Company Registration number: 07653660

Union Bank of India (UK) Ltd

ANNUAL ACCOUNTS

For the year ended on 31 March 2018

UNION BANK OF INDIA (UK) LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

Contents

UNION BANK OF INDIA (UK) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS
FOR THE YEAR ENDED 31 MARCH 2018

Company Registration Number	**07653660**
The Board of Directors	**Mr. Rajkiran Rai G.** Chairman (Joined on 15/11/2017)
	Mr. Raj Kamal Verma Nominee Director (Joined on 15/01/2018)
	Mr. Arun Tiwari Chairman (Resigned on 30/06/2017)
	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 2018. 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 Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

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

Proposed initiative

During the year 2017-18, the Bank decided to launch the following facilities in the next financial year;

- Online deposit platform to canvass retail deposits at competitive rates,
- Indian Rupee (INR) remittance facility 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 its parent company in the form of capital and operations.

The Directors have assessed the current economic environment and the future economic conditions along with the Bank's risk management framework and are confident that the Bank will be well placed to manage its business risks successfully. The directors expect the bank to operate profitably for the foreseeable future.

Capital structure

The Bank has maintained its capital base at levels which exceed the current minimum requirements of the PRA, the banking regulator in the United Kingdom (UK).

The issued and paid up share capital as of 31 March 2017 was $80m and £2. There was further capital infusion of $10m during the financial year, making the total issued and paid up share capital as at 31 March 2018 of $90m and £2. One hundred percent of the 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.

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 on the Board. All Directors' indemnities were in place during the year and 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 2018.

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 year (31 March 2017: USD 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 9 May 2018 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 strategic report and the financial statements for Union Bank of India (UK) Ltd. for the year ended 31 March 2018.

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 range of products to its customers covering retail, corporate and commercial banking, trade finance and treasury services.

Primary objectives
The Bank's primary objectives are:

- To create sustainable growth within the UK
- To support the customers of Union Bank of India (the parent Bank) by providing international banking facilities
- To improve existing customer relationships by increasing the range of products and services available to customers
- To become the Bank of first choice for the UK related business for the Indian corporates
- To ensure that the risks inherent in the business are subject to robust controls and risk management oversight
- To ensure that new and enhanced technologies are implemented to support the business; and
- To build and develop leadership capability and management expertise

Review of the business
The Bank commenced its commercial operations in July 2014. The Bank has set up robust systems, procedures and policies for successful management of its business risks. The business strategy of the Bank has mainly been 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.

For the purpose of this strategic review, the management has described activity within individual Financial Statements line items.

Income statement review

	2018 USD '000	2017 USD '000
Net interest income	11,062	7,106
Non-interest income	1,171	1,227
Operating expenses	(3,921)	(3,646)
Impairment loss allowances	(1,930)	(1,310)
Profit/(loss) before tax	6,382	3,377
Profit/(loss) after tax	5,168	2,688

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

- Profit before tax was up 89% at $6.38m, primarily due to increase in Net Interest Income by 56% to $11.06m.
- Non-interest income was down 4%, mainly due to reduction in profits/gains on sale of AFS/HFT investments. Net fees and commission income remained at almost the same level.

Income statement review (continued)

- Operating expenses before impairment allowances were up 8% due to increase in personnel costs by 11%, information technology cost by 22% and regulatory compliance, legal & professional costs by 29%. These expenses are normal considering the business growth of the Bank.

- Impairment loss allowance of $1.93m recognised in 2017-18. Total impairment loss allowance booked till 31 March 2018 was $3.30m ($1.70m as collective provision and $1.60m as specific provision). This is the area of significant management judgement. The way Bank calculates impairment allowance under IFRS will change from 1 April 2018 when IFRS 9 takes effect. IFRS 9 uses an expected credit loss (ECL) model rather than the incurred loss model used by IAS 39.
- Tax on profit was up 76% to $1.21m due to increase in profit before tax.

Balance sheet review

Assets	**2018** **USD '000**	**2017** **USD '000**
Loans and advances to customers	336,818	276,985
Loans and advances to banks	-	7,000
Financial Investments	98,004	50,476

- Loans and advances to customers grew by 22% to $336.82m (2017: $276.98), with targeted lending growth in term loan facility offered to SME and large corporates.
- Loans and advances to banks was Nil at 31 March 2018 (2017: $7.00m). The decrease was driven by a conscious decision to keep short term interbank placements at a low level.
- Investment portfolio increased by 94% to $98.00m (2017: $50.48), with planned increase in investment in high yielding good rated corporate bonds.

Liabilities	**2018** **USD '000**	**2017** **USD '000**
Deposits by banks (including intragroup & Repo)	127,650	85,969
Deposits by customers	215,566	168,942
Equity	94,591	81,387

- Deposits by banks increased by 48% to $127.65m at 31 March 2018 (2017: $85.97m). Deposits from banks are maintained to fund the interest earning assets. Bank is focusing on long term deposits to make overall funding stable.
- Deposits by customers have grown by 28% to $215.57m at 31 March 2018 (2017: $168.94m) as the bank is focused on retaining and originating retail deposit accounts.
- Total shareholders' equity increased by 16% to $94.59m at 31 March 2018 (2017: $81.39m), due to infusion of share capital of $10.00m by parent bank and retained profits for the year and was partially offset by the impact of fair value reserve amounting to $2.48m at 31 March 2018 (2017: $0.51m).

