



ICICI Bank UK PLC

Strategic report, Directors' report and financial  
statements

March 31, 2021

Registered number 4663024



## Strategic report

### Contents

Strategic report	3
Directors' report	23
Statement of Directors' responsibilities	26
Report of the independent auditor to the members of ICICI Bank UK Plc	27
Profit and loss account	35
Statement of other comprehensive income	36
Balance sheet	37
Statement of changes in equity	38
Notes	40

## Strategic report

The Directors present their strategic report for the year ended March 31, 2021 (FY2021) for ICICI Bank UK PLC ("the Bank").

### Introduction

The Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The Bank is a wholly owned subsidiary of ICICI Bank Limited ("the Parent Bank") which is India's leading private sector bank. The Bank was incorporated in England and Wales as a private company with limited liability on February 11, 2003 and was converted to a public limited company, assuming the name ICICI Bank UK PLC, on October 30, 2006. As a public limited company, the Bank is able to access the capital markets.

### Business Review

ICICI Bank UK PLC offers retail, corporate banking and treasury services. The Bank delivers its corporate and retail banking products and services through seven branches located in the UK and one branch in mainland Europe, located in Eschborn (Germany). The branch in Germany has started operating as a third country branch post Brexit with effect from December 1, 2020 in compliance with the rules and regulations of a third country branch applicable in Germany.

The Bank is primarily focused on India linked business and towards meeting the banking needs of the Indian community in the UK and Germany in line with its core competency and inherent strength. The core services offered by the Bank include meeting local banking requirements, remittance services to India and facilitating banking requirements in India. The Bank offers corporate banking services which include serving India Europe trade and investment corridors involving Indian companies operating in Europe, Multinational Corporations (MNC) operating in India, trade counterparties with India and funds investing in the Indian equity and debt market.

With regards to local banking services, the Bank caters to Small and Medium Enterprises (SME) and business banking customers for their trade and foreign exchange requirements. It also has a well-established business for commercial real estate lending against income producing assets based on a conservative risk appetite.

The Bank is managed as a single business. For the purposes of the business review, however, management has described activity by individual business areas. The financial information in the following sections have been presented in US dollars with additional disclosure in Indian Rupee (INR) currency for convenience using the exchange rate as at March 31, 2021 of USD/INR 73.11 which has been applied across both FY2020 and FY2021.

#### Key strategic highlights: FY2021

Financial year 2021 witnessed a global pandemic outbreak resulting in an unprecedented halt to normal life. Although the financial year has ended at high hopes of an economic turnaround driven by vaccine approvals, major economies felt the brunt of travel bans, social distancing and multi-waves of Covid-19 throughout the year. During the year, the Bank stayed the course with its strategic pillars including Non Resident Indian connect, customer service and digitisation and diversification of assets and liabilities. In consideration of the unprecedented times, the Bank swiftly re-aligned its priorities more towards supporting customers, staff well-being and accelerated digitisation initiatives. The Bank remained focused on proactive risk management, effective liquidity, capital management and meeting the requirements of the changing market and regulatory environment.

The Bank acknowledges that the pandemic is reshaping the banking industry across many areas stimulating a new wave of innovation, accelerating digitisation, challenging traditional business models and accompanying new competitive landscape. The Bank believes that each of the strategic pillars

## Strategic report

fulfills the requirements emerging from the pandemic i.e., connecting and supporting customer needs by focusing on digitisation and enhancing customer services, which strengthens diversification.

During the year, the Bank continued to deepen its product proposition and services to meet the banking needs of the Indian community in the UK through various digitisation and customer service initiatives. Being an unparalleled year, the Bank remained very selective and cautious towards new business due to a subdued market environment and uncertainty related to Covid-19 and Brexit until December 2020. The Bank selectively sold down some loans (primarily lower rated) from its non-core strategic portfolio which helped in enhancing the overall credit quality of the portfolio.

The Bank places paramount importance on customer support and service. The Bank provides services to its customers through a 24/7 call centre and robust digital channels in term of online and mobile banking to help customers transact at ease. Digital channels are well complemented by personal connect and seamless service delivery to the customers through Branch Managers and Relationship Managers in various business segments.

The Bank remain focused on maintaining a sustainable business model within strong corporate governance, risk management and a robust control environment. It has a well-established risk appetite for all critical risks, including credit, market, operational, conduct and cyber risks. The business continued to operate within the defined risk appetite, with close monitoring by management and the Board Committees. The Bank reviews its risk appetite framework regularly to take into account, inter alia, of changes to the operating environment, portfolio composition, experience with stressed assets and regulatory changes. The Bank's risk management group monitors adherence to the risk appetite and reports to the Board Risk Committee (BRC) on a quarterly basis.

The Bank's approach to managing capital and liquidity is designed to ensure compliance with the applicable regulations, including under Capital Requirements Directive (CRDIV) and maintains High Quality Liquid Assets (HQLA) in line with the Bank's liquidity risk management framework.

The Bank has a senior debt rating of Baa2 from Moody's Investors Service Limited (Moody's). The rating was downgraded by one notch during the year from Baa1 to Baa2 due to the repayment of the Bank's subordinated debt of USD 150 million upon its maturity which resulted in a reduction of protection for senior unsecured liabilities.

The Bank continued to place considerable attention to the management of conduct risk, with conduct risk related matters reported regularly to the Board Conduct Risk Committee ("BCRC") and the Compliance, Conduct and Operational Risk Management Committee ("CORMAC"). The Bank maintained its focus on sustaining its customer-centric culture and invested in various technology initiatives to enhance customer experience. Close management of complaints ensured that all complaints were closed well within the regulatory stipulated timeframes.

The UK left the EU effective on January 31, 2020 and the trade deal negotiations continued to within days of the scheduled end of the transition period of December 31, 2020. The Bank's Germany Branch converted to a third country branch effective December 01, 2020. The Bank established its processes and business strategies in line with the prevalent rules applicable post Brexit.

Total assets at USD 2,957 million (INR 216,169 million) reduced compared with the previous year at USD 3,541 million (INR 258,859) with a decrease in loans and advances by 27% at USD 1,522 million and investments by 38% at USD 539 million, partially offset by a significant increase in cash balances by 153% at USD 734 million as at March 31, 2021.

The Bank made an annual Profit after Tax of USD 14.8 million (INR 1,081 million) in FY2021 compared with a Profit after Tax of USD 23.2 million (INR 1,700 million) in the previous year. The reduction in the Profits were mainly due to a decrease in Net Interest Income during the year as compared with the previous year.

## Strategic report

### Corporate Banking

The Corporate Banking division continued to focus on offering products which are core to the Bank's competencies and strategy, its clients' needs and in line with the Bank's risk appetite. The Bank's corporate business includes lending and banking services for select companies with India linkages including Indian corporates, UK and Europe based multinational corporations operating in India, Europe/UK and India trade corridor and capturing fund flow from UK/Europe to India. The objective of the Bank is to offer a seamless end to end service delivery to these customer segments both in India and in Europe.

The corporate banking team has shifted its focus to achieve a three sixty degree coverage for its client base with a varied product suite including current accounts, trade finance, FX and remittances, working capital finance, term loans and retail products.

In line with the asset light strategic focus of the Bank, good progress has been made in growing its presence in trade, transaction banking and foreign exchange services. The Bank has partnered with various industry bodies including UK Export Finance, UK India Business council, Department of International Trade UK, Access India programme of the Indian High Commission in UK and Chambers of commerce. The Bank has enhanced its correspondent banking business for Euro and GBP clearing and would seek to further grow this business line by partnering with other banks in addition to the Group.

During the year, the Bank did selective sell downs of exposures to reduce concentration, and enhance credit quality of the portfolio. During the year, due to an uncertain economic environment on account of Covid-19, the Bank further strengthened its risk appetite which resulted in measured new sanctions to higher rated clients. Accordingly, the loans and advances reduced from USD 2,074 million as at March 31, 2020 to USD 1,522 million as at March 31, 2021.

Significant progress has been made by the corporate banking team in reaching resolutions and making recoveries from some of the loans included in the impaired asset portfolio. The net impaired ratio at 2.2% reduced as compared with 3.8% as at March 31, 2020.

