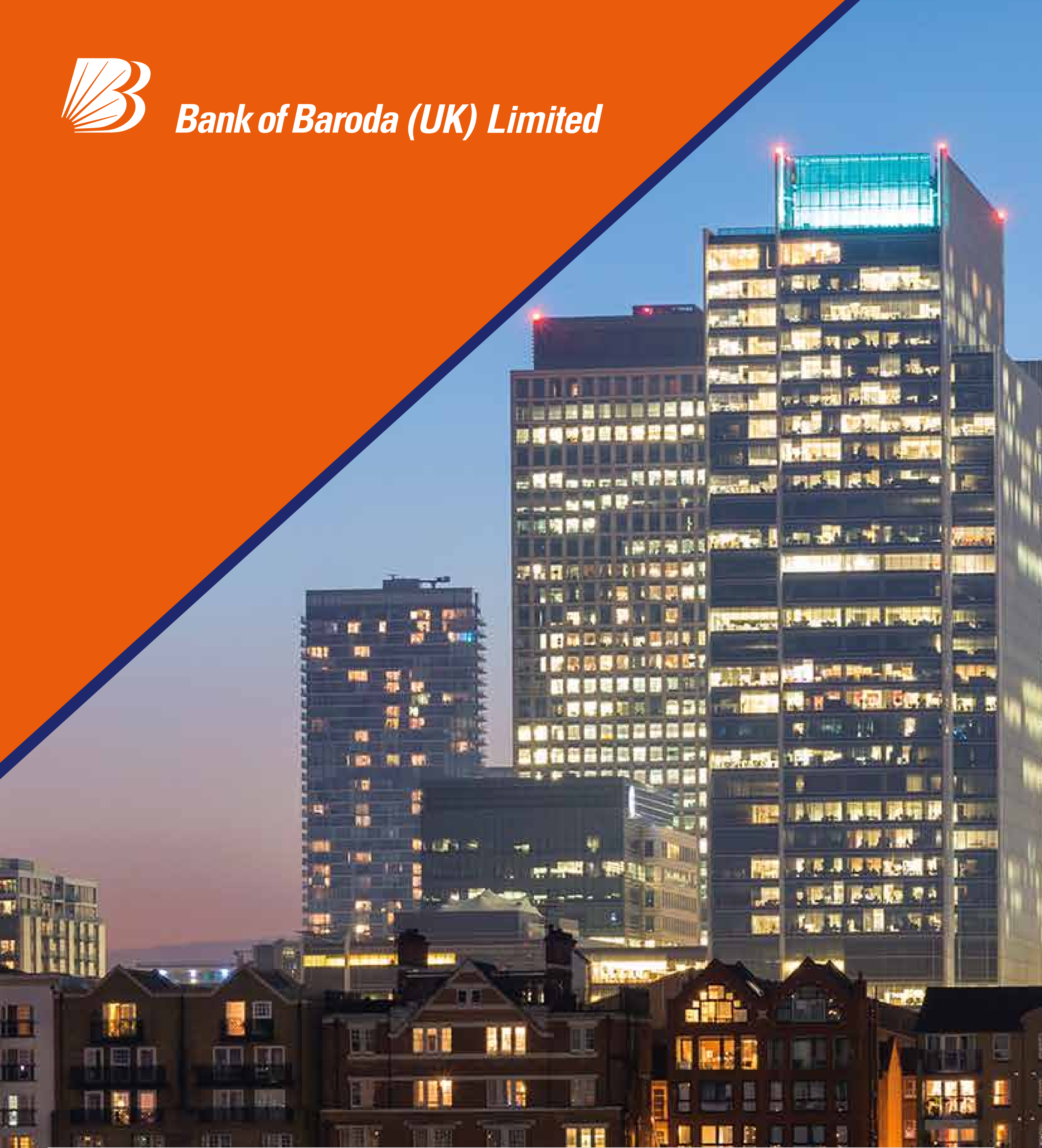
Bank of Baroda (UK) Limited



Annual Report & Financial Statements

For the year ended 31 March 2022

Company Registration No: 10826803

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COMPANY INFORMATION

DIRECTORS

Sanjiv Chadha
Chairman and Non-Executive Director

Madhur Kumar
(Appointed – 1 February 2022)
Managing Director

Arun Aggarwal
Deputy Managing Director

Joydeep Dutta Roy
(appointed – 1 December 2021)
Independent Non-Executive Director

Martin C Say
Independent Non-Executive Director

David Robert Price
(appointed – 5 October 2021)
Independent Non-Executive Director

Soumilya Datta
(appointed – 1 June 2022)
Independent Non-Executive Director

S K Grover
(resigned – 11 February 2022)
Managing Director

A Manambrakat
(resigned - 21st May 2021)
Deputy Managing Director and Executive Director

S K Srivastava
(resigned – 31 July 2021)
Non-Executive Director

Christopher P J Fitzgibbon
(End of contract – 31 May 2022)
Independent Non-Executive Director

Registered number
10826803

Registered office
32 City Road, London, United Kingdom - EC1Y 2BD

Auditors
Mazars LLP
30 Old Bailey, London, EC4M 7AU

CHAIRMAN'S STATEMENT

SANJIV CHADHA

Chairman and Non-Executive Director

I present the Annual Report and Financial statements of Bank of Baroda (UK) Limited ("The Bank") for the year ended 31 March 2022 against a backdrop of great economic and political uncertainty. While the Bank has made progress in its business objectives, it has faced regulatory challenges which have taken priority.

The economic and the geo-political situation has become more uncertain even after the transition of Covid-19 from "pandemic" to "endemic" in most parts of the world. In UK, GDP growth in Q1 2022 was 0.8%, much below expectations. The progressive removal of virtually all Covid-19 restrictions was offset by the knock in confidence from the conflict in Ukraine and the continued high prices. Inflation continues to be around 9%-10% with risks to the upside leading to GDP forecasts being downgraded for both 2022 and 2023. The one bright spot is the strong labour market with job vacancies at a record high and unemployment at 3.9%. The Bank of England ("BoE") has responded by increasing its benchmark "Bank Rate" five times to 1.25%% in June 2022 from 0.1% in December 2021.

PERFORMANCE

In the overall climate of uncertainty in UK and around the globe, the Bank posted profit before tax of £2.00m, profit after tax was £1.60m. While the performance was lower than last year's profit after tax of £7.23m, it must be seen in the context of reduced interest rates for most of the year along with increased operating expenses. In addition, the Bank continued to invest in people, infrastructure and governance frameworks. The Bank took a cautious approach towards new lending and increased customer advances by a modest 13.53% to £271.27m from £238.94m in the prior year. Customer deposits declined by 4.82% as the Bank focused on managing surplus liquidity. Current and Savings Account ("CASA") deposits to total deposits ratio improved from 32.21% at 31 March 2021 to 35.97% at 31 March 2022. Investments in Government and corporate bonds increased by 8.85% during the year as the Bank sought to deploy surplus funds optimally.

During the year, we successfully transitioned our GBP Libor customers to alternative risk-free rates in accordance with regulatory timelines.

Although the prolonged conflict in Ukraine has had a global impact, the Bank is not significantly exposed to either Ukraine or Russia directly or indirectly with respect to credit risk. However, the economic impact of inflation, higher interest rates and cost of living increases are being felt across the world.

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, international payments to India along with personal loans, buy-to-let financing, development finance, finance against property and SME financing. We continue to invest in our credit and customer relationship management 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 and user-friendly payments services.

FINANCIAL RISK FROM CLIMATE CHANGE

Climate change poses a risk to lives and livelihoods; it also poses a risk to business models and financial assets. But climate change is also a commercial opportunity for entrepreneurs and businesses working to introduce ideas and solutions that make the green transition possible. It is an opportunity for us to reinvent our economies to make them more resilient and sustainable.

