ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2015

COMPANY REGISTRATION NUMBER 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
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OFFICERS AND PROFESSIONAL ADVISORS
FOR THE YEAR ENDED 31 MARCH 2015

Company registration number **5781326**

The board of directors*

Gauri Shankar
Chairman

Bhupinder Singh Passi
Managing Director and Secretary

Niraj Gupta
Director

Muddoor Sadananda Nayak
Executive Director

K Thyagarajan

Malcolm Graham McCaig

David Hopton

*There have been changes in the management and governance structure. Mr. Gauri Shankar and Mr. K Thyagarajan were approved by the PRA on 08.04.2015 in place of earlier Chairman Mr. Kasargod Ramachandra Kamath and Mrs. Sushma Bali who resigned from the Board post retirement from the parent bank on 27.10.2014 and 29.11.2014 respectively.

Company secretary ***Bhupinder Singh Passi***

Registered office

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

Statutory auditor

KPMG Audit Plc

Chartered Accountants

Accountants

King and King

Chartered Accountants

The directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2015. 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 increased by 73.81% ($41,491 thousand at 31 March 2015 as against $23,871 thousand at 31 March 2014). This was mainly on account of an increase in net interest income by $4,797 thousand and increased income from treasury operations during the year. The profit before taxation for the year ended 31 March 2015 amounted to $9,913 thousand (2014: $8,633 thousand) and the profit after tax is $8,121 thousand (2014: $6,990 thousand).

The financial statements for the reporting year ended 31 March 2015 are shown on pages 19 to 71. Performance highlights are given in the Strategic Report included as part of the financial statements.

As in the previous years, the directors have not recommended any payment of dividend on equity share capital, however, dividend at the rate of LIBOR plus 4% amounting to $1,082 thousand (2014: $1,111 thousand) 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 (the Bank) during the year are shown on page 3 of this Annual Report.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Punjab National Bank (International) Limited ('PNBIL' or the 'Company' or the 'Bank'), a UK incorporated 100% subsidiary of Punjab National Bank – India (PNB), offers commercial banking services to customers and 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 of India. PNB had an asset base of $92.11 billion as at 31 December 2014 (prior year $87.11 billion as at 31 December 2013). PNBIL started its operations on 10 May 2007 after obtaining regulatory approval on 13 April 2007. Its main business is to provide corporate and retail banking services to different segments of customers, particularly to those having 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 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. Bank has also built a portfolio of investments on its own account, held mainly for liquidity management. Main functions of the treasury operations of the Bank continue to be to resource funding for the Bank, to maintain comfortable liquidity position throughout the financial year and providing guidance on 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 for its current account holders and also started providing internet banking services from the year 2008-09.

NEW INITIATIVES/MILESTONES

During 2013-14, the Bank introduced a Cash ISA Product. Both the variants, Variable Rate Cash ISA and Fixed Rate Cash ISA are gaining in popularity. The Bank has been able to add retail stable customer deposits through these products. Bank has mobilized more than USD 110 million till 31 March 2015 under this deposit scheme.

During the year a new contactless debit card under Master Card was launched. New customers are being issued with contactless cards now whilst existing Maestro Card holders were provided with replacement Master Cards. Bank has installed a new IBS server during the year for the purpose of improving internet banking services, leading to an increase in internet banking operations. The Bank took further IT initiatives during the year and automated the faster payment and INR remittance system to provide efficient and quick service to the customers. Bank's primary Disaster recovery (DR) site is in Mumbai, India and the Bank has taken steps to set up a local DR site in London. The necessary arrangements have been made and the local DR site is expected to be operational in the first half year of 2015-16. The transaction software used by Treasury is in the process of being upgraded.

Bank has embarked on the establishment of an ambitious project 'Enterprise Wide Data Warehouse' during the 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, 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, two Non-Executive Directors (NEDS), both nominated from the parent bank, have resigned on account of their superannuation and two new NEDs have been appointed in their place. The necessary approvals have been received from PRA on 8 April 2015. Current directors are listed on page 3.

INTERNAL CONTROL AND FINANCIAL REPORTING

The directors are responsible for establishing effective internal control in the Bank and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for 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 29 April 2015, the date of approval of the Annual Report for the year ended 31 March 2015.

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.

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

KPMG Audit Plc 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.

Bhupinder Singh Passi
Secretary
Company number: 5781326

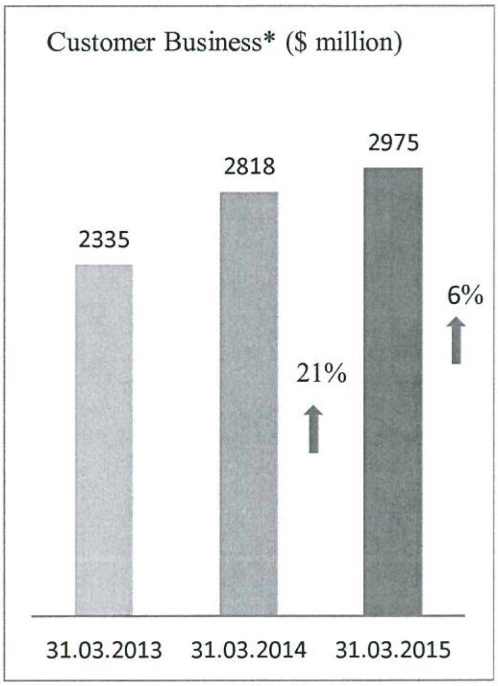
1, Moorgate, London
EC2R 6JH (UK)

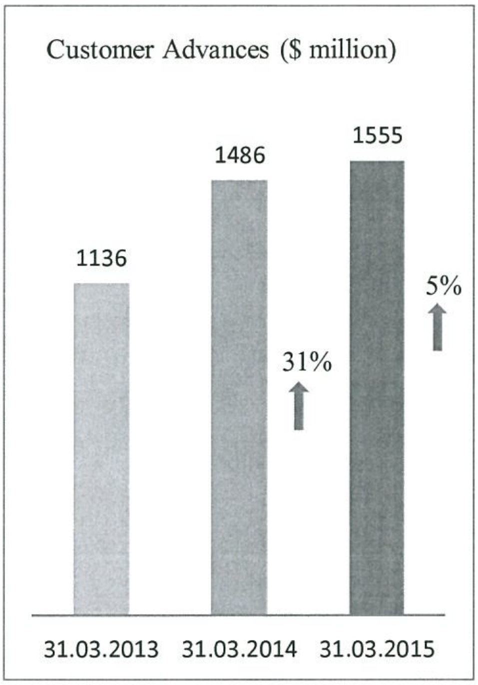
30 April 2015

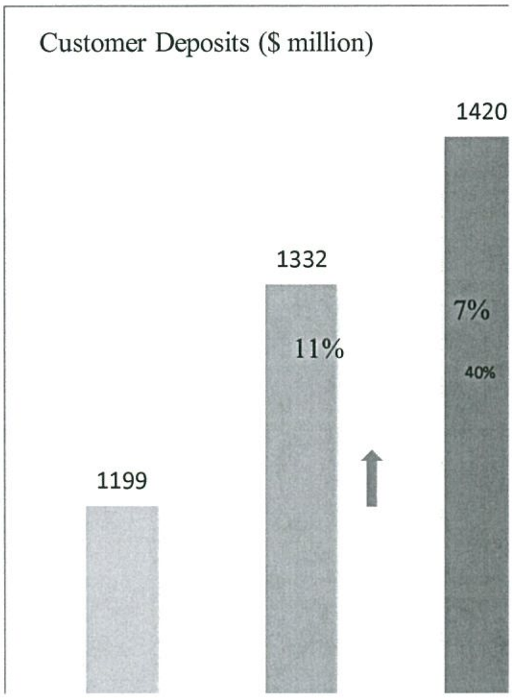
This strategic report should be read in conjunction with the Directors' Report where some of the requirements of this report have been discussed.

