Bank of Baroda (UK) Limited

Annual Report and Financial Statements

For the year ended 31 March 2021

Company Registration No: 10826803

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Company Information

Directors	Sanjiv Chadha (appointed – 9 April 2020) Chairman and Non-Executive Director
	A Manambrakat (resigned – 21 May 2021) Deputy Managing Director and Executive Director
	Arun Aggarwal (appointed – 2 October 2020) Deputy Managing Director
	C P J Fitzgibbon Independent Non-Executive Director
	M C Say Independent Non-Executive Director
	M Ramaswami (resigned – 9 April 2020) Non-Executive Director
	S K Grover Managing Director
	S K Srivastava (appointed – 1 June 2020) Non-Executive Director
	Venugopal Menon (resigned – 1 June 2020) Non-Executive Director
Registered number	10826803
Registered office	32 City Road London United Kingdom EC1Y 2BD
Auditors	Mazars LLP Tower Bridge House St Katharine's Way London

Chairman's Statement

It is with great pleasure that I present the Annual Report and Financial statements of Bank of Baroda (UK) Limited ("The Bank") for the year ended 31 March 2021, demonstrating the steady progress we have made through the year against both our strategic and financial objectives. This was in the context of 2020-21 being a year in which the world confronted unprecedented health, social and economic challenges.

As far as the UK political & economic scenario is concerned, the beginning of the year saw economic impact from instability caused by the UK exiting the European Union on 31 January 2020 followed by a transition period with further uncertainties associated with finalising the future relationship between UK and EU. At the same time, the outbreak of pandemic Covid-19 further caused huge economic, social and market dislocations worldwide. Governments and regulators around the world acted in unison to stem the impact on businesses, individuals and the workforce who lost their jobs. In UK, the Bank of England and Her Majesty's Treasury took decisive steps to mitigate the impact of economic slowdown due to Covid-19 such as injecting liquidity in the system through quantitative easing, direct assistance in terms of rates relief and furlough payments for businesses, low interest rates and directed Banks to help impacted businesses and customers with payment holidays and interest deferrals.

Performance

In the overall climate of negative economic growth and Brexit uncertainties in the UK, the Bank was able to post a good performance through effective balance sheet management. Despite the low interest rates in 2020-21, I am pleased to report that profit before tax increased by 19.8% over previous year. Net profit was up by 18.3% in 2020-21. The Bank took a cautious approach towards new lending and kept all its funding sources active. Customer deposits reduced by 8.7% and Customer advances were down by 4.4% at 31 March 2021. Current Account and Savings Account (CASA) deposits to total deposits ratio improved from 26.5% at 31 March 2020 to 32.2% at 31 March 2021. Investments in Government and corporate bonds increased by 123.7% at 31 March 2021 as the Bank sought to deploy surplus funds profitably.

Strategic Update

The Bank offers a range of products to its customers covering retail, corporate and commercial banking. The Bank's main product lines are current accounts, savings accounts, fixed deposits, remittance to India along with customer and personal loans, syndicated loans, buy-to-let financing, development finance, finance against property and SME financing. We continue to invest in our credit and customer relationship processes and infrastructure. Our business model is to serve the banking needs of the Indian diaspora in the UK as well as UK SMEs. We have a strong and loyal retail customer base, and we are committed to improve their customer journey through digital channels, competitively priced deposit products, user friendly remittance services.

During the year, we have granted Covid-19 related forbearance relief in the form of deferred interest and principal payments to a number of our customers. The majority of them are now current in their payments.

Stakeholders

We work closely with our regulators (PRA and FCA) in a spirit of transparency and complete co-operation. We would like to thank them for their support and look forward to working with them on their priorities for the UK financial system particularly relating to climate change, Libor transition, operational resilience, retail banking customer services and governance. Compliance culture is ingrained in us and we will continually strive to strengthen it across the organisation.

Looking ahead

The Board of Directors of the Bank is continuously engaged with the management team to achieve business goals which benefit all stakeholders. Our strategy this year will be investing in our operational infrastructure to deliver improved customer service and relationships, efficiency, and credit growth.

This has been a difficult year for our customers and employees with Covid-19 putting unprecedented stress on their lives. We are committed to supporting them in every way we can. We have taken an understanding view of customers in financial difficulty while Health and Safety is a key priority for us and we have instituted flexible working arrangements and remote working, wherever possible. We will continue to monitor the impact of Covid-19 and work in full compliance with government guidelines. We owe a special thanks to our customers and employees for their professionalism and support during these tough times.

Sanjiv Chadha
Chairman and Non-Executive Director
14 July 2021

Strategic report
for the year ended 31 March 2021

The directors present their strategic report for the year ended 31 March 2021 for Bank of Baroda (UK) Limited ("the Bank").

The Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Bank commenced its commercial operations in December 2018.

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

Strategic objectives

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 manage credit risk in view of Covid - 19 and upgrade resources and infrastructure to position itself for growth in UK.

The Bank's primary objectives are:

1. To create profitable and sustainable business growth within the UK.
2. To expand existing customer relationships by increasing the range of products and services available to customers.
3. To ensure that the risks inherent in the business are subject to robust controls, risk and compliance and management oversight.
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 its operations in December 2018 with Tier-I share capital of £5 million, increased to £150 million as at 31 March 2021, which was entirely contributed by Bank of Baroda Limited (the Parent Bank).

Net interest income of the Bank was reduced from £19.0 million in 2019-20 to £16.1 million in 2020-21. The Bank made an annual profit before tax of £8.94 million in 2020-21, increased from £7.47 million in 2019-20. Net profit was up from £6.1 million in 2019-20 to £7.2 million in 2020-21.

The assets size of the Bank reduced from £1,328 million at March 2020 to £978 million at March 2021. The bank has strategically shifted its focus on growth in CASA instead of total deposit. CASA level of the Bank stood at £257 million in March 2021. Total customer deposits were £799 million at March 2021, compared to £875 million at March 2020.

Total customer advances were £239 million at 31 March 2021, reduced from £250 million at 31 March 2020. The Bank has not booked any additional loan loss provision during the year.

Since the retail market was sluggish, the Bank has strategically invested in securities and built a portfolio of £254 million at 31 March 2021, with a growth by 123.7% compared to previous year, looking to the opportunity available the bond market. The capital, funding and liquidity positions of the Bank remained adequate throughout the year.

The Bank maintained a conservative approach to growing customer advances in the light of enhanced credit risk. It managed its deposit base in line with requirement for customer advances and sought to deploy excess liquidity in inter-bank placements of varying tenors and expanding its investment portfolio.

Key performance indicators

The financial performance for the financial year 2021 is summarised in the following table:

Key Performance Indicators (%)	2020-21	2019-20
Net Interest Margin (NIM) (Net interest income / Average earning assets)	1.55%	1.75%
Cost to Income Ratio (Operating cost / Total operating income)	54.99%	54.56%
Return on capital employed	4.24%	4.11%
Credit to deposit ratio (Loans and advances to customers to Customer deposits)	29.88%	28.55%
Core Tier-1 ratio (Common equity tier 1 capital / Total risk weighted assets)	22.61%	21.03%
Total capital ratio Own funds / Total risk weighted assets)	22.61%	21.03%
Liquidity coverage ratio	538.08%	141.57%
Leverage ratio (Core capital to total assets)	15.07%	10.96%

Profitability
The profit before tax for the Bank increased from £7.5 million in 2019-20 to £8.9 million in 2020-21. The Bank's profit after tax for the year amounted to £7.2 million (2020: £6.1 million), though cost to income ratio increased to 54.99% (2020:54.56%). Net interest margin reduced to 1.55% (2020: 1.75%), because of reduction in interest rates during the year.

Capital resources
The Bank's capital adequacy ratio was 22.61% as at 31 March 2021 (2020: 21.03%), which is higher than the regulatory requirements. The Bank maintains internal capital buffer on top of prudential capital requirements set by the regulators. The Bank's regulatory capital resource under CRD IV is £152 million at 31 March 2021 (2020: £148 million). The Bank's leverage ratio was 15.07% at 31 March 2021 (2020: 10.96%).

Liquidity resources
The Bank's Liquidity Coverage Ratio (LCR) was maintained higher than minimum regulatory requirements of 100% set by the regulators, throughout the year. LCR was 538.08% as at 31 March 2021 (2020: 141.57%).

Principal activities and business model

The Bank delivers its corporate and retail banking products and services through 10 branches located all over the UK. The Bank's focus is on building a sustainable business model with strong and robust corporate governance and control environment. The Bank offers a range of products to its customers covering retail, corporate and commercial banking, and treasury services.

Retail Banking:
The Bank offers personal current accounts, personal savings accounts, business current accounts, fixed deposits, and services for remittance to India. On the asset side, products like buy-to-let finance, development finance and professional loans are offered to customers.

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. Currently, the Bank is active in the secondary loan syndications market for corporate customers. It also provides business finance and finance against property to SME customers.

Treasury:
The treasury function focuses on managing funding and market and liquidity risk while optimising returns. The Bank does not undertake any proprietary trading activities. The Bank maintains, a Liquidity Asset Buffer (LAB) and manages its liquidity within predetermined limits as per regulatory norms. The Bank reviews its asset/liability maturity mismatches and interest rate positions on an ongoing basis and maintains liquidity gaps and interest rate positions within prescribed limits, which are monitored by the Asset and Liability Committee (ALCO).

Economic Outlook

The Bank's primary operations are in the UK. Since March 2020, the world has been facing unprecedented economic and social crisis due to the Covid-19 pandemic as per the World Economic Outlook (WEO) published by IMF in April 2021. The Covid-19 pandemic has inflicted a high cost on the world economy in terms of outright assistance to individuals and businesses most impacted by large scale lockdowns and stimulus measures to minimise the drop in global output and consumer spending. Despite the relative success in developing vaccines, the outlook continues to be uncertain given the rise of new mutations and variants and unequal distribution of vaccines.

Global growth is projected at 6 percent in 2021 (based on recovery in consumer spending as the economies emerge out of lockdowns), moderating to 4.4 percent in 2022. The projections for 2021 and 2022 are stronger than in the October 2020 World Economic Organisation (WEO). The upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility.

