Bank of Baroda (UK) Limited (formerly Baroda (UK) Operations Limited)

Annual Report and Audited Financial Statements

Year Ended 31 March 2019

Company Number: 10826803

Bank of Baroda (UK) Limited

Company Information

Directors	S Agarwal (resigned 21 June 2019) S K Grover (appointed 19 June 2019) C P J Fitzgibbon P S Jayakumar M C Say E F Tucker (resigned 25 March 2019) V Menon (appointed 15 April 2019) A Manambrakat
Registered number	10826803
Registered office	32 City Road London United Kingdom EC1Y 2BD
Auditor	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD

Bank of Baroda (UK) Limited

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Bank of Baroda (UK) Limited

Strategic report
for the year ended 31 March 2019

The directors present their strategic report for the year ended 31 March 2019 for Bank of Baroda (UK) Limited ("the Bank"). The Bank was previously named Baroda (UK) Operations Limited and changed its name to Bank of Baroda (UK) Limited during the year. The comparatives for the prior period are from 20 June 2017 to 31 March 2018.

Principal activity, objectives and business model

The Bank started its commercial operations on 17 December 2018 during the current financial year.

The business strategy of the Bank has been driven by the increased globalisation of the Indian economy, the growing trend of Indian corporations expanding overseas, the large population of non-resident Indians and persons of Indian origin across the World and overseas companies looking to invest in India.

The Bank has focused its efforts on specific business segments which are aligned with its core competencies and strengths, and are consistent with the risk appetite of the Bank. During the year, the primary aim of the Bank was to stabilize operations and build on the existing relationships of Bank of Baroda, a company incorporated in India ("the Parent"). The Bank received retail business from the Parent as a going concern and is also leveraging its relationships with other institutions in order to fund its asset growth. Another key focus has been to ensure that the Bank's business plans are achievable given its capital and liquidity resources.

The Bank's primary objectives are:
1. To create profitable and sustainable business growth within the UK without relying on support from the Parent.
2. To improve existing customer relationships by increasing the range of products and services available to its customers.
3. To ensure that the risks inherent in the business are subject to robust controls and oversight by its risk and compliance departments.
4. To ensure that new and enhanced technologies are implemented to support the business.
5. To build and develop leadership capability and management expertise.
6. To be the Bank of choice for households of Indian origin in the UK.

Financial review

The Bank commenced trading on 17 December 2018 with Tier-I share capital of £140 million, which was entirely contributed by the Parent.

Deposits of £949 million and loans and advances of £417 million were acquired from Bank of Baroda's London branch operations through a transfer under Part VII of the Financial Services and Markets Act 2000.

During the year the Bank has made steady progress in implementing its business plan.

The Bank's total assets as at March 2019 were £1,155 million and the Bank registered a loss before taxes of £0.257 million. The capital, funding and liquidity positions of the Bank remained adequate throughout the year.

Key performance indicators

The key performance indicators for the financial years 2018 and 2019 are summarised in the following table:

Key Performance Indicators (%)	2019	2018
Net Interest Margin ("NIM") (Net Interest Income / Average Earning Assets)	1.52%	-
Cost to Income Ratio (Operating Cost / Total Operating Income)	105%	-
Core Tier-1 Ratio (Capital / Total Risk Weighted Assets)	23.57%	-

Retail Banking:

The Bank offers personal current accounts, personal savings accounts, business current accounts, fixed deposits and services for remittance to India. The Bank also serves non-resident Indian customers, based in the UK, in terms of their India-related banking needs. On the asset side, unregulated products such as buy-to-let finance, development finance and professional loans are available.

Corporate and Commercial Banking

The Bank's corporate business aims to provide products and services to enhance trade and investment between the UK and other countries, including India. The regulatory and emerging business environment both in the UK and India will determine the mix of products offered to clients. In the future, the Bank is looking to build on its operations by expanding its product range, developing existing relationships and creating new ones, in addition to minimising risk by remaining focused on its core competencies.

Treasury

The treasury function focuses on managing the funding and the market and liquidity risk of the Bank at the same time as looking to maximise returns. The Bank has not undertaken any proprietary trading activities. The Bank complies with and maintains a Liquidity Asset Buffer ("LAB") in line with the Individual Liquidity Guidance ("ILG") stipulated by the Prudential Regulation Authority ("PRA"). The Bank reviews the asset and liability maturity mismatches and interest rate positions on an ongoing basis, and maintains liquidity gaps and interest rate positions within prescribed limits that are monitored by the Asset and Liability Committee ("ALCO") of the Bank.

The Bank is able to access wholesale borrowings from the market and has been able to raise bilateral loans and borrowings at competitive rates by leveraging on the existing relationships of the Bank of Baroda group. Future priorities will include diversifying funding sources both in terms of products and markets.

Principal risks and uncertainties

The Bank has exposure to the following risks:

Credit risk
Credit risk is the risk of loss as a result of the failure of a party with whom the Bank has contracted to meet its obligations. The main credit risk that the Bank faces relates to its exposure to banks and corporates from its trade finance business, inter-bank lending and advances to corporate and retail borrowers.

Liquidity risk
Liquidity risk is the risk that the Bank does not have available sufficient resources to meet its obligations as they fall due, or can only secure such resources at higher costs than ordinarily expected. The Bank's approach to managing liquidity is to ensure that it will always have sufficient financial resources available to meet its liabilities when they fall due, under normal and stressed conditions, without any losses or risk to the Bank's reputation. The Bank has established an Individual Liquidity Adequacy Assessment Plan ("ILAAP") which has been approved by the Board of Directors. The ILAAP describes how the Bank manages its liquidity within predetermined limits and how it maintains a buffer of highly liquid assets to ensure that it will be able to meet its liabilities during times of stress. The ILAAP defines the risk appetite of the Bank as being conservative with respect to liquidity risk.

Market risk
Market risk is the risk that changes in market prices such as interest rate and foreign exchange rates will affect the Bank's income or the value of its holdings. The Bank has developed a detailed market risk management policy which is subject to review by the Board Risk and Compliance Committee and approved by the Board of Directors.The Board sets the market risk tolerance levels which are managed on a daily basis by the Treasury department. Capital is allocated to mitigate market risk in accordance with the regulatory requirements.

Interest rate risk
Interest rate risk arises from financial instruments where net interest income or expense and the fair value of the Bank's assets or liabilities are exposed to movements in interest rates. Interest rate risk is managed by matching and monitoring the yield and duration exposure that is built into the Bank's portfolio. The Bank monitors the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios.

Foreign exchange risk
Foreign exchange risk is the risk that changes in foreign currency exchange rates will affect the Bank's income or the value of assets and liabilities. The objective of foreign currency risk management is to manage and control foreign currency positions and maintain these positions within the parameters set by the Board of Directors. It is not the Bank's intention to take open positions on its own account, but rather to maintain a neutral position in all currencies that it deals in.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Oversight of operational risk is the responsibility of the Board Risk and Compliance Committee. The operational risk management framework is developed by the Risk Management Department, and the implementation of controls to address operational risk is a major part of this department's day to day responsibility.

Qualitative and quantitative reports and metrics are collated by the Risk Management Department, and submitted regularly to the Risk Management Committee, and a summary report is submitted to the Board Risk Compliance Committee and on a quarterly basis.

Risk management framework

Effective risk governance is a key component of the Bank's operations, and it helps in delivering the objectives of the Bank's overall business strategy. The overall business model of the Bank is supported by an embedded risk culture and sustainable risk appetite.

Although overall responsibility for risk lies with the Board, it has charged the Board Risk and Compliance Committee with responsibility for oversight of the Risk Management Framework and to monitor adherence to the risk appetite and limits set by the Board. The Bank takes strategic decisions based on the capital position and the portfolio mix is used to optimise the use of capital. The long-term business strategy of the Bank is aligned to the risk appetite and capital projections of the Bank.

