punjab national bank
(International) Limited

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2016

COMPANY REGISTRATION NUMBER 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FOR THE YEAR ENDED 31 MARCH 2016

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FOR THE YEAR ENDED 31 MARCH 2016

Company registration number **5781326**

The Board of Directors

Ms. Usha Ananthasubramanian
Chairman

Antanu Das
Managing Director

Muddoor Sadananda Nayak
Executive Director

S K Mohanty

Malcolm Graham McCaig

David Hopton

There have been changes in the management and governance structure presented below

DIRECTORS	Appointment/ Approval Date	Resignation Date	Remarks
Bhupinder Singh Passi	-	29.05.2015	Completed Tenor
Gauri Shankar	08.04.2015	13.01.2016	Resigned as MD of parent bank.
K Thyagarajan	08.04.2015	30.11.2015	Retired
Usha Ananthasubramanian	11.01.2016	On Board	On Board
Antanu Das	14.01.2016	On Board	On Board
S K Mohanty	02.03.2016	On Board	On Board

Company secretary ***Camilla Shaw*** **(Appointed 01.03.2016)**

Registered office

1 Moorgate
London
EC2R 6JH, UK
Tel : 020 77969600
Fax: 020 77961015
Email : md@pnbint.com

Statutory auditor **Deloitte LLP**

Chartered Accountants

DIRECTORS REPORT

The directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2016. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards as endorsed by the European Union.

RESULTS AND DIVIDENDS

The operating profit before provisions, tax and dividends for the current financial year has decreased by 7.79% from $41.91 million to $38.26 million against a backdrop of fall in advances and increased expenditure.

Due to fall in advances, the total income has decreased by $0.94 million (1.70%) from $55.38 million to $54.43 million. Other expenditure increased by $2.21 million (16%) from $13.92 million to $16.17 million.

Net interest income has shown improvement, increasing by $2.90 million signifying better margins. Net trading income decreased by $4.19 million due to market rate movements.

Expenditure increases were due to the Bank upgrading its governance and control environment and investing in systems to enable it to meet the increasing regulatory challenges faced by all Banks.

Many of the Bank's customers have been adversely affected this year by the reduced economic growth in India, the delay in flow of funds to the much awaited infrastructure projects and the global slowdown. This has resulted in increased gross impaired advances to $144.99 million ($82.53 million in 2015) necessitating the need for the Bank to take a higher level of impairment provisions.

In addition to this, the Bank took the opportunity to further fine-tune its impairment recognition and provision methodology resulting in an additional impairment provisioning of $71.85 million. The net impaired advances have accordingly reduced from $47.03 million to $36.37 million in 2016.

The result after provision is a loss for the year of $33.59 million. The losses and other movements in AFS securities have created a tax benefit of $6.70 million. This will be used to claim a refund of tax paid in the prior year and will offset tax due on future profits. Since we have accumulated profit of $31.75 million the current year loss will be absorbed out of this.

The financial statements for the reporting year ended 31 March 2016 are shown on pages 21 to 75. Performance highlights are given in the Strategic Report.

As in previous years, the directors have not recommended any payment of dividend on equity share capital, however, a dividend at the rate of LIBOR plus 4% amounting to $1.14 million (2015: $1.08 million) has been paid on the amount of Perpetual Tier II capital.

Details of changes in management and governance structure of Punjab National Bank (International) Limited during the year are shown on page 3 of this Annual Report.

DIRECTORS' REPORT (CONTINUED)

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Punjab National Bank (International) Limited ('PNBIL', 'Company' 'Bank'), a UK incorporated in 2007 as a 100% subsidiary of Punjab National Bank – India (PNB), offers commercial banking services to customers. PNBIL is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Our Parent is one of the leading public sector banks in India. PNB had an asset base of $97.89 billion as at 31 December 2015 ($92.11 billion as at 31 December 2014). PNBIL's main business is to provide corporate and retail banking services to different segments of customers, particularly to those with business or personal links with India and UK residents.

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

Major activities of the Bank include accepting deposits from both retail and corporate clients, lending to retail and corporate clients, making rupee and other remittances for its clients and treasury operations to support its funds management and to meet cross currency transactions of its clients. The Bank has also built a portfolio of investments on its own account, held mainly for liquidity management. Main functions of the treasury operations continue to be to resource funding for the Bank, to maintain comfortable liquidity position throughout the financial year and provide guidance on the pricing of assets and liabilities.

Offering simple deposit products, relationship banking, retail and corporate lending and remittances continue to be the core business for the Bank. The Indian Rupee (INR) remittance scheme of the Bank has stabilised and gained popularity among the ethnic population. PNBIL has launched debit card services for its current account holders and also provides internet banking services.

NEW INITIATIVES/MILESTONES

The Bank offers "Cash ISA" product in two variants i.e Variable Rate Cash ISA and Fixed Rate Cash ISA. These products are gaining popularity and the Bank has been able to add retail stable customer deposits through these products. Bank has mobilized more than $223 million as on 31 March 2016 under this deposit scheme.

During the year we made significant advancements on the IT front (System, Application and Technologies) being;

- Implementation of local Disaster Recovery server in London for the transaction System. The Bank's main server is hosted in Delhi (India) whereas primary Disaster recovery (DR) site is in Mumbai.
- Upgraded the treasury application software, Finacle Treasury.
- Upgraded the Anti Money Laundering Solution.
- Implemented online data capturing tool for Accounts Opening and also doing online Know Your Customer (KYC) check through the same system.
- Extended the facility to self-reset Internet Banking Password for the customers using Internet Banking Services.

We had launched a new contactless debit card with Mastercard in the previous year which has now been rolled out to all eligible customers. New customers are being issued with contactless cards only whilst existing Maestro Card holders were provided with replacement Mastercard.

The Senior Managers Regime (SMR) has been implemented. A professional advisor was appointed to provide skilled resources to support PNBIL in the implementation process. Allocation of prescribed responsibilities for all the staff members, Grandfathering of the existing persons to perform the functions is also complete. A permanent CFO, a CRO (PRA approval received for the appointment on SMF 2 and SMF 4 on 16.01.2016) and a Full time Company Secretary have been appointed by the Bank. The use of an E Learning module for training to all the staff members including employees under Senior Manager Regime and Certified Regime has been finalised.

Bank is in process of acquiring/implementing new HR software. This would support various HR processes including record keeping and SMR implementation.

The Bank embarked upon establishment of 'Enterprise Wide Data Warehouse' project during last year. Data Warehouse (DW) is a system that extracts, cleans, confirms and sources data into a dimensional data store and then supports and implements querying and analysis for the purpose of decision making. Initially, the Bank plans to generate all the regulatory returns including COREP and ALMM from EDW by the end of the year from the same system. The Bank plans to further leverage the use for all Management Reports and business/financial analysis.

A dedicated in-house Help Line Service Centre, established last year, has also stabilised and has helped the Bank in improving its relationship banking and customer service.

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

DIRECTORS

During the year under review, 4 Non-Executive Directors (NEDs) nominated from the parent bank have been appointed by the Bank. Initially two were appointed in place of two (NEDs) having resigned from the Board post retirement from the parent bank. Subsequently two other (NEDs) were appointed in place of earlier appointed NEDs out of which one was on account of resignation (post retirement from parent bank) and other since being appointed the Managing Director of the parent bank. New Managing Director has also been appointed for the previous one had completed his tenor in PNBIL. The necessary approvals have been received from PRA for all new appointments. Directors who held office during the year are listed on page 3.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Directors are responsible for establishing an effective internal control environment in the Bank and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for 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 and not absolute assurance against material misstatement, errors, losses or fraud.

The Directors have designed and established procedures to provide effective internal control within the Bank. Such procedures for the on-going identification, evaluation and management of the significant risks faced by the Bank have been in place throughout the year and up to 27 April 2016, the date of approval of the Annual Report for the year ended 31 March 2016.

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

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

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

The Directors confirm there are no subsequent events after the balance sheet date, requiring disclosure in these financial statements.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who are Directors at the date of approval of this annual report, confirm that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- The Director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

ELECTIVE RESOLUTIONS

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

AUDITOR

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

GENERAL MEETINGS

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

C.R.V. Shaw

Camilla Shaw
Company Secretary
Company number: 5781326

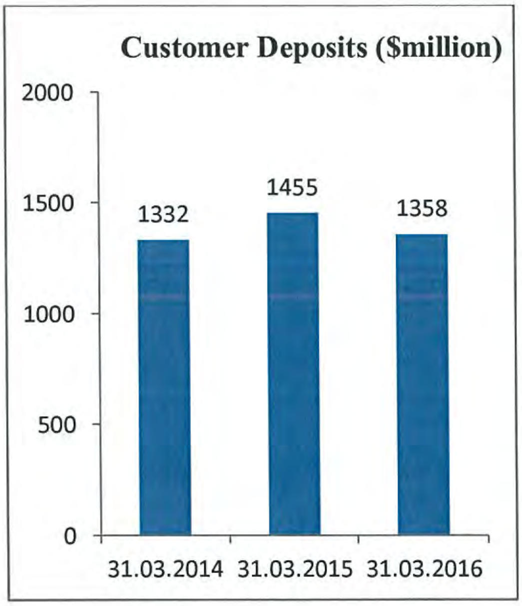
1, Moorgate, London
EC2R 6JH (UK)

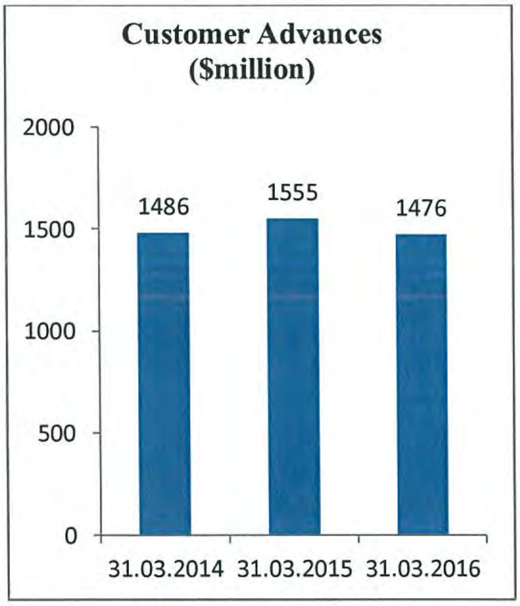
27 April 2016

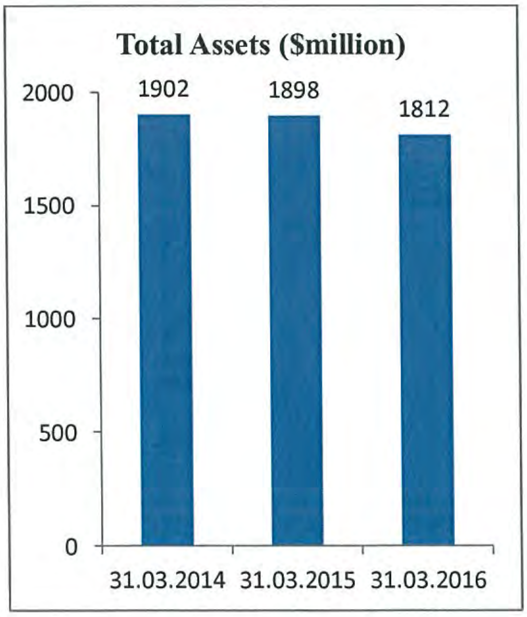
This strategic report should be read in conjunction with the Directors' Report where some of the requirements of this report have been discussed.