Although a recovery is now underway, and the pandemic is receding in some countries, elsewhere, second and third waves of infections are raging, notably in India and some of the ASEAN economies. However, the surge of coronavirus cases in India in April 2021, isn't just a crisis for the emerging economy, but for the entire world. India recorded more than 350,000 new infections on 26 April 2021, marking more than 2 million cases in a seven-day period and most of the entire crisis.

As per the Office of National Statistics (ONS) in UK, The UK economy contracted 1.5 per cent in the first three months of 2021 as Covid-19 restrictions shut down much of the economy, a fraction less than City economists had feared. Month-on-month Gross Domestic Product grew by 2.1 per cent in March, the fastest monthly growth since August 2020, as schools in some parts of the UK reopened throughout the month. The strong recovery seen in March, led by retail and the return of schools, was not enough to prevent the UK economy contracting over the first quarter as a whole, with the lockdown affecting much of the services sector. Construction and manufacturing grew strongly in March, as businesses continued to adapt and make themselves Covid-19 secure, the ONS reported.

The Office for National Statistics said that the economy was still 8.7 per cent smaller than its pre-pandemic size. However, it is expected to grow rapidly over the coming months, as lockdown restrictions are eased over the summer.

The Bank of England has revised up its growth forecasts this year as the economy shows signs of recovery from its coronavirus slump. It now expects growth of 7.25 per cent, up from its previous estimate of 5 per cent. After contracting by 9.8 per cent in the worst recession since 1709 last year, growth is expected to bounce back to 7.25 per cent this year. GDP is expected to be at pre-crisis levels by December 2021, faster than forecasts for much of Europe.

The Bank is closely monitoring the situation in the UK and in India and will take corrective actions as and when required. The Bank has tested market wide stress from economic uncertainties as part of its ICAAP and ILAAP process on an annual basis and the Bank is confident to handle the situation effectively and efficiently. In consideration of the challenging global economic environment along with Covid-19 pandemic and Brexit impact, the Bank took a cautious approach towards new lending and kept all its funding sources active.

Principal risks and uncertainties

The principal risks and uncertainties the Bank is exposed to are capital risk, credit risk, market risk, operational risk, liquidity risk, foreign exchange risk, interest rate risk, climate change risk and Covid-19 related pandemic risk.

Capital Risk

This is the risk of maintaining inadequate capital buffers as a result of uncontrolled business growth and/ or significant expected/ unexpected losses leading to an erosion in capital of the Bank. The Asset and Liability Committee (ALCO) of the Bank is charged with managing the balance sheet of the Bank and maintaining the capital adequacy within approved risk appetite limits.

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 loan syndications, inter-bank lending, and advances to corporate and retail borrowers. The Board of Directors has delegated the management of credit risk to the Board Credit Committee. Credit risk is explained in detail in note-19.

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 Board sets the market risk tolerance levels which are managed on a daily basis by the Treasury department. Capital is allocated against market risk in accordance with regulatory requirements. Market risk is explained in detail in note 19.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, cyber security risk or from external events. Overview of operational risk is undertaken by the Board Risk and Compliance Committee and ultimately the Board of Directors, who retain overall responsibility. The operational risk management framework is developed by the Risk Management Department, and the implementation of controls to address operational risk is part of the line managers' day to day responsibility.

Capital is allocated by the Bank against Operational risk in accordance with the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

Liquidity risk

Liquidity risk is the risk the Bank does not have sufficient resources available to meet its obligations as they fall due or can only secure such resources at higher cost than ordinarily expected. The Bank's approach to managing liquidity is to ensure that it will always have sufficient available financial resources to meet its liabilities when due, under normal and stressed conditions, without any unacceptable losses or risk to the Bank's reputation. The Bank has established an Individual Liquidity Adequacy Assessment Process (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 High-Quality Liquid Assets (HQLA) to ensure that it will be able to meet its liabilities during times of stress. Liquidity risk is explained in detail in note 19.

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 its 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 keep significant open positions on its own account, but rather to minimise the impact of adverse foreign exchange movements. Foreign exchange risk is explained in detail in note 19.

Interest rate risk

Interest rate risk arises from financial instruments where interest income from assets and interest expense on liabilities are exposed to movements in interest rates. Interest rate risk is managed by matching and monitoring the yield and duration exposure built into the Bank's portfolio. The Bank monitors the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. Interest rate risk is explained in detail in note 19.

Climate change risk

The Board recognises that the impact of climate change can have an impact on its financial position in terms of the valuation of its assets, collaterals, other liabilities, and financial risk disclosures. The Board of Directors accepts ownership and is accountable for managing the risks associated with climate change and its impact on the resilience of the Bank's business model both in the immediate and longer term.

This risk has been initially assessed as low for the Bank's business model, and it has been embedded within the Bank's Risk framework and Risk Appetite to ensure that it is managed effectively.

Coronavirus risk

The Covid-19 outbreak was declared a global pandemic by the World Health Organization on March 11, 2020 which resulted in decline in economic activity and increased volatility in financial markets. There has been a gradual pick-up in economic activity since the easing of lockdown measures which led to resumption of economic

activities. The extent to which the Covid-19 pandemic will impact the Bank's results will depend on future developments, which are highly uncertain including among other things the success of the newly developed vaccines, any new information concerning severity of the new strains of the Covid-19 pandemic and action to contain its spread or mitigate impact including further economic stimulus and long term impact on consumer behaviour, changes in work-place due to remote working, impact on commercial and retail property, etc. .

The Bank has carefully monitored the spread of Covid-19 in the UK and other parts of the world, where the Bank has exposure. In year 2019-20, it assessed its exposures in relation to deferment requests and made provisions to cover potential losses. In year 2020-21, the Bank has carefully assessed the residual deferment requests, analysed the recoverability, and continued support to a few customers. The Bank has reduced loss provisions related to Covid-19 to £297,000.

The Bank made a number of arrangements to ensure the health and well-being of its employees such as Work from Home (WFH) facility, additional paid leave to employees with vulnerable conditions, support for impacted employees, etc. It also made mask wearing mandatory whenever any employee was in the Bank during Covid-19 pandemic. The Bank allowed its employees to be furloughed if they are eligible under the scheme and the Bank received grants from the HMRC for employees who have been furloughed.

Regulatory environment

The Bank is subject to the CRD IV framework, which implements capital requirements in the revised European Union Basel III framework. The Bank complies with the capital requirements of CRR and CRD IV (Basel III), as set out in the PRA's approach document to banking supervision mainly covering the composition and quality of capital.

CRD IV plays a significant role in determining how the Bank and other financial institutions globally undertake their business. The Bank is compliant with the Common Reporting standards (COREP) for capital adequacy and large exposures. It is the Bank's policy to remain compliant with all regulatory requirements at all times.

The Bank operates in a highly regulated environment and is therefore subject to regulatory risk. The Bank closely monitors and considers future regulatory changes. The Bank continues to evaluate the impact upon capital requirements, including proposed amendments to the Capital Requirements Regulation.

The PRA published Policy statement 17/21 in July 2021, with new rules implementing Basel III standards in the UK, due to be effective from January 2022. The new rules will amend the requirements of capital, liquidity, regulatory reporting such as COREP – own funds, leverage, large exposures, net stable funding ratio etc and related disclosures. The Bank is reviewing the impact of these amendments.

Capital and risk management

Effective risk governance is a key component of the Bank's business strategy. The management of risk is the ultimate responsibility of the Board of Directors, and the Board is supported by an independent risk management department and Board and management sub-committees.

Board Risk and Compliance Committee (BRCC): The BRCC is a sub-committee of the Board. It is the Bank's apex or risk committee with delegated authority from the Board to agree appetites, frameworks, and policies and to monitor all of the Bank's risks. The objective of the Committee is to achieve oversight of the overall compliance and risk management functions, including credit, market, operational risk, and liquidity risk, 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 Committee meets quarterly or more frequently as circumstances dictate.

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

Board Audit Committee (BAC): The BAC is a sub-committee of the Board and has delegated authority from the Board to agree the Bank's Internal audit universe, Risk management of the universe and annual audit plan, to review and agree the annual report and accounts, to review and monitor the external audit, and to monitor and control all "third line" audit activity in the Bank. 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 Internal Audit. The BAC also ensures and monitors independence of the External Auditors. The Committee meets quarterly or more frequently as circumstances dictate.

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

Board Credit Committee (BCC): The BCC is a sub- committee of the Board which ensures the most material credit decisions beyond the delegated authority of both branch managers and the Head of Credit/Credit Approval Committee (CAC) are appropriately considered at a senior level. Additionally, the Committee will discuss and review the Bank's overall strategy and approach with respect to credit (Inc. credit risk appetite). The objective of the CAC is to be responsible for approval of Credit Proposals under its Discretionary Powers as per the Credit Policy and for reviewing potential transactions with respect to commercial considerations. The Committee meets quarterly or more frequently as circumstances dictate.

The BCC is chaired by the Managing Director.

Board Remuneration and Nominations Committee (BRNC)

The BRNC has delegated authority from the Board to regularly review the structure, size and composition and succession (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 or changes. The Committee meets quarterly or more frequently as circumstances dictate.

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

Management Committee (MANCO): The MANCO is the apex executive committee of the Bank charged with managing day to day operations of the Bank in accordance with regulatory framework, board guidance and approved risk appetite. MANCO reports to the Board.

The MANCO is chaired by the Managing Director.

Risk Management Committee (RMC): The RMC is an Executive Level Committee and reports to BRCC. RMC is responsible for overseeing the overall Risk management of the Bank including Credit, market, Operational, conduct, legal and reputational risks. Some of these risks may be delegated to other committees to manage at a micro level. It is also responsible for reviewing and recommending the Bank's risk appetite to BRCC.

RMC is chaired by the Chief Risk Officer.

Asset and Liability Committee (ALCO): The ALCO is an Executive Level Committee and reports to Manco and BRCC. The objective of the Committee is to oversee the capital, liquidity, and Interest Rate Risk of the Bank. It is also responsible for Balance Sheet Management and ensuring that the Bank is compliant with all regulatory requirements on liquidity and funding.

