SBI UK

State Bank of India (UK) Limited

Annual Report and Financial Statements.

For the year ended 31 March 2021

State Bank of India 1921 2021 Celebrating 100 years in UK

Company information

Registered office

15 King Street
London
United Kingdom
EC2V 8EA

Company registration no **10436460**

Directors

Chalasani, Venkat Nageswar (Chairman - Resigned on 30 April 2021)

Naik, Sanjay Dattatraya (Non-Executive Director till 20 June 2021 and Appointed as Chairman on 21 June 2021)

Arora, Rajeev (Non-Executive Director – Appointed on 18 June 2021)

Baines, John Duncan (Independent Non-Executive Director)

Hicks, Steven Mark (Independent Non-Executive Director)

Chandak, Sharad Satyanarayan (Chief Executive Officer)

Avasia, Kalpesh (Executive Director - Resigned on 18 December 2020)

Pandey, Sanjay (Executive Director - Appointed on 18 December 2020)

Bankers

National Westminster Bank Plc

Citibank NA

Auditor

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Annual report and financial statements for the year ended 31 March 2021

Strategic report

The directors present their strategic report of State Bank of India (UK) Limited ('SBIUK' or 'the Bank') for the year ended 31 March 2021.

SBIUK is a wholly owned subsidiary of State Bank of India (SBI), a Bank established in law by the State Bank of India Act 1955. SBI is the largest bank in India and is authorised and regulated by the Reserve Bank of India.

SBIUK is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Bank obtained approval for authorisation by PRA on 22 August 2017 and commenced trading on 1 April 2018.

Strategic objective

SBIUK's objective is to provide Retail Banking services in the UK via its branch network and digital channels. The primary target customer group for the Bank are individuals and business entities in the UK. SBIUK's goal is to be a profitable and sustainable UK bank, and positions itself as a bank offering state of the art technology-based products and services in the retail and small business segment.

Business model

The Bank provides the following products and services through its digital platform as well as network of branches across the UK:

- Current, instant access savings, cash ISAs and fixed deposit accounts for individuals
- Current, business savings and fixed deposit accounts for businesses
- Residential Buy To Let (BTL) mortgages, which are also sourced via intermediary channels
- Owner occupied commercial and commercial investment mortgages
- Credit facilities to UK-based or UK centric businesses in the hospitality, health care, student accommodation, retail and other sectors of the economy
- GBP, USD and Euro denominated loans to international businesses, through bilateral deals as well as through participation in syndicated loans
- 24 x 7 remittance services to India
- Fund transfer services
- Safe deposit lockers

The Bank also offers online as well as mobile banking facilities. The Bank is continuously making enhancements in its Internet and YONO SBIUK, its mobile banking application.

The lending is mainly funded by customer deposits comprising of current accounts, instant access accounts and term deposits. The deposit book is carefully managed to meet the growth and the maturity profile of the loan book.

The Board sets the strategy, risk appetite and culture for the business that is supported by effective risk management, regulatory compliance and governance to support and grow the business model.

Financial and business review

Review of Operations

The Bank commenced trading on 1st April 2018, with Tier 1 share capital of £175m and Tier 2 capital of £50m, entirely contributed by SBI. However, the Bank converted £50m of Tier 2 capital into Tier 1 share capital in October 2020. The key financial and other performance indicators of SBIUK for the last two financial years are as follows:

£ Millions	2021	2020
Total Assets	1,755.4	1,756.2
Gross loans and advances to customers	1,147.2	1,106.3
Of which:		
Buy to let mortgages	306.2	211.7
Commercial mortgages	210.1	224.0
Corporate & business loans	614.4	659.8
Net Interest Income	23.6	26.1
Operating profit before impairment charge	10.4	12.3
Impairment charge	1.3	3.9
Profit before tax	9.2	3.9
Profit after tax	7.4	3.4
Net interest margin	1.4%	1.5%
Cost / Income ratio	62%	57%
Common Equity Tier 1 ratio[1]	17.9%	13.5%
Capital adequacy ratio[2]	18.3%	17.3%
Leverage ratio[3]	13.5%	10.3%
Liquidity Coverage Ratio (LCR)[4]	156%	179%
Net Stable Funding Ratio (NSFR)[5]	124%	122%

The Bank has established a good foundation during the first three years by implementing an effective corporate governance framework and development of sound systems and controls. These will help the Bank to achieve its objectives of steady and sustainable growth and profitability in the coming years.

Profitability

The Bank's operating profit for the year amounted to £10.4m (2020: £12.3m), before allowance for impairment losses of £1.35m (2020: £3.9m) and profit on sale of loans £0.1m (2020: loss on sale of loans £4.5m). Though the Bank's operating income shrank during the year, it has to be reviewed considering the depreciation of USD against GBP (during the year GBP appreciated by 13% against USD), low interest rate environment (I.E. Bank of England Base rate going down from 0.75% to 0.1%) along with subdued market and business conditions due to Covid-19. More specifically, this low interest rate environment has resulted in reduction of Net Interest Income by 10% to £23.6m during the financial year, compared to the previous financial year £26.1m, which has resulted in slight deterioration of Cost / Income Ratio to 62% (2020: 57%). The Net interest margin for the year is 1.4% (2020: 1.5%). The pre-tax profit for the year came to £9.2m (2020: £3.9m) and the profit after tax amounted to £7.4m (2020: £3.4m).

1. Common Equity Tier 1 ratio is a measure of how much equity capital (core capital) bank has available, reported as a percentage of bank's risk-weighted credit exposures.
2. Capital adequacy ratio (CAR) is a measure of how much total capital bank has available, reported as a percentage of bank's risk-weighted credit exposures.
3. Leverage ratio is a measure of bank's core capital to its total assets. The ratio uses tier 1 capital to judge how leveraged the bank is in relation to its consolidated assets.
4. LCR is designed to ensure that banks hold a sufficient high-quality liquid assets, to allow them to survive a period of significant liquidity stress lasting 30 calendar days.
5. NSFR is defined as the amount of available stable funding relative to the amount of required stable funding.

Capital resources

The Bank's total regulatory capital resources were £248m as at 31st March 2021 (2020: £239m) with a common Tier 1 capital ratio of 17.9% (2020: 13.5%) and total capital adequacy ratio of 18.3% (2020: 17.3%). The Bank's shift from Corporate & Business loans to Retail & SME loans over the last year has helped the bank in improving its total capital adequacy ratio, while the shifting of £50m of Tier 2 capital into common equity has improved the common Tier 1 capital ratio.

Liquidity resources

The Bank's Liquidity Coverage Ratio (LCR) was maintained well above the minimum regulatory requirement of 100% throughout the year. The Bank also had Net Stable Funding Ratio (NSFR) of 124% (2020: 122%), compared to minimum regulatory expectations of 100%.

Economic Environment and Future Outlook

Libor transition

In view of the scheduled demise of LIBOR, the Bank is working towards adopting an alternative benchmark to ensure a smooth transition to an alternative risk-free reference rate. The FCA has confirmed that support for LIBOR will be withdrawn by the end of 2021 and SONIA has been chosen as the preferred benchmark rate in the UK.

The Bank recognises the challenges of Libor transitioning, despite it being a relatively smaller player in the UK with a simple and limited product offering. Hence, the Bank has put a project team in place to manage the transition, which covers key areas like identification of Libor exposures, operational and technological requirements for the transition, communication to impacted customers, product development, customer documentation and related regulatory, legal and conduct issues. The Bank has made good progress in transitioning and will be in a position to transition the exposures into Alternative Risk Free Rate within the regulatory deadline.

Covid-19 and Future Outlook

Covid-19 has inflicted severe economic and human costs worldwide including in the UK, India and US, where the Bank has major credit exposures. The business disruption has impacted most of the sectors of the economy, with severe strain on sectors like Transportation, Hospitality, Commercial Real Estate, Automobile industry, etc. Because of these shocks, Governments have implemented substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses.

Although recent vaccine approvals and rollouts across the globe have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook.

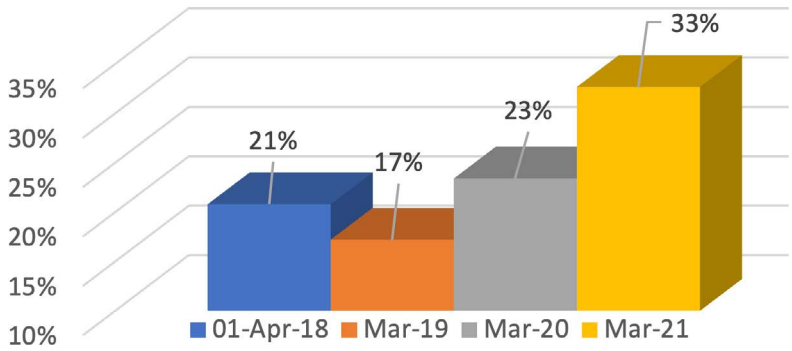
As per the latest forecast from Organisation for Economic Co-operation and Development (OECD), the UK economy is expected to rise by 7.2% in 2021, the fastest growth since 1941, after a 9.8% contraction in 2020. According to International Monetary Fund's update in 2021, amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.

The Global Economy is facing severe headwinds in the short term, while the world is trying to recover. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spill overs, and structural characteristics entering the crisis.

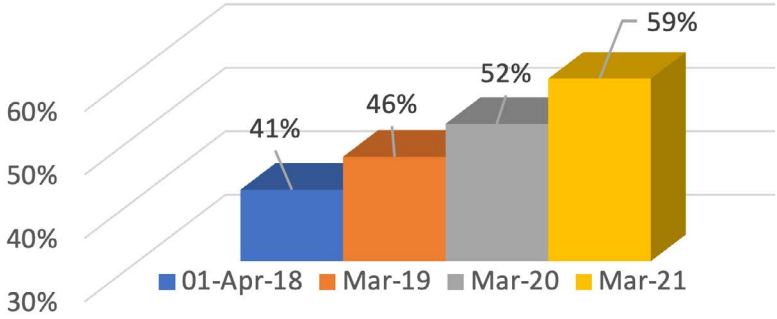
Business Strategy - Future Outlook

While the uncertainties due to Covid-19 remain, with high downside risks to the economy for 2021 and beyond, the ongoing regular monitoring by Executive management and at Board level of events as they unfold as well as the contingency planning will ensure a tight management of strategy and economic risks through 2021. The Bank is monitoring the situation actively and will continue to take corrective actions, if required. As of now, it is focussing on serving its core franchise of retail and small business customers, with a selective lending to corporate customers. In addition, market wide stress from economic uncertainties have been tested as part of the ICAAP and ILAAP scenario modelling and the Bank is well placed to deal with such circumstances. Further, the management decisions, including cautious approach on credit and liquidity, will ensure that the Bank has adequate capital and liquidity resources to support its operations.

