
punjab national bank
(International) Limited

# 2023 ANNUAL REPORT AND ACCOUNTS

# CONTENTS

# COMPANY INFORMATION

Company registration number 05781326

## The Board of Directors

| Position | Director | Appointment Date | Resignation Date |
|---|---|---|---|
| Chairman | Atul Kumar Goel | 15.03.2022 | |
| Managing Director | Rajeeva | 01.05.2019 | 03.02.2023 |
| Managing Director | Binay Gupta | 01.12.2022 | |
| Executive Director | Vasudevan Mundokulam | 31.05.2019 | |
| General Manager Non Executive Director | Vibha Aren | 06.08.2022 | 02.12.2022 |
| General Manager Non Executive Director | Swarajya Lakshmi Malladi | 02.12.2022 | |
| Independent Non Executive Director | Sundeep Bhandari | 31.07.2018 | |
| Independent Non Executive Director | Adrian John Stirrup | 30.04.2019 | |

| | |
|---|---|
| Company secretary | Camilla Shaw (Appointed on 02.03.2016) |
| Registered office | 1 Moorgate<br>London<br>EC2R 6JH<br>Tel: 0207 796 9600 |
| Auditor | **Mazars LLP**<br>30 Old Bailey<br>London, EC4M 7AU<br>United Kingdom |
| Website | www.pnbint.com |

TOTAL INCOME UP
**18% TO $39m**

RETURN ON CAPITAL RISES TO **8.6%**

OPERATING EXPENSES
**5%** YOY DECREASE

PRE TAX PROFIT **$8.4m**
**7%** YOY INCREASE

GROSS NEW LENDING OF
**$118m**

**$9.7m**
OF INTEREST PAID TO SAVERS

SOUND LIQUIDITY RATIOS
LCR AT: **588%**
NSFR AT: **135%**

STRONG CAPITAL POSITION WITH
CET1 Ratio at: **19.6%**
CRAR at: **31.0%**
AND LEVERAGE RATIO OF: **19.9%**

CONTINUED
**DELIVERY OF STRATEGY**
UK CENTRIC LENDING & SAVING COMMUNITY BANK

42% FEMALE COLLEAGUE POPULATION
FOCUS ON HEALTH & WELL BEING PROPOSITION
TALENT RETENTION & BUILD OUT

**ESG AT THE HEART OF THE BUSINESS**
EPC PRICING

The following abbreviations are used in the above table of metrics. LCR = Liquidity Coverage Ratio, NSFR = Net Stable Funding Ratio, CET1 = Core Equity Tier I, CRAR = Capital to Risk (Weighted) Assets Ratio, EPC = Energy Performance Certificate, Leverage Ratio = Fully phased-in definition

The Directors have pleasure in presenting the annual report and audited financial statements including the Strategic and Directors' reports of Punjab National Bank (International) Limited ('PNBIL' or 'Bank') for the year ended 31 March 2023. These financial statements have been prepared in accordance with UK-adopted International Accounting Standards.

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

## Nature of business

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

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

PNBIL's main business is to provide commercial and retail banking services to different segments of customers, with a focus on the Indian community within the UK. This includes accepting deposits from both retail and corporate clients; lending to retail, SME's and corporate clients; and transaction banking services such as currency remittances. The deposit products primarily includes current, savings, term deposits and ISAs. Some of these products such as ISAs and Fixed deposits are also being availed by a wider audience in the UK. The lending products includes real estate lending i.e., Buy to Let – Residential, Commercial, Development Loans and Hotels & Hospitalities, lending to SME and Term loans backed by SBLCs. The Bank does not offer regulated mortgages.

The main functions of the treasury operations is to maintain a reasonable liquidity position throughout the financial year and provide guidance on the pricing of assets and liabilities to Asset and Liability Committee ('ALCO') for approval of pricing for deposits and loans. The Bank also manages a portfolio of government bonds/corporate bonds which are held mainly for liquidity management, including placement and borrowing of funds and management of interest rate risk.

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

## Future Business Strategy

In the financial year 2023-24, the Bank's focus will continue to be on the UK based secured real estate loans with a combination of small and mid-ticket loans. Growth will span across investment loans, development loans and Buy-To-Let loans, with target customers being within and outside the Indian diaspora. To further diversify lending, the Bank will also look to move into new segments i.e. Healthcare (GP), schools, institutions, and the professional sector, on a moderate scale. The

Bank has adopted and will continue to embed the Environmental, Social, and Governance ('ESG') Model and introduce green financing linked lending products to its customers.

Origination channels are further being diversified to support business growth and new loan bookings. The Bank has a team of UK experienced Relationship Managers based at the branches and in addition a Central Origination team to originate and service new lending business. The Bank will look to enhance existing products based on emerging market scenarios. Furthermore, the Bank will be looking for alternate channels to strengthen lead generation, including onboarding established new brokers.

The Bank will continue to focus on de-risking the legacy portfolio through effective corporate governance, risk management, operational efficiency and compliance. Although the Bank has no exposure to the Russian market, it is concerned about the situation in Ukraine and the safety and well-being of people there and nearby regions. The Bank has been monitoring the market conditions and potential impact of the war since February 2022. The Bank does not envisage any material impact in the foreseeable future and will continue to monitor the market situation on a regular basis.

In order to build a stable and diversified funding mix and reinforce growth, the Bank has operationalised an aggregator channel and went live on the platform in February 2023. The Bank will use this channel as a backup to existing delivery channels based on our liquidity requirements. To enhance customer experience, the Bank is planning to roll out digital initiatives.

The Bank has strengthened the team with local expertise processes have been regularly reviewed for increased efficiency. The strategy remains focused on secured lending for UK-based clients and no lending is planned outside the UK.

Over the last 5 years the Bank has invested in building strong processes, systems and technology with increased focus on Operational Resilience. The Bank has further strengthened its risk management and governance framework to ensure improved asset quality, better liquidity and management of capital. The Bank is well prepared to face any challenges arising from the current macroeconomic environment.

## Section 172 (1) Statement

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 March 2023, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

### Section 172(1) Statement and Statement of Engagement with Other Stakeholders

The Board is collectively responsible for the long-term success of the Company. Understanding the interests of key stakeholders (this includes customers, shareholders, colleagues, communities and environment, regulators and suppliers), is central to the Company's strategy, crucial to the Company's success, and informs key aspects of Board decision making as set out in this Statement.

### Shareholders

As a wholly owned subsidiary, the Directors' ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of the Parent, ensuring that the interests of the Parent as the Company's sole shareholder are duly acknowledged.

### Colleagues

The Directors' support and drive the delivery of the people strategy with focus on creating an inclusive bank, attracting, retaining and developing talent alongside embedding a balanced and flexible working environment.

### Communities and the Environment

The Parent bank is one of the largest financial services providers in India whose goals are to be a trusted, sustainable, and responsible business. The Directors ensures this ethos carried over and is embedded in the business practice and behaviour's of the Bank and its colleagues, thus enabling us to have a positive contribution to the customers and communities we serve.

### How stakeholder interest has influenced decision making

The Directors' acknowledge that one of the primary responsibilities of the Board is to ensure that the strategy of the Company, as aligned to that of the Parent, is to effectively manage the Company to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

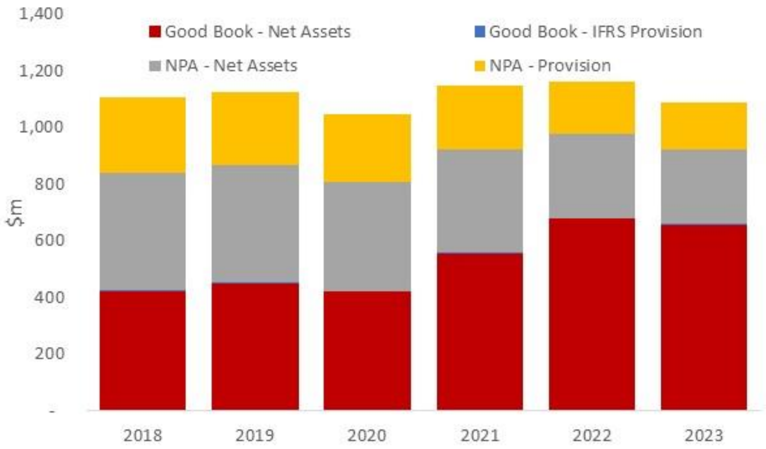
## Key financial highlights and key performance indicators

Total customer business (customer loans plus customer deposits) stands at $1,565 million as at 31 March 2023 (2022: $1,646 million) in line with the Bank's strategy to focus on good credit quality and maintain a stable and diversified funding mix. The year-on-year reduction in client business is driven by GBP/USD foreign exchange rate movements and the reduction in non-performing assets ("NPA") as this book is actively managed down.

At 31 March 2023, PNBIL had total assets of $1,088 million (2022: $1,123 million). During the year, total net advances to customers decreased to $749 million (2022: $788 million) as noted above driven by foreign exchange rate movements and reduction in the non-performing portfolio. Customer deposits also decreased to $817 million (2022: $858 million) driven by foreign exchange movement and active management of the deposit portfolio.

The Bank's dedicated recovery team continues to focus on recoveries from impaired advances and ensuring that any potential cases are addressed at the earliest signs of weakness. As the majority of the legacy book are loans to corporates based in India, the department is managed by senior officials from the Parent bank. The Bank's impaired loans and advances reduced to $231.48 million (2022: $259.49 million) and the total provision against impairment for loans as at 31 March 2023 is $179.31 million (2022: $192.95 million). The Expected Credit Loss ('ECL') provision for Stage 1 & 2 loans stood at $2.74 million as at 31 March 2023 (2022: $1.70 million).

The changing shape of the Bank's customer assets is depicted below, where each column depicts the composition of the gross asset position over time. This demonstrates the successful implementation of the strategy with trending growth in the core portfolio since the strategies' inception complemented by the managed reduction in the non-performing portfolio.



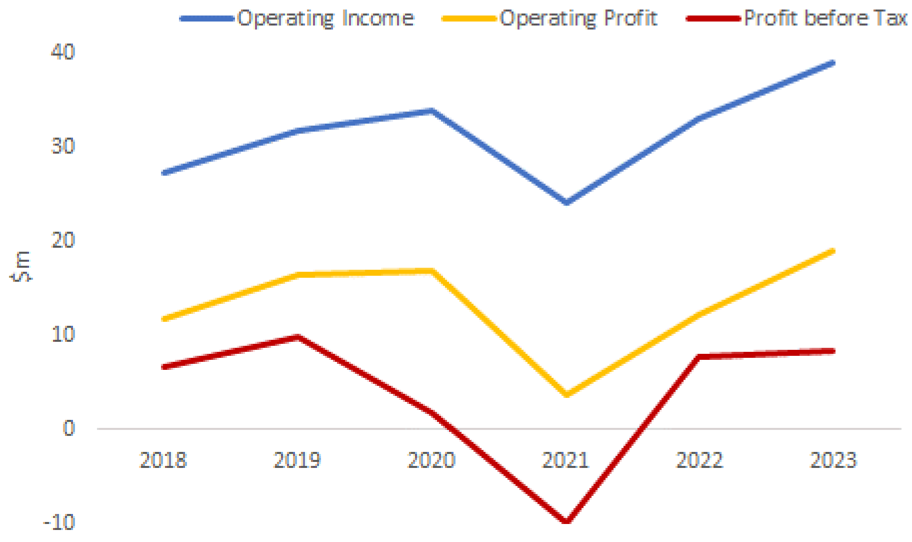

As at 31 March 2023, the geographical concentration of the Bank's loans and advances to various counterparties is mainly in the UK at 65.14% (2022: 64.31%) and India at 18.79% (2022: 16.15%). These geographic concentrations will change over time as the Bank pursues its UK centric strategy. The UK growth in FY 2022-23 was business originated through the branch network primarily in the area of real estate financing.

UK real estate lending amounted to 56.15% (2022: 54.93%) of the total portfolio. This is the largest segment within the Bank's loans and receivables portfolio as of 31 March 2023. UK real estate lending consists of Buy-to-Let (residential and commercial), Development finance, Commercial Real Estate ("CRE")-Others and Hotel finance.

Operating income increased in the year to $39.05m (2022: $33.22m), substantially due to an increase in net interest income driven predominantly by successive and significant increases in the Bank of England base rate during the financial year.

The operating expenditure has decreased in the year ended 31 March 2023 to $19.96 million from $20.93 million in 2022 assisted by GBP/USD foreign exchange movements. The Bank continues to strengthen its governance and control environment, and invest in systems, people and processes to enable it to meet the increasing business and regulatory environments.

The profit before taxation for the year ended 31 March 2023 amounted to $8.43 million (2022: Profit before taxation of $7.86 million). The operating profit (profit before impairment provisions and taxes) for the year ended 31 March 2023 increased to $19.09 million (2022: $12.29 million). The significant increase in the operating profit is primarily due to increased net interest income described above. The Bank's profit profile continues to improve as can be seen in the graphic below, the general upward trajectory in earnings over the period related to the revised strategy (excluding impact of 2021 one off).



