



State Bank of India (UK) Limited

Annual Report and Financial Statements.

For the year ended 31 March 2022



Company information

Registered office

15 King Street
London
United Kingdom
EC2V 8EA

Company registration no **10436460**

Directors

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

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

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

Baines, John Duncan (Independent Non-Executive Director)

Hicks, Steven Mark (Independent Non-Executive Director)

Chandak, Sharad Satyanarayan (Chief Executive Officer)

Pandey, Sanjay (Executive Director & Deputy Chief Executive Officer)

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 2022

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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 2022. 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 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. This Centennial year has been special in terms of numerous accolades, we have been bestowed with. One of the notable achievements was winning the 'Bank of the Year' award at Asian Business Awards 2021. SBI UK Birmingham Branch also 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 the largest Indian bank in the UK and also one of the most profitable overseas operations of SBI. Within a short span of 4 years, SBI UK has paid an interim dividend of £5.625m to the parent, which reflects the success and soundness of the UK operations.

Strategic objective

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

SBI UK offers full range of retail products and services including – Commercial Lending, Buy to let Mortgages, Remittance, Safe Deposit Lockers, and various deposit products including Instant Access Savings Account, Flexible ISA (Instant Savings Account), Cash ISA, Business Account etc.

Bank continues to focus growth on the Retail segment in line with the business plan. Loans to Retail/SME segment have gone up to 43% in March 2022 from 27% of total loans in April 2018, helping not only to diversify the lending portfolio but also increase the interest income.

Business model

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, cash ISAs, notice accounts and fixed deposit accounts for individuals
- Current, business savings and fixed deposit accounts for businesses
- Online account opening through "YONO SBI UK", our mobile banking App.
- Green Fixed Deposits, launched 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" introduced to incentivise better EPC (Energy Performance Certificate) rated properties in BTL loans
- Owner occupied commercial and commercial investment mortgages
- Credit facilities to UK-based or UK centric businesses in the hospitality, health care, student accommodation, retail, and other sectors of the economy
- GBP, USD, and Euro denominated loans to international businesses, through bilateral deals as well as through participation in syndicated loans
- 24 x 7 remittance services to India
- Fund transfer services within UK, through 24x7 faster payments service
- Safe deposit lockers

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

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

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



Financial and business review

Review of Operations

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

£ Millions	2022	2021
Total Assets	1,776	1,755.4
Gross loans and advances to customers	1,210.4	1,147.2
Of which:		
Buy to let mortgages	407.9	306.2
Commercial mortgages	252.2	210.1
Corporate & business loans	521.4	614.4
Net Interest Income	34.6	23.6
Operating profit before impairment charge	19.3	10.4
Impairment charge	1.5	1.3
Profit before tax	17.7	9.2
Profit after tax	14.2	7.4
Net interest margin	2.0%	1.4%
Cost / Income ratio	49%	62%
Common Equity Tier 1 ratio ¹	19.5%	17.9%
Capital adequacy ratio ²	19.5%	18.3%
Leverage ratio ³	14.3%	13.5%
Liquidity Coverage Ratio (LCR) ⁴	135%	156%
Net Stable Funding Ratio (NSFR) ⁵	130%	124%

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

Profitability

The Bank's operating profit for the year amounted to £19.3m (2021: £10.4m), before allowance for impairment losses of £1.55m (2021: £1.35m). The profit after tax for the year is £14.2m (2021: £7.4m). Net Interest Income (NII) increased significantly by 46% as compared to previous year, to £34.66m during FY21-22 (2021: £23.60m).

The main reason for increase in the Bank's operating profit is increase in NII by managing the interest expense effectively on customer deposits as well as optimal utilization of wholesale borrowing and, increase in retail assets, while at the same time managing the costs. The Net interest margin for the year is 2.0% (2021: 1.4%). The pre-tax profit for the year came to £17.7m (2021: £9.2m) and the profit after tax amounted to £14.2m (2021: £7.4m).

1. Common Equity Tier 1 ratio is a measure of how much equity capital (core capital) bank has available, reported as a percentage of bank's risk-weighted credit exposures.

2. Capital adequacy ratio (CAR) is a measure of how much total capital bank has available, reported as a percentage of bank's risk-weighted credit exposures.

3. Leverage ratio is a measure of bank's core capital to its total assets. The ratio uses tier 1 capital to judge how leveraged the bank is in relation to its consolidated assets.

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

5. NSFR is defined as the amount of available stable funding relative to the amount of required stable funding.

Capital resources

The Bank's total regulatory capital resources were £249m as at 31st March 2022 (2021: £248m) with a common Tier 1 capital ratio of 19.5% (2021: 17.9%) and total capital adequacy ratio of 19.5% (2021: 18.3%). The increased profitability and Bank's continuous shift from Corporate & Business loans to Retail & SME loans over the last year has helped the bank in improving its total capital adequacy ratio. During the year Bank paid an interim dividend of £5.625m to the parent Bank, which is 2.5 pence per ordinary share.

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 130% (2021: 124%), compared to minimum regulatory expectations of 100%.

Economic Environment and Future Outlook

Libor transition

The Bank has worked during 2021 to work towards adopting an alternative benchmark for GBP Libor to ensure a smooth transition to an alternative risk-free reference rate. The Bank had put a project team in place to manage the transition, which covers key areas like identification of Libor exposures, operational and technological requirements for the transition, communication to impacted customers, product development, customer documentation and related regulatory, legal and conduct issues. The Bank had completed the migration of GBP Libor to Alternative Risk Free Rate and is on track for migrating USD Libor linked accounts to Alternative Risk Free Rate as per schedule.

Future outlook

Though the uncertainties related to geopolitical developments in Ukraine persist, especially with high downside risks to the economy for 2022 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 such 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.

