



State Bank of India (UK) Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS.

For the year ended
31 March 2023



COMPANY INFORMATION

Registered office

15 King Street
London
United Kingdom
EC2V 8EA
Company registration no 10436460

Directors

Naik, Sanjay Dattatraya (Chairman)
Arora, Rajeev (Non-Executive Director – Resigned on 22 November 2022)
Bansal, Jayati (Non-Executive Director – Appointed on 22 November 2022)
Baines, John Duncan (Independent Non-Executive Director)
Raines, Catherine (Independent Non-Executive Director – Appointed on 04 April 2023)
Hicks, Steven Mark (Independent Non-Executive Director)
Chandak, Sharad Satyanarayan (Chief Executive Officer – Resigned on 09 January 2023)
Sharma, Sudhir (Chief Executive Officer – Appointed on 15 November 2022)
Pandey, Sanjay (Executive Director & Deputy Chief Executive Officer – Resigned on 09 January 2023)
Bhat, Varsha (Executive Director & Deputy Chief Executive Officer – Appointed on 09 January 2023)

Bankers

National Westminster Bank Plc
Citibank NA

Auditor

Mazars LLP
30 Old Bailey
London
EC4M 7AU



Annual report and financial statements for the year ended 31 March 2023

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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 2023. 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.

In the UK, SBI has been active since 1921. Our successful service to customers for over 100 years in the UK is the testimony of the fact that we have kept realigning our product offerings and quality of services to cater to evolving customers' banking needs, while also efficiently transiting from traditional banking to the digital banking domain across a wide range of banking products and services.

During the year, we have continued to deliver on our vision to be "Banker of Choice" for our target market by expanding our product offering with Development Finance, Limited access Savings account, Remittance to Nepal and continued improvement of our digital YONO offering, in addition to providing incentives to our customers to improve the EPC rating on their properties.

The Bank has established a good foundation during the initial years by implementing an effective corporate governance framework and development of sound systems and controls. The Bank has leveraged this during the year and delivered a robust financial performance with higher profitability (Net Profit After Tax of £21.2m in year ended March 2023 versus £14.2m during the previous year), on the back of better business volumes and higher interest rates. Despite higher inflationary pressures during the year, which hit 10.1% in the year to March, the Bank was able to improve the cost to income ratio to 46% (2023) from 49% (2022).

By focusing on profitable and lower risk weighted products, the Bank has improved its Return on Equity¹ from 5.92% to 8.61% and Return on Assets² from 0.84% to 1.15%. The stronger financial performance has helped us in achieving higher capital adequacy ratio of 21.2% in March 23 against 19.5% in March 22.

Our journey also has been special in terms of accolades, we have been bestowed with. For example, recently we are chosen as Highly Commended Best Business Fixed Account Provider at Business Moneyfacts Awards. SBI UK Birmingham Branch won Enterprise of the year 2022 at Signature Awards - November 2021 for our customer service.

Over the years, SBI UK's operations in the UK have gone from strength-to-strength and it has grown to become one of the largest Indian banks in the UK and one of the most profitable overseas operations of SBI. Within a short span of 5 years of its commencement, SBI UK paid an interim dividend of £8.44m to the parent for the financial year 2022-23 (Financial year 2021-22 £5.63m), which reflects the success and soundness of the UK operations.

Strategic objective

SBIUK's objective is to provide Retail and Small Business 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, compliant and sustainable UK bank. It positions itself as a bank offering state of the art technology-based products and excellent services and experience to our target market.

SBI UK continues to focus growth on the Retail/SME (Small and Medium Enterprise) segment in line with the business plan. Loans to Retail/SME segment have gone up to 57% in March 2023 from 20% of total loans in April 2018, the Corporate loans / Commercial mortgage (mid and large) have gone down, helping to diversify the lending portfolio.

1. Return on Equity is calculated by dividing Profit after tax by Shareholders equity.

2. Return on Assets measures on how bank's assets are in generating revenue. The ratio is calculated by dividing Profit after tax by average of interest generating assets.

Business model

In line with our mission to provide simple, responsive and innovative financial solutions to our target market, the Bank provides the following products and services through its digital platform as well as network of 11 branches across the UK:

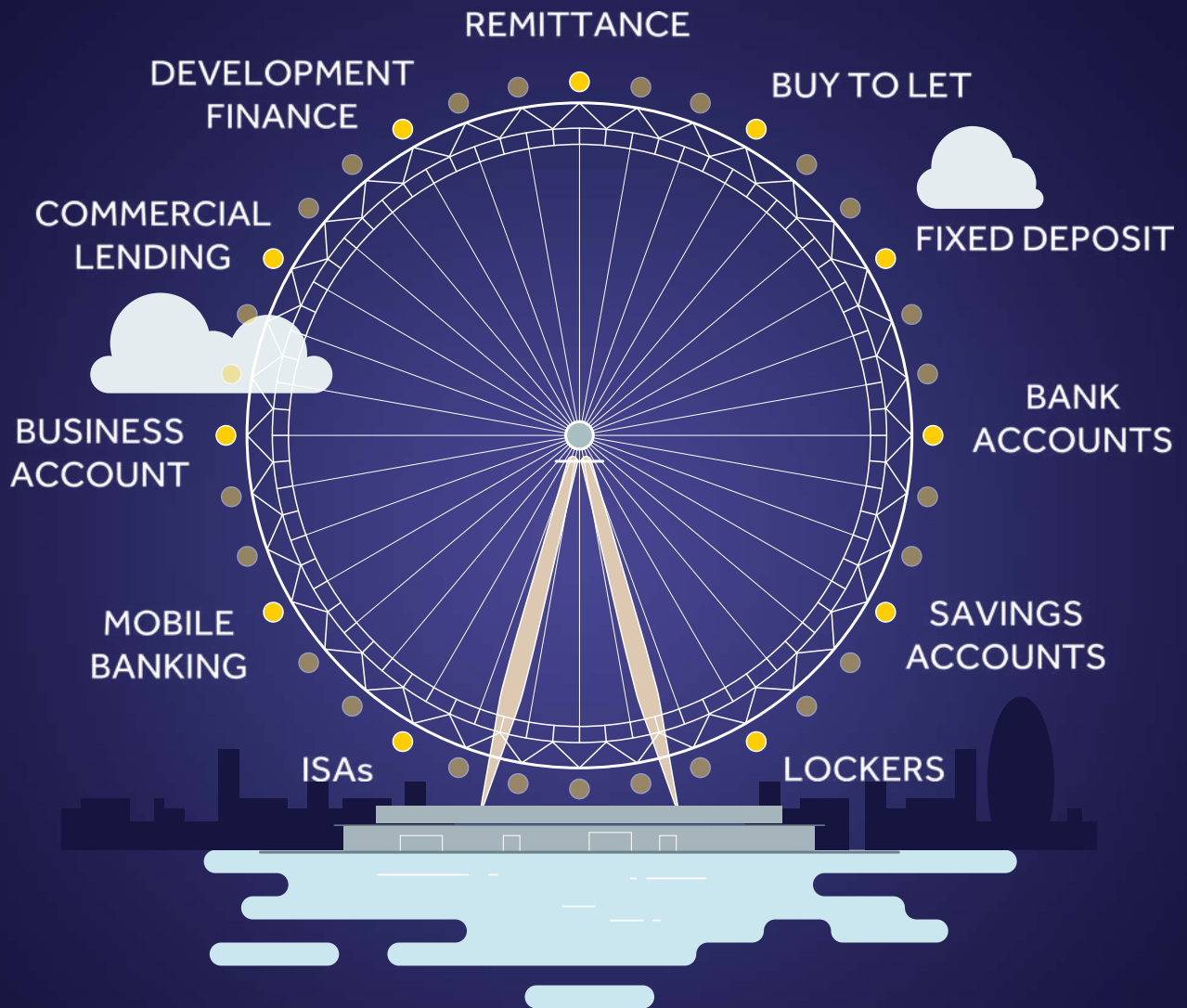
- Current, instant access savings, limited access savings, cash ISAs, notice accounts and fixed deposit accounts for individuals
- Current, business savings, limited access savings and fixed deposit accounts for businesses
- Onboarding retail depositors through digital channels such as "YONO SBI UK", our mobile banking App.
- "Green Fixed Deposits" supporting customer in their sustainable journey.
- Residential Buy to Let (BTL) mortgages, with renewed focus on BTL Sales strategy to improve sourcing through intermediaries and branches.
- "Green Mortgages" to incentivise better EPC (Energy Performance Certificate) rated properties in BTL loans as part of Climate Change Risk management strategy
- 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 were expanded during the year to Nepal as well
- Fund transfer services within UK, through 24x7 faster payments service
- Safe deposit lockers

The Bank offers online as well as mobile banking facilities. The Bank is continuously making enhancements in its Internet and "YONO SBI UK", its mobile banking application with continued focus on digital channels to supplement branch distribution, in line with changes in customer expectations.