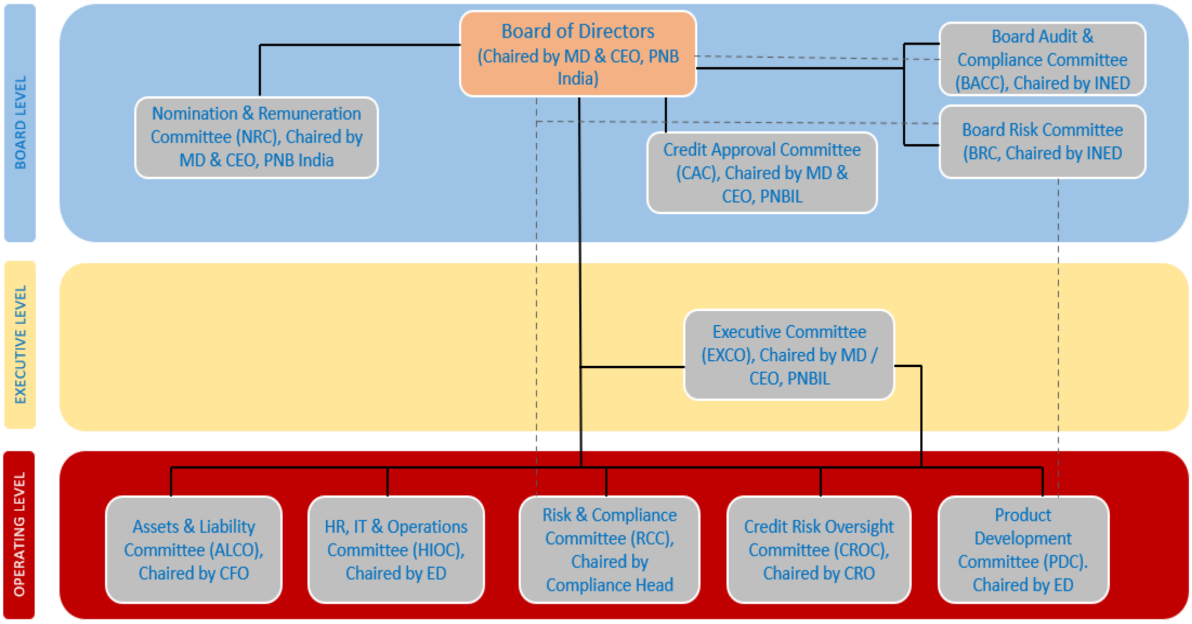

The Bank is continuing to implement the Board of Directors ('Board') approved business strategy within the risk appetite by marketing the Bank's UK real estate capabilities in a prudent manner. In FY 2023-2024, the Bank will continue to expand its marketing approach using various channels to expand its customer reach and to diversify the portfolio within real estate segments. The Bank will continue to mainly focus on secured low risk UK-centric business and moderate business associated with Indian financial institutions.

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

The objective of the Risk Management Report is to provide detail of the Bank's governance framework, overview of the control environment and provide an insight into the key risks faced by the organisation.

The Governance Framework of PNBIL is depicted below:

PNBIL Governance Structure




## Board of Directors

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

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

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

Both BRC and BACC are chaired by independent non-executive directors. BRC is the Bank's senior enterprise risk committee with delegated authority from the Board to agree appetites, frameworks and policies and to monitor all of the Bank's risks, except for regulatory and compliance risks that are handled via the BACC.

BACC agrees the Bank's audit universe and annual audit plan, review and agrees the annual report and accounts, monitor all "third line" audit activity in the Bank, and review and monitor the external audit. It is also responsible for agreeing regulatory frameworks and policies, and for monitoring all regulatory, conduct and compliance (including Anti-Money Laundering) risks across the Bank.

Embedding Risk Management is central to the successful implementation of this Risk Governance Framework, and EXCO members have prime responsibility to promote and embed this in their areas of responsibility. Summary details of the committees' terms of reference are provided below:

### Board Credit Approval Committee ('BCAC')

The Board Credit Approval Committee is a committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior credit committee with responsibility for reviewing and agreeing all customer credit approvals. The Committee is chaired by the MD with the CFO and CRO as other voting members.

### Nomination & Remuneration Committee ('NRC')

The NRC is chaired by the Chairperson of the Board with independent non-executive directors as members. The NRC reviews the structure, size and composition (including skills, knowledge, experience and diversity) of PNBIL's executive directors, senior executives and senior managers making recommendations to the Board on the appointment of executive directors, senior executives and senior management1 and succession planning.

The NRC is responsible for the oversight of the design and operation of PNBIL's remuneration policy, ensuring that remuneration is appropriate and consistent with PNBIL's risk policies and systems, culture, long-term business, principles of corporate governance, legal and regulatory requirements.

### Executive Committee ('EXCO')

The Executive Committee derives its authority from the Board, to which it reports. EXCO is the leadership body for the Bank. It has a broad remit in terms of scope, covering as necessary significant business and operational issues. The committee is chaired by the Managing Director ('MD'). EXCO has five sub committees as follows:

- Risk and Compliance Committee ('RCC') chaired by the Compliance Director
- Asset and Liability Committee ('ALCO') chaired by the CFO
- Credit Risk Oversight Committee ('CROC') chaired by the CRO
- HR, IT & Operations Committee ('HIOC') chaired by the ED
- Product Development Committee ('PDC') chaired by the ED

### Three lines of defence model

A "Three Lines of Defence" model has been adopted by the Bank for the effective oversight and management of risks across the Bank. A clearly defined organisation structure and governance & risk control framework has been introduced to ensure that:

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

Functions, teams and branches in the first line undertake frontline operational and support activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of controls.

Specific responsibilities of the First Line include:

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

- Accounting for the effectiveness of risk management in operation including ensuring that procedures and controls are operated in a consistent and ongoing basis in order to effectively manage risks.

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

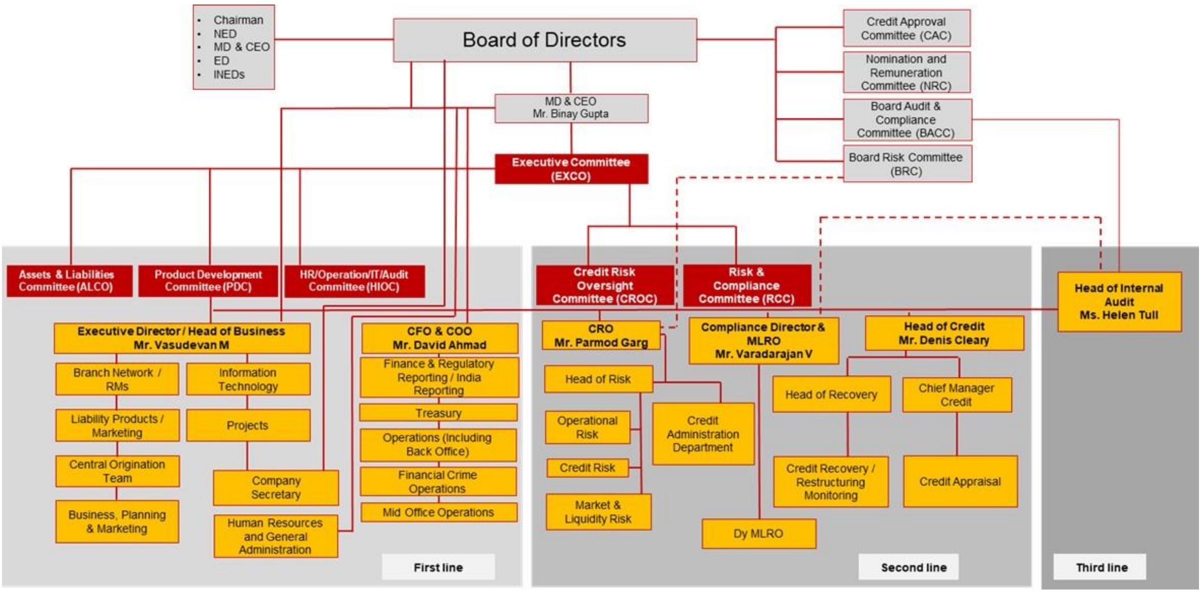
The Second Line is responsible for:

- Developing and monitoring the implementation of risk management frameworks, policies, systems, processes and tools.
- Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the First Line.
- Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting and that they are being implemented.
- Establishing an early warning system for breaches of the Bank's Risk Appetite or limits.
- Influencing or challenging decisions that give rise to material risk exposure.
- Independent verification of all risk ratings as per the ratings model.
- Reporting via the CRO and the Compliance Director, on all these items, including risk mitigating actions, where appropriate.

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

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

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




## Risk management function:

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

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

## Compliance function:

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

## Internal audit

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

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

## PRINCIPAL RISKS AND UNCERTAINTIES

The Bank has identified a number of material risks in its normal course of business which are discussed below. The Bank is firmly committed to the management of risks, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. The Directors have taken steps to ensure risk management is recognised by staff and given the highest priority throughout the Bank and is integral to the management of the business.

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

### Credit risk

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

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

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

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

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

### Market risk

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

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

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

### Interest rate risk in banking book

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

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

### Liquidity and funding risk

Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due. The Bank has a Board approved ILAAP in place, in line with the guidelines issued by the PRA. The Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed by the Board and/ or the regulator. Liquidity monitoring mechanism supplemented by regular liquidity stress testing gives sufficient advance signals for envisaging liquidity requirements. The ALCO is primarily responsible for overseeing the implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis.

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

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

### Credit concentration risk

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

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

### Operational risk

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

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

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

### Regulatory and compliance risk

Regulatory and Compliance Risks are risks arising from failure to comply with laws, regulations, rules, standards and codes of conduct applicable to the Bank's activities. The Bank maintains a separate independent compliance function that manages and monitors these risks through policies, staff training and regular monitoring. Bank has in place well defined policies and procedures along with a robust and well embedded governance structure to address the regulatory and compliance risk. These compliance issues are monitored on an ongoing basis and deliberated upon in the quarterly BACC meetings. As per recommendations of the BACC, appropriate strategy/remedial actions are devised. The Compliance team undertake assessment and enhancements governed by its annual compliance monitoring plan which is approved by the Board.

### Conduct risk

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

### Strategic & business risk

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

### Environment, Social & Governance ('ESG') Risk

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

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

Based on the PRA's enhanced expectations regarding climate change for banks, the Bank's BRC has been tasked with monitoring and managing the Bank's response. The CRO is the designated SMF for managing the climate change risk in the Bank and embedding of climate related risk factors and associated mitigants in the Bank's Credit Risk Management Policy and ICAAP. Climate risk has been incorporated in the risk management practices in the Bank.

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

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

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

### Reputational risk

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

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

### Group risk

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

These risks are mitigated through:

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

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

### Present macroeconomic challenges

The Bank's operations are subject to change in local, global economic and market conditions as well as geopolitical developments which may have a material impact on the Bank's business and prospects.

Geopolitical events can also cause financial instability and affect economic growth. Global GDP growth in 2023 was severely hampered by inflationary pressures resulting from:

(a) the disruptive legacy of the COVID-19 pandemic on supply chains

(b) restricted labour markets and upward pressure on employment costs

(c) escalating energy and food prices intensified by the conflict in Ukraine.

These pressures have led to the on-going 'cost of living' pressures and persistent inflationary pressures, throughout the financial year 2022-23, central banks pursued policies of raising interest rates while also curtailing quantitative easing and in some cases commencing quantitative tightening. Both the elevated inflationary environment and higher interest rates are likely to adversely affect economic growth globally in the financial year 2023-24, particularly in developed markets, with the possibility of elevated unemployment as a result, with potentially negative implications for the Bank's performance,

In the UK, government responded to escalating energy prices via short term subsidies for consumers and industry, in part funded by windfall taxes on targeted sectors. Revisions to these schemes during the coming year may cause upward pressure on household and corporate finances, which could result in higher impairment charges.

With the adverse macroeconomic conditions, on the back of Russia-Ukraine conflict, high interest rate environment, the bank has assessed the impact on the Expected Credit Loss due to these adverse factors through a comprehensive macroeconomic overlay exercise. This is prudent approach undertaken by the bank in view of any unanticipated deterioration in the bank's credit portfolio. The Bank will continue to monitor the situation closely and re-assess the requirement on a timely basis.

The collapse of SVB and Credit Suisse was closely monitored during the events. The Bank doesn't have any direct or indirect exposure to these Banks. Upon considering the volatility of the market, the Bank further reduced its MTM loss limits and portfolio limits in Trading and assets held at FVTOCI. In further measures the Bank has also proposed to diversify the deposit base looking to dilute the concentration held on corporate deposits. The Bank continues to closely monitor the inflow/outflow of funds and liquidity position, the liquidity ratios remain very strong.

With the sharp rise in the Bank of England rates and stressed macro-economic factors, our loan portfolio is being closely monitored. There are no major concerns observed with regards to servicing of the loans. IRRBB limits are within the risk appetite limits.

The Directors have pleasure in presenting the Directors' report which should be read in conjunction with the Strategic report pages 5 – 9.

## Financial Results

The financial statements for the reporting year ended 31 March 2023 are shown on pages 32 to 83.

## Dividends

As in previous years, the Directors have not recommended the payment of a dividend on the ordinary share capital for the year ended 31 March 2023.

However, the Bank continued to pay a dividend on the Additional Tier I Capital bonds at the rate of 6 months USD LIBOR plus 5% amounting to $3.58 million (2022: $2.37 million) during FY 2022-23.

## Capital Structure

As at 31 March 2023, the issued and fully paid share capital of the Bank is $274.63 million (2022: $274.63 million), and Additional Tier 1 Capital is $45 million (2022: $45 million). In the financial year 2023-24, there was no material change in the capital structure of the Bank. Detail is given in note 35 to the financial statements.