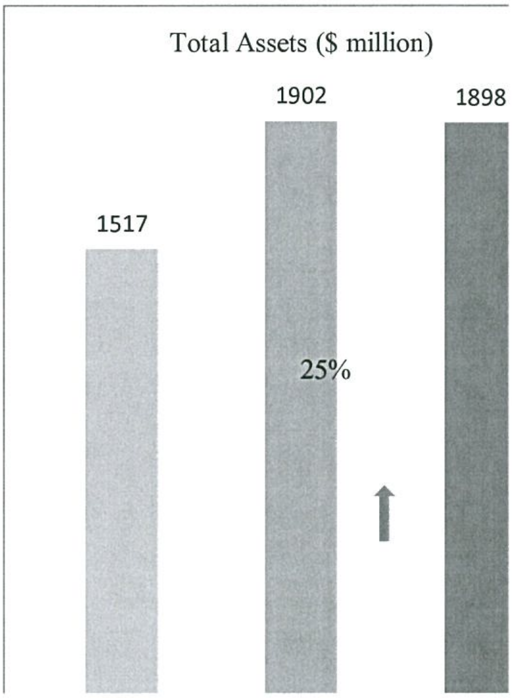
Financial Highlights

Key performance highlights of the Bank are as below:

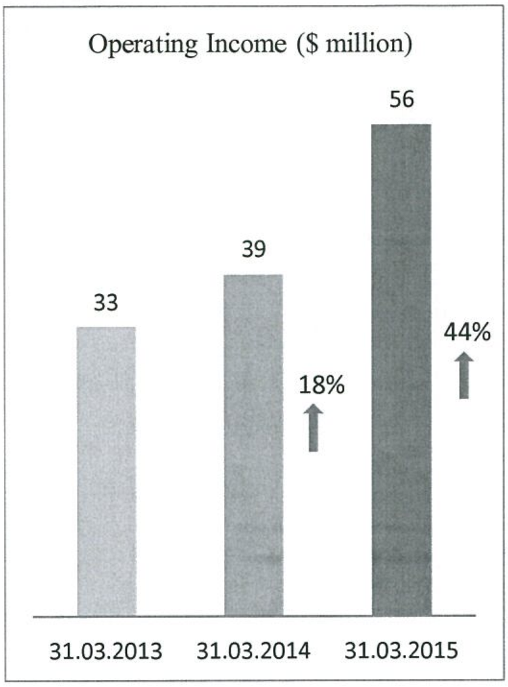


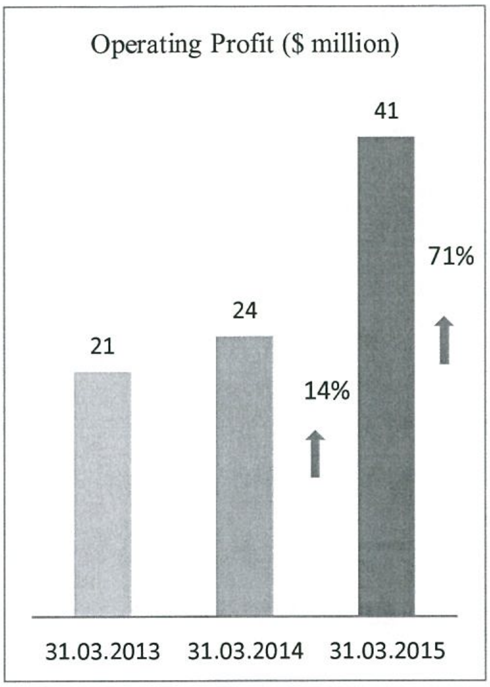






**Customer business is defined as customer advances plus customer deposits.*





This is the eighth year of operations for the Bank; and the Bank continued to show good progress in its business development during the financial year ended 31 March 2015. Total customer business of the Bank has increased from $2,818 million as at 31 March 2014 to $2,975 million as at 31 March 2015, a year-on-year increase of 5.57%. Operating profit for the year ended 31 March 2015 amounted to $41,491 thousand (2014: $23,871 thousand), a year on year increase of 73.81%. Increase in operating profit is mainly on account of increase in net interest income by $4.8mn and net trading income of $9.6mn. Profit before taxation for the year ended 31 March 2015 amounted to $9,913 thousand (2014: $8,633 thousand) and profit after tax is $8,121 thousand (2014: $6,990 thousand). As at 31 March 2015, PNBIL had total assets of $1,898,737 thousand (2014: $1,902,658 thousand).

During the year, total lending has increased to $1,554,503 thousand (2014: $1,486,270 thousand), led by increases in lending against SBLCs, against own deposits and UK commercial property. The Cash ISA scheme launched two years ago has gained popularity and the amount generated under this scheme is $110,440 thousand (2014 $30,190 thousand).

As at 31 March 2015, main industry concentration within the Bank's loans and receivable portfolio related to loans against SBLCs and LCs of Banks (21.27%), UK real estate lending (19.89%), loans against own deposits/ deposits held with Parent (7.82%). UK real estate lending consists of credit facilities sanctioned against mortgages of commercial properties (buy to let, office use, property development etc.). These facilities are extended with sufficient margin (on an average more than 30%) and spread over in more than 140 accounts. Thus more than 48% of the loan book is highly collateralised. There are no significant exposures in any other individual industry. The geographical concentration of the bank's exposure (gross assets) to various counterparties is mainly in UK (37.43%) and India (41.14%), based on 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. Bank does not have any direct or indirect exposure in Ukraine and Russia.

The Bank's impaired loans and advances amounted to $82,530 thousand (2014: $66,793 thousand), provisions against impairment for loans for the year was $35,504 thousand (2014: $31,244 thousand). Collective impairment provision on loans stood at $6,900 thousand (2014: $3,508 thousand). Out of the irregular accounts with exposure value of $105.47mn shown under past due accounts up to 90 days within note 18, accounts with exposure amounting to $51.82mn (49.13%) have since been regularised, thus reducing the past due accounts up to 90 days to $53.65mn at the date of this report.

The increase in impairment is mainly on account of previously existing stressed assets, where the restructuring has not resulted in timely recovery. Many of these accounts are infrastructure related projects in India where the flow of funds into this sector has been delayed on account of pending clearances from the Government. There are positive signals by the new government and the recent initiatives taken are expected to have positive impact on this sector and consequent good recovery prospectus.

Keeping in mind the size of the credit portfolio, the bank has undertaken a comprehensive review of its credit management processes through a separate exercise during the year and the major recommendations arising were incorporated into the revised comprehensive credit policy and credit monitoring control were strengthened. The Bank has also devised new management information reports which are now being put up to the top management and the Board on a periodic basis as defined in the credit policy. The Bank has constituted a Credit Risk Management Committee to oversee the overall monitoring of asset classification and provisioning requirements on a regular basis.

GOING CONCERN BASIS

The Bank has adequate resources to continue its operations in the foreseeable future, is profitable for the year ended 31 March 2015; and has a positive net worth position. The Bank has received sufficient support from the parent in the form of capital and operational support from time to time and the same is expected to continue in the foreseeable future. The UK operations remain a core part of the strategic interest of the Group. Similarly, it 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 well above the regulatory minimum levels. The Bank has a strong capital position including a positive contribution to capital by way of retained earnings during the financial year, along with fresh Tier II capital of $10mn. 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 (USD 149.63mn), subordinated debt (USD 90mn), reserves and retained earnings (USD 31.74mn). Upon migration to the Basel III norms, even though the total capital requirement has gone up Bank is still able to meet the capital requirement.

Capital to Risk Adequacy Ratio (CRAR) of the Bank continues to remain well 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 2015 is 15.58% with Core Tier I capital ratio being 10.37%. Leverage ratio of the Bank is 8.78%. Components of regulatory capital and assessment of capital adequacy as also the leverage ratio have been given in the Pillar III disclosure, being published at the website of the Bank.

PNBIL's Risk Management Committee (RMC) as well as the Board reviews 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 $274,880 thousand comprising share capital of $149,631 thousand, tier II capital of $90,000 thousand, retained earnings of $31,745 thousand and net of regulatory adjustments.

Upper Tier II Capital of $25,000 thousand was raised in the year 2011 by issuing perpetual notes to the parent company – Punjab National Bank. This amount is included under equity in the financial statements (see note 28). Under the new Capital Requirement Regulations under CRD IV, this now qualifies as Tier II capital at a level similar to the lower Tier II capital.