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.

With you through **ups** and **downs**.



T&C's Apply

sbiuk.statebank

0800 532 532

City of London | Birmingham | Coventry | East Ham | Golders Green | Harrow
Hounslow | Leicester | Manchester | Southall | Wolverhampton

Personal banking | Corporate Finance | Internet Banking | Buy-To-Let Mortgages
Money Transfer | Commercial Lending | Safe Deposit Lockers

State Bank of India (UK) Limited ("SBI UK") is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register number: 757156). SBI UK is registered in England and Wales (Registered no: 10436460), with a registered office at 15-17 King Street, London EC2V 8EA. Your eligible deposits with State Bank of India (UK) Limited are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit protection scheme. For further information, please visit www.fscs.org.uk. Terms & Conditions Apply. For more information or clarification, visit us at our website www.sbiuk.com or visit your local branch. The contact centre (0800 532 532) is open 24/7.

FINANCIAL AND BUSINESS REVIEW



Review of Operations

The key financial and other performance indicators of SBIUK for the current and previous financial years are as follows:

£ Millions	2023	2022
Total Assets	1,977	1,776
Gross loans and advances to customers	1,413.4	1,210.4
Of which:		
Buy to let mortgages	656.0	407.9
Commercial mortgages	301.2	252.2
Corporate & business loans	431.2	521.4
Net Interest Income	47.1	34.7
Operating profit before allowance for impairment losses and taxes	26.5	19.3
Impairment losses	0.2	1.5
Profit before tax	26.3	17.7
Profit after tax	21.2	14.2
Negative MTM on AFS portfolio	(2.0)	(2.8)
Net interest margin ³	2.47%	2.0%
Cost / Income ratio ⁴	46%	49%
Common Equity Tier 1 ratio ⁵	21.2%	19.5%
Capital adequacy ratio ⁶	21.2%	19.5%
Leverage ratio ⁷	13.9%	14.3%
Liquidity Coverage Ratio (LCR) ⁸	1021%	135%
Net Stable Funding Ratio (NSFR) ⁹	143%	130%

Profitability

The Bank's operating profit for the year amounted to £26.5m (2022: £19.3m), before allowance for net impairment losses of £0.22m (2022: £1.55m). The increase in specific provision of £1.17m on one of the corporate exposures is offset by release of £0.95m of collective impairment due to bank actively reducing the share of corporate and Large CRE loans from 50% to 39% during the year.

The profit after tax for the year is £21.2m (2022: £14.2m). Net Interest Income (NII) increased significantly by 36% as compared to the previous year, to £47.14m during FY21-22 (2022: £34.60m).

The main reason for increase in the Bank's operating profit is increase in NII due to higher interest rates in the market (Bank of England base rate at March 2023 was 4.25% and at March 2022 0.75%) which has impacted directly all our floating rate loan products, which comprised of 53% of our loan portfolio. Interest expense on deposits, especially fixed deposits increased as well, but we were able to contain the increase on interest expenses, due to lag in interest expense increase as well as widening of net interest margin across the portfolio. Hence, Net Interest Margin has increased during the year in percentage and absolute number. The Net interest margin for the year is 2.47% (2022: 2.0%). The pre-tax profit for the year came to £26.3m (2022: £17.7m) and the profit after tax amounted to £21.2m (2022: £14.2m). The cost-to-income ratio for the year is 46% (2022: 49%).

3. Net Interest Margin is one of the bank's key profitability measures. The ratio is calculated by dividing Net Interest Income by average of interest generating assets.

4. Cost / Income ratio is calculated by dividing total operating expenses by total revenue and hence, measures how efficiently the bank is managing the costs relative to its total revenues.

5. 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.

6. 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.

7. 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.

8. LCR is designed to ensure that banks hold a sufficient high-quality liquid asset, to allow them to survive a period of significant liquidity stress lasting 30 calendar days.

9. 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 £260m¹⁰ as at 31st March 2023 (2022: £249m) with a common Tier 1 capital ratio of 21.2% (2022: 19.5%) and total capital adequacy ratio of 21.2% (2022: 19.5%) against a Regulatory minimum capital requirement ratio of 16.43% (2022: 15.83%). The increased profitability and Bank's continuous shift from Corporate & Business loans to Retail & SME loans over the last year has also helped the bank in improving its total capital adequacy ratio and optimising the utilisation of capital. During the year Bank paid an interim dividend of £8.438m (2022: £5.625m) to the parent Bank, which is 3.75 pence (2022: 2.5 pence) per ordinary share. The Leverage ratio for the year is 13.9% (2022: 14.3%).

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 143% (2022: 130%), compared to minimum regulatory expectations of 100%.

Economic Environment and Future Outlook

Though the uncertainties related to geopolitical developments and economic headwinds persist, especially with high downside risks to the economy for 2023 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. The Bank has also adopted a conservative risk appetite on its lending, to minimise above mentioned risks. Moreover, the impact of ongoing conflict between Russia and Ukraine is immaterial on the business, as the Bank does not have any exposure to the region.

The cost of living has been rising globally, over the last few months, including in the UK. This has been mainly caused by food and energy prices have been rising significantly over the past year, largely in response to the conflict in Ukraine. The UK's household energy price cap is expected to drop following a sharp fall in wholesale energy prices, this is expected to bring relief to the government, as it tackles the cost-of-living crisis. The UK housing market is facing a number of headwinds in 2023, due to rising interest rates, exacerbated by diminishing affordability and economic uncertainty.

We are closely monitoring the headwinds in the economy, especially higher inflation, reduction in UK residential and commercial property prices, increasing yield rates and the effect of higher interest rates on banks around the globe in the recent months. SBI UK follows stringent underwriting and risk evaluation approach in assessing credit risks of its loan portfolio and believes that this conservative approach would protect the bank during this turbulent time.

The management of the interest rate risk in the banking book is supplemented by monitoring the sensitivity of our financial assets and liabilities using interest rate scenarios. The Bank is effectively managing these risks by not only leveraging the natural hedges in the portfolio, but also through its effective currency and interest rate hedging strategy, which is managed by ALCO (Asset and Liability management Committee) on a monthly basis, based on the Risk Appetite limits set by the Board. The Bank has been able to successfully navigate the challenges posed by higher interest rates, which is reflected in the significant improvement of Bank's net interest margins during the year.

SBI UK has taken adequate steps in terms of enhancing its Operational Resilience capabilities and Credit Risk mitigations to counter negative impacts of future outbreaks and/or geopolitical risks, if any.

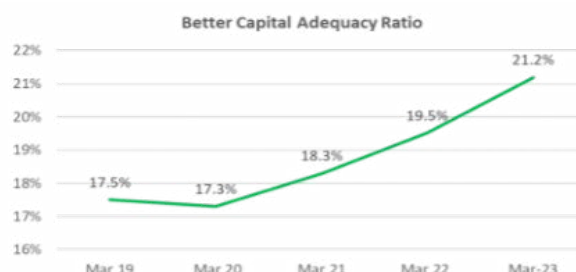
10. Refer Note 6.2 (Capital management) for further details

Business Strategy - Future Outlook

The Bank will continue to focus on its improving retail business by new customer acquisition, focus on improving CASA (Current account and Savings account), retail lending, diversification of the products and improvement in digital channels. The Bank is actively monitoring the frequently changing interest rates scenarios and proactively updating its product pricings to be in sync with the market, at the same time mitigating the negative impacts of the interest rate movements, if any on Bank's business. In line with the market environment, the Bank would continue to have cautious credit policy by focusing on providing good quality borrowers only.

The Bank's Executive Management and the Board is monitoring the situation actively and will continue to take corrective actions, if required. In addition, market wide stress from economic uncertainties (including the conflict in Ukraine 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, 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. The Bank is expected to be well capitalised throughout the planning period and the capital ratios are expected to be well ahead of regulatory minimums, highlighting the soundness of the business.



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
<p>Business performance and strategic risk</p> <p>The risk arising from business decisions and improper implementation of those decisions.</p>	<p>The Board and management recognise this as one of the material risks since business uncertainties are inevitable, particularly aspects that are beyond the control of either, such as the macro-economic environment, regulatory and political changes and the actions of the Bank's competitors. This is mitigated by ongoing horizon scanning and monitoring developments in these areas and adapting the business strategy accordingly.</p> <p>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. As part of the Business Plan, stress testing on firm specific and market wide scenarios were conducted to ensure that the capital position was not stretched through the planning cycle and the risk has remained the same as prior year.</p> <p>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.</p>
<p>Credit risk</p> <p>The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time.</p> <p>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.</p>	<p>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.</p> <p>The Bank has detailed policies for all types of lending and investments which are reviewed periodically and 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.</p> <p>Given the Bank's business model, Credit Risk continued to be singularly the largest risk faced by the Bank. This was further accentuated in the current year, for the industry in general, given the volatility in the market, rise in interest rates, cost of living crisis etc. Nevertheless, given the conservative nature of the credit portfolio, the residual risk is consistent with the prior year. The Bank has managed this risk by regularly reviewing the performance of its portfolio, conducting enhanced stress testing, keeping close liaison with the customers, adjusting policy prescriptions appropriately and placing regular MI to the executive and Board committees to discuss emerging situations.</p>

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. 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 in place an RCSA Lite process, that is triggered if any exceptional risk incident occurs. This ensures on going close scrutiny in between two RCSA cycles.

