Company Registration number: 07653660

ANNUAL ACCOUNTS

For the year ended on 31 March 2022

Table of Contents

FOR THE YEAR ENDED 31 March 2022

Union Bank of India (UK) Ltd

Glossary

Notation	Description
ACB	Audit Committee of the Board
AFS	Available For Sale
ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
BAU	Business As Usual
CC	Credit Committee
CCF	Credit Conversion Factor
CCPS	Compulsorily Convertible Preference Shares
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulations
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
ERM	Environment Risk Management
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FCA	Financial Conduct Authority
FIC	Fraud Investigation Committee
F-IRB	Foundation Internal Rating Based Approach
FSB	Financial Stability Board
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
HFT	Held For Trading
HQLA	High Quality Liquid Asset
HTM	Held to Maturity
IAS	International Accounting Standard
IASB	International Accounting Standard Board
IBOR	Interbank Offered Rates
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
IOC	Incident of Comprise
IT	Information Technology
ITOC	IT and Operations Committee
LCR	Liquidity Coverage Requirement

Glossary

Notation	Description
LGD	Loss Given Default
LIBOR	London Inter-Bank Offered Rate
LTSC	LIBOR Transition Steering Committee
LTV	Loan to Value
MI	Management Information
MLRO	Money Laundering Reporting Officer
NPV	Net Present Value
NRI	Non-Resident Indian
OCI	Other Comprehensive Income
OECD	Organisation for Economic Co-operation and Development
Parent Bank	Union Bank of India
PD	Probability of Default
PMA	Post Model Adjustment
PRA	Prudential Regulation Authority
RCC	Risk and Compliance Committee
RFR	Risk Free Rates
RWA	Risk Weighted Assets
S&P	Standard & Poor
SCV	Single Customer View
SEIM	Security Event Information Management
SICR	Significant Increase in Credit Risk
SMCT	Senior Management Crisis Team
SOC	Security Operations Centre
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPPI	Solely Payments of Principal and Interest
TAC	Training Advisory Committee
TCFD	Task force Climate Change Financial Disclosure
VIU	Value in Use

Company Registration Number	**07653660**
The Board of Directors	**Mr. Rajkiran Rai G.** Chairman
	Mr. Manas Ranjan Biswal Nominee Director
	Mr. Chittari Amaravati Kalyan Varma Managing Director & CEO (Appointed on 23rd July 2021)
	Mr. Kundan Lal Managing Director & CEO (Retired on 23rd July 2021)
	Mr. Natesh Kumar Dayananda Shetty Executive Director & COO (Appointed on 22nd Dec. 2021)
	Dr Anand Kumar Non-Executive Director
	Mr. John Kerr Non-Executive Director (Retired on 30th Nov. 2021)
	Mr. Patrick Joseph Quinn Non-Executive Director
	Ms. Charlotte Elisabeth Diana Morgan Non-Executive Director (Appointed on 3rd Nov. 2021)
Registered Office	Senator House 85 Queen Victoria Street London EC4V 4AB
Statutory Auditor	**Mazars LLP** 30 Old Bailey London EC4M 7AU

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 2022.

About the Report

The strategic report outlines the key elements of the annual report and provides context for the related financial statements. The purpose of the strategic report is to provide information for shareholder and enable 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 into account the interest of other stakeholders .

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

Business model

The Bank is a UK incorporated Bank authorised by the PRA and regulated by the FCA and the PRA.
The Bank's focus is to build a sustainable business model with a strong and robust corporate governance and control environment. The Bank offers a simple range of products to its customers covering retail, corporate, commercial banking, trade finance and treasury services.
One of the key business lines that the Bank focuses on, is the funding requirements of Indian linked corporates through syndication route, leveraging off Union Bank of India's relationships with the 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 business needs of Indian diaspora in the UK / Overseas through syndication route;
- Attract retail depositors by extending market competitive interest rates;
- Excel in customer service through operational excellence;
- Hold adequate capital and sufficient liquidity through robust governance and control;
- Conduct its business by complying with the regulatory expectation; and
- Increase in the bottom line by building a sustainable balance sheet.

Review of the Business

The Bank commenced its commercial operations in July 2014. The Bank has set up systems, procedures and policies for prudent management of its business and the 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.

During the year, the Bank has not pursued a strategy of growth, rather has focused on a consistent and sustainable balance sheet. The Bank has reviewed its present business plan and more focus is now on UK assets along with the Syndicated loans to non UK counterparties.

COVID-19 impacted the global economies and as a measure to minimise the risk of spread on general public, lockdown measures were implemented by all the countries affected by the pandemic. During the current year 2021-22, majority of the impacted customers started repaying the dues and with significant reduction in the requests for deferment of instalments and covenants waiver. This implied reduced impact of pandemic on the borrowers.

The Bank while considering the requests for any deferment, is guided by FCA and PRA guidelines. A procedure has been approved by the Management Committee to approach such requests in a timely and efficient manner.

Income Statement Review

	2022 USD '000	2021 USD '000
Net interest income	8,196	8,867
Non-interest income	1,608	1,659
Operating expenses	(7,751)	(6,872)
Non-Operating income / (expenses)	91	197
Impairment loss allowances	3,129	(14,789)
Profit/(Loss) before tax	5,273	(10,939)
Profit/(Loss) after tax	5,273	(10,939)

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

- Net-interest income was down by 7.6%, due to reduction in the benchmark interest rates and lower level of average advances during the financial year.
- Operating expenses before impairment allowances were increased by 12.8% mainly due to increase in personnel costs, general admin and IT cost.
  These expenses are normal considering the operational need of the Bank and total operational expenses are within the budgeted levels.
- Impairment allowance comprising of a net reversal of impairment provision made in the financial year 2021-22 on loans & advances for $ 3.1 m. This reversal is driven partially by recoveries in Stage 2 and Stage 3 loans and remeasurement of PMAs.
- During the year, impairment loss allowance on stage 3 loan was made to the tune of $ 0.5 m. The PMAs were reassessed and overall provision of $ 1.7 m was booked for forward looking adjustments in PD, back testing PD and LGD adjustments. The Bank has also written-off five stage 3 loan accounts in 2021-22, which were fully provided by 2020-21. The total amount of write-off is $ 40.3 m. The Bank has not forfeited the right to any potential recovery in the written off accounts and therefore, they are carried at $ 1 in the balance sheet as of 31st March 2022.
- Profit during the year was $ 5.3 m, mainly due to recoveries in Stage 2 and Stage 3 accounts resulting in reversal of impairment provision.
- The Bank has not recognised deferred tax asset during the year on its unrecovered losses due to the uncertainty in the economy caused by the impact of COVID-19 and ongoing Russia-Ukraine War. Refer Note 18 to the financial statements.

Balance Sheet Review

Assets

	2022 USD '000	2021 USD '000
Loans and advances to customers	286,830	256,757
Loans and advances to banks	19,194	8,000
Financial Investments	89,168	116,852

- Loans and advances to customers increased by 11.71% to $ 286.8 m during FY 2022 (2021: $ 256.7 m)
- Loans and advances to banks has increased to $ 19.2 m at 31 March 2022 (2021: $ 8 m).
- Investment portfolio stood at $ 89.2 m (2021: $ 116.9 m), 40% of the portfolio consists of high quality liquid assets.

Balance sheet review (Contd.)
Liabilities

	2022	2021
	USD '000	USD '000
Deposits from banks (including Repo)	11,160	5,223
Deposits from customers	275,587	271,130
Equity	113,244	111,818

- Deposits from banks have increased to $ 11.2 m at 31 March 2022 (2021: $ 5.2 m). 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 by 1.6%, and stood at $ 275.6 m on 31 March 2022 (2021: $ 271.1 m). The Bank is managing a mix of Retail and wholesale deposits to reduce the cost. The deposits as of Mar'22 consists of 56% (2021: 71%) retail deposits and 44% (2021: 29%) wholesale deposits.
- Total shareholders' equity increased to $ 113.2 m at 31 March 2022 (2021: $ 111.8 m), due to Profits boked during the current financial year.

Key Economic and Business Outlook

The Bank primarily operates in the UK, US and India markets and monitors the economic outlook in these markets to assess the impact on its portfolio and business model.

As per the world Economic Outlook, April 2022 by International Monetary Fund, the war in Ukraine has triggered a costly humanitarian crisis. Economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest. Global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. This has impacted the Financial position of the bank. Further provisions in the form of PMA have been made to account for the uncertainties.

UK Economy- As per the April 2022 report by International Monetary Fund, Britain's gross domestic product is now expected to grow by 3.7 per cent this year, down from the 4.7 per cent growth predicted by the IMF at the start of the year and a further downgrade from its 5 per cent October forecast.

US Economy- US economic growth to slow to 3.6% in 2022 from 5.7% in 2021, forecasts GlobalData Posted in Business Fundamentals. The Federal Reserve is expected to adopt a tighter monetary policy and hike rates faster than expected amid rising inflationary pressure. The cost of borrowing is expected to increase with multiple policy rate hikes expected in 2022.

Indian Economy- The International Monetary Fund had earlier projected 9.5 per cent growth for the Indian economy in 2022. It slashed by 0.5 percentage points in its January 2022 report and it has further reduced it now by 0.8 point in the April 2022 report. The revision reflects, weaker domestic demand as higher oil prices are expected to weigh on private consumption and investment and a drag from lower net exports.

Forward Outlook

The broad-based jump in global commodity prices has exacerbated inflationary pressures across advanced economies (AEs) and emerging market economies (EMEs) alike causing a sharp revision in their inflation projections. In US, inflation reached to a 40 year high of 8.5% in Mar 2022, in UK it is 7.% in Mar 2022 which is 30-year high. These rates are much above the upper threshold of Central Bank's and MPC's. Several central banks, especially systemic ones, are already on the path of normalisation and tightening of monetary policy stances to curb inflation. Resultantly, sovereign bond yields in major AEs have been hardening. Looking ahead, the inflation trajectory will depend critically upon the evolving geopolitical situation and its impact on global commodity prices and logistics.

Key Economic and Business Outlook (Contd.)

The Bank is likely to be impacted by a number of developments with specific significance for its operations and strategy:

• Potential risks include high levels of volatility in the markets driven by geo-political events, Russia Ukraine war, accelerated deployment of digital tech from our competitors, IBOR reforms as the entire market transitions to alternative reference rates and potential credit events resulting from sustained GDP contraction.

Business strategy

Retail Banking

The Bank offers personal current accounts, personal savings accounts, business current accounts, fixed deposits and service for remittances 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. Going ahead, the Bank is looking towards building a sustainable balance sheet by focusing on continuous onboarding of high quality assets and also maintaining the health of existing assets through regular monitoring. 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 recovering 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.

Corporate Governance

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

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

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

Corporate Governance (Contd.)

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

- 1st Line of Defence; Operational controls as set out in functional and departmental procedures and manuals,
- 2nd Line of Defence; Oversight, monitoring and periodic reporting by the Bank's control functions i.e. Risk and Compliance,
- 3rd Line of Defence; Internal Audit

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

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

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

c) Management Committee of the Board (MCB) meets quarterly, consisting of one Independent UK based Non-Executive Director (one who acts as RCC chair), one UK based Non-Executive Director and the two Executive Directors (CEO acts as Chair).