The ALCO is chaired by the Managing Director.

Credit Risk Evaluation Committee (CREC): The CREC is an Executive Level Committee, responsible for evaluation and analysis of individual credit proposals. The CREC is chaired by Chief Risk Officer (CRO) and meets as and when a proposal is submitted by the sponsoring authority.

Three Lines of Defence:

A "three lines of defence" model has been adopted by the Bank for the effective oversight and management of risks across the Bank.

First line of defence: 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/Team carries responsibility for ensuring that activities undertaken are within the Bank's risk appetite.

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 operating in a consistent and ongoing basis in order to effectively manage risks.

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 focusses on monitoring and review and is responsible for:

- Developing and monitoring the implementation of 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 and that they are being implemented.

- Establishing an early warning system for breaches of the Bank's Risk Appetite or Limits.
- Influencing or challenging decisions that give rise to material risk exposure.
- Reporting via the Chief Risk Officer to BRCC, on all these items, including risk mitigating actions, where appropriate.
- Oversight, effectiveness and ensuring implementation

Third line of defence: The third line of defence comprises Internal Audit, which is responsible for:

- 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.
- Reporting to the Board Audit Committee on the status and progress of the above.

The Bank's third line of defence is co-sourced with KPMG. The Board has responsibility for overseeing the effective action and performance of all three lines of defence.

Section 172 statement

The directors of the Bank, both individually and collectively, have acted in accordance with their duties codified in law, which include their duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Bank for the benefit of its members as a whole, having regard to the stakeholders who include, the shareholders, customers, suppliers, employees, regulators, communities and environment affected by our Bank and matters set out in section 172(1) of the Companies Act 2006. In Particular:

Shareholders: The Bank is a 100% subsidiary of Bank of Baroda, India, the parent bank. The directors appreciate the engagement and support of the shareholders through its nominees on the Board.

Customers: Our customers are at the focal point of what we do. The directors have sought to continuously enhance, the Bank's customer focus, products, and transactional services. Customer complaints and concerns if any of a material nature for the directors' level have been brought to the notice of the directors. Executive management / Directors have met with customers, whenever required, which include direct engagement with key-customers to understand their needs, through forums and meetings. The Branches of the Bank across the UK were operated with reduced staff members and reduced time to ensure customers are not severely affected during the Covid-19 pandemic.

Suppliers: During the year, the directors have periodically received updates through management information and other methods on the Bank's performance against its statutory reporting obligations in respect of the payment of third-party suppliers. Outsourcing agreements and their operations have been reviewed periodically by the Management Committee and review of Outsourcing policy have been carried out with an intention to ensure outsourcing efficiency and control in line with FCA material outsourcing guidelines.

Employees: The Bank made a number of arrangements to ensure the health and well-being of its employees such as Work from Home (WFH) facility, supported employees with vulnerable conditions, etc. It has ensured proper working conditions in accordance with government guidelines for those employees wishing to work from offices. The Branches of the Bank across the UK were operated with reduced staff members to ensure their safety. During the year, the Bank has not made any redundancies of its employees because of Covid-19.

Regulators: The directors are focused and committed on maintaining transparent and compliant relationships with regulators and to maintain a compliant culture at all times. The directors, through oversight and timely interventions aim to ensure that any regulatory changes are adopted, embedded and always adhered to. As regards the regulatory, risk & compliance matters, the BRCC has a clear oversight on them. The team engages with the PRA and FCA supervisory teams through meetings and communications bilaterally and through industry associations including UK Finance and Association of Foreign Banks.

Communities and environment: The Bank is committed to managing the community, environmental and economic impacts of its operations which includes the way it deals with its community and customers. While the Bank is committed to providing the best of services on a reasonable basis to all customers, the major segment of customers currently banking with us is the Asian community particularly the Indian Diaspora in the UK. This segment has specific needs including credit facilities and specific remittance facilities to India in INR (Indian Rupees). The Bank caters to these communities and their requirements efficiently and diligently through various channels. These services are administered and monitored by Senior / Top Management and with oversight from the directors through various committees.

Corporate governance

The Bank places a strong emphasis on internal governance and maintenance of high ethical standards in its working practices. The Bank's corporate governance framework is driven by the Board, which comprises two Executive Directors, two Non-Executive Directors representing the Parent, and two independent UK-based Non-Executive Directors.

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

By order of the Board,

(Sanjay Kumar Grover)
Managing Director

(Arun Aggarwal)
Deputy Managing Director

Date: 14 July 2021

Directors' report
for the year ended 31 March 2021

The directors present their report together with the audited financial statements of the Bank for the year ended 31 March 2021.

Directors
The directors who served to the Bank, during the year and at the signing the financial statements, are listed on page 3.

Directors' Indemnities
The Bank provides directors with qualifying third-party indemnity insurance and reviews the level of cover.

Results and dividends
The Bank made a profit before tax of £8,949,000 (2020: £7,472,000) during the year. The directors do not recommend the payment of a dividend for the year (2020: £nil).

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

The Board 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 activity of the Bank in the last financial year has been lending to targeted retail clients, lending against property, participation in secondary syndicated loans and investing surplus funds in a portfolio of high-quality liquid assets as part of its liquidity management. A key focus has been to ensure that the Bank's business plan is achievable within its capital and liquidity resources.

Future plans:
In addition to growing its existing activities, the Bank also recognises the desirability of continuing to diversify its sources of revenue. The Bank plans to diversify its customer base, grow its SME financing business and invest in remittance services to its customer base. At the same time, the Bank will invest in its credit appraisal and management processes to make them more robust and seamless.

Brexit impact
UK's transition period with the EU is now over and it is no longer bound by EU rules subject to the EU-UK Trade and Cooperation Agreement. Financial services have largely been omitted from the Cooperation Agreement which, inter alia, means there is no longer a reciprocal passporting of banking licenses. The UK regulatory authorities have issued a policy statement PS 17/21, on the changes to Capital Requirements Regulation (CRR2) effective from 1 January 2022.

The Bank expects that there may be opportunities post Brexit particularly related to potential trade agreements between UK and other countries and will seek to participate in appropriate financing options.

Covid-19
The Covid-19 outbreak was declared a global pandemic by the World Health Organization on March 11, 2020, which resulted in declined economic activity and increased volatility in financial markets. There has been a gradual pick-up in economic activity since the easing of lockdown measures which led to resumption of economic activities. The challenges in different sectors of the economy are still continuing and there are risks to the downside given the threat of new Covid-19 variants.

The Bank implemented its business continuity plans (BCP) to ensure continuous support to its customers and safety and well-being of its staff members. The Bank stress tested its capital and liquidity position taking into account the impact of Covid-19. The Bank remains in a strong capital and liquidity position and will continue to support its customers and employees, wherever possible. The Bank assessed its exposures in relation to deferment requests and made provisions to cover potential losses in 2019-20. In year 2020-21, the Bank has carefully assessed the residual deferment requests, analysed the recoverability, and continued support to a few customers and is of the view that the existing loan loss provisions are sufficient. Therefore, it has not made any additional loan loss provisions.

LIBOR transition:
The Bank has a Libor Transition Committee which is tasked with overseeing the transition of legacy Libor loans in alignment with regulatory and market accepted timelines. We have communicated with the impacted customers individually as well as through our website. In accordance with the Sterling Risk Free Reference Rate Working Group guidelines, we have discontinued offering new GBP Libor linked loans and have offered BoE base rate linked loans for bilateral lending. The Bank notes that GBP Libor will be discontinued from 31 December 2021 and USD Libor (for 3 months and 6 months tenor) by 30 June 2023. The Bank is in the process of implementing system changes to cater to alternative reference rates based on GBP SONIA and USD SOFR and plans to transition all legacy Libor linked loans in line with regulatory deadlines in consultation with the impacted customers.

Going concern
The financial statements are prepared on a going concern basis. The Bank has adequate resources to continue its operations for the foreseeable future, along with support from its parent bank to ensure operational capability by way of Service Level Agreement.

In particular, the Bank has considered its resilience in the face of stress testing as a part of its Internal Capital Adequacy Assessment Process (ICAAP). The Bank has also conducted separate stress testing on the impact of Covid-19, assuming it will last for 12 months and due to which, there will be an increase in impairment of assets. Results indicated that the Bank has sufficient capital and liquidity to fund its balance sheet for each reasonably possible scenario. The directors are satisfied and reasonably expect that the Bank has adequate resources to meet its obligations for the foreseeable future and for at least 12 months from the approval of the financial statements. The directors concluded that there is no material uncertainty on going concern and therefore it remains appropriate to adopt the going concern basis in preparing the Bank's financial statements.

The Bank maintains a sound liquidity position, in excess of the requirements demanded by the regulatory environment. There is a robust liquidity adequacy and monitoring process in place.

The Bank continues to strengthen its governance and control environment to enable it to meet the regulatory challenges faced by all banks, based on best practice in the industry and underpinned by the industry standard three lines of defence model for risk management.

Political donations
No political donations were made during the year (2020: None).

Employees
In formulating its 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.

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. Whistle blowing procedures are in place.

During the Covid-19 pandemic, the Bank made number of arrangements to ensure the health and well-being of its employees such as Work from Home (WFH) facility provided, employees with vulnerable conditions were allowed additional paid leave. It has also provided face covering mask, made mandatory masks wearing when in the Bank. The Bank allowed its employees to be furloughed if they are eligible under the scheme and the Bank received grants from the HMRC for employees who have been furloughed. The Branches of the Bank across UK were operated with reduced staff members to ensure their safety. During the year, the Bank has not made any redundancies of its employees because of Covid-19.

The Bank aims to develop staff to be the 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.

Post balance sheet events
The directors are not aware of any significant events after the balance sheet date.

Principal risks and uncertainties
Please refer to Note 19 for a detailed discussion of the Bank's risk management framework.

Disclosure of information to the auditors
Each person, who is a director at the date of approval of this report confirms that;

- so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- director has taken all the steps that he/she ought to have taken as a director in order to himself / herself aware of any relevant audit information, and to establish that the Bank's auditors are aware of that information.

Auditor
Mazars LLP have expressed their willingness to continue in office.

