Company Registration number: 07653660

ANNUAL ACCOUNTS

For the year ended on 31 March 2021

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FOR THE YEAR ENDED 31 MARCH 2021

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Glossary

Union Bank of India (UK) Ltd

Notation	Description
ACB	Audit Committee of the Board
AFS	Available for Sale
ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
CC	Credit Committee
CCF	Credit Conversion Factor
CET	Common Equity Tier
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulations
DPD	Days Past Due
DPO	Data Protection Officer
DTA	Deferred Tax Assets
EAD	Exposure at Default
EBA	European Banking Authority
ECL	Expected Credit Loss
EIR	Effective interest rate
EMC	Executive Management Committee
EU	European Union
FCA	Financial Conduct Authority
FIC	Fraud Investigation Committee
F-IRB	Foundation Internal Rating Based Approach
FSCS	Financial Services Compensation Scheme
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit and Loss
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GSII	Globally Systemically Important Institutions
HFT	Held For Trading
HQLA	High Quality Liquid Asset
HTM	Held to Maturity
IAS	International Accounting Standard
IASB	International Accounting Standard Board
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
IT	Information Technology
ITOC	IT and Operations Committee
LCR	Liquidity Coverage Requirement
LGD	Loss Given Default
LTV	Loan to Value
MI	Management Information
MLRO	Money Laundering Reporting Officer

Glossary

Union Bank of India (UK) Ltd

Notation	Description
NPV	Net Present Value
NRI	Non-Resident Indians
OCI	Other Comprehensive Income
OECD	Organisation for Economic Co-operation and Development
Parent Bank	Union Bank of India
PD	Probability of Default
PMA	Post Model Adjustment
PRA	Prudential Regulation Authority
PSD	Payment Service Directive
RCC	Risk and Compliance Committee
ROU	Right of Use
RWA	Risk Weighted Assets
S&P	Standard & Poor
SCV	Single customer view
SICR	Significant Increase in Credit Risk
SMCT	Senior Manager Crisis Team
SPPI	Solely Payments of Principal and Interest
TAC	Training Advisory Committee
VPN	Virtual Private Network

OFFICERS AND PROFESSIONAL ADVISERS

FOR THE YEAR ENDED 31 MARCH 2021

Company Registration Number	**07653660**
The Board of Directors	**Mr. Rajkiran Rai G.** Chairman **Mr. Manas Ranjan Biswal** Nominee Director **Mr. Viswesvaran Radhakrishnan** Managing Director & CEO **Mr. Kundan Lal** Designated Managing Director & CEO **Mr. Chittari Amaravati Kalyan Varma** Executive Director & COO **Dr Anand Kumar** Non-Executive Director **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** 1 New Street Square London EC4A 3HQ United Kingdom

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2021. The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.

Union Bank of India (UK) Ltd (the Bank) is a wholly owned subsidiary of Union Bank of India (Parent Bank), 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 on 6 September 2013 and commenced its commercial operations on 10 July 2014. The Bank is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The business review is detailed in "Review of the business" of the Strategic report.

The Bank offers a range of financial products to its customers covering retail, corporate and commercial banking along with trade finance and treasury services. The use of financial instruments is explained in "Business strategy" section of the Strategic report.

Key Risks associated with the current Business model are discussed in the Strategic report and Risk management note to the accounts (Note 26).

Proposed initiative

During the year 2021-22, the Bank is working on following propositions:

- Concentrating more on UK based assets and sourcing through syndication channel; and
- Minimising the stressed assets and building a sustainable balance sheet.

COVID-19

The pandemic has impacted the economy in many ways. From lockdown restrictions shutting down many businesses to limits on mobility, voluntary and enforced, the economic impact has been severe. However, vaccines rollout is offering a ray of economic hope. The Bank has incorporated the effects of COVID-19 as estimated at the balance sheet date, particularly in relation to the valuation of assets, impairment provisions and in considering Going Concern, and continues to monitor the situation as it develops through 2021 and beyond.

At present, the second wave of the pandemic has struck India with a devastating impact. Such situation of Covid-19 in India has been evaluated and it is concluded that this doesn't have any material impact on the Bank. The same is considered as a post balance sheet event, as major impact came in April'21.

Going concern

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

The Bank has considered its resilience in the face of stress, prominent events such as the post pandemic (COVID-19) economic crisis, BREXIT and known challenges such as significant increase in impaired assets. In making the said assessment, the Bank has considered relevant information for the future, which was at least, but not limited to, 12 months from the reporting date.

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

As part of this assessment the Board considered:

1. The impact on the Bank's profits from an expected reduction in income on loans combined with increased ECL provision and operating expenses. As part of this, the Board considered macro-economic scenarios which were obtained from Bank of England forecast, IMF and World Bank forecasts for different geographies;

Going concern (Contd.)

2. The sufficiency of the Bank's capital base throughout the Covid-19 pandemic. Severe assumptions from the combined stress testing undertaken in the ICAAP were drawn to assess the impact;

3. The adequacy of the Bank's liquidity as the Bank supports customers through a period of financial stress;

4. The resilience of the Bank's IT systems;

5. The regulatory and legal environments and any potential conduct risks which could arise;

6. Any potential valuation haircuts on the collaterals obtained for Loans and Advances;

7. Potential deterioration in the credit ratings of counterparties and consequent increase in the RWAs; and

8. Structural Fx Risk on the un-hedged position in non-reporting currencies.

The Board also considered the results of stress testing which is performed as an integral part of both the ICAAP and ILAAP, with the Bank having sufficient capital and liquidity to fund the balance sheet in each scenario.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. Further information on the sensitivity to the possible changes to Bank's ECL assumptions over the next 12 months are set out in Note No. 1.14

Capital structure

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

The issued and fully paid up share capital as of 31 March 2021 is $150m and £2. There was no change in issued and paid up share capital during the FY 2020-21. One hundred percent shares of the Bank are held by Union Bank of India, the parent Bank.

Political donations

During the year the Bank did not make any political donations (2020: Nil).

Directors

The Directors who served during the year and to the date of signing the financial statements, are listed on page 3.

Directors' indemnities

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

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

Statutory Auditor
There was no change in the Auditor of the Bank for the year ended 31 March 2021.
Deloitte LLP were reappointed under Section 487 of the Companies Act 2006, during the ACB held on 5th November 2019 for the next 3 financial years. Deloitte LLP are the Statutory Auditor of the Bank, and they have expressed their willingness to continue as Auditor of the Bank.

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

Dividends
The Directors do not recommend the payment of a dividend this financial year (2020: Nil).

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB.

This report was approved by the Board of Directors on 14th May 2021 and signed on its behalf by:

Viswesvaran Radhakrishnan
Managing Director & CEO

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

The Directors have pleasure in presenting the Strategic Report and the financial statements for Union Bank of India (UK) Ltd. for the year ended 31 March 2021.

About the Report

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

The report highlights key financial and non-financial metrics which help to explain the business's performance over the past year. It also highlights the external environmental factors affecting the business.

Business model

The Bank is a UK incorporated Bank authorised by the PRA and regulated by the FCA and the PRA.
The Bank's focus is to build a sustainable business model with a strong and robust corporate governance and control environment. The Bank offers a simple range of products to its customers covering retail, corporate, small and medium enterprise ("SME") and commercial banking, trade finance and treasury services.
One of the key business lines that the Bank focuses on is the funding requirements of Indian linked corporates through syndication route, leveraging off Union Bank of India's strength as a leading provider of corporate funding to Indian corporates.
Continuing with the current funding structure, the Bank manages its funding mainly through a combination of wholesale (corporate) deposits and retail deposits.

Primary objectives

The Bank's primary objectives are:

- Finance the overseas business needs of Indian diaspora in the UK / Overseas through syndication route;
- Attract retail depositors by extending market competitive interest rates;
- Excel in customer service through operational excellence;
- Hold adequate capital and sufficient liquidity through robust governance and control;
- Conduct its business by complying with the regulatory expectation; and
- Increase in the balance sheet size in a sustainable manner.

Review of the business

The Bank commenced its commercial operations in July 2014. The Bank has set up systems, procedures and policies for prudent management of its business and its associated risks. The business strategy of the Bank has been mainly driven by the increased globalisation of the Indian economy, the growing trend of Indian corporates expanding overseas, the large population of Non-Resident Indians (NRI), persons of Indian origin across the globe and also overseas companies looking to invest in India. The Bank has not been pursuing a strategy of balance sheet growth, rather has been maintaining a consistent balance sheet size. The Bank has also, as a part of shift in focus and growing the balance sheet sustainably, reviewed its present business plan and more focus is now on UK assets along with the Syndicated loans on Indian counterparties.
COVID-19 has impacted the global economies and as a measure to minimise the risk of spread on general public, lockdown measures have been implemented by all the countries effected by the pandemic. Thus, there are requests from the affected borrowers and depositors for payment holidays and premature closure of deposits respectively. The Board has taken a conscious call to maintain the excess liquidity to honour the requests in the tough times and granting of payment holidays to the genuine requests of the borrowers.

The Bank while considering the requests is taking into consideration the guidelines issued by FCA and PRA. A procedure has been approved by the Management Committee to approach such requests in a timely and efficient manner.

Income statement review

	2021 USD '000	2020 USD '000
Net interest income	8,867	12,226
Non-interest income	1,659	1,419
Operating expenses	(6,872)	(6,440)
Non-Operating income / (expenses)	197	(546)
Impairment loss allowances	(14,789)	(26,546)
Loss before tax	(10,939)	(19,887)
Loss after tax	(10,939)	(22,061)

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

- Net-interest income was down 27.4%, mainly due to reduction in the benchmark interest rates during the financial year, as the majority assets of the Bank are on a floating rate and substantial liabilities are fixed rate.
- Operating expenses before impairment allowances were increased by 6.71% mainly due to increase in personnel costs by 14%.
  These expenses are normal considering the operational need of the Bank and total operational expenses are within the budgeted levels.
- Impairment allowance comprising of a net additional impairment provision made in the 2020-21 financial year on loans & advances of $ 14.7 mn and reversal of impairment provision on Investments of $ 0.01 mn.
- During the year, impairment loss allowance of $ 5.1 mn was recognised due to an increase in default assets by $ 4.1 mn and increase in provision on the existing stage 3 loan accounts. Impairment allowance also include $ 8.2 mn partial write off in three of the customer loan accounts. The closing impairment allowance includes additional provision of $ 4.6 mn as a post model adjustment (PMA) to adjust modelled output as a better reflection of management's assessment of credit risk in the book as at year-end, including anticipated impact of COVID-19 (PMA of $ 0.67 mn) and recent loan loss experience in the existing book (PMA of $ 4.1 mn).
- Loss during the year was $ 10.9 mn, mainly due to impairment loss allowance on default assets and decrease in interest income.
- The Bank has not recognised deferred tax asset during the year on its losses due to the uncertainty in the economy caused by the impact of COVID-19.

Balance sheet review

Assets	2021 USD '000	2020 USD '000
Loans and advances to customers	256,757	256,273
Loans and advances to banks	8,000	44,054
Financial Investments	116,852	84,625

- Loans and advances to customers increased by 0.19% to $ 256.75 m during FY 2021 (2020: $
- Loans and advances to banks has decreased to $8m at 31 March 2021 (2020: $44.05m). During March 2020, scheduled repayment from customers were received however, due to covid pandamic, loan disbursements were postponed and the funds received from customer were parked with other banks for short period. This is the main reason for high placements in March 2020.
- Investment portfolio stood at $116.85m (2020: $84.62m), 40% of the portfolio consists of high quality liquid assets.

Balance sheet review (Contd.)

Liabilities	**2021**	**2020**
	USD '000	**USD '000**
Deposits from banks (including Repo)	5,223	30,197
Deposits from customers	271,130	241,918
Equity	111,818	121,008

- Deposits from banks are reduced to $ 5.22 mn at 31 March 2021 (2020: $ 30.2 mn). Interbank funding is maintained to fund the interest earning assets and to focus on medium to long term deposits to make overall funding stable. As at March 2021, the Bank held only repo borrowings of $ 5.22 mn.
- Deposits from customers have grown by 12%, and stood at $ 271.1 mn on 31 March 2021 (2020: $ 241.9 mn). The Bank is continuing to focus on originating and retaining retail deposit accounts and reducing its dependency on wholesale funds including interbank funds. The deposits as of Mar'21 consists of 71% (2020: 60%) retail deposits and 29% (2020: 40%) wholesale deposits.
- Total shareholders' equity decreased to $111.82 mn at 31 March 2021 (2020: $121 mn), due to loss from the current financial year.

