punjab national bank (International) Limited

Annual report and Financial Statements For the year ended 31 March 2022

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Company registration number 05781326

The Board of Directors

Position	Directors	Appointment Date	Resignation Date
Chairman	Atul Kumar Goel	15.03.2022	
Chairman	CH. S. S. Mallikarjuna Rao	31.01.2020	31.01.2022
Managing Director	Rajeeva	07.05.2019	
Executive Director	Vasudevan Mundokulam	31.05.2019	
General Manager Non-Executive Director	Vibha Aren	06.08.2020	
Independent Non-Executive Director	Sundeep Bhandari	31.07.2018	
Independent Non-Executive Director	Adrian John Stirrup	30.04.2019	

Company secretary **Camilla Shaw (Appointed on 02.03.2016)**

Registered office
1 Moorgate
London
EC2R 6JH
Tel: 0207 796 9600

Auditor
Mazars LLP
30 Old Bailey
London, EC4M 7AU
United Kingdom

Website **www.pnbint.com**

The Directors have pleasure in presenting the annual report and audited financial statements including the Strategic and Directors' reports of Punjab National Bank (International) Limited ('PNBIL' or 'Bank') for the year ended 31 March 2022. These financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The Strategic report should be read in conjunction with the Directors' report where some of the requirements of the Strategic report have been discussed.

NATURE OF BUSINESS

Punjab National Bank (International) Limited was incorporated in the UK on 13 April 2006 and registered with the Companies House in England & Wales under No. 05781326. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by Financial Conduct Authority ('FCA') and PRA to conduct banking Business in UK under Registration No. 459701.

The Bank is the wholly owned subsidiary of Punjab National Bank ('PNB' or 'Parent bank'), India. PNB is the second largest public sector bank in India having more than 180 million customers and a network of over 12,000 branches.

PNBIL's main business is to provide commercial and retail banking services to different segments of customers, with a focus on the Asian community within the UK. This includes accepting deposits from both retail and corporate clients; lending to retail, SME's and corporate clients; transaction banking services such as currency remittances; and treasury operations to support its funds management. The main functions of the treasury operations continue to be to maintain a reasonable liquidity position throughout the financial year and provide guidance on the pricing of assets and liabilities to Asset and Liability Committee ('ALCO') for approval of pricing for deposits and loans. The Bank also manages a portfolio of government bonds which are held mainly for liquidity management, including placement and borrowing of funds and management of interest rate risk.

PNBIL currently operates in the United Kingdom through a network of seven branches. All branches focus on retail and business clients. The central London branch also manages the existing corporate portfolio of the Bank. PNBIL has a strong client base and brand image in the local UK market, due to its focus on customer services over the years, and the strength drawn from its Parent bank's brand.

FUTURE BUSINESS STRATEGY

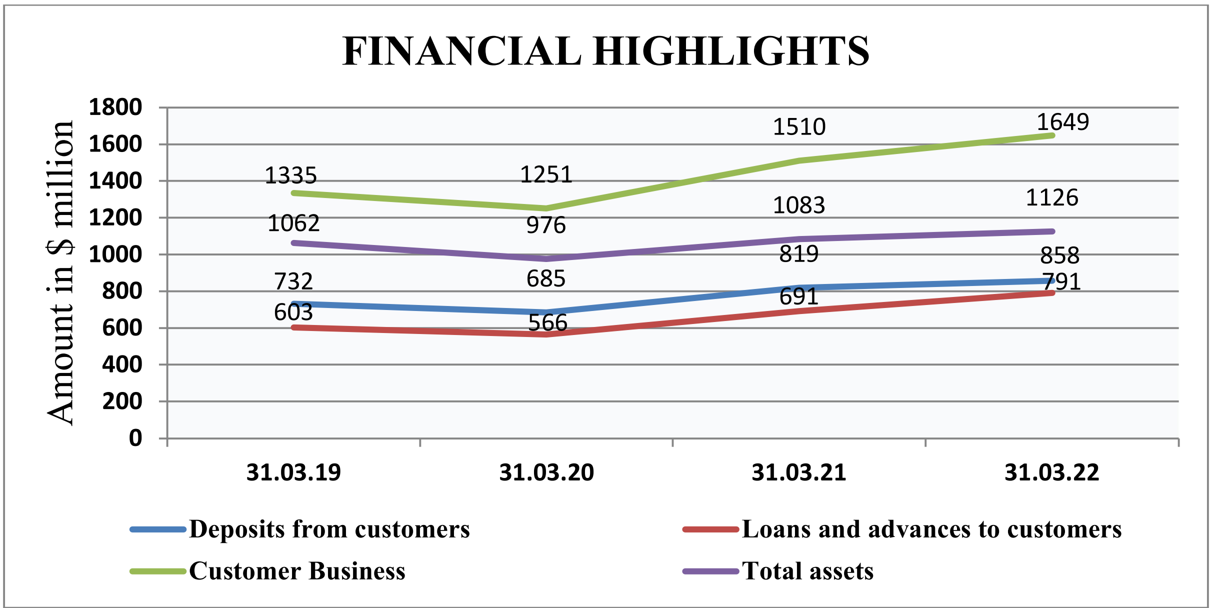
In the financial year 2022-23, the Bank's focus will continue to be on the UK based secured real estate loans with a combination of small and mid-ticket loans. Growth will span across investment loans, development loans and Buy-To-Let loans, with target customers being within and outside the Indian diaspora. To further diversify lending, the Bank will also look to move into new segments i.e. Healthcare (GP), schools, institutions, and the professional sector, on a moderate scale. The Bank also plans to adopt the Environmental, Social, and Governance ('ESG') Model and introduce green financing linked lending products to its customers. In order to build a stable and diversified funding mix and reinforce growth, the Bank is enhancing its deposit raising capabilities. Origination channels are further being diversified to support business growth and new loan bookings.

The Bank will continue to focus on de-risking the legacy portfolio through effective corporate governance, risk management, operational efficiency and compliance.

Although the Bank has no exposure to the Russian market, it is concerned about the situation in Ukraine and the safety and well-being of people there and nearby regions. The Bank has been monitoring the market conditions and potential impact of the war since February 2022. The Bank does not envisage any material impact in the foreseeable future and will continue to monitor the market situation on a regular basis.

KEY FINANCIAL HIGHLIGHTS

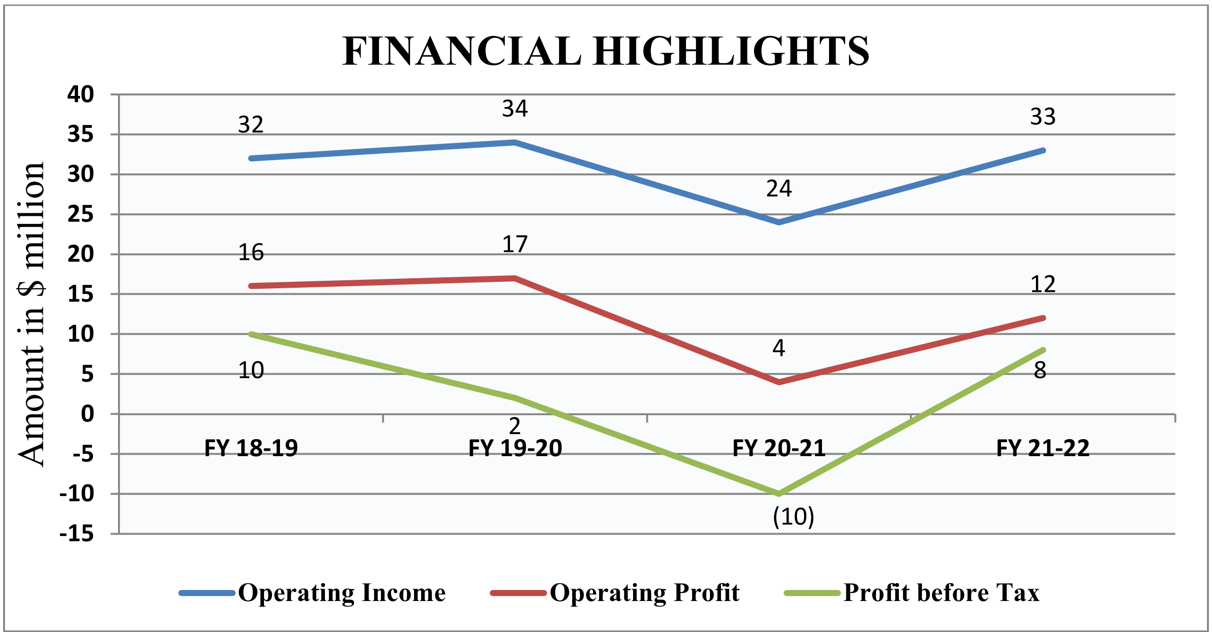
Total customer business has increased to $1,649 million as at 31 March 2022 (2021: $1,510 million) in line with the Bank's strategy to grow sustainably along with having a stable and diversified funding mix. The key performance highlights of the Bank are as below:



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

At 31 March 2022, PNBIL had total assets of $1,126 million (2021: $1,083 million). During the year, total net advances to customers increased to $791 million (2021: $691 million). In line with the growth in advances, customer deposits also increased to $858 million (2021: $819 million).

The Bank's dedicated recovery team continues to focus on recoveries from impaired advances and ensuring that any potential cases are addressed at the first signs of weakness. As the majority of the legacy book is loans to corporates based in India, the department is managed by senior officials from the Parent bank. The Bank's impaired loans and advances reduced to $259.49 million (2021: $308.07 million) and the total provision against impairment for loans as at 31 March 2022 is $192.95 million (2021: $236.07 million). The Expected Credit Loss ('ECL') provision for Stage 1 & 2 loans stood at $1.70 million as at 31 March 2022 (2021: $1.85 million).



The profit before taxation for the year ended 31 March 2022 amounted to $7.86 million (2021: Loss before taxation of $9.95 million). The operating profit (profit before impairment provisions and taxes) for the year ended 31 March 2022 increased to $12.29 million (2021: $3.77 million). The significant increase in the operating profit is primarily due to increased net interest income in line with increased advances.

The operating expenditure has slightly increased in the year ended 31 March 2022 to $20.93 million from $20.51 million in 2021. The Bank continues to strengthen its governance and control environment, and invest in systems, people and processes to enable it to meet the increasing business and regulatory challenges.

As at 31 March 2022, the geographical concentration of the Bank's loans and advances to various counterparties is mainly in the UK at 64.31% (2021: 57.32%) and India at 16.15% (2021: 21.51%). These geographic concentrations will change over time as the Bank pursues its UK centric strategy. The UK growth in FY 2021-22 was business originated through the branch network primarily in the area of Real Estate financing.

UK real estate lending amounted to 54.93% (2021: 43.60%) of the total portfolio. This is the largest segment within the Bank's loans and receivables portfolio as of 31 March 2022. UK real estate lending consists of Buy-to-Let (residential and commercial), Development finance and Hotel finance.

The Bank is continuing to implement the Board of Directors ('Board') approved business strategy within the risk appetite by marketing the Bank's UK real estate capabilities in a prudent manner. In FY 2022-2023, the Bank will continue to expand its marketing approach using various channels to expand its customer reach and to diversify the portfolio within real estate segments. The Bank will continue to mainly focus on secured low risk UK-centric business and moderate business associated with Indian financial institutions.

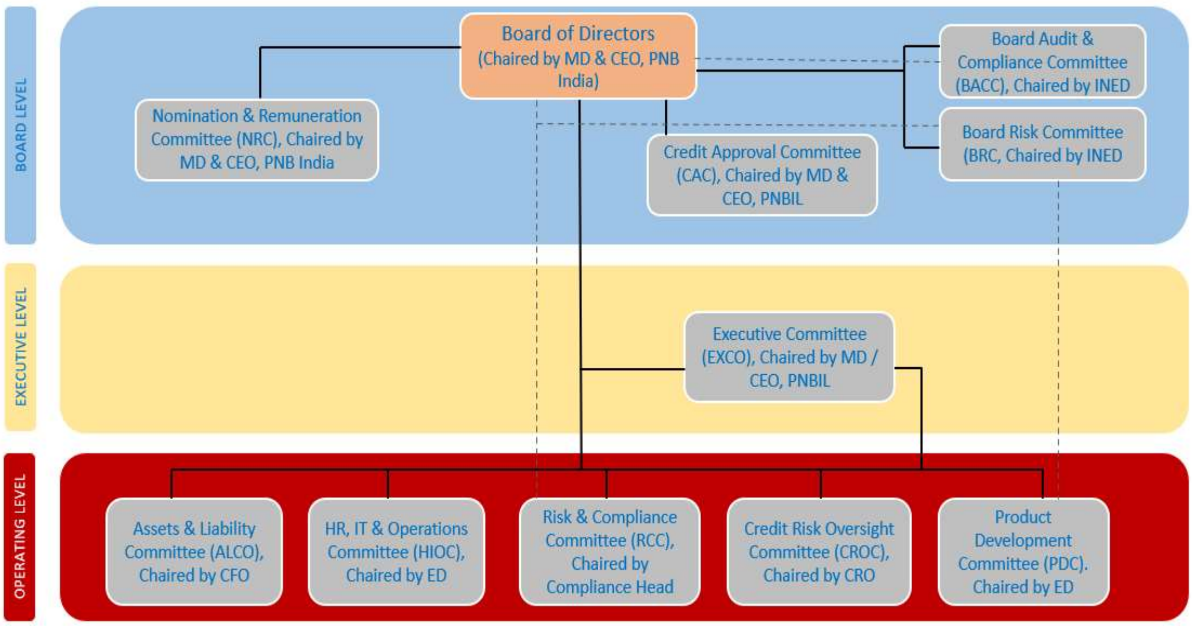
The Bank will continue to review its liquidity position and deposit growth in line with asset growth. It will focus on enhancements to existing deposit products and promoting digital channels to provide an enhanced customer experience.

The Bank considers effective corporate governance as a key factor underlying its strategies and operations. The Bank aims to deliver sustainable growth supported by strong corporate governance, compliance and risk management.