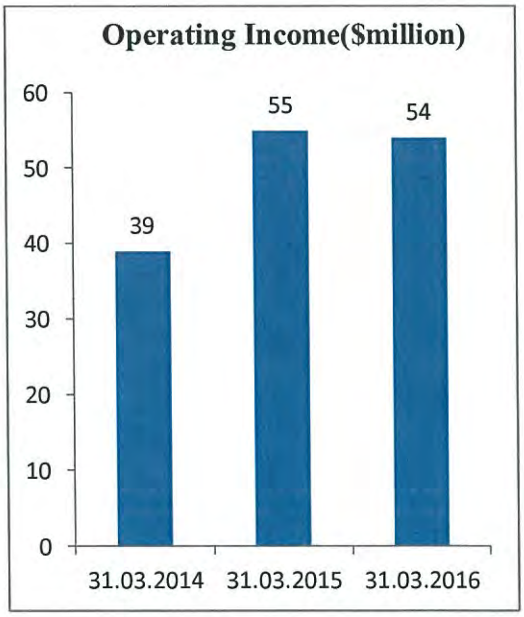
Financial Highlights

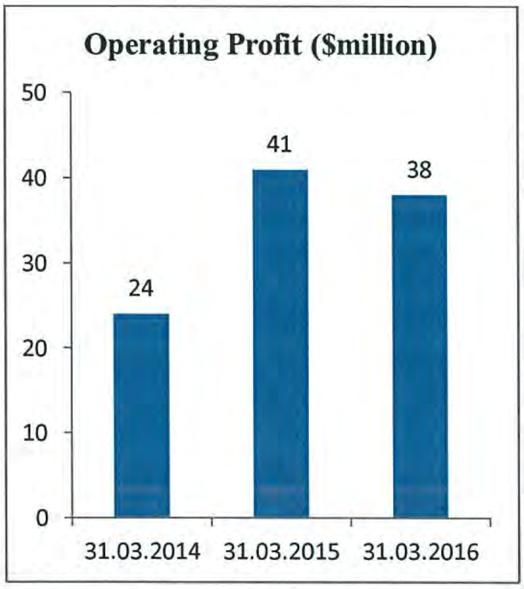
Key performance highlights of the Bank are as below:

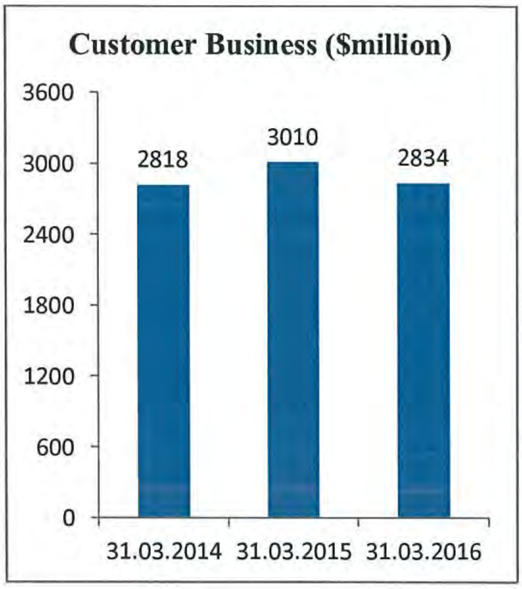












Customer business is defined as customer advances plus customer deposits.

This is the ninth year of operations for the Bank and it has achieved a total business figure of $2,834 million. However, the total customer business of the Bank has decreased from $3,010 million as at 31 March 2015 to $2,834 million as at 31 March 2016, a year-on-year decrease of 5.85%. Operating profit for the year ended 31 March 2016 amounted to $38.26 million (2015: $41.49 million), a year on year decrease of 7.79%. Decrease in operating profit is mainly on account of reduced treasury income by $4.35 million. Loss before taxation for the year ended 31 March 2016 amounted to $33.59 million (2015: profit $9.91 million). The loss along with AFS reserve gain has led to a tax credit of $6.70 million reducing the after tax loss to $27.23 million and AFS reserve of $0.34 million (2015: Profit of $8.12million). As at 31 March 2016, PNBIL had total assets of $1,812 million (2015: $1,898 million).

During the year, total lending decreased to $1,476 million (2015: $1,555 million). This is principally because since the impaired assets increased the focus was shifted more on recoveries and slowing down on fresh lending.

As at 31 March 2016, main industry concentration within the Bank's loans and receivables portfolio related to loans against SBLCs and LCs of Banks (19.33%), UK real estate lending (20.58%) and loans against own deposits/deposits held with Parent (6.59%). UK real estate lending consists of credit facilities sanctioned against mortgages of commercial properties (buy to let/sell, office use, and property development). These facilities are extended with sufficient margin (on an average more than 30%) and spread over more than 220 accounts. Thus more than 46% of the loan book is adequately collateralised. The geographical concentration of the Bank's exposure (gross assets) to various counterparties is mainly in UK (38.38%) and India (43.38%) based on a risk origination basis.

The Bank does not have any sovereign exposure in the Euro zone and has limited (less than 5 % of the total assets) overall direct exposure in the affected geographies within the Euro Zone (including Greece, Ireland, Italy, Portugal, Spain and Cyprus). The Bank continues to closely monitor its exposure to such countries by keeping them under close monitoring/Watch List and having regular reviews. The Bank does not have any direct or indirect exposure in Ukraine and Russia.

The Bank's impaired loans and advances amounted to $144.99 million (2015: $82.53 million) and cumulative provision against impairment for loans as on 31 march 2016 is $108.62 million (2015: $35.50 million). Collective impairment provision on loans stood at $5.63 million (2015: $6.90 million).

The increase in impairment is mainly on account of an increase in the number and amount of stressed assets, where the Bank may not be able to recover the amount in full, owing to depletion in present realisable value of assets charged. This assessment is based on losses suffered by borrowers, due to low revenue generation or substantial delay in implementation of funded projects. Almost all of these accounts are directly or indirectly related to India where the overall industrial environment has seen a downturn, especially in steel and shipping industry resulting in large scale impairment across all the major Banks in India.

Keeping in mind the size of the credit portfolio, the Bank has enhanced its Risk Governance Structure by appointing a Chief Risk Officer (CRO) and revising the credit risk policies and procedures. In order to develop a robust recovery mechanism, the Bank has created a separate department/team for Monitoring & Recovery, which is headed by the Assistant General Manager. The Management Information system has also been enhanced for effective monitoring and arresting the fresh slippages. Structure and Terms of Reference of the existing Credit Risk Management Committee have been enhanced to perform oversight functions with nomenclature as Credit Risk Oversight Committee (CROC), which is now headed by the CRO.

GOING CONCERN BASIS

The Bank has adequate resources to continue its operations for the foreseeable future. Although there has been a loss for the year ended 31 March 2016 (on the account of provisions made for non-performing assets) the Bank has adequate capital to support its business. The Bank has received sufficient support from the parent in the form of capital and operational support from time to time and the same is expected to continue in the foreseeable future. The UK operations remain a core part of the strategic interest of the PNB Group. Similarly, PNBIL has maintained a stable liquidity position. Adequacy of liquidity is being ensured on a stand-alone basis, and liquidity coverage ratio and also the net stable funding ratio of the Bank remain above the regulatory minimum levels. The Bank has a strong capital position including fresh Tier II capital of $10 million raised in the current year. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

CAPITAL STRUCTURE

The capital structure of PNBIL consists of equity attributable to equity holders comprising issued capital ($149.63 million), Additional Tier I capital ($25 million), subordinated debt ($75 million), reserves and retained earnings ($4 million). Upon migration to the Basel III norms, even though the total capital requirement has gone up, the Bank is still able to meet the capital requirement.

Capital to Risk Adequacy Ratio (CRAR) of the Bank continues to remain above that required under the Capital Requirement Regulations (CRR) and also above that required under Individual Capital Guidance (ICG) given by the regulator to the Bank. CRAR as per CRR as on 31 March 2016 is 14.99% with Core Tier I capital ratio being 9.15%. Leverage ratio of the Bank is 8.92%. The components of regulatory capital, assessment of capital adequacy and the leverage ratio will be given

in the Pillar III disclosure, to be published on the Bank's website.
The Bank raised fresh Tier II capital of $10 million from the Parent in this financial year and converted $25 million of Upper Tier II into Additional Tier I capital.

PNBIL's Board Risk Committee (BRC) and the Board review the capital structure on a quarterly basis. Throughout the year the Bank reviews the need for the injection of capital and funding to ensure on-going stability and support of its business activities. PNBIL has a regulatory capital base of $245.23 million comprising share capital of $149.63 million, Additional Tier I capital ($25 million), Tier II capital of $75 million, retained earnings of $4 million and net of regulatory adjustments.

Perpetual Tier II Capital of $25 million raised in 2011 by issuing perpetual notes to the parent company (Punjab National Bank) has been converted into Additional Tier I capital on 15 March 2016 which has strengthened the Total Tier I capital base of the Bank.

PRINCIPAL RISKS AND UNCERTAINTIES

Key risks for the Bank are credit risk on the loan portfolio, interest rate risk in the banking book and operational risk. These risks as well as the mitigation techniques followed by the Bank are discussed in note 33 of the financial statements. Recovery of customer advances continues to be the major credit risk facing the Bank, especially for a small number of stressed and impaired accounts. Since the Bank has considerable exposure to India the successful execution of recent initiatives taken by the Indian Government is expected to have a positive impact on our recovery. Even though a large part of our exposures under this segment are well collateralised, the uncertainties associated with the ability to recover these within a reasonable time have led to a higher provision requirement. The Bank has established appropriate mechanism to measure, monitor and manage these risks on on-going basis. The Board of the Bank has stipulated threshold risk limits for each of these major risks.

The 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. Risk management is given high priority throughout the Company and is integral to the management of the business.

The Board structure of Board of Directors, Board Audit and Compliance Committee, Board Risk Committee provides global strategic direction, challenges management in implementing policies, controls and limits 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 Risk Management Committee assist in assessing market trends, economic and political developments and provides a forum for in-depth review and analysis of the risks to which the Company is subject.

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

MARKET CONDITIONS

In 2015, global economic activity remained subdued. Growth in emerging markets and developing economies while still accounting for over 70 percent of global growth declined for the fifth consecutive year, whereas a modest recovery continued in advanced economies.

Three key transitions continue to influence the global outlook:
(1) The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services;
(2) Lower prices for energy and other commodities; and
(3) A gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy.

Overall growth in China is evolving broadly as envisaged, but with a faster-than-expected slowdown in imports and exports, in part reflecting weaker investment and manufacturing activity. These developments, together with market concerns about the future performance of the Chinese economy, are having spill overs to other economies through trade channels and weaker commodity prices, as well as through diminishing confidence and increasing volatility in financial markets.

Manufacturing activity and trade remain weak globally, reflecting not only developments in China, but also subdued global demand and investment. In addition, the dramatic decline in imports in a number of emerging market and developing economies in economic distress is weighing heavily on global trade. Oil prices have declined markedly since September 2015, reflecting expectations of sustained increases in production by Organization of the Petroleum Exporting Countries (OPEC) members amid continued global oil production in excess of oil consumption. Futures markets are currently suggesting only modest increases in prices in 2016 and 2017. Prices of other commodities, especially metals, have fallen as well.