As covered in the below graphs, the Bank continues to focus on growing in the Retail & SME Lending segment and BTL mortgages, combined with reduction of exposures (especially Large Exposures) to Corporates. With the focus on UK assets going up, the Bank's exposure on non-GBP loans is expected to go down over the next few years.



Retail and SME Loans as % of Total loans



GBP Loans as % of Total Loans

Principal risks and uncertainties

The principal risk categories facing the Bank in achieving its strategic objectives and financial performance are assessed and a summary of these risks are set out below together with the steps taken to mitigate the risks:

Principal risk and definition	How the Bank mitigates the risk
Business performance and strategic risk The risk arising from business decisions and improper implementation of those decisions	The Board and management recognise this as one of the material risks and this is mitigated by monitoring market developments, the macroeconomic environment, customer requirements and adapting the business strategy accordingly. A Business Plan has been developed by the Senior Management team and assumptions contained within the plan are reasonable and achievable based on their experience of working and operating in the UK market. This plan has been approved by the Board. Stress testing is performed to show the potential impact if SBIUK's business objectives are not met. The exercise involves various stress scenarios that are assessed to be severe but plausible, and confirms that the Bank would still retain sufficient capital and liquid resources.
Credit risk The risk that a borrower or counter-party fails to pay the interest or repay the principal on a loan on time In relation to treasury activities, there is a risk that the acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part	The Bank takes security and where appropriate, guarantees to support its lending and focus on sectors (e.g. BTL and Commercial mortgages), where the Bank has specific expertise. Concentration risk is managed by limits placed on counter-party exposures, geography and sector. The Bank has detailed policies for all types of lending and investments which are implemented in the business areas. All new loans and investments as well as reviews are subjected to Independent Risk assessment before being put up for approval to appropriate committee. The performance of the lending and investment portfolio is regularly monitored against the Bank's Risk Appetite Statement.

Operational risk The risk of loss arising from inadequate or failed processes, people and systems	The Operational Risk Management Framework is periodically reviewed. Business Continuity Planning (BCP) has been enhanced throughout the year to strengthen Operational resilience including supporting remote working for employees/servicing customers and to ensure any future disruptions due to the pandemic would not impact the Bank. Management and development of controls to address Operational Risks are part of each business line managers' day to day responsibility. The Bank's exposure to Operational Risk is evaluated and controlled through the Risk & Control Self-Assessment (RCSA) process and via a Risk Event reporting and tracking process. Escalations are made to the Risk Management Committee and Management Committee monthly and to the Board Risk Committee where appropriate. The Bank has applied the Basic Indicator Approach in accordance with the Title III Chapter 2 of the CRR in order to calculate its Pillar 1 Operational Risk capital requirement.
Market risk The risk that changes in market prices including interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings	The Bank endeavours to match the currency and interest rate structure of assets with liabilities to create a natural hedge. Any residual currency/interest risks beyond the Bank's risk appetite is mitigated by entering into currency/interest rate swap agreements.
Capital and liquidity risk *Capital* The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans *Liquidity* The risk that the Bank is unable to meet its financial obligations as they fall due	The Bank prepares ICAAP and ILAAP documents that are reviewed and challenged by the Board Risk Committee and ultimately approved by the Board. This requires the Bank to maintain appropriate levels of capital and liquidity on an on-going basis and in times of stress. The Bank maintains a prudent Risk Appetite Statement which is reviewed and approved by the Board at least annually. The capital and liquidity positions are measured against the risk appetite and reported monthly to the Asset and Liability Committee (ALCO) and to the Board on a quarterly basis.
Compliance risk The risk of financial loss, regulatory sanctions or loss of reputation as a result of failure to comply with the applicable laws, regulations and relevant business practice	Adequate governance and risk management arrangements have been put in place to ensure that the Bank complies with applicable laws, regulations and industry best practices. It includes detailed policies and procedures, skilled staff, on-going and periodic training programmes, defined escalation and reporting frameworks, oversight by senior management, Compliance and Risk departments and independent risk based internal audits. Ongoing oversight is performed by the management and board committees including Legal & Compliance committee, Board Risk committee and Board Audit committee.
Risks from Economic downturns	As covered earlier, while the uncertainties due to Covid-19 and Brexit remain, with high downside risks to the economy for 2021 and beyond, the ongoing regular monitoring by Executive management committees and at Board level of events as they unfold as well as the contingency planning will ensure a tight management of strategy and economic risks through 2021. The Bank has therefore adopted a conservative risk appetite on its lending, to minimise such risks. In addition, market wide stress from economic uncertainties (including Brexit and Covid-19) have been tested as part of the ICAAP and ILAAP scenario modelling and the Bank is well placed to deal with such circumstances. Further, the management decisions will ensure that the Bank has adequate capital and liquidity resources to support its operations.

Risks from impact of climate change	The Bank recognises the impact of climate change on its financial position including on the valuation of its financial assets, impact to its operations and financial risk disclosures. Risks related to climate change for the credit book are being addressed by the Bank. With a long term view, the Bank is exploring ways to align the climate change risk assessment at a sectoral level, while reviewing overall industry specific limits. In addition to credit risk, the Bank understands other risks, including physical risks associated with changing weather patterns and extreme weather events, such as cyclones or floods and the impact on our customer's production issues and price fluctuations resulting from global supply and demand. There are also transition risks, the technology, policy and regulatory changes that may affect customer's businesses as governments act on their pledges to reduce carbon emissions. Though the Bank has assessed the risks from Climate Change as non-material to its operations, the Board continuously monitors the risks and opportunities from the climate change risks and its impact on the resilience of the company's business model.

Interbank Offer Rate (IBOR) reforms

During the year ending 31 March 2021, the Bank has adopted the phase 1 amendments to IAS 39 Interest Rate Benchmark Reform issued in September 2019. The IBOR reform would have impact on the hedge accounting, due to the change in the Risk-free rate. The phase 1 amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by uncertainties related to IBOR reform. The phase 1 reliefs provide the effect that due to IBOR reforms it should not generally cause hedge accounting to terminate.

The Bank is closely monitoring the market and the output from the various industry working groups managing the transition from LIBOR to SONIA. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) regarding the transition away from LIBOR. The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

To manage the transition smoothly, the Bank has set up Project team headed by Chief Credit Officer and attended by the executive management with regular meetings to monitor and discuss the developments related to IBOR reform.

Loans and Advances

Bank currently has £806.6 million LIBOR linked floating rate loans; all are expiring after end 2021. The Bank intends to treat customers fairly during the transition of these loans away from IBOR such that there is no customer detriment at the point of transfer and that customers are kept informed about the impact of IBOR reforms on their contracts. Bank had communicated to all customers informing them about LIBOR transition. As of 31 March 2021, the total exposure to LIBOR linked loans is £806.58m.

Derivatives

For the Bank's derivatives, active transition to SONIA is being reviewed, but the Bank has also signed up to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol meaning the fall-back arrangements within that protocol are available if required.

The following table summarises the significant hedge accounting exposures impacted by the IBOR reform as at March 31, 2021:

Current benchmark rate	Expected convergence to RFR (Risk Free Rate)	Nominal amount of hedged items directly impacted by IBOR reform £'000	Nominal amount of hedging instruments directly impacted by IBOR reform £'000
LIBOR	Reformed Sterling Overnight Index Average (SONIA)	144,846	149,795

Section 172(1) 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 stakeholders who include, shareholders, customers, suppliers, employees, regulators, communities and environment affected by the Bank and matters set out in section 172(1) of the Companies Act 2006. In Particular:

Stakeholders	Management and Engagement of the Stakeholders
Employees	The Bank's greatest strength are its employees, who are dedicated to delivering outstanding service to its customers. The Senior Management engages with the Bank's employees actively both in formal and informal setting. The Directors receive updates from senior management through Management information or specific agenda items in relation to employees, including their wellbeing, staff attrition rates, employees' concerns, if any, etc. Board receives regular updates from Senior Management on how the Bank is taking care of its employees. During the year, to ensure social distancing at work and to minimise disruptions to operations for multiple lock downs, the Bank implemented remote working policies for non-customer facing staff. The Directors take this opportunity to express their sincere appreciation to all the staff for their contribution and dedication towards delivering the Bank's objectives, especially during Covid-19. They helped the Bank to continue to serve the needs of our retail and small business customers. During the year, the Bank had invested in Leadership & Management programs for the middle and senior management team. A number of online training courses are also being offered to all its employees on customer service, cyber security, compliance matters, etc., as well as for improving the staff performance and objective setting process. By encouraging continued personal and professional development, the Bank will continue to develop its staff to be one of the best in their professional work.
Customers	Our customers are at the focal point of what we do. The Directors have received updates from Executive management about information on the Bank's customer focus, products and transactions on a broader and oversight level. Customer complaints and concerns if any of a material nature for the Directors level have been brought to the notice of the Directors. Executive management and Directors of the Board have met with customers, whenever required, which include direct engagement with key customers to understand their needs, customer feedback and key concerns/complaints raised by them. The Directors also take care to identify and register vulnerable customers and to cater to their special needs and requests. To help mitigate the impact of pandemic related lock-downs and business disruptions, governments across the globe have introduced furlough schemes and other relief schemes that also enabled customers to take payment holidays. During the financial year, the Bank has provided forbearance facility to a total 8 business customers (Total exposure of £82m) to support them from the impact of Covid-19. In addition, in line with the FCA's regulatory guidance, payment holidays were granted for 56 BTL mortgage borrowers (Exposure totalling £20m), out of which all but one customer have recommenced mortgage payments now.
Shareholders	The Bank is a 100% subsidiary of State Bank of India. The Directors appreciate the support the shareholders have shown and seek to maintain regular interactions with the Shareholders and are always available to communicate openly. The Bank reports its financial results to shareholders on a quarterly basis. In addition, reporting to parent bank is of Financial Statements, which is also audited by the Bank's external auditors. Presentations and meetings are held as scheduled from time to time among the Directors.

Suppliers	During the year, the Senior Management and Executive Directors have received updates through Management information and Key Performance Indicators on the performance of Suppliers. This also provided an insight into the impact of its procurement processes, procedures and dependency on suppliers. Outsourcing agreements and their operations have been reviewed periodically by the Management and review of Outsourcing policy have been carried out with an intention to ensure outsourcing efficiency with appropriate oversight.
Regulators	The Directors are focused on maintaining transparent and compliant relationships with all its regulators in open and co-operative way. The Directors, through oversight and timely interventions aim to ensure that any regulatory changes are adopted, embedded and adhered to always. As regards to regulatory, risk & compliance matters, the Board Risk Committee has a direct oversight. Senior Management and Directors engage with the PRA and FCA supervisory teams through meetings and communications directly and through industry associations, like UK Finance and Association of Foreign Banks.
Communities and Environment	The Bank manages Social, environmental and ethical risks in line with the Group policy. More information on how these risks are managed can be obtained from the financial statements of State Bank of India which are available on *www.sbi.co.in*. In addition, in the UK, the Bank is committed to managing the community, environmental and economic impacts of its operations which includes the way it deals with its customers. The bank is committed to providing the best of services on a reasonable basis to all customers. The Bank caters to these communities and their requirements efficiently and diligently through various channels. These services are managed by the Senior Management and with the oversight from the Directors through various committees. The Bank has catered to all the communities who are affected or dependent on it, diligently and with due care and concern. As explained earlier, the Board recognises that the impact of climate change can have an impact on our financial position in terms of the valuation of our assets, deprecation rate, other liabilities and financial risk disclosures. Directors have received all material reports/ information in this regard and have discharged appropriate oversight in this regard.

