**Company Registration number: 07653660**

Union Bank of India (UK) Ltd

# ANNUAL ACCOUNTS

## For the year ended on 31 March 2020

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***FOR THE YEAR ENDED 31 MARCH 2020***

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*Glossary*

| 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 |
| NPV | Net Present Value |
| NRI | Non-Resident Indians |
| OCI | Other Comprehensive Income |
| OECD | Organisation for Economic Co-operation and Development |

*Glossary*

| Notation | Description |
|---|---|
| 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 |

| | |
|---|---|
| **Company Registration Number** | **07653660** |
| **The Board of Directors** | **Mr. Rajkiran Rai G.**<br>Chairman |
| | **Mr. Manas Ranjan Biswal**<br>Nominee Director (Appointed on 01/05/2019) |
| | **Mr. Viswesvaran Radhakrishnan**<br>Managing Director & CEO |
| | **Dr Anand Kumar**<br>Executive Director & Dy. CEO |
| | **Mr. Chittari Amaravati Kalyan Varma**<br>Executive Director & COO (Appointed on 02/10/2019) |
| | **Mr. John Kerr**<br>Non-Executive Director |
| | **Mr. Patrick Joseph Quinn**<br>Non-Executive Director |
| **Registered Office** | Senator House<br>85 Queen Victoria Street<br>London<br>EC4V 4AB |
| **Statutory Auditor** | **Deloitte LLP**<br>1 New Street Square<br>London<br>EC4A 3HQ<br>United Kingdom |

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2020. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union.

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

**Principal activity and Business review**

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

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

Key Risks associated with the current Business model are discussed in the Strategic report and Risk management note to the accounts (Note 27).

**Proposed initiative**

During the year 2020-21, 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**

COVID-19 emerged during the early part of 2020 and effects such as, a slowing of global economic activity and increased uncertainty regarding future economic impacts were starting to be noticed shortly before the year-end date. The Bank has incorporated the effects of COVID-19 as estimated at the balance sheet date, particularly in relation to the valuation of assets and in considering Going Concern, and continues to monitor the situation as it develops through 2020 and beyond. The bank has detailed its approach in note No.1 and Note 27 and the post year end development of Covid-19 is disclosed in Note No.29

**Going concern**

The Financial Statements are prepared on a going concern basis. The Bank has adequate resources to continue its operations enhanced by the increase of $50m in share capital during the period 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, end of transition phase of BREXIT and known challenges such a 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 revised macro-economic scenarios which were obtained from Bank of England forecast, IMF and World Bank forecasts for different geographies as published in the month of April'20 and May'20;

**Going concern (Contd.)**

2. The sufficiency of the Bank's capital base throughout the Covid-19 pandemic. Severe assumptions from the reverse 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. 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. 1.13

**Capital structure**

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

The issued and paid up share capital as of 31 March 2019 was $100m and £2 and there was further capital infusion of $50m during the financial year, making the total issued and paid up share capital as at 31 March 2020 of $150 mn and £2. One hundred percent shares of the Bank are held by Union Bank of India, the parent Bank.

**Political donations**

During the year the Bank did not make any political donations (2019: 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 Company for all Directors.

Directors' and Officers' Liability insurance covers defence costs for the Directors in certain circumstances. All the Directors were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third party liabilities that they may incur as a result of their service by being on the Board of Union Bank of India (UK) Ltd. All Directors' indemnities were in place during the year and it 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 2020.

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 (2019: Nil).

This report was approved by the Board on 12th June 2020 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 2020.

**About the Report**

The Strategic Report outlines the key elements of the Annual Report and provides context for the related financial statements. It is also designed to help various stakeholders of the company assess how the Directors have performed their duty.

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.

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.

**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 is the funding requirements of Indian linked corporates, leveraging off Union Bank of India 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;
- 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 controlled manner through organic growth.

**Review of the business**

The Bank commenced its commercial operations in July 2014. The Bank has set up robust systems, procedures and policies for prudent management of its business and its associated risks. The business strategy of the Bank has been mainly driven by the increased globalisation of the Indian economy, the growing trend of Indian corporates expanding overseas, the large population of Non-Resident Indians (NRI), persons of Indian origin across the globe and also overseas companies looking to invest in India. The 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 measure has been implemented by all the countries effected by the pandemic. Thus, there are requests from the affected borrowers and depositors for payment holidays and pre-mature 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.

**Review of the business (contd.)**
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**

| | 2020<br>USD '000 | 2019<br>USD '000 |
|---|---|---|
| Net interest income | 12,226 | 13,348 |
| Non-interest income | 1,419 | 211 |
| Operating expenses | (6,440) | (5,013) |
| Non-Operating expenses | (546) | - |
| Impairment loss allowances | (26,546) | (25,181) |
| Loss before tax | (19,887) | (16,635) |
| Loss after tax | (22,061) | (13,696) |

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

- Loss during the year was $ 22.1 mn, mainly due to Impairment loss allowance on default assets.
- Net-interest income was down 8%, mainly due to reduction in the benchmark interest rates during the financial year, as the assets of the Bank are on a floating rate and liabilities are fixed rate.
- Impairment allowance comprising of an net additional Impairment provision made in the 2020 financial year on loans & advances of $ 26.5 mn and reversal of impairment provision on Investments of USD 0.2 mn.
- Operating expenses before impairment allowances were up 28% due to:
  - Increase in personnel costs by 21% and
  - Increase in Bank charges and depreciation on the updated core banking software installed during the financial year.

  These expenses are normal considering the operational need of the Bank and total operational expenses are within the budgeted levels.

  The Bank has adopted IFRS 16 with effect from 1st of April, 2019 and has recognised the lease asset and financial liability in the financial statements.
- During the year, impairment loss allowance of $26.5 mn was recognised due to an increase in default assets by $18.2 mn and increase in provision on the existing stage 3 loan accounts. The impairment allowance includes additional provision of $ 6.4 mn as a post model adjustments (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 $ 2.1 mn) and recent loan loss experience in the existing book (PMA of $ 4.3 mn).
- 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 and the Board has also taken a prudent decision to reverse the $2.4 Mn DTA of previous years.

**Balance sheet review**

| **Assets** | 2020<br>USD '000 | 2019<br>USD '000 |
|---|---|---|
| Loans and advances to customers | 256,273 | 302,055 |
| Loans and advances to banks | 44,054 | 26,337 |
| Financial Investments | 84,625 | 115,507 |

- Loans and advances to customers fell by 15% to $ 256.3 mn during FY 2020 (2019: $ 302.1 mn) due to the prepayments made by the loan counterparties, recoveries on Stage 3 assets and increase in provisioning on loans by $ 26.5 mn.
- Loans and advances to banks has increased to $44.1m at 31 March 2020 (2019: $26.3m).
- Investment portfolio stood at $84.6m (2019: $115.5m), 51% of the portfolio consists of high quality liquid assets.

**Balance sheet review (contd.)**

| **Liabilities** | **2020** | **2019** |
|---|---|---|
| | **USD '000** | **USD '000** |
| Deposits from banks (including intragroup & Repo) | 30,197 | 120,277 |
| Deposits from customers | 241,918 | 239,778 |
| Equity | 121,008 | 93,317 |

- Deposits from banks are reduced to $30.2 mn at 31 March 2020 (2019: $120.3 mn). The inter-group funding of $50.0 mn was repaid on the interest reset date and equity infusion of $50.0mn was made by the Parent Bank. Interbank funding is maintained to fund the interest earning assets and to focus on medium to long term deposits to make overall funding stable.
- Deposits from customers have grown marginally, and stood at $241.9 mn on 31 March 2020 (2019: $239.8 mn). The bank is focused on originating and retaining retail deposit accounts and reducing its dependency on Wholesale funds including interbank funds. The deposits as of Mar'20 consists of 60% (2019: 58%) retail deposits and 40% (2019: 42%) wholesale deposits.
- Total shareholders' equity improved to $121.0 mn at 31 March 2020 (2019: $93.3 mn), due to the infusion of $50.0 mn additional equity by the Parent Bank. The loss reported by the Bank during the financial year was to a some extent offset by the additional equity infusion.

**Outlook (Source - Macroeconomic Policy in time of COVID 19 - World Bank Group)**

**Macro Environment:**

COVID-19 not only represents a worldwide public health emergency but has become an international economic crisis that could surpass the global financial crisis of 2008–09. Right now, containment and mitigation measures are necessary to limit the spread of the virus and save lives. However, they come at a cost, as shutdowns have resulted in reduced economic activity.

A global recession in 2020 is not only possible but also very likely (IMF 2020a).

In the response to the pandemic situation, central banks around the world, apart from other measures are also cutting interest rates and widening lending facilities to banks to ensure sufficient liquidity and in the hope that credit to businesses is not disrupted (IMF 2020b). The US Federal Reserve has eased conditions on its discount window lending through lower rates and for longer periods to help banks meet the credit demands of customers (Federal Reserve Board 2020b). The central banks of many developing countries are taking similar steps.

**UK Macro Environment:**

UK GDP growth is forecast to remain subdued in 2020 as COVID-19 impact coupled with Brexit-related uncertainty and global trade tensions weigh on the economy. The impact Covid-19 will have on the economy and the time the economy will take to recover is very uncertain as at 31st March 2020. Significant measures have been implemented by Governments and Central Banks around the world to reduce the economic impact of Covid-19 and as at 31st March 2020 a V-Shape bounce back is expected at the end of the pandemic.

However, a general consensus is now that the recovery will be more of a U-shape and the bounce-back can be expected to take more time than anticipated earlier.

As at the balance sheet date Inflation is projected to be close to the Bank of England's 2 percent target until the end of the year (though in the short term it may breach the target due to the pandemic situation) and house price growth is expected to average between 2-4 percent. Further, unemployment rate is projected to increase to 4-4.5% in the coming year by the BoE's latest forecast scenarios.