Anti-Money Laundering (AML) & Compliance

The Bank maintains an independent Compliance & MLRO Function, which ensures that the business is conducted in compliance with all regulatory requirements.
The Bank's Compliance Function is responsible for ensuring that adequate policies and procedures are in place to ensure that the Bank and its employees are compliant with the legal and regulatory obligations in respect of both AML and Conduct of Business. Such policies and procedures are designed to detect and minimise any risk of failure by the Bank to comply with its regulatory obligations, and any associated risks.

Internal Audit

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

Principal Risks and Uncertainties

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.

Both Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP) are subject to periodic review and updated 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.

Principal Risks and Uncertainties (Contd.)

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.

Principal risks of the Bank is explained in detail in notes to accounts (note 26).

- **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. The Bank has appropriate policies in place that describes the principles which underpin and drive the Bank's approach to credit risk management.

- **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.

- **Country Risk**

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.

- **Market Risk: Currency Risk**

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

- **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’s ALCO meets monthly to monitor this risk.

- **Capital Risk**

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.

- **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 this risk in an effective, efficient and proactive manner.

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.

Russian Invasion on Ukraine

The full impact of the recent actions by Russian Federation on Ukraine is yet to be assessed as the situation on the ground is rapidly changing. UK & several governments have imposed sanctions against Russia owing to its threat of destabilising the sovereign state of Ukraine. The invasion of the Ukraine will have global repercussions and will cause volatility in Oil and Gas prices. The stock market around the world have already responded negatively to the news.

Oil and gas prices climbing on fears the Ukraine-Russia crisis will disrupt supplies across the world. The price of Brent crude oil, an international benchmark, touched a seven-year high of more than $130 a barrel after Russia's invasion of Ukraine. But prices later moderated, despite Western countries responding with economic sanctions and moves to block a key Russian gas pipeline. The impact of the war in Ukraine is expected to slow growth in the UK and other advanced economies. The Bank closely monitors the situations and the probable impact on the exposure of the Bank.

Cyber-Attacks

Russia's attack on Ukraine has, as expected, spilled over into cyberspace. Currently there are two (2) malware variants which are being actively used in this Cyber war, we are actively monitoring these Incident of Comprise (IoC's) to ensure we are not a target of these malware should the Cyber warfare escalate into the financial sector in the UK. Our existing robust defence, in depth cyber security controls protecting our perimeter and internal systems coupled with active user education, SIEM, CSOC, and periodic penetration testing of external facing systems. The Bank undertakes continuous review of controls to ensure the Bank remains cybersafe.

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 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 Management Crisis Team (SMCT)
- Fraud Investigation Committee (FIC)

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

Details of the Bank's risk management objectives and policies, including those in respect of financial instruments, and details of the Bank's indicative exposure to risks are given in Note 26.

Internal control and financial reporting

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

Internal control and financial reporting (Contd.)

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

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

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

General Data Protection Regulation (GDPR)

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

Section 172 Statement

Statement of directors' statutory duties in accordance with s172(1) Companies Act 2006.
Under section 172(1) of the Companies Act 2006, the directors of a company have a duty to act in a way which promotes the success of a company for the benefit of the members as a whole. The board of directors of Union Bank of India (UK) Ltd., are committed to maintaining the Bank's culture and achieving its purpose which ultimately leads to increasing value for parent company Union Bank of India.

Board Engagement with Key Stakeholders

• Engagement with Customers
The Bank offers a simple range of products to its customers with the main focus on treating customer fairly and increasing customer satisfaction. The Executive Directors received updates about information on the Bank's customer focus, products and transactions on a broader and oversight level. Customer complaints and concerns if any of a material nature for the Directors level have been brought to the notice of the Directors. Executive management have met with customers, whenever required, which include direct engagement with key customers to understand their needs, customer feedback and key concerns/complaints raised by them.

• Engagement with Employees
The Bank's greatest strength are its employees, who are dedicated to delivering outstanding service to its customers. The Senior Management engages with the Bank's employees actively both in formal and informal setting. Board receives regular updates from Senior Management on how the Bank is taking care of its employees.
During the year, the Bank had invested in various training programmes for the middle and senior management team. A number of on line training courses are also being offered to all its employees on customer service, cyber security, compliance matters, etc., as well as for improving the staff performance and objective setting process. By encouraging continued personal and professional development, the Bank will continue to develop its staff to be one of the best in their professional work.

Section 172 Statement (Contd.)

• Engagement with Shareholder
The Bank is a 100% subsidiary of Union Bank of India. The Directors appreciate the support the shareholder has shown and seek to maintain regular interactions with the Shareholder and are always available to communicate openly. The Bank reports its financial results to shareholder on a quarterly basis. In addition, reporting to parent bank is of Financial Statements, which is also audited by the Bank's external auditors. Presentations and meetings are held as scheduled from time to time among the Directors.

• Engagement with Suppliers
During the year, the Senior Management and Executive Directors have received updates through management information on the performance of Suppliers. This also provided an insight into the impact of its procurement processes, procedures and dependency on suppliers. Outsourcing agreements and their operations have been reviewed periodically by the Management and review of Outsourcing policy have been carried out with an intention to ensure outsourcing efficiency with appropriate oversight.

• Engagement with Regulators
The Directors are focussed on maintaining transparent and compliant relationships with all its regulators in open and co-operative way. The Directors, through oversight and timely interventions aim to ensure that any regulatory changes are adopted, embedded and adhered to always. As regards to regulatory, risk & compliance matters, the Board Risk Committee has a direct oversight. Senior Management and Directors engage with the PRA and FCA supervisory teams through meetings and communications directly and through industry associations, like Association of Foreign Banks.

During the year the Bank has given due regard to the promotion of the success of the Bank through suitable corporate governance procedures as follows: -

• Long-Term Decision Making
The board considers annually, and as part of its medium-term planning, the strategic direction of the Bank. The Board also finalized a detailed business strategy for a period of next 5 years. The Bank's focus is to build a sustainable business model with a strong and robust corporate governance and control environment.

• Environmental and Community Impact
The Board receives information on these topics to provide relevant information for specific Board decisions. During the year, board has deliberated on Climate change impact assessment and policy for the future exposures. The same is discussed in detail in this report.

• Reputation for High Standards of Business Conduct
The Bank is authorised by the PRA and regulated by the FCA and the PRA. Bank is required to report to the regulator at various intervals on its capital adequacy position, Liquidity and financial performance. The Board meets on a regular intervals to review financial and operational performance and approve decisions in line with the strategy of the Bank whilst always taking into consideration how this will affect its customers.

• The Need to Act Fairly as Between Members of the Company
After weighing up all relevant factors, the Directors consider which course of action best enables delivery of Bank's strategy through the long-term, taking into consideration the impact on stakeholders.

Section 172 Statement (Contd.)
Composition of Internal Committees, Membership and their Attendance (FY2021-22)

Designation	Name	RCC	ACB	MCB	Board
Chairman	Mr. Raj Kiran Rai G	NA	NA	NA	5/5
MD&CEO[1]	Mr. R Viswesvaran	NA	NA	1/1	1/1
MD&CEO[2]	Mr. Kundan Lal	1/1	NA	1/1	1/1
MD & CEO[3]	Mr. Kalyan Varma	5/5	NA	16/16	4/4
ED & COO[3]	Mr. Kalyan Varma	1/1	NA	1/1	1/1
INED[4]	Mr. John Kerr	3/4	3/3	6/6	5/5
INED	Mr. Patrick Quinn	6/6	5/5	17/17	5/5
Nominee Director	Mr. M R Biswal	NA	NA	NA	4/5
NED	Dr. Anand Kumar	6/6	NA	17/17	5/5
INED[5]	Ms. Charlotte Morgan	3/3	2/2	NA	2/2
ED & COO[6]	Mr. Natesh Shetty	2/2	NA	4/4	1/1

1) Mr. R Viswesvaran retired 31st of May 2021
2) Mr. Kundan Lal retired on 23rd July 2021
3) Mr. Kalyan Varma was retired as ED&COO and appointed as a MD&CEO on 23rd Jul. 2021
4) Mr. John Kerr Retired on 30th November 2021
5) Ms. Charlotte Morgan was appointed on 3rd Nov. 2021
6) Mr. Natesh Shetty was appointed on 22nd December 2021

Major discussions and decisions through 2021-22

The directors through the meetings and in separate sessions discussed on these important agendas during the year (this is not an exhaustive list), which set the TONE FROM THE TOP for 2021-22: -

a) Detailed Review on existing anti-money laundering, financial crime management and anti-bribery and anti-corruption policies of the Bank;
b) Detailed business strategy for the next 5 year period;
c) Operational resilience assessment and its implementation;
d) Periodical assessment of the COVID 19 situation along with health & safety of the staff;
e) Climate change impact assessment and policy for the future exposures;
f) Potential impact from outcome of Russia-Ukraine war and resultant geo-political tensions;
g) Lessons learnt from the operational incidents and embedding in BAU processes;
h) Periodical monitoring of the Banks' portfolio and implementation of maiden NPA Strategy;
i) Discussing and implementing the regulatory updates;
j) Review of the Banks' investment in various IT projects implemented during this year such as:-
    i) M365 & Cloud Migration
    ii) Automation Software for Regulatory Reporting
    iii) Automation software for Management accounts & other MIS

Climate Change
Overview

Climate change could pose increased risk to businesses. Therefore, there is a growing call for organisations to disclose the risks they face from both the physical impacts of climate change and the transition to a low-carbon economy.

The organisations are driven to prepare disclosure for climate change impacts and help investors / stakeholders to understand risks so that they can make more informed investment and other decisions.

The Bank recognises that climate change is a global issue which has significant implications on its stakeholders like customers, employees, suppliers, investor and therefore the Bank is committed towards Environment Risk Management (ERM) and to respond the climate change challenges that come across the Business.

Regulation

The Financial Stability Board (FSB) established the Task Force for Climate Change Financial Disclosure (TCFD) to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions. This in turn, enables stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

The Climate change disclosures are not mandatory or covered under any of the accounting standard / IFRS but such disclosures are the expectation of the Regulators.

Effective from

Currently, the TCFD's recommendations are entirely voluntary but new legislation will require firms to disclose climate-related financial information, with rules set to come into force from April 2022.

TCFD's Recommendation

TCFD recommends disclosure in structured format around four thematic areas that represent core elements of how organizations operate: Governance, Strategy, Risk management, and Metrics and targets. These thematic areas are intended to interlink and inform each other.