Risks to the global outlook relate to ongoing adjustments in the global economy: a generalized slowdown in emerging market economies, China's rebalancing, lower commodity prices, and the gradual exit from extraordinarily accommodative monetary conditions in the United States. If these key challenges are not successfully managed, global growth could be derailed.

Monetary easing in the euro area and Japan is proceeding broadly as previously envisaged, while in December 2015 the U.S. Federal Reserve lifted the federal funds rate from the zero lower bound. Overall, financial conditions within advanced economies remain very accommodative. Prospects of a gradual increase in policy interest rates in the United States as well as bouts of financial volatility amid concerns about emerging market growth prospects have contributed to tighter external financial conditions, declining capital flows, and further currency depreciations in many emerging market economies.

As per International Monetary Fund (IMF) report Global growth, currently estimated at 3.1 percent in 2015, is projected at 3.4 percent in 2016 and 3.6 percent in 2017. The pickup in global activity is projected to be more gradual especially in emerging market and developing economies.

Responding to the uncertainties in the global economic scenario, the Bank will endeavour to grow slowly while concentrating on selected segments like credit facilities against SBLCs, Banks' own deposits and loans fully collateralised. At the same time the Bank will also continue to stay focussed on strengthening the risk management framework and systems and controls.

OUTLOOK

As per the IMF, global growth is projected at 3.4 percent in 2016 and 3.6 percent in 2017.

Growth in advanced economies is projected to rise by 0.2 percent in 2016 to 2.1 percent, and hold steady in 2017. Overall activity remains resilient in the United States, supported by still-easy financial conditions and strengthening housing and labour markets, but with dollar strength weighing on manufacturing activity and lower oil prices curtailing investment in mining structures and equipment. In the euro area, stronger private consumption supported by lower oil prices and easy financial conditions is outweighing a weakening in net exports. Growth in Japan is also expected to firm in 2016, on the back of fiscal support, lower oil prices, accommodative financial conditions, and rising incomes.

Growth in emerging market and developing economies is projected to increase from 4 percent in 2015, the lowest since the 2008–09 financial crises to 4.3 and 4.7 percent in 2016 and 2017, respectively.

UK is projected to grow at a similar pace as of 2015 i.e. 2.2% whereas India is expected to grow at 7.5% (0.2% higher than the current year). Hence as per the IMF's forecast, India would be the fastest growing major developing economy of the world.

The better prospects projected for both UK and Indian economy are expected to have positive impact on the Bank's business growth and profitability.

REGULATORY FACTORS

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

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

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

- Introducing a 'ring-fence' around the deposits of people and small businesses, to separate the high street from the trading floor and protect taxpayers when things go wrong
- Making sure the Prudential Regulation Authority can hold banks to account for the way they separate their retail and investment activities, giving it powers to enforce the full separation of individual banks
- Imposing higher standards of conduct on the banking industry by introducing a criminal sanction for misconduct that leads to bank failure

- Giving depositors, protected under the Financial Services Compensation Scheme, preference if a bank enters insolvency
- Giving the government power to ensure that banks are more able to absorb losses
- Introducing a cap on payday loans

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

Liquidity Coverage Ratio (LCR): is a regulatory requirement designed by the Basel Committee for Banking Supervision (BCBS) to improve the level of insurance against liquidity risk in the banking sector. This ratio requests firms to maintain a buffer of highly liquid assets against liquidity outflows in a stress scenario defined by the regulators and featuring retail and wholesale funding outflows over a 30 day period. The LCR was published by the BCBS in January 2013 but the EU implementation took almost two years to finalise. The CRR was published in June 2013 but did not include the detailed specifications for the LCR. On 10 October 2014, the EU Commission issued its Delegated Regulation (DR) on the Liquidity Coverage Ratio for credit institutions. The revised LCR reporting as per the delegated Act is with effect from 1 October 2015. On 20 July 2015, the PRA published Supervisory Statement 29/15 'CRD IV: Interim LCR Reporting' setting out the specific liquidity coverage requirement (LCR) reporting arrangements which the PRA expects firms to follow on an interim basis in the period between 1 October 2015, the date the LCR standard applies in accordance with the European Commission's (the Commission) delegated act with regard to the LCR for credit institutions (the Delegated Act)1, and the introduction of mandatory reporting of the new LCR return following adoption of the amending implementing technical standard (ITS) on liquidity reporting by the Commission.

The revised (Interim) LCR is to be submitted in addition to the regular monthly LCR. The first monthly return was due on or before 30 November 2015 and we have submitted these returns in time.

Additional Liquidity Monitoring Metrics (ALMM): The ALMM has been designed to supplement the information about a bank's liquidity that is already captured by the (LCR). There is an overlap between the data that is needed to produce both reports. However, the ALMM also requires granular data that is not needed for the LCR, including information about a bank's top ten counterparties and top ten types of funding across a multitude of maturity buckets. 'The European Banking Authority (EBA) had originally submitted its final draft ITS on additional liquidity monitoring metrics to the European Commission in December 2013 (a slightly updated submission took place on 24 July 2014), with a proposed application date of 1 July 2015. In response the European Commission proposed some amendments with the application date 1 January 2016.

The ALMM legislation has now been published in the Official Journal of the European Union the first reporting reference date will be 30 April 2016.

International Financial Reporting Standard (IFRS 9) is an accounting standard, setting out the appropriate measurement of liabilities and recognition of financial instruments. IFRS 9 will replace International Accounting Standard (IAS) 39, which dealt with the recognition of financial assets, and will be mandatory for all companies reporting using IFRS. The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted

IMPACT OF MARKET FACTORS ON BANK

Lag effect of reduced economic growth in India, and global slowdown were some of the contributing factors towards default of some of the corporates, attracting a higher level of impairment provisions. The consequent delay in flow of funds to the much awaited infrastructure projects has impacted some of our borrowers. Even the ancillary units supporting infrastructure projects have suffered on account of this delay. However as per the IMF forecast the growth rate is expected to accelerate impacting the banking sector in a positive way.

Capital adequacy ratio, leverage ratio, liquidity coverage ratio and net stable funding ratio of the Bank remained above the minimum regulatory requirements and individual capital and liquidity guidance. Our funding is well diversified with the majority being long term in nature. Besides, liquidity asset buffer, short term interbank placements and balances with the Bank of England are maintained, keeping in view the immediate liquidity requirement which may be triggered under stressed conditions. A minimum of 90 days survival period is considered for maintenance of the buffer. The Bank's capital to risk adequacy ratio is 14.99%, with core Tier I capital ratio being at 9.15% - above the requirements of CRD IV. Bank has raise fresh Tier II capital of $10 million in this Financial Year and converted $25 million of Upper Tier II into Additional Tier I capital.

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

FUTURE STRATEGY

The Bank will continue to align its business processes with changing times and with special emphasis on the updating and leverage of IT and MIS infrastructure. The Bank expects that the External Data Warehouse (EDW) project will be fully operational during the year and the Bank will be able to generate and submit system generated regulatory reports. The Bank will further make an endeavour to generate other management reports and reports as per Reserve Bank of India (RBI) guidelines. The Bank also proposes to enhance /upgrade the existing transaction system, IBS Version updated with enhanced security features, introduction of mobile app, web site revamp etc. Cash ISA scheme will be further popularised. As part of its expansion strategy in Europe, the Bank will explore the possibility of establishing an office in one of the European countries.

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

CHARITABLE DONATIONS

Charitable donations in the sum of $9,918 were made during the year (2015: $11,897).

EVENTS AFTER THE BALANCE SHEET DATE

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

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

27 April 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT, STRATEGIC REPORT AND THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

The Directors are responsible for preparing the Strategic Report and the Directors' Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.
In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

Antanu Das
Managing Director

Muddoor Sadananda Nayak
Executive Director

27 April 2016

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

FOR THE YEAR ENDED 31 MARCH 2016

We have audited the financial statements of Punjab National Bank (International) Limited for the year ended 31 March 2016 which comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

Caroline Britton

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

27 April 2016

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016

	Notes	2016 $'000	2015 $'000
Assets			
Cash and cash equivalents	9	240,205	150,042
Investment securities – held for trading	10	49,727	81,667
Derivative financial instruments	11	5,994	3,626
Loans and advances to banks	12	310,453	338,882
Loans and advances to customers	13	1,071,990	1,196,008
Investment securities - available for sale	14	122,080	120,760
Investment securities – held to maturity	15	1,171	1,568
Property, plant and equipment	20	1,526	2,071
Intangible assets	21	170	136
Deferred tax assets	22	3,836	-
Current tax assets		3,891	-
Prepayments and other receivables	23	696	3,977
Total assets		1,811,739	1,898,737
Liabilities			
Derivative financial instruments	11	14,944	21,668
Deposits from banks	24	176,964	135,260
Deposits from customers	25	1,358,109	1,454,943
Current tax liabilities		-	2,387
Subordinated liabilities and other borrowed funds	26	75,000	65,000
Deferred tax liabilities	22	57	90
Other liabilities	27	8,034	11,262
Total liabilities		1,633,108	1,690,610
Equity			
Share capital	28	174,631	174,631
Retained earnings		3,610	31,745
Fair value reserve	29	390	1,751
Total parent company shareholders' equity		178,631	208,127
Total equity and liabilities		1,811,739	1,898,737

The financial statements were approved by the Board of Directors and authorised for issue on 27 April 2016.

M S NAYAK
Director

ANTANU DAS
Managing Director

Company Registration No 5781326

The notes on pages 27 to 75 form part of these financial statements

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

	Notes	2016	2015
		$'000	$'000
Interest income	5	85,627	83,041
Interest expense	5	(38,895)	(39,205)
Net interest income		46,732	43,836
Net trading income	5	5,414	9,607
Income on interest rate derivatives		1,189	804
Net fee and commission income		631	625
Other operating income	5	468	504
Operating income		54,434	55,376
Staff related costs	6	(7,319)	(6,606)
Operating lease expenses	5	(658)	(712)
Depreciation and amortisation	5	(806)	(757)
General administrative expenses	5	(7,392)	(5,810)
Provision on impaired financial assets	17	(71,846)	(31,578)
(Loss)/profit before tax		(33,587)	9,913
Total tax credit / (charge)	8	6,362	(1,792)
(Loss)/profit after tax		(27,225)	8,121

The notes on pages 27 to 75 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH

	2016 $'000	2015 $'000
(Loss)/ profit for the year	(27,225)	8,121
Other comprehensive (loss)/ income		
Items that are or may be reclassified to profit or loss		
Net change in fair value on AFS investments	(1,612)	5,818
Tax relating to fair value change on AFS investments	322	(1,222)
	(1,290)	4,596
Prior year amount transferred to profit and loss (AFS investments) (net of tax)	(71)	2,161
Other comprehensive income for the year	(1,361)	6,757
Total comprehensive (loss)/ income attributable to equity shareholders	(28,586)	14,878

The notes on pages 27 to 75 form part of these financial statements

	Attributable to equity holders of the Bank			
31 March 2016	**Issued capital**	**Fair value reserves**	**Retained earnings**	**Total equity**
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 April 2015	**174,631**	**1,751**	**31,745**	**208,127**
Total comprehensive income for the year				
Loss for the year	-	-	(27,225)	(27,225)
Other comprehensive income for the year				
Net change in fair value of AFS investments	-	(1,290)	-	(1,290)
Net amount transferred to profit and loss	-	(71)	-	(71)
Total other comprehensive income for the year	-	(1,361)	-	(1,361)
Total comprehensive income for the year	**-**	**(1,361)**	**(27,225)**	**(28,586)**
Transactions with owners recorded directly in equity				
Contributions by and distribution to owners of the group				
Issue of Share Capital	-	-	-	-
Dividend on Perpetual Tier II Capital	-	-	(1,137)	(1,137)
Deferred Tax Benefit			227	227
Total contributions by and distributions to owners	-	-	(910)	(910)
Balance at 31 March 2016	**174,631**	**390**	**3,610**	**178,631**