PRINCIPAL RISKS AND UNCERTAINTIES

Key risk for the Bank is credit risk on the loan portfolio, interest rate risk in banking book and operational risk. These risks as well as the mitigation techniques followed by the Bank are discussed at note 33 to the financial statements. Recovery of customer advances continuous to be the major credit risk facing the Bank, especially for 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 large part of our exposures under this segment is well collateralised, the uncertainties associated with the ability to realise within a reasonable time in these cases have led to 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.

Responsibility for risk management policies and limits, in the level of risks assumed, lies with the Board of Directors. Board challenges management for developing, presenting, updating and implementing these policies, controls and limits. The structure is designed to provide assurance that no single event, or combination of events, will materially affect the well-being of the Company. The Company's Board of Directors, Audit Committee and Asset and Liability Committee assist in assessing market trends, economic and political developments, and providing global strategic direction for all aspects of risk management. Additionally, the Risk Committee of the board 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 at note 33 to the financial statements. It also includes Bank's processes for managing its capital; its financial risk management strategy; details of its financial instruments and hedging activities; and exposure to credit, market, liquidity and other risks. Some of the issues concerning credit risk have been discussed at note 18 also.

MARKET UNCERTAINTY

The last few months have been increasingly challenging for the global economy and they present a higher risk for the global economy in 2015. The rapid decline in oil prices, quick adjustments in exchange rates (with the US dollar appreciating and weakening of most other currencies, notably the euro), and the new quantitative easing program of the ECB are just a few examples of the economic factors at play. In addition, there is increased geopolitical uncertainty related to the Russia-Ukraine and Middle East conflicts, as well as increased concern about the economic and political future of the Euro Area and European Union. Vulnerability of borrowers and financial institutions to sharp upward movements in the long term interest rates and credit spreads continues to take attention of the regulators. Risks to activity associated with very low inflation in advanced economies, especially the euro area, have come to the fore.

As per the IMF, emerging markets are on course for slowing growth rates, led by a slowdown in China, a steep contraction in Russia and a recession in Brazil, The capital flow volatility remains a concern given that the US interest rates may rise in the near future. In emerging market and developing economies, growth is projected to remain broadly stable at 4.3 percent in 2015 and to increase to 4.7 percent in 2016.

As per the IMF, the distribution of risks to global growth is more balanced now. The main upside risk is a greater boost from lower oil prices, although there is uncertainty about the persistence of the oil supply stock. Downside risks relate to shifts in sentiment and volatility in global financial markets, especially in emerging market economies, where lower oil prices have introduced external and balance sheet vulnerabilities in oil exporters. Stagnation and low inflation are still concerns in the euro area and in Japan. While the positive impact of lower oil prices are expected to have positive impact on of both UK and Indian economy where the Bank has major exposures, the Bank will not have much impact due to other risk factors discussed on account of our limited exposures to these geographies.

Considering the uncertainties in the global economic scenario, the bank will continue to grow at a moderate rate while concentrating in selected segments like credit facilities against SBLCs, banks' own deposits, loans fully collateralised etc. At the same time bank will also continue to stay focussed on strengthening the credit risk framework and systems and controls.

OUTLOOK

The International Monetary Fund (IMF) has projected that the global economy should expand by 3.5% this year, up just 0.1 percentage point from last year's growth rate, with sluggish recoveries in Europe and Japan and softer output in the U.S. as a stronger dollar weighs on exports. Weak global growth outlook comes despite the growth jolt that falling oil prices should be giving major energy importers such as the U.S., Europe, China, India and Japan. Oil prices haven't boosted growth as much as the IMF originally expected, in part because many countries are absorbing the potential pass-through to consumers by raising taxes or cutting fuel subsidies. However, cheap oil could provide more support for economic growth later in the year.

Among major advanced economies, growth in the United States rebounded ahead of expectations after the contraction in the first quarter of 2014, and unemployment declined further, while inflation pressure stayed more muted, also reflecting the dollar appreciation and the decline in oil prices. GDP growth is projected to exceed 3 percent in 2015–16. But the recent dollar appreciation is projected to reduce net exports.

The IMF forecasts that the UK economy will grow 2.7 per cent this year, compared with the 2.6 per cent recorded in 2014, before expansion rates drop to 2.3 per cent in 2016. This year and next, only the US is expected to have higher growth than Britain among large advanced economies, The IMF does warn, however, that oil production costs in the North Sea are among the highest in the world, leaving parts of the Scottish economy, in particular, vulnerable to continued low energy prices

India's growth, though, suggests the rewards that governments can reap by encouraging investors with economic policies aimed at making the country more competitive. At 7.5% this year, up from 6.3% in the fund's last forecast, India's expected GDP growth rate would catapult it ahead of China as the fastest-growing major emerging market in the world.

The better prospects projected for both UK and Indian economy are expected to have positive impact on the Banks 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 will bring 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 new 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

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.

PRA/FCA has come out with the consultative paper on a new 'Senior Managers Regime' (SMR) to replace the Significant Influence Function (SIF) element of the existing Approved Persons Regime, and to cover a narrower range of individuals who are subject to regulatory approval. The SMR will require firms to allocate a range of responsibilities to these individuals and to regularly vet their fitness and propriety. A new 'Certification Regime' which 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 will require firms to assess the fitness and propriety of its relevant employees. The assessment of fitness and propriety will include a review of qualifications, training, competence and personal characteristics. A new set of 'Conduct Rules' which will apply to a wide range of employees: All staff under the SMR and Certification Regime. There will be an obligation on regulatory firms to ensure that all staff is aware of the rules and receive training to help them understand how the rules apply to their individual roles.

International Financial Reporting Standards (IFRS 9) are an accounting standard, offering guidance on the appropriate measurement of liabilities and recognition of financial instruments. They seek to harmonise the classification and measurement of financial instruments and improve financial reporting standards. 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 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 also suffered on account of this delay. Besides that, our overall performance in 2014-15 was not materially impacted by the prevailing difficult economic conditions.

Our capital, funding and liquidity positions remain a source of stability for us and provide assurance to our customers and clients and support us in meeting future regulatory requirements. Capital adequacy ratio, 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, majority of it 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 15.58%, with core tier I capital ratio being at 10.57% - well above the requirements of CRD IV. Bank has taken steps to further augment its capital base during the coming year so as to support its planned business growth.

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 EDW project will be fully operational during the year and the Bank will be able to generate and submit accurate 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 $11,897 were made during the year (2014: $7,974).

EVENTS AFTER THE BALANCE SHEET DATE

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

Bhupinder Singh Passi
Secretary
Company number: 5781326
1, Moorgate, London
EC2R 6JH (UK)

30 April 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT, STRATEGIC REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare the financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

Bhupinder Singh Passi
Managing Director

Muddoor Sadananda Nayak
Executive Director

30 April 2015

We have audited the financial statements of Punjab National Bank (International) Limited (the 'Bank') for the year ended 31 March 2015 set out on pages 19 – 71. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 16), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2015 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Suvro Dutta
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc/ Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

30 April 2015

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2015

	Notes	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents	9	**150,042**	194,555
Investment securities – held for trading	10	**81,667**	62,113
Derivative financial instruments	11	**3,626**	1,973
Loans and advances to banks	12	**338,882**	299,720
Loans and advances to customers	13	**1,196,008**	1,170,545
Investment securities - available for sale	14	**120,760**	166,328
Investment securities – held to maturity	15	**1,568**	4,839
Property, plant and equipment	20	**2,071**	1,472
Intangible assets	21	**136**	168
Deferred tax assets	22	**-**	20
Prepayments and other receivables	23	**3,977**	925
Total assets		**1,898,737**	1,902,658
Liabilities			
Derivative financial instruments	11	**21,668**	202
Deposits from banks	24	**135,260**	280,764
Deposits from customers	25	**1,454,943**	1,361,155
Current tax liabilities		**2,387**	(254)
Subordinated liabilities and other borrowed funds	26	**65,000**	55,000
Deferred tax liabilities	22	**90**	-
Other liabilities	27	**11,262**	11,460
Total liabilities		**1,690,610**	1,708,327
Equity			
Share capital	28	**174,631**	174,631
Retained earnings		**31,745**	24,706
Fair value reserve	29	**1,751**	(5,006)
Total parent company shareholders' equity		**208,127**	194,331
Total equity and liabilities		**1,898,737**	1,902,658

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2015.