Further information concerning the Banks approach to risk management and its capital adequacy form part of the unaudited disclosures made under the requirements of Pillar 3 and Capital Requirements Directive IV (CRD IV). These disclosures will be published on the Bank's website at *https://sbiuk.statebank*.

Strategic report was approved by the Board on 21 July 2021.

Chandak, Sharad Satyanarayan
CEO & Executive Director
21 July 2021

Directors' report

The directors present their annual report, together with the financial statements and auditor's report for the year ended 31 March 2021. The business model and the performance for the year, along with the principal risks faced by the Bank are described in the Strategic Report on pages 4 to 13.

Dividends

The Directors do not recommend the payment of a dividend for the current year. (2020: Nil)

Going Concern

The Bank's business activities, together with the factors likely to affect its future development and position are set out in the strategic report. The directors believe that the Bank has adequate resources to continue operations for the foreseeable future. Thus, the Bank has adopted the going concern basis of accounting in preparing the annual financial statements.

The Board regularly engages in the forward planning of the business to ensure the Bank meets its liquidity and capital levels as defined in the corporate strategy and annual plan. Board members also consider the liquidity and capital requirements in further detail within the capital and liquidity adequacy assessments; these include the results of testing both requirements under significant stress scenarios.

While the uncertainties related to Covid-19 remain, with high downside risks to the economy for 2021 and beyond, the regular monitoring of events by the Board, as they unfold, as well as the contingency planning will ensure a tight management of strategy and economic risks.

In addition to the severe and plausible stress considered in the ICAAP annual review, the Bank has conducted additional reviews on the potential impact of Covid-19 on its business model, default rates, management actions and overall capital adequacy. In all such scenarios, the Bank is expected to have sufficient headroom both on capital and liquidity, higher than the regulatory minimum thresholds. The Bank also has conducted various reverse stress scenarios and concluded that these extreme scenarios that could make the Bank's business model unviable, are highly unlikely to manifest themselves. As a result of these considerations, the Directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements have been prepared on a going concern basis.

Directors

The Directors of the Bank, who served during the period and to the date of this report, were as follows:

Chalasani, Venkat Nageswar (Chairman - Resigned on 30 April 2021)

Naik, Sanjay Dattatraya (Non-Executive Director till 20 June 2021 and Appointed as Chairman on 21 June 2021)

Arora, Rajeev
(Non-Executive Director – Appointed on 18 June 2021)

Baines, John Duncan (Independent Non-Executive Director)

Hicks, Steven Mark (Independent Non-Executive Director)

Chandak, Sharad Satyanarayan (Chief Executive Officer)

Avasia, Kalpesh (Executive Director - Resigned on 18 December 2020)

Pandey, Sanjay (Executive Director - Appointed on 18 December 2020)

Directors' shareholdings

No director has any beneficial interest in the shares of the Bank.

Directors' indemnification

The Bank has arranged qualifying third-party indemnity insurance for all of its directors.

Charitable donations and political contributions

During the year, State Bank of India's UK operations made charitable donations of £20,000 to ZSL (Zoological Society of London), an international conservation charity and £2,600 to Sakoon Through Cancer, Breast Cancer Charity (2020: £15,000 to Royal Botanic Gardens, Kew) and no political donations were made (2020: NIL).

Social, environmental and ethical risks

Social, environmental and ethical risks are managed at the group level. More information on how these risks are managed can be obtained from the financial statements of State Bank of India which are available on *www.sbi.co.in*.

Financial instruments

Financial risk management objectives and policies of the Bank are included in notes 6.0 - 6.5.

Post Statement of Financial Position

There have been no significant events after the date of the Statement of Financial Position.

Disclosure of information to auditors

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

Independent auditors

Mazars LLP were initially appointed external auditors of the Bank in terms of a resolution approved at the Board meeting held on 17 May 2018. Mazars LLP has expressed its willingness to continue in office and the Directors have decided to reappoint Mazars LLP as external auditors.

Signed on behalf of the Board

Chandak, Sharad Satyanarayan
CEO & Executive Director
21 July 2021
15 King Street, London, EC2V 8EA

Sanjay Dattatraya Naik
Chairman of the Board of Directors

John Duncan Baines
Independent Non-Executive Director
Chairman of Audit Committee of the Board

Steven Mark Hicks
Independent Non-Executive Director
Chairman of the Board Risk Committee

Rajeev Arora
Non-Executive Director

Sharad Satyanarayan Chandak
Chief Executive Officer

Sanjay Pandey
Executive Director & COO

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 ''The Financial Reporting Standard 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 United Kingdom Accounting Standards, comprising FRS 102, 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 are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board of Directors

Chandak, Sharad Satyanarayan
CEO & Executive Director
21 July 2021

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

Opinion

We have audited the financial statements of State Bank of India (UK) Limited (the "Company") for the year ended 31 March 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, 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 company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company 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 by the 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 company'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 company's ability to continue as a going concern;
- Reviewing the director's going concern assessment including COVID-19 implications based on range of scenarios and including stressed scenarios as approved by the board of directors. We have considered the company's most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process documentation;
- 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 company's future financial performance; business operations, and liquidity and regulatory positions;
- Evaluating the key assumptions used in the scenarios considered by the directors and considering whether these appeared reasonable;
- Assessing the potential impact of COVID-19 on the Company's capital utilisation and considering whether the directors' conclusion that adequate capital headroom remains is reasonable; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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

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

Key audit matters

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

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address this matter and 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- Impairment on loans and advances to customers *Refer to summary of significant accounting policies (Note 2.12); and Note 3.6 and 3.7 of the financial statements.* Provisions as at 31 March 2021 were £5,202k (2020: 5,262k), which represented 0.45% (2020: 0.48%) of loans and advances to customers. The income statement charge for the year was £1,352k (2020: £3,900k). Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in assessing individual provisions on non-performing loans and in the collective impairment provision. The total impairment provision of the bank consists of an individual provision in relation to a commercial real estate loan and a collective provision over retail and commercial loans. The key area of management judgement in a loan portfolio where little loss has been experienced to date, is what information and assumptions are reasonable to estimating the impairment provision. In calculating the individual provision, management applies judgement in determining loans requiring provision and in estimating the recoverable amount. The collective provision is calculated using an incurred loss model. Judgement is applied in determining what information and assumptions are reasonable in estimating the provision. For certain segments of the portfolio, management adjusts the underlying inputs to reflect the impact of COVID-19, for instance, adjusting the probability of default on exposures in sectors adversely impacted by COVID-19. The impairment model is most sensitive to the assumptions on probability of default, loss emergence period and loss given default.	We performed the following procedures to address the areas of judgement and estimates used in calculation of impairment on loans and advances to customers: We tested the design and the operating effectiveness, of the key controls operating in the bank in relation to credit processes (underwriting of loans, monitoring of loans, collections, and provisioning). We tested processes by which management identified non-performing loans and made related provisions timely. We focused on identification of impairment triggers, calculation of impairment and consideration of collateral arrangements where relevant. We critically challenged the appropriateness of the key assumptions used in the collective model, in particular probabilities of default, loss emergence period and loss given default. We have compared the key assumptions to externally available data on similar banks to critically assess the assumptions applied. We have engaged our property valuations experts to assess the reasonableness of collateral values where credit file reviews indicated that alternative outcome could occur in relation to the underlying valuation. We have engaged our in-house credit risk specialists to challenge the probability of default including COVID-19 overlay and loss emergence period. We have developed, with our in-house credit specialists, an auditor's estimate of the collective provision using assumptions relevant to the company's portfolio. We have performed sensitivity analysis of key assumptions to assess the reasonableness of the resulting collective provisions. **Our observations** Based on the work performed, we found that the assumptions used by the management in assessing the impairment are reasonable and that the impairment provision and related disclosures on loans and advances to customers as at 31 March 2021 is consistent with the requirement 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	£2,400k (2020:£1,863k)
How we determined it	1% of net assets
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to reflect more appropriately the size of the company's operations, whose strategy is to provide loans and savings products to customers, and which is a wholly owned subsidiary. Furthermore, the net assets are an approximation of regulatory capital resources which is a key focus for management, shareholders and regulators.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £1,680k (2020: £1,304k) (70% of Overall Materiality).
Reporting threshold	We agreed with Audit Committee that we would report to them misstatements identified during our audit above £72.0k (2020: £55.8k) 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 making assumptions on significant accounting estimates.

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company 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 company or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board of directors on 17 March 2018 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 March 2018 to 31 March 2021.

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

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

Use of the audit report

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

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

Statements

Income statement

For the year ended 31 March 2021

	Note	31 March 2021 £'000	31 March 2020 £'000
Interest receivable and similar income	3.1	40,339	46,232
Interest payable and similar charges	3.1	(16,735)	(20,114)
Net interest income		**23,604**	**26,118**
Fees and commissions income		1,303	2,258
Net income/(expense) on foreign exchange	3.8	991	(218)
Net gain on realised financial instruments		537	687
Other operating income		195	20
Operating income		**26,630**	**28,865**
Administrative expenses	3.2	(15,515)	(15,704)
Depreciation	3.10	(695)	(818)
Total operating expenses		**(16,210)**	**(16,522)**
Operating profit before allowance for impairment losses and taxes		**10,420**	**12,343**
Profit/(loss) on Sale of Loans		129	(4,528)
Allowance for impairment losses	3.7	(1,352)	(3,900)
Profit on ordinary activities before tax		**9,197**	**3,915**
Tax on profit of ordinary activities	3.3	(1,774)	(560)
Profit after tax for the financial year		**7,423**	**3,355**

The profit for the current year and the profit for the preceding year are derived from continuing operations. The notes to the financial statements are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 March 2021

	31 March 2021 £'000	31 March 2020 £'000
Profit after tax	**7,423**	**3,355**
Revaluation of available for sale debt securities	870	(992)
Deferred tax adjustment on available for sale investment securities	(165)	189
Total other comprehensive income	**705**	**(803)**
Total comprehensive income for the year	**8,128**	**2,551**

The profit for the current period is derived from continuing operations.
The notes to the financial statements are an integral part of these financial statements.