By the order of the Board,

(Sanjay Kumar Grover)
Managing Director

(Arun Aggarwal)
Deputy Managing Director

Date: 14 July 2021

Statement of Directors' responsibilities for the year ended 31 March 2021

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 Accounting Standards, comprising FRS102 "The Financial Reporting Standards applicable in the UK and Republic of Ireland", and applicable law (UK GAAP).

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 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.

The directors confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on and is signed on its behalf by:

(Sanjay Kumar Grover)
Managing Director

(Arun Aggarwal)
Deputy Managing Director

Date: 14 July 2021

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') for the year ended 31 March 2021 which comprise the Income Statement, 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 2021 and of its profit 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 FRC's Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Our audit procedures to evaluate the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern;
- Reviewing the directors' going concern assessment including COVID-19 implications based on a range of scenarios and including stressed scenarios as approved by the board of directors;
- Enquiring with directors to understand the period of assessment considered by the directors, and the potential impact of COVID-19 on the Bank's financial performance, business operations, regulatory capital and liquidity requirements;
- Reviewing the Bank's most recent Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) which contain the results of the Bank's latest stress tests;
- Evaluating the key assumptions used in the scenarios indicated above and considering whether these appeared reasonable;
- Assessing the potential impact of COVID-19 on the Bank's capital utilisation and considering whether the directors' conclusion that adequate capital headroom remains is reasonable; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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

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

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 key observations arising from those procedures.

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

Key Audit Matter	**How our scope addressed this matter**
Credit risk in relation to loan loss provision *Refer to significant accounting policies (Note 3); and Notes 4, 12 and 19 of the financial statements.* The Bank held a loan loss provision of £1.2 million (2020: £2.07 million) against loans and advances to customers. This includes a management overlay of £0.3m (2020: £0.6m) to account for the impact of Covid-19. The Bank accounts for loan loss provision using an incurred loss model. In accordance with FRS 102, management calculates a specific and collective provision. • A specific provision is calculated for loans where there is an observable loss event. • A collective provision is recognised for which are impaired as at year end and whilst not specifically identified as such, are known from experience to be present in any of the loan portfolios. The Bank has two broad lending portfolios. Commercial lending has a relatively low number of larger loans, whilst the retail loan portfolio has a larger number of smaller loans. The collective provision for both the commercial and retail lending is calculated using an incurred loss model. The model uses a number of key assumptions which include probability of default and loss given default. Management also apply judgements where they believe the model calculated assumptions and provisions are not appropriate, either due to	**Controls testing** We have assessed the design and implementation, and tested the operating effectiveness, of the key controls operating at the Bank in relation to credit processes (e.g. underwriting and monitoring) **Test of detail** We assessed management's ability to identify impairment triggers on a timely basis and, in consideration of the value of collateral where relevant, determined whether the exposure would be repaid as originally intended. We have performed credit file reviews on a sample of loans across commercial and retail loan portfolio, to assess the reasonableness of the specific provision. We independently assessed the level of provision, with consideration to valuation of collateral or other sources of repayment. **Collective provision model** In respect of the model used to determine the collective provision, with the assistance of our in-house credit risk specialists we: • Considered the appropriateness of the methodology used by management; • Reviewed assumptions used in applying the methodology adopted and assessed it for reasonableness; • Tested the completeness of the loan portfolio applied to the model; • Tested the process in place to identify loans as non-performing loans including consideration of Covid-19 payment holidays or deferrals;

emerging trends or model limitations. An example of this are adjustments for the impact of Covid-19 on the loan portfolio. There has been an increase in the use of post model adjustments in the current year which reflects that historical data used in developing the models does not capture the impact of Covid-19. The most significant areas where we identified greater levels of management judgement were: • Identification of significant credit events which would lead to an increase in credit risk; • Key assumptions applied in the collective provision model; and • Other factors such as payment holidays and any other indicators of impairment triggers as a result of Covid-19 were also considered in the assessment. The effect of these matters is that, as part of our risk assessment, we determined that the provision for impairment on loans and advances has a high degree of estimation uncertainty.	• Verified inputs to source documentation; and • Tested the mathematical integrity of the model. We assessed the appropriateness of impairment provision disclosures in the financial statements. **Our observations** Based on the work performed, we found that the assumptions used by management in assessing the impairment are reasonable and that the impairment provision on loans and advances to customers as at 31 March 2021 is consistent with the requirements of FRS 102.

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

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

Overall materiality	£1,649k (2020: £1,486k)
How we determined it	1% of net assets
Rationale for benchmark applied	We have used net assets as the benchmark to calculate materiality. The bank is considered to be in start-up phase and made profits for the first time since inception in the year ended 31 March 2020. Therefore, income statement benchmarks are not considered to be stable. Net assets are considered to reflect appropriately the size of the Bank's operations. Furthermore, net assets are an approximation of regulatory capital which is a key focus for management, shareholders and regulators.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceed as a whole. Performance Materiality of £989k (2020: £891k) (60% of Overall Materiality) 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 (£49k) (2020: £45k) as well as

	misstatement below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Other information

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

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 course of 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 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 Statement of Directors' Responsibilities set out on page 16, 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.

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

Based on our understanding of the Bank and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulation Authority (the 'PRA') and the Financial Conduct Authority (the 'FCA'), and we considered the extent to which non-compliance might have a material effect on the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Bank, the industry in which it operates and considered the risk of acts by the Bank which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Bank's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and the FCA. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and significant one-off or unusual transactions; and

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

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

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

Other matters which we are required to address
Following the recommendation of the audit committee, we were appointed by the Bank's board to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ended 31 March 2019 to 31 March 2021.
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 the 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.

GRSimpson

Greg Simpson (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St. Katharine's Way, London
E1W 1DD
23 July 2021

Income Statement
for the year ended 31 March 2021

	Note	Year ended 31 March 2021 £000	(Restated) Year ended 31 March 2020 £000
Interest receivable and similar income	5	**23,198**	31,462
Interest payable and similar charges	6	**(7,083)**	(12,450)
Net interest income		**16,115**	19,012
Fees and commission income	7	**880**	619
Fees and commission expense		**(10)**	(60)
Other operating income		**700**	667
Gain / (loss) on foreign exchange revaluation		**41**	(3,034)
Gain / (loss) on sale of available for sale investments		**205**	(761)
Total operating income		**17,931**	16,443
Staff expenses	9	**(6,318)**	(5,252)
Operating lease		**(463)**	(561)
Depreciation		**(48)**	(30)
Administrative expenses		**(3,032)**	(2,806)
Loan loss provision credit / (charge)		**879**	(322)
Profit from ordinary activities before tax	10	**8,949**	7,472
Taxation charge on ordinary activities	10	**(1,723)**	(1,364)
Profit for the year		**7,226**	6,108

The notes on pages 27 to 59 are an integral part of these financial statements.

Statement of Comprehensive Income
for the year ended 31 March 2021

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Profit for the year		**7,226**	6,108
Other comprehensive income			
Revaluation of available for sale assets		**6,268**	(3,524)
Realised (gain)/loss on sale of available for sale assets		**(205)**	761
Deferred tax adjustment on available for sale assets	23	**(1,152)**	545
Actuarial losses on defined benefit pension scheme		**(70)**	(14)
Deferred tax movement relating to actuarial losses on pension scheme		**13**	11
Total comprehensive income for the year		**12,080**	3,887

The notes on pages 27 to 59 are an integral part of these financial statements.

Bank of Baroda (UK) Limited

Balance Sheet
As at 31 March 2021

	Note	2021 £000	2020 £000
Assets			
Cash and balances with banks	11	**70,576**	174,967
Loans and advances to banks	11	**398,754**	779,523
Loans and advances to customers	12	**238,944**	249,800
Tangible fixed assets	13	**272**	182
Available-for-sale financial assets	22	**254,369**	113,722
Derivative assets	21	**12,916**	-
Other assets, prepayments and accrued income	14	**2,369**	9,680
Deferred tax assets	23	**-**	556
Total assets		**978,200**	1,328,430
Liabilities			
Bank deposits	15	**-**	261,381
Customer deposits	15	**798,883**	874,823
Provision for taxation	10	**719**	721
Other liabilities	16	**12,301**	40,075
Derivatives liabilities	21	**-**	2,814
Deferred tax liabilities	23	**588**	-
Pension liability	25	**72**	59
Total Liabilities		**812,563**	1,179,873
Equity			
Share capital	17	**150,000**	145,000
Fair value reserves		**2,609**	(2,302)
Retained earnings		**13,028**	5,859
Total equity		**165,637**	148,557
Total Liabilities and equities		**978,200**	1,328,430

The financial statements were approved by the Board of Directors and authorised for issue on 14 July 2021 and signed on its behalf by:

(Sanjay Kumar Grover)
Managing Director

(Arun Aggarwal)
Deputy Managing Director

The notes on pages 27 to 59 are an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 March 2021

	Share Capital £000	Fair value Reserves £000	Retained Earnings £000	Total £000
Balance as at 1 April 2019	**140,000**	**(81)**	**(249)**	**139,670**
Comprehensive income for the year				
Profit for the year	-	-	6,108	6,108
Other comprehensive expenses	-	(2,221)	-	(2,221)
Total comprehensive income for the Year	**-**	**(2,221)**	**6,108**	**3,887**
Issue of share capital	5,000	-	-	5,000
Balance as at 31 March 2020	**145,000**	**(2,302)**	**5,859**	**148,557**
Comprehensive income for the year				
Profit for the year	-	-	7,226	7,226
Other comprehensive income	-	4,911	-	4,911
Other comprehensive expenses			(57)	(57)
Total comprehensive income for the year	**-**	**4,911**	**7,169**	**12,080**
Issue of share capital	**5,000**	**-**	**-**	**5,000**
Balance as at 31 March 2021	**150,000**	**2,609**	**13,028**	**165,637**

The notes on pages 27 to 59 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 March 2021

1. REPORTING ENTITY

Bank of Baroda (UK) Limited is a company limited by shares and incorporated in England & Wales under the Companies Act, 2006. The 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 derivatives 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 (the 'Parent'), 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 Bank, 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.

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 on page 14 of the Directors' report.

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 details have been provided in Note 4.

