Company Registration number: 07653660

Union Bank of India (UK) Ltd

ANNUAL ACCOUNTS

For the year ended on 31 March 2019

Glossary

Notation	Description
AFS	Available for Sale
ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
CCF	Credit Conversion Factor
CET	Common Equity Tier
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulations
DPD	Days Past Due
DPO	Data Protection Officer
ECL	Expected Credit Loss
EMC	Executive Management Committee
FCA	Financial Conduct Authority
F-IRB	Foundation Internal Rating Based Approach
FSCS	Financial Services Compensation Scheme
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit and Loss
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GSII	Globally Systemically Important Institutions
HFT	Held For Trading
HQLA	High Quality Liquid Asset
HTM	Held to Maturity
IAS	International Accounting Standard
IASB	International Accounting Standard Board
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
IT	Information Technology
LGD	Loss Given Default
MI	Management Information
MLRO	Money Laundering Reporting Officer
NPV	Net Present Value
OCI	Other Comprehensive Income
OECD	Organisation for Economic Co-operation and Development
PD	Probability of Default
PRA	Prudential Regulation Authority
PSD	Payment Service Directive
RCC	Risk and Compliance Committee
ROU	Right of Use
S&P	Standard & Poor
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest

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FOR THE YEAR ENDED 31 MARCH 2019

Union Bank of India (UK) Ltd

Company Registration Number	**07653660**
The Board of Directors	**Mr. Rajkiran Rai G.** Chairman **Mr. Raj Kamal Verma** Nominee Director (Resigned on 28/02/2019) **Mr. Viswesvaran Radhakrishnan** Managing Director & CEO (Appointed on 26/04/2018) **Mr. Brajeshwar Sharma** Managing Director & CEO (Resigned on 01/05/2018) **Dr Anand Kumar** Executive Director & Dy. CEO **Mr. John Kerr** Non-Executive Director **Mr. Patrick Joseph Quinn** Non-Executive Director
Registered Office	Senator House 85 Queen Victoria Street London EC4V 4AB
Statutory Auditor	**Deloitte LLP** 2 New Street Square London EC4A 3BZ

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2019. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union.

Union Bank of India (UK) Ltd (the Bank) is a wholly owned subsidiary of Union Bank of India, one of the leading public-sector banks in India.

Principal activity and Business review

The Bank received permission to function as a Bank from the Prudential Regulation Authority (PRA) on 6 September 2013 and commenced its commercial operations on 10 July 2014. The Bank is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA)

The Bank offers a range of financial products to its customers covering retail, corporate and commercial banking along with trade finance and treasury services.

Key Risks associated with current Business model are discussed in Strategic report and Risk Review (Note no 29)

Proposed initiative

During the year 2019-20, the Bank is working on following propositions:

- Shifting the risk weighted assets from high risk to low and medium risk category;
- Creating new products and facilities to cater to the need of existing and potential customers.

Going concern

The Financial Statements are prepared on a going concern basis. The Bank has adequate resources to continue its operations for the foreseeable future along with strong support from the parent Bank in the form of capital and operations.

The Bank has considered its resilience in the face of stress, prominent events such as the UK's decision to leave the EU and known challenges such as significant increase in Impaired Assets. In making the said assessment, the Bank has considered relevant information for the future, which was at least, but not limited to, 12 months from the reporting date.

During going concern assessments, information considered includes; financial projections, estimated capital, funding, liquidity requirements, development of products, contingent liabilities, and probable economic and market outlook. The Bank monitors stress testing results as part of the adherence to the parameters mentioned in ICAAP, ILAAP, Risk Appetite and Risk Management Framework.

Capital structure

The Bank has maintained adequate capital base considering the current minimum requirements of the PRA.

The issued and paid up share capital as of 31 March 2018 was $90m and £2 and there was further capital infusion of $10m during the financial year, making the total issued and paid up share capital as at 31 March 2019 of $100m and £2. One hundred percent shares of the Bank are held by Union Bank of India, the parent Bank.

Political donations

During the year the Bank did not make any political donations (2018: Nil).

Directors

The Directors who served during the year and to the date of signing the financial statements, are listed on page 2.

Directors' indemnities

Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

Directors' and Officers' Liability insurance covers defence costs for the Directors in certain circumstances. All the Directors were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third party liabilities that they may incur as a result of their service by being on the Board of Union Bank of India (UK) Ltd. All Directors' indemnities were in place during the year and it would remain in force.

Statement as to disclosure of information to the auditor

Each of the persons who is a Director on the date of approval of this annual report confirm that:

- So far as the Directors are aware, there is no relevant audit information of which the Bank's Auditor is unaware of;
- The Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to ensure that the Bank's Auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

There was no change in the Auditor of the Bank for the year ended 31 March 2019.

Deloitte LLP are the Statutory Auditor of the Bank, and they have expressed their willingness to continue as Auditor of the Bank.

General Meeting

In accordance with the Companies Act 2006, the Bank is not required to hold an Annual General Meeting (AGM).

Dividends

The Directors do not recommend the payment of a dividend this financial year (2018: Nil).

Events after Balance Sheet date

The Directors are not aware of any reportable event after the Balance Sheet date.

This report was approved by the Board on 3rd May 2019 and signed on its behalf by:

Viswesvaran Radhakrishnan
Managing Director & CEO

Registered office:
Senator House
85 Queen Victoria Street
London - EC4V 4AB

The Directors have pleasure in presenting the Strategic Report and the financial statements for Union Bank of India (UK) Ltd. for the year ended 31 March 2019.

Business model

The Bank is a UK incorporated Bank authorised by the PRA and regulated by the FCA and the PRA.

The Bank's focus is to build a sustainable business model with a strong and robust corporate governance and control environment. The Bank offers a simple range of products to its customers covering retail, corporate and commercial banking, trade finance and treasury services.

The Bank offers retail and commercial banking services, with the focus of the commercial banking services on corporate and small- and medium-enterprise ("SME") markets in UK. One of the other key business lines that the Bank focuses is the funding requirements of Indian linked corporates, leveraging off Union Bank's strength as a leading provider of corporate funding to Indian corporates.

Continuing with the current funding structure, Bank manages its funding mainly through a combination of wholesale (corporate) deposits and retail deposits.

Primary objectives

The Bank's primary objectives are:

- Finance the overseas business needs of Indian diaspora in the UK / Overseas,
- Attract retail depositors by extending market competitive interest rates,
- Excel in customer service through operational excellence,
- Hold adequate Capital and sufficient Liquidity through robust governance and control,
- Conduct its Business by complying with the regulatory expectation,
- Maximise the Risk adjusted return on Capital by optimum utilization of resources.

Review of the business

The Bank commenced its commercial operations in July 2014. The Bank has set up robust systems, procedures and policies for prudent management of its business and its associated risks. The business strategy of the Bank has been mainly driven by the increased globalisation of the Indian economy, the growing trend of Indian corporates expanding overseas, the large population of Non-Resident Indians (NRI), persons of Indian origin across the globe and also overseas companies looking to invest in India.

The purpose of the Strategic Report is to provide information for shareholders and help them to assess how the directors have performed their duty under Section 172 of the Companies Act 2006, the key objective of which is to promote the success of the bank. In doing so, the bank has regarded to a series of factors listed in the section, which refer to the promotion of economic, social and governance factors, taking other stakeholders into account.

Income statement review

	2019 USD '000	2018 USD '000
Net interest income	13,348	11,062
Non-interest income	211	1,171
Operating expenses	(5,013)	(3,921)
Impairment loss allowances	(25,181)	(1,930)
Profit/(loss) before tax	(16,635)	6,382
Profit/(loss) after tax	(13,696)	5,168

By income statement review, movements compared to previous financial year were:

- Loss during the year was $13.7m, mainly due to increase in Impairment loss allowance on defaulted assets
- Non-interest income was down 80%, mainly due to reduction in profits/gains on sale of investments & fees and commission income.

Income statement review (continued)

- Operating expenses before impairment allowances were up 28% due to:
  - Increase in personnel costs by 13% and
  - IT, regulatory compliance and legal & professional costs increased by 55%.

  These expenses are normal considering the Business growth
- During the year, impairment loss allowance of $25.2m was recognised due to increase in defaulted assets by $47.0m.

  The Bank has adopted IFRS 9 with effect from 1st April 2018. "Incurred loss Model" was used to calculate Impairment Loss (as per IAS39) and with adoption of IFRS 9, "Expected Credit loss" (ECL) model has been used
- Tax credit of $2.9m recognised during the year (2018: $1.21m) due to losses

Balance sheet review

Assets	**2019**	**2018**
	USD '000	**USD '000**
Loans and advances to customers	302,055	336,818
Loans and advances to banks	26,337	-
Financial Investments	115,507	98,004

- Loans and advances to customers fell by 10% to $302.1m (2018: $336.8m) due to a conscious decision taken by the board to consolidate at the existing level.
- Loans and advances to banks has increased to $26.3m at 31 March 2019 (2018: Nil).
- Investment portfolio increased by 18% to $115.5m (2018: $98m), with planned increase in investment in HQLA for better liquidity management.

Liabilities	**2019**	**2018**
	USD '000	**USD '000**
Deposits from banks (including intragroup & Repo)	120,277	127,650
Deposits from customers	239,778	215,566
Equity	93,317	94,591

- Deposits from banks are maintained at $120.3m at 31 March 2019 (2018: $127.7m) to fund the interest earning assets and to focus on medium to long term deposits to make overall funding stable.
- Deposits from customers have grown by 11% to $239.8m at 31 March 2019 (2018: $215.6m) as the bank is focused on originating and retaining retail deposit accounts. The deposits as of Mar'19 consists of 58% as Retail and 42% as Wholesale Deposit.
- Total shareholders' equity reduced to $93.3m at 31 March 2019 (2018: $94.6m), due to the loss reported during the financial year by the bank owing to increased provision on the new default accounts and was partially offset by the infusion of additional capital of $10m equity shares by the Parent Bank.

Outlook (Source - World Economic Outlook report from International Monitory Fund)

Macro Environment:

The global economy has continued to expand, but third-quarter growth of 2018 has disappointed some economies. Idiosyncratic factors (new fuel emission standard in Germany, natural disasters in Japan) weighed on activity in large economies. But these developments occurred against a backdrop of weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook. Global growth for 2019 is estimated at 3.5% and for 3.6% in 2020 as compared to 3.7% for 2018, as per the January 2019 World Economic Outlook (WEO) update, despite weaker performance in some economies, notably Europe and Asia.

Growth in emerging and developing Asia is projected to dip from 6.5% in 2018 to 6.3% in 2019 and 6.4% in 2020. India's economy is poised to pick up in 2019, on strengthening investments and robust private consumption, as inflation pressures ease.

Outlook (Continued)

UK Macro Environment:

Economic growth is projected to increase slightly in 2019 before slowing in 2020, on the assumption that there is a smooth exit from the European Union. An expansionary fiscal stance and a slow recovery in exports are expected to support growth, while the monetary stimulus will be gradually withdrawn. Inflation is projected to converge to 2% by the end of 2020.

With inflation above target and large uncertainties remaining, monetary policy should normalise at a very gradual pace. The fiscal impulse is expected to peak in 2019. Economically, the preferred Brexit option should be to forge an agreement that will ensure the closest possible trading relationship with the European Union and complete access for financial services to overseas markets. Temporary measures will be needed to cushion the economy and support displaced workers in the event of a no-deal exit.

GDP growth has eased to 1.4% in 2018. The depreciation of Sterling has increased input costs and led to pressures on corporate margins and private sector wages. Economic activity is likely to grow at just above 1% in 2018-19. The major risk for the economy is the uncertainty surrounding the exit process from the European Union, which could hold back private spending more than forecast.

Geographical Macro Environment:

GDP in Emerging Asia is estimated to grow by an annual average of 6.1% in 2019-23, based on the OECD Development Centre's medium Term Projection Framework (MPF-2019).

For India, the Economic growth is forecasted to slow somewhat but remain robust, at close to 7.5% in 2019 and 7.7% for 2020. Higher oil prices and the rupee depreciation are putting pressure on demand, inflation, the current account and public finances. However, business investment and exports will be strong, past structural reforms – including the new Insolvency and Bankruptcy Code, smoother implementation of the Goods and Services Tax (GST), better roads, electricity, ports and recapitalisation of the public sector Banks – are paying off the expected dividend to the Indian economy. Further, during the ensuing financial year 2019-20 General elections will be held, which will also decide the future growth path and financial plans.