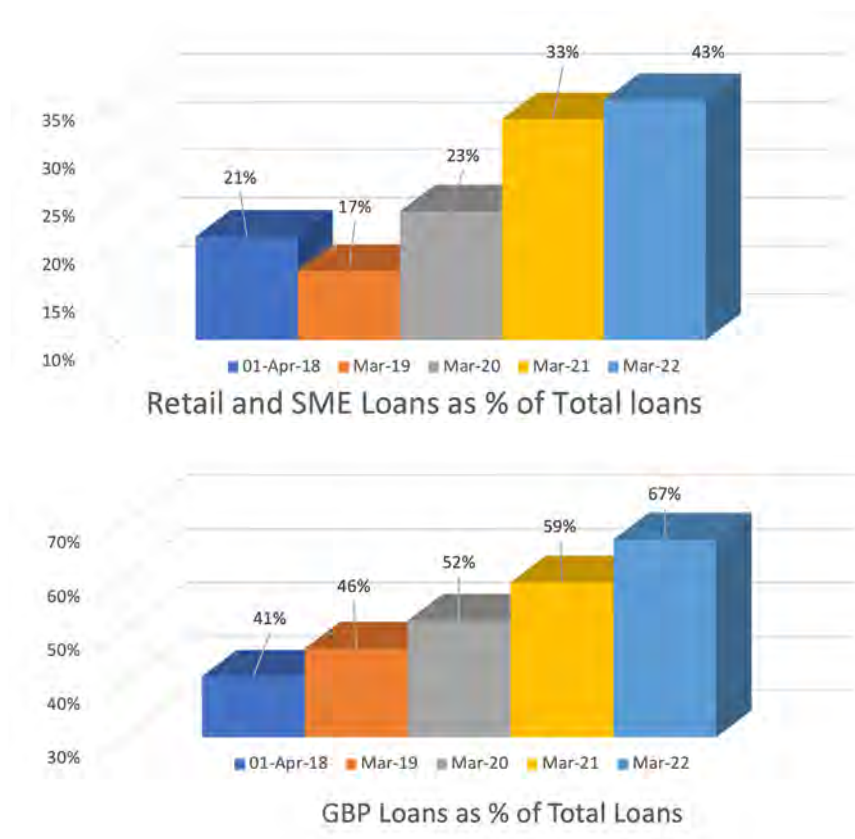
Bank has been able to successfully navigate the challenges posed by Covid with negligible impact on its operations as well as credit assets portfolio. The same is reflected in the improvement of Bank's performance in the year 2021-22. Bank has taken adequate steps in terms of enhancing its Operational Resilience capabilities and Credit Risk mitigations to counter negative impacts of future outbreaks and/or geopolitical risks, if any.

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.

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 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.



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.</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 counter-party 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.</p> <p>The performance of the lending and investment portfolio is regularly monitored against the Bank's Risk Appetite Statement.</p>

<p>Operational risk</p> <p>The risk of loss arising from inadequate or failed processes, people and systems</p>	<p>The Operational Risk Management Framework is periodically reviewed. Business Continuity Planning (BCP) has been enhanced throughout the year to strengthen Operational resilience including supporting remote working for employees/servicing customers and to ensure any future disruptions due to the pandemic would not impact the Bank. Management and development of controls to address Operational Risks are part of each business line managers' day to day responsibility. The Bank's exposure to Operational Risk is evaluated and controlled through the Risk & Control Self-Assessment (RCSA) process and via a Risk Event reporting and tracking process. Escalations are made to the Risk Management Committee and Management Committee monthly and to the Board Risk Committee where appropriate.</p> <p>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.</p>
<p>Market risk</p> <p>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</p>	<p>The Bank endeavours to match the currency and interest rate structure of assets with liabilities to create a natural hedge. Any residual currency/interest risks beyond the Bank's risk appetite is mitigated by entering into currency/interest rate swap agreements.</p>
<p>Capital and liquidity risk</p> <p><i>Capital</i></p> <p>The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans</p> <p><i>Liquidity</i></p> <p>The risk that the Bank is unable to meet its financial obligations as they fall due</p>	<p>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.</p> <p>The Bank maintains a prudent Risk Appetite Statement which is reviewed and approved by the Board at least annually.</p> <p>The capital and liquidity positions are measured against the risk appetite and reported monthly to the Asset and Liability Committee (ALCO) and to the Board on a quarterly basis.</p>
<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>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 through 2022. The Bank has therefore adopted a conservative risk appetite on its lending, to minimise such risks. In addition, market wide stress from economic uncertainties (including 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 will ensure that the Bank has adequate capital and liquidity resources to support its operations.</p>

Risks from impact of climate change

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.

The Bank performed an initial assessment of its risks and exposures to the various aspects of environmental and climate risks. Whilst the Bank assessed the risks from climate change as non-material to its operations, the Board and relevant Committees are continuously monitoring the risks and potential impact from climate change and its impact on the resilience of the company's business model.

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. The Bank is, amongst other things, also exploring ways to align the climate change risk assessment at a sectoral level, while reviewing overall industry specific limits.

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.

Interbank Offer Rate (IBOR) reforms

During the year ending 31 March 2021, the Bank adopted the phase 1 amendments and during the year ending 31 March 2022 Bank adopted phase II amendments to IAS 39 Interest Rate Benchmark Reform issued in September 2019. The IBOR reform has impact on the hedge accounting, due to the change in the Risk-free rate. The phase 1 amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by uncertainties related to IBOR reform. The phase 1 reliefs provide the effect that due to IBOR reforms it should not generally cause hedge accounting to terminate. Under Phase II relief amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

As of 31 March 2022, the Bank had transferred almost all the GBP LIBOR linked loans to alternate RFR (Risk free rate) with the residual exposures migrated in the next Interest payment date in the coming weeks.

For CCIRS derivatives as hedging instruments which has impact of IBOR reforms; Bank and its counterparties are registered with ISDA 2020 Fall-back protocol, which enables market participants to incorporate revisions into their legacy non-cleared derivative trades with other counterparties that choose to adhere to the protocol.

As of 31 March 2022, the Bank has transferred 10 deals out of 14 derivative deals from LIBOR to SONIA. The notional value of transferred deals is £99.6 million. The balance 4 deals with notional value of £50.2 million were since transferred from LIBOR to SONIA.