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 income include remittance charges, bills collection charges, placement fees, syndication fees, commitment fees, upfront and management fees, fee for LC charges, processing fees,

late payment fee etc. Fees and commission expenses include the transaction fees and services fee in relation to services rendered.

Fees and commissions receivable are recognised to the extent that it is probable that the economic benefits will flow to the Bank and when income can be reliably measured. Fees and commission which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recognised in interest income.

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 included 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' in the Income statement.

Comparative information

The Bank has re-classified or re-stated comparative information for year ended 31 March 2020 with a view to enhance comparability and more meaningful disclosures with the current year's financial statements. Correspondingly, interest receivable and similar income and interest payable and similar charges were restated in the Income statement by £8.6 million respectively and hence nil impact on the Net Interest 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.

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').

Transactions and balances
Foreign currency transactions are translated into the Bank's functional currency using the exchange rates prevailing on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate prevailing on the reporting date. Foreign exchange gains or losses resulting from transactions are recognised in profit or loss as part of total operating income.

Cash and balances with banks

Cash and balances with banks include 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 are shown separately as bank overdraft in other liabilities.

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

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.

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.

Government grants

The Bank recognizes income from government grants when it is receivable and will comply with the conditions to the grant. The Bank disclose expenses in relation to government grants at gross in Income statement and income from government grants as part of other operating income. During the year, the Bank used HMRC launched Coronavirus Job Retention Scheme (CJRS) due to Covid-19 pandemic. Accordingly, if employers cannot maintain their workforce because the operations have been affected by coronavirus (Covid-19), it can furlough employees and apply for a grant to cover a portion of their usual monthly wage costs where it can record them as being on furlough.

Further information can be found in note 9.

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:

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.

Available-for-sale

Available for sale (AFS) financial assets are those non-derivative financial assets that are intended to be held for a finite period of time. These are measured at fair value based on current 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.

Interest income is recognised in profit or loss using the effective interest method. Gain or loss on an available-for-sale financial asset is 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.

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.

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.

Financial liabilities (other than derivatives) are measured at amortised cost and are recognised at settlement date. They are derecognised when liabilities are settled.

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.

Specific Covid-19 related forbearance provisions were also applied during the year in line with government guidelines.

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.

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:

If there is objective evidence that an impairment loss on loans and receivables or investment securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. At the reporting date, the Bank assesses available objective evidence that financial assets not carried at fair value through profit and loss are impaired. The financial assets are impaired when objective evidence demonstrate that a loss event has occurred, and that the loss event has an impact of future cash flows of the assets that can be estimated reliably.

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.

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.

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. Any subsequent recovery of an impaired loans and advance is reversed through the profit and loss account.

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.

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.

Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Any incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax. All ordinary shares issued are non-redeemable ordinary shares conferring on each member and one vote per share on a poll and with full, equal, and unfettered rights to participate in dividends and capital distributions, whether on a winding up or otherwise.

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.

Reserves

The Bank's reserves are as follows:

- Fair value reserve – represents fair value movements on available-for-sale financial assets and movement arising from changes to defined benefit obligations; and
- Retained earnings – represents cumulative profits or losses, net of dividends paid, changes in defined benefit pension obligations and other adjustments.

4. CRITICAL 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 at the end 31 March 2021, are as follows:

- **Allowances for impairment losses on loans and advances:**
  The allowances for impairment losses on loans and advances are management's best estimate of losses incurred in the portfolio were based on objective methodology, at the balance sheet date. Impairment allowances are made up of two components, those determined individually and those determined collectively. Impairment allowances are calculated using probability of default statistics, historical arrears experience and expected cash flows. Estimates are based on incurred loss calculations which leverage historic/market average default rates and management's estimates on possible losses. The management has estimated the incurred loss based on higher default rates due to impact of Covid-19, compared to long run averages of market default rates.

  The Bank has assumed probabilities of default (PD) based on credit rating of the customers and portfolio, which ranges between 0.27% to 5.75%. The Bank assumed Loss given default of 45% for unsecured lending, 0% for loans secured by deposits/cash and for loans secured by residential land and building, it is based on collateral value, haircuts and cure rate which ranges between 2.25% to 45%.

  As at 31 March 2021, gross loans and advances to customers totalled £240.14 million (2020: £251.87 million) against which collective allowance for impairments losses of £1.2 million (2020: £2.07 million), including Covid-19 related provision of £0.297 million, has been made. Further details can be found in Note 12.

  The Bank has also carefully assessed its exposures to the loans and advance in view of Covid-19 pandemic impact on the economy and individuals and maintained its provisions at £0.297 million (2020: £0.658 million) to cover the potential losses on loans and advances to customers. The Bank has reviewed the loan loss provisions and is of the view that, loan loss provisions held by the Bank are conservative but adequate as per the requirements.

- **Impairment on available for sale assets**
  The Bank reviews its available for sale securities portfolio to assess for impairment on a quarterly basis. The Bank assesses observable market data or information about events specifically relating to the available for sale investments. Where there has been significant or prolonged decline in value of available for sale assets such as stop loss trigger of 10% of acquisition cost, and due to deterioration of credit ratings that may have an impact on the Bank's estimated future cash flows of the investments, the Bank makes judgement after considering other underlying circumstances to assess whether a provision for impairment is required.

  While assessing evidence of impairment, the Bank considers the performance of the underlying collateral, credit rating, credit enhancements, market insights, default events, and the current and expected financial performance of the counterparty.

- **Defined benefit pension scheme:**
  The defined benefit pension scheme exposes the Bank to actuarial risks. In conjunction with its actuaries the Bank makes key financial assumptions that are used in the actuarial valuation of the defined benefit pension obligation and therefore changes to these assumptions have an impact on the pension obligation shown within the Statement of Financial Position. The key assumptions include inflation rates and discount rates. See note 25 for further details on these assumptions.

- **Fair Value measurement of financial instruments:**
  The Bank measures the fair value of an instrument using the quoted price in an actively traded market. A market is regarded as an active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. If there is no quoted price in an active market, the Bank uses valuation techniques to arrive at fair value. The valuation techniques employ market data to calculate fair values, including comparisons with similar financial instruments for which market observable prices exist. Derivatives have been fair valued using forward market rate as of 31 March. See note 19, note 20 and note 21 for further details.

- **Revenue Recognition through Effective Interest Rate (EIR)**
  The effective interest rate will affect the carrying values of loans and receivables. One of the key components of the EIR is the expected life of the asset. Fees and commission are recognised in the Income statement when the service has been rendered, except when those fees are an adjustment to the yield on the related asset, in which case they are amortised over the expected maturity of the asset using the effective interest rate method.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2021 £000	(Restated) Year Ended 31 March 2020 £000
Loans and advances to customers	**8,390**	13,729
Loans and advances to banks	**10,464**	15,677
Available for sale financial assets	**4,344**	2,041
Other interest income	**-**	15
	23,198	31,462

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2021 £000	(Restated) Year Ended 31 March 2020 £000
Interest on bank deposits	**266**	2,084
Interest on customer deposits	**6,817**	10,366
	7,083	12,450

In the prior year, interbranch interest income and expense were presented gross in the Income Statement. Management has determined that in order to enhance comparability, it is more appropriate to eliminate these interbranch interest at the Bank level. The Bank has restated 2020 interest receivable from £40.0 million to £31.4 million and interest payable from £21.0 million to £12.4 million.

7. FEES AND COMMISSION INCOME

	Year ended 31 March 2021 £000	Year Ended 31 March 2020 £000
Commission income	**801**	562
Other Fee	**79**	57
	880	619

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX

Profit before tax is stated after charging: -

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Depreciation of tangible fixed assets (see note 13)	**48**	30
Gain / (loss) on foreign exchange revaluation	**41**	(3,034)
Defined contribution pension cost	**79**	35
Defined benefit pension cost	**217**	248
CJRS grants	**(33)**	-
Fees payable to the Bank auditors for audit and non-audit services	**234**	276

Audit fees

	Year ended 31 March 2021	Year ended 31 March 2020
Fees for current year statutory audit	**142**	128
Overrun fees in relation to prior year statutory audit	**40**	40
Fees for audit related services	**52**	35
Fees for non-audit services	**-**	73
	234	276

Fees for audit related services comprise quarterly reviews for the group.

9. STAFF EXPENSES

	Year ended 31 March 2021	Year ended 31 March 2020
	£000	**£000**
Salaries and Wages	**5,217**	4,369
Social security costs	**472**	491
Pension costs	**296**	283
Other staff costs	**333**	109
	6,318	5,252

Other staff costs include rent, rates and taxes for India based staff accommodation, staff training, leave encashment etc.

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

	Year ended 31 March 2021	Year ended 31 March 2020
	No.	**No.**
Sales and marketing	**63**	61
Administration	**50**	42
	113	103

The Bank allowed its employees to be furloughed under the Coronavirus Job Retention Scheme (CJRS) scheme. The Bank received £33k (2020: nil) as grants from the HMRC for furloughed employees, which is included in other operating income.

Pension costs related 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 by the Bank to the fund of £79,000 (2020: £35,000) as well as defined benefit pension scheme expenses of £217,000 (2020: £248,000).

Directors' remuneration

Directors' remuneration during the year amounted to £280,337 (2020: £160,304) relates to 4 (2020:3) directors. The pension contributions to directors during the year were £ nil (2020: nil). The parent bank has not paid any remuneration during the year (2020: nil) to the remaining 3 directors for services to the Bank. The remuneration of the highest paid director was £124,386.