Risk management at the Bank is designed to help the Bank enhance value through a holistic approach to the identification, assessment, mitigation, monitoring and reporting of the Bank's risk portfolio. Value is maximised when management set strategy and objectives to attain an optimal balance between business growth and related risks.

The Bank has set up an independent risk management department which is led by the Head of Risk & Compliance. The Head of Risk & Compliance reports indirectly to the Managing Director & CEO ("MD") and directly to the Chair of the Board Risk and Compliance Committee. This department monitors various risk limits stipulated by the Board and prepares management information reports for the information of Senior Management, the Board Risk and Compliance Committee and the Board. The Risk Management Department also conducts periodic stress testing and discusses outcomes with management, before reporting these to the Board Risk and Compliance Committee and the Board.

The Bank's Board of Directors is supported by sub-committees that assist in managing risks encountered as part of day-to-day operations of the Bank.

Risk management framework (continued)

The sub-committees include:

Board Risk and Compliance Committee ("BRCC"): The BRCC is a sub-committee of the Board from which it derives its authority and to which it reports. It is the Bank's senior risk committee with delegated authority from the Board to recommend risk appetites, frameworks and policies and to monitor all of the Bank's risks. The objective of the committee is to provide oversight of the overall compliance and risk management functions including credit, liquidity, market and operational risks, together with regulatory and legal compliance. The committee aims to effectively monitor the risks arising in the Bank across business lines, product areas and geographies and more generally, to monitor procedures and identify solutions to minimise or mitigate those risks. The roles and responsibilities are as defined in the Terms of References ("TOR") approved by the Board.

The committee is chaired by an Independent Non-Executive Director.

Board Audit Committee ("BAC"): The BAC is a sub-committee of the Board from which it derives its authority and to which it reports. It has delegated authority from the Board to oversee the Bank's internal audit function and annual audit plan, to review the annual report and accounts and to review and monitor the effectiveness of the external audit. The objective of the committee is to provide oversight of the Bank's financial affairs and related control arrangements and monitor inspection reports submitted by the Internal Auditors and External Auditors as well as consider any relevant regulatory matters. The roles and responsibilities are as defined in the TOR approved by the Board.

The committee is chaired by an Independent Non-Executive Director.

Board Credit Committee ("BCC"): The BCC is a sub-committee of the Board whose objective is to ensure the most material credit decisions beyond the delegated authority of managers and executive level credit committees are appropriately considered at a senior level. Additionally, the committee reviews the Banks' overall strategy and approach with respect to credit. The roles and responsibilities are as defined in the TOR approved by the Board.

The Board Credit Committee is chaired by the Managing Director.

Board Remuneration and Nominations Committee ("BRNC"): The BRNC has delegated authority from the Board to approve the remuneration of the senior management and regularly review the structure, size, and composition (including the skills, knowledge, experience and diversity) of the Bank's Board and its Executive and Senior Management and make recommendations to the Board with regard to any development needs and succession planning. The roles and responsibilities are as defined in the TOR approved by the Board.

The Board Remuneration and Nominations Committees is chaired by the Chairman.

Management Committee ("MANCO"): MANCO is a sub-committee of the Board from which it derives its authority and to which it reports. MANCO is the leadership body of the Bank. It has a broad remit in terms of scope, covering, as necessary, significant business and operational issues, but its principal focus is the development of UK customers and UK originated business and the day to day control of key risks within the Bank. The MANCO ensures that at all times it acts within the confines of Board - approved strategy, policies, operating plans and budgets. The MANCO reports to the Board. The roles and responsibilities are as defined in the TOR approved by the Board.

The committee is chaired by the Managing Director (MD).

Risk management framework *(continued)*

Risk Management Committee ("RMC"): The RMC is an Executive Level Committee and reports to BRCC. RMC is responsible for overseeing the overall risk management function, including credit, market & operational risk including conduct risk, legal risk and reputational risk.

It is also responsible for reviewing and recommending the Bank's risk appetite to the Board Risk & Compliance Committee.

Head of Risk Management will have a direct line of report to the Chair of the BRCC. The roles and responsibilities are as defined in the TOR approved by the Board.

Asset and Liability Committee ("ALCO"): The ALCO is an Executive Level Committee and reports to BRCC. The objective of the Committee is to be responsible for overseeing the liquidity risk and market risk of the Bank. It is responsible for Balance Sheet Management of the Bank and for ensuring that the Bank is compliant with all the regulatory requirements on liquidity and funding. Any issues arising from the ALCO are escalated to the MANCO and the BRCC.

Credit Risk Evaluation Committee ("CREC"): The CREC is an Executive Level Committee and reports to BRCC. The objective of the Committee is to be responsible for evaluation and analysis of individual credit proposals before a credit decision is taken by the competent authorities, in line with its remit as per the Credit Policy of the Bank. The CREC is chaired by the Head of Risk and Compliance and meets as and when a proposal is submitted by the sponsor.

A "three lines of defence" model has been adopted by the Bank for the effective oversight and management of risks across the Bank. Functions, teams and branches in the first line undertake frontline operational and support activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of controls. Each Head of First Line Function carries responsibility for ensuring that activities undertaken are within the board-approved risk appetite.

<u>First line of defence:</u>
Management and front line staff are the first line of defence who are responsible for implementing strategy and the establishing and maintaining of internal control and risk management in the business as defined by the Bank's policies and processes. Specific responsibilities of the first line of defence include:

- Embedding risk management frameworks, policies and sound risk management practices into standard operating procedures.
- Adhering to frameworks, policies and procedures set by the Board.
- Reporting on the performance of risk management activities including ongoing risk identification, assessment, mitigation, monitoring and reporting.
- Accounting for the effectiveness of risk management in operation including ensuring that procedures and controls are operated in a consistent and ongoing basis in order to effectively manage risks.

Risk management framework (continued)

Second line of defence:
The Risk Management and Compliance Functions are independent risk management functions, and are a key component of the Bank's second line of defence. The Risk Management Department and the Compliance Department are responsible for the ongoing assessment and monitoring of risk-taking activities across the Bank. The second line is responsible for:

- Developing and implementing risk management frameworks, policies, systems, processes and tools.
- Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the first line.
- Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting.
- Establishing an early warning system for breaches of the Bank's Risk Appetite.
- Influencing or challenging decisions that give rise to material risk exposure.
- Reporting via the Head of Risk & Compliance to BRCC, on all these items, including risk mitigating actions, where appropriate.
- Oversight and effectiveness.

Third line of defence:
The Internal Audit function is the third line of defence and is responsible for providing independent and objective assurance of the effectiveness of internal controls established by the first and second lines of defence. The Bank's Internal Audit function operates under a co-source basis with KPMG LLP and reports to the BAC. Responsibilities include:

- Independently reviewing the design and operating effectiveness of the Bank's internal controls, risk management and governance systems and processes.
- Periodically assessing the Bank's overall risk governance framework, including, but not limited to an assessment of:
  - The effectiveness of the Risk Management and Compliance Functions.
  - The quality of risk reporting to the Board and Senior Management.
  - The effectiveness of the Bank's system of internal controls.
  - Providing independent assurance to the Board on the above.
- Recommending improvements and enforcing corrective actions and assigning respective action owners where necessary.
- Tracking the implementation of all internal audit recommendations and external audit management letter points.

The Board has responsibility for overseeing the effective action and performance of all three lines of defence.

Corporate governance

The Bank places a strong emphasis on internal governance and the maintenance of high ethical standards in its working practices. The Bank's corporate governance framework is driven by the Board as per the regulatory expectation on Board governance and Board responsibilities. The Board comprises two Executive Directors, two Non-Executive Directors representing the shareholder and two independent UK-based Non-Executive Directors. The UK-based Non-Executive Directors have considerable banking experience gained at a senior level within global financial institutions and in reporting to regulatory bodies in the UK. The remaining two Non-Executive Directors, which include the Board Chair, have been appointed by the shareholder. The Board has the collective responsibility of promoting the long-term success of the Bank. While the Executive Directors have the direct responsibility for business operations, the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to the decisions that are taken by the executive management.

