Total	1,676,570	1,981,859

Collateral:

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

For loans and advances to banks and customers, the Bank held the following amounts of collateral, adjusted where appropriate.

- 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.
- Non-Bank exposure is collaterally secured as below as at 31 March 2017:

Amount in \$ million	Retail Exposure		Non-retail Exposure		Total	
	Exposure	Amount Collateralised	Exposure	Amount Collateralised	Exposure	Amount Collateralised
Internally rated AAA to A*	4.66	4.26	58.41	38.89	63.07	43.15
Internally rated BB to B*	24.70	24.25	218.78	146.79	243.48	171.04
Internally rated C&D	0.44	0.44	6.27	6.27	6.71	6.71
Others Exempted Category	24.13	21.84	75.39	34.63	99.52	56.47
Fully Performing	53.93	50.79	358.85	226.58	412.78	277.37
Performing past due below 90 days	5.59	5.49	62.18	56.36	67.77	61.85
Performing Forborne: Un-Impaired	4.48	3.96	50.83	46.45	55.31	50.41
Performing Forborne: Impaired	-	-	13.59	13.23	13.59	13.23
Performing Impaired- Other	0.65	0.52	9.83	3.01	10.48	3.53
Total Performing	64.65	60.76	495.28	345.63	559.93	406.39
Non-Performing more than 90 days past due-Non Impaired	2.46	2.22	105.76	85.58	108.22	87.80
Non-Performing Impaired	1.21	0.86	275.74	169.38	276.95	170.24
Total Non-Performing	3.67	3.08	381.50	254.96	385.17	258.04
Total	68.32	63.84	876.77	600.59	945.09	664.42

The above is shown based on the current credit policy categorisations

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

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



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

Comparative data for 31 March 2016 is as below:

	Amount in \$ million					
	Retail Exposure		Non Retail Exposure		Total	
	Exposure	Amount Collateralised	Exposure	Amount Collateralised	Exposure	Amount Collateralised
Neither past due nor impaired:						
Internally rated AAA to A*	44.01	41.31	174.81	158.49	218.82	199.80
Internally rated BB to B*	31.20	28.80	545.21	400.41	576.41	429.21
Total neither past due nor impaired	75.21	70.11	720.02	558.90	795.23	629.01
Past due but not individually impaired:						
Up to 90 days	15.22	14.61	147.06	135.21	162.28	149.82
Over 90 days	0.93	0.89	127.15	105.19	128.08	106.08
Total Past due but not individually impaired	16.15	15.50	274.21	240.40	290.36	255.90
Loans with renegotiated terms**	1.99	1.96	67.55	61.13	69.54	63.09
Individually impaired loans:						
Doubtful category	0.88	0.88	124.23	117.22	125.11	118.10
Loss category	0.42	0.37	15.73	11.79	16.15	12.16
Total Impaired	1.30	1.25	139.96	129.01	141.26	130.26
Total	94.65	88.62	1,201.74	989.44	1,296.39	1,078.26

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

**All loans with renegotiated terms are performing as per the terms of renegotiation; and currently there are no past due or impaired loans in this category. There are no forborne loans as on 31 March 2016 (31 March 2015: Nil). 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 in accounts where Bank has pari-passu charge is based on the book value in the latest available audited financial statements, where available, and is considered pro-rata in proportion to the exposure in the entity.
- The collateral values reported have been adjusted for the effects of over-collateralization. For non-bank HTM securities, current market value of the security has been considered.

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due or impaired, we have assessed the significance of the collateral held in relation to the type of lending. While doing so, where corporate or personal guarantees exist, they are not classified as secured exposures. But on case by case basis, the guarantees could be relevant as an important risk mitigation measure.



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

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

Percentage of value of collateral to exposure	Exposure \$ million	
	2017	2016
100% and above*	633.17	1,104.60
76% to 99%	27.38	26.55
51% to 75%	32.22	9.04
26% to 50%	5.79	1.86
11% to 25%	25.24	11.42
Below 10%	10.93	20.10
Unsecured	210.35	179.12
Total	945.08	1,352.69
Average percentage of availability of Collateral*	74.82%	79.71%

*excluding impact of over-collateralisation.

Past due but not impaired

Loans that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that there is no impairment on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

Commercially re-negotiated

Loans in which renegotiation or refinancing did not qualify as forbearance. A refinancing or modification in terms and conditions of repayment on account of certain events, even if, the customer is not facing any financial difficulty are classified as commercially re-negotiated loans.

Forborne

Loans are treated as forborne if a concession has been made and the debtor is facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Non-Performing

Loans which are more than 90 days past due or where the obligor has been found impaired in accordance with the IFRS accounting framework and/or the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

Impaired

The Bank regards a loan and advance as impaired if there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.



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

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

	2017	2016
	\$'000	\$'000
Impaired loans and advances to customers at 1 April	144,987	82,530
Net repayments in existing impaired loans and advances	(44)	(1,486)
Classified as impaired during the year	156,048	63,904
Other movements/exchange rate fluctuations	(1,599)	39
Impaired loans and advances to customers at 31 March	299,392	144,987

Detail of impairment allowance for loans and advances is given at Note 17.

The table below sets out a reconciliation of changes in the gross amount of impaired HTM investments:

	2017	2016
	\$'000	\$'000
Impaired investments held to maturity at 1 April	2,429	2,827
Net Repayments in existing impaired investments	(243)	(398)
Impaired investments held until maturity at 31 March	2,186	2,429

Details of impairment allowance for HTM investments is given at Note 17.