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

Macro Environment:
Global economic activity continues to firm up. Global output is estimated to have grown by 3.7% in 2017, which is 0.1% point faster than projected and ½% point higher than in 2016. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2% point to 3.9%. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.

Asia is predicted to grow at around 6.5% over 2018-19, broadly the same pace as in 2017. The region continues to account for over half of world growth. Growth is expected to be moderate in China, pick up in India, and remain broadly stable in the ASEAN-5 region.

UK Macro Environment:
UK economic growth is likely to continue to weaken in 2018 and 2019. Private consumption is projected to remain subdued as higher inflation, pushed up by the past depreciation of Sterling, holds back household purchasing power. The unemployment rate is at a record low, but with slower growth this is unlikely to persist. Exchange rate depreciation should support exports, while import growth is projected to fall owing to weaker private consumption. An agreement about a transition period linked to the EU exit after March 2019 is assumed and should support growth in 2018 and in 2019, reducing the extent to which uncertainty weighs on domestic spending. Prospects of maintaining the closest possible economic relationship between the United Kingdom and the European Union would further support economic growth.

GDP growth has eased to 1.5% in 2017. 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:
India and the rest of Asia are generally projected to continue growing at a robust pace, although with some countries facing strong headwinds from China's economic rebalancing and global manufacturing weakness.

In India, the growth forecast for the fiscal year 2018-19, and the next fiscal year are estimated at 7.4% and 7.8% respectively against the growth of 6.7% in 2016-17, primarily due to the structural reforms and the concerted efforts of the stable Government giving impetus to the infrastructure developments.

Growth in the Middle East, North Africa, Afghanistan, and Pakistan region is also expected to increase in 2018 and 2019, but remains subdued at around 3½%. While stronger oil prices are helping a recovery in domestic demand in oil exporters, including Saudi Arabia, the fiscal adjustment that is still needed is projected to weigh on growth prospects.

The growth pickup in Sub-Saharan Africa (from 2.7% in 2017 to 3.3% in 2018 and 3.5% in 2019) is broadly as anticipated with a modest upgrade to the growth forecast for Nigeria but more subdued growth prospects in South Africa, where growth is now expected to remain below 1% in 2018–19, as increased political uncertainty weighs on confidence and investment.

In Europe, where growth in 2017 is now estimated to have exceeded 5%, activity in 2018 and 2019 is projected to remain stronger than previously anticipated, lifted by a higher growth forecast for Poland and especially Turkey. These revisions reflect a favourable external environment, with easy financial conditions and stronger export demand from the Euro area.

Forward looking
The UK economy has performed better in 2017 than many initial expectations following the EU referendum. However, momentum has slowed relative to 2016 and forward-looking growth forecasts have trended downwards throughout the year. Exit negotiations between the UK and the EU are complex and challenging, and as a result, uncertainty has been increasing with respect to the future trade and services relationship. This uncertainty is reflected in cautious levels of business investment.

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 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 Asset Buffer (LAB) in line with the Individual Liquidity Guidance (ILG) stipulated by the PRA. The Bank also maintains an investment portfolio of Corporate Bonds. Both LAB and Corporate Bonds are classified as either Held to maturity (HTM), Held for trading (HFT) or Available for sale (AFS) 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.

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

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 two Board level committees, each of which are chaired by a Non-Executive Director.

Corporate Governance (continued)

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, Compliance Officer/MLRO and the Risk Manager, who acts as Secretary.
b) Audit Committee of the Board (ACB) meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as Chair), the secretary is the Head of Internal Audit.

Anti-Money Laundering (AML) & Compliance

The Bank maintains an independent Compliance 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 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.

The Bank's risk appetite has been developed and articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. 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.

These documents are 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 the ILAAP and ICAAP are subject to periodic review and update in response to material changes to the business or regulatory environment.

The Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (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.

Risk management framework (continued)

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)
- Management Committee of the Board (MCB)

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. The 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 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.

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.

Regulatory environment (continued)

The Bank continues to face a complex regulatory change agenda, with key projects due for delivery across 2018 and 2019 including PSDII, Markets in Financial Instruments Directive (MiFID II) and General Data Protection Regulation (GDPR). 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 endeavor 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:

i) 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;
ii) 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
iii) 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 9 May 2018 and signed on its behalf by:

Viswesvaran Radhakrishnan
Managing Director & CEO

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

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 MARCH 2018

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

9 May 2018

INDEPENDENT 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:

- **give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Union Bank of India (UK) Limited (the 'company') 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 International Financial Reporting Standards (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 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 matters	The key audit matters that we identified in the current year were: • Loan loss provisioning
Materiality	The materiality that we used in the current year was $2.8m which was determined by reference to 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 by internal audit, and those driven by changes in the business environment and new or complex accounting requirements.
Significant changes in our approach	There have been no significant changes in our approach for the current year.