By order of the Board,

Sanjay Kumar Grover
Managing Director

Anil Manambrakat
Deputy Managing Director

Date: 29.08.2019

Directors' report
for the year ended 31 March 2019

The directors present their report together with the audited financial statements of the Bank for the year ended 31 March 2019.

Directors

The directors who held office during the year and up to the date of signing the financial statements were:

S Agarwal (resigned 21 June 2019)
S K Grover (appointed 19 June 2019)
C P J Fitzgibbon
P S Jayakumar
M C Say
E F Tucker (resigned 25 March 2019)
V Menon (appointed 15 April 2019)
A Manambrakat

Results and dividends

The Bank made a loss on ordinary activities before tax of £257,000 (2018: £7,000 profit) during the period. The directors do not recommend the payment of a dividend for the year (2018: £nil).

Current strategy

The business strategy of the Bank has been driven by the increased globalisation of the Indian economy, the growing trend of Indian corporates expanding overseas, the large population of non-resident Indians and persons of Indian origin across the globe, and overseas companies looking to invest in India. The Bank has approved a strategy that focuses on specific business segments which are aligned with its core competencies and strengths and are consistent with the risk appetite of the Bank. The primary activities of the Bank in the past three months have been lending to targeted retail curtomers and lending to professional landlords in the Buy-to-Let ("BTL") market, whilst also investing and building a portfolio of high quality liquid assets as part of its liquidity management activities. The Bank has leveraged its relationships with other institutions in order to fund its asset growth. A key focus has been to ensure that the Bank's business plans are achievable within its capital and liquidity resources.

Future plans

In addition to growing its existing activities, the Bank also recognises the benefits of continuing to diversify its sources of revenue. In this regard, the Bank plans to expand its retail banking offerings to include regulated mortgages and divising hedging instruments for its customers. Regulatory approvals, wherever needed, will be sought prior to commencing the relevant businesses. The Bank is also focusing on diversifying its customer base.

Business environment

As per the Interim Economic Outlook published by the OECD in March 2019, the global expansion continues to lose momentum. Global growth is projected to ease further to 3.3% in 2019 and 3.4% in 2020, with downside risks continuing to build. Growth has been revised downwards in almost all G20 economies, with particularly large revisions in the Eurozone in both 2019 and 2020. High policy uncertainty, ongoing trade tensions, and a further erosion of business and consumer confidence are all contributing to the slowdown. The Bank will keep track of the developments and adapt its business plan accordingly.

Brexit impact

The Bank is actively monitoring developments in relation to Brexit. Whilst the Bank considers the potential impact that a 'hard' Brexit may have when considering new transactions, the Bank is currently not reliant to any material degree on business originating from within the EU. However, the Bank recognises that a 'hard' Brexit outcome may impact other aspects of its business such as non-USD denominated earnings and tax, as well as having macro-economic repercussions that may affect certain UK domestic markets to which the Bank has exposure, as well as UK financial markets generally. The Bank will adjust its exposures and activities accordingly to avoid any adverse effects expected. More specifically, while the Buy-to-Let and development loans are exposed to real estate price fluctuations due to Brexit, the same portfolio has less chance of being affected as the margins on such loans are quite high. On a more positive note, the Bank believes that the Anglo Indian and such other business corridors will become an area of increased focus and growth in the post Brexit world and that the Bank will be well positioned to benefit from the opportunities that these will offer.

Going concern

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

The directors have assessed the current economic environment and possible future economic conditions, along with the Bank's Risk Management framework. They are confident that the Bank will be well placed to manage its business risk successfully and reasonably expect it to continue in operation profitably for the foreseeable future. The Bank is independent from the parent and guided by policies as set by the UK Board.

Political and charitable donations

No political or charitable donations were made during the period (2018: None).

Employees

In formulating employment policy, the Bank has been guided by its ethical culture and relevant legislation in the United Kingdom.

The Bank is committed to providing equal opportunities to all workers and job applicants.

It aims to ensure that no job applicant shall receive less favourable treatment on the grounds of sex, age, marital status, sexual orientation, disability, race, colour, religion or belief, nationality or ethnic origin. All employees are responsible for complying with this policy and for ensuring that the standards of behaviour by the Bank are met at all times. Employees who fail to comply with this policy may be subjected to the Bank's disciplinary procedures.

All staff should expect to work in an environment which is free from harassment, bullying or any other type of intimidation. The Bank strives to create a culture whereby staff can feel confident about raising legitimate concerns about any form of harassment or potential wrongdoing within the workplace relating to areas such as malpractice, breaches of regulations, health and safety issues and environmental concerns. Whistleblowing procedures are in place for all staff to raise any concerns in relation to the above.

The Bank aims to develop staff to be best that they can be in their professional work, by encouraging continued personal and professional development within the Bank and through attendance on appropriate external courses.

Events after the reporting date

There were no significant events after the reporting date.

Disclosure of information to the auditors

Each of the persons who are directors at the time when the directors' report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information, and to establish that the Bank's auditors are aware of that information.

Qualifying third party indemnity provisions

The Bank has put in place qualifying third party indemnity provisions for all of the directors.

Auditors

Mazars LLP were appointed during the year and have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the Bank's Annual General Meeting.

By the order of the Board,

Sanjay Kumar Grover
Managing Director

Anil Manamburakat
Deputy Managing Director

Date: 29.08.2019

Statement of directors' responsibilities
for the year ended 31 March 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Bank, and of the profit or loss of the Bank for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards (FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland") have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, 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 Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Sanjay Kumar Grover
Managing Director

Anil Manambrakat
Deputy Managing Director

Date: 29·08·2019

Independent auditor's report to the members of Bank of Baroda (UK) Limited

Opinion

We have audited the financial statements of Bank of Baroda (UK) Limited (the 'Bank' or 'BoB') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity 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 United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Ethical Standards of the Financial Reporting Council ("FRC"), 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.

The impact of uncertainties due to United Kingdom exiting the European Union on our audit

The directors' view on the impact of Brexit is disclosed on page 10.

The terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Bank's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Bank as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Bank's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Bank and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Independent auditor's report to the members of Bank of Baroda (UK) Limited

Opinion

We have audited the financial statements of Bank of Baroda (UK) Limited (the 'Bank' or 'BoB') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity 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 United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Ethical Standards of the Financial Reporting Council ("FRC"), 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.

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However, no audit should be expected to predict the unknowable factors or all possible implications for the Bank and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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, where relevant, key observations arising from those procedures.

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

Area of Focus	How our audit addressed the area of focus
Credit risk – Allowance for impairment losses on loans and advances to customers The Bank's loans and advances to customers comprise a portfolio transferred as part of the Part VII transfer of the business and operations transferred from Bank of Baroda London Branch on 17 December 2018 and loans originated since that date. At the year end the loans and advances to customers balance was £363.61m (2018: Nil) with an associated collective loan loss impairment allowance of £1.75m (2018:Nil). The measurement of credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at both specific and collective provisions. The allowance for impairment losses on loans and advances to customers represents management's best estimate of losses incurred in the loan portfolio at the balance sheet date. Estimates are made using historic and market average default rates and management's estimates on incurred losses as set out in accounting policy note 4 and note 15. There is an inherent risk, over credit events that have occurred but have not been identified at the year end. To cover this risk, the Bank calculates a collective provision.	We have assessed the design and tested the operating effectiveness of the key controls operating in the Bank in relation to credit processes (e.g. underwriting, monitoring, collections and provisioning). We tested the process by which management identify non-performing loans and make related provisions. We focused on impairment triggers, calculation of impairment and consideration of collateral arrangements where relevant. This included testing a sample of loans to confirm that management had properly classified the loans as either performing or non-performing loans at the year end. We independently re-performed key aspects of the annual credit reviews performed by management and corroborated management's judgement in respect of its assessment of the recoverability of the loan, including assessing the completeness and robustness of management's review. We assessed the adequacy of the Bank's disclosures about the degree of estimation involved in arriving at the allowance for impairment losses. We found the approach taken in respect of the calculation of the allowance for impairment losses to be consistent with the requirements of FRS 102. Management judgements made were reasonable.