Internal Ratings/Scoring

The Bank has developed internal rating/scoring models in co-ordination with the Risk Management Division of Parent Bank. All non-bank credit counterparties (except those secured by deposits with Bank/Parent, temporary overdrafts, ad hoc facilities and loans to staff members) are rated on these models. Scoring is given on various financial and non-financial parameters. Rating is allocated based on overall score on the financial strength, creditworthiness and repayment capacity of the borrower.

Derivatives, sale and repurchase agreements

The Bank mitigates the credit risk of derivatives by entering into International Swaps and Derivative Association (ISDA) master netting agreements. Under these agreements, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the terminal value is assessed and only a single net amount is due or payable in settlement of all transactions. The Bank's sale and repurchase transactions are also covered by master agreements with netting terms similar to ISDA master netting agreements. The ISDA and similar master netting agreements create



19] Exposure to Eurozone Countries

for the parties to the agreement a right to the set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events.

The Bank has no direct sovereign exposure (as defined by the European Banking Authority 'EBA') to any of the Eurozone countries. Gross exposure to other counterparties in the Eurozone countries as at 31 March 2017 is as below:

Name of the Country	\$'000					
	2017			2016		
	Exposure to Banks	Exposure to Corporates	Total Exposure	Exposure to Banks	Exposure to Corporates	Total Exposure
Belgium	341	25,233	25,574	478	27,842	28,320
Romania	-	-	-	-	5,879	5,879
Germany	123	10,986	11,109	958	8,624	9,582
France	9	2,652	2,661	2	3,727	3,729
Ireland	-	7,986	7,986	-	8,470	8,470
Netherland	-	10,489	10,489	-	19,543	19,543
Luxembourg	-	-	-	-	15,162	15,162
Total	473	57,346	57,819	1,438	89,247	90,685

An amount of \$9,101 thousand is to be received after 12 months.



20] Property and Equipment

At 31 March 2017

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

At 31 March 2016

	Leasehold im- provements \$'000	Fixtures and fittings \$'000	Total \$'000
Cost			
At 1 April 2015	2,382	3,786	6,168
Additions	-	163	163
Disposals	-	-	-
At 31 March 2016	<u>2,382</u>	<u>3,949</u>	<u>6,331</u>
Depreciation			
At 1 April 2015	(1,504)	(2,593)	(4,097)
Charge for the year	(324)	(384)	(708)
Disposals	-	-	-
At 31 March 2016	<u>(1,828)</u>	<u>(2,977)</u>	<u>(4,805)</u>
Net book value			
At 1 April 2015	<u>878</u>	<u>1,193</u>	<u>2,071</u>
At 31 March 2016	<u>554</u>	<u>972</u>	<u>1,526</u>



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd.)
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21] Intangible Assets

31 March 2017

	Software \$'000
Cost	
At 1 April 2016	1,711
Additions	583
	<u>2,294</u>
At 31 March 2017	<u>2,294</u>
Amortisation	
At 1 April 2016	(1,541)
Charge for the year	(197)
	<u>(1,738)</u>
At 31 March 2017	<u>(1,738)</u>
Carrying value	
At 1 April 2016	170
	<u>170</u>
At 31 March 2017	<u>556</u>

31 March 2016

	Software \$'000
Cost	
At 1 April 2015	1,580
Additions	131
	<u>1,711</u>
At 31 March 2016	<u>1,711</u>
Amortisation	
At 1 April 2015	(1,444)
Charge for the year	(97)
	<u>(1,541)</u>
At 31 March 2016	<u>(1,541)</u>
Carrying value	
At 1 April 2015	136
	<u>136</u>
At 31 March 2016	<u>170</u>

22] Deferred Tax Asset

	2017 \$'000	2016 \$'000
At 1 April	3,779	(90)
Credit for the year	22,023	3,869
At 31 March	<u>25,802</u>	<u>3,779</u>



22] Deferred Tax Asset (continued)

The deferred tax asset relates to unused tax losses of \$3.8 million and of \$21.9 million for 2016 and 2017 respectively and to \$16 thousand for decelerated depreciation

Deferred income taxes are calculated on all temporary differences and losses under the liability method. Finance (No. 2) Act 2015 and Finance Act 2016 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020 respectively. These enacted rates have been applied in the calculation of the deferred tax asset.

The bank expects that the deferred tax asset will be exceeded by future years' taxable profits arising from the banks change in business focus and recoveries from impaired assets. Deferred tax on losses has been recognised on the basis that there will be no restriction on the Bank's ability to offset these losses against future profits. However, it is anticipated that a 50% loss offset restriction will be enacted later in 2017 and effective from 1 April 2017. This would therefore extend the time period over which losses could be recovered.

23] Prepayments and other Receivables

	2017 \$'000	2016 \$'000
Current prepayments	518	679
Other receivables	6	17
	<u>524</u>	<u>696</u>

24] Deposits from Banks

	2017 \$'000	2016 \$'000
Current accounts from banks	2,624	5,023
Overdrafts in Nostro accounts with banks	6	5,597
Fixed term deposits	-	2,143
Inter bank borrowings	71,062	164,201
Total deposits from banks	<u>73,692</u>	<u>176,964</u>

At 31 March 2017 \$NIL (2016: \$50,000 thousand) deposits from Banks are expected to be settled more than 12 months after the reporting date.



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd.)
FOR THE YEAR ENDED 31 MARCH 2017

25] Deposits from Customers

	2017	2016
	\$'000	\$'000
Current accounts	145,139	123,557
Savings accounts	139,540	142,878
Fixed term deposits	850,173	1,091,674
Total deposits from customers	1,134,852	1,358,109

At 31 March 2017 \$394,336 thousand (2016: \$448,443 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

	2017	2016
	\$'000	\$'000
Subordinated debt	50,000	75,000

This represents Lower Tier II capital for \$50 million received as follows:

- \$12,500,000 issued in January 2012, maturing in January 2022.
- \$12,500,000 issued in October 2012, maturing in October 2022.
- \$5,000,000 issued in December 2013 maturing in December 2028.
- \$10,000,000 issued in August 2014 maturing in August 2024.
- \$10,000,000 issued in December 2015 maturing in December 2025.