Growth in the Middle East, North Africa, Afghanistan, and Pakistan region is expected to remain subdued at 2.4 percent in 2019 before recovering to about 3 percent in 2020. Multiple factors weigh on the region's outlook, including weak oil output growth, which offsets an expected pickup in non-oil activity (Saudi Arabia); tightening fiscal conditions (Pakistan); US Sanctions (Iran), and across several economies, geopolitical tensions.

In Sub-Saharan Africa; growth is expected to pick up from 2.9 percent in 2018 to 3.5 percent in 2019, and 3.6 percent in 2020. For both years the projection is 0.3 percentage point lower than last October's projection, as softening oil prices have caused downward revisions for Angola and Nigeria. The headline numbers for the region mark significant variation in performance, with over one-third of sub-Saharan economies expected to grow above 5 percent in 2019-20.

In Euro Area , growth is set to moderate from 1.8 percent in 2018 to 1.6 percent in 2019 and 1.7 percent in 2020. Growth rates have been marked down for many economies, notably Germany, Italy and France. The growth in emerging and developing Europe in 2019 is now expected to weaken more than previously anticipated, to 0.7 percent (from 3.8 percent in 2018) despite generally buoyant growth in Central and Eastern Europe, before recovering to 2.4 percent in 2020.

Forward looking

The UK is scheduled to leave the EU during 2019. However, the bank's projections and business plan is broadly based on the parent bank's strategy and global outlook, therefore the bank is not much affected by the Brexit outcome and UK separation from EU without deal.

Brexit Impact - As the Bank does not have any branch or business operations outside UK, change in passporting rights would not have any direct impact on Bank's operations. Bank expects to continue to operate as per plan, without bringing any material change in the business model.

Forward looking (continued)
There is substantial uncertainty around the baseline projection of about 1.5 percent growth in the United Kingdom in 2019-20. The unchanged projection reflects the offsetting negative impact of prolonged uncertainty about the Brexit outcome and the positive impact from fiscal stimulus announced in the 2019 budget. This baseline projection assumes that a Brexit deal is reached and the UK transitions gradually to the new regime.

Uncertain economic environment
UK economic growth was lower in 2018, compared to 2017, as uncertainty over Brexit adversely impacted upon business confidence, with industry investment plans being delayed. Unemployment remains low and average weekly earnings have continued to trend higher since early 2017. Arrears remain at historically low levels, with good credit quality being maintained across the lending portfolios, supported by prudent approach to lending.
Some normalisation from these cyclically low levels could arise over the medium term, should the credit cycle reach a turning point. Regulatory bodies have cited potential emerging risks to the global financial system from leveraged loans in the Corporate Debt markets, contagion from high levels of non-performing loans in the Eurozone, and a general repricing of risk premia in the markets. Wholesale funding costs for banks have increased as long-term funding spreads widened in 2018 due to the pace and scale of banks' debt issuance.

Retail Banking
The Bank offers personal current accounts, personal savings accounts, business current accounts, fixed deposits and service for remittance to India. The Bank also facilitates Non-Resident Indian customers, based in the UK, for their India-related banking facilities.

Corporate and Commercial Banking
The Bank's corporate business aims to provide products and services to enhance trade and investment between the UK and other countries, including India. The Bank is looking to expand its product range, developing and deepening existing relationships and acquiring new ones, while minimising risk by remaining focused on its core competencies.

Treasury
The Treasury Function focuses on managing the funding, market and liquidity risks of the Bank. The Bank complies with and maintains a Liquidity Coverage Ratio (LCR) in line with the Individual Liquidity Guidance (ILG) stipulated by the PRA. The Bank also maintains an investment portfolio of Corporate Bonds. Both HQLA and Corporate Bonds are classified in line with the investment policy of the Bank, at the time of acquiring the investment. The Bank reviews the asset/liability maturity mismatches on an ongoing basis and maintains liquidity gaps within prescribed limits, which are monitored by the Asset and Liability Committee (ALCO) of the Bank.

The Bank is able to access wholesale borrowings from the market and has been able to raise bilateral loans and borrowings at a competitive cost by leveraging on the existing relationships of Union Bank of India. Going further The Bank is planning to slowly part-off the high risk weighted assets from the balance sheet and looking for opportunity to on-board low / medium risk weighted assets.

Corporate Governance
Good governance is critical to deliver a sound and well managed business. At the centre of good governance is an effective Board which takes the first responsibility for maintaining the safety and soundness of the Bank.

The Bank places a strong emphasis on internal governance and maintenance of high ethical standards in its working practices.

The Bank's corporate governance is driven by the Board which comprises of two Executive Directors, two Non-Executive Directors representing the shareholder and two independent UK based Non-Executive Directors and the Board meets quarterly. All the Directors have considerable banking and regulatory experience gained at a senior level within leading financial institutions.

Corporate Governance (continued)

The Board has the collective responsibility for promoting the long-term success of the Bank. While the Executive Directors have direct responsibility for business operations, the Non-Executive Directors are responsible for bringing independent judgement and to analyse the decisions taken by the Executive Directors.

The Bank follows the industry standard approach of "Three Lines of Defence" comprising:

- Operational controls as set out in functional and departmental procedures, manuals
- Oversight, monitoring and periodic reporting by the Bank's control functions and
- Internal Audit

Responsibility for overseeing the risk and compliance framework of the Bank is devolved to the following three Board level committees.

a) Risk and Compliance Committee (RCC) meets quarterly, consisting of two independent UK based Non-Executive Directors, (one of whom acts as Chair), the two Executive Directors.

b) Audit Committee of the Board (ACB) meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as Chair).

c) Management Committee of the Board (MCB) meets quarterly, consisting of two independent UK based Non-Executive Directors and the two Executive Directors (CEO acts as Chair).

Anti-Money Laundering (AML) & Compliance

The Bank maintains an independent Compliance & MLRO Function, which ensures that the business is conducted in compliance with all regulatory requirements.

The Bank's Compliance Function is responsible for ensuring that adequate policies and procedures are in place to ensure that the Bank and its employees are compliant with the legal and regulatory obligations in respect of both AML and Conduct of Business. Such policies and procedures are designed to detect and minimise any risk of failure by the Bank to comply with its regulatory obligations, and any associated risks.

Internal Audit

The Internal Audit function is the third line of defence and is independent of operations. It is responsible for reviewing all business lines and support functions such as Risk Management, Compliance and IT within the Bank. Internal Audit provides independent assurance that the Bank's policies and procedures have been implemented effectively and there are adequate controls and processes are in place to mitigate risks.

Risk management framework

The Bank has developed a risk management framework, including granular articulation of risk appetite, to ensure that the key risks are clearly identified, understood, measured, monitored and mitigated. The Bank is primarily exposed to credit risk, market risk, liquidity risk and operational risk including cyber risk.

The Bank's risk appetite has been developed and articulated within the broader context considering the nature, scope, scale and complexity of the Bank's activities as per the business plan. The framework has been based on quantitative parameters such as liquidity and capital, as well as qualitative parameters such as reputation risk and conduct risk.

Risk appetite statement is approved by the Board of the Bank. These are developed as part of the planning and budgeting process to ensure that the Bank's business plans are achievable within its capital and liquidity resources. Both Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP) are subject to periodic review and update in response to material changes to the business or regulatory environment.

Risk management framework (continued)

The ILAAP and the ICAAP are reviewed by the PRA, which advises the Individual Liquidity Guidance (ILG) and Individual Capital Guidance (ICG) for the Bank. The Bank aims to comply with the ILG and ICG at all times.

Brexit

Bank considers Brexit-related risks to be manageable. However, given the ongoing uncertainty, the Bank has continued to focus on the refinement of the Brexit related contingency plans and also separately on actions that Bank would take, in the event of a no-deal Brexit. In such a scenario, the Bank could experience increased levels of activity, as customers seek to deal with changes in their financial circumstances. The Bank's planning has included testing the operational readiness to ensure that the Bank can continue to operate effectively in the event of this heightened activity. The Bank has also undertaken stress tests to ensure the its remains financially resilient, in the event of an economic shock following Brexit.

Financial crime

Aligned with the evolving regulatory environment in the UK, the Bank continues to upgrade its Financial Crime control framework. A centralised programme with direct oversight and governance has been established, including review by Risk and Compliance Committee (RCC). The Bank has enhanced systems and controls to aid compliance with its legal and regulatory obligations.

Cyber-attacks

In 2018, threats from the external cyber environment continued to evolve, due to heightened geo-political tension, and active well-established cyber-crime groups. There were also high profile incidents during the year impacting airlines, social media services, NHS services, and other UK banks. Specific mitigants implemented in Cyber Security Plans are currently proving effective and the Bank has not experienced any significant disruption to date. Bank is continuously improvising the controls in the system and processes to withstand the ever increasing cyber threat as it remains vigilant about such impending threat.

Building and maintaining capital strength

Decisions made by regulators on the implementation and interpretation of capital rules and on macro-prudential issues can impact the capital management, such as adjustments to the countercyclical capital buffer. The bank continuously reviews its capital position on a forward-looking basis, and it is also subject to the Bank of England's Stress Testing Regime.

Credit Risk

The risk of loss due to the default or credit quality deterioration of a customer or counterparty to which the Bank has provided credit, or for which the Bank has assumed a financial obligation. Credit risk is explained in detail in notes to accounts (Note no 29)

The Bank has the following committees of executives:

- Asset and Liability Committee (ALCO)
- Credit Committee (CC)
- Executive Management Committee (EMC)
- Investment Committee (IC)
- IT and Operations Committee (ITOC)

The minutes of the committee meetings are placed before the Risk & Compliance Committee of the Board for review and discussion.

Details of the Bank's risk management objectives and policies, including those in respect of financial instruments, and details of the Bank's indicative exposure to risks are given in Note 29.

Internal control and financial reporting

The Directors are responsible for establishing effective internal control in the Bank and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or misappropriation, for maintaining proper accounting records and for reliability of financial information used within the business and for publication.

Such procedures are designed to contain and manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against material misstatement, errors, losses or fraud. Policy and procedures that the Directors have established are designed to provide effective internal control within the Bank.

The Directors and Senior Management of the Bank have adopted policies which set out the Board's approach and approval to risk management and internal controls. Significant risks identified in connection with the development of new activities are subject to consideration by the Board, while the risks of new products are reviewed by the RCC, which recommends to the Board for approval.

The effectiveness of the internal control system is reviewed regularly by the Board, RCC and the Audit Committee.

General Data Protection Regulation (GDPR)

The Bank has successfully implemented the expansion of Data Protection Act known as General Data Protection Regulation (GDPR) in May 2018. This requires 'Privacy by Design and Protection by Default' with regards to data protection throughout the Bank.

Bank had commenced preparation in the month of Jan 2018 and that initial awareness workshops had been organized along with staff training sessions. The project team has performed GAP Analysis, created Data flow maps, registers, processes, performed Data Protection Impact Assessments and also have in place Privacy statement and other policies with regard to Data Protection.

Bank has a designated Data Protection Officer (DPO) in the UK and also a local DPO in India to take care of any GDPR related issues for UK office raised in India. All areas of customer information are monitored by DPO and Regular MI is provided to the Management in the Executive Management Committee.

Ongoing training is being provided to staff with regards to the GDPR and data protection.

Modem Slavery and Human Trafficking

The Bank has zero tolerance approach to modern slavery in the organisation and its supply chains. Bank will not knowingly support or conduct business with any commercial organisation involved in such activities. The Bank relies on third party vendors to provide services and products. Bank expects all of its goods and services suppliers to act in a responsible, open, and ethical way. Bank considers the prevention, detection and reporting of modern slavery in any part of our organisation or supply chain as the responsibility of all those working for and its behalf.

The Bank generally does not consider a high risk of slavery or human trafficking occurring in its supply chain. However, Bank operate a risk-based approach in reviewing suppliers who may carry a higher risk in this respect. Bank has developed an enhanced supplier and third-party management framework including a Procurement policy which will include affirmation of Bank's commitment to combatting slavery and human trafficking in its supply chain.

