punjab national bank (International) Limited

Annual report and Financial Statements For the year ended 31 March 2019

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Company registration number 05781326

The Board of Directors

Position	Directors	Appointment Date	Resignation Date
Chairman	Shri Sunil Mehta	14.07.2017	
Managing Director	Antanu Das	11.01.2016	
Executive Director	Muddoor Sadananda Nayak	08.02.2008	31.05.2019
Non-Executive Director	Nehal Ahad	23.06.2016	19.04.2018
Independent Non-Executive Director	Nicholas Charles Coleman	24.03.2017	04.12.2018
Independent Non-Executive Director	Sundeep Bhandari	31.07.2018	
General Manager Non-Executive Director	Ashwini Vats	31.07.2018	
Independent Non-Executive Director	Adrian John Stirrup	30.04.2019	
Managing Director designate	Rajeeva Rajeeva	07.05.2019	
Executive Director	Vasudevan M	31.05.2019	

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

Registered office

1 Moorgate
London
EC2R 6JH
Tel : 020 77969600
Fax : 020 77961015

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

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 2019. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards as adopted by the European Union.

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 third largest bank in India having more than 100 million customers and a network of over 6900 branches.

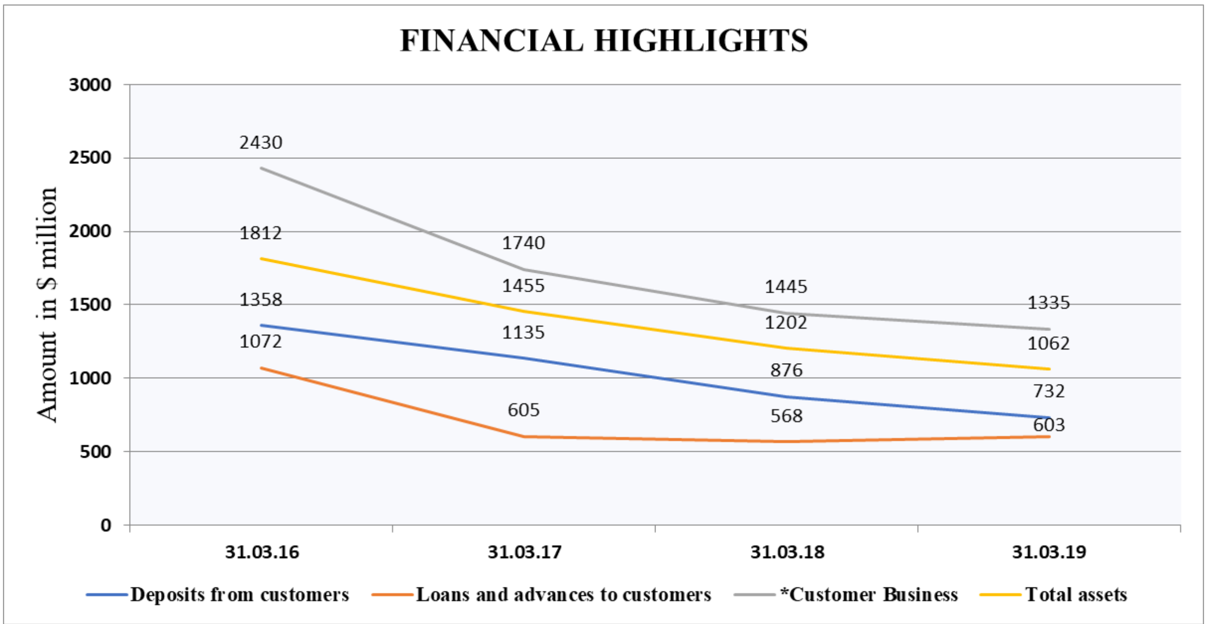
PNBIL's main business is to provide commercial, corporate and retail banking services to different segments of customers. This includes accepting deposits from both retail and corporate clients, lending to retail and corporate clients, making rupee and other remittances, treasury operations to support its funds management and to meet cross currency transactions of its customers. The Bank has also built a treasury portfolio on its own account, held mainly for liquidity management, including placement and borrowing of funds and investment in treasury and corporate securities. 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.

PNBIL started its operations with two branches in London, one in Southall and a second branch at Gresham Street (since moved to 1 Moorgate) in Central London. Five new branches have been opened since then, and consequently, the Bank is presently operating through seven branches in London and the Midlands. While the Central London branch caters mainly to corporate clients, all other branches focus on retail clients. PNBIL has a strong client base and built a brand image in the local UK market, due to delivering good customer services over the years and the strength drawn from its Parent bank's brand.

KEY FINANCIAL HIGHLIGHTS

This is the thirteenth year of operations for the Bank and it has total customer business of $1,335 million a decrease from $1,445 million as at 31 March 2018 due to the re-focus of the balance sheet to a UK centric business strategy.

Key performance highlights of the Bank are as below:

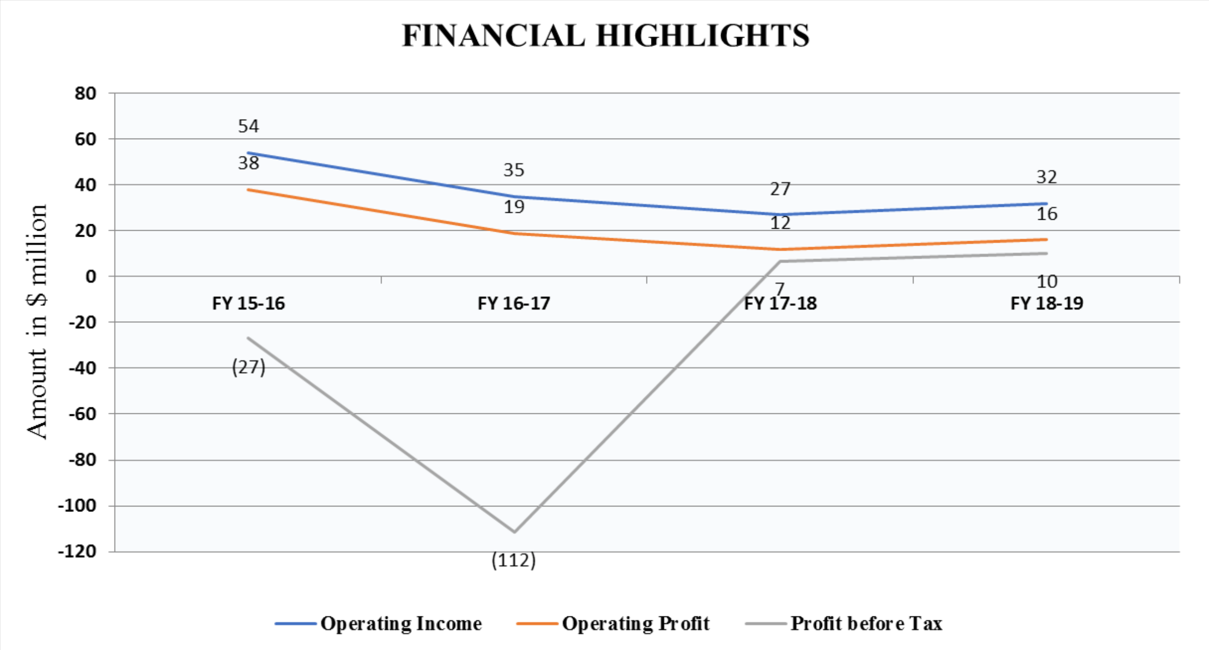


**Customer business is defined as customer advances plus customer deposits.*

The Bank's impaired loans and advances amounted to $339.11 million (2018: $318.47 million) and the total provision against impairment for loans as at 31 March 2019 is $259.82 million (2018: $267.88 million). The Expected Credit Loss (ECL) provision for Stage 1 & 2 loans stood at $4.18 million as at 31 March 2019 (Collective Impairment provision in 2018: $3.56 million).

As at 31 March 2019, PNBIL had total assets of $1,062 million (2018: $1,202 million). During the year, total net advances increased to $603 million (2018: $568 million) as the Bank continued its focus on the UK centric strategy.

KEY FINANCIAL HIGHLIGHTS (continued)



The profit before taxation for the year ended 31 March 2019 amounted to $9.95 million (2018: profit of $6.62 million). Operating profit for the year ended 31 March 2019 amounted to $16.43 million (2018: $11.93 million), a year on year increase of 38%. The increase in operating profit is primarily due to an increase in interest income due to adoption of IFRS 9, a reduction in interest expense, combined with increase in treasury income resulting from favourable market movements.

As at 31 March 2019, the geographical concentration of the Bank's loans and advances to various counterparties is mainly UK at 45.16% (2018: 34.62%) and India at 22.99 % (2018: 37.54%). These geographic concentrations will change over time as the Bank pursues its UK centric strategy. The UK growth in 2019 was business originated through the branch network primarily in the area of Real Estate financing (67% of total originations).

The main sectoral concentration within the Bank's loans and receivables portfolio at 31 March 2019 was UK real estate lending (32.10%), loans against Stand by letter of Credits and Letter of Credits issued by banks (2.80%), and loans against own deposits/deposits held with the Parent bank (7.43%). 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 new business strategy within the revised risk appetite by marketing the Bank's UK real estate capabilities in a controlled and modest manner. In 2020 the Bank will continue to expand its marketing approach using various communication channels to expand its customer reach and to diversify the portfolio. Certain products included in the strategy have not been marketed in 2019 given reduced market opportunity. These products

KEY FINANCIAL HIGHLIGHTS (continued)

will be re-assessed as part of the normal strategic review process by the Board, whilst still continuing to mainly focus on low risk UK centric business and moderate business associated with Indian financial institutions.

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 and risk management.

The focus on delivering recoveries from the impaired book has been strengthened by a dedicated credit recovery department, which has been supplemented by senior officials from the Parent bank, given that the majority of impairment assets are associated with exposure to India.

GOING CONCERN BASIS

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 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 economic environment provides sufficient opportunities for business development and growth and the 2016 Brexit decision has been assessed as having a very low impact on the Bank's business model or on its customers. However, the Bank remains vigilant to changes in the external environment. A summary of the assessment of UK's withdrawal from the European Union is mentioned below.

The Bank has continued to receive support from the Parent bank.

The Bank's strategic plan, which was approved by the Board is being implemented at a modest pace and has shown to be capable of producing the viability and sustainability expected from the Board.

Assessments of the Bank's strategy, liquidity, capital adequacy and risk management framework are performed on a regular basis. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

PROCESS OF UK WITHDRAWAL FROM THE EUROPEAN UNION

The Bank has done a detailed assessment about the process of UK's withdrawal from the European Union ('EU') and its possible impact on its businesses.

- As of 31 March 2019, the Bank does not have branch or representative office in EU countries and the level and scale of activities in the EEA is very small.
- As of 31 March 2019, the Bank's loan book predominantly comprised of exposures to UK and India with EU exposures of less than 10% of the total loan book.
- As of 31 March 2019, EU deposit accounts accounted for less than 10% of the total deposits and the Bank does not envisage these deposits moving away due to UK's withdrawal from the EU.

Going forward, as per the PNBIL Board approved strategy until 2021, the Bank will pursue further business in UK and Indian based clients with business interests in the UK and therefore the Bank does not envisage using the passporting arrangements in the near future. As part of this strategy, the primary focus in the UK is to expand its business in the UK Buy to Let market. Therefore, any negative impact on the UK economy due to UK's withdrawal from the EU is likely to lead to a reduction in property valuations supporting the Bank's real estate portfolio. However, this has been considered in the stress testing scenarios and the Bank has concluded that the downside risk is manageable.

As per stress testing conducted by the Bank as part of the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP'), both the capital and liquidity requirements are expected to be sufficiently met under different Brexit scenarios.

From an operations perspective, the Bank has three major vendors which are based in the EU. The Bank has had detailed discussions with each of these vendors and has concluded that there will be minimal impact on the Bank's operations.

The Bank has a small number of employees who have EU citizenship and any disruption due to the UK's disorderly withdrawal from the European Union will have a minimal impact on the Bank's operations.

PRINCIPAL RISKS AND UNCERTAINTIES

Key risks for the Bank are credit risk on the loan portfolio, interest rate risk in the banking book, market risk, liquidity risk and operational risk including cyber risk. These risks as well as the mitigation techniques followed by the Bank are discussed in note 42 of the financial statements.

Recovery in stressed and impaired accounts continues to be the major focus of the Bank. Since the Bank

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

has considerable exposure to India, the successful execution of recent initiatives taken by the Indian Government such as the Insolvency and Bankruptcy Code, faster decision making through the National Company Law tribunal ('NCLT') are expected 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 risks on an ongoing basis.

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

Together, the operation of a three lines of defence model, the structure and composition of the Board and the functioning of Board Audit and Compliance Committee and Board Risk Committee have been designed with effective corporate governance in mind. It is further detailed in note 42 to the financial statements. 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 Company. The Bank's Executive Committee, Asset and Liability Committee and other Operating Committees assist in assessing market trends, economic and political developments and provides a forum for in-depth review and analysis of the risks to which the Company is subject.

The Bank's strategies and policies regarding financial risk management, including the use of financial instruments, managing market risk, and an indication of the exposure to financial risk is provided in note 42 to the financial statements. This note also includes the Bank's processes for managing its capital, its financial risk management strategy and details of its financial instruments.

MARKET CONDITIONS AND OUTLOOK

As per the International Monetary Fund's ('IMF') Economic outlook, the global expansion has weakened, particularly in Europe and Asia. Growth rates in the short term have been revised downward, partly because of the negative effects of tariff increases enacted in the United States and China earlier in the year. Furthermore, concerns around the uncertainty around Brexit as well as the sovereign and financial risks in Italy have not only weighed on European domestic demand but also weakened financial market sentiment.

MARKET CONDITIONS AND OUTLOOK (continued)

Global trade growth has slowed to well below 2017 averages. Outside the United States, industrial production has decelerated, particularly of capital goods. Major central banks also appear to be adopting a more cautious approach. While the US Federal Reserve raised the target range for the federal funds rate to 2.25–2.50% in December 2018, it signalled a more gradual pace of rate hikes in 2019 and 2020. In line with earlier communication, the European Central Bank ended its net asset purchases in December 2018.

Global growth is projected to decline to 3.5 percent in 2019 before picking up slightly to 3.6 percent in 2020. This growth pattern reflects a higher than anticipated decline in the growth rate of advanced economies, together with a temporary decline in the growth rate for emerging market and developing economies in 2019.

As per the IMF's outlook, economic growth in the UK has slowed and is expected to grow by 1.5% in 2019-2020 reflecting the positive impact from the fiscal stimulus announced in the 2019 budget being partially offset by the negative effect of prolonged uncertainty around Brexit.

As per the IMF's outlook, for the emerging market and developing economies, growth is expected to reduce to 4.5% in 2019 before improving to 4.9 percent in 2020. India's economy is poised to pick up in 2019, benefiting from a slower pace of monetary tightening than previously expected, as inflation pressures ease.