1. Governance

Financial stability board (FSB) has incorporated the management of Climate Change issues as part of its core Business Strategy, and has enrolled the Bank as a public supporter of the FSB Task Force on Climate-related Financial Disclosures

Responsibility for oversight and implementation has been delegated to the Chief Risk Officer, reporting to the Risk & Compliance Committee, and within this overarching mandate, the following conceptual approach is adopted, leveraging the Bank's existing Risk Management Framework and internal control arrangements:

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

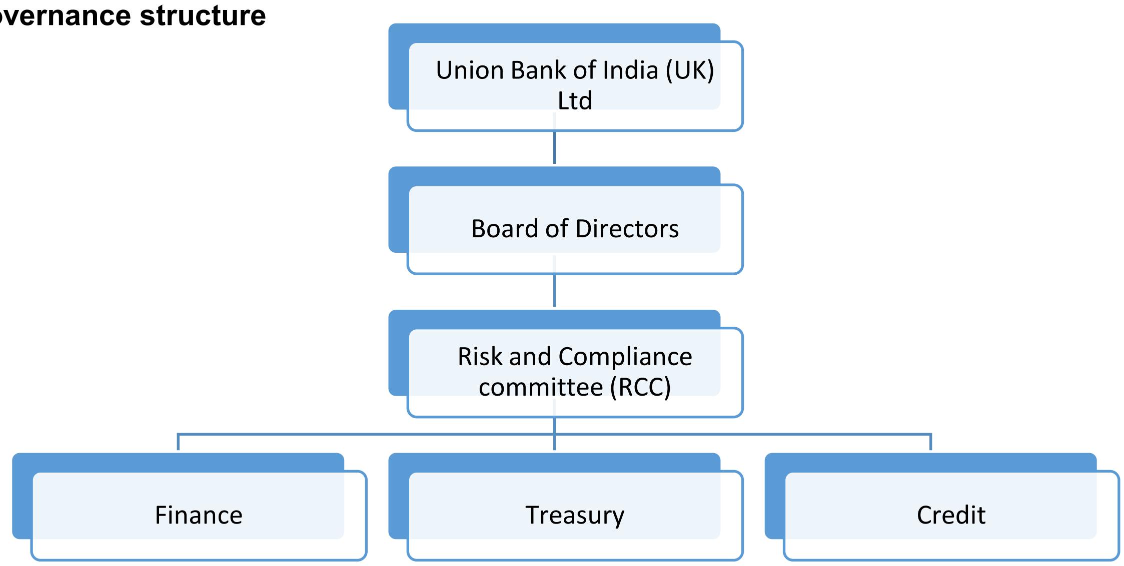
- Short term: 1-5 years (consistent with the risk appetite statement, business strategy and financial forecast which underpin the ICAAP).
- Medium term: 5-10 years, consistent with the evolution and plausible tenor of new products
- Long term: 10-years or more

The existing programme will develop to include promoting Staff awareness of both the wider Climate Change narrative, and the Bank's position with respect to it.

Considering the climate change, governance structure is framed as below:

Climate Change (Contd.)

Governance structure



2. Strategy

The Board has mandated that the potential consequences of Climate Change should be factored into all aspects of business planning and forecasting, stress testing, and the assessment of current assets and future business propositions. Future internal policy statements should include an explicit review of potential Physical and Transitional Impacts and identify plausible techniques to identify, avoid and/or mitigate likely financial consequences and threats to business sustainability and operational resilience. The Bank has historically maintained a low profile in respect of Climate risks.

3. Risk Management

The management of challenges posed by anticipated Climate Change will be embedded in existing 'bottom-up' RCSA exercise and Risk processes of Identification, Assessment, Monitoring and Control.

The Bank has integrated the process of approving the new loans to include climate change impact assessment as well. The Bank staff were involved in training and development session on climate change, focusing on importance of climate change, exposure of the Bank towards the climate change in future and ESG for Bank and other related topics.

Business Impact Assessment

With respect to the business activities which are identified as being at risk due to Climate Change, the Bank will consider the geographic scope of its material exposures – both from a Customer/Borrower perspective, and from the anticipated changes in the operational resilience and capacity of its outsourced service providers.

In general terms, and consistent with the Bank's aggregated Risk Appetite cast over the longest observation horizon (noted above), the RCSA process will assess materiality at the 1-in-20-year level of severity, such that both forward-looking projections (expected outcomes) and stress scenarios (unexpected outcomes) are calibrated to observable benchmarks, from the following perspectives

Physical risk refers to the economic impact stemming from the expected increase in the frequency and magnitude of natural disasters. Production plants located in areas that are exposed to natural hazards, for example close to rivers or the seashore and therefore prone to flooding, could suffer significant damage should a climate event occur. This damage could interrupt the production process in the short term and potentially lead to business failure in the longer term.

Climate Change (Contd.)

Transition risk refers to the negative impact that the introduction of climate policies to reduce CO2 emissions could have on certain high-emitting firms. For example, industries that rely heavily on non-renewable or highly polluting resources, such as mining or fossil fuel extraction, could face a sharp fall in profits and higher production costs

Credit Risk: The high-level impact of Transition risk on the Bank's Loan Book is assessed considering the CBES 2020 guidelines published by PRA. As a part of assessment, the industry wise forecasted Gross Value added is calibrated to calculate reduction in the share of specific sector against the weighted average PD as of Mar'22 on the Bank's book. Expected additional credit loss is calculated by considering the weighted average LGD of the respective sector for each of the scenario which shall serve as an additional loss on the Bank's books for the forecasted horizon.

Market Risk: Shocks to excess bond premia and subsequent changes in the fair value of corporate bond portfolios are estimated as the Market Risk impact. The impact of market risk is somewhat limited as compared with the credit risk; however, it follows similar dynamics in terms of scenario comparison and country differences.

4. Metrics and Target

The Bank shall develop its own Risk Appetite Metrics for climate change on overall organisation level as well as individual transaction level in the coming years.

Modern Slavery and Human Trafficking

The Bank continues to have a zero-tolerance approach to modern slavery in the organisation and its supply chains. Bank will not knowingly support or conduct business with any commercial organisation involved in such activities. The Bank relies on third party vendors to provide services and products. Bank expects all its goods and services suppliers to act in a responsible, open, and ethical way.
The Bank's emphasis on Third Party Supplier Risk is carried through regular risk assessment. Bank considers the prevention, detection and reporting of modern slavery in any party of our organisation or supply chain as the responsibility of all those working for and its behalf.

Regulatory environment

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

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

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

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

Capital Requirements Directive

The CRR2 / CRDV guidelines has been implemented by the Bank from 1st of January 2022. The Bank complies with the capital requirements of CRR2 and CRD V (Basel III), making important amendments in a number of areas including large exposures, leverage ratio, liquidity, market risk, counterparty credit risk, as well as reporting and disclosure requirements composition and quality of capital.

The Bank engaged with a subject matter expert to assess the impact of change in guidelines. ALCO committee was the oversight committee for the whole process and approach paper along with the impact analysis was approved by ALCO committee. The Bank's regulatory reporting software is also updated to include the latest guidelines and accordingly the returns are now submitted to regulators.

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

The Framework for Regulatory Capital

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

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

The Leverage Ratio Framework

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

For the Banks and Building Societies subject to the UK leverage ratio framework, the PRA requires a minimum leverage ratio be met at all times and expects firms in scope to have regulatory capital that is equal to or greater than any applicable leverage ratio buffers. The Bank always commits to comply with regulatory capital and leverage ratio guidelines.

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.

UK Banks and in-scope investment firms need to meet a LCR requirement of 100%.

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

Compensation as per FSCS

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

Single Customer View

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

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SMCR) 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 5th May 2022 and signed on its behalf by:

Chittari Amaravati Kalyan Varma
Managing Director & CEO
Registered office:
Senator House
85 Queen Victoria Street
London
EC4V 4AB

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2022. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted within the UK (IFRS) and the Companies Act 2006.

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

Principal activity and Business review

The Bank received permission to function as a Bank from the Prudential Regulation Authority on 6 September 2013 and commenced its commercial operations on 10 July 2014. The Bank is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The business review is detailed in "Review of the business" of the Strategic report.

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

Key Risks associated with the current business model are discussed in the strategic report and risk management section of note to the financial statements (Note 26).

Proposed Initiative

During the Financial year 2021-22, the Bank worked on the following propositions:

- Concentrating more on UK based assets and sourcing through syndication channel;
- Minimising the stressed assets and building a sustainable balance sheet.
- Initiatives taken in response to climate change.

Going Concern

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

Bank has considered its resilience in the face of stress, prominent events such as the Geo-political tensions (Ukraine-Russia), post pandemic (COVID-19) economic crisis, end of transition phase of BREXIT and known challenges such as significant increase in Impaired Assets. While assessing the same, 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 and liquidity requirements, contingent liabilities, and possible economic, market and product developments. The Bank has also taken into cognisance, initiatives taken by the Central Banks and Government to combat the crisis and reduce its effect on the economy. The Bank monitors stress testing results as part of the review of ICAAP, ILAAP, Risk Appetite Statement, Recovery Plan and Risk Management Framework.

As part of this assessment the Board considered:

1. The positive impact on the Bank’s profits mainly on account of recoveries in Stage 2 and Stage 3 loans coupled with reduction of ECL provisions.
2. The sufficiency of the Bank’s capital base as per the combined stress testing undertaken in the ICAAP;
3. The adequacy of the Bank’s liquidity post pandemic and also in terms of ILAAP;
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. Any potential impact of Russia-Ukraine war and resultant geo-political tensions;
8. Potential deterioration in the credit ratings of counterparties and consequent increase in the RWAs; and

Going concern (Contd.)

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

The Board also considered the results of stress testing, which is being performed as an integral part of both the ICAAP and ILAAP, with the Bank having sufficient capital and liquidity to fund the balance sheet in each scenario. As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. Further information on the sensitivity to the possible changes to Bank's ECL assumptions over the next 12 months are set out in Note No. 1.14.

Capital Structure

The Bank has maintained an adequate capital base considering the current minimum requirements of the PRA.
The issued and fully paid up share capital as of 31 March 2022 is $150m and £2. There was no change in issued and paid up share capital during the FY 2021-22. One hundred percent shares of the Bank are held by Union Bank of India, the Parent Bank.

Political Donations

The Bank did not make any political donations in this financial year (2021: Nil).

Directors

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

Directors' Indemnities

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

Statement as to Disclosure of Information to the Auditor

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

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

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

Statutory Auditor

The Board appointed Mazars LLP as its statutory auditor for the FY 2021-22.
There was change in the statutory auditor of the Bank for the year ended 31 March 2022. Deloitte LLP has resigned from the post of statutory auditor of the Bank, quoting their internal operational issues.

General Meeting

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

Dividends

The Directors did not recommend the payment of a dividend in this financial year (2021: Nil).

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted within the UK (IFRS) and the Companies Act 2006.

This report was approved by the Board of Directors on 5th May 2022 and signed on its behalf by:

Chittari Amaravati Kalyan Varma
Managing Director & CEO

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 March 2022

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards as issued by the IASB. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the company’s position, performance, business model and strategy.

By order of the Board and signed on its behalf

Chittari Amaravati Kalyan Varma	**Natesh Kumar Dayananda Shetty**
Managing Director & CEO	Executive Director and COO

05-May-2022

Independent auditor’s report to the members of Union Bank of India (UK) Limited

Opinion

We have audited the financial statements of Union Bank of India (UK) Limited (the ‘Bank’) for the year ended 31 March 2022 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank’s affairs as at 31 March 2022 and of its profit for the year then ended; and
- have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern;
- Reviewing the directors’ going concern assessment based on a range of scenarios including Covid-19 considerations and stressed scenarios as approved by the board of directors;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Bank’s future financial performance;
- Reviewing the Bank’s most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Process which contain the results of the Bank’s latest stress tests;
- Evaluating the reasonableness of the key assumptions used in the scenarios indicated above, including incorporating back-testing to evaluate the historical accuracy of management’s forecasting and budgeting;
- Assessing the Bank’s capital utilization and considering whether the directors’ conclusion that adequate capital headroom remains is reasonable;
- Reading regulatory correspondence, reviewing minutes of meetings of the audit committee and the Board of Directors, and evaluating post balance sheet events to identify events of conditions that may impact the Bank’s ability to continue as a going concern; and
- Evaluating the adequacy and appropriateness of the director’s disclosure included in the Report and Financial Statements.