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 wellbeing, staff attrition rates, employees' concerns, if any, etc. Board receives regular updates from Senior Management on how the Bank is taking care of its employees.</p> <p>During the year, to ensure social distancing at work and to minimise disruptions to operations for multiple lock downs, the Bank implemented remote working policies for non-customer facing staff.</p> <p>The Directors take this opportunity to express their sincere appreciation to all the staff for their contribution and dedication towards delivering the Bank's objectives, especially during Covid-19. They helped the Bank to continue to serve the needs of our retail and small business customers. During the year, the Bank had invested in Leadership & Management programs for the middle and senior management team. A number of online training courses are also being offered to all its employees on customer service, cyber security, compliance matters, etc., as well as for improving the staff performance and objective setting process. By encouraging continued personal and professional development, the Bank will continue to develop its staff to be one of the best in their professional work.</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>To help mitigate the impact of pandemic related lock-downs and business disruptions, governments across the globe have introduced furlough schemes and other relief schemes that also enabled customers to take payment holidays. During the financial year, the Bank has provided forbearance facility to a total 7 business customers (Total exposure of £83m).</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 financial results to shareholders on a quarterly basis. In addition, reporting to parent bank is of Financial Statements, which is also audited by the Bank's external auditors. Presentations and meetings are held as scheduled from time to time among the Directors.</p>
Suppliers	<p>During the year, the Senior Management and Executive Directors have received 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>
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 has put in place/ is in the process of putting in place, systems, and processes, that are aimed at embedding them in the immediate and medium-term. 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 is also updating its Risk Appetite Statement to reflect its medium and long term vision, through setting of limits on various exposure classes on the basis of climate change matrices – covering both physical and transition risk.</p>

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

Strategic report was approved by the Board on 08th July 2022.

Chandak, Sharad Satyanarayan
CEO & Executive Director
08th July
15 King Street, London



Directors' report

The directors present their annual report, together with the financial statements and auditor's report for the year ended 31 March 2022. 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 15.

Dividends

During March 2022, the Directors approved the payment of interim dividend of £5.625 million to Parent. (2021: Nil)

Going Concern

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

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

Though the uncertainties related to geopolitical developments in Ukraine persist, especially with high downside risks to the economy for 2022 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 such 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 Covid-19 on its business model, default rates, management actions and overall capital adequacy. In all such scenarios, the Bank is expected to have sufficient headroom both on capital and liquidity, higher than the regulatory minimum thresholds. The Bank also has conducted various reverse stress scenarios and concluded that these extreme scenarios that could make the Bank's business model unviable, are highly unlikely to manifest themselves. As a result of these considerations, the Directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements have been prepared on a going concern basis.

Directors

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

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

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

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

Baines, John Duncan (Independent Non-Executive Director)

Hicks, Steven Mark (Independent Non-Executive Director)

Chandak, Sharad Satyanarayan (Chief Executive Officer)

Pandey, Sanjay (Executive Director & Deputy Chief Executive Officer)

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 £24,720 to ZSL (Zoological Society of London), an international conservation charity, £25,000 to Pratham UK, an international education-focussed charity and £600 to The Save the Children Charity (2021: £20,000 to ZSL and £2,600 to Sakoon Through Cancer, Breast Cancer Charity). No political donations were made (2021: NIL).

Social, environmental and ethical risks

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

Financial instruments

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

Post Statement of Financial Position

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

Disclosure of information to auditors

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

Independent auditors

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

Signed on behalf of the Board

Chandak, Sharad Satyanarayan

CEO & Executive Director

08th July 2022

15 King Street, London,



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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (UK GAAP).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board of Directors

Chandak, Sharad Satyanarayan

CEO & Executive Director

08th July 2022



**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 2022 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 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied 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;
- Assessing the reasonableness of the company's 4-year Corporate Plan, ICAAP and ILAAP documentation which form their going concern assessment and considering whether stresses applied are appropriate for assessing going concern;
- Considering the consistency of the director's 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 summary of significant accounting policies (2.12); and Note 3.6 and 3.7 of the financial statements.</i></p> <p>Impairment provisions as at 31 March 2022 were £6,748k (2021: £5,202k), which represents 0.56% (2021: 0.45%) of loans and advances to customers. The income statement charge for the year was £1,546k (2021: £1,352k).</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 estate loan and a collective provision on corporate, retail and commercial loans.</p> <p>In calculating the individual provision, management applies judgement 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. For the watchlist portfolio, management adjusts the underlying inputs to reflect the impact of market uncertainty, for instance, adjusting the probability of default. The collective impairment model is most sensitive to the probability of default, loss emergence period and loss given default assumptions.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • We tested the design, implementation and operating effectiveness of the key controls operating in the company in relation to credit process (underwriting of loans, monitoring of loans, collections and provisioning); • We tested the process by which management identified non-performing loans and made related provisions timely. We focused on identification of impairment triggers, calculation of impairment and consideration of collateral arrangements, where relevant; • We have critically challenged the appropriateness of the key assumptions used in the collective model, in particular probabilities of default, loss emergence period and loss given default. We have compared the key assumptions with externally available data on similar banks to critically assess the assumptions applied; • We have engaged our internal property valuations expert to assess the reasonableness of the collateral values for loans requiring individual provision assessments. In addition, we have recalculated the individual provision and compared the output to the amount provided by management expert; • We have engaged our internal credit risk specialist to challenge the probability of default including uncertainty adjustment on watchlist loans; • We have developed an auditor's range estimate of the collective provision using assumptions relevant to the company's portfolio; and • We have performed credit file reviews of a selection of loans using loan book stratification which includes 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. <p>Our observations</p> <p>Based on the work performed, we found that the assumptions used by management in assessing the impairment are reasonable and that the impairment provisions and related disclosures on loans and advances to customers as at 31 March 2022 are consistent with the requirement of 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	£2,496k (2021: £2,400k)
How we determined it	1% of net assets
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to reflect more appropriately the size of the company's operations, whose strategy is to provide loans and savings products to customers, and which is a wholly owned subsidiary. Furthermore, the net assets are an approximation of regulatory capital resources which is a key focus 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 £1,747k (2021: £1,680k), which represents 70% of overall materiality.</p>
Reporting threshold	We agreed with the audit committee that we would report to them misstatements identified during our audit above £74.8k (2021: £72.0k) 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 directors' responsibilities statement set out on page 17, 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 the PRA and the FCA;
- Reviewing audit and risk committee and board of directors meeting minutes 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.

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; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the 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 five years, covering the years ended 31 March 2018 to 31 March 2022.