The total amount of regulatory capital available as at 31 March 2023 was $226.35 million (2022: $213.96 million). Detail is given in note 44 to the financial statements.

The Total Capital Ratio of the Bank continues to remain above the required level under the CRR and also above the Total Capital Requirement ('TCR') given by the regulator to the Bank. The TCR as at 31 March 2023 is 31.00% with the Common Equity Tier I capital ratio being 19.60%.

As at 31 March 2023, the capital adequacy ratio, leverage ratio, liquidity coverage ratio and net stable funding ratio of the Bank are all above the minimum regulatory requirements and individual capital and liquidity guidance. The Bank's funding is well diversified and the liquidity asset buffer, short-term interbank placements and balances with the Bank of England are positively maintained, keeping in view the immediate liquidity requirement which may be triggered under stressed conditions. A minimum of 90 days' survival period is considered for maintenance of the buffer. The components of regulatory capital, assessment of capital adequacy and the leverage ratio will be disclosed separately in the Pillar III disclosures, to be published on the Bank's website.

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

## Going Concern

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

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

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

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

Accordingly, the Directors have assessed the Bank's current viability, and confirms that the Directors have a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due over the next three years from the date of the accounts being approved. This time frame is used in the Bank's ICAAP, and forms part of the 10 year forecast exercise, these give management and the Board sufficient visibility and confidence on the future operating environment for this time period.

## Events after the Balance Sheet date

There have been no reportable events after the balance sheet date outside of those disclosed and considered in the financial statements.

## Directors

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

## Directors' Indemnities

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

## Future Business Developments

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

## Internal Control and Financial Reporting

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

The Directors and executive management of the Bank have adopted policies which set out the Board's attitude to risk and internal control. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board vis-à-vis its risk appetite. In addition, the Directors look to operational level management, compliance, risk and internal audit to ensure that key business risks are identified, evaluated and managed by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board Risk Committee is a committee of the Board which monitors the management information it receives in order to identify, control and mitigate risks pertaining to all banking activities. The Board also receives regular reports from the Chief Risk Officer on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

The financial reports are presented regularly to the Board detailing the business results, variances, explanations and other performance data.

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

## Statement as to Disclosure of Information to the Auditor

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

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

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

## Elective Resolution

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

## Auditor

Mazars LLP is the statutory auditor of the Bank pursuant to section 487 of the Companies Act 2006.

## General Meetings

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

By order of the Board

Company Secretary

Camilla Shaw

15th September 2023

# DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK-adopted International Accounting Standards and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether UK-adopted International Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in UK-adopted International Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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

Mr. Binay Gupta
15th September 2023

Vasudevan Mundokulam
15th September 2023

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

### Opinion

We have audited the financial statements of Punjab National Bank (International) Limited (the 'Bank') for the year ended 31 March 2023 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2023 and of its profit for the year then ended; and
- have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Conclusions relating to going concern

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Bank's future financial performance;
- Reviewing the directors' going concern assessment based on a range of scenarios and stressed scenarios as approved by the Board of Directors;
- Assessing the sufficiency of the Bank's capital and liquidity by taking into consideration the most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Process which contain the results of the Bank's latest stress and reverse stress tests;

- Evaluating the reasonableness of the key assumptions used in the scenarios indicated above, including incorporating back-testing to evaluate the historical accuracy of management's forecasting and budgeting;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit;
- Reading regulatory correspondence, reviewing minutes of meetings of the Audit Committee and the Board of Directors, and evaluating post balance sheet events to identify events of conditions that may impact the Bank's ability to continue as a going concern;
- Evaluating the adequacy and appropriateness of the directors' disclosure on going concern included in the Annual Report and Financial Statements; and
- Considering whether there were events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.

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

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

### Key audit matters

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

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

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

| Key Audit Matter | How our scope addressed this matter |
|---|---|
| Allowance for impairment losses – Expected Credit Losses ('ECL')<br><br>Loan loss provision –<br>- Stage 1: \$3.1m (2022: \$1.8m)<br>- Stage 2: \$0.1m (2022: \$0.1m)<br>- Stage 3: \$177.4m (2022: \$193.7m) | Our audit procedures included but were not limited to:<br><br>Controls testing<br>- Evaluating the design and implementation and testing the operating effectiveness of controls operating at the Bank in relation to credit provisioning and monitoring. |

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| *[Refer to Note 4 Critical accounting judgements, Note 5 Key sources of estimation uncertainties and Note 24 Allowance for expected credit losses ('ECL')]*<br><br>Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation. IFRS 9 requires allowance for impairment losses to be determined on an ECL basis.<br><br>The largest element of credit risk relates to Loans and Advances to Customers where the Bank is exposed to secured and unsecured lending to corporate clients.<br><br>Individual impairment assessments are made for loans classified as stage 3. This is based on assumptions around the present value of future cash flows arising primarily from the sale or repossession of collateral. For loans classified as stage 1 and 2, ECL is determined through the use of a model.<br><br>Management apply an overlay on top of the modelled ECL output in order to address aspects of expected credit loss that the model does not capture. The overlay represented $3.1m (2022: $1.1m) of the total modelled provision of $180.5m (2022: $195.6m). $2.6m of the overlay was applied to stage 1 and 2 and $0.5m was applied to stage 3.<br><br>The key areas of judgement and management estimation that give rise to a significant audit risk relate to:<br><br>- Staging of loans and identification of significant increase in credit risk ('SICR'). The quantitative and qualitative criteria used to identify SICR are determined by management;<br><br>- Valuation of the stage 3 loan assets; | Test of detail<br>*Specialists*<br><br>- For a selection of high-risk loans, we have involved our in-house valuation specialists to assess the reasonableness of collateral valuation used by management.<br>Performing testing over the macroeconomic assumptions that are used within the Bank's economic scenario modelling. We involved our in-house economist expert to independently assess the scenarios that were developed, the appropriateness of the macroeconomic variables used including the forecasts, and the weightings applied to each scenario. Our in house expert provided their own forecasts for the macroeconomic variables with which sensitivity analysis was performed to assess the overall impact. We have also benchmarked the macroeconomic variables used against similar peers.<br><br>*Staging*<br><br>- Assessing the quantitative and qualitative SICR criteria used by the bank, and for a sample of stage 1 and stage 2 loans, testing whether there have been any indicators of an increase in credit risk.<br><br>- Performing a review of watch list movements throughout the year.<br><br>- Reviewing a sample of loans to confirm the appropriateness of staging.<br><br>- Reviewing credit files for a selection of loans to verify the data used in the determination of increases in PD assumptions, collateral valuation and to test the valuation of individual impairments. This was performed focusing on those loans with characteristics of heightened credit risk, in particular stage 2 loans. |

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| - Management overlay; and<br>- The use of macroeconomic variables reflecting current geopolitical tensions and the inflationary environment. | *Stage 3 loans*<br>- Performing a review of the individual impairment assessments made for a selection of stage 3 loans. We focused on how management assess recovery including challenging estimates of future cash flows under different recovery scenarios. We also assessed the existence and valuation of collateral used in management's assessment of these loans and independently reperformed the impairment assessment to determine the reasonableness of management's calculations.<br>*Management overlay*<br>- Performing testing over the management overlay applied by the Bank. We assessed the methodology adopted for the overlay including consultation with Mazars economists, assessed the governance and approval, tested the data inputs into the ECL models and evaluated the assumptions applied for appropriateness. We have also benchmarked the macroeconomic variables used in the overlay against similar peers.<br>*Disclosures*<br>- Evaluating the adequacy and appropriateness of the disclosures made in the financial statements.<br>**Our Observations**<br>Based on the work performed, we found that the assumptions used by management in the impairment assessment are reasonable and that the allowance for impairment losses as at 31 March 2023 is consistent with the requirements of IFRS 9. |

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| Recognition of Deferred tax asset<br><br>$25.0 million (2022: $25.2 million)<br><br>*[Refer to Note 5 Key sources of estimation uncertainties, and Note 29 Deferred tax assets]*<br><br>The Bank has recorded a deferred tax asset of $25.0m as at 31 March 2023. This asset relates primarily to unused tax losses.<br><br>This decision to recognise an asset is based on management's assessment of future taxable profits of the Bank which is underpinned by significant assumptions such as future income and expenses. Given the recent rise in interest rates in the economy, this makes interest income and expense particularly challenging to forecast over a long period.<br><br>Given the significant level of judgement required in relation to the measurement of the deferred tax asset, we consider this area to be a key audit matter. | Our audit procedures included but were not limited to:<br><br>Controls testing<br>- Evaluating the design and implementation of controls operating at the Bank in relation to the oversight of the budgeting and forecasting processes for measurement of deferred tax asset.<br>Test of detail<br>- Discussing with management and those charged with governance the period over which the results could be forecast reliably.<br>- Challenging management's assumptions within the business model, including future profitability and the recovery of the deferred tax asset.<br>- Assessing the consistency between the forecasts used for going concern and deferred tax.<br>- Assessing management's ability to accurately forecast through evaluation of the historical ac- curacy of management's forecasting process, including performing analysis of the growth rate applied in the deferred tax asset model by management and back testing management's previous forecasts.<br>- Performing a benchmarking analysis against peer banks for key assumptions.<br>- Reviewing the underlying deferred tax asset calculations to determine whether the calculation of the asset is appropriate, including the data inputs, application of the tax rates and restrictions regarding the use of tax losses.<br>- Evaluating the adequacy and appropriateness of the disclosures made in the financial statements given the significance of the assumptions used. |

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| | Our Observations<br>Based on the work performed, we found that the valuation of the deferred tax asset recognised by the Bank and related disclosures are reasonable as at 31 March 2023. |

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

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

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| Overall materiality | $2,135,000 (2022: $2,079,000) |
| How we determined it | 1% of net assets (2022: 1% of net assets) |
| Rationale for benchmark applied | Net assets are the main focus of the shareholder (the over- seas parent) to assess the value of their investment. Further- more, net assets approximate regulatory capital resources which is a key focus for the shareholder, management, and regulators. It is also consistent with the benchmark used by most peer banks in the industry based on the size and complexity of the Bank's operations. |
| Performance materiality | Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.<br><br>We set performance materiality at $1,494,000 (2022: $1,247,000) which represents 70% (2022: 60%) of overall materiality.<br><br>We considered several factors in determining performance materiality, including our understanding of the entity, the effectiveness of the internal control environment, risk assessment procedures, the level and nature of uncorrected and corrected misstatements in the prior year and our expectations in relation to misstatements in the current year. |

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| Reporting threshold | We agreed with the audit committee that we would report to them misstatements identified during our audit above $64,000 (2022: $62,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

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

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

### Other information

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

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

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

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

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

### Matters on which we are required to report by exception

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

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

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

## Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- Gaining an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates, and considering the risk of acts by the Bank which were contrary to the applicable laws and regulations, including fraud;

- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with PRA and FCA;
- Reviewing minutes of the Board of Directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as UK-adopted international accounting standards, UK tax legislation, the Large and Medium sized Companies and Groups (Accounts and reports) and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls and determined that the principal risks related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates in particular in relation to allowance for impairment losses (as described in the "Key Audit Matters" section of this report), and significant one-off or unusual transactions.

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

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

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

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

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

### Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 30 November 2019 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2020 to 31 March 2023.

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

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

### Use of the audit report

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

Greg Simpson (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey

London

EC4M 7AU

15th September 2023

# INCOME STATEMENT

for the year ended 31 March

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Interest income | 6 | 50,548 | 41,351 |
| Interest expense | 7 | (13,358) | (9,158) |
| **Net interest income** | | **37,190** | **32,193** |
| Net trading profit | 8 | 676 | 13 |
| Fee and commission income | | 927 | 882 |
| Other operating income | 9 | 257 | 130 |
| **Operating income** | | **39,050** | **33,218** |
| Staff costs | 13 | (12,515) | (13,204) |
| Interest on lease liabilities | 37 | (140) | (116) |
| Depreciation and amortisation expenses | 10 | (1,347) | (1,468) |
| General administrative expenses | 11 | (5,961) | (6,140) |
| Impairment provision | 24 | (10,659) | (4,429) |
| **Profit before tax** | | **8,428** | **7,861** |
| Tax (charge)/credit | 15 | (95) | 45 |
| **Profit after tax for the year** | | **8,333** | **7,906** |

All amounts mentioned above relate to continuing activities.

The accompanying 'Notes to the financial statements' from page 40 to 83 are an integral part of the financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Profit/(loss) after tax for the year** | | 8,333 | 7,906 |
| **Other comprehensive income/(expense)** | | | |
| Items that may be reclassified subsequently in profit or loss Investment Securities - FVOCI | | | |
| - Gains/(losses) arising during the year | 36 | (79) | (2,066) |
| - Tax credit/(charge) relating to change in fair value | | (9) | 496 |
| | | (88) | (1,570) |
| Reclassification adjustments for loss included in profit or loss (Investment Securities – FVOCI) net of tax | | 395 | 209 |
| Other comprehensive income/(expense) for the year net tax | | 307 | (1,361) |
| **Total comprehensive income/(expense) attributable to equity share holders** | | 8,640 | 6,545 |

The accompanying 'Notes to the financial statements' from page 40 to 83 are an integral part of the financial statements.