### Retail Banking

The Bank provides retail banking services to UK consumers, primarily the Indian community, with a diverse product suite including retail and business current and savings accounts, online banking, debit cards and money transfers. It offers savings accounts and fixed rate term accounts to UK and German consumers which are supported over the internet, phone enabled channels and through intermediaries. Additionally, the Bank offers foreign exchange services, current and savings accounts and property lending to its business banking customers.

The strategic business focus for the Bank is serving the Indian community for their local banking requirements, remittance to India and facilitating their India banking requirements. In line with this objective, the Bank worked towards strengthening and refreshing its product and service proposition to meet the banking needs of Indian diaspora in the UK & Europe through various digitisation and customer service initiatives.

The Bank made investments in its retail banking division to connect with the Non Resident Indian population in the UK and Germany. The Bank enhanced its connections with the Indian community through various touch points including events, hoardings, radio and television advertisements and enhanced its branch network by re-opening its branch in Harrow, England to create brand awareness. Additionally, the Bank enhanced its efforts to connect with the Indian student community in the UK and Germany through varied product suite and digital account opening.

The Bank also launched its Private Banking business on 'an execution basis' only, to connect with High Net worth Non Resident Indians (NRI) population. During the year, the Bank registered a positive

## Strategic report

momentum in business activities from the Non Resident Indian population. The Bank remained focused on strengthening its remittance product through digital initiatives including New Customer Acquisition (NCA) through digital account opening and revamping of the mobile application. The Bank implemented a remittance marketing strategy realigned to focus on 'Non-Resident Indian' clients. NCA through digital account opening is expected to increase the remittance flows.

The Retail Banking team focused on expansion of business banking secured loans against property within the risk appetite of the Bank. The Bank followed a conservative approach to this business given the uncertain economic environment and accordingly overall new business volumes remained soft during the year.

The Bank remained focused on strengthening its service delivery platform to ensure an enhanced customer experience and improved customer outcomes thereby operating within the overall conduct risk framework for the Bank. The Bank sees embedding of a strong conduct culture as an integral part of delivery of its strategic goals.

The retail banking team displayed commitment and resilience by keeping the Bank's branches open across the year to provide uninterrupted services to its customers. The Bank ensured adequate measures were taken for the well-being of its branch staff working in the midst of the pandemic outbreak.

During the year, the Bank provided support to its borrowers through deferrals of loan instalments on a case to case basis in line with regulatory guidance and prevailing market practice. The deferral requests were made by customers primarily during June and September 2020, most of which had been regularised as at December 2020.

## Treasury

The Treasury Group manages the structure of the balance sheet of the Bank, supports the capital needs and manages the market and liquidity risk of the Bank. The Bank prioritises maintaining High Quality Liquid Assets (HQLA) in line with the guidelines for the Liquidity Coverage Ratio (LCR) requirements. The Bank reviews the asset/liability maturity mismatches and interest rate positions, and maintains liquidity gaps and interest rate positions within prescribed limits, which are monitored by the Asset and Liability Management Committee (ALCO) of the Bank.

The Bank followed a cautious approach to new business volumes mainly due to the uncertain economic environment induced by Covid-19 which resulted in a relatively lower new funding requirements during the year. However, the Bank remained active in raising funding to repay maturing liabilities through funding from retail deposits, alternate channels and wholesale instruments. The Bank ensured availability of adequate liquidity surplus over and above the regulatory requirements.

The Bank's investment portfolio is also managed by the Treasury Group. The treasury activities are carried out through the Balance Sheet Management Group, Investment desk and Global Markets Group. During the year, the Investment Management Group managed the portfolio within the established risk appetite of the Bank.

The Treasury team worked extensively on establishing and implementing the processes and systems for its new business line related to facilitating fund flows from UK and Europe to India through 'Foreign Portfolio Investment' and 'Foreign Direct Investment' routes. The Bank is enhancing relationships with Financial Institutional investors having investment interest in Indian markets and initiating coverage of Indian bonds through the Debt Capital Market business. The Bank has made appropriate investments by hiring dedicated and skilled staff for enhancing the business line. The Bank also established a new Market Making Group within Treasury for providing competitive market prices for sale of Treasury products by the Global Markets Group to the Bank's customers.

## Strategic report

### Liquidity Regulation

In June 2015, the PRA published its policy statement on liquidity requirements for banks, which took effect from October 1, 2015. The guidelines introduced a requirement for banks to maintain an LCR above regulatory requirements. The LCR is intended to ensure that a bank maintains an adequate level of unencumbered HQLA, which can be used to offset the net stressed outflows that the bank could encounter under a combined stress scenario lasting 30 days. Starting January 1, 2018, the minimum regulatory requirement is 100%. The LCR ratio of the Bank at March 31, 2021 was 329.5%. In line with the risk appetite, the Bank is focused to maintain an adequate level of liquidity in excess of regulatory requirements and requirements as per internal risk appetite defined in ILAAP.

In October 2014, the Basel Committee published its final standard for the Net Stable Funding Ratio (NSFR). The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. In February 2021, the PRA published a consultation paper to implement NSFR. As per the consultation paper, banks will be required to maintain NSFR above 100% from January 1, 2022. The Bank is tracking the NSFR internally to ensure compliance to the upcoming regulations. Additionally, the Bank contributed to the Basel quantitative impact study for NSFR through quarterly submissions in FY2021.

The Bank also monitors the level of asset encumbrance in the balance sheet and have put appropriate risk management processes in place to maintain the level of encumbrance at acceptable levels.

Details of the Bank's governance arrangements, financial risk management objectives and policies, including those in respect of financial instruments, and details of the Bank's indicative exposure to risks are given in Note 38.

## Strategic report

### Financial Highlights

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

Summarised Profit and loss account	Financial 2021	Financial 2020	% Change	Financial 2021	Financial 2020
	USD 000s	USD 000s		*INR million	*INR million
Net interest income	50,907	64,263	-21%	3,722	4,699
Non-interest income	13,006	15,466	-16%	951	1,131
Net profit/(loss) on sale of financial assets	(1,336)	(419)	-	(98)	(31)
<b>Total revenue</b>	<b>62,577</b>	<b>79,310</b>	<b>-21%</b>	<b>4,575</b>	<b>5,799</b>
Operating expenses	(36,688)	(38,396)	-4%	(2,683)	(2,807)
<b>Profit before provisions, charges and taxes</b>	<b>25,889</b>	<b>40,914</b>	<b>-37%</b>	<b>1,892</b>	<b>2,992</b>
Impairment provision and charges	(8,365)	(12,334)	-32%	(611)	(902)
<b>Profit/ before tax</b>	<b>17,524</b>	<b>28,580</b>	<b>-39%</b>	<b>1,281</b>	<b>2,090</b>
Tax	(2,732)	(5,331)	-49%	(200)	(390)
<b>Profit/ after tax</b>	<b>14,792</b>	<b>23,249</b>	<b>-36%</b>	<b>1,081</b>	<b>1,700</b>

Summarised Balance Sheet	Financial 2021	Financial 2020	% Change	Financial 2021	Financial 2020
	USD 000s	USD 000s		*INRmillion	*INR million
Cash and cash equivalents	733,560	289,988	153%	53,631	21,201
Loans and advances to banks	52,372	168,105	-69%	3,829	12,290
Loans and advances to customers	1,522,138	2,074,527	-27%	111,284	151,669
Investments	538,746	871,216	-38%	39,387	63,695
<b>Total assets</b>	<b>2,956,754</b>	<b>3,540,684</b>	<b>-16%</b>	<b>216,169</b>	<b>258,859</b>
Customer accounts	1,957,458	2,042,228	-4%	143,110	149,307
Wholesale liabilities	418,436	938,214	-55%	30,592	68,593
Shareholders' funds	506,741	453,332	12%	37,048	33,143
<b>Total liabilities</b>	<b>2,956,754</b>	<b>3,540,684</b>	<b>-16%</b>	<b>216,169</b>	<b>258,859</b>

### Capital<sup>3</sup>

Capital Ratios	March 31, 2021	March 31, 2020	Movement
Core Tier 1 ratio	23.8%	15.0%	8.8%
Tier 1 ratio	23.8%	15.0%	8.8%
Total ratio	28.3%	18.6%	9.7%

Risk weighted assets	March 31, 2021	March 31, 2020	% Change	March 31, 2021	March 31, 2020
	USD 000s	USD 000s		INR million	INR million
Risk weighted assets	2,075,102	2,941,412	-29%	151,711	215,047

<sup>3</sup> Pillar 3 disclosures are available online on the Bank's website:  
<http://icicibank.co.uk/personal/basel-disclosures.html>

\* INR figures are unaudited



### Key Financial highlights: FY2021

As at March 31, 2021, the Bank had total assets of USD 2,957 million (INR 216,169 million) compared with USD 3,541 million (INR 258,859 million) as at March 31, 2020. The balance sheet reduced mainly due to a reduction in loans and advances and investments partially offset with an increase in cash balances.