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

8 July 2022



Statements

Income statement

For the year ended 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
Interest receivable and similar income	3.1	43,575	40,339
Interest payable and similar charges	3.1	(8,914)	(16,735)
Net interest income		34,661	23,604
Fees and commissions income		912	1,303
Net gains from derivative financial instruments	3.8	1,484	991
Gains on sale of investments		536	537
Other operating income		30	195
Operating income		37,623	26,630
Administrative expenses	3.2	(17,610)	(15,515)
Depreciation	3.10	(711)	(695)
Total operating expenses		(18,321)	(16,210)
Operating profit before allowance for impairment losses and taxes		19,302	10,420
(Loss)/Profit on Sale of Loans		44	129
Impairment provision	3.7	(1,546)	(1,352)
Profit on ordinary activities before tax		17,712	9,197
Tax on profit of ordinary activities	3.3	(3,476)	(1,774)
Profit after tax for the financial year		14,236	7,423

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 2022

	31 March 2022 £'000	31 March 2021 £'000
Profit after tax	14,236	7,423
Revaluation of available for sale debt securities	(3,370)	870
Deferred tax adjustment on available for sale investment securities	948	(165)
Total other comprehensive income	(2,822)	705
Total comprehensive income for the year	11,414	8,128

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 2022 £'000	As at 31 March 2021 £'000
Assets			
Cash and balances with banks	3.4	86,381	113,623
Loans and advances to banks	3.5	100,000	125,000
Loans and advances to customers	3.6	1,201,300	1,140,238
Investment securities	3.9	367,831	339,418
Derivative financial instruments	3.8	8,430	25,114
Fixed assets	3.10	3,463	2,807
Other assets	3.11	8,600	9,210
Total assets		1,776,005	1,755,410
Liabilities			
Borrowings from banks	3.12	164,120	128,696
Deposit from customers	3.13	1,339,203	1,360,344
Derivative financial instruments	3.8	6,061	-
Other liabilities	3.14	17,015	22,553
Total liabilities		1,526,399	1,511,593
Shareholders' funds			
Share capital	3.15	225,000	225,000
Investment revaluation reserve		(2,896)	(74)
Retained earnings		27,502	18,891
Total equity		249,606	243,817
Total equity and liabilities		1,776,005	1,755,410

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 08th July 2022.

Signed on behalf of the Board of Directors

Chandak, Sharad Satyanarayan
 CEO & Executive Director
 State Bank of India (UK) Limited
 Company registration no 10436460
 08th July 2022

Statement of changes in equity

£'000	Note	Share capital	Profit and loss	Other comprehensive income	Total comprehensive income	Total equity
<i>For the year ended 31 March 2022</i>						
As at 1 April 2020		175,000	11,468	(779)	10,689	185,689
Conversion of subordinated debt to equity capital		50,000	-	-	-	50,000
Profit on ordinary activities after tax		-	7,423	-	7,423	7,423
Movement in the valuation of available for sale debt securities		-	-	870	870	870
Deferred Tax		-	-	(165)	(165)	(165)
As at 31 March 2021		225,000	18,891	(74)	18,817	243,817
Conversion of subordinated debt to equity capital		-	-	-	-	-
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	3.15	225,000	27,502	(2,896)	24,606	249,606

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



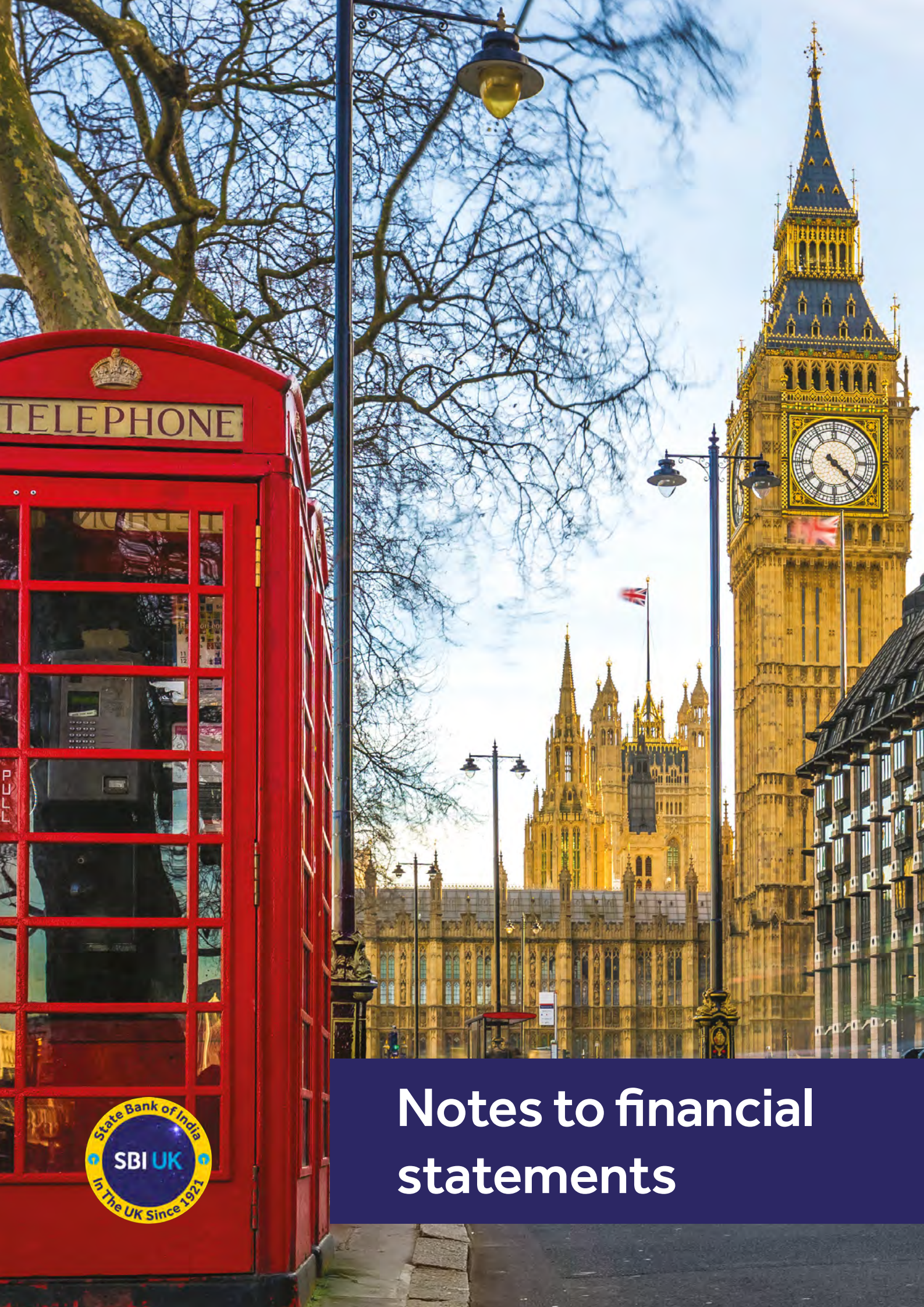
Mr Dinesh Kumar Khara, Chairman, State Bank of India opening The London Stock Market



Mr Dinesh Kumar Khara, Chairman, State Bank of India inaugurating SBI-FICCI Economic Conclave



Mr Dinesh Kumar Khara, Chairman, State Bank of India with The Rt. Hon. The Lord Mayor Vincent Keaveny at the Centenary Celebration



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 foreseeable future. Thus, the Bank has adopted the going concern basis of accounting in preparing the annual financial statements.