RISK MANAGEMENT

The Governance Framework of PNBIL is depicted below:

PNBIL Governance Structure



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.

Board Risk Committee ('BRC') and Board Audit and Compliance Committee ('BACC')

Both BRC and BACC are chaired by independent non-executive directors. BRC 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.

BACC agree the Bank's audit universe and annual audit plan, review and agree the annual report and accounts, monitor all "third line" audit activity in the Bank, and review and monitor the external audit. 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.

Embedding Risk 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 committees' terms of reference are provided below:

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 customer credit approvals. The Committee is chaired by the MD with the CFO and CRO as other voting members.

Executive Committee ('EXCO')

The Executive Committee derives its authority from the Board, 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. The committee is chaired by the Managing Director ('MD'). EXCO has seven sub committees as follows:

- Risk and Compliance Committee ('RCC') chaired by MLRO
- Asset and Liability Committee ('ALCO') chaired by CFO

- Credit Risk Oversight Committee ('CROC') chaired by CRO
- HR, IT & Operations Committee ('HIOC') chaired by ED
- Product Development Committee ('PDC') chaired by ED
- COVID Emergency Committee ('CEC') chaired by ED
- Corporate Social Responsibility Committee ('CSRC') chaired by 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. A clearly defined organisation structure and governance & risk control framework has been introduced to ensure that:

- PNBIL has an appropriate '3 lines of defence' model to manage risks
- There is appropriate segregation of duties and span of control across senior management
- Branches / business and credit are independent of each other
- Roles and responsibilities are clearly defined, especially across functions and product groups

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.

Specific responsibilities of the First Line include:

- Embedding risk management frameworks, policies, and sound risk management practices into standard operating procedures
- Adhering to frameworks, policies and procedures set
- Reporting on the performance of risk management activities (including ongoing risk identification, assessment, mitigation, monitoring and reporting)
- 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.

Risk Management Department, Centralised Credit Department and Compliance Department forms the second line of defence that are responsible for the effectiveness of risk management including ensuring that procedures and controls are operating in a consistent and effective manner to manage risks. The Risk Management, Centralised Credit and Compliance Functions are independent risk management functions, under the direction of the CRO, Head of Credit and the Head of Compliance ('HOC') respectively

The Second Line is responsible for:

- Developing and monitoring the implementation of risk management frameworks, policies, systems, processes and tools

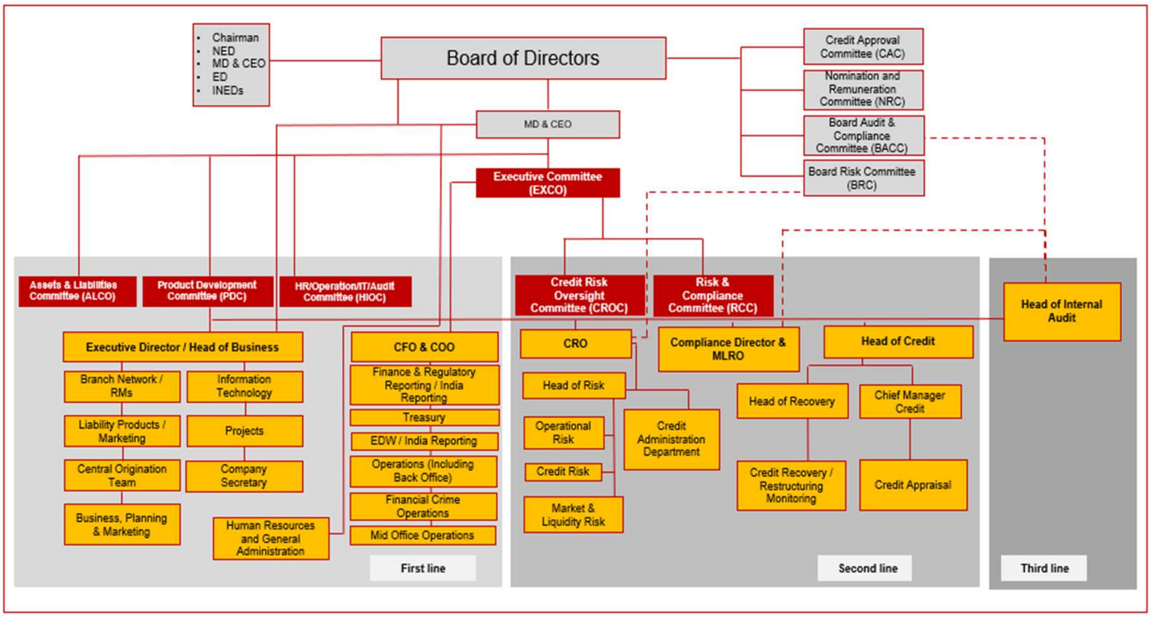
- Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the First Line
- Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting and that they are being implemented.
- Establishing an early warning system for breaches of the Bank's Risk Appetite or limits
- Influencing or challenging decisions that give rise to material risk exposure
- Independent verification of all risk ratings as per the ratings model
- 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 are responsible for:

- Independently reviewing the design and operating effectiveness of the Bank's internal controls, risk management and governance systems and processes
- Periodically assessing the Bank's overall risk governance framework
- Providing independent assurance to the Board on the above
- Recommending improvements and corrective actions where necessary
- Tracking the implementation of all internal audit recommendations and external audit management letter points
- Reporting to the Board on the status and progress of the above

The Board and the Bank's MD have responsibility for overseeing the effective action and performance of all three lines of defence. The diagram below illustrates the segregation of First, Second and Third Line roles across relevant bank functions, branches and teams:

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED Organisational Chart



Risk management function:

The Risk Management Function is managed by CRO. The function bears primary responsibility for the independent assessment and management of key risks faced by the Bank, and the monitoring and reporting of the Bank's risk profile using the following:

- Developing and monitoring the implementation of the Bank's Risk Management Frameworks, Policies, Systems, Processes and Tools
- Advising - providing information and guidance on the deployment of Risk Management Frameworks and Tools across the Bank
- Monitoring and reporting the overall risk profile of the Bank

Compliance function:

The function is headed by Head of Compliance ('HOC') who is also the Money Laundering Reporting Office ('MLRO'). The function safeguards the reputation of the Bank and to maintain professional relationships with regulatory supervisors while independently providing assurance to the Board on the management of Compliance Risk. HOC also has responsibility for Anti Money Laundering ('AML') and Counter Terrorist Financing ('CTF') activity ('SMF17'). The HOC is responsible for ensuring an appropriate, fit for purpose, compliance methodology and framework is in place which leads to effective compliance oversight and to minimize the exposure of the Bank to Financial Crime. The HOC reports to the MD and the Chairman of the BACC.

Internal audit

The Head of Internal Audit ('HIA') is accountable for the Bank's internal audit work ('SMF5') and for deciding the action to be taken on the outcome of the findings from Audit work. The role of HIA is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

The HIA reports to the MD and the Chairman of the BACC.

PRINCIPAL RISKS AND UNCERTAINTIES

The Bank has identified a number of material risks in its normal course of business which are discussed below. The Bank 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 recognised by staff and given the highest priority throughout the Bank 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 of Directors' 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 Bank. The Bank's EXCO, ALCO and other Operating Committees assist in assessing market trends, economic and political developments and provide forums for in-depth review and analysis of the risks to which the Bank is subject.

Credit risk

Credit risk is defined as potential financial loss and can arise on account of downgrading of counterparties to whom credit facilities are extended or whose credit instruments the Bank may be holding, causing the value of those assets to fall.

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

- Revised low risk appetite under credit risk focusing on areas where the Bank has expertise, skill, knowledge and positive prior experience.
- Focus on low default and low loss given default portfolio.
- The credit risk is managed by a number of policies such as Credit Risk Management Policy and Procedures, Credit Risk Mitigation & Collateral Management Policy, Asset Classification and Impairment Policy, Debt Recovery Policy and Credit procedure.
- A separate credit team at the corporate office headed by UK experienced personnel working independently from the Business function.
- An independent credit admin function at corporate office to ensure efficient post-sanction control.
- Various prudent exposure norms, pertaining to Individual exposure, Industry exposure, geographical exposure etc.
- Separate recovery team for resolution of stressed assets

Recovery in stressed and impaired accounts continues to be a key priority of the Bank. Since the Bank has considerable exposure to India, the successful execution of initiatives taken by the Indian Government, such as the Insolvency and Bankruptcy Code and faster decision making through the National Company Law Tribunal ('NCLT') are continuing to have a positive impact on recovery. Even though a large part of the Bank's exposures under this segment are collateralised, the uncertainties associated with the ability to recover these exposures within a reasonable time have led the Board of Directors to adopt a conservative and realistic approach with respect to provisions. Having undertaken an extensive review, the Board of Directors remain confident that the Bank has established appropriate mechanisms to measure, monitor and manage this risk on an ongoing basis.

For further details, please refer to note 25 to the financial statements.

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 Bank carries a small investment book (mainly consisting of corporate bonds, banks / FI's bond and US/UK treasury Securities). The Bank does use derivatives and swaps for hedging purposes. These derivatives are re-valued daily and any change in their fair value is recognised immediately in profit and loss. Market risk is monitored through various limits such as net overnight open position, daylight open position, modified duration, stop loss, cumulative trading losses and mark to market loss limits.

For further details, please refer to note 41 to the financial statements.

Interest rate risk in banking book

Interest rate risk in the banking book ('IRRBB') more specifically refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the institution's banking book positions. The Bank monitors its interest rate mismatches on a regular basis through Economic value at risk (200 basis point parallel rate shock), gap monitoring and monitoring of prescribed limits.

For further details, please refer to note 42 to the financial statements

Liquidity and funding risk

Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due. The Bank has a Board approved ILAAP in place, in line with the guidelines issued by the 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. Liquidity monitoring mechanism supplemented by regular liquidity stress testing gives sufficient advance signals for envisaging liquidity requirements. The 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.

For further details, please refer to note 43 to the financial statements.

Credit Concentration Risk

Credit concentration risk denotes the overall spread of a Bank's outstanding accounts over the number or variety of debtors to whom the Bank has lent money. The risk is monitored through various concentration limits in exposure to existing counterparties, new counterparties, banks, sectoral limits, geographical limits, etc. The Bank has geographically focused on UK lending as part of its business strategy.

For further details, please refer to note 26 to the financial statements.

Operational risk

Operational risk is the risk of losses on account of inadequate or defective systems and processes, human or technical failures, or external events. Operational risk is monitored continuously through the KRI framework, Incident reporting, Risk and Control Self-Assessment ('RCSA') framework of the Bank. Major sources of operational risks for the Bank are identified by management (as part of ICAAP) and include IT and cyber security risk, data security risk, people risk, internal and external fraud, business process risk, financial crime, legal risk, change risk, outsourcing risk and external events like failure of transportation, non-availability of utilities etc.

The Bank assesses the plausibility of the above risks in light of the various controls put in place to mitigate these risks to keep them within the Bank's appetite. They are regularly monitored for early warning signals through various tools in place so that that appropriate and timely action could be under-taken.

The Bank has different teams such as the Financial Crime Operations Team, Mid-Office and Compli-ance Conduct Risk team for strengthening the quality, controls and processes. The Bank also has in place Cyber incident response plan and Cyber security strategy implementation plan to strengthen its cyber security in the rising cybercrime environment.

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. Bank has in place well defined policies and procedures along with a robust and well embedded governance structure to address the regulatory and compliance risk. These compliance issues are monitored on an ongoing basis and deliberated upon in the quarterly Board Audit and Compliance Committee meetings. As per recommendations of the BACC, appropriate strategy/ remedial actions are devised. The Compliance team undertake assessment and enhancements governed by its annual compliance monitoring plan which is approved by the Board.

Conduct risk

Conduct risk relates to a failure or an inability to comply with laws, regulations and codes relating to the fair treatment of customers. In a way it touches every part of the risk enterprise framework. Conduct risk management is to ensure compliance to new conduct risk rules, managing conflicts of interest, pre-venting market abuse, or building robust audit procedures. A conduct risk framework is in place and a report on conduct risk is presented to the Board annually and monitored regularly through KRI's.

Strategic & business risk

Strategic risk is the current and prospective impact on earnings of capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry and market changes. Business risk is any risk to the Bank arising from changes in its business, including the risk that the Bank may not be able to carry out its business and its desired strategy. These risks are mitigated by the low risk and secured lending model and working with the target segments where the Bank has experience, knowledge and skill set. The Bank focusses on existing profitable products and services whilst strengthening its core foundations and improving cost efficiencies.

Environment, Social & Governance ('ESG') Risk

ESG risk could be broadly defined as environmental, social and governance characteristics that could negatively impact the financial performance or solvency of an entity, sovereign or individual. The Bank has a well-defined Governance structure. It regularly undertakes various initiatives to fulfil its social responsibilities. The Bank has already embedded controls to address the climate change risk. However, considering the impact of climate risk across various spheres of activities, the Bank has taken further steps to address the risk and has embedded it in its decision-making process and culture through the Risk Appetite Framework and Credit Risk Management Policy.

The Bank has placed emphasis on assessment and management of Climate change risk under the broad category of ESG Risk. The Board recognizes that the impact of climate change can have an impact on our financial position in terms of the valuation of our assets, assumptions used in impairment testing, depreciation rate and other similar liabilities and financial risk disclosures. The Board accepts ownership and is accountable for managing the risks and opportunities associated with climate change risks and its impact on the resilience of the Bank's business model both in the immediate and longer term. The Bank aims to meet regulatory expectations considering physical and transition climate risk and reflect the same in its business approach. The Bank aims to support businesses that are complying with environmental standards and related regulations and has aligned its strategy with the same.

Based on the PRA's enhanced expectations regarding climate change for banks, the Bank's Board Risk Committee has been tasked with monitoring and managing the Bank's response. The Chief Risk Officer is the designated SMF for managing the climate change risk in the Bank and embedding of climate related risk factors and associated mitigants in the Bank's Credit Risk Management Policy and Internal Capital Adequacy Assessment Process ('ICAAP'). Climate risk has been incorporated in the risk management practices in the Bank.