Outlook

Macro Environment:

Global prospects remain highly uncertain one year into the pandemic. New virus mutations and the accumulating human toll raise concerns, even as growing vaccine coverage lifts sentiment. Economic recoveries are diverging across countries and sectors, reflecting variation in pandemic-induced disruptions and the extent of policy support.

Global growth is projected at 6 percent in 2021, moderating to 4.4 percent in 2022. The projections for 2021 and 2022 are stronger than in the October 2020 WEO. The upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility. High uncertainty surrounds this outlook, related to the path of the pandemic, the effectiveness of policy support to provide a bridge to vaccine-powered normalization, and the evolution of financial conditions.

In recent months, sharp increases in long-term interest rates are seen, partly reflecting revised market expectations of the pace at which the US Federal Reserve will normalize policy as the growth outlook for the US economy improves. Divergent economic recoveries could complicate the task of emerging market central banks should interest rates in advanced economies begin to rise when conditions in emerging market economies continue to warrant a loose monetary policy stance.

(Source - World Economic Outlook April 2021 - International Monetary Fund)

UK Macro Environment:

During the first lockdown, UK GDP was 24% lower in April 2020 than it was only two months earlier in February. Economic activity picked up over the spring and summer, reflecting the opening up of the economy and pent-up demand from the first lockdown. This was followed by a further short-lived lockdown in November, leading to another monthly fall in GDP. As a new variant of the virus drove up Covid-19 infection rates in December 2020, lockdowns were again introduced across the UK by early January 2021 in order to reduce the spread of the virus. This is expected to have contributed to a fall in GDP in the first quarter of 2021. GDP in January 2021 was 9% below pre-pandemic level. *(Source: House of Commons Library)*

Sterling has appreciated by around 2% since the November, partly reflecting a reduction in Brexit-related uncertainty following the agreement of a UK-EU trade deal in December. There was little immediate reaction in wider UK asset prices to the agreement of the trade deal. The FTSE All-Share is up 15% since the November Report, boosted by the same factors that have supported equity prices globally. Covid-19 and the public health measures to contain it have led to a sharp contraction in UK economic activity and a fall in inflation. Consumer Price Inflation (CPI) troughed at 0.2% in August 2020. It has risen somewhat since then, to 0.6% in December, but remains well below the MPC's 2% target and 1.1 percentage points lower than in February 2020. *(Source: Bank of England - Monetary Policy Report - Feb 2021)*

Geographical Macro Environment:

The Bank has exposure in multiple geographies and therefore it analyses the economic environment in the various geographies it has exposure or that can impact the exposure.

A year into the coronavirus (COVID-19) pandemic, the race between vaccine and virus entered a new phase, and the path to recovery in 2021 is expected to be long and divergent. The outlook will vary significantly across countries, depending on the pandemic's path, vaccine rollouts, underlying fragilities, exposure to tourism and contact-intensive sectors, and policy space and actions.

After growing at very high rates for years, India's economy had already begun to slow down before the onset of the COVID-19 pandemic. Between FY17 and FY20, growth decelerated from 8.3 percent to 4.0 percent, with weaknesses in the financial sector compounded by a decline in the growth of private consumption.
The implementation of a national lockdown by India on 24 March 2020 (i.e. on the eve of the new FY21 fiscal year), brought economic activity to a halt, affecting both production and consumption. As a result, growth was negative in the first half of the fiscal year (April to September 2020) and only modestly positive in the second half. Over the entire FY21, India's economy is estimated to have contracted by 8.5 percent.
In response to the COVID-19 shock, the Government and the Reserve Bank of India took several monetary and fiscal policy measures to support vulnerable firms and households, expand service delivery (with increased spending on health and social protection) and cushion the impact of the crisis on the economy. Thanks in part to these proactive measures, the economy is expected to rebound - with a strong base effect materializing in FY22 - and growth is expected to stabilize at around 6-6.5 percent thereafter.
(Source: The World Bank In India overview)

In the Middle East and Central Asia region, activity was more resilient during the second half of 2020. The more targeted lockdowns used during the second wave had a smaller impact on mobility, which was reflected on activity. Available real GDP data in the region point to a strong rebound in the third quarter of 2020 as countries relaxed lockdown measures. Most purchasing managers' indices returned to expansionary territory by mid-2020 and continued to signal an upward trend in some oil exporters in late 2020 and early 2021 (Qatar, Saudi Arabia, UAE). However, they showed contraction in some oil importers (Egypt), though less so than during the pandemic's first wave, as lockdowns were reimposed (Lebanon).

In Sub-Saharan Africa, despite turning out better than expected, growth in 2020 is estimated to be the worst on record, at –1.9 percent, leading to a large increase in poverty. In 2021, the region's economy is expected to resume expansion at 3.4 percent, weaker than the 6 percent for the rest of the world, amid a continued lack of access to vaccines and limited policy space to support the crisis response and recovery.

With new waves of COVID-19 infections hitting Europe, the recovery remains halting. However, vaccinations are progressing and thus Europe's GDP growth is projected to rebound by 4.5 percent in 2021. The recovery remains uneven. While industrial production has returned to pre-pandemic levels, services are still contracting. Accordingly, the recovery in countries with sizeable service sectors (for example, Croatia, Italy, Montenegro, Spain) lagged the rest of Europe by about 1 percentage point in the second half of 2020. Several central banks cut policy rates further (for example, Iceland, Moldova, North Macedonia, Romania, Serbia); the exception was Russia, which has hiked rates reflecting higher-thanexpected inflation. Turkey has also hiked rates in response to foreign exchange and inflation pressures, reversing its strong monetary stimulus in 2020. Central banks also continued implementing unconventional monetary policies.
(Source: IMF Regional Economic Outlook)

Forward looking

Activity in many sectors has picked up and partially adapted to pandemic restrictions. Vaccine rollout, although uneven, is gaining momentum and government stimulus, particularly in the United States, is likely to provide a major boost to economic activity. But prospects for sustainable growth vary widely between countries and sectors. Faster and more effective vaccination deployment across the world is critical.

Forward looking (Contd.)

Prospects have improved over recent months with signs of a rebound in goods trade and industrial production becoming clear by the end of 2020. Global GDP growth is now projected to be 5.6% this year, an upward revision of more than 1 percentage point from the December OECD Economic Outlook.

The global vaccine rollout remains uneven, with restrictions remaining in some countries and sectors. The outlook for growth would improve (upside scenario) if the production and distribution of doses accelerates, is better co-ordinated around the world and gets ahead of virus mutations. This would allow containment measures to be relaxed more rapidly and global output to approach pre-pandemic projections for activity. But consumer spending and business confidence would be hit (downside scenario) if vaccination programmes are not fast enough to cut infection rates or if new variants become more widespread and require changes to current vaccines.

Recovery of economy

The recovery will be uneven across sectors, countries and income levels. By the end of 2021 or early 2022, the global economy is expected to revert to its pre-pandemic level of output. However, this picture masks an uneven pattern. At one end of the spectrum is the Chinese economy, which is already bigger compared to its pre-pandemic size. On the other end are mostly advanced economies which are either service-based (UK, France, Spain) or more focused on exporting capital goods (Germany, Japan) and are unlikely to recover to their pre-crisis levels by the end of the year. In these economies, growing but lower levels of output are projected to lead to push up unemployment rates. In its December 2020 economic outlook, the Organisation for Economic Co-operation and Development (OECD) projects an unemployment rate of around 7% in its member states compared to pre-pandemic levels of around 5.5%. Most of the jobs affected are likely to be those at the bottom end of the earnings distribution which is likely to exacerbate income inequalities.

Business strategy

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 towards building a sustainable balance sheet and minimising the stress on Loan portfolio. Thus, minimising risk by remaining focused on its core competencies and low risk weighted sectors.

Treasury

The Treasury Function focuses on managing the funding, market and liquidity risks of the Bank. The Bank complies with and maintains a Liquidity Coverage Ratio (LCR) in line with the Individual Liquidity Guidance (ILG) stipulated by the PRA. The Bank also maintains an investment portfolio of Corporate Bonds. Both HQLA and Corporate Bonds are classified in line with the investment policy of the Bank, at the time of acquiring the investment. The Bank reviews the asset/liability maturity mismatches on an ongoing basis and maintains liquidity gaps within prescribed limits, which are monitored by the Asset and Liability Committee (ALCO) of the Bank. In the time of Global stress such as the present pandemic situation, the treasury and management takes steps for maintaining adequate liquidity. Regular monitoring of the liquidity levels and future requirements is adhered to all times.

The Bank is able to access wholesale borrowings from the market and has been able to raise bilateral loans and borrowings at a competitive cost by leveraging on the existing relationships of Union Bank of India. Going further the Bank is planning to on-board low / medium risk weighted assets and creating a sustainable balance sheet through minimising the stressed assets.

Corporate Governance

Good governance is critical to deliver a sound and well managed business. At the centre of good governance is an effective Board which takes the first responsibility for maintaining the safety and soundness of the Bank. The Bank places a strong emphasis on internal governance and maintaining high ethical standards in its working practices.

The Bank's corporate governance is driven by the Board which presently comprises of three Executive Directors, two Non-Executive Directors representing the shareholder, one UK based Non-Executive Director 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;

• 1st Line of Defence; Operational controls as set out in functional and departmental procedures and manuals,

• 2nd Line of Defence; Oversight, monitoring and periodic reporting by the Bank's control functions i.e. Risk and Compliance,

• 3rd Line of Defence; Internal Audit

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

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

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

c) Management Committee of the Board (MCB) meets quarterly, consisting of two independent UK based

Anti-Money Laundering (AML) & Compliance

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

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

Internal Audit

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

Risk management framework

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

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

Risk management framework (Contd.)

Both Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP) are subject to periodic review and update in response to material changes to the business or regulatory environment. 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.

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

COVID-19

Covid-19 risks include but not limited to coronavirus containment measures failing, financial and commodities market volatility worsening, and the demand drop-off persisting as supply disruption escalates. While lower official interest rates and government stimulus actions provide some relief, the slump in demand is likely to lead to declining credit quality and rising defaults, particularly among non-financial corporates with weaker credit profiles. OECD has projected global GDP to be 5.6% in 2021, an upward revision of more than 1 percentage point from the December OECD Economic Outlook. The World Bank Group's Global Economic Prospects report notes that although the global economy is expected to recover from the COVID-19-induced recession, progress will be slow and subdued.

The Bank is continuously monitoring the forecast scenarios, considering these in its Macroeconomic model as updated information become available.

On operations level, the Bank had invoked BCP in March 20. The lockdown measures announced by the UK Government was implemented within the Bank and BCP plan was invoked on 23rd of Mar'20. The detailed plan approved by the ITOC for smooth operations includes VPN connections to the staff members as per the requirement for remote access to local inhouse servers, drive access and critical servers, diversion of customer calling telephone lines to respective officials, required mail access to all the staff members, appropriate creation and management of all IT Infrastructures. As on date, the Bank has successfully implemented work-from-home and Business as Usual (BAU) working is going on. The Bank is closely monitoring the government guidelines and working from the primary site with proper social distancing and other measures in place. The Board considered in depth impact of Covid-19 while performing going concern assessment.

At present, the second wave of the pandemic has struck India with a devastating impact. Such situation of Covid-19 in India has been evaluated and it is concluded that this doesn't have any material impact on the Bank. The same is considered as a post balance sheet event, as major impact came in April'21.

Brexit

As the Bank does not have any branch or business operations outside UK, change in passporting rights would not have any direct impact on bank's operations. Only 6.8% loan book of the bank (as of Mar'21) are within the EU territory. The Bank hedges all the currency mismatch in its balance sheet for the available tenor and roll-over the swap / derivative for the balance period. However, looking to the present level of operations and risk appetite towards the open position, the same is within the risk appetite of the Bank.

Financial crime

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

Cyber-attacks

In 2021, threats from the external cyber environment continued to evolve, due to heightened geo-political tension, and active well-established cyber-crime groups. There were also high profile incidents during the year. Specific mitigants implemented in Cyber Security Plans are currently proving effective and the Bank has not experienced any significant disruption to date. Bank is continuously improving the controls in the system and processes to withstand the increasing cyber threat as it remains vigilant about such impending threat.

Building and maintaining capital strength

Decisions made by regulators on the implementation and interpretation of capital rules and on macro-prudential issues can impact the capital management, such as adjustments to the countercyclical capital buffer. The bank continuously reviews its capital position on a forward-looking basis, and undertakes stress testing as part of the ICAAP in line with PRA requirement, which is incorporated in the annual ICAAP review. The Parent Bank has injected additional capital of $ 50m during the financial year 2019-20, thus strengthening the capital base of the Bank and regulatory capital ratios.

Credit Risk

The risk of loss due to the default or credit quality deterioration of a customer or counterparty to which the Bank has provided credit, or for which the Bank has assumed a financial obligation. Credit risk is explained in detail in notes to accounts (note 26).