The notes on pages 27 to 75 form part of these financial statements

	Attributable to equity holders of the Bank			
31 March 2015	**Issued capital**	**Fair value reserves**	**Retained earnings**	**Total equity**
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 April 2014	**174,631**	**(5,006)**	**24,706**	**194,331**
Total comprehensive income for the year				
Profit for the year	-	-	8,121	8,121
Other comprehensive income for the year				
Net change in fair value of AFS investments	-	4,596	-	4,596
Net amount transferred to profit and loss	-	2,161	-	2,161
Total other comprehensive income for the year	-	6,757	-	6,757
Total comprehensive income for the year	-	6,757	8,121	14,878
Transactions with owners recorded directly in equity				
Contributions by and distribution to owners of the group				
Issue of Share Capital	-	-	-	-
Dividend on Perpetual Tier II Capital	-	-	(1,082)	(1,082)
Total contributions by and distributions to owners	-	-	(1,082)	(1,082)
Balance at 31 March 2015	**174,631**	**1,751**	**31,745**	**208,127**

The notes on pages 27 to 75 form part of these financial statements

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

	2016 $'000	2015 $'000
Cash flows from operating activities		
Total (loss)/ profit for the year	(27,225)	8,121
Adjustments for:		
Amortisation of other intangible non-current assets	98	96
Depreciation of property, plant and equipment	707	661
Provision for impairment losses on financial assets	71,846	7,651
Unrealised profit/ (loss) on exchange rate difference	185	(255)
Income tax (credit)/ expense	(6,361)	1,792
	66,475	9,945
	39,250	18,066
Changes in:		
Held for trading financial assets	31,939	(19,553)
Loans and advances to customers	52,172	(33,204)
Deposits from banks	41,704	(145,504)
Other liabilities and provisions	(2,942)	(472)
Available for sale financial assets	(3,022)	54,192
Fair value of derivatives	(9,092)	19,814
Loans and advances to banks	28,429	(39,072)
Trade and other receivables	3,280	(3,052)
Deposits from customers	(96,834)	93,788
Debt securities	(287)	274
	45,347	(72,789)
Cash flows from operating activities	84,597	(54,723)
Cash flows used in other operating activities		
Income tax credit	(3,401)	(653)
Net cash flows from operating activities	81,196	(55,376)
Cash flows from investing activities		
Acquisition of property and equipment	(163)	(1,260)
Acquisition of intangible assets	(131)	(65)
Proceeds from maturity of held to maturity investments	397	3,270
Net cash flows from investing activities	103	1,945
Cash flows from financing activities		
Gross proceeds from issue of equity share capital	-	-
Gross proceeds from issue of subordinated liabilities	10,000	10,000
Dividend to subordinated debt holders	(1,136)	(1,082)
Net cash flows from financing activities	8,864	8,918
Net increase in cash and cash equivalents	90,163	(44,513)
Cash and Cash equivalents at 1 April	150,042	194,555
Cash and cash equivalents at 31 March (note 9)	240,205	150,042

The notes on pages 27 to 75 form part of these financial statements

1] Reporting Entity

Punjab National Bank (International) Limited is a limited company incorporated and domiciled in the United Kingdom. The Bank is a fully owned subsidiary of Punjab National Bank, one of the leading public sector banks of India. Address of the Bank's registered office is 1 Moorgate, London (UK) EC2R 6JH. The Bank is primarily involved in accepting deposits, corporate and retail lending and other banking activities.

2] Basis of Preparation

A. Statement of Compliance

Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Bank are set out in note 3.

Bank's financial statements for the year ended 31 March 2016 were authorised for issue on 27 April 2016.

B. Basis of Measurement

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

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

C. Going Concern

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

The Bank is a wholly owned subsidiary of Punjab National Bank. Although Bank has recorded a loss in the current financial year, it is mainly on account of provisioning done for specific impairment in loans. During the current year, the Bank has not raised additional equity share capital but has raised Tier II capital of $10 million and converted perpetual Tier II capital of $25 Million to Additional Tier I capital. Accordingly the capital base is $245.23 million as on 31 March 2016.

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

D. Functional and Presentation Currency

The Directors consider the US Dollars as the functional and reporting currency as the majority of the income generating financial assets and a significant component of the funding are denominated in US Dollars. Additionally 99.99% of equity capital and 100% of the Tier II capital of the Bank is denominated in US Dollars. Transactions in foreign currencies are recorded in US Dollars at the rate of exchange prevailing at the rates ruling at the end of the day in which the transaction arose. Any resulting exchange differences are included in the statement of profit or loss. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

E. Use of Estimates and Judgements

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

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

- **Identification of impairment of financial assets**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are provided for if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

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

Bank periodically reviews their financial assets carried at amortised cost to identify any early signs of financial deterioration. Additionally, for those loans where there is either a default or an objective evidence of impairment, judgement is required by management in the estimation of the amount and timing of expected cash flows, realisability and valuation of collateral and in certain cases the availability and reliance on guarantees (including corporate and personal guarantees and critical assessment of willingness and ability of the guarantors) in order to determine the level of impairment allowance to be recorded. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Management's estimates of future cash flows on individually impaired loans are based on historical experience for assets with similar credit risk characteristics. The expected recovery is subject to execution risks associated with the recovery of collateral in different jurisdictions; and fair assessment is thus derived from management's experience of such markets.

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

A change of one month in emergence period will result in an impact of $1,877 thousand (2015: $819 thousand) on the value of the impairment provision.

- **Impairment Losses on available for sale investments**

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

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

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

- **Fair value measurement of financial instruments**

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

F. Standards and Interpretations

a) Standards and Interpretations effective in the Current Year

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported and disclosures in these financial statements but may impact the accounting for future transactions and arrangements.

- Amendments to IAS 32 Financial Instruments Presentation – Amendments to Application Guidance on the Offsetting of Financial Assets and Financial Liabilities
- Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27 Recoverable Amount Disclosure for Non-Financial Assets (Amendment to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 Levies

b) Standards and Interpretations issued but not yet effective

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

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- IFRS 9 Financial Instruments – Classification and Measurement of Financial assets and – Accounting for Financial Liabilities and De-recognition: introduces one impairment model i.e. expected losses model.
- IFRS 14 Regulatory Deferral Accounts.
- IFRS 15: Revenue from contracts with customers. Establishes a new framework for revenue recognition, replacing all existing standards and interpretations (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)
- Amendments to IFRS 11: Joint Arrangements
- IFRS 16 Leases. The new Standard supersedes IAS 17 *Leases.* Effective for periods beginning on or after 1 January 2019
- Annual improvements to IFRSs 2010-2012 cycles.
- Annual improvements to IFRSs 2011-2013 cycles.

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

3] Accounting policies

a) Revenue recognition

Interest

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

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

Fees and commission

Fees and commissions include account arrangement fees, remittance charges and bills collection charges. Account arrangement fees are recognised on an accrual basis when the services have been provided or the significant act of delivering the services contracted by the customer has been performed and amortized over the life of the loan. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

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

b) Measurement

Financial assets

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

i. Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management if it meets the criteria as defined in IAS 39. Financial assets held for trading are initially recognised and measured at fair value in the statement of financial position. All changes in fair value are recognised as part of trading income in profit and loss. For a purchase transaction, from trade date until settlement date, the asset remains an off balance sheet asset and it is recognised on financial statements on the settlement date. For a sale transaction, asset continues to be on financial statements until settlement date and the transaction remains an off balance sheet commitment until then.

ii. Loans and receivables

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

iii. Held-to-maturity

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

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

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

iv. Available for sale

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

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

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

Financial liabilities and equity instruments

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

i. Equity instruments

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

ii. Financial liabilities

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

iii. Deferred Income

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

c) Fair value measurement

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

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

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

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

d) Offsetting financial instruments

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

e) De-recognition of financial assets and liabilities

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

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

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

ii) Available for Sale Assets

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

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

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 and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.
Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and carrying amount of the item) is recognised within other income in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

j) Intangible assets

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

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

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

k) Cash and cash equivalents

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

l) Recognition of deferred tax assets

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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 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 publically. Future operating losses are not provided for.

n) De-recognition of financial assets

The Bank enters into sale and re-purchases transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not de-recognised.

o) Share Capital and Reserves

(i) Additional tier I bonds

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

(ii) Fair value reserves

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

p) Corporation tax/ deferred tax

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

Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it furthers 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 bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the 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.

q) 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.

r) Employee Benefits

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

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

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

4] Operating Segments

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

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

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

5] Operating profit

Operating profit is stated after charging the following:

	2016 $'000	2015 $'000
Interest expense	38,895	39,205
Depreciation of property and equipment	708	661
Amortisation of intangible assets	98	96
	806	757
Operating leases:		
Lease rental expenses	658	712
Fee payable to the Bank's auditor for the audit of the Bank's annual accounts	259	240
Fee payable to the Bank's auditor for other services:		
- Audit related assurance services	28	23
- Non-audit services	26	42
	54	65

Included in net trading income:	2016 $'000	2015 $'000
Income related to:		
Foreign exchange	3,853	4,540
Investment securities - held for trading	1,561	5,067
	5,414	9,607

Included in operating income:	2016 $'000	2015 $'000
Income on services related to:		
Payment and settlement	339	373
Retail banking	127	128
Other operating income	2	3
	468	504

5] Operating Profit (continued)

	2016 $'000	2015 $'000
Included in general administrative expenses:		
Marketing costs	175	144
Establishment expenses	896	1,209
Legal, professional and audit fees	3,898	2,656
Cost on postage, telephones and telegrams	471	378
Other administration costs	1,952	1,423
	7,392	5,810

	2016 $'000	2015 $'000
Included in interest income:		
Interest accrued on overdraft accounts	14,844	17,848
Interest accrued on demand and term loans	57,391	51,302
Discount on bills	36	101
Interest accrued on interbank placements	1,009	807
Coupon/premium accrued on investment securities	8,888	7,824
Arrangement fee on loans	3,459	5,159
	85,627	83,041

	2016 $'000	2015 $'000
Included in interest expense:		
Interest expenses on term deposits	33,477	33,338
Interest expenses on saving deposits	342	291
Interest expenses on interbank borrowings	1,907	2,864
Interest expenses on subordinated liabilities	3,169	2,712
	38,895	39,205

6] Employee Expenses

	2016	2015
	$'000	$'000
Wages and salaries	4,971	4,502
Contribution towards defined employee benefit plan	139	116
Other employee benefits	1,600	1,460
Social security costs	608	528
	7,319	6,606

Included in other employee benefits are:	2016	2015
	$'000	$'000
Accommodation cost	972	903
Medical insurance and expense	100	120
Pension contributions for staff in India	8	5
Other expenses	520	432
	1,600	1,460

Average number of Employees	104	99

There are no share based payments to employees.