The Bank carried out a climate change risk assessment for its advances portfolio and it was concluded that Bank's exposure up to 2030 was insignificant and minimal up to 2050.

STAKEHOLDERS

We work closely with our regulators (PRA and FCA) and are focused and committed on maintaining transparent and compliant relationships. 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 operational resilience, financial crime and reporting and governance frameworks. Compliance culture is ingrained in the Bank and we will continually strive to strengthen it across the organisation.

LOOKING AHEAD

The Board of Directors is continuously engaged with the management team to achieve business goals which benefit all stakeholders. With the UK and global economy forecasted to grow at a much lower pace than expected, our strategy will continue to prioritise investment in our operational and compliance infrastructure to enable the Bank to grow modestly but efficiently.

Although this has been a difficult year for our customers and employees with Covid-19 putting unprecedented stress on all our lives, we are committed to supporting them in every way we can. We have taken an understanding view of customers in financial difficulty. Staff welfare continues to be a key priority for the Bank, and we have instituted flexible working arrangements and remote working, wherever possible. We owe a special thanks to our customers and employees for their professionalism and support during these tough times.

STRATEGIC REPORT

for the year ended 31 March 2022

The Directors present their strategic report for the year ended 31 March 2022 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 is centred around serving the financial needs of the Indian diaspora in the UK, the increased globalisation of the Indian economy leading to growing trend of Indian corporations expanding overseas for business and funding requirements and UK based 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 controlled growth in customer advances in the light of ongoing risks due to Covid – 19 and uncertain economic growth, manage down surplus liquidity and continue upgrading resources and infrastructure in line with governance and compliance requirements.

FINANCIAL REVIEW

The Bank commenced its operations in December 2018 with Tier-1 share capital of £5 million, increased to £150 million as at 31 March 2022, which was entirely contributed by Bank of Baroda Limited (the Parent Bank).

Net interest income of the Bank was reduced from £16.12 million in 2020-21 to £13.76 million in 2021-22. This was primarily due to total assets reducing by £33.37m as the Bank sought to manage down excess liquidity along with reduction in fee-based income. The Bank made an annual profit before tax of £2.00 million in 2021-22, decreased from £8.95 million in 2020-21. Net profit was down from £7.23 million in 2020-21 to £1.60 million in 2021-22. The reduction in profitability was due to the Bank's continued investment in people, infrastructure and governance frameworks.

The assets size of the Bank reduced from £978.20 million at March 2021 to £944.45 million at March 2022. The Bank has focused its efforts in managing down high-cost term deposits while growing low-cost CASA. The CASA level of the Bank stood at £273.53 million in March 2022 which reflected a growth of 6.31% year on year. Total customer deposits were £760.39 million at March 2022, compared to £798.88 million at March 2021.

Total customer advances were £271.27 million at 31 March 2022, growing by 13.53%. The Bank has invested in a securities portfolio which amounted to £276.87 million at 31 March 2022, growing by 8.85% compared to the previous year.

THE BANK'S PRIMARY OBJECTIVES ARE:

1. To create profitable and sustainable business growth within the UK.
2. To focus and develop expertise in our core products and services and improve the customer experience
3. To ensure that the risks inherent in the business are subject to robust controls and appropriate risk, compliance, and governance 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 and businesses of Indian origin in the UK in its chosen product range.

KEY PERFORMANCE INDICATORS

The financial performance for the financial year 2022 is summarised in the following table:

Key Performance Indicators (%)	2021-22	2020-21
Net Interest Margin (NIM) (Net interest income / Average earning assets)	1.42%	1.55%
Cost to Income Ratio (Operating cost / Total operating income)	88.00%	54.99%
Return on Capital Employed	0.99%	4.24%
Credit to Deposit Ratio (Loans and advances to customers to Customer deposits)	35.67%	29.88%
Core Tier-1 Ratio (Common equity Tier 1 capital / Total risk weighted assets)	21.96%	24.47%
Total Capital Ratio Own funds / Total risk weighted assets)	21.96%	24.47%
Liquidity Coverage Ratio	475.22%	538.08%
Leverage Ratio (Core capital to total assets)	16.23%	16.30%
Net Stable Funding Ratio	193.15%	160.53%

PROFITABILITY

The profit before tax for the Bank decreased from £8.95 million in 2020-21 to £2.00 million in 2021-22. The Bank's profit after tax for the year amounted to £1.60 million (2021: £7.23 million), though cost to income ratio increased to 88.00% (2021: 54.99%) as a result of continued investment in the business. Net interest margin declined to 1.42% (2021: 1.55%), due to reduction in valuation of investments offset by increase in customer advances and attrition of high cost deposits.

CAPITAL RESOURCES

The Bank's capital adequacy ratio (CAR) was 21.96% as at 31 March 2022 (2021: 24.47%), which is comfortably higher than regulatory requirements. The reduction in CAR reflects increase in risk weighted assets of certain institutional exposures as well as a reduction in Other Comprehensive Income (OCI). The Bank maintains internal capital buffer on top of prudential capital requirements set by the regulators. The Bank's regulatory capital resources under CRD IV was £159.69 million at 31 March 2022 (2021: £164.52 million). The Bank's leverage ratio was 16.23% at 31 March 2022 (2021: 16.30%).

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 475.22% as at 31 March 2022 (2021: 538.08%) reflecting comfortable short term liquidity.

PRINCIPAL ACTIVITIES AND BUSINESS MODEL

The Bank delivers its corporate and retail banking products and services through 10 branches located in England. 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:

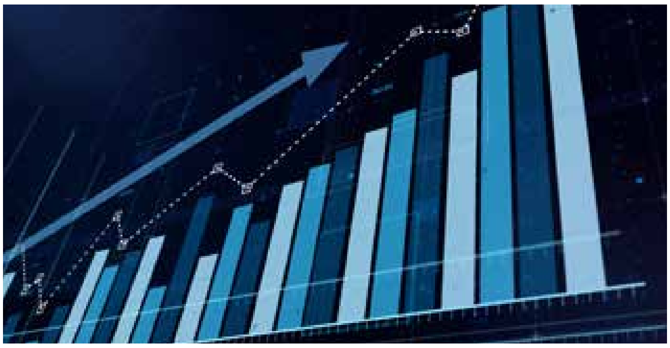
The Bank offers personal current accounts, personal savings accounts, business current accounts, fixed deposits, and services for international payments. On the asset side, products including buy-to-let finance, development finance and business loans are offered to customers.

CORPORATE AND COMMERCIAL BANKING:

The Bank's corporate business aims to support Indian businesses operating in the UK and UK businesses with interests in India. Currently, the Bank has a portfolio of secondary market loan syndications 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

According to the World Economic Outlook (WEO) report published in April 2022, the war in Ukraine has triggered a costly humanitarian crisis that requires a peaceful resolution. At the same time, economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries. Global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected in January 2022.

Beyond 2023, global growth is forecast to decline to about 3.3 % over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7 % in advanced economies and 8.7 % in emerging market and developing economies with more risks to the upside. It is clear that Governments around the world will be dealing with a humanitarian crisis, further economic relief to the less well-off, surging supply side inflation amid low economic growth, climate change, etc. while still bracing for any upsurge in Covid-19.