UK GDP was expected to have been flat in 2019 Q4. Over 2019, GDP growth has been volatile owing to Brexit-related factors but, on average, it has slowed relative to previous years. Slower UK GDP growth partly reflects the impact of global growth, which has weakened significantly to below forecast rates. Concerns about other global risks, including the outbreak of a new strain of coronavirus have arisen and are beginning to show impacts on global growth.

**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 can impact the exposure.

At a time of global uncertainty over trade, geopolitics and the climate, economic growth in Emerging Asia is forecast to moderate in the near term. Growth in the region is expected to remain buoyant over the medium term though less impressive than the previous years. Though assessment of post-pandemic forecast is a continuing effort, the strain on the Emerging markets will be huge. Mainly due to their capacity to handle such a level of pandemic, limited resources, and density of population, etc.

The IMF in its report has stated that the growth markdown largely reflects a downward revision to India's projection, where domestic demand has slowed more sharply than expected amid stress in the nonbank financial sector and a decline in credit growth. India's growth was 4.23 percent in 2019, projected to improve to 5.8 percent in 2020 and 6.5 percent in 2021, supported by monetary and fiscal stimulus as well as subdued oil prices. However, post COVID-19 impact, the growth targets for India in 2020 has been revised to 4.8 percent as per the latest available figures. A number of emerging-market economies including India with flexible exchange rate frameworks and manageable exposures to foreign currency denominated debt, have scope to further ease monetary policy provided inflation declines, while taking the opportunity to undertake fiscal and structural measures that enhance investor confidence.

Growth in the Middle East and Central Asia region is expected at 2.8 percent in 2020, firming up to 3.2 percent in 2021. The downgrade for 2020 mostly reflects a downward revision to Saudi Arabia's projection on expected weaker oil output growth following the OPEC+ decision in December to extend supply cuts. Prospects for several economies remain subdued owing to rising geopolitical tensions (Iran), social unrest (including in Iraq and Lebanon), and civil strife (Libya, Syria, Yemen).

In sub-Saharan Africa, growth is expected to strengthen to 3.5 percent in 2020–21 (from 3.3 percent in 2019). This reflects downward revisions for South Africa (where structural constraints and deteriorating public finances are holding back business confidence and private investment) and for Ethiopia (where public sector consolidation, needed to contain debt vulnerabilities, is expected to weigh on growth).

Growth in emerging and developing Europe is expected to strengthen to around 2.5 percent in 2020–21 from 1.8 percent in 2019. The improvement reflects continued robust growth in central and eastern Europe, a pickup in activity in Russia, and ongoing recovery in Turkey as financing conditions turn less restrictive.

**Forward looking**

The spread of Covid 19 and the measures to contain it are having a significant impact on the UK and many countries around the world. Activity has fallen sharply since the beginning of the year and unemployment has risen markedly, both domestically and globally. The unprecedented situation means that the outlook for the economy is unusually uncertain. It will depend critically on the evolution of the pandemic and how governments, households, businesses and financial markets respond.

Uncertainty also remains about the future UK-EU trading relationship and whether negotiations on this can be completed before the end of the transition period set out in the withdrawal agreement (currently end-2020). The possibility that a formal trade deal will not be agreed remains a downside risk and a source of uncertainty.

If trade between the United Kingdom and the European Union were to revert to WTO terms after 2020, instead of a basic free trade agreement for goods, near-term growth prospects would be significantly weaker and more volatile. Such effects could be stronger still if preparations to border arrangements failed to prevent significant delays, or if financial market conditions and consumer confidence were to deteriorate considerably.

**Forward looking (Contd.)**

OECD states in its report that the growth in the euro area is projected to remain sub-par, at around 1% per annum on average in 2020-21, although the impact of the virus outbreak will weaken outcomes in the first half of 2020. The projections for the United Kingdom and the euro area are based on an assumption that a basic free trade agreement for goods comes into force from the start of 2021. Even if this is implemented smoothly, the higher costs for servicing exports and non-tariff administrative barriers are likely to weigh on exports and output growth through 2021.

**Uncertain economic environment**

The OECD in its report stated that the, overall the level of world GDP is expected to reduce by up to 1.75 percent (relative to baseline of 2.9 percent increase in world GDP) at the peak of the shock in the latter half of 2020, with the full year impact on global GDP growth in 2020 being close to 1.5 per cent. Initially, the adverse impact is concentrated in China, but the effects in the rest of Asia, Europe and North America gradually build up through 2020. The major part of the decline in GDP again stems from the direct effects of the reduction in demand, but the impact of heightened uncertainty accumulates gradually. World trade is substantially weaker, declining by around 3.75 per cent in 2020, hitting exports in all economies. From 2021 onwards the bank as at 31st Match 2020 predicted a v-shaped bounce-back of world economies and improvement in GDP, however this general market consensus has now changed after year end and a U-shaped recovery is now expected.

**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.

**Corporate Governance (Contd.)**

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

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

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

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

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

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

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

**Anti-Money Laundering (AML) & Compliance**

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

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

**Internal Audit**

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

**Risk management framework**

The Bank has developed, 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 have lowered the global GDP growth forecast to just 1.4% this year, with a rebound in 2021. The decline in activity will be very steep. Following mobility restrictions and the closure of large segments of the world economy due to COVID-19 and the swift onset of a recession, all of S&P Global Ratings' sector outlooks are now negative. The rate of spread and timing of the peak of the coronavirus outbreak are still highly uncertain and so does the forecast of its impact in numbers on individuals, corporates, banks / financial institutions, etc.

The Bank will continue to monitor the forecast scenarios considered in its Macroeconomic model with the updated information as it become available, after the reporting date.

On Operations side, the Bank had invoked BCP before the year end and is still in place as of end of May 2020 and adopted Scenario-II based approach Business Continuity Plan as per the Pandemic planning documents approved by the IT & Operation committee in its interim meeting held on 19th March 2020.

In this particular scenario, the Bank primary site is accessible but Pandemic condition remain with a directions from the Government on the essential travel to work as the partial lockdown of the city including several limitations appealed by the Government of England like social distancing, stay at

All functions and services of the Bank are working as usual. However, given the primary site is not available to all staff, as a contingency measure the Bank has allowed the majority of staff members to work remotely from home (WFH). WFH has been permitted, with a skeleton staff to meet the day to day Business as Usual (BAU) requirements in the primary London site.

The Bank is closely monitoring the government guidelines on Lockdown and working from the primary site with proper social distancing and other measures in place.

The Board considered in depth the impact of Covid-19 on the Bank's going concern status. The relevant disclosures are set in the Annual Report Note No 1.9

**Brexit**

Bank considers Brexit-related risks to be manageable. However, given the ongoing uncertainty, the Bank has continued to focus on the refinement of the Brexit related contingency plans and also separately on actions that Bank would take, in the event of a non-favourable trade agreement is reached. In such a scenario, the Bank could experience increased levels of activity, as customers seek to deal with changes in their financial circumstances. The Bank's planning has included testing the operational readiness to ensure that the Bank can continue to operate effectively in the event of this heightened activity. The Bank has also undertaken stress tests to ensure that it remains financially resilient, in the event of an economic shock following the end of transition period.

**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 2020, 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 improvising the controls in the system and processes to withstand the ever increasing cyber threat as it remains vigilant about such impending threat.

**Building and maintaining capital strength**

Decisions made by regulators on the implementation and interpretation of capital rules and on macro-prudential issues can impact the capital management, such as adjustments to the countercyclical capital buffer. The bank continuously reviews its capital position on a forward-looking basis, and 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 27)

**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 27.

**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.

**Internal control and financial reporting (contd.)**
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 have in place Privacy statement and other policies with regard to Data Protection.
Bank has a designated Data Protection Officer (DPO) in the UK and also a local DPO in India to take care of any 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

**Modern Slavery and Human Trafficking**
The Bank continue 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 Part 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 delivered regulatory projects such as PSD-II, 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.
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

**The framework for regulatory capital (Contd.)**

- CRD IV buffers, as applicable – These comprise the capital conservation buffer and the counter-cyclical capital buffer, which are relevant to all firms. For Globally Systemically Important Institutions (G-SIIs); the G-SII buffer will be relevant and for domestic systemic firms, the systemic risk buffer will be relevant
- The PRA buffer, as applicable – is an amount of capital that firms should hold in addition to their minimum level of regulatory capital (Pillar 1 plus Pillar 2A) to cover risks and elements of risk not covered elsewhere, and losses that may arise under a stress

**The leverage ratio framework**

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

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

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

**The liquidity framework**

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

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

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

The Bank is conducting stress testing on 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 12th June 2020 and signed on its behalf by:

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

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

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

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

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

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

By order of the Board and signed on its behalf

**Viswesvaran Radhakrishnan**
Managing Director & CEO

**Dr Anand Kumar**
Executive Director & Dy CEO

**C A Kalyan Varma**
Executive Director and COO

12 June 2020

# 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 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 30.

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

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

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

### 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matter that we identified in the current year was:<br>• Loan loss provisioning<br>Within this report, key audit matters are identified as follows: |

| | |
|---|---|
| | Newly identified<br>Increased level of risk<br>Similar level of risk<br>Decreased level of risk |
| **Materiality** | The materiality that we used in the current year was $1.9m which was determined on the basis of 1.6% of net assets. |
| **Scoping** | Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. This includes risks identified by us, by management and those driven by changes in the business environment and new or complex accounting requirements. |
| **Significant changes in our approach** | With the onset of the Covid-19 pandemic during the first quarter of 2020 we adapted our approach across the audit so that Covid-19 implications were considered in our testing. |

## 4. Conclusions relating to going concern

| | |
|---|---|
| We are required by ISAs (UK) to report in respect of the following matters where:<br><br>• the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or<br>• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. | We have nothing to report in respect of these matters. |

## 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. Loan Loss Provisioning

| | |
|---|---|
| **Key audit matter description** | As disclosed in note 10 (Loans and Advances to Customers) and note 27 (Risk Management), the Company held a loan impairment provision of $54.2m against gross customer receivables of $310.5m at 31st March 2020 (31 March 2019: $27.47m against gross customer receivables of $329.5m). The ECL impairment charge on loans and advances to customers was $23.6m in the year to 31 March 2020 (31 March 2019: $25.2m). The impact of further deterioration in the economic outlook on the Expected Credit Loss (ECL) after the reporting date is |

discussed in note 29 (Events after the balance sheet date).