The loans and advances portfolio at USD 1,522 million (INR 111,284 million) decreased by 27% versus the previous year at USD 2,075 million (INR 151,669 million) primarily due to selective new credits coupled with sell downs in line with the strategy of the Bank. The Bank made significant progress in enhancing the quality of its portfolio through selective sell downs primarily in its lower rated syndicated loan portfolio. Additionally, the Bank sold down loans and investments to balance its geographical and sector concentration. Due to the pandemic outbreak, recurring lockdowns and emergence of new variants throughout the year, the Bank remained very selective and cautious towards new business due to a subdued market environment and uncertainty related to Covid-19 and Brexit. During the year, the investment portfolio of the Bank at USD 539 million reduced versus the previous year by 38% on account of selective sales mainly to rebalance its concentration and maturity of the treasury bills portfolio. The Bank continued to monitor adherence to the portfolio limits as prescribed in the risk appetite on a periodic basis.

With regards to the liabilities, the Bank registered a decrease of 4% in customer accounts at USD 1,957 million (INR 143,110 million) in FY2021 versus USD 2,042 million (INR 149,307 million) as at FY2020. The wholesale liabilities at USD 418 million reduced versus the previous year by 55% mainly due to a reduction in interbank borrowings, bilateral loans and subordinated debt of USD 150 million upon its maturity. Significant improvement of USD 38.1 million has been registered in the Mark to Market (MTM) post tax gain on AFS (Available For Sale) portfolio at USD 2.4 million (INR 173 million) for FY2021 versus MTM post tax loss on AFS portfolio of USD 35.8 million for FY2020 due to a fall in the credit spreads fuelled by improved risk appetite and investor sentiment due to a strong monetary stimulus provided by global central banks in the form of rate cuts and asset purchases. The global economy has come a long way from the depths of contraction in the past year. This time last year, as Covid-19 was declared a global pandemic, investors were grappling with an extreme risk off scenario entailing huge volatility in equity markets, diminished liquidity and severe mark to market stress. Over the course of the year as governments learnt to handle the deadly virus and central banks unleashed a flood of liquidity, cutting interest rates to zero, and market sentiment improved dramatically.

The Bank made a Profit before Tax in FY2021 of USD 17.5 million (INR 1,281 million) compared with USD 28.6 million (INR 2,090 million) in the previous year. The profits reduced versus the previous year primarily due to a decrease in Net Interest Income at the back of reduced business volumes. A Profit after Tax of USD 14.8 million (INR 1,081 million) was made against USD 23.2 million (INR 1,700 million) in the previous year.

The Net Interest Income at USD 50.9 million (INR 3,722 million) reduced by 21% compared with the previous year at USD 64.3 million (INR 4,699 million). Net Interest Margin (NIM) at 1.54% in FY2021 reduced by 16 bps as compared to the previous year. The decrease in Net Interest Income is on account of a reduction in the loans and investments. In addition, the interest rate drop across major economies during the year had resulted in a reduction in the overall asset yield. The asset yield reduction got partially offset with an improvement in the cost of funds driven by a reduction in retail deposit rates and repayment of the Bank's subordinated debt upon its maturity during the year.

The corporate banking fees, business banking and retail remittance income streams continued to be the key sources of non-interest income, which reduced during the year to USD 13.0 million (INR 951 million) as compared to USD 15.5 million (INR 1,131 million) during the previous year. As the Bank shifted its focus more towards trade and transaction banking to enhance granularity in its income streams, the corporate fees showed a reduction versus the previous year. The reduction in corporate fee income was partially offset with the increase in business banking trade and foreign exchange income and remittance

income. The Bank's business banking strategy revolved around acquisition of new customers and enhancement of its technology platform to provide improved customer experience which helped in a stable income flow despite the challenging economic environment.

Remittance revenues from UK and M2I EU witnessed an increase compared to the previous year due to enhanced customer services and focused brand awareness marketing strategy.

The Bank continued to follow a cautious concentration risk management strategy through selectively selling down loans and investments which resulted in a realized loss of USD 1.3 million (INR 98 million) as compared to a loss of USD 0.4 million (INR 31 million) in the previous year. The sales in the loan and investment portfolio were in line with the strategy adopted to safe guard against future impact of the current environment.

The Bank remained focused on enhancing operating efficiencies without compromising the control environment. Due to the uncertain market environment and widespread pandemic outbreak, cost discipline and enhancement of efficiencies remained a priority during the year. While the Bank registered an increase in some specific cost categories including Health & Safety, employee well-being and Information Technology (IT), in consideration of the long term strategy of the Bank, the Bank implemented projects on head count optimisation, premises rationalisation, tax optimisation and vendor negotiations. Total expenses at USD 36.7 million (INR 2,683 million) reduced by 4% versus the previous year mainly driven by a decrease in salaries, premises cost and Value Added Tax (VAT) charges, partially offset with an increase in advertising and marketing expenses and Information Technology cost.

The reduction in salary was due to a reduction in head counts in the departments where the business is expected to slow down in line with the strategy of the Bank and the current business environment. VAT charges reduced during the year by USD 0.8 million driven by a revision in the VAT calculation methodology which was approved by the tax authorities. The Bank invested in creating a brand presence by opening its flagship branch in Harrow and refurbished other branches during FY2020. The Bank continued to make selective investments in advertising and marketing through radio and television advertisements and marketing expenses to build brand presence. The Bank remained committed to maintaining a strong control framework to meet increasing regulatory and reporting obligations and continued to invest in people and technology to further strengthen the control framework.

The specific and collective provisions made during the year were USD 8.4 million (INR 611 million) compared with USD 12.3 million (INR 902 million) in the previous year. The specific provision booked during the year was mainly on account of subdued market environment which led to additional stress and performance issues on the existing impaired assets. As at March 31, 2021, the gross impairment ratio was at 3.4% and the net impairment ratio was at 2.2% for FY2021 versus 9.8% and 3.8% respectively for FY2020.

The Bank recognised an overall tax charge of USD 2.7 million. A tax charge of USD 2.3 million has been booked in the P&L against utilization of the deferred tax asset during the year. (Refer note 11 on Taxation).

In line with the CRD IV requirements, as at March 31, 2021 the total capital was 28.3% with a Tier 1 ratio of 23.8%.

#### **<sup>4</sup>Key economic and business outlook**

The Bank primarily operates in the UK, Europe and India markets and monitors the economic outlook especially in these markets to assess the impact on its portfolio and business model. Since the beginning of the year 2020, the world is facing unprecedented crisis of the Covid-19 pandemic which has severely

---

<sup>4</sup> World Economic Outlook April 2021 published by IMF

impacted economic activity across the globe. The Bank takes account of this Global crisis and its significant impact on the future strategy.

As per the World economic outlook published by the IMF in April 2021, Covid-19 continues to raise concerns with human toll, even as growing vaccine coverage lifts sentiment. High uncertainty surrounds the global economic outlook, primarily related to the path of the pandemic. The contraction of activity in 2020 was unprecedented in living memory in its speed and synchronized nature. But it could have been three times as large if not for extraordinary policy support.