The Bank emphasis on Third Party Supplier Risk happens through regular assessment, which is finally reviewed by Executive Management Committee and Risk and Compliance Committee.

Regulatory environment

The Capital Requirements Regulations (CRR) in place include implementing technical standards for reporting i.e. the guidance, templates, technical standards and validation required for reporting to supervisors.

The Bank is aware that the regulations contain a provision that sets out the scope, frequency and remit for Capital Requirements Directive IV (CRD IV) reporting. The reporting documents have been developed by the European Banking Authority (EBA).

The Bank operates in a highly regulated environment and is therefore subject to regulatory risk. The changes to the regulations are made frequently, however the Banks' financial control and risk management functions ensure that the Bank is compliant with the rules.

The Bank continues to face a complex regulatory change agenda, with key projects due for delivery across 2019 and 2020 including Payment Service Directive-II (PSD-II). The Bank develops appropriate controls and processes in order to be compliant.

Capital Requirements Directive

The Bank is subject to the CRD IV framework, which implements capital requirements in the revised European Union Basel III framework. The Bank complies with the capital requirements of CRR and CRD IV (Basel III), as set out in the PRA's approach document to banking supervision mainly covering the composition and quality of capital.

CRD IV plays a significant role in determining how the Bank and other financial institutions globally undertake their business. The Bank is compliant with the Common Reporting standards (COREP) for capital adequacy and large exposures.

It is the Bank's policy to remain compliant with all regulatory requirements at all times. In this endeavour the Bank continues to update its policies and procedures as required by the changes brought in by the regulators and statutory authorities.

The framework for regulatory capital

The PRA determines a minimum regulatory capital level and additional buffers for the banks, as set out under the Basel and EU risk-weighted framework. The UK capital framework comprises four parts:

- Pillar 1 — Requirements to provide protection against credit, market and operational risk, for which banks follow internationally agreed methods of calculation and calibration
- Pillar 2A — Requirements imposed by the PRA reflecting estimates of risks either not addressed or only partially addressed by the international standards for Pillar 1
- CRD IV buffers, as applicable – These comprise the capital conservation buffer and the counter-cyclical capital buffer, which are relevant to all firms. For Globally Systemically Important Institutions (G-SIIs); the G-SII buffer will be relevant and for domestic systemic firms, the systemic risk buffer will be relevant
- The PRA buffer, as applicable – is an amount of capital that firms should hold in addition to their minimum level of regulatory capital (Pillar 1 plus Pillar 2A) to cover risks and elements of risk not covered elsewhere, and losses that may arise under a stress

The leverage ratio framework

To complement the risk-weighted capital regime, the Bank takes into account the risk of excessive leverage when assessing the adequacy of capital levels.

For the Banks and Building Societies subject to the UK leverage ratio framework, the PRA requires a minimum leverage ratio be met at all times and expects firms in scope to have regulatory capital that is equal to or greater than any applicable leverage ratio buffers. This framework comprises three parts:

- a 3% leverage ratio minimum requirement, denominated in Tier 1 capital, which must be met with at least 75% Common Equity Tier 1 (CET1) capital;
- an additional leverage ratio buffer, applicable to UK Global Systemically Important Institutions (G-SIIs) identified by the PRA, with the buffer rate calibrated at 35% of a relevant firm's G-SII capital buffer rate, which must be met with CET1 capital; and
- a countercyclical leverage ratio buffer of CET1 capital, calibrated at 35% of a relevant firm's countercyclical capital buffer rate and rounded to the nearest 10 basis points

The liquidity framework

The PRA expects all banks to take responsibility for ensuring that there is no significant risk that they cannot meet their liabilities as they fall due. PRA has increased supervisory activities to ensure that banks are running their business in a prudent manner to ensure they have an appropriate degree of resilience to liquidity stresses.

On 10 October 2014, the European Commission published a Delegated Act to supplement EU Regulation (EU) No 575/2013 (Delegated Act) with regard to the liquidity coverage requirement (LCR) for credit institutions. EU legislation sets out direct requirements on liquidity. The EU Liquidity Coverage Requirement (LCR) sets a prescribed 30-day stress test, which banks must meet with qualifying liquid assets.

UK Banks and in-scope investment firms need to meet a LCR requirement of 100% with effect from 1 January 2018.

The Bank is conducting stress testing on regular basis to ensure liquidity and capital adequacy. The Board approves the stress testing framework and reviews the outputs of stress testing as part of the approval processes for the ICAAP and the ILAAP.

Compensation as per FSCS

Eligible deposits with the Bank are protected up to the compensation limit by the Financial Services Compensation Scheme, the UK's deposit protection scheme.

With effect from 30 January 2017, the deposit protection limit changed from £75,000 to £85,000 as a result of requirements in the European Deposit Guarantee Schemes Directive (DGSD).

Single customer view

The PRA requires deposit-takers to be able to produce a single, consistent view of each depositor's funds, to enable the FSCS to implement rapid pay-out. This 'Single Customer View' (SCV) is essential to ensure that the FSCS is able to recompense depositors in relation to covered deposits, minimising the adverse effect of bank's failure on the stability of the financial system. The Bank has put in place adequate systems and procedures to comply with the requirements.

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SMCR) came into force on 7 March 2016. It is aimed at supporting a change in culture at all levels in banks through a clear identification and allocation of responsibilities to individuals. This is an important element of the PRA's approach to the assessment of management and governance of banks, and part of the integrated and structured way that the PRA delivers its forward-looking risk-based approach to banking supervision. The Bank has put in place adequate systems and procedures to comply with the requirements.

This report was approved by the Board of Directors on 3 May 2019 and signed on its behalf by:

Viswesvaran Radhakrishnan
Managing Director & CEO
Registered office:
Senator House
85 Queen Victoria Street
London
EC4V 4AB

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

Directors' responsibility statement

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

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

By order of the Board

Viswesvaran Radhakrishnan
Managing Director & CEO

Dr Anand Kumar
Executive Director & Dy CEO

3 May 2019

AUDITOR'S REPORT TO THE MEMBERS OF UNION BANK OF INDIA (UK) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Union Bank of India (UK) Limited (the 'company'):

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

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 32.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was: • Loan loss provisioning
Materiality	The materiality that we used in the current year was \$1.3m which was determined on the basis of 1.4% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. This includes risks identified by us, by management and those driven by changes in the business environment and new or complex accounting requirements.
Significant changes in our approach	We have changed the coefficient used in the calculation of materiality from 3% in the prior year to 1.4% this year to reflect the nature of risks within the business in the context of the users of the financial statements,

	including the loss in the year that was driven by significant impairment charges.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan Loss Provisioning	
Key audit matter description	The company holds an IFRS 9 impairment provision of $27.47m against gross customer receivables of $329.5m (2017: IAS 39 impairment provision of $3.3m against gross customer receivables of $340m). From 1 April 2018, the company has implemented IFRS 9, which has resulted in the company applying an expected credit loss ("ECL") model to determine the provision for impairment losses against loans and receivables to customers. In particular, for financial assets held at amortised cost, IFRS 9 requires the carrying value of the asset to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimation of assumptions relating to customer default rates, historical collection rates, exposure at default, likely loss given default, assessing significant increases in credit risk and future economic scenario modelling. These assumptions are informed using historical behaviour and experience. They are also affected by management's consideration of the future economic environment including the potential effect of the withdrawal of the United Kingdom from the European Union. Due to the limited loan and default history of the company, primarily a parameter-based model has been utilised to calculate the expected credit loss on customer receivables, driven primarily by S&P global observed

	default rates and a Standardised approach to Loss Given Default in line with Basel principles. Individual loan assessments have also been performed by management. Based on our risk assessment, we focused on the appropriateness of modelling methodologies adopted and the valuation of Defaulted (Stage 3) loans, in particular the valuation of collateral used in the calculation of level 3 Expected Credit Loss (ECL). Given the significant level of management judgement involved and the direct impact on the reported results of the bank, we have determined that there is the potential for fraud through the manipulation of this balance.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation of controls relating to the identification, valuation and recording of impairment provisions, in particular over the valuation of collateral in relation to Stage 3 loans We evaluated whether the methodology applied by management is compliant with the new requirements of IFRS 9, effective from 1 January 2018. We challenged the appropriateness of management's assumptions and inputs underlying the impairment provision calculations. This involved evaluating management's conclusions regarding the use of forward-looking information including Brexit considerations when assessing compliance with the standard, and confirming the reliability of source data used in the basic inputs to the model and the forward-looking scenarios. We reviewed management's individual assessments of Defaulted (Stage 3) loans, challenging the assumptions used and compared the individually-assessed ECLs calculated to the outputs of the ECL model, and challenging the final ECL booked by management.
Key observations	The provision model was found to be compliant with the requirements of IFRS 9. We concluded that the assumptions underpinning the model were determined and applied appropriately. The impairment provisions held against the loan book are in line with current collections performance, and management's application of macroeconomic scenarios is reasonable. We concur with management that Expected Credit Losses have been valued appropriately.

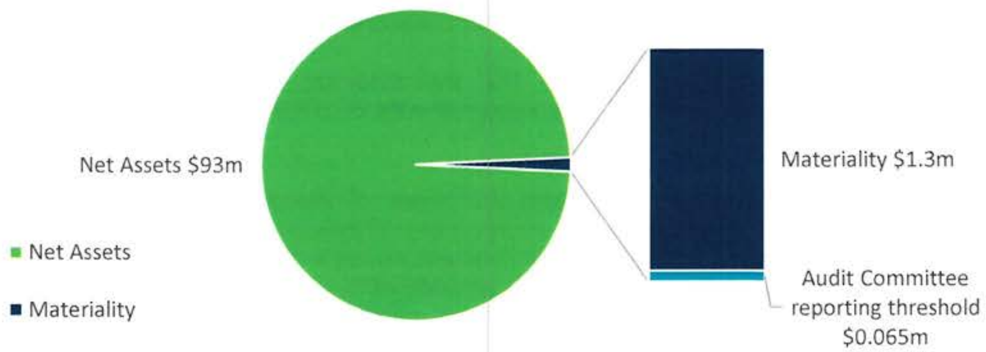
Our application of materiality

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

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

Materiality	\$1.3m (2018: \$2.8m)

Basis for determining materiality	1.4% of Net Assets (2018: 3%) We have changed the coefficient used in the calculation of materiality from 3% in the prior year to 1.4% this year to reflect the nature of risks within the business in the context of the users of the financial statements, including the loss in the year that was driven by significant impairment charges.
Rationale for the benchmark applied	Net assets is a key metric within the company's financial statements on which the users, including the owner of the company, lenders and regulators tend to focus and is a valid proxy for regulatory capital.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.065m (2018: $0.14m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Our risk assessment included considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures.

Other information

We have nothing to report in respect of these matters.

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- enquiring of management , internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: revenue recognition, loan loss provisioning; and
- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pensions legislation, tax legislation.

Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and HMRC;
- in addressing the risk of fraud associated to revenue, assessed management's judgement and assumptions over the effective interest rate for indications of potential bias; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by Board of Directors of Union Bank of India (UK) Limited on 25 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 March 2015 to 31 March 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

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

INCOME STATEMENT *

FOR THE YEAR ENDED 31 MARCH 2019

Union Bank of India (UK) Ltd

	Notes	2019 USD '000	2018 USD '000
Interest and similar income	2	22,527	17,389
Interest and similar expense	3	(9,179)	(6,327)
Net interest income		13,348	11,062
Fees and commission income	4	263	541
Fee and commission expense		-	-
Net fee and commission income		263	541
Net trading income / (loss)		54	256
Net other operating income / (exp)		(106)	374
Total Operating income		**13,559**	**12,233**
Personnel costs	5	(2,300)	(2,032)
Operating lease	25	(316)	(307)
Depreciation and amortisation	16,17	(160)	(140)
Other expenses	7	(2,237)	(1,442)
Operating expenses before impairment loss allowances		(5,013)	(3,921)
Operating profit		**8,546**	**8,312**
Impairment loss allowances	11	(25,181)	(1,930)
Profit / (Loss) before tax		**(16,635)**	**6,382**
Income tax credit / (charge)	8	2,939	(1,214)
Profit / (Loss) after tax		**(13,696)**	**5,168**

* There were no discontinued operations during the year

The notes on pages 27 to 60 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

Union Bank of India (UK) Ltd

	2019 USD '000	2018 USD '000
Total profit/(loss) for the year attributable to equity shareholders	(13,696)	5,168
Other comprehensive income net of tax		
Items that may be reclassified subsequently to profit or loss		
- Change in fair value	1,593	(2,382)
- Tax relating to change in fair value	(325)	418
Net other comprehensive income	**1,268**	**(1,964)**
Total comprehensive income attributable to equity shareholders for the year	**(12,427)**	**3,204**

The notes on pages 27 to 60 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2019

Union Bank of India (UK) Ltd

	Notes	2019 USD '000	2018 USD '000
Assets			
Cash and Balance at Bank	9	4,244	1,355
Financial assets at amortised cost:			
- Loans and advances to customers	11	302,055	336,818
- Loans and advances to Banks	10	26,337	-
- Financial investments (2018 - HTM)	13	12,239	13,807
Financial assets at FVTPL:			
- Financial investments (2018 - HFT)		-	1,916
- Derivative financial instruments	14	409	-
Financial assets at FVOCI:			
- Financial Instruments (2018 - AFS)	12	103,268	82,281
Property, plant and equipment	16	290	395
Intangible assets	17	164	49
Capital work in progress		70	70
Deferred tax assets (Net)	18	2,372	809
Other assets	19	2,651	1,794
Total Assets		**454,100**	**439,295**
Liabilities			
Financial Liabilities at FVTPL:			
- Derivative financial instruments	14	-	426
Financial liabilities at amortised cost:			
- Deposits from Banks	20	29,387	32,140
- Intra-group borrowings	21	60,564	62,429
- Deposits from customers	22	239,778	215,566
- Repurchase agreements	23	30,326	33,081
Other liabilities	24	730	1,061
Total Liabilities		**360,784**	**344,703**
Equity			
Share capital	26	100,000	90,000
Fair value reserves		(964)	(2,478)
Retained earnings / (Accumulated losses)		(5,719)	7,069
Total Shareholder's equity		**93,317**	**94,591**
Total Equity and liabilities		**454,100**	**439,295**

The notes on pages 27 to 60 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 3 May 2019.

Viswesvaran Radhakrishnan
Managing Director & CEO

Dr Anand Kumar
Executive Director & Dy CEO

Company registration no: 07653660

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

Union Bank of India (UK) Ltd

31 March 2019	Notes	Issued capital USD '000	Fair value reserves USD '000	Retained earnings USD '000	Total equity USD '000
Balance as at 1 April 2018		90,000	(2,478)	7,069	94,591
Impact of IFRS 9 transition	1.4	-	246	907	1,153
Issue of share capital	26	10,000	-	-	10,000
Total Comprehensive Income / (loss)		-	1,268	(13,696)	(12,427)
Profit / (loss) for the year		-	-	(13,696)	(13,696)
Other Comprehensive Income		-	1,268	-	1,268
Balance as at 31 March 2019 attributable to shareholders of the Bank		**100,000**	**(964)**	**(5,719)**	**93,317**

31 March 2018	Notes	Issued capital USD '000	Fair value reserves USD '000	Retained earnings USD '000	Total equity USD '000
Balance as at 1 April 2017		80,000	(514)	1,901	81,387
Issue of share capital	26	10,000	-	-	10,000
Total Comprehensive Income / (loss)		-	(1,964)	5,168	3,204
Profit / (loss) for the year		-	-	5,168	5,168
Other Comprehensive Income		-	(1,964)	-	(1,964)
Balance as at 31 March 2018 attributable to shareholders of the Bank		**90,000**	**(2,478)**	**7,069**	**94,591**

The notes on pages 27 to 60 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2019

Union Bank of India (UK) Ltd

	Notes	2019 USD '000	2018 USD '000
Cash flows from operating activities			
Net profit/(loss) before tax for the year		(16,635)	6,382
Adjustments to reconcile profit from operations:			
Amortisation of intangible non-current asset	17	40	18
Impairment loss during transition period		907	-
Depreciation for property, plant and equipment	16	120	122
Corporation tax credit during the year		2,939	-
Cash flows before changes in operating activities		4,006	140
Movement in working capital			
Decrease/(Increase) in receivables & prepayments	19	371	(949)
Tax paid		(1,228)	-
Increase / (Decrease) in other liabilities	24	(1,895)	(1,774)
Net Increase in working capital		(2,752)	(2,723)
Cash flows from operating activities			
Decrease / (Increase) in loans and advances to customers	11	34,763	(59,833)
(Increase)/Decrease in loans and advances to banks	10	(26,337)	7,000
(Decrease) / Increase in deposits from Banks	20	(2,753)	(3,561)
(Decrease) / Increase in deposits from customers	22	24,212	46,624
(Decrease) / Increase in repurchase agreements	23	(2,755)	33,081
(Increase)/Decrease in derivative financial instruments - Assets	14	(409)	324
(Decrease)/Increase on derivative financial instruments - Liab.	14	(426)	426
		26,295	24,061
Net cash flows used in operating activities (A)		10,915	27,859
Cash flows from investing activities			
Acquisition of Investments - FVOCI (net of reserves)	12	(19,473)	(47,633)
Decrease in Investments - Amortised cost	13	1,568	57
Disposal / (Acquisition) of Investments - FVTPL		1,916	(1,916)
Acquisition of property, plant and equipment	16	(15)	(56)
Acquisition of intangible assets	17	(155)	(36)
(Increase) / decrease in capital work in progress		0	(1)
Net cash flows used in investing activities (B)		(16,159)	(49,585)
Cash flows from financing activities			
Proceeds from issue of equity share capital	26	10,000	10,000
(Repayment to) / Proceeds from Intra-group borrowings	21	(1,867)	12,161
Net cash flows from financing activities (C)		8,133	22,161
Net increase in cash and cash equivalents (A+B+C)		2,889	436
Cash and cash equivalents at beginning of the year		1,355	919
Cash and cash equivalents at close of the year	9	**4,244**	**1,355**

The notes on pages 27 to 60 form part of these financial statements.

1 ACCOUNTING POLICIES

These financial statements are prepared for Union Bank of India (UK) Ltd. (the "Bank") under the UK Companies Act 2006. Union Bank of India (UK) Limited is a limited company incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The Bank is a wholly owned subsidiary of Union Bank of India, one of the leading public-sector banks of India. The address of the registered office is Senator House, 85 Queen Victoria Street, London (UK) EC4V 4AB. The nature of the Bank's operations and its principal activity is set out on page 3.

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis using the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts and assets held for sale, where applicable.

1.2 Compliance with International Financial Reporting Standards (IFRS)

Financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provision of the UK Companies Act 2006. Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments, and IAS 1 'Presentation of Financial Statements' relating to objectives, policies and processes for managing capital, can be found in the Risk Management. Those disclosures form an integral part of these financial statements.

1.3 Recent accounting developments

On 1 April 2018, Bank adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. The new or revised accounting policies are set out below.

The accounting policy changes for IFRS 9, set out below, have been applied from 1 April 2018. Comparatives have not been restated as permitted by IFRS 9 and IFRS 15. As a result of the change from IAS 39 to IFRS 9, some disclosures presented in respect of certain financial assets are not comparable because their classification may have changed between the two standards. This means that some IFRS 9 disclosures are not directly comparable and some disclosures that relate to information presented on an IAS 39 basis are no longer relevant in the current period

The application of IFRS 15 had no impact on the Bank as there were no changes in the recognition of in-scope income.

1.4 The Adoption of IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. For the accounting period starting on or after 1 January 2018, IFRS 9 replaced IAS 39, and introduced new rules on how to classify and measure financial assets, as well as new concepts, principles and measures for credit impairment charges. Throughout FY 2018-19, Bank has enhanced and refined its accounting processes and procedures, internal controls and governance framework to embed the new requirements of IFRS 9. As IFRS 9 affects the timing when Bank recognise credit impairment charges, but not the amount of credit write-offs, its adoption did not materially change credit risk policies. Bank's credit risk appetite in terms of target markets, market share and the credit quality of customers, were not directly impacted. The main impacts were on how Bank monitors credit risk. As part of this, Bank has started to monitor IFRS 9 metrics. These mainly centre on ECL and classification of exposures as Stages 1, 2 and 3. Bank expect to develop these metrics further in 2019.

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

ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)

As a result of adoption of IFRS 9, the opening Capital has increased by $1.14m as on 1st of April'18 mainly due to decrease in the provision by $1.04m and consequent decrease in the deferred tax assets by $0.1m. There has been no change in the carrying amount of the financial instruments on the basis of their measurement categories. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss impairment approach with an ECL approach.

Condensed Statement of Financial Position

Particulars	31/03/2018 As originally presented USD'000	IFRS 9 adjustment- Classification and measurement USD'000	IFRS 9 adjustment- Expected Credit Losses USD'000	01/04/2018 Restated USD '000
Assets:-				
Loans & advances to customers	336,818	-	1,073	337,892
Financial investments	13,807	-	(32)	13,775
Deferred tax assets	809	-	112	921
Equity:-				
Retained Earnings	7,069	-	907	7,976
Fair value reserve *	(2,478)	-	246	(2,233)

*Note: The impact of IFRS 9 provision on the opening amount of Investments held in FVOCI has been adjusted in the retained earnings and Fair Value Reserve as on 01/04/2018.

The total impact on the Bank's retains earning as at 1 April 2018 is as follows:-

Particulars	01/04/2018 USD'000
Closing retained earning 31 March 18 - IAS 39	7,069
Decrease in provision for financial instruments	1,041
Change in Modification Criteria	-
Change in Fair value reserve	(246)
Increase in deferred tax assets relating to impairment provisions	112
Total Adjustment to retained earning from adoption of IFRS 9 on 1 April 2018	907
Opening Retained Earning 1 April 18 - IFRS 9	**7,976**

Classification of Financial Instruments as per IAS 39	IFRS 9	31/03/2018 USD'000
Financial assets		
Financial investments – AFS	Financial investments – FVOCI	82,281
Financial investments – HTM	Financial investments – Amortised cost	13,807
Financial investments – HFT	Financial investments – FVTPL	1,916
Loans and advances to customers	Loans and advances to customers	340,118
		438,123
Financial Liabilities		
Derivative financial instruments	Derivative financial instruments	426
Deposits from Banks	Deposits from Banks	94,569
Deposits from customers	Deposits from customers	215,566
Repurchase agreements	Repurchase agreements	33,081
		343,642

There is no change in classifications of Financial instruments due to adoption of IFRS 9

ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)

The balance of Financial Instruments as on 31 March 2018 reconcile to the balance as on 1 April 2018 as follows:-

Financial Instrument Balance	USD'000
At 31 - March 2018 - Calculated under IAS 39	351,434
Amounts restated through opening retained earnings	1,153
Opening Balance as on 1 April 2018 - calculated under IFRS 9	**352,587**

Total impairment loss allowances decreased on adoption of IFRS9, due to reversal of General provision recognised in previous financial years

Reconciliation of impact due to transition to IFRS 9

	USD'000
Estimated impact - Capital reduction - 31 March 2018 (Un- Audited)	(2,615)
Actual impact - increase in Capital - 1 April 2018 (Audited)	1,153
Difference between Estimated and Actual	**3,768**

EMBEDDING OF IFRS 9 CREDIT PROVISIONS

The management had a appropriate methodology for evaluating the results of the models given their complexity and a clear trail of their workings, particularly due to the models' key output.

The model and methodology changes had been approved by the appropriate committee of the bank.

The management 's judgement on level of credit provisions were considered appropriate and it will be monitored on regular basis.

The credit portfolio was regularly reviewed to ensure that all impairment triggers have been identified.

Apart from credit other exposures were also reviewed to ensure that there had been no impairment triggers that could warrant significant adjustment to provisions level.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets. New classification categories include: measured at amortised cost, FVOCI (Fair Value Through Other Comprehensive Income) and FVTPL (Fair Value Though Profit and Loss).

The standard will affect the classification and measurement of financial assets as follows; (subject to the Business Model Assessment (BMA) test and Solely Payments of Principal and Interest (SPPI) test)

Loans and advances to banks and customers previously classified as loans and receivables and measured at amortised cost will in general also be measured at amortised cost under IFRS 9.

Held to maturity investment securities previously measured at amortised cost will in general also be measured at amortised cost under IFRS9.