In the United Kingdom, GDP growth in Q1 2022 was 0.8%, much below expectations. The progressive removal of virtually all Covid-19 restrictions was offset by the knock in confidence from the conflict in Ukraine and the continued high prices. Inflation continues to be around 9%-10% with risks to the upside leading to GDP forecasts being downgraded for both 2022 and 2023. The one bright spot is the strong labour market with job vacancies at a record high and unemployment at 3.9%. The BoE has responded by increasing its benchmark "Bank Rate" five times to 1.25% in June 2022 from 0.1% in December 2021.

For the Indian economy, the International Monetary Fund had earlier projected 9.5% growth in 2022. The current estimates are closer to 7% in line with global trends. The revision reflects, weaker domestic demand as higher oil prices are expected to weigh on private consumption and investment and a drag from lower net exports.

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 a market wide stress from economic uncertainties as part of its annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment (ILAAP) processes and the Bank can demonstrate it is well positioned to be able to withstand the situation effectively and efficiently. In consideration of the challenging global economic environment along with the 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 pandemic risk and risk from a protracted conflict in Ukraine.

CAPITAL RISK

This is the risk of maintaining inadequate capital buffers as a result of rapid 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 financial loss as a result of the failure of a counter-party 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. At the executive level, credit risk is managed and reported through the Credit Risk Evaluation Committee (CREC) and Credit Approval Committee (CAC). Credit risk is explained in detail in note 20.

MARKET RISK

Market risk is the risk that changes in market prices such as interest 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 by the Treasury department. Capital is allocated against market risk in accordance with regulatory requirements. Market Risk is managed and reported through the ALCO and Risk Management Committee (RMC). Market risk is explained in detail in note 20.

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 under overall governance by the Risk Management Committee (RMC).

Capital is allocated by the Bank against Operational risk in accordance with the Bank's 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 conducts 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 primarily measured using the Liquidity Coverage Ratio (LCR) and managed under overall governance of Asset and Liability Committee (ALCO), Liquidity risk is explained in detail in note 20.

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 20.

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 on different bases. Interest rate risk is managed by matching and monitoring the yield and duration exposure built into the Bank's balance sheet. Interest rate risk is explained in detail in note 20.

CLIMATE CHANGE RISK

The PRA issued supervisory statement SS3/19 in 2019, which set out its expectations for firms in relation to managing the financial risks from climate change. Climate related risks were classified as either physical (impact of physical changes as a result of climate change, such as increasing flooding, sea level rise or extreme weather events) or transition (risk arising from adjustments to a low-carbon economy). Firms were expected to develop a strategic approach, considering:

- Governance;
- Risk Management;
- Scenario Analysis; and
- Disclosure.

A Dear CEO letter was issued in July 2020, following thematic work completed by the PRA. This provided best practice examples for firms and also confirmed firms should fully embed their approaches to managing climate related risks by the end of 2021.

Other guidance was provided by HM Treasury and the PRA on disclosures, the Bank of England on climate change scenarios and the UK Government on its net zero strategy.

The Bank has completed a review of the impact of climate risk on its portfolio and this has confirmed that the direct and indirect financial impact is not material.

The Bank has a Climate Change Champion and monitors climate risk through the Board Risk and Compliance Committee and at the executive level through the Risk Management Committee.

COVID-19 PANDEMIC RISK

Covid-19 continued to be a major threat to health and well-being as well as to economic activity in general during most of 2021-22. However, by early 2022, all nations within the UK had scaled back or ended most Covid-19 restrictions.

The Bank has monitored the spread of Covid-19 in the context of its portfolio exposures. The Bank assessed its exposures in relation to deferment requests and made adequate provisions to cover potential losses. The Bank has made loan loss provisions relating to counterparties who are under deferment agreements and/or whose business models are vulnerable to Covid-19 impact (even if they are currently not under any deferment agreements) of £308,000 (2021: £297,000).

The Bank made a number of arrangements to ensure the health and well-being of its employees such as Working from Home (WFH)/ flexible arrangements and support for employees impacted by the virus.

BREXIT IMPACT

Following Brexit, the UK is now no longer bound by EU rules, subject to the provisions in EU-UK Trade and Cooperation Agreement. The Bank does not conduct any marketing activities in the Euro-zone or with European residents and is continuing to manage down its legacy deposit book originating from European residents. There is no material impact on the Bank attributable to Brexit.

CONFLICT IN UKRAINE

The Bank has no significant direct exposures to Russia, Belarus or Ukraine. In addition, the Bank has made reasonable inquiries from its significant counterparties about their exposures to Russia or Ukraine and have not found any evidence of significant indirect exposures either.

However, the broader economy will face unprecedented stress due to higher prices for commodities like food and energy pushing up supply side inflation, disrupted trade and supply chains impacting international trade and the humanitarian impact of people displaced due to war. The Bank cannot be immune to these global risks and will strive to manage and mitigate these with appropriate changes in its business model.

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.

In July 2021, the PRA published PS 17/21 for implementation of Basel Standards which included near- final rule instruments, Statements of Policy (SoP), Supervisory Statements (SS), and reporting templates and instructions. It followed CP5/21, the PRA proposed new requirements to implement some of the remaining Basel III standards in the UK. It included;

- Revision to the definition of capital, in particular for the treatment of Common Equity Tier 1 (CET1) deductions for software assets and certain collective investment undertakings (CIUs);
- Revised Basel standards for prudent valuation for market risk and amendments to market risk management requirements;
- A new Basel standardised approach to counterparty credit risk (SA-CCR) and the revised Basel framework for exposures to central counterparties (CCPs);
- Clarification of the treatment of operating leases under the basic indicator approach (BIA) for operational risk;
- Implementation of the Basel III standards revised large exposures framework;
- Implementation of Basel III standards liquidity coverage ratio (LCR);
- Basel III standards for the net stable funding ratio (NSFR), which would help ensure stable funding structures over a longer-term horizon;

The PRA has made a number of changes to banking regulatory reporting requirements and these changes are being implemented in the CRR reporting modules.

Following PS22/21 'Implementation of Basel Standards', the PRA has incorporated the entire body of the UK version of COREP and FINREP requirements, which is aligned to the European Banking Authority (EBA) Taxonomy 3.0. In PS21/21 'The UK leverage ratio framework', the PRA made changes to the Leverage Ratio reporting requirements which took effect on 1 January 2022. Firms are required to submit Remuneration Benchmarking and High Earners Reports to the PRA, as set out in Chapters 17 and 18 of the Remuneration Part of the PRA Rulebook, respectively.

The PRA published a Dear CEO letter on 10 September 2021. The letter provides thematic feedback from the PRA's review of written auditor reports received in 2021. It also contains feedback from further discussions with firms, auditors, and other global regulators.

PRA's expectations for next steps, including how firms should act upon these findings, are outlined with special emphasis on:

- Governance and Ownership
- Controls - manual intervention, spreadsheets, models, reconciliation
- Data and Investment

The CRR 2 / CRD V guidelines have been implemented by the Bank from 1 January 2022. The Bank complies with the capital requirements of CRR 2 and CRD V (Basel III), making important amendments in a number of areas including large exposures, leverage ratio, liquidity, market risk, counterparty credit risk, as well as reporting and disclosure requirements, composition and quality of capital.

The Bank continuously reviews and monitors the regulatory developments, performing gap analysis, impact analysis and taking necessary actions to improve its reporting framework.

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 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 establish oversight of the overall compliance and risk management functions, including credit, market, operational 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. BRCC is chaired by an iNED and meets quarterly or more frequently as circumstances dictate.

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 internal and external audit plan, to review and agree the annual report and accounts, to review and monitor the outcomes of external audit, and to monitor and provide guidance to "third line" of defence activity in the Bank. The objective of the Committee is to provide oversight of the Bank's financial affairs and related control arrangements and review reports submitted by Internal Audit. The BAC also ensures and monitors independence of the External Auditors. The BAC 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 branch managers, the Head of Credit and the Credit Approval Committee (CAC) are appropriately considered at a senior level. Additionally, the Committee is responsible for reviewing the Bank's overall strategy and approach with respect to credit (including credit risk appetite). The objective of the BCC 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 is chaired by an iNED and meets quarterly or more frequently as circumstances dictate.