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

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

Key audit matters

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

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

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

Key Audit Matter	**How our scope addressed this matter**
Credit risk in relation to Loans loss provision on loans and advances to customers **Loan loss provision- $17.32 million (2021: $60.77 million*)*** ***[Refer to Notes 1, 11 and 26 of the financial statements]*** Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation. IFRS 9 requires allowance for impairment losses to be determined on an expected credit loss ('ECL') basis. The largest element of credit risk relates to Loans and Advances to Customers where the Bank is exposed to secured and unsecured lending to corporate clients. The key areas of judgement and management estimation that give rise to a significant audit risk relate to: **1. Staging of loans and identification of significant increase in credit risk** Staging has been identified as a Key Audit Matter as ECL Model output is sensitive to staging allocation. The identification of significant increase in credit risk ("SICR") indicators to determine staging allocation requires judgement. Management applies the following qualitative and quantitative criteria in the identification of SICR [***Note 1.9.11***]: - Internal rating deterioration of 2 notches for accounts rated below AA and 3 notches for AA and above;	Our audit procedures included, but were not limited to: **1. Staging of loans and identification of significant increase in credit risk** - We evaluated the design and implementation of controls over the staging criteria relating to rating, watchlist allocation, and days past due monitoring; - We assessed management's ability to identify impairment triggers on a timely basis and to determine whether the exposure will be repaid as originally intended; - We critically assessed the methodology for determining the SICR criteria; - We independently assessed sample of loans for staging criteria; and - We performed an independent assessment on internal scorecard ratings for a sample of borrowers. This included challenging qualitative assessments, reperformance of data inputs, and calibration of outputs to external credit ratings where available. **2. Key assumptions used to derive the stage 3 impairment provision** - We evaluated the design and implementation of controls over the stage 3 impairment provision;

- Entry to watch list; and - Accounts being more than one month past due. Key judgements relate to: - the qualitative assessments made by management in determining internal ratings, including scorecard overrides; and - the decision around inclusion on to watchlist. **2. Key assumptions used to derive the stage 3 impairment provision** Stage 3, or defaulted, loans and advances to customers totalled $41.02 million (2021:$83.03 million) [***Note 26***]. Management identify stage 3 exposures through criteria relating to days past due and being unlikely to pay [***Note 1.9.12***]. Judgement is applied to in the assessment of unlikely to pay criteria. Individual impairment assessments are made for loans classified as Stage 3. Management apply judgement to assess the value and timing of cash flows under several recovery scenarios. This includes assumptions relating to the nature of recovery and value of collateral held. Further assumptions are applied to the weighting of each recovery scenario. **3. Post model adjustments relating to ECL model assumptions** The Bank uses a model to determine the expected losses, requiring judgement to the input parameters and assumptions. The Bank has a limited counterparty default and loss history. Key assumptions driven by external data are therefore made to determine counterparty probability of default ('PD') and loss given default ('LGD'). The ECL model output is materially sensitive to these assumptions. Management assess the relevance of external data used through periodic recalibration due to back testing of PDs and LGD to the extent that sufficient internal data is available. Post model adjustments ("PMAs") are made to calibrate external data sets to back testing results. Post model adjustments are significant relative to ECL model output. PMAs totalled $1.82 million (2021: $4.73 million) vs ECL model output of $15.50 million (2021: $56.04 million) ***[Note 26]***	- We reviewed a sample of stage 1 and 2 exposures against default criteria to assess completeness of the stage 3 loan population; and - We performed an independent assessment on all stage 3 loans to assess the present value of future cash flows under various recovery scenarios. This included assessing the probability weighting of each scenario. **3. Post model adjustments relating to ECL model assumptions** In respect of the model used by management for their expected credit loss calculation under IFRS9: - We evaluated the design and implementation of controls over the post model adjustments related to ECL model; - We challenged the key assumptions relating to PD and LGD, including a review of back testing; - We engaged and consulted with our in-house credit modelling specialists to assess the modelling of PDs; - We engaged and consulted with our in-house economic experts to determine independent forward-looking PDs; - We evaluated the reasonableness of PMAs; and - We independently calculated ECL including PMAs. **Our observations** Based on the work performed, we found that the assumptions used by management in the impairment assessment are reasonable and that the allowance for impairment losses as at 31 March 2022 is consistent with the requirements of IFRS 9.

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

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

Overall materiality	$1,699,000
How we determined it	1.5% of net assets.
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to reflect more appropriately the size of the Bank's operations. Furthermore, net assets approximate regulatory capital resources which is a key focus for the shareholder, management, and regulators.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We determined 60% of overall materiality, amounting to $1,019,000 to be appropriate considering this is the first year of the audit for Mazars.
Reporting threshold	We agreed with the audit committee that we would report to them misstatements identified during our audit above $51,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Other information

The other information comprises the information included in the annual accounts other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- Gaining an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates, and considering the risk of acts by the Bank which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with PRA and FCA;
- Reviewing minutes of the Board of Directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates, in particular in relation to allowance for credit losses.

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

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

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 6 July 2021 to audit the financial statements for the year ended 31 March 2022. The period of total uninterrupted engagement is one year, covering the year ended 31 March 2022.

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

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

Use of the audit report

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

Rudi Lang (May 5, 2022 16:19 GMT+1)

Rudi Lang (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey
London
EC4M 7AU
5 May 2022

*INCOME STATEMENT **

FOR THE YEAR ENDED 31 March 2022

	Notes	2022 USD '000	2021 USD '000
Interest and similar income	2	11,415	13,690
Interest and similar expense	3	(3,219)	(4,823)
Net interest income		**8,196**	**8,867**
Fees and commission income	4	782	366
Net fee and commission income		**782**	**366**
Net trading income		18	30
Net other operating income		808	1,026
Derecognition gain		-	237
Total Operating income		**9,804**	**10,526**
Personnel costs	5	(3,809)	(3,173)
Depreciation and amortisation	16	(518)	(528)
Other expenses	6	(3,424)	(3,171)
Operating expenses before impairment loss allowances		(7,751)	(6,872)
Operating profit before impairment loss allowances		**2,053**	**3,654**
Impairment loss reversal / (allowances)	7	3,129	(14,789)
Fair value gain / (loss) on Fx Derivatives		91	197
Profit/ (Loss) before tax		**5,273**	**(10,939)**
Corporation tax (charge) / credit	8	-	-
Profit / (Loss) after tax		**5,273**	**(10,939)**

* There were no discontinued operations during the year

The notes on pages 36 to 76 form part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 March 2022

	2022 USD '000	2021 USD '000
Total Profit / (Loss) for the year attributable to equity shareholder	5,273	(10,939)
Other comprehensive income / (expense) net of tax		
Items that may be reclassified subsequently to profit or loss		
- Fair value (loss)/ gain on FVTOCI debt instruments*	(3,846)	1,749
- Tax relating to change in fair value	-	-
Net other comprehensive (expense)/ income	**(3,846)**	**1,749**
Total comprehensive income/(expense) attributable to equity shareholders for the year	**1,427**	**(9,190)**

* of these, profit of $ 0.41 m was routed through income statement ($ 0.36 m loss in 2021).

The notes on pages 36 to 76 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 March 2022

	Notes	2022 USD '000	2021 USD '000
Assets			
Cash and cash equivalents	9	5,170	6,150
Financial assets at amortised cost:			
- Loans and advances to Banks	10	19,194	8,000
- Loans and advances to customers	11	286,830	256,757
- Financial investments	12	11,796	17,329
Financial assets at FVTPL:			
- Financial investments	15.1	1,450	1,316
- Derivative financial instruments	13	-	1,436
Financial assets at FVOCI:			
- Financial investments	14	75,923	98,207
Property, plant and equipment	16	644	978
Intangible assets	17	151	99
Capital work in progress		-	41
Deferred tax assets (Net)	18	-	-
Other assets	19	1,447	902
Total Assets		**402,605**	**391,215**
Liabilities			
Financial liabilities at amortised cost:			
- Deposits from Banks	20	6,011	-
- Deposits from customers	21	275,587	271,130
- Repurchase agreements	22	5,149	5,223
Financial Liabilities at FVTPL:			
- Derivative financial instruments	13	586	-
Provisions	23	113	114
Other liabilities	23	1,915	2,930
Total Liabilities		**289,361**	**279,397**

STATEMENT OF FINANCIAL POSITION

AS AT 31 March 2022

Union Bank of India (UK) Ltd

	Notes	2022 USD '000	2021 USD '000
Equity			
Share capital	24	150,000	150,000
Fair value reserves		(3,309)	537
Accumulated losses		(33,447)	(38,719)
Total Shareholder's equity		**113,244**	**111,818**
Total Equity and liabilities		**402,605**	**391,215**

The notes on pages 36 to 76 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 5th May 2022.

Chittari Amaravati Kalyan Varma
Managing Director & CEO

Natesh Kumar Dayananda Shetty
Executive Director and COO

Company registration no: 07653660

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 March 2022

Year to 31 March 2022	**Notes**	**Issued capital USD '000**	**Fair value reserves USD '000**	**Retained earnings USD '000**	**Total equity USD '000**
Balance as at 1 April 2021	24	150,000	537	(38,719)	111,818
Total Comprehensive Profit / (loss)		-	(3,846)	5,273	1,427
Profit / (Loss) for the year		-	-	5,273	5,273
Other Comprehensive gain/ (loss)		-	(3,846)	-	(3,846)
Balance as at 31 March 2022 attributable to shareholders of the Bank		**150,000**	**(3,309)**	**(33,446)**	**113,245**

Year to 31 March 2021	**Notes**	**Issued capital USD '000**	**Fair value reserves USD '000**	**Retained earnings USD '000**	**Total equity USD '000**
Balance as at 1 April 2020	24	150,000	(1,211)	(27,781)	121,008
Total Comprehensive loss		-	1,749	(10,939)	(9,190)
Loss for the year		-	-	(10,939)	(10,939)
Other Comprehensive gain/ (loss)		-	1,749	-	1,749
Balance as at 31 March 2021 attributable to shareholders of the Bank		**150,000**	**537**	**(38,719)**	**111,818**

The notes on pages 36 to 76 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 March 2022