# STATEMENT OF FINANCIAL POSITION

as at 31 March

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 16 | 144,821 | 149,798 |
| Loans and advances to banks | 19 | 836 | 700 |
| Loans and advances to customers | 20 | 748,698 | 788,108 |
| Investment securities - FVTPL | 17 | - | 10,001 |
| Investment securities – FVOCI | 21 | 55,263 | 54,753 |
| Investment securities – Amortised cost | 22 | 108,096 | 89,114 |
| Derivative financial instruments | 18 | 7 | 1,064 |
| Right of use lease assets | 37 | 4,395 | 3,073 |
| Prepayments and other receivables | 30 | 533 | 384 |
| Property, plant and equipment | 27 | 311 | 391 |
| Intangible assets | 28 | 230 | 589 |
| Deferred tax assets | 29 | 24,990 | 25,155 |
| **Total assets** | | 1,088,180 | 1,123,130 |
| **Liabilities** | | | |
| Deposits from banks | 31 | 1,967 | 1,106 |
| Deposits from customers | 32 | 816,636 | 858,073 |
| Derivative financial instruments | 18 | 155 | 295 |
| Current tax liability | 15 | - | - |
| Lease liability | 37 | 4,522 | 3,205 |
| Other liabilities | 34 | 1,572 | 2,185 |
| Subordinated bonds and other borrowed funds | 33 | 50,000 | 50,000 |
| **Total liabilities** | | 874,852 | 914,864 |
| **Net assets** | | 213,328 | 208,266 |
| **Equity** | | | |
| Share capital | 35 | 319,631 | 319,631 |
| Fair value reserve | 36 | (986) | (1,293) |
| Retained earnings | | (105,317) | (110,072) |
| **Equity attributable to owners of the Company** | | 213,328 | 208,266 |
| **Total equity** | | 213,328 | 208,266 |

The accompanying 'Notes to the financial statements' from page 40 to 83 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 15th September 2023. They were signed on its behalf by:

Mr. Binay Gupta
15th September 2023

Vasudevan Mundokulam
15th September 2023

Company registration number 05781326

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March

| | Note | Attributable to equity shareholders of the bank | | | |
|---|---|---|---|---|---|
| | | Share capital $'000 | Fair Value reserve $'000 | Retained Earnings $'000 | Total equity $'000 |
| Balance at 31 March 2022 | | 319,631 | (1,293) | (110,072) | 208,266 |
| Profit for the year | | - | - | 8,333 | 8,333 |
| Net change in fair value of Investment Securities - FVOCI | 36 | - | (88) | - | (88) |
| Net amount transferred to Profit & Loss | 36 | - | 395 | - | 395 |
| **Other comprehensive income of the year** | | - | 307 | - | 307 |
| **Total comprehensive income of the year** | | - | 307 | 8,333 | 8,640 |
| **Transactions with owners directly recorded in equity** | | | | | |
| Dividend on additional Tier 1 capital | 40 | - | - | (3,578) | (3,578) |
| **Balance at 31 March 2023** | | 319,631 | (986) | (105,317) | 213,328 |

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

The accompanying 'Notes to the financial statements' from page 40 to 83 are an integral part of the financial statements

| | Note | 2023 | 2022 |
|---|---|---|---|
| **Cash flows from operating activities** | | $'000 | $'000 |
| **Profit/(loss) after tax** | | 8,333 | 7,906 |
| **Adjustments for:** | | | |
| Amortisation of other intangible non-current assets | 10 | 359 | 410 |
| Depreciation of property, plant and equipment | 10 | 214 | 213 |
| Depreciation on right of use assets | 10 | 774 | 845 |
| Interest on lease liabilities | 37 | 140 | 116 |
| Impairment provision | 24 | 10,659 | 4,429 |
| Corporation tax (credit)/charge | 15 | 95 | (45) |
| Net exchange rate differences | | (998) | (582) |
| | | 11,243 | 5,386 |
| **Changes in:** | | | |
| Loans and advances to banks | | (135) | 29,778 |
| Loans and advances to customers | | 28,750 | (101,940) |
| Fair value of derivatives | | 917 | 1,077 |
| Prepayments and other receivables | | (149) | 203 |
| Deposits from banks | | 861 | 241 |
| Deposits from customers | | (41,439) | 38,578 |
| Other liabilities | | (614) | (1,910) |
| | | (11,809) | (33,973) |
| **Cash (used in)/generated from operating activities** | | 7,767 | (20,681) |
| Income tax paid | | (32) | (6) |
| **Net cash (used in)/generated from operating activities** | | 7,735 | (20,687) |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | 27 | (134) | (111) |
| Acquisition of intangible assets | 28 | - | (37) |
| Acquisition of investment securities at amortised cost | 22 | (18,982) | (30,782) |
| Disposal of investment securities – FVTPL | 17 | 10,001 | 70 |
| Net change of investment securities – FVOCI | 21 | (102) | (17,252) |
| **Net cash (used in)/generated from investing activities** | | (9,217) | (48,112) |
| **Cash flows from financing activities** | | | |
| Payment of lease liabilities* | 37 | (915) | (938) |
| Dividend to perpetual additional Tier I capital bond holders | 40 | (3,578) | (2,367) |
| Proceeds from issuance of subordinated bonds | 33 | 12,500 | 12,500 |
| Repayment of subordinated bonds | 33 | (12,500) | (12,500) |
| **Net cash used in financing activities** | | (4,493) | (3,305) |
| **Net (decrease)/increase in cash and cash equivalents** | | (5,975) | (72,104) |
| Net exchange rate differences | | 998 | 582 |
| Cash and cash equivalents at beginning of year | 16 | 149,798 | 221,320 |
| **Cash and cash equivalents at end of year** | 16 | 144,821 | 149,798 |

*IAS 7 requires that changes in liabilities pertaining to financing activities are bifurcated and disclosed separately on a cash and non-cash basis. Given this only pertains to IFRS 16 lease liabilities for the Bank we state them here. Cash $915k and non-cash $402k.

The accompanying 'Notes to the financial statements' from page 40 to 83 are an integral part of the financial statements.

## 1] General information

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

The principal activities of the Bank and the nature of the operations are set out in the Strategic report on pages 5 to 9. The financial statements are presented in US Dollars, because this is the functional currency of the Bank.

## 2] New and amended standards and interpretations

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

### 2.1 Future accounting developments

The following accounting standards have been issued by the IASB but are not yet effective:

#### IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005. In June 2020, the IASB further published amendments to IFRS 17, to include scope exclusion for certain credit card contracts and similar contracts that provide insurance coverage, the optional scope exclusion for loan contracts that transfer significant insurance risk, and the clarification that only financial guarantees issued are in scope of IFRS 9. IFRS 17 is effective for accounting periods beginning on or after 1 January 2023. The Bank does not conduct insurance business and therefore will have no impact on the financial statements of the entity.

#### Amendments to IAS 1

In January 2020 the IASB issued amendments to IAS 1 to clarify the presentation of liabilities in the balance sheet, with an effective date of 1 January 2024. The amendments clarify the requirements for classification of a non-current liability.

In October 2022, the IASB also issued further amendments to IAS 1 to improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants, and to respond to stakeholders' concerns about the classification of such a liability as current or non-current.

In February 2021 the IASB issued amendments to IAS 1 that require entities to disclose their material accounting policies rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on the concept of materiality and its application to accounting policy information. The amendments are effective for annual periods beginning on or after 1 January 2023, and will be applied from that date.

#### Amendments to IAS 8

In February 2021 the IASB issued amendments to IAS 8 that replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are clarified as monetary amounts in financial statements that are subject to measurement uncertainty. Where an entity's accounting policy requires an item to be measured at monetary amounts that cannot be observed directly, it should develop an accounting estimate to achieve this objective. The amendments are effective for annual periods beginning on or after 1 January 2023, and will be applied from that date.

## 3] Significant accounting policies

### 3.1 Statement of compliance

The accounting standards applied are those issued by UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

### 3.2 Basis of measurement

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

- Derivative financial instruments are measured at fair value
- Investment securities at fair value through profit or loss (‘FVTPL’) are measured at fair value; and
- Investment securities at fair value through other comprehensive income (‘FVOCI’) are measured at fair value.

Detail on fair value is given in note 23.

### 3.3 Going concern

The Bank has sufficient Capital for its existing business which allows for planned growth, and for staying in excess of the minimum regulatory guidelines. The Bank's liquidity adequacy and monitoring processes are designed to ensure the Bank maintains liquidity levels that exceed the requirements set by the regulator. There is a robust liquidity adequacy and monitoring process in place. The Bank has continued to receive support from the Parent Bank with the rollover of existing Capital instruments during the year. Assessments of the Bank’s liquidity, capital adequacy, and risk management framework are performed on a regular basis.

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

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

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

Accordingly, the Directors have assessed the Bank's current viability, and confirms that the Directors have a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due over the next three years from the date of the accounts being approved. This time frame is used in the Bank's ICAAP, and forms part of the 10 year forecast exercise, these give management and the Board sufficient visibility and confidence on the future operating environment for this time period.

### 3.4 Functional and presentation currency

The Directors consider the US Dollar as the functional currency of the Bank as a significant component of earning assets (loans/investments) are priced in US Dollars and a significant component of funding is in US Dollars. In addition to that, share capital and other capital instruments are denominated in US Dollars. Transactions in currencies other than USD are recorded in US Dollars at the rate of exchange prevailing at the end of the day in which the transaction arose. Any resulting exchange differences are included in the statement of profit or loss. Treatment of monetary and non-monetary items are recorded as prescribed under IAS 21.

### 3.5 Accounting policies

#### a) Revenue recognition

#### Interest income and expense

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

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

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

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

*The Bank calculates interest via a combination of principal interest and amortised arrangement fees, the resulting interest is annually tested against the EIR method to demonstrate they are materially in line.

### Fees and commission

Fees and commissions include remittance charges, bills collection charges, Letter of Credit ("LC") charges, incidental charges on deposit accounts, locker rent and late payment fees.

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

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

### Net trading income

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

## b) Financial instruments

### A. Financial assets

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

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

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

### Financial assets at amortised cost

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

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

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

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

Financial assets that do not meet the criteria for recognition at amortised cost or at FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement as 'Net trading profit/(loss)'. Interest income from these assets is included in Note 6 'Interest Income' using the effective interest rate method.

### B. Financial liabilities and equity instruments

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

### i. Equity instruments

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

### ii. Financial liabilities

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

### C. Fair value measurement

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

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

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

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

### D. Offsetting financial instruments

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

### E. De-recognition of financial assets and liabilities

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

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

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

### F. Transfer of financial assets

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

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

## G. Impairment of financial assets

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

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

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

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

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

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

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

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

- The payment due to the bank is overdue by more than 90 days. Interest accrued will be excluded from the criteria.
- Any exposure of the obligor that has been recognised credit - impaired in accordance with the IFRS 9 accounting framework.
- Debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

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

- when an exposure to a counterparty is non-performing i.e. obligor is past due more than 90 days;
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation;
- where the Bank files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;
- where the Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;
- where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets.

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

### Significant increase in credit risk

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

| | |
|---|---|
| a. Forborne/Restructured assets | • A forborne or restructured account. Forborne performing assets will be classified as stage 2 assets up to 180 days. After 180 days, it will be reviewed and reclassified depending upon its performance. |
| b. Adverse Financials | • Material deterioration in the financial health of the business. This can be worsening of the capital, liquidity, or profitability situation. |
| c. Adverse industry impact | • Deterioration of the industry, market segment of the borrower as a whole. |
| d. Other factors | • Insolvency (liquidation) process initiated; criminal action initiated etc.<br>• Adverse media news affecting the company's soundness. |
| e. SBLC's, Government & Corporate Securities, Nostro Accounts with other banks and Interbank exposures | • ISDA credit event declared.<br>• Bond trade (temporarily) suspended at primary exchange because of rumours/facts. |

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

### H. Derivative financial instruments

The Bank enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including exchange forward contracts, interest rate swaps and cross currency swaps. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

### I. Property, plant and equipment

#### (i) Recognition and measurement

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

#### (ii) Subsequent costs

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

### (iii) Depreciation

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

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

## J. Intangible assets

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

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

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

## K. Cash and balances with central banks

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

## L. Corporation tax/deferred tax

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the statement of financial position or statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

## M. Recognition and measurement of provisions and contingencies

A specific provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## N. Share capital and reserves

### (i) Additional Tier I bonds

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

### (ii) Fair value reserves

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

## O. Right of use lease assets and liabilities

The Bank adopted IFRS 16 'Leases' using the modified retrospective approach. The Bank identified contracts impacted by IFRS 16 where the Bank is the lessee, and this comprises of seven property leases for the Bank's corporate office and its branches. The leases typically run for a period of 15 to 20 years with a break clause of 5 years for the Bank and the lessor. Lease payments are liable to be modified at break period to reflect market rentals.

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

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

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

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

### P. Employee benefits

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

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

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

### Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. There have been no changes to the approach to the assumptions and estimation methodologies during the year.

## 4] Critical accounting judgements

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

- Impairment of financial assets

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

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

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

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

## 5] Key sources of estimation uncertainty

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

- Deferred Tax

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

The Bank has done a thorough analysis for the justification of the deferred tax balance. This analysis has gone through a rigorous governance framework through which the Bank has established a process to recover or write off the deferred tax balance as appropriate. As of 31 March 2023, the Bank estimates recovery of the deferred tax asset over a 9-year period. This period has been used because of the difficulty in reliably forecasting beyond this point in time.