Statement of financial position

	Notes	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Assets			
Cash and balances with banks	3.4	113,623	72,555
Loans and advances to banks	3.5	125,000	195,000
Loans and advances to customers	3.6	1,140,238	1,099,958
Investment securities	3.9	339,418	375,150
Derivative financial instruments	3.8	25,114	-
Fixed assets	3.10	2,807	3,281
Other assets	3.11	9,210	10,275
Total assets		**1,755,410**	**1,756,219**
Liabilities			
Borrowings from banks	3.12	128,696	65,072
Deposit from customers	3.13	1,360,344	1,418,658
Derivative financial instruments	3.8	-	22,930
Other liabilities	3.14	22,553	13,872
Subordinated debt liabilities	3.15	-	50,000
Total liabilities		**1,511,593**	**1,570,531**
Shareholders' funds			
Share capital	3.16	225,000	175,000
Investment revaluation reserve		(74)	(779)
Retained earnings		11,468	8,113
Profit and loss account for the year		7,423	3,355
Total equity		**243,817**	**185,688**
Total equity and liabilities		**1,755,410**	**1,756,219**

The notes to the financial statements are an integral part of these financial statements. These financial statements were approved and authorised for issue by the Board of Directors on 21 July 2021.

Signed on behalf of the Board of Directors

Chandak, Sharad Satyanarayan
CEO & Executive Director
State Bank of India (UK) Limited
Company registration no 10436460
21 July 2021

Statement of changes in equity

£'000	Note	Share capital	Retained earnings	Investment revaluation reserve	Total equity
For the year ended 31 March 2021					
As at 1 April 2019		175,000	8,113	24	183,137
Issue of share capital		-	-	-	-
Profit on ordinary activities after tax		-	3,355	-	3,355
Movement in the valuation of available for sale debt securities (net-off deferred tax)		-	-	(803)	(803)
As at 31 March 2020		**175,000**	**11,468**	**(779)**	**185,689**
Conversion of subordinated debt to equity capital		50,000	-	-	50,000
Profit on ordinary activities after tax		-	7,423	-	7,423
Movement in the valuation of available for sale debt securities (net-off deferred tax)		-	-	705	705
As at 31 March 2021	**3.16**	**225,000**	**18,891**	**(74)**	**243,817**

The notes to the financial statements are an integral part of these financial statements.

Launch of State Bank of India (UK) Limited
in April 2018

Notes to financial statements

Accounting policies

1| Basis of preparation

Reporting entity

State Bank of India (UK) Limited (SBIUK or the Bank) is a company incorporated in the United Kingdom and registered in England. The Bank is a wholly owned UK subsidiary of State Bank of India (SBI), a bank domiciled in India.

The Bank is a private company limited by shares and the registered address of the Bank is 15 King Street, London EC2V 8EA.

1.1 | Statement of compliance

SBIUK has prepared these annual accounts in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'), as issued in March 2018, the Companies Act 2006 and the provisions of Schedule 2 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

The Bank has taken the following disclosure exemptions under FRS 102:

- Preparation of a Cash flow statement, on the basis that it is a qualifying entity and its ultimate parent company, State Bank of India, includes the bank's cash flows in its consolidated financial statements;
- Transactions or balances with members of the SBI group; and
- Disclosure exemption contained in FRS 102 section 1.12 with respect to disclosing key management personnel compensation in total.

The parent company, State Bank of India accounts can be obtained from the parent company website (*www.sbi.co.in*).

1.2 | Basis of measurement

The financial statements are prepared under the historical cost convention modified to include the following items which are measured at fair value:

- Derivative financial instruments; and
- Available for Sale investments.

The Bank has chosen to apply IAS 39 which requires the measurement of available for sale investments at fair value through other comprehensive income, this represents a departure from the requirement of paragraph 40 of Schedule 1 of the Regulations for purpose of giving a true and fair view. Paragraph 40 of Schedule 1 requires that fair value gains and losses on financial instruments measured at fair value are included in the income statement.

1.3 | Going concern

The financial statements are prepared on a going concern basis as detailed in the Directors' Report and Statement of Directors' Responsibilities.

The Bank's business activities, together with the factors likely to affect its future development and position are set out in the strategic report. The directors believe that the Bank has adequate resources to continue operations for the foreseeable future. Thus, the Bank has adopted the going concern basis of accounting in preparing the annual financial statements.

The Board regularly engages in the forward planning of the business to ensure the Bank meets its liquidity and capital levels as defined in the corporate strategy and annual plan. Board members also consider the liquidity and capital requirements in further detail within the capital and liquidity adequacy assessments; these include the results of testing both requirements under significant stress scenarios.

While the uncertainties related to Covid-19 and Brexit remain, with high downside risks to the economy for 2021 and beyond, the regular monitoring of events, by the Board, as they unfold, as well as the contingency planning will ensure a tight management of strategy and economic risks through 2021.

In addition to the severe and plausible stress considered in the ICAAP annual review, the Bank has conducted additional reviews on the potential impact of Covid-19 on its business model, default rates, management actions and overall capital adequacy. As a result of these considerations, the Directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements have been prepared on a going concern basis.

1.4 | Functional currency

The Bank's functional and presentation currency is Pound Sterling. The accounts are rounded to the nearest thousand pounds.

2 | Significant accounting policies

2.1 | Net interest income

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

The calculation of the EIR includes transaction costs and fees and discounts 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 the income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- Interest on available-for-sale investment securities calculated on an effective interest rate basis.

2.2 | Fees and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees, locker fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

2.3 | Foreign currency

Transactions in foreign currencies are translated to the Bank's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies on the balance sheet date are translated to the functional currency at the foreign exchange rate ruling on that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

2.4 | Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets, for example land is treated separately from buildings.

Depreciation is charged to the income statement on a straight-line method or reducing balance method to an asset's residual value, depending on the category of asset over the estimated useful lives of each part of an item of fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Tenants' improvements to Leasehold Residential and Office Buildings – Shorter of term of Lease or 10 years on a straight-line basis
- Computer Hardware & Software - 5 years on a straight-line basis
- Fixtures and fittings & electrical items - 20% on a reducing balance basis

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Bank expects to consume an asset's future economic benefits.

2.5 | Provisions and contingencies

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

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

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

Contingencies

Contingent liabilities, arising as a result of past events, are only recognised when (i) it is probable that there will be an outflow of resources and the amount can be reliably measured at the reporting date (ii) the existence does not rely on the occurrence or non-occurrence of certain future events which are not wholly within the Bank's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefit is probable.

2.6 | Income taxes

Tax on the income statement for the period comprises current and deferred tax. Where items recognised in other comprehensive income or equity are chargeable or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction, or other event that resulted in the tax expense or income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2.7 | Financial instruments

Under the options available to it under section 12.2 of 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 receivables, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. 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.

Classification

Financial assets

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

- Held to maturity;
- Available-for-sale;
- Loans and advances; and
- Fair value through profit and loss (FVTPL).

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

Measurement

Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

'Fair value' is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. 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 ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – I.E. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the income statement on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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 OCI is recognised in income statement. 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.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets, or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

The Bank derecognises a financial liability (or a part of a financial liability) only when it is extinguished, I.E., when the obligation as specified in the contract is discharged, is cancelled or expired.

On derecognition of a financial liability, the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in income statement.

2.8 | Held to Maturity investments

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at FVTPL (Fair value through profit and loss), or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

2.9 | Available-for-Sale investments

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprises debt securities and are measured at fair value after initial recognition.

Interest income is recognised in income statement using the effective interest rate method. Dividend income is recognised in the income statement when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the income statement. Impairment losses are recognised in the income statement. Other fair value changes, are recognised in other comprehensive income ('OCI') and presented in the Investment revaluation reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to the income statement.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

2.10 | Loans and receivables

Loans and receivables, which include loans and advances and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as held for trading, designated at fair value through profit and loss, available for sale or held to maturity. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using the EIR method. Loans and receivables are stated at amortised cost after deduction of amounts which are required as impairment provisions. Where loans have been acquired at a premium or discount, these premiums and discounts are amortised through the profit and loss account from the date of acquisition to the expected date of maturity using the EIR method.

2.11 | Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

2.12 | Impairment of financial assets

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.

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;
- Decline in the value of the security, and the reduction in the

expected value of the business as a whole for commercial loans; 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 rating agencies' assessments or economic conditions that correlate with defaults in the group.

In making an assessment of whether an investment in sovereign debt is impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is capacity to fulfil the required criteria;

Individual and collective assessment

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Any subsequent reduction in specific provision due to recoveries is taken to Income statement.

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 and held-to-maturity investment securities 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 individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment, and found to be individually impaired, and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

A collective component of the total allowance is established for:

- Groups of homogeneous loans that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

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, based on the information published by credit rating agencies. 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.

The IBNR (Incurred but not reported) allowance covers credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics, when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

Measurement

Impairment losses on assets measured at amortised cost are calculated as the difference between the 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 the income statement and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the income statement.

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

Reversal of impairment and write-offs

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

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

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;
- Granting a payment holiday, especially related to impact of Covid-19 on borrowers;
- Temporary waiver of covenant testing;
- Reduced monthly payments;
- Extension of mortgage term; and
- Capitalisation of arrears of principal and / or interest.

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, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with the 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/ renegotiated the Bank assesses whether this modification results in de-recognition. A modification results in de-recognition 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 de-recognition and recognition of new asset.

Derecognition

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. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

2.13 | Derivatives and hedge accounting

Derivatives held for risk management purposes are measured at fair value in the statement of financial position and are classified as derivative financial assets or liabilities. Changes in the fair value are recognised immediately in the income statement as a component of net income/(expense) on foreign exchange.

Currency swap derivatives

The derivatives held, known as funding swaps or Currency Swaps, have two purposes. Firstly, they are used to fund the USD and Euro denominated asset balances on the statement of financial position and secondly, they are used to economically hedge the foreign exchange movements in the USD and EUR positions by creating an equal and opposite position for all foreign exchange positions. As these derivatives are not designated as hedges, due to mismatches in the tenor of the derivatives and underlying economically hedged items, the changes in the fair value are recognised in the income statement as a component of net income. Also, any FX losses / gains on net exposure in terms of notional are recognised in the income statement. Bank has considered the impact of CVA / DVA to be immaterial, as the derivatives held are either with Investment grade (low risk) counterparties and/ or collateralised.

Cross currency interest rate swap derivatives and Hedge accounting.

The Bank uses derivatives to mitigate foreign exchange and interest rate risk. The Bank has hedged its foreign USD investments with a number of cross-currency interest rate swaps (CCIRS) which explicitly convert the debt from USD denominated debt into GBP denominated debt at variable GBP rates (LIBOR linked). Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 for financial instruments as permitted by FRS 102 have been met. Bank has considered the impact of CVA / DVA to be immaterial, as the derivatives held are either with Investment grade (low risk) counterparties and/or collateralised.