Debt investment securities previously classified as available–for-sale, will in general, under IFRS 9, be measured at FVOCI

Debt investment securities previously classified as held-to-trade, will in general, under IFRS 9, be measured at FVTPL

ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)
Impairment
IFRS 9 replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" (ECL) model. Depending on the asset's classification under the three stage model (Stage 1- credit risk has not increased; Stage 2 – credit risk has increased significantly & Stage 3 – credit impaired or defaulted financial asset).
Where credit risk is deemed not to have increased significantly since initial recognition (Stage 1) a loss allowance is calculated based on an amount equal to 12-month ECL (Expected Credit Loss).

Where credit risk is deemed to have increased significantly since initial recognition (Stage 2) a loss allowance based on lifetime expected losses are calculated. An asset is deemed to have moved to Stage 3 where management considers the asset to be impaired in accordance with the Bank's relevant policies.

Quantitative modelling will be used in conjunction with internal &/or external credit grades and ratings in assessing whether credit risk has significantly increased. The Bank will monitor the effectiveness of the criteria used to identify any increase through regular reviews and watch list.
Under IFRS 9 the Bank will consider a financial asset to be in default and or credit impaired when either the borrower is unlikely to pay its credit obligations or the borrower is more than 90 days past due.

Bank uses a number of key metrics to measure and control credit risk, as follows:-
ECL (Expected Credit Loss):- Probability-weighted (average) estimate of credit losses. Determined as the present value of the product of Probability of Default, Loss Given Default and Exposure at Default.

EAD (Exposure at Default):- An estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

12 month PD (12 month Probability of Default) :- The 12-month PD is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). It is used to calculate 12-month ECLs.

Lifetime PD (Lifetime Probability of Default):- The Lifetime PD is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs may be broken down further into marginal probabilities for sub-periods within the remaining life.

LGD (Loss Given Default):- An estimate of the loss arising as a result of the default of the counterparty and is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

CCF (Credit Conversion Factor):- An estimate of the probability of an off-balance sheet credit exposure shifting onto the balance sheet.

EIR (Effective interest rate):- The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Recognising PD (Probability of Default)
Bank determines an exposure's 12-month PD as follows:

- An appropriate rating of the counterparty is determined through the application of either the relevant Rating Scorecard (for the lending portfolio) or through the long term rating (for the investment portfolio).
- A credit cycle adjustment is applied to the sourced rating to produce a forward-looking PD. A forward-looking PD term structure (up to 30 years) is determined for three macroeconomic scenarios applicable to that counterparty.
- These approaches have been selected given that the bank has insufficient default history to create its own PD models.

ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)
Recognising LGD (Loss Given Default)
The Basel Foundation Internal Rating Based Approach ("F-IRB") is used in deriving LGDs for the bank's IFRS 9 implementation. The Basel F-IRB LGDs do not yet consider forward looking information. Given that the bank has been operating for only a few years and the data available is not sufficient to form a judgement. Whilst typically an overlay to the Basel FIRB LGD, to account for macroeconomic sensitivity would be recommended, a valid overlay cannot be inferred due to the insufficient data. In light of this, Bank has used the Basel FIRB LGD in the ECL computation, without adjustment, until sufficient history is built up.

Macroeconomic Scenario
Forward looking expectations and macroeconomic scenarios analysis are key themes in IFRS 9's impairment recognition model. The purpose of macroeconomic scenario analysis is to understand the impacts of changing economic scenarios on the stage allocation of an instrument and the resulting expected credit loss calculations. Bank has incorporated the impact of changing macroeconomic scenarios on both staging and the ECL computation through consideration of three discrete scenarios, i.e. Base Case, Upturn and Downturn, for e.g. Upturn scenario will Reflect, a plausible but slightly optimistic view of the exposure in the relevant cluster and Downturn, pessimistic view. For each scenario, expert judgement are applied to determine an appropriate probability of occurrence. These probabilities determined through management's consideration of global economic reports (e.g. World Bank forecasts) or alternatively sourced through external vendors such as Oxford Economics or Moody's Analytics.

ECL Computation
ECL computation is based on the probability weighted average approach. For each exposure, under each scenario, the 12 month and lifetime ECL are determined. 12 month and Lifetime ECLs are then computed under each scenario, with the final ECL determined as the probability weighted average of each scenarios ECL.

Exposure at Default (EAD)
EAD is computed on the basis of exposure type and the exposure's Credit Conversion Factor (CCF). Given that the bank is still in its infancy, insufficient behavioural data is available to model its own CCFs. In light of this, the CCFs as prescribed by Basel are applied.

Significant Increase in Credit Risk (SICR)
Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan, or behavioural term for revolving facilities. Loans which have not experienced a SICR are subject to 12 month ECL. Assessment has been made for each facility's credit risk profile to determine which of three stages to allocate them to:

– **Stage 1:** when there has been no SICR since initial recognition. Bank has applied a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
– **Stage 2:** when there has been a SICR since initial recognition, but no credit impairment has materialised. Bank has applied a loss allowance equal to the lifetime ECL i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility
– **Stage 3:** when the exposure is considered credit impaired. Bank has applied a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)

Definition of default

A facility is considered as "default" when:
• The facility is 90 DPD; or
• In case of bankruptcy, insolvency, legal receivership or other legal blocks (perhaps by regulators) to the timely payment of interest and/or principal; or

If the debtor has been declared bankrupt or has become insolvent, claim on the debtor will be classified as default from the date, bankruptcy/ insolvency was declared, unless it was already classified as such. However, if the debtor has paid the interest due on an asset but has been unable to make repayments of the principal, the asset shall not be classified as non-performing if Bank along with the debtor have agreed on a new payment schedule and the account remains in the performing category.

1.5 Future accounting developments

At 31 March 2019, the Bank has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective:

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.

For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

For the Bank, the application of IFRS 16 at 1 April 2019 is expected to increase property, plant and equipment by £1.09m ($1.43m) (being the net increase in ROU assets referred to above) and increase other liabilities by similar amount from recognising lease liabilities. There is expected to be no impact on shareholders' equity. Impact of adoption of IFRS 16 is insignificant.

1.6 Revenue recognition

A) Interest income and expense

Interest and similar income comprises interest income on financial assets measured at amortised cost, investments in debt instruments measured at FVOCI (2017-18: available-for-sale) and investments in debt instruments measured at FVTPL (2017-18: held-for-trade). Interest expense and similar charges comprises interest expense on financial liabilities measured at amortised cost.

Interest income and expenses on financial assets is determined using the effective interest rate method. Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed. Most fee and commission income is recognised at a point in time.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

ACCOUNTING POLICIES (Continued)
Revenue recognition (Continued)

B) **Fee and commission income and expense**

Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed. Most fee and commission income is recognised at a point in time. Certain commitment, upfront and management fees are recognised over time but are not material.

Fee and Commission income is earned from following services provided by the Bank to its customers and accounted for as follows;

• income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, facilitating, coordinating, or participating in the negotiation of, a transaction for a third-party);

• income earned from the provision of services is recognised as revenue as the services are provided.

• income from processing/upfront fee is recognised as revenue as received unless it is forming part of integral part of the effective interest rate.

Fee and commission income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'. Bank is not having Fee and Commission income of this nature.

C) **Dividend income**

Dividend income is recognised when the right to receive payment is established.

D) **Net trading and other income**

Net trading and other income includes all gains and losses from changes in the fair value of financial assets and liabilities held at fair value through profit or loss (financial assets and liabilities at fair value through profit or loss and derivatives). Changes in fair value of derivatives are also recognised in net trading and other income. Other income includes profits and losses arising on the sales of financial assets held at fair value through other comprehensive income.

1.7 **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including computer software, which are assets that necessarily take a substantial period of time to develop for their intended use, are added to the cost of those assets, until the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they occur.

1.8 **Intangible assets**

The value of intangible assets is amortised on a straight-line basis over their useful economic life. Other intangible assets are reviewed annually for impairment indicators and tested for impairment where indicators are present.

Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits and the cost of those products can be measured reliably. These costs include payroll, materials, services and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in intangible assets on the balance sheet and amortised on a straight-line basis over their useful life of three years, unless the software is an integral part of the related computer hardware, in which case it is treated as property, plant and equipment as described below. Capitalisation of costs ceases when the software is capable of operating as intended. Costs of maintaining software are expensed as incurred.

1.9 **Property, plant and equipment**

Property, plant and equipment include owner-occupied properties (including leasehold properties), office fixtures and equipment and computer software. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. A review for indications of impairment is carried out at each reporting date. Gains and losses on disposal are determined by reference to the carrying amount and are reported in net trading and other income. Repairs and renewals are charged to the income statement when the expenditure is incurred. Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life, as follows:

Leasehold improvements	over the lease period
Furniture and equipment	up to 5 years
Computer hardware	up to 3 years

1.10 **Financial Instruments**

A) **Initial recognition and measurement**

Financial assets and liabilities are initially recognised when the Bank becomes a party to the contractual terms of the instrument. The Bank determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

B) **Financial assets and liabilities**

1) Classification and subsequent measurement

From 1 April 2018, the Bank has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI, and
- Equity instruments that have not been designated as held at FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

The classification and measurement requirements for financial asset debt and equity instruments and financial liabilities are set out below.

1.1) Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset, and the cash flow characteristics of the asset.

ACCOUNTING POLICIES (Continued)
FINANCIAL INSTRUMENTS (Continued)
Business model

The business model reflects how the Bank manages the assets in order to generate cash flows and, specifically, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are measured at FVTPL.

Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and what is the strategy for holding those assets.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the assets' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Based on these factors, the Bank classifies its debt instruments into one of the following measurement categories:

– **Amortised cost** – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. When estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

– **FVOCI** – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading and other income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

– **FVTPL** – Financial assets that do not meet the criteria for amortised cost or 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 in 'Net trading and other income' in the period in which it arises.

The Bank reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

ACCOUNTING POLICIES (Continued)
FINANCIAL INSTRUMENTS (Continued)
1.2) Financial assets: equity instruments
Equity instruments are instruments that meet the definition of equity from the issuer's perspective, being instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. All equity investments are subsequently measured at FVTPL, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. ECLs (and reversal of ECLs) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the 'Net trading and other income' line in the income statement.

1.3) Financial liabilities
Financial liabilities are classified as subsequently measured at amortised cost, except for:

– Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability) and

– Financial guarantee contracts and loan commitments.

1.4) Sale and repurchase agreements (including stock borrowing and lending)
Securities sold subject to a commitment to repurchase them at a predetermined price (repos) under which substantially all the risks and rewards of ownership are retained by the Bank remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell (reverse repos) are not recognised on the balance sheet and the consideration paid is recorded as an asset. The difference between the sale and repurchase price is treated as trading income in the income statement, except where the repo is not treated as part of the trading book, in which case the difference is recorded in interest income or expense.

2) Impairment of debt instrument financial assets
The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts and loan commitments. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes

– The time value of money and

– Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2.1) Write-off
For secured loans, a write-off is only made when all collection procedures have been exhausted and the security has been sold or from claiming on any mortgage indemnity guarantee or other insurance. In the corporate portfolio, there may be occasions where a write-off might occur for other reasons, such as following a consensual restructure or refinancing of the debt or where the debt is sold for strategic reasons into the secondary market at a value lower than its face value.

ACCOUNTING POLICIES (Continued)
FINANCIAL INSTRUMENTS (Continued)
2.2) Recoveries

Recoveries from impaired loans are adjusted against the respective loans accounts. Accordingly, it reduces the impaired loan balances and generally associated impairment loss allowances.

3) Modifications of financial assets

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset normally depends upon whether the renegotiation or modification is due to financial difficulties of the borrower or for other commercial reasons.

– **Contractual modifications due to financial difficulties of the borrower:** where the Bank modifies the contractual conditions to enable the borrower to fulfil their payment obligations, the asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated/modified contractual cash flows that are discounted at the financial asset's original EIR and any gain or loss arising from the modification is recognised in the income statement.

– **Contractual modifications for other commercial reasons:** such modifications are treated as a new transaction resulting in derecognition of the original financial asset, and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in the income statement as a gain or loss on derecognition.

Any other contractual modifications, such as where a regulatory authority imposes a change in certain contractual terms or due to legal reasons, are assessed on a case-by- case basis to establish whether or not the financial asset should be derecognised.