REGULATORY FACTORS

The EU General Data Protection Regulation ('GDPR') came into effect in May 2018. The GDPR aims primarily to give individuals control over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU. The EU GDPR replaces the current EU Data Protection Directive and is designed to harmonize data privacy laws across Europe, to protect and empower all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy. The Bank has developed and implemented processes to ensure compliance with the new GDPR.

The Second Payment Services Directive ('PSD2') is a European payments-related legislation which came into effect on 13th January 2018. In UK, the 'Payment Services Regulations 2017' implemented the EU directive in to national law effective from that same date. It aims to increase competition in the payments industry, introduce new types of payment services and improve customer protection and security. PNBIL has implemented changes in payments processing, reporting and complaints handling in accordance with PSD2 regulation.

PSD2 also requires all Account Servicing Payment Service Providers ('ASPSP') to make a dedicated interface available for Third Party Providers ('TPP') registered with the regulator to access accounts to

REGULATORY FACTORS (continued)

provide services like Account Information and Payment Initiation. These dedicated interfaces are to be built as per the regulatory technical standards ('RTS') published by the European Banking Authority ('EBA').

PNBIL is an ASPSP and we have partnered with Token.io, a leading provider of open banking technology, to make our PSD2 dedicated interface available to TPP's. As a part of this partnership PNBIL (UK) published our developer portal with effect from 12th March 2019. The dedicated interface development is progressing and is on track to be launched before the regulatory deadline of 14th September 2019.

PNBIL continues to monitor and prepare for a number of regulatory capital developments taking effect over the next few years. In the financial year 2018/2019, the Financial Policy Committee ('FPC') announced the restoration of the countercyclical buffer ('CCyB') to 0.5% with effect from June 2018. With effect from November 2018, the FPC increased the CCyB from 0.5% to 1% and this has been incorporated in the capital calculations. PNBIL is monitoring the updates on a regular basis and factoring these changes into its capital planning processes.

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9:

PNBIL adopted the requirements of IFRS 9 'Financial Instruments' on 1 April 2018. The impact of transitioning to IFRS 9 on 1 April 2018 on the consolidated financial statements of PNBIL was an increase in the impairment allowance by $3 million. This transition impact is disclosed in Note 2 of the Financial Statements.

Additional disclosures under IFRS 9 have been made in Note 25 of the Financial Statements and are intended to provide users with a detailed understanding of the impact of the new standard.

IMPACT OF MARKET FACTORS ON BANK

The rising interest rate differential between the US and the UK will add pressure on the cost of USD funds in the FX funding swaps undertaken by the Bank. Some of the additional cost will be compensated for by the expected increase in LIBOR costs which will be charged to customers.

In light of global economic and financial developments and muted inflation pressures, the Federal Reserve Bank of the USA has decided to adopt to a wait-and-see stance, in contrast to the year before where it had been increasing interest rates at regular intervals. The Bank is expecting that benchmark US 10-year treasury yields will not increase beyond 3% as once they touch 3%, money will shift from the equity to the bond market in search of returns, thus preventing further movement. This could have a negative impact on the mark to market of the USD Investment portfolio.

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

CLIMATE RISK

The Board recognises 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, deprecation rate, decommissioning, restoration and other similar liabilities and financial risk disclosures. The Board of Directors accepts ownership and is accountable for managing the risks and opportunities associated with climate change risks and its impact on the resilience of the company's business model both in the immediate and longer term.

It is understood that there are physical risks associated with changing weather patterns, rainfall variability, extreme weather events, such as cyclones or floods and the impact on our customer's production issues and price fluctuations resulting from global supply and demand.

There are also transition risks, the technology, policy and regulatory changes that may affect our customers businesses as governments act on their pledges to reduce carbon emissions.

This risk has been initially assessed as low for the bank and business model. Climate risk will be embedded within the bank's Risk framework and Risk Appetite with metrics and reporting ensuring that the risks are managed adequately.

FUTURE BUSINESS STRATEGY

In order to further improve profitability, the PNBIL Board is continuing to implement the new UK and Indian centric strategy, based on a lower-risk business model where the Bank has the potential to win in the market and deliver a viable and sustainable business.

The strategy is focused on UK secured lending and India exposures backed by Stand by letter of credit (SBLC) issued by Indian Public sector or selected Private banks. In order to reinforce growth, the Bank is also focusing on other products such as UK syndicated lending, remittances to India and SME lending. The strategy will be run in parallel with the recovery efforts on the impaired legacy portfolio.

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

This report was approved/ authorised by the Board of Directors on 30 July 2019 and signed on its behalf by Company Secretary.

Camilla Shaw
30 July 2019

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

FINANCIAL RESULTS

PNBIL was profitable for a second consecutive year. The Bank made a net profit before tax of $9.95 million for the year ended 31 March 2019 compared with a net profit before tax of $6.62 million in the previous year.

The Operating profit of $16.43 million for 2019 was up by 38% from $11.93 million for the year ended 31 March 2018 primarily because of an increase in interest income due to adoption of IFRS 9, a reduction in interest expense due to lower average term deposits, combined with increase in treasury income resulting from favourable market movements. Operating income has increased by $4.55 million to $31.90 million in 2019 from $27.35 million in 2018.

Loans and advances to banks and customers (after allowances) decreased to $758.40 million at 31 March 2019 from $903.83 million as at 31 March 2018 and level of customers' deposits were also lower at $731.97 million as at 31 March 2019 from $876.21 million as at 31 March 2018.

The Bank continues to strengthen its governance and control environment, and to invest in systems to enable it to meet the increasing business and regulatory challenges. Operating expenditure has increased marginally in the year ended 31 March 2019 to $15.48 million from $15.42 million in 2018.

The Bank's dedicated recovery team has been focused on delivering recoveries from gross impaired advances, which totalled $318.47 million as at 31 March 2018 and ensuring that any new cases are addressed at the first signs of weakness. Success has been evident in terms of reduced need of provisions and recoveries amounting to $20.84 million. However, the continued economic slowdown and reduced economic growth in India has meant that new exposures have become impaired, necessitating new provisions of $29.08 million. At 31 March 2019 gross impaired advances had increased to $339.11 million.

The tax charge for the year was $1.63 million reflecting the utilization of tax losses carried forward. This compares to a tax charge of $0.7 million in 2018. The deferred tax assets also reduced from $25.31 million as at 31 March 2018 to $24.30 million as at 31 March 2019. Detail on the tax charge is given in note 16 and detail on the deferred tax assets is given in note 30.

The financial statements for the year ended 31 March 2019 are shown on pages 28 to 100.

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 2019, however, a dividend at the rate of 6 months LIBOR plus 5% amounting to $3.43 million (2018: $2.93 million) has been paid on the Additional Tier I Capital during the year ended 31 March 2019.

CAPITAL STRUCTURE

As at 31 March 2019, the issued and fully paid share capital of the Bank is $274.63 million (2018: $274.63 million), and Additional Tier 1 Capital is $45 million (2018: $45 million). In 2018/2019, there was no change in the capital structure of the Bank. The detail is given in note 36.

The total amount of regulatory capital available as at 31 March 2019 was $236.35 million (2018: $237.25 million). Detail is given in note 43 to the financial statements.

The Total Capital Ratio of the Bank continues to remain above the required level under the Capital Requirement Regulations ('CRR') and also above that required under Individual Capital Guidance ('ICG') given by the regulator to the Bank. The Total Capital Ratio as at 31 March 2019 is 29.63% with the Common Equity Tier I capital ratio being 18.87%.

As at the end of the year the capital adequacy ratio, leverage ratio, liquidity coverage ratio and net stable funding ratio of the Bank are 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 inter-bank placements and balances with the Bank of England are positively maintained, keeping in view the immediate liquidity requirement which may be triggered under stressed conditions. A minimum of 90 days' survival period is considered for maintenance of the buffer. The 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 monthly and quarterly basis respectively, 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.

EVENTS AFTER THE BALANCE SHEET DATE

There have been changes in the composition of Board of Directors. Please refer to 'Company information on Page 2 of the Annual report for more details.

The date for UK's withdrawal from the European Union has now been extended to 31st October 2019. Please refer to the 'Strategic report' for more details on the Bank's assessment in relation to this.

DIRECTORS

There have been four 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 Board Audit and Compliance Committee ('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.

FINANCIAL INSTRUMENTS

The Bank's strategies and policies regarding financial risk management, including the use of financial instruments, the policy for managing currency risk, and an indication of the exposure to financial risk is provided in note 42 to the financial statements. This note also includes the Bank's processes for managing its capital, its financial risk management strategy, details of its financial instruments, and its exposure to credit risk, interest rate risk in the banking book, market risk, liquidity risk and operational risk. Some of the issues concerning credit risk have been discussed in note 26.

CHARITABLE DONATIONS

Charitable donations of $567 were made during the year (2018: $664).

POLITICAL CONTRIBUTION

The Bank made no political donation or incurred any political expenditure during the year.

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

AUDITOR

Deloitte LLP is the statutory auditor of the Bank.

The Board of Directors has approved the appointment of Mazars as external auditor for the financial year commencing 1st day of April 2019.

GENERAL MEETINGS

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

By order of the Board

Company Secretary
Camilla Shaw
30 July 2019

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS. 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 Company for that period.

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

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

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

We confirm that to the best of our 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 Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face; 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 Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on and is signed on its behalf by.

By order of the Board

Managing Director
Antanu Das
30 July 2019

Executive Director
Vasudevan M
30 July 2019

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Punjab National Bank (International) Limited (the 'company'):

- **give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 42, 44 and 45.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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 company 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 (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were:
	• Loan Impairment Provisioning:
	  • Objective evidence of credit impairment
	  • Valuation of Stage 3 Loan Impairment Provisions; and
	• Valuation of deferred tax asset
	Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .

Materiality	The materiality that we used in the current year was $6.4million which was determined on the basis of equity.
Scoping	All of the audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Significant changes in our approach	We have following new key audit matters for current year:
	• Loan Impairment Provisioning:
	  • Objective evidence of credit impairment; and
	  • Valuation of Stage 3 Loan Impairment Provisions.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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) that we identified. These matters included 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.

Loan impairment and provisioning: Objective evidence of credit impairment	
Key audit matter description	IFRS 9 Financial Instruments introduces a new credit impairment model based upon expected losses, rather than incurred loss, per IAS 39. IFRS 9 outlines a 'three-stage' model for credit impairment based on changes in credit quality. In event of objective evidence of credit impairment, financial assets have to move to the relevant Stage: Stage 2 or Stage 3. Each Stage is treated differently for impairment. Due to the inherent judgement in this process, we identified a Key Audit Matter in relation to credit impairment of receivables such that management do not identify objective evidence of credit impairment on a timely basis in the Hotel loans, Non-property related loans and Residential Property Buy To Let loans segments. This would mean such loans may not be allocated to the appropriate Stage for calculating an impairment provision. We also considered this to represent a potential fraud risk as this involves significant management judgement. Refer to Note 2 for Adoption of new accounting policies note and Note 25 for Allowance for Expected Credit Losses.
How the scope of our audit re-sponded to the key audit matter	As IFRS 9 was adopted at the start of the year, we performed audit procedures over the opening loan impairment balance in addition to the closing balance. We obtained an understanding of key controls over expected credit losses ('ECL'), focusing on governance over the ECL control process, including: • management's policy and defnition of "significant increase in credit risk" and compared to the relevant accounting standards; • controls over the identification of a significant increase in credit risk, credit-impaired loans and the valuation of collateral used in individually-assessed provision calculations; and • the review and approval of model outputs. With the support of our internal modelling experts, we tested the assumptions, model methodology and underlying code for the ECL model. To test the data used in the models, we selected a sample of inputs to the models and reconciled them to supporting documentation. Following the identification of the portfolio segments where the significant risk lies, we performed the following procedures to assess the appropriateness of the allocation of loans within these segments, to Stages 2 and 3: • Evaluated the design and implementation of key controls that give management assurance over the completeness and accuracy of the key inputs into the allocation of loans between Stages 2 and 3; and • Tested a sample of loans in the specified segments, within Stage 2, to assess whether credit-impairment criteria had occurred, such that they should have been recorded in Stage 3.

Key observations	We concurred with management's methodology and concluded that the loan impairment provision is appropriate.

Loan impairment and provisioning: Valuation of Stage 3 Loan Impairment Provisions	
Key audit matter description	Under IFRS 9, Stage 3 includes financial assets that have objective evidence of credit-impairment at the reporting date. Management subject such assets to an individual assessment to ascertain appropriate provisioning levels based principally on collateral valuations, where these provide the principal source of repayment. Projected cash inflows are discounted and compared to the asset carrying value to determine an impairment provision value. The collateral valuations used in the provision calculations include significant judgement and subjectivity and thus comprise a Key Audit Matter. We also considered this to represent a potential fraud risk as this involves significant management judgement. Refer to Note 2 for Adoption of new accounting policies note and Note 25 for Allowance for Expected Credit Losses.
How the scope of our audit responded to the key audit matter	We performed the following procedures to assess the appropriateness of the provision at the balance sheet date: • Evaluated the design and implementation of controls that give assurance over the collateral valuations and other significant cash flows used in the impairment provision calculations; • Reviewed PNB property valuation guidelines and the application of the guidelines for the loans reviewed, comparing to relevant guidance and standards; • Assessed the competency, capability and objectivity of third party valuation experts and, where a current update to the valuation has not been performed, assessing the relevance to the 2019 provision calculation; • Assessed the valuation of cash flows resulting from the sale of collateral, debt settlement agreements or refinance agreements; and • Assessed the timing of cash flows resulting from the sale of collateral, debt settlement agreements or refinance agreements.
Key observations	We concurred with management's methodology and concluded that the Stage 3 loan impairment provision is appropriate.