The Board regularly engages in the forward planning of the business to ensure the Bank meets its liquidity and capital levels as defined in the co in the capital and liquidity adequacy assessments; these include the results of testing both requirements under significant stress scenarios.

Though the uncertainties related to the conflict in Ukraine persist, especially with high downside risks to the economy for 2022 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 impact of ongoing conflict between Russia and Ukraine is immaterial on the business and on the financial statements.

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

1.4 | Functional currency

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

2 | Significant accounting policies

2.1 | Net interest income

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

The calculation of the EIR includes transaction costs and fees and discounts paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. Interest income and expense presented in the income statement include:

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

2.2 | Fees and Commission

Fees and commission income and expense that are integral to the effective interest rate (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 | Fixed assets and depreciation

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

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

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

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

2.5 | Provisions and contingencies

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

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

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

Contingencies

Contingent liabilities, arising as a result of past events, are only recognised when the existence does not rely on the occurrence or non-occurrence of certain future events which are not wholly within the Bank's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

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

2.6 | Income taxes

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

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

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

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

2.7 | Financial instruments

Under the options available to it under section 12.2 of FRS 102, the Bank has chosen to apply the measurement and recognition provisions of IAS 39 Financial Instruments: Recognition and Measurement.

The Bank initially recognises loans and receivables, deposits, and debt securities issued on the date on which they are settled. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

Classification

Financial assets

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

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

Financial liabilities

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

Measurement

Amortised cost measurement

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

Fair value measurement

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

Derecognition

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

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

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

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

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

2.8 | Held to Maturity investments

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

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

2.9 | Available-for-Sale investments

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

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

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

2.10 | Loans and receivables

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

2.11 | Deposits, debt securities issued and subordinated liabilities

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

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

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

2.12 | Impairment of financial assets

Identification, measurement of impairment and objective evidence of impairment

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

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy;
- Decline in the value of the security, and the reduction in the

expected value of the business as a whole for commercial loans; or

- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or rating agencies' assessments or economic conditions that correlate with defaults in the group.

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

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

Individual and collective assessment

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment.

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

Derecognition

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

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

2.13 | Derivatives and hedge accounting

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

Currency swap derivatives

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

Cross currency interest rate swap derivatives and Hedge accounting.

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

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

The Bank discontinues hedge accounting prospectively when it is either determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item 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.

IBOR reform - implications on Hedge accounting

The amendment was issued by the IASB to address the impact of uncertainties arising from IBOR reform (including the withdrawal of LIBOR) on Hedge accounting. The standard excludes the effect of such uncertainties from the evaluation of hedging relationships for accounting purposes and allows the continuation of IBOR-based hedging relationships despite these uncertainties, all other things being equal. This amendment is applicable for periods beginning on or after 1 January 2020, but early application is permitted. The replacement of benchmark interest rates such as LIBOR to RFR such as SONIA will have implications on Hedge accounting.

The reliefs applicable to Phase I and Phase II are outlined below.

Phase I (Pre-replacement) reliefs:

The phase 1 reliefs apply to all hedging relationships that are directly affected by uncertainties due to the reform, regarding the timing or amount of interest rate benchmark-based cash flows of the hedged item or hedging instrument (i.e., uncertainty about what the new benchmark will be and when it will take effect).

However, if the hedged item or hedging instrument is designated for risks other than just interest rate risk, the exceptions only apply to the interest rate benchmark-based cash flows. Since Bank's hedged item or hedging instrument is designated for interest rate risks, the phase 1 reliefs therefore apply to the Bank.

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

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

Phase II reliefs:

The reliefs addressed issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform. Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

The phase II amendments apply for annual periods beginning on or after January 01, 2021 with early adoption permitted. The Bank has adopted the amendments from the reporting period April 01, 2021.

Bank holds CCIRS derivatives as Hedging instruments that has impact of IBOR reforms. Bank and its counterparties are registered with ISDA 2020 Fall-back protocol, which enables market participants to incorporate revisions into their legacy non-cleared derivative trades with other counterparties that choose to adhere to the protocol. With this, the fallbacks (i.e., to the adjusted risk-free rate plus spread) will automatically occur for outstanding derivative contracts on December 31, 2021 for outstanding derivatives referenced to GBP LIBOR settings.

2.14 | Defined contribution pension plan

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

2.15 | Share capital

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

2.16 | 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, Board will approve the dividend amount and timing. The Dividend payment is made in the Bank's Balance Sheet currency (GBP) to the Parent.

2.17 | 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. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the non-cancellable lease term.

2.18 | Critical estimates and judgements

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

Key areas of estimates

Allowance for impairment losses on loans & advances and investments

The allowance for impairment losses on loans and advances and investments is management's best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are made up of two components, those determined individually and those determined collectively. Estimates are made using incurred loss calculations based on the historic / market average default rates and management's estimates on possible losses and the associated emergence period. However, on riskier portfolio, 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 sectors.

As at 31 March 2022, gross loans and advances to customers totalled £1,210.4m (2021 £1,147.2m) against which individual allowance for impairment losses of £2.48m (2021 £0.95m) and collective allowance for impairments losses of £4.27m (2021 £4.25m) has been made.