Bonds at Serial No. i, ii and v are subscribed by the parent Bank while Bonds at Serial No. iii and iv are issued by other banks of Indian origin.

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

One subordinated bond issued in March 2009 maturing in March 2019 has been converted into an additional tier 1 bond in Feb 2017 after taking necessary regulatory approvals.

At 31 March 2017 \$50,000 thousand (2016: \$75,000 thousand) of subordinated liabilities are expected to be settled more than 12 months after the reporting date.



27] Other liabilities

	2017	2016
	\$'000	\$'000
Bills payable	992	212
Other payables and accrued liabilities	1,776	4,352
Deferred income	1,745	3,470
	<u>4,513</u>	<u>8,034</u>

28] Share Capital

Authorised share capital

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

Issued share capital

	No.	2017 \$	No.	2016 \$
Issued and fully paid				
Ordinary shares of £1 each	2	4	2	4
Ordinary shares of \$1 each				
At start of year	174,630,625	174,630,625	174,630,625	174,630,625
New Issue of Share Capital	125,000,000	125,000,000	-	-
At end of year	<u>299,630,627</u>	<u>299,630,629</u>	<u>174,630,627</u>	<u>174,630,629</u>

During the financial year fresh equity capital of \$80 million and additional tier I capital of \$20 million was raised from the parent. Also one lower tier II bond of \$25 million was converted into additional tier I bond.

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

- \$25,000 thousand issued on 16 February 2017 (Converted into Additional Tier I on 16 February 2017 from Lower Tier II raised by the Bank in 2009).
- \$20,000 thousand issued on 31 March 2017.

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



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd.)
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29] Fair Value Reserves

	Gross \$'000	Tax \$'000	Net \$'000
31 March 2017			
Balance at 1 April 2016	413	(23)	390
Amount transferred to statement of profit or loss	309	23	332
	<u>722</u>	<u>-</u>	<u>722</u>
Movement in AFS reserve in year	(679)	(77)	(756)
Balance at 31 March 2017	<u>43</u>	<u>(77)</u>	<u>(34)</u>
31 March 2016			
Balance at 1 April 2015	2,115	(364)	1,751
Amount transferred to statement of profit or loss	(90)	19	(71)
	<u>2,025</u>	<u>(345)</u>	<u>1,680</u>
Movement in AFS reserve in year	(1,612)	322	(1,290)
Balance at 31 March 2016	<u>413</u>	<u>(23)</u>	<u>390</u>

30] Operating Lease Commitments

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

	2017 \$'000	2016 \$'000
Less than one year	649	992
Later than one year but less than five years	626	1,048
	<u>1,275</u>	<u>2,040</u>

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

31] Other Commitments and Contingencies

Commitments in respect of financial instruments were as follows:

	2017 \$'000	2016 \$'000
Guarantees issued to third parties	1,507	3,625
Letters of credit issued	-	-



31] Other Commitments and Contingencies (continued)

There were undrawn loans of \$22,679 thousand (2016: \$70,117 thousand) and un-availed portions of sanctioned overdraft limits to the extent of \$16,163 thousand (2016: \$39,693 thousand) as at 31 March 2017. Bills amounting to \$4,135 thousand (2016: \$5,203 thousand) were sent/received in collection on behalf of customers. The Bank does not have any balance sheet exposure on such bills for collection.

32] Related Party Transactions

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

The Bank 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. Entire equity capital and 83.33% of Tier II capital of the Company is held by PNB.

Liabilities and assets outstanding to the related parties on the balance sheet of the Bank as on 31 March 2017 are as below:

	2017 \$'000	2016 \$'000
Liabilities		
Fixed deposits	-	1,528
Borrowings	50,329	52,800
Current accounts	2,605	4,926
Assets		
Balance in Nostro accounts	2,119	1,189
Bills accepted/ confirmed by PNB discounted to corporates	-	-
Placements	20,030	-

Excluded from the above are loans sanctioned to corporates on Stand By Letters of Credit of Punjab National Bank amounting to \$19,891 thousand (previous year: \$40,926 thousand).

Contingent exposure to Punjab National Bank is as below:

Nature	2017 \$'000	2016 \$'000
Letters of Credit and Guarantees Confirmed	-	1,653
Cross Currency Swaps (notional) – Sell	52,336	340,097
Cross Currency Swaps (notional) – Buy	52,951	347,286



PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd.)
FOR THE YEAR ENDED 31 MARCH 2017

32] Related Party Transactions (continued)

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

Nature	Particulars	2017 \$'000	2016 \$'000
Receipts:			
Interest Earned	Interest on Inter Bank Placements	29	6
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	166	112
B. Interest Paid on	Borrowings	1,008	781
	Fixed Deposits	14	17
C. Interest Paid on Capital Bonds (unaudited)	Additional Tier I Capital Bonds of \$45.00 million (Last year \$25 million Tier II has been converted & 20 Mio fresh issued)	-	-
	Lower Tier II Capital Bonds of \$50.00 million (\$25 Million Converted into AT1 in feb 2017)	1,115	1,272
	Lower Tier II Capital Bonds of \$12.50 million	634	568
	Lower Tier II Capital Bonds of \$12.50 million	634	568
	Lower Tier II Capital Bonds of \$10.00 million	559	-

**These charges were levied by PNB, for support services provided during the year. The services provided include IT hosting, maintenance and support services to PNBIL and are backed by a Service Level Agreement (SLA).*

The Bank 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.