Loan impairment remains one of the most significant judgements made by Management, particularly in light of the uncertain economic outlook in the UK and, at the balance sheet date, the potential impact of the global Covid-19 pandemic. The company 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. In particular, for financial assets held at amortised cost, IFRS 9 requires the carrying value of the asset to be assessed for impairment using unbiased forward-looking information.

The measurement of 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 including the impacts of Covid-19.

Due to the limited loan and default history of the company, 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.

Management have reviewed the ECL model output at year end and used Post Model Adjustments to adjust the modelled impairment provision to more closely represent expected credit loss of the Bank as at the year-end.

Based on our risk assessment, we have considered the most significant area of judgement within the Company'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. The onset of Covid-19 during the first quarter of 2020 further increased the risk over the appropriate valuation of collateral estimated by the company.

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 38-44 with detail about the judgements in applying accounting policies and critical accounting estimates on page 46.

**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, including the refinements made, 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 confirming the reliability of source data used in the basic inputs to the model and the forward-looking scenarios.<br><br>After reviewing the ECL output at year end we discussed with management whether the initial model output reflected the expected credit loss in the loan book as at 31 March, and evaluated management's use of Post Model Adjustments, by considering the historic performance of the book and the potential economic effects of Covid-19.<br><br>We challenged the appropriateness and completeness of management overlays, in particular in response to Covid-19, assessing and independently recalculating those which were adopted.<br><br>**Involvement of Deloitte Real Estate Experts**<br><br>With support from Deloitte Real Estate experts, we challenged the collateral values and the company'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.<br><br>We reviewed management's individual assessments of Defaulted (Stage 3) loans, challenging the assumptions used and compared the individually-assessed ECLs calculated to the outputs of management's ECL model, and challenging the final ECL booked by management.<br><br>**Disclosures testing**<br><br>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 at and subsequent to the reporting date as a result of the Covid-19 pandemic. 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 provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9 |

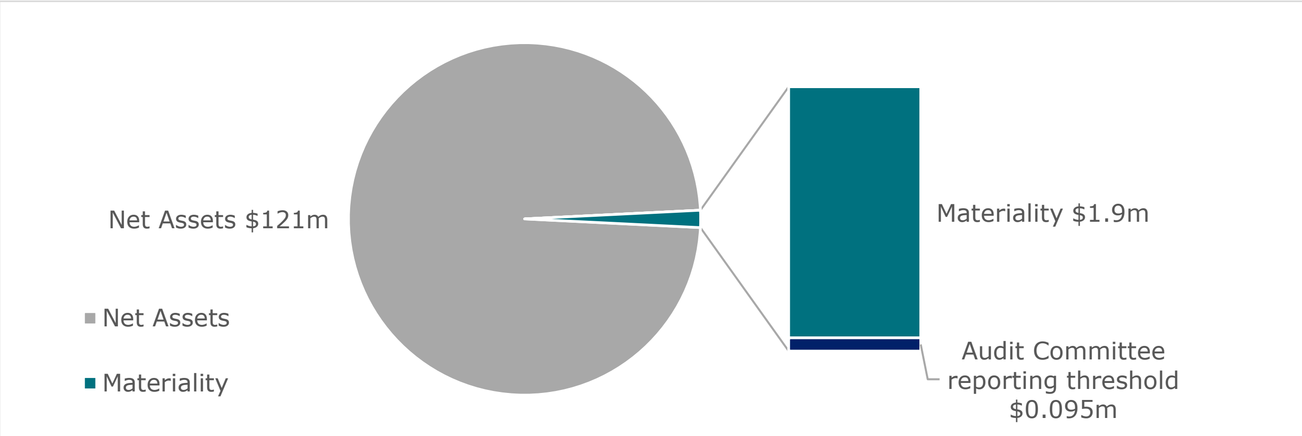
# 6. Our application of materiality

### 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** | $1.9m (2018: $1.3m) |
| **Basis for determining materiality** | 1.6% of Net Assets (2018: 1.5%)<br><br>We have kept the same basis used in the calculation of materiality as 2019. |
| **Rationale for the benchmark applied** | Net assets is a key metric within the company's financial statements on which the users, including the owner of the company, lenders and regulators tend to focus and is a valid proxy for regulatory capital. |




### 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 a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

a. our assessment of the control environment; and

b. the low number of corrected and uncorrected misstatements identified in previous audits.

### 6.3. Error reporting threshold

We agreed with the Audit Committee of the Board that we would report to the Committee all audit differences in excess of $0.095m (2019: $0.065m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee of the Board 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 directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

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

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

We have nothing to report in respect of these matters.

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

# 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://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

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

### 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 company'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 of the Board about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company'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;
- the matters discussed among the audit engagement team involving relevant internal specialists, including tax, valuations, real estate, IT, credit and other 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 the following areas: IFRS 9 ECL. 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 framework that the company 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 the 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 company'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 loan loss provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

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

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

# Report on other legal and regulatory requirements

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

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

### 13.1. 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.

### 13.2. 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.

## 14. Other matters

### 14.1. Auditor tenure

Following the recommendation of the Audit Committee of the Board, we were appointed by Union Bank of India (UK) Limited on 25 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 March 2015 to 31 March 2020.

### 14.2. Consistency of the audit report with the additional report to the Audit Committee of the Board

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

## 15. Use of our report

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

Russell Davis FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
15 June 2020

***INCOME STATEMENT ****

***FOR THE YEAR ENDED 31 MARCH 2020***

| | Notes | 2020 USD '000 | 2019 USD '000 |
|---|---|---|---|
| Interest and similar income | 2 | 20,313 | 22,527 |
| Interest and similar expense | 3 | (8,087) | (9,179) |
| **Net interest income** | | 12,226 | 13,348 |
| Fees and commission income | 4 | 150 | 263 |
| Fee and commission expense | | - | - |
| **Net fee and commission income** | | 150 | 263 |
| Net trading income | | 424 | 54 |
| Net other operating income / (expense) | | 845 | (106) |
| **Total Operating income** | | **13,645** | **13,559** |
| Personnel costs | 5 | (2,785) | (2,300) |
| Operating lease | 24 | - | (316) |
| Depreciation and amortisation | 15,16 | (586) | (160) |
| Other expenses | 6 | (3,070) | (2,237) |
| Operating expenses before impairment loss allowances | | (6,440) | (5,013) |
| **Operating profit before impairment loss allowances** | | **7,204** | **8,546** |
| Impairment loss allowances | 6 | (26,546) | (25,181) |
| Fair value Loss | | (546) | - |
| **Loss before tax** | | **(19,887)** | **(16,635)** |
| Corporation tax (charge) / credit | 7 | (2,174) | 2,939 |
| **Loss after tax** | | **(22,061)** | **(13,696)** |

* There were no discontinued operations during the year

**The notes on pages 34 to 68 form part of these financial statements.**

## *STATEMENT OF COMPREHENSIVE INCOME*

*FOR THE YEAR ENDED 31 MARCH 2020*

Union Bank of India (UK) Ltd

| | 2020<br>USD '000 | 2019<br>USD '000 |
|---|---|---|
| Total loss for the year attributable to equity shareholders | (22,061) | (13,696) |
| **Other comprehensive income / (expense) net of tax** | | |
| Items that may be reclassified subsequently to profit or loss | | |
| - Fair value (loss) / gain | (49) | 1,593 |
| - Tax relating to change in fair value | (198) | (325) |
| **Net other comprehensive (expense) / income** | **(247)** | **1,268** |
| **Total comprehensive expense attributable to equity shareholders for the year** | **(22,308)** | **(12,427)** |

**The notes on pages 34 to 68 form part of these financial statements.**

## *STATEMENT OF FINANCIAL POSITION*

***FOR THE YEAR ENDED 31 MARCH 2020***

Union Bank of India (UK) Ltd

| | Notes | 2020 USD '000 | 2019 USD '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and Balance at Bank | 8 | 6,411 | 4,244 |
| Financial assets at amortised cost: | | | |
| - Loans and advances to customers | 10 | 256,273 | 302,055 |
| - Loans and advances to Banks | 9 | 44,054 | 26,337 |
| - Financial investments | 12 | 12,062 | 12,239 |
| Financial assets at FVTPL: | | | |
| - Derivative financial instruments | 13 | - | 409 |
| Financial assets at FVOCI: | | | |
| - Financial Instruments | 11 | 72,563 | 103,268 |
| Property, plant and equipment | 15 | 1,388 | 290 |
| Intangible assets | 16 | 230 | 164 |
| Capital work in progress | | - | 70 |
| Deferred tax assets (Net) | 17 | - | 2,372 |
| Other assets | 18 | 5,025 | 2,651 |
| **Total Assets** | | **398,004** | **454,100** |
| **Liabilities** | | | |
| Financial Liabilities at FVTPL: | | | |
| - Derivative financial instruments | 13 | 3,210 | - |
| Financial liabilities at amortised cost: | | | |
| - Deposits from Banks | 19 | 21,256 | 29,387 |
| - Intra-group borrowings | 20 | - | 60,564 |
| - Deposits from customers | 21 | 241,918 | 239,778 |
| - Repurchase agreements | 22 | 8,941 | 30,326 |
| Provisions | 23 | 112 | 98 |
| Other liabilities | 23 | 1,558 | 632 |
| **Total Liabilities** | | **276,995** | **360,784** |

*STATEMENT OF FINANCIAL POSITION*
*FOR THE YEAR ENDED 31 MARCH 2020*

| | Notes | 2020 USD '000 | 2019 USD '000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 25 | 150,000 | 100,000 |
| Fair value reserves | | (1,211) | (964) |
| Accumulated losses | | (27,781) | (5,719) |
| **Total Shareholder's equity** | | **121,008** | **93,317** |
| **Total Equity and liabilities** | | **398,004** | **454,100** |

**The notes on pages 34 to 68 form part of these financial statements.**

The financial statements were approved by the Board of Directors and authorised for issue on 12th June 2020.