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.

The Bank has, in the current year, further streamlined its Pillar 2 assessment of capital charge for Operational Risk. The approach has seen an alignment with the Basel taxonomy and better reflects the risks the bank faces.

Business Continuity Planning (BCP) has been enhanced throughout the year to strengthen Operational resilience including supporting remote working for employees/servicing customers. Overall, the operational risk has remained consistent with the prior years.

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 are mitigated by entering into currency/interest rate swap agreements.

Market risk appetite is set by the Board through the Risk Appetite Statement as part of Risk Management Framework and cascaded to Market Risk Management Policy (MRMP). The MRMP defines the products, currencies in which transactions/position can be undertaken, defines roles and responsibilities for business & risk departments and sets limits for Foreign exchange & interest rate risk for its trading and banking book positions. No positions are undertaken with trading intent. Though the market conditions especially the interest rate environment remain volatile, the risk remains consistent with the prior year due to our active management of market risk.

SBIUK does not run a proprietary trading book, and that continues to be the position.

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), the Board Risk Committee and to the Board on a quarterly basis.

<p>Compliance risk</p> <p>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</p>	<p>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 and oversight by senior management, Compliance and Risk departments and independent risk based internal audits.</p> <p>Ongoing oversight is performed by the management and board committees including Legal & Compliance committee, Board Risk committee and Board Audit committee.</p> <p>In the current year the Control Effectiveness regime has been further streamlined and is running parallel to the Compliance Monitoring Programme. In the coming year further integration of the two processes are planned.</p>
<p>Risks from Economic downturns</p>	<p>Uncertainties due to macro-economic factors and other international political developments affect the Bank, as it does others in the industry. There is ongoing regular monitoring by Executive management committees and at Board level of events as they unfold as well as the contingency planning to ensure a tight management of strategy and economic risks. This approach helped the Bank in managing the uncertainties in the market during the year. The Bank has adopted a conservative risk appetite on its lending, to minimise its risks. 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 will ensure that the Bank has adequate capital and liquidity resources to support its operations. Despite the headwinds in the economy, the residual risk remains consistent with the prior year due to our business model and conservative approach to credit risk management.</p>
<p>Risks from impact of climate change</p>	<p>The Bank recognises the potential impact of climate change on its financial position including on the valuation of its financial assets, impact to its operations and financial risk disclosures.</p> <p>The Bank performs an assessment of its risks and exposures to the various aspects of environmental and climate risks. The review is conducted at least once annually. The Climate Change Manual of the Bank is updated after this review and placed to the Board for approval. The Board and relevant Committees continuously monitor the risks and potential impact from climate change and its impact on the resilience of the company's business model.</p> <p>Consequently, the Bank has taken a number of considered and proportionate actions in line with relevant published regulatory guidance and industry best practice. The actions taken include the appointment of the Chief Risk Officer as the Accountable Executive for climate change related financial risks and inclusion of climate impact assessment as an integral part of corporate loan credit appraisals.</p> <p>The Bank will regularly review its climate change related risk management strategy to ensure that it continues to align with evolving industry best practice and regulatory expectations, whilst still being proportionate for the size, complexity and nature of its business.</p>

Internal Audit

Internal Audit is an independent function and reports to the Chair of the Board Audit Committee. Internal Audit is an integral part of the ongoing monitoring of the Bank's system of internal controls. The Directors are satisfied that the Bank has put in place appropriate resources in the Internal Audit function to verify that operating policies and procedures are implemented as intended and are functioning effectively.

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	<p>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 well-being, 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.</p> <p>To support the employees, impacted by the higher cost of living, Bank announced one off gross payment of £1,500 for the most impacted employees. This would ease the burden of rising household costs.</p> <p>During the year, 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.</p>
Customers	<p>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.</p> <p>Further to new regulatory rules on Consumer Duty becoming effective from 31st July 2023, Bank has formed a working group for oversight of implementation of the project for meeting better consumer outcomes on our products and service offering. Bank is working with an external consultant to ensure that we continue meet our customer and regulatory requirements. There is ongoing oversight in Management Committee and reporting to Board is being ensured.</p>
Shareholders	<p>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 audited financial results to shareholders on a quarterly basis. Presentations and meetings are held as scheduled from time to time among the Directors. The Bank has paid a shareholder dividend for two consecutive years totalling circa. £14m.</p>

Communities and Environment	<p>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 SBI, which are available on www.sbi.co.in.</p> <p>In addition to the above the Bank in UK has been guided by the climate-related supervisory expectations for regulated firms. In line with the provisions of PRA's Supervisory Statement SS3/19 "Enhancing banks' and insurers' approaches to managing the financial risks from climate change", the Bank has put in place systems and processes, in a proportionate manner, to mitigate the risks. This includes having a Governance system in place, enhancing of the Risk Management systems, scenario testing and including and enhancing Climate related disclosures as part of the Pillar 3 disclosures on climate risks. Chief Risk Officer (CRO) has been appointed as in-charge of the Bank's strategy to address the climate change risk and the responsibilities have been set out in the Statements of Responsibilities (SOR). Clear roles and responsibilities have been assigned across the three lines of Defence for identifying, assessing, and monitoring Climate Change Risk.</p> <p>The Terms of Reference (ToR) of the Board and other relevant sub-committees have been revised to cascade the strategy throughout the firm, promoting a strong understanding of the risks and embedding the chosen approach within the risk management framework. Requisite and appropriate approvals have been taken from the committees who are authorised to approve any amendments of the ToR.</p> <p>The Bank is conscious of the requirement of having a climate strategy that is appropriate, fit-for-purpose, and proportionate to its business model. To that end, the Bank is putting in place, systems and processes, that are aimed at embedding them in the immediate and medium-term.</p> <p>The Bank offers special Green Mortgages to incentivise customers to improve EPC rating on their properties. As on 31st March 2023, Bank had a total of 297 cases under Green Mortgages with outstanding amount of approximately £80m. During the year, the Bank introduced cash back incentive of £1,000 to BTL customers for improving EPC rating from 'D' and 'E' to 'C' or better.</p> <p>E-learning modules on Environmental Awareness & Environmental Social & Governance (ESG) were introduced for employees.</p> <p>The Bank will, going forward, take a long-term view of the financial risks that can arise beyond standard business planning horizons. As a starting step to achieve the long-term objective, the Bank has already conducted a detailed analysis its exposures from a Climate Change perspective. The Bank has, with the assistance of an external vendor (Carbon Footprint Ltd), assessed its carbon emissions during the period, and is thus a 'CO2e Assessed Organization'. The Bank is also updating its Risk Appetite Statement to reflect its medium- and long-term vision, through setting of limits on various exposure classes based on climate change matrices – covering both physical and transition risk.</p>
Suppliers	<p>The Senior Management and Executive Directors continue to receive updates through Management information on the performance of Suppliers. This also provided an insight into the impact of its procurement processes, procedures and dependency on suppliers. Outsourcing agreements and their operations have been reviewed periodically by the Management and review of Outsourcing policy have been carried out with an intention to ensure outsourcing efficiency with appropriate oversight.</p>
Regulators	<p>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.</p>

Further information concerning the Bank's 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 15 June 2023.

For and on behalf of Board

Sharma, Sudhir
CEO & Executive Director
15 June 2023



DIRECTORS' REPORT



The directors present their annual report, together with the financial statements and auditor's report for the year ended 31 March 2023. 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 17.

Dividends

During March 2023, the Directors approved the payment of interim dividend of £8.438 million to Parent. (2022: £5.625 million)

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 period of at least 12 months from the date of approval of financial statements. 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.

Though the uncertainties related to geopolitical developments in Ukraine persist, especially with high downside risks to the economy for 2023 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. The Bank has also adopted a conservative risk appetite on its lending, to minimise these geopolitical and economic risks. Moreover, the impact of ongoing conflict between Russia and Ukraine is immaterial on the business, as the Bank does not have any exposure to the region.