Our application of materiality

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:	£1,400k
Benchmark applied	1% Net Assets
Rationale for benchmark applied	Net assets has been determined as the appropriate basis to calculate materiality given that the entity only commenced banking activities on 17 December 2018 and net assets is the most stable and predictable measure for a first period of operation. Furthermore, net assets remain the focus of the regulator in terms of capital adequacy.
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 exceed materiality of the financial statements as a whole. Performance materiality of £800k was applied to the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 3% of overall materiality (£42k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates. We considered the risk of acts by the Bank which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006. 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 a risk assessment, our understanding of the Bank's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

An overview of the scope of our audit (continued)

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in 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 12, 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.

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board of directors to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 March 2019.

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.

Greg Simpson (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St Katharine's Way
E1W 1DD

Date: 29 August 2019

Bank of Baroda (UK) Limited

Statement of comprehensive income
for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
Interest receivable and similar income	5	10,866	7
Interest payable and similar charges	6	(5,900)	-
Net interest income		4,966	7
Fee and commission income	7	183	-
Total operating income		5,149	7
Administrative expenses		(3,657)	-
Loan loss provision	15	(1,749)	-
(Loss) / profit from ordinary activities before tax	8	(257)	7
Taxation on ordinary activities	10	2	(1)
(Loss) / profit for the year / period		(255)	6
Other comprehensive expense			
Fair value movement on available for sale assets		(98)	-
Deferred tax adjustment on available for sale assets	23	17	-
Total comprehensive (expense) / income for the year / period		(336)	6

All activities reported above, both in the current year and preceding period, relate to continuing operations. The comparatives for the prior period are from 20 June 2017 to 31 March 2018.

The notes on pages 21 to 54 are an integral part of these financial statements.

Bank of Baroda (UK) Limited
Registered number: 10826803

Balance sheet
As at 31 March 2019

	Note	2019 £000	2018 £000
Assets			
Loans and advances to banks	14	**738,690**	5,000
Loans and advances to customers	15	**361,862**	-
Available-for-sale financial assets	22	**50,663**	-
Tangible fixed assets	13	**99**	-
Other assets, prepayments and accrued income	11	**3,987**	7
Deferred tax assets	23	**19**	-
Total assets		**1,155,320**	5,007
Liabilities			
Bank deposits	12	**89,568**	-
Customer deposits	12	**916,084**	-
Other liabilities	16	**9,902**	1
Derivatives	21	**51**	-
Pension liability	25	**45**	-
Total Liabilities		**1,015,650**	1
Equity			
Share capital	17	**140,000**	5,000
Fair value reserve		**(81)**	-
Retained earnings		**(249)**	6
Total equity		**139,670**	5,006
Total liabilities and equities		**1,155,320**	5,007

The financial statements were approved by the Board of Directors and authorised for issue on 29·08·2019 and signed on its behalf by:

S K Grover
Managing Director

A Manambrakat
Deputy Managing Director

The notes on pages 21 to 54 are an integral part of these financial statements.

Bank of Baroda (UK) Limited

Statement of changes in equity
for the year ended 31 March 2019

	Share capital £000	Fair value reserve £000	Retained earnings £000	Total £000
Balance as at 20 June 2017	-	-	-	-
Comprehensive income for the period				
Total comprehensive income for the period	-	-	6	6
Total comprehensive income for the period	-	-	6	6
Issued share capital	5,000	-	-	5,000
Total transactions with owners	5,000	-	-	5,000
Balance as at 31 March 2018	5,000	-	6	5,006
Comprehensive income for the year				
Loss for the year	-	-	(255)	(255)
Other comprehensive expense	-	(81)	-	(81)
Total comprehensive expense for the year	-	(81)	(255)	(336)
Issued share capital	135,000	-	-	135,000
Total transactions with owners	135,000	-	-	135,000
Balance at 31 March 2019	140,000	(81)	(249)	139,670

The notes on pages 21 to 54 are an integral part of these financial statements.

1. REPORTING ENTITY

Bank of Baroda (UK) Limited is a company limited by shares and incorporated in England & Wales under the Companies Act 2006. Its registered office address is 32 City Road, London, United Kingdom, EC1Y 2BD and the nature of the Bank's operations and its principal activities are set out in the strategic report.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the requirements of Companies Act 2006.

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments and derivative financial instruments classified at fair value through profit or loss; and available for sale assets where fair value gains and losses are taken to equity.

The Bank's functional and presentation currency is the Pound Sterling. Amounts in the financial statements have been rounded to the nearest thousand.

The Bank is a wholly owned subsidiary of Bank of Baroda Limited, a company incorporated in India, and is a qualifying entity under FRS 102.

In preparing the separate financial statements of the Bank, advantage has been taken of the following disclosure exemptions available to qualifying entities:

- preparation of Cash Flow statement, on the basis that it is a qualifying entity and its ultimate parent company, Bank of Baroda, includes the Bank's cash flows in its consolidated financial statements.
- No disclosure has been given for the aggregate remuneration of the key management personnel of the Bank as their remuneration is included in the totals for the Bank as a whole.
- Transactions or balances with members of the Bank of Baroda group.

The Bank has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU).

The financial statements are prepared on a going concern basis as detailed in the directors' report and directors' responsibilities statement. The Bank is satisfied that it has sufficient resources to continue in business for the foreseeable future. The Bank meets its liquidity requirements and its regulatory liquidity requirements through maintaining liquid assets.

With respect to capital, the Bank maintains an adequate surplus over regulatory capital requirements.

The preparation of financial statements in compliance with FRS 102 requires critical accounting judgements and estimates to be disclosed. It also requires the Bank's management to exercise judgement in applying the accounting policies.

The Bank discloses transactions with related parties which are not wholly owned within the same group.

The Bank has taken advantage of the exemption available under Section 33.1A of FRS102 to not disclose transactions with its parent or with members of the same group that are wholly owned.

3. ACCOUNTING POLICIES

The accounting policies set out below have, unless otherwise stated, been applied consistently throughout the year.

Revenue recognition

Fees and commissions income
Fees and commissions receivable are recognised to the extent that it is probable that the economic benefits will flow to the Bank and when turnover can be reliably measured.

Net interest income and expense
Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' ("EIR") is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in profit or loss, include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation on tangible fixed assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method for computer equipment and written down value method for furniture and fittings. The estimated useful lives range as follows:

- Fixtures and fittings - 5 to 7 years
- Computer equipment - 3 to 5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income or expenses' in the Statement of Comprehensive Income.

3. ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each reporting date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the assets may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit or loss, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

Foreign currency translation

Functional and presentation currency
Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Bank's financial statements are presented in Pound Sterling, which is the Bank's functional currency.

Transactions and balances
Foreign currency transactions are translated into the Bank's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks including central banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, separately, are shown within borrowings in current liabilities.

3. **ACCOUNTING POLICIES (continued)**

Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Bank operates and generates taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and the Bank can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. ACCOUNTING POLICIES (continued)

Employee benefits

The Bank provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution and benefit pension plans.

Short – term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Annual bonus plan
The Bank operates an annual bonus plan for employees. An expense is recognised in profit or loss when the Bank has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Holiday pay accrual
A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

Defined contribution pension plan
A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. Once the contributions have been paid the Bank has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals on the balance sheet. The assets of the plan are held separately from the Bank in independently administered funds.