The Bank has the following committees of executives:

- Asset and Liability Committee (ALCO)
- Credit Committee (CC)
- Executive Management Committee (EMC)
- Investment Committee (IC)
- Training Advisory Committee (TAC)
- IT and Operations Committee (ITOC)
- Senior Manager Crisis Team (SMCT)
- Fraud Investigation Committee (FIC)

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 26.

Internal control and financial reporting

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

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

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

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

General Data Protection Regulation (GDPR)

The Bank has successfully implemented the expansion of European General Data Protection Regulation (GDPR) Known as the Data Protection Act 2018 in the UK in May 2018. Bank believes in a concept of 'Privacy by Design and Protection by Default' with regards to data protection throughout the Bank. As part of the implementation Bank has performed gap analysis, created data flow maps, registers, processes, performed Data Protection Impact Assessments and also has in place Privacy statement and other policies with regard to Data Protection. Bank has a designated Data Protection Officer (DPO) in the UK and also a local DPO in India to take care of any Data Protection related issues for UK office raised in India. All areas of customer information are monitored by DPO and Regular MI is provided to the Management in the Executive Management Committee.

Climate Change

The Board has incorporated the management of Climate Change issues as part of its core Business Strategy, and has enrolled the Bank as public supporter of Financial Statbility Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD).

The Chief Risk Officer is responsible for identifying the Bank's overall exposure to threats arising due to Climate Change, expressed both in terms of Time horizon, and the likely consequences both of expected losses and extreme (tail) outcomes.

With respect to the business activities which are identified as being at risk due to Climate Change, the Bank will consider the geographic scope of its material exposures – both from a Customer/Borrower perspective, and from the anticipated changes in the operational resilience and capacity of its outsourced service providers. In order to facilitate and inform Risk Assessment, background research will include proactively reviewing published material to identify and analyse current scientific understanding of how climate change could lead to changes in the frequency, severity and correlation of financial risks.

The key indicators of the evolving impact of Climate Change each reflect the specific decision or Disclosure supported by qualitative assessment and expert opinion; these are anticipated to be primarily business- and regulatory- related, rather than scientific, and in this context proactive scanning of evolving Energy Efficiency criteria, emissions controls and economic incentives/disincentives will constitute the principal proxy metrics for the foreseeable future.

Modern Slavery and Human Trafficking

The Bank continues to have a zero-tolerance approach to modern slavery in the organisation and its supply chains. Bank will not knowingly support or conduct business with any commercial organisation involved in such activities. The Bank relies on third party vendors to provide services and products. Bank expects all of its goods and services suppliers to act in a responsible, open, and ethical way.

The Bank's emphasis on Third Party Supplier Risk is carried through regular risk assessment. Bank considers the prevention, detection and reporting of modern slavery in any party of our organisation or supply chain as the responsibility of all those working for and its behalf.

Regulatory environment

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

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

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

The Bank has successfully implemented enhanced Operational Resilience, Risk framework, etc. within the Bank during the financial year.

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.
The CRD V and CRR2 is applicable in UK since 1 January 2021, however the reporting guidelines are postponed in UK to 1 January 2022.

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

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

The framework for regulatory capital

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

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

The leverage ratio framework

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

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

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

The liquidity framework

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

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

The liquidity framework (Contd.)

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 a daily basis to ensure liquidity adequacy. The Board approves the stress testing framework and reviews the outputs of stress testing as part of the approval processes for the ILAAP.

Compensation as per FSCS

Eligible deposits with the Bank are protected up to the compensation limit (currently £85,000) by the Financial Services Compensation Scheme, the UK's deposit protection scheme.

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 part of the UK regulators' drive to improve culture, governance and accountability within financial services firms. It aims to deter misconduct by improving individual accountability and awareness of conduct issues across Bank through a clear identification and allocation of responsibilities to individuals. 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 14th May 2021 and signed on its behalf by:

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 MARCH 2021

Union Bank of India (UK) Ltd

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 are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards as issued by the IASB. 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.

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.

We confirm that to the best of our knowledge:

• the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;

• the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

• the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the company's position, performance, business model and strategy.

By order of the Board and signed on its behalf

Viswesvaran Radhakrishnan
Managing Director & CEO

C A Kalyan Varma
Executive Director and COO

14-May-2021

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

Report on the audit of the financial statements

1. Opinion

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

- give a true and fair view of the state of the bank's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 bank.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of Stage 3 loan provisions; and • Staging and post model overlays. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was $1.72 million which was determined on the basis of 1.5% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We identified staging and post model overlays as a key audit matter during the current year. IFRS 9 Financial Instruments continues to be a challenge in the current year with complex models required to calculate the ECL on the loan assets in the context of global economic uncertainty caused by the COVID-19 pandemic. Staging and Post Model Overlays("PMOs") have been identified as a significant risk in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the bank's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of management's going concern review process;
- Evaluating management's judgement paper, identifying the assumptions applied in the going concern assessment and testing the mechanical accuracy of the underlying data;
- Performing a retrospective review of previous assumptions and forecasts;
- Performing sensitivity analysis on the key assumptions applied within management's judgement paper including forecasts, particularly in relation to potential effect upon the bank's capital;
- Evaluating management's view that their parent bank will continue to support the bank;
- Assessing the appropriateness of forecast capital and liquidity of the bank, through performance of a reverse stress test;
- Assessing the impact of regulatory prudential risks to the bank's going concern assessment;
- Evaluating regulatory correspondence and meeting with the Prudential Regulation Authority;
- Evaluating management's assessment of the potential impact of subsequent events on going concern, including developments in the global COVID-19 pandemic; and
- Evaluating the appropriateness of the going concern disclosures in the financial statements.

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

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

5. 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.

5.1. Valuation of Stage 3 provisions

Key audit matter description	As disclosed in note 11 (Loans and Advances to Customers) and note 26 (Risk Management), the bank held a loan impairment provision of $59.1m against gross customer receivables of $317.5m at 31st March 2021 (31 March 2020: $54.1m against gross customer receivables of $310.5m). The expected credit loss ("ECL") impairment charge on loans and advances to customers was $9.0m in the year to 31 March 2020 (31 March 2019: $26.5m). Loan impairment remains one of the most significant judgements made by management. The bank has continued to apply an ECL model to determine the provision for impairment losses against loans and receivables to customers in line with IFRS 9. The measurement of ECL is complex and involves a number of judgements and estimation of assumptions relating to customer default rates, historical collection rates, exposure at default, likely loss given default, assessing significant increases in credit risk and future economic scenario modelling. These assumptions are informed using historical behaviour and experience. They are also affected by management's consideration of the future economic environment. Due to the limited loan and default history of the bank, primarily a parameter-based model has been utilised to calculate the ECL on customer receivables, driven primarily by S&P global observed default rates and a Standardised approach to Loss Given Default in line with Basel principles. Individual loan assessments have also been performed by management for loans categorised as Defaulted (Stage 3). We have considered this a significant area of judgement within the bank's provisioning methodology to be the valuation of Defaulted (Stage 3) loans, in particular the valuation of collateral used in the calculation of level 3 ECL. Both the ECL model approach and individual assessment require management's judgement over collateral values due to uncertainty caused by COVID-19. In prior years we identified that some collateral valuations were not as up-to-date as readily

available information that the audit team had found, including most recent financial statements, however this was counteracted by the haircuts applied by management .

Given the material impact of the significant judgements taken by management in the measurement of the provision, we consider there is an inherent risk of fraud through manipulation of this balance.

Management's associated accounting policies are detailed on pages 36-47 with detail about the judgements in applying accounting policies and critical accounting estimates on page 46 -47.

How the scope of our audit responded to the key audit matter	Our audit procedures included obtaining an understanding of, and assessing, relevant controls around the identification, valuation and recording of impairment provisions, in particular those over the valuation of collateral in relation to Stage 3 loans. Assessment of the ECL model We assessed management's methodology against the requirements of IFRS 9 with input from our internal credit risk modelling specialists and we tested the application of that methodology within the impairment models. This comprised a specific assessment of the methodology adopted by management to determine the valuation of stage 3 loans, in particular the valuation of collateral used in the calculation of level 3 ECL. We challenged the appropriateness of management's assumptions and inputs underlying the impairment provision calculations. This involved evaluating management's conclusions regarding the use of forward-looking information when assessing compliance with the standard, and assessed the reliability of source data used in the basic inputs to the model and the forward-looking scenarios. Stage 3 Individual versus Model ECL assessments We assessed management's individual assessments of Defaulted (Stage 3) loans, challenging the assumptions used and compared the individually-assessed ECLs calculated to the outputs of management's ECL model, and challenging the final ECL booked by management. Involvement of Deloitte Real Estate Specialists With support from Deloitte Real Estate specialists, we challenged the collateral values and the bank's processes and judgments when evaluating those valuations, including haircuts applied by management and how the impact of COVID-19 had been incorporated within the valuation of collateral. Disclosures testing We assessed whether the disclosure of significant judgements and areas of estimation uncertainty gave sufficient transparency over the uncertainty

	surrounding measurement of ECLs, particularly in light of the changes in the macro-economic environment. We tested the completeness and accuracy of the related credit risk disclosures and sensitivities with reference to the applicable standards.
Key observations	Based on our audit procedures above, we concluded that management's Stage 3 provision is reasonably stated.

5.2. Staging and post model overlays

Key audit matter description	IFRS 9 Financial Instruments continues to be a challenge in the current year with complex models required to calculate the ECL on the loan assets in the context of global economic uncertainty caused by the COVID-19 pandemic. Staging and Post Model Overlays("PMOs") have been identified as a key audit matter in the current year. **Significant increase in credit risk and staging** Judgement is required to determine Significant Increase in Credit Risk ("SICR") by consideration of qualitative and quantitative indicators. The bank considers the following key indicators: • Rating variation in the lifetime probability of default of a loan; • Entry to watch list; and • Accounts that are more than one month past due. COVID 19 has led to requests for COVID 19 support by some of the bank's customers including deferred payment, payment date extensions, payment holidays and waiver in covenants. Determination of whether this is evidence of a significant increase in credit risk or default is a key judgement area. **Post Model Overlays** Management has performed an IFRS 9 Model validation and back testing exercise: COVID-19 and back testing PMOs were applied to the ECL output from the bank's standard model, $0.7m (2020: $2.15m) and $4.0m (2020: $4.2m) respectively. Given the material impact of the significant judgements taken by management in the determination of significant increase in credit risk and movement In stages, plus the judgment involved in calculating PMOs, we have considered this a significant area of judgement and also consider there to be an inherent risk of fraud through manipulation of these estimations. Management's associated accounting policies are detailed on pages 36-47 with detail about the judgements in applying accounting policies and critical accounting estimates on pages 46 - 47.

How the scope of our audit responded to the key audit matter	Our audit procedures included obtaining an understanding of, and assessing, relevant controls around the following: • Identification of SICR and the subsequent staging • Model validation and the subsequent completeness and calculation of PMOs Significant Increase in Credit Risk and Staging We have updated our understanding of the bank's credit risk management process under IFRS 9 and evaluated the design and implementation of controls at the Bank that are relevant to SICR and the staging of loans. We involved our credit risk modelling specialists and analysed the SICR, default and staging components and integrity of management's ECL model, including testing of inputs and mechanics of the model. We assessed the appropriateness of the banks SICR criteria against stage movements as at the year-end. We tested a sample of loans against UBI's significant increase in credit risk and default credit impaired criteria and assessed whether the correct stage has been determined. Post Model Overlays After reviewing the ECL output at year end we discussed with management whether the initial model output and management's proposed PMOs reflected the expected credit loss in the loan book as at 31 March. We evaluated management's use of PMOs, by assessing the historic performance of the book and the potential ongoing economic effects of COVID-19. We challenged the appropriateness and completeness of management overlays, assessing and independently recalculating the PMOs which were adopted. Disclosures testing We assessed whether the disclosure of significant judgements and areas of estimation uncertainty gave sufficient transparency over the uncertainty surrounding measurement of ECLs, particularly in light of the changes in the macro-economic environment. We tested the completeness and accuracy of the related credit risk disclosures and sensitivities with reference to the applicable standards.
Key observations	Based on our audit procedures above over management's identification of SICR and staging as at year end and the PMOs applied to the provision model, we concluded management's provision is reasonably stated.