Union Bank of India (UK) Ltd

	Notes	2022 USD '000	2021 USD '000
Cash flows from operating activities			
Profit / (Loss) before tax for the year		5,273	(10,939)
Adjustments to reconcile profit from operations:			
Amortisation of intangible non-current asset	17	99	131
Depreciation for property, plant and equipment	16	420	421
FV movement in derivatives		(92)	(197)
Effects of exchange rate changes on cash and cash equivalents		33	(5)
Finance Charge on Lease	23	24	38
Cash flows before changes in operating activities		484	388
Movement in working capital			
(Increase) / Decrease in receivables & prepayments	19	(545)	4,123
Tax paid		-	-
(Decrease) / Increase in other liabilities	23	(568)	1,775
Net (Decrease) / Increase in working capital		(1,113)	5,898
Cash flows from operating activities			
(Increase) in loans and advances to customers	11	(30,074)	(485)
(Increase) / Decrease in loans and advances to banks	10	(11,194)	36,054
Decrease in deposits from Banks	20	-	(21,256)
Increase in deposits from customers	21	4,457	29,212
(Increase) / Decrease in derivative financial instruments - Assets	13	1,436	(1,436)
Increase / (Decrease) on derivative financial instruments - Liab.	13	678	(3,013)
		(34,697)	39,076
Net cash flows from/ (used in) operating activities (A)		(30,053)	34,423
Cash flows from investing activities			
Disposal / (Acquisition) of Investments - FVOCI	14	18,437	(23,895)
Disposal / (Acquisition) of Investments - Amortised cost	12	5,533	(5,266)
(Acquisition) of Investments - FVTPL		(133)	(1,316)
Disposal of property, plant and equipment	16	3	2
Acquisition of property, plant and equipment	16	(48)	(54)
Acquisition of intangible assets	17	(151)	-
Net cash flows from/ (used in) investing activities (B)		23,641	(30,530)
Cash flows from financing activities			
Proceeds from Intra-group borrowings	20	6,011	-
Decrease in repurchase agreements	22	(74)	(3,718)
Repayment of Lease (Principal amt)	23	(448)	(402)
Payment of Interest on Lease	23	(24)	(38)
Net cash flows from/ (used in) financing activities (C)		5,465	(4,158)
Net increase/(decrease) in cash and cash equivalents (A+B+C)		(947)	(265)
Cash and cash equivalents at beginning of the year		6,150	6,410
Effects of exchange rate changes on cash and cash equivalents		(33)	5
Cash and cash equivalents at close of the year	9	**5,170**	**6,150**

The notes on pages 36 to 76 form part of these financial statements.

1 Accounting Policies

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

1.1 Basis of Preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.
The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for, measurements that have some similarities to fair value but are not fair value, such as value in use ('VIU') in IAS 36 Impairment of Assets.

1.2 Compliance with International Financial Reporting Standards (IFRS)

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.
Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments, and IAS 1 'Presentation of Financial Statements' relating to objectives, policies and processes for managing capital, can be found in the Risk Management section (Note 26). 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 2022

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

1.3.2 New and Amended Standards and Interpretations Effective for the Financial Year Ending 31 March 2022

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

1.4 Foreign Currencies

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

Accounting Policies (Contd.)
Foreign Currencies (Contd.)

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

1.5 Revenue Recognition

1.5.1 Interest Income and Expense

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

Interest income and expenses on financial instruments are recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability. Interest income from non-credit impaired financial assets is determined by applying the effective interest rate to the gross carrying amount of the asset for assets moved from stage 1 or 2 to stage 3 during the year and; for other credit impaired financial assets (or 'stage 3 assets'), the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

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

1.5.2 Fee and Commission Income and Expense

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

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

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, facilitating, coordinating, or participating in the negotiation of, a transaction for a third-party);
- income earned from the provision of services is recognised as revenue as the services are provided at Point in time.
- Processing/ upfront fees income collected on the processing of loan, renewal/ extension of existing loans or modification in the existing sanction are deferred and recognised as revenue on straight line basis over the tenure of the loan unless it forms integral part of effective interest rate.

Fee and commission income (other than processing/ upfront fees) which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in ‘Interest income’. As of now, the Bank does not have Fee and Commission income of this nature.

1.5.3 Dividend Income

Dividend income is recognised when the right to receive payment is established. As of now, the Bank does not have Dividend income.

Accounting Policies (Contd.)
Revenue Recognition (Contd.)

1.5.4 **Net Trading and Other Income**

Net trading and other income includes all gains and losses from changes in the fair value of financial assets and liabilities held at fair value through profit or loss (financial assets and liabilities at fair value through profit or loss and derivatives).Other income includes profits and losses arising on the sale of financial assets held at fair value through other comprehensive income, which has been recognised as a profit/loss in the Other Comprehensive Income and recycled to other income on sale or derecognition.

1.6 **Borrowing Costs**

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

1.7 **Intangible Assets**

The value of intangible assets is amortised on a straight-line basis over their useful economic life. At each reporting date, intangible assets are reviewed for impairment indicators and tested for impairment. Intangible assets not yet available for use are tested for impairment annually.

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

Externally purchased software are classified in intangible assets on the balance sheet and amortised on a straight-line basis over their useful life of three years, unless the software is an integral part of the related computer hardware, in which case it is treated as property, plant and equipment as described below. Capitalisation of costs ceases when the software is capable of operating as intended. Costs of maintaining software are expensed as incurred.

1.8 **Property, Plant and Equipment**

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

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

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

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

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

Accounting Policies (Contd.)

Property, Plant and Equipment (Contd.)

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

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

1.9 Financial Instruments

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

1.9.1 Initial Recognition and Measurement

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

1.9.2 Classification and Subsequent Measurement

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

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

– Financial assets and financial liabilities held for trading;

– Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics;

– As per the Business model, such instruments are originated not with a motive to hold to collect or hold to collect and sell; and

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

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

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

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

- **Business Model**

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

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

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

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

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

- **Solely Payments of Principal and Interest (SPPI)**

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

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

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

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

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

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

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

- **Financial Assets: Debt Instruments**

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

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

- **Derivative Financial Instruments (Derivatives)**

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

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

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

- **Financial Liabilities**

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

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

- **Sale and Repurchase Agreements (Including Stock Borrowing and Lending)**

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

Accounting Policies (Contd.)
Financial Instruments (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;

- **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.).

- **Qualitative Criteria**

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 approving 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.

- **Distressed Restructuring**

A distressed restructuring shall be considered to have occurred when concessions have been extended towards a customer facing or about to face financial difficulties (defined in detail below) in meeting its financial commitments. In such cases, the Bank calculate diminished financial obligation. Customer is considered credit impaired, if the diminished financial obligation is 1% or above.

- **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 initially and subsequently measured in line with the respective loan contract and are subject to impairment assessment in terms of the IFRS 9, this is assessed by making an addition to the EAD, as a conversion factor application. The Bank considers total credit risk it is exposed to, under a contractual agreement, which includes the loan commitments, i.e. undrawn balances, etc. for calculation of ECL. 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.

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

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

1.9.3 Recognition of Expected Credit Losses

The Bank uses Expected Credit Loss (ECL) framework to calculate impairment allowance on financial assets. The Bank uses ECL model developed by the third party vendors Ernst & Young LLP and S&P Global Market Intelligence, considering the IFRS 9 policies approved by the Board. The Bank does not have sufficient history of default and operations to use its own PD model, thus PDs provided by S&P are used for the calculation of ECL provisions. Also, haircuts defined under the Basel F-IRB norms are used for calculation of LGDs.

Under the ECL model, the bank calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes. The allowance is calculated depending on the asset's classification under the three stage model as detailed under Note 1.9.11.

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

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

1.9.4 Macroeconomic Scenario

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

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

1.9.5 Embedding of IFRS 9 Credit Provisions

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

The model and methodology changes were approved by the appropriate committee of the Bank.

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

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

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

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

1.9.6 Recognising PD (Probability of Default)

Bank determines an exposure’s 12-month PD as follows;

An appropriate rating of the counterparty is determined through the application of either the relevant Rating Scorecard (for the lending portfolio, sourced from S&P) or through the long term rating (for the investment portfolio).

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

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

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

1.9.7 Recognising LGD (Loss Given Default)

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

1.9.8 Exposure at Default (EAD)

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

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

1.9.9 Post Model Adjustment (PMA)

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

These PMAs are subject to oversight and are reviewed by management on quarterly basis to ensure that they remain appropriate.

During the current financial year, the Bank has recognized the following PMA's:

- **Macro Economic and Back Testing PMA**- PDs are calculated based on internal rating using scorecard model developed by S&P. Macroeconomic factor adjustments are applied to arrive at PDs. Back testing showed that estimated PDs were significantly lower than actual PDs previously experienced by the bank. The bank made a 2 notch rating decrease on all exposures as a PMA to adjust for this variance.

  Further the actual LGD was also higher for assets secured by collateral other than Real estate and Cash, as against default LGDs as per bank's policy. Therefore, a LGD adjustment PMA is recognised in those assets.
  Further, due to the ongoing economic uncertainty and non availability of reliable data, a Nil growth is considered in all the macroeconomic factors to arrive at Forward looking PDs.

- **Russia-Ukraine PMA-** The effects of the Russia-Ukraine conflict on global economic and credit conditions are becoming more pronounced. The Bank has analysed the impact on the Bank's exposures in line with the research provided by S&P on a industry and geography level. A PD equivalent to 2 notch downgrades has been considered as for the Russia-Ukraine war on the industries so identified.

  The Exposure at default of the accounts in industry that may impact due to the current war is USD 44.08 Mn as of Mar’22. None of the accounts are directly impacted by the Russia-Ukraine war. However, as mentioned above surge in commodity and energy prices and risk that the impacted corporates are not able to pass on the increase to their customers, profit margins may be impacted. PMAs have been made to compensate them.
- **COVID PMA-** The forecast scenario analysis and account wise assessment is done for the COVID impacted Stage 2 accounts, a PMA is not recommended this year for COVID impact.

1.9.10 Write-off

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

Accounting Policies (Contd.)
Financial Instruments (Contd.)
Significant Increase in Credit Risk (Contd.)

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

The Bank applies following indicators to determine whether there has been a significant increase in credit risk. If any of the below criteria is met, the exposure is considered to have increased in credit risk and this shall then be transferred to stage 2.
1) Primary indicator – Rating variation approach (minimum 2 notch downgrade) using lifetime probability of default
2) Secondary indicator – Entry to the watch list
3) Backstop – more than "one month past due" (MPD) from the "end of the month" in which the interest/principle is due.

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

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

1.9.12 **Definition of Default**

A facility is considered as "default" when:
• The facility is 3-month past due; or
• "Unlikeliness to pay" event is triggered such as
- 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. Management overlay on Stage 3 accounts was assessed on individual account level. The management considered various forecast scenarios and their probability of their occurrence for calculation of the Expected Credit Loss in these accounts. The provisions are then challenged by the credit committee and placed before management committee for its appropriateness and recognition in financial statements.

Accounting Policies (Contd.)

1.9.14 **Forbearance**

Forbearance occurs when the contractual cash flows of a financial asset are renegotiated or otherwise modified, on the request of the Borrower.
The details on modification and derecognition of financial assets / liabilities is mentioned in the later part of the notes.

1.10 **Leases**

The lease liability is initially measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid, discounted at the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. The lease liability is measured in subsequent periods using the effective interest rate method.
The right-of-use assets is initially measured at the amount of corresponding lease liability, plus lease payments made at or before the commencement date and any initial direct costs. The right-of-use asset is depreciated in accordance with the accounting policy of 'Property, Plant and Equipment'. They are subsequently measured at cost less accumulated depreciation. The right-of-use assets are also tested for impairment in accordance with IAS 36 Impairment of Assets.

1.11 **Income taxes, including Deferred Taxes**

The tax expense represents the sum of the income tax currently payable and deferred income tax.
Income tax expense on taxable profits is recognised as an expense in the period which profits arise. The provision is made for the income tax at tax rates that have been enacted or substantively enacted at the balance sheet date. Where the amount of the final tax liability is uncertain or where a position is challenged by a taxation authority, the most likely outcome is recognised the liability.
Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in different years or never taxable or deductible under tax rules.