After an estimated contraction of a negative 3.3 percent in 2020, the global economy is projected to grow at a positive 6 percent in 2021, moderating to 4.4 percent in 2022, reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased and as economies adapted to new ways of working. The improved projections reflect additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. Global growth is expected to moderate to 3.3 percent over the medium term reflecting projected damage to supply potential and forces that predate the pandemic, including aging-related slower labor force growth in advanced economies and some emerging market economies. Driven by an unprecedented positive policy response, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis. However, emerging market economies and low-income developing countries have been hit harder and are expected to suffer more significant medium-term losses.

All the while, long-term challenges such as boosting productivity, improving policy frameworks, and addressing climate change cannot be ignored. Differential recovery speeds across countries may give rise to divergent policy stances, particularly if advanced economies benefit sooner than others from wide vaccine coverage. Strong cooperation is needed to resolve economic issues underlying trade and technology tensions (as well as gaps in the rules-based multilateral trading system). Building on recent advances in international tax policy, efforts should continue to focus on limiting cross-border profit shifting, tax avoidance, and tax evasion.

While vaccine production and roll outs have caught traction across major economies, there remains high uncertainty about the evolution of the coronavirus pandemic and its economic effects which resulted in lower business volumes during the year. In addition, no-deal uncertainty related to Brexit until December 2020 also impacted the pace of business during the year. In consideration of an uncertain economic environment, the Bank took a cautious approach towards new lending and sold down some of its loan and bond portfolio in line with the strategy adopted to safe guard against future impact of the current environment.

## Principal risks

The Bank is primarily exposed to credit risk (including concentration and recovery risk), liquidity risk, market risk (predominantly interest and exchange rate risk, including IRBB), operational risk (including compliance and outsourcing risk), information security risk, conduct and reputational risk. The Bank's largest regulatory capital requirements arise from credit risk in its lending operations as this risk is influenced not only from a borrower's credit quality but also due to external factors like economic conditions of countries in which the Bank's borrowers are incorporated or where businesses are undertaken by the borrowers and regulatory changes. The Bank's funding is composed of medium to long term deposits, term borrowings and short term savings balances. Unfavourable wholesale market conditions could have an adverse impact on meeting the funding requirements of the Bank. The security of the Bank's information and technology infrastructure is a critical focus area for the Bank as cyber-attacks can disrupt the availability of customer facing websites and could compromise the Bank's customer data and information.

An ongoing risk which the Bank has been monitoring and mitigating is the risk arising from phasing out of LIBOR and transition to alternate reference rates. The Bank has constituted a working group to ascertain the Bank's approach to manage risks arising from phasing out of LIBOR. Effective November, 2020, the bank has ceased issuances of GBP contracts linked to GBP LIBOR as part of its transition strategy to alternate reference rates.

FY2021 witnessed a full blow of the Covid-19 pandemic outbreak, its multi-variants, volatility in infection rates and continuous lock-downs, which had an adverse impact on economic activity across businesses around the globe. The Bank carried out an assessment to identify industries more likely to get impacted from a prolonged shutdown of business due to Covid-19. Within the more impacted industries, a granular assessment of each risk counterparty had been undertaken. The Bank has enhanced monitoring of this portfolio and would factor in the potential stress on business cash flows of such borrowers to assess the impact on its asset quality. The Bank has been evaluating the effect of measures taken by governments of various countries to support businesses and individuals based on disclosures made by corporates and other agencies. A review of the identified industries likely to be impacted by Covid-19 was undertaken in March 2021.

Further details on the Bank's risks and how these are managed are given in Note 38.

The Bank has been making requisite investment in systems, people and controls to minimise the impact of these risks.

## Risk Management and Corporate Governance

### Risk Management

The Bank has a centralised Risk Management Group (RMG) with a mandate to assess and monitor all its principal risks in accordance with defined policies and procedures. RMG is independent of the business units and the Chief Risk Officer (CRO) reports directly to the Managing Director and Chief Executive Officer, and also has reporting lines to the Chairperson of the Board Risk Committee (BRC) and the CRO of the Parent Bank.

### *Risk management framework*

The Bank operates within a comprehensive risk management framework to ensure that the key risks are clearly identified, understood, measured and monitored and that the policies and procedures established to address and control these risks are strictly adhered to. The outcomes of each of these risk management processes are used to identify the material risks that the Bank is exposed to. The Bank has

developed a Board approved risk appetite framework articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. The framework is based on both quantitative parameters such as capital, liquidity and earnings volatility and qualitative parameters such as conduct and reputational risk. The risk appetite has been further drilled down into portfolio-level limits, which include limits on country of risk and credit ratings of loans. RMG monitors adherence to the risk appetite framework and provides relevant reports to the BRC on a quarterly basis.

#### ***Credit risk***

To ensure an acceptable level of credit risk and in line with the Bank's continued focus on maintaining asset quality, the Bank's Executive Credit and Risk Committee (ECRC), on a periodic basis, tracks developments in its credit portfolio and industry trends with the objective of identifying vulnerabilities and early warning indicators. Additionally, review of the Bank's portfolio and emerging risks and challenges is carried out by the Board Credit Committee (BCC) and BRC, respectively.

#### ***Liquidity risk***

The Bank maintains detailed Internal Liquidity Adequacy Assessment Process (ILAAP) and Liquidity Contingency, Recovery and Resolution Plan (LC-RRP) documents. The ILAAP document outlines the liquidity risk management framework of the Bank and its approach for compliance to overall liquidity adequacy rule (OLAR) requirement of the regulators. The LC-RRP document includes a range of recovery and liquidity indicators, which allows the Bank to take preventative measures to forestall a severe stress. It also includes a communication plan, which would be followed in the event of a crisis and a contingency funding scenario. It sets out the corrective measures to be undertaken when there is a potential or actual risk to the Bank's liquidity position.

#### ***Operational risk***

The management of operational risk within the Bank is governed by the Operational Risk Management Policy (ORMP) which is reviewed and approved by the BRC on an annual basis. Operational risk elements monitored regularly by RMG include operational risk incidents, techniques for risk identification, key risk indicators and risk mitigation processes. The Bank has also implemented an Outsourcing Policy to mitigate risks from activities from services outsourced to third party service providers. The policy ensures the application of a standardised approach for all outsourcing arrangements entered into by the Bank and stipulates the monitoring and reporting mechanisms to be adopted by various departments within the Bank. The performance of such service providers is periodically reviewed on parameters such as financial strength, organisational structure & change management, performance against key parameters agreed within service level agreements (SLAs), compliance undertakings, and business continuity & information security and an assessment report is presented to the BRC on a periodic basis.

The Bank has developed and implemented a Business Continuity and Crisis Management Plan (BCP) for all business and corporate functions to ensure continued availability of critical business processes in the event of an outage. The BCP also addresses disaster situations and provides necessary guidance to recover and restore critical and important business processes in the event of an external business disruption. Periodic testing of the BCP is carried out and the results and the updates are shared with CORMAC. Further, in line with the regulatory expectations, a working group has been established under the supervision of the Head-IT & Operations to consider and fully embed a comprehensive operational resilience framework to actively assess the vulnerabilities and recoverability of the Bank's critical services.

#### ***Information security risk***

The Bank has implemented an integrated approach to IT and information security and made significant progress in enhancing its information security governance through monitoring at the Information Technology and Security Committee. Additionally, periodic presentations are given to the BRC on the cyber threat landscape and the measures taken by the Bank to mitigate cyber security risks and threats. These include periodic vulnerability and penetration testing, application security life cycle assessment,

information security awareness programs and cyber incident management. During the year, the Bank renewed its "Cyber Essentials" certificate and badge which demonstrates that the Bank's information security processes and procedures meet the UK baseline standards.

The Bank has a Data Protection Policy (DPP) to ensure that personal and sensitive information about its clients, employees, vendors and others with whom it communicates is dealt in accordance with the relevant national laws. This Policy was prepared taking into consideration the provisions of Data Protection Legislation i.e. the EU GDPR and the DPA 2018. Further, post end of Brexit transition period, the EU GDPR has been incorporated into UK data protection law as the UK GDPR. In practice there is little change to the core data protection principles, rights and obligations found in the UK GDPR. The EU GDPR may also still apply directly to the Bank if we operate in Europe, offer products or services to individuals in Europe, or monitor the behavior of individuals in Europe. Further, post the Germany branch acquiring the status of a third country branch, it has its own data protection policy which is governed by EU GDPR.