BOARD REMUNERATION AND NOMINATIONS COMMITTEE (BRNC)

The BRNC has delegated authority from the Board to regularly review the structure, size, composition and succession (including the skills, knowledge, experience, and diversity) of the Bank's Board and its Executive and Senior Management team and make recommendations to the Board with regard to any development needs or changes arising from skill sets or filling vacancies to the Board. The Committee is chaired by an iNED and meets quarterly or more frequently as circumstances dictate.

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 capital.
The ALCO is chaired by the Managing Director.

COMPLIANCE AND FINANCIAL CRIME COMMITTEE (CFCC)

The CFCC is an executive level committee charged with monitoring the implementation of the Compliance Plan, review of conduct and financial crime risk including anti-money laundering activities, It also monitors, communicates and mitigates risks arising from data protection rules.
The CFCC is chaired by the Chief Compliance Officer.

CREDIT RISK EVALUATION COMMITTEE (CREC)

The CREC is an Executive Level Committee, responsible for evaluation, challenge 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/Teams 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 setting the risk appetite and developing KRIs and appropriate MI for ongoing assessment and monitoring of risk-taking activities across the Bank. The second line focuses 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 including appropriate thresholds for monitoring and reporting breaches of the Bank's Risk Appetite
- 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.

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 of a material nature are brought to the notice of the directors. Executive management / Directors have met with customers, whenever required, which includes direct engagement with key-customers to understand their needs.

SUPPLIERS: During the year, the directors have periodically received updates 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 a review of the Outsourcing policy has 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 Working from Home (WFH) arrangements and supporting vulnerable employees. It has ensured proper working conditions in accordance with government guidelines for those employees wishing to work in the Bank's offices. The Branches of the Bank were operated with reduced staff members, where appropriate, to ensure their safety. During the year, the Bank has not made any redundancies of its employees due to reduced business activities as a result 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. The BRCC has Board level oversight on regulatory, risk & compliance issues. The management team regularly engages with the PRA and FCA supervisory teams bilaterally and through industry associations including UK Finance and the 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. 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.

The Bank is committed to protecting the environment and has incorporated the mitigation of climate risk impacts in its credit policy and risk appetite.

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 three 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,

MADHUR KUMAR *Managing Director*	**ARUN AGGARWAL** *Deputy Managing Director*

Date: 27 July 2022

Bank of Baroda (UK) Limited

The Directors present their report together with the audited financial statements of the Bank for the year ended 31 March 2022.

DIRECTORS

The directors who served 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 required.

RESULTS AND DIVIDENDS

The Bank made a profit before tax of £2,005,000 (2021: £8,949,000) during the year. The directors do not recommend the payment of a dividend for the year (2021: £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 UK based companies looking to 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 Bank is engaged in 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.

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 all times withing the regulatory framework and within its approved risk appetite. At the same time, the Bank will invest in its credit appraisal and management processes to make them more robust and seamless.

LIBOR TRANSITION:

The Bank had established a Libor Transition Committee which was 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 discontinued offering new GBP Libor linked loans and instead offered BoE base rate linked loans or SONIA based loans for bilateral lending. The Bank successfully transitioned all its GBP loan customers to BoE / SONIA based loans as at 31 December 2021.

In accordance with regulatory guidelines, the Bank has stopped offering fresh USD Libor loans and is committed to transitioning all legacy USD customers to SOFR or alternative benchmarks by 30 June 2023, as per current regulatory timelines.

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 a documented Service Level Agreement.

In particular, the Bank has considered its resilience by stress testing its capital and liquidity requirements as part of its Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment (ILAAP). Stress test results indicate that the Bank has sufficient capital and liquidity to manage its balance sheet and commitments for each reasonably possible scenario in conjunction with appropriate management actions. The directors are satisfied 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 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 (2021: 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 all 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.

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 which may have a material impact on the financial performance.

PRINCIPAL RISKS AND UNCERTAINTIES

Please refer to Note 20 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 make 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 order of the Board,

MADHUR KUMAR
Managing Director

ARUN AGGARWAL
Deputy Managing Director

Date: 27 July 2022

Bank of Baroda (UK) Limited

Statement of Directors Responsibilities

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:

MADHUR KUMAR
Managing Director

ARUN AGGARWAL
Deputy Managing Director

Date: 27 July 2022

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 2022 which comprise the Income Statement, Statement of Comprehensive Income, the Balance Sheet, the 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 2022 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;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Bank's future financial performance;
- Assessing the sufficiency of the Bank's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process, and evaluating the results of management stress testing, including consideration of principal risks on liquidity and regulatory capital;
- Reviewing the directors' going concern assessment, including COVID-19 considerations, and evaluating the appropriateness of managements' key assumptions;
- Assessing the historical accuracy of forecasts prepared by the management;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit;
- Reading regulatory correspondence and minutes of meetings of the Risk Committee, the Audit Committee and the Board of Directors;
- Considering whether there were events subsequent to the balance sheet date which could have a bearing on the going concern conclusion; 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.

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

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

This matter, 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 provisions Loan loss provision against customers - £0.96 million (2021: 1.2 million). {Refer to Notes 4, 12 and 20 of the financial statements} 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 (including a management overlay) is recognised for loans which are impaired as at year-end and are known from experience to have impairment indicators present but these have not been identified specifically. Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year-end collective provision. Estimating the collective provision (including management overlay) requires judgement in deriving assumptions to be applied in the assessment. The collective provision is derived from a model that uses a combination of the Bank's experience and external data. The collective provision model is most sensitive to movements in the probability of default ('PD') and loss given default (LGD).	Our audit procedures included, but were not limited to: We have assessed the design and implementation, and tested the operating effectiveness, of the key controls operating at the Bank in relation to loan underwriting, monitoring and provisioning. In respect of the model used to determine the collective provision, we: 1. Considered the appropriateness of the methodology used by management; 2. Challenged the reasonableness of external data used in the collective provision model and assessed relevance of this data based on our understanding of the Bank's portfolio; 3. Performed an independent assessment on internal scorecard ratings for a sample of borrowers. This included challenging management's qualitative assessments, reperformance of data inputs, and calibration of outputs to external credit ratings where available; 4. Independently assessed the level of provision, with consideration to valuation of collateral or other source of repayment; 5. Reviewed assumptions used in applying the methodology adopted by the Bank and assessed them for reasonableness; 6. Verified inputs to source documentation; 7. Performed sensitivity analysis over the key assumptions of PD and LGD; 8. Tested the mathematical accuracy of the model; and 9. Recalculated the management overlay for accuracy, and evaluated its reasonableness by assessing the net exposures at risk after considering their collateral. **OUR OBSERVATIONS** Based on the work performed, we found that the assumptions used by the management in assessing the collective impairment provision are reasonable and that the collective impairment provision on loans and advances to customers as at 31 March 2022 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	£1,609k (2021: £1,649k)
How we determined it	1% net assets
Rationale for benchmark applied	Net assets are the main focus of the shareholder (the overseas parent) to assess the value of their investment. Furthermore, net assets are an approximation of regulatory capital resources which is a key focus for management, shareholder and regulators.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £965k which represents 60% of overall materiality having consideration to our understanding of the Bank's control environment.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £48k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

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

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 18, 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 the financial statements.