Defined benefit pension plans
The defined benefit pension scheme was formed to provide retirement benefits to employees of the Bank and their dependents. Benefits are provided for the surviving spouses of members who die either in service or in retirement, together with lump sum benefits where appropriate. The Bank operates a defined benefit pension plan where the difference between the fair value of the assets held in the Bank's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Bank's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the Bank is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

3. ACCOUNTING POLICIES (continued)

Financial instruments

Under FRS 102, the Bank has chosen to apply the measurement and recognition provisions of IAS 39 Financial Instruments: Recognition and Measurement. The Bank initially recognises loans and advances and deposits on the date on which they are entered into. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

Financial assets:

The Bank classifies its financial assets into one of the following categories:

(a) *Loans and receivables*
'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to customers and banks.

(b) *Available-for-sale*
Available for sale financial assets are non-traded investment securities, intended to be held for a finite period of time. These are measured at fair value based on current bid prices, where quoted in an active market. Where there is no active market, or the securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques.

Movements in fair value are recorded in equity as they occur. Fair value changes are recognised in Other Comprehensive Income and presented in the fair value reserve within equity.

On disposal, gains and losses accumulated in equity are reclassified to profit or loss.

(c) *Fair value through profit or loss*
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. The Bank does not apply any hedge accounting.

Financial liabilities:

Financial liabilities, including other payables, bank loans, loans from fellow group companies and accrued expenses are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method except for when they are repayable on demand.

3. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities are derecognised when they are extinguished.

Derecognition:

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income ("OCI") is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Modifications:

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

Forbearance on loans:

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Bank include:

- Temporary transfer to an interest only mortgage;
- Reduced monthly payments;
- Extension of mortgage term; and
- Capitalisation of arrears.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslip etc, in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with the Bank's policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored. When a financial asset is modified or renegotiated the Bank assesses whether this modification results in derecognition. A modification results in derecognition when it gives rise to substantially different terms.

If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition and recognition of new asset.

3. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Identification, measurement of impairment and objective evidence of impairment:

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit and loss are impaired. A financial asset or a group of financial assets are 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Impairment of financial assets:

- Objective evidence that financial assets are impaired includes;
- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy;
- The disappearance of an active market for a security; or
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In general, the Bank considers a downgrading of internal and external rating by more than two notches (for example rating downgrade from Credit Rating Step 1 to Credit Rating Step 4) to be 'significant' (anything significant will lead to higher provisioning).

Individual and collective assessment
The Bank considers evidence of impairment for loans and advances at a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held to maturity investment securities with similar risk characteristics.

The collective allowance for groups of homogeneous loans is established using a formula approach based on the historical loss rate experience of the industry for the specific asset type. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date

Measurement
Impairment losses on assets measured at amortised cost are calculated as the difference between carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

3. **ACCOUNTING POLICIES (continued)**

Financial instruments (continued)

Impairment of financial assets (continued):

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve into profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest rate method are reflected as a component of interest income.

Reversal of impairment and write-offs
If in a subsequent period the fair value of an impaired financial asset changes and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss.

The Bank writes off a loan or an advance, either partially or in full, and any related allowance for impairment losses, when the Bank determines that there is no realistic prospect of recovery.

Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

Distributions to equity holders

Dividends and other distributions to the Bank's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

Dividends are recognised when they become legally payable. Interim dividends are recognised when paid. Final dividends are recognised when approved by the shareholders at an annual general meeting.

3. ACCOUNTING POLICIES (continued)

Reserves

The Bank's reserves are as follows:

- Issued share capital - represents the nominal value of the shares issued;

- Fair value reserve - represents fair value movements on available-for-sale financial assets; and

- Retained earnings - represents cumulative profits or losses, net of dividends paid and other adjustments.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle an obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current assessments of the time value of money and the risks associated with an obligation. The increase in the provision due to passage of time is recognised as a finance cost.

4. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported assets, liabilities, income and expenses. The actual results will differ from these estimates. The significant judgement made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Bank's results and financial position, are in relation to the impairment of financial assets.

The allowance for impairment losses on loans and advances is management's best estimate of losses incurred in the portfolio at the balance sheet date.

Impairment allowances are made up of two components: those determined individually and those determined collectively.

Estimates are made using the incurred loss calculations which leverage historic/market average default rates and management's estimates of possible losses.

The accounting policy on this is disclosed in Note 3, while the carrying amount of Loans and advances to customers, which is the only impaired balance, is disclosed in Note 15 to these financial statements.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
Loans and advances to customers	5,195	-
Loans and advances to banks	5,031	7
Available-for-sale financial assets	640	-
	10,866	7

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
Interest on bank deposits	2,698	-
Interest on customer deposits	3,202	-
	5,900	-

7. FEE AND COMMISSION INCOME

	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
Fee and commission income	183	-

8. (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

(Loss) / profit before tax is stated after charging: -

	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
Depreciation of tangible fixed assets (see note 13)	10	1
Exchange differences	100	-
Defined contribution pension cost	27	-
Defined benefit pension cost	121	-
Fees payable to the Bank's auditor and its associates for the audit of the Bank's annual accounts	130	10

Audit fees of £10,000 in the comparative period was paid by the parent to the former auditor.

9. EMPLOYEES

	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
Wages and salaries	760	-
Social security costs	204	-
Pension costs	148	-
Other staff costs	160	-
	1,272	-

On 17 December 2018, the Bank became operational at which point, employees were included on payroll of the Bank. The majority of the Bank's employees transferred from the Bank of Baroda London Branch when the Bank's business commenced on 17 December 2018. Therefore, employee costs represent costs for the period from 17 December 2018 to the 31 March 2019 only.

Pension costs relate to defined contribution and defined benefit pension schemes that are operated by the Bank. The defined contribution scheme's assets are held separately from those of the Bank in an independently administered fund. The pension charge represents contributions payable by the Bank to the fund of £27,000 as well as defined benefit pension scheme expense of £121,000, see note 25.

The average number of employees during the year was as follows:

	Year ended 31 March 2019 No.	Period ended 31 March 2018 No.
Sales and marketing	62	-
Administration	38	-
	100	0

DIRECTORS' REMUNERATION

Directors' remuneration during the year amounted to £148,869 (2018 - £nil).

10. TAXATION

	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
Corporation tax		
Current tax on profits for the year / period	-	1
Total current tax	-	1
Deferred tax		
Origination and reversal of timing differences	(2)	-
Tax on (loss)/profit on ordinary activities	(2)	1

Factors affecting tax (credit) / charge for the year / period

Tax assessed for the year is higher than (2018 - the same as) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	Year ended 31 March 2019 £000	Period ended 31 March 2018 £000
(Loss)/profit on ordinary activities before tax	(257)	7
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	(49)	1
Effects of:		
Accelerated capital allowances	(2)	-
Tax losses not recognised	49	-
Total tax (credit) / charge for the year / period	(2)	1

10. TAXATION (continued)

Tax rate changes

The tax rate for the current year of 19% is the same as in the prior year. The rate will reduce to 17% from 1 April 2020. Deferred taxes at the reporting date have been measured using these tax rates.

11. OTHER ASSETS, PREPAYMENTS AND ACCRUED INCOME AND DEFERRED TAX ASSETS

	2019 £000	2018 £000
Other assets	6	-
Prepayments and accrued income	3,891	7
Indirect tax receivable	90	-
Deferred taxation (see note 23)	19	-
	4,006	7

12. CUSTOMER ACCOUNTS

	2019 £000
Customer current accounts	44,742
Customer savings accounts	179,650
	224,392
Customer fixed deposit accounts	691,692
Total Customer Deposits	916,084
Fixed Deposits - from Banks	89,568
Total deposits	1,005,652

There were no customer deposits in the comparative period.