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 the current market environment, especially interest rate movement 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 period of at least 12 months from the date of approval of financial statements. 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:

Naik, Sanjay Dattatraya (Chairman)
Arora, Rajeev (Non-Executive Director – Resigned on 22 November 2022)
Bansal, Jayati (Non-Executive Director – Appointed on 22 November 2022)
Baines, John Duncan (Independent Non-Executive Director)
Hicks, Steven Mark (Independent Non-Executive Director)
Raines, Catherine (Independent Non-Executive Director – Appointed on 04 April 2023)
Chandak, Sharad Satyanarayan (Chief Executive Officer – Resigned on 09 January 2023)
Sharma, Sudhir (Chief Executive Officer – Appointed on 15 November 2022)
Pandey, Sanjay (Executive Director & Deputy Chief Executive Officer – Resigned on 09 January 2023)
Bhat, Varsha (Executive Director & Deputy Chief Executive Officer – Appointed on 09 January 2023)

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 £5,000 to The Akshaya Patra Foundation UK. (2022: £24,720 to Zoological Society of London, £25,000 to Pratham UK and £600 to The Save the Children Charity). No political donations were made during the year (2022: NIL).

Social, environmental and ethical risks

Social, environmental and ethical risks are managed at the group level. The Bank's management of climate change risk is covered in the Strategic Report (Principal Risks and Uncertainties section) and Streamlined Energy and Carbon Reporting (SECR) reporting below. 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.

Streamlined Energy and Carbon Reporting (SECR)

State Bank of India UK Ltd has appointed Carbon Footprint Ltd, a leading carbon and energy management company, to independently assess its Greenhouse Gas (GHG) emissions in accordance with the UK Government's 'Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance'.

The GHG emissions have been assessed following the GHG Protocol Corporate Reporting standard and has used the 2022 emission conversion factors published by Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The assessment follows dual reporting where the location-based and market-based approach for assessing Scope 2 emissions from electricity usage. The financial control approach has been used.



The table below summarises the GHG emissions for the financial year ended 31 March 2023. This is the first full financial year during which, the Bank has assessed its GHG emissions, and this will set the baseline for future assessments.

Scope	Emission Source	Location-Based (tCO ₂ e)
1	Natural Gas	10.25
1	Company vehicles	0.68
2	Electricity	145.69
All	Total tCO ₂ e	156.62
All	Total tCO ₂ e per £M Turnover	3.18
SECR	Total energy consumption (kWh)*	809,613

*Total Energy Consumption includes UK Electricity, UK Site Gas, Company Owned Vehicles and Employee-owned vehicles (grey fleet).

For intensity ratio, the Bank has chosen to use Gross tonnes of carbon dioxide equivalent emissions per £ Million of revenue. This metric is chosen as it is the most readily available and complete data over the period and helps 'normalise' the data, based on the business activity.

Activity	Baseline Year 2022/23
Total energy consumed (kWh)	809,613
Total Gross Location-Based Emissions (tCO ₂ e)*	156.62
Intensity ratio: tCO₂e (gross Scope 1 & 2, location-based) per £M revenue	3.18

*Total scope is inclusive of SECR requirements only and related to the UK operations of State Bank of India (UK) Limited.

Bank's actions during the financial year to reduce Greenhouse Gas emissions

The Bank recognises the potential impact of climate change on its financial position including on the valuation of its financial assets, impact to its operations and financial risk disclosures and most importantly, the Bank recognises that the management of resources is important issue for SBI Group in general and State Bank of India (UK) Limited in particular. Hence, the Bank has undertaken several energy saving measures during the financial year, and these include:

- Renovation of Golders Green Branch with installation of energy efficient lighting, sensors, Air Conditioning systems etc.
- The Bank has restricted business travel to an absolute essential minimum.
- The Bank has reduced single use plastics from its premise.
- Staff are encouraged to use public transport and office car is provided only to two senior executives and these cars are of hybrid model.
- No parking space is provided to staff in the new corporate building in Central London to encourage them to use public transport.
- Cycle to work scheme is in place to motivate staff to use cycle, while coming to office.
- The Bank has started use of a web based digital platform (Easy Approval) to seek approval for both financial and non- financial matters to save on paper waste.
- Web based E-Archival platform was launched for staff to securely store their documents digitally and to reduce reliance on physical storage.

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.

For and on behalf of Board

Sharma, Sudhir
CEO & Executive Director
15 June 2023



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



Ms Jayati Bansal
Non-Executive Director



Sudhir Sharma
Chief Executive Officer



Varsha Bhat
Executive Director & Deputy CEO

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.

For and on behalf of Board

Sharma, Sudhir
CEO & Executive Director
15 June 2023

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 2023 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 2023 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 Financial Reporting Council ('FRC') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Our audit procedures to evaluate the directors' assessment of the 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;
- 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;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included reviewing the company's latest ICAAP and ILAAP and its reverse stress testing;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation levels and interest rates;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; 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 opinion above, together with an overview of the principal audit procedures performed to address this matter and our key observations arising from those procedures.

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

Key Audit Matter	How our scope addressed this matter
<p>Credit risk - Impairment on loans and advances to customers</p> <p><i>Refer to the summary of significant accounting policies in Note 2.12 and Note 2.18; Note 3.6 and Note 3.7 of the annual report and financial statements.</i></p> <p>Impairment provisions as at 31 March 2023 were £6,967k (2022: £6,748k) which represents 0.5% (2022: 0.56%) of loans and advances to customers. The income statement charge for the year was £219k (2022: £1,546k).</p> <p>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 company consists of an individual provision in relation to a commercial real estate loan and a collective provision over retail, commercial and corporate loans.</p> <p>In calculating the individual provision, management applies judgment in determining loans requiring provision and in estimating the recoverable amount.</p> <p>The collective provision is calculated using an incurred loss model. 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. Management sources inputs to the model from external sources and applies judgement where external data is not relevant. There is a risk that the external assumptions used by management, in particular the probability of default (PD) and loss given default (LGD), are not consistent with the credit risk profile of the company.</p> <p>The impairment model is most sensitive to the assumptions on PD and LGD. In addition, the potential range of outcomes as a result of assumptions changes could be greater than our materiality for the financial statements as a whole.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> Evaluating the design and implementation and testing the operating effectiveness of the key controls operating in the company in relation to credit process (underwriting of loans, monitoring of loans, collections and provisioning); Testing the completeness and accuracy of the key data inputs into the impairment model; Testing the process by which management identify non-performing loans and made related individual provisions timely. We focused on the identification of impairment triggers, the calculation of impairment and the consideration of collateral arrangement where relevant; Engaging our property valuation expert to critically challenge collateral values for loans requiring individual provisioning. In addition, we recalculated the individual provision and compared the amount provided by management; Performing credit file reviews of a selection of loans using loan book stratification which included specific items identified based on risk characteristics such as covenant waivers, watchlist accounts and arrears status to identify individual loans which may have unidentified impairment; Engaging our in-house credit risk expert to critically assess the appropriateness of the key assumptions used in the collective model, in particular, the PD; We compared the key assumptions such as PD and LGD with externally available data on similar lenders to critically assess the reasonableness and relevance of the assumptions applied; Developing a range of auditor's estimate of the collective provision using assumptions relevant to the company's portfolio and compared the amount provided by management; and Performing a stand back assessment of the resulting individual and collective impairment estimates and assess its reasonableness. <p>Our observations</p> <p>Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be reasonable as at 31 March 2023 (2022: reasonable) and in compliance with FRS 102.</p>

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	£2,600k (2022: £2,496k)
How we determined it	1% of net assets (2022: 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 of management, shareholders and regulators.
Performance materiality	<p>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.</p> <p>We set performance materiality at £1,820k (2022: 1,747k) which represents 70% (2022: 70%) of overall materiality.</p> <p>We considered several factors in determining performance materiality including, the level and nature of uncorrected and corrected misstatements in the prior year and the robustness of the control environment, and concluded that an amount towards the upper end of our normal range was appropriate.</p>
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £78k (2022: £74.8k) 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 assumptions on significant accounting estimates.

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the 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 Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements set out on page 22, 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.

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

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

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

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

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

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

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

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;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board of directors on 17 March 2018 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 March 2018 to 31 March 2023.