7] Directors' Emoluments

	2016	2015
	$'000	$'000
Emoluments	457	557

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

	2016	2015
	$'000	$'000
Emoluments of highest paid Director	211	223
Contributions to external pension scheme included in the above	-	-

8] Corporation Tax

Components of corporation tax expense / (credit)

	2016	2015
	$'000	$'000
Current corporation tax expense / (credit)		
Current corporation tax charge	(3,042)	1,682
Previous year tax charge	-	-
Deferred corporation tax (credit) / expense		
Effect of rate changes	-	5
Relating to origination and reversal of temporary differences	(3,320)	105
Total tax expense	(6,362)	1,792

8] Corporation tax (continued)

Reconciliation of corporation tax charge to accounting profit

	2016	2015
	$'000	$'000
(Loss)/profit before tax	(33,587)	9,913
Corporation tax at 20% (2015: 21%)	(6,717)	2,082
Tax effect of deductible interest on Tier II Capital	-	(227)
Tax effect of fair value profits direct to reserves	(19)	-
Tax effect of non- deductible depreciation	71	39
Tax effect of other non - deductible expenses/non-taxable income	(30)	(46)
Tax effect of FX and rate changes	333	(56)
Previous year overprovision	-	-
Tax (credit)/expense	(6,362)	1,792

	2016	2015
	$'000	$'000
Current corporation tax credited to equity		
(Charge)/credit arising on AFS reserve movement	322	(1,222)
Tax effective rate	19%	18%

The tax charge is based upon a UK corporation tax rate for 20% for the year ended 31 March 2016 (2015: 21%). Finance Act 2013 enacted a reduction in the UK corporation tax rate to 20% with effect from 1 April 2015. This reduction in the tax rate impacted the current tax charge in 2016. Finance (No. 2) Act 2015 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. These reductions in the tax rate will impact the current tax charge in future periods.

9] Cash and cash equivalents

	2016	2015
	$'000	$'000
Cash on hand	557	614
Cash at bank (including balance held with central banks)	239,648	165,246
Cash equivalent	-	2,967
	240,205	150,042

10] Investment securities – Held For Trading

	2015	2015
	$000	$000
Treasury bills	49,727	81,667

10] Investment Securities – Held For Trading (continued)

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

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

	Rating	2016	2015
Government Treasury Bills		S'000	S'000
US Treasury Bills	AAA	49,727	81,667
Total		49,727	81,667

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

11] Exposure to Derivatives

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long or short term currency positions. These derivatives are revalued daily and any change in their fair value is recognised in the statement of profit or loss.

Major portion of Bank's assets are on floating rate of interest where base rate is floating and linked to LIBOR or BOE rate with a fixed margin thereupon. Major portion of liabilities of the Bank are on fixed rate of interest. The Bank uses interest rate swaps to eliminate interest rate risk in various reset buckets.

Fair value of all derivatives is as below:

	31 March 2016		31 March 2015	
	Positive Fair Value S'000	Negative Fair Value S'000	Positive Fair Value S'000	Negative Fair Value S'000
Cross currency swap	4,187	14,944	1,772	21,668
Interest rate swap	1,807	-	1,854	-
	5,994	14,944	3,626	21,668

11] Exposure to Derivatives (continued)

All the deals under cross currency foreign exchange swaps and interest rate swaps are over-the counter deals and none of them is with Central Counterparties. Table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2016.

				31 March 2016	
	Nature of Counterparty	Nominal Amount – Buy Transaction	Nominal Amount – Sell Transaction	Positive Fair Value	Negative Fair Value
		S'000	S'000	S'000	S'000
Cross currency swaps	Bank	482,898	493,595	4,187	14,944
Interest rate swaps	Bank	253,692	251,885	1,807	-
		736,590	745,480	5,994	14,944

Table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2015.

				31 March 2015	
	Nature of Counterparty	Nominal Amount – Buy Transaction	Nominal Amount – Sell Transaction	Positive Fair Value	Negative Fair Value
		S'000	S'000	S'000	S'000
Cross currency swaps	Bank	603,055	622,646	1,772	21,668
Interest rate swaps	Bank	187,536	185,683	1,854	-
		790,591	808,329	3,626	21,668

12] Loans and advances to banks

	31 March 2016 $'000	31 March 2015 $'000
Bills negotiated and discounted	20,365	22,955
Term loans against stand-by letters of credit/buyers credit	286,483	305,756
Direct loans to banks	-	-
Interbank placements of original maturity of more than three months	3,605	10,171
	310,453	338,882
Less impairment provisions	-	-
Net Loans and advances to banks	310,453	338,882

At 31 March 2016 $215,025 thousand (2015:$ 108,472 thousand) of loans and advances to banks are expected to be realised more than 12 months after the reporting date.

13] Loans and advances to customers

	31 March 2016 $'000	31 March 2015 $'000
Bills negotiated and discounted	98	416
Customer overdraft	315,414	335,690
Term loans	870,728	902,306
Total	1,186,240	1,238,412
Less impairment provisions[(1)]	(114,250)	(42,404)
Net Loans and advances to customers	1,071,990	1,196,008

[1] Impairment provision includes specific provision of $108,620 thousand (2015:$ 35,504 thousand), and collective provision of $5,630 thousand (2015:$6,900 thousand).

At 31 March 2016 $561,112 thousand (2015:$609,419 thousand) of loans and advances to customers are expected to be realised more than 12 months after the reporting date.

14] Investment Securities - Available-for-Sale

	2016 $'000	2015 $'000
Marketable debt securities	122,080	120,760

At 31 March 2016, $122,080 thousand (2015:$120,760 thousand) of investment securities (available for sale) are expected to be realised more than 12 months after the reporting date.

15] Investment Securities - Held to Maturity (HTM)

	2016 $'000	2015 $'000
Debt securities	3,451	3,848
Less: Impairment	(2,280)	(2,280)
Net book value of HTM securities	1,171	1,568

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

At 31 March 2016 $1,171 thousand (2015:$1,568 thousand) of investment securities (HTM)are expected to be realised more than 12 months after the reporting date.

16] Financial Instruments

A. Financial Instruments carried at amortised cost

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

	Carrying amount		Fair value	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Held to Maturity Securities	3,451	3,848	1,112	1,540
Less Impairment provision	(2,280)	(2,280)	-	-
Net Book Value	1,171	1,568	1,112	1,540

The total impairment provision recorded for Held to Maturity securities is against Bank's investment in one credit linked note of an investment banking company which is in liquidation. The provision for impairment is for the difference in amount between the book value and the market value of the credit linked note.

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

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

	Carrying amount and fair value	
	2016 $'000	2015 $'000
Assets		
Customer and bank overdrafts	266,355	329,270
Term and bank loans	1,092,020	1,180,847
Interbank placements	3,605	13,139
Bills purchased	20,463	23,370
Liabilities		
Interbank deposits	164,201	125,820
Subordinated debts	75,000	65,000
Savings accounts	142,878	98,629
Current accounts	134,177	136,161
Fixed term deposits	1,093,817	1,224,327
Bills payable	212	498

A. Financial Instruments carried at amortised cost (continued)

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

- Inter-bank deposits are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.
- Subordinated debts are carried at rate of LIBOR +4/4.5% and the interest rate is reset every six months. Consequently the resultant impact on fair value of the subordinated debts is considered insignificant.
- The fair value of savings accounts and current accounts with no fixed maturity is assumed to be equal to the carrying value.
- Fair value of term deposits is expected to approximate the carrying value, since there has been insignificant change in interest rates in GBP deposits (during the year) which constitute a significant proportion of the Bank's term deposit base.
- The majority of the overdrafts and term loans are floating rate loans with interest rate reset between 3 to 6 months and consequently the resultant impact on fair value of the term loans is considered insignificant. However, no adjustment has been made to the fair value for change in credit spreads of counterparties. Impaired loans are reflected at net carrying value net of provision and that is the best estimate of fair value for such loans.
- Inter-bank placements are generally of short dated maturity and hence the resultant impact on fair value of the same is considered insignificant.

B. Financial Instruments carried at fair value and amortised cost

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

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

31 March 2016

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities – held for trading	**10**	49,727			49,727
Investment securities – available for sale	**14**		122,080		122,080
Derivative assets held for risk management	**11**		5,994		5,994
Loans and advances to banks	**12**		310,453		310,453
Loans and advances to customers	**13**			1,071,990	1,071,990
Investment securities held to maturity	**15**			1,171	1,171
		49,727	**438,527**	**1,073,161**	**1,561,415**

B. Financial Instruments carried at fair value and amortised cost (continued)

Financial Liabilities	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative liabilities held for risk management	**11**	-	14,944	-	14,944
Deposits from banks	**24**	-	176,964	-	176,964
Deposits from customers	**25**	-	-	1,358,109	1,358,109
		-	**191,908**	**1,358,109**	**1,550,017**

31 March 2015

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities – held for trading	**10**	81,667	-	-	81,667
Investment securities – available for sale	**14**	-	120,760	-	120,760
Derivative assets held for risk management	**11**	-	3,626	-	3,626
Loans and advances to banks	**12**	-	338,882	-	338,882
Loans and advances to customers	**13**	-	-	1,196,008	1,196,008
Investment securities held to maturity (amortised cost)	**15**	-	-	1,568	1,568
		81,667	**463,268**	**1,197,576**	**1,742,511**
Financial Liabilities:					
Derivative liabilities held for risk management	**11**	-	21,668	-	21,668
Deposits from banks	**24**	-	135,260	-	135,260
Deposits from customers	**25**	-	-	1,454,943	1,454,943
		-	**156,928**	**1,454,943**	**1,611,871**

The fair value hierarchy has the following levels:

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

17] Provision on Impaired Financial Assets

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

	Loans and Advances	HTM Securities
	$000	$000
Gross balance of Impaired Assets	144,987	2,429
Less: specific impairment	(108,620)	(2,280)
Net Balance	36,367	149

Movement in impairment provision during the year:

Specific allowances for impairment	2016	2015
	$,000	$,000
Balance at 1 April	37,784	33,524
Impairment loss for the year		
Charge for the year	76,144	29,558
Recoveries/Reversals	(3,028)	(3,229)
Write offs	-	(22,069)
Balance at 31 March	110,900	37,784
Out of above		
Provision for impairment of loans and advances*	108,620	35,504
Provision for impairment of HTM securities	2,280	2,280
	110,900	37,784
Collective allowances for impairment		
Balance at 1 April	6,900	3,508
Impairment loss for the year:		
Charge for the year	(1,270)	3,392
Balance at 31 March	5,630	6,900
Total allowances for impairment	116,530	44,684

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

Impairment charge on loans and advances	71,846	31,136
Impairment charge on investments held to maturity	-	-
Charge on account of other than temporary impairment of AFS securities	-	442
	71,846	31,578

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

18] Exposure to Credit Risk and Availability of Collateral Security

The table below presents the Bank's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 March 2016, 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 and geographies. The Bank is affected by the general economic conditions in the territories in which it operates. Bank has set limits on the exposure to any counterparty and group of counterparties, Industry Sector Exposure and Geographical Exposure; and credit risk is also spread over the Banks, Retail and Corporate customers.

The Bank's primary exposure to credit risk has increased by $12,855 thousand when compared to March 2015 primarily due to an increase in inter-bank placements and cash balances with banks.
Otherwise the loans and advances have decreased by $71,127 thousand.