10. TAXATION CHARGE ON ORDINARY ACTIVITIES

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Corporation tax		
Current tax on profits for the year	**1,718**	1,362
Total current tax	**1,718**	1,362
Deferred tax		
Origination and reversal of timing differences	**5**	2
Tax on charge/ on ordinary activities	**1,723**	1,364

Provision for taxation	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening balance	**721**	-
Corporation tax charge for the year	**1,718**	1,362
Corporation tax paid	**(1,720)**	(641)
Closing balance	**719**	721

Factors affecting tax charge for the year

Tax assessed for the year is higher than (2020: lower than) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Profit on ordinary activities before tax	**8,949**	7,472
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	**1,700**	1,420
Effects of:		
Accelerated capital allowances	**4**	2
Expenses not deductible for tax purpose	**14**	11
Tax losses b/forward utilised in a year	**-**	(49)
Other adjustments	**5**	2
Adjustment to prior year's tax loss b/forward	**-**	(22)
Tax losses not recognised	**-**	-
Corporation tax charge for the year	**1,723**	1,364

Tax rate changes

The corporation tax rate for the current year is 19% (2020: 19%), which will remain unchanged in the financial year starting from 1 April 2021 and from 1 April 2022. The government announced plans to increase corporation tax to 25% from 1 April 2023. For year ended 31 March 2021, the rate of 25% is not considered to be substantively enacted.

11. LOANS AND ADVANCES TO BANKS

	2021 £000	2020 £000
Cash and balances with banks	**70,576**	174,967
Loans and advances to banks	**398,754**	779,523
	469,330	954,490

12. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 March 2021 consist of the following items:

	Bills Purchase/ Discounted	Loan & Advances Against Deposits	Other Secured Loans and Advances	Unsecured Loans & Advances	Total 2021 £000
Carrying amount					
Gross amount	1,008	32,085	161,045	45,998	**240,136**
Specific provision	-	-	-	-	**-**
Collective provision	-	-	(354)	(838)	**(1,192)**
Net Carrying Amount	**1,008**	**32,085**	**160,691**	**45,160**	**238,944**

Loans and advances to customers as at 31 March 2020 consist of the following items:

	Bills Purchase/ Discounted	Loan & Advances Against Deposits	Other Secured Loans and Advances	Unsecured Loans & Advances	Total 2020 £000
Carrying amount					
Gross amount	964	36,853	158,941	55,114	**251,872**
Specific provision	-	-	-	-	**-**
Collective provision	-	-	(1,683)	(389)	**(2,072)**
Net Carrying Amount	**964**	**36,853**	**157,258**	**54,725**	**249,800**

13. TANGIBLE FIXED ASSETS

	Computer equipment £000	Fixture and Fittings £000	Capital work in progress £000	Total £000
Cost				
As at 1 April 2019	6	103	-	109
Additions	-	11	102	113
As at 31 March 2020	**6**	**114**	**102**	**222**
Additions	37	17	84	138
At 31 March 2021	**43**	**131**	**186**	**360**
Depreciation				
As at 1 April 2019	1	9	-	10
Charge for the year	2	28	-	30
As at 31 March 2020	**3**	**37**	**-**	**40**
Charge for the year	8	40	-	48
At 31 March 2021	**11**	**77**	**-**	**88**
Net book value				
At 31 March 2020	**3**	**77**	**102**	**182**
At 31 March 2021	**32**	**54**	**186**	**272**

14. OTHER ASSETS, PREPAYMENTS AND ACCRUED INCOME

	2021 £000	2020 £000
Other assets	**212**	3,852
Prepayments and accrued income	**2,020**	5,765
Indirect Tax receivables	**137**	63
	2,369	9,680

15. CUSTOMER DEPOSITS

	2021 £000	2020 £000
Customer current accounts	**49,910**	39,830
Customer savings account	**207,390**	192,228
	257,300	232,058
Customer fixed deposit accounts	**541,583**	642,765
Total customer deposits	**798,883**	874,823
Fixed Deposits - from Banks	**-**	261,381
Total deposits	**798,883**	1,136,204

16. OTHER LIABILITIES

	2021 £000	2020 £000
Accrued interest	**5,363**	9,619
Other creditors	**233**	249
Bank overdraft	**573**	30,198
Variation margin	**5,957**	-
Other liabilities	**175**	9
	12,301	40,075

Bank overdraft and amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

17. SHARE CAPITAL

	2021 £000	2020 £000
Allotted, called up and fully paid		
150,000,000 (2020: 145,000,000) Ordinary shares of £1.00 each	**150,000**	145000

During the year ended 31 March 2021, the Bank allotted 5,000,000 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, capital resource of £135 million was provided in 2018/19, £5 million in 2019/20 and a further £5 million was provided in the form of ordinary share capital by the Parent, in 2020/21. Total share capital was £150 million as at 31 March 2021.

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 during the year.

19. RISK MANAGEMENT

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

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board Risk and Compliance Committee ('BRCC") is responsible for oversight of risk strategy, risk appetite and the executive committees including ALCO and RMC.

The risk management framework of the Bank involves risk identification, measurement, monitoring, management, and reporting of all risks through the 'three lines of defence' governance model.

Management and operational employees are the first line of defence, responsible for identifying risks, implementing strategy, escalations and establishment and maintenance of internal controls and risk management in the business.

The Risk Management team and Compliance 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. Further details are given in the strategic report.

Credit risk

The main credit risk that the Bank faces relates to its exposure to banks and corporates in its advances portfolio comprising of primarily loan syndications, development finance, finance against property, BTL and business loans. The Bank also takes credit exposures in inter-bank lending and its investment portfolio comprising of sovereign, institutional and corporate securities.

The Board of Directors has delegated the management of credit risk to the Board Credit Committee. The BRCC is charged with oversight of the credit risk framework within the limits set by the Board.

Collateral is held for loans and advances to customers. As at 31 March 2021, £46 million (2020: £56 million) within loans and advances were unsecured. The Bank has Collateral of £382 million (2020: £399 million), held typically in the form of the underlying property, stocks or lien on fixed deposits, on which the loan is secured. It mainly comprises real estate within the commercial and residential markets, the market value of which is assessed on a regular basis. Management's estimates of future cash flows on individually impaired loans are based on judgement, historical experience and assessment re realisability of collateral and loss given default. The expected recovery is subject to execution risks associated with the recovery of collateral in different jurisdictions.

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 2021	**Carrying Value £000**	**Maximum Exposure £000**
Neither past due nor impaired	**238,944**	240,136
Past due but not impaired	-	-
Unutilised overdraft commitments	-	15,029
Total	**238,944**	255,165

At 31 March 2020	**Carrying Value £000**	**Maximum Exposure £000**
Neither past due nor impaired	249,800	251,872
Past due but not impaired	-	-
Unutilised overdraft commitments	-	13,501
Total	249,800	265,373

An analysis of Bank's total credit exposures as at 31 March 2021 as above, split by geography is provided below:

Geography	**2021 £000**	**%**	**2020 £000**	**%**
UK	**229,085**	**24%**	264,019	20%
Indonesia	**21,229**	**2%**	27,125	2%
India	**393,995**	**40%**	763,507	57%
USA	**17,603**	**2%**	7,393	1%
Other countries	**315,667**	**32%**	261,733	20%
Total	**977,579**	**100%**	1,323,777	100%

An analysis of Bank's total credit exposures as at 31 March 2021 (including investment securities, Loans and Advances to Customers and to Banks), split by sectors is provided below:

Sectors	2021 £000	%	2020 £000	%
Bank	**559,779**	**57%**	955,454	72%
Business Loan	**26,484**	**3%**	32,669	2%
Buy to Let	**30,890**	**3%**	28,349	2%
Clean Business Loan	**249**	**0%**	26	0%
Development Loan	**13,356**	**1%**	12,024	1%
Loan against deposits	**32,085**	**3%**	36,853	3%
Personal Loan	**965**	**0%**	477	0%
Syndication Loans	**133,908**	**14%**	138,438	11%
Corporate/Sovereign bonds	**164,926**	**17%**	113,722	9%
Others	**14,937**	**2%**	5,765	0%
Total	**977,579**	**100%**	1,323,777	100%

Collateral: Collateral is held to mitigate credit risk exposures and may include one or more of:

- Current assets/ Fixed assets (movable and immovable)
- Real estate
- Marketable securities
- Bank guarantees and Letter of credit

The breakdown of loans and advances according to available security is as under:

	2021 £000	2020 £000
Secured	**192,776**	194,111
Unsecured	**46,168**	55,689
Total	**238,944**	249,800

There is not significant change in quality of collateral during the year due to change in accounting policies or otherwise.

Forbearance

A refinancing or modification in terms and conditions of repayment on account of certain events is classified as a commercially re-negotiated loan. Changes in loan terms and conditions (whether temporary or permanent) in response to specific credit events lead to classification as forbearance loans. At 31 March 2021, there were £26.0 million (2020: nil) forbearance loans due to Covid-19.

Analysis of impairment provision as at 31 March 2021

	Bills Purchase/ Discounted	Loan & Advances Against Deposits	Other Secured Loans and Advances	Unsecured Loans & Advances	Total 2021 £000
Opening balance of the provision	-	-	1,683	389	2,072
Charge / (release) of impairment provision during the period	-	-	(759)	240	(519)
Charge / (release) of provisions (Covid-19)*	-	-	(570)	209	(361)
Closing balance in provision	-	-	354	838	1,192

Analysis of impairment provision as at 31 March 2020

	Bills Purchase/ Discounted	Loan & Advances Against Deposits	Other Secured Loans and Advances	Unsecured Loans & Advances	Total 2020 £000
Opening balance of the provision	-	-	1,135	614	1,749
Release of impairment provision during the period	-	-	(110)	(225)	(335)
Additional provisions (Covid-19)*	-	-	658	-	658
Closing balance in provision	-	-	1,683	389	2,072

*The Bank has carefully assessed its exposure to the loans and advances in view of the impact of Covid-19 pandemic has had on the UK economy and individuals and reduced the provisions to £297,000 (2020: £658,000) to cover potential losses on loans and advances to customers. The number of customers currently on Covid-19 forbearance is substantially less than March'20 and are adhering to the revised payment schedule. Hence, the bank has assessed that the Covid-19 provision of £297,000 (2020: £658,000) is sufficient.

Financial assets are individually assessed to identify an event of impairment. The Bank monitors several events including credit rating deterioration, negative media reports, the economic outlook of the industry, and breaches in key financial covenants, as possible triggers that may lead to impairment

If an impairment event occurs, the Bank considers the options of re-negotiation, forbearance, or crystallisation of the security.

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 system in place to monitor contractual and residual maturity inflows and outflows and to manage liquidity gaps within pre-stipulated limits that are prescribed by the Board.