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 our 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 30 Old Bailey
London
EC4M 7AU
15 June 2023

STATEMENTS



INCOME STATEMENT

For the year ended 31 March 2023

	Notes	31 March 2023 £'000	31 March 2022 £'000
Interest receivable and similar income	3.1	71,035	43,575
Interest payable and similar charges	3.1	(23,899)	(8,914)
Net interest income		47,136	34,661
Fees and commissions income		1,543	912
Net gains from derivative financial instruments	3.8	1,652	1,484
(Loss)/Gain on sale of investments		(1,314)	536
Other operating income		28	30
Operating income		49,045	37,623
Administrative expenses	3.2	(21,791)	(17,610)
Depreciation	3.10	(731)	(711)
Total operating expenses		(22,522)	(18,321)
Operating profit before profit / (loss) on sale of loans, allowance for impairment losses and taxes		26,523	19,302
Profit / (Loss) on Sale of Loans		9	(44)
Impairment losses	3.7	(219)	(1,546)
Profit on ordinary activities before tax		26,313	17,712
Tax on profit of ordinary activities	3.3	(5,125)	(3,476)
Profit on ordinary activities after tax		21,188	14,236

The profit for the current year and the profit for the preceding year are derived from continuing operations. The notes to the 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 2023

	31 March 2023 £'000	31 March 2022 £'000
Profit after tax	21,188	14,236
Revaluation of available for sale debt securities	(2,939)	(3,770)
Deferred tax adjustment on available for sale investment securities	735	948
Total other comprehensive income	(2,204)	(2,822)
Total comprehensive income for the year	18,984	11,414

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 2023 £'000	As at 31 March 2022 £'000
Assets			
Cash and balances with banks	3.4	144,199	86,381
Loans and advances to banks	3.5	79,912	100,000
Loans and advances to customers	3.6	1,403,369	1,201,300
Investment securities	3.9	323,130	367,831
Derivative financial instruments	3.8	12,060	8,430
Fixed assets	3.10	3,130	3,463
Other assets	3.11	11,162	8,600
Total assets		1,976,962	1,776,005
Liabilities			
Borrowings from banks	3.12	121,408	164,120
Deposit from customers	3.13	1,568,185	1,339,203
Derivative financial instruments	3.8	-	6,061
Other liabilities	3.14	27,217	17,015
Total liabilities		1,716,810	1,526,399
Shareholders' funds			
Share capital	3.15	225,000	225,000
Investment revaluation reserve		(5,100)	(2,896)
Retained earnings		40,252	27,502
Total equity		260,152	249,606
Total equity and liabilities		1,976,962	1,776,005

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 15 June 2023.

For and on behalf of Board

Sharma, Sudhir
 CEO & Executive Director
 State Bank of India (UK) Limited
 Registered number: 10436460
 15 June 2023

STATEMENT OF CHANGES IN EQUITY

£'000	Share capital	Profit and loss	Other comprehensive income	Total comprehensive income	Total equity
<i>For the year ended 31 March 2023</i>					
As at 1 April 2021	225,000	18,891	(74)	18,817	243,817
Profit on ordinary activities after tax	-	14,236	-	14,236	14,236
Interim Dividends paid	-	(5,625)	-	(5,625)	(5,625)
Movement in the valuation of available for sale debt securities	-	-	(3,770)	(3,770)	(3,770)
Deferred Tax	-	-	948	948	948
As at 31 March 2022	225,000	27,502	(2,896)	24,606	249,606
Profit on ordinary activities after tax	-	21,188	-	21,188	21,188
Interim Dividends paid	-	(8,438)	-	(8,438)	(8,438)
Movement in the valuation of available for sale debt securities	-	-	(2,939)	(2,939)	(2,939)
Deferred Tax	-	-	735	735	735
As at 31 March 2023	225,000	40,252	(5,100)	35,152	260,152

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



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.

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 period of at least 12 months from the date of approval of financial statements. 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.

Though the uncertainties related to geopolitical developments in Ukraine persist, especially with high downside risks to the economy for 2023 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. The Bank has also adopted a conservative risk appetite on its lending, to minimise these geopolitical and economic risks. Moreover, the impact of ongoing conflict between Russia and Ukraine is immaterial on the business, as the Bank does not have any exposure to the region.

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 the current market environment, especially interest rate environment 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 period of at least 12 months from the date of approval of financial statements. 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 (including arrangement / placement fees, premium and discount on Investments and syndication fees) 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 and locker 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 | Cash and Balances with Banks

Cash and balances with banks include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

2.5 | 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.

2.6 | 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 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.

2.7 | 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 dis-allowable 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 it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2.8 | 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, and debt securities issued on the date on which they are settled. All other financial instruments, including derivatives 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 Derivatives, 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 de-recognises 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 de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de-recognised) 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 de-recognition 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 de-recognised. Examples of such transactions are securities lending and sale and repurchase transactions.

The Bank de-recognises 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 de-recognition 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.

2.9 | 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.

2.10 | 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. Available-for-sale investments are denominated in GBP and USD. On USD denominated investments, foreign exchange gain or loss is recognised as explained in note 2.3: Foreign Currency.

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.

2.11 | 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.

2.12 | 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.

2.13 | 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

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.

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 exposure, based on the information published by credit rating agencies. Management applies judgement to ensure that the Probability of Defaults and Loss Given Default rates 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 existed at year end, but not identified, however facts and patterns existed and observed. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance and they reflect the current market conditions.

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

Any subsequent reduction in impairment losses due to recoveries on assets measured at amortised cost is taken to Income statement.

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 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.
- 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/renewed the Bank assesses whether this modification results in de-recognition. A modification results in de-recognition when it gives rise to substantially different terms.

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 de-recognised. 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 de-recognised, 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 de-recognition 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 de-recognition 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 de-recognition. This amount is discounted (from the expected date of de-recognition to the reporting date) using the original effective interest rate of the existing financial asset.

2.14 | 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 (Credit valuation adjustment) / DVA (Debit valuation adjustment) to be immaterial, as the derivatives held are either with Investment grade (low credit risk) counter-parties 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 (SONIA 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 to be immaterial, as the derivatives held are either with Investment grade (low risk) counter-parties and/or collateralised.

Bank has netting agreement with the counterparties for these derivatives and uses variation margin as a form of collateral to reflect the changes to fair values of derivatives. This involves exchange of collateral on daily basis. Depending on the market movement, margin is either received or posted in form of cash. These margins received/paid are encumbered and are part of other assets (if margin is paid to the counterparty) or other liabilities (if margin is received from the counterparty).

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). If derivatives are designated and qualify as fair value hedge, the changes in the fair value of such derivatives, 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 i.e., effectiveness is outside of the 80-125% range; the derivative expires or is sold, terminated or exercised; the derivative is de-designated because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

2.15 | 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.

2.16 | 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.

2.17 | Dividends

Dividend payments to shareholders are accounted in Retained earnings earned by the Bank and they are at the discretion of the Board. Based on the management's recommendation, the Board (which also has the representation of shareholders) will approve the dividend amount and timing. The Dividend payment is made in the Bank's Balance Sheet currency (GBP) to the Parent. Dividends are recognized in the financial statements when they are paid or approved by the board.

2.18 | 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 11 retail branches and head office. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the non-cancellable lease term.

2.19 | 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 estimation uncertainties have a risk of causing a material adjustment to carrying amounts within the next financial year. 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. Based on the exposure's external credit rating, 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, which is one of the key assumptions of the management.

For exposures, which are not externally rated internal rating grades arrived at through the internal rating process are mapped to external rating grades using Bank's internal credit assessment and mapping process and this is used for arriving at default levels for equivalent internal rating. In addition, management judgement based on the security available is used for deriving possible losses, based on the rating model.

However, on exposures, which are on our credit watchlist, 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 exposures in these exposures.

As at 31 March 2023, gross loans and advances to customers totalled £1,413.4m (2022 £1,210.4m) against which individual allowance for impairment losses of £3.65m (2022 £2.48m) and collective allowance for impairments losses of £3.32m (2022 £4.27m) has been made.

Fair value of Derivatives

The Bloomberg valuations are used for all Derivatives which qualify for Hedge accounting and all other Derivatives which do not qualify for Hedge accounting, fair value is derived from the spot rate and forward swap points, which are drawn from market sources like Bloomberg. As at 31 March 2023, the fair value of Currency Swap agreements is Positive £3.94m (2022 Negative value of £6.06m), the fair value of Cross currency interest rate agreements is positive £8.1m (2022 Positive value of £8.4m)

State Bank of India Annual Awards Function 2022



3 | Notes to the financial statements

3.1 | Interest receivable and interest payable

	31 March 2023 €'000	31 March 2022 €'000
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Interest receivable and similar income

Interest income from loans and advances*	57,779	32,864
Interest income from investment securities	9,785	10,179
Interest income from group undertakings	1,400	2,556
Interest Income (expense) on derivatives measured at FVTPL	(427)	(2,197)
Other interest income	2,498	173
	71,035	43,575

Interest payable and similar charges

Interest expense on deposits	(19,723)	(8,439)
Interest expense on interbank borrowing	(4,176)	(475)
	(23,899)	(8,914)

*Includes interest accrual on non-Performing loan for financial year ending 2023 €132,451 (2022: € 126,445)

3.2 | Administrative expenses

	Notes	2023 €'000	2022 €'000
Number of employees*		182	173
		€'000	€'000
Wages and salaries		(8,835)	(7,470)
- This includes directors' emoluments	3.2a		
Social security costs		(702)	(677)
Pension costs		(373)	(333)
Other staff related costs		(403)	(327)
Total staff costs		(10,313)	(8,807)
General administrative expenses		(11,278)	(8,623)
- This includes Fees paid to Auditors for non-audit services	3.2b		
Audit of these financial statements		(200)	(180)
Total administrative expenses		(21,791)	(17,610)

*Of these employees, 165 are employed in the front office and 17 in the back office (2022: 156 are employed in the front office and 17 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

	2023 £'000	2022 £'000
Directors' fees and emoluments*	(265)	(280)
Total directors' emoluments^	(265)	(280)

*For the year 2023, £111,884 of the aggregate is attributable to the highest paid Director (2022: £137,212)

^None of the directors receive any contribution from the Bank towards pension scheme.