**Viswesvaran Radhakrishnan**
Managing Director & CEO

**Dr Anand Kumar**
Executive Director & Dy CEO

**C A Kalyan Varma**
Executive Director and COO

Company registration no: 07653660

***STATEMENT OF CHANGES IN EQUITY***
***FOR THE YEAR ENDED 31 MARCH 2020***

Union Bank of India (UK) Ltd

| **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 | 25 | 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** |

| **31 March 2019** | **Notes** | **Issued capital USD '000** | **Fair value reserves USD '000** | **Retained earnings USD '000** | **Total equity USD '000** |
|---|---|---|---|---|---|
| Balance as at 1 April 2018 | | 90,000 | (2,478) | 7,069 | 94,591 |
| Impact of IFRS 9 transition | | - | 246 | 907 | 1,153 |
| Issue of share capital | 25 | 10,000 | - | - | 10,000 |
| **Total Comprehensive Income / (loss)** | | - | 1,268 | (13,696) | (12,427) |
| Loss for the year | | - | - | (13,696) | (13,696) |
| Other Comprehensive Income | | - | 1,268 | - | 1,268 |
| Balance as at 31 March 2019 attributable to shareholders of the Bank | | **100,000** | **(964)** | **(5,719)** | **93,317** |

**The notes on pages 34 to 68 form part of these financial statements.**

## *STATEMENT OF CASH FLOWS*

***FOR THE YEAR ENDED 31 MARCH 2020***

Union Bank of India (UK) Ltd

| | Notes | 2020 USD '000 | 2019 USD '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax for the year | | (19,887) | (16,635) |
| **Adjustments to reconcile profit from operations:** | | | |
| Amortisation of intangible non-current asset | 16 | 155 | 40 |
| Impairment loss during transition period | | - | 907 |
| Depreciation for property, plant and equipment | 15 | 430 | 120 |
| Swap / Derivative - MTM | | 546 | - |
| Corporation tax credit during the year | | (2,174) | 2,939 |
| Finance Charge on Lease | | 53 | - |
| **Cash flows before changes in operating activities** | | (989) | 4,006 |
| **Movement in working capital** | | | |
| Decrease/(Increase) in receivables & prepayments | 18 | (2,482) | 371 |
| Tax paid | | - | (1,228) |
| Increase / (Decrease) in other liabilities | 23 | 1,835 | (1,895) |
| **Net Increase in working capital** | | (647) | (2,752) |
| **Cash flows from operating activities** | | | |
| Decrease in loans and advances to customers | 10 | 45,782 | 34,763 |
| Increase in loans and advances to banks | 9 | (17,717) | (26,337) |
| Decrease in deposits from Banks | 19 | (8,131) | (2,753) |
| Increase in deposits from customers | 21 | 2,141 | 24,212 |
| Decrease in repurchase agreements | 22 | (21,385) | (2,755) |
| Decrease / (Increase) in derivative financial instruments - Assets | 13 | 409 | (409) |
| Increase / (Decrease) on derivative financial instruments - Liab. | 13 | 3,210 | (426) |
| | | 4,309 | 26,295 |
| **Net cash flows used in operating activities (A)** | | (17,215) | 10,914 |
| **Cash flows from investing activities** | | | |
| (Acquisition)/Disposal of Investments - FVOCI | 11 | 30,458 | (19,473) |
| (Acquisition)/Disposal of Investments - Amortised cost | 12 | 177 | 1,568 |
| (Acquisition)/Disposal of Investments - FVTPL | | - | 1,916 |
| Acquisition of property, plant and equipment | 15 | (33) | (15) |
| Acquisition of intangible assets | 16 | (244) | (155) |
| **Net cash flows used in investing activities (B)** | | 30,358 | (16,159) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of equity share capital | 25 | 50,000 | 10,000 |
| Repayment of Lease (Principal amt) | 1.3.2 | (360) | - |
| Payment of Interest on Lease | 1.3.2 | (53) | - |
| Repayment to Intra-group borrowings | 20 | (60,565) | (1,867) |
| **Net cash flows from financing activities (C)** | | (10,977) | 8,133 |
| **Net increase in cash and cash equivalents (A+B+C)** | | 2,166 | 2,889 |
| **Cash and cash equivalents at beginning of the year** | | 4,244 | 1,355 |
| **Cash and cash equivalents at close of the year** | 8 | **6,410** | **4,244** |

**The notes on pages 34 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,

### 1.1 Basis of preparation

The financial statements have been prepared on the going concern basis using the historical cost convention, except for certain Financial instruments that are measured at fair value as explained in the accounting policies below.

### 1.2 Compliance with International Financial Reporting Standards (IFRS)

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

### 1.3 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 2020

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 Company in future periods. Management will continue to assess the impact of new and amended standards and interpretations on an ongoing basis.
At 31 March 2020, the Bank has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective:

**IFRS 17 Insurance contracts**

IFRS 17 is a replacement of IFRS 4 on accounting for insurance contracts and has an effective date of 1 January 2021. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides more uniform measurement and presentation approach for all insurance contracts. This standard is not applicable to the Bank as currently it is not in the Insurance Business.

#### 1.3.2 New and amended standards and interpretations effective for the financial year ending 31 March 2020

**IFRS 16 'Leases'**

In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. On 1 April 2019, the Bank implemented IFRS 16 which replaces IAS 17 Leases and provides a single lease accounting model for the identification and treatment of lease arrangements in the financial statements of both lessees and lessors. The standard distinguishes between services and leases on the basis of whether there is the right to control the use of an identified asset for a period of time. The standard requires that upon commencement of a lease, a lessee recognises a lease liability and a right-of-use asset.

The Bank assesses whether a contract contains a lease, at inception of a contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as lease value less than $ 5,000 p.m.). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Accounting Policies (Contd.)**

**IFRS 16 'Leases' (Contd.)**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation. Under IFRS 16, the right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

As per IAS -17, the Leases were classified as either a "Finance Lease" or "Operating Lease". Thus, the Bank presently operates from a single Long Term lease owned property (both branch and head office), and which was previously classified as an operating lease under IAS 17. The lease was not recognised as an asset in the statement of financial position and the rent incurred was booked as an expense in the profit and loss account on a monthly basis.

**Approach to transition on 1 April 2019:-**

The bank has applied IFRS 16 using the cumulative catch up approach, without restatement of the comparative information. In respect of those leases the Bank previously treated as operating leases, the Bank has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(ii). Under IFRS 16.C8(b)(ii), right-of-use assets are measured equal to the lease liability on transition. The classification of cash flows will also be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as financing cash flows

On transition any difference between the calculated lease liability and right of use asset is recognised as a transitional adjustment to retained earnings

As per IAS 17 payments under operating leases were presented as part of cash flows from operating activities, under IFRS 16 lease payments are split between cash payments for the interest portion of the lease liability and repayment of its principal portion. As required by IFRS 16, the Bank presents repayment of principal and interest within the cash flows from financing activities.

**Recording of Lease liability**

In terms of IFRS-16, the lease liability is calculated at the discounted value of the remaining lease payments from 01-04-2019 till the end of lease term discounted at the incremental borrowing rate. The lease liability is recognised as Financial instrument at amortised cost.

Accordingly the Bank has recorded a Lease Liability of $ 1.63m as on 01/04/2019 and considered the Incremental Borrowing Rate ("IBR") of 3.47%. The lease liability is measured at amortised cost by increasing the liability by the finance charge amount calculated on the IBR and reduced with the payment made towards Lease rents and service charges during the financial year. The closing balance of lease liability stands at $ 1.27m as on 31/03/2020.

| **Particulars** | **2020 (USD'000)** |
|---|---|
| Recognition of Lease Liability | 1,636 |
| Add: Finance charge for FY 2019-20 | 53 |
| Less: Payments made towards lease liability | (413) |
| **Closing Lease Liability as at 31/03/2020** | **1,276** |

| **Transition from Commitment to Lease liabilities** | **2020 (USD'000)** |
|---|---|
| Lease commitments as on 31/03/2019 | 1,871 |
| Less: Adjustment towards present value of Lease Liability | (129) |
| Less: Adjustments towards Prepaid rent as on 01/04/2019 | (106) |
| **Lease Liability as on 01/04/2019** | **1,636** |

**Accounting Policies (Contd.)**
**IFRS 16 'Leases' (Contd.)**

**Creating the Right to use an Asset**

The Bank has chosen option to recognise the ROU asset at - an amount equal to the lease liability, in line with IFRS 16.C8(b)(ii) the bank has adjusted by the amount of any prepaid or accrued lease payments. Accordingly the Right to Use asset was recorded at $1.49m as on 01/04/2019. The depreciation is charged on the straight line method basis on the remaining term of lease. Depreciation charged during the FY 2019-20 was $0.34m and the closing net value of fixed asset stands at $1.15m.