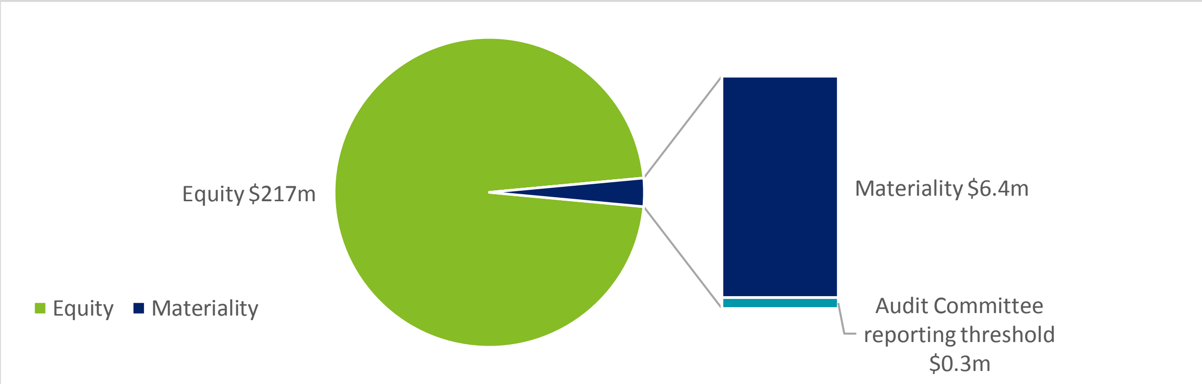
Valuation of deferred tax asset	
Key audit matter description	Management have recorded a deferred tax asset of $24.3million as at 31 March 2019. This asset relates primarily to unused tax losses. Specific conditions must be met in order for PNBIL to recognise the deferred tax asset in full or in part. The decision to recognise an asset is based on management's assessment of future taxable profits of the Company which is underpinned by significant assumptions such as the discount rate and expected growth of the business which can be difficult to corroborate and is potentially subject to bias. We also considered this to represent a potential fraud risk as this involves significant management judgement. For further details please refer to the strategic report on page 3, critical accounting estimates and judgements note and note 30 in the financial statements.
How the scope of our audit responded to the key audit matter	Obtained an understanding of key controls around the valuation of deferred tax assets including the budgeting and forecasting process. We considered the accuracy of the forecast models by reviewing the data inputs and evaluated the historical accuracy of management's forecasting by comparing 2019 results to the budget for that period. With the involvement of our tax specialists, we reviewed management's calculation of the deferred tax asset to assess the application of appropriate tax rates and restrictions regarding recognition of deferred tax assets. We challenged management's underlying assumptions related to future profitability and recovery of deferred tax assets (including the period over which management expects to utilise the losses) by evaluating their linkage to the business strategy and medium-term plans. We created a challenger model for the business forecast, using additional independently-sourced inputs, to form a basis from which to provide additional challenge to management's calculation.
Key observations	Based on the results of our testing, including the use of a challenger model, we have not proposed any material adjustment to the recognition and valuation of deferred tax assets.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	$6.4million (2018: $6.4million)
Basis for determining materiality	3% of equity.
Rationale for the benchmark applied	We determined materiality using equity. We considered this to be the most appropriate measure because the parent bank owner would be interested in the value of their investment and the regulators would be interested in capital adequacy, for which equity is a useful indicator.



We agreed with the Board Audit and Compliance Committee that we would report to the Committee all audit differences in excess of $0.3million (2018: $0.3million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 company'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 company 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 in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Board Audit and Compliance Committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: Objective evidence of credit impairment, valuation of stage 3 loan provisions, valuation of deferred tax assets, and Management override of controls; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation. In addition, we considered regulations imposed by the FCA as having a fundamental effect on the operations of the company.

Audit response to risks identified

As a result of performing the above, we identified Loan impairment and provisioning: Objective evidence of credit impairment, Loan impairment and provisioning: Valuation of Stage 3 Loan Impairment Provisions and Valuation of deferred tax asset as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Board Audit and Compliance Committee and external legal counsel concerning actual and potential litigation and claims;

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

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.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

In our opinion the information given in note 44 to the financial statements for the financial year ended 31 March 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Board Audit and Compliance Committee, we were appointed by the Board of Directors on 10 September 2015 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 March 2016 to 31 March 2019.

Consistency of the audit report with the additional report to the Board Audit and Compliance Committee

Our audit opinion is consistent with the additional report to the Board Audit and Compliance Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Russell Davis, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
30 July 2019

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 $'000	2018 $'000
Interest income	6	46,348	47,445
Interest expense	7	(13,497)	(17,816)
Net interest income		32,851	29,629
Net trading loss	8	(1,108)	(3,544)
(Charge)/Income on interest rate derivatives		(528)	357
Fee and commission income		527	692
Other operating income	9	161	219
Operating income		31,903	27,353
Staff costs	14	(9,051)	(8,715)
Operating lease expenses	10	(914)	(540)
Depreciation and amortisation expenses	11	(664)	(717)
General administrative expenses	12	(4,847)	(5,452)
Impairment provision	25	(6,476)	(5,308)
Profit before tax		9,951	6,621
Tax charge	16	(1,633)	(728)
Profit after tax for the year		8,318	5,893

All amounts mentioned above relate to continuing activities.

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 $'000	2018 $'000
Profit after tax for the year	**Income Statement**	**8,318**	**5,893**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss			
Investment securities - FVTOCI			
Gains/(losses) arising during the year	37	513	(1,122)
Tax (charge)/credit relating to fair value change	37	(66)	237
		447	(885)
Reclassification adjustments for loss included in profit or loss		102	(238)
Other comprehensive income/(expense) for the year net of tax		549	(1,123)
Total comprehensive income attributable to equity share holders		**8,867**	**4,770**

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
BALANCE SHEET
AS AT 31 MARCH 2019

Company registration number 05781326

	Note	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	17	**157,353**	**131,368**
Investment securities – FVTPL	18	**24,232**	**32,588**
Derivative financial instruments	19	**2,532**	**11,932**
Loans and advances to banks	20	**155,671**	**335,509**
Investment securities –FVTOCI	22	**42,588**	**46,547**
Loans and advances to customers	21	**602,733**	**568,317**
Investment securities – Amortised cost	23	**50,648**	**48,624**
Prepayments and other receivables	31	**636**	**627**
Deferred tax assets	30	**24,301**	**25,310**
Property, plant and equipment	28	**534**	**694**
Intangible assets	29	**362**	**504**
Total assets		**1,061,590**	**1,202,020**
Liabilities			
Derivative financial instruments	19	**1,262**	**1,295**
Deposits from banks	32	**56,464**	**54,342**
Deposits from customers	33	**731,971**	**876,208**
Subordinated bonds and other borrowed funds	34	**50,000**	**50,000**
Current tax liability	16	**316**	**-**
Other liabilities	35	**4,708**	**6,553**
Total liabilities		**844,721**	**988,398**
Net assets		**216,869**	**213,622**
Equity			
Share capital	36	**319,631**	**319,631**
Fair value reserve	37	**(608)**	**(1,157)**
Retained earnings		**(102,154)**	**(104,852)**
Equity attributable to owners of the Company		**216,869**	**213,622**
Total equity		**216,869**	**213,622**

The financial statements were approved by the Board of Directors and authorised for issue on 30 July 2019. They were signed on its behalf by:

For and on behalf of the Board

Managing Director
Antanu Das

Executive Director
Vasudevan M

		Attributable to equity holders of the Bank			
	Note	Share capital $’000	Fair value reserve $’000	Retained earnings $’000	Total equity $’000
Balance at 31 March 2018		319,631	(1,157)	(104,852)	213,622
Retained earnings Adjustment IFRS 9 adoption		-	-	(2,584)	(2,584)
Adjusted balance at 1 April 2019		**319,631**	**(1,157)**	**(107,436)**	**211,038**
Profit for the year	Income Statement	-	-	8,318	8,318
Net change in fair value of Investment securities – FVTOCI	37	-	447	-	447
Net amount transferred to profit and loss	37	-	102	-	102
Other comprehensive income for the year		-	549	-	549
Total comprehensive income for the year		**-**	**549**	**8,318**	**8,867**
Transactions with owners recorded directly in equity					
Dividend on perpetual additional Tier I capital		-	-	(3,432)	(3,432)
IFRS 9 deferred tax transitional adjustment	30	-	-	396	396
		-	-	(3,036)	(3,036)
Balance at 31 March 2019		**319,631**	**(608)**	**(102,154)**	**216,869**

	Note	Share capital $'000	Fair value reserve $'000	Retained earnings $'000	Total equity $'000
		Attributable to equity holders of the Bank			
Balance at 1 April 2017		299,631	(34)	(107,740)	191,857
Prior period adjustment				(77) *	(77)
Restated balance at the start of the year		**299,631**	**(34)**	**(107,817)**	**191,780**
Profit for the year	Income Statement	-	-	**5,893**	**5,893**
Net change in fair value of AFS investments	37	-	(885)	-	(885)
Net amount transferred to profit and loss	37	-	(238)		(238)
Other comprehensive loss for the year		-	(1,123)	-	(1,123)
Total comprehensive (loss)/profit for the year		-	**(1,123)**	**5,893**	**4,770**
Transactions with owners recorded directly in equity					
Issue of share capital	36	20,000	-	-	20,000
Dividend on perpetual additional Tier I capital		-	-	(2,928)	(2,928)
		20,000	-	(2,928)	17,072
Balance at 31 March 2018		**319,631**	**(1,157)**	**(104,852)**	**213,622**

*Prior year adjustment for tax credit arising on AFS reserve movement.

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Profit before tax		9,951	6,621
Tax charge		(1,633)	(728)
Profit after tax		8,318	5,893
Adjustments for:			
Amortisation of other intangible non-current assets	11	273	261
Depreciation of property, plant and equipment	11	391	456
Provision for impairment losses on financial assets	25	6,476	5,308
Corporation tax charge	16	1,633	728
		8,773	6,753
		17,091	12,646
Changes in:			
Investment securities - FVTPL		8,356	27,380
Loans and advances to customers		(43,476)	31,578
Deposits from banks		2,122	(19,350)
Other liabilities and provisions		(1,845)	2,040
Investment securities – FVTOCI (net of reserves)		4,595	5,952
Fair value of derivatives		9,367	(6,773)
Loans and advances to banks		179,838	(130,355)
Trade and other receivables		(9)	(103)
Decrease in customer deposits		(144,237)	(258,644)
		14,711	(348,275)
Cash generated from/(used in) operating activities		31,802	(335,629)
Net cash flow from/(used in) other operating activities		31,802	(335,629)
Cash flow from investing activities			
Acquisition of property, plant and equipment		(231)	(188)
Acquisition of intangible assets		(130)	(209)
Purchase of investment securities at amortised cost	23	(2,024)	(39,688)
Net cash flows used in investing activities		(2,385)	(40,085)
Cash flow from financing activities			
Proceeds from issue of equity share capital	36	-	20,000
Dividend to perpetual additional Tier I capital bond holders		(3,432)	(2,928)
Net cash flows (used in)/generated from financing activities		(3,432)	17,072
Net increase / (decrease) in cash and cash equivalents		25,985	(358,642)
Cash and cash equivalents at beginning of year	17	131,368	490,010
Cash and cash equivalents at end of year	17	157,353	131,368

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 11. 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 the International Accounting Standards Board (IASB) as adopted by the European Union. There have been changes to accounting standards this year and these have been fully implemented by the Bank.

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

In the current year, the Bank has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 April 2018.

The adoption of the following standard has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- IFRS 2 (amendments): Classification and measurement of Share-based Payment Transactions

2.1.1 Transition to IFRS 9

PNBIL adopted the full requirements of IFRS 9 – Financial Instruments on 1 April 2018. The impact on the Bank's financial position by applying IFRS 9 requirements is set out below.

Impact on financial statements

IFRS 9 has been adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not affected in the balance sheet as at 31 March 2018, but are recognised in the opening balance sheet on 1 April 2018. As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are therefore not comparable to the loss provisions reported for the current period.

Implementation of IFRS 9 resulted in a $2.58 million decrease in the Bank's opening equity at 1 April 2018. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss

2] Adoption of new and revised standards (continued)

impairment approach with an ECL approach.

The following tables shows the movement from the closing impairment allowances for financial assets under IAS 39 as at 31st March 2018 and the opening impairment allowances determined with IFRS 9 (Stage 1 & 2 only) as at 1st April 2018.

(Amount in $ '000)

Loans & advances at amortised cost by product	31 March 18 Impairment allowance under IAS 39	01 April 18 IFRS 9 reclassification impact	01 April 18 Additional ECL allowance (Stage 1 & 2)	01 April 18 Impairment allowance under IFRS 9
Real Estate	701	-	(383)	318
Deposit backed loans	-	-	-	-
Loans to banks	16	-	513	529
Investment securities	-	-	131	131
Other loans	2,847	-	2,221	5,068
Total impairment and provision	**3,564**	**-**	**2,482**	**6,046**

(Amount in $ '000)

Loans & advances at fair value Through other comprehensive Income (FVTOCI) by product	31 March 18 Impairment allowance under IAS 39	01 April 18 IFRS 9 reclassification impact	01 April 18 Additional ECL allowance (Stage 1 & 2)	01 April 18 Impairment allowance under IFRS 9
Investment securities	-	-	102	102
Total impairment and provision	**-**	**-**	**102**	**102**

(Amount in $ '000)

Total loans & advances at amortised cost and FVTOCI	31 March 18 Impairment allowance under IAS 39	01 April 18 IFRS 9 reclassification impact	01 April 18 Additional ECL allowance (Stage 1 & 2)	01 April 18 Impairment allowance under IFRS 9
Total impairment and provision	**3,564**	**-**	**2,584**	**6,148**

In relation to Stage 3 impairment allowance under IFRS 9, there was no additional ECL allowance due to IFRS 9. Any specific provision made against individual loans and advances previously, is now classified as Stage 3 Impairment allowance.

2] Adoption of new and revised standards (continued)

IFRS 9 Financial instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 April 2019 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with transitional provisions in IFRS 9, comparative figures have not been restated. As shown in the table above, this led to a reduction in retained earnings by $2.58 million as at 1 April 2018.

Classification and measurement

On 1 April 2018 (the date of initial application of IFRS 9), the Bank's management has assessed the financial instruments held by the Bank and determined whether reclassification was needed under IFRS 9. There has been no change in the classification from IAS 39 to IFRS 9. The following items are classified as shown below:

- Financial Assets at amortised cost: Loans and receivables to banks, loans and receivables to customers, Investment securities at amortised cost
- Financial assets at fair value through other comprehensive income ('FVTOCI'): Investment securities - FVTOCI
- Financial assets at fair value through profit & loss ('FVTPL'): Investment securities – FVTPL

The bank has not designated as measured at fair value through profit or loss any financial asset (or group of financial assets) that would otherwise be measured at fair value through other comprehensive income or amortised cost. The bank has chosen to apply Investment securities as FVTPL by considering the purpose of holding the investments (receipt of the principal and interest) and whether the classification should be alternatively been amortised cost or FVOCI

Impairment of financial assets

The Bank's loans and advances to customers, loans and receivables to customers and investment securities were subject to IFRS 9's new expected credit loss model. The Bank was required to revise its impairment methodology under IFRS 9 for these assets.

While cash and intercompany loans are also subject to the impairment requirements of IFRS 9, the Bank concluded that the expected credit loss on these items is immaterial and therefore no impairment loss adjustment is required.

2] Adoption of new and revised standards (continued)

Sensitivity Analysis

Changes in the probability of default and loss given default assumptions could be driven by actual default performance, changes in the portfolio, as well as changes in the macroeconomic outlook and these would affect the allowance for credit losses. The Bank performed a sensitivity analysis by changing various parameters that would affect the allowance for credit losses. For example: compared to the actual ECL calculation (Stage 1 & 2), the year end ECL would have increased by 29% if based on an economic downturn scenario and would have decreased by 19% in an upturn economic scenario.