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 has a loan portfolio to customers of \$337m (2017: \$278m). There is a risk that the company will incur loan losses from failure of customers meeting their obligations; management therefore recognises a provision against loan receivables for such losses. We identified a key audit matter relating to loan loss provisioning of individually impaired loans and management's collective provision which addresses incurred but not reported losses ("IBNR"). There is inherent judgement required by management in assessing both individual customer circumstances and inputs into the IBNR provision. We considered the potential for fraud that may arise due to management bias within these judgements. As the Bank still has a relatively new lending portfolio, it has limited loss experience; this increases the risk associated with the assumptions underlying the collective IBNR provision methodology. Management are required by IAS 39 to identify impairment triggers on loans as part of the provisioning process. The provision balance as at 31 March 2018 was \$3.3m (2017: \$1.4m). These are disclosed in note 11 of the accompanying financial statements and the accounting policy is disclosed in note 1.

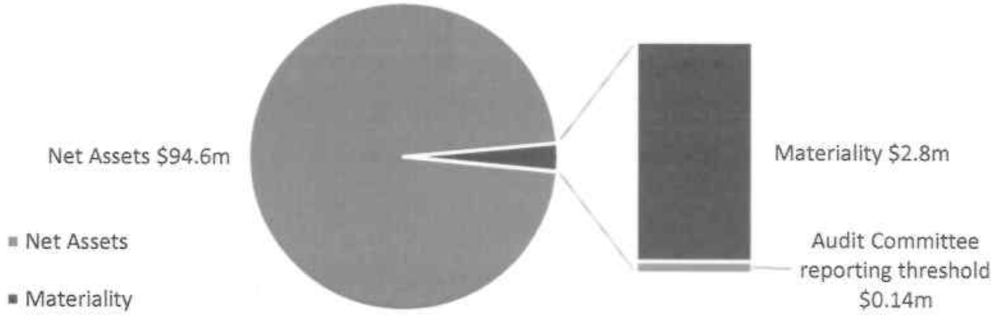
How the scope of our audit responded to the key audit matter	We assessed the Bank's process for identifying and monitoring credit risk in the financial statements. We also evaluated the design and implementation of controls at the Bank that are relevant to the impairment and the provisioning process. We evaluated the IBNR approach to determine whether it is appropriate based on IAS 39 and our knowledge of the business. We reviewed inputs and challenged the key assumptions within loan loss provisioning, particularly in light of the limited loss history of the bank. We selected a sample of loans from across the loan portfolio where no impairment triggers had been identified by management to assess they were appropriately accounted for. We reviewed all loans where impairment triggers had been identified by management and assessed whether the provisioning level booked was appropriate. This also involved an assessment of the underlying security valuations where relevant and future cash flows expected from each facility.
Key observations	We consider the overall provision levels to be reasonable and we did not identify any material uncorrected misstatements related to the Bank's provision levels.

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	$2.8m
Basis for determining materiality	3% of net assets.
Rationale for the benchmark applied	Net assets is a key indicator of the Bank's past performance and is the key external metric in relation to regulatory capital requirements, and for the users of the financial statements.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $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

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

We have nothing to report in respect of these matters.

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

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 the Board of Directors 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 3 years, covering the years ending 31 March 2015 to 31 March 2018.

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).

Caroline Britton for and on behalf of Deloitte LLP

Statutory Auditor

London, UK

9 May 2018

UNION BANK OF INDIA (UK) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 USD '000	2017 USD '000
Interest and similar income	2	17,389	11,649
Interest and similar expense	3	(6,327)	(4,543)
Net interest income		11,062	7,106
Net fees and commission income	4	541	507
Net trading income		256	310
Other operating income		374	410
Operating income		12,233	8,333
Personnel costs	5	(2,032)	(1,826)
Operating lease	25	(307)	(300)
Depreciation and amortisation	16,17	(140)	(233)
General administrative expenses	7	(1,442)	(1,287)
Operating expenses before impairment loss allowances		(3,921)	(3,646)
Operating profit		**8,312**	**4,687**
Impairment loss allowances	11	(1,930)	(1,310)
Profit/(Loss) before tax		**6,382**	**3,377**
Income tax credit / (charge)	8	(1,214)	(689)
Profit/(Loss) for the year from continuing operations		**5,168**	**2,688**

The notes on pages 25 to 49 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	2018 USD '000	2017 USD '000
Total profit/(loss) for the year attributable to equity shareholders	5,168	2,688
Other comprehensive income net of tax		
Items that may be reclassified subsequently to profit or loss		
Net change in fair value of AFS	(2,382)	(693)
Tax relating to change in fair value of AFS	418	120
Net gain/(loss) on AFS investments	(1,964)	(573)
Total comprehensive income attributable to equity shareholders for the year	**3,204**	**2,115**