4) Derecognition other than on a modification

Financial assets are derecognised when the rights to receive cash flows have expired or the Bank has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) the Bank has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when extinguished, cancelled or expired.

C) **Financial guarantee contracts and loan commitments**

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the amount of the loss allowance, and the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15. Loan commitments are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision and charged to credit impairment losses in the income statement. The loss allowance in respect of revolving facilities is classified in loans and advances to customers to the extent of any drawn balances. The loss allowance in respect of undrawn amounts is classified in provisions. When amounts are drawn, any related loss allowance is transferred from provisions to loans and advances to customers.

D) **Derivative financial instruments (derivatives)**

Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date. Transactions are undertaken in cross currency swaps.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of cross currency swaps are calculated using forward currency exchange rate.

ACCOUNTING POLICIES (Continued)
FINANCIAL INSTRUMENTS (Continued)

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. Gains and losses from changes in the fair value of derivatives are recognised in the income statement, and included within net trading and other income.

E) Impairment of non-financial assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment and intangible assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use.

The 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. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment, goodwill and other intangible assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs.

1.11 Leases

a) The Bank as lessor

Bank has not entered in to any lease contract as a lessor, hence this is not applicable on the Bank.

b) The Bank as lessee

If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the lower of the estimated useful life and the life of the lease. The corresponding rental obligations are recorded as borrowings.

1.12 Income taxes, including deferred taxes

The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the income statement 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A current tax liability for the current or prior period is measured at the amount expected to be paid to the tax authorities. Where the amount of the final tax liability is uncertain or where a position is challenged by a taxation authority, the liability recognised is the most likely outcome.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. 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 the assets may be utilised as they reverse.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

ACCOUNTING POLICIES (Continued)

Income taxes, including deferred taxes (Continued)

The Bank reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it 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 and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.13 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances with Banks and highly liquid financial assets with original maturities of three months or less and 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.

1.14 Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation, and it can be reliably estimated.

Provision for leasehold dilapidations relates to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

Provisions are reviewed at the end of each reporting date to reflect the current best estimate. If it is no longer probable that an outflow will be required to settle the obligation, the provisions are reversed.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

1.15 ACCOUNTIG POLICIES RELATING TO COMPARITIVES - IAS 39

On 1 April, 2018, the bank adopted IFRS 9, which replaced IAS 39. In Accordance with the transition requirement of IFRS 9, comparatives were not restated. The accounting policies applied in accordance with IAS 39 for periods before the adoption of IFRS 9 are set below:-

Financial assets and liabilities – IAS 39

Financial assets and liabilities are initially recognised when the Bank becomes a party to the contractual terms of the instrument. The bank determines the classification of its financial assets and liabilities at initial recognition. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. Financial assets that are classified at fair value through profit or loss, which have not been designated as such or are not accounted for as derivatives, or assets classified as available-for-sale, may subsequently in rare circumstances, be reclassified from the fair value through profit or loss category to the loans and receivables, available-for-sale or held-to-maturity categories. Financial liabilities are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition.

ACCOUNTING POLICIES (Continued)
ACCOUNTIG POLICIES RELATING TO COMPARITIVES - IAS 39 (Continued)

a) Financial assets and liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as FVTPL if they are either held for trading or otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near- term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking. In certain circumstances, financial assets and financial liabilities other than those that are held for trading are designated at FVTPL where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets or liabilities are managed and their performance evaluated on a fair value basis, or where a financial asset or financial liability contains one or more embedded derivatives which are not closely related to the host contract.

Financial assets and financial liabilities classified as FVTPL are initially recognised at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement except for gains and losses on financial liabilities designated at FVTPL relating to own credit which are presented in other comprehensive income.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or FVTPL. They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. Loans and receivables consist of loans and advances to banks and loans and advances to customers.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories described. They are initially recognised at fair value including direct and incremental transaction costs, and subsequently held at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income until sale or until determined to be impaired when the cumulative gain or loss or impairment losses are transferred to the income statement. Where the financial asset is interest-bearing, interest is determined using the effective interest method. Income on investments in equity shares, debt instruments and other similar interests is recognised in the income statement as and when dividends are declared and interest is accrued. Impairment losses and foreign exchange translation differences on monetary items are recognised in the income statement.

d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables or that the Bank designates upon initial recognition as at fair value through profit or loss, or available-for-sale. They are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method, less any provision for impairment. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments to available-for-sale financial assets.

ACCOUNTING POLICIES (Continued)

ACCOUNTIG POLICIES RELATING TO COMPARITIVES - IAS 39 (Continued)

Impairment of financial assets – IAS 39

At each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a set of financial assets is impaired. A financial asset or a set of financial assets is impaired and impairment losses are incurred if there is:

- objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date;
- the loss event had an impact on the estimated future cash flows of the Bank's financial assets; and
- a reliable estimate of the amount can be realised.

a) Assets carried at amortised cost

For loans and advances and held-to-maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, interest income continues to be recognised on an effective interest rate basis, on the asset's carrying value net of impairment provisions. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment allowances are assessed individually for financial assets that are individually significant. Impairment allowances for portfolios of smaller balance homogenous loans that are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis.

(b) Impairment of financial investments in AFS portfolio

The Bank assesses, at each balance sheet date, whether there is objective evidence that a financial investment in the AFS portfolio is impaired. In case of such evidence, it is considered impaired if its acquisition cost (net of any principal repayments and amortisation) exceeds the recoverable amount. The recoverable amount of a quoted financial investment in the AFS portfolio is determined to be impaired if objective evidence indicates that the decline in market price has reached such a level that recovery of the cost value cannot be reasonably expected within the foreseeable future.

The standard method applied for a non-quoted equity instrument is based on the multiple of earnings observed in the market for comparable companies. Management may adjust the valuation determined in this way based on its judgement.

If a financial investment in the AFS portfolio is determined to be impaired, the cumulative loss that was previously recognised in equity is included in the income statement as a component of 'Impairment charges on financial assets'. After recognition of impairment on a financial investment in the AFS portfolio, an increase in fair value of a debt instrument up to the original cost is recognised in the income statement as a component of 'Impairment charges on financial assets', provided the fair value increase is objectively related to a specific event occurring after the impairment loss was recognised in the Income Statement.

Impairment of non-financial assets

At each Balance Sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment (including operating lease assets) and intangible assets (including goodwill) are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review.

ACCOUNTING POLICIES (Continued)

ACCOUNTIG POLICIES RELATING TO COMPARITIVES - IAS 39 (Continued)

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The cash-generating unit represents the lowest level at which non-financial assets including goodwill is monitored for internal management purposes and is not larger than an operating segment.

The 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. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. The recoverable amounts of goodwill have been based on value in use calculations.

1.16 CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the Financial Statements requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the Financial Statements and the reported amount of income and expenses during the reporting period. Management evaluates its judgements and accounting estimates, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, on an ongoing basis. Actual results may differ from these accounting estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important for the Bank's financial results and financial condition because:
(i) they are highly vulnerable to change from period to period as assumptions are made to calculate the estimates, and
(ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Bank's future financial results and financial condition.

Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Bank's future financial results and financial condition.

Key areas of judgement in accounting estimates

The key judgements made by management in applying the ECL impairment methodology are set out below.

– Definition of default
– Forward-looking information
– Probability weights
– SICR

To give the impact of forward looking economic outlook on the Bank's portfolio, following economic indicators are used to predict the credit cycle

- GDP Growth (%)
- Change in Unemployment (%)
- Change in S&P 500 (%)
- Change in Energy Index (%)
- Change in Non-Energy Index (%)
- Change in the Proportion of Downgrades (%)

2 Interest and similar income

	2019 USD '000	2018 USD '000
Interest income from loans - Amortised cost	18,861	14,807
Interest income from investments - FVOCI	2,483	1,859
Interest income from investments - Amortised cost	461	521
Interest income from investments - FVTPL	16	19
Interest on interbank placements - Amortised cost	706	183
	22,527	**17,389**

3 Interest and similar expense

	2019 USD '000	2018 USD '000
Deposit from customers	4,444	3,676
Deposit from banks	1,328	656
Intra-group borrowings	2,423	1,750
Repurchase agreements	984	245
	9,179	**6,327**

4 Net fees and commission income

	2019 USD '000	2018 USD '000
Processing fees and commission	263	541
	263	**541**

5 Personnel costs

	2019 USD '000	2018 USD '000
Wages and salaries (including Directors' emoluments)	2,031	1,796
Social security costs	225	171
Other employee benefits	44	65
	2,300	**2,032**

The average number of monthly employees (including executive Directors) was as follows:

	2019 Number	2018 Number
Commercial and retail banking activities	24	21

6 Directors' emoluments

	2019 USD '000	2018 USD '000
Short-term employee benefits	416	420
Post-employment benefits (Defined Contribution)	3	1
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
	419	421
Emoluments comprise salary and benefits in kind		
Highest paid Director:		
Emoluments	156	153

7 **Other Expenses**

	2019 USD '000	2018 USD '000
Other premises costs	239	256
IT costs	449	278
Other administrative expenses	445	289
Legal and professional costs	931	475
Marketing expenses	89	57
Finance costs	85	87
	2,237	1,442
Legal and professional costs include the following:		
Auditor's remuneration - Auditing of Financial Statements	87	85
Auditor's remuneration - other services	-	-
	87	85

8 **Tax on Profits**

	2019 USD '000	2018 USD '000
Corporate tax charge/(credit)	(1,163)	1,138
Deferred tax (see note 18):		
Effect of rate changes	196	(7)
Relating to originating and reversal of temporary differences	(1,869)	65
Adjustments in respect of prior years	(103)	18
Total deferred tax charge/(credit)	(1,776)	76
Total tax charge/(credit)	(2,939)	1,214

Tax on Profits (Continue)
Factors affecting tax charge/(credit) for year

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows:

	2019 USD '000	2018 USD '000
Profit/(Loss) on ordinary activities before tax	(16,635)	6,382
Standard rate of corporation tax in the UK	19.0%	19.0%
Tax charge/(credit) at the domestic income tax rate	(3,161)	1,213
Effects of:		
Tax effect of non - deductible depreciation	11	13
Tax effect of other non - deductible expenses/non-taxable income	(17)	15
Tax effect of rate changes	196	(7)
Loss utilised against profits of earlier period	1,298	-
Adjustment in respect of prior years	(1,266)	(20)
Total tax charge/(credit) for year	(2,939)	1,214

	2019 USD '000	2018 USD '000
Tax relating to expense / (credit) in FVOCI	325	(405)
Tax relating to expense / (credit) in retained earnings on adoption of IFRS	(112)	-

Factors that may affect future tax charges

As per Finance Act 2016 (No. 2) there will be a reduction to the standard corporation tax rate for the year starting 1 April 2020 to 17%.

9 **Cash and balances with Banks**

	2019 USD '000	2018 USD '000
Cash on hand	31	20
Cash at Bank	4,213	1,335
	4,244	**1,355**

10 **Loans and advances to Banks**

	2019 USD '000	2018 USD '000
Interbank placements	26,337	-
	26,337	-

11 **Loans and advances to customers**

		2019 USD '000	2018 USD '000
Term loan		294,726	297,604
Overdraft		31,085	41,405
Other loans		3,717	1,109
	Gross	329,528	340,118
Impairment loss allowances:			
Collective Provision		-	(1,700)
Specific provision		(27,473)	(1,600)
	Net	302,055	336,818

Detailed information around impairment loss allowance is given under Note-29 in Credit Risk section.

12 **Financial Investments at Fair Value through OCI**

	2019 USD '000	2018 USD '000
Quoted investments		
Government debt securities	48,237	26,699
Other securities	55,031	55,582
	103,268	82,281

As per IFRS 9, the carrying amount of financial assets measured at FVOCI is not reduced by the ECL provision and it remains at fair value. Instead, an amount equal to the allowance is adjusted against fair value reserve.