The Bank does not have any other lease eligible for recognition as per the IFRS-16.

| **Particulars** | **2020 (USD'000)** |
|---|---|
| Lease Liability | 1,636 |
| Less: Adjustments towards Accrued Rent and Prepaid charges | (141) |
| Right to Use Asset (Gross Recognised Value) | 1,495 |
| Depreciation for the FY 2019-20 | (340) |
| **Net Right to Use Asset value as at 31/03/2020** | **1,155** |

The overall financial impact on the Bank is detailed in below

**Impact on Profit (Loss)**

| **Particulars** | **2020 (USD'000)** |
|---|---|
| **Impact on Loss for the year** | |
| Increase in Depreciation Expenses (Note No. 15) | (340) |
| Increase in Finance Cost (Note No. 6) | (53) |
| | 60 |
| Decrease in Operating Lease Expense (Note No. 23) | 214 |
| **Increase in loss for the year** | **(119)** |
| **Increase in other comprehensive loss for the year** | **(119)** |

**Impact on assets, liabilities and equity as at 1 April 2019**

| | **As at 31/03/19** | **IFRS 16 adjustments** | **As at 01/04/19** |
|---|---|---|---|
| Right to Use Asset and Leasehold Improvement (Note No. 15) | 242 | 1,495 | 1,737 |
| Lease rent and service charges paid in advance (Note | 106 | (106) | - |
| **Net Impact on Total Assets** | **348** | **1,389** | **1,737** |
| Other Liabilities (Note No. 23) | 730 | 1,389 | 2,119 |
| **Net Impact on Total Liabilities** | **730** | **1,389** | **2,119** |
| Retained earnings | (5,719) | 0 | (5,719) |
| **Net impact on total liabilities and equity** | **(4,990)** | **1,389** | **(3,600)** |

**Impact on assets, liabilities and equity as at 31 March 2020**

| | **As if IAS 17 still applied** | **IFRS 16 adjustments** | **As at 31/03/2020** |
|---|---|---|---|
| Right to Use Asset and Leasehold Improvement (Note No. 15) | 186 | 1,155 | 1,341 |
| Finance lease receivables | 108 | (108) | - |
| **Net impact on total assets** | **294** | **1,047** | **1,341** |
| Other Liabilities (Note No. 23) | 202 | 953 | 1,155 |
| **Net Impact on Total Liabilities** | **202** | **953** | **1,155** |
| Retained earnings | (27,662) | (119) | (27,781) |
| **Net impact on total liabilities and equity** | **(27,460)** | **834** | **(26,626)** |

**Accounting Policies (Contd.)**
**IFRS 16 'Leases'(Contd.)**

**Bank as a lessee**

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in operating lease expense and an increase in depreciation and finance cost expense.

The finance lease liability has been recognised under Accruals and other liabilities (Note No. 23)

Right of Use assets has been recognised as a Property, Plant and Equipment as a part of Leasehold Improvements (Note No. 15)

The lease incentives liability previously recognised with respect to operating leases has been derecognised and the amount factored in the measurement of the right-of-use assets and lease liabilities.

The application of IFRS 16 has an impact on the statement of cash flows of the Bank.

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

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by $393m and net cash used in financing activities increased by the $413m. The adoption of IFRS 16 did not have an impact on net cash flows.

## 1.4 Foreign currencies

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. 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 Fee and commission income and expense

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

Fee and Commission income is earned from 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.
- The bank has changed its accounting policy on the recognition of processing fee income received when a loan is initiated. Previously the bank recorded the fees upfront in full as revenue. From FY2019-2020 the Bank recognises the fees on a straight line method as a proxy for the EIR method.

### 1.5.2 Dividend income

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

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

1.5.3 **Net trading and other income**

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

**Interest income and expense**

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

Interest income and expenses on financial assets is determined using the effective interest rate method. Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed. Most fee and commission income is recognised at a point in time. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL

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. Other intangible assets are reviewed annually for impairment indicators and tested for impairment where indicators are present.

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

1.8 **Property, plant and equipment**

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

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

**Accounting Policies (Contd.)**

**Property, plant and equipment (Contd.)**

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

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

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

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

### 1.9 IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. For the accounting period starting on or after 1 January 2018, IFRS 9 has been introduced with new rules on how to classify and measure financial assets, as well as new concepts, principles and measures for SICR. The Bank uses ECL model developed by the third party vendors E&Y and S&P, considering the IFRS 9 policies approved by the Board. The Bank is not having sufficient history of default and operations to use its own PD model for calculating the ECL, thus PDs provided by S&P is considered for the calculation of ECL provisions on its book. Also the Bank uses haircuts defined under the Basel F-IRB norms for calculation of LGDs.

#### 1.9.1 Financial Instruments - Initial recognition and measurement

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

#### 1.9.2 Financial assets and liabilities

- **Classification and subsequent measurement**

From 1 April 2018, the Bank has applied IFRS 9 Financial Instruments and 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.

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

**Accounting Policies (Contd.)**
**IFRS 9 (Contd.)**

- **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.

- **Business model**

The business model reflects how the Bank manages the assets in order to generate cash flows and, specifically, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are measured at FVTPL.
Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and what is the strategy for holding those assets.

- **SPPI**

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

- **Amortised cost** – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. When estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.
- **FVOCI –** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading and other income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **FVTPL –** Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Net trading and other income' in the period in which it arises.

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

**Accounting Policies (Contd.)**
**IFRS 9 (Contd.)**

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

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

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

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

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

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

  • Financial guarantee contracts and loan commitments.

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

**Accounting Policies (Contd.)**
**IFRS 9 (Contd.)**

- **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.).

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**

IFRS 9 replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" (ECL) model. Depending on the asset's classification under the three stage model (Stage 1- no significant increase in credit risk; Stage 2 – credit risk has increased significantly & Stage 3 – credit impaired or defaulted financial asset).

Where credit risk is deemed not to have increased significantly since initial recognition (Stage 1) a loss allowance is calculated based on an amount equal to 12-month ECL (Expected Credit Loss).

**Accounting Policies (Contd.)**

**IFRS 9 (Contd.)**

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 from S&P Rating Agency's scorecard methodology for Loans and advances to customers. The Bank considers external rating for the other credit counterparties i.e. for Investments and inter-bank. The Bank will monitor the effectiveness of the criteria used to identify any increase through regular reviews and watch list.

Under IFRS 9 the Bank will consider a financial asset to be in default and or credit impaired 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.

1.9.4 **Embedding of IFRS 9 credit provisions**

Throughout FY 2019-2020 the bank has 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, through adopting a follow-up system from the moment when an account is experiences a significant increase in credit risk.

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

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 was regularly reviewed to ensure that all contracts having experienced a Significant increases in credit risk ("SICR") were identified.

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

The provision on Stage 3 accounts is assessed on an individual account level. The management considers various forecast scenarios and their probability of their occurrence for calculation of the Expected Credit Loss in the account. Accordingly, the provision on Stage 3 accounts is recognised comparing the model output and assessment performed. The provisions are then challenged by the credit committee and placed before management committee for its appropriateness and recognition in financial

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 applicable to that counterparty; and

These approaches have been selected given that the bank has insufficient default history to create its own PD models.

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.

**Accounting Policies (Contd.)**
**IFRS 9 (Contd.)**

### 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 FIRB LGD, to account for macroeconomic sensitivity would be recommended, a valid overlay cannot be inferred due to the insufficient data. In light of this, Bank has used the Basel FIRB LGD in the ECL computation, without adjustment, until sufficient history is built up.

### 1.9.7 Post Model Adjustment

Management on a quarterly basis evaluates the output of the ECL model. Where management deem the model is not accurately reflecting the credit risk being experienced by the Bank, Post Model Adjustments (PMA's) are made. 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 has assessed the ECL model output at year end and determined that two PMA's are required. An additional provisions of $ 4.3 mn was recognised as a PMA to reflect the management's judgement of indicative provision over its loan book as on Mar'20. Management is of the view that PDs provided by S&P does not truly indicate the credit risk on the Bank's book. Thus, management considered its experience in the last financial year and Stage 1 and Stage 2 assets as on Mar'20 were assessed to indicate probable increase in provisions. Therefore a PMA of $ 4.3 mn was recognised in its books as on 31$^{st}$ Mar'20.

The management has further performed analysis of industry-wise S&P score which includes the economic impact of COVID-19. The geographic breakdown and its macroeconomic analysis is already inherent in the ECL model the Bank uses for its impairment allowance. Thus, on the basis of latest industry rating score sourced from S&P and comparing the same with the average industry rating of the Bank's exposures, a PMA in that respect has also been considered appropriate by the management to the tune of $ 2.1 mn.

The management will review the PMA's quarterly to ensure that they remain appropriate.

### 1.9.8 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, for e.g. Upturn scenario will Reflect, a plausible but slightly optimistic view of the exposure in the relevant cluster and Downturn, pessimistic view. For each scenario, expert judgement are applied to determine an appropriate probability of occurrence. These probabilities determined through management's consideration of global economic reports (e.g. World Bank forecasts) or alternatively sourced through external vendors such as Oxford Economics or Moody’s Analytics. In present scenario the Bank has also considered the possible impact of COVID-19 in its assessment of ECL provision as at reporting date.

### 1.9.9 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.)**
**IFRS 9 (Contd.)**

1.9.10 **Write-off**

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

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 has been made for each facility's credit risk profile to determine which of three stages to allocate them to:

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

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 **Income taxes, including deferred taxes**

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

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Accounting Policies (Contd.)**

**Income taxes, including deferred taxes (Contd.)**

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

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

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

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

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.11 **Cash and cash equivalents**

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

1.12 **Provisions**

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

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

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

1.13 **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 evaluates its judgements and accounting estimates, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, on an ongoing basis. Actual results may differ from these accounting estimates under different assumptions or conditions.

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

• they are highly vulnerable to change from period to period as assumptions are made to calculate the 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.

**Accounting Policies (Contd.)**

**1.13.1 Credit impairment allowance**

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

**1.13.2 Critical Judgements**

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

- **Forward-looking information**: - The macroeconomic data from various sources such as S&P, OECD, World Bank, BoE, etc is considered appropriate 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.
- **Probability weights: -** ECL is arrived after probability weighting of base case, upturn and downturn scenarios. The probability weights are based on the IFRS 9 policy which considers the history of losses and experience of the management into consideration for arriving at the probability weights.
- **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.