In addition to the above, the Bank has qualitatively assessed climate change in its stress testing by considering its physical risk, transition risk and impact on market demand. Apart from this short-term stress, PNBIL also plans to undertake long-term scenario analysis in the near future. Based on the stress test and short-term scenario analysis for climate change risk, the Bank does not foresee any immediate stress on its portfolio primarily due to its focused strategy, existing portfolio, risk management structure, credit assessment process and practices. The Bank acknowledges the financial risk from climate change as material and has substantiated its efforts to manage it in proportion to the scale and complexity of the business. Further, as part of the long-term strategy, the Bank has enhanced its product line with a focus on green financing.

The Bank's assets primarily consist of UK-based real estate lending. The climate change risk is an integral part of credit assessment by considering ECG rating, risk of flood, land subsidence, earthquake, etc. and adequate risk mitigation is used to ensure the property is ring-fenced from such risk before it is approved as collateral for the financing.

With an aim to reducing its own carbon footprint, the Bank consulted employees seeking suggestions and consequently ideas such as using energy efficient lighting and eliminating the use of single use plastic are under implementation. Further, to reduce use of plastic across the Bank, all employees were presented with metal water bottles.

Reputational risk

Reputational risk at PNBIL is defined as the risk of possible damage to PNBIL's brand and reputation. To mitigate this risk, the Bank has developed a reputational risk framework policy and the Bank has no risk appetite to undertake any activities that could endanger the reputation of the Bank.

Bank is actively involved in corporate social responsibilities as part of corporate strategy to build reputation in UK. Efficient Complaints handling policy is in place and regularly monitored through Reputational Risk Scorecard.

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 services from the Parent bank such as IT is also included.

These risks are mitigated through:

- Increased involvement and interaction between senior management from PNBIL and the Parent bank
- Limits on net exposure of the Parent bank
- Performance of the Parent bank and its likely impact on PNBIL being assessed regularly
- Operational and Compliance Policies

Further, the Bank's reliance on the Parent bank with regards to capital and liquidity has reduced, as we have become more self-sufficient.

COVID -19

The impact of COVID-19, including changes in consumer behaviour, pandemic fears and market downturns, and restrictions on business and individual activities, has created significant volatility in the global economy and led to reduced economic activity.

Retaining the good will of our customers during the pandemic has been the key focus and the Bank's response has been both sympathetic and pragmatic. During the financial year 2021-22, the Bank granted 15 deferment requests (2021: 98 requests). At the end of the financial year, only 2 deferments requests were active. From an operational perspective, despite the adverse conditions, the Bank has continued to ensure that all critical services were offered to the customers without any disruption.

All remaining COVID-19 restrictions in the UK have been lifted and the UK Government has announced its 'Living with COVID-19' plan that places personal responsibility on individuals to reduce the risk of spreading the virus. The Bank continues to monitor the situation and will consider the health and safety of its employees and customers. All branches are now operating at pre-COVID-19 working hours.

REGULATORY FACTORS

The Bank has continued to monitor and prepare for a number of regulatory developments. The Bank successfully implemented, in line with the regulatory guidelines, the PRA's Policy statement PS 22/21 - Implementation of Basel standards: Final rules and PS 21/21 - The UK leverage ratio framework.

The Bank has fulfilled all the regulatory expectations on 'Operational resilience' as of 31 March 2022. During the transition period i.e. from 1 April 2022 till 31 March 2025, the Bank will continue to test its ability to deliver its important business services within impact tolerance.

SECTION 172 REPORT

The Board of Directors understand their duties and responsibilities under the Companies Act 2006 (2006 Act). This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) of the 2006 Act.

The Board believes that effective stakeholder engagement is central to ensuring responsible and balanced outcomes, while also helping to both shape the Bank's strategy and align business activities with stakeholder expectations. When taking decisions, the Board balances the impact of those decisions on the Bank's various stakeholders whilst acting in a way that the Board considers will ensure the Bank maintains a reputation for high standards of business conduct and promotes the long-term success of the Bank.

The Bank strives to deliver a high quality service to its customers. Any material customer complaints and concerns are brought to the attention of the Directors. There is active customer engagement with key customers to understand their needs and get appropriate feedback. To help mitigate the impact of the COVID pandemic, the Bank is continuing to take a supportive approach for its customers.

As a regulated UK bank, the Bank is subject to the regulation of both the PRA and the FCA and the Board understands the importance of further developing relationships with both, liaising regularly on a range of topics. Board members have met with both the regulators to provide updates to the Bank's strategy, compliance and have provided proactive feedback where necessary.

Employee engagement is actively pursued with regular team meetings, comprehensive annual and an open style of management with access of all staff to the most senior executives.

The Board assessed 'employee welfare' to be a key business priority throughout the pandemic. For the safety of staff and customers, a number of proactive steps were taken such as remote working, reduced branch operations hours, providing updates through various digital channels while ensuring critical services are continued to be offered to our customers. Various online training courses continue to be offered to employees for their personal and professional development. Furthermore, during the course of the pandemic, employees were sent regular communication around well-being and mental health to provide necessary support.

PNBIL is a wholly owned subsidiary of Punjab National Bank, India. There is regular dialogue and engagement with PNB on key performance, strategic and business matters. The Board composition also includes two members from the Parent Bank, including the Chairman who is also the MD & CEO of PNB.

The Bank's Corporate Social Responsibility ('CSR') committee continues to increase CSR activities and has undertaken a number of initiatives during the year. These include cutting down the use of single use plastics by the Bank as well as amending its credit policy and risk appetite in ways to encourage financing to customers with energy efficient properties. The Bank also took part in the Mayor of London parade highlighting the culture of the Bank.

PNBIL is committed to functioning as a sustainable business and is therefore closely managing its wider social and environmental impacts. A number of additional steps have been taken in relation to tackling climate change and these are mentioned above. The Directors ensure that the Bank's long-term interests are at the centre of the Board's decision-making process. Examples of this include decisions in relation to reducing the level of non-performing assets in the book as well as investments in modern technology to enhance banking operations.

Board decisions are always taken with stakeholders in mind. These decisions are supported by fully reasoned recommendations, the subject of written reports and oral presentations by subject matter experts.

This report was approved by the Board of Directors on 19 July 2022 and signed on its behalf by Company Secretary.

CRV Shaw

Camilla Shaw
19 July 2022

The Directors have pleasure in presenting the Directors' report which should be read in conjunction with the Strategic report.

FINANCIAL RESULTS

The financial statements for the reporting year ended 31 March 2022 are shown on pages 32 to 79.

DIVIDENDS

As in previous years, the Directors have not recommended the payment of a dividend on the ordinary share capital for the year ended 31 March 2022.

However, the Bank continued to pay a dividend on the Additional Tier I Capital bonds at the rate of 6 months USD LIBOR plus 5% amounting to $2.37 million (2021: $2.59 million) during FY 2021-22.

CAPITAL STRUCTURE

As at 31 March 2022, the issued and fully paid share capital of the Bank is $274.63 million (2021: $274.63 million), and Additional Tier 1 Capital is $45 million (2021: $45 million). In FY 2021-22, there was no material change in the capital structure of the Bank. Detail is given in note 35 to the financial statements.

The total amount of regulatory capital available as at 31 March 2022 was $213.96 million (2021: $206.58 million). Detail is given in note 44 to the financial statements.

The Total Capital Ratio of the Bank continues to remain above the required level under the CRR and also above the Total Capital Requirement ('TCR') given by the regulator to the Bank. The TCR as at 31 March 2022 is 26.65% with the Common Equity Tier I capital ratio being 17.18%.

As at 31 March 2022, the capital adequacy ratio, leverage ratio, liquidity coverage ratio and net stable funding ratio of the Bank are all above the minimum regulatory requirements and individual capital and liquidity guidance. The Bank's funding is well diversified and the liquidity asset buffer, short-term interbank 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 components of regulatory capital, assessment of capital adequacy and the leverage ratio will be disclosed separately in the Pillar III disclosures, to be published on the Bank's website.

PNBIL's senior management monitors the Bank's capital position on a weekly basis. The Board Risk Committee and the Board of Directors 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 on-going stability and support of its business activities and compliance with regulatory requirements.

GOING CONCERN

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

The Bank has sufficient Capital for its existing business which allows for planned growth, and for staying comfortably in excess of the minimum regulatory guidelines. The Bank maintains a healthy liquidity position, in excess of the requirements demanded by the regulatory environment. There is a robust liquidity adequacy and monitoring process in place. The Bank has continued to receive support from the Parent bank. Assessments of the Bank's liquidity, capital adequacy, and risk management framework are performed on a regular basis.

The Bank has considered a range of possible COVID-19 scenarios and modelled the impact for both the short and long term with probabilities for each scenario. The management has concluded that there are no scenarios which would threaten the viability of the Bank or give rise to any material uncertainties in the judgements used in the preparation of these accounts.

The Bank continues to strengthen its governance and control environment to enable it to meet the regulatory challenges faced by all banks, based on best practice in the industry and underpinned by the industry-standard three lines of defence model.

The Bank's strategic plan, reviewed every year and approved by the Board, is being implemented and has shown to be capable of producing the viability and sustainability expected from the Board.

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

EVENTS AFTER THE BALANCE SHEET DATE

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

DIRECTORS

There have been two changes in Board Directors during the year. Details on the Board of Directors, including any changes during the year are given on page 2.

DIRECTORS' INDEMNITIES

The Bank provides Directors and Officers qualifying third party indemnity insurance which is reviewed annually up to the liability limit of £5,000,000 for each and every claim.

FUTURE BUSINESS DEVELOPMENTS

All the Future Business Development plans are outlined in the Strategic report.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Directors are responsible for establishing an effective internal control environment in the Bank and for reviewing its effectiveness. 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 are controls 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 and executive 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, compliance, risk 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, explanations and other performance data.

The effectiveness of the internal control system is reviewed regularly by operational management, compliance, risk and internal audit, and the information from such reviews is presented to the BACC. The BACC 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a director at the date of approval of this annual report, confirms that:

- So far as the director is aware, there is no relevant audit information of which the Bank's external auditor is unaware;
- The Director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's 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 Bank, 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

Mazars LLP is the statutory auditor of the Bank.

GENERAL MEETINGS

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

By order of the Board

CRV Shaw

Company Secretary
Camilla Shaw
19 July 2022

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual 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 have elected to prepare the financial statements in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In preparing the Bank's financial statements for the year ended 31 March 2022, the Directors are also required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, confirm that applicable accounting standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under Company law the Directors must not approve the financial statements 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 Bank for that period. Each of the Directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

Approved by the Board of Directors and signed on behalf of the Board.

Mr. Rajeeva	Vasudevan Mundokulam
19 July 2022	19 July 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

Opinion

We have audited the financial statements of Punjab National Bank (International) Limited (the 'Bank') for the year ended 31 March 2022 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2022 and of its profit for the year then ended; and
- have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our audit procedures to evaluate the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern;
- Reviewing the directors' going concern assessment based on a range of scenarios including Covid-19 considerations and stressed scenarios as approved by the Board of Directors;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Bank's future financial performance;

- Reviewing the Bank's most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Process which contain the results of the Bank's latest stress tests;
- Evaluating the reasonableness of the key assumptions used in the scenarios indicated above, including incorporating back-testing to evaluate the historical accuracy of management's forecasting and budgeting;
- Assessing the Bank's capital utilisation and considering whether the directors' conclusion that adequate capital headroom remains is reasonable;
- Reading regulatory correspondence, reviewing minutes of meetings of the Audit Committee and the Board of Directors, and evaluating post balance sheet events to identify events of conditions that may impact the Bank's ability to continue as a going concern; and
- Evaluating the adequacy and appropriateness of the director's disclosure on going concern included in the Annual Report and Financial Statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Credit risk in relation to loan loss provisions **Loan loss provision - $195 million (2021: $238 million)** ***[Refer to Note 4 Critical accounting judgements, Note 5 Key sources of estimation uncertainties and Note 24 Allowance for expected credit losses ('ECL')]***	Our audit procedures included but were not limited to: **Controls testing** - We evaluated the design and implementation and tested the operating effectiveness of controls operating at the Bank in relation to credit provisioning.

Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation. IFRS 9 requires allowance for impairment losses to be determined on an expected credit loss ('ECL') basis. The largest element of credit risk relates to Loans and Advances to Customers where the Bank is exposed to secured and unsecured lending to corporate clients. Individual impairment assessments are made for loans classified as stage 3. This is based on assumptions around the present value of future cash flows arising primarily from the sale or repossession of collateral. For loans classified as stage 1 and 2, ECL is determined through the use of a model. The key areas of judgement and management estimation that give rise to a significant audit risk relate to: - Staging of loans and identification of significant increase in credit risk; - Valuation of the stage 3 loan assets; and - Management overlay and the use of macroeconomic variables reflecting a range of future scenarios including the uncertainties around ongoing economic impact of COVID-19.	**Test of detail** - We assessed the Bank's overall methodology against the requirements of IFRS 9 including the method of identifying Significant Increase in Credit Risk and the impact of Covid-19. - We have involved our in-house credit risk specialists in the assessment of model approach and assumptions. - We have reviewed credit files in order to verify data used in the determination of increases in probability of default ('PD') assumptions, to confirm the appropriateness of staging and to test the valuation of individual impairments. This was performed focusing on those loans with characteristics of heightened credit risk, in particular stage 2 loans. - We have performed review of the individual impairment assessments made for stage 3 loans on sample basis. We focused on how management assess recovery including challenging estimates of future cash flows and collateral valuations. - We performed testing over the macroeconomic assumptions that are used within the Bank's economic scenario modelling. We involved our in-house economist expert to independently assess the scenarios that were developed, and the weighting applied to each scenario. - We performed testing over the management overlay applied by the Bank. We assessed the methodology adopted for the overlay, tested the data inputs into the ECL models and evaluated the assumptions applied. - We evaluated the adequacy and appropriateness of the disclosures made in the financial statements. **Our Observations** Based on the work performed, we found that the assumptions used by management in the impairment assessment are reasonable and that the allowance for impairment losses as at 31

	March 2022 is consistent with the requirements of IFRS 9.
Deferred tax asset **$25.2 million (2021: $24.7 million)** ***[Refer to Note 5 Key sources of estimation uncertainties, and Note 29 Deferred tax assets]*** Management have recorded a deferred tax asset of $25m as at 31 March 2022. This asset relates primarily to unused tax losses. This decision to recognise an asset is based on management's assessment of future taxable profits of the Bank which is underpinned by significant assumptions such as future income and expenses. These may be subject to management bias given the increased subjectivity of the extended forecast period. Given the significant level of judgement required in relation to the measurement of the deferred tax asset, we consider this area to be a key audit matter.	Our audit procedures included but were not limited to: **Controls testing** - We evaluated the design and implementation of controls operating at the Bank in relation to the oversight of the budgeting and forecasting processes for measurement of deferred tax asset. **Test of detail** - Discussed with management and those charged with governance the period over which the results could be forecast reliably. - Challenged management's assumptions within the business model, including future profitability and the recovery of the deferred tax asset. - Assessed management's ability to accurately forecast through evaluation of the historical accuracy of management's forecasting process. - We evaluated the adequacy and appropriateness of the disclosures made in the financial statements given the significance of the assumptions used. **Our Observations** Based on the work performed, we found that the valuation of the deferred tax asset recognised by management and related disclosures are reasonable as at 31 March 2022.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	$2,079,000
How we determined it	1% of net assets

Rationale for benchmark applied	Net assets are the main focus of the shareholder (the overseas parent) to assess the value of their investment. Furthermore, net assets approximate regulatory capital resources which is a key focus for the shareholder, management, and regulators.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at $1,247,000 which represents 60% of overall materiality. We considered several factors in determining performance materiality, including the level and nature of uncorrected and corrected misstatements in the prior year and the robustness of the control environment.
Reporting threshold	We agreed with the audit committee that we would report to them misstatements identified during our audit above $62,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Bank, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The other information comprises the information included in the annual accounts other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Bank and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: the regulatory and supervisory requirements of the Prudential Regulation Authority (the "PRA") and the Financial Conduct Authority (the "FCA").

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates, and considering the risk of acts by the Bank which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with PRA and FCA;
- Reviewing minutes of the Board of Directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud, including independent inspection of complaints logs;
- Inspecting the Bank's regulatory and legal correspondence and reviewing minutes of the Board of Directors' meetings in the year;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Being skeptical to the potential of management bias in key judgements and assumptions, including reviewing the accounting estimate in relation to allowance for credit losses as described in our key audit matter;
- Introducing elements of unpredictability in audit testing;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Discussing amongst the engagement team the risks of fraud.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 30 November 2019 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2020 to 31 March 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting our audit.

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

This report is made solely to the Bank'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 Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body for our audit work, for this report, or for the opinions we have formed.

CRSimpson

Greg Simpson (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey
London
EC4M 7AU

19 July 2022

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 $'000	2021 $'000
Interest income	6	41,351	36,654
Interest expense	7	(9,158)	(10,970)
Net interest income		32,193	25,684
Net trading profit/(loss)	8	13	(2,386)
Fee and commission income		882	859
Other operating income	9	130	127
Operating income		33,218	24,284
Staff costs	13	(13,204)	(12,748)
Interest on lease liabilities	37	(116)	(135)
Depreciation and amortisation expenses	10	(1,468)	(1,372)
General administrative expenses	11	(6,140)	(6,258)
Impairment provision	24	(4,429)	(13,722)
Profit/(loss) before tax		7,861	(9,951)
Tax credit/(charge)	15	45	(283)
Profit/(loss) after tax for the year		7,906	(10,234)

All amounts mentioned above relate to continuing activities.

The accompanying 'Notes to the financial statements' from page 37 to 79 are an integral part of the financial statements.

	Note	2022 $'000	2021 $'000
Profit/(loss) after tax for the year		**7,906**	**(10,234)**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss			
Investment Securities - FVOCI			
- (Losses)/gains arising during the year	**36**	**(2,066)**	**1,534**
- Tax credit/(charge) relating to change in fair value	**36**	**496**	**(281)**
		(1,570)	**1,253**
Reclassification adjustments for loss included in profit or loss (Investment Securities – FVOCI)		**209**	**71**
Other comprehensive (expense)/income for the year net of tax		**(1,361)**	**1,324**
Total comprehensive income/(expense) attributable to equity share holders		**6,545**	**(8,910)**

The accompanying 'Notes to the financial statements' from page 37 to 79 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and balances with central banks	16	149,798	221,320
Loans and advances to banks	19	700	30,478
Loans and advances to customers	20	791,237	690,599
Investment securities - FVTPL	17	10,001	10,071
Investment securities –FVOCI	21	54,753	39,311
Investment securities – Amortised cost	22	89,114	58,332
Derivative financial instruments	18	1,064	1,871
Right of use lease assets	37	3,073	4,066
Prepayments and other receivables	30	384	587
Property, plant and equipment	27	391	493
Intangible assets	28	589	962
Deferred tax assets	29	25,155	24,657
Total assets		1,126,259	1,082,747
Liabilities			
Deposits from banks	31	1,106	865
Deposits from customers	32	858,073	819,493
Derivative financial instruments	18	295	25
Current tax liability	15	-	-
Lease liability	37	3,205	4,181
Other liabilities	34	5,314	4,095
Subordinated bonds and other borrowed funds	33	50,000	50,000
Total liabilities		917,993	878,659
Net assets		208,266	204,088
Equity			
Share capital	35	319,631	319,631
Fair value reserve	36	(1,293)	68
Retained earnings		(110,072)	(115,611)
Equity attributable to owners of the Company		208,266	204,088
Total equity		208,266	204,088

The accompanying 'Notes to the financial statements' from page 37 to 79 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 19 July 2022. They were signed on its behalf by:

Managing Director
Mr. Rajeeva
Company registration no 05781326

Executive Director
Vasudevan Mundokulam

	Note	Attributable to equity shareholders of the bank			
		Share capital	Fair Value reserve	Retained Earnings	Total equity
		$'000	$'000	$'000	$'000
Balance at 31 March 2021		**319,631**	**68**	**(115,611)**	**204,088**
Profit for the year		**-**	**-**	**7,906**	**7,906**
Net change in fair value of Investment securities -FVOCI	36	-	(1,570)	-	(1,570)
Net amount transferred to Profit & Loss	36	-	209	-	209
Other comprehensive income of the year		**-**	**(1,361)**	**-**	**(1,361)**
Total comprehensive income of the year		**-**	**(1,361)**	**7,906**	**6,545**
Transactions with owners directly recorded in equity					
Dividend on additional Tier 1 capital	40	-	-	(2,367)	(2,367)
Balance at 31 March 2022		**319,631**	**(1,293)**	**(110,072)**	**208,266**

	Note	Attributable to equity shareholders of the bank			
		Share capital	Fair Value reserve	Retained Earnings	Total equity
		$'000	$'000	$'000	$'000
Balance at 31 March 2020		**319,631**	**(1,256)**	**(102,790)**	**215,585**
Loss for the year		**-**	**-**	**(10,234)**	**(10,234)**
Net change in fair value of Investment securities -FVOCI	36	-	1,253	-	1,253
Net amount transferred to Profit & Loss	36	-	71	-	71
Other comprehensive income of the year	-	**-**	**1,324**	**-**	**1,324**
Total comprehensive income of the year	-	**-**	**1,324**	**(10,234)**	**(8,910)**
Transactions with owners directly recorded in equity					
Dividend on additional Tier 1 capital	40	-	-	(2,587)	(2,587)
Balance at 31 March 2021		**319,631**	**68**	**(115,611)**	**204,088**

The accompanying 'Notes to the financial statements' from page 37 to 79 are an integral part of the financial statements.

	Note	2022	2021*
Cash flows from operating activities		**$'000**	**$'000**
Profit/(loss) after tax		**7,906**	**(10,234)**
Adjustments for:			
Amortisation of other intangible non-current assets	10	410	335
Depreciation of property, plant and equipment	10	213	222
Depreciation on right of use assets	10	845	815
Interest on lease liabilities	37	116	135
Impairment provision	24	4,429	13,722
Corporation tax (credit)/charge	15	(45)	283
Net exchange rate differences		(582)	826
		5,386	16,338
Changes in:			
Loans and advances to banks		29,778	94,566
Loans and advances to customers		(105,069)	(137,956)
Fair value of derivatives		1,077	(291)
Prepayments and other receivables		203	(118)
Deposits from banks		241	(15,262)
Deposits from customers		38,578	134,373
Other liabilities		1,219	697
		(33,973)	76,009
Cash (used in)/generated from operating activities		(20,681)	82,113
Income tax paid		(6)	(215)
Net cash (used in)/generated from operating activities		(20,687)	81,898
Cash flows from investing activities			
Acquisition of property, plant and equipment	27	(111)	(255)
Acquisition of intangible assets	28	(37)	(758)
Acquisition of investment securities at amortised cost	22	(30,782)	(8,865)
Disposal of investment securities – FVTPL	17	70	23,514
Acquisition of investment securities – FVOCI	21	(17,252)	(2,029)
Net cash (used in)/generated from investing activities		(48,112)	11,607
Cash flows from financing activities			
Payment of lease liabilities	37	(938)	(902)
Dividend to perpetual additional Tier I capital bond holders	40	(2,367)	(2,587)
Proceeds from issuance of subordinated bonds	33	12,500	-
Repayment of subordinated bonds	33	(12,500)	-
Net cash used in financing activities		(3,305)	(3,489)
Net (decrease)/increase in cash and cash equivalents		(72,104)	90,016
Net exchange rate differences		582	(826)
Cash and cash equivalents at beginning of year	16	221,320	132,130
Cash and cash equivalents at end of year	16	149,798	221,320

* Upon reflection on the nature of the Bank's business, acquisition/disposal of investment securities classified as FVTPL and FVOCI are more appropriately reflected as cash flows from investing activities in 2022 and the amount presented in the prior year has also been restated accordingly. The effect of this change was to reclassify $21.49 million of net cash inflows from operating activities to investing activities in 2021.

The accompanying 'Notes to the financial statements' from page 37 to 79 are an integral part of the financial statements.

1] General information

Punjab National Bank (International) Limited, 'PNBIL' or 'the Bank' is a private company limited by shares and incorporated under the Companies Act and is registered in England and Wales and domiciled in the United Kingdom. The address of the Bank's registered office is 1 Moorgate, London EC2R 6JH. The Bank does not have branches outside the UK. The Bank is a wholly-owned subsidiary of Punjab National Bank, one of the leading public-sector banks of India, having its corporate office at Plot No 4, Sector 10, Dwarka, New Delhi, 110075.

The principal activities of the Bank and the nature of the operations are set out in the Strategic report on pages 3 to 18. The financial statements are presented in US Dollars, because this is functional currency of the Bank.

2] Adoption of new and revised standards

The accounting standards applied are those issued by UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. The accounting policies adopted are consistent with those of the previous financial year. There was no other material or amended standards or interpretations that resulted in a material impact or a change in accounting policy. The Bank continues to monitor new accounting standards/amendments/interpretations that have been issued and become mandatory in subsequent accounting periods.

The following accounting standard amendments/interpretations are mandatory for the financial year beginning 1 April 2021 but are either not relevant or do not have a material impact on the Bank's financial statements:

- Amendments to IFRS 16 'Leases' – COVID-19-Related Rent Concessions

2.1 Amendments to IFRSs that are mandatorily effective for the current year

2.1.1 Amendments to IFRS 9, IFRS 7, IFRS 4, IFRS 16 and IAS 39 (IBOR reform Phase II)

Effective 1 April 2021, the amendments to IFRS 9 and IAS 39 provide a number of reliefs which apply to all hedging relationships that are directly affected by interest rate benchmark reform. These amendments had no impact on the financial statements as the Bank does not have any interest rate hedging relationships.

For the recognition and measurement of financial assets outside of hedging relationships, a practical expedient is provided whereby the change in an interest rate benchmark on a floating rate instrument are accounted for prospectively. For more information, refer to note 42 to the financial statements.

3] Significant accounting policies

3.1 Statement of compliance

The Bank's financial statements have been prepared in accordance with UK-adopted International Financial Reporting Standards ('IFRS'). The financial statements have also been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

3.2 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;
- Investment securities at fair value through profit or loss ('FVTPL') are measured at fair value; and
- Investment securities at fair value through other comprehensive income ('FVOCI') are measured at fair value.

Detail on fair value is given in note 23.

3.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

For more information on going concern and the impact of COVID-19, refer to the Directors' report and Strategic report respectively.

3.4 Functional and presentation currency

The Directors consider the US Dollar as the functional currency of the Bank as a significant component of earning assets (loans/investments) are priced in US Dollars and a significant component of funding is in US Dollars. In addition to that, share capital and other capital instruments are denominated in US Dollars. Transactions in currencies other than USD are recorded in US Dollars at the rate of exchange prevailing 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.

3.5 Accounting policies

a) Revenue recognition

Interest income and expense

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:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on Investment securities – FVOCI 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.

The interest income is calculated by applying the effective interest rate ('EIR') to the gross carrying amount for Stage 1 and Stage 2 assets but, for Stage 3 assets (not purchased or originated credit-impaired), it is calculated by applying the EIR to the amortised cost net of the credit allowance i.e. the carrying amount after the deduction of the loss allowance.

Fees and commission

Fees and commissions include remittance charges, bills collection charges, LC charges, incidental charges on deposit accounts, locker rent and late payment fees.

Revenue is recognised for remittance charges, bills collection charges, LC charges, late payment fees and incidental charges on deposit accounts when the service is delivered.

In case of lockers, revenue is recognised over the period the customer has access to the locker from the date possession is taken. Locker fees are billed on an annual basis with a standard set price payable dependent on the size of box.