Reconciliation of estimate of IFRS 9 impairment provision - Stage 1 & 2 only (as previously disclosed) as at 31 March 2018 to actuals as at 1 April 2018

	Balance $'000
At 31 March 2018 – estimated impairment provision as per IFRS 9 (unaudited)*	**10,000**
At 1 April 2018 – actual impairment provision as per IFRS 9 (audited)	**6,148**
Difference between estimated and actual	**3,852**

**The previously disclosed estimated impairment provision was a range between $8m to $12m.*

The difference between the estimated and actual IFRS 9 impairment provisions shown above was primarily due to a cautious approach to the estimation for 2018 combined with a refinement in the data collection process and its implications to the ECL calculations.

2.1.2 IFRS 15

The majority of the Bank's revenue is net interest income which is accounted for under IFRS9. Accordingly, the majority of our revenues were not affected. Non-interest income revenue streams which are within the scope of the new standard are not material.

2.2 New and revised IFRSs in issue but not yet effective

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

2.2.1 IFRS 16

IFRS 16 'Leases' has an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. IFRS 16 will not result in a significant change to lessor accounting; however, for lessee accounting there will no longer be a distinction between operating and finance leases.

2] Adoption of new and revised standards (continued)

Lessees will be required to recognise both:

- a lease liability, measured at the present value of remaining cash flows on the lease, and
- a right of use (ROU) asset, measured at the amount of the initial measurement of the lease liabilities, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

The Bank has identified the contracts impacted by IFRS 16, which comprise all our existing property leases. As permitted by the standard, PNBIL intends to apply IFRS 16 using a modified retrospective approach where the cumulative effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated.

The expected impact of adopting IFRS 16 is an increase in assets of $5.6mn, an increase in liabilities of $5.6mn.

3] Significant accounting policies

3.1 Statement of compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Bank’s financial statements comply with Article 4 of the RU IAS Regulation.

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;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Investment securities - FVTOCI are measured at fair value.

Detail on fair value is given in note 24.

3.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company 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.

The Bank is a wholly-owned subsidiary of Punjab National Bank. The Bank has recorded a profit

3] Significant accounting policies (continued)

after taxation of $8.31 million in the current financial year.

The Bank is adequately capitalised at 31 March 2019 and exceeds all the capital ratios required by the regulators. The authorised share capital for the Bank is $400 million. The Bank's capital position, and its derivation, is set out in full in note 43 to these financial statements.

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 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, which was approved by the Board is being implemented at a realistic pace and has shown to be capable of producing the viability and sustainability expected from the Board.

3.4 Functional and presentation currency

The Directors consider the US Dollar as the functional currency of the Bank as the majority of earning assets (loans/investment) are priced in US Dollars and a significant component of funding is in US Dollars. In addition to that the equity, other capital instruments and retained earnings of the Bank 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

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;

3] Significant accounting policies (continued)

- Interest on Investment securities – FVTOCI 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/expense is calculated by applying 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 effective interest rate 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, late payment fee etc.

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 annual basis with a standard set price payable dependent on the size of box.

Net trading income

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

b) Measurement – financial instruments

A. Financial assets

The Bank classifies its financial assets in the following categories:

i. Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of trading or if so, designated by management if it meets the criteria as defined in IFRS 9. Financial assets held for trading are initially recognised and measured at fair value in the statement of financial position. All changes in fair value are recognised as part of trading income in profit and loss. For a purchase transaction, from trade date until settlement date, the asset remains an off-balance sheet asset and it is recognised on financial statements on the settlement date. For a sale transaction, the asset continues to be included in financial statements until settlement date and the transaction remains an off-balance sheet commitment until then.

3] Significant accounting policies (continued)

ii. Loans and receivables

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

iii. Investment securities at amortised cost

Investments securities at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

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

iv. Investment securities - FVTOCI

Investment securities – FVTOCI are non-derivative investments that are designated as fair value through other comprehensive income or are not classified as another category of financial assets. Investment securities – FVTOCI comprise debt securities.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gain or losses on Investment securities - FVTOCI are recognised in profit or loss. Impairment losses are recognised in profit or loss.

v. Available for sale (policy applicable before 1 April 2018)

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

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

vi. Held to maturity (policy applicable before 1 April 2018)

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

3] Significant accounting policies (continued)

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

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.

iii. Deferred income

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

C. Fair value measurement

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

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

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

3] Significant accounting policies (continued)

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

D. Offsetting financial instruments

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

3] Significant accounting policies (continued)

G. Impairment of financial assets

i) Assets carried at amortised cost

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

ii) Investment securities - FVTOCI

The Bank assesses at each balance sheet date whether there is objective evidence that an investment security - FVTOCI is impaired. Objective evidence that a financial asset is impaired includes observable data that has come to the attention of the Bank such as a significant change in price in excess of 20% or prolonged decline over nine months and due to deterioration of credit ratings which has an impact on the Bank's estimated future cash flows from the financial assets.

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

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.

3] Significant accounting policies (continued)

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 cash equivalents

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

3] Significant accounting policies (continued)

L. Corporation tax/deferred tax

The corporation tax charge in the profit and loss represents the amount that is offset against the deferred tax assets which was created due to the prior year losses.

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

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

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

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

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

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

M. Recognition and measurement of provisions and contingencies

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

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

3] Significant accounting policies (continued)

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 - FVTOCI assets until the assets are derecognised or impaired.

O. Operating lease commitments

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

P. Employee benefits

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

4] 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. In particular, considerable judgement by management is required in the estimation of

4] Critical accounting judgements and key sources of estimation uncertainty (continued)

the amount and timing of future cash flows when determining the level of provisions required for impaired loans and receivables as well as provisions for impairment provision for investment securities - FVTOCI. 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

4.1 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:

- **Identification of impairment of financial assets**

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

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

- **Impairment losses on investment securities - FVTOCI**

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

These factors include the collateral structure, market insight, the length of time over which the decline has been observed and the current and expected financial performance of the counterparty.

4] Critical accounting judgements and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty

Further information about key sources of estimation uncertainty are 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. As at 31 March 2019 we estimate recovery of the deferred tax asset over a 16-year period. Should future business performance not meet profitability estimates, a material impairment adjustment to the carrying value of deferred tax assets may be required.

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

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

In addition to specific provisions against individually significant loans and advances, the Bank also makes a provisions for expected credit losses (ECL) according to requirements laid out under IFRS 9. For more details of provisions under IFRS 9, please see note 25 of the financial statements.

- **Investment securities at amortised cost**

The Bank follows the guidance of IFRS 9 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as investment securities at amortised cost. In making this judgement, the Bank evaluates its intention and ability to hold such investment securities to maturity. In the event the Bank fails to keep these investments to maturity other than for specific circumstances, it will be required to reclassify the entire investment securities portfolio at amortised cost as investment securities - FVTOCI and the Bank will be prevented from classifying investment securities at amortised cost for the current and the following two financial years.

4] Critical accounting judgements and key sources of estimation uncertainty (continued)

- **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.

5] Operating segments

The Bank undertakes the business of corporate and commercial banking which is carried on within the United Kingdom. Its activities are currently managed on a centralised business model so the revenue and the costs are not attributable to any one operating or geographic segment.

The Bank has one class of business and all other services are ancillary to this. The Board reviews all the information for the business as a whole as these ancillary activities do not have their own standalone reporting environment and protocols internally.

No single customers contributed 10% or more to the Bank’s revenue in either financial year 2019 or 2018.

6] Interest income

	2019 $'000	2018 $'000
Overdraft accounts	5,400	6,076
Demand and term loans	29,837	33,015
Discount on bills	228	28
Interbank placements	6,134	3,751
Coupon/premium on investment securities*	3,396	3,308
Arrangement fees on loans**	1,353	1,267
Total Interest income	46,348	47,445

- Total interest income is $42.84 million calculated using EIR method for each financial asset measured at amortised cost.
* Out of the above, net interest income from financial instruments designated at FVTPL is $0.60 million.
** Arrangement fees is treated as interest income.

7] Interest expense

	2019 $'000	2018 $'000
Term deposits	7,966	13,763
Saving deposits	300	36
Interbank borrowings	1,810	1,121
Subordinated bonds	3,421	2,896
Total Interest expense	13,497	17,816

8] Net trading loss

	2019 $'000	2018 $'000
Foreign exchange	(2,641)	(3,468)
Income/(loss) on investment securities - FVTPL	1,533	(76)
Total Net trading loss	(1,108)	(3,544)

9] Other operating income

	2019 $'000	2018 $'000
Payment and settlement	108	137
Retail banking	53	82
Total Other operating income	161	219

10] Operating lease expenses

	2019 $'000	2018 $'000
Lease rental expenses	914	540
Total Operating lease expenses	914	540

11] Depreciation and amortisation expenses

	2019 $'000	2018 $'000
Depreciation of property, plant and equipment	391	456
Amortisation of intangible assets	273	261
Total Depreciation and amortization expenses	664	717

Further details are given in notes 28 and 29 to the financial statements

12] General administrative expenses

	2019 $'000	2018 $'000
Legal, professional and audit fees	1,782	2,497
Administrative and office maintenance costs	1,364	1,200
Other administration costs	1,302	1,314
Postage and telephones cost	292	307
Marketing costs	107	134
Total General administrative expenses	4,847	5,452

13] Auditor's remuneration

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

	2019 $'000	2018 $'000
The audit of the Company*	393	531
Total audit Fee	393	531
Fees payable to the Bank's auditor for other services:		
- Audit related assurance services	13	13
- Other assurance services	15	-
Total non-audit Fees	28	13

*Out of this, $15,096 and $21,006 are related to 'Other assurance services' and 'Out of pocket expenses' respectively for previous year.
In relation to the current year, a sum of $15,750 is in respect of group reporting.

14] Staff costs

	2019 $'000	2018 $'000
Wages and salaries	6,852	6,377
Contribution towards defined employee contribution plan*	127	106
Other employee benefits	1,312	1,564
Social security costs	760	668
Total Staff costs	9,051	8,715

* Out of this $0.04 million is related to a Director's employee contribution (note 15). The number of Directors receiving this benefit is one.

Included in other employee benefits are:	2019 $'000	2018 $'000
Accommodation cost	789	959
Medical insurance and expense	115	121
Pension contributions for staff in India	8	7
Other expenses**	400	477
	1,312	1,564
Average number of employees***	148	140

** Other expenses include rent, conveyance, insurance, staff welfare and others expenses for staff.
There are no share-based payments to employees.
*** Out of the above, 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.

15] Directors' emoluments

	2019 $'000	2018 $'000
Emoluments	471	476

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

	2019 $'000	2018 $'000
Emoluments of highest paid Director (One director)	227	221
Contributions to external pension scheme included above	44	51

16] Corporation tax

Components of corporation tax credit/charge

	2019 $'000	2018 $'000
Current corporation tax credit		
Current corporation tax charge	(316)	-
Deferred corporation tax (charge)/credit		
Effect of rate changes	162	-
Relating to origination and reversal of temporary differences	(1,542)	(728)
Adjustments in respect of prior years	63	-
Total deferred tax (charge)/credit	(1,317)	(728)
Total tax charge for the year	(1,633)	(728)

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

	2019 $'000	2018 $'000
Profit before tax	9,951	6,621
Corporation tax at 19% (2018: 19%)	(1,891)	(1,258)
Tax effect of non-deductible depreciation	-	(33)
Tax effect of other non-deductible expenses/non-taxable income	(4)	582
Tax effect of FX and rate changes	162	-
IFRS 9 transitional adjustment – 10 year spreading	49	-
Adjustments in respect of prior year	63	-
Tax effect of Investment securities - FVTOCI transitional adjustment	(12)	(19)
Tax charge	(1,633)	(728)

16] Corporation tax (continued)

	2019 $'000	2018 $'000
Current corporation tax credited to equity		
Credit arising on FVTOCI reserve movement	88	237
IFRS 9 transitional adjustment in retained earnings	396	-
Tax effective rate	19%	19%

The standard rate of corporation tax rate remained unchanged at 19% for the year 2018/2019. Under Finance Act 2016 (No. 2) there will be a reduction to the standard corporation tax rate for the year starting 1 April 2020 to 17%.

17] Cash and cash equivalents

	2019 $'000	2018 $'000
Cash on hand	333	293
Cash at bank (including balance held with central banks)	47,020	131,075
Cash equivalent*	110,000	-
Total Cash and cash equivalents	157,353	131,368

*Placements up to 3 months are treated as cash equivalent.

18] Investment securities - FVTPL / held for trading

18.a Investment securities - FVTPL

	2019 $'000
Treasury bills	24,232

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	2019 $'000
US Treasury Bills	AAA	24,232

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

18] Investment securities - FVTPL / held for trading (continued)

18.b Investment securities – held for trading

	2018 $'000
Treasury bills	32,588

The Bank has classified its holding of US treasury bills as held for trading 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	2018 $'000
US Treasury Bills	AAA	32,588

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

19] 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 LIBOR or BOE rate with a fixed margin thereupon. A major portion of liabilities of the Bank are at a fixed rate of interest. The Bank uses interest rate swaps to eliminate interest rate risk in various reset buckets. The Fair value of all derivatives is as below

	2019		2018	
	Positive Fair Value $'000	Negative Fair Value $'000	Positive Fair Value $'000	Negative Fair Value $'000
Cross currency swap	2,532	1,116	11,899	502
Interest rate swap	-	146	33	793
	2,532	1,262	11,932	1,295

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.

19] Derivative financial instruments (continued)

The table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2019.

	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**	**280,959**	**280,134**	**2,532**	**1,116**
Interest rate swaps	**Bank**	**78,304**	**78,394**	**-**	**146**
		359,263	**358,528**	**2,532**	**1,262**

The table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2018.

	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**	**345,846**	**335,219**	**11,899**	**502**
Interest rate swaps	**Bank**	**293,943**	**294,611**	**33**	**793**
		639,789	**629,830**	**11,932**	**1,295**

20] Loans and advances to banks

	2019 $'000	2018 $'000
Bills negotiated and discounted	14,208	9
Term loans against stand-by letters of credit/buyers' credit	47,041	158,198
Interbank placements of original maturity of more than three months	94,944	177,302
Total	156,193	355,509
Less impairment provisions (1)	(522)	-
Net Loans and advances to banks	155,671	335,509

[1]Impairment provisions include ECL provision (Stage 1 & 2) of $0.5 million (2018: Nil).

At 31 March 2019 $29.15 million (2018: $47.20 million) of loans and advances to banks are expected to be realised more than twelve months after the reporting date.

21] Loans and advances to customers

	2019 $'000	2018 $'000
Customer overdrafts	204,536	229,973
Term loans	661,480	609,789
Total	866,016	839,762
Less impairment provisions (2)	(263,283)	(271,445)
Net Loans and advances to customers	602,733	568,317

[2]Impairment provisions include Stage 3 ECL allowance of $259.82 million (2018: $267.88 million) and ECL provision (Stage 1 & 2) of $3.46 million (2018: Collective provision of $3.56 million).

At 31 March 2019 $297.76 million (2018: $253.88 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 25 and 26 to the financial statements.