**1.13.3 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**

| | 2020<br>USD '000 | 2019<br>USD '000 |
|---|---|---|
| Interest income from loans - Amortised cost | 17,021 | 18,861 |
| Interest income from investments - FVOCI | 2,093 | 2,483 |
| Interest income from investments - Amortised cost | 444 | 461 |
| Interest income from investments - FVTPL | (0) | 16 |
| Interest on interbank placements - Amortised cost | 755 | 706 |
| | **20,313** | **22,527** |

## 3 Interest and similar expense

| | 2020 | 2019 |
|---|---|---|
| | USD '000 | USD '000 |
| Deposit from customers | 5,236 | 4,444 |
| Deposit from banks | 744 | 1,328 |
| Intra-group borrowings | 1,681 | 2,423 |
| Repurchase agreements | 426 | 984 |
| | **8,087** | **9,179** |

## 4 Net fees and commission income

| | 2020 | 2019 |
|---|---|---|
| | USD '000 | USD '000 |
| Processing fees and commission* | 150 | 263 |
| | **150** | **263** |

*The Bank has changed policy of recognising the Processing fee income, the details are mentioned in Note No. 1.5 above.

## 5 Personnel costs

| | 2020 | 2019 |
|---|---|---|
| | USD '000 | USD '000 |
| Wages and salaries (including Directors' emoluments) | 2,466 | 2,031 |
| Social security costs | 227 | 202 |
| Pension contribution | 24 | 23 |
| Other employee benefits | 68 | 44 |
| | **2,785** | **2,300** |

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

| | 2020 | 2019 |
|---|---|---|
| | Number | Number |
| Commercial and retail banking activities | 27 | 24 |

### Directors' emoluments

| | 2020 | 2019 |
|---|---|---|
| | USD '000 | USD '000 |
| Short-term employee benefits | 431 | 416 |
| Post-employment benefits (Defined Contribution) | 1 | 3 |
| | 432 | 419 |

Emoluments comprise salary and benefits in kind
Highest paid Director:

| | | |
|---|---|---|
| Emoluments | 166 | 155 |
| Pension contributions | 4 | 3 |
| | 170 | 158 |

## 6 Other Expenses

| | 2020 | 2019 |
|---|---|---|
| | USD '000 | USD '000 |
| Other premises costs | 181 | 239 |
| IT costs | 452 | 449 |
| Other administrative expenses | 1,173 | 445 |
| Legal and professional costs | 947 | 931 |
| Marketing expenses | 115 | 89 |
| Finance costs * | 202 | 85 |
| | 3,070 | 2,237 |

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

**Other Expenses (Contd.)**

**Legal and professional costs include the following:**

| | | |
|---|---|---|
| Auditor’s remuneration - Auditing of Financial Statements | 116 | 87 |
| Auditor’s remuneration - other services | - | - |
| | 116 | 87 |

| **Impairment loss allowance** | **2020 USD '000** | **2019 USD '000** |
|---|---|---|
| Loans & Advances | 26,711 | 25,873 |
| Investment | (166) | (693) |
| | 26,546 | 25,181 |

7 **Tax on Profits**

As at year end the Bank has been prudent and not recognised an increase in the deferred tax asset (DTA) on its current year losses and has also reversed the DTA recognised in the prior year. This does not reflect the banks ability to generate profits in the future, but reflects the current uncertainty of the present and future economic environment caused by Covid-19.

| | **2020 USD '000** | **2019 USD '000** |
|---|---|---|
| Corporate tax credit | - | 1,163 |
| Deferred tax (see note 17): | - | - |
| Reversal of DTA | (2,174) | - |
| Effect of rate changes | - | (196) |
| Relating to originating and reversal of temporary differences | - | 1,869 |
| Adjustments in respect of prior years | - | 103 |
| Total deferred tax credit | (2,174) | 1,776 |
| Total tax (charge) / credit | (2,174) | 2,939 |

**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

| | **2020 USD '000** | **2019 USD '000** |
|---|---|---|
| Loss on ordinary activities before tax | (19,887) | (16,635) |
| Standard rate of corporation tax in the UK | 19.0% | 19.0% |
| Tax credit at the domestic income tax rate | - | 3,161 |
| Effects of: | | |
| Reversal of DTA for prior years | (2,174) | |
| Tax effect of non - deductible depreciation | - | (11) |
| Tax effect of other non - deductible expenses/non-taxable income | - | 17 |
| Tax effect of rate changes | - | (196) |
| Loss utilised against profits of earlier period | - | (1,298) |
| Adjustment in respect of prior years | - | 1,266 |
| Total tax (charge) / credit for the year | (2,174) | 2,939 |

| | **2020 USD '000** | **2019 USD '000** |
|---|---|---|
| Tax relating to (credit) / expense in FVOCI | (198) | (325) |
| Tax relating to expense / (credit) in retained earnings on adoption of IFRS 9 | - | (112) |

**Factors that may affect future tax charges**

As per Finance Act 2020, the standard corporation tax rate for the year starting 1 April 2020 will be 19%.

8 **Cash and balances with Banks**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Cash on hand | 28 | 31 |
| Cash at Bank | 6,383 | 4,213 |
| | **6,411** | **4,244** |

9 **Loans and advances to Banks**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Interbank placements | 44,054 | 26,337 |
| | 44,054 | 26,337 |

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

10 **Loans and advances to customers**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Term loan | 274,260 | 294,726 |
| Working Capital / Overdraft | 28,442 | 31,085 |
| Other loans | 7,755 | 3,717 |
| Gross | 310,457 | 329,528 |
| Less: Impairment provision | (54,184) | (27,473) |
| Net | 256,273 | 302,055 |

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

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| **Quoted investments** | | |
| Government debt securities | 25,663 | 48,237 |
| Other securities | 46,900 | 55,031 |
| | 72,563 | 103,268 |

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.

12 **Other Financial Assets at Amortised Cost**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| **Quoted investments** | | |
| Government debt securities | - | - |
| Other securities | 12,062 | 12,239 |
| | 12,062 | 12,239 |

Note: - The investment measured at amortised cost are subject to ECL provisioning recognition, however the amount is immaterial. The ECL provision as on Mar'20 for above was $ 0.01 Mn.
The carrying value of financial assets at amortised cost is not materially different to the fair value

**Derivative financial instruments (Contd.)**

13 **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-20 | | |
|---|---|---|---|
| **Derivatives used as:** | **Assets** | **Liabilities** | **Notional amount** |
| | **USD '000** | **USD '000** | **USD '000** |
| Currency swaps | - | (3,210) | 99,112 |
| | - | 3,210 | 99,112 |

| | 31-Mar-19 | | |
|---|---|---|---|
| | **Assets** | **Liabilities** | **Notional amount** |
| | **USD '000** | **USD '000** | **USD '000** |
| Currency swaps | 409 | - | 74,534 |
| | 409 | - | 74,534 |

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.

14.1 **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 2020. 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 2020** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents | - | - | 6,411 | 6,411 |
| Amounts receivable from customers | - | - | 310,457 | 310,457 |
| Placements | - | - | 44,054 | 44,054 |
| Deferred tax asset | - | - | - | - |
| Financial investments | 72,563 | - | 12,062 | 84,625 |
| Derivative assets | - | - | - | - |
| 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** |

**Financial instruments (Contd.)**

| | FVTOCI assets / liabilities USD '000 | FVTPL assets / liabilities USD '000 | Amortised cost USD '000 | Total USD '000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Bank borrowing | - | - | 21,256 | 21,256 |
| Repurchase agreements | - | - | 8,941 | 8,941 |
| Lease liability | - | - | 10,898 | 10,898 |
| Other liabilities | - | 3,210 | 232,691 | 235,901 |
| **Total liabilities** | **-** | **3,210** | **273,786** | **276,995** |

Note: - The Bank does not have Non financial assets/liabilities as on the reporting date

| | FVTOCI assets / liabilities USD '000 | FVTPL assets / liabilities USD '000 | Amortised cost USD '000 | Total USD '000 |
|---|---|---|---|---|
| **At 31 March 2019** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents | - | - | 4,244 | 4,244 |
| Amounts receivable from customers | - | - | 329,528 | 329,528 |
| Placements | - | - | 26,337 | 26,337 |
| Deferred tax asset | - | - | 2,372 | 2,372 |
| Financial investments | 103,268 | - | 12,239 | 115,507 |
| Derivative assets | 409 | - | - | 409 |
| Intangible assets | - | - | 164 | 164 |
| Property, plant and equipment | - | - | 361 | 361 |
| Right of use assets | - | - | - | - |
| Others | - | - | 2,651 | 2,651 |
| **Total assets** | **103,677** | **-** | **377,896** | **481,573** |
| **Liabilities** | | | | |
| Bank borrowing | - | - | 89,951 | 89,951 |
| Repurchase agreements | - | - | 30,326 | 30,326 |
| Lease liability | - | - | - | - |
| Other liabilities | - | - | 240,507 | 240,507 |
| **Total liabilities** | **-** | **-** | **360,784** | **360,784** |

14.2 **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.

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

**Fair Value of assets and liabilities (Contd.)**

| **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

| | **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 liabilities** | | | |
| Derivative financial instruments - Liabilities | - | 3,210 | - |
| | - | 3,210 | - |

| | **31st March 2019** | | |
|---|---|---|---|
| | **Quoted** | **Valuation** | **Valuation** |
| | **USD '000** | **USD '000** | **USD '000** |
| **Financial assets** | | | |
| Financial investments – FVOCI | 103,268 | - | - |
| Financial investments – FVTPL | - | - | - |
| Derivative financial instruments - Assets | - | 409 | - |
| | 103,268 | 409 | - |
| **Financial liabilities** | | | |
| Derivative financial instruments - liabilities | - | - | - |
| | - | - | - |

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.