The Bank formally designated the hedges at the inception of the hedge relationship by establishing detailed hedge documentation which notes the hedging relationship and the risk management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, risk being hedged and the methodology for measuring effectiveness. In addition, the Bank assesses both at the inception of the hedge and on an annual basis, whether the derivative used in the hedging transaction has been highly effective in offsetting changes in fair value of the hedged risk (retrospective hedge effectiveness), and whether the derivative is expected to continue to be highly effective (prospective hedge effectiveness). Changes in the fair value of derivatives which is designated and qualifies as a fair value hedge, along with the gain/loss on the hedged asset that is attributable to the hedged risk are recorded in the income statement.

The Bank discontinues hedge accounting prospectively when it is either determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated or exercised; the derivative is de-designated because it is unlikely

Advertising at Harrow on the Hill Underground station

that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

IBOR reform - implications on Hedge accounting

The amendment was issued by the IASB to address the impact of uncertainties arising from IBOR reform (including the withdrawal of LIBOR) on Hedge accounting. The standard excludes the effect of such uncertainties from the evaluation of hedging relationships for accounting purposes and allows the continuation of IBOR-based hedging relationships despite these uncertainties, all other things being equal. During the financial year 2020-21 the Bank has adopted the phase 1 amendments to IAS 39 Interest Rate Benchmark Reform issued in September 2019. The replacement of benchmark interest rates such as LIBOR to Risk free rate such as SONIA will have implications on Hedge accounting.

The reliefs applicable to Phase I are outlined below, Phase II reliefs that are relevant to the Bank are being assessed, they will be incorporated in the next version of the accounting policies.

Phase I (Pre-replacement) reliefs:

The phase 1 reliefs apply to all hedging relationships that are directly affected by uncertainties due to the reform, regarding the timing or amount of interest rate benchmark-based cash flows of the hedged item or hedging instrument (i.e., uncertainty about what the new benchmark will be and when it will take effect). However, if the hedged item or hedging instrument is designated for risks other than just interest rate risk, the exceptions only apply to the interest rate benchmark-based cash flows. Since Bank's hedged item or hedging instrument is designated for interest rate risks, the phase 1 reliefs therefore apply to the Bank.

An IBOR risk component to be an eligible risk component, it would have to be 'separately identifiable' and 'reliably measurable'. The relief provides that, where a benchmark component of interest rate risk has been designated as the hedged item and it is affected by the reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship. i.e., The IBOR will continue to qualify as a risk component even if the IBOR ceases to be separately identifiable.

For effectiveness testing of fair value hedges, the Bank may continue to apply hedge accounting to a hedging relationship for which effectiveness is outside of the 80-125% range during the period of uncertainty arising from the reform.

Standards not yet adopted:

Having left the EU on 31 December 2020, endorsement of standards for use in the UK is by the UK Endorsement Board. UK-adoption of amendments for IBOR Phase 2 were endorsed by the board on 6 January 2021. It is effective for periods beginning on or after 1 January 2021, with early application permitted. The Bank will be making the transition in the FY 2021-22.

2.14 | Defined contribution pension plan

A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The employees of the Bank belong to a defined contribution pension plan. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

2.15 | Share capital

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

2.16 | Leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Bank is a lessee of operating leases under standard lease agreements with regards to premises of all 12 retail branches. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the non-cancellable lease term.

2.17 | Critical estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported assets, liabilities, income and expenses. The actual results will differ from these estimates. The significant judgements 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 Banks results and financial position, are as follows:

Key areas of estimates

Allowance for impairment losses on loans & advances and investments

The allowance for impairment losses on loans and advances and investments is management's best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are made up of two components, those determined individually and those determined collectively. Estimates are made using incurred loss calculations based on the historic / market average default rates and management's estimates on possible losses and the associated emergence period. However, on the sectors like Transportation, Hospitality, Commercial Real Estate, Automobile industry, that are stressed due to the impact of Covid-19, the management has estimated the incurred losses based on significantly higher default rate assumptions, compared to the long run averages of market default rates, which are based on the management's judgement of probability of default of the corporates in these sectors. This reflects the weaker economy as of 31 March 2021 and the impact of Covid-19 on these portfolios due to market conditions and lock downs.

As at 31 March 2021, gross loans and advances to customers totalled £1,147.2m (2020 £1,106.3m) against which individual allowance for impairment losses of £0.95m (2020 £2.60m) and collective allowance for impairments losses of £4.25m (2020 £2.66m) has been made.

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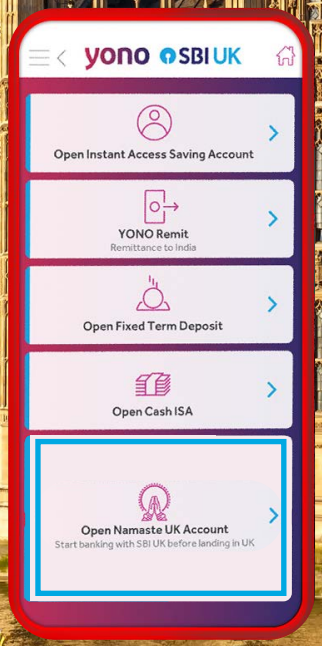

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3 | Notes to the financial statements

3.1 | Interest receivable and interest payable

	31 March 2021 £'000	31 March 2020 £'000
Interest receivable and similar income		
Interest income from loans and advances	29,363	36,855
Interest income from investment securities	10,812	11,356
Interest income from group undertakings	2,808	3,219
Interest Income (expense) on derivatives measured at FVTPL	(2,724)	(5,330)
Other interest income	80	132
	40,339	**46,232**
Interest payable and similar charges		
Interest expense on deposits	(16,067)	(18,833)
Interest expense on interbank borrowing	(158)	(278)
Interest on Subordinated loan	(510)	(1,003)
	(16,735)	**(20,114)**

3.2 | Administrative expenses

	Notes	2021	2020
Average number of employees*		154	160
		£'000	**£'000**
Wages and salaries		(6,791)	(6,476)
- This includes directors' emoluments	3.2a		
Social security costs		(581)	(482)
Pension costs		(340)	(293)
Other staff related costs		(168)	(284)
Total staff costs		**(7,880)**	**(7,535)**
General administrative expenses	3.2b	(7,635)	(8,169)
- This includes statutory audit fees			
Total administrative expenses		**(15,515)**	**(15,704)**

* Of these, employees, 141 are employed in the front office and 13 in the back office. This excludes back-office employees of SBI London Branch who provide support to the operations of SBI UK.

3.2a | Directors' aggregate emoluments in respect of qualifying services

£'000	2021	2020
Directors' fees and emoluments*	(199)	(172)
Pension contributions	-	-
Total directors' emoluments	**(199)**	**(172)**

* Directors are not entitled to either shares or share options under long-term incentive schemes. No director holds or has exercised share options in the bank.

3.2b | Statutory audit fees

£'000	2021	2020
Audit of these financial statements	(165)	(177)

East Ham branch reopening by Newham Councillor Winston Vaughan

3.3 | Taxation

£'000	2021	2020
Analysis of tax (charge)/credit for the period		
Current tax		
UK corporation tax at 19.00% (2020: 19.00%)	(1,742)	(677)
Adjustments in respect of prior periods	8	45
Total current tax (charge)/credit	**(1,734)**	**(632)**
Deferred tax		
Origination and reversal of timing differences	(32)	(67)
Adjustments in respect of prior periods	(8)	142
Effect of tax rate change on opening balance*	-	(3)
	(40)	72
Tax on profit on ordinary activities	**(1,774)**	**(560)**

* The rate of corporation tax for the year ended 31 March 2021 is 19%, however, the rate of corporation tax is due to rise to 25% on 1 April 2023. This was substantively enacted on 24 May 2021 and therefore this is a non-adjusting post balance sheet event

£'000	2021	2020
Reconciliation of tax charge		
Profit on ordinary activities before tax	9,198	3,914
Tax on profit on ordinary activities at standard CT rate of 19.00% (2020: 19.00%)	(1,748)	(744)
Effects of:		
Fixed asset differences	(16)	(38)
Expenses not deductible for tax purposes	(10)	(12)
Group relief claimed*	-	50
Adjustments to tax charge in respect of previous periods	8	45
Adjustments to tax charge in respect of previous periods - deferred tax	(8)	142
Adjust opening deferred tax to average rate of 19.00%	-	(3)
Tax (charge)/credit for the period	**(1,774)**	**(560)**

* The Bank is utilising loss relief bought forward from SBICAP (UK) Ltd., which is also 100% owned by the SBI.

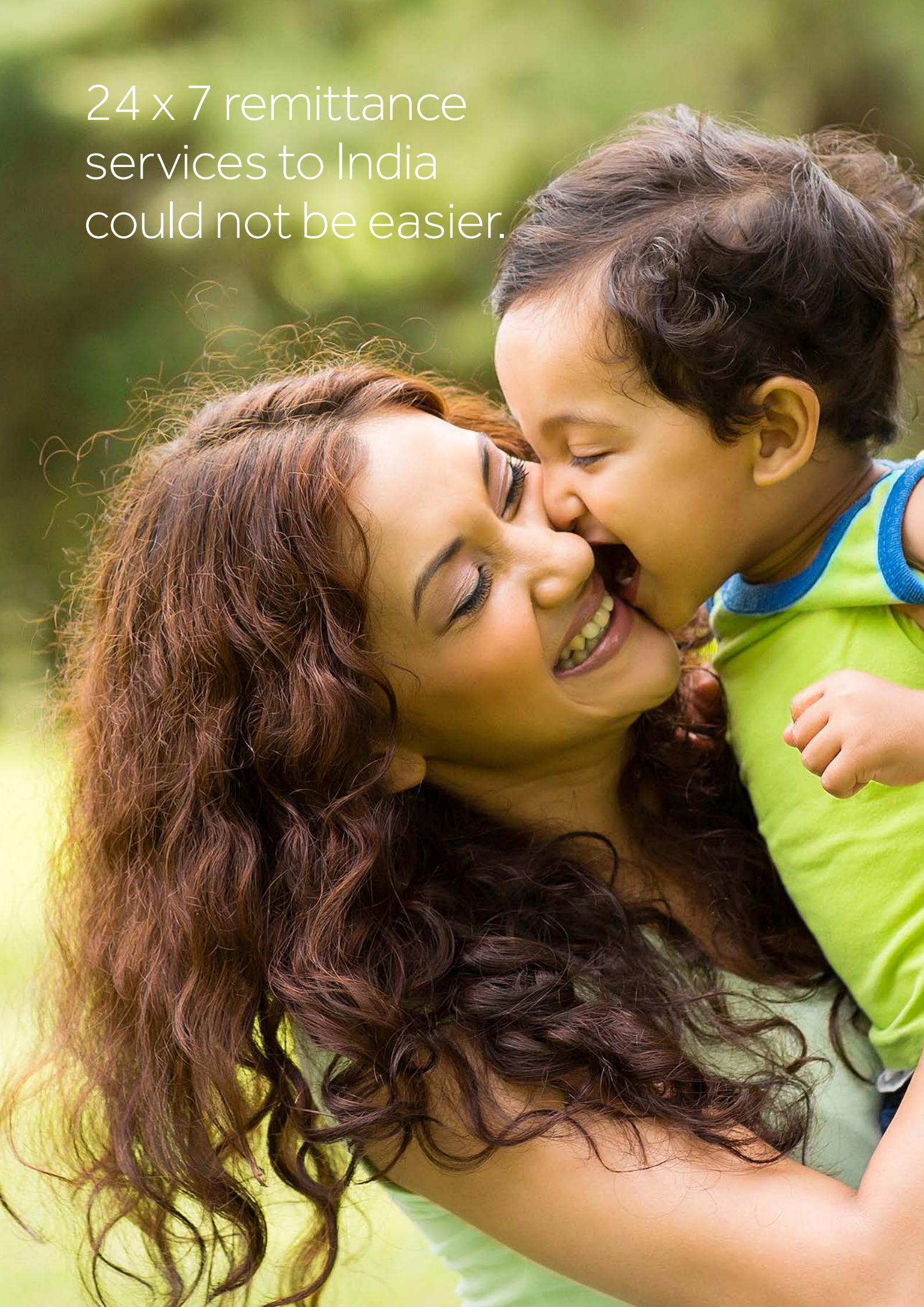
Tax included in statement of comprehensive income £'000	2021	2020
Deferred tax		
Origination and reversal of timing differences	(165)	189
Tax included in statement of comprehensive income	**(165)**	**189**
Provision for deferred tax		
Fixed asset timing differences	(174)	(192)
Short term timing differences	17	188
Losses and other deductions	49	101
Total deferred tax asset/(liability)	**(108)**	**97**