As at 31 March 2023, the Bank has both a recognised and unrecognised portion of the deferred tax balance (see note 29). As per the Board approved Deferred Tax Asset ('DTA') assessment process, the unrecognised portion of the deferred tax balance will be recovered before recovery of the recognised deferred tax balance. Based on the internal projections by the Bank, the current deferred tax balance is justified at its present level and no adjustment to the carrying amount is necessary. Should future business performance not meet profitability estimates, further material impairment adjustments to the carrying value of deferred tax assets will be carried out as per the established process.

- Macroeconomic inputs used in ECL tool

The measurement of modelled ECL involves complexity and judgement, including estimation of probabilities of default (PD), loss given default (LGD), a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default (EAD) and assessing significant increases in credit risk. The Bank uses a five-scenario model to calculate ECL with a further 2 for the ECL management overlay.

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

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

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

The tables below show the key macroeconomic variables used in the five scenarios with the annual path taken for each variable across each scenario.

Baseline macroeconomic variables used in the calculation of ECL

| Year | UK HPI Change | UK Unemployment | UK Average Rate | India GDP% Change |
|---|---|---|---|---|
| Present | 6.80% | 4.20% | 2.16% | 9.20% |
| 2023 | 0.80% | 5.20% | 2.17% | 10.15% |
| 2024 | 0.83% | 6.00% | 2.08% | 9.15% |
| 2025 | 2.43% | 6.10% | 2.11% | 9.04% |
| 2026 | 3.55% | 5.75% | 2.16% | 8.80% |
| 2027 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2028 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2029 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2030 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2031 | 4.00% | 5.60% | 2.18% | 8.45% |

### Upside 1 macroeconomic variables used in the calculation of ECL

| Year | UK HPI Change | UK Unemployment | UK Avergae Rate | India GDP% Change |
|---|---|---|---|---|
| Present | 3.49% | 4.38% | 1.89% | 17.56% |
| 2023 | 3.59% | 4.62% | 1.95% | 15.77% |
| 2024 | 3.69% | 4.87% | 2.01% | 13.98% |
| 2025 | 3.79% | 5.11% | 2.06% | 12.20% |
| 2026 | 3.90% | 5.36% | 2.12% | 10.41% |
| 2027 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2028 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2029 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2030 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2031 | 4.00% | 5.60% | 2.18% | 8.45% |

### Upside 2 macroeconomic variables used in the calculation of ECL

| Year | UK HPI Change | UK Unemployment | UK Avergae Rate | India GDP% Change |
|---|---|---|---|---|
| Present | 2.49% | 4.56% | 2.10% | 14.40% |
| 2023 | 2.79% | 4.77% | 2.12% | 13.25% |
| 2024 | 3.09% | 4.98% | 2.13% | 12.09% |
| 2025 | 3.39% | 5.18% | 2.15% | 10.94% |
| 2026 | 3.70% | 5.39% | 2.16% | 9.78% |
| 2027 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2028 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2029 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2030 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2031 | 4.00% | 5.60% | 2.18% | 8.45% |

### Downside 1 macroeconomic variables used in the calculation of ECL

| Year | UK HPI Change | UK Unemployment | UK Avergae Rate | India GDP% Change |
|---|---|---|---|---|
| Present | (1.84%) | 5.33% | 3.00% | 0.24% |
| 2023 | (0.67%) | 5.38% | 2.84% | 1.91% |
| 2024 | 0.50% | 5.44% | 2.67% | 3.59% |
| 2025 | 1.67% | 5.49% | 2.51% | 5.27% |
| 2026 | 2.83% | 5.55% | 2.34% | 6.95% |
| 2027 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2028 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2029 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2030 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2031 | 4.00% | 5.60% | 2.18% | 8.45% |

### Downside 2 macroeconomic variables used in the calculation of ECL

| Year | UK HPI Change | UK Unemployment | UK Avergae Rate | India GDP% Change |
|---|---|---|---|---|
| Present | (4.00%) | 5.72% | 3.45% | (7.33%) |
| 2023 | (2.40%) | 5.69% | 3.20% | (4.14%) |
| 2024 | (0.80%) | 5.67% | 2.94% | (0.95%) |
| 2025 | 0.80% | 5.65% | 2.69% | 2.25% |
| 2026 | 2.40% | 5.62% | 2.43% | 5.44% |
| 2027 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2028 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2029 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2030 | 4.00% | 5.60% | 2.18% | 8.45% |
| 2031 | 4.00% | 5.60% | 2.18% | 8.45% |

In addition to the core ECL calculation additional downside scenarios have been conducted to reflect the further turbulence on the macroeconomic environment during 2023, the output of which were used to determine additional ECL holding requirements as approved by the Banks management team.

The ECL provision numbers are sensitive to the movement in the above parameters which are input into the ECL model. As of 31 March 2023, the provision for Stage 1 and Stage 2 assets shifts by 6.72% (2022: 4.96%) on 10% adverse movement of the above economic indicators.

- Provisions for impairment assessment in Stage 3 accounts

For all stage 3 accounts i.e. where there is either a default or an objective evidence of impairment, judgement is required by management in the estimation of the amount and timing of expected cash flows, realisability and valuation of collateral and in certain cases the availability and reliance on guarantees (including corporate and personal guarantees and critical assessment of willingness and ability of the guarantors) in order to determine the level of impairment provision to be recorded. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision. Management's estimates of future cash flows on individually impaired loans are based on historical experience for assets with similar credit risk characteristics. The expected recovery is subject to execution risks associated with the recovery of collateral in different jurisdictions; and fair assessment is thus derived from management's experience of such markets.

As of 31 March 2023, specific provisions for impairment of loans and receivables (including investment securities) stood at $177.45 million (2022: $193.62 million).

- Fair value measurement of financial instruments

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an 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. Details on valuation of fair value of financial instruments are provided in note 23 to the financial statements.

## 6] Interest Income

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---:|---:|
| Overdraft accounts | 3,255 | 4,114 |
| Demand and term loans | 38,106 | 30,602 |
| Discount on bills | - | 179 |
| Interbank placements | 2,438 | 314 |
| Coupon/premium on investment securities | 4,864 | 4,395 |
| Arrangement fees on loans | 1,885 | 1,747 |
| **Total Interest income** | **50,548** | **41,351** |

The amounts reported above include interest income calculated using an approximation (see note 3.5) of the EIR method that relate to the following financial assets:

| | | |
|---|---|---|
| Financial assets measured at amortised cost | 46,948 | 32,985 |
| Financial assets measured at FVOCI | 1,586 | 2,110 |

## 7] Interest expense

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Term deposits | 9,466 | 6,565 |
| Saving deposits | 258 | 325 |
| Interbank borrowings | 29 | - |
| Subordinated bonds | 3,605 | 2,268 |
| **Total Interest expense** | **13,358** | **9,158** |

## 8] Net trading profit/(loss)

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Foreign exchange | 998 | 582 |
| Loss on investment securities - FVTPL | (322) | (569) |
| **Net trading profit/(loss)** | **676** | **13** |

## 9] Other operating income

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Payment and settlement | 105 | 120 |
| Retail banking | 152 | 10 |
| **Total Other operating income** | **257** | **130** |

## 10] Depreciation and amortisation expenses

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 214 | 213 |
| Depreciation on right of use lease assets | 774 | 845 |
| Amortisation of intangible assets | 359 | 410 |
| **Total Depreciation and amortisation expenses** | **1,347** | **1,468** |

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

## 11] General administrative expenses

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Legal, professional and audit fees | 2,484 | 3,141 |
| Administrative and office maintenance costs | 1,614 | 1,480 |
| Other administration costs | 1,398 | 1,096 |
| Postage and telephones cost | 337 | 322 |
| Marketing costs | 128 | 101 |
| **Total General administrative expenses** | **5,961** | **6,140** |

## 12] Auditor's remuneration

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

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| The audit of the Company | 384 | 334 |
| **Total audit fee** | **384** | **334** |
| Fees payable to the Bank's auditor for other services: | | |
| - Audit related assurance services | 43 | 22 |
| **Total non-audit fees** | **43** | **22** |

## 13] Staff costs

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Wages and salaries | 9,533 | 10,281 |
| Contribution towards defined employee contribution plan* | 268 | 283 |
| Other employee benefits | 1,514 | 1,500 |
| Social security costs | 1,200 | 1,140 |
| **Total Staff costs** | **12,515** | **13,204** |

* Of which $0.02 million (2022: $0.02 million) is related to a director's contribution to external pension scheme (note 14). The number of Directors receiving this benefit is one.

| Included in other employee benefits: | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Accommodation cost | 749 | 759 |
| Medical insurance and expense | 149 | 122 |
| Pension contributions for staff in India | 13 | 15 |
| Other expenses** | 603 | 604 |
| | **1,514** | **1,500** |
| Average number of employees*** | 181 | 177 |

** Other expenses include rent, conveyance, insurance, staff welfare and other expenses for staff. There are no share-based payments to employees.
*** Of which there are 24 back-office employees (2022: 22) based in India.

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

## 14] Directors' emoluments

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Emoluments | 651 | 523 |

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

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Emoluments of highest paid Director (One Director) | 277 | 259 |
| Contributions to external pension scheme | 18 | 18 |

## 15] Corporation tax

**Components of corporation tax credit/(charge)**

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Analysis of tax credit/(charge) in the year** | | |
| Current corporation tax charge | - | - |
| Credit in respect of prior years | - | - |
| **Total current tax credit/(charge)** | **-** | **-** |
| **Deferred corporation tax credit/(charge)** | | |
| Effect of rate changes | (293) | 5,933 |
| Relating to origination and reversal of temporary differences | (931) | (1,046) |
| Deferred tax not recognised in relation to losses | 1,161 | (4,836) |
| UK tax relief for foreign tax suffered at source | 6 | |
| Adjustments in respect of prior years | (6) | - |
| **Total deferred tax credit/(charge)** | **(63)** | **51** |
| Withholding tax paid | (32) | (6) |
| Total tax credit/(charge) for the year | (95) | 45 |

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

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Profit before tax | 8,428 | 7,861 |
| Corporation tax at 19% (2022: 19%) | (1,601) | (1,494) |
| Tax effect of non-deductible depreciation | - | 1 |
| Tax effect of other non-deductible expenses/non-taxable income | 670 | 447 |
| Tax effect of rate changes | (293) | 5,933 |
| Adjustments in respect of prior year | (6) | - |
| Deferred tax not recognised in relation to losses | 1,161 | (4,836) |
| UK tax relief for foreign tax suffered at source | 6 | - |
| Withholding tax suffered | (32) | (6) |
| **Tax credit/(charge)** | **(95)** | **45** |
| **Current corporation tax credited to other comprehensive income** | | |
| Credit/(expense) arising on FVOCI reserve movement | (102) | 496 |
| Tax effective rate | 19% | 19% |

The standard rate of corporation tax rate for the year starting 1 April 2022 is 19%. The Finance Bill 2021 is now enacted. Therefore, from 1 April 2023, the corporation tax rate will increase to 25%.

## 16] Cash and balances with central banks

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Cash on hand | 586 | 370 |
| Cash at bank (including balance held with central banks) | 144,235 | 149,428 |
| **Total Cash and balances with central banks** | **144,821** | **149,798** |

## 17] Investment securities - FVTPL

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Treasury bills | - | 10,001 |

The Bank has classified its holding of US treasury bills as Investment securities - FVTPL which were measured at fair value through profit and loss. No asset held under this category is pledged and all remain unencumbered.

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

| | Rating | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|---|
| US Treasury Bills | AAA | - | 10,001 |

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

## 18 ] Derivative financial instruments

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

A major portion of the Bank's assets are on a floating rate of interest where the base rate is floating and linked to USD reference rate or Bank of England rate with a fixed margin thereupon. A major portion of liabilities of the Bank are at a fixed rate of interest. All the deals under cross currency foreign exchange swaps and interest rate swaps are over-the counter deals and none of them are with Central Governments.

The table below shows analysis of counterparty credit exposure arising from derivative transactions and fair value as at 31 March 2023:

| | Nature of Counterparty | Nominal Amount-Buy Transaction | Nominal Amount-Sell Transaction | Positive Fair Value | Negative Fair Value |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| FX Swaps | Bank | 27,278 | 27,380 | 7 | 155 |
| | | 27,278 | 27,380 | 7 | 155 |

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

| | Nature of Counterparty | Nominal Amount-Buy Transaction | Nominal Amount-Sell Transaction | Positive Fair Value | Negative Fair Value |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| FX Swaps | Bank | 78,415 | 77,595 | 1,064 | 295 |
| | | 78,415 | 77,595 | 1,064 | 295 |

## 19] Loans and advances to banks

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Term loans against stand-by letters of credit/buyers' credit* | 488 | 701 |
| Interbank placements of original maturity of more than three months* | 8,348 | 8,000 |
| Total | 8,836 | 8,701 |
| Less impairment provisions* | (8,000) | (8,001) |
| **Net Loans and advances to banks** | **836** | **700** |

*Loans and advances to banks $836k on the face of the balance sheet reconciles to $488k term loans and $348k interest on interbank placements (including Bank of England).
**Impairment provisions include Stage 3 specific provisions, Stage 1 & 2 ECL provisions and ECL management overlay. Stage 3 provision is $8 million (2022: $8 million) ECL provision (Stage 1 & 2) of Nil (2022: $0 million).

At 31 March 2023 $0.50 million (2022: $0.70 million) of loans and advances to banks are expected to be realised more than twelve months after the reporting date.