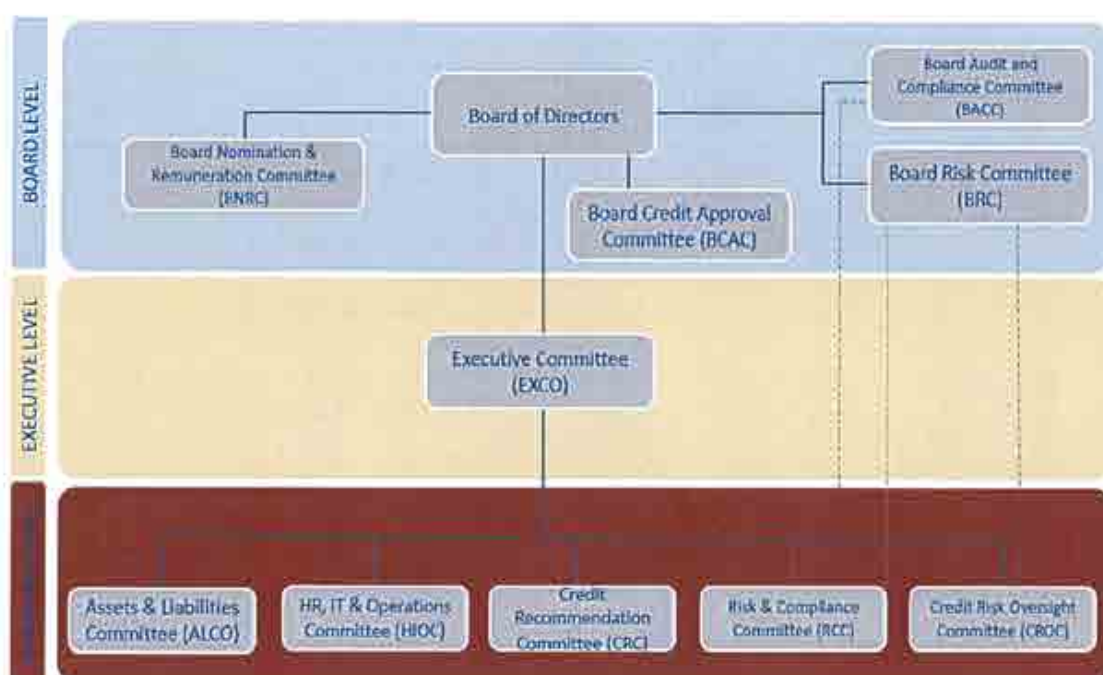


33] Financial Risk Management Objectives and Policies

Risk Governance

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

PNBIL Governance Structure



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

Board of Directors

The Board, through the Board Risk Committee and the Board Audit and Compliance Committee is responsible for establishing mechanisms and structures to control and manage risks across the Bank. The Board is responsible for ensuring there is a culture and awareness of Risk and Risk Management Principles throughout the Bank. The Board sets the Bank's Risk Appetite, its Frameworks and Policies, reviews and approves the ICAAP and ILAAP, oversees the Bank's Risk profile, and considers Risk when setting the Bank's Strategy and taking decisions on behalf of the Bank.

Senior Management is accountable for Risk Management, either as members of the First or Second Line of Defence. This means that they each have accountabilities either collectively via EXCO or individually via their functional roles for active risk management. Embedding Risk



33] Financial Risk Management Objectives and Policies (continued)

Management is central to the successful implementation of this Risk Governance Framework, and EXCO members have prime responsibility to promote and embed this in their areas of responsibility.

Summary details of the committee terms of reference are provided below:

Board Risk Committee (BRC)

The Board Risk Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior enterprise risk committee with delegated authority from the Board to agree appetites, frameworks and policies and to monitor all of the Bank's risks, except for regulatory and compliance risks that are handled via the BACC. The committee is chaired by an Independent Non-Executive Director.

Board Audit and Compliance Committee (BACC)

The Board Audit and Compliance Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior audit committee with delegated authority from the Board to agree the Bank's audit universe and annual audit plan, to review and agree the annual report and accounts, to review and monitor the external audit, and to monitor all "third line" audit activity in the bank. It is also responsible for agreeing regulatory frameworks and policies, and for monitoring all regulatory, conduct and compliance (including Anti-Money Laundering) risks across the Bank. The committee is chaired by an Independent Non-Executive Director.

Board Credit Approval Committee (BCAC)

The Board Credit Approval Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior credit committee with responsibility for reviewing and agreeing all material individual customer credit approvals. The Committee is chaired by the Managing Director (MD).

Executive Committee (EXCO)

The Executive Committee is a committee of the Board from which it derives its authority and to which it reports. EXCO is the leadership body for the Bank. It has a broad remit in terms of scope, covering as necessary significant business and operational issues, but its principal focus is the development of UK client and UK originated business and the oversight and control of key risks within the Bank. The committee is chaired by the Managing Director (MD).

Risk and Compliance Committee (RCC)

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



33] Financial Risk Management Objectives and Policies (continued)

the Bank has appropriate mechanisms for the measurement, monitoring and amelioration of all its risks other than those relating to credit that are monitored via the CRC and the CROC. The committee is chaired by the Head of Compliance (HOC).

Asset and Liability Committee (ALCO)

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

Credit Recommendation Committee (CRC)

The Credit Recommendation Committee (CRC) is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The CRC has a principal focus on the review of credit proposals for the purpose of assisting the Chief Executive Officer's decision making responsibility in the sanction all new credit and renewal proposals where the total exposure to the borrower is over USD200k and below the threshold for proposals considered as a Large Exposure. The committee is chaired by the COO.