22] Investment securities – FVTOCI / Available for sale

22.a Investment securities - FVTOCI

	2019 $'000
Marketable debt securities	42,958
Less impairment provisions	(370)
Net marketable debt securities	42,588

At 31 March 2019, $33.53 million (2018: $43.58 million) of Investment securities - FVTOCI are expected to be realised more than twelve months after the reporting date.

22] Investment securities – FVTOCI / Available for sale (continued)

22.b Investment securities – available for sale

	2018
	$'000
Marketable debt securities	46,547
Less impairment provisions	-
Net marketable debt securities	46,547

23] Investment securities – amortised cost / held to maturity

23.a Investment securities – amortised cost

	2019
	$'000
Debt securities	53,003
Less: Impairment provision*	(2,355)
Net book value of investment securities at amortised cost	50,648

* There are two impaired investment securities at amortised cost which have been fully provided for in the year ended 2019.

Out of the above, debt securities with a carrying value of $5 million are encumbered under Sale and Repurchase Agreement as a security for an interbank borrowing of $4.9 million reported in note 24. 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. The transferred assets are not available for use to the Bank during the terms of the arrangement.

Refer to note 24 for details of fair value of investment securities which are at amortised cost. At 31 March 2019, $24.15 million of investment securities at amortised costs are expected to be realised more than twelve months after the reporting date.

23.b Investment securities – held to maturity

	2018
	$'000
Debt securities	50,955
Less: Impairment provision**	(2,331)
Net book value of held to maturity investment securities	48,624

** There are two impaired held to maturity investment securities which have been fully provided for in the year ended 2018.

Refer to note 24 for details of fair value of investment securities which are held to maturity (HTM). At 31 March 2018, $33.91 million of held to maturity investment securities are expected to be realised more than twelve months after the reporting date.

24] Financial instruments

A. Financial instruments carried at amortised cost

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

	Carrying amount	Fair value
	2019	2019
	$'000	$'000
Investment securities – amortised cost	53,003	50,144
Less Impairment provision	(2,355)	-
Net Book Value	50,648	50,144

The total impairment provision recorded for investment securities at amortised cost includes the Bank's investment in one credit linked note of an investment banking company which is in liquidation and one corporate investment security at year ended 31 March 2019. The provision for impairment is the difference in amount between the book value and the market value of the credit linked note.

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

The following table summarises the carrying amounts and incorporates the Bank's estimate of fair values of the held to maturity investment securities for year ending 31 March 2018.

	Carrying amount	Fair value
	2018	2018
	$'000	$'000
Investment securities – held to maturity	50,955	47,738
Less Impairment provision	(2,331)	-
Net Book Value	48,624	47,738

The total impairment provision recorded for held to maturity investment securities includes the Bank's investment in one credit linked note of an investment banking company which is in liquidation and one corporate investment security at year ended 31 March 2018. The provision for impairment is the difference in amount between the book value and the market value of the credit linked note.

24] Financial instruments (continued)

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

	Carrying amount and fair value	
	2019	2018
	$'000	$'000
Assets		
Customer and bank overdrafts	103,707	131,028
Term and bank loans	545,865	595,496
Interbank placements	94,680	177,302
Bills purchased	14,152	-
Liabilities		
Interbank deposits	55,792	52,833
Subordinated bonds	50,000	50,000
Savings accounts	138,434	164,747
Current accounts	143,815	149,495
Fixed term deposits	450,394	563,475
Bills payable	362	1,037

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.
- 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.
- Inter-bank placements are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.

24] Financial instruments (continued)

B. Financial instruments carried at fair value

Financial instruments carried at fair value in the financial statements are investment securities - FVTPL (note 18), investment securities – FVTOCI / available for sale (note 22) and Derivatives (note 19).

Financial instruments carried at amortised cost in the financial statements are loans and advances to banks (note 20), loans and advances to customers (note 21), investment securities – amortised cost / held to maturity (note 23), deposits from banks (note 32) and deposits from customers (note 33).

Categories of these assets are as below:

2019

Financial Assets:	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Investment securities – FVTPL	18	24,232	-	-	24,232
Investment securities – FVTOCI	22	8,957	33,631	-	42,588
Derivative financial instruments	19	-	2,532	-	2,532
Loans and advances to banks	20	-	155,671	-	155,671
Loans and advances to customers	21	-	-	602,733	602,733
Investment securities – amortised cost	23	-	50,648	-	50,648
		33,189	**242,482**	**602,733**	**878,404**

Financial Liabilities	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Derivative financial instruments	19	-	1,262	-	1,262
Deposits from banks	32	-	56,464	-	56,464
Deposits from customers	33	-	-	731,971	731,971
		-	**57,726**	**731,971**	**789,697**

The fair value hierarchy has the following levels:

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

24] Financial instruments (continued)

2018

Financial Assets:	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Investment securities – held for trading	18	32,588	-	-	32,588
Investment securities – available for sale	22	10,236	36,311	-	46,547
Derivative financial instruments	19	-	11,932	-	11,932
Loans and advances to banks	20	-	335,509	-	335,509
Loans and advances to customers	21	-	-	568,317	568,317
Investment securities - held to maturity	23	-	48,624	-	48,624
		42,824	**432,376**	**568,317**	**1,043,517**

Financial Liabilities:	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Derivative financial instruments	19	-	1,295	-	1,295
Deposits from banks	32	-	54,342	-	54,342
Deposits from customers	33	-	-	876,208	876,208
		-	**55,637**	**876,208**	**931,845**

The fair value hierarchy has the following levels:

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

25] Allowance for Expected Credit Losses

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. IFRS 9 applies the classification approach to all types of financial assets, including Loans and Advances to banks and customers, investment securities at amortised cost and Debt investment securities.

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 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.

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. This information used in ECL models is updated at regular intervals to capture any intrinsic or extrinsic changes taking place.

IFRS 9 assesses on a forward-looking basis the expected credit loss (ECL) associated with the assets carried at amortised cost and FVTOCI and recognises a loss provision for such losses at each reporting date.

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.

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.

25] Allowance for Expected Credit Losses (continued)

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

- The obligor is past due more than 90 days on any material exposure to the bank.
- Credit impaired financial asset: Any exposure of the obligor that has been recognised credit - impaired in accordance with the IFRS 9 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. Elements to be taken as indications of unlikeliness to pay shall include (but not limited to) the following triggers:
- Bank recognises following specific credit adjustment resulting from a significant perceived decline in credit quality:
  - ➢ losses recognised in the profit or loss account for instruments measured at fair value that represent credit risk impairment under the applicable accounting framework;
  - ➢ losses as a result of current or past events affecting a significant individual exposure or exposures that are not individually significant which are individually or collectively assessed.
- Bank sells the credit obligation at a material credit related economic loss;
- Bank consents to a distressed restructuring of the credit obligation where there is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, or interest;
- Bank has filed for bankruptcy or a similar order in respect of an obligor’s credit obligation;
- The obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of the credit obligation;
- Sudden closure of the business activity on account of any natural calamity or any other reason;
- Insolvency (liquidation) process initiated, criminal action initiated, etc.

Write off policy - The Head of Credit Monitoring & Recovery department will evaluate the progress of each impaired loans on a case to case basis and will indicate when any such process is complete, exhausted or deemed uneconomical to pursue further. Subject to such judgement, the Head of Credit Monitoring & Recovery department / Head of Credit may recommend to the Board that the exposure is to be written off either partially or in full in terms of the One-time settlement policy. Regardless of whether an exposure has been written off or not the Bank will continue to pursue any non-performing assets (‘NPA’) provided that it remains economically beneficial.

25] Allowance for Expected Credit Losses (continued)

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:

Indicative Qualitative Assessment Criteria (other than Banks and securities)

a. Forborne/Restructured assets	• If a forbearance or commercial renegotiation does not result into account being classified as NPA (stage 3), it 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	• Equity reduced by 50% within reporting period due to losses. • A material decrease in turnover or loss of major customer. • A material decrease in estimated cash flows • Current debt service coverage ratio is below 1:1
c. Adverse industry impact	• Deterioration of the industry segment or market where the debtor is operating on account of any natural calamity or any other reason. • The disappearance of active market for assets financed or for refinancing.
d. Other credit deterioration factors may also be considered	• Insolvency (liquidation) process initiated, criminal action initiated etc. • Debtor filed for Bankruptcy. • Any legal entity within the group of connected clients of the debtor (including subsidiaries of debtor) has filed bankruptcy. • Any other factor which indicates credit deterioration

Indicative Qualitative Assessment Criteria (Banks & Securities)

SBLC's, Government & Corporate Securities, Nostro Accounts with other banks and Interbank exposures	• ISDA credit event declared. • Bank sells the credit obligation at a material credit related economic loss. • 5Y CDS > 1000 bps with in last 12 months • Bond trade (temporarily) suspended at primary exchange because of rumours or facts.

25] Allowance for Expected Credit Losses (continued)

- **Quantitative Criteria**

In addition to the above quantitative criteria to identify significant increase in credit risk, another method is comparing the probability of default (PD) calculated as part of the IFRS 9 calculation of the current period to the PD at origination.

Factors affecting loan loss provision

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

- 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.

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

	Stage 1	Stage 2	Stage 3	Total
	$’000	$’000	$’000	$’000
Loss allowance as at 1 April 2018	3,827	2,322	269,825	275,974
New receivables originated or purchased	591	17	-	608
Transfers between stages	(45)	(75)	(1,901)	(2,021)
Decrease in allowance for existing portfolio	(876)	(1)	(14,004)	(14,881)
Increase in allowance for existing portfolio	303	299	22,920	23,522
Write-offs	-	-	(14,393)	(14,393)
Receivables matured during the period	(578)	(1,600)	(102)	(2,280)
Loss allowance as at 31 March 2019	3,222	962	262,345	266,529

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

	2019	2018
	$’000	$’000
Impairment charge on loans and advances	6,102	5,256
Impairment charge on investments	374	52
Total impairment charge	6,476	5,308

25] Allowance for Expected Credit Losses (continued)

The following table provides a breakdown of loans & advances at amortised cost by product as at 31 March 2019:

		Real Estate $'000	Deposit backed loans $'000	Loans to Banks $'000	Investment securities $'000	Other Loans $'000	Total $'000
Gross Exposure							
Stage 1		**230,739**	**58,853**	**264,163**	**50,760**	**76,352**	**680,867**
Stage 2	Not past due	**40,330**	**-**	**-**	**-**	**32,603**	**72,933**
	> 30 ≤ 90 days	**10,994**	**-**	**-**	**-**	**2,582**	**13,576**
Stage 3		**5,445**		**505**	**2,243**	**398,066**	**406,259**
Impairment Allowance							
Stage 1		**206**	**-**	**522**	**112**	**2,290**	**3,130**
Stage 2	Not past due	**26**	**-**	**-**	**-**	**936**	**962**
	> 30 ≤ 90 days	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3		**619**	**-**	**-**	**2,243**	**259,205**	**262,067**
Net Exposure							
Stage 1		**230,533**	**58,853**	**263,641**	**50,648**	**74,062**	**677,737**
Stage 2	Not past due	**40,303**	**-**	**-**	**-**	**31,667**	**71,970**
	> 30 ≤ 90 days	**10,994**	**-**	**-**	**-**	**2,582**	**13,576**
Stage 3		**4,826**	**-**	**505**	**-**	**138,861**	**144,192**

The following table provides a breakdown of loans & advances at fair value through other comprehensive income (FVTOCI) by product as at 31 March 2019:

		Investment securities $'000	Total $'000
Gross Exposure			
Stage 1		**42,388**	**42,388**
Stage 2	Not past due	**-**	**-**
	> 30 ≤ 90 days	**-**	**-**
Stage 3		**409**	**409**
Impairment Allowance			
Stage 1		**92**	**92**
Stage 2	Not past due	**-**	**-**
	> 30 ≤ 90 days	**-**	**-**
Stage 3		**278**	**278**
Net Exposure			
Stage 1		**42,296**	**42,296**
Stage 2	Not past due	**-**	**-**
	> 30 ≤ 90 days	**-**	**-**
Stage 3		**130**	**130**

26] 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 2019, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts. The Bank's exposure to credit risk is well spread across different sectors. The Bank is affected by the general economic conditions in the territories in which it operates. The Bank has set limits on the exposure to any counterparty and group of counterparties, Industry Sector Exposure and Geographical Exposure; and credit risk is also spread over the Bank's Retail and Corporate customers.

	2019 $'000	2018 $'000
On balance sheet exposure		
Bilateral and syndicated loans and advances to customers	866,016	839,762
Loans and advances to customers under SBLC by banks	47,041	158,207
Interbank placements and cash balances with banks	252,297	308,670
Bills purchased directly from customers	-	-
Bills purchased under LC/Guarantee of banks	14,208	-
Securities at amortised cost – banks	30,316	34,155
Securities at amortised cost – Non-banks	22,687	16,800
Investment securities – FVTOCI - banks	26,619	28,562
Investment securities – FVTOCI - Non-banks	16,339	17,986
Derivative financial instruments	2,532	11,932
Total – A	1,278,055	1,416,074
Off balance sheet exposure		
Non-bank commitments (LCs/LGs)	1,500	1,620
Total – B	1,500	1,620
Undrawn Credit Facilities – Non-banks	43,617	35,546
Total – C	43,617	35,546
Total Exposure subject to Credit Risk (A+B+C)	1,323,172	1,453,240

26] Exposure to credit risk and availability of collateral security (continued)

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

	2019 $'000	2018 $'000
Exposure on banks	**373,013**	**541,526**
Non-bank exposure*	**950,159**	**911,714**
Total	**1,323,172**	**1,453,240**

**Includes loan and advances exposure (both on and off-balance sheet exposure, including commitments and undrawn credit facilities) of $911.13 million and $39.03 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 2019:

Amount in $ million	**Retail exposure**		**Non-retail exposure**		**Total**	
	Exposure	**Amount Collateralised**	**Exposure**	**Amount Collateralised**	**Exposure**	**Amount Collateralised**
Internally rated AAA to A*	3	3	36	34	39	37
Internally rated BB to B*	22	21	275	239	297	260
Internally rated C&D	0	0	-	-	0	0
Others Exempted Category	24	23	46	46	70	69
Stage 1	**49**	**47**	**357**	**319**	**406**	**366**
Stage 2 >30 ≤ 90 days	3	3	12	12	15	15
Stage 2 - Not past due	3	3	73	73	76	76
Stage 2	**6**	**6**	**85**	**85**	**91**	**91**
Stage 3	**2**	**1**	**411**	**168**	**413**	**169**
Total	**57**	**54**	**853**	**572**	**910**	**626**

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

More details on staging classification as per IFRS 9 can be found in note 25 of the financial statements.

26] Exposure to credit risk and availability of collateral security (continued)

Comparative data for 31 March 2018 is as below.