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

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

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

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

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

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

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

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

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

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

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

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the Audit Committee, we were appointed by the Bank's Board of Directors on 5 April 2019 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2019 to 31 March 2022.

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

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

USE OF THE AUDIT REPORT

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

GREG SIMPSON

Senior Statutory Auditor

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey

London

EC4M 7AU

Date: 27th July 2022

Income Statement for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Interest receivable and similar income	5	**17,260**	23,198
Interest payable and similar charges	6	**(3,501)**	(7,083)
Net interest income		**13,759**	16,115
Fees and commission income	7	**633**	880
Fees and commission expense		**(60)**	(10)
Other operating income		**349**	700
Gain on foreign exchange revaluation		**157**	41
(Loss) / gain on sale of available for sale investments		**(101)**	205
Total operating income		**14,737**	17,931
Staff expenses	9	**(7,413)**	(6,318)
Operating lease		**(507)**	(463)
Depreciation	13,14	**(90)**	(48)
Administrative expenses		**(4,958)**	(3,032)
Loan loss provision credit		**236**	879
Profit from ordinary activities before tax	10	**2,005**	8,949
Taxation charge on ordinary activities	10	**(405)**	(1,723)
Profit for the year		**1,600**	7,226

The notes on pages 25 to 51 are an integral part of these financial statements

Statement of Comprehensive Income for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Profit for the year		**1,600**	7,226
Other comprehensive income			
Revaluation of available for sale assets		**(8,018)**	6,268
Realised loss / (gain) on sale of available for sale assets		**101**	(205)
Deferred tax adjustment on available for sale assets	24	**1,800**	(1,152)
Actuarial losses on defined benefit pension scheme		**(26)**	(70)
Deferred tax movement relating to actuarial losses on pension scheme		**18**	13
Total comprehensive income for the year		**(4,525)**	12,080

The notes on pages 25 to 51 are an integral part of these financial statements

Balance Sheet As at 31 March 2022

	Note	2022 £000	2021 £000
Assets			
Cash and balances with banks	11	**69,336**	70,576
Loans and advances to banks	11	**302,070**	398,754
Loans and advances to customers	12	**271,268**	238,944
Tangible fixed assets	13	**179**	86
Intangible assets	14	**189**	186
Available-for-sale financial assets	23	**276,868**	254,369
Derivative assets	22	-	12,916
Other assets, prepayments, and accrued income	15	**23,339**	2,369
Deferred tax assets	24	**1,203**	-
Total assets		**944,452**	**978,200**
Liabilities			
Bank deposits	16	**-**	-
Customer deposits	16	**760,393**	798,883
Provision for taxation	10	**109**	719
Other liabilities	17	**3,854**	12,301
Derivatives liabilities	22	**18,815**	-
Deferred tax liabilities	24	**-**	588
Pension liability	26	**169**	72
Total Liabilities		**783,340**	**812,563**
Equity			
Share capital	18	**150,000**	150,000
Fair value reserves		**(3,508)**	2,609
Retained earnings		**14,620**	13,028
Total Equity		**161,112**	**165,637**
Total Liabilities and equities		**944,452**	**978,200**

The financial statements were approved and authorised for issue on 27th July 2022 and signed on its behalf by:

MADHUR KUMAR
Managing Director

ARUN AGGARWAL
Deputy Managing Director

The notes on pages 25 to 51 are an integral part of these financial statements

Statement of Changes in Equity for the year ended 31 March 2022

	Share Capital £000	Fair value Reserves £000	Retained Earnings £000	Total £000
Balance as at 1 April 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/(losses)	-	4,911	(57)	**4,854**
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**
Comprehensive income for the year				
Profit for the year	-	-	1,600	**1,600**
Other comprehensive income/(losses)	-	(6,117)	(8)	**(6,125)**
Total comprehensive income for the year	**-**	**(3,508)**	**1,592**	**(4,525)**
Balance as at 31 March 2022	**150,000**	**(3,508)**	**14,620**	**161,112**

The notes on pages 25 to 51 are an integral part of these financial statements

Notes to the financial statements for the year ended 31 March 2022

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 recognised as other comprehensive income and reported in fair value reserve within equity. When the investments are sold, the gain or loss accumulated in equity is reclassified to the income statement.

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 include 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.

Intangible assets

Intangible assets of the Bank include software measured at cost less accumulated amortisation and any impairment in value. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in the Income statement over its estimated useful life, from the date that it is available for use. The estimated useful life of software is three years.

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.

Variation margin

Variation margin is one type of collateral required to protect the Bank to a contract in the event of default by the other counterparty. Under derivative transactions, the Bank has exposure in hedging cross currency risk. The Bank enters FX swaps which carry variation margins based on changes in mark-to-market values and exchange rate movements. The amount of variation margin to be paid / received is determined by the calculation agent.

The variation margin given is treated as part of other assets in balance sheet and variation margin received is considered as other liabilities in balance sheet.

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 onstructive 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 furloughed staff salaries at gross in Income statement and income receivable for government grants as part of other operating income. During the year, the Bank used Coronavirus Job Retention Scheme (CJRS), launched by the HMRC in 2020. 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. Unrealised 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/maturity, 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. Permanent losses on financial assets are recognised into profit or losses in Income statement. If the loss on available for sale financial assets arises due to fair value movement, then it is reflected in other comprehensive income in equity. The cumulative gain or loss arising from maturity or sale of the financial asset is reclassified from equity to profit or loss and is the difference between the acquisition cost, net of any principal repayments and amortisation, and the sale or maturity 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

In case of available for sale financial assets, 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.

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 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
- 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 2022, 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 the impact of Covid-19, compared to long run averages of market default rates.

The Bank has assumed probabilities of default (PD) based on the credit rating of the customers and portfolio, which ranges between 0.27% to 5.75%. The Bank assumed a 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 2022, gross loans and advances to customers totalled £272.22 million (2021: £240.14 million) against which collective allowance for impairments losses of £0.96 million (2021: £1.2 million), including Covid-19 related provision of £0.308 million, has been made. Further details can be found in Note 12.

The Bank has also carefully assessed its exposures to loans and advances in view of the Covid-19 pandemic impact on the economy and individuals and maintained its provisions at £0.308 million (2021: £0.297 million) to cover the potential losses on loans and advances to customers. This is based on management judgement and is over the amount of impairment model provisions of £0.648 million (2021: £0.895 million). 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 a 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 from the investments, the Bank makes a 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. See note 23 for further details on these assumptions.

- **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 26 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 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 rates as of 31 March. See note 20, note 21 and note 22 for further details.

- **Revenue Recognition through Effective Interest Rate (EIR)**

The effective interest rate will affect the carrying values of loans and receivables. When calculating EIR, the Bank estimates the expected life of the asset and its future cash flows. Fees and commission in the income statement are recognised 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 2022 £000	Year Ended 31 March 2021 £000
Loans and advances to customers	**8,278**	8,390
Loans and advances to banks	**2,578**	10,464
Available for sale financial assets	**6,404**	4,344
	17,260	23,198

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Interest on bank deposits	**12**	266
Interest on customer deposits	**3,489**	6,817
	3,501	7,083

7. FEES AND COMMISSION INCOME

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Commission income	**573**	801
Other Fee	**60**	79
	633	880

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Depreciation and amortisation on fixed assets (see note 13,14)	**90**	48
Gain on foreign exchange revaluation	**157**	41
Defined contribution pension cost	**112**	79
Defined benefit pension cost	**231**	217
CJRS grants	**(6)**	(33)
Fees payable to the Bank auditors for audit and non-audit services	**281**	234

Audit fees

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Fees for current year statutory audit	**162**	142
Overrun fees in relation to prior year statutory audit	**40**	40
Fees for audit related services	**79**	52
	281	234

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

9. STAFF EXPENSES

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Salaries and Wages	**6,207**	5,217
Social security costs	**654**	472
Pension costs	**343**	296
Other staff costs	**209**	333
	7,413	6,318

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

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

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Sales and marketing	**63**	63
Administration	**57**	50
	120	113

The Bank allowed its employees to be furloughed under the Coronavirus Job Retention Scheme (CJRS). The Bank received £6k (2021: £33k) 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 £112,000 (2021: £79,000) as well as defined benefit pension scheme expenses of £231,000 (2021: £217,000).