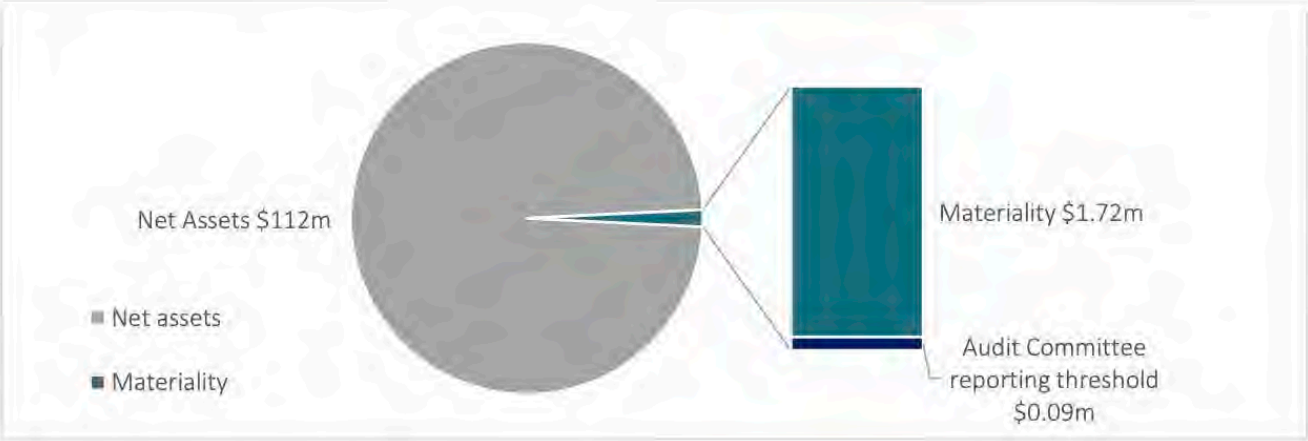
6. Our application of materiality

6.1. Materiality

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

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

Materiality	$1.72 m (2020: $ 1.9m)
Basis for determining materiality	1.5% of Net Assets (2020: 1.5%) This is consistent with prior year.
Rationale for the benchmark applied	Net assets is a key metric within the bank's financial statements on which the users, including the owner of the bank, lenders and regulators tend to focus and is a valid proxy for regulatory capital.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the bank's overall control environment including the impact of Covid-19; and
- Our past experience of the audit, which has indicated a low number of corrected and uncorrected missatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $86,000 (2020: $95,000), 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.

7. An overview of the scope of our audit

7.1. Scoping

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.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. 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 bank 's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the bank or to cease operations, or have no realistic alternative but to do so.

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the bank 's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management , internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the bank's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, real estate, IT, credit and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in Valuation of Stage 3 Provisions and Staging and Post Model Overlays . In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the bank operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included and the sector it operates in e.g. UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the bank 's ability to operate or to avoid a material penalty. The key laws and regulations we considered in this context included Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations and the regulatory solvency requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified Valuation of Stage 3 Provisions and Staging and Post Model Overlays as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. 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 bank 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.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 28 to the financial statements for the financial year ended 31 March 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by 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 7 years, covering the years ending 31 March 2015 to 31 March 2021.

15.2. 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).

16. Use of our report

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

Russell Davis FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 May 2021

*INCOME STATEMENT **

FOR THE YEAR ENDED 31 MARCH 2021

Union Bank of India (UK) Ltd

	Notes	2021 USD '000	2020 USD '000
Interest and similar income	2	13,690	20,313
Interest and similar expense	3	(4,823)	(8,087)
Net interest income		8,867	12,226
Fees and commission income	4	366	150
Net fee and commission income		366	150
Net trading income		30	424
Net other operating income		1,026	845
Derecognition gain	26	237	-
Total Operating income		**10,526**	**13,645**
Personnel costs	5	(3,173)	(2,785)
Depreciation and amortisation	15,16	(528)	(586)
Other expenses	6	(3,171)	(3,070)
Operating expenses before impairment loss allowances		(6,872)	(6,440)
Operating profit before impairment loss allowances		**3,654**	**7,204**
Impairment loss allowances	7	(14,789)	(26,546)
Fair value gain / (loss)		197	(546)
Loss before tax		**(10,939)**	**(19,887)**
Corporation tax (charge) / credit	8	-	(2,174)
Loss after tax		**(10,939)**	**(22,061)**

* There were no discontinued operations during the year

The notes on pages 36 to 68 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

	2021 USD '000	2020 USD '000
Total loss for the year attributable to equity shareholders	(10,939)	(22,061)
Other comprehensive income / (expense) net of tax		
Items that may be reclassified subsequently to profit or loss		
- Fair value gain/ (loss)	1,749	(49)
- Tax relating to change in fair value	-	(198)
Net other comprehensive income/ (expense)	**1,749**	**(247)**
Total comprehensive expense attributable to equity shareholders for the year	**(9,190)**	**(22,308)**

The notes on pages 36 to 68 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

	Notes	2021 USD '000	2020 USD '000
Assets			
Cash and cash equivalents	9	6,150	6,411
Financial assets at amortised cost:			
- Loans and advances to customers	11	256,757	256,273
- Loans and advances to Banks	10	8,000	44,054
- Financial investments	13	17,329	12,062
Financial assets at FVTPL:			
- Financial investments		1,316	-
- Derivative financial instruments	14	1,436	-
Financial assets at FVOCI:			
- Financial Instruments	12	98,207	72,563
Property, plant and equipment	16	978	1,388
Intangible assets	17	99	230
Capital work in progress		41	-
Deferred tax assets (Net)	18	-	-
Other assets	19	902	5,025
Total Assets		**391,215**	**398,004**
Liabilities			
Financial Liabilities at FVTPL:			
- Derivative financial instruments	14	-	3,210
Financial liabilities at amortised cost:			
- Deposits from Banks	20	-	21,256
- Deposits from customers	21	271,130	241,918
- Repurchase agreements	22	5,223	8,941
Provisions	23	114	112
Other liabilities	23	2,930	1,558
Total Liabilities		**279,397**	**276,995**

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

Union Bank of India (UK) Ltd

	Notes	2021 USD '000	2020 USD '000
Equity			
Share capital	24	150,000	150,000
Fair value reserves		537	(1,211)
Accumulated losses		(38,719)	(27,781)
Total Shareholder's equity		**111,818**	**121,008**
Total Equity and liabilities		**391,215**	**398,004**

The notes on pages 36 to 68 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 14th May 2021.

Viswesvaran Radhakrishnan
Managing Director & CEO

C A Kalyan Varma
Executive Director and COO

Company registration no: 07653660

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

Year to 31 March 2021	**Notes**	**Issued capital USD '000**	**Fair value reserves USD '000**	**Retained earnings USD '000**	**Total equity USD '000**
Balance as at 1 April 2020		150,000	(1,211)	(27,781)	121,008
Total Comprehensive loss		-	1,749	(10,939)	(9,190)
Loss for the year		-	-	(10,939)	(10,939)
Other Comprehensive gain		-	1,749	-	1,749
Balance as at 31 March 2021 attributable to shareholders of the Bank		**150,000**	**537**	**(38,719)**	**111,818**

Year to 31 March 2020	**Notes**	**Issued capital USD '000**	**Fair value reserves USD '000**	**Retained earnings USD '000**	**Total equity USD '000**
Balance as at 1 April 2019		100,000	(964)	(5,719)	93,317
					-
Issue of share capital	24	50,000	-	-	50,000
					-
Total Comprehensive loss		-	(247)	(22,061)	(22,308)
Loss for the year		-	-	(22,061)	(22,061)
Other Comprehensive loss		-	(247)	-	(247)
Balance as at 31 March 2020 attributable to shareholders of the Bank		**150,000**	**(1,211)**	**(27,781)**	**121,008**

The notes on pages 36 to 68 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

Union Bank of India (UK) Ltd

	Notes	2021 USD '000	2020 USD '000
Cash flows from operating activities			
Loss before tax for the year		(10,939)	(19,887)
Adjustments to reconcile profit from operations:			
Amortisation of intangible non-current asset	17	131	155
Depreciation for property, plant and equipment	16	421	430
FV movement in level 1 derivatives		(197)	546
Corporation tax credit during the year		-	(2,174)
Finance Charge on Lease	23	38	53
Cash flows before changes in operating activities		393	(989)
Movement in working capital			
Decrease/(Increase) in receivables & prepayments	19	4,123	(2,482)
Tax paid		-	-
Increase / (Decrease) in other liabilities	23	1,775	1,835
Net Increase / (Decrease) in working capital		5,898	(647)
Cash flows from operating activities			
Decrease/ (Increase) in loans and advances to customers	11	(485)	45,782
Decrease/ (Increase) in loans and advances to banks	10	36,054	(17,717)
Decrease in deposits from Banks	20	(21,256)	(8,131)
Increase in deposits from customers	21	29,212	2,141
Decrease in repurchase agreements	22	(3,718)	(21,385)
Decrease / (Increase) in derivative financial instruments - Assets	14	(1,436)	409
Increase / (Decrease) on derivative financial instruments - Liab.	14	(3,013)	3,210
		35,358	4,309
Net cash flows used in operating activities (A)		30,710	(17,215)
Cash flows from investing activities			
(Acquisition)/Disposal of Investments - FVOCI	12	(23,895)	30,458
(Acquisition)/Disposal of Investments - Amortised cost	13	(5,266)	177
(Acquisition)/Disposal of Investments - FVTPL		(1,316)	-
Disposal of property, plant and equipment	16	2	-
Acquisition of property, plant and equipment	16	(13)	(33)
Acquisition of intangible assets	17	-	(244)
Decrease / (Increase) in capital work in progress		(41)	-
Net cash flows used in investing activities (B)		(30,530)	30,358
Cash flows from financing activities			
Proceeds from issue of equity share capital	24	-	50,000
Repayment of Lease (Principal amt)	23	(402)	(360)
Payment of Interest on Lease	23	(38)	(53)
Repayment to Intra-group borrowings		-	(60,565)
Net cash flows from financing activities (C)		(440)	(10,977)
Net increase/(decrease) in cash and cash equivalents (A+B+C)		(260)	2,166
Cash and cash equivalents at beginning of the year		6,410	4,244
Cash and cash equivalents at close of the year	9	**6,149**	**6,410**

The notes on pages 36 to 68 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 Private limited company, limited by share incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The Bank is a wholly owned subsidiary of Union Bank of India, one of the leading public-sector banks of India. The address of the registered office is Senator House, 85 Queen Victoria Street, London (UK) EC4V 4AB. The nature of the Bank's operations and its principal activity is set out in Director's report, page 4.

1.1 Basis of preparation

Where the entity is outside the scope of DTR 4 of the FCA's Disclosure Guidance and Transparency Rules and is not additionally asserting compliance with IFRS Standards as issued by the IASB use:

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for, leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use ('VIU') in IAS 36 Impairment of Assets.

1.2 Compliance with International Financial Reporting Standards (IFRS)

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.

Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments, and IAS 1 'Presentation of Financial Statements' relating to objectives, policies and processes for managing capital, can be found in the Risk Management. Those disclosures form an integral part of these financial statements.

1.3 Changes in accounting policies and disclosures

1.3.1 New and amended standards and interpretations issued but not effective for the financial year ending 31 March 2021

In the current year and in accordance with IFRS requirements, certain new and revised standards and interpretations are in issue but not yet effective. The Directors do not expect the adoption of these standards to have a significant effect on the financial statements of the Bank in future periods. Management will continue to assess the impact of new and amended standards and interpretations on an ongoing basis.

At 31 March 2021, the following accounting standards have been issued by the IASB but are not yet effective:

IFRS 17 Insurance contracts

IFRS 17 is a replacement of IFRS 4 on accounting for insurance contracts. IASB has deferred effective date of IFRS 17 (which was initially expected to be effective from 1 January 2021) to annual reporting periods beginning on or after 1 January 2023. This standard is not applicable to the Bank as currently it does not have insurance business.

1.3.2 New and amended standards and interpretations effective for the financial year ending 31 March 2021

The IASB has issued a number of minor amendments to IFRSs which do not have any impact on the Bank's financial statements.

Accounting Policies (Contd.)

1.4 Foreign currencies

The Bank applies IAS 21 "The Effects of Changes in Foreign Exchange Rates". Bank's financial statements are presented in US dollars because the US dollar and currencies linked to it form the major currency bloc in which the Bank transacts and funds its business. Therefore, the US dollar is also the Bank's functional currency. Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date, except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date.

Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised

1.5 Revenue recognition

1.5.1 Interest income and expense

Interest and similar income comprises interest income on financial assets measured at amortised cost, FVOCI and FVTPL. Interest expense and similar charges comprises interest expense on financial liabilities measured at amortised cost.

Interest income and expenses on financial assets are recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability. Interest income from non-credit impaired financial assets is determined by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets (or 'stage 3 assets'), the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed as described in subsequent point.