The notes on pages 25 to 49 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Notes	2018 USD '000	2017 USD '000
Assets			
Cash and balances with Banks	9	1,355	919
Loans and advances to Banks	10	-	7,000
Loans and advances to customers	11	336,818	276,985
Financial investments - Available for sale	12	82,281	36,612
Financial investments - Held to maturity	13	13,807	13,864
Financial investments - Held for trading		1,916	-
Derivative financial instruments - Assets	14	-	324
Property, plant and equipment	16	395	461
Intangible assets	17	49	31
Capital work in progress		70	69
Deferred tax assets	18	809	480
Other assets	19	1,794	845
Total assets		**439,294**	**337,590**
Liabilities			
Derivative financial instruments - Liabilities	14	426	-
Deposits from Banks	20	32,140	35,701
Intra-group borrowings	21	62,429	50,268
Deposits from customers	22	215,566	168,942
Repurchase agreements	23	33,081	-
Other liabilities	24	1,061	1,292
Total liabilities		**344,703**	**256,203**
Equity			
Share capital	26	90,000	80,000
Fair value reserves		(2,478)	(514)
Retained earnings		7,069	1,901
Total shareholder's equity		**94,591**	**81,387**
Total equity and liabilities		**439,294**	**337,590**

The notes on pages 25 to 49 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 9 May 2018.

Viswesvaran Radhakrishnan
Managing Director & CEO

Dr Anand Kumar
Executive Director & Dy CEO

Company registration no: 07653660

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

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 for the year		-	(1,964)	5,168	3,204
Profit for the year		-	-	5,168	5,168
Net change in fair value of AFS investments		-	(1,964)	-	(1,964)
Balance as at 31 March 2018 attributable to shareholders of the Bank		**90,000**	**(2,478)**	**7,069**	**94,591**

31 March 2017	**Notes**	**Issued capital USD '000**	**Fair value reserves USD '000**	**Retained earnings USD '000**	**Total equity USD '000**
Balance as at 1 April 2016		50,000	59	(787)	49,272
Issue of share capital		30,000	-	-	30,000
Total Comprehensive Income for the year		-	(573)	2,688	2,115
Profit for the year		-	-	2,688	2,688
Net change in fair value of AFS investments		-	(573)	-	(573)
Balance as at 31 March 2017 attributable to shareholders of the Bank		**80,000**	**(514)**	**1,901**	**81,387**

The notes on pages 25 to 49 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 USD '000	2017 USD '000
Cash flows from operating activities			
Net profit/(loss) before tax for the year		6,382	3,377
Adjustments to reconcile profit from operations:			
Amortisation of intangible non-current asset	17	18	74
Depreciation for property, plant and equipment	16	122	159
Cash flows before changes in operating activities		140	233
Movement in working capital			
Decrease/(Increase) in receivables & prepayments	19	(949)	112
(Decrease)/Increase in other liabilities	24	(1,774)	(385)
Net Increase in working capital		(2,723)	(273)
Cash flows from operating activities			
(Increase)/Decrease in loans and advances to customers	11	(59,833)	(90,916)
(Increase)/Decrease in loans and advances to banks	10	7,000	33,040
Increase/(Decrease) in deposits from Banks	20	(3,561)	(29,839)
Increase in deposits from customers	22	46,624	68,690
Increase/(Decrease) in repurchase agreements	23	33,081	(2,219)
(Increase)/Decrease in derivative financial instruments - Assets	14	324	391
(Decrease)/Increase on derivative financial instruments - Liab.	14	426	-
		24,061	(20,853)
Net cash flows used in operating activities (A)		27,860	(17,516)
Cash flows from investing activities			
Acquisition of AFS investments (net of reserves)	12	(47,633)	(7,847)
Acquisition of HTM investments	13	57	(10,317)
Acquisition of HFT investments		(1,916)	-
Acquisition of property, plant and equipment	16	(56)	(29)
Acquisition of intangible assets	17	(36)	(23)
(Increase) / decrease in capital work in progress		(1)	(5)
Net cash flows used in investing activities (B)		(49,585)	(18,221)
Cash flows from financing activities			
Proceeds from issue of equity share capital	26	10,000	30,000
Proceeds from/(Repayment to) Intra-group borrowings	21	12,161	(301)
Net cash flows from financing activities (C)		22,161	29,699
Net increase in cash and cash equivalents (A+B+C)		436	(6,038)
Cash and cash equivalents at beginning of the year		919	6,957
Cash and cash equivalents at close of the year	9	**1,355**	**919**

The notes on pages 25 to 49 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. 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.

Compliance with International Financial Reporting Standards (IFRS)
Financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provision of the UK Companies Act 2006.
At the date of authorisation of these financial statements, the following Standards and Interpretation which have not been applied in these financial statements which have been issued but not yet effective:

IFRS 9 'Financial Instruments' (IFRS 9) In July 2014, the International Accounting Standards Board (IASB) approved IFRS 9 to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15 and is effective for reporting periods starting on or after 1 January 2018.

IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for reporting periods beginning on or after 1 January 2019.

IFRS 9 – Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces IAS 39 Financial Instruments: Recognition and Measurement.
The Bank will apply IFRS 9 on 1 April 2018. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's capital at 1 April 2018 will be approximately in the range of $2.0m to $3.0m reflecting mainly changes in impairment levels and tax assets/liabilities. Future changes in accounting processes, assumptions, judgements and controls may affect these assessments.