Directors' remuneration

Directors' remuneration during the year amounted to £432,451 (2021: £280,337) and relates to 5 (2021:4) directors. The pension contributions to directors during the year were £ nil (2021: nil). The parent bank has not paid any remuneration during the year (2021: nil) to the remaining 3 directors for services to the Bank. The remuneration of the highest paid director was £270,322 (2021: £124,386).

10. TAXATION CHARGE ON ORDINARY ACTIVITIES

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Corporation tax		
Current tax on profits for the year	**378**	1,718
Total current tax	**378**	1,718
Deferred tax		
Deferred tax charge	**27**	5
Tax on charge on ordinary activities	**405**	**1,723**

Provision for taxation

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Opening balance	**719**	721
Corporation tax charge for the year	**378**	1,718
Corporation tax paid	**(988)**	(1,720)
Closing balance	**109**	719

Factors affecting tax charge for the year

Tax assessed for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	Year ended 31 March 2022 £000	Year Ended 31 March 2021 £000
Profit on ordinary activities before tax	**2,005**	8,949
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	**381**	1,700
Effects of:		
Timing differences between capital allowances and depreciation	**(21)**	4
Expenses not deductible for tax purpose	**18**	14
Deferred tax charge	**27**	5
Corporation tax charge for the year	**405**	**1,723**

Tax rate changes

The corporation tax rate for the current year is 19% (2021: 19%), which will remain unchanged in the financial year starting from 1 April 2022. The Finance Act 2021, which increases the UK corporation tax rate from 19.0% to 25.0% from April 1, 2023, was substantively enacted in May 2021.

11. LOANS AND ADVANCES TO BANKS

	2022 £000	2021 £000
Cash and balances with banks	**69,336**	70,576
Loans and advances to banks	**302,070**	398,754
	371,406	469,330

12. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 March 2022 consist of the following items:

	Bills Purchase/ Discounted	Loan & Advances Against Deposits	Other Secured Loans and Advances	Unsecured Loans & Advances	Total 2022 £000
Carrying amount					
Gross amount	75	40,652	148,032	83,465	272,224
Specific provision	-	-	(15)	-	(15)
Collective provision	-	-	(556)	(385)	(941)
Net Carrying Amount	**75**	**40,652**	**147,461**	**83,080**	**271,268**

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 2022 £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**

13. TANGIBLE FIXED ASSETS

	Computer equipment £000	Fixture and Fittings £000	Total £000
Cost			
As at 1 April 2021	43	131	174
Additions	102	34	136
Disposals/write off	(6)	-	(6)
As at 31 March 2022	139	**165**	**304**
Depreciation			
As at 1 April 2021	11	77	88
Charge for the year	23	20	43
Disposals/write off	(6)	-	(6)
As at 31 March 2022	**28**	**97**	**125**
Net book value			
As at 1 April 2021	**32**	**54**	**86**
As at 31 March 2022	**111**	**68**	**179**

14. INTANGIBLE ASSETS

	Software £000	Capital work in progress £000	Total £000
Cost			
As at 1 April 2021	-	186	186
Additions	-	50	50
Transfer to/(from) Capital work in progress	186	(186)	-
As at 31 March 2022	**186**	**50**	**236**
Amortisation			
As at 1 April 2021	-	-	-
Amortisation for the year	47	-	47
Disposals/write off	-	-	-
As at 31 March 2022	**47**	**-**	**47**
Net book value			
As at 1 April 2022	-	186	186
As at 31 March 2022	**139**	**50**	**189**

15. OTHER ASSETS, PREPAYMENTS AND ACCRUED INCOME

	2022 £000	2021 £000
Other assets	**211**	212
Prepayments and accrued income	**2,946**	2,020
Indirect Tax receivables	**231**	137
Variation margin	**19,951**	-
	23,339	2,369

16. CUSTOMER DEPOSITS

	2022 £000	2021 £000
Customer current accounts	**50,633**	49,910
Customer savings account	**222,898**	207,390
	273,531	257,300
Customer fixed deposit accounts	**486,862**	541,583
Total customer deposits	**760,393**	798,883
Fixed Deposits - from Banks	-	-
Total deposits	**760,393**	798,883

17. OTHER LIABILITIES

	2022 £000	2021 £000
Accrued interest	**2,411**	5,363
Other creditors	**807**	233
Bank overdraft	**151**	573
Variation margin	**-**	5,957
Other liabilities	**485**	175
	3,854	12,301

Bank overdraft is unsecured, interest free and is repayable on demand.

18. SHARE CAPITAL

	2022 £000	2021 £000
Allotted, called up and fully paid		
150,000,000 (2021: 150,000,000) Ordinary shares of £1.00 each	**150,000**	150,000

During the year ended 31 March 2022, the Bank allotted nil (2021: 5,000,000) ordinary shares with a par value of £1per ordinary share.

19. 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 resources of £135 million were 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 2022.

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 an 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.

20. 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, buy to let and business loans. The Bank also takes credit exposures in inter-bank lending and its investment portfolio comprising of sovereign, institutional and corporate securities and its retail customers in personal loans.

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 certain loans and advances to customers. As at 31 March 2022, £83 million (2021: £46 million) within loans and advances were unsecured. The Bank has collateral of £392 million (2021: £382 million), held typically in the form of the unde lying 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 2022

	Carrying Value £000	Maximum Exposure £000
Neither past due nor impaired	**271,268**	272,224
Past due but not impaired	-	-
Unutilised overdraft commitments	-	28,012
Total	**271,268**	300,236

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

An analysis of Bank's total credit exposures as at 31 March 2022 as above, split by geography is provided below:

Geography	**2022 £000**	**%**	**2021 £000**	**%**
UK	**216,200**	**23%**	229,085	24%
Indonesia	**18,342**	**2%**	21,229	2%
India	**416,955**	**44%**	393,995	40%
USA	**5,992**	**1%**	17,603	2%
Other countries	**284,950**	**30%**	315,667	32%
Total	**942,439**	**100%**	977,579	100%

An analysis of Bank's total credit exposures as at 31 March 2022 (including investment securities, Loans and Advances to Customers and to Banks), split by sectors is provided below:

Sectors	**2022 £000**	**%**	**2021 £000**	**%**
Bank	**536,838**	**57%**	559,779	57%
Business Loan	**21,450**	**2%**	26,484	3%
Buy to Let	**47,044**	**5%**	30,890	3%
Clean Business Loan	**20**	**0%**	249	0%
Development Loan	**15,639**	**2%**	13,356	1%
Loan against deposits	**15,850**	**2%**	32,085	3%
Personal Loan	**705**	**0%**	965	0%
Syndication Loans	**126,284**	**13%**	133,908	14%
Corporate/Sovereign bonds	**175,663**	**19%**	164,926	17%
Others	**2,946**	**0%**	14,937	2%
Total	**942,439**	**100%**	977,579	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:

	2022 £000	2021 £000
Secured	**188,188**	192,776
Unsecured	**83,080**	46,168
Total	**271,268**	238,944

There was 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 leads to classification as forbearance loans. At 31 March 2022, there were £8.5 million (2021: £26.0m) forbearance loans due to Covid-19.