M S NAYAK
Director

BHUPINDER SINGH PASSI
Managing Director

Company Registration No 5781326

The notes on pages 25 to 71 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH

	Notes	2015 $'000	2014 $'000
Interest income	5	**83,041**	81,576
Interest expense	5	**(39,205)**	(42,537)
Net interest income		**43,836**	39,039
Net trading (loss)/income	5	**9,607**	(1,549)
Income on interest rate derivatives		**804**	467
Net fee and commission income	5	**625**	383
Other operating income	5	**504**	519
Operating income		**55,376**	38,859
Staff related costs	6	**(6,606)**	(6,920)
Operating lease expenses	5	**(712)**	(654)
Depreciation and amortisation	5	**(757)**	(771)
General administrative expenses	5	**(5,810)**	(6,643)
Provision on impaired financial assets	17	**(31,578)**	(15,238)
Profit before tax		**9,913**	8,633
Income tax expense	8	**(1,792)**	(1,643)
Profit after tax		**8,121**	6,990

The notes on pages 25 to 71 form part of these financial statements

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

	2015	2014
	$'000	$'000
Profit for the year	**8,121**	6,990
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Net change in fair value on AFS investments	**5,818**	(6,280)
Tax relating to fair value change on AFS investments	**(1,222)**	1,444
	4,596	(4,836)
Net amount transferred to profit and loss (AFS investments)	**2,161**	(295)
Other comprehensive income for the year	**6,757**	(5,131)
Total comprehensive income attributable to equity shareholders	**14,878**	1,859

The notes on pages 25 to 71 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 25 to 71 form part of these financial statements

	Attributable to equity holders of the Bank			
31 March 2014	**Issued capital**	**Fair value reserves**	**Retained earnings**	**Total equity**
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 April 2013	**124,631**	**125**	**18,827**	**143,583**
Total comprehensive income for the year				
Profit for the year	-	-	6,990	6,990
Other comprehensive income for the year				
Net change in fair value of AFS investments	-	(4,836)	-	(4,836)
Net amount transferred to profit and loss	-	(295)	-	(295)
Total other comprehensive income for the year	-	(5,131)	-	(5,131)
Total comprehensive income for the year	-	(5,131)	6,990	1,859
Transactions with owners recorded directly in equity				
Contributions by and distribution to owners of the group				
Issue of Share Capital#	50,000	-	-	50,000
Dividend on Perpetual Tier II Capital	-	-	(1,111)	(1,111)
Total contributions by and distributions to owners	50,000	-	(1,111)	48,889
Balance at 31 March 2014	**174,631**	**(5,006)**	**24,706**	**194,331**

Equity capital by way of issuance of shares (see note 28).

The notes on pages 25 to 71 form part of these financial statements

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

	2015 $'000	2014 $'000
Cash flows from operating activities		
Total profit for the year	**8,121**	6,990
Adjustments for:		
Amortisation of other intangible non-current assets	**96**	128
Depreciation of property, plant and equipment	**661**	643
Provision for impairment losses on financial assets	**7,651**	14,468
Unrealised (profit)/ losses on exchange rate difference	**(255)**	11
Income tax expense	**1,792**	1,643
	9,945	16,893
	18,066	23,883
Changes in:		
Held for trading financial assets	**(19,553)**	57,743
Loans and advances to customers	**(33,204)**	(290,516)
Deposits from banks	**(145,504)**	164,955
Other liabilities and provisions	**(472)**	4,925
Available for sale financial assets	**54,192**	(88,177)
Fair value of derivatives	**19,814**	(6,438)
Loans and advances to banks	**(39,072)**	(25,504)
Trade and other receivables	**(3,052)**	(626)
Deposits from customers	**93,788**	166,538
Debt securities	**274**	34
	(72,789)	(17,066)
Cash flows from operating activities	**(54,723)**	6,817
Cash flows used in other operating activities		
Income taxes paid (net)	**(653)**	(1,431)
Net cash flows from operating activities	**(55,376)**	5,386
Cash flows from investing activities		
Acquisition of property and equipment	**(1,260)**	(388)
Acquisition of intangible assets	**(65)**	(104)
Acquisition of held to maturity investments	**-**	-
Proceeds from maturity of held to maturity investments	**3,270**	2,441
Net cash flows from investing activities	**1,945**	1,949
Cash flows from financing activities		
Gross proceeds from issue of equity share capital	**-**	50,000
Gross proceeds from issue of subordinated liabilities	**10,000**	5,000
Dividend to subordinated debt holders	**(1,082)**	(1,111)
Net cash flows from financing activities	**8,918**	53,889
Net increase in cash and cash equivalents	**(44,513)**	61,224
Cash and Cash equivalents at 1 April	**194,555**	133,331
Cash and cash equivalents at 31 March (note 9)	**150,042**	194,555

The notes on pages 25 to 71 form part of these financial statements

1] Reporting Entity

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

2] Basis of Preparation

A. Statement of Compliance

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

Bank's financial statements for the year ended 31 March 2015 were authorised for issue on 29 April 2015.

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.

Bank is a wholly owned subsidiary of Punjab National Bank. The Bank continues to be profitable, generating profit before tax of $9,913 thousand in 2014-15 resulting in an increase in retained earnings and reserves of $13,796 thousand after making provision for tax and dividend and other fair value reserve movement. During the current year, the Bank has not raised additional equity share capital but has raised tier II capital of $10 million during the year. Accordingly the capital base is $274,880 thousand as on 31st March 2015.

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

D. Functional and Presentation Currency

The Directors consider the US Dollar as the functional and reporting currency as the majority of the income generating financial assets and a significant component of the funding are denominated in US Dollar. Additionally 99.99% of equity capital and 100% of the Tier II capital of the Bank is denominated in US dollar. Transactions in foreign currencies are recorded in US Dollars at the rate of exchange prevailing at the rates ruling at the end of the day in which the transaction arose. Any resulting exchange differences are included in the 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 IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for available-for-sale investment securities. Estimates and judgments are 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, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

- **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 $ 819 thousand (2014: $ 830 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 (December 2011) 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) (2013)
- 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 15 Revenue from contracts with customers.
- IFRS 14 Regulatory Deferral Accounts.
- IFRS 11 Joint Arrangements
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Annual improvements to IFRSs 2010-2012 cycle.
- Annual improvements to IFRSs 2011-2013 cycle.
- IFRS 9 Financial Instruments – Classification and Measurement of Financial assets and – Accounting for Financial Liabilities and De-recognition (not yet endorsed by EU)

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 service 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 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

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.

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-purchase 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) Upper tier II bonds

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

(ii) Fair Value Reserves

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

p) Corporation tax

Corporation tax expense represents the sum of the tax currently payable and deferred corporation tax.

The tax currently payable is based on taxable profit for the year. 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 as per Board approved Human Resource Policy.