3.2b | Fees for Non-audit services

	2023 £'000	2022 £'000
Quarterly limited review	(53)	(39)
Half yearly profit verification	(12)	-
CASS audit*	(9)	(30)
Total fees for non-audit services	(74)	(69)

*For the year 2022, includes £22,500 related to previous years CASS audit fees



Best Buy-to-Let and Commercial Lender at the National LIS Awards 2022

3.3 | Taxation

Analysis of tax charge for the period	2023 £'000	2022 £'000
Current tax		
UK corporation tax at 19.00% (2022: 19.00%)	(5,008)	(3,231)
UK corporation tax bank surcharge	(109)	-
Adjustments in respect of prior periods	38	(48)
Total current tax charge	(5,079)	(3,279)

Deferred tax		
Origination and reversal of timing differences	(2)	(178)
Adjustments in respect of prior periods	(44)	7
Effect of tax rate change on opening balance*	-	(26)
	(46)	(197)
Tax on profit on ordinary activities	(5,125)	(3,476)

*The rate of corporation tax for the year ended 31 March 2023 is 19%, however, the rate of corporation tax is raised to 25% on 1 April 2023. DTA and DTL are calculated using 25% tax rate.

Reconciliation of tax charge	2023 £'000	2022 £'000
Profit on ordinary activities before tax	26,313	17,712
Tax on profit on ordinary activities at standard CT rate of 19.00% (2022: 19.00%)	(5,000)	(3,366)

Effects of:		
Fixed asset differences	(4)	13
Expenses not deductible for tax purposes	(6)	(5)
UK corporation tax bank surcharge	(109)	-
Adjustments to tax charge in respect of previous periods	38	(48)
Adjustments to tax charge in respect of previous periods - deferred tax	(44)	7
Remeasurement of deferred tax for changes in tax rates.	-	(77)
Tax charge for the period	(5,125)	(3,476)

Tax included in statement of comprehensive income	2023 £'000	2022 £'000
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Deferred tax		
Origination and reversal of timing differences	735	948
Tax included in statement of comprehensive income	735	948

Provision for deferred tax		
Fixed asset timing differences	(354)	(329)
Short term timing differences	1,700	965
Losses and other deductions	(15)	6
Total deferred tax asset	1,331	642

3.4 | Cash and balances with banks

	2023 £'000	2022 £'000
Cash in hand with SBIUK branches	509	563
Balances held with Bank of England	131,131	74,273
Current account balances with banks	12,559	11,545
	144,199	86,381

3.5 | Deposits with banks

	2023 £'000	2022 £'000
More than 5 years	-	-
1 year - 5 year maturity	-	50,000
3 months - 1 year maturity	40,469	-
Repayable within 3 months	39,443	50,000
	79,912	100,000



Golf Day 2022 at The Shire London

3.6 | Loans and advances to customers

As at 31 March 2023	Notes	Non-performing loans £'000	Performing loans £'000	Total £'000
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Remaining maturity

Over 5 years		-	771,779	771,779
Between 1 year and 5 years		-	531,740	531,740
Between 3 months and 1 year		-	84,615	84,615
3 months and less		-	19,936	19,936
Past due beyond 90 days		5,316	-	5,316
Loan Total (Gross)		5,316	1,408,070	1,413,386

Individual provision		3,649	-	3,649
Collective provision		-	3,318	3,318
Unamortised Fee		-	3,050	3,050
Total adjustments		3,649	6,368	10,017
Loan Total (Net)		1,667	1,401,702	1,403,369

As at 31 March 2022	Notes	Non-performing loans £'000	Performing loans £'000	Total £'000
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Remaining maturity

Over 5 years		-	505,279	505,279
Between 1 year and 5 years		-	655,082	655,082
Between 3 months and 1 year		-	42,370	42,370
3 months and less		-	2,668	2,668
Past due beyond 90 days		5,025	-	5,025
Loan Total (Gross)		5,025	1,205,399	1,210,424

Individual provision	3.7	2,480	-	2,480
Collective provision	3.7	-	4,268	4,268
Unamortised Fee		-	2,376	2,376
Total adjustments		2,480	6,644	9,124
Loan Total (Net)		2,545	1,198,755	1,201,300

Description of loans

Non-Performing loans: Loans which are more than 90 days contractually past due, or which have individual provisions raised against them.

Performing loans: Loans, which are individually neither impaired nor past due beyond 90 days.

3.7 | Impairment provisions

As at 31 March 2023	Notes	Specific impairment on Loans and Receivables £'000	Collective impairment on Loans and Receivables £'000	Collective impairment on Investments £'000	2023 Total £'000	2022 Total £'000
As at 1 April		2,480	4,268	-	6,748	5,202

Movements in Income statement

Charge to Income statement		1,169	-	-	1,169	1,546
Release to Income statement		-	(950)	-	(950)	-
Net impairment charge to Income statement		1,169	(950)	-	219	1,546
Amounts written off		-	-	-	-	-
As at 31 March		3,649	3,318	-	6,967	6,748

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 2023	Notional amounts £000	Fair Value Assets £000	Fair Value Liabilities £000
Exchange rate related contracts			
Currency swap agreements	206,917	3,937	-

As at 31 March 2022	Notional amounts £000	Fair Value Assets £000	Fair Value Liabilities £000
Exchange rate related contracts			
Currency swap agreements	323,432	-	(6,061)

Cross currency interest rate agreements

As at 31 March 2023	Notional amounts £000	Fair Value Assets £000	Fair Value Liabilities £000
Cross currency interest rate swap agreements (Designated for Hedge accounting)	53,310	1,917	-
Cross currency interest rate swap agreements (Not designated for Hedge accounting)	144,125	6,206	-

As at 31 March 2022	Notional amounts £000	Fair Value Assets £000	Fair Value Liabilities £000
Cross currency interest rate swap agreements (Designated for Hedge accounting)	149,795	8,430	-

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 gains from derivative financial instruments, in addition to the foreign exchange gains/(losses) on the assets and liabilities.

	2023 £'000	2022 £'000
On Currency swaps (with no hedge accounting)		
Fair value changes on derivatives	10,143	(6,061)
Foreign exchange (loss)/gain on currency swaps	(9,865)	6,526
Revaluation gain on foreign exchange exposure	1,374	1,019
On Cross currency interest rate swaps (with hedge accounting)		
Change in fair value of hedged items recognised in income statement	(1,630)	(5,224)
Change in fair value of hedging instrument recognised in income statement	1,630	5,224
Total	1,652	1,484

3.9 | Investment securities

As at 31 March 2023	Carrying Amount £'000	Fair value adjustment of Hedged bonds £'000	Total £'000
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Available for Sale

Government Issued	61,488	-	61,488
Other public sector securities & corporates	123,224	-	123,224
Loss due to market rate movement	(6,801)	-	(6,801)

Held to Maturity

Government Issued	-	-	-
Other public sector securities & corporates	147,813	(2,594)	145,219
Total	325,724	(2,594)	323,130

As at 31 March 2022	Carrying Amount £'000	Fair value adjustment of Hedged bonds £'000	Total £'000
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Available for Sale

Government Issued	19,622	-	19,622
Other public sector securities & corporates	86,832	-	86,832
Loss due to market rate movement	(3,862)	-	(3,862)

Held to Maturity

Government Issued	20,414	-	20,414
Other public sector securities & corporates	245,789	(964)	244,825
Total	368,795	(964)	367,831

3.10 | Fixed assets

	Fixtures and fittings £'000	Computer Software £'000	2023 Total £'000
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Cost

At 1 April 2022	8,755	475	9,230
Additions	336	62	398
Disposals / Write off	-	-	-
At 31 March 2023	9,091	537	9,628

Accumulated depreciation

At 1 April 2022	5,586	181	5,767
Charged	633	98	731
Disposals / Write off	-	-	-
At 31 March 2023	6,219	279	6,498

Carrying amount

At 1 April 2022	3,169	294	3,463
At 31 March 2023	2,872	258	3,130

3.11 | Other assets

	2023 £'000	2022 £'000
Prepayments and accrued income	7,868	6,188
Advance tax paid	233	-
Deferred tax asset*	1,700	971
Other Assets	1,361	1,441
Total	11,162	8,600

* Deferred tax asset is provided on timing difference of negative mark-to-market on AFS Investment bond portfolio. Deferred tax assets are recognised to the extent that, it is probable that there will be sufficient future taxable profits, from which the future reversal of the underlying timing differences can be deducted.