Fair value of Derivatives

The value of Derivatives are based on Bloomberg valuations. As at 31 March 2022, the fair value of Currency Swap agreements is negative £6.06m (2021 positive value of £15.37m), the fair value of Cross currency interest rate agreements is positive £8.4m (2021 positive value of £9.7m)



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3 | Notes to the financial statements

3.1 | Interest receivable and interest payable

	31 March 2022 £'000	31 March 2021 £'000
<i>Interest receivable and similar income</i>		
Interest income from loans and advances*	32,864	29,363
Interest income from investment securities	10,179	10,812
Interest income from group undertakings	2,556	2,808
Interest Income (expense) on derivatives measured at FVTPL	(2,197)	(2,724)
Other interest income	173	80
	43,575	40,339
<i>Interest payable and similar charges</i>		
Interest expense on deposits	(8,439)	(16,067)
Interest expense on interbank borrowing	(475)	(158)
Interest on Subordinated loan		(510)
	(8,914)	(16,735)

*Includes interest accrual on Non-Performing loan

3.2 | Administrative expenses

	Notes	2022	2021
Average number of employees*		173	154
		£'000	£'000
Wages and salaries		(7,470)	(6,791)
- This includes directors' emoluments	3.2a		
Social security costs		(677)	(581)
Pension costs		(333)	(340)
Other staff related costs		(327)	(168)
Total staff costs		(8,807)	(7,880)
General administrative expenses^		(8,623)	(7,470)
Audit of these financial statements		(180)	(165)
Total administrative expenses		(17,610)	(15,515)

* Of these employees, 156 are employed in the front office and 17 in the back office (2021: 141 are employed in the front office and 13 in the back office). This excludes back-office employees of SBI London Branch who provide support to the operations of SBI UK.

^General Administrative Expenses for the year 2022 include fees paid to Auditors, related to £38,500 towards Quarterly Limited Review and £30,000 towards CASS Audit, out of which £22,500 is related to Prior Year CASS Audit. Also includes receipt of VAT reclaim of £750,000 which is offset from irrecoverable VAT.

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

£'000	2022	2021
Directors' fees and emoluments*	(280)	(199)
Pension contributions	-	-
Total directors' emoluments	(280)	(199)

* For the year 2022, £137,212 of the aggregate is attributable to the highest paid Director (2021: £42,917)



Golders Green branch re-opening by Sharad Chandak, Regional Head, State Bank of India (UK Region) and The Mayor of Barnet, Councillor Alison Cornelius

3.3 | Taxation

£'000	2022	2021
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Analysis of tax (charge)/credit for the period

Current tax		
UK corporation tax at 19.00% (2021: 19.00%)	(3,231)	(1,742)
Adjustments in respect of prior periods	(48)	8
Total current tax (charge)/credit	(3,279)	(1,734)

Deferred tax

Origination and reversal of timing differences	(178)	(32)
Adjustments in respect of prior periods	7	(8)
Effect of tax rate change on opening balance*	(26)	-
	(197)	(40)
Tax on profit on ordinary activities	(3,476)	(1,774)

* The rate of corporation tax for the year ended 31 March 2022 is 19%, however, the rate of corporation tax is due to rise to 25% on 1 April 2023. DTA and DTL are calculated using 25% tax rate.

£'000	2022	2021
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Reconciliation of tax charge

Profit on ordinary activities before tax	17,712	9,198
Tax on profit on ordinary activities at standard CT rate of 19.00% (2021: 19.00%)	(3,366)	(1,748)

Effects of:

Fixed asset differences	13	(16)
Expenses not deductible for tax purposes	(5)	(10)
Adjustments to tax charge in respect of previous periods	(48)	8
Adjustments to tax charge in respect of previous periods - deferred tax	7	(8)
Remeasurement of deferred tax for changes in tax rates.	(77)	-
Adjust opening deferred tax to average rate of 19.00%	-	-
Difference in tax value on transfer of assets from branch	-	-
Tax (charge)/credit for the period	(3,476)	(1,774)

Tax included in statement of comprehensive income £'000	2022	2021
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Deferred tax

Origination and reversal of timing differences	948	(165)
Tax included in statement of comprehensive income	948	(165)

Provision for deferred tax

Fixed asset timing differences	(329)	(174)
Short term timing differences	965	17
Losses and other deductions	6	49
Total deferred tax asset/(liability)	642	(108)

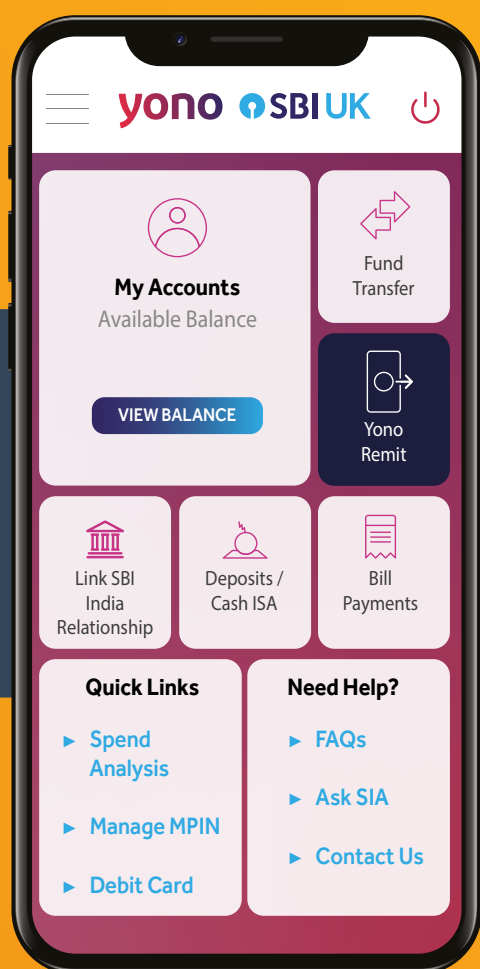
3.4 | Cash and balances with banks

£'000	2022	2021
Cash in hand with SBIUK branches	563	517
Balances held with Bank of England	74,273	91,051
Current account balances with banks	11,545	22,055
	86,381	113,623

3.5 | Deposits with banks

£'000	2022	2021
More than 5 years	-	-
1 year - 5 year maturity	50,000	100,000
3 months - 1 year maturity	-	25,000
Repayable within 3 months	50,000	-
	100,000	125,000

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Terms & Conditions apply. For more information visit our website www.sbiuk.com or visit your local branch.