<sup>5</sup>Cyber essentials is a UK government backed certification, awarded to companies who follow the core principles of cyber security outlined by the cyber essentials scheme.

### **Conduct risks**

The Bank's conduct risk philosophy is to develop and maintain long term relationships with its customers, based on openness, trust and fairness. It expects that the behavior and motivation of every employee must be about good conduct and adherence to established controls to deliver fair and appropriate outcomes to our customers.

The Bank evaluates the impact of the changing regulatory requirements on an ongoing basis and is fully committed to establishing controls to deliver fair and appropriate outcomes for its customers.

The Compliance group is responsible for the monitoring and framing policies and procedures to mitigate conduct risk including frauds within the conduct risk appetite of the Bank.

Performance against conduct risk related matters are reviewed and monitored by the Bank's Board Conduct Risk Committee (BCRC) and at the executive level by the Compliance, Conduct and Operational Risk Management Committee (CORMAC). Both Committees meet on a periodic basis and receive regular updates from Business, Operations and Compliance teams.

The Bank has embedded a whistleblowing policy through regular training of staff. The policy provides for staff to raise concerns, on a confidential basis, both internally and to the regulators. An annual report on whistleblowing is presented to the Board Audit Committee.

### **Corporate Governance**

The Bank's corporate governance framework is based on an effective independent Board, the separation of the Board's supervisory role from the executive management of the Bank and the constitution of Board Committees to oversee critical areas and functions of executive management. The Bank has a total number of five Non-Executive Directors and one Executive Director on the Board. Two of the Non-Executive Directors are representatives of the Bank's Parent Bank, ICICI Bank Limited, and three are independent.

The Bank operates a three lines of defence model including independent control groups such as Compliance, Risk, Internal Audit, Finance and Legal to facilitate independent evaluation, monitoring and reporting of various risks. These support groups function independently of the business groups and are represented at the various Committees

Effective corporate governance and compliance is a prerequisite to achieving the Bank's strategic objectives. The Bank has maintained a strong focus on controls, governance, compliance and risk management to provide a sound foundation for the business. It ensures the embedding of a controls and

compliance culture throughout the organisation. This is achieved through appropriate training, maintaining adequate resources within the control groups commensurate with the Bank's operations, continuous strengthening of internal systems and processes and effective deployment of technology. Information technology is used as a strategic tool for the Bank's business operations, to gain a competitive advantage and to improve its overall productivity and efficiency.

The Bank's Board is responsible for creating and delivering sustainable stakeholder value by providing oversight to the Bank's business. The Board is also the decision-making body for all matters having significant strategic, financial or reputational implications or consequences. There are matters specifically reserved for final approval of the Board and certain powers of the Board are delegated to the Board Committees. The Board Committees discuss various matters having strategic, financial or reputational implications or consequences. In the event that the Chairperson of these committees determines that these matters have significant implications, they refer such matters to the Board for due consideration.

The Board has delegated certain powers to five Board Committees which are the Board Credit Committee, Board Risk Committee, Board Audit Committee, Board Conduct Risk Committee and Board Governance Committee. The Bank has an established governance framework with clear terms, reference and mandates for these Committees.

The Bank has adopted the governance framework in line with the corporate governance practices at other UK financial institutions. The Bank is not listed in the UK and hence UK corporate governance code is not applicable to the Bank.

#### **Section 172 statement**

As per section 172 of the UK Companies Act 2006, the Directors must act in good faith to promote the success of the company and the Board is required to have full regard to the likely consequences of any decisions in the longer term, interests of the company's employees, need to foster the company's business relationships with suppliers, customers and others, impact of the company's operations on the community and the environment, desirability of the company maintaining a reputation for high standards of business conduct and need to act fairly as between members of the company. In consideration of these factors, the Directors discharge their duties supported by the annual training programme developed by the Bank to enhance their professional knowledge and understanding of the Bank's business model and strategy; well-managed, structured and comprehensive Board and Committee meetings and adequate information to enable the Board to take informed decisions for the long term success of the Bank.

The Directors monitor the Bank's progress against its strategy which revolves around three pillars including Non Resident Indian connect, customer service and digitisation and diversification of assets and liabilities. The Bank's strategic focus is in line with the Group's strategy to cater to the banking needs of the Non Residents Indians, to provide banking services to the multinational companies having linkages to India and to enhance its customer service through digitisation.

**Employee engagement:** Ongoing employee engagement is embedded in the Bank's strategy and objectives. The management committee including the MD and CEO engages with the employees at all levels on a frequent basis through 'Town Hall' meetings, video conference and informal meetings to provide an update on the Bank's performance and strategy. The Directors receive quarterly updates on the employee engagement initiatives, key demographic details of the employees and feedback from Culture & Conduct surveys conducted by the Bank.

**Stakeholder engagement:** The Bank ensures regular engagement of the Board with key stakeholders including regulators, customers and suppliers. The Board receives regular updates via its various

Committees on key regulatory themes, hot topics and priorities. The Senior Management of the Bank is regularly engaged with regulators to understand their views and expectations and to update them about the Bank's strategy and business model, including annual meetings of regulators with the independent non-executive directors. The Board Conduct Risk Committee (BCRC) is focused and committed to the Bank's conduct with its customers to ensure that they are treated fairly, they receive the right outcome and conduct risk is appropriately mitigated. The BCRC receives regular updates on the Bank's engagement with its customers including, but not limited to, new product and service launches, the management of conduct risk, various customer service initiatives, status of customer complaints and their root cause analysis. The Directors receives an annual update on the performance of outsourced service providers and payment practices and other initiatives involving suppliers.

**Engagement during Covid-19:** Throughout the financial year 2021, the focus of the Bank and the Board was to support the Bank's customers and employees through the challenges imposed by the pandemic. The Board held periodic discussions to address the issues that emerged from Covid-19 and to take adequate steps to support customers and colleagues while continuing to work towards the Bank's long term strategic objectives. In addition to the formal Board meetings, the Independent Directors conducted weekly/fortnightly calls with the management committee to obtain a status update especially related to staff well-being, customers' requests for payment deferrals, branch working, portfolio status and related matters. The Directors also had virtual meetings with the Bank's branch staff to encourage and express gratitude towards their commitment to service the customers. The Managing Director continued with his communication meetings with various staff members and the management committee members had separate video calls with the employees to ensure they were having a personal connect with the employees. The Bank also kept the regulators updated with the overall status on a periodic basis through calls and sharing portfolio and exposure related data on a monthly basis. The Bank ensured a harmonised response to the crisis through transparent communication and close coordination with its key stakeholders.

### **Brexit**

From January 1, 2021 the UK has formally left the European Union. The effects of Brexit will in part be determined by the EU-UK Trade and Cooperation Agreement which was agreed on December 24, 2020 and ratified by the UK Parliament on December 30, 2020. However, the trade deal did not incorporate any rules governing the financial services sector. The UK and EU also approved a Joint Declaration on Financial Services Regulatory Cooperation between the European Union and the United Kingdom, which stipulates that both parties agree to establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship between autonomous jurisdictions.

One of the biggest losses for the UK and EU was the ability to continue passporting their services into the other party's territory. Effective January 01, 2021, a UK financial-services firm would not be able to establish a presence in the EU, and vice versa, or provide cross-border services into each other's territory based on an authorisation obtained under its domestic law. They can still do business as before, but only in compliance with local authorisation and licensing requirements.

Although the PRA has already granted an equivalent regime for EU firms in most areas, the EU has not reciprocated with such a regime. Perhaps more clarity surrounding financial-services rules will be achieved in the near future. As per the Joint Declaration signed by the UK and EU, both parties will agree on a memorandum of understanding (MoU) establishing the framework for cooperation in the near future. This would include discussions on how to move forward on both sides with equivalence determinations between the UK and EU, without prejudice to the unilateral and autonomous decision-making process of each side. EU market access for the UK will still be far away as a number of follow up discussions and negotiations would be required after signing the MoU.