Impact assessment

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)

IFRS 9 – Financial Instruments (continued)

Classification – Financial assets (continued)

- 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

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.

Forward looking

Under IFRS 9, the Bank will incorporate forward-looking information and discrete macroeconomic scenarios in assessment of any significant increase in credit risk.

Capital planning

In view of sufficient available capital, the Bank has decided to absorb full impact of IFRS-9 in the first financial year (FY 2018-19), not taking advantage of the transitional guidelines issued by the Prudential Regulation Authority (PRA).

1.2 Functional and presentation currency

The financial statements of the Bank are presented in US Dollars (USD), which is the presentation and functional currency of the Bank as it represents the currency of the primary economic environment in which the Bank operates. A significant proportion of the Bank's assets and revenues are transacted in US Dollars.

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency i.e. foreign currency, are recorded at the rates of exchange prevailing on the date of the transaction. Any resulting exchange differences are included in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the Balance Sheet date.

1 Accounting policies (continued)

1.3 Use of estimates and judgements

The preparation of the financial statements in conformity with the generally accepted accounting principles requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In particular, considerable judgment by the management is required in the estimation of the amount and timing of future cash flows. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

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.

- Impairment loss allowances for financial assets

1.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

a) Interest and similar income and expense

Interest income for all relevant financial instruments is recognised in the income statement using the effective interest rates of the financial assets and financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flow.

b) Fee and commission income

Fee and Commission income is earned from a diverse range of 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.

c) Profit on exchange transactions

Profit on exchange transactions comprises profit (net of loss) on dealings in foreign exchange. All income earned by way of foreign exchange commission and charges on foreign exchange transactions except interest are to be included under this heading.

d) Lease transactions

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the lease term are classified as operating leases. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General administrative expenses'.

1 **Accounting policies (continued)**

e) Dividend income

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

1.5 **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 such time as 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.

1.6 **Employee benefits**

The Bank has two pay groups of employees in the UK; those on secondment to the Bank from the Parent Bank and those who are locally recruited. The employees on secondment are governed by the salary structure approved by the Board of Directors of the Parent Bank. The salary to the locally recruited staff is as per their respective employment contract. The Bank currently has no incentivised pay structure for its employees and Directors, therefore no bonus has been paid to employees or Directors during the year.

1.7 **Intangible assets**

Intangible assets are stated at cost or fair value on recognition less accumulated amortisation and any impairment in value.

Amortisation is calculated so as to write off the cost or valuation of intangible assets over their estimated useful lives, using the straight-line method. The bank has only intangible asset which is Computer Software, and the life considered is 3 years.

1.8 **Property, plant and equipment**

Property, plant and equipment are capitalised and are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the assets. Property, plant and equipment are depreciated from the date the asset is brought into use.

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

At present depreciation is charged so as to write off the cost or valuation of assets, using the straight-line method, on the following basis:

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

1.9 **Financial assets and liabilities**

(i) Financial assets

The Bank classifies its financial assets in the following categories; financial assets at fair value through profit and loss, financial investments available for sale, which are measured at fair value and financial investments held to maturity which are measured at amortised cost.

1 **Accounting policies (continued)**

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

(b) Financial investments available for sale
Financial investments available for sale are non-derivative instruments that are designated as available for sale or are not classified under any other category of financial assets. Financial investments available for sale include debt investments which are carried at fair value. These investments are measured initially at fair value plus transaction costs. Unrealised gains or losses are recorded, as a component of fair value reserve, until such investments are sold, collected or otherwise disposed off, or until any such investment is determined to be impaired. On disposal of an investment, the cumulative gain or loss recognised is reclassified to the income statement as gains or losses on sale of investments.

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

(d) Held to maturity Investments
Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Bank intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Held to maturity investments are measured at amortised cost.

(ii) Financial liabilities and equity instruments

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

1 Accounting policies (continued)

(b) Other financial liabilities

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

(c) Sale and 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.

1.10 Derivatives financial instruments

The Bank enters into various financial instruments as principal to manage the Bank's Balance Sheet. These mainly include foreign exchange related contracts.

Exchange rate related contracts include spot and currency swap transactions. The Bank's currency swap transactions generally involve an exchange of currencies and an agreement to re-exchange the currency at a future date where the swaps relate to assets and liabilities denominated in different currencies.

1.11 De-recognition of financial assets and financial liabilities

(a) Financial assets

A financial asset (or where applicable a part of a financial asset or part of similar financial assets) is derecognised when:

• the rights to receive cash flows from the asset have expired; or

• the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

• the Bank has transferred substantially all the risks and rewards of the asset; or

• the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset.

1 **Accounting policies (continued)**

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement and the associated liability is also recognised.

1.12 **Impairment of financial assets**

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) Impairment of loans and advances

Loans and advances are evaluated individually and collectively for impairment.

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

(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.

1 Accounting policies (continued)

1.13 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.

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.