Amount in $ million	Retail exposure		Non-retail exposure		Total	
	Exposure	Amount Collateralised	Exposure	Amount Collateralised	Exposure	Amount Collateralised
Internally rated AAA to A*	5	5	35	35	40	40
Internally rated BB to B*	27	27	260	196	287	223
Internally rated C&D*	-	-	15	11	15	11
Others Exempted Category	17	16	67	37	84	53
Fully Performing	**49**	**48**	**377**	**279**	**426**	**327**
Performing past due below 90 days	2	2	26	23	28	25
Performing Forborne: Un-Impaired**	-	-	-	-	-	-
Performing Forborne: Impaired	-	-	-	-	-	-
Performing Impaired- Other	-	-	5	-	5	-
Total Performing	**51**	**50**	**408**	**302**	**459**	**352**
Non-Performing more than 90 days past due-Non Impaired	2	-	413	162	415	162
Non-Performing Impaired	1	-	2	2	3	2
Total Non-Performing	**3**	**-**	**415**	**164**	**418**	**164**
Total	**54**	**50**	**823**	**466**	**877**	**516**

**Internal ratings based on PNBIL rating model and also include loans where internal rating is exempted viz. loans against deposits/SBLCs etc. Retail loans are loans to individuals and small enterprises up to Euro 1 million.*

The comparative table above differs from the table presented for the year ending 31 March 2019 due to the current applicability of IFRS 9.

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.

26] Exposure to credit risk and availability of collateral security (continued)

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

Percentage of value of collateral to exposure	Exposure $ million	
	2019	2018
100% and above*	583	495
76% to 99%	27	24
51% to 75%	2	2
26% to 50%	46	49
11% to 25%	15	15
Below 10%	12	23
Unsecured	288	269
Total	973	877
Average percentage of availability of Collateral*	91%	85%

**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.

26] Exposure to credit risk and availability of collateral security (continued)

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

	2019	2018
	$'000	$'000
Impaired loans and advances to customers at 1 April	318,465	299,392
Net repayments in existing impaired loans and advances	(8,680)	(10,325)
Written off loans and advances	(18,885)	-
Classified as impaired during the year	50,186	26,250
Other movements/exchange rate fluctuations	(1,972)	3,148
Impaired loans and advances to customers at 31 March	339,114	318,465

Details of the impairment provision for loans and advances are given at note 25.

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

	2019
	$'000
Impaired investments at amortised cost at 1 April	2,331
Net Repayments in existing impaired investments	(88)
Classified as impaired during the year	278
Impaired investments at amortised cost at 31 March	2,521

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

	2018
	$'000
Impaired investments held to maturity at 1 April	2,186
Net Repayments in existing impaired investments	145
Classified as impaired during the year	-
Impaired investments held until maturity at 31 March	2,331

Details of the impairment provision for investment securities at amortised cost are given in note 25.

Internal ratings/scoring

The Bank has developed internal rating/scoring 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.

26] Exposure to credit risk and availability of collateral security (continued)

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.

27] Exposure to Eurozone countries

The Bank has no direct sovereign exposure (as defined by the European Banking Authority 'EBA') to any of the Eurozone countries. Gross exposure to other counterparties in the Eurozone countries as at 31 March 2019 is as below:

$'000

	2019			2018		
Name of the Country	**Exposure to banks**	**Exposure to Corporates**	**Total Exposure**	**Exposure to banks**	**Exposure to Corporates**	**Total Exposure**
Belgium	78	24,923	25,001	249	26,229	26,478
Romania	-	4,264	4,264	-	5,365	5,365
Germany	1,342	5,658	7,000	565	5,221	5,786
France	-	1,392	1,392	-	-	-
Ireland	-	8,483	8,483	-	8,563	8,563
Netherlands	-	11,605	11,605	-	10,917	10,917
Luxembourg	-	25,348	25,348	-	25,006	25,006
Total	1,420	81,673	83,093	814	81,301	82,115

28] Property, plant and equipment

At 31 March 2019

	Property and plant	Equipment	Total
	$'000	**$'000**	**$'000**
Cost			
At 1 April 2018	**2,382**	**4,238**	**6,620**
Additions	-	231	231
Disposals	-	-	-
At 31 March 2019	**2,382**	**4,469**	**6,851**
Depreciation			
At 1 April 2018	**(2,236)**	**(3,690)**	**(5,926)**
Charge for the year	(90)	(301)	(391)
Disposals	-	-	-
At 31 March 2019	**(2,326)**	**(3,991)**	**(6,317)**
Net book value			
At 1 April 2018	**146**	**548**	**694**
At 31 March 2019	**56**	**478**	**534**

At 31 March 2018

	Property and plant	Equipment	Total
	$'000	**$'000**	**$'000**
Cost			
At 1 April 2017	**2,382**	**4,050**	**6, 432**
Additions	-	191	191
Disposals	-	(3)	(3)
At 31 March 2018	**2,382**	**4,238**	**6,620**
Depreciation			
At 1 April 2017	**(2,113)**	**(3,357)**	**(5,470)**
Charge for the year	(123)	(333)	(456)
Disposals	-	-	-
At 31 March 2018	**(2,236)**	**(3,690)**	**(5,926)**
Net book value			
At 1 April 2017	**269**	**693**	**962**
At 31 March 2018	**146**	**548**	**694**

29] Intangible assets

31 March 2019

	Software $’000
Cost	
At 1 April 2018	2,503
Additions	130
At 31 March 2019	**2,633**
Amortisation	
At 1 April 2018	(1,999)
Charge for the year	(272)
At 31 March 2019	**(2,271)**
Carrying value	
At 1 April 2018	504
At 31 March 2019	**362**

31 March 2018

	Software $’000
Cost	
At 1 April 2017	2,294
Additions	209
At 31 March 2018	**2,503**
Amortisation	
At 1 April 2017	(1,738)
Charge for the year	(261)
At 31 March 2018	**(1,999)**
Carrying value	
At 1 April 2017	556
At 31 March 2018	**504**

30] Deferred tax assets

Deferred Tax Assets	2019 $’000	2018 $’000
At 1 April	**25,310**	**25,802**
Tax (charge)/credit to profit and loss for the year	**(1,317)**	**(728)**
Tax relating to change in fair value of Investment securities - FVTOCI	**(88)**	**236**
Tax relating to IFRS 9 transitional adjustment in retained earnings	**396**	**-**
At 31 March	**24,301**	**25,310**

30] Deferred tax assets (continued)

A Deferred Tax Asset (DTA) is assessed and recognised as recoverable on the basis of available evidence including projected profits and capital. The utilisation of a deferred tax asset is dependent on future taxable profits. The management makes an assessment of a deferred tax asset 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. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The deferred tax on losses has been recognised on the basis that there will be a 50% loss offset restriction effective from 1 April 2017. This restriction would therefore extend the time period over which losses could be recovered.

The deferred tax assets relate to unused tax losses. The deferred tax assets were reduced primarily by $0.79 million due to utilisation of tax losses for current year's profit offset, partially, by an addition of $0.40 million due to tax relating to IFRS 9 transitional adjustments.

The Finance Act 2016 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020, respectively. These reductions in the tax rate will impact the current tax charge in future periods.

The Bank has no deductible temporary differences, unused tax losses and unused tax credits which are not recognised as part of the deferred tax assets in the balance sheet.

31] Prepayments and other receivables

	2019 $'000	2018 $'000
Prepayments	635	624
Other receivables	1	3
Total prepayments and other receivables	636	627

32] Deposits from banks

	2019 $'000	2018 $'000
Inter bank borrowings	55,789	52,827
Current accounts from banks	672	1,509
Overdrafts in Nostro accounts with banks	3	6
Total deposits from banks	56,464	54,342

Deposits from banks includes deposits from a related party, detail of which is given in note 40 to the financial statements. At 31 March 2019 Nil (2018: Nil) deposits from banks are expected to be settled more than twelve months after the reporting date.

32] Deposits from banks (continued)

Out of the above, an inter-bank borrowing with a carrying value of $4.9 million (2018: Nil) is secured by a pledge of Investment securities at amortised cost with a carrying value of $5 million (2018: Nil) under the Sale and Repurchase agreement, as per details given in note 23. The financial liability is recognised for the obligation to pay for the repurchase price. Such liability has recourse only to the transferred assets.

33] Deposits from customers

	2019 $'000	2018 $'000
Current accounts	143,143	147,986
Savings accounts	138,434	164,747
Fixed term deposits	450,394	563,475
Total deposits from customers	731,971	876,208

At 31 March 2019 $154.51 million (2018: $225.38 million) of deposits from customers are expected to be settled more than twelve months after the reporting date.

34] Subordinated bonds and other borrowed funds

	2019 $'000	2018 $'000
Subordinated bonds	50,000	50,000

Subordinated bonds represents Lower Tier II capital of $50 million received as follows:

i. $12,500,000 issued in January 2012, maturing in January 2022.
ii. $12,500,000 issued in October 2012, maturing in October 2022.
iii. $5,000,000 issued in December 2013 maturing in December 2028.
iv. $10,000,000 issued in August 2014 maturing in August 2024.
v. $10,000,000 issued in December 2015 maturing in December 2025.

Bonds at Serial No. i, ii and v are subscribed by the related party, i.e. Parent bank while Bonds at Serial No. iii and iv are issued by other banks of Indian origin.

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

At 31 March 2019 $50 million (2018: $50 million) of subordinated bonds are expected to be settled more than twelve months after the reporting date.

35] Other liabilities

	2019 $'000	2018 $'000
Bills payable	362	1,037
Other payables and accrued liabilities	2,294	3,881
Deferred income	2,052	1,635
Total other liabilities	4,708	6,553

Other payables and accrued liabilities include advance interest amount of $0.44 million at 31 March 2019 (2018: $3.36 million) received on loans.

36] Share capital

Authorised share capital

Authorised share capital for the Bank is $400 million.

	2019		2018	
	No.	$	No.	$
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	254,630,625	254,630,625
Issue of new ordinary shares of $1 each	-	-	20,000,000	20,000,000
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

*Included within the share capital are two additional Tier 1 bonds issued as perpetual floating rate sub-ordinated notes mentioned hereunder

i. $25 million issued on 16 February 2017 (Converted into additional Tier I on 16 February 2017 from Lower Tier II raised by the Bank in 2009).
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.

37] Fair value reserves

31 March 2019	**Gross $'000**	**Tax $'000**	**Net $'000**
Balance at 1 April 2018	**(1,394)**	**237**	**(1,157)**
Amount transferred to statement of profit or loss	**123**	**(21)**	**102**
Movement in FVTOCI reserve in year	**513**	**(66)**	**447**
Balance at 31 March 2019	**(758)**	**150**	**(608)**

31 March 2018	**Gross $'000**	**Tax $'000**	**Net $'000**
Balance at 1 April 2017	**43**	**(77)**	**(34)**
Amount transferred to statement of profit or loss	**(315)**	**77***	**(238)**
Movement in AFS reserve in year	**(1,122)**	**237**	**(885)**
Balance at 31 March 2018	**(1,394)**	**237**	**(1,157)**

* Prior period adjustment to reserve

38] Operating lease commitments

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

	2019 $'000	**2018 $'000**
Less than one year	**831**	**579**
More than one year but less than five years	**1,300**	**226**
Total operating lease commitments	**2,131**	**805**

The Bank leases premises for its corporate office and branches. The leases typically run for a period of 15 to 20 years with a break clause of 5 years for the Bank and the lessor. Lease payments are liable to be modified at break period to reflect market rentals. The new premises for Corporate Office and Central London branch have a rent-free period of one year out of initial five years of lease. Rent for this incentive period has been calculated on a straight-line basis over the lease term (till next reset/break clause) and kept as provision that is included in other liabilities (note 35).

39] Other commitments and contingencies

Commitments in respect of financial instruments were as follows:

	2019 $'000	**2018 $'000**
Guarantees issued to third parties	**1,500**	**1,620**

There were undrawn loans of $31.01 million (2018: $21.63 million) and un-availed portions of sanctioned overdraft limits to the extent of $12.52 million (2018: $13.91 million) as at 31 March 2019.

39] Other commitments and contingencies (continued)

Bills amounting to $14.04 million (2018: $6.08 million) were sent/received in collection on behalf of customers. The Bank does not have any balance sheet exposure on such bills for collection.

40] 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.

41] 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 2019 are as below:

	2019 $'000	2018 $'000
Liabilities		
Borrowings	50,549	52,560
Current accounts	657	1,479
Assets		
Balance in Nostro accounts	869	374
Placements	44,279	50,257

The related party exposure as at 31 March 2019 is all with the Parent bank except for current account exposure of $0.25 million and placements of $35.22 million.
Excluded from the above are equity and subordinated bonds, which are given in note 43 to the financial statements.
All non-capital transactions are carried out on an arm's length basis.

41] Related party transactions (continued)

Contingent exposure to PNB is shown below:

Nature	2019 $'000	2018 $'000
Cross Currency Swaps (notional) – Sell	99,263	115,766
Cross Currency Swaps (notional) – Buy	99,025	119,379

Detail of transactions of a revenue nature with PNB is shown below:

Nature	Particulars	2019 $'000	2018 $'000
Receipts:			
Interest Earned	Interest on Interbank Placements	2,013	1,095
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	190	174
B. Interest Paid on	Borrowings	1,789	1,294
	Fixed Deposits	-	-
C. Interest Paid on Capital Bonds (unaudited)	Additional Tier I Capital Bonds of $45.00 million (2017: $25.00 million Tier II has been converted and $ 20.00 million new AT I issued)	3,432	2,928
	Lower Tier II Capital Bonds of $50.00 million ($25.00 million converted into AT1Capital Bonds in Feb 2017)	-	-
	Lower Tier II Capital Bonds of $12.50 million	827	690
	Lower Tier II Capital Bonds of $12.50 million	827	690
	Lower Tier II Capital Bonds of $10.00 million	703	610

**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.*

The Bank enters into unsecured commercial transactions with the Parent bank branches, Subsidiary and Associates Company in the ordinary course of business on an arm's length basis. Necessary IFRS 9 ECL provision are made for relevant exposures.

Other transactions with related parties (including remuneration paid to Directors who the Bank considers as key management) are disclosed in note 15. The Bank considers that the cost of secondment of executives to or from the Parent bank is not material.