Net trading income

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

b) Financial instruments

A. Financial assets

The Bank applies IFRS 9 Financial Instruments for recognition, classification and measurement of financial assets. On initial recognition, a financial asset is classified as measured at:

i. Amortised cost
ii. Fair value through other comprehensive income ('FVOCI')
iii. Fair value through profit and loss ('FVTPL')

Two criteria are used to determine how financial assets should be classified and measured: Business model – how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both, and Solely Payments of Principal and Interest ('SPPI') test – where contractual cash flows are consistent with a basic lending arrangement; that is whether cash flows solely comprise payments of principal and interest.

Financial assets at amortised cost

Assets held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated as FVTPL, are classified and subsequently measured at amortised cost. The carrying value of these financial assets is adjusted by any allowance for expected credit loss recognised and measured. Interest income from these assets is included in Note 6 'Interest Income' using the effective interest rate method.

Financial assets at Fair value through other comprehensive income ('FVOCI')

Financial assets that are held for collection of contractual flows and for selling the assets, where those cash flows represent solely payment of principal and interest, and that are not designated at FVTPL, are classified and subsequently measured at FVOCI. Interest income from these assets is included in Note 6 'Interest Income' using the effective interest rate method.

Financial assets at Fair value through profit and loss ('FVTPL')

Financial assets that do not meet the criteria for recognition at amortised cost or at FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement as 'Net trading profit/(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.

ii. Financial liabilities

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

C. Fair value measurement

Fair value is the 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 which includes only data from the observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument.

D. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The impact of offsetting financial instruments is immaterial for the financial year.

E. De-recognition of financial assets and liabilities

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

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

F. 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 the Bank sells a security and simultaneously agrees to repurchase it at a fixed price at a future date. The 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.

G. Impairment of financial assets

The allowance for credit losses represents the Bank's estimate of the expected credit loss ('ECL') on financial assets at the date of the statement of financial position. IFRS 9 requires expected credit losses to be applied to financial assets at amortised cost, FVOCI instruments and loan commitments.

Quantitative modelling has been used in conjunction with internal and external credit grades and ratings in assessing whether credit risk has significantly increased. The Bank monitors the effectiveness of the criteria used to identify any increase through regular reviews. Various macro variables such as Housing Price Index ('HPI') growth forecast, unemployment rate, change in GDP, etc. have been used in modelling a forward-looking estimate for ECL. Statistical methods supported by the internal as well as external data have been adopted to build these models. Further, the Bank's ECL scenario framework revolves around the Cyclicity index ('CI'), which is considered a proxy for the credit cycle. The Bank uses publicly available data on region level default rates as proxy for CI. All scenarios used for ECL calculations are linked with a CI forecast which directly impacts the ECL calculation. This information used in ECL models is updated at regular intervals to capture any intrinsic or extrinsic changes.

IFRS 9 assesses on a forward-looking basis the ECL associated with the assets carried at amortised cost and FVOCI and recognises a loss provision for such losses at each reporting date. ECL allowances represent credit losses that reflect an unbiased, point in time and probability weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Impairment provisions are driven by changes in credit risk of loans and securities, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial origination.

The ECL estimates are a key input into the Risk Adjusted Return on Capital (‘RAROC’) based approach to loan pricing. These estimates are factored by the Bank in its decision making process while computing the RAROC for the loan. The model is regularly updated to factor in the changes in the ECL estimates.

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three-stage ECL impairment model:

- Stage 1 (12-month ECL) – unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2 (Lifetime ECL not credit impaired) – following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.
- Stage 3 (Lifetime ECL credit impaired) – objective evidence of impairment and are therefore considered to be in default or credit impaired on which a lifetime ECL is recognised.

Measurement of ECL: ECL are a probability-weighted estimate of credit losses. The Bank calculates ECL by considering the cash shortfalls it would incur in various default scenarios discounted at the original effective interest rate and multiplying the shortfalls by the probability of each scenario occurring. The ECL is the sum of these probability weighted outcomes.

Definition of default: A default shall be considered to have occurred with regard to a particular obligor (debtor) when any of the following have taken place and the asset will be classified as Non-Performing Asset (Stage 3 asset):

- The payment due to the bank are overdue by more than 90 days. Interest accrued will be excluded from the criteria.
- Any exposure of the obligor that has been recognised credit - impaired in accordance with the IFRS 9 accounting framework.
- 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.

The Bank considers the following factors as risk drivers in assessing objective evidence of impairment. These are consistent with the staging criteria adopted for implementation of IFRS 9 accounting standards:

- when an exposure to a counterparty is non-performing i.e. obligor is past due more than 90 days;
- 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;
- where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets.

Write off policy - The Head of Credit Monitoring & Recovery department will evaluate the progress of each impaired loans on a case-to-case basis. The Head of Credit Monitoring & Recovery department and Head of Credit will recommend to CROC any new account specific or portfolio level provisions, write backs or write offs. Regardless of whether an exposure has been written off, Bank may continue to pursue any NPAs for recovery.

Significant increase in credit risk

Qualitative Criteria: All assets are evaluated using a set of qualitative parameters and rules defined by the bank to determine if there is a significant increase in credit risk. The qualitative assessment criteria are elaborated below:

a. Forborne/Restructured assets	• A forborne or restructured account. Forborne performing assets will be classified as stage 2 asset up to 180 days. After 180 days, it will be reviewed and reclassified depending upon its performance.
b. Adverse Financials	• Material deterioration in the financial health of the business. This can be worsening of the capital, liquidity, or profitability situation.
c. Adverse industry impact	• Deterioration of the industry, market segment of the borrower as a whole.
d. Other factors	• Insolvency (liquidation) process initiated; criminal action initiated etc. • Adverse media news affecting the company's soundness.

e. SBLC's, Government & Corporate Securities, Nostro Accounts with other banks and Interbank exposures

• ISDA credit event declared.
• Bond trade (temporarily) suspended at primary exchange because of rumours/facts.

Quantitative Criteria: Any asset where any payment is overdue 30 days or more but less than 90 days

H. 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.

I. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant 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.

(iii) Depreciation

Items of property, plant 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:

Equipment including computers and accessories	3-5 years
Property and plant	5 years or primary period of lease term, whichever is lower.

(The computers, mobile phones and related accessories are depreciated at 30% whereas property and plant are depreciated at 20%).

J. Intangible assets

Intangible assets of the Bank include software 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 is three years or the licence term whichever is the lower.

K. Cash and balances with central banks

Cash and balances with central banks 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

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 tax rates that are enacted or substantively enacted by the reporting date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the statement of financial position or statement of comprehensive income, 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 specific 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.

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. The Bank may elect at its 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 a dividend out of total comprehensive income attributable to the equity shareholders.

(ii) Fair value reserves

The fair value reserve comprises the cumulative net change in the fair value of investment securities - FVOCI assets until the assets are de-recognised or impaired.

O. Right of use lease assets and liabilities

The Bank adopted IFRS 16 'Leases' using the modified retrospective approach. The Bank identified contracts impacted by IFRS 16 where the Bank is the lessee, and this comprises of seven property leases for the Bank's corporate office and its 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.

When PNBIL acts as a lessee, it recognises a right-of-use asset representing its right to use the underlying leased asset with a corresponding lease liability on the date on which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and the finance charge. The finance charge is allocated to the income statement during the term of the lease in such a way as to produce a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the fixed lease payments over the entire term of the lease. Lease payments are discounted using the interest rate implicit in the lease. As the interest rate implicit in the lease is not readily determinable for PNBIL, the Bank used its incremental borrowing rate ('IBR') at the related date for the seven leases in scope of the standard.

The IBR is defined as the interest rate that a lessee would have to pay for borrowing, given a similar period to the duration of the lease and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. In order to construct an IBR, we have used a three-step approach:

- Determining the reference rate
- Determining the finance spread adjustment
- Determining a lease specific adjustment

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 provisions are fixed accordingly. Salary to the locally recruited staff is as per the 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. Contributions to defined contribution pension plans are recognised in the profit and 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.

Critical accounting judgements and key sources of estimation uncertainty

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. 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. There have been no changes to the approach to the assumptions and estimation methodologies during the year.

4] Critical accounting judgements

Further information about key assumptions concerning the future and judgements, are set out in the relevant disclosure notes for the following areas:

- **Impairment of financial assets**

The Bank's accounting policy for recognising impairment arising from financial assets is described in Note 3 (G). The Bank uses the three stage impairment model to make provisions for expected credit losses in accordance with the IFRS 9 accounting framework.

The method to calculate ECL involves the use of historical information coupled with forward looking information to create probability weighted scenarios, supplemented with management judgement to determine expected credit losses. Each of these variables or inputs requires management to exercise judgement in making assumptions and estimations.

The Bank uses an ECL tool to determine provisioning for Stage 1 and 2 accounts based on the IFRS 9 principles. The ECL tool is designed to take a set of facility level loan data, staging data and historical staging data and compute an ECL for each loan. The tool structure is such that the account level data is used along with the parameters defined to determine a Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') for each loan.

- The single year PD, LGD and EAD are multiplied to determine a 1 year expected loss for stage 1 accounts
- For stage 2 accounts, lifetime ECL is calculated. The PD's and LGD's are passed through the scenario generator where 5 PD's and 5 LGD's are determined for 5 different scenarios. The 5 PD's and LGD's are multiplied together with the EAD's determined by the tool to conclude 5 separate ECL numbers. These ECL numbers are then weighted as per the scenario engine and combined to produce a single lifetime ECL per account.
- The lifetime ECLs are discounted by the EIR for the account and weighted by the probability of each scenario.
- Accounts in stage 1 are allocated a final ECL which only considers a 1-year loss while accounts in stage 2 are allocated an ECL which represents the potential lifetime losses as mentioned above.
- For stage 3 assets, the Bank is using an approach where each account is assessed individually for impairment allowances and provisions are made accordingly.

5] Key sources of estimation uncertainty

Further information about key sources of estimation uncertainty is set out in the relevant disclosure notes for the following areas:

- **Deferred Tax**

Key sources of estimation uncertainty in relation to the measurement of deferred tax assets include volumes of future business from key revenue streams, interest margins, impairment charges and recoveries in respect of loan assets, tax rates and the period over which future profitability is reliably estimable to support the valuation of the deferred tax assets.

The Bank has done a thorough analysis for the justification of the deferred tax balance. This analysis has gone through a rigorous governance framework through which the Bank has established a process to recover or write off the deferred tax balance as appropriate. As of 31 March 2022, the Bank estimates recovery of the deferred tax asset over a 10-year period. This period has been used because of the difficulty in reliably forecasting beyond this point in time.

As at 31 March 2022, the Bank has both a recognised and unrecognised portion of the deferred tax balance (see note 29). As per the Board approved Deferred Tax Asset ('DTA') assessment process, the unrecognized portion of the deferred tax balance will be recovered before recovery of the recognised deferred tax balance. Based on the internal projections by the Bank, the current deferred tax balance is justified at its present level and no adjustment to the carrying amount is necessary. Should future business performance not meet profitability estimates, further material impairment adjustments to the carrying value of deferred tax assets will be carried out as per the established process. As of 31 March 2022, the deferred tax assets amounted to $25.16 million.

- **Macroeconomic inputs used in ECL tool**

The ECL framework scenario analysis revolves around the Cyclicality Index ('CI'). The Bank uses publicly available data on region level default rates as proxy for CI. All scenarios used in the ECL model are linked with a CI forecast which directly impacts the ECL calculation.

The following economic indicators are used to predict the credit cycle:

- Unemployment Rate (%)
- UK Housing Price Index Change (%)
- Average Rate (Average of Bank of England rate and UK 5 year bond yield)
- Change in India GDP (Current Prices) (%)

The forecast for above economic indicators is used by the Bank in the ECL model on the basis of externally available data (if available) or internal forecasts.

The ECL provision numbers are sensitive to the movement in the above parameters which are input into the ECL model. As of 31 March 2022, the provision for Stage 1 and Stage 2 assets shifts by 4.96% (2021: 4.20%) on 10% adverse movement of the above economic indicators.

- **Provisions for impairment assessment in Stage 3 accounts**

For all stage 3 accounts i.e. 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 provision 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 provision. 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.

As of 31 March 2022, specific provisions for impairment of loans and receivables (including investment securities) stood at $193.62 million (2021: $238.48 million).

- **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 on-going 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. Details on valuation of fair value of financial instruments are provided in note 23 to the financial statements.

6] Interest income

	2022 $'000	2021 $'000
Overdraft accounts	4,114	3,918
Demand and term loans	30,602	26,798
Discount on bills	179	459
Interbank placements	314	487
Coupon/premium on investment securities	4,395	3,576
Arrangement fees on loans	1,747	1,416
Total Interest income	41,351	36,654

The amounts reported above include interest income calculated using EIR method that relate to the following financial assets:

Financial assets measured at amortised cost	32,985	33,499
Financial assets measured at FVOCI	2,110	1,115

7] Interest expense

	2022 $'000	2021 $'000
Term deposits	6,565	7,926
Saving deposits	325	306
Interbank borrowings	-	237
Subordinated bonds	2,268	2,501
Total Interest expense	9,158	10,970

8] Net trading profit/(loss)

	2022 $'000	2021 $'000
Foreign exchange	582	(826)
Loss on investment securities - FVTPL	(569)	(1,560)
Net trading profit/(loss)	13	(2,386)

9] Other operating income

	2022 $'000	2021 $'000
Payment and settlement	120	93
Retail banking	10	34
Total Other operating income	130	127

10] Depreciation and amortisation expenses

	2022 $'000	2021 $'000
Depreciation of property, plant and equipment	213	222
Depreciation on right of use lease assets	845	815
Amortisation of intangible assets	410	335
Total Depreciation and amortization expenses	1,468	1,372

Further details are given in notes 27, 28 and 37 to the financial statements

11] General administrative expenses

	2022 $'000	2021 $'000
Legal, professional and audit fees	3,141	3,077
Administrative and office maintenance costs	1,480	1,524
Other administration costs	1,096	1,235
Postage and telephones cost	322	355
Marketing costs	101	67
Total General administrative expenses	6,140	6,258

12] Auditor's remuneration

Fees payable to the Bank's auditor for the audit of the Bank's annual accounts

	2022 $'000	2021 $'000
The audit of the Company	334	216
Total audit fee	334	216
Fees payable to the Bank's auditor for other services:		
- Audit related assurance services	22	23
Total non-audit fees	22	23

13] Staff costs

	2022 $'000	2021 $'000
Wages and salaries	10,281	9,952
Contribution towards defined employee contribution plan*	283	292
Other employee benefits	1,500	1,495
Social security costs	1,140	1,009
Total Staff costs	13,204	12,748

* Out of this $0.02 million (2021: $0.02 million) is related to a director's contribution to external pension scheme (note 14). The number of Directors receiving this benefit is one.