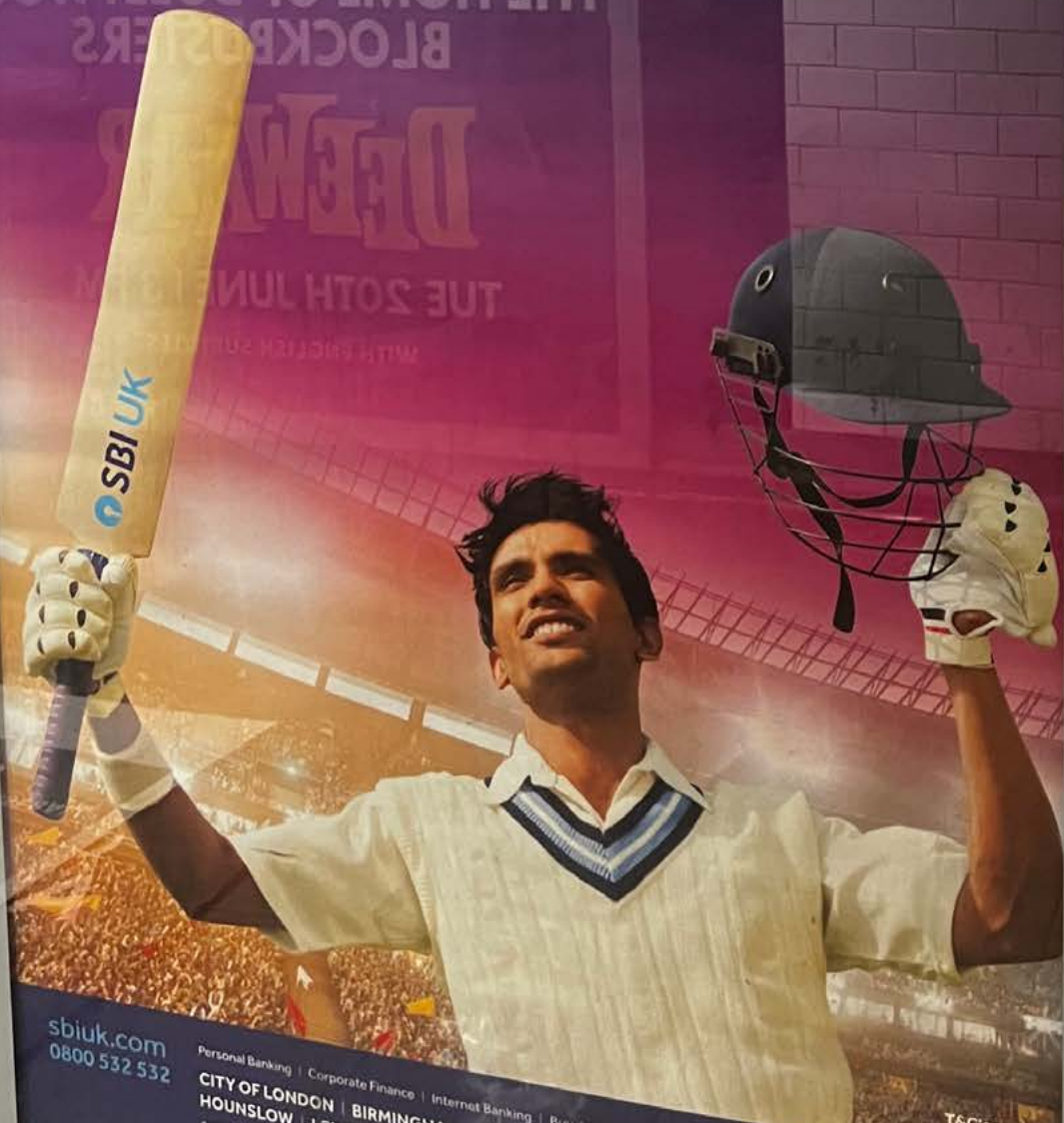
3.12 | Borrowings from banks

	2023 £'000	2022 £'000
Repayable on demand	-	-
With agreed maturity dates		
Less than 3 months	-	50,190
Between 3 months and 1 year	121,408	-
Between 1 and 3 years	-	113,930
Total	121,408	164,120

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T&C's apply

3.13 | Deposits from customers

	2023 £'000	2022 £'000
Repayable on demand and less than 1 month	682,932	740,370
With agreed maturity dates		
Between 1 and 3 months	69,154	86,683
Between 3 months and 1 year	447,131	288,219
Between 1 and 3 years	287,948	179,274
Between 3 and 5 years	80,526	44,537
Over 5 years*	494	120
Total	1,568,185	1,339,203

*Over 5 years customer deposits include term deposits.

3.14 | Other liabilities

	2023 £'000	2022 £'000
Accrued expenses	11,805	4,633
Provision for tax liabilities	-	63
Deferred tax liabilities	369	329
Margins placed by counterparties on Derivatives	8,223	7,056
Taxation and Social security creditors	154	219
Other liabilities	6,666	4,715
Total	27,217	17,015

3.15 | Share capital

	2023 £'000	2022 £'000
225,000,000 ordinary, called up and paid shares of £1 each	225,000	225,000
	225,000	225,000

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 01st March 2023, bank declared and paid interim dividend of £8.438 million to Parent.

3.16 | Contingent liabilities

The Bank does not have any contingent liabilities (2022: NIL).

3.17 | Commitments

	2023 £'000	2022 £'000
Unutilised overdraft commitments	25,450	6,515
Pipeline loans	15,705	69,291
Total	41,155	75,806

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

Lease Commitments	2023 £'000	2022 £'000
Within one year	997	988
Between one and five years	2,372	2,785
More than five years	1,532	1,896
Total	4,901	5,669

3.18 | 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 Centre, 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

There were no material Post Balance sheet events, which requires an adjustment to the financial statements.

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 2023:

	Available for sale	Fair value through profit or loss	Amortised cost	Total
	£'000	£'000	£'000	£'000

Financial Assets

Cash and balances with banks	-	-	144,199	144,199
Loans and advances to banks	-	-	79,912	79,912
Loans and advances to customers	-	-	1,403,369	1,403,369
Investment securities	177,911	-	145,219	323,130
Derivatives at fair value	-	12,060	-	12,060
Total Assets	177,911	12,060	1,772,699	1,962,670

Financial Liabilities

Borrowings from banks	-	-	121,408	121,408
Deposits from customers	-	-	1,568,185	1,568,185
Subordinated debt	-	-	-	-
Derivatives at fair value	-	-	-	-
Other liabilities (Variation margin)*			8,223	8,223
Total Liabilities	-	-	1,697,816	1,697,816

*Variation margin received from counterparties on derivative instruments.

Below are the Banks's financial instruments by category as at 31 March 2022:

	Available for sale	Fair value through profit or loss	Amortised cost	Total
	£'000	£'000	£'000	£'000

Financial Assets

Cash and balances with banks	-	-	86,381	86,381
Loans and advances to banks	-	-	100,000	100,000
Loans and advances to customers	-	-	1,201,300	1,201,300
Investment securities	102,591	-	265,239	367,830
Derivatives at fair value	-	8,430	-	8,430
Total Assets	102,591	8,430	1,652,920	1,763,941

Financial Liabilities

Borrowings from banks	-	-	164,120	164,120
Deposits from customers	-	-	1,339,203	1,339,203
Derivatives at fair value	-	6,061	-	6,061
Other liabilities (Variation margin)*	-	-	7,056	7,056
Total Liabilities	-	6,061	1,510,379	1,516,440

*Variation margin received from counterparties on derivative instruments.

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 2023.

	Level	Available for sale £'000	Fair value through profit or loss £'000	Total £'000
--	-------	--------------------------------	---	----------------

Financial Assets

Investment securities	Level 1	177,911	-	177,911
Derivatives at fair value	Level 2	-	9,466	9,466
Total Assets		177,911	9,466	187,377

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 2022.

	Level	Available for sale £'000	Fair value through profit or loss £'000	Total £'000
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Financial Assets

Investment securities	Level 1	102,591	-	102,591
Derivatives at fair value	Level 2	-	7,466	7,466
Total Assets		102,591	7,466	110,057

Financial Liabilities

Derivatives at fair value	Level 2	-	6,061	6,061
Total Liabilities		-	6,061	6,061

6.2 | Capital management (Unaudited)

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'. More information on the bank's capital requirements is provided as part of Pillar 3 disclosures, which is published on the Bank's website at <https://sbiuk.statebank>.