13 **Other Financial Assets at Amortised Cost**

	2019 USD '000	2018 USD '000
Quoted investments		
Government debt securities	-	-
Other securities	12,239	13,807
	12,239	13,807

14 **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 risks in long or short-term currency positions. These derivatives are revalued daily and any change in their fair value is recognised in the income statement.
The table below shows the fair value of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	31-Mar-19		
Derivatives used as:	**Assets**	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	409	-	74,534
	409	-	74,534

	31-Mar-18		
	Assets	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	-	426	25,084
	-	426	25,084

There is no incidence of default of any counterparty with whom the Bank has entered into such contracts. The Bank does not anticipate deterioration of the credit quality of issuers of any such derivative contracts. All the contracts are double legged with the same institution, and as such maximum risk on account of default is the marked to market value, which is already provided in the financial statements. No exchange of principal is required in any of the trades.

15 Fair value of assets and liabilities

IFRS 13 Fair Value Measurement requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

Level 1 Securities: The fair value for financial instruments traded in active markets is based on their quoted market price or dealer price quotations without any deduction for transaction costs.

Level 2 Securities: For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Financial Instrument classified as Level 2 & their valuation techniques are given below

Financial Instruments	Valuation techniques
Financial assets	
Financial investments – Amortised cost	Discounted cash flow method
Loans and advances to Banks	Discounted cash flow method
Loans and advances to customers	Discounted cash flow method
Financial liabilities	
Deposits from Banks	Discounted cash flow method
Deposits from customers	Discounted cash flow method
Repurchase agreements	Discounted cash flow method

The following tables set out the valuation methodologies adopted by asset and liability categories measured at fair value in the financial statements:

	2018-19		
	Quoted market prices (Level 1) USD '000	Valuation techniques using observable market data (Level 2) USD '000	Valuation techniques using non-observable market data (Level 3) USD '000
Financial assets			
Financial investments – FVOCI	48,237	55,031	-
Financial investments – Amortised cost	-	12,239	-
Loans and advances to Banks	-	26,337	-
Loans and advances to customers (gross)	-	329,528	-
Derivative financial instruments - Assets	-	409	-
	48,237	423,545	-
Financial liabilities			
Derivative financial instruments - Liabilities	-	-	-
Deposits from Banks	-	89,951	-
Deposits from customers	-	239,778	-
Repurchase agreements	-	30,326	-
	-	360,054	-

Fair value of assets and liabilities (continued)

	2017-18		
	Quoted market prices (Level 1)	Valuation techniques using observable market data (Level 2)	Valuation techniques using non-observable market data (Level 3)
	USD '000	USD '000	USD '000
Financial assets			
Financial investments – AFS	26,699	55,582	-
Financial investments – HTM	-	13,807	-
Financial investments – HFT	1,916	-	-
Loans and advances to Banks	-	-	-
Loans and advances to customers (gross)	-	340,118	-
Derivative financial instruments - Assets	-	-	-
	28,615	409,507	-
Financial liabilities			
Derivative financial instruments - liabilities	-	426	-
Deposits from Banks	-	94,569	-
Deposits from customers	-	215,566	-
Repurchase agreements	-	33,081	-
	-	343,642	-

16 **Property, plant and equipment**

	Leasehold improvements USD '000	Furniture & equipment USD '000	Computer hardware USD '000	Total USD '000
Cost				
As at 31 March 2017	559	284	160	1,003
Additions	-	11	46	57
As at 31 March 2018	**559**	**295**	**206**	**1,060**
Additions	-	4	10	14
As at 31 March 2019	**559**	**299**	**216**	**1,074**
Cumulative depreciation				
As at 31 March 2017	(205)	(196)	(141)	(542)
Depreciation charge	(56)	(58)	(8)	(122)
As at 31 March 2018	**(261)**	**(254)**	**(149)**	**(664)**
Depreciation charge	(56)	(34)	(30)	(120)
As at 31 March 2019	**(317)**	**(288)**	**(179)**	**(783)**
Net book value				
As at 1 April 2018	298	40	57	395
As at 31 March 2019	**242**	**11**	**37**	**290**

17 **Intangible assets**

	Capitalised software USD '000
Cost	
As at 1 April 2017	244
Additions	36
As at 31 March 2018	**280**
Additions	155
As at 31 March 2019	**435**
Amortisation	
As at 1 April 2017	(214)
Additions	(17)
As at 31 March 2018	**(231)**
Amortisation charge for the year	(40)
As at 31 March 2019	**(271)**
Carrying value	
As at 31 March 2018	49
As at 31 March 2019	**164**

18 **Deferred tax assets**

	2019 USD '000	2018 USD '000
Deferred tax assets on losses		
As at 1 April	826	489
Tax credit to income statement	1,791	(68)
Tax relating to change in fair value of AFS	(325)	405
Tax relating to IFRS transitional adjustment in retained earnings	112	-
As at 31 March	**2,404**	**826**

Deferred tax assets recognised during the financial year considering losses before tax amounting to $16.6m In view of the current Business plan, Bank is expecting to make appropriate profits to absorb its accumulate losses and realise the Deferred tax assets

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

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 the assets may be utilised as they reverse.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date.

The Bank reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it 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 liabilities on fixed assets	2019 USD '000	2018 USD '000
As at 1 April	17	9
Tax charge to income statement	15	8
As at 31 March	**32**	**17**

19 Other assets

	2019 USD '000	2018 USD '000
Other receivables	426	458
Prepayments and accrued income	981	1,336
Corporation tax receivable	1,244	-
	2,651	1,794

20 Deposits from Banks

	2019 USD '000	2018 USD '000
Interbank borrowings	29,387	32,140
	29,387	32,140

21 Intra-group borrowings

	2019 USD '000	2018 USD '000
Intra-group borrowings	60,564	62,429
	60,564	62,429

22 Deposits from customers

	2019 USD '000	2018 USD '000
Current accounts	9,834	5,064
Savings accounts	1,450	2,772
Fixed term deposits	228,494	207,730
	239,778	215,566

23 Repurchase agreements

The Bank enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties. As the substance of the sale and repurchase is secured borrowings, the asset collateral continues to be recognised in full and the related liability reflecting the Bank's obligation to repurchase the transferred assets for a fixed price at a future date is recognised as liability. As a result of these transactions, the Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction. The Bank remains exposed to interest rate risk and credit risk on these pledged transactions. The counterparty's recourse is not limited to the transferred assets.

	2019 USD '000 Carrying amount of transferred assets	2019 USD '000 Carrying amount of associated liabilities	2018 USD '000 Carrying amount of transferred assets	2018 USD '000 Carrying amount of associated liabilities
Repurchase agreements	37,998	30,326	39,585	33,081

24 Other liabilities

	2019 USD '000	2018 USD '000
Accruals and deferred income	632	554
Corporation tax liability	-	425
Provisions for dilapidation	98	82
	730	1,061

25 Operating lease commitments

Payments recognised in expenses:

	Land and buildings 2019 USD '000	Land and buildings 2018 USD '000
Rent of Bank premises at Senator House	316	307
	316	307

Total of future minimum lease payments under non-cancellable operating lease are as follows:

	2019 USD '000	2018 USD '000
Within one year	353	379
In two to five years	1,189	1,519
In over five years	-	47
	1,542	1,945

26 Share capital

	2019 Number	2018 Number	2019 USD '000	2018 USD '000
Authorised Capital				
Ordinary shares of GBP 1 each	2	2	0.003	0.003
Ordinary shares of USD 1 each	100,000,000	100,000,000	100,000	100,000
Issued and fully paid				
Ordinary shares of GBP 1 each	2	2	0.003	0.003
Ordinary shares of USD 1 each				
As at 1 April	90,000,000	80,000,000	90,000	80,000
Issue of Share Capital *	10,000,000	10,000,000	10,000	10,000
As at 31 March	100,000,000	90,000,000	100,000	90,000

* The Bank has issued share capital of $10,000,000 (2018: $10,000,000) in favour of its parent company, Union Bank of India, by way of ordinary shares of $1 each.

27 Other commitments and contingencies

Commitments in respect of financial instruments are as follows:

	2019 USD '000	2018 USD '000
Foreign exchange - Assets	75,399	24,818
Foreign exchange - Liabilities	74,990	25,244
Bank guarantee	115	124
Undrawn committed facilities	41,203	12,809

Foreign exchange - Assets & Liabilities pertains to Fx Swap deals which are normally having original maturity less than one year

Bank Guarantees - Performance Guarantees issued in favour of existing customers

Contracted maturities of above commitments and contingencies varies from 90 days to 4 years.

Undrawn Commitments - This is the amount which is available to draw for the Loan Customers

28 Related party transactions

a) During the year, the Bank entered into the following transactions with various branches of the Union Bank of India, (the parent bank):

	2019 USD '000	2018 USD '000
Interest income on placements	102	-
Interest income on trade finance	-	16
Interest expense on borrowings	2,423	1,750

Balances with Related parties as at 31 March:

	Amounts owed by related parties	
	2019 USD '000	2018 USD '000
Assets		
Nostro account balance with Union Bank of India, India	4	12
	4	12

	Amounts owed to related parties	
	2019 USD '000	2018 USD '000
Liabilities		
Intra-group borrowings	60,564	62,429
	60,564	62,429

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

b) The ultimate controlling party of the Bank is Union Bank of India, incorporated in India which is both the parent Bank (ownership - 100%) and ultimate controlling party.

c) The following key management personnel are also considered to be related parties:

Mr. Viswesvaran Radhakrishnan (Managing Director and Chief Executive Officer)

Dr. Anand Kumar (Executive Director and Deputy Chief Executive Officer)

29 Risk management

The Bank is exposed to the following risks in relation to its financial assets and liabilities:

- Credit risk
- Country risk
- Liquidity risk
- Market risk: Currency risk
- Interest rate risk
- Operational risk
- Capital risk management

Credit risk

Credit risk refers to the risk of direct or indirect losses in on and off-balance sheet positions because of the failure of a borrower or counterparty to meet its obligations in accordance with agreed terms. The Bank has appropriate policies in place that describes the principles which underpin and drive the Bank's approach to credit risk management together with the systems and processes through which they are implemented and administered.

Bank attempts to maintain a strong asset quality through disciplined credit risk management. Bank continuously monitors portfolio concentrations by borrower, groups, sectors, industry, geography, etc. and constantly strives to improve credit quality and maintain a risk profile that is diverse in terms of borrowers, products, industry types and geography.

Bank's credit portfolio is subject to internal credit rating. Bank uses separate models of credit risk assessment for different exposure segments. Bank has adopted a standardized and well-defined approval process for all advances, which involves a committee approach for credit sanctions/approvals.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Bank's maximum exposure to credit risk. There are no financial assets to related parties which are past due or impaired.

		2019 USD '000	2018 USD '000
Neither past due nor impaired		250,435	320,029
Past due but not impaired		15,137	3,178
Impaired		63,956	16,911
	Gross	**329,528**	**340,118**
Impairment loss allowances:			
Collective Provision		-	(1,700)
Specific provision		(27,473)	(1,600)
	Net	**302,055**	**336,818**

Risk management (Continued)

- Financial assets are individually assessed to identify the event of impairment. The Bank considers several events including credit rating deterioration, negative media report, economic outlook of industry & geography, breach in key financial covenants, past due days etc. as triggers that may lead to impairment.

- If the impairment event triggers, then the bank considers the options of forbearance (if it's feasible for the counterparty to remain going concern) and liquidation. In case of forbearance, NPV (Net present value) loss arising from NPV comparison from existing and revised contract, is treated as impairment loss. In case of liquidation, available securities and hierarchy of debt is considered to calculate the impairment loss.
- During this financial year, impairment event triggered for eight loan assets. Total exposure to these assets is $46.4m. The recovery process has been started for these eight assets. Total specific impairment loss of $25.2m has been recognised during this financial year.