	31 March 2016 $'000	31 March 2015 $'000
On Balance sheet exposure		
Bilateral and syndicated loans and advances to customers	1,186,142	1,237,996
Loans and advances to customers under Letter of Credit/Stand by Letter of Credit/ Letter of Comfort by banks	286,483	305,756
Inter Bank placements and Cash balances with banks	243,811	160,213
Bills purchased directly from customers	98	415
Bills purchased under LC/Guarantee of banks	20,365	22,955
Securities Held to Maturity – banks	2,429	2,827
Securities Held to Maturity – Non banks	1,022	1,021
Securities available for sale – Banks	68,427	66,849
Securities available for sale – Non Banks	53,653	53,911
Derivative Financial Instruments	5,994	3,626
Total – A	1,868,424	1,855,569
Off Balance Sheet Exposure		
Non-Bank Commitments (LCs/LGs)	1,972	1,026
Commitments under LCs/Guarantees by Banks	1,653	1,895
Total – B	3,625	2,921
Undrawn Credit Facilities – Non Banks	109,810	101,462
Undrawn Credit Facilities - Banks	-	-
Total – C	109,810	101,462
Total Exposure subject to Credit Risk (A+B+C)	1,981,859	1,959,952

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

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

	2016	2015
	$'000	$'000
Exposure on Banks	629,260	564,121
Non-Bank Exposure	1,352,599	1,395,831
Total	1,981,859	1,959,952

Collateral:

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

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 2016:

Amt. in $ Million

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

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

***All loans with renegotiated terms are performing as per the terms of renegotiation; and currently there are no past due or impaired loans in this category. There are no forborne loans as on 31 March 2016 (31 March 2015: Nil).*
****out of this, exposure amounting to $64.31million is overdue up to 30 days.*
Retail loans are loans to individual and small enterprises up to Euro 1 million.

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

Comparative data for 31 March 2015 is as below:

Amt. in $ Million

	Retail Exposure		Non Retail Exposure		Total	
	Exposure	Amount Collateralised	Exposure	Amount Collateralised	Exposure	Amount Collateralised
Neither past due nor impaired:						
Internally rated AAA to A	43.60	39.36	192.47	190.88	236.07	230.24
Internally rated BB to B	33.39	30.87	743.63	647.78	777.02	678.65
Total neither past due nor impaired	**76.99**	**70.23**	**936.10**	**838.66**	**1,013.09**	**908.89**
Past due but not individually impaired:						
Up to 90 days	10.27	9.69	95.19	95.19	105.46**	104.88
Over 90 days	1.02	0.87	61.56	61.43	62.58	62.30
Total Past due but not individually impaired	**11.29**	**10.56**	**156.75**	**156.62**	**168.04**	**167.18**
Loans with renegotiated terms	**3.48**	**3.45**	**72.03**	**67.12**	**75.51**	**70.57**
Individually impaired loans:						
Doubtful category	0.87	0.87	83.29	83.29	84.16	84.16
Loss category	0.09	0.00	0.00	0.00	0.09	0.0
Total Impaired	**0.96**	**0.87**	**83.29**	**83.29**	**84.25**	**84.16**
Total	**92.72**	**85.11**	**1,248.17**	**1,145.69**	**1,340.89**	**1,230.80**

While arriving at the value of collateral:

- Value of personal and corporate guarantees has not been considered.
- Value of securities in accounts where Bank has pari-passu charge is based on the book value in the latest available audited financial statements, where available, and is considered pro-rata in proportion to the exposure in the entity.
- The collateral values reported have been adjusted for the effects of over-collateralization.
- For non-bank HTM securities, current market value of the security has been considered.

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

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

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

Percentage of value of collateral to exposure		Exposure $ Million 2016	Exposure $ Million 2015
100% and above*		1,104.60	1,171.70
76% to 99%		26.55	52.36
51% to 75%		9.04	1.71
26% to 50%		1.86	21.75
11% to 25%		11.42	0.11
Below 10%		20.10	0.00
Unsecured		179.12	148.20
	Total	1,352.69	1,395.83
Average percentage of availability of Collateral*		79.71%	83.32%

**excluding impact of over-collateralisation.*

Past due but not impaired loans

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.

Renegotiated and forborne loans

Loans that are renegotiated primarily to grant extended tenure to a customer who is facing some difficulties but who Bank believes is not impaired are known as 'other renegotiated loans'. Loans that are renegotiated on terms that are not consistent with those readily available in the market and/ or where Bank has granted a concession compared to the original terms of the loans, are considered to be subject to forbearance strategies and are known as 'forborne loans'. Forbearance strategies assist customers who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the customer, the Bank or a third party and includes debt restructuring, such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

Once a loan is subject to forbearance or is renegotiated, the loan continues to be reported as such, until the loan matures or is otherwise derecognised.

Individually impaired loans

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.

Doubtful and Loss category

Loans under the doubtful category are those where there is an unlikeliness of collection of principal and/or interest sums due over time other than through sale of collateral or enforcement of security. Loans under loss category are those with probable or actual failure to collect sums even through the sale of business or collateral.

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

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

	2016	2015
	$'000	$'000
Impaired loans and advances to customers at 1 April	82,530	66,793
Net Repayments in existing impaired loans and advances	(1,486)	(21,770)
Classified as impaired during the year	63,904	43,499
Other movements/exchange rate fluctuations	39	(5,992)
Impaired loans and advances to customers at 31 March	144,987	82,530

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

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

	2016	2015
	$'000	$'000
Impaired investments held to maturity at 1 April	2,827	3,597
Net Repayments in existing impaired investments	(398)	(770)
Classified as impaired during the year	-	-
Other movements/exchange rate fluctuations	-	-
Impaired investments held till maturity at 31 March	2,429	2,827

Details of impairment allowance for investment securities held-to-maturity is given at Note 17.

Internal Ratings

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

Derivatives, sale and repurchase agreements

The Bank mitigates the credit risk of derivatives by entering into International Swaps and Derivative Association (ISDA) master netting agreements. Under these agreements, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the terminal value is assessed and only a single net amount is due or payable in settlement of all transactions. The Bank's sale and repurchase transactions are also covered by master agreements with netting terms similar to ISDA master netting agreements. The ISDA and similar master netting agreements create for the parties to the agreement a right to the set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events.

19] Exposure to Eurozone Countries

The Bank has no direct sovereign exposure (as defined by the European Banking Authority 'EBA') to any of the Eurozone countries. Gross exposure to other counterparties in the Eurozone countries as at 31 March 2016 is as below:

$'000

Name of the Country	As on 31 March 2016 Exposure to Banks	Exposure to Corporates	Total Exposure	As on 31 March 2015 Exposure to Banks	Exposure to Corporates	Total Exposure
Belgium	478	27,842	28,320	178	26,839	27,017
Romania	-	5,879	5,879			
Germany	958	8,624	9,582	625	8,096	8,721
Spain	0	0	0	-	5,150	5,150
France	2	3,727	3,729	5	-	5
Ireland	0	8,470	8,470	-	8,794	8,794
Netherland	0	19,543	19,543	-	22,159	22,159
Luxembourg	0	15,162	15,162	-	17,593	17,593
Total	1,438	89,247	90,685	808	88,631	89,439
Of which – to problem Eurozone countries*		8,470	8,470		13,943	13,943

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

There is no direct or indirect exposure on Ukraine and Russia.

An amount of USD 25,059 thousand (USD 570 thousand from troubled Eurozone countries) is to be received after 12 months.

At 31 March 2016 the Bank's non-sovereign exposure to GIIPS and Cyprus amounting to $8.47 million was as follows:

The Bank has an exposure in the form of a credit facility to a corporate in Ireland, having an outstanding balance of $8.47 million. This counterparty is an Irish subsidiary of an Indian corporate and is fully guaranteed by the Indian parent. It is further fully secured by collateral security of more than 100% of the exposure.

20] Property and Equipment

At 31 March 2016

	Leasehold improvements $'000	Fixtures and fittings $'000	Total $'000
Cost			
At 1 April 2015	**2,382**	**3,786**	**6,168**
Additions	-	163	163
Disposals	-	-	-
At 31 March 2016	**2,382**	**3,949**	**6,331**
Depreciation			
At 1 April 2015	**(1,504)**	**(2,593)**	**(4,097)**
Charge for year	(324)	(384)	(708)
Disposals	-	-	-
At 31 March 2016	**(1,828)**	**(2,977)**	**(4,805)**
Net book value			
At 1 April 2015	**878**	**1,193**	**2,071**
At 31 March 2016	**554**	**929**	**1,526**

At 31 March 2015

	Leasehold improvements $'000	Fixtures and fittings $'000	Total $'000
Cost			
At 1 April 2014	1,934	2,974	4,908
Additions	448	812	1,260
Disposals	-	-	-
At 31 March 2015	**2,382**	**3,786**	**6,168**
Depreciation			
At 1 April 2014	(1,173)	(2,263)	(3,436)
Charge for year	(331)	(330)	(661)
Disposals	-	-	-
At 31 March 2015	**(1,504)**	**(2,593)**	**(4,097)**
Net book value			
At 1 April 2014	**761**	**711**	**1,472**
At 31 March 2015	**878**	**1,193**	**2,071**

21] Intangible Assets

31 March 2016

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

31 March 2015

	Software $'000
Cost	
At 1 April 2014	1,516
Additions	64
At 31 March 2015	**1,580**
Amortisation	
At 1 April 2014	(1,348)
Charge for the year	(96)
At 31 March 2015	**(1,444)**
Carrying value	
At 1 April 2014	168
At 31 March 2015	**136**

22] Deferred Tax Asset / (Liability)

	2016 $'000	2015 $'000
At 1 April	(90)	20
Release / (charge) for year	3,869	(110)
At 31 March	3,779	(90)

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of 20% (2015: 21%). Finance (No. 2) Act 2015 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. Deferred tax on the loss will be offset by tax on profits expected in the next 2 to 3 years.

23] Prepayments and other Receivables

	2016	2015
	$'000	$'000
Current prepayments	679	3,354
Other receivables	17	623
	696	3,977

24] Deposits from Banks

	2016	2015
	$'000	$'000
Current accounts from banks	5,023	2,299
Overdrafts in Nostro accounts with banks	5,597	5,266
Fixed term deposits	2,143	1,875
Inter bank borrowings	164,201	125,820
Total deposits from banks	176,964	135,260

At 31 March 2016 $50,000 thousand (2015: $25,164 thousand) of deposits from Banks are expected to be settled more than 12 months after the reporting date.

25] Deposits from Customers

	2016	2015
	$'000	$'000
Current accounts	123,557	133,862
Savings accounts	142,878	98,629
Fixed term deposits	1,091,674	1,222,452
Total deposits from customers	1,358,109	1,454,943

At 31 March 2016 $448,443 thousand (2015:$ 471,626 thousand) of deposits from customers are expected to be settled more than 12 months after the reporting date.

26] Subordinated Liabilities and other Borrowed Funds

	2016	2015
	$'000	$'000
Subordinated debt	75,000	65,000

This represents Lower Tier II capital received as follows:

i. $25,000,000 issued in March 2009, maturing in March 2019.
ii. $12,500,000 issued in March 2012, maturing in March 2022.
iii. $12,500,000 issued in October 2012, maturing in October 2022.
iv. $5,000,000 issued in December 2013 maturing in December 2028.
v. $10,000,000 issued in August 2014 maturing in August 2024
vi. $10,000,000 issued in December 2015 maturing in December 2025

Bonds at S. No. i to iii and vi are subscribed by the parent company while Bonds at S. No. iv to v are by other banks of Indian origin.