3.4 | Cash and balances with banks

£'000	2021	2020
Cash in hand with SBIUK branches	517	472
Balances held with Bank of England	91,051	-
Current account balances with banks	22,055	72,083
	113,623	**72,555**

3.5 | Deposits with banks

£'000	2021	2020
More than 5 years	-	-
1 year - 5 year maturity	100,000	125,000
3months - 1 year maturity	25,000	5,000
Repayable within 3 months	-	65,000
	125,000	**195,000**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3.6 | Loans and advances to customers

As at 31 March 2021 £'000	Notes	Non-performing loans	Performing loans	Total
Remaining maturity				
Over 5 years		-	358,187	358,187
Between 1 year and 5 years		-	654,499	654,499
Between 3 months and 1 year		-	77,025	77,025
3 months and less		-	52,870	52,870
Past due beyond 90 days		4,608	-	4,608
Loan Total (Gross)		**4,608**	**1,142,581**	**1,147,189**
Individual provision	3.7	950	-	950
Collective provision	3.7	-	4,252	4,252
Unamortised Fee		-	1,749	1,749
Total adjustments		**950**	**6,001**	**6,951**
Loan Total (Net)		**3,658**	**1,136,580**	**1,140,238**

As at 31 March 2020 £'000	Notes	Non-performing loans	Performing loans	Total
Remaining maturity				
Over 5 years		-	378,552	378,552
Between 1 year and 5 years		-	594,416	594,416
Between 3 months and 1 year		-	67,522	67,522
3 months and less		-	61,245	61,245
Past due beyond 90 days		4,565	-	4,565
Loan Total (Gross)		**4,565**	**1,101,735**	**1,106,300**
Individual provision	3.7	2,600	-	2,600
Collective provision	3.7	-	2,662	2,662
Unamortised Fee		-	1,080	1,080
Total adjustments		**2,600**	**3,742**	**6,342**
Loan Total (Net)		**1,965**	**1,097,993**	**1,099,958**

Description of loans

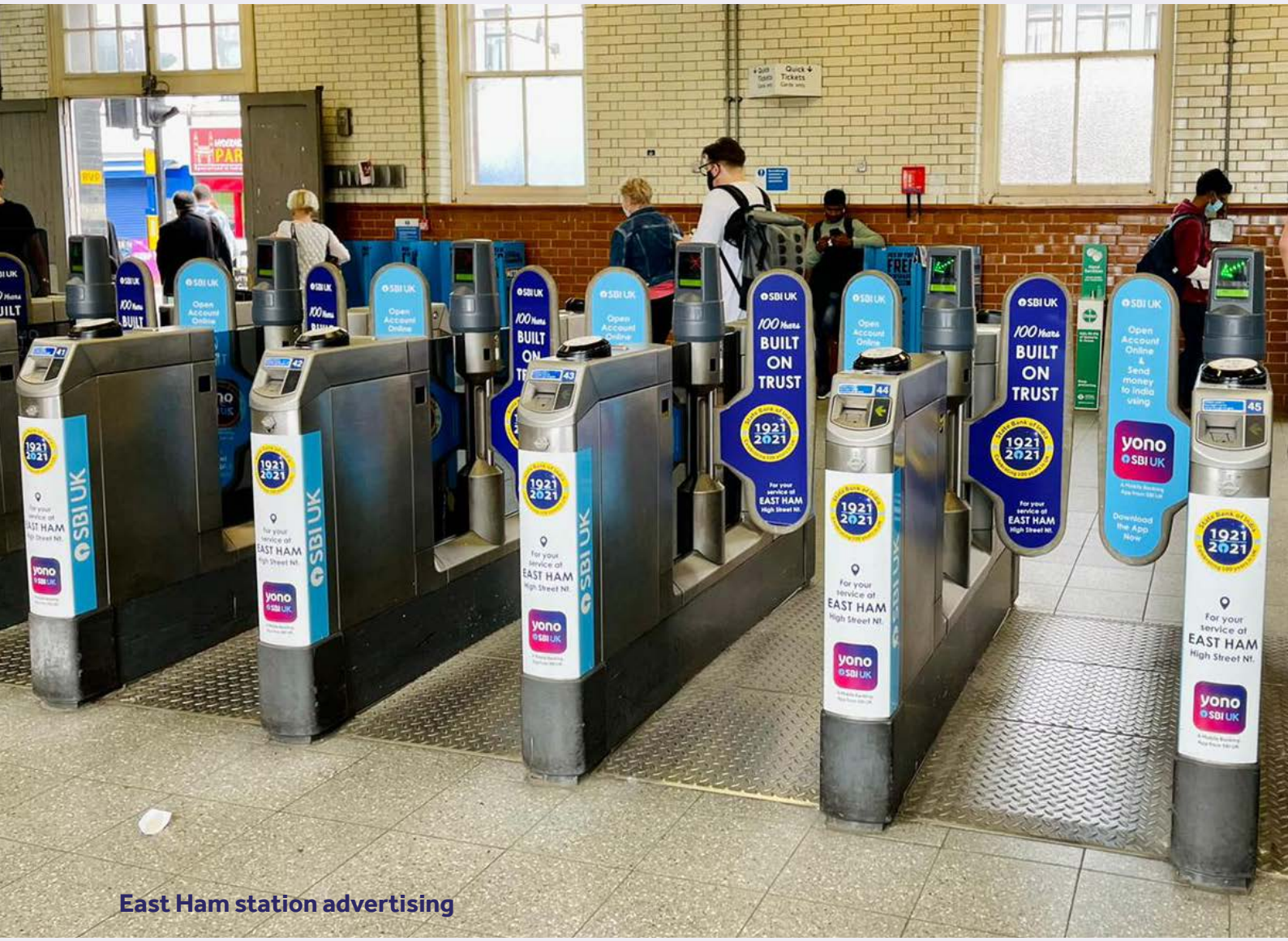
Non–Performing loans: Loans which are more than 90 days contractually past due or which have individual provisions raised against them. Objective evidence of impairment may include: indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal repayments, debt being restructured to reduce the burden on the borrower, covenant breaches, loss of significant income flows, and adverse impact of economic factors on the value of any underlying collateral.

Performing loans: Loans, which are individually neither impaired nor past due beyond 90 days, but on which a collective provision has been made.

As of 31 March 2020, we had one Non-Performing loan with outstanding balance of £4.56m and specific provision against that loan was £2.6m, during FY 2020-21 this loan is written off post recoveries. The write-off amount had 100% provision hence no impact to Income statement due to write off.

3.7 | Allowance for impairment losses

As at 31 March 2021 £'000	Notes	Specific impairment on Loans and Receivables	Collective impairment on Loans and Receivables	Collective impairment on Investments	2021 Total	2020 Total
As at 1 April 2020		2,600	2,662	490	5,752	1,852
Movements in Income statement						
Charge to Income statement		950	1,590	-	2,540	3,900
Release to Income statement		(698)	-	(490)	(1,188)	-
Net impairment charge to Income statement		252	1,590	(490)	1,352	3,900
Amounts written off		(1,902)	-	-	(1,902)	-
As at 31 March 2021		**950**	**4,252**	**-**	**5,202**	**5,262**



East Ham station advertising

3.8 | Derivatives at fair value

Bank uses derivatives to economically hedge exposure to foreign exchange and interest rate risks and it does not hold or issue derivatives for speculative or trading purposes. The fair value of derivatives held for non-trading purposes is determined by using observable market data. The fair value of derivatives shown below includes interest portion.

Currency swap agreements

As at 31 March 2021 £'000	Notional amounts	Fair Value Assets	Fair Value Liabilities
Exchange rate related contracts			
Currency swap agreements	382,942	15,369	-

As at 31 March 2020 £'000	Notional amounts	Fair Value Assets	Fair Value Liabilities
Exchange rate related contracts			
Currency swap agreements	499,872	-	(13,341)

Cross currency interest rate agreements

As at 31 March 2021 £'000	Notional amounts	Fair Value Assets	Fair Value Liabilities
Cross currency interest rate swap agreements	149,795	9,745	-

As at 31 March 2020 £'000	Notional amounts	Fair Value Assets	Fair Value Liabilities
Cross currency interest rate swap agreements	149,795	-	(9,588)

The hedge relationship of the Cross-currency interest rate derivatives and HTM bonds which are in the nature of Other public sector securities (refer note 3.9) are highly effective. Changes in the fair value of derivatives which is designated and qualifies as a fair value hedge, along with the gain on the hedged asset that is attributable to the hedged risk are recorded in the income statement.

The fair value changes of all derivatives are recognised in the income statement under net income on foreign exchange, in addition to the foreign exchange gains/(losses) on the assets and liabilities.