## 20] Loans and advances to customers

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Customer overdrafts | 111,658 | 133,832 |
| Term loans | 808,352 | 840,900 |
| **Total** | **920,010** | **974,732** |
| Less impairment provisions* | (171,312) | (186,624) |
| **Net loans and advances to customers** | **748,698** | **788,108** |

*Impairment provisions include Stage 3 specific provisions, Stage 1 & 2 ECL provisions and ECL management overlay. Stage 3 provision is $168.35 million (2022: $184.95 million) and ECL provision (Stage 1 & 2) of $2.74 million (2022: $1.70 million).

At 31 March 2023 $382.19 million (2022: $433.64 million) of loans and advances to customers are expected to be realised more than twelve months after the reporting date. Detail on impaired financial assets and exposure to credit risk are further provided in notes 24 and 25 to the financial statements.

## 21] Investment securities – FVOCI

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Net marketable debt securities* | 55,263 | 54,753 |

* Impairment provisions include Stage 3 specific provisions, Stage 1 & 2 ECL provisions and ECL management overlay. At 31 March 2023, expected credit losses of $0.51 million (2022: $0.37 million) have been recognised on Investment securities – FVOCI.

The fair value movements of debt securities through other comprehensive income (FVOCI) are accumulated and recognised in reserves within other comprehensive income. At 31 March 2023, $18.75 million (2022: $11.22 million) of Investment securities - FVOCI are expected to be realised more than twelve months after the reporting date.

## 22] Investment securities – amortised cost

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Debt securities | 108,814 | 89,698 |
| Less: Impairment provision* | (718) | (584) |
| **Net book value of investment securities at amortised cost** | **108,096** | **89,114** |

*Impairment provisions include Stage 3 specific provisions, Stage 1 & 2 ECL provisions and ECL management overlay. Stage 3 provision is $0.39 million (2022:$0.39 million) and ECL provision (Stage 1 & 2) of $0.33 million (2022:$0.19 million).

Refer to note 23 for details of fair value of investment securities which are at amortised cost. At 31 March 2023, $57.12 million (2022: $74.25 million) of investment securities at amortised cost are expected to be realised more than twelve months after the reporting date.

## 23] Financial instruments

### Classification of Financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies in Note 3 describe how the classes of financial instruments are measured. The tables below show the financial assets and liabilities in the statement of financial position by category of financial instrument to which they are assigned and by the measurement basis under IFRS 9. Any asset or liability outside the scope of IFRS 9 are shown within non-financial assets. The table below analyses the fair values of the Banks' financial instruments and categorises them using IFRS 9 asset and liability classifications. The book values in relation to financials assets and liabilities held at amortised cost are deemed to be a good representation of the fair value.

| As at 31 March 2023 | FVOCI assets / liabilities<br>$'000 | FVTPL assets/ liabilities<br>$'000 | Amortised cost<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | - | - | 144,821 | 144,821 |
| Loans and advances to banks | - | - | 836 | 836 |
| Loans and advances to customers | - | - | 748,698 | 748,698 |
| Investment securities | 55,263 | - | 108,096 | 163,359 |
| Derivative financial instruments | - | 7 | | 7 |
| **Total financial assets** | **55,263** | **7** | **1,002,451** | **1,057,721** |
| Total non-financial assets | | | | 30,459 |
| **Total assets** | | | | **1,088,180** |
| **Liabilities** | | | | |
| Deposits from banks | | | 1,967 | 1,967 |
| Deposits from customers | - | - | 816,636 | 816,636 |
| Derivative financial instruments | - | 155 | - | 155 |
| Subordinated bonds and other borrowed funds | - | - | 50,000 | 50,000 |
| **Total financial liabilities** | **-** | **155** | **868,603** | **868,758** |
| Total non-financial liabilities | - | - | - | 6,094 |
| **Total liabilities** | | | | **874,852** |
| **Equity** | | | | **213,328** |
| **Total liabilities and equity** | | | | **1,088,180** |

| As at 31 March 2022 | FVOCI assets / liabilities $'000 | FVTPL assets/ liabilities $'000 | Amortised cost $'000 | Total $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | - | - | 149,798 | 149,798 |
| Loans and advances to banks | - | - | 700 | 700 |
| Loans and advances to customers | - | - | 788,109 | 788,109 |
| Investment securities | 54,753 | 10,001 | 89,114 | 153,868 |
| Derivative financial instruments | - | 1,064 | - | 1,064 |
| **Total financial assets** | **54,753** | **11,065** | **1,027,721** | **1,093,539** |
| Total non-financial assets | | | | 29,592 |
| **Total assets** | | | | **1,123,131** |
| **Liabilities** | | | | |
| Deposits from banks | - | - | 1,106 | 1,106 |
| Deposits from customers | - | - | 858,073 | 858,073 |
| Derivative financial instruments | - | 295 | - | 295 |
| Subordinated bonds and other borrowed funds | - | - | 50,000 | 50,000 |
| **Total financial liabilities** | **-** | **295** | **909,179** | **909,474** |
| Total non-financial liabilities | | | | 5,391 |
| **Total liabilities** | | | | **914,865** |
| **Equity** | | | | **208,266** |
| **Total liabilities and equity** | | | | **1,123,131** |

## Valuation of Financial instruments

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

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

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. The estimated fair value of the financial assets and liabilities held at amortised cost has been calculated using the following valuation methodology.

### Cash in hand – Level 1

The fair value of cash in hand and deposits with central banks is the amount repayable on demand.

### Loans and advances – Level 3

Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates. Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

### Deposits – Level 3

The fair value of deposits and other borrowings with no stated maturity is the amount repayable on demand. The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

The table below analyses financial assets and liabilities by the level in the fair value hierarchy into which the fair value measurement is categorised, items are held at amortised cost unless stated otherwise.

2023

| Financial Assets: | Note | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| Cash and balance with central banks | 16 | 144,821 | - | - | 144,821 |
| Loans and advances to banks | 19 | - | - | 836 | 836 |
| Loans and advances to customers | 20 | - | - | 748,698 | 748,698 |
| Investment securities | 22 | 108,096 | - | - | 108,096 |
| **Assets held at amortised cost** | | **252,917** | **-** | **749,534** | **1,002,451** |
| Investment securities FVTPL | 17 | - | - | - | - |
| Investment securities FVOCI | 21 | 55,263 | - | - | 55,263 |
| Derivative financial instruments FVTPL | 18 | - | 7 | - | 7 |
| **Assets held at fair value** | | **55,263** | **7** | **-** | **55,270** |
| **Total Assets** | | **308,180** | **7** | **749,534** | **1,057,721** |

| Financial Liabilities | Note | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| Deposits from banks | 31 | - | - | 1,967 | 1,967 |
| Deposits from customers | 32 | - | - | 816,636 | 816,636 |
| **Liabilities at amortised cost** | | **-** | **-** | **818,603** | **818.603** |
| Derivative financial instruments | 18 | - | 155 | - | 155 |
| **Liabilities at fair value** | | **-** | **155** | **-** | **155** |
| | | **-** | **155** | **818,603** | **818,758** |

2022

| Financial Assets: | Note | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| Cash and balance with central banks | | 149,798 | - | - | 149,798 |
| Loans and advances to banks | 19 | - | - | 700 | 700 |
| Loans and advances to customers | 20 | - | - | 788,108 | 788,108 |
| Investment securities | 22 | 86,937 | - | - | 86,937 |
| **Assets held at amortised cost** | | **236,735** | **-** | **788,808** | **1,025,543** |
| Investment securities FVTPL | 17 | 10,001 | - | - | 10,001 |
| Investment securities FVOCI | 21 | 54,753 | - | - | 54,753 |
| Derivative financial instruments FVTPL | 18 | - | 1,064 | - | 1,064 |
| **Assets held at fair value** | | **64,754** | **1,064** | **-** | **65,818** |
| | | **301,489** | **1,064** | **788,808** | **1,091,361** |

| Financial Liabilities: | Note | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| Deposits from banks | 31 | - | - | 1,106 | 1,106 |
| Deposits from customers | 32 | - | - | 858,073 | 858,073 |
| **Liabilities held at amortised cost** | | **-** | **-** | **859,179** | **859,179** |
| Derivative financial instruments FVTPL | 18 | - | 295 | - | 295 |
| **Liabilities held at fair value** | | **-** | **295** | **-** | **295** |
| | | **-** | **295** | **859,179** | **859,474** |

The Bank has no Level 3 assets carried at fair value.

The main valuation techniques employed by the Bank to establish fair value of the financial instruments disclosed in Level 1 & 2 above are set out below:

### Debt securities - Level 1

Market prices have been used to determine the fair value of listed debt securities.

### FX Swaps – Level 2

The valuation of FX swaps is the 'present value' method. Expected currency cash flows are discounted using the prevailing FX spot and forward rates. The rates are generally observable market data which is derived from quoted FX rates in similar time bandings which match the timings of the currency flows and maturities of the instruments.

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

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

### Factors affecting loan loss provision

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

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

  Financial assets de-recognised during the period and write-offs of allowances related to assets that were written off during the period.

### Impact of macroeconomics on ECL

During the final quarter of the financial reporting period, the Bank has undertaken a detailed impact analysis on the impact of the current macroeconomic environment and its impact on expected credit losses. This was an extension of existing practice following the implications of the Covid pandemic in the previous two financial reporting periods. The Bank has stressed the ECL model under two different stress scenarios differing based on longevity of the downturn and expected recovery time due to current economic environment. The details of the revised scenario assumptions, scope of study, methodology adopted have been approved by the PNBIL Board.

Revised Macroeconomic factors such as India growth rate, UK unemployment rate, Bank of England base rate were stressed across the two scenarios. In addition, PD, LGD, forced sale haircuts and external rating downgrades were stressed under each scenario.

The ECL impact has been calculated using the weighted average approach considering the possibility of the two scenarios. Based on the impact analysis, the Bank has reversed out the prior year Covid provision overlay of $1.06m and it is replaced with a macroeconomic overlay of $3.08 million as of 31 March 2023 (2022: $1.06 million).

### Quantitative disclosures

The following table explain the changes in the loan loss provision:

| | Stage 1<br>$'000 | Stage 2<br>$'000 | Stage 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| Loss allowance as at 1 April 2022 | 1,836 | 147 | 193,619 | 195,602 |
| New receivables originated or purchased | 49 | - | - | 49 |
| Transfers between stages | - | - | - | - |
| Decrease in allowance for existing portfolio | (500) | - | (7,983) | (8,483) |
| Increase in allowance for existing portfolio | 59 | 1 | 11,286 | 11,346 |
| Write-offs* | - | - | (19,852) | (19,852) |
| Receivables matured during the period | (55) | (95) | - | (150) |
| Other movements** | 1,722 | 2 | 300 | 2,024 |
| Loss allowance as at 31 March 2023 | 3,111 | 55 | 177,370 | 180,536 |

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

* Written-off assets still subject to enforcement activity amounted to nil (2022: $36.08 million).
**Other movements relate to ECL management overlay.

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

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Impairment charge on loans and advances | 10,529 | 4,459 |
| Impairment charge/(repayments) on investments | 130 | (30) |
| Total impairment charge* | 10,659 | 4,429 |

*Impairment charge uplift driven by a change in the ECL charge to the income statement $1.5m (2022: $0.5m Credit), the remainder predominantly against specific provisions raised against two Stage 3 accounts.

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

| As at 31 March 2023 | | Real Estate $'000 | Deposit backed loans $'000 | Loans to Banks* $'000 | Investment securities $'000 | Other Loans $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Gross Exposure* | | | | | | | |
| Stage 1 | | 525,328 | 53,782 | 47,713 | 108,428 | 51,374 | 786,625 |
| Stage 2 | Not past due | - | - | - | - | - | - |
| | > 30 ≤ 90 days | 362 | - | - | - | - | 362 |
| Stage 3 | | 11,008 | - | 8,489 | 387 | 264,333 | 284,217 |
| Impairment Allowance | | | | | | | |
| Stage 1 | | 2,050 | 198 | 167 | 332 | 321 | 3,068 |
| Stage 2 | Not past due | - | - | - | - | - | - |
| | > 30 ≤ 90 days | 1 | - | - | - | - | 1 |
| Stage 3 | | 646 | - | 8,002 | 387 | 167,926 | 176,961 |
| Net Exposure | | | | | | | |
| Stage 1 | | 523,278 | 53,584 | 47,546 | 108,096 | 51,053 | 783,557 |
| Stage 2 | Not past due | - | - | - | - | - | - |
| | > 30 ≤ 90 days | 361 | - | - | - | - | 361 |
| Stage 3 | | 10,362 | - | 487 | - | 96,407 | 107,256 |

| As at 31 March 2022 | | Real Estate $'000 | Deposit backed loans $'000 | Loans to Banks* $'000 | Investment securities $'000 | Other Loans $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Gross Exposure** | | | | | | | |
| Stage 1 | | 515,447 | 54,504 | - | 89,311 | 64,440 | 723,702 |
| Stage 2 | Not past due | 5,788 | - | - | - | 21,701 | 27,489 |
| | > 30 ≤ 90 days | 13,088 | - | - | - | - | 13,088 |
| Stage 3 | | 688 | - | 8,701 | 387 | 299,101 | 308,877 |
| Impairment Allowance | | | | | | | |
| Stage 1 | | 730 | 70 | - | 197 | 750 | 1,747 |
| Stage 2 | Not past due | 7 | - | - | - | 123 | 130 |
| | > 30 ≤ 90 days | 17 | - | - | - | - | 17 |
| Stage 3 | | 688 | - | 8,001 | 387 | 184,264 | 193,340 |
| Net Exposure*** | | | | | | | |
| Stage 1 | | 514,717 | 54,434 | - | 89,114 | 63,690 | 721,955 |
| Stage 2 | Not past due | 5,781 | - | - | - | 21,578 | 27,359 |
| | > 30 ≤ 90 days | 13,071 | - | - | - | - | 13,071 |
| Stage 3 | | - | - | 700 | - | 114,837 | 115,537 |

*Loans to banks includes placements with banks < 90 days which are presented as cash and cash equivalents on the face of the balance sheet $33,890k (2022: $0k).
**Prior year restatement relating to unamortised fees of $3,129k has been applied to the Real Estate sector.
***Total net exposure is represented by net loans and advances to customers $748,698k (2022: $788,108k), net loans and advances to banks $836k (2022: $700k) less $348k (2022: $0k) relating interest accrued on placements, net securtites held at amortised cost $108,096k (2022: $89,114) from the face of the balance sheet and short term loans to banks reported as cash and cash equivalents $33,890k (2022: $0k).