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	2023 £'000	2022 £'000
<i>Tier 1 capital</i>		
Share Capital	225,000	225,000
Retained earnings	40,252	27,502
Other Comprehensive Income	(5,100)	(2,896)
Regulatory Deductions to Tier 1 Capital	(448)	(418)
Total –Tier 1 capital	259,704	249,188

6.3 | Credit risk

Credit risk is the risk of loss resulting from a customer or counterparty being unable to meet its contractual repayment obligations to SBIUK. Credit risk is a material risk category as SBIUK is exposed to significant levels of credit risk through its lending activity.

To mitigate against this risk, SBIUK has applied strict credit risk limits and underwriting criteria and collateralises exposures where possible.

Credit risk appetite is set by the Board through the Risk Appetite Statement (RAS) as part of Risk Management Framework on an annual basis. Compliance with the stated risk appetite is supported by KRI's which is a combination of limits and target benchmarks applied at the individual asset and portfolio levels. These limits will at all times comply with any mandatory maxima applied by the regulatory authorities.

The Board of Directors have 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 and investment cycle. The Bank considers customer's credentials, external credit rating for corporate exposures (if available), interest coverage ratios (ICR) and the loan-to-value (LTV) percentages of all loans, as appropriate, at the application stage. Bank also considers the physical and transition risks of the assets from a climate change perspective and the same are considered and incorporated while underwriting the exposures. 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 and strengthening of early warning signal framework in Credit portfolio. In addition to Independent Risk assessment of all cases put up to credit committee, cases approved under underwriter mandate is also reviewed internally by Risk department and by an external agency 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:

	2023 €'000	2022 €'000
Neither past due beyond 90 days nor impaired	1,408,070	1,205,399
Past due beyond 90 days, but not impaired	-	-
Impaired	5,316	5,025
Repossessions	-	-
Unutilised overdraft commitments	25,450	6,515
Pipeline loans	15,705	69,291
Total	1,454,541	1,286,230

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	2023 €'000	2022 €'000
Collateral value	1,048,502	770,935
Gross loans and advances	1,413,386	1,210,424

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. The bank has not taken any possession of collateral held during the year. (2022: NIL)

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 in place 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 2023, the Bank has provided forbearance facility to a total of 3 business customers, total exposure of £6.71m (2022: 7 business customers, total exposure of £83 m).

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 2023 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by external credit ratings is provided below:

2023	Investment Securities £'000	Loans to customers & deposits with banks £'000
AAA to AA-	91,706	131,131
A+ to A-	101,413	48,409
BBB+ to BBB-	124,691	100,175
BB+ and below	5,320	254,079
Unrated	-	1,093,686
Total	323,130	1,627,480

2022	Investment Securities £'000	Loans to customers & deposits with banks £'000
AAA to AA-	74,650	74,273
A+ to A-	74,463	9,512
BBB+ to BBB-	162,423	174,520
BB+ and below	56,295	323,369
Unrated*	-	806,007
Total	367,831	1,387,681

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

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

	Notes	2023 £'000	2022 £'000
AAA to AA-		-	-
A+ to A-		-	-
BBB+ to BBB-		55,906	72,486
BB+ and below		254,079	323,369
Unrated		1,098,085	809,544
Total	3.6	1,408,070	1,205,399

As of 31 March 2023, Bank's loans and advances that are past due but not impaired are NIL (2022: NIL)

An analysis of the Bank's total credit exposures as at 31 March 2023 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by geography is provided below:

Geography	2023 £'000	%
Great Britain	1,292,448	66%
United States of America	309,151	16%
India	145,090	7%
Spain	37,709	2%
France	10,910	1%
South Korea	12,965	1%
Africa	-	0%
Germany	45,673	2%
Japan	9,521	0%
Netherlands	12,141	1%
Other geographies	75,002	4%
Total	1,950,610	100%

Geography	2022 £'000	%
Great Britain	987,440	56%
United States of America	336,177	19%
India	241,680	14%
Spain	45,944	3%
France	10,234	1%
South Korea	21,821	1%
Africa	20,414	1%
Germany	-	0%
Japan	-	0%
Netherlands	-	0%
Other geographies	91,802	5%
Total	1,755,512	100%

An analysis of the Bank's total credit exposures as at 31 March 2023 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by industry sectors is provided below:

Industry Sector	2023 £'000	%
Banks	232,931	12%
Real Estate	951,045	49%
Consumer Services	156,581	8%
Health Care Equipment & Services	30,747	2%
Transportation	35,939	2%
Materials	-	0%
Pharmaceuticals, Biotechnology & Life Sciences	30,799	2%
Automobiles & Components	25,964	1%
Sovereign	191,729	10%
Electronic equipments	21,328	1%
Other Sectors	273,547	14%
Total	1,950,610	100%

Industry Sector	2022 £'000	%
Banks	339,244	19%
Real Estate	657,087	37%
Consumer Services	200,389	11%
Health Care Equipment & Services	27,898	2%
Transportation	79,255	5%
Materials	43,956	3%
Pharmaceuticals, Biotechnology & Life Sciences	29,108	2%
Automobiles & Components	36,239	2%
Sovereign	93,805	5%
Other Sectors	248,531	14%
Total	1,755,512	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 2023 on the Bank's Derivative and non-derivative financial liabilities into relevant maturity groupings based on the remaining period.

March 2023	< 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Total £'000	Carrying Amount £'000
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Financial Liabilities

Borrowings from banks	(56)	(1,502)	(125,913)	-	(127,470)	(121,408)
Deposit from customers	(649,995)	(107,166)	(480,162)	(427,511)	(1,664,833)	(1,568,185)
Derivative financial instruments	-	-	-	-	-	-
Other liabilities (Variation margin)*	-	-	(8,223)	-	(8,223)	(8,223)
On-Balance Sheet	(650,051)	(108,668)	(614,298)	(427,511)	(1,800,528)	(1,697,816)
Pipeline Loans	(15,705)	-	-	-	(15,705)	-
Unutilised overdraft commitments	(25,450)	-	-	-	(25,450)	-
Off-Balance sheet	(41,155)	-	-	-	(41,155)	-

*Variation margin received from counterparties on derivative instruments.

March 2022	< 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Total £'000	Carrying Amount £'000
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Financial Liabilities

Borrowings from banks	-	(50,489)	(554)	(114,669)	(165,712)	(164,120)
Deposit from customers	(723,375)	(103,472)	(290,988)	(232,313)	(1,350,148)	(1,339,203)
Derivative financial instruments	-	-	(6,061)	-	(6,061)	(6,061)
Other liabilities (Variation margin) *	-	-	(7,056)	-	(7,056)	(7,056)
On-Balance Sheet	(723,375)	(153,961)	(304,659)	(346,982)	(1,528,977)	(1,516,440)
Pipeline Loans	(69,291)	-	-	-	(69,291)	-
Unutilised overdraft commitments	(6,515)	-	-	-	(6,515)	-
Off-Balance sheet	(75,806)	-	-	-	(75,806)	-

*Variation margin received from counterparties on derivative instruments.

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.

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 200 basis point rise or fall in the interest rate, and assumes a constant balance sheet position:

Interest rate sensitivity	2023 £'000	2022 £'000
<i>As at 31 March</i>		
200 basis points increase	(1,648)	(1,158)
200 basis points decrease	1,813	1,312

The above takes into account the repricing nature and frequency of the underlying assets and liabilities viz. fixed or variable rates financial assets/liabilities. The Earnings at Risk (EAR) Impact on Net Interest Income (NII) due to 100 bps adverse change in rates is £1.063m (2022: £0.044m).

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 2023, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Bank are matched.

	2023 £'000	2022 £'000
Denominated in US Dollars	513,984	562,620
Denominated in Sterling	1,394,758	1,145,893
Denominated in Euro	68,381	66,250
Denominated in other currencies	(161)	1,242
Total assets	1,976,962	1,776,005
Denominated in US Dollars	187,176	192,840
Denominated in Sterling	1,786,643	1,578,863
Denominated in Euro	3,132	4,290
Denominated in other currencies	12	12
Total liabilities	1,976,962	1,776,005

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 and any open foreign currency positions are hedged using derivatives. The Foreign Exchange Net Overnight Open Position (NOOP) of the Bank as at March 31, 2023, was £1.0m (2022: £ 0.4m). Since it is not deemed that foreign currency risk is material, a sensitivity analysis has not been prepared.



State Bank of India (UK) Limited

State Bank of India (UK) Limited ("SBIUK") is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register number: 757156). SBIUK is registered in England and Wales (Registered No: 10436460), with a registered office at 15-17 King Street, London, EC2V 8EA.