1.5.2 Fee and commission income and expense

Fees and commissions that are not an integral part of the effective interest rate are recognised as income when the Bank fulfils its performance obligations. Most fee and commission incomes are recognised at a point in time, except the processing fees which are recognised on a straight line basis over the life of facility. Certain commitments, upfront and management fees are recognised over time but are not material.

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

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

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

• Processing/upfront fees income collected on the processing of loan, renewal/ extension of exiting loans or modification in the exiting sanction are deferred and recognised as revenue on straight line basis over the tenure of the loan unless it forms integral part of effective interest rate. Any processing fees of less than $5,000 received for short term loans or any long-term loans are recorded as an income in the year of receipt owing to the materiality concept.

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

1.5.3 Dividend income

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

Accounting Policies (Contd.)
Revenue recognition (Contd.)

1.5.4 **Net trading and other income**

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

1.6 **Borrowing costs**

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

1.7 **Intangible assets**

The value of intangible assets is amortised on a straight-line basis over their useful economic life. At each reporting date, intangible assets are reviewed for impairment indicators and tested for impairment if such indicators exist.

Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits and the cost of those products can be measured reliably. The software development costs are recognised under capital work in progress until the software is ready to use.

These costs include payroll, materials, services and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in intangible assets on the balance sheet and amortised on a straight-line basis over their useful life of three years, unless the software is an integral part of the related computer hardware, in which case it is treated as property, plant and equipment as described below. Capitalisation of costs ceases when the software is capable of operating as intended. Costs of maintaining software are expensed as incurred.

1.8 **Property, plant and equipment**

Property, plant and equipment include owner-occupied properties (including leasehold properties), office fixtures and equipment, capital work in progress and computer software. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated provision of impairment losses, if any.

Gains and losses on disposal are determined by reference to the carrying amount and are reported in net trading and other income. Repairs and renewals are charged to the income statement when the expenditure is incurred.

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

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

In the event that assets' carrying amount is greater than its recoverable amount, the carrying values of property, plant and equipment, goodwill and other intangible assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs.

Accounting Policies (Contd.)

Property, plant and equipment (Contd.)

Classes of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life, as follows:

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

1.9 Financial Instruments

The Bank applies IFRS 9 Financial Instruments for the recognition, classification and measurement, and derecognition of financial assets, financial liabilities and the impairment of financial assets.

1.9.1 Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Bank becomes a party to the contractual terms of the instrument. The Bank determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability other than FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

1.9.2 Classification and subsequent measurement

As per IFRS 9 Financial Instruments, Bank classifies its financial assets and liabilities in the measurement categories of amortised cost, FVOCI and FVTPL.

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

– Financial assets and financial liabilities held for trading;

– Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI; and

– Equity instruments that have not been designated as held at FVOCI.

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

An expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

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

- **Business model**

The bank assesses the business model criteria by considering various factors. Factors considered in determining the applicable business model for a group of assets include

i) past experience on how the cash flows for these assets were collected like the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales,

iii) the strategies, policies and objectives for holding those assets, and

iii) management and evaluation of performance and risk of the assets.

- **Solely payments of principal and interest (SPPI)**

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the assets' cash flows represent SPPI.

Accounting Policies (Contd.)
Financial Instruments (Contd.)

Solely payments of principal and interest (SPPI) (Contd.)

In the assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. Interest is the consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g., liquidity risks) and costs (e.g., administrative costs), as well as a profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

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

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

• **FVOCI** – Financial assets that are held for both collection of contractual cash flows and for sale of the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. Interest revenue, impairment gains and losses, and a portion of foreign exchange gains and losses, are recognized in profit and loss on the same basis as for Amortized Cost assets. Changes in fair value are recognized initially in Other Comprehensive Income (OCI). When the asset is derecognized, changes in fair value previously recognized in OCI and accumulated in equity are reclassified to profit and loss and recognised in 'Net trading and other income'.

• **FVTPL** – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement as 'Net trading and other income' in the period in which it arises.

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

- **Financial assets: debt instruments**

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

- **Financial assets: equity instruments**

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, being instruments that do not contain a contractual obligation to pay cash and evidences a residual interest in the assets of an issuer after deducting all of its liabilities. All equity investments are subsequently measured at FVTPL, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When the election is made, fair value gains and losses are recognised in OCI and are never reclassified to profit or loss, even if the asset is sold or impaired. ECLs (and reversal of ECLs) are not reported separately from other changes in fair value. Dividends representing a return on such investments are recognised in profit or loss as other income when the right to receive payments is established. Gains and losses on equity investments measured at FVTPL are included as 'Net trading and other income' in income statement.

- **Derivative financial instruments (derivatives)**

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

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

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. Gains and losses from changes in the fair value of derivatives are recognised in the income statement, and included as non operating gain or loss under fair value gain or loss.

- **Financial liabilities**

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

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

• Financial guarantee contracts and loan commitments.

- **Sale and repurchase agreements (including stock borrowing and lending)**

Securities sold subject to a commitment to repurchase them at a predetermined price (repos) under which substantially all the risks and rewards of ownership are retained by the Bank remain on the balance sheet and a financial liability is recorded in respect of the consideration received. Securities purchased under commitments to resale (reverse repos) are not recognised on the balance sheet and the consideration paid is recorded as an financial asset. The difference between resale or repurchase price and consideration received or paid is treated as interest income or expenses over the life of the transaction, except when the repo is treated as part of the trading book, in such case the difference is recognised as trading income.

- **Modifications and Derecognition of financial assets**

The Bank derecognise a financial asset in any the following circumstances:
• When the rights to the cash flows from the asset expired;
• When the Bank transferred its rights to receive the cash flows from the asset;
• When the Bank transferred substantially all risks and rewards from the asset;
• When the Bank does not retain control of the asset;
• Substantially modified assets as described below;

If the contractual cash flows of a financial asset are renegotiated or modified, the Bank shall assess whether the financial asset should be derecognised, i.e. whether the modification is considered to be a substantial modification. When the modifications are considered to be a substantial change in the contractual cash flows, the financial assets shall be derecognised.

- **Quantitative criteria**

The Bank applies the principle of analogy and use the guidance stipulated by IFRS 9 for modification of financial liabilities in applying it to financial assets. Thus, a modification would lead to derecognition of an existing financial asset and recognition of a new financial asset if there is a substantial modification, i.e. if the discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

If the difference is less than 10%, derecognition may still occur if other terms and conditions of the financial asset(s) have substantially changed, especially if multiple changes occur with respect to the same asset (e.g. currency, collateral, governing law, type of facility, maturity, etc.).

Accounting Policies (Contd.)
Financial Instruments (Contd.)
Quantitative criteria (Contd.)

A qualitative assessment shall be performed in all cases when the 10% test is passed, in order to establish whether other changes in the terms and condition of the financial asset(s) represent a substantial modification. In all cases, the decision are finalised by the respective sanctioning authority.

Additionally, when a counterparty changes as a result of a novation, the financial instrument is derecognised and a new financial instrument is recognised, unless it is a novation to a Central Counterparty (CCP) as result of the introduction of new laws or regulations.

- **Financial guarantee contracts and loan commitments**

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

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

1.9.3 **Recognition of expected credit losses**

The bank uses Expected Credit Loss (ECL) framework to calculate impairment allowance on financial assets. The Bank uses ECL model developed by the third party vendors Ernst & Young LLP and S&P Global Market Intelligence, considering the IFRS 9 policies approved by the Board. The Bank does not have sufficient history of default and operations to use its own PD model, thus PDs provided by S&P are used for the calculation of ECL provisions. Also, haircuts defined under the Basel F-IRB norms are used for calculation of LGDs.
Under the ECL model, an bank calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes. The allowance is calculated depending on the asset's classification under the three stage model (Stage 1- no significant increase in credit risk; Stage 2 – significant increase in credit risk & 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 and lifetime expected credit loss is recognised on such assets.

Quantitative modelling is used in conjunction with internal &/or external credit grades and ratings in assessing whether credit risk has significantly increased. The rating score is performed by the Bank using S&P Rating Agency's scorecard methodology for Loans and advances to customers. The Bank considers external ratings for the other credit counterparties i.e. for Investments and inter-bank. The Bank also monitor the effectiveness of the criteria used to identify any increase through regular reviews and the maintenance of a watchlist.

Under IFRS 9 the Bank considers a financial asset to be in default and or credit impaired primarily when either the borrower is unlikely to pay its credit obligations or the borrower is more than 3-month past due. Detailed definition of default adopted by the Bank is mentioned in the later part of the note.

Accounting Policies (Contd.)
Financial Instruments (Contd.)

1.9.4 Embedding of IFRS 9 credit provisions

Throughout FY 2020-2021 the bank enhanced and refined its IFRS 9 processes and procedures, accounting policy, internal controls and governance framework to embed the requirements of IFRS 9. Credit monitoring has been strengthened by the Bank, by adopting a follow-up system from the moment when an account experiences a significant increase in credit risk and enhancing the credit monitoring management information.

Management evaluated the results of the ECL model at year end and after analysis, management concluded that the output from the model was not sufficient to reflect the credit risk in the portfolio. Therefore post model adjustments were considered and made by management.

The model and methodology changes were approved by the appropriate committee of the Bank.
The management's judgement on level of credit provisions were considered appropriate by the Board and it will be monitored on regular basis.

The credit portfolio is regularly reviewed to ensure that all contracts that have experienced Significant increases in credit risk ("SICR") are identified in time.

Apart from credit, other exposures such as Investments, inter-bank borrowing, etc. are also reviewed to ensure that there has been no SICR that could warrant an increase in provision.

The ECL is calculated using three main components : i) Probability of default (PD), ii) Loss given default (LGD) and iii) Exposure at default.

1.9.5 Recognising PD (Probability of Default)

Bank determines an exposure's 12-month PD as follows;
An appropriate rating of the counterparty is determined through the application of either the relevant Rating Scorecard (for the lending portfolio, sourced from S&P) or through the long term rating (for the investment portfolio).

A credit cycle adjustment is applied to the sourced rating to produce a forward-looking PD. A forward-looking PD term structure (up to 30 years) is determined for three macroeconomic scenarios (i.e. base case, upturn and downturn) applicable to that counterparty; and

The Lifetime PD is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs may be broken down further into marginal probabilities for sub-periods within the remaining life.
These approaches have been selected given that the bank has insufficient default history to create its own PD models.

1.9.6 Recognising LGD (Loss Given Default)

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

1.9.7 Exposure at Default (EAD)

EAD is computed on the basis of exposure type and the exposure's Credit Conversion Factor (CCF). Given that the Bank is still in its infancy, insufficient behavioural data is available to model its own CCFs. In light of this, the CCFs as prescribed by Basel are applied. An estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date (Off balance sheet exposure), including repayments of principal and interest, and expected drawdowns on committed facilities.

Accounting Policies (Contd.)
Financial Instruments (Contd.)

1.9.8 **Post Model Adjustment**

Management on a quarterly basis evaluates the output of the ECL model. Post Model Adjustments (PMA's) are made where management deems the model does not accurately reflect credit risk as experienced by the Bank or where it is necessary to incorporate the most recent data available. These include PMA's that have been made to compensate for data or model limitations as well as those which are informed by management judgement and/or a higher level of quantitative analysis in respect of uncertainties and events that are difficult to model.

Management overlay on Stage 3 accounts was assessed on individual account level. The management considered various forecast scenarios and their probability of their occurrence for calculation of the Expected Credit Loss in these accounts. The provisions are then challenged by the credit committee and placed before management committee for its appropriateness and recognition in financial statements.
Management overlay of stage 1 and stage 2 comprises of adjustment due to COVID pandemic and backtesting with historical data. The impact of present pandemic over various customers were assessed by the Bank in order to calculate COVID overlay and overlay was calculated using Simulation and Sensitivity analysis technique. Similarly, weighted average of potential downgrade and the differential provisions was assessed to calculate back testing overlay as on March 21.
These PMAs are subject to oversight and are reviewed by management on quarterly basis to ensure that they remain appropriate.

1.9.9 **Macroeconomic Scenario**

Forward looking expectations and macroeconomic scenarios analysis are key requirements in IFRS 9's impairment recognition model. The purpose of macroeconomic scenario analysis is to understand the impacts of changing economic scenarios on the stage allocation of an instrument and the resulting expected credit loss calculations. Bank has incorporated the impact of changing macroeconomic scenarios on both staging and the ECL computation through consideration of three discrete scenarios, i.e. Base Case, Upturn and Downturn. Upturn scenario reflects a plausible but slightly optimistic view of the exposure in the relevant cluster and Downturn reflects pessimistic forecast of various macroeconomic factors. For each scenario, expert judgement are applied to determine an appropriate probability of occurrence. These probabilities determined through management's consideration of global economic reports (e.g. World Bank forecasts) or alternatively sourced through external vendors such as Oxford Economics or Moody's Analytics. ECL is arrived after probability weighting of base case, upturn and downturn scenarios. The probability weights are based on the Bank's IFRS 9 policy which considers the history of losses and experience of the management. In present scenario, the Bank has also considered the possible impact of COVID-19 in its assessment of ECL provision as at previous and current reporting date.