	$'000	$'000
Included in other employee benefits:	2022	2021
	$'000	$'000
Accommodation cost	759	692
Medical insurance and expense	122	107
Pension contributions for staff in India	15	17
Other expenses**	604	679
	1,500	1,495
Average number of employees***	177	186

** Other expenses include rent, conveyance, insurance, staff welfare and other expenses for staff. There are no share-based payments to employees.
*** Out of the above, 22 back office employees (2021: 24 back office employees) are based in India.

The number of employees disclosed is the monthly average number in line with Section 411 of the Companies Act 2006.

14] Directors' emoluments

	2022	2021
	$'000	$'000
Emoluments	523	475

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

	2022	2021
	$'000	$'000
Emoluments of highest paid Director (One Director)	259	232
Contributions to external pension scheme	18	16

15] Corporation tax

Components of corporation tax credit/(charge)

	2022	2021
Analysis of tax credit/(charge) in the year	$'000	$'000
Current corporation tax charge	-	-
Credit in respect of prior years	-	-
Total current tax credit/(charge)	-	-
Deferred corporation tax credit/(charge)		
Effect of rate changes	5,933	-
Relating to origination and reversal of temporary differences	(1,046)	2,374
Deferred tax not recognised in relation to losses	(4,836)	(5,332)
Adjustments in respect of prior years	-	2,890
Total deferred tax credit/(charge)	51	(68)
Withholding tax paid	(6)	(215)
Total tax credit/(charge) for the year	45	(283)

Reconciliation of corporation tax credit/(charge) to accounting profit

	2022 $'000	2021 $'000
Profit before tax	7,861	(9,951)
Corporation tax at 19% (2020: 19%)	(1,494)	1,891
Tax effect of non-deductible depreciation	1	-
Tax effect of other non-deductible expenses/non-taxable income	447	491
Tax effect of rate changes	5,933	-
Adjustments in respect of prior year	-	2,890
Deferred tax not recognised in relation to losses	(4,836)	(5,332)
Tax effect of Investment securities - FVOCI transitional adjustment	-	(8)
Withholding tax suffered	(6)	(215)
Tax credit/(charge)	45	(283)
Current corporation tax credited to other comprehensive income		
Credit/(expense) arising on FVOCI reserve movement	496	(281)
Tax effective rate	19%	19%

The standard rate of corporation tax rate for the year starting 1 April 2021 is 19%. The Finance Bill 2021 is now enacted. Therefore, from 1 April 2023, the corporation tax rate will increase to 25%.

16] Cash and balances with central banks

	2022 $'000	2021 $'000
Cash on hand	370	326
Cash at bank (including balance held with central banks)	149,428	220,994
Total Cash and balances with central banks	149,798	221,320

17] Investment securities - FVTPL

	2022 $'000	2021 $'000
Treasury bills	10,001	10,071

The Bank has classified its holding of US treasury bills as Investment securities - FVTPL which were 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	2022 $'000	2021 $'000
US Treasury Bills	AAA	10,001	10,071

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

18] Derivative financial instruments

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long-term 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 a floating rate of interest where base rate is floating and linked to USD LIBOR or BOE rate with a fixed margin thereupon. A major portion of liabilities of the Bank are at a fixed rate of interest. All the deals under cross currency foreign exchange swaps and interest rate swaps are over-the counter deals and none of them are with Central Governments.

The table below shows analysis of counterparty credit exposure arising from derivative transactions and fair value as at 31 March 2022:

	Nature of Counterparty	Nominal Amount-Buy Transaction	Nominal Amount-Sell Transaction	Positive Fair Value	Negative Fair Value
		$'000	$'000	$'000	$'000
Cross currency swaps	Bank	81,377	80,556	1,064	295
		81,377	80,556	1,064	295

The table below shows analysis of counterparty credit exposure arising from derivative transactions and fair value as at 31 March 2021:

	Nature of Counterparty	Nominal Amount-Buy Transaction	Nominal Amount-Sell Transaction	Positive Fair Value	Negative Fair Value
		$'000	$'000	$'000	$'000
Cross currency swaps	Bank	126,279	124,319	1,871	25
		126,279	124,319	1,871	25

19] Loans and advances to banks

	2022 $'000	2021 $'000
Bills negotiated and discounted	-	14,848
Overdraft	-	3
Term loans against stand-by letters of credit/buyers' credit	701	16,061
Interbank placements of original maturity of more than three months	8,000	8,008
Total	8,701	38,920
Less impairment provisions *	(8,001)	(8,442)
Net Loans and advances to banks	700	30,478

*Impairment provisions includes Stage 3 ECL allowance of $8 million (2021: $8 million) ECL provision (Stage 1 & 2) of Nil (2021: $0.44 million).

At 31 March 2022 $0.70 million (2021: $15.18 million) of loans and advances to banks are expected to be realized more than twelve months after the reporting date.

20] Loans and advances to customers

	2022 $'000	2021 $'000
Customer overdrafts	133,905	164,239
Term loans	843,956	755,916
Total	977,861	920,155
Less impairment provisions **	(186,624)	(229,556)
Net loans and advances to customers	791,237	690,599

**Impairment provisions include Stage 3 ECL allowance of $184.95 million (2021: $228.07 million) and ECL provision (Stage 1 & 2) of $1.70 million (2021: $1.48 million).

At 31 March 2022 $433.64 million (2021: $344.97 million) of loans and advances to customers are expected to be realised more than twelve months after the reporting date. Detail on impaired financial assets and exposure to credit risk are further provided in notes 24 and 25 to the financial statements.

21] Investment securities – FVOCI

	2022 $'000	2021 $'000
Net marketable debt securities	54,753	39,311

At 31 March 2022, expected credit losses of $0.37 million (2021: $0.37 million) have been recognised on Investment securities – FVOCI.

The fair value movements of debt securities through other comprehensive income (FVOCI) are accumulated and recognised in reserves within other comprehensive income. At 31 March 2022, $11.22 million (2021: $28.32 million) of Investment securities - FVOCI are expected to be realised more than twelve months after the reporting date.

22] Investment securities – amortised cost

	2022	2021
	$'000	$'000
Debt securities	89,698	60,554
Less: Impairment provision*	(584)	(2,222)
Net book value of investment securities at amortised cost	89,114	58,332

* *Impairment provisions includes Stage 3 ECL allowance of $0.39 million (2021: $2.12 million) ECL provision (Stage 1 & 2) of $0.19 million (2021: $0.10 million).

Refer to note 23 for details of fair value of investment securities which are at amortised cost. At 31 March 2022, $74.25 million (2021: $41.39 million) of investment securities at amortised cost are expected to be realised more than twelve months after the reporting date.

23] Financial instruments

Classification of Financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies in Note 3 describe how the classes of financial instruments are measured. The tables below show the financial assets and liabilities in the statement of financial position by category of financial instrument to which they are assigned and by the measurement basis under IFRS 9. Any asset or liability outside the scope of IFRS 9 are shown within non-financial assets.

As at 31 March 2022	FVOCI assets / liabilities	FVTPL assets/ liabilities	Amortised cost	Total
	$'000	$'000	$'000	$'000
Assets				
Cash and balances with central banks	-	-	149,798	149,798
Loans and advances to banks	-	-	700	700
Loans and advances to customers	-	-	791,237	791,237
Investment securities	54,753	10,001	89,114	153,868
Derivative financial instruments	-	1,064	-	1,064
Total financial assets	54,753	11,065	1,030,849	1,096,667
Total non-financial assets				29,592
Total assets				1,126,259
Liabilities				
Deposits from banks	-	-	1,106	1,106
Deposits from customers	-	-	858,073	858,073
Derivative financial instruments	-	295	-	295
Subordinated bonds and other borrowed funds	-	-	50,000	50,000
Total financial liabilities	-	295	909,179	909,474
Total non-financial liabilities				8,519
Total liabilities				917,993
Equity				208,266
Total liabilities and equity				1,126,259

As at 31 March 2021	FVOCI assets / liabilities $'000	FVTPL assets/ liabilities $'000	Amortised cost $'000	Total $'000
Assets				
Cash and balances with central banks	-	-	221,320	221,320
Loans and advances to banks	-	-	30,478	30,478
Loans and advances to customers	-	-	690,599	690,599
Investment securities	39,311	10,071	58,332	107,714
Derivative financial instruments	-	1,871	-	1,871
Total financial assets	39,311	11,941	1,000,639	1,051,982
Total non-financial assets				30,765
Total assets				1,082,747
Liabilities				
Deposits from banks	-	-	865	865
Deposits from customers	-	-	819,493	819,493
Derivative financial instruments	-	25	-	25
Subordinated bonds and other borrowed funds	-	-	50,000	50,000
Total financial liabilities	-	25	870,358	870,383
Total non-financial liabilities				8,276
Total liabilities				878,659
Equity				204,088
Total liabilities and equity				1,082,747

Valuation of Financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the observability of significant market inputs. The fair value hierarchy has the following levels:

- Level 1 – Valuations based on quoted prices available in active markets for the same instrument. All investment securities are included in level 1.
- 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). All derivatives are included in level 2.
- 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 banks and customers, deposits from banks and customers.
- No transfers between Level 1, Level 2 and Level 3 have been made during the year.

The table below analyses financial assets and liabilities by the level in the fair value hierarchy into which the fair value measurement is categorised.

2022

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
		$'000	**$'000**	**$'000**	**$'000**
Investment securities – FVTPL	17	**10,001**	**-**	**-**	**10,001**
Investment securities – FVOCI	21	**54,753**	**-**	**-**	**54,753**
Derivative financial instruments	18	**-**	**1,064**	**-**	**1,064**
Loans and advances to banks	19	**-**	**-**	**700**	**700**
Loans and advances to customers	20	**-**	**-**	**791,237**	**791,237**
Investment securities – amortised cost	22	**86,937**	**-**	**-**	**86,937**
		151,691	**1,064**	**791,937**	**944,692**

Financial Liabilities	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
		$'000	**$'000**	**$'000**	**$'000**
Derivative financial instruments	18	**-**	**295**	**-**	**295**
Deposits from banks	31	**-**	**-**	**1,106**	**1,106**
Deposits from customers	32	**-**	**-**	**858,073**	**858,073**
		-	**295**	**859,179**	**859,474**

2021

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
		$'000	**$'000**	**$'000**	**$'000**
Investment securities – FVTPL	17	**10,071**	**-**	**-**	**10,071**
Investment securities – FVOCI	21	**39,311**	**-**	**-**	**39,311**
Derivative financial instruments	18	**-**	**1,871**	**-**	**1,871**
Loans and advances to banks	19	**-**	**-**	**30,478**	**30,478**
Loans and advances to customers	20	**-**	**-**	**690,599**	**690,599**
Investment securities - amortised cost	22	**60,195**	**-**	**-**	**60,195**
		109,577	**1,871**	**721,077**	**832.525**

Financial Liabilities:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
		$'000	**$'000**	**$'000**	**$'000**
Derivative financial instruments	18	**-**	**25**	**-**	**25**
Deposits from banks	31	**-**	**-**	**865**	**865**
Deposits from customers	32	**-**	**-**	**819,493**	**819,493**
		-	**25**	**820,358**	**820,383**

'Investment securities other than US/UK Treasury bills', 'Deposits from banks' and 'Loans and advances to banks' were previously classified as Level 2. On closer reflection, 'Investment securities other than US/UK Treasury bills' should be classified as Level 1 as valuations are based on quoted prices available in the open market. Further, 'Deposits from banks' and 'Loans and advances to banks' should be classified as Level 3. These reclassifications have been made in the tables above for both the current and previous year.

Financial instruments carried at fair value in the financial statements are investment securities - FVTPL (note 17), investment securities – FVOCI (note 21) and Derivatives (note 18).

Financial instruments carried at amortised cost in the financial statements are loans and advances to banks (note 19), loans and advances to customers (note 20), investment securities – amortised cost (note 22), deposits from banks (note 31) and deposits from customers (note 32).

The basis of measurements of fair value which approximates to carrying value is 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.
- One subordinated bond (Face value of $12.50 million maturing on 31 January 2032) is carried at a rate of 6-month Secured Overnight Financing Rate ('SOFR'). The remaining subordinated bonds 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 bonds 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 fixed 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 the interest rate reset between one to six 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 net of provision which is the best estimate of fair value for such loans.

24] Allowance for Expected Credit Losses ('ECL')

The allowance for credit losses represents the Bank's estimate of the expected credit loss on receivables at the date of the statement of financial position. The adequacy of the allowance for credit losses is assessed monthly and the assumptions and models used in establishing the allowance are evaluated regularly.

Factors affecting loan loss provision

The loan loss provision recognised in the period is impacted by a variety of factors:

- Transfers between stage 1 and stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period and the consequent 'step up' (or 'step down') between 12 months or lifetime ECL.
- Additional allowances for new financial instruments recognised during the period.
- Impact on the measurement of ECL due to changes made to models and assumptions.
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis.
- Financial assets de-recognised during the period and write-offs of allowances related to assets that were written off during the period.

Impact of COVID-19 on ECL

At the beginning of the pandemic, PNBIL had undertaken a detailed impact analysis on the impact of the COVID-19 pandemic on expected credit losses. The Bank had stressed the ECL model under four different stress scenarios differing based on longevity of the downturn and expected recovery time due to the pandemic. The different scenarios used previously had a time range between 6 and 48 months.