The Bank had a passported branch in Germany, which had been converted to a third country branch effective December 01, 2020. The Branch complies with the rules and regulation of the third country branch in Germany. During the year, the Bank has worked towards ensuring appropriate infrastructure in



place to run Germany as a third country branch which included implementation of the required organisation structure, policies, procedures and governance framework. The Bank and its Germany branch operate as a single legal entity with the Board and Board committees operating at the Bank's level.

While the Bank ensured continuity of its business operations in Germany, due to the absence of an equivalence regime between the UK and EU, the Bank had engaged external legal counsel to obtain clarity on the access to business in other EU countries. The Bank has established its processes to comply with the guidance provided by the external legal counsel. The Bank had assessed the impact of limited access to EU market on its business strategy. As the Bank's strategy has been more focused towards an asset light and transaction banking model, it was assessed that Brexit would not have a significant impact on the Bank's strategy. The Bank is in the process of entering into a partnership with EU licensed entity to continue business in its core strategic areas. The Bank reviews and presents the impact of Brexit on its portfolio to the Board on a periodic basis.

#### **Covid-19**

The wide spread effect of Covid-19 has resulted in a significant disruptive impact on economic activity across the globe. The pandemic has created an unprecedented challenge to the global economy due to multi waves of Covid-19 and repeated lock downs to deal with the infections. The vaccine drive has been positive and provided hope for revival of the economies around the world. The government, central banks and regulatory authorities have taken a number of steps to mitigate the effects of the crisis across the UK, Europe and India by way of tax payment deferrals, debt moratoria, credit guarantees, business interruption loans, employee furlough scheme and amendments to RWA, capital and liquidity frameworks.

**Customer support:** During the year, the Bank extended support to its customers through various digital channels, branch presence and providing payment holidays as requested by the Bank's customers. The Bank's UK branches remained open throughout the lock down period to serve its customers. The Bank shifted its focus on enhancing digital capabilities including digital account opening and strengthening of its internet banking platforms for retail and corporate customers.

**Employee well-being:** Employee well-being has been a focal point for the Bank in these challenging times. The Bank has been providing technology and infrastructure support to its employees, where required, to provide a seamless and safe 'work from home' environment. The Bank had ensured compliance to the social distancing norms, appropriate infrastructure and maintenance of hygiene on a regular basis in its office premises for staff members preferring to work from the office. The staff at the branches were fully trained to deal with the external customers during the lock down period to comply with the social distancing norms. The Bank's senior management and the Board of directors kept in touch with the employees at all levels by way of virtual calls and communication meetings to discuss the Bank's strategy, priorities and focus areas. The Bank acknowledges and applauds the commitment and dedication of its employees during these unprecedented times towards meeting the strategic objectives.

**Portfolio assessment:** The Bank assessed its assets portfolio on a regular basis for any potential adverse impact due to the Covid-19 pandemic induced lockdowns and restrictions in carrying out business activities and presented a quarterly update to the Board. As at March 2020, the Bank implemented a deferral policy to support its customers in line with the regulatory guidance and market practice. As the impact of Covid-19 is still uncertain, considering a balanced approach, the Bank has booked a collective provision overlay of USD 11.8 million at March 31, 2021 (USD 9.2 million at March 31, 2020), computed based on internal stress approach with supportable assumptions possible in the current uncertain environment.

**Regulatory guidance:** The Bank had adopted the amendments announced by the PRA in the Capital Requirements Regulation (CRR II) in SME supporting factor for its capital computation. PRA and FCA had issued periodic guidance in relation to treatment of forbearance arrangements and payment deferrals on loans mainly for consumer and mortgage loans. In July 2020, PRA published a statement to reduce the Pillar 2A capital requirements by 50% of the firm-specific UK countercyclical buffer rate (CCYB) pass-through rate. The PRA buffer requirement will be increased to maintain the Common Equity Tier (CET) 1 requirement at the same level. In March 2020, the UK CCYB rate was reduced to 0% in response to the COVID-19 pandemic.

During FY2021, The Bank remained focused on maintaining its robust internal controls and risk management techniques to ensure that the Bank operates within its risk appetite. The Bank also focused on conserving capital and liquidity at all times during the year due to the uncertain economic environment. The Bank acknowledges continued uncertainty and absence of forward looking information on the Covid-19 impact and has considered all potential areas that could impact its business strategy, portfolio and profitability including the future economic outlook of the relevant markets. The Bank will continue to monitor and assess its portfolio at periodic intervals.

#### **IBOR reform**

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators and central banks. Many uncertainties remain but the roadmap to replacement is becoming clearer. Interest rate benchmarks including, among others, the London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR), the Euro Overnight Index Average (EONIA) and certain other Interbank Offered Rates (IBORs) are being reformed. The Financial Stability Board (FSB) in 2014 had recommended to reform major interest rate benchmarks and use near risk-free rates (RFRs) that are based on more active and liquid overnight lending markets. RFRs are backward-looking overnight rates based on actual transactions and reflect the average of the interest rates that certain financial institutions pay to borrow overnight either on an unsecured basis from wholesale market participants for unsecured RFRs, such as the Sterling Overnight Index Average (SONIA) or the average rate paid on secured overnight repurchase or "repo" transactions for secured RFRs, such as the Secured Overnight Financing Rate (SOFR).

The Bank formed a Steering Committee chaired by the Head of Corporate Banking and attended by the executive management team with regular meetings to monitor and discuss the developments related to IBOR reform. The Bank engaged an external consultant to provide regular oversight and provides specialised assistance, where required, on the Libor transition project. The Bank also coordinates with other banks to share and follow best practices.

#### **Recent announcement by Regulators:**

The Financial Conduct Authority (FCA), announced on March 05, 2021, the future cessation or loss of representativeness of the 35 LIBOR benchmark settings currently published by ICE Benchmark Administration (IBA). IBA is an authorized administrator, regulated and supervised by the FCA.

- Publication of all seven euro LIBOR settings, all seven Swiss franc LIBOR settings, the Spot Next, 1-week, 2-month and 12-month Japanese yen LIBOR settings, the overnight, 1-week, 2-month and 12-month sterling LIBOR settings, and the 1-week and 2-month US dollar LIBOR settings will cease immediately after December 31, 2021.
- Publication of the overnight and 12-month US dollar LIBOR settings will cease immediately after June 30, 2023.

A high degree of uncertainty still remains with IBOR reform and LIBOR transition to the alternate risk free rates and hence could entail risks for the Bank some of which are mentioned below. The Bank has taken a number of steps to mitigate these key risks.

Risks	Impact	Steps taken by the Bank
Financial risks	Valuation of certain financial assets and liabilities may change where libor will transition to alternate risk free rates	The Bank has completed a preliminary computation of the financial impact on the Bank's P&L due to libor transition to alternate risk free rates i.e., SONIA/SOFR and shared this to the Board Audit Committee
	Volatility in financial results due to inability to apply hedge accounting in accordance with the accounting standards and /or need to de- and re-designate hedge relationships	The Bank has adopted IASB amendments phase 1 & phase 2 and adhered to the ISDA protocol on January 20, 2021. The majority of the derivatives would be transitioned through ISDA protocol and other derivatives would be transitioned based on bilateral negotiations. Details are provided in subsequent section of the disclosure
Conduct risk	Change to alternate risk free rates may lead to customer complaints	The Bank has sent a generic communication to all its impacted clients in August 2020 informing them about the LIBOR transition and a generic client communication has been posted on the Bank's website informing them of the transition timelines as confirmed by the regulators and the Bank's readiness towards the transition.
Pricing risk	Discontinuation of existing rates and transition to alternative 'risk-free' reference rates may impact the pricing of certain transactions	The Bank has ceased new issuances linked to GBP-LIBOR effective November 2020. New issuances linked to Base rates have been executed in the Sterling market. The Bank has initiated its communication plan with its clients and counterparties to have a smooth transition or include the appropriate fallback provisions. The Bank's core systems have been enabled for smooth transitioning of existing GBP LIBOR issuances.
Operational risk	Changes to the IT systems, operational processes, and controls.	SONIA (Sterling Overnight Index Average) rate functionality has been deployed in the Bank's core systems for loans and treasury products which enables booking of new loans and derivatives with SONIA as the RFR. The Bank is in the process of configuring the functionality for other RFRs in it's core systems.