1.9.10 **Write-off**

For secured loans, a write-off is made only when all collection procedures have been exhausted and the security has been sold or the status of the account reaches a point where continuing attempts to recover are no longer appropriate. In the corporate portfolio, there may be occasions where a write-off might occur for other reasons, such as following a consensual restructure or refinancing of the debt or where the debt is sold for strategic reasons into the secondary market at a value lower than its face value.

1.9.11 **Significant Increase in Credit Risk (SICR)**

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

- **Stage 1:** when there has been no SICR since initial recognition. Bank has applied a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months

Accounting Policies (Contd.)

Financial Instruments (Contd.)

- **Stage 2:** when there has been a SICR since initial recognition, but no credit impairment has materialised. Bank has applied a loss allowance equal to the lifetime ECL i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility
- **Stage 3:** In case where the exposure is considered credit impaired, bank has applied a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

1.9.12 **Definition of default**

A facility is considered as "default" when:

• The facility is 3-month past due; or

• In case of bankruptcy, insolvency, legal receivership or other legal blocks (perhaps by regulators) to the timely payment of interest and/or principal; or

• If the debtor has been declared bankrupt or has become insolvent, claim on the debtor will be classified as default from the date, bankruptcy/ insolvency was declared, unless it was already classified as such.

However, if the debtor has paid the interest due on an asset but has been unable to make repayments of the principal, the asset shall not be classified as default if Bank along with the debtor have agreed on a new payment schedule and the account remains in the performing category, as a result of which, the Customer makes payment in line with the new schedule which enables to classify the customer in performing category.

1.9.13 **Recoveries under Stage 3 loans**

Recoveries from Stage 3 loans are adjusted against the respective loans accounts. Accordingly, it reduces the Stage 3 loan balances and generally associated impairment loss allowances.

1.9.14 **Forbearance**

Forbearance occurs when the contractual cash flows of a financial asset are renegotiated or otherwise modified, on the request of the Borrower.

The details on modification and derecognition of financial assets / liabilities is mentioned in the later part of the notes.

1.10 **Leases**

The lease liability is initially measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid, discounted at the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. The lease liability is measured in subsequent periods using the effective interest rate method.

The right-of-use assets is initially measured at the amount of corresponding lease liability, plus lease payments made at or before the commencement date and any initial direct costs. The right-of-use asset is depreciated in accordance with the accounting policy of 'Property, Plant and Equipment'. They are subsequently measured at cost less accumulated depreciation. The right-of-use assets are also tested for impairment in accordance with IAS 36 Impairment of Assets.

1.11 **Income taxes, including deferred taxes**

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

Income tax expense on taxable profits is recognised as an expense in the period which profits arise. The provision is made for the income tax at tax rates that have been enacted or substantively enacted at the balance sheet date. Where the amount of the final tax liability is uncertain or where a position is challenged by a taxation authority, the most likely outcome is recognised the liability.

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 different years or never taxable or deductible under tax rules.

Accounting Policies (Contd.)

Income taxes, including deferred taxes (Contd.)

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse.

The Bank reviews the carrying amount of deferred tax assets at each balance sheet date and recognise only the portion whose recovery is deemed probable.

Deferred and current tax assets and liabilities are only offset when they relate to income taxes levied by the same taxation authority and the bank has intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.12 Cash and cash equivalents

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

1.13 Provisions

Provisions are recognised for present obligations arising as consequences of past events where an outflow of economic resources to settle the obligation is probable, and it can be reliably estimated.

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

Contingent liabilities are possible obligations depending on whether some uncertain future event occurs or present obligations where the outflow of economic benefit is uncertain or amount cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of economic resources is remote.

1.14 Critical Judgements and Key Sources of Estimation Uncertainty

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

The following accounting estimates and judgements are considered important for the Bank's financial results and financial condition because:

• they are highly vulnerable and change from period to period as calculations are based on assumptions and estimates, and

• any significant difference between the estimated amounts and actual amounts could have a material impact on the Bank's future financial results and financial condition.

Credit impairment allowance

Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes, the time value of money and current conditions and forecasts of future economic conditions. The application of the ECL impairment methodology to calculate credit impairment allowances involves complexity and judgement and is highly susceptible to change from period to period. Management may require to make a number of judgmental assumptions while determining the impairment allowance.

In the same way, PMAs calculated by the bank uses range of probable scenarios and appropriate probability weight given to the scenarios, mainly considering the impact of COVID. The procedures for calculation of PMAs are based on best effort and judgement along with past experience of the management.

Accounting Policies (Contd.)

1.14.1 **Critical Judgements**

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

- **Forward-looking information**: - The assessment of future economic condition is dependent on forward-looking information which can be subjective. The macroeconomic data from various sources such as S&P, OECD, World Bank, BoE, etc are considered appropriate for this purpose to incorporate the forward-looking information in the computation of ECL. The methodology has been documented in the Board approved IFRS 9 policy of the Bank.
- **Loss given default: -** LGD calculation takes into consideration the valuation of collaterals received by the Bank and their applicable haircuts. The judgement on appropriate valuation and haircut is based on the general market practice, valuation of external expert and regulatory guidance.
- **SICR: -** The Bank considers both qualitative and quantitative definitions for recognising SICR. The judgement around its definition and its parameters are based on the various regulatory guidance, experience of the management and present portfolio of the Bank.

1.14.2 **Key Sources of Estimation Uncertainty**

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

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

The forecast of above economic indicators for next five years (apart from Change in S&P500 index and Proportion of Downgrade, as they are Historic indicators) are derived for the following five clusters on the basis of external available data and the Bank's portfolio: -

- Great Britain
- India
- United States
- Oil Producing Countries
- Rest of the World

The ECL provision is sensitive to the movement in above parameters which are input to the ECL model. The provisions for the assets which are mainly sourced from the ECL model shifts by 0.86% on 5% adverse movement of the above parameters as on reporting date.

2 **Interest and similar income**	**2021**	**2020**
	USD '000	**USD '000**
Interest income from loans - Amortised cost	11,413	17,021
Interest income from investments - FVOCI	1,829	2,093
Interest income from investments - Amortised cost	309	444
Interest on interbank placements - Amortised cost	139	755
	13,690	**20,313**

3 **Interest and similar expense**	**2021**	**2020**
	USD '000	**USD '000**
Deposit from customers	4,469	5,236
Deposit from banks	278	744
Intra-group borrowings	-	1,681
Repurchase agreements	76	426
	4,823	**8,087**

4 **Net fees and commission income**	**2021**	**2020**
	USD '000	**USD '000**
Processing fees and commission	366	150
	366	**150**

5 **Personnel costs**	**2021**	**2020**
	USD '000	**USD '000**
Wages and salaries (including Directors' emoluments)	2,752	2,466
Social security costs	290	227
Pension contribution	32	24
Other employee benefits	99	68
	3,173	**2,785**

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

	2021	**2020**
	Number	**Number**
Commercial and retail banking activities	27	27

Directors' emoluments	**2021**	**2020**
	USD '000	**USD '000**
Short-term employee benefits	575	431
Post-employment benefits (Defined Contribution)	-	1
	575	432
Emoluments comprise salary and benefits in kind		
Highest paid Director:		
Emoluments	200	166
Pension contributions	-	4
	200	170

6 **Other Expenses**	**2021**	**2020**
	USD '000	**USD '000**
Other premises costs	181	181
IT costs	530	452
Other administrative expenses	841	1,173
Legal and professional costs	1,418	947
Marketing expenses	1	115
Finance costs *	200	202
	3,171	3,070

* Finance cost includes finance charge on leased assets as evaluated under IFRS 16 (Note 1.3.2)

Legal and professional costs include the following:		
Auditor's remuneration - Auditing of Financial Statements	168	116
	168	116

7 **Impairment loss allowance**	**2021**	**2020**
	USD '000	**USD '000**
Loans & Advances	14,805	26,711
Financial Investments	(21)	(166)
Placements	6	-
	14,789	26,546

8 Tax on Profits

As at year end, the Bank has not recognised any deferred tax asset (DTA) on its current year losses. This is due to uncertainity of present/future economic environment in which the Bank operates.

	2021 USD '000	2020 USD '000
Corporate tax credit	-	-
Deferred tax (see note 18):	-	-
Reversal of DTA	-	(2,174)
Effect of rate changes	-	-
Relating to originating and reversal of temporary differences	-	-
Adjustments in respect of prior years	-	-
Total deferred tax credit	-	(2,174)
Total tax (charge) / credit	-	(2,174)

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

	2021 USD '000	2020 USD '000
Loss on ordinary activities before tax	(10,939)	(19,887)
Standard rate of corporation tax in the UK	19.0%	19.0%
Tax credit at the domestic income tax rate	(1,437)	-
Effects of:	-	
Reversal of DTA for prior years	-	(2,174)
Tax effect of non - deductible depreciation	35	-
Tax effect of other non - deductible expenses/non-taxable income	(44)	-
Tax effect of rate changes	-	-
Loss utilised against profits of earlier period	1,446	-
Adjustment in respect of prior years	-	-
Total tax (charge) / credit for the year	-	(2,174)

	2021 USD '000	2020 USD '000
Tax relating to (credit) / expense in FVOCI	102	(198)
Tax relating to expense / (credit) in retained earnings on adoption of IFRS 9	-	-

Factors that may affect future tax charges

The standard rate of corporation tax rate for the year starting 1 April 2021 is 19% which is expected to increase to 25% from 2023 pending the enactment of Finance Bill 2021.

9 Cash and cash equivalents

	2021 USD '000	2020 USD '000
Cash on hand	32	28
Cash at Bank	6,118	6,383
	6,150	6,411
	6,150	**6,411**

10 Loans and advances to Banks

		2021 USD '000	2020 USD '000
Interbank placements		8,001	44,054
	Gross	8,001	44,054
Less: Impairment provision		(1)	-
	Net	8,000	44,054

Note: - The carrying value of loans and advances to banks is not materially different to the fair value

11 Loans and advances to customers

		2021 USD '000	2020 USD '000
Term loan		289,370	274,260
Working Capital / Overdraft		18,295	28,442
Other loans		9,859	7,755
	Gross	317,525	310,457
Less: Impairment provision		(60,768)	(54,184)
	Net	256,757	256,273

Note: - The fair value of loans and advances to customers is given below:

	2021 USD '000	2020 USD '000
Loans and advances to customers	256,997	258,326

Fair value of loans and advances to customers is calculated using non- observable market data (Level 3).

12 Financial Investments at Fair Value through OCI

	2021 USD '000	2020 USD '000
Quoted investments		
Government debt securities	50,576	25,663
Other securities	47,631	46,900
	98,207	72,563

As per IFRS 9, the carrying amount of the financial asset measured at FVTOCI is always measured at fair value in the statement of financial position, irrespective of the size of the loss allowance. The amount of loss allowance recognised in profit or loss is the same as if the financial asset was measured at amortised cost. However the loss allowance shall be recognised in fair value reserve and shall not reduce the carrying amount of the financial asset in the statement of financial position.

13 Other Financial Assets at Amortised Cost

		2021 USD '000	2020 USD '000
Quoted investments			
Government debt securities		2,044	-
Other securities		15,289	12,062
	Gross	17,333	12,062
Less: Impairment provision		(4)	-
	Net	17,329	12,062

Note: - The investment measured at amortised cost are subject to ECL provisioning recognition. The ECL provision as on 31 March 21 for above was $ 4.4K

The carrying value of financial assets at amortised cost is not materially different to the fair value

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-21	
Derivatives used as:	**Assets**	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	1,436	-	153,243
	1,436	-	153,243

		31-Mar-20	
	Assets	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	-	3,210	99,112
	-	3,210	99,112

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.

15.1 Financial instruments

The table below sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9 as at 31 March 2021. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

	FVTOCI assets / liabilities	**FVTPL assets / liabilities**	**Amortised cost**	**Total**
	USD '000	**USD '000**	**USD '000**	**USD '000**
At 31 March 2021				
Assets				
Cash and cash equivalents	-	-	6,150	6,150
Amounts receivable from customers	-	-	317,525	317,525
Placements	-	-	8,000	8,000
Financial investments	98,207	1,316	17,329	116,852
Derivative assets	-	1,436	-	1,436
Intangible assets*	-	-	99	99
Property, plant and equipment*	-	-	205	205
Right of use assets*	-	-	815	815
Others*	-	-	902	902
Total assets	**98,207**	**2,752**	**351,024**	**451,983**

** Non-financial assets*

Financial instruments (Contd.)