3.6 | Loans and advances to customers

As at 31 March 2022 €'000	Notes	Non-performing loans	Performing loans	Total
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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

As at 31 March 2021 €'000	Notes	Non-performing loans	Performing loans	Total
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Remaining maturity

Over 5 years		-	358,187	358,187
Between 1 year and 5 years		-	654,499	654,499
Between 3 months and 1 year		-	77,025	77,025
3 months and less		-	52,870	52,870
Past due beyond 90 days		4,608	-	4,608
Loan Total (Gross)		4,608	1,142,581	1,147,189

Individual provision	3.7	950	-	950
Collective provision	3.7	-	4,252	4,252
Unamortised Fee		-	1,749	1,749
Total adjustments		950	6,001	6,951
Loan Total (Net)		3,658	1,136,580	1,140,238

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 | Allowance for impairment losses

As at 31 March 2022 £'000	Notes	Specific impairment on Loans and Receivables	Collective impairment on Loans and Receivables	Collective impairment on Investments	2022 Total	2021 Total
As at 1 April 2021		950	4,252	-	5,202	5,752
<i>Movements in Income statement</i>						
Charge to Income statement		1,530	16	-	1,546	2,540
Release to Income statement		-	-	-	-	(1,188)
Net impairment charge to Income statement		1,530	16	-	1,546	1,352
Amounts written off		-	-	-	-	(1,902)
As at 31 March 2022		2,480	4,268	-	6,748	5,202



SBI UK Golf Day at The Shire, London

3.8 | Derivatives at fair value

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

Currency swap agreements

As at 31 March 2021 £'000	Notional amounts	Fair Value Assets	Fair Value Liabilities
Exchange rate related contracts			
Currency swap agreements	323,432	-	(6,061)

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

Cross currency interest rate agreements

As at 31 March 2022 £'000	Notional amounts	Fair Value Assets	Fair Value Liabilities
Cross currency interest rate swap agreements	149,795	8,430	-

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

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.

£'000	2022	2021
On currency swaps (with no hedge accounting)		
Fair value changes on derivatives	(6,061)	15,369
Foreign exchange (loss)/gain on currency swaps	6,526	(15,669)
Revaluation gain on foreign exchange exposure	1,019	1,291
On Cross currency interest rate swaps (with hedge accounting)		
Change in fair value of hedged items recognised in income statement	(5,224)	(9,745)
Change in fair value of hedging instrument recognised in income statement	5,224	9,745
Total	1,484	991

3.9 | Investment securities

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

Available for Sale

Government Issued	19,622	-	19,622
Other public sector securities & corporates	86,832	-	86,832
Depreciation in Mark to market	(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

As at 31 March 2021 £'000	Carrying Amount	Fair value adjustment of Hedged bonds	Total
------------------------------	--------------------	---	-------

Available for Sale

Government Issued	3,662	-	3,662
Other public sector securities & corporates	50,021	-	50,021
Depreciation in Mark to market	(92)	-	(92)

Held to Maturity

Government Issued	19,334	-	19,334
Other public sector securities & corporates	262,233	4,260	266,493
Total	335,158	4,260	339,418

3.10 | Fixed assets

£'000	Fixtures and fittings	Computer equipment	2022 Total
-------	-----------------------	--------------------	------------

Cost

At 1 April 2021	3,390	414	3,804
Additions	1,492	76	1,568
Disposals / Write off	(651)	-	(651)
At 31 March 2022	4,231	490	4,721

Accumulated depreciation

At 1 April 2021	895	102	997
Charged	616	94	710
Disposals / Write off	(449)	-	(449)
At 31 March 2022	1,062	196	1,258

Carrying amount

At 1 April 2021	2,495	312	2,807
At 31 March 2022	3,169	294	3,463

3.11 | Other assets

£'000	2022	2021
Prepayments and accrued income	6,188	6,130
Advance tax paid	-	-
Deferred tax asset	971	-
Other Assets	1,441	3,080
Total	8,600	9,210

3.12 | Borrowings from banks

£'000	2022	2021
Repayable on demand	-	-
With agreed maturity dates		
Less than 3 months	50,190	20,000
Between 3 months and 1 year	-	-
Between 1 and 3 years	113,930	108,696
Total	164,120	128,696

3.13 | Deposits from customers

£'000	2022	2021
Repayable on demand and less than 1 month	740,370	714,619
With agreed maturity dates		
Between 1 and 3 months	86,683	124,250
Between 3 months and 1 year	288,219	322,081
Between 1 and 3 years	179,274	162,882
Between 3 and 5 years	44,537	36,405
Over 5 years	120	107
Total	1,339,203	1,360,344

3.14 | Other liabilities

£'000	2022	2021
Accrued expenses	4,633	7,259
Provision for tax liabilities	63	115
Deferred tax liabilities	329	108
Margins placed by counterparties on Derivatives	7,056	8,855
Other liabilities	4,934	6,216
Total	17,015	22,553

3.15 | Share capital

£'000	2022	2021
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 28th March 2022, bank declared and paid interim dividend of £5.625 million to Parent.

3.16 | Contingent liabilities

The Bank does not have any contingent liabilities (2021: NIL).

3.17 | Commitments

£'000	2022	2021
Unutilised overdraft commitments	6,515	8,508
Pipeline loans	69,291	86,833
Total	75,806	95,341

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

Lease Commitments £'000	2022	2021
Within one year	988	1,038
Between one and five years	2,785	2,978
More than five years	1,896	1,413
Total	5,669	5,429

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 Center, Madame Cama Road, Mumbai, Maharashtra -400021, India. The financial statements of SBI are also available on the website www.sbi.co.in.

5 | Post Balance Sheet events

There were no material Post Balance sheet events, which requires an adjustment to the financial statements. There has been disposal of an investment with a nominal value \$9.8 million, resulting in a gain of £0.4m. Though this investment was kept under Held to Maturity, the disposal amount was insignificant to the total HTM portfolio and it also had no impact on the Hedge accounting as of reporting date.

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 2022:

£'000	Available for sale	Fair value through profit or loss	Held to Maturity	Amortised cost instruments	Total
<i>Financial Assets</i>					
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	265,239	1,387,681	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.

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

£'000	Available for sale	Fair value through profit or loss	Held to Maturity	Amortised cost instruments	Total
<i>Financial Assets</i>					
Cash and balances with banks	-	-	-	113,623	113,623
Loans and advances to banks	-	-	-	125,000	125,000
Loans and advances to customers	-	-	-	1,140,238	1,140,238
Investment securities	53,591	-	285,827	-	339,418
Derivatives at fair value	-	25,114	-	-	25,114
Total Assets	53,591	25,114	285,827	1,378,861	1,743,393

Financial Liabilities

Borrowings from banks	-	-	-	128,696	128,696
Deposits from customers	-	-	-	1,360,344	1,360,344
Other liabilities (Variation margin)*	-	-	-	8,855	8,855
Total Liabilities	-	-	-	1,497,895	1,497,895

*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 2022.