#### **Accounting amendments:**

As at March 31, 2020, the Bank adopted the phase 1 amendments to IFRS9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform issued in September 2019. The amendments have been adopted from April 2019 to hedging relationships. The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

As at March 31, 2021, the Bank has adopted the phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 which represents the second phase of the IASB's project on the effects of interest rate benchmark reform. The amendments 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.

These amendments apply for annual periods beginning on or after January 01, 2021 with early adoption permitted. The Bank has adopted the amendments from April 01, 2020 and has made the additional disclosures as required by the amendments, see note 41.

#### ***Information on hedging products***

On October 23, 2020, ISDA launched its IBOR Fallback Supplement and Protocol to enable market participants to incorporate revisions into their legacy non-cleared derivatives trades with other counterparties that choose to adhere to the protocol. It has become effective on the same date as the supplement: January 25, 2021. It comprises of the following documents:

#### **ISDA 2020 IBOR Fall-backs Protocol**

The above protocol enables market participants to incorporate terms of the IBOR Fallbacks supplement to their legacy non-cleared derivatives trades with other adherents. It is a voluntary and multilateral process and applies to protocol covered documents such as Master Agreements, Credit Support documents and Protocol covered confirmations. The alternative RFRs will be term and spread-adjusted to account for the differences between IBORs and RFRs. Bloomberg has been selected to calculate and publish the term-adjusted RFRs. The amendments would primarily affect transactions that incorporate the 2006 ISDA Definitions following the effective date. Trades under and ISDA as well other protocol covered contracts (e.g.: GMRA) would suitably incorporate the fallbacks if parties to such trades adhere to the Protocol.

#### **ISDA Interbank Offered Rate (IBOR) Fall-backs supplement**

The above supplement updates the "Rate Options" set out in the 2006 ISDA definitions for certain IBORs and it was published on October 23, 2020 with an effective date of January 25, 2021. The amendments will primarily effect transactions that incorporate the 2006 ISDA definitions following the effective date and include triggers and fallbacks in the event of permanent cessation of IBOR.

#### **Climate change**

The Bank closely monitors the regulatory landscape and steps being taken by the industry on 'Climate Change' and 'Environmental Social & Governance (ESG)'. Subsequent to issuance of the supervisory statement on enhancing approaches to managing climate-related financial risks (SS3/19) in April 2019, the PRA published a 'Dear CEO letter' on managing climate related financial risk in July 2020. The letter provided observations on good practice and set out expectations for next steps indicating that firms should have fully embed their approach to manage climate-related financial risks by the end of 2021. Further, financial risks arising from climate change has also been included as one of the PRA's supervisory priorities for 2021.

The Bank acknowledges that climate change can lead to physical risks, such as severe weather events (e.g. sea level rise, flooding) and transition risks, such as the possibility of deterioration in the customer's ability to meet its financial obligations due to the global movement from a high-carbon economy to a low-carbon economy. Climate change is considered as a risk impacting a range of risk categories to varying degrees. The Bank is aware of its constructive obligation towards the government's

environment agency for ESOS reporting and submitting energy assessment for its premises. This was completed in February 2021. The Bank has appointed a government approved ESOS assessor to assist in these matters.

The Chief Risk Officer (CRO) has the additional responsibility as SMF to ensure that the regulatory expectations are adequately addressed and the BRC provides an oversight to the climate change related action plan of the Bank. A Working Group (WG), chaired by the CRO or the Head of Corporate Banking and with members from Legal, Compliance, Finance, Treasury and business groups, tracks the latest regulatory guidance and expectations and developments in the industry with regard to ESG and Climate change. The WG members participate in webinars and discussions organised by forums and associations like the Association of Foreign Banks, UK Finance, Bloomberg as well as international rating agencies like Standard & Poor's, Fitch and Moody's to keep themselves updated with the developments and actions being taken to manage and meet requirements relating to ESG and risks related to climate change. During FY2021, a quarterly update to the Management Committee and semi-annual update to the BRC was provided by the WG on these aspects. This included synopsis of the guides published by the Climate Financial Risk Forum (CFRF), which is co-chaired by the PRA and FCA, the roadmap of government-regulator Taskforce on Climate related Financial Disclosures (TCFD) taskforce in the UK. Updates were also provided on the progress on the Bank's action plan to meet the requirements of SS3/19 around Governance, Risk Management, Scenario analysis and Disclosures.

During the year, the Bank has enhanced its credit risk policy to include guidelines for reviewing sectoral, regulatory, physical, transition, litigation and reputation risks on account of climate change, as disclosed by borrowers. The Loans against property (LAP) lending framework already has minimum requirement for an energy efficiency rating ('EER'), evidenced through an Energy Performance Certificate, ('EPC'), for properties taken as security for loans. Valuers are required to verify and include relevant details in their valuation report submitted to the Bank. Based on disclosures, appropriate information is captured in the appraisal/AQR notes and risk rating rationales. Enhancement was also made to the outsourcing policy and templates for getting more information on physical risks due to severe weather events, including natural calamities, from the outsourced service with the objective of improving monitoring. The Bank continues to enhance identification, oversight and management of climate-related risks proportionate to its size and nature of operations.

The Bank has planned the below activities around the key CFRF themes and regulatory statements during FY2022:

<b>Governance</b>	Embedding climate change risk into the Bank's governance framework by reviewing and enhancing mandates of the Board and other committees
<b>Risk management</b>	Enhance Bank's risk appetite statement in accordance with the Board approved business strategy, define risk appetite limits for industries more susceptible to climate related financial risks, define exposure limits for countries with a 'low' ND-Gain Index score. Developing a framework to identify and manage exposure to climate-related financial risks and embedding climate change risk management within the risk management framework,
<b>Scenario analysis</b>	Evaluate qualitative parameters for assessment of potential scenarios to be included in the planning scenarios to determine the impact of climate change financial risks on the Bank's overall risk profile.

The Bank will also improve its approach for the assessment of available and required data for the management of climate related risks.

#### Senior Managers Regime

The Bank has fully implemented the requirements of the Senior Managers regime, which came into effect on March 7, 2016. Specifically, the regime requires firms to:

1. Allocate a range of responsibilities to Senior Managers (including Non-Executive Directors) and to regularly vet their fitness and propriety. This will focus accountability on a narrower number of senior individuals in banks than the previous Approved Persons Regime.
2. Assess the fitness and propriety of certain employees (certification employees) who could pose a risk of significant harm to the bank or any of its customers and issue them with certificates on an annual basis.
3. Apply a new set of conduct rules to a broad range of staff, including the Senior Managers and the certification staff.

The Bank presents regular updates on compliance with the regime to the Board Governance Committee.

#### Internal Audit

Internal Audit is an integral part of the ongoing monitoring of the Bank's system of internal controls. The Internal Audit Group is an independent function and the Head of Internal Audit reports directly to the Managing Director and Chief Executive Officer, and also has reporting lines to the Chairperson of the Board Audit Committee and General Manager, International Audit, ICICI Bank Limited. The Bank has put in place a risk based internal audit coverage to verify that operating policies and procedures are implemented as intended and are functioning effectively. Internal Audit also evaluates whether the framework including the associated governance processes meets the Bank's needs and regulatory expectations/requirements.

By order of the Board



**Loknath Mishra**

Managing Director & Chief Executive Officer



**Aarti Sharma**

Chief Financial Officer & Company Secretary

April 24, 2021  
Registered address:  
One Thomas More Square  
London E1W 1YN

## Directors' report

The Directors have pleasure in presenting the Eighteenth annual report of ICICI Bank UK PLC, together with the audited financial statements for the year ended March 31, 2021.

## Financial Results

The financial statements for the reporting year ended March 31, 2021 are shown on pages 35 to 99.