	FVTOCI assets / liabilities USD '000	FVTPL assets / liabilities USD '000	Amortised cost USD '000	Total USD '000
Liabilities				
Bank borrowing	-	-	-	-
Repurchase agreements	-	-	5,223	5,223
Lease liability*	-	-	874	874
Derivative liabilities	-	-	-	-
Other liabilities*	-	-	273,300	273,300
Total liabilities	**-**	**-**	**279,397**	**279,397**

** Non-financial liabilities*

	FVTOCI assets / liabilities USD '000	FVTPL assets / liabilities USD '000	Amortised cost USD '000	Total USD '000
At 31 March 2020				
Assets				
Cash and cash equivalents	-	-	6,411	6,411
Amounts receivable from customers	-	-	310,457	310,457
Placements	-	-	44,054	44,054
Financial investments	72,563	-	12,062	84,625
Intangible assets*	-	-	230	230
Property, plant and equipment*	-	-	233	233
Right of use assets*	-	-	1,155	1,155
Others*	-	-	5,025	5,025
Total assets	**72,563**	**-**	**379,626**	**452,189**

**Non-financial assets*

Liabilities				
Bank borrowing	-	-	21,256	21,256
Repurchase agreements	-	-	8,941	8,941
Lease liability*	-	-	10,898	10,898
Derivative liabilities	-	3,210	-	3,210
Other liabilities*	-	-	232,691	232,691
Total liabilities	**-**	**3,210**	**273,786**	**276,995**

** Non-financial liabilities*

15.2 **Fair value**

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

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

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

Financial Instruments - Fair value (Contd.)

Level 3 Securities: A fair value for financial instrument cannot be determined by using readily observable inputs or measures, such as market prices or models. They are calculated using estimates or risk-adjusted value ranges, methods open to interpretation. Financial Instrument are not traded frequently. The Bank do not hold any instruments within level 3 Securities.

All Financial Instruments of the Bank are classified as Level 1 & Level 2, and their valuation techniques are given below

Financial Instruments	Valuation techniques
Financial assets	
Derivative financial instruments	Fair market value
Financial investments – FVTPL	Fair market value
Financial investments – FVTOCI	Fair market value
Financial liabilities	
Derivative financial instruments	Fair market value

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

	31st March 2021		
	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			
Derivative financial instruments	1,436	-	-
Financial investments – FVOCI	98,207	-	-
Financial investments – FVTPL	303	-	1,013
	99,945	-	1,013
Financial liabilities			
Derivative financial instruments	-	-	-
	-	-	-

	31st March 2020		
	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			
Derivative financial instruments	-	-	-
Financial investments – FVOCI	72,563	-	-
Financial investments – FVTPL	-	-	-
	72,563	-	-

Financial Instruments - Fair value (Contd.)

	31st March 2020		
	Quoted market prices (Level 1)	Valuation techniques using observable market data	Valuation techniques using non-observable market data
	USD '000	USD '000	USD '000
Financial liabilities			
Derivative financial instruments	-	3,210	-
	-	3,210	-

The fair value of Financial assets and financial liabilities that are not measured at fair value but require fair value disclosure have been disclosed in their respective notes.

16 **Property, plant and equipment**	Right to Use Asset & Leasehold Improvement	Furniture & equipment	Computer hardware	Total
	USD '000	USD '000	USD '000	USD '000
Cost				
As at 31 March 2019	559	299	216	1,074
Additions	1,495	9	24	1,528
As at 31 March 2020	**2,054**	**308**	**240**	**2,602**
Additions	-	1	12	13
Disposal/ Other adjustments	-	-	(2)	(2)
As at 31 March 2021	**2,054**	**309**	**250**	**2,613**
Cumulative depreciation				
As at 31 March 2019	(317)	(288)	(179)	(783)
Depreciation charge	(397)	(3)	(31)	(431)
As at 31 March 2020	**(713)**	**(291)**	**(210)**	**(1,214)**
Depreciation charge	(396)	(5)	(20)	(421)
Disposal/ Other adjustments	-	-	-	-
As at 31 March 2021	**(1,109)**	**(296)**	**(230)**	**(1,635)**
Net book value				
As at 31 March 2020	1,341	17	30	1,388
As at 31 March 2021	**945**	**13**	**20**	**978**

17 **Intangible assets**	Capitalised software
	USD '000
Cost	
As at 31 March 2019	435
Additions	244
Disposal	(70)
As at 31 March 2020	**609**
Additions	-
Disposal	-
As at 31 March 2021	**609**

Property, plant and equipment - Intangible assets (Contd.)

	Capitalised software USD '000
Amortisation	
As at 31 March 2019	(271)
Additions	(155)
Disposals	47
As at 31 March 2020	**(379)**
Amortisation charge for the year	(107)
Disposals	-
Other adjustments	(23)
As at 31 March 2021	**(510)**
Carrying value	
As at 31 March 2020	230
As at 31 March 2021	**99**

18 Deferred tax assets

	2021 USD '000	2020 USD '000
Deferred tax assets on losses		
As at 1 April	-	2,404
Tax credit to income statement	20	-
Tax relating to change in fair value of Investment - FVOCI	102	-
Tax relating to IFRS transitional adjustment in retained earnings	-	-
Reversal of Tax for prior years	-	(2,404)
As at 31 March	**122**	**-**

The Bank has not recognised DTA during the financial year on its losses and due to the uncertainty in economy and the plausible impact of COVID-19.

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

Deferred tax liabilities	2021 USD '000	2020 USD '000
As at 1 April	-	32
Tax charge / (credit) to income statement	102	-
Fixed asset temporary difference	20	-
Reversal of Tax for prior years	-	(32)
As at 31 March	**122**	**-**

19 Other assets

	2021 USD '000	2020 USD '000
Other receivables	566	407
Prepayments and accrued income	336	4,618
	902	5,025

20 Deposits from Banks

	2021 USD '000	2020 USD '000
Interbank borrowings	-	21,256
	-	21,256

Note: - The carrying value of Deposits from banks is not materially different to the fair value.

21 Deposits from customers

	2021 USD '000	2020 USD '000
Current accounts	15,992	10,898
Savings accounts	3,857	2,270
Fixed term deposits	251,281	228,751
	271,130	241,918

Note: - The fair value of Deposits from customers is given below:

	2021 USD '000	2020 USD '000
Deposits from customers	274,385	244,548

Fair value of Deposits from customers is calculated using non- observable market data (Level 3).

22 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. During the year, the Bank had sufficient fund to meet the obligation and hence resulted into reduction in Repo liabilities.

	2021 USD '000 Carrying amount of transferred assets	2021 USD '000 Carrying amount of associated liabilities	2020 USD '000 Carrying amount of transferred assets	2020 USD '000 Carrying amount of associated liabilities
Repurchase agreements	6,915	5,223	11,608	8,941

The Bank had sufficient liquidity, therefore the repurchase agreement has been reduced from $ 8.9 mn in 2020 to $ 5.2 mn in 2021.

Note: - The carrying value of Repurchase agreements is not materially different to the fair value.

23 Other liabilities

	2021 USD '000	2020 USD '000
Accruals and other liabilities (including lease liabilities)	2,930	1,558
Provisions for dilapidation	114	112
	3,044	1,670

Note: During the year, additional Provision of $1.41K towards Dilapidation has been made.

Lease liabilities		
Opening lease liabilities	**1,276**	**1,636**
Add: Finance charge for year	38	53
Less: Payments made towards lease liability	(440)	(413)
Closing Lease Liability	**874**	1,276
Within one year	331	409
More than one year	543	867
	874	**1,276**

Note: - The carrying value of Lease liabilities is not materially different to the fair value.

24 Share capital

	2021 Number	2020 Number	2021 USD '000	2020 USD '000
Authorised Capital				
Ordinary shares of GBP 1 each	2	2	0.003	0.003
Ordinary shares of USD 1 each	200,000,000	200,000,000	200,000	200,000
Issued and fully paid				
Ordinary shares of GBP 1 each	2	2	0.003	0.003
Ordinary shares of USD 1 each				
As at 1 April	150,000,000	100,000,000	150,000	100,000
Issue of Share Capital *	-	50,000,000	-	50,000
As at 31 March	150,000,000	150,000,000	150,000	150,000

* The Parent Bank had infused additional capital of $50m in FY 2019-20, by way of ordinary shares of $1 each.

25 Other commitments and contingencies

Commitments in respect of financial instruments are as follows:

	2021 USD '000	2020 USD '000
Foreign exchange - Assets	152,016	99,141
Foreign exchange - Liabilities	150,580	102,350
Letter of credit	2,382	-
Bank guarantee	121	109
Undrawn committed facilities	7,593	15,479

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

Bank Guarantees - Performance Guarantees issued in favour of existing customers.

Contracted maturities of above commitments and contingencies varies from 90 days to 5 years.

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

26 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

Risk management (Contd.)

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.

The 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.

The 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. Loans and advances to customers are given as per their payment status.

	2021 USD '000	2020 USD '000
• Neither past due nor overdue	212,428	213,241
• Overdue but not default	22,066	13,460
• Default	83,031	83,756
Gross	**317,525**	**310,457**

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 significant increase in credit risk that may lead to impairment.

If the SICR is noticed, then the bank considers the options of forbearance (if it's feasible for the counterparty to remain going concern) and liquidation. In case of forbearance, NPV (Net present value) loss arising from NPV comparison from existing and revised contract, is treated as impairment loss. In case of liquidation, available securities and hierarchy of debt is considered to calculate the impairment loss.

During this financial year, four loan assets were downgraded to Stage 3 on account of experiencing default, full recovery has been made in one account and partial recovery in two accounts. Total exposure to these assets is $12.8 mn. Total specific impairment loss of $8.98 mn has been recognised during this financial year.

Credit risk review

IFRS 9 Credit Quality

Loans to Customers	**2021** **USD '000**	**2020** **USD '000**
Gross Exposure	317,525	310,457
Less:- Loan loss provision	(60,767)	(54,184)
Net Exposure	**256,758**	**256,272**

Risk management (Contd.)

Credit risk (Contd.)

Financial Instruments (excluding Derivatives)	**2021**	**2020**
	USD '000	**USD '000**
Financial assets at fair value through profit or loss:		
Financial Investments	3,046	-
Financial Assets at amortised cost:		
Loans and advances to customers (gross)	317,525	310,457
Financial investments	17,290	12,062
Loans and advances to Banks	8,000	44,054
Other financial assets at amortised cost	6,118	6,411
	348,933	**372,984**
Financial assets at fair value through other comprehensive income:	**2021**	**2020**
	USD '000	**USD '000**
Financial investments	98,250	72,563
Total	**450,229**	**445,547**

Analysis of Financial Instruments (excluding Derivatives)		
	2021	**2020**
	USD '000	**USD '000**
Due within one year	118,632	175,129
Due in more than one year	339,597	270,418
Total	**458,228**	**445,547**
Particulars	**2021**	**2020**
	USD '000	**USD '000**
Neither past due nor overdue	353,131	348,331
Overdue but not default	22,066	13,460
Default	83,031	83,756
Total	**458,228**	**445,547**

Loans to Customers as at 31 March 2021

Particulars	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	USD '000	**USD '000**	**USD '000**	**USD '000**
Gross carrying amount	208,754	25,739	83,031	317,525
Impairment provision	(2,691)	(2,212)	(55,865)	(60,767)
Net amounts receivable	**206,064**	**23,528**	**27,166**	**256,758**

Loans to Customers as at 31 March 2020

Particulars	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	USD '000	**USD '000**	**USD '000**	**USD '000**
Gross carrying amount	175,505	51,196	83,756	310,457
Impairment provision	(4,586)	(2,891)	(46,708)	(54,184)
Net amounts receivable	**170,919**	**48,305**	**37,048**	**256,272**

Risk management (Contd.)
Credit risk (Contd.)

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

- Transfers between stage 1 and stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period and the consequent 'step up' (or 'step down') between 12 months or lifetime ECL.
- Additional loan loss provisions for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period.
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models.
- Impacts on the measurement of ECL due to changes made to models and assumptions, including the application of PMA as described in note no. 1.9
- Financial assets de-recognised during the period and write-offs of loan loss provisions related to assets that were written off during the period.
- Financial assets modified during the period.