CREDIT RISK REVIEW

IFRS 9 Credit Quality

Loans to Customers	**2019** **USD '000**	**2018** **USD '000**
Gross Exposure	329,528	340,118
Less:- Loan loss provision	(27,473)	(3,300)
Net Exposure	**302,055**	**336,818**

Financial Instruments (excluding Derivatives)	**2019** **USD '000**	**2018** **USD '000**
Financial assets at fair value through profit or loss:		
Financial Investment	-	1,916
Financial Assets at amortised cost:		
Loans and advances to customers (gross)	329,528	340,118
Financial investments	12,239	13,807
Loans and advances to Banks	26,337	-
Other financial assets at amortised cost	4,244	1,355
	372,349	**355,280**

Financial assets at fair value through other comprehensive income:	**2019** **USD '000**	**2018** **USD '000**
Financial investments	103,268	82,281
Total	**475,617**	**439,477**

CREDIT RISK REVIEW (Continued)

Analysis of the Financial Instruments (excluding Derivatives)	**2019 USD '000**	**2018 USD '000**
Due within one year	122,799	40,792
Due in more than one year	352,818	398,685
Total	**475,617**	**439,477**

Particulars	**2019 USD '000**	**2018 USD '000**
Neither past due nor impaired	396,523	419,388
Past due but not impaired	15,137	3,178
Impaired	63,956	16,911
Total	**475,617**	**439,477**

Loans to Customers as at 31 March 2019

Particulars	**Stage 1 USD '000**	**Stage 2 USD '000**	**Stage 3 USD '000**	**Total USD '000**
Gross carrying amount	222,183	43,388	63,956	329,528
Impairment provision	(416)	(35)	(27,022)	(27,473)
Net amounts receivable	**221,767**	**43,353**	**36,935**	**302,055**

Loans to Customers	**Stage 1 USD '000**	**Stage 2 USD '000**	**Stage 3 USD '000**	**Total USD '000**
Gross carrying amount as at 1st April 2018	**323,208**	**-**	**16,911**	**340,118**
Changes in the loss provision attributable to:				
- Transfer from stage 1 to 2	(45,904)	45,904	-	-
- Transfer from stage 1 to 3	(46,437)	-	46,437	-
- Transfer from stage 2 to 1	-	-	-	-
- Transfer from stage 2 to 3	-	-	-	-
- Transfer from stage 3 to 2	-	-	-	-
- Transfer from stage 3 to 1	-	-	-	-
New receivables originated or purchased	39,948	3,259	-	43,207
Net Repayments of loans	(48,631)	(5,775)	609	(53,797)
Derecognition of modified loans	-	-	-	-
Other movements	-	-	-	-
Gross carrying amount as at 31 March 2019	**222,183**	**43,388**	**63,956**	**329,528**

CREDIT RISK REVIEW (Continued)
Analysis of the Financial Instruments (excluding Derivatives) (Continued)

Particulars	Stage 1 USD '000	Stage 2 USD '000	Stage 3 USD '000	Total USD '000
*** Loan loss provision as at 1 April 2018**	**626**	**-**	**1,600**	**2,226**
Changes in the loss provision attributable to:				
- Transfer from stage 1 to 2	(75)	75	-	-
- Transfer from stage 1 to 3	(81)	-	81	-
- Transfer from stage 2 to 1	-	-	-	-
- Transfer from stage 2 to 3	-	-	-	-
- Transfer from stage 3 to 2	-	-	-	-
- Transfer from stage 3 to 1	-	-	-	-
Net re-measurement of ECL arising from transfer of stage	(66)	(46)	22,725	22,612
New receivables originated or purchased	32	7	-	39
Net Repayments of loans	(20)	-	2,616	2,596
Derecognition of modified loans	-	-	-	-
Other movements	-	-	-	-
Loan loss provision as at 31 March 2019	**572**	**(40)**	**26,941**	**27,473**

* Note: Above loan loss provision as at 1st April 2019 is as per IFRS 9 (refer note 1.4)

Rescheduled loans	**2019 USD '000**	**2018 USD '000**
Term loan	72,904	40,178
Overdraft	-	-
Other Loans	-	-
	72,904	**40,178**

The below tables provides detail on the staging of rescheduled loans as at 31 March 2019:

	Stage 1 USD '000	Stage 2 USD '000	Stage 3 USD '000	Total USD '000
As at 31 March 2019				
Term loan	10,319	7,593	54,992	72,904
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Gross carrying amount	**10,319**	**7,593**	**54,992**	**72,904**
Term loan	9	3	19,956	19,968
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Impairment provision	**9**	**3**	**19,956**	**19,968**
Term loan	10,310	7,590	35,035	52,936
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Net amounts receivable	**10,310**	**7,590**	**35,035**	**52,936**

Collateral:

Collateral is held to mitigate credit risk exposure and may include one or more of:

1. Bank Deposits under Lien including those with third party institutions
2. Marketable Securities
3. Current Assets
4. Bank Guarantees & Letters of Credit
5. Fixed Assets (Movable & Immovable)
6. Real Estate
7. Corporate/Personal Guaranty

Bifurcation of loan book according to available security is give below:

	2019 USD '000	2018 USD '000
Secured	311,467	320,574
Unsecured	18,061	19,544
Total	**329,528**	**340,118**

There is no significant change in quality of Collateral during the financial year due to change in accounting policies or otherwise

Country risk exposure

Country risk is the risk of an adverse effect that an occurrence within a country could have on the Bank. The Bank's risk management framework incorporates measures and tools to monitor this risk. The following table provides a summary by country of risk as of:

Countries	2019 Exposure USD '000	2018 Exposure USD '000	2019 % of Total Exposure	2018 % of Total Exposure
Australia	3,472	3,388	0.7%	0.8%
Belgium	6,704	8,242	1.4%	1.9%
British Virgin Island	16,673	20,561	3.5%	4.7%
Cayman Island	17,995	18,168	3.8%	4.1%
Germany	5,559	7,831	1.2%	1.8%
India	120,806	96,326	25.4%	21.9%
Indonesia	6,852	8,354	1.4%	1.9%
Korea, Republic of	2,503	2,444	0.5%	0.6%
Kuwait	1,484	1,460	0.3%	0.3%
Mauritius	4,945	7,980	1.0%	1.8%
Mexico	6,534	7,489	1.4%	1.7%
Netherlands	5,001	5,070	1.1%	1.2%
Oman	3,718	3,793	0.8%	0.9%
Other (MDBs)	3,620	3,411	0.8%	0.8%
Portugal	2,385	3,359	0.5%	0.8%
Singapore	25,918	27,579	5.4%	6.3%
South Africa	-	5,471	0.0%	1.2%
United Arab Emirates	20,603	23,499	4.3%	5.3%
United Kingdom	129,379	111,172	27.2%	25.3%
United States of America	91,466	73,881	19.2%	16.8%
	475,617	439,477	100.0%	100.0%

Risk management (Continued)

Liquidity risk
Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due.

Liquidity risk is managed by balancing its cash flows with forward thinking rolling time bands so that under normal conditions the Bank is comfortably placed to meet its payment obligations as they fall due. The immediate focus is on short and medium-term funding and liquid asset management. This ensures management of liquidity risks as part of bank's ongoing business management within daily operations, strategy and planning.

The Bank has developed its Internal Liquidity Adequacy Assessment Process (ILAAP) and stress testing process to assess the liquidity adequacy, the results of which have been reviewed by Senior Management during the year.

The liquidity profile as at reporting date is as shown below:

	Non-derivative financial assets		Non-derivative financial liabilities	
	2019 USD '000	**2018 USD '000**	**2019 USD '000**	**2018 USD '000**
On Demand	5,744	-	11,284	7,836
Due within 3 months	24,669	27,138	34,505	32,019
Due between 3 to 12 months	83,690	88,213	165,370	150,399
Due between 1 to 5 years	258,899	261,518	148,895	152,962
Due after 5 years	102,613	62,608	-	-
Total	475,617	439,477	360,054	343,216

	Derivative financial assets		Derivative financial liabilities	
	2019 USD '000	**2018 USD '000**	**2019 USD '000**	**2018 USD '000**
On Demand	-	-	-	-
Due within 3 months	26,686	5,983	26,232	5,981
Due between 3 to 12 months	48,713	18,835	48,758	19,263
Due between 1 to 5 years	-	-	-	-
Due after 5 years	-	-	-	-
	75,399	**24,818**	**74,990**	**25,244**

The responsibility for ensuring that the Bank can meet its obligations as they fall due rests with the Bank's management. Under the PRA regulations the Bank is compliant with its ILG on an ongoing basis. The Bank has a prudent liquidity policy and adequate management systems and controls in place to ensure that the policy is adhered to at all times.

• The Board of Directors are ultimately responsible for ensuring that the liquidity policy remains relevant and up to date at all times and is in line with the Bank's business activities and expressed risk tolerance.

The Asset and Liability Committee ("ALCO") is responsible for reviewing and recommending liquidity policy to the Board of Directors. ALCO is supported by the Risk function, which is responsible for monitoring the compliance on a daily basis.
The Bank has developed its ILAAP, which includes a series of stress tests and limits.

• The responsibility of day-to-day management of the Bank's liquidity position is delegated to the Bank's Treasury department.

Risk management (Continued)

Currency risk

Currency risk is the risk that arises from the change in price of one currency against another.

The Bank is mainly exposed to fluctuations in the value of GBP, EUR and INR. Bank manages the exposures to the variability in cash flows of foreign currency denominated assets and liabilities to movements in foreign exchange rates by entering into cross currency swaps. These instruments are entered into to match the cash flow profile. Bank has defined policy and low risk appetite to hold overnight open position in foreign currencies. Open position is monitored on daily basis and ensured that it remains within the risk appetite at all times.

The Net open position in foreign currencies at the reporting date is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
	USD '000	USD '000	USD '000	USD '000
INR	4	12	-	-
GBP	-	-	350	442
EURO	286	667	-	-

The currency risk is managed by keeping open position within the risk appetite all the time.

Upward or downward movement of exchange rates by 10% may impact profitability of the Bank by $0.03m (2018: $0.07m).

Interest rate risk

Interest rate risk is the risk that arises due to possibilities of a fluctuation in rates, and how that impacts on the pricing structure of the Bank's assets and liabilities. The Bank is also exposed to interest rate risk due to the nature of the rate being either fixed or floating. Most liabilities have fixed interest rates while for some assets interest rates are floating and are benchmarked to certain index rates like LIBOR or Bank rates which are dynamic and prone to fluctuations.

The Bank's ALCO meets monthly to monitor this risk. ALCO in turn reviews the interest rates in various currencies arising from repricing of assets, liabilities and derivative instruments. The Bank manages part of this risk by carefully matching the cost of liabilities with that of asset pricing and if need be the Bank would use interest rate swaps to mitigate the risk.

Interest rate risk, considering interest rate sensitivity analysis at 2% shift, is $5.03m as at 31 March 2019 (2018: $6.59m)

Operational risk

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process, systems, people or external events.

The Bank has put in place an Operational Risk Management policy to manage operational risk in an effective, efficient and proactive manner. The primary objective of the policy is to identify the operational risks that the Bank is exposed to from failed, inadequate and/or missing controls, processes, people, systems or from external events or a combination of all the five, assess or measure their magnitude, monitor them and control or mitigate them by using a variety of checks. Within the Operational risk framework, new products, processes and services introduced by the Bank are subject to rigorous risk evaluation and approval. In addition to the policy, the Bank has specific operational policies in place covering (inter alia) IT & Cyber Security, Outsourcing policy and business continuity plan.

The Bank has identified various possible risk scenarios and has put in place an internal control framework to mitigate identified risks. This framework is set out in the form of departmental policies and procedures, which are reviewed on a regular basis.

Risk management (continued)

Capital risk management
The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of its capital structure. 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.

The Bank's regulatory capital requirements are set by way of the ICG by the PRA. The Bank has had surplus capital over and above the capital required as per the ICG during the year.

The Bank's regulatory capital is categorised into Tier one capital, which includes ordinary share capital, and retained earnings.

	2019 USD '000	2018 USD '000
Paid up share capital	100,000	90,000
Retained earnings	(5,719)	7,069
Fair value reserves	(964)	(2,478)
Tier one capital	93,317	94,591

30 Ultimate parent company

The ultimate parent company is Union Bank of India, a public-sector bank incorporated in India, which is both the immediate and ultimate controlling party. The consolidated financial statements for Union Bank of India are available to the public and may be obtained from Union Bank Bhavan, 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400021 or from their website www.unionbankofindia.co.in.

31 Events after the balance sheet date

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

Brexit Impact - As the Bank does not have any branch or business operations outside UK, change in passporting rights would not have any direct impact on Bank's operations.
Bank continues to operate as per plan, without making any change in the business model.
In view of the Brexit, Bank has started to focus more on UK based assets instead of other EU member states.

32 Pillar III

The Bank is authorised by the PRA and regulated by the FCA and the PRA, therefore the Bank is required to publish the Pillar III disclosures. These are available at the Bank's website: www.unionbankofindiauk.co.uk.