1.14 Financial guarantees

In the ordinary course of business, the Bank may give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within other liabilities) at fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

1.15 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 from the acquisition date that are subject to an insignificant risk of change in their fair value and are used by the Bank in the management of its short-term commitments.

1.16 Income tax, including deferred tax

The tax expense represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. 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 Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

1 Accounting policies (continued)

1.16 Income tax, including deferred tax (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

1.17 Operating leases

Operating lease rentals are charged to the income statement on a straight-line basis over the non-cancellable lease period provided the same is ascertainable, unless another basis is more appropriate.

1.18 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

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.

2 Interest and similar income

	2018 USD '000	2017 USD '000
Interest income from loans	14,807	10,487
Interest income from investments - available for sale	1,859	544
Interest income from investments - held to maturity	521	405
Interest income from investments - held for trading	19	1
Interest on interbank placements	183	212
	17,389	**11,649**

3 Interest and similar expense

	2018 USD '000	2017 USD '000
Deposit from customers	3,676	2,524
Deposit from banks	656	719
Intra-group borrowings	1,750	1,283
Repurchase agreements	245	17
	6,327	**4,543**

4 Net fees and commission income

	2018 USD '000	2017 USD '000
Processing fees and commission	541	507
	541	**507**

5 Personnel costs

	2018 USD '000	2017 USD '000
Wages and salaries (including Directors' emoluments)	1,796	1,610
Social security costs	171	156
Other employee benefits	65	60
	2,032	**1,826**

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

	2018 Number	2017 Number
Commercial and retail banking activities	21	19

6 Directors' emoluments

	2018 USD '000	2017 USD '000
Short-term employee benefits	420	373
Post-employment benefits	1	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
	421	373

Emoluments comprise salary and benefits in kind

	2018 USD '000	2017 USD '000
Highest paid Director:		
Emoluments	153	147

7 General administrative expenses

	2018 USD '000	2017 USD '000
Other premises costs	256	226
IT costs	278	228
Other administrative expenses	289	333
Legal and professional costs	475	368
Marketing expenses	57	59
Finance costs	87	73
	1,442	1,287
Legal and professional costs include the following:		
Auditor's remuneration - audit services	85	60
Auditor's remuneration - other services	-	-
	85	60

8 Income tax

	2018 USD '000	2017 USD '000
Corporate tax charge/(credit)	1,138	732
Deferred tax (see note 18):		
Effect of rate changes	(7)	(5)
Relating to originating and reversal of temporary differences	65	(38)
Adjustments in respect of prior years	18	-
Total deferred tax charge/(credit)	76	(43)
Total tax charge/(credit)	1,214	689

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:

	2018 USD '000	2017 USD '000
Profit/(Loss) on ordinary activities before tax	6,382	3,377
Standard rate of corporation tax in the UK	19.0%	20.0%
Tax charge/(credit) at the domestic income tax rate	1,213	675
Effects of:		
Tax effect of non - deductible depreciation	13	8
Tax effect of other non - deductible expenses/non-taxable income	15	11
Tax effect of rate changes	(7)	(5)
Adjustment in respect of prior years	(20)	-
Total tax charge/(credit) for year	1,214	689

	2018 USD '000	2017 USD '000
Tax relating to change/(credit) in fair value of AFS	(405)	(105)

Factors that may affect future tax charges

The standard rate of corporation tax rate has reduced from 20% to 19% from 1 April 2017. Under Finance Act 2016 (No. 2) there will be a further reduction to the standard corporation tax rate for the year starting 1 April 2020 to 17%.

9 Cash and balances with Banks

	2018 USD '000	2017 USD '000
Cash on hand	20	8
Cash at Bank	1,335	911
	1,355	919

10 Loans and advances to Banks

	2018 USD '000	2017 USD '000
Interbank placements	-	7,000
	-	7,000

11 Loans and advances to customers

		2018 USD '000	2017 USD '000
Term loan		297,604	230,831
Overdraft		41,405	45,645
Buyer's credit		-	1,660
Other loans		1,109	219
	Gross	340,118	278,355
Impairment loss allowances:			
Collective Provision		(1,700)	(1,370)
Specific provision		(1,600)	-
	Net	336,818	276,985

Movement in Impairment loss allowance	Collective USD '000	Specific USD '000
As at 31 March 2016	60	-
Addition during the year	1,310	-
As at 31 March 2017	**1,370**	-
Addition during the year	330	1,600
As at 31 March 2018	**1,700**	**1,600**

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

12 Financial investments - available for sale

	2018 USD '000	2017 USD '000
Quoted investments		
Government debt securities	26,699	21,034
Other securities	55,582	15,578
	82,281	36,612

13 Financial investments - held to maturity

	2018 USD '000	2017 USD '000
Quoted investments		
Government debt securities	-	-
Other securities	13,807	13,864
	13,807	13,864

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-18	
Derivatives used as:	**Assets**	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	-	426	25,084
	-	426	25,084

		31-Mar-17	
	Assets	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	324	-	25,802
	324	-	25,802

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.

Level 3 Securities: Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models.