The Bank holds sufficient high-quality liquid assets (HQLA) in approved securities to meet the regulatory obligations for 90 days under stressed conditions. The liquidity positions and gap analysis are periodically analysed and measured against Bank's risk appetite limits and reported monthly to ALCO and to the Board of Directors on quarterly basis.

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 as at 31 March 2021:

	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							
Cash and balances with banks	70,576	-	-	-	-	**70,576**	**70,576**
Loans and advances to banks	-	238,980	160,304	-	-	**399,284**	**398,754**
Loans and advances to customers	38,016	20,489	8,691	154,598	40,665	**262,459**	**238,944**
Available-for-sale financial assets	70,530	4,387	7,866	177,582	11,736	**272,101**	**254,369**
Interest receivable	-	2,020	-	-	-	**2,020**	**2,020**
Derivatives assets	12,916	-	-	-	-	**12,916**	**12,916**
Total	**192,038**	**265,876**	**176,861**	**332,180**	**52,401**	**1,019,356**	**977,579**
Liabilities and equity							
Customer deposits	271,634	134,152	319,283	76,196	-	**801,265**	**798,883**
Bank deposits	-	-	-	-	-	**-**	**-**
Derivatives liabilities	-	-	-	-	-	**-**	**-**
Interest payable	-	5,363	-	-	-	**5,363**	**5,363**
Unutilised overdraft commitments	15,029	-	-	-	-	**15,029**	**-**
Total	**286,663**	**139,515**	**319,283**	**76,196**	**-**	**821,657**	**804,246**
Liquidity gap	**(94,625)**	**126,361**	**(142,422)**	**255,984**	**52,401**	**197,699**	**-**
Cumulative gap	**(94,625)**	**31,736**	**(110,686)**	**145,298**	**197,699**	**-**	**-**

Bank's assets and liabilities (based on undiscounted cash flows) as at 31 March 2020:

	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							
Cash and balances with banks	174,967	-	-	-	-	**174,967**	**174,967**
Loans and advances to banks	107,000	182,509	497,961	-	-	**787,470**	**779,523**
Loans and advances to customers	343	20,854	53,498	132,998	81,771	**289,464**	**249,800**
Available-for-sale financial assets	60,474	702	1,618	61,160	-	**123,954**	**113,722**
Interest receivable	-	5,765	-	-	-	**5,765**	**5,765**
Derivative assets	-	-	-	-	-	**-**	**-**
Total	**342,784**	**209,830**	**553,077**	**194,158**	**81,771**	**1,381,620**	**1,323,777**

Liabilities and equity							
Customer deposits	10,579	183,429	378,000	309,121	-	**881,129**	**874,823**
Bank deposits	71,374	190,146	-	-	-	**261,520**	**261,381**
Derivatives liabilities	2,814	-	-	-	-	**2,814**	**2,814**
Interest payable	-	9,619	-	-	-	**9,619**	**9,619**
Unutilised overdraft commitments	13,501	-	-	-	-	**13,501**	-
Total	**98,268**	**383,194**	**378,000**	**309,121**	-	**1,168,583**	**1,148,637**
Liquidity gap	**244,516**	**(173,364)**	**175,077**	**(114,963)**	**81,771**	**213,037**	-
Cumulative gap	**244,516**	**71,152**	**246,229**	**131,266**	**213,037**	-	-

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 analyses and reports the exposure on interest rate risk in the banking book and monitors it against internal limits.

Interest Rate Risk

Interest rate risk analysis is undertaken by examining details of interest sensitive assets and liabilities to establish when they will next reprice (i.e.be subject to a change in interest rate), and then tabulating those which re-prices within set time periods (known as 'time buckets', within which all items repricing are grouped together). The table below summarise the re-pricing mismatch on the Bank's financial assets and liabilities as at 31 March 2021.

	Less than 3 months	**3 months to 1 year**	**1 year to 5 years**	**More than 5 Years**	**Non-Interest Bearing**	**Total**	**Carrying Amount**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets							
Cash and balances with banks	8,885	-	61,691	-	-	**70,576**	**70,576**
Loans and advances to banks	238,962	159,792	-	-	-	**398,754**	**398,754**
Loans and advances to customers	124,537	101,920	11,977	510	-	**238,944**	**238,944**
Available-for-sale financial assets	7,555	18,592	217,353	10,869	-	**254,369**	**254,369**
Interest receivable	2,020	-	-	-	-	**2,020**	**2,020**
Derivatives assets	12,916	-	-	-	-	**12,916**	**12,916**
Derivative instruments	131,580	203,839	-	-	-	**335,419**	**335,419**
	526,455	**484,143**	**291,021**	**11,379**	-	**1,312,998**	**1,312,998**
Liabilities and equity							
Customer deposits	165,048	318,061	315,762	12	-	**798,883**	**798,883**
Bank deposits	-	-	-	-	-	-	-
Derivatives liabilities	-	-	-	-	-	-	-
Interest payable	5,363	-	-	-	-	**5,363**	**5,363**
Derivative instruments	131,580	203,839	-	-	-	**335,419**	**335,419**
	301,991	**521,900**	**315,762**	**12**	-	**1,139,665**	**1,139,665**
Interest rate sensitivity Gap	**224,464**	**(37,757)**	**(24,741)**	**11,367**	-	**173,333**	-
Cumulative gap	**224,464**	**186,707**	**161,966**	**173,333**	**173,333**	-	-

Interest rate risk as at 31 March 2020:

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 Years	Non-Interest Bearing	Total	Carrying Amount
	£000	£000	£000	£000	£000	£000	£000
Assets							
Cash and balances with banks	174,967	-	-	-	-	**174,967**	**174,967**
Loans and advances to banks	286,463	493,060	-	-	-	**779,523**	**779,523**
Loans and advances to customers	20,682	51,463	118,797	58,858	-	**249,800**	**249,800**
Available-for-sale financial assets	-	60,474	53,248	-	-	**113,722**	**113,722**
Interest receivable	5,765	-	-	-	-	**5,765**	**5,765**
	487,877	**604,997**	**172,045**	**58,858**	-	**1,323,777**	**1,323,777**
Liabilities and equity							
Customer deposits	193,571	374,792	306,460	-	-	**874,823**	**874,823**
Bank deposits	261,381	-	-	-	-	**261,381**	**261,381**
Derivatives liabilities	-	2,814	-	-	-	**2,814**	**2,814**
Interest payable	9,619	-	-	-	-	**9,619**	**9,619**
	464,571	**377,606**	**306,460**	-	-	**1,148,637**	**1,148,637**
Interest rate sensitivity Gap	**23,306**	**227,391**	**(134,415)**	**58,858**	-	**175,140**	-
Cumulative gap	**23,306**	**250,697**	**116,282**	**175,140**	**175,140**	-	-

The Bank is monitoring its interest rate mismatches on a regular basis, and the potential impact on net interest income due to upward or downward movement of interest rates by 200 basis points based on currency exposures as at 31 March 2021 is presented below:

Effect of 200 basis increase in interest rates across maturity bands=£3.232 million (2020: £1.242 million).

Effect of 200 basis decrease in Interest rates across maturity bands=£3.732 million (2020: £1.272 million).

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 deals with various currencies and uses forward foreign currency swaps to mitigate 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 £335.4 million (2020: £323.9 million).

The Bank's total assets and total liabilities based on currencies in which they are denominated as at 31 March 2021:

Balance sheet as at 31 March 2021	GBP	USD	Other	Total currency
Assets	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances with banks	67,230	2,811	535	70,576
Loans and advances to banks	267,000	99,413	32,341	398,754
Loans and advances to customers	143,441	74,996	20,507	238,944
Tangible fixed assets	86	-	-	86
Capital work in progress	186	-	-	186
Available-for-sale financial assets	28,281	222,094	3,994	254,369
Derivative assets	12,916	-	-	12,916
Other assets, prepayments and accrued income	760	1,501	108	2,369
Deferred tax assets	-	-	-	-
Derivative instruments	335,419	(279,214)	(56,205)	-
Total assets	**855,319**	**121,601**	**1,280**	**978,200**
Liabilities				
Bank deposits				
Customer deposits	670,526	123,216	5,141	798,883
Provision for taxation	719	-	-	719
Other liabilities	5,777	6,593	(69)	12,301
Deferred tax liabilities	588	-	-	588
Derivatives liabilities	-	-	-	-
Pension liability	72	-	-	72
Total Liabilities	**677,682**	**129,809**	**5,072**	**812,563**
Equity				
Share capital	150,000	-	-	150,000
Fair value reserves	2,609	-	-	2,609
Retained earnings	13,028	-	-	13,028
Total equity	165,637	-	-	165,637
Total Liabilities and equities	**843,319**	**129,809**	**5,072**	**978,200**
Gap	**12,000**	**(8,208)**	**(3,792)**	**-**
Sensitivity analysis (FX rate movement 5%)	**600**	**(410)**	**(190)**	**-**

The Bank's total assets and total liabilities based on currencies in which they are denominated as at 31 March 2020:

Balance sheet as at 31 March 2020	GBP	USD	Other	Total currency
Assets	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances with banks	164,443	9,863	661	174,967
Loans and advances to banks	291,500	440,221	47,802	779,523
Loans and advances to customers	124,950	103,772	21,078	249,800
Tangible fixed assets	80	-	-	80
Capital work in progress	102	-	-	102
Available-for-sale financial assets	-	113,722	-	113,722
Derivative assets	-	-	-	-
Other assets, prepayments and accrued income	1,329	8,138	213	9,680
Deferred tax assets	556	-	-	556
Derivative instruments	323,905	(259,000)	(64,905)	-
Total assets	906,865	416,716	4,849	1,328,430
Liabilities				
Bank deposits	-	261,381	-	261,381
Customer deposits	724,399	144,622	5,802	874,823
Provision for taxation	721	-	-	721
Other liabilities	38,861	1,250	(36)	40,075
Deferred tax liabilities	-	-	-	-
Derivatives liabilities	2,814	-	-	2,814
Pension liability	59	-	-	59
Total Liabilities	766,854	407,253	5,766	1,179,873
Equity				
Share capital	145,000	-	-	145,000
Fair value reserves	(2,302)	-	-	(2,302)
Retained earnings	5,859	-	-	5,859
Total equity	148,557	-	-	148,557
Total Liabilities and equities	915,411	407,253	5,766	1,328,430
Gap	(8,546)	9,463	(937)	-
Sensitivity analysis (FX rate movement 5%)	(427)	473	(46)	-

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. The Bank has performed sensitivity analysis on foreign exchange rates. Accordingly, if exchange rates move in favour of the Bank by 5%, the Bank will make gain of £600,000. If the rates move against the Bank, the Bank will make a loss of £600,000 through profit and loss account to retained earnings.