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

The Bank reviews the carrying amount of deferred tax assets at each balance sheet date and recognise only the portion whose recovery is deemed probable.
Deferred and current tax assets and liabilities are only offset when they relate to income taxes levied by the same taxation authority and the bank has intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.12 **Cash and Cash Equivalents**

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

1.13 **Employee Benefits**

The Bank operates a stakeholder defined Contribution pension scheme. Contributions to this scheme are charged to Profit and loss account as incurred.

Accounting Policies (Contd.)

1.13 **Provisions**

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

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

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

1.14 **Critical Judgements and Key Sources of Estimation Uncertainty**

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

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

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

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

Credit Impairment Allowance

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

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

Accounting Policies (Contd.)
Critical Judgements and Key Sources of Estimation Uncertainty (Contd.)

1.14.1 Critical Judgements

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

- **Forward-Looking Information**: - The assessment of future economic condition is dependent on forward-looking information which can be subjective. The macroeconomic data from various sources such as S&P, OECD, World Bank, BoE, etc are considered appropriate for this purpose to incorporate the forward-looking information in the computation of ECL. The methodology has been documented in the Board approved IFRS 9 policy of the Bank.

- **Probability of Default:**- The Bank uses internal rating models as provided by S&P. The rating models takes into consideration apart from financial and quantitative data, qualitative parameters as well. These qualitative parameters are assessed based on the credit analyst experience and in line with the Handbook on Rating published by S&P. These rating are also subject to independent evaluation by 2LOD, i.e. Chief Risk Officer. The ratings are a key input to determine PD of the respective contract and therefore governance in line with Bank's credit risk management policy and S&P handbook are followed for mitigating the risk of error.

- **Loss Given Default: -** LGD calculation takes into consideration the valuation of collaterals received by the Bank and their applicable haircuts. The judgement on appropriate valuation and haircut is based on the general market practice, valuation of external expert and regulatory guidance.

- **SICR: -** The Bank considers both qualitative and quantitative definitions for recognising SICR. The judgement around its definition and its parameters are based on the various regulatory guidance, experience of the management and present portfolio of the Bank.

1.14.2 Key Sources of Estimation Uncertainty

To give the impact of forward looking economic outlook on the Bank's portfolio, the following economic indicators are used to predict the credit cycle
- GDP Growth (%)
- Change in Unemployment (%)
- Change in S&P 500 (%)
- Change in Energy Index (%)
- Change in Non-Energy Index (%)
- Change in the Proportion of Downgrades (%)

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

The ECL provision is sensitive to the movement in above parameters which are input to the ECL model. The impairment provision expenses for the assets shifts by 0.17% on 10% adverse movement of the above economic indicators as on reporting date.

2 Interest and Similar Income

	2022 USD '000	2021 USD '000
Interest income from loans - Amortised cost	9,451	11,413
Interest income from investments - FVOCI	1,534	1,829
Interest income from investments - Amortised cost	396	309
Interest income on interbank placements - Amortised cost	34	139
	11,415	**13,690**

3 Interest and Similar Expense

	2022 USD '000	2021 USD '000
Interest expenses on deposit from customers	3,144	4,469
Interest expenses on deposit from banks	13	278
Interest expenses on Intra-group borrowings	11	-
Interest expenses on Repurchase agreements	51	76
	3,219	**4,823**

4 Net Fees and Commission Income

	2022 USD '000	2021 USD '000
Processing fees and commission	782	366
	782	**366**

5 Personnel Costs

	2022 USD '000	2021 USD '000
Wages and salaries (including Directors' emoluments)	3,244	2,752
Social security costs	348	290
Pension contribution	42	32
Other employee benefits	174	99
	3,809	**3,173**

The average number of monthly employees (Excluding Non-executive Directors) was as follows:

	2022 Number	2021 Number
Commercial and retail banking activities	29	27

Directors' Emoluments

	2022 USD '000	2021 USD '000
Emoluments	479	575
Post-employment benefits (Defined Contribution)	-	-
	479	575

Highest Paid Director:

	2022	2021
Emoluments	157	200
Pension contributions	-	-
	157	200

6 Other Expenses

	2022 USD '000	2021 USD '000
Other premises costs	202	181
IT costs	641	530
Other administrative expenses	872	841
Legal and professional costs	1,558	1,418
Marketing expenses	1	1
Finance costs *	151	200
	3,425	3,171

* Finance cost includes finance charge on leased assets as evaluated under IFRS 16 (Note 23)

Legal and Professional Costs include the following:

	2022	2021
Auditor's remuneration - Auditing of Financial Statements	230	168
	230	168

The above amount is exclusive of taxes.

7 Impairment Loss Allowance

	2022 USD '000	2021 USD '000
Loans & Advances to customers	3,125	(14,805)
Financial Investments	2	21
Loans and advances to Banks, Cash, BF & LC	2	(6)
	3,129	(14,789)

8 Tax on Profits

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

	2022 USD '000	2021 USD '000
Corporate tax credit	-	-
Deferred tax (see note 18):	-	-
Reversal of DTA	-	-
Effect of rate changes	-	-
Relating to originating and reversal of temporary differences	-	-
Adjustments in respect of prior years	-	-
Total deferred tax credit	-	-
Total tax (charge) / credit	-	-

Tax on Profits (Contd.)
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:-

	2022 USD '000	2021 USD '000
Profit/(Loss) on ordinary activities before tax	5,273	(10,939)
Standard rate of corporation tax in the UK	19.0%	19.0%
Tax credit at the domestic income tax rate	1,002	(1,437)
Effects of:	-	-
Reversal of DTA for prior years	-	-
Tax effect of non - deductible depreciation	(14)	35
Tax effect of other non - deductible expenses/non-taxable income	(43)	(44)
Tax effect of rate changes	-	-
Loss utilised against profits of current period	(944)	1,446
Adjustment in respect of prior years	-	-
Total tax (charge) / credit for the year	-	-

	2022 USD '000	2021 USD '000
Tax relating to (credit) / expense in FVOCI	(731)	102

Factors that may affect Future Tax Charges

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

9 **Cash and Cash Equivalents**

	2022 USD '000	2021 USD '000
Cash on hand	17	32
Cash at Bank	5,153	6,118
	5,170	6,150

10 **Loans and Advances to Banks**

		2022 USD '000	2021 USD '000
Interbank placements		19,195	8,001
	Gross	19,195	8,001
Less: Impairment provision		(1)	(1)
	Net	19,194	8,000

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

11 **Loans and Advances to Customers**

		2022 USD '000	2021 USD '000
Term loan		295,680	298,367
Working Capital / Overdraft		8,468	19,158
	Gross	304,148	317,525
Less: Impairment provision		(17,318)	(60,768)
	Net	286,830	256,757

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

	2022 USD '000	2021 USD '000
Loans and advances to customers	296,993	256,997

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

12 **Other Financial Assets at Amortised Cost**

		2022 USD '000	2021 USD '000
Quoted Investments			
Government debt securities		-	2,044
Other securities		11,798	15,289
	Gross	11,798	17,333
Less: Impairment provision		(2)	(4)
	Net	11,796	17,329

Note: - The investment measured at amortised cost are subject to ECL provisioning recognition. The ECL provision as on 31 March 2022 for above was $ 2K

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

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.

Derivative Financial Instruments (Contd.)

Derivatives used as:	Assets	31-Mar-22 Liabilities	Notional amount
	USD '000	USD '000	USD '000
Currency swaps	-	(586)	100,419
	-	**(586)**	**100,419**

	Assets	31-Mar-21 Liabilities	Notional amount
	USD '000	USD '000	USD '000
Currency swaps	1,436	-	153,243
	1,436	-	153,243

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 Financial Investments at Fair Value Through OCI

	2022	2021
	USD '000	USD '000
Quoted Investments		
Government debt securities	29,757	50,576
Other securities	46,166	47,631
	75,923	98,207

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.

15.1 **Financial Instruments**

The table below sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9 as at 31 March 2022.

	FVTOCI assets / liabilities USD '000	FVTPL assets / liabilities USD '000	Amortised cost USD '000	Total USD '000
At 31 March 2022				
Assets				
Cash and cash equivalents	-	-	5,170	5,170
Amounts receivable from customers	-	-	304,148	304,148
Loans and advances to Banks	-	-	19,194	19,194
Financial investments	75,923	1,450	11,796	89,169
Derivative assets	-	-	-	-
Total Financial assets	**75,923**	**1,450**	**340,308**	**417,681**
Liabilities				
Bank borrowing	-	-	6,011	6,011
Repurchase agreements	-	-	5,149	5,149
Derivative liabilities	-	586	-	-
Customer deposits	-	-	275,587	275,587
Total Financial liabilities	**-**	**586**	**286,747**	**286,747**

	FVTOCI assets / liabilities USD '000	FVTPL assets / liabilities USD '000	Amortised cost USD '000	Total USD '000
At 31 March 2021				
Assets				
Cash and cash equivalents	-	-	6,150	6,150
Amounts receivable from customers	-	-	317,525	317,525
Loans and advances to Banks	-	-	8,000	8,000
Financial investments	98,207	1,316	17,329	116,852
Derivative assets	-	1,436	-	1,436
Total Financial assets	**98,207**	**2,752**	**349,004**	**449,963**
Liabilities				
Bank borrowing	-	-	-	-
Repurchase agreements	-	-	5,223	5,223
Derivative liabilities	-	-	-	-
Customer deposits	-	-	273,300	273,300
Total Financial liabilities	**-**	**-**	**278,523**	**278,523**

15.2 Fair Value

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

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

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

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.

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

Determination of Fair Value

The Bank uses quoted market prices in an active market to calculate the fair value of a financial asset or liability and classified as Level 1.

The Bank uses swap rates, cross currency basis spreads and spot rates as inputs for the valuation of Forex derivative transactions classified as Level 2. Inputs are drawn from Reuters on a real time basis.

The Bank is having non-listed preference shares as the Level 3 securities in its portfolio. The Fair value of CCPS (Compulsorily convertible Preference shares) is calculated considering EIR of the June 2036 Indian Govt bond + 3.75% (the contractual interest rate for Term Loan). Any change in fair value is routed through Income Statement.

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

	31st March 2022		
	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	75,923	-	-
Financial investments – FVTPL	565	-	885
	76,488	**-**	**885**
Financial Liabilities			
Derivative financial instruments	-	586	-
	-	586	-

Fair Value of Financial Instruments (Contd.)