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

The Bank has subscribed to a defined contribution pension plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to

Employee Benefits (continued)

pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

4] Operating Segments

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

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

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

5] Operating Profit

Operating profit is stated after charging the following:

	2015 $'000	2014 $'000
Interest expense	**39,205**	42,537
Depreciation of property and equipment	**661**	643
Amortisation of intangible assets	**96**	128
	757	771
Operating leases:		
Lease rental expenses	**712**	654
Fee payable to the Bank's auditor for the audit of the Bank's annual accounts	**240**	240
Fee payable to the Bank's auditor for other services:		
- Audit related assurance services	**23**	24
- Non-audit services	**42**	275
	65	299

	2015 $'000	2014 $'000
Included in net trading income:		
Income/(loss) related to:		
Foreign exchange	**4,540**	2,484
Investment securities - held for trading	**5,067**	(4,033)
	9,607	(1,549)

	2015 $'000	2014 $'000
Included in operating income:		
Income on services related to:		
Payment and settlement	**373**	386
Retail banking	**128**	120
Other operating income	**3**	13
	504	519

5] Operating Profit (continued)

	2015 $'000	2014 $'000
Included in fee and commission expense:		
ATM/ Kiosk charges	240	263
Brokerage	-	38
	240	301

	2015 $'000	2014 $'000
Included in general administrative expenses:		
Marketing costs	144	213
Establishment expenses	1,209	1,014
Legal, professional and audit fees	2,656	2,519
Cost on postage, telephones and telegrams	378	586
Other administration costs	1,423	2,311
	5,810	6,643

	2015 $'000	2014 $'000
Included in interest income:		
Interest accrued on overdraft accounts	17,848	16,988
Interest accrued on demand and term loans	51,302	48,230
Discount on bills	101	142
Interest accrued on interbank placements	807	1,661
Coupon/premium accrued on investment securities	7,824	9,336
Arrangement fee on loans	5,159	5,219
	83,041	81,576

	2015 $'000	2014 $'000
Included in interest expense:		
Interest expenses on term deposits	33,338	36,007
Interest expenses on saving deposits	291	219
Interest expenses on interbank borrowings	2,864	4,023
Interest expenses on subordinated liabilities	2,712	2,288
	39,205	42,537

6] Employee Expenses

	2015	2014
	$'000	$'000
Wages and salaries	4,502	4,748
Contribution towards defined employee benefit plan	116	110
Other employee benefits	1,460	1,433
Social security costs	528	629
	6,606	6,920

Included in other employee benefits are:	2015	2014
	$'000	$'000
Accommodation cost	903	852
Medical insurance and expense	120	127
Pension contributions for staff in India	5	7
Other expenses	432	447
	1,460	1,433

There are no share based payments to employees.

7] Directors' Emoluments

	2015	2014
	$'000	$'000
Emoluments	557	569

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

	2015	2014
	$'000	$'000
Emoluments of highest paid director	223	227
Contributions to external pension scheme included in the above	-	47

8] Corporation Tax

Components of corporation tax expense

	2015	2014
	$'000	$'000
Current corporation tax expense		
Current corporation tax charge	1,682	1,757
Previous year adjustment	-	(143)
Deferred corporation tax (credit) / expense		
Effect of rate changes	5	4
Relating to origination and reversal of temporary differences	105	25
Corporation tax expense reported in statement of profit or loss	1,792	1,643

8] Corporation Tax (continued)

Reconciliation of corporation tax charge to accounting profit

	2015 $'000	2014 $'000
Profit before tax	**9,913**	8,633
Tax at the domestic corporation tax rate of 21% (2014: 23%)	**2,082**	1,986
Tax effect of deductible interest on Tier II Capital	**(227)**	(256)
Tax effect of non- deductible depreciation	**39**	42
Tax effect of other non - deductible expenses/non taxable income	**(46)**	10
Tax effect of rate changes	**(56)**	4
Previous year overprovision	**-**	(143)
Tax expense using effective rate	**1,792**	1,643

	2015 $'000	2014 $'000
Current corporation tax credited to equity		
(Charge)/ Credit arising on AFS reserve movement	**(1,222)**	1,444
Tax effective rate	**18%**	19%

The corporation tax rate applicable from 1 April 2014 was 21%. The Finance Act 2012, which passed into law on 17 July 2012, included a reduction in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014. In the UK budget announcement of 20 March 2013, the UK government announced its intention to further reduce the UK corporation tax rate to 20% with effect from 1 April 2015. This tax rate reduction was enacted on 17 July 2013. In the UK budget announcement of 19 March 2014, there was confirmation of the above mentioned tax rates.

9] Cash and Cash Equivalents

	2015 $'000	2014 $'000
Cash on hand	**614**	635
Cash at bank (including balance held with central banks)	**146,461**	165,246
Cash equivalent	**2,967**	28,674
	150,042	194,555

10] Investment Securities – Held For Trading

	2015 $000	2014 $000
Treasury bills	**81,667**	62,113

10] Investment Securities – Held For Trading (continued)

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

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

	Rating	**2015**	2014
Government Treasury Bills		$'000	$'000
UK Treasury Bills	AAA	-	33,277
US Treasury Bills	AAA	**81,667**	28,836
Total		**81,667**	62,113

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 2015		31 March 2014	
	Positive Fair Value $'000	Negative Fair Value $'000	Positive Fair Value $'000	Negative Fair Value $'000
Cross currency swap	1,772	21,668	1,865	168
Interest rate swap	1,854	-	108	34
	3,626	21,668	1,973	202

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 2015.

				31 March 2015	
	Nature of Counterparty	Nominal Amount – Buy Transaction	Nominal Amount – Sell Transaction	Positive Fair Value	Negative Fair Value
		$'000	$'000	$'000	$'000
Cross currency swaps	Bank	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

Table below shows analysis of counterparty credit exposure arising from derivative transactions as at 31 March 2014.

				31 March 2014	
	Nature of Counterparty	Nominal Amount – Buy Transaction	Nominal Amount – Sell Transaction	Positive Fair Value	Negative Fair Value
		$'000	$'000	$'000	$'000
Cross currency swaps	Bank	371,845	364,194	1,865	168
Interest rate swaps	Bank	83,512	83,437	108	34
		455,357	447,631	1,973	202

12] Loans and advances to banks

	31 March 2015	31 March 2014
	$'000	$'000
Bills negotiated and discounted	22,955	22,044
Term loans against Stand-by letters of credit/buyers credit	305,756	267,700
Direct Loans to banks	-	-
Interbank placements of original maturity of more than three months	10,171	10,066
	338,882	299,810
Less impairment provisions	-	(90)
Net Loans and advances to Banks	338,882	299,720

At 31 March 2015 $108,472 thousand (2014:$215,703 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 2015	31 March 2014
	$'000	$'000
Bills negotiated and discounted	416	278
Customer overdraft	335,690	343,515
Term loans	902,306	861,415
Total	1,238,412	1,205,208
Less impairment provisions(1)	(42,404)	(34,663)
Net Loans and advances to customers	1,196,008	1,170,545

[1] Impairment provision includes specific provision of $35,504 thousand (2014:$31,155 thousand), and collective provision of $6,900 thousand (2014:$3,508 thousand).

At 31 March 2015 $609,419 thousand (2014:$601,045 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

	2015 $'000	2014 $'000
Marketable debt securities	**120,760**	166,328

At 31 March 2015, $119,804 thousand (2014:$166,328 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)

	2015 $'000	2014 $'000
Debt securities	**3,848**	7,119
Less: Impairment	**(2,280)**	(2,280)
Net book value of HTM securities	**1,568**	4,839

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

At 31 March 2015 $1,568 thousand (2014:$4,619 thousand) of investment securities – held-to-maturity 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	
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Held to Maturity Securities	**3,848**	7,119	**1,540**	4,817
Less Impairment provision	**(2,280)**	(2,280)	-	-
Net Book Value	**1,568**	4,839	**1,540**	4,817

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	
	2015	2014
	$'000	$'000
Assets		
Customer and bank overdrafts	**329,270**	334,570
Term and bank loans	**1,180,847**	1,103,307
Interbank placements	**13,139**	38,740
Bills purchased	**23,370**	22,322
Liabilities		
Interbank deposits	**125,820**	273,205
Subordinated debts	**65,000**	55,000
Savings accounts	**98,629**	44,842
Current accounts	**136,161**	127,629
Fixed term deposits	**1,224,327**	1,196,243
Bills payable	**498**	224

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 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	**15**	-	-	1,568	1,568
		202,427	**342,508**	**1,197,576**	**1,742,511**

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**	-	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**

31 March 2014

Financial Assets:	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities – held for trading	**10**	62,113	-	-	62,113
Investment securities – available for sale	**14**	46,885	119,443	-	166,328
Derivative assets held for risk management	**11**	-	1,973	-	1,973
Loans and advances to banks	**12**	-	299,720	-	299,720
Loans and advances to customers	**13**	-	-	1,170,545	1,170,545
Investment securities held to maturity (amortised cost)	**15**	-	3,522	1,317	4,839
		108,998	**424,658**	**1,171,862**	**1,705,518**
Financial Liabilities:					
Derivative liabilities held for risk management	**11**	-	202	-	202
Deposits from banks	**24**	-	280,764	-	280,764
Deposits from customers	**25**	-	-	1,361,155	1,361,155
		-	**280,966**	**1,361,155**	**1,642,121**