Credit Risk Oversight Committee (CROC)

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

Three lines of Defence Model

A "Three Lines of Defence" model has been adopted by the Bank for the effective oversight and management of risks across the Bank. Functions, teams and branches in the first line undertake frontline operational and support activities. In their day to day activities, these teams take risks which are managed through the effective design and operation of controls. Each Head of First Line Function/Team carries responsibility for ensuring that activities undertaken are within the point in time, Board approved Risk Appetite.

Specific responsibilities of the First Line include:

1. Embedding risk management frameworks, policies, and sound risk management practices into standard operating procedures



33] Financial Risk Management Objectives and Policies (continued)

2. Adhering to frameworks, policies and procedures set
3. Reporting on the performance of risk management activities (including ongoing risk identification, assessment, mitigation, monitoring and reporting)
4. Accounting for the effectiveness of risk management in operation including ensuring that procedures and controls are operated in a consistent and ongoing basis in order to effectively manage risks

The Risk Management and Compliance Functions are independent risk management functions, under the direction of the Chief Risk Officer (CRO) and Head of Compliance (HOC), and are a key component of the Bank's Second Line of Defence. Risk Management Department and

Compliance Department are responsible for the ongoing assessment and monitoring of risk taking activities across the Bank.

The Second Line focusses on real-time monitoring and review and is responsible for:

1. Developing and monitoring the implementation of risk management frameworks, policies, systems, processes and tools
2. Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the First Line
3. Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting
4. Establishing an early warning system for breaches of the Bank's Risk Appetite or Limits
5. Influencing or challenging decisions that give rise to material risk exposure
6. Reporting via the CRO and HOC, on all these items, including risk mitigating actions, where appropriate

The Third Line of Defence comprises Internal Audit who is responsible for:

1. Independently reviewing the design and operating effectiveness of the Bank's internal controls, risk management and governance systems and processes
2. Periodically assessing the Bank's overall risk governance framework, including, but not limited to an assessment of:
 - the effectiveness of the Risk Management and Compliance Functions
 - the quality of risk reporting to the Board and Senior Management
 - the effectiveness of the Bank's system of internal controls
3. Providing independent assurance to the Board on the above
4. Recommending improvements and enforcing corrective actions where necessary
5. Tracking the implementation of all internal audit recommendations and external audit management letter points
6. Reporting to the Board on the status and progress of the above



33] Financial Risk Management Objectives and Policies (continued)

The Board and the Bank CEO/MD have responsibility for overseeing the effective action and performance of all three lines of Defence.

Compliance and Risk Management

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

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

The Bank's Risk Management function is the responsibility of the Risk Management Department and the Compliance Department. The Risk Management and Compliance Departments have 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.

Compliance and Risk Management 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 Head of Compliance & Money Laundering Reporting Officer has the responsibility of oversight into the compliance aspects of the Bank and he is assisted by the 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 Managing Director where immediate corrective action is taken.

Risk Categorisation

The Bank has categorised various risks under following headings:



33] Financial Risk Management Objectives and Policies (continued)

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 credit recommending committee and sanctioned by the credit approval 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 including 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 every quarter;
- Lending policies and limits are periodically reviewed by the Board; and
- Risk rating of individual proposals beyond cut-off limit is done as per the internal credit risk rating model.

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

Market Risk

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

The most significant forms of market risk to which the Bank is exposed are identified as interest rate risk, exchange risk and price risk. Most of Bank's liabilities are on fixed rate of interest while most of the Bank's 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 the Bank's open positions. This is also monitored on a daily basis and an upper limit is fixed for the same.



33] Financial Risk Management Objectives and Policies (continued)

Assets held under the trading book are regularly marked to market and carried at fair value.

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 \$324.80 million (2016: \$493.60 million).

The open position of the Bank as on 31 March 2017 is as follows:

Currency	Open Position	USD Equivalent
	'000	\$'000
Indian Rupees	159,191	2,456
Pound Sterling	686	857
Euro	622	666
Japanese Yen	690	6
Canadian Dollar	23	17
Norwegian Kroner	-	-
Nepalese Rupees	114	1
UAE Dirham	736	200
Australian Dollar	46	35
Total Long Position in US Dollars		4,238
Total Short Position in US Dollars		-

Upward or downward movement of exchange rate by 10% may impact profitability of the Bank by \$424 thousand (2016: \$424 thousand).



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33] Financial Risk Management Objectives and Policies continued

Interest Rate Risk (Re-pricing analysis as at 31 March 2017)

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 2017 is presented below:

Particulars	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1-3 years	Over 3 Years	Non Sensi- tive Cate- gory	Total
ASSETS	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)	\$ (000s)
Cash and cash equivalents	465,010	25,000	-	-	-	-	-	490,010
Investment securities – held for trading	-	-	-	-	-	-	59,968	59,968
Derivative financial instruments	1,382	1,769	1,153	15	-	-	-	4,319
Loans and advances to banks	59,418	115,720	24,137	5,017	394	-	468	205,154
Loans and advances to customers	306,571	140,992	26,235	10,245	42,156	10,467	68,536	605,202
Investment securities – available for sale	1,793	387	-	1,874	15,937	33,667	278	53,936
Investment securities – held to maturity	-	-	-	506	-	8,430	-	8,936
Property, plant and equipment	-	-	-	-	-	-	962	962
Intangible assets	-	-	-	-	-	-	556	556
Deferred tax assets	-	-	-	-	-	-	25,802	25,802
Current tax Assets	-	-	-	-	-	-	-	-
Prepayments and other receivables	227	-	-	297	-	-	-	524
Total	834,401	283,868	51,525	17,954	58,487	52,564	156,570	1,455,369
LIABILITIES								
Derivative financial instruments	10	245	200	-	-	-	-	455
Deposits from banks	22,933	50,759	-	-	-	-	-	73,692
Deposits from customers	329,943	110,574	114,305	178,708	312,865	88,457	-	1,134,852
Current tax liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	15,000	35,000	-	-	-	-	50,000
Deferred tax liabilities	-	-	-	-	-	-	-	-
Other liabilities	1,167	-	-	-	-	-	3,346	4,513
Share Capital	-	-	45,000	-	-	-	254,631	299,631
Reserve and retained earnings	-	-	-	-	-	-	(107,740)	(107,740)
Fair Value Reserves	-	-	-	-	-	-	(34)	(34)
Total	354,053	176,578	194,505	178,708	312,865	88,457	150,203	1,455,369
Interest Rate Gap	480,348	107,290	(142,980)	(160,754)	(254,378)	(35,893)	6,367	-
Interest Rate Swap for Hedging	-	(37,537)	(224,736)	-	262,272	-	-	-
Net Gap	480,348	69,753	(367,716)	(160,754)	7,894	(35,893)	6,367	-
Impact of Interest Variation of 2%	400	233	(2,758)	(2,411)	316	(2,871)	-	(7,091)

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 Board approved Internal Liquidity Adequacy Assessment Process (ILAAP) in place, in line with the guidelines issued by the Prudential Regulation Authority (PRA). The Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed by the Board and/ or the regulator. The following table analyses the Bank's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date:

As at 31 March 2017	Up to 1 month	1-3 month	3-12 month	1-2 yr	2-5 yr	Over 5 yrs	Undated	Total
	S'000	S'000	S'000	S'000	S'000	S'000	S'000	S'000
Assets								
Cash and cash equivalents	465,010	25,000	-	-	-	-	-	490,010
Investment securities – held for trading	59,968	-	-	-	-	-	-	59,968
Derivative financial instruments	1,382	1,769	1,168	-	-	-	-	4,319
Loans and advances to banks	10,518	7,500	46,449	90,157	20,063	30,467	-	205,154
Loans and advances to customers	179,527	4,753	58,710	73,105	188,905	100,202	-	605,202
Investment securities – available for sale	1,793	387	1,874	7,182	15,738	26,962	-	53,936
Investment securities – held to maturity	-	-	506	-	7,353	1,077	-	8,936
Property, plant and equipment	-	-	-	-	-	-	962	962
Intangible assets	-	-	-	-	-	-	556	556
Deferred tax assets	-	-	-	-	-	-	25,802	25,802
Current tax Assets	-	-	-	-	-	-	-	-
Prepayments and other receivables	227	-	297	-	-	-	-	524
Total assets	718,425	39,409	109,004	170,444	232,059	158,708	27,320	1,455,369
Derivative financial instruments	10	245	200	-	-	-	-	455
Deposits from banks	22,933	-	-	-	50,759	-	-	73,692
Deposits from customers	329,943	110,574	293,012	225,649	175,674	-	-	1,134,852
Subordinated liabilities	-	-	-	-	12,500	37,500	-	50,000
Deferred tax liabilities	-	-	-	-	-	-	-	-
Other liabilities	1,542	13	372	412	1,470	704	-	4,513
Share capital	-	-	-	-	-	-	299,631	299,631
Reserves and retained earnings	-	-	-	-	-	-	(107,740)	(107,740)
Fair Value reserves	-	-	-	-	-	-	(34)	(34)
Total Liabilities	354,428	110,832	293,584	226,061	240,403	38,204	191,857	1,455,369
Financial guarantees and letters of credit – net of deposit	4,329	1,301	13	-	-	-	-	5,643
Irrevocable Loan commitments	8,373	-	-	-	-	-	-	8,373
Total equity, liabilities and commitments	367,130	112,133	293,597	226,061	240,403	38,204	191,857	1,469,385
Net liquidity gap	351,295	(72,724)	(184,593)	(55,617)	(8,344)	120,504	(164,537)	(14,016)
Cumulative Liquidity Gap	351,295	278,571	93,978	38,361	30,017	150,521	(14,016)	



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33] Financial Risk Management Objectives and Policies (continued)

The Bank is also holding sufficient high quality liquid assets (HQLA) in approved securities and balance with the Bank of England to meet the obligations for 90 days under stressed conditions. Bank is also maintaining no negative mismatch under wholesale fund flow for 90 days.

The comparative analysis as at 31 March 2016 was as below:

As at 31 March 2016	Up to 1 m	1-3 m	3-12 m	1-2 yr	2-5 yr	Over 5 yrs	Undated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets								
Cash and cash equivalent	240,205	-	-	-	-	-	-	240,205
Investment securities – held for trading	49,727	-	-	-	-	-	-	49,727
Derivative financial instruments	71	4,012	144	1,767	-	-	-	5,994
Loans and advances to banks	4,865	-	89,581	19,369	166,227	30,411	-	310,453
Loans and advances to customers	343,422	40,965	88,068	95,829	327,634	176,072	-	1,071,990
Investment securities – available for sale	-	500	-	17,259	43,397	60,924	-	122,080
Investment securities – held to maturity	-	-	-	-	1,022	149	-	1,171
Property, plant and equipment	-	-	-	-	-	-	1,526	1,526
Intangible assets	-	-	-	-	-	-	170	170
Deferred Tax Asset	-	-	-	-	-	-	3,836	3,836
Current Tax Asset	-	-	-	-	-	-	3,891	3,891
Prepayments and other receivables	436	-	260	-	-	-	-	696
Total assets	638,726	45,477	178,053	134,224	538,280	267,556	9,423	1,811,739
Derivative financial instruments	12,550	1,754	640	-	-	-	-	14,944
Deposits from banks	74,336	76,991	25,397	-	240	-	-	176,964
Deposits from customers	354,199	95,035	450,673	297,039	161,048	115	-	1,358,109
Current tax liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	75,000	-	75,000
Deferred tax liabilities	-	-	-	-	-	-	57	57
Other liabilities	1,202	558	1,153	1,464	3,656	-	-	8,034
Share capital	-	-	-	-	-	-	174,631	174,631
Reserves and retained earnings	-	-	-	-	-	-	3,610	3,610
Fair Value reserves	-	-	-	-	-	-	391	391
Total Liabilities	442,287	174,338	477,863	298,503	164,944	75,115	178,688	1,811,739
Financial guarantees and letters of credit – net of deposit	3,553	-	-	-	-	71	-	3,624
Irrevocable Loan commitments	38,330	-	-	-	-	-	-	38,330
Total equity, liabilities and commitments	484,170	174,338	477,863	298,503	164,944	75,186	178,689	1,853,693
Net liquidity gap	154,556	(128,861)	(299,810)	(164,279)	373,336	192,370	(169,265)	(41,954)
Cumulative Liquidity Gap	154,556	25,695	(274,115)	(438,394)	(65,058)	127,312	(41,954)	



33] Financial Risk Management Objectives and Policies (continued)

ALCO is primarily responsible for overseeing the implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis. The Bank considers the funding ability before committing additional credit facility and closely monitors the upcoming payment obligations. The Bank has an Individual Liquidity Adequacy Assessment Process (ILAAP) document taking into account the revised guidelines issued by the regulator.

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 the form of US Treasury Bonds and balance with the Bank of England to the extent of \$501,366 thousand as at 31 March 2017 (2016: \$278,016 thousand).

Operational Risk (unaudited)

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process, systems, people or external events. Major sources of operational risks for the Bank are identified by management as IT security, internal and external fraud, process errors, money laundering risks and external events like failure of transportation, non-availability of utilities etc.

The Bank has identified each of such possible eventualities and established mitigation processes and internal controls, including maker checker for all financial transactions, an IT 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.

Regulatory and Compliance Risk

Regulatory and Compliance Risks are risks arising from failure to comply with laws, regulations, rules, standards and codes of conduct applicable to the Bank's activities.

The Bank maintains a separate independent compliance function that manages and monitors these risks through policies, staff training and regular monitoring.

Conduct Risk

Conduct Risk is the risk that the conduct of the Bank or its staff towards customers or within the market leads to poor customer outcomes, a failure to meet its customers' or Regulators' expectations or breaches of regulatory rules or laws. The Bank manages its conduct risks through a "commitment from the top" to good customer service and outcomes, through policies,



33] Financial Risk Management Objectives and Policies (continued)

procedures and regular training, as well as regular monitoring including “mystery shopping” exercises at its branches.

Group Risk

Group Risk is the risk associated with being a subsidiary in a wider group. This will also include strategic and business risks associated with the parent, impacting upon the reputation, focus and direction of PNBIL’s business. The use of parental services such as IT is also included.

These risks are mitigated at the strategic level through PNBIL operating its own, largely autonomous, business model and at operational level through Business Continuity planning and testing.

34] Capital Management

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

- Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the Prudential Regulation Authority and the European Banking Authority; and
- Maintain sufficient capital resources to support the Bank’s risk appetite and economic capital requirements; and
- Allocate capital to support the Bank’s strategic objectives, including optimising returns on economic and regulatory capital.

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



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34] Capital Management (continued)

		2017	2016
		\$'000	\$'000
Tier	Component		
Core Tier One Capital	• Permanent Share Capital	254,631	149,631
	• Profit and Loss Account and Other Reserves	(107,740)	3,610
	• Available for Sale Reserve	(34)	390
		146,857	153,631
Additional Tier I	• Perpetual Subordinated Debt	45,000	25,000
	• Intangible Assets	(556)	(170)
	• Deferred Tax Assets	(25,802)	(3,836)
Total Tier I Capital		165,499	174,625
Tier II Capital	• Perpetual Subordinated Debt	-	-
	• Long term dated subordinated debt	50,000	75,000
	• Collective Impairment Provision	4,720	5,630
		54,720	80,630
Deductions from Tier II	• Amortisation of Dated Tier II capital maturing within five years	(404)	(10,022)
Total Tier II Capital		54,316	70,608
Other Regulatory Deductions		-	-
Total Capital (unaudited)		219,815	245,233

The Bank is required at all times to monitor and demonstrate compliance with the relevant regulatory capital requirements of the Prudential Regulation Authority and those prescribed under Capital Requirement Regulations and Directives. The Bank has put in place processes and controls to monitor and manage the Bank's capital adequacy.

35] Events after the Balance Sheet date

There have been no reportable events after the balance sheet date, other than the Chairman's resignation on 5 May 2017 and infusion of capital of \$ 20 million on 2 June 2017 being remainder of PNB Board's approval of a \$120 million capital injection.



36) Country-by-Country Reporting for the year ended 31 March 2017

Article 89 of the Capital Requirements Directive ("CRD IV") sets out a Country by Country Reporting ("CBCR") obligation on CRD IV regulated entities. This obligation was transposed into UK law under Statutory Instrument 2013 No. 3118 Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Turnover and profit/(loss) before tax amounts are reported in accordance with IFRS principles as adopted by the European Union, whilst corporate income tax amounts disclosed below are on a cash paid basis, in accordance with CBCR requirements. Corporate income tax paid and received in the year will not directly correspond to accounting profits and losses reported in the same year due to timing differences as an element of the payments will relate to prior years.