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

Financial Assets

Investment securities	Level 1	102,591	-	102,591
Derivatives at fair value	Level 2	-	8,430	8,430
FVA on Investment Securities	Level 2	-	(964)	(964)
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

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

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

Financial Assets

Investment securities	Level 1	53,591	-	53,591
Derivatives at fair value	Level 2	-	25,114	25,114
FVA on Investment Securities	Level 2	-	4,260	4,260
Total Assets		53,591	29,374	82,965

Financial Liabilities

Derivatives at fair value	Level 2	-	-	-
Total Liabilities		-	-	-



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6.2 | Capital management

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

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

The Bank's policy is to maintain an adequate capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There were no breaches in regulatory capital requirements reported in the period. The table below, based on the audited Financial Statements, shows the breakdown of the Bank's capital resources:

Regulatory Capital resources £'000	2022	2021
<i>Tier 1 capital</i>		
Share Capital	225,000	225,000
Retained earnings	27,502	18,891
Other Comprehensive Income	(2,896)	(74)
Regulatory Deductions to Tier 1 Capital	(418)	(312)
Total –Tier 1 capital	249,188	243,505
<i>Tier 2 capital</i>		
Impairment provision	-	4,252
Total –Tier 2 Capital	-	4,252
Total Capital	249,188	247,757

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

The Bank is committed to mitigating risk through all stages of the lending cycle. The Bank considers customer's credentials, external credit rating for corporate exposures (if available), and the loan-to-value (LTV) percentages of all loans at the application stage. Additionally, the Bank employs underwriting and fraud detection policies to minimise losses once loans have been approved as well as taking a proactive approach to the monitoring and treatment of impaired loans through the collections and recovery functions. In addition to Independent Risk assessment of all cases put up to credit committee, cases approved under underwriter mandate is also reviewed internally by Risk department on sample basis to ensure adherence to Credit policy guidelines. The

Bank maintains comprehensive management information on the performance and movements within the various loan portfolios to ensure that credit risk is adequately controlled, and any adverse trends are identified before they impact on performance. This management information is reported and discussed at the Risk Management Committee on monthly basis and monitored at a Board Risk Committee level on a quarterly basis.

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

£'000	2022	2021
Neither past due beyond 90 days nor impaired	1,205,399	1,142,581
Past due beyond 90 days, but not impaired	-	-
Impaired	5,025	4,608
Repossessions	-	-
Unutilised overdraft commitments	6,515	8,508
Pipeline loans	69,291	86,833
Total	1,286,230	1,242,530

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	2022	2021
Collateral value	770,935	596,944
Gross loans and advances	1,210,424	1,147,189

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. (2021 : 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 2022, the Bank has provided forbearance facility to a total of 7 business customers, total exposure of £83m (2021: 8 business customers, total exposure of £82m).

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 2022 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by external credit ratings is provided below:

2022 £'000	Investment Securities	Loans to customers & deposits with banks
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

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

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

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

£'000		2022	2021
AAA to AA-		-	-
A+ to A-		-	20,000
BBB+ to BBB-		72,486	5,000
BB+ and below		323,369	450,318
Unrated		809,544	667,263
Total	3.6	1,205,399	1,142,581

As of 31 March 2022, Bank's loans and advances that are past due but not impaired are NIL (2021: NIL)

An analysis of the Bank's total credit exposures as at 31 March 2022 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by geography is provided below:

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%
Other geographies	91,802	5%
Total	1,755,512	100%

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

An analysis of the Bank's total credit exposures as at 31 March 2022 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by industry sectors is provided below:

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%

Industry Sector	2021 £'000	%
Banks	348,112	20%
Real Estate	498,256	28%
Consumer Services	157,998	9%
Health Care Equipment & Services	112,526	7%
Transportation	97,990	6%
Materials	45,421	3%
Pharmaceuticals, Biotechnology & Life Sciences	33,005	2%
Automobiles & Components	45,163	3%
Sovereign	94,712	6%
Other Sectors	285,096	16%
Total	1,718,279	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 2022 on the Bank's Derivative and non-derivative financial liabilities into relevant maturity groupings based on the remaining period.

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

March 2021 £'000	< 1 month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total	Carrying Amount
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Financial Liabilities

Borrowings from banks	-	(20,110)	(280)	(109,443)	-	(129,833)	(128,696)
Deposit from customers	(718,695)	(125,152)	(326,344)	(203,306)	-	(1,373,497)	(1,360,344)
Other liabilities (Variation margin) *	-	-	(8,855)	-	-	(8,855)	(8,855)
On-Balance Sheet	(718,695)	(145,262)	(335,479)	(312,749)	-	(1,512,185)	(1,497,895)
Pipeline Loans	(86,833)	-	-	-	-	(86,833)	-
Unutilised overdraft commitments	(8,508)	-	-	-	-	(8,508)	-
Off-Balance sheet	(95,341)	-	-	-	-	(95,341)	-

*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.

Pricing Risk

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

Interest rate risk

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

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The table below shows the impact on net interest income over the life of the assets and liabilities of a 50 basis point rise or fall in the interest rate, and assumes a constant balance sheet position:

Interest rate sensitivity €'000	2022	2021
<i>As at 31 March</i>		
50 basis points increase	(323)	(771)
50 basis points decrease	302	806

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 50 bps adverse change in rates is €0.044m (2021: €0.126m).

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 2022, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Bank are matched.

£'000	2022	2021
Denominated in US Dollars	562,620	587,799
Denominated in Sterling	1,145,893	1,073,057
Denominated in EUR	66,250	92,388
Denominated in other currencies	1,242	2,166
Total assets	1,776,005	1,755,410
Denominated in US Dollars	192,840	173,183
Denominated in Sterling	1,578,863	1,576,074
Denominated in EUR	4,290	3,988
Denominated in other currencies	12	2,165
Total liabilities	1,776,005	1,755,410

This does not represent the Bank's exposure to foreign exchange risk due to the presence of compensating exchange rate derivatives as discussed in Note 3.8, as these contracts are held for foreign exchange hedging purposes. The Bank follows a prudent policy for managing the Foreign exchange risk in accordance with the Risk Appetite limits approved by the Board Risk Committee. The Foreign Exchange Net Overnight Open Position (NOOP) of the Bank as at March 31, 2022 was £0.4m (2021: £0.6m). Since it is not deemed that foreign currency risk is material, a sensitivity analysis has not been prepared.



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