£'000	2021	2020
On currency swaps (with no hedge accounting)		
Fair value changes on derivatives	15,369	(13,341)
Foreign exchange (loss)/gain on currency swaps	(15,669)	11,503
Revaluation gain on foreign exchange exposure	1,291	1,620
On Cross currency interest rate swaps (with hedge accounting)		
Change in fair value of hedged items recognised in income statement	(9,745)	9,588
Change in fair value of hedging instrument recognised in income statement	9,745	(9,588)
Total	**991**	**(218)**

3.9 | Investment securities

As at 31 March 2021 £'000	Carrying Amount	Fair value adjustment of Hedged bonds	Total
Available for Sale			
Government Issued	3,662	-	3,662
Other public sector securities & corporates	50,021	-	50,021
Depreciation in Mark to market	(92)	-	(92)
Held to Maturity			
Government Issued	19,334	-	19,334
Other public sector securities & corporates	262,233	4,260	266,493
Total	**335,158**	**4,260**	**339,418**

As at 31 March 2020 £'000	Carrying Amount	Fair value adjustment of Hedged bonds	Total
Available for Sale			
Government Issued	59,837	-	59,837
Other public sector securities & corporates	19,514	-	19,514
Depreciation in Mark to market	(963)	-	(963)
Held to Maturity			
Government Issued	21,459	-	21,459
Other public sector securities & corporates	268,241	7,552	275,793
Total	**368,088**	**7,552**	**375,640**
Collective provision	490	-	490
Total (Net)	**367,598**	**7,552**	**375,150**

3.10 | Fixed assets

£'000	Fixtures and fittings	Computer equipment	2021 Total
Cost			
At 1 April 2020	4,529	256	4,785
Additions	12	209	221
Disposals / Write off	(1,152)	(51)	(1,203)
At 31 March 2021	3,390	414	3,803
Accumulated depreciation			
At 1 April 2020	1,402	102	1,504
Charged	644	51	695
Disposals / Write off	(1,152)	(51)	(1,203)
At 31 March 2021	**894**	**102**	**996**
Carrying amount			
At 1 April 2020	3,127	154	3,281
At 31 March 2021	**2,495**	**312**	**2,807**

3.11 | Other assets

£'000	2021	2020
Prepayments and accrued income	6,130	6,703
Advance tax paid	-	508
Deferred tax asset	-	97
Other Assets	3,080	2,967
Total	**9,210**	**10,275**

3.12 | Borrowings from banks

£'000	2021	2020
Repayable on demand	-	-
With agreed maturity dates		
Less than 3 months	20,000	65,072
Between 3 months and 1 year	108,696	-
Total	**128,696**	**65,072**

3.13 | Deposits from customers

£'000	2021	2020
Repayable on demand and less than 1 month	714,619	646,496
With agreed maturity dates		
Between 1 and 3 months	124,250	75,616
Between 3 months and 1 year	322,081	351,196
Between 1 and 3 years	162,882	323,945
Between 3 and 5 years	36,405	21,404
Over 5 years	107	-
Total	**1,360,344**	**1,418,657**

3.14 | Other liabilities

£'000	2021	2020
Accrued expenses	7,259	9,703
Provision for tax liabilities	115	-
Deferred tax liabilities	108	-
Margins placed by counterparties on Derivatives	8,855	-
Other liabilities	6,216	4,169
Total	**22,553**	**13,872**

3.15 | Subordinated debt liabilities

£'000	Date of Issue	Interest Rate	Maturity	2021	2020
Unsecured loan	16/02/18	2%	10 years	-	50,000
				-	**50,000**

On 1st October 2020, Subordinated debt of £50 million was converted to Tier 1 Equity capital by State Bank of India.

3.16 | Share capital

£'000	2021	2020
225,000,000 ordinary, called up and paid shares of £1 each	225,000	175,000
	225,000	**175,000**

The holder of the ordinary shares is entitled to receive dividends as declared and is entitled to one vote per share at meetings of the Bank. On 1st October 2020, Subordinated debt Tier II capital of £50 million was converted to Tier 1 Equity capital by State Bank of India. There was a resolution passed and agreed to convert the Tier II capital to Tier I.

3.17 | Contingent liabilities

The Bank does not have any contingent liabilities (2020: £20,000).

3.18 | Commitments

£'000	2021	2020
Unutilised overdraft commitments	8,508	10,115
Pipeline loans	86,833	72,036
Total	**95,341**	**82,151**

The Bank has the following future minimum lease payments under non-cancellable operating leases for each of the following time bands below.

Lease Commitments £'000	2021	2020
Within one year	1,038	935
Between one and five years	2,978	2,702
More than five years	1,413	1,519
Total	**5,429**	**5,156**

3.19 | Related party transactions

The Bank enters commercial transactions with the Parent bank in the ordinary course of business on an arm's length basis. The Bank is exempt from disclosing other related party transactions that are with the companies that are wholly owned within the Group.

4 | Ultimate Parent Undertaking

State Bank of India (UK) Ltd is a wholly owned subsidiary of State Bank of India, a state-owned bank incorporated under the State Bank of India Act and quoted on the National Stock Exchange of India. The consolidated Financial Statements of the parent can be obtained from State Bank Bhavan, Corporate Center, Madame Cama Road, Mumbai, Maharashtra -400021, India. The financial statements of SBI are also available on the website *www.sbi.co.in*.

5 | Post Balance Sheet events

The rate of corporation tax for the year ended 31 March 2021 is 19%, however, the rate of corporation tax is due to rise to 25% on 1 April 2023, as disclosed in Note 3.3. This was substantively enacted on 24 May 2021 and therefore this is a non-adjusting post balance sheet event.

6 | Risk management

The Bank has financial instruments with exposure to capital management risk, credit risk, liquidity risk, market risk and operational risk.

6.1 | Financial instruments

Below are the Banks's financial instruments by category as at 31 March 2021:

£'000	Available for sale	Fair value through profit or loss	Held to Maturity	Amortised cost instruments	Total
Financial Assets					
Cash and balances with banks	-	-	-	113,623	113,623
Loans and advances to banks	-	-	-	125,000	125,000
Loans and advances to customers	-	-	-	1,140,238	1,140,238
Investment securities	53,591	-	285,827	-	339,418
Derivatives at fair value	-	25,114	-	-	25,114
Total Assets	**53,591**	**25,114**	**285,827**	**1,368,593**	**1,743,393**
Financial Liabilities					
Borrowings from banks	-	-	-	128,696	128,696
Deposits from customers	-	-	-	1,360,344	1,360,344
Subordinated debt	-	-	-	-	-
Derivatives at fair value	-	-	-	-	-
Total Liabilities	**-**	**-**	**-**	**1,489,040**	**1,489,040**

Below are the Banks's financial instruments by category as at 31 March 2020:

£'000	Available for sale	Fair value through profit or loss	Held to Maturity	Amortised cost instruments	Total
Financial Assets					
Cash and balances with banks	-	-	-	72,555	72,555
Loans and advances to banks	-	-	-	195,000	195,000
Loans and advances to customers	-	-	-	1,099,958	1,099,958
Investment securities	78,388	-	296,762	-	375,150
Derivatives at fair value	-	-	-	-	-
Total Assets	**78,388**	**-**	**296,762**	**1,367,513**	**1,742,663**
Financial Liabilities					
Borrowings from banks	-	-	-	65,072	65,072
Deposits from customers	-	-	-	1,418,658	1,418,658
Subordinated debt	-	-	-	50,000	50,000
Derivatives at fair value	-	22,930	-	-	22,930
Total Liabilities	**-**	**22,930**	**-**	**1,533,730**	**1,556,660**

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). For the valuation of Currency swap derivatives, the Bank uses spot rate and forward swap points on the reporting date, which are drawn from market sources, like Bloomberg. Further, for Cross currency interest rate swap derivatives valuation, the Bank uses future cash flows and discount factor to derive Net Present Value for each of the deal on the reporting date. The future cash flows and discount factors are drawn from Bloomberg on a real time basis.
- Level 3: Inputs that are unobservable.

The table below shows a hierarchy that reflects the significance of observable market inputs for financial instruments measured at fair value as at 31 March 2021.

£'000	Level	Available for sale	Fair value through profit or loss	Total
Financial Assets				
Investment securities	Level 1	53,591	-	53,591
Derivatives at fair value	Level 2	-	25,114	25,114
FVA on Investment Securities	Level 2	-	4,260	4,260
Total Assets		**53,591**	**29,374**	**82,965**
Financial Liabilities				
Derivatives at fair value	Level 2	-	-	-
Total Liabilities		**-**	**-**	**-**

The table below shows a hierarchy that reflects the significance of observable market inputs for financial instruments measured at fair value as at 31 March 2020.

£'000	Level	Available for sale	Fair value through profit or loss	Total
Financial Assets				
Investment securities	Level 1	78,388	-	78,388
FVA on Investment Securities	Level 2	-	7,552	7,552
Total Assets		**78,388**	**7,552**	**85,940**
Financial Liabilities				
Derivatives at fair value	Level 2	-	22,930	22,930
Total Liabilities		**-**	**22,930**	**22,930**

Centenary celebrations of SBI UK at the Summer Staff Party, Regents Park, July 2021

6.2 | Capital management

The Bank's regulatory capital requirements are set and monitored by its regulator the PRA. The Bank has implemented the CRD IV (Basel III) framework for calculating minimum capital requirements through the ICAAP.

The Bank uses regulatory capital ratios in order to monitor its capital base and these capital ratios remain the international standards for measuring capital adequacy. The PRA's approach to such measurement based upon CRD IV is primarily based on monitoring the Capital Resource Requirement to available capital resources. The PRA also sets Total Capital Requirement (TCR) for the Bank that sets capital requirements in excess of the minimum Capital Resource Requirement. A key input to the TCR 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 such as 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 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 recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There were no breaches in regulatory capital requirements reported in the period. The table below, based on the audited Financial Statements, shows the breakdown of the Bank's capital resources:

Regulatory Capital resources £'000	**2021**	**2020**
Tier 1 capital		
Share Capital	225,000	175,000
Retained earnings	18,891	11,468
Other Comprehensive Income	(74)	(779)
Net Book Value of Intangible assets	(312)	(177)
Total –Tier 1 capital	**243,505**	**185,512**
Tier 2 capital		
Subordinated debt	-	50,000
Allowance for impairment losses	4,252	3,152
Total –Tier 2 Capital	**4,252**	**53,152**
Total Capital	**247,757**	**238,664**

6.3 | Credit risk

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

The Board of Directors has delegated the management of credit risk to the Risk Management Committee. The committee monitors all credit related risks at the Bank, while the Credit Policy is approved by the Board Risk Committee. The Credit Committee and Risk Management Committee reviews all the major advances granted by the Bank and ensures the maintenance of strong internal credit controls.

The Bank is committed to mitigating risk through all stages of the lending cycle. The Bank considers customer's credentials and the loan-to-value (LTV) percentages of all loans at the application stage. Additionally, the Bank employs underwriting and fraud detection policies to minimise losses once loans have been approved as well as taking a proactive approach to the monitoring and treatment of impaired loans through the collections and recovery functions. In addition to Independent Risk assessment of all cases put up to credit committee, all BTL cases approved under underwriter mandate is also reviewed internally by Risk department on sample basis to ensure adherence to Credit policy guidelines. The Bank maintains comprehensive management information on the performance and movements within the various loan portfolios to ensure that credit risk is adequately controlled, and any adverse trends are identified before they impact on performance. This management information is reported and discussed at the Risk Management Committee on monthly basis and monitored at a Board Risk Committee level on a quarterly basis.