	31st March 2021		
	Quoted market prices (Level 1)	Valuation techniques using observable market data (Level 2)	Valuation techniques using non-observable market data (Level 3)
	USD '000	USD '000	USD '000
Financial Assets			
Derivative financial instruments	-	1,436	-
Financial investments – FVOCI	98,207	-	-
Financial investments – FVTPL	303	-	1,013
	98,510	1,436	1,013

	31st March 2021		
	Quoted market prices (Level 1)	Valuation techniques using observable market data (Level 2)	Valuation techniques using non-observable market data (Level 3)
	USD '000	USD '000	USD '000
Financial Liabilities			
Derivative financial instruments	-	-	-
	-	-	-

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

16 Property, Plant and Equipment

	Right to Use Asset & Leasehold Improvement	Furniture & equipment	Computer hardware	Total
	USD '000	USD '000	USD '000	USD '000
Cost				
As at 31 March 2020	2,054	308	240	2,602
Additions	-	1	12	13
Disposals	-	-	(2)	(2)
As at 31 March 2021	**2,054**	**309**	**250**	**2,613**
Additions	-	53	36	89
Disposals	-	-	(3)	(3)
As at 31 March 2022	**2,054**	**363**	**282**	**2,699**
Cumulative depreciation				
As at 31 March 2020	(713)	(291)	(210)	(1,214)
Depreciation charge	(396)	(5)	(20)	(421)
As at 31 March 2021	**(1,109)**	**(296)**	**(230)**	**(1,635)**
Depreciation charge	(396)	(9)	(12)	(417)
Disposals	-	-	(3)	(3)
As at 31 March 2022	**(1,505)**	**(305)**	**(245)**	**(2,054)**
Net book value				
As at 31 March 2021	945	13	20	979
As at 31 March 2022	**549**	**58**	**38**	**644**

17 Intangible Assets

	Capitalised software USD '000
Cost	
As at 31 March 2020	609
Additions	-
Disposal	-
As at 31 March 2021	**609**
Additions	151
Disposal	-
As at 31 March 2022	**760**
Amortisation	
As at 31 March 2020	(379)
Amortisations for the period	(107)
Disposals	-
Other adjustments	(23)
As at 31 March 2021	**(510)**
Amortisation charge for the year	(99)
Disposals	-
As at 31 March 2022	**(609)**
Carrying value	
As at 31 March 2021	99
As at 31 March 2022	**151**

Note: None of the intangible assets are pledged as securities for liabilities.

18 Deferred Tax

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.

The current accumulated losses of the bank are $ 32.7 m with no expiry date. The Bank has not recognised DTA during the financial year on its accumulated losses due to the uncertainty in the economy on account of ongoing geo-political tensions between Russia and Ukraine and their impact on European sub-continent, since this was not a part of the present business plan.

The Bank has a deductible temporary difference on the unrealised losses on Financial investments held under FVTOCI as of March 2022. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset against taxable profits in foreseeable future. The Bank is having accumulated losses as on the reporting date and against which the DTA is not proposed, due to the reasons mentioned above. If the Bank were able to recognise the unrecognised deferred tax assets, the profit would increase by $0.71m.

19 Other Assets

	2022 USD '000	2021 USD '000
Other receivables	473	566
Prepayments and accrued income	974	336
	1,447	902

20 Deposits from Banks

	2022 USD '000	2021 USD '000
Interbank borrowings	6,011	-
	6,011	-

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

21 Deposits from Customers

	2022 USD '000	2021 USD '000
Current accounts	9,418	15,992
Savings accounts	4,738	3,857
Fixed term deposits	261,431	251,281
	275,587	271,130

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

	2022 USD '000	2021 USD '000
Deposits from Customers	277,067	274,385

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

22 Repurchase Agreements

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

	2022 USD '000 Carrying amount of transferred assets	2022 USD '000 Carrying amount of associated liabilities	2021 USD '000 Carrying amount of transferred assets	2021 USD '000 Carrying amount of associated liabilities
Repurchase agreements	6,415	5,149	6,915	5,223

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

23 Other Liabilities

	2022 USD '000	2021 USD '000
Accruals and other liabilities (including lease liabilities)	1,915	2,930
Provisions for dilapidation	113	114
	2,028	3,044
Lease liabilities		
Opening lease liabilities	**874**	**1,276**
Add: Finance charge for year	24	38
Less: Payments made towards lease liability	(472)	(440)
Closing Lease Liability	**426**	**874**
Within one year*	433	455
More than one year*	160	624
	593	**1,078**

*The ageing includes interest/ finance charge.

24 Share Capital

	2022 Number	2021 Number	2022 USD '000	2021 USD '000
Authorised Capital				
Ordinary shares of GBP 1 each	2	2	0.003	0.003
Ordinary shares of USD 1 each	200,000,000	200,000,000	200,000	200,000
Issued and fully paid				
Ordinary shares of GBP 1 each	2	2	0.003	0.003
Ordinary shares of USD 1 each				
As at 1 April	150,000,000	150,000,000	150,000	150,000
Issue of Share Capital	-	-	-	-
As at 31 March	150,000,000	150,000,000	150,000	150,000

- All ordinary shares are non redeemable conferring equal rights to each member.
- Fair Value reserve consists of non-distributable profits (fair value gains / losses) and as such is used to ring-fence fair value gains and losses. This type of reserve is part of restricted equity.

25 Other Commitments and Contingencies

Commitments in respect of financial instruments are as follows:

	2022 USD '000	2021 USD '000
Foreign exchange - Assets	101,160	152,016
Foreign exchange - Liabilities	101,747	150,580
Letter of credit	1,341	2,382
Bank guarantee	151	121
Undrawn committed facilities	9,491	7,593

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 (other than revolving nature accounts) varies from 90 days to 5 years.
Undrawn Commitments - This is the amount which is available to draw for the Loan Customers.

26 Principal Risks

The Bank is exposed to the following principal 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

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 asset quality of the Bank book has improved through disciplined credit risk management. Bank continuously monitors portfolio concentration 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 gross carrying amount of financial assets recorded in the financial statements represents the Bank's maximum exposure to credit risk. There are no financial assets to related parties which are past due or

Gross Loans and advances to customers before any impact of loss allowances are given as per their payment status: -

	2022 USD '000	2021 USD '000
• Neither past due nor overdue	259,522	212,428
• Overdue but not default	3,608	22,066
• Default	41,018	83,031
Gross	**304,148**	**317,525**

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 of the borrower entity, available securities and hierarchy of Bank's debt in the scheme of liquidation is also considered to calculate the impairment loss.

During this financial year, two loan assets were downgraded to Stage 3 on account of experiencing default. Partial recovery of $1.7 m has been made in five loan accounts with total exposure of $6.8 m. Six loan account have been written off during the year to the tune of $40.3 m. After recovery and write off in loan accounts, specific impairment loss for Stage 3 stood at $14.8 m (including interest thereon) as on 31st March 2022

Principal Risks (Contd.)
IFRS 9 Credit Quality
Loans to Customers

	2022	2021
	USD '000	USD '000
Gross Exposure	304,148	317,525
Less:- Loan loss provision	(17,318)	(60,767)
Net Exposure	**286,830**	**256,758**

Maximum Exposure to Credit Risk
Financial Instruments (excluding Derivatives)

	2022	2021
	USD '000	USD '000
Financial Assets at Fair Value Through Profit or Loss:		
Financial Investments	1,450	3,046
Financial Assets at Amortised Cost:	2022	2021
	USD '000	USD '000
Loans and advances to customers (gross)	304,148	317,525
Financial investments	11,798	17,290
Loans and advances to Banks	19,194	8,000
Other financial assets at amortised cost	5,170	6,118
	340,310	**348,933**
Financial Assets at Fair Value Through Other Comprehensive Income:	2022	2021
	USD '000	USD '000
Financial investments	75,923	98,250
Total	**417,683**	**450,229**

Analysis of Financial Instruments (excluding Derivatives)	2022	2021
	USD '000	USD '000
Due within one year	111,421	118,632
Due in more than one year	306,263	339,597
Total	**417,684**	**458,228**

Particulars	2022	2021
	USD '000	USD '000
Neither past due nor overdue	373,058	353,131
Overdue but not default	3,608	22,066
Default	41,018	83,031
Total	**417,684**	**458,228**

Principal Risks (Contd.)
Credit Risk (Contd.)

Loans to Customers as at 31 March 2022

Particulars	Stage 1 USD '000	Stage 2 USD '000	Stage 3 USD '000	Total USD '000
Gross carrying amount	256,441	6,689	41,018	304,148
Impairment provision	(1,892)	(611)	(14,815)	(17,318)
Net amounts receivable	**254,549**	**6,078**	**26,203**	**286,830**

Loans to Customers as at 31 March 2021

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

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. 1.9.8. The total PMA recognized for the year on Stage 1 and Stage 2 assets is $ 1.8 m ($4.1 m in FY 2020-21)
- 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.

Principal Risks (Contd.)
Credit Risk (Contd.)

Loans to Customers	**Stage 1 USD '000**	**Stage 2 USD '000**	**Stage 3 USD '000**	**Total USD '000**
Gross carrying amount as at 1st April 2021	**208,754**	**25,739**	**83,031**	**317,525**
Transfer from stage 1 to 2	(4,866)	4,866	-	-
Transfer from stage 1 to 3	(1,803)	-	1,803	-
Transfer from stage 2 to 1	-	-	-	-
Transfer from stage 2 to 3	-	(1,130)	1,130	-
Transfer from stage 3 to 2	-	-	-	-
Transfer from stage 3 to 1	-	-	-	-
*New receivables originated or purchased	135,691	2,948	-	138,639
Increase / (decrease) in stage 3 Interest	-	-	1,335	1,335
Net Repayments of loans	(81,335)	(25,734)	(5,956)	(113,025)
Write off of Credit Impaired Assets	-	-	(40,325)	(40,325)
Gross carrying amount as at 31 March 2022	**256,441**	**6,689**	**41,018**	**304,148**

*Note: The amount under stage 2 includes account opened during the year and moved to stage 2.

Particulars	**Stage 1 USD '000**	**Stage 2 USD '000**	**Stage 3 USD '000**	**Total USD '000**
ECL Provision as at 1 April 2021	**2,691**	**2,212**	**55,865**	**60,767**
Transfer from stage 1 to 2	(7)	7	-	-
Transfer from stage 1 to 3	(14)	-	14	-
Transfer from stage 2 to 1	-	-	-	-
Transfer from stage 2 to 3	-	(81)	81	-
Transfer from stage 3 to 2	-	-	-	-
Transfer from stage 3 to 1	-	-	-	-
New receivables originated or purchased	992	397	661	2,050
Increase / (decrease) in stage 3 Interest	-	-	1,335	1,335
Net Repayments of loans	(43)	(405)	(1,705)	(2,153)
Write off of Credit Impaired Assets	-	-	(40,325)	(40,325)
Methodology, model and assumption change*	(1,727)	(1,518)	(1,111)	(4,356)
ECL Provision as at 31 March 2022	**1,892**	**611**	**14,815**	**17,318**

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

Principal Risks (Contd.)
Credit risk (Contd.)

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

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

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

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

Principal Risks (Contd.)
Credit risk (Contd.)