Analysis of impairment provision as at 31 March 2022

	Bills Purchase/ Discounted	Loan & Advances Against Deposits	Other Secured Loans and Advances	Unsecured Loans & Advances	Total 2022 £000
Opening balance of the provision	-	-	**354**	**838**	**1,192**
Charge / (release) of impairment provision during the period	-	-	**206**	**(453)**	**(247)**
Charge / (release) of provisions (Covid-19)*	-	-	**11**	-	**11**
Closing balance in provision	**-**	**-**	**571**	**385**	**956**

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 2022 £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

*The Bank has assessed its exposure to loans and advances in view of the impact of the Covid-19 pandemic has had on the UK economy and individuals and increased the provisions to £308,000 (2021: £297,000) to cover potential losses on loans and advances to customers. The number of customers currently on Covid-19 forbearance is fewer than at 31 March 2021 and all are adhering to the revised payment schedule. Hence, the Bank has assessed that the Covid-19 provision of £308,000 (2021: £297,000) 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 2022:

	On Demand £000	Not more than 3 Months £000	> 3 months but < 1 Year £000	1 - 5 years £000	>5 years £000	Total £000	Carrying Amount £000
Assets							
Cash and balances with banks	6,411	-	62,925	-	-	**69,336**	**69,336**
Loans and advances to banks	-	135,971	166,480	-	-	**302,451**	**302,070**
Loans and advances to customers	40,654	4,227	34,067	197,116	17,144	**293,208**	**271,268**
Available-for-sale financial assets	75,391	1,579	64,452	147,708	-	**289,130**	**276,868**
Interest receivable	-	2,946	-	-	-	**2,946**	**2,946**
Derivatives assets	-	-	-	-	-	**-**	**-**
Variation margin	-	19,951	-	-	-	**19,951**	**19,951**
Total	**122,456**	**164,674**	**327,924**	**344,824**	**17,144**	**977,022**	**942,439**
Liabilities and equity							
Customer deposits	273,532	151,369	271,545	65,894	-	**762,340**	**760,393**
Bank deposits	-	-	-	-	-	**-**	**-**
Derivatives liabilities	18,815	-	-	-	-	**18,815**	**18,815**
Interest payable	-	2,411				**2,411**	**5,363**
Unutilised overdraft commitments	28,012	-	-	-	-	**28,012**	**-**
Total	**320,359**	**153,780**	**271,545**	**65,894**	**-**	**811,578**	**784,571**
Liquidity gap	**(197,903)**	**10,894**	**56,379**	**278,930**	**17,144**	**165,444**	**-**
Cumulative gap	**(197,903)**	**(187,009)**	**(130,630)**	**148,300**	**165,444**	**-**	**-**

Bank's assets and liabilities (based on undiscounted cash flows) as at 31 March 2021:

	On Demand £000	Not more than 3 Months £000	> 3 months but < 1 Year £000	1 - 5 years £000	>5 years £000	Total £000	Carrying Amount £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
Variation margin	-	-	-	-	-	-	-
Total	**192,038**	**265,876**	**176,861**	**332,180**	**52,401**	**1,019,356**	**977,579**

	On Demand £000	Not more than 3 Months £000	> 3 months but < 1 Year £000	1 - 5 years £000	>5 years £000	Total £000	Carrying Amount £000
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**	**-**	**-**

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 that re-price within set time periods (known as 'time buckets'), within which all items repricing are grouped together. The table below summarises the re-pricing mismatch on the Bank's financial assets and liabilities as at 31 March 2022.

	Less than 3 months £000	3 months to 1 year £000	1 year to 5 years £000	More than 5 Years £000	Non-Interest Bearing £000	Total £000	Carrying Amount £000
Assets							
Cash and balances with banks	6,411	62,925	-	-	-	**69,336**	**69,336**
Loans and advances to banks	137,291	164,779	-	-	-	**302,070**	**302,070**
Loans and advances to customers	248,846	21,132	1,290	-	-	**271,268**	**271,268**
Available-for-sale financial assets	-	95,461	181,407	-	-	**276,868**	**276,868**
Interest receivable	2,946	-	-	-	-	**2,946**	**2,946**
Derivatives assets	-	-	-	-	-	**-**	**-**
Variation margin	19,951	-	-	-	-	**19,951**	**19,951**
Derivative instruments	206,921	271,500	-	-	-	**478,421**	**478,421**
	622,366	**615,797**	**182,697**	**-**	**-**	**1,420,860**	**1,420,860**
Liabilities and equity							
Customer deposits	166,510	272,118	321,765	-	-	**760,393**	**760,393**
Bank deposits	-	-	-	-	-	**-**	**-**
Derivatives liabilities	18,815	-	-	-	-	**18,815**	**18,815**
Interest payable	2,411	-	-	-	-	**2,411**	**2,411**
Derivative instruments	206,921	271,500	-	-	-	**478,421**	**478,421**
	394,657	**543,618**	**321,765**	**-**	**-**	**1,260,040**	**1,260,040**
Interest rate sensitivity gap	**227,709**	**72,179**	**(139,068)**	**-**	**-**	**160,820**	**-**
Cumulative gap	**227,709**	**299,888**	**160,820**	**160,820**	**160,820**	**-**	**-**

Interest rate risk as at 31 March 2021

	Less than 3 months £000	3 months to 1 year £000	1 year to 5 years £000	More than 5 Years £000	Non-Interest Bearing £000	Total £000	Carrying Amount £000
Assets							
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**	**-**	**-**

The Bank monitors 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 financial assets and liabilities as at 31 March 2022 is presented below:

Effect of 200 basis increase in interest rates across maturity bands=£2.080 million (2021: £3.232 million).

Effect of 200 basis decrease in Interest rates across maturity bands= (£2.161) million (2021: (£3.732) 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 22). The total notional amount of outstanding foreign exchange swaps to which the Bank is committed is £478.42 million (2021: £335.42 million).

The Bank's total assets and total liabilities based on currencies in which they are denominated as at 31 March 2022:

Balance sheet as at 31 March 2022	GBP	USD	Other	Total currency
Assets	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances with banks	69,124	13	199	**69,336**
Loans and advances to banks	79,000	203,932	19,138	**302,070**
Loans and advances to customers	159,053	111,950	265	**271,268**
Tangible fixed assets	179	-	-	**179**
Intangible assets	189	-	-	**189**
Available-for-sale financial assets	38,477	238,391	-	**276,868**
Other assets, prepayments and accrued income	20,748	2,565	26	**23,339**
Deferred tax assets	1,203	-	-	**1,203**
Derivative instruments	461,865	(447,841)	(14,024)	**-**
Total assets	**829,838**	**109,010**	**5,604**	**944,452**
Liabilities				
Bank deposits	-	-	-	**-**
Customer deposits	628,411	126,407	5,575	**760,393**
Provision for taxation	109	-	-	**109**
Other liabilities	1,989	1,848	17	**3,854**
Derivatives liabilities	18,815	-	-	**18,815**
Pension liability	169	-	-	**169**
Total Liabilities	**649,493**	**128,255**	**5,592**	**783,340**
Equity				
Share capital	150,000	-	-	**150,000**
Fair value reserves	(3,508)	-	-	**(3,508)**
Retained earnings	14,620	-	-	**14,620**
Total equity	**161,112**	**-**	**-**	**161,112**
Total Liabilities and equities	**810,605**	**128,255**	**5,592**	**944,452**
Gap	**19,233**	**(19,245)**	**12**	**-**
Sensitivity analysis (FX rate movement 5%)	**962**	**(962)**	**-**	**-**

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
Intangible assets	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
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
Derivatives liabilities	588	-	-	588
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 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 £962,000. If the rates move against the Bank, the Bank will make a loss of £962,000 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 movements in the price of available for sale financial assets. Accordingly, the assets will appreciate by £13.6 million if the price of the assets moves upward by 5%. The assets will depreciate by £13.6 million if the price of the assets move downward by 5%, this would be taken through other comprehensive income to fair value reserves.