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

£'000	2021	2020
Neither past due beyond 90 days nor impaired	1,142,581	1,101,735
Past due beyond 90 days, but not impaired	-	-
Impaired	4,608	4,565
Repossessions	-	-
Unutilised overdraft commitments	8,508	10,115
Pipeline loans	86,833	72,036
Total	**1,242,530**	**1,188,451**

Collateral

The Bank requires collateral as per its credit policy, to manage credit risks in loans and advances to customers. The table below provides the value of collaterals held by the bank in the form of immovable property and cash collateral:

Loans and advances to customers £'000	2021	2020
Collateral value	596,944	509,338
Gross loans and advances	1,147,189	1,106,300

When the value of the collateral is higher than the credit exposure of the borrower, the collateral value is capped to the exposure. The collateral value in the above table excludes secured by Non-property assets of the borrower or its group entities, a second charge on assets, other liens and corporate guarantees and related support undertakings from borrower group entities.

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all or part of principal and interest due according to the contractual terms of the loan agreement.

Past due but not impaired

Loans where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate based on the level of security / collateral available and / or the stage of collection of amounts owed to the Bank. Loans where restructuring terms have been substantially agreed are excluded.

Allowances of impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The specific loss provision that relates to individually significant exposures and represents the amount remaining after deducting the expected discounted cash flows from the outstanding loan principal and accrued interest at the Balance Sheet date. 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.

Forbearance policy

The Bank periodically assesses whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. In conducting this assessment, Management takes account of any forbearance arrangements it has with its customers. The Bank has a forbearance process for Buy To Let Mortgages and as part of the arrears management process, the Bank will consider providing a forbearance facility to the borrower after considering each case and analysing it based on its own merits and the specific circumstances of the borrower. The primary aim of providing a forbearance facility to a borrower is to enable the complete recovery of the debt through the full repayment of any arrears. Where the circumstances of the borrower means that this primary aim is not achievable, the secondary aim is to recover the customer into a 'sustainable terms' position on their debt. In all cases the provision of forbearance aims to minimise the risk of the borrower ultimately defaulting on their debt and

losing their security. As at 31 March 2021 (2020: NIL), the Bank has provided forbearance facility to a total 8 business customers (Total exposure of £82m) to support them from the impact of Covid-19. In addition, in line with the FCA's regulatory guidance, payment holidays were granted for 56 BTL mortgage borrowers (Exposure totalling £20m), out of which all but one customer have recommenced mortgage payments now.

Write off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Analysis of credit portfolio

An analysis of the Bank's total credit exposures as at 31 March 2021 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by external credit ratings is provided below:

2021 £'000	**Investment Securities**	**Loans to customers & deposits with banks**
AAA to AA-	45,322	91,051
A+ to A-	68,590	38,273
BBB+ to BBB-	179,907	134,034
BB+ and below	41,339	450,318
Unrated*	4,260	665,185
Total	**339,418**	**1,378,861**

*£4.3 million in Investment securities relate to fair value of hedged bonds.

2020 £'000	**Investment Securities**	**Loans to customers & deposits with banks**
AAA to AA-	104,651	-
A+ to A-	57,627	45,843
BBB+ to BBB-	186,980	216,241
BB+ and below	18,340	515,605
Unrated	7,552	589,824
Total	**375,150**	**1,367,513**

Below table shows the credit rating analysis of loans and advances that are neither past due nor impaired.

£'000	2021	2020
AAA to AA-	-	-
A+ to A-	20,000	-
BBB+ to BBB-	5,000	-
BB+ and below	450,318	510,605
Unrated	667,263	591,131
Total	**1,142,581**	**1,101,736**

As of 31 March 2021, Bank's loans and advances that are past due but not impaired are NIL (2020: NIL)

An analysis of the Bank's total credit exposures as at 31 March 2021 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by geography is provided below:

Geography	2021 £'000	%
Great Britain	908,115	52%
United States of America	412,750	24%
India	234,079	14%
Spain	46,787	3%
France	9,760	1%
South Korea	21,042	1%
Africa	19,334	1%
Other geographies	66,412	4%
Total	**1,718,279**	**100%**

Geography	2020 £'000	%
Great Britain	769,982	44%
United States of America	493,958	29%
India	299,526	17%
Spain	43,683	3%
France	18,581	1%
South Korea	23,355	1%
Africa	21,459	1%
Other geographies	72,119	4%
Total	**1,742,663**	**100%**

An analysis of the Bank's total credit exposures as at 31 March 2021 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by industry sectors is provided below:

Industry Sector	2021 £'000	%
Banks	348,112	20%
Real Estate	498,256	29%
Consumer Services	157,998	9%
Health Care Equipment & Services	112,526	7%
Transportation	97,990	6%
Materials	45,421	3%
Pharmaceuticals, Biotechnology & Life Sciences	33,005	2%
Automobiles & Components	45,163	3%
Sovereign	94,712	6%
Other Sectors	285,096	17%
Total	**1,718,279**	**100%**

Industry Sector	2020 £'000	%
Banks	456,959	26%
Real Estate	432,836	25%
Consumer Services	187,537	11%
Health Care Equipment & Services	111,552	7%
Transportation	90,139	5%
Materials	53,661	3%
Pharmaceuticals, Biotechnology & Life Sciences	41,894	2%
Automobiles & Components	52,803	3%
Sovereign	59,837	3%
Other Sectors	255,445	15%
Total	**1,742,663**	**100%**

6.4 | Liquidity risk

Liquidity risk is the risk the Bank does not have available sufficient resources to meet its obligations as they fall due. The Bank's approach to managing liquidity is to ensure that it will always have sufficient available financial resources to meet its liabilities when due, under normal and stressed conditions, without any unacceptable losses or risk to the Bank's reputation. The Bank has established an Internal 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. It is the Bank's policy to maintain appropriate levels of liquidity in the form of High Quality Liquid Assets on an on-going basis. As part of the policy, the liquidity positions and metrics (including Liquidity Coverage Ratio and Net Stable Funding Ratio) are periodically measured against the Bank's risk appetite and reported monthly to ALCO and to the Board on a quarterly basis. The following table below shows the undiscounted cash flows as at 31 March 2021 on the Bank's Derivative and non-derivative financial liabilities into relevant maturity groupings based on the remaining period.

March 2021 £'000	< 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total	Carrying Amount
Financial Liabilities						
Borrowings from banks	-	(20,110)	(280)	(109,443)	(129,833)	(128,696)
Deposit from customers	(718,695)	(125,152)	(326,344)	(203,306)	(1,373,497)	(1,360,344)
Derivative financial instruments	-	-	-	-	-	-
Subordinated debt liabilities	-	-	-	-	-	-
On-Balance Sheet	**(718,695)**	**(145,262)**	**(326,624)**	**(312,749)**	**(1,503,330)**	**(1,489,040)**
Pipeline Loans	(86,833)	-	-	-	(86,833)	-
Unutilised overdraft commitments	(8,508)	-	-	-	(8,508)	-
Off-Balance sheet	**(95,341)**	**-**	**-**	**-**	**(95,341)**	**-**

March 2020 £'000	< 1 month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total	Carrying Amount
Financial Liabilities							
Borrowings from banks	(24,621)	(40,617)	-	-	-	(65,238)	(65,072)
Deposit from customers	(645,847)	(79,422)	(369,691)	(368,950)	-	(1,463,910)	(1,418,658)
Derivative financial instruments	-	-	(22,930)	-	-	(22,930)	(22,930)
Subordinated debt liabilities	-	-	(1,000)	(4,000)	(53,000)	(58,000)	(50,000)
On-Balance Sheet	**(670,468)**	**(120,039)**	**(393,621)**	**(372,950)**	**(53,000)**	**(1,610,078)**	**(1,556,660)**
Pipeline Loans	(72,036)	-	-	-	-	(72,036)	-
Unutilised overdraft commitments	(10,115)	-	-	-	-	(10,115)	-
Off-Balance sheet	**(82,151)**	**(120,039)**	**(393,621)**	**(372,950)**	**(53,000)**	**(82,151)**	**(1,556,660)**

6.5 | Market risk

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

Pricing Risk

The fair value of a financial instrument is the amount for which an asset can be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties. Wherever possible, fair value is determined by reference to a quoted market price for that instrument. In the absence of readily ascertainable market values, fair values are determined based on the best information available e.g. by reference to similar assets, similar maturities or other analytical techniques. The carrying amounts of the Bank's assets and liabilities are considered to equate to the fair values of those assets and liabilities. Since it is not deemed that pricing risk is material, a sensitivity analysis has not been prepared.

Interest rate risk

Interest rate risk in the Banking Book (IRRBB) arises from financial instruments where net interest income or expense and the market value of the Bank's assets or liabilities are exposed to movements in interest rates. Interest rate risk is managed by matching and monitoring the yield and duration exposure built into the Bank's portfolio. The Bank also manages and controls interest rate risk through its hedging strategy. Interest rate exposure is managed by ALCO on a monthly basis and it operates within the Risk Appetite limits set by Board Risk Committee.

The Bank monitors the sensitivity of the Bank's financial assets and liabilities using interest rate scenarios. Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as Shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The table below shows the impact on net interest income over the life of the assets and liabilities of a 10 basis point rise or fall in the interest rate, and assumes a constant balance sheet position:

Interest rate sensitivity £'000	**2021**	**2020**
As at 31 March		
10 basis points increase	(1,51)	(219)
10 basis points decrease	165	229

The Earnings at Risk (EAR) Impact on Net Interest Income (NII) due to 100bps adverse change in rates is £0.25m (2020: £1.87m).

Foreign exchange risk

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

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future expected cash flows are hedged via the use of forward rate agreements in order to mitigate exposure due to movements in foreign currency rates.

The Bank has no significant structural currency exposures that are not covered by foreign exchange swap contracts. The table shown below gives details of the Bank's assets and liabilities as at 31 March 2021, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Bank are matched.

£'000	2021	2020
Denominated in US Dollars	587,799	667,358
Denominated in Sterling	1,073,057	979,164
Denominated in Eur	92,388	108,243
Denominated in other currencies	2,166	1,454
Total assets	**1,755,410**	**1,756,219**
Denominated in US Dollars	173,183	106,427
Denominated in Sterling	1,576,074	1,644,234
Denominated in Eur	3,988	4,104
Denominated in other currencies	2,165	1,454
Total liabilities	**1,755,410**	**1,756,219**

This does not represent the Bank's exposure to foreign exchange risk due to the presence of compensating exchange rate derivatives as discussed in Note 3.8, as these contracts are held for foreign exchange hedging purposes. The Bank follows a prudent policy for managing the Foreign exchange risk in accordance with the Risk Appetite limits approved by the Board Risk Committee. The Foreign Exchange Net Overnight Open Position (NOOP) of the Bank as at March 31, 2021 was £0.6m (2020: £0.7m). Since it is not deemed that foreign currency risk is material, a sensitivity analysis has not been prepared.