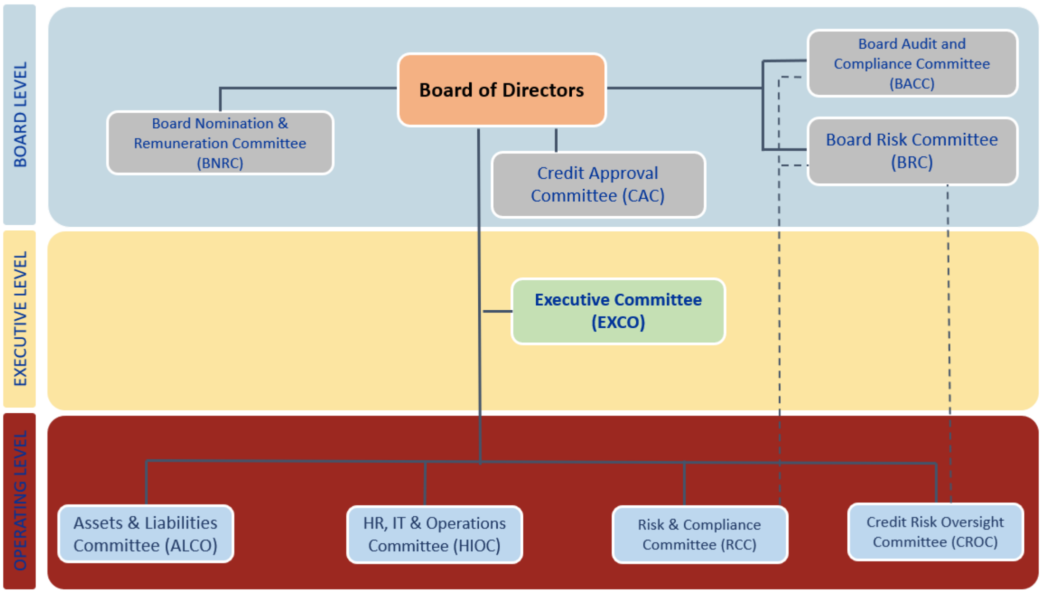
Related party Equity and subordinated bonds are outlined in note 36 and note 34 respectively to the financial statements.

42] Financial risk management objectives and policies

Risk governance

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

PNBIL Governance Structure



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

Board of Directors

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

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

42] Financial risk management objectives and policies (continued)

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 Risk Committee (BRC)

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

Board Audit and Compliance Committee (BACC)

The Board Audit and Compliance Committee is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Banks senior audit committee with delegated authority from the Board to agree the Bank's audit universe and annual audit plan, to review and agree the annual report and accounts, to monitor all "third line" audit activity in the Bank, and to 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. The committee is chaired by an Independent Non-Executive Director.

Board Credit Approval Committee (BCAC)

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

Executive Committee (EXCO)

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

Risk and Compliance Committee (RCC)

The Risk and Compliance Committee is a sub-committee of the Executive Committee from which it derives its authority and to which it reports. The RCC has a principal focus on ensuring that the Bank has appropriate mechanisms for the measurement, monitoring and amelioration of all its risks other than those relating to credit that are monitored via the CRC and the CROC. The committee is chaired by the Chief Risk Officer (CRO). In the absence of CRO, the Head of Compliance (HOC) shall chair the meeting.

42] Financial risk management objectives and policies (continued)

Asset and Liability Committee (ALCO)

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

Credit Risk Oversight Committee (CROC)

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

Three lines of defence model

Guidelines set out in the (i) PRA Rulebook and, (ii) EBA Guidelines on Internal Governance (GL44) require management to have in place effective processes to identify, measure, or assess, monitor, mitigate and report on risks (the First Line of Defence). As the Second Line of Defence, Risk and Compliance teams should be in place to establish policy, provide guidance and to verify that policies and procedures are complied with across all risk categories. Internal Audit acts as the Third Line of Defence and provides an independent view of the first two lines of defence.

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

Specific responsibilities of the First Line include:

- 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

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

42] Financial risk management objectives and policies (continued)

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

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

- 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
- 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
- Reporting via the CRO and HOC, on all these items, including risk mitigating actions, where appropriate

Further detail on the specific roles and responsibilities of the Risk Management Function and the Compliance Function are provided in Sections 4.3 and 4.5 of Risk Governance Framework (version 4.0) which was approved in January 2019 Board Meeting.

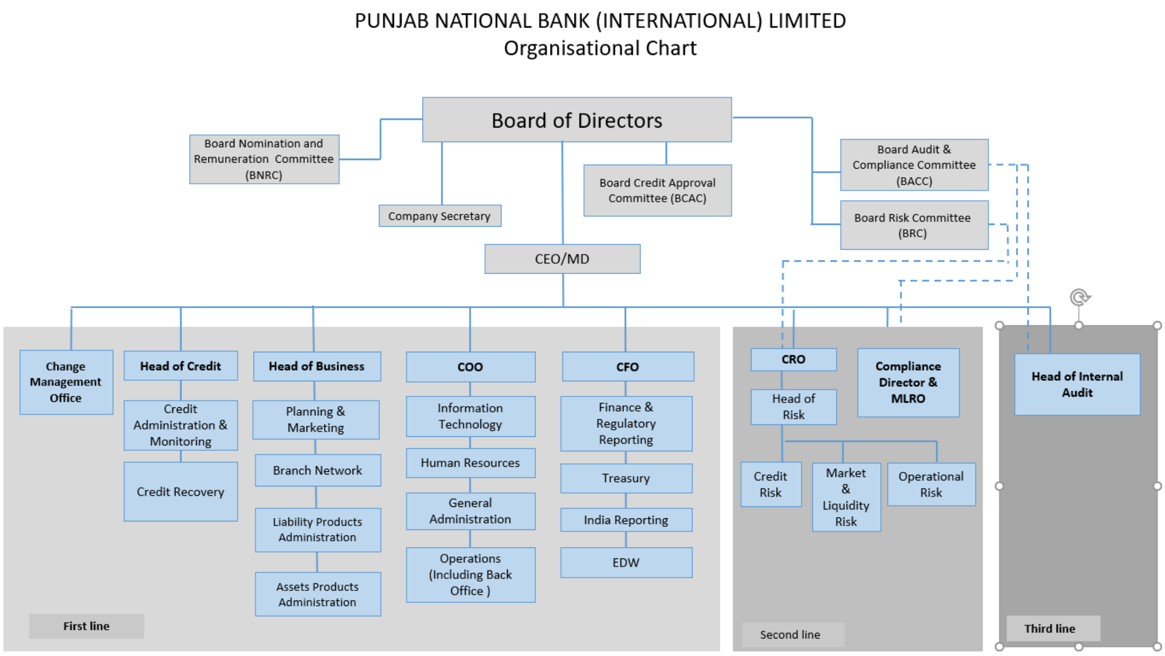
The Third Line of Defence comprises Internal Audit who is responsible for:

- 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, including, but not limited to an assessment of:
    - the effectiveness of the Risk Management and Compliance Functions
    - the quality of risk reporting to the Board and Senior Management
    - the effectiveness of the Bank's system of internal controls
- Providing independent assurance to the Board on the above
- Recommending improvements and enforcing 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.

42] Financial risk management objectives and policies (continued)

The diagram below illustrates the segregation of First, Second and Third Line roles across relevant bank functions, branches and teams:



Risk management function:

The Risk Management 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.

The broad objectives of the Risk Management Function are to:

- Oversee risk-taking activities across the Bank with a view to ensuring excessive risk-taking is avoided
- Provide independent review and assessment of the risks facing the Bank
- Instill a strong risk culture and disciplines across the Bank

It fulfils these objectives through:

- 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

As outlined in the Basel Committee on Banking and Supervision Guidelines: Corporate Governance Principles for Banks (July 2015): The risk management function compliments the business line's risk

42] Financial risk management objectives and policies (continued)

activities through its monitoring and reporting responsibilities. Among other things, it is responsible for overseeing the Bank's risk-taking activities and assessing risks and issues independently from the business line. The function should promote the importance of senior management and business line managers in identifying and assessing risks critically rather than relying only on surveillance conducted by the risk management function.

The CRO has overall responsibility for overseeing the development and implementation of the Bank's Risk Management Function, including development of the Bank's risk management systems, policies, processes, models, tools and reports and ensuring they are sufficiently robust to support delivery of the Bank's strategic objectives and all of its risk-taking activities.

The CRO has independent oversight of the Bank's enterprise-wide risk management activities across broadly all key risk categories except for conduct and regulatory matters that are the responsibility of the Head of Compliance. The CRO is responsible for identifying, assessing, measuring, mitigating and reporting all material risks to which the Bank is, or may become, exposed. The CRO is a member of the Bank's Executive Committee and all of the risk committees within the Bank, and directly manages the Bank's Risk Management team. The CRO reports independently to the Bank's MD and the Chairman of the Board Risk Committee.

The CRO is responsible for supporting the Board in its engagement with, and oversight of, development of the Bank's Risk Appetite and Risk Appetite Statement and for translating the approved Risk Appetite into limits which cascade throughout the business. Together with management, the CRO is actively engaged in monitoring the Bank's performance relative to risk limit adherence. The CRO's responsibilities also encompass independent review and participation in strategy and planning, capital and liquidity planning, and the development and approval of new products.

Compliance function:

Compliance sits outside the Risk Management function in PNBIL, with the HOC and MLRO reporting to the MD. The mandate of Compliance is to support management to achieve business objectives in a compliant manner that 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 (including independent annual monitoring, through the Annual Compliance Monitoring Plan).

At PNBIL Compliance is an independent function, managed by the HOC. As such the HOC also has the right of independent access to the BACC in respect of statutory responsibilities attaching to an approved SMR HOC role. At PNBIL the HOC also has responsibility for Anti Money Laundering (AML) and Counter Terrorist Financing (CTF) activity (SMF17).

The HOC provides assurance to the Bank's MD and to the Board that the Bank will comply with all relevant regulatory requirements and thus continues to receive from its key stakeholders (Shareholders; Customers, Partners, and the Market; and Regulators) its various licenses to operate.

42] Financial risk management objectives and policies (continued)

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.

Key stakeholders include the Board Chair, Non-Executives, BACC, MD, Executive Committee, PRA, FCA, NCA, ICO, other law enforcement, trade associations, business / functional leaders.

Internal audit

The Head of Internal Audit (HIA) is accountable for the Bank's internal audit work 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 occupies a "SMF5-Head of Internal Auditor" role under the PRA Senior Manager regime. Appointments to this role are subject to pre-approval under the regime. The HIA reports to the MD and the Chairman of the BACC.

Risk categorisation

As a part of its ICAAP, the Bank has identified a number of material risks in its product portfolio and these are discussed below:

Credit risk

Credit risk is defined as potential financial loss on account of delay or denial of repayment of principal or interest with respect to a credit facility extended by the Bank, both on a funded and non-funded basis. Credit risk can also arise on account of downgrading of counterparties to whom credit facilities are extended or whose credit instruments the Bank may be holding, causing the value of those assets to fall.

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

Counterparty credit risk is also part of overall credit risk of the Bank. Counterparty credit risk arises from the potential default of the counterparty in relation to OTC derivatives and Security Financing (REPO) transactions. Besides, Credit Valuation Adjustment (CVA) risk also arises on OTC derivatives and REPO transactions of the Bank.

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

42] Financial risk management objectives and policies (continued)

- Credit Policy, Collateral Management Policy, Asset Classification and Investment Policy Credit Manual
- Separate Credit team at corporate office headed by UK experienced personnel working independently from Business
- Lines 1 and 2 do independent evaluation and risk rating/scoring
- Chief Risk Officer part of Credit Recommendation Committee / Credit Approval Committee
- Delegated authorities for credit approval decisions
- Various prudent exposure norms, pertaining to Individual exposure, Industry exposure, geographical exposure etc.
- Policies and Manuals being modified for better classification and monitoring
- Portfolio Monitoring and periodic review of accounts
- Independent Credit Risk Oversight Committee
- Separate Recovery unit focusing on even one day past due.

For more details on credit risk, please refer to the Pillar III disclosures of the Bank which are published on the Bank's website (www.pnbint.com).

Market risk

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

The most significant forms of market risk to which the Bank is exposed are identified as interest rate risk in trading book and exchange risk. The Bank carries investment book (mainly consisting of corporate bonds, banks / FI's bond and UK/US treasury Securities).

Foreign Exchange risk is the risk of losses arising on account of movement in exchange rates under currency open positions. PNBIL deals in 3 major currencies namely GBP, USD and EUR. The income and expenditure generated out of assets in each category may not always match on account of which FX open position will arise. The open position can also arise on account of trading in currencies for own account as well as on account of cross currency transactions of its customers.

The Bank does not trade in commodities, equities and derivatives and consequently, it is not exposed to these risks. However, the Bank does use derivatives for hedging purposes and these derivatives are considered part of the trading book.

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long or short currency positions. These derivatives are re-valued daily and any change in their fair value is recognised immediately in profit and loss. The total notional amount of outstanding currency exchange contracts to which the Bank is committed is $280.96 million (2018: $345.85 million).

42] Financial risk management objectives and policies (continued)

The open position of the Bank as on 31 March 2019 is as follows:

Currency	Open Position '000	$ Equivalent $'000
Indian Rupees	102,025	1,475
Pound Sterling	(7,163)	(9,342)
Euro	7,687	8,631
Nepalese Rupees	3,321	30
Total Long Position in US Dollars		**794**
Total Short Position in US Dollars		-

Upward or downward movement of exchange rates by 10% may impact profitability of the Bank by $0.08 million (2018: $0.12 million). This analysis is a reasonable approximation of possible changes due to movement in exchange rates.

Interest rate risk in banking book (Re-pricing analysis as at 31 March 2019)

Interest rate risk analysis is undertaken by examining details of interest sensitive assets and liabilities to establish when they will next reprice (i.e. be subject to a change in interest rate), and then tabulating those which re-price within set time periods (known as 'time buckets', within which all items repricing are grouped together). Interest rate sensitive items are those assets and liabilities that are subject to contractual change in interest rates, or which mature (fall due for repayment) during the period of the return.

The Bank is monitoring its interest rate mismatches on a regular basis, and the potential loss on account of upward or downward movement of interest rates by 2% based on exposure as at 31 March 2019 is presented below:

42] Financial risk management objectives and policies (continued)

Amount in $ thousands

Particulars	Upto 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non Sensitive Category	Total
Assets								
Cash and cash equivalent	157,353	0	0	0	0	0	0	157,353
Investment securities – FVTPL	24,232	0	0	0	0	0	0	24,232
Derivative financial instruments	999	1,311	195	27	0	0	0	2,532
Loans and advances to banks	0	69,757	35,420	20,753	29,129	0	612	155,671
Loans and advances to customers	301,185	30,561	59,030	36,946	42,494	53,837	78,680	602,733
Investment securities – FVTOCI	1,347	1,011	4,983	1,502	5,505	27,968	272	42,588
Investment securities – amortised cost	3,046	4,070	10,754	3,568	13,424	10,664	5,122	50,648
Property, plant and equipment	0	0	0	0	0	0	534	534
Intangible assets	0	0	0	0	0	0	362	362
Deferred tax assets	0	0	0	0	0	0	24,301	24,301
Current tax Assets								
Prepayments and other receivables	0	0	0	0	0	0	636	636
Total Assets	**488,162**	**106,710**	**110,382**	**62,796**	**90,552**	**92,469**	**110,519**	**1,061,590**
Liabilities								
Derivative financial instruments	867	281	114	0	0	0	0	1,262
Deposits from banks	675	55,789	0	0	0	0	0	56,464
Deposits from customers	316,455	77,688	116,880	64,234	138,472	18,242	0	731,971
Current tax liabilities							316	316
Subordinated liabilities	0	15,000	35,000	0	0	0	0	50,000
Deferred tax liabilities								0
Other liabilities	362	0	0	0	0	0	4,346	4,708
Share Capital	0	0	45,000	0	0	0	274,631	319,631
Reserve and retained earnings	0	0	0	0	0	0	(102,154)	(102,154)
Fair Value Reserves	0	0	0	0	0	0	(608)	(608)
Total Liabilities	**318,359**	**148,758**	**196,994**	**64,234**	**138,472**	**18,242**	**176,531**	**1,061,590**
Interest Rate Gap	169,803	(42,048)	(86,612)	(1,438)	(47,920)	74,227	(66,012)	
Interest Rate Gap for Hedging	0	(39,209)	(39,096)	0	78,305	0	0	0
Net Gap	169,803	(81,257)	(125,708)	(1,438)	30,385	74,227	(66,012)	0
Impact of Interest Variation of 2%	142	(271)	(943)	(22)	1,215	5,938		6,059

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

Liquidity and funding risk

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations with respect to customer deposits or any borrowing or obligations under any other assets or liabilities, within stipulated time and without significant additional cost. The Bank has Board approved Internal Liquidity Adequacy Assessment Process (ILAAP) in place, in line with the guidelines issued by the Prudential Regulation Authority (PRA). The Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed by the Board and/ or the regulator.