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

		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	-	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	-

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15 Fair value of assets and liabilities (continued)

	Quoted market prices (Level 1)	2016-17 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	21,034	15,578	-
Financial investments – HTM	-	13,864	-
Loans and advances to Banks	-	7,000	-
Loans and advances to customers	-	278,355	-
Derivative financial instruments - Assets	-	324	-
	21,034	315,121	-
Financial liabilities			
Derivative financial instruments - liabilities	-	-	-
Deposits from Banks	-	85,969	-
Deposits from customers	-	168,942	-
Repurchase agreements	-	-	-
	-	254,911	-

The Directors consider that fair values of the Bank's financial assets and liabilities to be approximately equal to their carrying amounts.

16 Property, plant and equipment	Leasehold improvements USD '000	Furniture & equipment USD '000	Computer hardware USD '000	Total USD '000
Cost				
As at 1 April 2016	559	284	131	974
Additions	-	-	29	29
As at 31 March 2017	**559**	**284**	**160**	**1,003**
Additions	-	10	46	56
As at 31 March 2018	**559**	**294**	**206**	**1,059**
Cumulative depreciation				
As at 31 March 2016	(149)	(139)	(95)	(383)
Depreciation charge	(56)	(57)	(46)	(159)
As at 31 March 2017	**(205)**	**(196)**	**(141)**	**(542)**
Depreciation charge	(56)	(58)	(8)	(122)
As at 31 March 2018	**(261)**	**(254)**	**(149)**	**(664)**
Net book value				
As at 1 April 2017	354	88	19	461
As at 31 March 2018	**298**	**40**	**57**	**395**

17 Intangible assets

	Capitalised software USD '000
Cost	
As at 1 April 2016	221
Additions	23
As at 31 March 2017	**244**
Additions	36
As at 31 March 2018	**280**
Amortisation	
As at 1 April 2016	(139)
Additions	(74)
As at 31 March 2017	**(213)**
Amortisation charge for the year	(18)
As at 31 March 2018	**(231)**
Carrying value	
As at 31 March 2017	31
As at 31 March 2018	**49**

18 Deferred tax assets

	2018 USD '000	2017 USD '000
Deferred tax assets on losses		
As at 1 April	489	340
Tax credit to income statement	(68)	29
Tax relating to change in fair value of AFS	405	120
As at 31 March	826	489
Deferred tax liabilities on fixed assets		
As at 1 April	9	53
Tax charge to income statement	8	(44)
As at 31 March	17	9

19 Other assets

	2018 USD '000	2017 USD '000
Other receivables	458	407
Prepayments and accrued income	1,336	438
	1,794	845

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

20 Deposits from Banks

	2018 USD '000	2017 USD '000
Interbank borrowings	32,140	35,701
	32,140	35,701

21 Intra-group borrowings

	2018 USD '000	2017 USD '000
Intra-group borrowings	62,429	50,268
	62,429	50,268

22 Deposits from customers

	2018 USD '000	2017 USD '000
Current accounts	5,064	13,393
Savings accounts	2,772	2,336
Fixed term deposits	207,730	153,213
	215,566	168,942

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.

	2018 USD '000 Carrying amount of transferred assets	2018 USD '000 Carrying amount of associated liabilities	2017 USD '000 Carrying amount of transferred assets	2017 USD '000 Carrying amount of associated liabilities
Repurchase agreements	39,585	33,081	-	-

The Bank enters into sale and repurchase agreements and similar transactions of debt securities which are accounted for as secured borrowings. The carrying amount of assets that were provided as at 31 March 2018 were USD 39,585,045 - (Mar 2017- Nil).

24 Other liabilities

	2018 USD '000	2017 USD '000
Accruals and deferred income	554	456
Corporation tax liability	425	771
Provisions for dilapidation	82	65
	1,061	1,292

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

25 Operating lease commitments

Payments recognised in expenses:

	Land and buildings 2018 USD '000	Land and buildings 2017 USD '000
Rent of bank premises at Senator House	307	300
	307	300

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

	2018 USD '000	2017 USD '000
Within one year	379	337
In two to five years	1,519	1,349
In over five years	47	378
	1,945	2,064

26 Share capital

	2018 Number	2018 USD	2017 Number	2017 USD
Issued and fully paid				
Ordinary shares of GBP 1 each	2	3	2	3

Ordinary shares of USD 1 each	2018 Number	2018 USD '000	2017 Number	2017 USD '000
As at 1 April	80,000,000	80,000	50,000,000	50,000
Issue of Share Capital *	10,000,000	10,000	30,000,000	30,000
As at 31 March	90,000,000	90,000	80,000,000	80,000

* The Bank has issued share capital of USD 10,000,000 (2017: USD 30,000,000) in favour of its parent company, Union Bank of India, by way of ordinary shares of USD 1 each.