These subordinated Bonds are listed on the Channel Islands Stock Exchange, bearing non-discretionary coupons of 4% over LIBOR for the first three and 4.5% over LIBOR for the recent issues, are redeemable by the holder; and are therefore included within subordinated liabilities.

At 31 March 2016 $75,000 thousand (2015: $65,000 thousand) of subordinated liabilities are expected to be settled more than 12 months after the reporting date.

27] Other liabilities

	2016	2015
	$'000	$'000
Bills payable	212	498
Other payables and accrued liabilities	4,352	6,163
Deferred income	3,470	4,601
	8,034	11,262

28] Share Capital

Issued share capital

	2016		2015	
	No.	$	No.	$
Issued and fully paid				
Ordinary shares of £1 each	2	4	2	4
Ordinary shares of $1 each				
At start of year	174,630,625	174,630,625	174,630,625	174,630,625
New Issue of Share Capital	-	-	-	-
At end of year	174,630,627	174,630,629	174,630,627	174,630,629

28] Share Capital (continued)

Included within the share capital is the Additional Tier I capital of $25,000 thousand (Converted in Additional Tier I on 15/03/2016 from Upper Tier II raised by the Bank in 2011) in the form of perpetual floating rate subordinated notes.

Based on the terms and conditions of the purchase agreement and in accordance with IAS 32 guidance, since the interest payments are discretionary and the Bank does not have 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.

29] Fair Value Reserves

	Gross	Tax	Net
31 March 2016	**$'000**	**$'000**	**$'000**
Balance at 1April 2015	**2,115**	**(364)**	**1,751**
Amount transferred to statement of profit or loss	**(90)**	**19**	**(71)**
	2025	**(345)**	**1,680**
Movement in AFS reserve in year	**(1,612)**	**322**	**(1,290)**
Balance at 31 March 2016	**413**	**(23)**	**390**

	Gross	Tax	Net
31 March 2015	$'000	$'000	$'000
Balance at 1April 2014	**(6,509)**	**1,503**	**(5,006)**
Amount transferred to statement of profit or loss	**2,806**	**(645)**	**2,161**
	(3,703)	**858**	**(2,845)**
Movement in AFS reserve in year	**5,818**	**(1,222)**	**4,596**
Balance at 31 March 2015	**2,115**	**(364)**	**1,751**

30] Operating Lease Commitments

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

	2016	2015
	$'000	**$'000**
Less than one year	**992**	**983**
Later than one year but less than five years	**1,048**	**1,588**
	2,040	**2,571**

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 and kept as provision that is included in other liabilities (note 27).

31] Other Commitments and Contingencies

Commitments in respect of financial instruments were as follows:

	2016	2015
	$'000	$'000
Guarantees issued to third parties	3,625	2,833
Letters of credit issued	-	87

There were undrawn loans of $70,117 thousand (previous year: $60,582 thousand) and un-availed portions of sanctioned overdraft limits to the extent of $39,693 thousand (previous year: $55,056 thousand) as at 31 March 2016. Bills amounting to $5,203 thousand (previous year: $10,845 thousand) were sent/received in collection on behalf of customers. The Bank does not have any balance sheet exposure on such bills for collection.

32] Related Party Transactions

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

The Bank regards Punjab National Bank (including all its branches in India and abroad) and its subsidiaries as related parties in view of 100% shareholding of Punjab National Bank in the company. Entire equity capital and 83.33% of Tier II capital of the company is held by Punjab National Bank.

Liabilities and assets outstanding to the related parties on the balance sheet of the Bank as on 31 March 2016 are as below:

	2016	2015
	$'000	$'000
Liabilities		
Fixed Deposits	1,528	1,482
Borrowings	52,800	50,000
Current Accounts	4,926	2,206
Assets		
Balance in Nostro Accounts	1,189	4,059
Bills accepted/ confirmed by PNB discounted to Corporates	-	2,506
Placements	-	-

Excluded from the above are loans sanctioned to corporates on Stand By Letters of Credit of Punjab National Bank amounting to $40,926 thousand (previous year: $32,447 thousand).

32] Related Party Transactions (continued)

Contingent exposure to Punjab National Bank is as below:

Nature	2016 $'000	2015 $'000
Letters of Credit and Guarantees Confirmed	**1,653**	**1,844**
Cross Currency Swaps (notional) – Sell	**340,097**	**513,167**
Cross Currency Swaps (notional) – Buy	**347,286**	**527,962**

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

Nature	Particulars	2016 $'000	2015 $'000
Receipts:			
Interest Earned	Interest on Inter Bank Placements	**6**	**3**
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	**112**	**166**
B. Interest Paid on	Borrowings	**781**	**685**
	Fixed Deposits	**17**	**34**
C. Interest Paid on Capital Bonds (unaudited)	Additional Tier I Capital Bonds of $25.00 Mn. (Last year Upper Tier II has been converted)	**1,136**	**1,083**
	Lower Tier II Capital Bonds of $25.00 Mn.	**1,272**	**1,083**
	Lower Tier II Capital Bonds of $12.50 Mn.	**568**	**541**
	Lower Tier II Capital Bonds of $12.50 Mn.	**568**	**541**
	Lower Tier II Capital Bonds of $10.00 Mn.		

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

The Bank enters into commercial transactions with its parent company in the ordinary course of business on an arm's length basis.

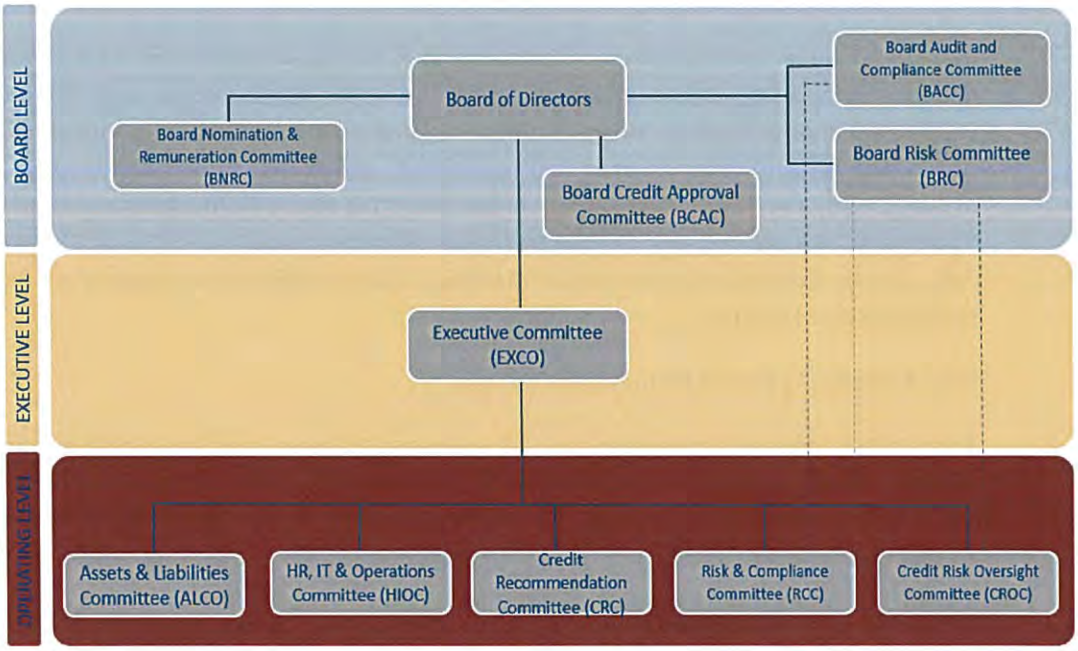
Other transactions with related parties (including remuneration paid to Directors which the Bank considers as key management) are disclosed in note 7. The Bank considers that the cost of secondment of executives to or from the parent company is not material.

33] Financial Risk Management Objectives and Policies

Risk Governance

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

PNBIL Governance Structure



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

Board of Directors

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

Senior Management is accountable for Risk Management, either as members of the First or Second Line of Defence. This means that they each have accountabilities either collectively via EXCO or individually via their functional roles for active risk management. Embedding Risk Management is central to the successful implementation of this Risk Governance Framework, and EXCO members have prime responsibility to promote and embed this in their areas of responsibility.

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

Board Risk Committee (BRC)

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

Board Audit and Compliance Committee (BACC)

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

Board Credit Approval Committee (BCAC)

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

Asset and Liability Committee (ALCO)

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

Credit Recommendation Committee (CRC)

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

Credit Risk Oversight Committee (CROC)

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

Three lines of Defence Model

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

Specific responsibilities of the First Line include:

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

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

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

1. Developing and monitoring the implementation of risk management frameworks, policies, systems, processes and tools
2. Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the First Line

3. Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting
4. Establishing an early warning system for breaches of the Bank's Risk Appetite or Limits
5. Influencing or challenging decisions that give rise to material risk exposure
6. Reporting via the CRO and HOC, on all these items, including risk mitigating actions, where appropriate

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

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

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

33] Financial Risk Management Objectives and Policies (continued)

Compliance and Risk Management

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

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

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

Compliance and Risk Management provides a focal point to coordinate communications and consultations with regulatory authorities and also carries out reviews of relevant business units against applicable rules, guidance and the Bank's internal policies and procedures. The Head of Compliance has the responsibility of oversight into the compliance aspects of the Bank and he is assisted by the Money Laundering Reporting Officer and Internal auditor for effective oversight.

33] Financial Risk Management Objectives and Policies (continued)

Director has the responsibility of oversight into the compliance aspects of the Bank and he is assisted by the Money Laundering Reporting Officer and Internal auditor for effective oversight.

Internal Audit

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

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

Risk Categorisation

The Bank has categorised various risks under following headings:

Credit Risk

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

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

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

- The Bank has an approved lending policy wherein the types of credit facilities are defined as is the sanctioning authority which grants within specific financial limits;
- Every credit facility beyond a pre-determined limit is processed through the credit recommending committee and sanctioned by the credit approval committee;
- Credit risk under each loan above the threshold limit is assessed both on financial and non-financial parameters;
- Concentration risk is taken into account both with respect to individual or group exposures as well as industry wide or country wide exposures;
- Most of the facilities are secured by either tangible securities or third party guarantees;
- With respect to large value facilities including under syndicated facilities, documentation is done through external solicitors;

- Periodic review and monitoring of facilities is undertaken to identify and attend to any observed weakness in any facility;
- All facilities above prescribed threshold limits are reported to the Board every quarter;
- Lending policies and limits are periodically reviewed by the Board; and
- Risk rating of individual proposals beyond cut-off limit is done as per the internal credit risk rating model.

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

Market Risk

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

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

The Bank is exposed to foreign exchange risk to the extent of its open position in each currency. The Bank has stipulated an internal limit for maximum open position and is measuring and monitoring this open position on a daily basis.

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long or short currency positions. These derivatives are re-valued daily and any change in their fair value is recognized immediately in profit and loss. The total notional amount of outstanding currency exchange contracts to which the Bank is committed is $493.60million (2015: $607.42 million).

The open position of the Bank as on 31 March 2016 is as follows:

Currency	Open Position	USD Equivalent
	'000	$'000
Indian Rupees	165,100	2,492
Pound Sterling	992	1,427
Euro	(2,252)	(2,566)
Japanese Yen	1,336	12
Canadian Dollar	60	47
Norwegian Kroner	97	12
Nepalese Rupees	1635	16
UAE Dirham	858	234
Australian Dollar	(266)	(205)
Total Long Position in US Dollars		4,240
Total Short Position in US Dollars		2,771

Upward or downward movement of exchange rate by 10% may impact profitability of the Bank by $424 thousand (2015: $704 thousand).

33] Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk (Re-pricing analysis as at 31 March 2016)
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 2016 is presented below:

Particulars	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 – 12 Months	1-3 years	Over 3 Years	Non Sensitive Category	Total
ASSETS	**\$ (000s)**	**\$ (000s)**	**\$ (000s)**	**\$ (000s)**	**\$ (000s)**	**\$ (000s)**	**\$ (000s)**	**\$ (000s)**
Cash and cash equivalent	240,205	-	-	-	-	-	-	240,205
Investment securities – held for trading	-	-	-	-	-	-	49,727	49,727
Derivative financial instruments	71	4,012	494	1,417	-		-	5,994
Loans and advances to banks	54,081	210,364	21,828	24,180	-	-	-	310,453
Loans and advances to customers	581,876	288,224	91,033	32,748	21,729	11,937	44,443	1,071,990
Investment securities – available for sale	-	500	-		33,943	87,358	279	122,080
Investment securities – held to maturity	-	-	-	-	1,022		149	1171
Property, plant and equipment	-	-	-	-	-	-	1,526	1,526
Intangible assets	-	-	-	-	-	-	170	170
Deferred tax assets	-	-	-	-	-	-	3,836	3,836
Current tax Assets	-	-	-	-	-	-	3,891	3,891
Prepayments and other receivables	436	-	-	260	-	-	-	696
Total	876,669	503,100	113,355	58,605	56,694	99,295	104,021	1,811,739
LIABILITIES								
Derivative financial instruments	12,549	1754	639	2	-	-	-	14,944
Deposits from banks	74,336	76,991	10,267	15,129	12	229	-	176,964
Deposits from customers	354,199	95,035	218,165	232,547	390,190	67,973	-	1,358,109
Current tax liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	15,000	60,000		-	-	-	75,000
Deferred tax liabilities	-	-	-	-	-	-	57	57
Other liabilities	986	374	-	-	-	-	6,674	8,034
Share Capital	-	-	25,000	-	-	-	149,631	174,631
Reserve and retained earnings	-	-	-	-	-	-	3,610	3,610
Fair Value Reserves	-	-	-	-	-	-	390	390
Total	442,070	189,154	314,071	247,678	390,202	68,202	160,362	1,811,739
Interest Rate Gap	384,062	364,375	(200,716)	(189,073)	(333,508)	31,094	(56,234)	-
Interest Rate Swap for Hedging	-	(72,473)	(181,219)	72,137	181,556	-	-	-
Net Gap	434,600	241,472	(381,935)	(116,936)	(151,953)	31,094	(56,340)	-
Impact of Interest Variation of 2%	362	805	(2,865)	(1,754)	(6,078)	2,487	-	(7,042)

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

33] Financial Risk Management Objectives and Policies (continued)

Liquidity Risk

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations with respect to customer deposits or any borrowing or obligations under any other assets or liabilities, within stipulated time and without significant additional cost. The Bank has documented liquidity policy in place, within the guidelines issued by the Prudential Regulation Authority (PRA). The Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed by the Board and/ or the regulator. The following table analyses the Bank's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date:

As at 31 March 2016	Up to 1 month	1-3 month	3-12 month	1-2 yr	2-5 yr	Over 5 yrs	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Cash and cash equivalent	240,205	-	-	-	-	-	-	240,205
Investment securities – held for trading	49,727	-	-	-	-	-	-	49,727
Derivative financial instruments	71	4,012	144	1,767	-	-	-	5,994
Loans and advances to banks	4,865		89,581	19,369	166,227	30,411	-	310,453
Loans and advances to customers	343,422	40,965	88,068	95,829	327,634	176,072	-	1,071,990
Investment securities – available for sale	-	500		17,259	43,397	60,924	-	122,080
Investment securities – held to maturity	-	-	-	-	1,022	149	-	1,171
Property, plant and equipment	-	-	-	-	-	-	1,526	1,526
Intangible assets	-	-	-	-	-	-	170	170
Deferred tax assets			-				3,836	3,836
Current tax Assets							3,891	3,891
Prepayments and other receivables	436	-	260	-	-	-	-	696
Total assets	638,726	45,477	178,053	134,224	538,280	267,556	9,423	1,811,739
Derivative financial instruments	12,550	1,754	640	-	-	-	-	14,944
Deposits from banks	74,336	76,991	25,397		240	-	-	176,964
Deposits from customers	354,199	95,035	450,673	297,039	161,048	115	-	1,358,109
Subordinated liabilities	-	-	-	-	-	75,000	-	75,000
Deferred tax liabilities	-	-	-	-	-	-	57	57
Other liabilities	1,202	558	1,153	1,464	3,656	-	-	8,034
Share capital	-	-	-	-	-	-	174,631	174,631
Reserves and retained earnings	-	-	-	-	-	-	3,610	3,610
Fair Value reserves	-	-	-	-	-	-	390	390
Total Liabilities	442,287	174,339	477,863	298,503	164,945	75,115	178,688	1,811,739
Financial guarantees and letters of credit – net of deposit	3,553	-	-	-	-	71	-	3,625
Irrevocable Loan commitments	38,330	-	-	-	-	-	-	38,330
Total equity, liabilities and commitments	484,170	174,339	477,863	298,503	164,945	75,186	178,688	1,849,824
Net liquidity gap	154,559	(128,862)	(299,810)	(164,279)	373,333	192,369	(169,265)	(41,954)
Cumulative Liquidity Gap	154,559	25,697	(274,113)	(438,392)	(65,058)	127,311	(41,954)	

33] Financial Risk Management Objectives and Policies (continued)

Bank is also holding sufficient liquid asset buffer in approved securities and balance with Bank of England to meet the obligations for 90 days without considering non-bank inflow. Bank is maintaining no negative mismatch under wholesale fund flow for 90 days.

Comparative analysis as at 31 March 2015 was as below:

As at 31 March 2015	Up to 1 m	1-3 m	3-12 m	1-2 yr	2-5 yr	Over 5 yrs	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Cash and cash equivalent	150,042	-	-	-	-	-	-	150,042
Investment securities – held for trading	81,667	-	-	-	-	-	-	81,667
Derivative financial instruments	1,318	417	38	-	1,853	-	-	3,626
Loans and advances to banks	15,755	27,643	187,011	60,861	47,612	-	-	338,882
Loans and advances to customers	365,545	50,405	170,639	149,180	296,689	163,550	-	1,196,008
Investment securities – available for sale	-	-	955	-	53,806	65,999	-	120,760
Investment securities – held to maturity	-	-	-	-	1,021	547	-	1,568
Property, plant and equipment	-	-	-	-	-	-	2,071	2,071
Intangible assets	-	-	-	-	-	-	136	136
Prepayments and other receivables	3,702	-	275	-	-	-	-	3,977
Total assets	618,029	78,465	358,918	210,041	400,981	230,096	2,207	1,898,737
Derivative financial instruments	601	10,254	10,065	-	748	-	-	21,668
Deposits from banks	7,565	1,321	50,882	25,164	50,328	-	-	135,260
Deposits from customers	326,865	129,445	527,007	222,105	249,521	-	-	1,454,943
Current tax liabilities	-	-	2387	-	-	-	-	2387
Subordinated liabilities	-	-	-	-	25,000	40,000	-	65,000
Deferred tax liabilities	-	-	-	-	-	-	90	90
Other liabilities	1,757	828	2,412	2,872	3,393	-	-	11,262
Share capital	-	-	-	-	-	-	174,631	174,631
Reserves and retained earnings	-	-	-	-	-	-	31,745	31,745
Fair Value reserves	-	-	-	-	-	-	1751	1751
Total Liabilities	336,788	141,848	592,753	250,141	328,990	40,000	208,217	1,898,737
Financial guarantees and letters of credit – net of deposit	36	-	742	-	-	-	-	778
Irrevocable Loan commitments	39,353	-	-	-	-	-	-	39,353
Total equity, liabilities and commitments	376,177	141,848	593,495	250,141	328,990	40,000	208,217	1,938,868
Net liquidity gap	241,852	(63,385)	(234,577)	(40,100)	71,992	190,096	(206,009)	(40,132)
Cumulative Liquidity Gap	241,852	178,466	(56,111)	(96,210)	(24,218)	165,878	(40,132)	

ALCO is primarily responsible for overseeing the implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis. The Bank considers the funding ability before committing additional credit facility and closely monitors the

upcoming payment obligations. The Bank has an Individual Liquidity Adequacy Assessment (ILAA) document taking into account the revised guidelines issued by the regulator.

The Bank undertakes stress tests on its liquidity position taking into account worst case scenarios, based on its own past experiences as well as industry level guidelines. The Bank has also put in place contingency plans to meet its liquidity obligations under stressed scenarios. The Bank is also holding near liquid assets (marketable assets) in its portfolio to meet its liquidity obligations. The liquidity positions are reported to the Board from time to time and the policy is reviewed periodically to meet the changing needs. The Bank is holding a Liquidity Asset Buffer in form of US Treasury Bonds and balance with the Bank of England to the extent of $278,016 thousand as at 31 March 2015 (2015: $215,848 thousand).

Operational Risk (unaudited)

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

The Bank has identified each of such possible eventualities and established mitigation processes and internal controls, including maker checker for all financial transactions, an IT Business Continuity Plan in case of a disaster, documentation of processes and procedures, AML/CFT guidelines, staff handbook, TCF policy, anti-bribery policy, records retention policy, compliance code of conduct etc. These are tested periodically.

Regulatory and Compliance Risk

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

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

Conduct Risk

Conduct Risk is the risk that the conduct of the Bank or its staff towards customers or within the market leads to poor customer outcomes, a failure to meet its customers' or Regulators' expectations or breaches of regulatory rules or laws.

The Bank manages its conduct risks through a "commitment from the top" to good customer service and outcomes, through policies, procedures and regular training, as well as regular monitoring including "mystery shopping" exercises at its branches.

Group Risk

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

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

34] Capital Management

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

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

- Maintain sufficient capital resources to support the Bank's risk appetite and economic capital requirements.

- Allocate capital to support the Bank's strategic objectives, including optimising returns on economic and regulatory capital.

34] Capital Management (continued)

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

Tier	Component	2016 $'000	2015 $'000
Core Tier One Capital	• Permanent Share Capital	**149,631**	**149,631**
	• Profit and Loss Account and Other Reserves	**3,610**	**31,745**
	• Available for Sale Reserve	**390**	**1,751**
		153,631	**183,127**
Additional Tier I	• Perpetual Subordinated Debt	**25,000**	**-**
Deductions from Tier I	• Intangible Assets	**(170)**	**(136)**
	• Deferred Tax Assets	**(3,836)**	**-**
Total Tier I Capital		**174,625**	**182,991**
	•		
Tier II Capital	• Perpetual Subordinated Debt	**-**	**25,000**
	• Long term dated subordinated debt	**75,000**	**65,000**
	• Collective Impairment Provision	**5,630**	**6,900**
		80,630	**96,900**
Deductions from Tier II	• Amortisation of Dated Tier II capital maturing within five years	**(10,022)**	**(5,011)**
Total Tier II Capital		**70,608**	**91,889**
Other Regulatory Deductions		**-**	**-**
Total Capital (unaudited)		**245,233**	**274,880**

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. No breaches were reported to the Prudential Regulation Authority during the year.

35] Events after the Balance Sheet date

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