The fair value hierarchy has the following levels:

- Level 1 – Valuations based on quoted prices available in active markets for the same instrument. Securities included in Level 1 are UK and US Treasury Bills.
- Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates or exchange rates). Securities included in Level 2 are all securities presently held in AFS except UK and 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	**82,530**	2,827
Less: specific impairment	**(35,504)**	(2,280)
Net Balance	**47,026**	547

Movement in impairment provision during the year:

Specific allowances for impairment	**2015**	2014
	$,000	$,000
Balance at 1 April	**33,524**	22,429
Impairment loss for the year		
Charge for the year	**29,558**	12,175
Recoveries/Reversals	**(3,229)**	(1,080)
Write offs	**(22,069)**	--
Balance at 31 March	**37,784**	33,524
Out of above		
Provision for impairment of loans and advances*	**35,504**	31,244
Provision for impairment of HTM securities	**2,280**	2,280
	37,784	33,524
Collective allowances for impairment		
Balance at 1 April	**3,508**	493
Impairment loss for the year:		
Charge for the year	**3,392**	3,015
Balance at 31 March	**6,900**	3,508
Total allowances for impairment	**44,684**	37,032
The total charge to profit and loss in respect of impairment is as below:		
Impairment charge on loans and advances	**31,136**	15,178
Impairment charge on investments held to maturity	**-**	(1,069)
Charge on account of other than temporary impairment of AFS securities	**442**	1,129
	31,578	15,238

* 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 2015, 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 Banks, Retail and Corporate customers.

The Bank's primary exposure to credit risk has decreased by $77,164 thousand when compared to March 2014 primarily due to a decrease in inter-bank placements, cash with banks and AFS investment portfolio.

	31 March 2015 $'000	31 March 2014 $'000
On Balance sheet exposure		
Bilateral and syndicated loans and advances to customers	**1,237,996**	1,204,930
Loans and advances to customers under Letter of Credit/Stand by Letter of Credit/ Letter of Comfort by banks	**305,756**	267,700
Inter Bank placements and Cash balances with banks	**160,213**	204,621
Bills purchased directly from customers	**415**	278
Bills purchased under LC/Guarantee of banks	**22,955**	22,044
Securities Held to Maturity – banks	**2,827**	6,098
Securities Held to Maturity – Non banks	**1,021**	1,021
Securities available for sale – Banks	**66,849**	64,431
Securities available for sale – Non Banks	**53,911**	101,897
Derivative Financial Instruments	**3,626**	1,973
Total – A	**1,855,569**	1,874,993
Off Balance Sheet Exposure		
Non-Bank Commitments (LCs/LGs)	**1,026**	73,203
Commitments under LCs/Guarantees by Banks	**1,895**	2,356
Total – B	**2,921**	75,559
Undrawn Credit Facilities – Non Banks	**101,462**	86,564
Undrawn Credit Facilities - Banks	**-**	-
Total – C	**101,462**	86,564
Total Exposure subject to Credit Risk (A+B+C)	**1,959,952**	2,037,116

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:

	2015	2014
	$'000	$'000
Exposure on Banks	**564,121**	569,223
Non-Bank Exposure	**1,395,831**	1,467,893
Total	**1,959,952**	2,037,116

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 2015:

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**	**1013.09**	**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**

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

***out of this, exposure amounting to $49.65mn is overdue up to 30 days and further exposure amounting to $26.59mn is overdue for 31 to 45 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 2014 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*	39.69	39.24	314.60	309.31	354.29	348.55
Internally rated BB to B*	41.72	41.06	677.17	661.11	718.89	702.17
Total neither past due nor impaired	**81.41**	**80.30**	**991.77**	**970.42**	**1,073.18**	**1,050.72**
Past due but not individually impaired:						
Up to 90 days	0.92	0.90	47.92	47.92	48.84	48.82
Over 90 days	5.27	4.85	76.13	75.87	81.40	80.72
Total Past due but not individually impaired	**6.19**	**5.75**	**124.05**	**123.79**	**130.24**	**129.54**
Loans with renegotiated terms**	**2.64**	**2.60**	**91.21**	**85.81**	**93.85**	**88.41**
Individually impaired loans:						
Doubtful category	-	-	59.81	42.68	59.81	42.68
Loss category	0.28	0.00	7.61	0.00	7.89	0.00
Total Impaired	**0.28**	**0.00**	**67.42**	**42.68**	**67.70**	**42.68**
Total	**90.52**	**88.65**	**1,274.45**	**1,222.70**	**1,364.97**	**1,311.35**

**Internal ratings based on PNBIL rating model.*

** 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 2015 (31 March 2014: Nil).

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

While arriving at the value of collateral:

- Value of personal and corporate guarantees has not been considered.
- Value of securities in accounts where Bank has pari-pass 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 2015	Exposure $ Million 2014
100% and above*		1,171.70	1,215.38
76% to 99%		52.36	95.09
51% to 75%		1.71	10.44
26% to 50%		21.75	0.06
11% to 25%		0.11	-
Below 10%		0.00	9.03
Unsecured		148.20	137.89
	Total	1,395.83	1,467.89
Average percentage of availability of Collateral*		83.32%	89.34%

**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.

	2015	2014
	$'000	$'000
Impaired loans and advances to customers at 1 April	66,793	33,747
Net Repayments in existing impaired loans and advances	(21,770)	(9)
Classified as impaired during the year	43,499	32,229
Other movements/exchange rate fluctuations	(5,992)	826
Impaired loans and advances to customers at 31 March	82,530	66,793

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:

	2015	2014
	$'000	$'000
Impaired investments held to maturity at 1 April	3,597	4,734
Net Repayments in existing impaired investments	(770)	(1,137)
Classified as impaired during the year	-	-
Other movements/exchange rate fluctuations	-	-
Impaired investments held till maturity at 31 March	2,827	3,597

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 2015 is as below:

$'000

	As on 31 March 2015			As on 31 March 2014		
Name of the Country	**Exposure to Banks**	**Exposure to Corporates**	**Total Exposure**	Exposure to Banks	Exposure to Corporates	Total Exposure
Belgium	**178**	**26,839**	**27,017**	132	30,972	31,104
Cyprus	**-**	**-**	**-**	-	2,172	2,172
Germany	**625**	**8,096**	**8,721**	611	10,336	10,947
Spain	**-**	**5,150**	**5,150**	-	7,567	7,567
France	**5**	**-**	**5**	279	5,315	5,594
Ireland	**-**	**8,794**	**8,794**	-	7,658	7,658
Netherland	**-**	**22,159**	**22,159**	-	18,863	18,863
Luxembourg	**-**	**17,593**	**17,593**	-	**73,292	**73,292
Total	**808**	**88,631**	**89,439**	1,022	156,175	157,197
of which – to problem Eurozone countries*		**13,943**	**13,943**	-	17,397	17,397

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

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

An amount of USD 17,246 thousand (USD 5,058 thousand from troubled Eurozone countries) is to be received after 12 months.

At 31 March 2015 the Bank's non-sovereign exposure to GIIPS and Cyprus amounting to $ 13.94 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 $8.79 million. This counterparty is an Irish subsidiary of an Indian corporate and is fully guaranteed by the Indian parent. It is further fully secured by collateral security of more than 100% of the exposure.

- The Bank has an exposure in the form of a credit facility to a corporate in Spain, having an outstanding balance of $5.15 million. This counterparty is a Spanish subsidiary of an Indian corporate and is fully guaranteed by the Indian parent. It is further fully secured by collateral security of more than 100% of the exposure.