	2022 USD '000	2021 USD '000
Gross carrying value before modification	-	8,333
Loan loss provision before modification		(4,163)
Net amounts receivable before modification	**-**	**4,169**
Net derecognition gain / (loss)	-	237
Net amounts receivable after modification	**-**	**4,406**

Forbearance / Rescheduled loans:	2022 USD '000	2021 USD '000
Term loan	9,503	81,566
	9,503	**81,566**

The below tables provides detail on the staging of rescheduled loans as at 31 March 2022:

	Stage 1 USD '000	Stage 2 USD '000	Total USD '000
As at 31 March 2022			
Term loan	3,472	6,031	9,503
Overdraft	-	-	-
Other Loans	-	-	-
Gross carrying amount	**3,472**	**6,031**	**9,503**
Term loan	3	557	560
Overdraft	-	-	-
Other Loans	-	-	-
Impairment provision	**3**	**557**	**560**
Term loan	3,468	5,474	8,943
Overdraft	-	-	-
Other Loans	-	-	-
Net amounts receivable	**3,468**	**5,474**	**8,943**

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

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

Principal Risks (Contd.)
Credit risk (Contd.)
Collateral:

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

Loans & Advances Collateral Analysis

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

	2022 USD ’000	**2021 USD ’000**
Security coverage=0%	53,626	42,983
Security coverage>0%<=50%	13,175	38,129
Security coverage>50%<=100%	33,800	27,472
Security coverage>100%	203,546	208,941
Total	**304,148**	**317,525**

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

	2022 USD ’000	**2021 USD ’000**
Secured	250,522	246,903
Unsecured	53,626	70,622
Total	**304,148**	**317,525**

	Exposure USD '000	**2022 Collateral USD '000**
Stage 1 Assets (Standard Advances)	256,441	510,938
Stage 2 Assets (Assets having experienced SICR)	6,689	13,821
Stage 3 Assets (Default Assets)	41,018	84,036
	304,148	**608,796**

	Exposure USD '000	**2021 Collateral USD '000**
Stage 1 Assets (Standard Advances)	208,720	487,765
Stage 2 Assets (Assets having experienced SICR)	25,774	30,452
Stage 3 Assets (Default Assets)	83,031	111,704
	317,525	**629,922**

The Bank attempts to maintain a 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.

Principal Risks (Contd.)
Credit Risk (Contd.)

	2022 Exposure USD '000	2021 Exposure USD '000
Stage 1 Assets (Standard Advances)	256,441	208,754
Stage 2 Assets (Assets having experienced SICR)	6,689	25,739
Stage 3 Assets (Default Assets)	41,018	83,031
	304,148	**317,525**

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

An analysis of Bank's total credit exposure (including investment securities, loans and advances to customers) split by external credit rating is provided below:

2022	Investment Securities USD '000	Loan to customers USD '000
AAA to AA-	32,367	-
A+ to A-	17,078	30,232
BBB+ to BBB-	34,839	222,452
BB+ and below	4,888	51,464
	89,171	**304,148**

2021	Investment Securities USD '000	Loan to customers USD '000
AAA to AA-	52,491	-
A+ to A-	14,082	20,179
BBB+ to BBB-	43,787	191,958
BB+ and below	6,496	105,388
	116,856	**317,525**

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:

Principal Risks (Contd.)
Credit Risk (Contd.)

Countries	2022 Exposure USD '000	2021 Exposure USD '000	2022 % of Total	2021 % of Total
Belgium	-	7,211	0.0%	1.6%
British Virgin Island	12,969	5,401	3.1%	1.2%
China	-	1,046	0.0%	0.2%
Germany	-	4,270	0.0%	0.9%
India	72,619	97,220	17.4%	21.2%
Indonesia	7,998	3,750	1.9%	0.8%
Republic of Korea	-	1,539	0.0%	0.3%
Kuwait	-	1,520	0.0%	0.3%
Luxemburg	17,077	6,899	4.1%	1.5%
Mauritius	18,423	6,235	4.4%	1.4%
Mexico	-	2,104	0.0%	0.5%
Netherlands	-	3,792	0.0%	0.8%
Other (MDBs)	6,900	11,985	1.7%	2.6%
Singapore	36,763	24,266	8.8%	5.3%
South Africa	-	8,031	0.0%	1.8%
United Arab Emirates	36,587	35,979	8.8%	7.9%
United Kingdom	148,511	164,358	35.6%	35.9%
United States of America	59,838	72,624	14.3%	15.8%
	417,684	**458,228**	**100.0%**	**100.0%**

The above included all Financial assets of the Bank.

Industrywide profile*

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

	2022 Exposure USD '000	2021 Exposure USD '000
Accommodation And Food Service Activities	35,262	54,548
Administrative And Support Service Activities	43,782	52,053
Construction	14,418	14,719
Electricity, Gas, Steam and Air Conditioning Supply	-	9,107
Financial and Insurance activities	14,010	-
Human Health And Social Work Activities	16,564	12,529
Information And Communication	19,148	4,173
Manufacturing	36,831	64,320
Real Estate	81,662	51,396
Others	42,471	54,679
	304,148	**317,525**

*the industrywide profile is only for loans and advances to customers.

Principal Risks (Contd.)

Liquidity risk

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

Liquidity risk is managed by balancing its cash flows with forward thinking rolling time bands so that under normal conditions the Bank is comfortably placed to meet its payment obligations as they fall due. The immediate focus is on short and medium-term funding and liquid asset management. This ensures management of liquidity risks as part of bank's ongoing business management within daily operations, strategy and planning. The Bank has sufficient liquidity for stressed conditions as per the daily stress testing and HQLA reserves as well. This is reflected in the liquidity profile as well where most of the liquidity requirements are in the medium term maturity.

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

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

	Non-derivative financial assets		Non-derivative financial liabilities	
	2022	2021	2022	2021
	USD '000	USD '000	USD '000	USD '000
On Demand	907	22,007	14,425	20,600
Due within 3 months	46,571	44,934	32,040	24,001
Due between 3 to 12 months	98,320	29,831	151,432	161,968
Due between 1 to 5 years	317,647	326,785	94,118	74,989
Due after 5 years	11,411	44,832	-	-
Total	**474,855**	**468,389**	**292,015**	**281,559**

	Derivative financial asset/ (liabilities)	
	2022	2021
	USD '000	USD '000
On Demand	-	-
Due within 3 months	16	(289)
Due between 3 to 12 months	(602)	1,725
Due between 1 to 5 years	-	-
Due after 5 years	-	-
	(586)	**1,436**

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 Internal Liquidity Guidelines 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.

Principal Risks (Contd.)
Liquidity Risk (Contd.)
The Asset and Liability Committee ("ALCO") is responsible for reviewing and recommending liquidity policy to the Board of Directors. ALCO is supported by the Risk function, which is responsible for monitoring the compliance on a daily basis.

The Bank has developed its ILAAP, which includes a series of stress tests and limits.
The responsibility of day-to-day management of the Bank's liquidity position is delegated to the Bank's Treasury department.

Currency risk

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 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**	
	2022	**2021**	**2022**	**2021**
	USD '000	**USD '000**	**USD '000**	**USD '000**
INR	1,444	-	-	3,064
GBP	-	-	569	445
EURO	11	-	-	29

The currency risk is managed by monitoring 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.

Principal Risks (Contd.)

Interest Rate Risk (Contd.)

Following the decision by Global Regulators to phase out IBORs and replace them with alternative reference rates, the bank has formed a LIBOR Transition Steering Committee (LTSC) as an ad hoc sub-committee of ALCO which reports directly to the ALCO to develop a transition plan and monitor the implementation of the same. The committee is chaired by Head of Credit with members are from functions across the bank including Branch, Finance, Risk and Treasury.

During the year, Bank has successfully finalized a methodology for calculating RFRs. the transition is on the right track, and on the verge of completion. Following the progress made in 2021, the Bank is confident that it has the operational capabilities to process transition to RFRs that will be necessary for those interest benchmarks such as USD LIBOR that will cease to be available and so will be replaced by SOFR. For other benchmark rates such as EURIBOR, SONIA, etc. that have been reformed and can therefore continue, financial instruments referencing those rates will not need to transition.

IBOR reform exposes the bank to various risks which the committee is managing and monitoring closely. These risks include but are not limited to:

- Conduct risk arising from discussion with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR Reform.
- Financial risk to the Bank and its clients that market are disrupted due to IBOR reform giving rise to financial losses.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from the changes to the Banks' IT systems and processes, also the risk of payments being disrupted if IBOR ceases to be available.
- Accounting risk if the Banks' hedging relationships fail and from unrepresentative income statement as financial instruments transition to RFRs.

Considering an interest rate sensitivity analysis at 2% shift (up and down), is assessed at $ 1.0 m as at 31 March 2022 (2021: $ 2.6 m) in form of the additional losses in income statement. This is calculated on the gross financial assets and liabilities. Also the sensitivity analysis on OCI assets is calculated at $4.2 m as at 31 March 2022.

Operational Risk

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

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

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

Principal Risks (Contd.)
Capital Risk

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of its capital structure. The Bank's authority to operate as a bank is dependent upon the maintenance of adequate capital resources. The Bank is required to meet minimum regulatory requirements in the UK.

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

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

	2022	2021
	USD '000	USD '000
Paid up share capital	150,000	150,000
Retained earnings	(33,447)	(38,719)
Fair value reserves	(3,309)	537
Tier one capital	113,245	111,818

27 Related Party
27.1 Transaction with Parent Bank

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

The Bank regards UBI (including all its branches in India and abroad) and its subsidiaries as related party in view of its 100% shareholding. No other group company holds any shares in UBIUK. The CEO and MD of the parent bank is also Chairman of UBIUK. The bank does not pay any remuneration to him. Other than the parent bank and Directors, no other related party are present.

Other Commitment

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

	2022	2021
	USD '000	USD '000
Interest income on placements	2	41
Interest expense on borrowings	(11)	-
	(9)	41

Balances with Related Parties as at 31 March:

	Amounts owed by related parties	
	2022	2021
	USD '000	USD '000
Assets		
Nostro account balance with Union Bank of India, India	40	23
	40	23

Related Party (Contd.)
Transaction with Parent Bank (Contd.)

	Amounts owed to related parties	
	2022	2021
	USD '000	USD '000
Liabilities		
Current account held by UBI in UBIUK	(105)	(49)
Intra group Borrowings from Union Bank of India, India	(6,000)	-
	(6,105)	(49)

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.
Other transactions with related party (including remuneration paid to Directors who the bank considers as key management) are disclosed in note number 27.2.

27.2 **Transaction with Directors**

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

Mr. R Viswesvaran (Managing Director and Chief Executive Officer, retired on 31st May 2021)
Mr. Chittari Amaravati Kalyan Varma (Managing Director and Chief Executive Officer)
Mr. Kundan Lal (Managing Director and Chief Executive Officer, retired on 23rd July 2021)
Mr Natesh Kumar Dayananda Shetty (Executive Director and Chief Operating Officer)
The directors have obtained Loans under Staff personal loan scheme, the details are as follows: -

	2022
	USD '000
Total limit sanctioned	17
Loan balance outstanding	5

Management compensation to the above key management personnel is as follows: -

	2022
	USD '000
Short-Term Employee Benefits	211
Post-Employment Benefits	-
Other Long-Term Benefits	-
Termination Benefits	-
Share-Based Payment Benefits	-
Total Compensation	211

The interest rate is as per the Board approved staff loan circular at the rates offered to other staff of the Bank under this scheme.
These key personnel have deposit and / or savings accounts with the Bank. They are held under normal terms and conditions, and no preferential treatment are being given to them.

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

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

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

USD '000

	2022		**2021**	
	UK	**Total**	**UK**	**Total**
Operating income	9,804	9,804	10,526	10,526
Average number of employees	29	29	27	27
Profit (loss) before tax	5,273	5,273	(10,939)	(10,939)
Corporation tax paid	-	-	-	-
Public subsidies received	-	-	-	-

29 Events after the Balance Sheet Date

NIL

30 Pillar III

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