21. FINANCIAL INSTRUMENTS

The Bank has the following financial instruments as at 31 March 2022:

	Loans and Receivables £000	Available for Sale £000	Fair Value Through Profit & Loss £000	Total £000
Financial Assets				
Cash and balances with banks	69,336	-	-	**69,336**
Loans and advances to banks	302,070	-	-	**302,070**
Loans and advances to customers	271,268	-	-	**271,268**
Available-for-sale financial assets	-	276,868	-	**276,868**
Accrued income	2,946	-	-	**2,946**
Variation Margin	19,951	-	-	**19,951**
	665,571	**276,868**	**-**	**942,439**

	Other Financial Liabilities £000	Fair Value Through Profit & Loss £000	Total £000
Customer deposits	760,393	-	**760,393**
Other liabilities	3,854	-	**3,854**
Pension liabilities	169	-	**169**
Derivatives liabilities	-	18,815	**18,815**
	764,416	**18,815**	**783,231**

The Bank had 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 & Loss £000	Total £000
Financial Liabilities			
Customer deposits	798,883	-	798,883
Other liabilities	12,301	-	12,301
Pension liabilities	72	-	72
	811,256	**-**	**811,256**

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 2022	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Government security	75,391	-	-	**75,391**
Corporate bonds	201,477	-	-	**201,477**
	276,868	**-**	**-**	**276,868**
Financial Liabilities				
Fair value through Profit & Loss				
Forward exchange swaps	-	(18,815)	-	**(18,815)**
	-	**(18,815)**	**-**	**(18,815)**

31 March 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £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**

22. DERIVATIVE INSTRUMENTS

As at 31 March 2022	**Notional Value £000**	**Fair Value Asset/ (Liability) £000**
Forward contract	139	-
Forward exchange swaps	478,282	(18,815)
Total	**478,421**	**(18,815)**

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

The Bank deals in multiple currencies and it is not always possible to exactly 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 the 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.

23. AVAILABLE FOR SALE FINANCIAL ASSETS

	Listed Investments £000
As at 31 March 2020	113,722
Additions	217,043
Disposals and redemptions	(79,820)
Gain on disposals and redemptions	205
Fair value adjustments	3,219
As at 31 March 2021	**254,369**
Additions	49,577
Disposals and redemptions	(28,194)
Loss on disposals and redemptions	(101)
Fair value adjustments	1,217
As at 31 March 2022	**276,868**

24. DEFERRED TAXATION

Breakdown of deferred taxation movements during the current and comparative period

	2022 £000	**2021 £000**
Deferred tax brought forward	**(588)**	556
Charged to profit and loss	**(27)**	(5)
Credited / (Charged) to other comprehensive income	**1,800**	(1,152)
Charge on Actuarial gain	**18**	13
	1,203	(588)

Deferred tax assets / (liabilities) are made of

	2022 £000	**2021 £000**
Deductible temporary differences arising on tangible fixed assets	**(31)**	(5)
Deferred tax temporary differences arising on fair valuation of available-for-sale financial assets	**1,192**	(607)
Actuarial losses on defined benefit pension plans	**42**	24
	1,203	(588)

Deferred tax assets as of 31 March 2022 has been calculated at 19% for temporary differences expected to reverse before 1 April 2023. Out of total fair value losses of £4.7m, a loss of £0.6m is expected to realise in 2022-23, and therefore the deferred tax asset is calculated at 19%; the balance of the fair value loss of £5m is expected to realise after 1 April 2023, hence it is calculated at 25%. Net pension liabilities are expected to increase in FY2022-23, therefore the net pension liabilities as at 31 March 2022 are not expected to reverse by 1 April 2023 and are therefore calculated at 25%.

25. CONTINGENT LIABILITIES AND COMMITMENTS

The contingent liabilities existing at the reporting date are £2,634,000 (2021: £4,822,000) as follows:

	2022 £000	2021 £000
Guarantees given on behalf of constituents		
- Performance guarantee	**1,199**	1,251
- Financial guarantee	**1,431**	2,147
Total guarantees given on behalf of constituents	**2,630**	3,398
Acceptance, endorsement and other obligations		
For letter of credit		
- Inland	**-**	-
- Foreign	**4**	1,424
Total acceptance, endorsement and other obligations	**4**	1,424
Total contingent liabilities	**2,634**	4,822
Bills for collection		
Inward	**35**	79
Outward	**1,048**	2,852
Total bills for collection	**1,083**	2,931

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 2022:

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 2022 amounted to £28.0 million (2021: £15.0 million).

26. PENSION COMMITMENTS

The Bank operates a defined benefit pension scheme ("the 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 the setup of Bank of Baroda (UK) Ltd, transferred to the Bank under a current multi-employer transfer scheme of the pension which is part of the pension scheme of 2004. Since 2005, for new employees, , the Bank has 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 2022 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:

	2022	2021
	£000	£000
Reconciliation of present value of plan liabilities		
Opening value of scheme defined benefit obligation	**742**	433
Current service cost	**229**	216
Interest cost	**16**	12
Benefits paid	**(7)**	(33)
Actuarial loss on value of scheme defined benefit obligation	**(46)**	114
At the end of the year	**934**	742

Reconciliation of present value of plan assets:	2022	2021
	£000	£000
Opening fair value of scheme assets	**670**	374
Interest income	**14**	11
Contributions	**160**	274
Benefits paid	**(7)**	(33)
Actuarial gain / (loss) on scheme assets	**(72)**	44
Closing fair value of scheme assets	**765**	670

Composition of plan assets:

	2022	2021
	£000	£000
Equities	531	454
Bonds	234	216
Total plan assets	765	670

	2022	2021
	£000	£000
Fair value of scheme assets	765	670
Present value of scheme liabilities	(934)	(742)
Net pension scheme liability	(169)	(72)

The amounts recognised in profit or loss are as follows:

	2022	2021
	£000	£000
Current service cost	229	216
Interest cost	2	1
Total	231	217

Remeasurement of the net defined benefit obligation:

	2022 £000	2021 £000
Actuarial gain / (loss) on scheme assets	(72)	44
Experience loss arising on scheme liabilities	(57)	(18)
Actuarial loss from change in assumptions	103	(96)
	(26)	(70)

The amount of actuarial gains and losses recognised in the Statement of comprehensive income was £26,000 (2021: £70,000).

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

	2022	2021
	%	%
Discount rate	**2.68**	1.88
Pension inflation (RPI)	**3.85**	3.37
Salary increases	**3.85**	3.37
Pension increases in payment:		
- RPI, max 2.5% (post 6 April 1997)	**2.34**	2.23
Pension increases during deferment:		
- CPI, max 2.5%	**2.50**	2.50

27. COMMITMENTS UNDER OPERATING LEASES

Operating Lease:

During the year £507,000 (2021: £463,000) 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:

	2022 £000	2021 £000
Less than one	**418**	468
In one to five years	**1,295**	1,432
In over five years	**1,259**	1,541
	2,972	3,441

28. CONTROLLING PARTY

The Bank is wholly owned by Bank of Baroda Limited, a Bank incorporated in India. The consolidated financial statements of the parent 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.**

29. EVENTS AFTER REPORTING DATE

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

30. 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).**

Bank of Baroda (UK) Limited

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