Information disclosed below contains details of corporate income tax paid and received; however, PNBIL incurs a range of other taxes which do not form part of this disclosure, including withholding taxes, UK Bank Levy, social security and VAT. If these taxes had been disclosed this would have significantly increased the value of taxes paid by PNBIL during the year ended 31 March 2017.

Country	Turnover (\$000's)	Loss before tax (\$000's)	Corporate Income tax paid /(received) (\$000's)	Full time equivalent number of employees
UNITED KINGDOM	35,267	(133,338)	(3,345)	106

Notes on the disclosures:

Balances disclosed above are rounded to the nearest \$000's with respect to turnover, loss before tax and corporate income tax received.

Country: Country location under which an entity's activity is reported is primarily based on the country of incorporation/legal registration and on other factors such as the tax residence. In most cases all of these factors are consistent; however, where they differ the tax residence of an entity has been used as the determining factor in classifying activities.

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

Loss before tax: represents Accounting losses under IFRS accounting as adopted by the European Union.

Corporate income tax received details the value of corporate income tax received on a cash basis.

Full time equivalent number of employees: is the average full time equivalent number of employees for the year legally employed by PNBIL, excluding contractors.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100 101 102 103 104 105 106 107 108 109 110 111 112 113 114 115 116 117 118 119 120 121 122 123 124 125 126 127 128 129 130 131 132 133 134 135 136 137 138 139 140 141 142 143 144 145 146 147 148 149 150 151 152 153 154 155 156 157 158 159 160 161 162 163 164 165 166 167 168 169 170 171 172 173 174 175 176 177 178 179 180 181 182 183 184 185 186 187 188 189 190 191 192 193 194 195 196 197 198 199 200 201 202 203 204 205 206 207 208 209 210 211 212 213 214 215 216 217 218 219 220 221 222 223 224 225 226 227 228 229 230 231 232 233 234 235 236 237 238 239 240 241 242 243 244 245 246 247 248 249 250 251 252 253 254 255 256 257 258 259 260 261 262 263 264 265 266 267 268 269 270 271 272 273 274 275 276 277 278 279 280 281 282 283 284 285 286 287 288 289 290 291 292 293 294 295 296 297 298 299 300 301 302 303 304 305 306 307 308 309 310 311 312 313 314 315 316 317 318 319 320 321 322 323 324 325 326 327 328 329 330 331 332 333 334 335 336 337 338 339 340 341 342 343 344 345 346 347 348 349 350 351 352 353 354 355 356 357 358 359 360 361 362 363 364 365 366 367 368 369 370 371 372 373 374 375 376 377 378 379 380 381 382 383 384 385 386 387 388 389 390 391 392 393 394 395 396 397 398 399 400 401 402 403 404 405 406 407 408 409 410 411 412 413 414 415 416 417 418 419 420 421 422 423 424 425 426 427 428 429 430 431 432 433 434 435 436 437 438 439 440 441 442 443 444 445 446 447 448 449 450 451 452 453 454 455 456 457 458 459 460 461 462 463 464 465 466 467 468 469 470 471 472 473 474 475 476 477 478 479 480 481 482 483 484 485 486 487 488 489 490 491 492 493 494 495 496 497 498 499 500 501 502 503 504 505 506 507 508 509 510 511 512 513 514 515 516 517 518 519 520 521 522 523 524 525 526 527 528 529 530 531 532 533 534 535 536 537 538 539 540 541 542 543 544 545 546 547 548 549 550 551 552 553 554 555 556 557 558 559 560 561 562 563 564 565 566 567 568 569 570 571 572 573 574 575 576 577 578 579 580 581 582 583 584 585 586 587 588 589 590 591 592 593 594 595 596 597 598 599 600 601 602 603 604 605 606 607 608 609 610 611 612 613 614 615 616 617 618 619 620 621 622 623 624 625 626 627 628 629 630 631 632 633 634 635 636 637 638 639 640 641 642 643 644 645 646 647 648 649 650 651 652 653 654 655 656 657 658 659 660 661 662 663 664 665 666 667 668 669 670 671 672 673 674 675 676 677 678 679 680 681 682 683 684 685 686 687 688 689 690 691 692 693 694 695 696 697 698 699 700 701 702 703 704 705 706 707 708 709 710 711 712 713 714 715 716 717 718 719 720 721 722 723 724 725 726 727 728 729 730 731 732 733 734 735 736 737 738 739 740 741 742 743 744 745 746 747 748 749 750 751 752 753 754 755 756 757 758 759 760 761 762 763 764 765 766 767 768 769 770 771 772 773 774 775 776 777 778 779 780 781 782 783 784 785 786 787 788 789 790 791 792 793 794 795 796 797 798 799 800 801 802 803 804 805 806 807 808 809 810 811 812 813 814 815 816 817 818 819 820 821 822 823 824 825 826 827 828 829 830 831 832 833 834 835 836 837 838 839 840 841 842 843 844 845 846 847 848 849 850 851 852 853 854 855 856 857 858 859 860 861 862 863 864 865 866 867 868 869 870 871 872 873 874 875 876 877 878 879 880 881 882 883 884 885 886 887 888 889 890 891 892 893 894 895 896 897 898 899 900 901 902 903 904 905 906 907 908 909 910 911 912 913 914 915 916 917 918 919 920 921 922 923 924 925 926 927 928 929 930 931 932 933 934 935 936 937 938 939 940 941 942 943 944 945 946 947 948 949 950 951 952 953 954 955 956 957 958 959 960 961 962 963 964 965 966 967 968 969 970 971 972 973 974 975 976 977 978 979 980 981 982 983 984 985 986 987 988 989 990 991 992 993 994 995 996 997 998 999 1000