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

| | | 2023 | | 2022 | |
|---|---|---|---|---|---|
| | | Investment securities $'000 | Total $'000 | Investment securities $'000 | Total $'000 |
| Gross Exposure | | | | | |
| Stage 1 | | 55,360 | 55,360 | 55,515 | 55,515 |
| Stage 2 | Not past due | - | - | - | - |
| | > 30 ≤ 90 days | - | - | - | - |
| Stage 3 | | 409 | 409 | 409 | 409 |
| Impairment Allowance | | | | | |
| Stage 1 | | 97 | 97 | 88 | 88 |
| Stage 2 | Not past due | - | - | - | - |
| | > 30 ≤ 90 days | - | - | - | - |
| Stage 3 | | 409 | 409 | 278 | 278 |
| Net Exposure | | | | | |
| Stage 1 | | 55,263 | 55,263 | 55,427 | 55,427 |
| Stage 2 | Not past due | - | - | - | - |
| | > 30 ≤ 90 days | - | - | - | - |
| Stage 3 | | - | - | 131 | 131 |

## 25] Exposure to credit risk and availability of collateral security

The table below presents the Bank's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 March 2023, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet including impairment allowances. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts. The Bank's exposure to credit risk is well spread across different sectors. The Bank is affected by the general economic conditions in the territories in which it operates. The Bank has set limits on the exposure to any counterparty and group of counterparties, industry sector exposure and geographical exposure; and credit risk is also spread over the Bank's retail and corporate customers.

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| **On balance sheet exposure** | | |
| Bilateral and syndicated loans and advances to customers | 748,698 | 788,108 |
| Loans and advances to customers under SBLC by banks | 836 | 700 |
| Interbank placements and cash balances with banks | 144,821 | 149,798 |
| Bills purchased under LC/Guarantee of banks | - | - |
| Securities at amortised cost – banks | 39,149 | 36,701 |
| Securities at amortised cost – non-banks | 68,947 | 52,413 |
| Investment securities – FVOCI - banks | 9,626 | 20,434 |
| Investment securities – FVOCI - non-banks | 45,637 | 34,319 |
| Investment securities – FVTPL – non- banks | - | 10,001 |
| Derivative financial instruments | 7 | 1,064 |
| **Total – A** | **1,057,721** | **1,093,538** |
| **Off balance sheet exposure** | | |
| Non-bank commitments (LCs/LGs) | 1,286 | 1,389 |
| **Total – B** | **1,286** | **1,389** |
| Undrawn Credit Facilities – non-banks | 26,358 | 52,285 |
| **Total – C** | **26,358** | **52,285** |
| **Total Exposure subject to Credit Risk (A+B+C)** | **1,085,365** | **1,147,212** |

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

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Exposure on banks | 194,439 | 208,697 |
| Non-bank exposure* | 890,926 | 938,515 |
| **Total** | **1,085,365** | **1,147,212** |

*Includes loans and advances (both on and off-balance sheet exposure, including commitments and undrawn credit facilities) of $776.34 million (2022: $841.79 million) and $114.58 million (2022: $96.73 million) of investment securities exposure.

### Collateral:

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

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

A. Exposure to banks: Both for direct exposure to banks (Placements and bank balances) and for exposure to banks due to Letter of Credit/Guarantee/Letter of Comfort issued by the banks, there are no separate collateral securities.
B. Non-bank gross exposure is collaterally secured as below as at 31 March 2023:

| Amount in $ '000 | Retail exposure | | Non-retail exposure | | Total | |
|---|---|---|---|---|---|---|
| | Exposure | Amount Collateralised | Exposure | Amount Collateralised | Exposure | Amount Collateralised |
| Internally rated AAA to A* | 164,945 | 164,945 | 202,329 | 202,329 | 367,274 | 367,274 |
| Internally rated BB to B* | 24,981 | 24,981 | 186,954 | 172,933 | 211,935 | 197,914 |
| Internally rated C&D | - | - | 2,444 | 2,444 | 2,444 | 2,444 |
| Others Exempted Category | 16,213 | 16,096 | 74,085 | 74,085 | 90,298 | 90,181 |
| Stage 1 | 206,139 | 206,022 | 465,812 | 451,791 | 671,951 | 657,813 |
| Stage 2 > 30 ≤ 90 days | 362 | 362 | - | - | 362 | 362 |
| Stage 2 - Not past due | - | - | - | - | - | - |
| Stage 2 | 362 | 362 | - | - | 362 | 362 |
| Stage 3 | **1,252** | **1,233** | **274,089** | **105,200** | **275,341** | **106,433** |
| Total * | **207,753** | **207,617** | **739,901** | **556,991** | **947,654** | **764,608** |

*The total exposure is represented by ($920,010k gross on balance sheet exposure to customers see note 20 and $27,644k relating to customer off balance sheet exposures see note 25 above).

Comparative data for 31 March 2022 is as below:

| Amount in $ '000 | Retail exposure | | Non-retail exposure | | Total | |
|---|---|---|---|---|---|---|
| | Exposure | Amount Collateralised | Exposure | Amount Collateralised | Exposure | Amount Collateralised |
| Internally rated AAA to A* | 149,842 | 149,842 | 178,950 | 178,950 | 328,792 | 328,792 |
| Internally rated BB to B* | 38,818 | 38,818 | 233,465 | 220,460 | 272,283 | 259,278 |
| Internally rated C&D* | - | - | - | - | - | - |
| Others Exempted Category | 22,099 | 21,836 | 65,681 | 65,673 | 87,780 | 87,509 |
| Stage 1 | 210,759 | 210,496 | 478,096 | 465,083 | 688,855 | 675,579 |
| Stage 2> 30 ≤ 90 days | - | - | 13,088 | 13,088 | 13,088 | 13,088 |
| Stage 2 - Not past due | 565 | 565 | 27,849 | 27,849 | 28,414 | 28,414 |
| Stage 2 | 565 | 565 | 40,937 | 40,937 | 41,502 | 41,502 |
| Stage 3 | 1,614 | 906 | 298,876 | 96,446 | 300,490 | 97,352 |
| Unamortised Fees** | | | | | (3,129) | 0 |
| Total | 212,938 | 211,967 | 817,909 | 602,466 | 1,027,718 | 814,433 |

*Internal ratings based on PNBIL rating model and include loans where internal rating is exempted i.e. loans against deposits/SBLCs etc.
**Prior year restatement relating to unamortised fees of $3,129k has been applied at a summary level.

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

While arriving at the value of collateral:

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

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due nor impaired, we have assessed the significance of the collateral held in relation to the type of lending. While doing so, where corporate or personal guarantees exist, they are not classified as secured exposures. On a case-by-case basis, the guarantees could be relevant as an important risk mitigation measure. The percentage of collateral held in non-bank exposure is as below:

| Percentage of value of collateral to exposure* | Exposure | |
|---|---|---|
| | 2023<br>$'000 | 2022<br>$'000 |
| 100% and above* | 709,235 | 762,757 |
| 76% to 99% | 29,922 | 30,635 |
| 51% to 75% | 2,634 | 855 |
| 26% to 50% | 10,345 | 10,361 |
| 11% to 25% | 29,351 | 28,017 |
| Below 10% | 10,845 | 10,836 |
| Unsecured | 155,322 | 184,257 |
| Total | 947,654 | 1,027,718 |
| Average percentage of availability of collateral** | 94.1% | 95.9% |

*Excluding impact of over-collateralisation.
**Prior year restatement relating to unamortised fees of $3,129k has been applied to the prior year based on collateral exposure weighting.

### Past due but not impaired

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

### Commercially renegotiated

Loans in which renegotiation or refinancing did not qualify as forbearance are classified as commercially renegotiated. This loans are broadly defined as a refinancing or modification in terms and conditions (even if the customer is not facing any financial difficulty).

### Forborne

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

### Non-Performing

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

### Impaired

The Bank regards a loan and advance as impaired if there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset. The table below sets out a reconciliation of changes in the gross amount of impaired loans and advances.

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Impaired loans and advances at 1 April | 259,486 | 308,068 |
| Net repayments in existing impaired loans and advances | (6,654) | 4,060 |
| Written off loans and advances | (19,596) | (50,489) |
| Classified as impaired during the year | - | - |
| Other movements/exchange rate fluctuations | (1,754) | (2,153) |
| Impaired loans and advances at 31 March | **231,482** | **259,486** |

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

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Impaired investments at 1 April | 665 | 2,405 |
| Net addition/(repayments) in existing impaired investments | 130 | (30) |
| Written off investment securities | - | (1,710) |
| Impaired investments at 31 March | 795 | 665 |

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

### Internal ratings/scoring

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

### Derivatives, sale and repurchase agreements

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

## 26] Geographical distribution of credit exposures

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

| Geography | 2023 | | 2022 | |
|---|---|---|---|---|
| | $'000 Amount | $'000 Percentage | $'000 Amount | $'000 Percentage |
| United Kingdom | 680,509 | 64.34% | 745,800 | 68.27% |
| India | 205,115 | 19.39% | 175,766 | 16.09% |
| United States | 72,609 | 6.87% | 54,384 | 4.98% |
| Luxembourg | 39,067 | 3.69% | 39,636 | 3.63% |
| Mauritius | 28,079 | 2.65% | 33,205 | 3.03% |
| Other countries | 32,336 | 3.06% | 43,684 | 4.00% |
| Total | 1,057,715 | 100.00% | 1,092,475 | 100.00% |

*Prior year restatement relating to unamortised fees of $3,129k has been applied to the prior year based on geographical weighting.

## 27] Property, plant and equipment

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Property and plant | Equipment | Total | Property and plant | Equipment | Total |
| **Cost** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 1 April | 2,382 | 5,076 | 7,458 | 2,382 | 4,965 | 7,347 |
| Additions | - | 134 | 134 | - | 111 | 111 |
| Disposals | - | - | - | - | - | - |
| At 31 March | 2,382 | 5,210 | 7,592 | 2,382 | 5,076 | 7,458 |
| **Depreciation** | | | | | | |
| At 1 April | (2,382) | (4,685) | (7,067) | (2,382) | (4,472) | (6,854) |
| Yearly charge | - | (214) | (214) | - | (213) | (213) |
| Disposals | - | - | - | - | - | - |
| At 31 March | (2,382) | (4,899) | (7,281) | (2,382) | (4,685) | (7,067) |
| **Net Book Value** | | | | | | |
| At 1 April | - | 391 | 391 | - | 493 | 493 |
| At 31 March | - | 311 | 311 | - | 391 | 391 |

## 28] Intangible assets

| Software | 2023 | 2022 |
|---|---|---|
| **Cost** | $'000 | $'000 |
| At 1 April | 3,912 | 3,875 |
| Additions | - | 37 |
| At 31 March | 3,912 | 3,912 |
| **Amortisation** | | |
| At 1 April | (3,323) | (2,913) |
| Yearly charge | (359) | (410) |
| At 31 March | (3,682) | (3,323) |
| **Carrying Value** | | |
| At 1 April | 589 | 962 |
| At 31 March | 230 | 589 |

## 29] Deferred tax assets

| Deferred Tax Assets | 2023 | 2022 |
|---|---|---|
| | $'000 | $'000 |
| At 1 April | 25,155 | 24,657 |
| Tax credit/(charge) to profit and loss for the year | (63) | 51 |
| Tax credit/(charge) relating to change in fair value of Investment securities - FVOCI | (102) | 447 |
| At 31 March | 24,990 | 25,155 |

A DTA is assessed and recognised as recoverable on the basis of available evidence including projected profits and capital. The utilisation of a DTA is dependent on future taxable profits. The management makes an assessment of a DTA which is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. DTA is reviewed at each reporting date and adjusted to the extent that it is no longer probable that the related tax benefit will be realised. Accordingly, a DTA of $12.22 million (2022: $13.39 million) in respect of tax losses of $48.88 million (2022: $53.51million) has not been recognised this year. The deferred tax on losses has been recognised on the basis that there is a 50% loss offset restriction effective from 1 April 2017. This restriction therefore extends the time period over which losses could be recovered. The Finance Act 2021 increased the main rate of UK Corporation Tax from 19% to 25%, effective from April 2023.