13. TANGIBLE FIXED ASSETS

	Computer equipment £000	Fixtures and fittings £000	Total £000
Cost			
Additions	6	103	109
At 31 March 2019	6	103	109
Depreciation and impairment			
Charge for the year	1	9	10
At 31 March 2019	1	9	10
Net book value			
At 31 March 2019	5	94	99
At 31 March 2018	-	-	-

14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

	2019 £000	2018 £000
Loans and advances to banks	738,690	5,000
Loans and advances to customers (see note 15)	361,862	-
	1,100,552	5,000

15. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers consist of the following items:

	Bills Purchase/ Discounted £000	Loan and Advances against Deposits £000	Other secured Loans and Advances £000	Unsecured Loans and Advances £000	Total £000
Carrying amount					
Current	1,033	17,519	195,733	149,326	363,611
Collective impairment					
Allowance for impairment losses on loans and advances	-	-	(1,135)	(614)	(1,749)
Net Carrying Amount	1,033	17,519	194,598	148,712	361,862

16. OTHER LIABILITIES

	2019 £000	2018 £000
Accrued interest	9,716	-
Amounts owed to group undertakings	31	-
Other creditors	155	-
Current tax payable	-	1
	9,902	1

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

17. SHARE CAPITAL

	2019 £000	2018 £000
Allotted, called up and fully paid		
140,000,000 (2018 - 5,000,000) Ordinary shares of £1.00 each	140,000	5,000

During the year ended 31 March 2019, the Bank allotted 135,000,000 ordinary shares with a par value of £1 per ordinary share.

18. CAPITAL MANAGEMENT

The Bank's regulatory capital requirements are set and monitored by its regulator, the Prudential Regulatory Authority ("PRA"). The Bank implemented the CRD IV ("Basel III") framework for calculating minimum capital requirements as part of its capital planning within its Internal Capital Adequacy Assessment Process ("ICAAP").

On authorisation, the Bank was capitalised with £5 million of ordinary share capital provided by its Parent. This qualified as Common Equity Tier 1 ("CET1") for capital adequacy purposes. In addition, a further capital resource of £135 million was provided in the form of ordinary share capital by the Parent, see note 17.

The Bank uses regulatory capital ratios in order to monitor its capital base, and these capital ratios are based on international standards for measuring capital adequacy. The PRA's approach to such measurement is based upon the CRD IV framework which determines the Capital Resource Requirement against available capital resources. The PRA also sets Individual Capital Guidance ("ICG") for the Bank which is in excess of the minimum Capital Resource Requirement. A key input to the ICG setting process is the Bank's ICAAP. Under the current PRA guidelines, the total capital adequacy requirement for the Bank equals the aggregate of the Pillar 1 capital requirement, the Pillar 2A capital requirement (derived from the existing Internal Capital Guidance), and applicable macro-prudential buffers (the Countercyclical Capital Buffer ("CCyB"), the Capital Conservation Buffer ("CCoB") and the "PRA buffer").

The Bank's policy is to maintain an adequate capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There were no breaches in regulatory capital requirements reported in the year. The Bank's regulatory capital resource under CRD IV is £140 million at 31 March 2019, see note 17.

19. RISK MANAGEMENT

The Bank has exposure to credit risk, liquidity risk, market risk and operational risk.

Risk management framework

The Bank uses the risk management model known as the 'three lines of defence' governance model. The Risk Governance at the Bank is steered by the Board Risk and Compliance Committee ("BRCC") which reports to the Board of Directors of the Bank. The Risk Management Department takes ownership of risk monitoring, control and reporting and, in collaboration with all stakeholders including Business Heads, Treasury, Mid Office, Back Office, and Compliance, ensures robustness of the Risk Management framework and that regulatory expectations of risk management and compliance are met.

Management and operational employees are the first line of defence, responsible for implementing strategy and the establishment and maintenance of internal control and risk management in the business. This includes senior management and business line heads.

The Risk Management team is the second line of defence, responsible for operating a risk management framework within which risk policies are set, overseen and challenged.

Internal Audit is the third line of defence, responsible for providing independent and objective assurance of the effectiveness of internal controls established by the first and second lines of defence. The Internal Audit function operates under a co-sourcing arrangement with KPMG LLP and reports to the Board Audit Committee.

Risk management - roles and responsibilities

The Board / Board Risk & Compliance Committee
Whilst retaining overall responsibility for risk management, the Board has delegated to the Board Risk & Compliance Committee responsibility for establishing a comprehensive and effective framework for identifying, measuring, monitoring and managing risks across the Bank. The Committee is responsible for providing direction with respect to the following aspects of risk management:

- Review and recommend to the Board for approval the risk management framework at the Bank;
- Review and recommend to the Board for approval the risk management related policies;
- Oversee that all aspects of risk are monitored and managed by senior management;
- Ensure compliance with requirements of the regulatory bodies; and
- Responsibility for information disclosed in public reports containing descriptions of the risk management structure.

RISK MANAGEMENT (continued)

Audit Committee
The BAC is chaired by an independent non-executive director. The Committee's role is to assess and approve the internal audit charter, review the work of the external auditor, review the Bank's financial statements and monitor the risk based internal audit process. For further details of the roles and responsibilities of the Audit Committee, please refer to the Strategic Report.

Risk Management Committee ("RMC")
The Risk Management Committee ("RMC") monitors and manages enterprise-wide risk by:

- Reviewing policies and guidelines for risk measurement, management and reporting at its monthly meetings;
- Ensuring that risk management processes (including, people, systems, operations, limits and controls) satisfies the Bank's risk appetite and policies;
- Revieing and recommending for approval to the Board Risk & Complinace Committee risk limits, including management action triggers to the Bank Board;
- Overseeing robustness of financial models and effectiveness of all systems used to calculate risk;
- Ensuring that the policies and procedures for conducting risk activities over both the long-term and on a day-to-day basis are adequate and up to date.
- On a quarterly basis, reviewing compliance of Risk Limits for the Bank, exceptions observed, approval status of exceptions reported and providing necessary directions to minimise exceptions;
- Reviewing changes proposed to the risk management framework; and
- Actively participating in setting stress testing objectives, defining scenarios and discussing the results of stress tests in the context of Bank's Risk profile.

Risk Department
The Risk Department's role includes:

- The identification, assessment, monitoring, reporting and analysis of risk to the RMC;
- The review and recommendation of the limits along with review of the appropriateness of limit setting rationale;
- Ensuring that appropriate internal controls are in place;
- Ensuring that appropriate risk management systems are implemented;
- On a quarterly basis, reviewing compliance with risk limits, exceptions observed, their approval status and presenting its findings to the RMC.
- Reviewing whether appropriate and timely actions have been taken by the concerned units to handle the breach of approved limits;
- Being responsible for developing risk management policies and providing recommendations to the RMC for approval; and
- Deliberating upon stress testing results and guiding the Bank on possible courses of action as and when necessary.

RISK MANAGEMENT (continued)

Credit risk
The main credit risk that the Bank faces relates to its exposure to banks and corporates from its trade finance business, inter-bank lending, and advances to corporate and retail borrowers.

The Board of Directors has delegated the management of credit risk to the Board Risk and Compliance Committee. The Board Risk and Compliance Committee is charged with oversight of the credit risk framework within the limits set by the Board. Credit exposures are approved by both bank and board level credit committees depending on the nature and size of the exposure.

The Bank's exposure to credit risk is for loans and advances to customers of £361.862 million and loans and advances to banks of £738.690 million.

Collateral is only held for loans and advances to customers. Any shortfall of security for an exposure means that shortfall regarded as being unsecured and assessment thereof includes this element of residual risk. As at 31st March 2019, £149.326 million (2018: £NIL) within loans and advances were unsecured. Collateral held typically relates to the underlying property, on which the loan is secured. This mainly comprises real estate within the commercial and residential markets, the market value of which is assessed on a regular basis.