15 **Property, plant and equipment**

| 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 2018 | 559 | 295 | 206 | 1,060 |
| Additions | - | 4 | 10 | 14 |
| 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** |
| **Cumulative depreciation** | | | | |
| As at 31 March 2018 | (261) | (254) | (149) | (664) |
| Depreciation charge | (56) | (34) | (30) | (120) |
| As at 31 March 2019 | **(317)** | **(288)** | **(179)** | **(783)** |
| Depreciation charge | (396) | (3) | (31) | (430) |
| **As at 31 March 2020** | **(713)** | **(291)** | **(210)** | **(1,214)** |
| **Net book value** | | | | |
| As at 31 March 2019 | 242 | 11 | 37 | 290 |
| **As at 31 March 2020** | **1,341** | **17** | **30** | **1,388** |

Note: Above additions in the Right to Use Asset and Leasehold Improvement of $ 1.495 mn relates to the implementation of IFRS 16 and the recognition of the RoU asset & depreciation charge of $ 0.396 mn includes depreciation of $ 0.340 mn pertains to RoU assets

16 **Intangible assets**

| Intangible assets | Capitalised software |
|---|---|
| | USD '000 |
| **Cost** | |
| As at 1 April 2018 | 280 |
| Additions | 155 |
| **As at 31 March 2019** | **435** |
| Additions | 244 |
| Disposal | (70) |
| **As at 31 March 2020** | **609** |
| **Amortisation** | |
| As at 1 April 2018 | (231) |
| Additions | (40) |
| **As at 31 March 2019** | **(271)** |
| Amortisation charge for the year | (155) |
| Disposals | 47 |
| **As at 31 March 2020** | **(379)** |
| **Carrying value** | |
| **As at 31 March 2019** | 164 |
| **As at 31 March 2020** | **230** |

17 **Deferred tax assets**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| **Deferred tax assets on losses** | | |
| As at 1 April | 2,404 | 826 |
| Tax credit to income statement | - | 1,791 |
| Tax relating to change in fair value of Investment - FVOCI | - | (325) |
| Tax relating to IFRS transitional adjustment in retained earnings | - | 112 |
| Reversal of Tax for prior years | (2,404) | - |
| **As at 31 March** | **-** | **2,404** |

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 Board has taken a prudent decision to reverse the DTA of previous years as well which accounts to $ 2.40 Mn.

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

| **Deferred tax liabilities on fixed assets** | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| As at 1 April | 32 | 17 |
| Reversal of Tax for prior years | (32) | 15 |
| **As at 31 March** | **-** | **32** |

18 **Other assets**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Other receivables | 407 | 426 |
| Prepayments and accrued income | 4,618 | 981 |
| Corporation tax receivable | - | 1,244 |
| | 5,025 | 2,651 |

19 **Deposits from Banks**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Interbank borrowings | 21,256 | 29,387 |
| | 21,256 | 29,387 |

20 **Intra-group borrowings**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Intra-group borrowings | - | 60,564 |
| | - | 60,564 |

Note: Intra-group borrowing of $ 61 m was paid back and Parent Bank has infused additional Equity of USD 50 m on 26th January 2020

21 **Deposits from customers**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Current accounts | 10,898 | 9,834 |
| Savings accounts | 2,270 | 1,450 |
| Fixed term deposits | 228,751 | 228,494 |
| | 241,918 | 239,778 |

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.

| | 2020 USD '000 Carrying amount of transferred assets | 2020 USD '000 Carrying amount of associated liabilities | 2019 USD '000 Carrying amount of transferred assets | 2019 USD '000 Carrying amount of associated liabilities |
|---|---|---|---|---|
| Repurchase agreements | 11,608 | 8,941 | 37,998 | 30,326 |

The Bank was carrying sufficient liquidity and therefore the repurchase agreement has been reduced from $ 30.3 mn in 2019 to reduced to $ 8.9 mn in 2020

23 **Other liabilities**

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Accruals and other liabilities (including lease liabilities) | 1,558 | 632 |
| Corporation tax liability | - | - |
| Provisions for dilapidation | 112 | 98 |
| | 1,670 | 730 |

Note: During the year, additional Provision of $0.014 towards Dilapidation has been made.

| <u>Lease liabilities</u> | | |
|---|---|---|
| Recognition of Lease Liability | **1,636** | **-** |
| Add: Finance charge for FY 2019-20 | 53 | - |
| Less: Payments made towards lease liability | (413) | - |
| Closing Lease Liability as at 31/03/2020 | **1,276** | - |
| | | |
| Within one year | 409 | - |
| More than one year | 867 | - |
| | **1,276** | **-** |

24 **Operating lease commitments**

Payments recognised in expenses:

| | Land and buildings 2020 USD '000 | Land and buildings 2019 USD '000 |
|---|---|---|
| Rent of Bank premises at Senator House | - | 316 |
| | - | 316 |

Previously, operating lease has been recognised & disclosed in line with IAS17 and now the operating lease is brought onto the balance sheet in line with IFRS 16 with expenses recognized as depreciation on RoU asset and finance charges on lease liability. (Note 1)

25 **Share capital**

| | 2020 Number | 2019 Number | 2020 USD '000 | 2019 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 | 100,000,000 | 200,000 | 100,000 |
| **Issued and fully paid** | | | | |
| Ordinary shares of GBP 1 each | 2 | 2 | 0.003 | 0.003 |
| Ordinary shares of USD 1 each | | | | |
| As at 1 April | 100,000,000 | 90,000,000 | 100,000 | 90,000 |
| Issue of Share Capital * | 50,000,000 | 10,000,000 | 50,000 | 10,000 |
| As at 31 March | 150,000,000 | 100,000,000 | 150,000 | 100,000 |

* The Parent Bank has infused additional capital of $50m (2019: $10m) in the Bank, by way of ordinary shares of $1 each.

26 **Other commitments and contingencies**

a) Commitments in respect of financial instruments are as follows:

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Foreign exchange - Assets | 99,141 | 75,399 |
| Foreign exchange - Liabilities | 102,350 | 74,990 |
| Letter of credit | - | - |
| Bank guarantee | 109 | 115 |
| Undrawn committed facilities | 15,479 | 41,203 |

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.

These key personnel are having 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.

27 **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.

| | **2020** | **2019** |
|---|---|---|
| | **USD '000** | **USD '000** |
| • Neither past due nor overdue | 213,241 | 250,435 |
| • Overdue but not default | 13,460 | 15,137 |
| • Default | 83,756 | 63,956 |
| **Gross** | **310,457** | **329,528** |

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

During this financial year, six loan assets were downgraded to Stage 3 on account of experiencing default, full recovery has been made in two account. Total exposure to these assets is $18.9 mn. Total specific impairment loss of $26.5 mn has been recognised during this financial year.

**Fair value of the customer loan book**

Given the dislocation and uncertainty of markets as at the year-end, a fair value for the customer loan portfolio would be disproportionally complex to calculate and would potentially be misleading. We note that the fair value of Loans and Advances to Customers is likely to be materially different to the year-end carrying value.

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

**Credit risk review**

**IFRS 9 Credit Quality**

| **Loans to Customers** | **2020** | **2019** |
|---|---|---|
| | **USD '000** | **USD '000** |
| Gross Exposure | 310,457 | 329,528 |
| Less:- Loan loss provision | (54,184) | (27,473) |
| **Net Exposure** | **256,272** | **302,055** |

| **Financial Instruments (excluding Derivatives)** | **2020** | **2019** |
|---|---|---|
| | **USD '000** | **USD '000** |
| **Financial assets at fair value through profit or loss:** | | |
| Financial Investment | - | - |
| **Financial Assets at amortised cost:** | | |
| Loans and advances to customers (gross) | 310,457 | 329,528 |
| Financial investments | 12,062 | 12,239 |
| Loans and advances to Banks | 44,054 | 26,337 |
| Other financial assets at amortised cost | 6,411 | 4,244 |
| | **372,984** | **372,349** |
| **Financial assets at fair value through other comprehensive** | **2020** | **2019** |
| | **USD '000** | **USD '000** |
| Financial investments | 72,563 | 103,268 |
| **Total** | **445,547** | **475,617** |

| **Analysis of Financial Instruments (excluding Derivatives)** | **2020** | **2019** |
|---|---|---|
| | **USD '000** | **USD '000** |
| Due within one year | 175,129 | 122,799 |
| Due in more than one year | 270,418 | 352,818 |
| **Total** | **445,547** | **475,617** |

| **Particulars** | **2020 USD '000** | **2019 USD '000** |
|---|---|---|
| Neither past due nor overdue | 348,331 | 396,523 |
| Overdue but not default | 13,460 | 15,137 |
| Default | 83,756 | 63,956 |
| **Total** | **445,547** | **475,617** |

**Loans to Customers as at 31 March 2020**

| **Particulars** | **Stage 1 USD '000** | **Stage 2 USD '000** | **Stage 3 USD '000** | **Total 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.)**

**Loans to Customers as at 31 March 2019**

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

**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 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) |
| Derecognition of modified loans | - | - | - | - |
| Other movements | - | - | - | - |
| **Gross carrying amount as at 31 March 2020** | **175,505** | **51,196** | **83,756** | **310,457** |

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

| 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 |
| Other movements | - | - | - | - |
| **ECL Provision as at 31 March 2020** | **4,586** | **2,891** | **46,708** | **54,184** |

*This includes the PMAs recognised by the Bank as detailed in Note No 1.

| Loans to Customers | Stage 1 USD '000 | Stage 2 USD '000 | Stage 3 USD '000 | Total USD '000 |
|---|---|---|---|---|
| **Gross carrying amount as at 1st April 2018** | **323,208** | **-** | **16,911** | **340,118** |
| Transfer from stage 1 to 2 | (45,904) | 45,904 | - | - |
| Transfer from stage 1 to 3 | (46,437) | - | 46,437 | - |
| Transfer from stage 2 to 1 | - | - | - | - |
| Transfer from stage 2 to 3 | - | - | - | - |
| Transfer from stage 3 to 2 | - | - | - | - |
| Transfer from stage 3 to 1 | - | - | - | - |
| New receivables originated or purchased | 39,948 | 3,259 | 200 | 43,407 |
| Net Repayments of loans | (48,631) | (5,775) | 409 | (53,997) |
| Derecognition of modified loans | - | - | - | - |
| Other movements | - | - | - | - |
| **Gross carrying amount as at 31 March 2019** | **222,183** | **43,388** | **63,956** | **329,528** |