During the course of the current financial year, the Bank has a clearer view of the effect of the pandemic on its portfolio. Out of the scenarios assumed initially, the Bank now considers only two scenarios to be relevant i.e. medium term and longer-term recovery in line with scenarios specified by Office for Budget Responsibility. The details of the revised scenario assumptions, scope of study, methodology adopted have been approved by the PNBIL Board.

Revised Macroeconomic factors such as UK GDP changes, India growth rate, UK unemployment rate, Bank of England base rate were stressed across the two scenarios. In addition to macroeconomic factors, probability of default, loss given default, forced sale haircuts and external rating downgrades were stressed under each scenario.

The ECL impact has been calculated using the weighted average approach considering the possibility of the two scenarios. The Bank is expecting quicker recovery since most restrictions have now been lifted. Based on the impact analysis, the Bank is taking a small credit of $0.03 million leading to an overlay of $1.06 million as of 31 March 2022 (2021: $1.09 million).

Quantitative disclosures

The following table explain the changes in the loan loss provision between the beginning and the end of the period:

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loss allowance as at 1 April 2021	1,924	188	238,478	240,590
New receivables originated or purchased	74	-	-	74
Transfers between stages	(1)	1	-	-
Decrease in allowance for existing portfolio	(501)	(42)	(9,963)	(10,506)
Increase in allowance for existing portfolio	107	-	9,699	9,806
Write-offs*	-	-	(44,185)	(44,185)
Receivables matured during the period	(141)	-	-	(141)
Other movements**	374	-	(410)	(36)
Loss allowance as at 31 March 2022	1,836	147	193,619	195,602

	Stage 1	Stage 2	Stage 3	Total
	$'000	$'000	$'000	$'000
Loss allowance as at 1 April 2020	2,495	580	240,701	243,776
New receivables originated or purchased	702	-	8,000	8,702
Transfers between stages	2	(2)	-	-
Decrease in allowance for existing portfolio	(1,163)	(363)	(1,624)	(3,150)
Increase in allowance for existing portfolio	153	-	9,870	10,023
Write-offs*	-	-	(18,829)	(18,829)
Receivables matured during the period	(460)	-	-	(460)
Other movements**	195	(27)	360	528
Loss allowance as at 31 March 2021	1,924	188	238,478	240,590

* Written-off assets still subject to enforcement activity amounted to $36.08 million (2021: Nil).
** Other movements relate to the impact on the Bank's expected credit losses due to COVID-19.

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

	2022	2021
	$'000	$'000
Impairment charge on loans and advances	4,459	13,726
Impairment charge/(repayments) on investments	(30)	(4)
Total impairment charge	4,429	13,722

The following table provides a breakdown of loans & advances at amortised cost by product:

As at 31 March 2022		Real Estate	Deposit backed loans	Loans to Banks	Investment securities	Other Loans	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Gross Exposure							
Stage 1		518,550	54,504	-	89,311	64,440	726,805
Stage 2	Not past due	5,788	-	-	-	21,701	27,489
	> 30 ≤ 90 days	13,088	-	-	-	-	13,088
Stage 3		688	-	8,701	387	299,101	308,877
Impairment Allowance							
Stage 1		730	70	-	197	750	1,747
Stage 2	Not past due	7	-	-	-	123	130
	> 30 ≤ 90 days	17	-	-	-	-	17
Stage 3		688	-	8,001	387	184,264	193,340
Net Exposure							
Stage 1		517,820	54,434	-	89,114	63,690	725,058
Stage 2	Not past due	5,781	-	-	-	21,578	27,359
	> 30 ≤ 90 days	13,071	-	-	-	-	13,071
Stage 3		-	-	700	-	114,837	115,537

As at 31 March 2021		Real Estate $'000	Deposit backed loans $'000	Loans to Banks $'000	Invest-ment securities $'000	Other Loans $'000	Total $'000
Gross Exposure							
Stage 1		381,559	59,891	29,991	58,427	70,589	600,457
Stage 2	Not past due	16,265	-	-	-	22,288	38,553
	> 30 ≤ 90 days	6,603	-	-	-	381	6,984
Stage 3		1,424	-	8,746	2,127	361,336	373,633
Impairment Allowance							
Stage 1		172	-	611	131	883	1,797
Stage 2	Not past due	-	-	-	-	188	188
	> 30 ≤ 90 days	-	-	-	-	-	-
Stage 3		695	-	8,000	2,127	227,377	238,199
Net Exposure							
Stage 1		381,387	59,891	29,380	58,296	69,706	598,660
Stage 2	Not past due	16,265	-	-	-	22,100	38,365
	> 30 ≤ 90 days	6,603	-	-	-	381	6,984
Stage 3		729	-	746	-	133,959	135,434

The following table provides a breakdown of investment securities at fair value through other comprehensive income (FVOCI) by product:

		2022		2021	
		Investment securities $'000	Total $'000	Investment securities $'000	Total $'000
Gross Exposure					
Stage 1		55,515	55,515	38,269	38,269
Stage 2	Not past due	-	-	-	-
	> 30 ≤ 90 days	-	-	-	-
Stage 3		409	409	409	409
Impairment Allowance					
Stage 1		88	88	128	128
Stage 2	Not past due	-	-	-	-
	> 30 ≤ 90 days	-	-	-	-
Stage 3		278	278	278	278
Net Exposure					
Stage 1		55,427	55,427	38,141	38,141
Stage 2	Not past due	-	-	-	-
	> 30 ≤ 90 days	-	-	-	-
Stage 3		131	131	131	131

25] 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 2022, 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 including impairment allowances. 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 Bank's retail and corporate customers.

	2022 $'000	2021 $'000
On balance sheet exposure		
Bilateral and syndicated loans and advances to customers	791,237	690,599
Loans and advances to customers under SBLC by banks	700	15,725
Interbank placements and cash balances with banks	149,798	221,328
Bills purchased under LC/Guarantee of banks	-	14,745
Securities at amortised cost – banks	36,701	21,116
Securities at amortised cost – non-banks	52,413	37,216
Investment securities – FVOCI - banks	20,434	20,985
Investment securities – FVOCI - non-banks	34,319	17,322
Investment securities – FVTPL – non- banks	10,001	10,134
Derivative financial instruments	1,064	1,871
Total – A	1,096,667	1,051,041
Off balance sheet exposure		
Non-bank commitments (LCs/LGs)	1,389	1,452
Total – B	1,389	1,452
Undrawn Credit Facilities – non-banks	52,285	75,156
Total – C	52,285	75,156
Total Exposure subject to Credit Risk (A+B+C)	1,150,341	1,127,649

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

	2022 $'000	2021 $'000
Exposure on banks	208,697	295,770
Non-bank exposure*	941,644	831,879
Total	1,150,341	1,127,649

*Includes loan and advances exposure (both on and off-balance sheet exposure, including commitments and undrawn credit facilities) of $844.91 million (2021: $767.21 million) and $96.73 million (2021: $64.67 million) of investment securities exposure.

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.

A. Exposure on banks: Both for direct exposure to banks (Placements and bank balances) and for exposure on banks due to Letter of Credit/Guarantee/Letter of Comfort issued by the banks, there are no separate collateral securities.
B. Non-bank exposure is collaterally secured as below as at 31 March 2022:

Amount in $ '000	Retail exposure		Non-retail exposure		Total	
	Exposure	Amount Collateral-ised	Exposure	Amount Collater-alised	Exposure	Amount Collateral-ised
Internally rated AAA to A*	149,842	149,842	178,950	178,950	328,792	328,792
Internally rated BB to B*	38,818	38,818	233,465	220,460	272,283	259,278
Internally rated C&D	-	-	-	-	-	-
Others Exempted Category	22,099	21,836	65,681	65,673	87,780	87,509
Stage 1	**210,759**	**210,496**	**478,096**	**465,083**	**688,855**	**675,579**
Stage 2 > 30 ≤ 90 days	-	-	13,088	13,088	13,088	13,088
Stage 2 - Not past due	565	565	27,849	27,849	28,414	28,414
Stage 2	**565**	**565**	**40,937**	**40,937**	**41,502**	**41,502**
Stage 3	**1,614**	**906**	**298,876**	**96,446**	**300,490**	**97,352**
Total	**212,938**	**211,967**	**817,909**	**602,466**	**1,030,847**	**814,433**

Comparative data for 31 March 2021 is as below:

Amount in $ '000	Retail exposure		Non-retail exposure		Total	
	Exposure	Amount Collateral-ised	Exposure	Amount Collateral-ised	Exposure	Amount Collater-alised
Internally rated AAA to A*	70,032	66,154	89,817	78,559	159,849	144,713
Internally rated BB to B*	49,143	49,057	299,680	285,319	348,823	334,376
Internally rated C&D*	14	14	-	-	14	14
Others Exempted Category	23,001	20,784	54,289	54,131	77,290	74,915
Stage 1	**142,190**	**136,009**	**443,786**	**418,009**	**585,976**	**554,018**
Stage 2> 30 ≤ 90 days	-	-	7,034	6,481	7,034	6,481
Stage 2 - Not past due	689	689	40,482	40,482	41,171	41,171
Stage 2	**689**	**689**	**47,516**	**46,963**	**48,205**	**47,652**
Stage 3	**2,021**	**1,261**	**360,560**	**146,051**	**362,581**	**147,312**
Total	**144,900**	**137,959**	**851,862**	**611,023**	**996,762**	**748,982**

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

More details on staging classification as per IFRS 9 can be found in note 24 to the financial statements.

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 investment securities at amortised cost, 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 nor 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. On a case-by-case basis, the guarantees could be relevant as an important risk mitigation measure. The percentage of collateral held in non-bank exposure is as below:

Percentage of value of collateral to exposure	Exposure	
	2022	2021
	$'000	$'000
100% and above*	765,103	730,644
76% to 99%	30,635	19,157
51% to 75%	855	3,546
26% to 50%	10,361	29,242
11% to 25%	28,017	5,751
Below 10%	10,836	11,851
Unsecured	185,040	196,571
Total	1,030,847	996,762
Average percentage of availability of collateral*	95.9%	93.6%

*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, is classified as a commercially re-negotiated loan.

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

	2022	2021
	$'000	$'000
Impaired loans and advances at 1 April	308,068	311,754
Net repayments in existing impaired loans and advances	4,060	(5,982)
Written off loans and advances	(50,489)	(9,485)
Classified as impaired during the year	-	8000
Other movements/exchange rate fluctuations	(2,153)	3,781
Impaired loans and advances at 31 March	259,486	308,068

The table below sets out a reconciliation of changes in the gross amount of impaired investment securities:

	2022	2021
	$'000	$'000
Impaired investments at 1 April	2,405	2,409
Net repayments in existing impaired investments	(30)	(4)
Written off investment securities	(1,710)	-
Impaired investments at 31 March	665	2,405

Details of impairment provision for loans and advances and investment securities are given in note 24.

Internal ratings/scoring

The Bank has developed internal rating models in co-ordination with the risk management division of the parent bank. All non-bank credit counterparties (except those secured by deposits with the Bank/Parent bank, 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 provide a right of set-off following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events.

26] Geographical distribution of credit exposures

An analysis of the Bank's credit exposures (including investment securities, loans and advances to customers and balances and deposits with banks) is as below:

Geography	2022		2021	
	$'000	$'000	$'000	$'000
	Amount	Percentage	Amount	Percentage
United Kingdom	748,743	68.34%	701,389	66.79%
India	175,766	16.04%	182,012	17.33%
United States	54,384	4.96%	33,126	3.15%
Luxembourg	39,636	3.62%	40,345	3.84%
Mauritius	33,326	3.04%	32,892	3.13%
Other countries	43,749	4.00%	60,348	5.76%
Total	1,095,604	100.00%	1,050,112	100.00%

27] Property, plant and equipment

	2022			2021		
	Property and plant	Equipment	Total	Property and plant	Equipment	Total
Cost	$'000	$'000	$'000	$'000	$'000	$'000
At 1 April	2,382	4,965	7,347	2,382	4,710	7,092
Additions	-	111	111	-	255	255
Disposals	-	-	-	-	-	-
At 31 March	2,382	5,076	7,458	2,382	4,965	7,347
Depreciation						
At 1 April	(2,382)	(4,472)	(6,854)	(2,382)	(4,250)	(6,632)
Yearly charge	-	(213)	(213)	-	(222)	(222)
Disposals	-	-	-	-	-	-
At 31 March	(2,382)	(4,685)	(7,067)	(2,382)	(4,472)	(6,854)
Net Book Value						
At 1 April	-	493	493	-	460	460
At 31 March	-	391	391	-	493	493

28] Intangible assets

Software	2022	2021
Cost	**$'000**	**$'000**
At 1 April	3,875	3,117
Additions	37	758
At 31 March	3,912	3,875
Amortisation		
At 1 April	(2,913)	(2,578)
Yearly charge	(410)	(335)
At 31 March	(3,323)	(2,913)
Carrying Value		
At 1 April	962	539
At 31 March	589	962

29] Deferred tax assets

Deferred Tax Assets	2022	2021
	$'000	$'000
At 1 April	24,657	25,023
Tax credit/(charge) to profit and loss for the year	51	(68)
Tax credit/(charge) relating to change in fair value of Investment securities - FVOCI	447	(298)
At 31 March	25,155	24,657

A DTA is assessed and recognised as recoverable on the basis of available evidence including projected profits and capital. The utilisation of a DTA is dependent on future taxable profits. The management makes an assessment of a DTA which is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. DTA is reviewed at each reporting date and adjusted to the extent that it is no longer probable that the related tax benefit will be realised. Accordingly, a DTA of $13.39 million (2021: $5.33 million) in respect of tax losses of $53.51 million (2021: $28.06 million) has not been recognised this year. The deferred tax on losses has been recognised on the basis that there is a 50% loss offset restriction effective from 1 April 2017. This restriction therefore extends the time period over which losses could be recovered.