Price risk

Price risk is the risk of a decline in the value of a security or an investment portfolio excluding a downturn in the market, due to multiple factors. The Bank considers various factors that affect price risk such as earnings volatility, business management, and price changes. The Bank has diversified its portfolio by investing in government bonds, corporate bonds to mitigate price risk.

The Bank has performed sensitivity analysis for movement in price of available for sale financial assets. Accordingly, the assets will appreciate by £12.7 million if the price of the assets move upward by 5%. The assets will depreciate by £12.7 million if the price of the assets move downward by 5%, through other comprehensive income to fair value reserves.

20. FINANCIAL INSTRUMENTS

The Bank has the following financial instruments as at 31 March 2021:

	Loans and Receivables £000	Available for Sale £000	Fair Value Through Profit & Loss £000	Total £000
Financial Assets				
Cash and balances with banks	70,576	-	-	**70,576**
Loans and advances to banks	398,754	-	-	**398,754**
Loans and advances to customers	238,944	-	-	**238,944**
Available-for-sale financial assets	-	254,369	-	**254,369**
Derivatives assets	-	-	12,916	**12,916**
Accrued income	2,020	-	-	**2,020**
	710,294	**254,369**	**12,916**	**977,579**

	Other Financial Liabilities £000	Fair value Through Profit or Loss £000	Total £000
Financial Liabilities			
Bank deposits	-	-	**-**
Customer deposits	798,883	-	**798,883**
Other liabilities	12,301	-	**12,301**
Pension liabilities	72		**72**
Derivatives liabilities	-	-	**-**
	811,256	**-**	**811,256**

The Bank had the following financial instruments as at 31 March 2020:

	Loans and Receivables £000	Available for Sale £000	Fair Value Through Profit & Loss £000	Total £000
Financial Assets				
Cash and balances with banks	174,967	-	-	**174,967**
Loans and advances to banks	779,523	-	-	**779,523**
Loans and advances to customers	249,800	-	-	**249,800**
Available-for-sale financial assets	-	113,722	-	**113,722**
Derivatives assets	-	-	-	**-**
Accrued income	9,680	-	-	**9,680**
	1,213,970	**113,722**	-	**1,327,692**

	Other Financial Liabilities	Fair Value Through Profit or Loss	Total
	£000	£000	£000
Financial Liabilities			
Bank deposits	261,381	-	**261,381**
Customer deposits	874,823	-	**874,823**
Other liabilities	40,796	-	**40,796**
Pension liabilities	59	-	**59**
Derivatives liabilities	-	2,814	**2,814**
	1,177,059	**2,814**	**1,179,873**

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. The derivative derives its price from fluctuations in the underlying assets. 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.

31 March 2021	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Government security	70,530	-	-	70,530
Corporate bonds	183,839	-	-	183,839
Forward exchange swaps	-	12,916	-	12,916
	254,369	**12,916**	**-**	**267,285**
Financial Liabilities				
Fair value through Profit & Loss				
Forward exchange swaps	-	-	-	-
	-	-	-	-

31 March 2020	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Government security	60,474	-	-	60,474
Corporate bonds	53,248	-	-	53,248
	113,722	**-**	**-**	**113,722**
Financial Liabilities				
Fair value through Profit & Loss				
Forward exchange swaps	-	2,814	-	2,814
	-	**2,814**	-	**2,814**

21. DERIVATIVE INSTRUMENTS

	Notional Value £000	Fair Value Asset/ (Liability) £000
As at 31 March 2021		
Forward contract	**242**	**-**
Forward exchange swaps	**335,177**	**12,916**
Total	**335,419**	**12,916**

	Notional Value £000	Fair Value Asset/ (Liability) £000
As at 31 March 2020		
Forward contract	451	3
Forward exchange swaps	323,454	(2,817)
Total	323,905	(2,814)

The Bank deals in multiple currencies and it is always not possible to match assets and liabilities in each currency. The Bank uses foreign exchange swaps to reduce foreign currency risk on long term and short-term currency positions. 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.

Derivatives are initially recognised at fair value at the date of contract and are subsequently re-measured to their fair value at each balance sheet date. The fair value change on derivatives is recognised as part of total operating income in Income statement. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Forward exchange contracts

The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.

22. AVAILABLE FOR SALE FINANCIAL ASSETS

	Listed Investments £000
At 31 March 2019	50,663
Additions	116,566
Disposals and redemptions	(49,902)
Loss on disposals and redemptions	(761)
Fair value adjustments	(2,844)
As at 31 March 2020	**113,722**
Additions	217,043
Disposals and redemptions	(79,820)
Gain on disposals and redemptions	205
Fair value adjustment	3,219
At 31 March 2021	**254,369**

23. DEFERRED TAXATION

Breakdown of deferred taxation movements during the current and comparative period

	2021 £000	2020 £000
Deferred tax brought forward	**556**	19
Credited to profit and loss	**(5)**	(2)
Charged to other comprehensive income	**(1,152)**	539
Charge on Actuarial gain	**13**	-
	(588)	556

Deferred tax liabilities are made of

	2021 £000	2020 £000
Deductible temporary differences arising on tangible fixed assets	**(5)**	-
Deferred tax temporary differences arising on fair valuation of available-for-sale financial assets	**(607)**	545
Actuarial losses on defined benefit pension plans	**24**	11
	(588)	556

Deferred tax liabilities as of 31 March 2021 has been calculated at 19%. If deferred tax rate changes to 25% the deferred tax liabilities would increase by £360,000.

24. CONTINGENT LIABILITIES AND COMMITMENTS

The contingent liabilities existing at the reporting date are £4,822,000 (2020: £8,029,000) as follows:

	2021 £000	2020 £000
Guarantees given on behalf of constituents		
- Performance guarantee	**1,251**	3,397
- Financial guarantee	**2,147**	1,943
Total guarantees given on behalf of constituents	**3,398**	5,340
Acceptance, endorsement and other obligations		
For letter of credit		
- Inland	**-**	-
- Foreign	**1,424**	2,689
Total acceptance, endorsement and other obligations	**1,424**	2,689
Total contingent liabilities	**4,822**	8,029
Bills for collection		
Inward	**79**	84
Outward	**2,852**	3,659
Total bills for collection	**2,931**	3,743

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events which are either not probable or the amount of the obligation cannot be reliably measured.

Contingent liabilities are not recognised but disclosed unless they are not material, or their probability is remote.

The Bank has the following type of contingent liabilities as at 31 March 2021:

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 2021 amounted to £15.0 million (2020: £13.5 million).

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. However, employees, who were part of Bank of Baroda parent bank before setup of the Bank of Baroda (UK) Ltd, transferred to the Bank under current multi-employer transfer scheme of the pension which are part of pension scheme of 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 2021 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:

	2021	2020
	£000	£000
Reconciliation of present value of plan liabilities		
Opening value of scheme defined benefit obligation	**433**	121
Current service cost	**216**	284
Interest cost	**12**	6
Benefits paid	**(33)**	-
Actuarial loss on value of scheme defined benefit obligation	**114**	22
At the end of the year	**742**	433

Reconciliation of present value of plan assets:

	2021	2020
	£000	£000
Opening fair value of scheme assets	**374**	76
Interest income	**11**	5
Contributions	**274**	295
Benefits paid	**(33)**	-
Actuarial gain / (loss) on scheme assets	**44**	(2)
Closing fair value of scheme assets	**670**	374

Composition of plan assets:

	2021 £000	2020 £000
Equities	**454**	230
Bonds	**216**	144
Total plan assets	**670**	374

	2021 £000	2020 £000
Fair value of scheme assets	**670**	374
Present value of scheme liabilities	**(742)**	(433)
Net pension scheme liability	**(72)**	(59)

The amounts recognised in profit or loss are as follows:

	2021 £000	2020 £000
Current service cost	**216**	284
Interest cost	**1**	1
Total	**217**	285
Remeasurement of the net defined benefit obligation:		
Actuarial gain / (loss) on scheme assets	**44**	(2)
Experience loss arising on scheme liabilities	**(18)**	(33)
Actuarial loss from change in assumptions	**(96)**	-
	(70)	(35)

The cumulative amount of actuarial gains and losses recognised in the Statement of comprehensive income was £70,000 (2020: £14,000).

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

	2021 %	2020 %
Discount rate	**1.88**	2.21
Pension inflation (RPI)	**3.37**	2.76
Salary increases	**3.37**	2.51
Pension increases in payment:		
- RPI, max 2.5% (post 6 April 1997)	**2.23**	2.03
Pension increases during deferment:		
- CPI, max 2.5%	**2.50**	2.01

26. COMMITMENTS UNDER OPERATING LEASES

Operating Lease:
During the year £463,000 (2020: £561,000) was recognised as an expense in the profit and loss account **in** respect of operating leases.

Operating Lease Commitments:

The total of future minimum lease payments for lease of the branches of the Bank, under non-cancellable operating leases are as follows:

	2021 £000	2020 £000
Less than one	**468**	472
In one to five years	**1,432**	1,586
In over five years	**1,541**	1,855
	3,441	3,913

27. CONTROLLING PARTY

The Bank is wholly owned by Bank of Baroda Limited, a Bank incorporated in India. The consolidated financial statements of the parent Bank 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 Bank are also available on the parent company's website www.bankofbaroda.com.

28. EVENTS AFTER REPORTING DATE

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

29. PILLAR III DISCLOSURE

The regulatory disclosures made in order to comply with the EU Directive and Regulation implementing the Basel capital framework ("the Pillar III disclosures") are available at the Bank's website (www.bankofbarodauk.com).