27 Other commitments and contingencies

Commitments in respect of financial instruments are as follows:

	2018 USD '000	2017 USD '000
Commitments to buy treasury securities/ Forex	24,818	26,260
Commitments to sell treasury securities/ Forex	25,244	25,935
Letter of credit	-	2,244
Bank guarantee	124	5,116
Undrawn committed facilities	12,809	10,142

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

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):

	Income		Expenses	
	2018 USD '000	2017 USD '000	2018 USD '000	2017 USD '000
Interest income on placements	-	10	-	-
Interest income on trade finance	16	109	-	-
Interest expense on borrowings	-	-	1,750	1,283
	16	119	1,750	1,283

The Bank had the following balances with related parties at 31 March

	Amounts owed by related parties	
	2018 USD '000	2017 USD '000
Assets		
Nostro account balance with Union Bank of India, India	12	10
Trade finance	-	1,660
	12	1,670

	Amounts owed to related parties	
	2018 USD '000	2017 USD '000
Liabilities		
Intra-group borrowings	62,429	50,268
	62,429	50,268

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

The fair values of the Bank's financial assets and liabilities are in all cases considered to be approximately equal to their carrying amounts.

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.

		2018 USD '000	2017 USD '000
Neither past due nor impaired		320,029	278,355
Past due but not impaired		3,178	-
Impaired		16,911	-
	Gross	**340,118**	**278,355**
Impairment loss allowances:			
Collective Provision		1,700	1,370
Specific provision		1,600	-
	Net	**336,818**	**276,985**

Assets which are past due but not impaired are past due for 30 days or less.

29 Risk management (continued)

Credit risk (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 our debt is considered to calculate the impairment loss.

During this financial year, impairment event triggered for two loan assets. Total exposure to these assets is $16.91m. Out of these two assets, forbearance is proposed for one asset and other asset went for liquidation. Total specific impairment loss of $1.6m has been recognised during this financial year.

During this financial year, interest income of $0.84m recognised on impaired financial assets (before classifying as impaired assets). Suspended interest amount on impaired assets is $0.15m.

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:

		2018 USD '000	2017 USD '000
Secured		320,574	263,899
Unsecured		19,544	14,456
	Total	**340,118**	**278,355**

29 Risk management (continued)

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 31 March 2018:

Countries	2018 Exposure	2017 Exposure	2018 % of Total Exposure	2017 % of Total Exposure
	USD '000	USD '000		
Australia	3,388	486	0.8%	0.1%
Belgium	8,242	9,150	1.9%	2.7%
British Virgin Island	20,561	22,685	4.7%	6.7%
Cayman Island	18,168	12,000	4.1%	3.6%
France	-	487	0.0%	0.1%
Germany	7,831	7,551	1.8%	2.2%
India	96,326	50,494	21.9%	15.0%
Indonesia	8,354	9,087	1.9%	2.7%
Korea, Republic of	2,444	-	0.6%	0.0%
Kuwait	1,460	-	0.3%	0.0%
Mauritius	7,980	10,001	1.8%	3.0%
Mexico	7,489	4,854	1.7%	1.4%
Netherlands	5,070	-	1.2%	0.0%
Oman	3,793	2,776	0.9%	0.8%
Other (MDBs)	3,411	3,465	0.8%	1.0%
Portugal	3,359	3,241	0.8%	1.0%
Saudi Arabia	-	983	0.0%	0.3%
Singapore	27,579	16,095	6.3%	4.8%
South Africa	5,471	5,771	1.2%	1.7%
Switzerland	-	3,766	0.0%	1.1%
United Arab Emirates	23,499	5,688	5.3%	1.7%
United Kingdom	111,172	110,347	25.3%	32.7%
United States of America	73,881	58,147	16.8%	17.3%
	439,477	337,074	100.0%	100.0%

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.

29 Risk management (continued)

Liquidity risk (continued)

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

	Non-derivative financial assets		Non-derivative financial liabilities	
	2018 USD '000	2017 USD '000	2018 USD '000	2017 USD '000
On Demand	-	7,919	7,836	15,729
Due within 3 months	27,138	14,918	32,019	23,421
Due between 3 to 12 months	88,213	74,410	150,399	127,483
Due between 1 to 5 years	261,518	186,720	152,962	88,278
Due after 5 years	62,608	52,783	-	-
Total	439,477	336,750	343,216	254,911

	Derivative financial assets		Derivative financial liabilities	
	2018 USD '000	2017 USD '000	2018 USD '000	2017 USD '000
On Demand	-	-	-	-
Due within 3 months	5,983	4,378	5,981	4,370
Due between 3 to 12 months	18,835	21,882	19,263	21,565
Due between 1 to 5 years	-	-	-	-
Due after 5 years	-	-	-	-
	24,818	26,260	25,244	25,935

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.

29 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 INR, EUR and GBP. During the ordinary course of its business, the Bank enters into sales and purchase transactions denominated in foreign currencies, hence an exposure to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters, as referred to below.

The carrying amount of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2018 USD '000	2017 USD '000	2018 USD '000	2017 USD '000
INR	12	-	-	5
GBP	-	-	442	979
EURO	667	49	-	-

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

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 USD 6.59 million as at 31 March 2018 (2017: USD 3.46 million)

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 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.

29 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.

	2018 USD '000	2017 USD '000
Paid up share capital	90,000	80,000
Retained earnings	7,069	1,901
Fair value reserves for AFS	(2,478)	(514)
Tier one capital	94,591	81,387

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.

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.