DTA increased by $0.49 million primarily due to deferred tax treatment on unrealised gains on investment securities – FVOCI during the year. The Bank has an unrecognised deferred tax balance as at 31 March 2022 of $13.39 million (2021: $5.33 million). This unrecognised balance arose primarily due to the increase in the UK Corporation tax rate. This increase in the unrecognised deferred tax balance has been partially offset by the utilisation of current year's profit. The Bank has no other deductible temporary differences and unused tax credits which are not recognised as part of the DTA in the balance sheet.

Finance Act 2021 increased the main rate of UK Corporation Tax from 19% to 25%, effective from April 2023.

30] Prepayments and other receivables

	2022 $'000	2021 $'000
Prepayments	380	575
Other receivables	4	12
Total prepayments and other receivables	384	587

31] Deposits from banks

	2022 $'000	2021 $'000
Inter bank borrowings	312	199
Current accounts from banks	605	663
Overdrafts in Nostro accounts with banks	189	3
Total deposits from banks	1,106	865

Deposits from banks includes deposits from related parties, detail of which is given in note 40 to the financial statements. At 31 March 2022 Nil (2021: Nil) deposits from banks are expected to be settled more than twelve months after the reporting date.

32] Deposits from customers

	2022 $'000	2021 $'000
Current accounts	131,983	114,352
Savings accounts	115,389	110,967
Fixed term deposits	610,701	594,174
Total deposits from customers	858,073	819,493

Deposits from customers includes deposits from a related party, detail of which is given in note 40 to the financial statements. At 31 March 2022 $148.75 million (2021: $117.87 million) of deposits from customers are expected to be settled more than twelve months after the reporting date.

33] Subordinated bonds and other borrowed funds

	2022 $'000	2021 $'000
Subordinated bonds	50,000	50,000

More information in relation to Subordinated bonds is shown in the table below:

	Tier II Capital Bonds	**Tier II Capital Bonds**	**Tier II Capital Bonds**	**Tier II Capital Bonds**	**Tier II Capital Bonds**
Issuer	Punjab National Bank (International) Ltd.	Punjab National Bank (International) Ltd.	Punjab National Bank (International) Ltd.	Punjab National Bank (International) Ltd.	Punjab National Bank (International) Ltd.

Face value	US$ 12.5 million	US$ 12.5 million	US$ 10.0 million	US$ 5.0 million	US$ 10.0 million
Original date of issuance	31.01.2022	04.10.2012	30.12.2015	23.12.2013	19.08.2014
Original maturity date	10 Years	10 Years	10 Years	15 Years	10 Years
Coupon rate & related index	6M SOFR + 400 bps	6M LIBOR + 400 bps	6M LIBOR + 450 bps	6M LIBOR + 450 bps	6M LIBOR + 450 bps

At 31 March 2022 $37.50 million (2021: $37.50 million) of subordinated bonds are expected to be settled more than twelve months after the reporting date.

34] Other liabilities

	2022 $'000	2021 $'000
Bills payable	98	154
Other payables and accrued liabilities	2,087	1,564
Deferred income	3,129	2,377
Total other liabilities	5,314	4,095

35] Share capital

Authorised share capital

Authorised share capital for the Bank is $400 million.

	2022 No.	2022 $	2021 No.	2021 $
Issued and fully paid				
At start of year				
Ordinary shares of £1 each:	2	3	2	3
Ordinary shares of $1 each:	274,630,625	274,630,625	274,630,625	274,630,625
Issue of new ordinary shares of $1 each	-	-	-	-
At end of year	274,630,627	274,630,628	274,630,627	274,630,628
Additional Tier 1 Capital*				
At start of year		45,000,000		45,000,000
At end of year		45,000,000		45,000,000
Total Share Capital at end of the year	274,630,627	319,630,628*	274,630,627	319,630,628*

All ordinary shares issued are non-redeemable ordinary shares conferring on each member the right to one vote on a show of hands and one vote per share on a poll and with full, equal and unfettered rights to participate in dividends and capital distributions, whether on a winding up or otherwise.
*Included within the share capital are two additional Tier 1 bonds issued as perpetual floating rate subordinated notes mentioned below:

i. $25 million issued on 16 February 2017.
ii. $20 million 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. The entire share capital is raised from Parent bank which is a related party.

36] Fair value reserve

	Gross	Tax	Net
31 March 2022	**$'000**	**$'000**	**$'000**
Balance at 1 April 2021	84	(16)	68
Amount transferred to statement of profit or loss	258	(49)	209
Movement in FVOCI reserve in year	(2,066)	496	(1,570)
Balance at 31 March 2022	(1,724)	431	(1,293)

	Gross	Tax	Net
31 March 2021	**$'000**	**$'000**	**$'000**
Balance at 1 April 2020	(1,538)	282	(1,256)
Amount transferred to statement of profit or loss	88	(17)	71
Movement in FVOCI reserve in year	1,534	(281)	1,253
Balance at 31 March 2021	84	(16)	68

37] Right of use assets and lease liabilities

Information about leases where the bank is a lessee is shown below:

Right of use assets	2022	2021
	$'000	**$'000**
Balance at 1 April 2021	4,066	4,383
Addition of right of use assets during the year	-	47
Depreciation charge during the year	(845)	(815)
Exchange rate differences	(148)	451
Balance at 31 March 2022	3,073	4,066

Lease liabilities

The total cash outflow of lease liabilities was $0.94 million (2021: $0.90 million). The amounts contractually due on lease liabilities is shown below:

Maturity Analysis – contractual cash flows	2022	2021
	$'000	**$'000**
Within 1 year	411	946
Between 1 and 5 years	1,337	1,548
Later than 5 years	2,161	2,539
Less: Present value discount	(704)	(852)
Total lease liabilities at 31 March 2022	3,205	4,181
Amounts recognized in income statement		
Interest on lease liabilities	116	135

38] Other commitments and contingencies

Commitments in respect of financial instruments were as follows:

	2022 $'000	2021 $'000
Guarantees issued to third parties	1,389	1,452

There were undrawn loans of $26.85 million (2021: $43.61 million) and un-availed portions of sanctioned overdraft limits to the extent of $25.43 million (2021: $31.55 million) as at 31 March 2022.

39] Parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Punjab National Bank (PNB or Parent bank), a public-sector bank incorporated in India. The consolidated financial statements of PNB are publicly available at Plot No 4, Sector 10, Dwarka, New Delhi 110075, India.

40] Related party transactions

The Bank regards PNB (including all its branches in India and abroad) and its subsidiaries as related parties in view of its 100% shareholding. PNBIL financials forms part of the group financial statements of parent, PNB. The entire ordinary share capital and 70% of Tier II capital of the Company is held by PNB, being the parent company of the PNB Group of companies. No other group company holds any shares in PNBIL.

The CEO and Managing Director of the Parent bank is also the Chairman of PNBIL. The Bank also has the benefit of another Non-Executive Director from the Parent bank. The Bank does not pay any remuneration to these Directors.

Liabilities and assets outstanding to the related parties on the balance sheet of the Bank as on 31 March 2022 are as below:

	2022 $’000	2021 $’000
Liabilities		
Current accounts with PNB	525	516
Current account with PNB Dubai Branch	1	2
Current account with Druk PNB Bank Ltd.	79	144
Current account with one director	6	8
Assets		
Nostro account balance with PNB	779	886
Nostro account balance with Everest Bank Ltd.	15	16

Excluded from the above are equity and subordinated bonds, which are given in note 44 to the financial statements. All non-capital transactions are carried out on an arm’s length basis. Detail of transactions of a revenue nature with PNB is shown below:

Nature	Particulars	2022 $'000	2021 $'000
Receipts:			
Interest Earned	Interest on Interbank Placements	-	72
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	206	224
B. Interest Paid on	Borrowings	-	140
C. Interest Paid on Capital Bonds	Additional Tier I Capital Bonds $45.00 million	2,367	2,587
	Tier II Capital Bonds $12.50 million	531	592
	Tier II Capital Bonds $12.50 million	543	592
	Tier II Capital Bonds $10.00 million	480	529

*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 an SLA.

Related party equity and subordinated bonds are outlined in note 35 and note 33 respectively to the financial statements.

Transactions with Directors

Remuneration details paid to directors (who the Bank considers as key management) are disclosed in note 14. Further, there is one director who holds a deposit account with the Bank. This is held under normal terms and conditions and no preferential treatment is given.

41] 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 total notional amount of outstanding currency exchange contracts to which the Bank is committed is $81.38 million (2021: $126.28 million).

The open position of the Bank is as below:

	2022		2021	
Currency	**Open Position '000**	**$ Equivalent $'000**	**Open Position '000**	**$ Equivalent $'000**
Indian Rupees	59,318	782	65,779	899
Pound Sterling	(13,570)	(10,311)	(7,795)	(10,727)
Euro	6,468	5,818	5,202	6,100
Nepalese Rupees	1,765	15	1,844	16
Total Long Position in US $		-		-
Total Short Position in US $		3,696		3,712

Upward or downward movement of exchange rates by 10% may impact profitability of the Bank by $0.37 million (2021: $0.37 million).

The value of Investment securities - FVTPL as at 31 March 2022 is $10.00 million (2021: $10.07 million). An upward or downward movement of prices of investment securities - FVTPL by 10% may impact profitability of the Bank by $1.00 million (2021: $1.00 million).

42] Interest rate risk in banking book ('IRRBB')

IRRBB more specifically refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the institution's banking book positions. The Bank monitors its interest rate mismatches on a regular basis through Economic value at risk (200 basis point parallel rate shock), gap monitoring and monitoring of prescribed limits. The Bank has a stipulated limit for open positions and the actual open position is measured and monitored regularly.

The potential loss on account of upward or downward movement of interest rates by 2% based on exposure as at 31 March 2022 $0.29 million (2021: $1.38 million).

Interest Rate benchmark Reform ('IBOR')

On IBOR reform, The Bank has set up a working group for the shift from LIBOR to alternative reference rates. All sterling based loans which form majority of the Bank's advances have been transitioned to an alternative reference rate.

The LIBOR transition plan for the Bank's subordinated bonds, additional Tier 1 capital and few USD LIBOR linked loans is underway. During the year, one of the Bank's subordinated bonds denominated in USD LIBOR was renewed using an alternative reference rate. The remaining capital bonds and loans denominated in USD LIBOR will be transitioned to an alternative reference rate before 30 June 2023. The plan for doing the same has been communicated to the regulator.

The below table shows the remaining financial assets that are yet to transition to alternative benchmark rates:

As at 31 March 2022	**USD LIBOR**
Financial assets	**$'000**
Loans and advances to customers	**24,841**
Financial liabilities	
Subordinated bonds	**37,500**
Equity	
Additional Tier 1 capital	**45,000**

43] Liquidity and funding risk

Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due. The Bank has a Board approved ILAAP in place, in line with the guidelines issued by the 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. Liquidity monitoring mechanism supplemented by regular liquidity stress testing gives sufficient advance signals for envisaging liquidity requirements. The 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 following table shows the undiscounted cash flows on the Bank's derivative and non-derivative financial assets and financial liabilities into relevant maturity buckets based on the remaining period:

	2022 $'000	2021 $'000
Non-derivative financial assets		
On Demand	203,563	279,579
Due within 3 months	116,149	179,681
Due between 3 to 12 months	202,731	110,944
Due between 1 to 5 years	465,108	408,924
Due after 5 years	357,300	388,180
Total	1,344,851	1,367,308
Non-derivative financial liabilities		
On Demand	247,977	225,982
Due within 3 months	138,143	123,230
Due between 3 to 12 months	336,073	365,009
Due between 1 to 5 years	170,940	153,565
Due after 5 years	19,955	7,606
Total	913,088	875,392
Derivative financial assets		
On Demand	-	-
Due within 3 months	761	1,190
Due between 3 to 12 months	329	789
Due between 1 to 5 years	-	-
Due after 5 years	-	-
Total	1,090	1,979
Derivative financial liabilities		
On Demand	-	-
Due within 3 months	-	19
Due between 3 to 12 months	270	-
Due between 1 to 5 years	-	-
Due after 5 years	-	-
Total	270	19

The Bank holds 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. The Bank also maintains no negative mismatch under wholesale fund flow for 90 days.

44] 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;
- 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:

Tier	Component	2022 $'000	2021 $'000
Core Tier I Capital	• Permanent share capital	**274,631**	**274,631**
	• Profit and loss account and other reserves	**(110,072)**	**(115,611)**
	• FVOCI reserve	**(1,293)**	**68**
	• IFRS 9 transitional adjustment	**1,047**	**1,465**
		164,313	**160,553**
Additional Tier I	• Additional Tier 1 capital	**45,000**	**45,000**
Adjustments	• Intangible Assets	**(589)**	**(961)**
	• Deferred tax assets	**(25,155)**	**(24,657)**
	• Due to prudential filters	**(665)**	**(507)**
Total Tier I Capital		**182,904**	**179,428**
Tier II Capital			
	• Long term dated subordinated bonds	**50,000**	**50,000**
		50,000	**50,000**
Deductions from Tier II	• Amortisation of dated Tier II capital, maturing within five years	**(18,942)**	**(22,850)**
Total Tier II Capital		**31,058**	**27,150**
Total Capital		**213,962**	**206,578**

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.

45] Events after the balance sheet date

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

46] Country-by-country reporting for the year ended 31 March 2022

Article 89 of the Capital Requirements Directive sets out a Country-by-Country Reporting ('CBCR') obligation on CRD 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 UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act, 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, the Bank 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 2022.

Country	Turnover	Profit before tax	Corporate income tax (paid/received)	Full time equivalent number of employees
	$'000	$'000	$'000	
United Kingdom	33,218	7,861	-	177

Balances disclosed above are rounded to the nearest $000's with respect to turnover, profit before tax and corporate income tax received. 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 is defined as 'net gains on financial instruments classified as FVTPL', 'net gains on investment securities - FVOCI', 'interest income' net of 'interest expense' and 'other income'. Profit before tax represents Accounting profits under UK-adopted IFRS accounting in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 by the Bank, including staff of back office and excluding contractors.

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Final Audit Report 2022-07-19

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