42] Financial risk management objectives and policies (continued)

The following table analyses the Bank's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date as at 31 March 2019:

Amount in $ thousands								
Particulars	Upto 1 month	1-3 month	3-12 month	1-2 year	2-5 year	Over 5 years	Undated	Total
Assets								
Cash and cash equivalent	157,353	0	0	0	0	0	0	157,353
Investment securities – FVTPL	24,232	0	0	0	0	0	0	24,232
Derivative financial instruments	999	1,311	222	0	0	0	0	2,532
Loans and advances to banks	0	69,757	56,172	29,129	0	0	613	155,671
Loans and advances to customers	84,512	22,829	116,896	76,553	171,396	51,867	78,680	602,733
Investment securities – FVTOCI	1,347	1,011	6,485	2,495	21,987	8,992	271	42,588
Investment securities – amortised cost	3,046	4,070	14,322	985	20,397	2,706	5,122	50,648
Property, plant and equipment	0	0	0	0	0	0	534	534
Intangible assets	0	0	0	0	0	0	362	362
Deferred tax assets	0	0	0	0	0	0	24,301	24,301
Current tax Assets								0
Prepayments and other receivables	0	0	0	0	0	0	636	636
Total Assets	**271,489**	**98,978**	**194,097**	**109,162**	**213,780**	**63,565**	**110,519**	**1,061,590**
Liabilities								
Derivative financial instruments	867	281	114	0	0	0	0	1,262
Deposits from banks	675	55,789	0	0	0	0	0	56,464
Deposits from customers	316,455	77,688	181,114	75,785	80,929	0	0	731,971
Subordinated liabilities	0	0	0	0	25,000	25,000	0	50,000
Current tax liabilities							316	316
Other liabilities	362	0	0	0	0	0	4,346	4,708
Share capital	0	0	0	0	0	0	319,631	319,631
Reserves and retained earnings	0	0	0	0	0	0	(102,154)	(102,154)
Fair Value reserves	0	0	0	0	0	0	(608)	(608)
Total Liabilities	**318,359**	**133,758**	**181,228**	**75,785**	**105,929**	**25,000**	**221,531**	**1,061,590**
Financial guarantees and letters of credit – net of deposit		1,370	130					1,500
Irrevocable Loan commitments	1,876	0	0	0	0	0	0	1,876
Total equity, liabilities and commitments	320,235	135,128	181,358	75,785	105,929	25,000	221,531	1,065,186
Net liquidity gap	**(48,746)**	**(36,150)**	**12,739**	**33,377**	**107,851**	**38,565**	**(111,012)**	**(3,376)**
Cumulative Liquidity Gap	**(48,746)**	**(84,896)**	**(72,157)**	**(38,780)**	**69,071**	**107,636**	**(3,376)**	

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

42] Financial risk management objectives and policies (continued)

The comparative analysis as at 31 March 2018 is shown below:

Amount in $ Thousands								
Particulars	Up to 1 Month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Undated	Total
ASSETS								
Cash and cash equivalent	131,368	-	-	-	-	-	-	**131,368**
Investment securities – held for trading	32,588	-	-	-	-	-	-	**32,588**
Derivative financial instruments	6,437	5,360	135	-	-	-	-	**11,932**
Loans and advances to banks	84,494	89,242	114,577	2,084	45,112	-	-	**335,509**
Loans and advances to customers	191,471	4,616	93,027	55,730	142,663	80,810	-	**568,317**
Investment securities – available for sale	2,028	-	1,135	13,175	21,078	9,131	-	**46,547**
Investment securities – held to maturity	10,225	-	4,487	18,562	14,658	692	-	**48,624**
Property, plant and equipment	-	-	-	-	-	-	694	**694**
Intangible assets	-	-	-	-	-	-	504	**504**
Deferred tax assets	-	-	-	-	-	-	25,310	**25,310**
Prepayments and other receivables	280	-	347	-	-	-	-	**627**
Total assets	**458,891**	**99,218**	**213,708**	**89,551**	**223,511**	**90,633**	**26,508**	**1,202,020**
LIABILITIES								
Derivative financial instruments	830	249	216	-	-	-	-	**1,295**
Deposits from banks	3,952	-	-	50,390	-	-	-	**54,342**
Deposits from customers	361,268	79,128	204,323	115,944	115,545	-	-	**876,208**
Subordinated liabilities	-	-	-	-	12,500	37,500	-	**50,000**
Other liabilities	1,530	13	317	215	3,814	664	-	**6,553**
Share capital	-	-	-	-	-	-	319,631	**319,631**
Reserves and retained earnings	-	-	-	-	-	-	(104,852)	**(104,852)**
Fair Value reserves	-	-	-	-	-	-	(1,157)	**(1,157)**
Total Liabilities	**367,580**	**79,390**	**204,856**	**166,549**	**131,859**	**38,164**	**213,622**	**1,202,020**
Financial guarantees and letters of credit –	-	1,473	147	-	-	-	-	**1,620**
Irrevocable Loan commitments	25,117	-	-	-	-	-	-	**25,117**
Total equity, liabilities and commitments	392,697	80,863	205,003	166,549	131,859	38,164	213,622	**1,228,757**
Net liquidity gap	66,194	18,355	8,705	(76,998)	91,652	52,469	(187,114)	**(26,737)**
Cumulative Liquidity Gap	66,194	84,549	93,254	16,256	107,908	160,377	(26,737)	

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

As a part of the liquidity risk mitigation tools, the Bank has in place liquidity stress testing mechanisms to assess the Bank's ability to be able to withstand a range of different stress events and an adequately diversified funding structure and access to funding sources. Detailed liquidity stress testing methodology has been approved by the Board as part of ILAAP document and the periodicity of the stress test have been defined as monthly.

Stress testing is conducted on a monthly basis using the Liquidity Monitoring Metric ("LMM") sheet with altered haircuts and rollover factors in each scenario. Unlike the original focus of the LMM on a 90 days period, PNBIL have extended the stress scenario to focus on a 180 days period, with the Bank able to monitor the worst point during the stress alongside the cumulative end result.

In addition, the Bank also continues to run the scenarios for 14 days, 30 days, as well as a 180-day period to analyse the short-term and longer-term impact that each stress scenario may have.

42] Financial risk management objectives and policies (continued)

The Bank's stress testing assesses two idiosyncratic stresses (IS), two market wide stresses (MS), one wholesale stress (WS) and two combined scenario (CS) with different stressed factors being applied under multiple scenarios. The outflow factors and the haircuts applied to inflows differ in each scenario.

Operational risk

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

The Bank has identified each of such possible eventualities and established mitigation processes and internal controls to avoid such risks. Some of the key Operational Risk Mitigation tools are as under:

- Compliance & Risk Policies and Procedures
- New Risk Incident Reporting Template
- Key Risk Indicator framework in place
- RCSA framework in place and complete roll out planned this year (FY 2019-20)
- Comprehensive Business Continuity Plan (BCP) and procedure including Cyber Incident Response Plan in place
- Regular fire drills and testing of BCP
- Provision of DR sites for key IT systems and their regular testing (as part of BCP testing)
- Training for imbibing risk culture and spreading awareness
- Cyber Insurance with coverage of up to £2mn obtained w.e.f. 30 Nov 2018 and valid for a period of 365 days
- Cyber simulated disaster recovery/stress testing of cyber response plan
- Legal opinion addressed to the Bank. The Bank or its solicitor ensures that counterparties are legally authorised to enter into documentation and that any appropriate filings or registrations in a relevant jurisdiction are affected

42] Financial risk management objectives and policies (continued)

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.

Following are the key mitigation steps taken to mitigate this risk:

- Comprehensive Compliance policies
- Governance via BACC
- The Bank has appointed HOC & MLRO, CFO, Head of Credit and other senior officers with local banking knowledge
- HOC updates the Risk and Compliance Committee about the changes / new guidelines happening in regulation and compliance. These compliance issues are monitored on an ongoing basis and deliberated upon in the quarterly BACC meetings. As per recommendations of the BACC, appropriate strategy / remedial actions are devised
- Regulatory updates are being received through various consultancy firms / PRA to keep abreast of the latest developments

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, preventing market abuse, or building robust audit procedures.

For the purpose of the PRA assessment conduct risk losses are defined as losses in the Basel loss event category 'Clients, Products and Business Practices' (CPBP). Currently, conduct and legal losses make up the bulk of CPBP losses. In the current environment CPBP losses are considered a proxy of conduct risk losses.

The following key risk mitigations have been put in place to mitigate conduct risk:

- Comprehensive Compliance policies
- Governance via BACC
- Regular Monitoring by Compliance department
- Product set of the Bank is relatively straightforward at present and as such believe that the level of conduct risks the business faces is low. Even under the revised business strategy, no new products are introduced
- No regulated sales activity and no staff incentives
- Good track record on customer interaction and complaints handling, low level of complaints, monitored and reported at the BRC

42] Financial risk management objectives and policies (continued)

- The amount of compensation paid out to the customers since its inception with regards to conduct matters (CPBP) is minimal/negligible given the Bank offers few and basic vanilla products to customers and has a simple business model
- The customer service is of paramount importance and the Bank provides personalised services as the branches are easily accessible for the customers
- Regular training for staff on regulatory / compliance policies such as Treating Customer Fairly (TCF), Know your Customer (KYC) & Anti Money Laundering (AML) etc. is given, both online and classroom, enabling them to fit into risk / compliance-oriented culture

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 changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

The following key risk mitigations have been put in place to mitigate strategic & Business risk:

- Low risk business model based on modest growth
- Targeted segments where the Bank has experience, knowledge, skill set and can build capabilities
- Focus on existing, profitable products and services and strengthen the foundations
- On one hand, PNBIL is not venturing into any new product and on the other, the framework of credit underwriting and sanction is undergoing change. In this process the Bank has recruited a local Head of Credit and is developing credit analysts at branches with a team at Back Office, India for regular monitoring and support
- The basic work for Implementation of strategy initiated
- Project Manager identified by the Board who has the prior experience of working on implementation of wider remediation programme

Reputational risk

Reputation risk is the threat of the Bank's image being tarnished and subsequent loss in business due to events that may be beyond the control of the Bank, e.g. an unrelated event in India, an event impacting the Parent bank or another Indian bank.

Reputational risk at PNBIL is defined as the risk of possible damage the PNBIL's brand and reputation, and the associated risk to earnings, capital or liquidity arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Bank's values and beliefs.

42] Financial risk management objectives and policies (continued)

To manage and mitigate reputational risk in PNBIL, the following measures have been taken:

- Reputational Risk Framework Policy is in place approved by the Board
- The Bank has no risk appetite to undertake any activities that could endanger the reputation or good name of the Bank
- Put in place various policies (part of the risk governance framework), procedures, staff hand-book for management of various risks
- actively involved in corporate social responsibilities as part of corporate strategy to build and sustain reputation
- Close management of operations via policies and procedures
- Efficient Complaints handling procedure
- Compliance policies

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 PNB
- Limits on net exposure of the Parent bank
- Performance of Parent bank and its likely impact on PNBIL being assessed regularly
- Operational and Compliance Policies

Further, our reliance on PNB with regards to capital and liquidity has reduced.

43] Capital management (unaudited)

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

- Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the Prudential Regulation Authority and the European Banking Authority;
- 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

43] Capital Management (unaudited) - (continued)

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	2019 $'000	2018 $'000
Core Tier I Capital	• Permanent share capital	**274,631**	**274,631**
	• Profit and loss account and other reserves	**(102,154)**	**(104,852)**
	• FVTOCI reserve	**(608)**	**(1,157)**
	• IFRS 9 transitional adjustment	**3,974**	
		175,843	**168,622**
Additional Tier I	• Additional Tier 1 capital	**45,000**	**45,000**
Adjustments	• Intangible Assets	**(362)**	**(504)**
	• Deferred tax assets	**(24,301)**	**(25,310)**
	• Due to prudential filters	**(709)**	**-**
Total Tier I Capital		**195,471**	**187,808**
Tier II Capital			
	• Long term dated subordinated bonds	**50,000**	**50,000**
	• Collective impairment provision	**-**	**3,564**
		50,000	**53,564**
Deductions from Tier II	• Amortisation of dated Tier II capital, maturing within five years	**(9,118)**	**(4,121)**
Total Tier II Capital		**40,882**	**49,443**
Total Capital (unaudited)		**236,353**	**237,251**

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.

44] Events after the balance sheet date

There have been changes in the composition of Board of Directors. Please refer to 'Company information on Page 2 of the Annual report for more details.

The date for UK's withdrawal from the European Union has now been extended to 31st October 2019. Please refer to the 'Strategic report' for more details on the Bank's assessment in relation to this.

45] Country-by-country reporting for the year ended 31 March 2019

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

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

Information disclosed below contains details of corporate income tax paid and received; however, PNBIL incurs a range of other taxes which do not form part of this disclosure, including withholding taxes, UK Bank Levy, social security and VAT. If these taxes had been disclosed this would have significantly increased the value of taxes paid by PNBIL during the year ended 31 March 2019.

Country	Turnover ($’000)	Profit before tax ($’000)	Corporate income tax (Paid/received) ($’000)	Full time equivalent No of employees
United Kingdom	**31,903**	**9,951**	**-**	**148**

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 financial instruments designated at fair value through profit or loss’, ‘net gains on investment securities - FVTOCI’, ‘interest income’ net of ‘interest expense’ and ‘other income’.

Profit before tax represents Accounting profits under IFRS accounting as adopted by the European Union.

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

Full time equivalent number of employees is the average full time equivalent number of employees for the year legally employed by PNBIL, including staff of back office and excluding contractors.