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

| Particulars | Stage 1 USD '000 | Stage 2 USD '000 | Stage 3 USD '000 | Total USD '000 |
|---|---|---|---|---|
| **ECL provision as at 1 April 2018** | **626** | **-** | **1,600** | **2,226** |
| Transfer from stage 1 to 2 | (75) | 75 | - | - |
| Transfer from stage 1 to 3 | (81) | - | 81 | - |
| Transfer from stage 2 to 1 | - | - | - | - |
| Transfer from stage 2 to 3 | - | - | - | - |
| Transfer from stage 3 to 2 | - | - | - | - |
| Transfer from stage 3 to 1 | - | - | - | - |
| Net re-measurement of ECL arising from transfer of stage | (66) | (47) | 22,725 | 22,611 |
| New receivables originated or purchased | 32 | 7 | - | 40 |
| Net Repayments of loans | (20) | - | 2,616 | 2,596 |
| Derecognition of modified loans | - | - | - | - |
| Other movements | - | - | - | - |
| **Provision as at 31 March 2019** | **416** | **35** | **27,022** | **27,473** |

| **Forbearance / Rescheduled loans** | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Term loan | 25,362 | 72,904 |
| Overdraft | - | - |
| Other Loans | - | - |
| | **25,362** | **72,904** |

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

| | Stage 1 USD '000 | Stage 2 USD '000 | Stage 3 USD '000 | Total 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.)**
**The below tables provides detail on the staging of rescheduled loans as at 31 March 2019:**

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

**Collateral:**

Collateral is held to mitigate credit risk exposure and may include one or more of:
1. Bank Deposits under Lien including those with third party institutions
2. Marketable Securities
3. Current Assets
4. Bank Guarantees & Letters of Credit
5. Fixed Assets (Movable & Immovable )
6. Real Estate
7. Corporate/Personal Guarantee

**Loans & Advances collateral analysis**

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

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| LTV=0% | 58,529 | 18,061 |
| LTV>0%<=50% | 7,802 | - |
| LTV>50%<=100% | 3,462 | 24,487 |
| LTV>100% | 232,909 | 283,264 |
| **Total** | **302,702** | **325,811** |

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

| | 2020 USD '000 | 2019 USD '000 |
|---|---|---|
| Secured | 251,928 | 311,467 |
| Unsecured | 58,529 | 18,061 |
| **Total** | **310,457** | **329,528** |

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

| | 2020 Exposure USD '000 | 2019 Exposure USD '000 |
|---|---|---|
| Stage 1 Assets (Standard Advances) | 175,505 | 222,183 |
| Stage 2 Assets (Assets having experienced SICR) | 51,196 | 43,388 |
| Stage 3 Assets (Default Assets) | 83,756 | 63,956 |
| | **310,457** | **329,528** |

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

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

| Countries | 2020 Exposure USD '000 | 2019 Exposure USD '000 | 2020 % of Total | 2019 % of Total |
|---|---|---|---|---|
| Australia | - | 3,472 | 0.0% | 0.7% |
| Belgium | 7,616 | 6,704 | 1.7% | 1.4% |
| British Virgin Island | 5,997 | 16,673 | 1.3% | 3.5% |
| Cayman Island | 18,671 | 17,995 | 4.2% | 3.8% |
| Germany | 3,850 | 5,559 | 0.9% | 1.2% |
| Hongkong | 2,993 | - | 0.7% | 0.0% |
| India | 131,778 | 120,806 | 29.6% | 25.4% |
| Indonesia | 5,319 | 6,852 | 1.2% | 1.4% |
| Ireland | 14 | - | 0.0% | 0.0% |
| Korea, Republic of | 1,541 | 2,503 | 0.3% | 0.5% |
| Kuwait | 2,936 | 1,484 | 0.7% | 0.3% |
| Luxemburg | 6,197 | - | 1.4% | 0.0% |
| Mauritius | - | 4,945 | 0.0% | 1.0% |
| Mexico | 3,836 | 6,534 | 0.9% | 1.4% |
| Netherlands | 16,344 | 5,001 | 3.7% | 1.1% |
| Oman | - | 3,718 | 0.0% | 0.8% |
| Other (MDBs) | 3,524 | 3,620 | 0.8% | 0.8% |
| Portugal | - | 2,385 | 0.0% | 0.5% |
| Singapore | 32,718 | 25,918 | 7.3% | 5.4% |
| South Africa | - | - | 0.0% | 0.0% |
| United Arab Emirates | 9,817 | 20,603 | 2.2% | 4.3% |
| United Kingdom | 137,856 | 129,379 | 30.9% | 27.2% |
| United States of America | 54,541 | 91,466 | 12.2% | 19.2% |
| | **445,547** | **475,617** | **100.0%** | **100.0%** |

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

**Industrywide profile**

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

| | 2020 Exposure USD '000 | 2019 Exposure USD '000 |
|---|---|---|
| Accommodation And Food Service Activities | 49,670 | 42,706 |
| Administrative And Support Service Activities | 5,997 | 7,133 |
| Construction | 15,242 | 15,559 |
| Electricity, Gas, Steam and Air Conditioning Supply | 8,986 | 8,637 |
| Human Health And Social Work Activities | 4,043 | 20,946 |
| Information And Communication | 19,085 | 5,726 |
| Manufacturing | 90,951 | 97,250 |
| Others | 116,483 | 131,572 |
| | **310,457** | **329,528** |

**Liquidity risk**

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

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

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

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

| | Non-derivative financial assets | | Non-derivative financial liabilities | |
|---|---|---|---|---|
| | 2020 USD '000 | 2019 USD '000 | 2020 USD '000 | 2019 USD '000 |
| On Demand | 13,411 | 5,744 | 13,343 | 11,284 |
| Due within 3 months | 80,818 | 24,669 | 21,997 | 34,505 |
| Due between 3 to 12 months | 61,897 | 83,690 | 135,968 | 165,370 |
| Due between 1 to 5 years | 213,278 | 258,899 | 97,372 | 148,895 |
| Due after 5 years | 76,143 | 102,613 | 3,435 | - |
| **Total** | **445,547** | **475,617** | **272,115** | **360,054** |

| | Derivative financial assets | | Derivative financial liabilities | |
|---|---|---|---|---|
| | 2020 USD '000 | 2019 USD '000 | 2020 USD '000 | 2019 USD '000 |
| On Demand | - | - | - | - |
| Due within 3 months | 34,073 | 26,686 | 34,631 | 26,232 |
| Due between 3 to 12 months | 65,068 | 48,713 | 67,719 | 48,758 |
| Due between 1 to 5 years | - | - | - | - |
| Due after 5 years | - | - | - | - |
| | **99,141** | **75,399** | **102,350** | **74,990** |

**Risk management (Contd.)**

**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.

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** | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **USD '000** | **USD '000** | **USD '000** | **USD '000** |
| INR | - | 4 | 20 | - |
| GBP | - | - | 1,568 | 350 |
| EURO | - | 286 | 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 $3.6m as at 31 March 2020 (2019: $5.03m)

**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.

**Risk management (Contd.)**

**Currency risk (Contd.)**

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.

**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.

**Risk management (Contd.)**

**Capital risk management (Contd.)**

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

| | **2020** | **2019** |
|---|---|---|
| | **USD '000** | **USD '000** |
| Paid up share capital | 150,000 | 100,000 |
| Retained earnings | (27,781) | (5,719) |
| Fair value reserves | (1,211) | (964) |
| Tier one capital | 121,008 | 93,317 |

## 28 Related Party

### 28.1 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):

| | **2020** | **2019** |
|---|---|---|
| | **USD '000** | **USD '000** |
| Interest income on placements | - | 102 |
| Interest income on trade finance | - | - |
| Interest expense on borrowings | 1,681 | 2,423 |

Balances with Related parties as at 31 March:

| | **Amounts owed by related parties** | |
|---|---|---|
| | **2020** | **2019** |
| | **USD '000** | **USD '000** |
| **Assets** | | |
| Nostro account balance with Union Bank of India, India | 20 | 4 |
| | 20 | 4 |

| | **Amounts owed to related parties** | |
|---|---|---|
| | **2020** | **2019** |
| | **USD '000** | **USD '000** |
| **Liabilities** | | |
| Intra-group borrowings | - | 60,564 |
| | - | 60,564 |

**Related Party (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.

**28.2 Transaction with Directors**

The following key management personnel are also considered to be related parties:
Mr. Viswesvaran Radhakrishnan (Managing Director and Chief Executive Officer)
Dr. Anand Kumar (Executive Director and Deputy Chief Executive Officer)
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: -

| | **2020** |
|---|---|
| | **USD '000** |
| Total limit sanctioned | 28 |
| Loan balance outstanding | 23 |

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.

**29 Events after the balance sheet date**

**Covid - 19**

Since shortly before the end of the Bank's financial year, a significant global economic and social disruption has arisen from the Covid-19 pandemic. From the initial indication of the current climate, the Bank immediately invoked business continuity plans to serve and support its customers throughout the pandemic while maintaining the safety and well-being of staff as on the reporting date. As a result of the pandemic, the Bank is expected to be impacted in the year ahead due to likely reduction in income from all of its activities - Interest on Loans to customers, Investments income & Interest on Interbank Placements and increase in ECL provisions.

As at the end of May'20, the Bank has received application from nine borrowers having total loan outstanding $ 44 mn for approval of payment holidays. The Bank after analysis as per the approved policy has sanctioned payment holidays in seven accounts and in none of the accounts SICR has been recognised as per the policy.

The Bank considered the impact of the pandemic on the carrying values of assets and liabilities in the Financial statement as at the balance sheet date. The Bank assessed that its key sensitivity was in relation to ECLs on customer lending. The Bank sourced revised economic forecasts in May'20 from BoE forecast, IMF, World Bank and OECD, reflecting economic developments since the reporting date. These scenarios reflect the support measures that have been put in place by the Governments and Central Banks.

The Bank has placed most reliance on the base scenario-Post COVID, which is in line with BoE guidance that there will be significant economic disruption while social distancing measures are in place, followed by an expected sharp recovery when these are lifted.

**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.