The following table shows the breakdown of the Bank's loans and advances to customers, categorised by the degree of risk of financial loss:

At 31 March 2019	**Carrying Value £000**	**Maximum Exposure £000**
Neither past due beyond 90 days nor impaired	361,862	361,862
Past due beyond 90 days but not impaired	-	-
Impaired	-	-
Repossessions	-	-
Unutilised overdraft commitments	-	26,658
Total	**361,862**	**388,520**

RISK MANAGEMENT (continued)

An analysis of Bank's total credit exposures as at 31 March 2019 as above, split by geography is provided below:

Geography	£000	%
Belgium	4	0%
Canada	323	0%
Egypt	29,785	3%
UK	863,240	76%
Indonesia	28,308	2%
India	122,383	11%
Jersey - (UK)	29,983	3%
Kenya	1,939	0%
Luxembourg	14,979	1%
Mauritius	0	0%
Netherlands	371	0%
USA	12,601	1%
UAE	10,000	1%
South Africa	27,494	2%
Total	**1,141,409**	**100%**

An analysis of Bank's total credit exposures as at 31 March 2019 (including investment securities, Loans and Advances to Customers and Deposits with Banks), split by sectors is provided below:

Sectors	£000	%
Bank	759,701	67%
Business Loan	34,557	3%
Buy To Let	28,048	2%
Clean Business Loan	28	0%
Development Loan	13,933	1%
LABOD	17,519	2%
Personal Loan	425	0%
Syndication Loans	236,535	21%
Others	50,663	4%
Total	**1,141,409**	**100%**

RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations with respect to customer deposits or any other borrowings, within the stipulated repayment frame and without significant additional cost. The Bank has a Board approved ILAAP in place, which is in line with the guidelines issued by PRA. The Bank has a system in place to monitor total contractual inflow and outflow and to manage liquidity gaps within pre-stipulated limits that are prescribed by the Board.

The following table analyses the Bank's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date at the reporting date:

Liquidity risk as at 31 March 2019:

	On demand	Not more than 3 months	< 3 months but < 1 year	1 - 5 years	>5 years	Total	Carrying Amount
	£000	£000	£000	£000	£000	£000	£000
Assets							
Loans and advances to banks	29,325	349,935	359,430	-	-	738,690	738,690
Loans and advances to customers	3,880	46,120	61,784	149,574	104,391	365,749	361,862
Available-for-sale financial assets	-	-	52,665	-	-	52,665	50,663
Derivatives	-	32,000	700	-	-	32,700	32,700
Total	**33,205**	**428,055**	**474,579**	**149,574**	**104,391**	**1,189,804**	**1,183,915**
Liabilities and equity							
Customer deposits	3,483	155,243	391,119	366,239	-	916,084	916,084
Bank deposits	-	89,568	-	-	-	89,568	89,568
Interest payable	23	1,918	5,340	2,273	-	9,554	9,716
Other creditors	-	-	155	-	-	155	155
Derivatives	-	32,048	703	-	-	32,751	32,751
Total	**3,506**	**278,777**	**397,317**	**368,512**	**141,562**	**1,048,112**	**1,048,112**

RISK MANAGEMENT (continued)

The above table shows that the Bank has surplus liquidity in all the residual maturity buckets.

Market Risk
Market Risk is defined as the potential adverse change in the Bank's income or net worth arising from movement in interest rates, exchange rates, equity prices and/or other market prices. Effective identification and management of market risk is required for maintaining stable net interest income.

The most significant forms of market risk to which the Bank is exposed are interest rate risk and exchange risk. The Bank's liabilities are at a fixed rate of interest while most of the Bank's assets are at a floating rate of interest. The Bank regularly analyses the exposure and has set limits for maximum mismatches.

Interest Rate Risk
Interest rate risk arises from financial instruments where net interest income or expense and the fair value of the Bank's assets or liabilities are exposed to movements in interest rates. Interest rate risk is managed by matching and monitoring the yield and duration exposure that is built into the Bank's portfolio. The table below summarise the re-pricing mismatch on the Bank's financial assets and liabilities as at 31 March 2019.

RISK MANAGEMENT (continued)

	Less than 3 months £000	3 months to 1 year £000	1 year to 5 years £000	More than 5 years £000	Non-Interest bearing £000	Total £000	Carrying Amount £000
Assets							
Loans and advances to banks	349,935	378,949	-	-	9,806	738,690	738,690
Loans and advances to customers	217,802	141,337	2,009	2,464	-	363,612	361,862
Tangible fixed assets	-	-	-	-	99	99	99
Available-for-sale financial assets	-	50,761	-	-	-	50,761	50,663
Other assets and deferred tax assets	-	-	-	-	4,006	4,006	4,006
	567,737	**571,047**	**2.009**	**2,464**	**13,911**	**1,157,168**	**1,155,320**
Liabilities and equity							
Customer deposits	162,072	390,991	163,305	199,716	-	916,084	916,084
Bank deposits	89,568	-	-	-	-	89,568	89,568
Derivatives	-	51	-	-	-	51	51
Pension scheme liability	-	-	-	-	45	45	45
Other liabilities	-	-	-	-	11,749	11,749	9,902
Share capital	-	-	-	-	140,000	140,000	140,000
Fair value reserve	-	-	-	-	(81)	(81)	(81)
Retained earnings	-	-	-	-	(249)	(249)	(249)
	251,640	**391,042**	**163,305**	**199,716**	**151,465**	**1,156,168**	**1,155,320**
Interest rate sensitivity gap	**316,097**	**180,005**	**(161,296)**	**(197,252)**	**(137,554)**	**-**	**-**
Cumulative gap	**316,097**	**496,102**	**334,806**	**137,554**	**-**	**-**	**-**

The Bank is monitoring its interest rate mismatches on a regular basis, and the potential loss on account of upward or downward movement of interest rates by 2% based on currency exposures as at 31 March 2019 is presented below:

All currency converted in local currency (GBP) on spot rate.

Effect of 200 basis increase in interest rates across maturity bands=£22.03 million.

Effect of 200 basis decrease in Interest rates across maturity bands=£24.88 million.

Effect of 200 basis points increase in interest rates would increase the Bank's net interest income by £6.08 million over a year horizon. A loss in net interest income would happen for a decrease in interest rates by 200 bps over a one year horizon assuming a parallel shift in the yield curve.

RISK MANAGEMENT (continued)

Foreign exchange risk
The Bank is exposed to foreign exchange risk to the extent of its open position in each currency. The Bank has stipulated an internal limit for maximum open positions and measures and monitors this open position on a daily basis. The Bank's exposure to foreign currency at the reporting date by currency were as follows:

Euro: £72,632
Indian Rupee: £103,205
US Dollar: £20,572

The Bank deals with various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses forward foreign currency swaps to eliminate currency risk on long or short currency positions. These derivatives are recognised at fair value through profit and loss (see note 21). The total notional amount of outstanding foreign exchange swaps to which the Bank is committed is £32.7m.

The objective of foreign currency risk management is to manage and control foreign currency positions and maintain these positions within the parameters set by the Board of Directors. It is not the Bank's intention to take open positions on its own account but rather to maintain a neutral position in all currencies.

Operational risk
Overview of operational risk is undertaken by the BRCC, and ultimately the Board of Directors, who retain responsibility for operational risk. The operational risk management framework is developed by the Risk Management Department and the implementation of controls to address operational risk is part of line managers' day-to-day responsibilities.

Qualitative and quantitative reports and metrics are collated by the Risk Management Department and reported regularly to the RMC and a summary report submitted to the BRCC and Board of Directors on a quarterly basis.