20] Property and Equipment

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**

At 31 March 2014

	Leasehold improvements $'000	Fixtures and fittings $'000	Total $'000
Cost			
At 1 April 2013	1,934	2,586	4,520
Additions	-	388	388
Disposals	-	-	-
At 31 March 2014	**1,934**	**2,974**	**4,908**
Depreciation			
At 1 April 2013	(827)	(1,966)	(2,793)
Charge for year	(346)	(297)	(643)
Disposals	-	-	-
At 31 March 2014	**(1,173)**	**(2,263)**	**(3,436)**
Net book value			
At 1 April 2013	1,107	620	1,727
At 31 March 2014	**761**	**711**	**1,472**

21] Intangible Assets

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**

31 March 2014

	Software $'000
Cost	
At 1 April 2013	1,412
Additions	104
At 31 March 2014	**1,516**
Amortisation	
At 1 April 2013	(1,220)
Charge for the year	(128)
At 31 March 2014	**(1,348)**
Carrying value	
At 1 April 2013	192
At 31 March 2014	**168**

22] Deferred Tax Asset / (Liability)

	2015 $'000	2014 $'000
At 1 April	**20**	49
Release / (charge) for year	**(110)**	(29)
At 31 March	**(90)**	20

Deferred tax is in respect of timing differences between the book value of fixed assets and their tax carrying value

Effective rate utilised to calculate deferred tax provision	**20%**	21%

23] Prepayments and other Receivables

	2015 $'000	2014 $'000
Current prepayments	**3,354**	762
Other receivables	**623**	163
	3,977	925

24] Deposits from Banks

	2015 $'000	2014 $'000
Current accounts from banks	**2,299**	2,070
Overdrafts in Nostro accounts with banks	**5,266**	3,838
Fixed term deposits	**1,875**	1,651
Inter bank borrowings	**125,820**	273,205
Total deposits from banks	**135,260**	280,764

At 31 March 2015 $25,164 thousand (2014: $25,141 thousand) of deposits from Banks are expected to be settled more than 12 months after the reporting date.

25] Deposits from Customers

	2015 $'000	2014 $'000
Current accounts	**133,862**	121,721
Savings accounts	**98,629**	44,842
Fixed term deposits	**1,222,452**	1,194,592
Total deposits from customers	**1,454,943**	1,361,155

At 31 March 2015 $471,626 thousand (2014:$495,996 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

	2015 $'000	2014 $'000
Subordinated debt	**65,000**	55,000

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

Bonds at S. No. i to iii 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 2015 $65,000 thousand (2014:$55,000 thousand) of subordinated liabilities are expected to be settled more than 12 months after the reporting date.

27] Other liabilities

	2015 $'000	2014 $'000
Bills payable	**498**	224
Other payables and accrued liabilities	**6,163**	5,092
Deferred income	**4,601**	6,144
	11,262	11,460

28] Share Capital

Issued share capital

	2015 No.	2015 $	*2014* *No.*	*2014* *$*
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**	124,630,625	124,630,625
New Issue of Share Capital	**-**	**-**	50,000,000	50,000,000
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 Upper Tier II capital of $25,000 thousand 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 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**

	Gross	Tax	Net
31 March 2014	$'000	$'000	$'000
Balance at 1April 2013	159	(34)	125
Amount transferred to statement of profit or loss	(388)	93	(295)
	(229)	59	(170)
Movement in AFS reserve in year	(6,280)	1,444	(4,836)
Balance at 31 March 2014	(6,509)	1,503	(5,006)

30] Operating Lease Commitments

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

	2015	2014
	$'000	$'000
Less than one year	**983**	823
Later than one year but less than five years	**1,588**	1,332
	2,571	2,155

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:

	2015	2014
	$'000	$'000
Guarantees issued to third parties	2,833	5,422
Letters of credit issued	87	70,137

There were undrawn loans of $60,582 thousand (previous year: $36,490 thousand) and un-availed portions of sanctioned overdraft limits to the extent of $55,056 thousand (previous year: $50,074 thousand) as at 31 March 2015. Bills amounting to $10,845 thousand (previous year: $11,089 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 2015 are as below:

	2015	2014
	$'000	$'000
Liabilities		
Fixed Deposits	1,482	1,289
Borrowings	50,000	2,028
Current Accounts	2,206	1,979
Assets		
Balance in Nostro Accounts	4,059	811
Bills accepted/ confirmed by PNB discounted to Corporates	2,506	451
Placements	-	1,167

Excluded from the above are loans sanctioned to corporates on Stand By Letters of Credit of Punjab National Bank amounting to $ 32,447 thousand (previous year: $24,393 thousand).

32] Related Party Transactions (continued)

Contingent exposure to Punjab National Bank is as below:

Nature	2015 $'000	2014 $'000
Letters of Credit and Guarantees Confirmed	**1,844**	2,356
Cross Currency Swaps (notional) – Sell	**513,167**	-
Cross Currency Swaps (notional) – Buy	**527,962**	-

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

Nature	Particulars	2015 $'000	2014 $'000
Receipts:			
Interest Earned	Interest on Inter Bank Placements	**3**	2
Payments:			
A. Professional Fee	Charges for Service Level Agreement (SLA)*	**166**	185
B. Interest Paid on	Borrowings	**685**	471
	Fixed Deposits	**34**	151
C. Interest Paid on Capital Bonds (unaudited)	Upper Tier II Capital Bonds of $25.00 Mn.	**1,083**	1,111
	Lower Tier II Capital Bonds of $25.00 Mn.	**1,083**	1,111
	Lower Tier II Capital Bonds of $12.50 Mn.	**541**	555
	Lower Tier II Capital Bonds of $12.50 Mn.	**541**	555

**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 Board of Directors have overall responsibility for risk management in the Bank. The Board has formed an Audit and Compliance Committee (ACC) and a Risk Management Committee (RMC) for overseeing the risk management function. There are various other committees formed with the role and responsibility to manage defined aspects of risk management.

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

Audit and Compliance Committee (ACC)

- Review financial statements and the Annual Report and Accounts of the company and recommend them to the Board;
- Review the effectiveness of internal controls and monitor the implementation of any remedial actions;
- Review Annual Report by Money Laundering Reporting Officer;
- Review Internal Audit reports;
- Review external audit reports, the annual audit plan and the External Auditor's annual management letter;
- Review policy exchanges and other major reports to or from the regulators;
- Review other compliance reports;
- Review regularly its own terms of reference and its own effectiveness; and

Risk Management Committee (RMC)

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

- oversight of management of Operational Risk, Market Risk, Credit Risk and residual risks;
- monitor the functioning of CRMC;
- responsible for monitoring the health of the asset portfolio within the overall credit risk management;
- implementation of obligations under ICAAP document submitted to PRA;
- review and modification to ICAAP;
- maintaining adequate capital, based on the capital adequacy ratio stipulated by the regulator;
- finalise credit rating module for the Bank and submit for the approval of the Board;
- finalise all risk related policies including ILAA/ICAAP/RRP of the Bank and submit for the approval of the Board;
- finalise provisioning policy for the Bank and submit for the approval of the Board;
- review periodical stress test on Capital and Liquidity requirement of the Bank and challenge the results;
- periodically apprise the Board on Risk management issues;
- reviewing stressed accounts, portfolio concentrations, and trends;
- review reports and indicators of Watch List items and management's actions to mitigate, manage and avoid repetition of these risks;
- review performance of the 'non-performing loans' portfolio;
- recommend periodic deep drill reviews on specific issues;
- monitoring of annual reviews of overdues, risk ratings, results of sensitivity analyses;

- take specific actions where required and assess resource and infrastructure requirements for credit risk management

Asset and Liability Management Committee (ALCO)

The ALCO is an executive committee, which monitors and manages the Bank's balance sheet, interest rate on deposits and liquidity. The ALCO will also strive to optimize the return on Bank's funds.

Credit Recommendation Committee

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

Credit Risk Management Committee (CRMC)

The CRMC is basically a monitoring committee with Terms Of References (TOR) as under:

- monitor Watch List accounts;
- monitor NPA accounts;
- monitor documentations;
- monitor primary and collateral securities;
- review of loan accounts;
- monitoring of compliance to covenants;
- identify provisioning requirement for impaired assets;
- monitor performance of investment;
- review Credit Policy document;
- review the adequacy of methodologies and systems to measure, manage, report and control credit risks;
- under take deep drill reviews;
- attend to matters escalated by subsidiary committees;
- develop suitable MI for reporting to RMC;
- the associated MI will include a dashboard with RAG status to highlight the early warning signals derived from the Watch List, NPAs and collateral management.

The following Management Information is prepared and presented by CRMC to RMC and Board on quarterly basis:

- Asset Portfolio analysis;
- Credit Risk Appetite Dashboard;
- Watch List Summary;
- Credit Facility Review Dash Board;
- Risk Rating Dash Board.