## 30] Prepayments and other receivable

| | 2023 | 2022 |
|---|---|---|
| | $'000 | $'000 |
| Prepayments | 530 | 380 |
| Other receivables | 3 | 4 |
| **Total prepayments and other receivables** | 533 | 384 |

## 31] Deposits from banks

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Inter bank borrowings | 1,124 | 312 |
| Current accounts from banks | 843 | 605 |
| Overdrafts in Nostro accounts with banks | - | 189 |
| **Total deposits from banks** | **1,967** | **1,106** |

Deposits from banks include deposits from related parties, detail of which is given in note 40 to the financial statements. At 31 March 2023 Nil (2022: Nil) deposits from banks are expected to be settled more than twelve months after the reporting date.

## 32] Deposits from customers

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Current accounts | 117,592 | 131,983 |
| Savings accounts | 85,568 | 115,389 |
| Fixed term deposits | 613,476 | 610,701 |
| **Total deposits from customers** | **816,636** | **858,073** |

Deposits from customers includes deposits from a related party, detail of which is given in note 40 to the financial statements. At 31 March 2023 $134.57 million (2022: $148.75 million) of deposits from customers are expected to be settled more than twelve months after the reporting date.

## 33] Subordinated bonds and other borrowed funds

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Subordinated bonds | 50,000 | 50,000 |

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

| | Tier II Capital Bonds | Tier II Capital Bonds | Tier II Capital Bonds | Tier II Capital Bonds | Tier II Capital Bonds |
|---|---|---|---|---|---|
| Issuer | Punjab National Bank (International) Ltd. | Punjab National Bank (International) Ltd. | Punjab National Bank (International) Ltd. | Punjab National Bank (International) Ltd. | Punjab National Bank (International) Ltd. |
| Face value | US$ 12.5 million | US$ 12.5 million | US$ 10.0 million | US$ 5.0 million | US$ 10.0 million |
| Original date of issuance | 31.01.2022 | 04.10.2022 | 30.12.2015 | 23.12.2013 | 19.08.2014 |
| Original maturity date | 10 Years | 10 Years | 10 Years | 15 Years | 10 Years |
| Coupon rate & related index | 6M SOFR + 400 bps | 6M SOFR + 400 bps | 6M LIBOR + 450 bps | 6M LIBOR + 450 bps | 6M LIBOR + 450 bps |

At 31 March 2023 $50 million (2022: $37.50 million) of subordinated bonds are expected to be settled more than twelve months after the reporting date.

## 34] Other liabilities

A prior year restatement of $3,129k has been applied to deferred income. The amount was reclassified against loans and advances in line with IFRS 9 requirements in relation to measurement of loans and advances held at amortised cost. The restatement was applied as the accounting treatment had been embedded into the current year accounting practice and the restatement ensures alignment.

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Bills payable | 212 | 98 |
| Other payables and accrued liabilities | 1,351 | 2,087 |
| Deferred income | 9 | - |
| **Total other liabilities** | 1,572 | 2,185 |

## 35] Share capital

### Authorised share capital

Authorised share capital for the Bank is $400 million.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | No. (000's) | $'000 | No. (000's) | $'000 |
| **Issued and fully paid** | | | | |
| At start of year | | | | |
| Ordinary shares of £1 each:* | | | | |
| Ordinary shares of $1 each: | 274,631 | 274,631 | 274,631 | 274,631 |
| At end of year | 274,631 | 274,631 | 274,631 | 274,631 |
| **Additional Tier 1 Capital**** | | | | |
| At start of year | | 45,000 | | 45,000 |
| At end of year | | 45,000 | | 45,000 |
| **Total Share Capital at end of the year** | 274,631 | 319,631* | 274,631 | 319,631* |

*There are two shares issued in £ sterling not displayed here due to presentation in $000's
**Included within the share capital are two additional Tier 1 bonds issued as perpetual floating rate subordinated notes mentioned below:

i. $25 million issued on 16 February 2017.
ii. $20 million issued on 31 March 2017.

All ordinary shares issued are non-redeemable ordinary shares conferring on each member the right to one vote on a show of hands and one vote per share on a poll and with full, equal and unfettered rights to participate in dividends and capital distributions, whether on a winding up or otherwise.

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

## 36] Fair value reserve

| 31 March 2023 | Gross $'000 | Tax $'000 | Net $'000 |
|---|---|---|---|
| Balance at 1 April 2022 | (1,724) | 431 | (1,293) |
| Amount transferred to statement of profit or loss | 488 | (93) | 395 |
| Movement in FVOCI reserve in year | (79) | (9) | (88) |
| Balance at 31 March 2023 | (1,315) | 329 | (986) |

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

## 37] Right of use assets and lease liabilities

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

| Right of use assets | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Balance at 1 April 2022 | 3,073 | 4,066 |
| Addition of right of use assets during the year | 2,307 | - |
| Depreciation charge during the year | (774) | (845) |
| Exchange rate differences | (211) | (148) |
| Balance at 31 March 2023 | 4,395 | 3,073 |

### Lease liabilities

The total cash outflow of lease liabilities was $0.91 million (2022: $0.94 million). The amounts contractually due on lease liabilities is shown below:

| Maturity Analysis – contractual cash flows | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Within 1 year | 868 | 411 |
| Between 1 and 5 years | 2,551 | 1,337 |
| Later than 5 years | 1,779 | 2,161 |
| Less: Present value discount | (676) | (704) |
| Total lease liabilities at 31 March 2023 | 4,522 | 3,205 |
| **Amounts recognised in income statement** | | |
| Interest on lease liabilities | 140 | 116 |

## 38] Other commitments and contingencies

Commitments in respect of financial instruments were as follows:

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Guarantees issued to third parties | 1,286 | 1,389 |

There were undrawn loans of $4.89 million (2022: $26.85 million) and un-availed portions of sanctioned overdraft limits to the extent of $21.47 million (2022: $25.43 million) as at 31 March 2023.

## 39] Parent undertaking and controlling party

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

## 40] Related party transactions

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

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

Liabilities and assets outstanding to the related parties on the balance sheet of the Bank as on 31 March 2023 are as below:

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| **Liabilities** | | |
| Current accounts with PNB | 518 | 525 |
| Current account with PNB Dubai Branch | 5 | 1 |
| Current account with Druk PNB Bank Ltd. | 320 | 79 |
| Current account with one director | 17 | 6 |
| **Assets** | | |
| Nostro account balance with PNB | 630 | 779 |
| Nostro account balance with Everest Bank Ltd. | 13 | 15 |

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

| Nature | Particulars | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Payments: | | | |
| A. Professional Fee | Charges for Service Level Agreement (SLA)* | 344 | 206 |
| B. Interest Paid on | Borrowings | - | - |
| C. Interest Paid on Capital Bonds | Additional Tier I Capital Bonds $45.00 million | 3,578 | 2,367 |
| | Tier II Capital Bonds $12.50 million | 878 | 531 |
| | Tier II Capital Bonds $12.50 million | 865 | 543 |
| | Tier II Capital Bonds $10.00 million | 743 | 480 |

*These charges were levied by PNB, for support services provided during the year. The services provided include IT hosting, maintenance and support services to PNBIL and are backed by an SLA.

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

### Transactions with Directors

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

## 41] Market Risk

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

The total notional amount of outstanding currency exchange contracts to which the Bank is committed is $27.28 million (2022: $78.42 million).

The open position of the Bank is as below:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| Currency | Open Position '000 | $ Equivalent $'000 | Open Position '000 | $ Equivalent $'000 |
| Indian Rupees | 51,997 | 633 | 59,318 | 782 |
| Pound Sterling | (9,033) | (11,166) | (7,834) | (10,311) |
| Euro | 5,208 | 5,658 | 5,233 | 5818 |
| Nepalese Rupees | 1,765 | 13 | 1,765 | 15 |
| **Net Long Position in US $** | | - | | - |
| **Net Short Position in US $** | | **4,862** | | **3,696** |

Upward or downward movement of exchange rates by 10% may impact profitability of the Bank by $0.61 million (2022: $0.37 million).

The value of Investment securities - FVTPL as at 31 March 2023 is nil (2021: $10.00 million). An upward or downward movement of prices of investment securities - FVTPL by 10% may impact profitability of the Bank by nil (2022: $1.00 million).

Prior year open currency position in Pound Sterling and Euro were reported incorrectly as (13,570) and 6,468 respectively the US Dollar equivalent were reported correctly. The items have been restated in the note.

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

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

The potential loss on account of upward movement of interest rates by 2% based on exposure as at 31 March 2023 is $3.1 million (2022: $0.29 million).

#### Interest Rate benchmark Reform ('IBOR')

The LIBOR transition plan for the Bank's subordinated bonds and additional Tier 1 capital has almost completed. During the year, one of the Bank's subordinated bonds denominated in USD LIBOR was renewed using an alternative reference rate. Another one was also renewed in 2021-22 using the same alternative reference rate. The remaining capital bonds in USD LIBOR will be transitioned to an alternative reference rate before 30 June 2023.

All financial assets have now been transitioned from LIBOR.

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

| As at 31 March 2023 | USD LIBOR |
|---|---|
| **Financial liabilities** | **$'000** |
| Subordinated bonds | 25,000 |
| **Equity** | |
| Additional Tier 1 capital | 45,000 |

### 43] Liquidity and funding risk

Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due. The Bank has a Board approved ILAAP in place, in line with the guidelines issued by the PRA. The Bank has a system in place to monitor total contractual inflow and outflow and to manage the gap within pre-stipulated limits prescribed by the Board and/or the regulator. Liquidity monitoring mechanism supplemented by regular liquidity stress testing gives sufficient advance signals for envisaging liquidity requirements. The ALCO is primarily responsible for overseeing the implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis. The following table shows the cash flows on the Bank's derivative and non-derivative financial assets and financial liabilities into relevant maturity buckets based on the remaining period:

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Non-derivative financial assets** | | |
| On Demand | 256,478 | 203,563 |
| Due within 3 months | 140,671 | 116,149 |
| Due between 3 to 12 months | 217,263 | 202,731 |
| Due between 1 to 5 years | 407,908 | 461,907 |
| Due after 5 years* | 243,574 | 357,300 |
| Total | 1,265,894 | 1,341,650 |
| **Non-derivative financial liabilities** | | |
| On Demand | 204,003 | 247,977 |
| Due within 3 months | 156,487 | 138,143 |
| Due between 3 to 12 months | 321,295 | 336,073 |
| Due between 1 to 5 years | 149,142 | 170,940 |
| Due after 5 years | 42,875 | 19,955 |
| Total | 873,802 | 913,088 |
| **Derivative financial assets** | | |
| On Demand | - | - |
| Due within 3 months | 17 | 761 |
| Due between 3 to 12 months | - | 329 |
| Due between 1 to 5 years | - | - |
| Due after 5 years | - | - |
| Total | 17 | 1,090 |
| **Derivative financial liabilities** | | |
| On Demand | - | - |
| Due within 3 months | 119 | - |
| Due between 3 to 12 months | - | 270 |
| Due between 1 to 5 years | - | - |
| Due after 5 years | - | - |
| Total | 119 | 270 |

*Prior year restatement relating to unamortised fees of $3,129k has been applied to the non derivative financial assets "Due between 1 to 5 years", this is where the signifcant proportion of the loan portfolio matures.

## 44] Capital management (Unaudited)

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

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

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

| Tier | Component | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Core Tier I Capital** | • Permanent share capital | 274,631 | 274,631 |
| | • Profit and loss account and other reserves | (105,316) | (110,072) |
| | • FVOCI reserve | (986) | (1,293) |
| | • IFRS 9 transitional adjustment | 523 | 1,047 |
| | | 168,852 | 164,313 |
| **Additional Tier I** | • Additional Tier 1 capital | 45,000 | 45,000 |
| Adjustments | • Intangible Assets | (230) | (589) |
| | • Deferred tax assets | (24,990) | (25,155) |
| | • Due to prudential filters | (559) | (665) |
| **Total Tier I Capital** | | 188,073 | 182,904 |
| **Tier II Capital** | | | |
| | • Long term dated subordinated bonds | 50,000 | 50,000 |
| | | 50,000 | 50,000 |
| Deductions from Tier II | • Amortisation of dated Tier II capital, maturing within five years | (11,720) | (18,942) |
| **Total Tier II Capital** | | 38,280 | 31,058 |
| **Total Capital** | | 226,353 | 213,962 |

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

## 45] Events after the balance sheet date

There have been no reportable events after the balance sheet date outside of those disclosed and considered in the financial statements.

## 46] Country-by-country reporting for the year ended 31 March 2023

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

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

Information disclosed below contains details of corporate income tax paid and received; however, the Bank incurs a range of other taxes which do not form part of this disclosure, including withholding taxes, UK Bank Levy, social security and VAT. If these taxes had been disclosed this would have significantly increased the value of taxes paid by PNBIL during the year ended 31 March 2023.

| Country | Turnover | Profit before tax | Corporate income tax (paid)/received | Full time equivalent number of employees |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | |
| United Kingdom | 39,050 | 8,428 | (32) | 181 |

Balances disclosed above are rounded to the nearest $000's with respect to turnover, profit before tax and corporate income tax received. Country location under which an entity's activity is reported is primarily based on the country of incorporation/legal registration and on other factors such as the tax residence. In most cases all of these factors are consistent; however, where they differ the tax residence of an entity has been used as the determining factor in classifying activities.

Turnover is defined as 'net gains on financial instruments classified as FVTPL', 'net gains on investment securities - FVOCI', 'interest income' net of 'interest expense' and 'other income'. Profit before tax represents Accounting profits under UK-adopted International Accounting Standards. Corporate income tax received details the value of corporate income tax received on a cash basis. Full time equivalent number of employees is the average full time equivalent number of employees for the year legally employed by by the Bank, including staff of back office.