20. FINANCIAL INSTRUMENTS

The Bank has the following financial instruments:

	Loans and Receivables £000	Available for Sale £000	Total £000
Financial Assets			
Loans and advances to banks	738,690	-	738,690
Loans and advances to customers	361,862	-	361,862
Available-for-sale financial assets	-	50,663	50,663
Accrued income	3,987	-	3,987
	1,104,539	50,663	1,155,202

20. FINANCIAL INSTRUMENTS (continued)

	Other financial liabilities £000	Fair value through Profit or Loss £000	Total £000
Financial Liabilities			
Bank deposits	89,568	-	89,568
Customer Deposits	916,084	-	916,084
Other Liabilities	9,902	-	9,902
Derivatives	-	51	51
Pension Scheme Liability	45	-	45
Total Liabilities	1,015,599	51	1,015,650

£5 million was recognised as loans and receivables in the comparative period.

Valuation of financial instruments carried at fair value
The Bank holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques
Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1 The most reliable fair values of financial instruments are quoted market prices in actively traded markets.
Level 2 These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets.
Level 3 These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Available for Sale				
Government securities	50,663	-	-	50,663
Financial Liabilities				
Fair value through Profit & Loss				
Forward Foreign Exchange Contracts	-	3	-	3
Cross Currency Swaps	-	48	-	48
	-	51	-	51

21. DERIVATIVE INSTRUMENTS

	Notional Value £000	Fair Value Liability £000
As at 31 March 2019		
Forward Foreign Exchange Contracts	700	3
Cross Currency Swaps	32,000	48
Total	32,700	51

During the year, the Bank used derivatives to economically hedge exposure to foreign exchange risks. The Bank does not hold or issue derivatives for speculative or trading purposes. The fair value of derivatives held for non-trading purposes is determined by using observable market data. The fair value change on derivatives is recognised in profit or loss.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Listed investments £000
At 31 March 2018	
Acquisition	101,184
Disposals and redemptions	(50,331)
Fair value adjustment	(190)
At 31 March 2019	50,663

There were no investment securities in the comparative period.

23. DEFERRED TAXATION

	2019 £000
Breakdown of deferred taxation movements during the current and comparative periods:	
Charged to profit or loss	2
Charged to other comprehensive income	17
At end of year	19

23. DEFERRED TAXATION (continued)

The deferred tax asset is made up as follows:

	2019 £000	2018 £000
Deductible temporary differences arising on tangible fixed assets	2	-
Deductible temporary differences arising on fair valuation of available-for-sale financial assets	17	-
	19	-

24. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

The contingent liabilities existing at the reporting date (2018: none) are as follows:

	2019 £000
Guarantees given on behalf of constituents	
- Performance guarantee	218
- Financial guarantee	1,712
Total guarantees	1,930
Acceptance, endorsement and other obligations	
For letter of credit	
- Inland	-
- Foreign	1,494
Total acceptance, endorsement and other obligations	1,494
Bills for collection	
Inward	3,303
Outward	1,344
Total bills for collection	4,647

24. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS (continued)

The Bank had the following classifications of contingent liabilities as at 31 March 2019 :

Guarantee : A financial guarantee assures repayment of money in the event of non-completion of the contract by the customer. A performance guarantee provides an assurance of compensation in the event of inadequate or delayed performance on a contract by the customer.

Letter of credit : A letter of credit, also known as documentary credit, is issued by a bank to another bank to serve as a guarantee for payments made to a specified person under specified conditions.

Bills for collection : A bill for collection represents a handling of documents by the Bank in accordance with instructions received from a customer in order to obtain payment or deliver documents against payment.

Undrawn credit facilities
The Bank has committed to provide finance to a number of counterparties. The undrawn amount of these facilities as at 31 March 2019 amounted to £3,424,000 (2018: Nil).

25. PENSION COMMITMENTS

The Bank operates a defined benefit pension scheme. It was formed to provide retirement benefits to employees of the Bank and their dependents. Benefits are also provided for the surviving spouses of members who die either in service or in retirement, together with lump sum benefits where appropriate. This scheme was closed to new entrants with effect from 15 November 2004. For the new entrants, since 2005, the Bank established a Stakeholder Pension Scheme (Defined Contribution Pension) with Legal & General.

The Scheme was established under an irrevocable Deed of Trust. The Deed determines the appointment of trustees to the fund. The scheme is managed by a corporate trustee accountable to the pension scheme members. The trustees of the fund are required to act in the best interests of the beneficiaries.

Pension benefits depend upon age, length of service and salary level.

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2019 by a qualified independent actuary. Contributions to the scheme are made by the Bank based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees.

There were no changes to the scheme during the year and no amounts owing to the scheme at the year end.

Reconciliation of present value of plan liabilities:

	2019 £000	2018 £000
Reconciliation of present value of plan liabilities		
Transfer of Scheme	-	-
Current service cost	118	-
Interest cost	2	-
Gain/loss on settlement or curtailment	1	-
At the end of the year	121	-

Reconciliation of present value of plan assets:

	2019 £000	2018 £000
Transfer of scheme	-	-
Interest income	1	-
Contributions	74	-
Gain/loss on settlement or curtailment	1	-
At the end of the year	76	-

25. PENSION COMMITMENTS (continued)

Composition of plan assets:

	2019 £000	2018 £000
Equities	48	-
Bonds	28	-
Total plan assets	76	-

	2019 £000	2018 £000
Fair value of plan assets	76	-
Present value of plan liabilities	(121)	-
Net pension scheme liability	(45)	-

The amounts recognised in profit or loss are as follows:

	2019 £000	2018 £000
Current service cost	118	-
Interest cost	2	-
Loss on curtailments and settlements	1	-
Total	121	-
Actual return on scheme assets	1	-
Loss on curtailments and settlements	1	-
	2	-

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income was £NIL (2018 - £NIL).

25. PENSION COMMITMENTS (continued)

Principal actuarial assumptions at the Balance sheet date (expressed as weighted averages):

	2019 %
Discount rate	2.36
Prices Inflation (RPI)	3.23
Salary increases	2.98
Pension increases in payment:	
- RPI, max 5% (post 6 April 1997)	3.14
- CPI, Max 3.0% (post 6 April 1988 GMP)	2.19
CPI, max 2.5%	2.48
CPI, max 2.5%	2.48

Amounts for the current period are as follows:

Defined benefit pension schemes

	2019 £000
Defined benefit obligation	(121)
Scheme assets	76
Deficit	**(45)**

As the scheme transferred on 17 December 2018, there is no comparative information presented.

26. COMMITMENTS UNDER OPERATING LEASES

Operating Lease:

A lease where the lessor effectively retains substantially all the risks and rewards of ownership over the lease term is classified as an operating lease.

Rentals payable and receivable under operating lease are accounted for on a straight-line basis over the periods of the lease.

During the year £148,000 was recognised as an expense in the profit and loss account in respect of operating leases.

26. COMMITMENTS UNDER OPERATING LEASES (continued)

Operating Lease Commitments:

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

	2019 £000	2018 £000
Less than one	465	-
In one to five years	1,595	-
In over five years	1,841	-
	3,901	-

27. RELATED PARTY TRANSACTIONS

The Bank enters into commercial transactions with the Parent in the ordinary course of business on an arm's length basis. The Bank is exempt from disclosing other related party transactions under section 33.1A of FRS102 on the basis that the Bank and the related parties are wholly owned within the Bank of Baroda Group.

28. CONTROLLING PARTY

The Bank is wholly owned by Bank of Baroda Limited, a Bank incorporated in India. The consolidated financial statements of the parent company can be obtained at Investor Services Department, Bank of Baroda, 7th Floor, Baroda Corporate Centre, C-26, G- Block, Bandra- Kurla Complex, Mumbai, 400051, India. The financial statements of the parent company are also available on the parent company's website www.bankofbaroda.com.

29. EVENTS AFTER THE REPORTING DATE

There were no significant events after the balance sheet date that require disclosure in these accounts.