33] Financial Risk Management Objectives and Policies (continued)

Management Committee of the Board (MCB)

The MCB, comprising of four directors including two non-executive directors, acts as sanctioning committee for all proposals above $7 million. The committee is also responsible for approval of all new products, review and enhancement to existing products, periodical review of stressed assets, finalizing provisioning requirements, taking stock of any breaches in any of the policies, identifying the resolution thereto, periodical review of business strategy and branch expansion plans and providing consent for one time settlement of loan accounts.

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.

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

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

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

Compliance 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 Executive

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 recommending committee and sanctioned by the credit sanction committee;
- Credit risk under each loan above the threshold limit is assessed both on financial and non-financial parameters;
- Concentration risk is taken into account both with respect to individual or group exposures as well as industry wide or country wide exposures;
- Most of the facilities are secured by either tangible securities or third party guarantees;
- With respect to large value facilities 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.

33] Financial Risk Management Objectives and Policies (continued)

Any exposure to a single party or group in excess of 10% of its capital base is considered as large exposure as per regulatory guidelines and is monitored regularly. The Bank does not have credit risk exposure to any single non-bank counterparty in excess of 25% of capital funds.

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 bank assets are on floating rate of interest. Bank regularly analyses the same and has fixed limits for maximum mismatch. Exchange risk arises mainly on account of 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 $607.42 million (2014: $371.85 million).

The open position of the Bank as on 31 March 2015 is as follows:

Currency	Open Position	USD Equivalent
	'000	$'000
Indian Rupees	391,018	6,265
Pound Sterling	(95)	(141)
Euro	599	643
UAE Dirham	295	80
Canadian Dollar	40	31
Norwegian Kroner	107	13
Nepalese Rupees	263	3
Japanese Yen	678	6
Australian Dollar	(242)	(185)
Total Long Position in US Dollars		7,041
Total Short Position in US Dollars		326

Upward or downward movement of exchange rate by 10% may impact profitability of the Bank by $704 thousand (2014: $724 thousand).

33] Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk (Re-pricing analysis as at 31 March 2015)

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 2015 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	150,042	-	-	-	-	-	-	150,042
Investment securities – held for trading	-	-	-	-	-	-	81,667	81,667
Derivative financial instruments	1,318	417	37	-	-	1,854	-	3,626
Loans and advances to banks	75,152	127,880	92,111	43,739	-	-	-	338,882
Loans and advances to customers	560,320	332,314	126,713	55,283	52,909	25,679	42790	1,196,008
Investment securities – available for sale	-	-	-	955	19,137	100,668	-	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	790,534	460,611	218,861	100,252	72,046	129,222	127,211	1,898,737
LIABILITIES								
Derivative financial instruments	601	10,254	10,065	-	-	748	-	21,668
Deposits from banks	32,728	51,649	15,283	35,600	-	-	-	135,260
Deposits from customers	326,865	129,445	221,518	305,489	413,462	58,164	-	1,454,943
Current tax liabilities	-	-	-	2387	-	-	-	2,387
Subordinated liabilities	-	-	60,000	5,000	-	-	-	65,000
Deferred tax liabilities	-	-	-	-	-	-	90	90
Other liabilities	1,091	472	-	-	-	-	9699	11,262
Share Capital	-	-	25,000	-	-	-	149,631	174,631
Reserve and retained earnings	-	-	-	-	-	-	31745	31745
Fair Value Reserves	-	-	-	-	-	-	1751	1751
Total	361,285	191,820	331,866	348,476	413,462	58,912	192,916	1,898,737
Interest Rate Gap	429,249	268,789	(113,004)	(248,224)	(341,416)	70,310	(65,705)	(1)
Interest Rate Swap for Hedging	-	(75,035)	(112,501)	-	187,536	-	-	-
Net Gap	429249	193,753	(225,505)	(248,224)	(153,880)	70,310	(65,705)	(1)
Impact of Interest Variation of 2%	358	646	(1,691)	(3,723)	(6,155)	5,625	-	(4,940)

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 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)	(80264)

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 2014 was as below:

As at 31 March 2014	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	194,555	-	-	-	-	-	-	194,555
Investment securities – held for trading	62,113	-	-	-	-	-	-	62,113
Derivative financial instruments	1,686	119	59	-	109	-	-	1,973
Loans and advances to banks	10,066	21,624	52,327	128,037	67,939	19,727	-	299,720
Loans and advances to customers	407,672	50,199	111,629	139,664	321,880	139,501	-	1,170,545
Investment securities – available for sale	-	-	-	879	47,506	117,943	-	166,328
Investment securities – held to maturity	-	-	2,500	-	1,022	1,317	-	4,839
Property, plant and equipment	-	-	-	-	-	-	1,472	1,472
Intangible assets	-	-	-	-	-	-	168	168
Deferred tax assets	-	-	-	-	-	-	20	20
Prepayments and other receivables	666	-	259	-	-	-	-	925
Total assets	676,758	71,942	166,774	268,580	438,456	278,488	1,660	1,902,658
Derivative financial instruments	123	32	2	11	34	-	-	202
Deposits from banks	18,378	151,328	85,917	25,141	-	-	-	280,764
Deposits from customers	267,773	96,530	500,856	181,627	287,731	26,638	-	1,361,155
Current tax liabilities	-	-	(254)	-	-	-	-	(254)
Subordinated liabilities	-	-	-	-	25,000	30,000	-	55,000
Other liabilities	1,246	701	2,357	2,786	4,370	-	-	11,460
Share capital	-	-	-	-	-	-	174,631	174,631
Reserves and retained earnings	-	-	-	-	-	-	19,700	19,700
Financial guarantees and letters of credit – net of deposit	510	-	2,078	-	-	-	-	2,588
Irrevocable Loan commitments	52,866	333	-	-	-	-	-	53,199
Total equity, liabilities and commitments	340,896	248,924	590,956	209,565	317,135	56,638	194,331	1,958,445
Net liquidity gap	335,862	(176,982)	(424,182)	59,015	121,321	221,850	(192,671)	(55,787)
Cumulative Liquidity Gap	335,862	158,880	(265,302)	(206,287)	(84,966)	136,884	(55,787)	-

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

33] Financial Risk Management Objectives and Policies (continued)

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

The Bank undertakes stress tests on its liquidity position taking into account worst case scenarios, based on its own past experiences as well as industry level guidelines. The Bank has also put in place contingency plans to meet its liquidity obligations under stressed scenarios. The Bank is also holding near liquid assets (marketable assets) in its portfolio to meet its liquidity obligations. The liquidity positions are reported to the Board from time to time and the policy is reviewed periodically to meet the changing needs. The Bank is holding a Liquidity Asset Buffer in form of UK and US Treasury Bonds and balance with Bank of England to the extent of $215,848 thousand as at 31 March 2015 (2014: $269,932 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 IT Security Policy, maker checker for all financial transactions, a Business Continuity Plan in case of a disaster, documentation of processes and procedures, AML/CFT guidelines, staff handbook, TCF policy, anti-bribery policy, records retention policy, compliance code of conduct etc. These are tested periodically.

34] Capital Management

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	2015 $'000	2014 $'000
Core Tier One Capital	• Permanent Share Capital	**149,631**	149,631
	• Profit and Loss Account and Other Reserves	**31,745**	24,706
	• Available for Sale Reserve	**1,751**	(5,006)
		183,127	169,331
Deductions from Tier I	• Intangible Assets	**(136)**	(168)
	• Deferred Tax Assets	**-**	(20)
Total Tier I Capital	Core Tier I/ Tier I capital	**182,991**	169,143
Tier II Capital	• Perpetual Subordinated Debt	**25,000**	25,000
	• Long term dated subordinated debt	**65,000**	55,000
	• Collective Impairment Provision	**6,900**	3,508
		96,900	83,508
Deductions from Tier II	• Amortisation of Dated Tier II capital maturing within five years	**(5,011)**	(14)
Total Tier II Capital		**91,889**	83,494
Other Regulatory Deductions		**-**	-
Total Capital (unaudited)		**274,880**	252,637

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.