Loans to Customers	**Stage 1 USD '000**	**Stage 2 USD '000**	**Stage 3 USD '000**	**Total USD '000**
Gross carrying amount as at 1st April 2020	**175,505**	**51,196**	**83,756**	**310,457**
Transfer from stage 1 to 2	(6,082)	6,082	-	-
Transfer from stage 1 to 3	(3,850)	-	3,850	-
Transfer from stage 2 to 1	3,157	(3,157)	-	-
Transfer from stage 2 to 3	-	-	-	-
Transfer from stage 3 to 2	-	-	-	-
Transfer from stage 3 to 1	-	-	-	-
New receivables originated or purchased	106,560	1,965	-	108,525
Net Repayments of loans	(66,536)	(30,346)	(4,575)	(101,457)
Gross carrying amount as at 31 March 2021	**208,754**	**25,739**	**83,031**	**317,525**

Particulars	**Stage 1 USD '000**	**Stage 2 USD '000**	**Stage 3 USD '000**	**Total USD '000**
ECL Provision as at 1 April 2020	**4,586**	**2,891**	**46,708**	**54,184**
Transfer from stage 1 to 2	(8)	8	-	-
Transfer from stage 1 to 3	(4)	-	4	-
Transfer from stage 2 to 1	22	(22)	-	-
Transfer from stage 2 to 3	-	-	-	-
Transfer from stage 3 to 2	-	-	-	-
Transfer from stage 3 to 1	-	-	-	-
Net re-measurement of ECL arising from transfer of stage**	(242)	(50)	11,203	10,912
New receivables originated or purchased	162	89	-	250
Net Repayments of loans	(76)	(753)	(2,050)	(2,879)
Methodology, model and assumption change*	(1,749)	49	-	(1,700)
ECL Provision as at 31 March 2021	**2,691**	**2,212**	**55,865**	**60,767**

*This includes the general PMAs recognised by the Bank as detailed in Note No 1.
**This includes the additional provision made in the same stage

Risk management (Contd.)
Credit risk (Contd.)

Loans to Customers	Stage 1 USD '000	Stage 2 USD '000	Stage 3 USD '000	Total USD '000
Gross carrying amount as at 1st April 2019	**222,183**	**43,388**	**63,956**	**329,528**
Transfer from stage 1 to 2	(41,126)	41,126	-	-
Transfer from stage 1 to 3	(17,969)	-	17,969	-
Transfer from stage 2 to 1	3,207	(3,207)	-	-
Transfer from stage 2 to 3	-	(1,314)	1,314	-
Transfer from stage 3 to 2	-	-	-	-
Transfer from stage 3 to 1	-	-	-	-
New receivables originated or purchased	63,964	1,341	6,185	71,491
Net Repayments of loans	(54,755)	(30,139)	(5,668)	(90,562)
Gross carrying amount as at 31 March 2020	**175,505**	**51,196**	**83,756**	**310,457**

Particulars	Stage 1 USD '000	Stage 2 USD '000	Stage 3 USD '000	Total USD '000
ECL Provision as at 1 April 2019	**416**	**35**	**27,022**	**27,473**
Transfer from stage 1 to 2	(87)	87	-	-
Transfer from stage 1 to 3	(14)	-	14	-
Transfer from stage 2 to 1	7	(7)	-	-
Transfer from stage 2 to 3	-	(2)	2	-
Transfer from stage 3 to 2	-	-	-	-
Transfer from stage 3 to 1	-	-	-	-
Net re-measurement of ECL arising from transfer of stage**	(132)	31	13,485	13,384
New receivables originated or purchased	92	663	6,185	6,941
Net Repayments of loans	(37)	(5)		(42)
Derecognition of modified loans	-	-	-	-
Methodology, model and assumption change*	4,339	2,088	-	6,428
ECL Provision as at 31 March 2020	**4,586**	**2,891**	**46,708**	**54,184**

*This includes the general PMAs recognised by the Bank as detailed in Note No 1.
**This includes the additional provision made in the same stage

Financial assets (with loss amount based on lifetime ECL) modified as at the balance sheet date

	2021 USD '000	2020 USD '000
Gross carrying value before modification	8,333	-
Loan loss provision before modification	(4,163)	-
Net amounts receivable before modification	**4,169**	**-**
Net derecognition gain / (loss)	237	-
Net amounts receivable after modification	**4,406**	**-**

Risk management (Contd.)
Credit risk (Contd.)

Forbearance / Rescheduled loans	**2021**	**2020**
	USD '000	**USD '000**
Term loan	81,566	25,362
Overdraft	-	-
Other Loans	-	-
	81,566	**25,362**

The below tables provides detail on the staging of rescheduled loans as at 31 March 2021:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	USD '000	**USD '000**	**USD '000**	**USD '000**
As at 31 March 2021				
Term loan	58,985	22,581	-	81,566
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Gross carrying amount	**58,985**	**22,581**	**-**	**81,566**
Term loan	59	693	-	752
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Impairment provision	**59**	**693**	**-**	**752**
Term loan	58,926	21,888	-	80,814
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Net amounts receivable	**58,926**	**21,888**	**-**	**80,814**

The below tables provides detail on the staging of rescheduled loans as at 31 March 2020:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	USD '000	**USD '000**	**USD '000**	**USD '000**
As at 31 March 2020				
Term loan	-	24,124	1,238	25,362
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Gross carrying amount	**-**	**24,124**	**1,238**	**25,362**
Term loan	-	711	142	853
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Impairment provision	**-**	**711**	**142**	**853**
Term loan	-	23,413	1,096	24,509
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Net amounts receivable	**-**	**23,413**	**1,096**	**24,509**

Risk management (Contd.)
Credit risk (Contd.)
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 Guarantee

Loans & Advances collateral analysis
Collateral consist of Property, Receivables, Cash, Equities. Loans value as a percentage of collateral is summarised in below table

	2021 USD '000	2020 USD '000
LTV=0%	42,882	58,529
LTV>0%<=50%	35,452	7,802
LTV>50%<=100%	16,624	3,462
LTV>100%	212,708	232,909
Total	**307,665**	**302,702**

LTV above is calculated as value of collateral to loan exposure for the respective accounts.
Bifurcation of loan book according to available security is give below:

	2021 USD '000	2020 USD '000
Secured *	246,903	251,928
Unsecured *	70,622	58,529
Total	**317,525**	**310,457**

** includes accrued interest on loans and advances to customer*

The Bank attempts to maintain a strong asset quality through disciplined credit risk management. The 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. The table below provides a summary of credit exposure stagewise.

	2021 Exposure USD '000	2020 Exposure USD '000
Stage 1 Assets (Standard Advances)	208,754	175,505
Stage 2 Assets (Assets having experienced SICR)	25,739	51,196
Stage 3 Assets (Default Assets)	83,031	83,756
	317,525	**310,457**

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

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

Risk management (Contd.)
Credit risk (Contd.)

Countries	2021 Exposure USD '000	2020 Exposure USD '000	2021 % of Total	2020 % of Total
Belgium	7,211	7,616	1.6%	1.7%
British Virgin Island	5,401	5,997	1.2%	1.3%
China	1,046	-	0.2%	0.0%
Cayman Island	-	18,671	0.0%	4.2%
Germany	4,270	3,850	0.9%	0.9%
Hongkong	-	2,993	0.0%	0.7%
India	97,220	131,778	21.2%	29.6%
Indonesia	3,750	5,319	0.8%	1.2%
Ireland	-	14	0.0%	0.0%
Korea, Republic of	1,539	1,541	0.3%	0.3%
Kuwait	1,520	2,936	0.3%	0.7%
Luxemburg	6,899	6,197	1.5%	1.4%
Mauritius	6,235	-	1.4%	0.0%
Mexico	2,104	3,836	0.5%	0.9%
Netherlands	3,792	16,344	0.8%	3.7%
Oman	-	-	0.0%	0.0%
Other (MDBs)	11,985	3,524	2.6%	0.8%
Portugal	-	-	0.0%	0.0%
Singapore	24,266	32,718	5.3%	7.3%
South Africa	8,031	-	1.8%	0.0%
United Arab Emirates	35,979	9,817	7.9%	2.2%
United Kingdom	164,358	137,856	35.9%	30.9%
United States of America	72,624	54,541	15.8%	12.2%
	458,228	**445,547**	**100.0%**	**100.0%**

Industrywide profile

The table below represents the distribution of credit exposures by industry type

	2021 Exposure USD '000	2020 Exposure USD '000
Accommodation And Food Service Activities	54,548	49,670
Administrative And Support Service Activities	52,053	5,997
Construction	14,719	15,242
Electricity, Gas, Steam and Air Conditioning Supply	9,107	8,986
Human Health And Social Work Activities	12,529	4,043
Information And Communication	4,173	19,085
Manufacturing	64,320	90,951
Others	106,075	116,483
	317,525	**310,457**

Risk management (Contd.)

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 sufficient liquidity for stressed conditions as per the daily stress testing and HQLA reserves as well. This is reflected in the liquidity profile as well where most of the liquidity requirements are in the medium term maturity.

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

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

	Non-derivative financial assets		Non-derivative financial liabilities	
	2021 USD '000	2020 USD '000	2021 USD '000	2020 USD '000
On Demand	26,432	13,411	20,573	13,343
Due within 3 months	44,841	80,818	23,663	21,997
Due between 3 to 12 months	38,402	61,897	160,037	135,968
Due between 1 to 5 years	271,565	213,278	72,079	97,372
Due after 5 years	76,989	76,143	-	3,435
Total	**458,228**	**445,547**	**276,352**	**272,115**

	Derivative financial assets		Derivative financial liabilities	
	2021 USD '000	2020 USD '000	2021 USD '000	2020 USD '000
On Demand	-	-	-	-
Due within 3 months	11,765	34,073	12,054	34,631
Due between 3 to 12 months	140,251	65,068	138,526	67,719
Due between 1 to 5 years	-	-	-	-
Due after 5 years	-	-	-	-
	152,016	**99,141**	**150,580**	**102,350**

Currency risk

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.

Risk management (Contd.)

Currency risk (Contd.)

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.

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

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

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

	Assets		Liabilities	
	2021	2020	2021	2020
	USD '000	USD '000	USD '000	USD '000
INR	-	-	3,064	20
GBP	-	-	445	1,568
EURO	-	-	29	616

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 $2.6 mn as at 31 March 2021 (2020: $3.6m)

Operational risk

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

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

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

Risk management (Contd.)

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.

	2021	2020
	USD '000	USD '000
Paid up share capital	150,000	150,000
Retained earnings	(38,719)	(27,781)
Fair value reserves	537	(1,211)
Tier one capital	111,818	121,008

27 Related Party

27.1 Transaction with Parent Bank

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.

Other Commitment

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

	2021	2020
	USD '000	USD '000
Interest income on placements	41	-
Interest expense on borrowings	-	1,681
	41	1,681

Balances with Related parties as at 31 March:

	Amounts owed by related parties	
	2021	2020
	USD '000	USD '000
Assets		
Nostro account balance with Union Bank of India, India	23	20
	23	20

	Amounts owed to related parties	
	2021	2020
	USD '000	USD '000
Liabilities		
Current account held by UBI in UBIUK	(49)	-
	(49)	-

Related Party (Contd.)

Transaction with Parent Bank (Contd.)

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.

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.

27.2 Transaction with Directors

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

Mr. Viswesvaran Radhakrishnan (Managing Director and Chief Executive Officer)
Mr. Kundan Lal (Designated Managing Director)
Mr C A Kalyan Varma (Executive Director and Chief Operating Officer)

The directors have obtained Loans under Staff personal loan scheme, the details are as follows: -

	2021
	USD '000
Total limit sanctioned	34
Loan balance outstanding	20

The interest rate is as per the Board approved staff loan circular at the rates offered to other staff of the Bank under this scheme.

These key personnel have deposit and / or savings accounts with the Bank. They are held under normal terms and conditions, and no preferential treatment are being given to them.

28 Capital Requirements Directive IV ("CRD IV") - Country By Country Reporting

Union Bank of India (UK) Limited is an authorised credit instituiton providing a range of financial and banking services including retail and commercial banking, trade finance and treasury services. Union Bank of India (UK) Limited is wholly owned subsidiary of Union Bank of India. It operates through its sole branch of United Kingdom.

During 2014, UK Government enacted legislation (contained in the Financial Services and Markets Act 2000 Statutory Instrument 3118) which requires CRD IV regulated institutions to publish following information. The bank falls within the scope of these regulations and accordingly the disclosures for the year ended 31 March 2021 are set out below:

				USD '000
	2021		2020	
	UK	Total	UK	Total
Operating income	10,526	10,526	13,645	13,645
Average number of employees	27	27	27	27
Profit (loss) before tax	(10,939)	(10,939)	(19,887)	(19,887)
Corporation tax paid	-	-	-	-
Public subsidies received	-	-	-	-

29 Events after the balance sheet date

NIL

30 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.