## Directors

Mr. Sandeep Batra	Non Executive Director, Chairperson of the Board
Mr. Sriram Hariharan	Non Executive Director
Mr. Robert Huw Morgan	Independent Non Executive Director
Mr. John Burbidge	Independent Non Executive Director
Sir Alan Collins	Independent Non Executive Director
Mr. Loknath Mishra	Managing Director & CEO

## Company Secretary

The name of the Company Secretary at the date of the report and who served during the year is as follows: Ms. Aarti Sharma

## Going concern

The Board has assessed the Bank's going concern and confirms that the Directors are satisfied that the Bank has the resources to continue its business for at least 12 months from the date of approval of these financial statements.

In making the assessment, the Directors have considered detailed information relating to present and potential future conditions, including profitability, cash flows and capital resources, and in particular:

- Considered existing and emerging risks which could impact the Bank's current business operations. Reviewed the Bank's plans and actions to identify, manage and control these risks
- Conducted a strategic review of the business model including the impact of Brexit and Covid 19 on the Bank's portfolio, profitability and business model
- Considered potential impact of Covid-19 including changes in the business model, collective and specific provisions, changing market environment and potential impact of Covid-19 on the portfolio.
- Assessed Bank's three year forecasts, taking account of potential changes in its business model in subsequent years, including stress testing based on scenario simulated based on worst observed historic default rates since 1980s. Reviewed funding profile and assessed Bank's ability to maintain adequate liquidity levels through managing both retail and wholesale funding sources and meet the regulatory liquidity requirements through maintaining liquid assets. As at March 31, 2021, the Bank maintained liquidity and capital positions in surplus over the regulatory requirements

The Directors considered the Bank's operational resilience especially under Covid-19 situation. This included identification of critical functions and employees that support important business services, as well as ensuring safety and wellbeing of its employees and that they can safely resume their duties remotely.

The Directors considered financial resilience of the Bank taking into account the Bank's decision to keep sufficient surplus liquidity in this uncertain economic environment. The Bank has been conserving liquidity through selective new business volumes, sell down of loans and investments and engaging with counterparties for funding. The Bank keeps in touch with the counterparties for interbank borrowings and other funding sources to test the availability of liquidity in the market. As at March 31, 2021, the Bank maintained liquidity and capital positions in surplus over the regulatory requirements. In consideration of the steps taken, the Directors are satisfied with the operational and financial resilience of the Bank.

With regards to ICICI Bank Limited (the Parent Bank) support, the Directors considered that the parent bank has issued a letter of comfort to the Bank's regulators, the Financial Services Authority (FSA), now the PRA, stating that the parent bank intends to financially support the Bank in ensuring that it meets all of its financial obligations as they fall due. The Directors also considered the last available capital adequacy ratio of the Parent Bank at 19.51% and Tier 1 ratio at 18.1% as at December 31, 2020.

In consideration of the factors mentioned above, the assessment concluded that the Bank will be able to continue in operations and meet its liabilities as they fall due for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

### **Share Capital**

As at March 31, 2021, the issued and fully paid share capital amounted to USD 420 million (INR 30,713 million).

### **Employees**

During the current year the Bank had employed 157 employees (FY2020: 177). The Bank encourages the involvement of all employees in the Bank's overall performance and profitability. The Bank has a pension scheme operating in the UK in which the employees are entitled to a maximum of five percent contribution of their basic salary by the Bank. Generally, all permanent employees have life insurance cover to the extent of four times their base salary. The Bank also has a private medical insurance plan, which covers permanent employees and their dependents in UK.

The Bank is committed to employment practices and policies which recognise the diversity of its workforce and ensure equality for employees regardless of sex, race, disability, age, sexual orientation or religious belief. Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. The Bank has adopted a Code of Conduct, which sets out the core values and behaviours expected of senior management and other employees. The requirements of the Code are for all employees to act with integrity and maintain the right culture at all times. It also reinforces the Bank's commitment to maintaining high standards in management of our relationship with customers, employees and suppliers.

The Bank recognises its social and statutory duty and follows a policy of providing the same employment opportunities for disabled persons as for others.

The Bank follows a conservative and comprehensive approach towards remuneration. The Bank has adopted and implemented a Remuneration Policy which has been approved by the Board Governance Committee. The Bank ensures that it adheres to the Remuneration Code guidelines published by the PRA and FCA. The Bank's remuneration policy disclosures are made available on the Bank's website: <http://www.icicibank.co.uk/personal/basel-disclosures.html> as part of Pillar 3 disclosures.



### Political contributions

The Bank made no political donations or incurred any political expenditure during the year (March 31, 2020: NIL).

### Dividends

No dividends on the share capital of the Bank were proposed during the year (March 31, 2020: NIL).

### Financial instruments

The Bank uses financial instruments to manage certain types of risk, including foreign exchange and interest rate risk. Details of the management of these risks are provided under Risk management section outlined in Note 38.

### Post balance sheet events

There have been no material events after the balance sheet date identified up until the date of these financial statements which would require disclosure or adjustments to the March 31, 2021 financial statements.

### Disclosure of information to the Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

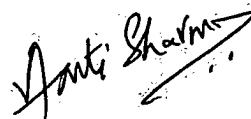
### Auditor

KPMG LLP was appointed as the auditor of the Bank at its Annual General Meeting on July 16, 2020 for a year. Following a competitive tender process, the Directors have selected BDO LLP to serve as the Bank's statutory auditors from FY2022 onwards.

By order of the Board



Loknath Mishra  
Managing Director & Chief Executive Officer



Aarti Sharma  
Chief Financial Officer & Company Secretary

April 24, 2021  
Registered number: 4663024  
Registered address:  
One Thomas More Square  
London E1W 1YN

**Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 company and of the profit or loss of the company 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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

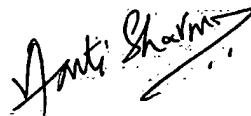
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

By order of the Board



**Loknath Mishra**  
Managing Director & Chief Executive Officer



**Aarti Sharma**  
Chief Financial Officer & Company Secretary

April 24, 2021



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ICICI BANK UK PLC**

### **1 Our opinion is unmodified**

We have audited the financial statements of ICICI Bank UK Plc ("the Bank") for the year ended 31 March 2021 which comprise the Profit and Loss account, the Statement of Other Comprehensive Income, the Balance Sheet and the Statement of Changes in Equity, and the related notes, including the accounting policies in note 3. We have not audited the pro forma information labelled as "convenience translation" (explained in note 2(b)) presented throughout the financial statements.

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the directors on 2 July 2003. The period of total uninterrupted engagement is for the 18 financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

### **2 Key audit matters: including our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters (unchanged from 2020) in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risks	Key audit matters	Our response
<p><i>Going concern- Disclosure quality</i></p> <p>Refer to pages 23 (Directors' report) and 42 (accounting policy)</p>	<p><i>Disclosure quality</i></p> <p>The financial statements explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Bank.</p> <p>That judgement is based on an evaluation of the inherent risks to the Bank's business model and how those risks along with the provision of ICICI Bank Limited (Group) support, if such support would be required, might affect the Bank's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Bank's available financial resources over this period were:</p> <ul style="list-style-type: none"> <li>• The impact of COVID-19 on the Bank's financial plan</li> <li>• The ability and intention of ICICI Bank Limited to support the Bank; and</li> <li>• The underlying profitability of the Bank.</li> </ul> <p>There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of depositor confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>We considered whether these risks could plausibly affect the Bank's capital and liquidity position in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p><i>Our procedures included:</i></p> <ul style="list-style-type: none"> <li>• <i>Our COVID-19 knowledge-</i> We considered the Directors' assessment of Covid-19 related sources of risk for the Bank's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks;</li> <li>• <i>Sensitivity analysis-</i> We considered sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively;</li> <li>• <i>ICICI Group support:</i> We inspected the letter of support provided by the ICICI Group to the Bank and we evaluated the ability and intent of the ICICI Group to support the Bank; and</li> <li>• <i>Assessing transparency:</i> We considered whether the going concern disclosure in note 2(e) to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and, dependencies, and related sensitivities.</li> </ul> <p><i>Our results:</i></p> <p>We found the going concern disclosure prepared by management in note 2(e) without any material uncertainty to be acceptable (2020 result: acceptable).</p>

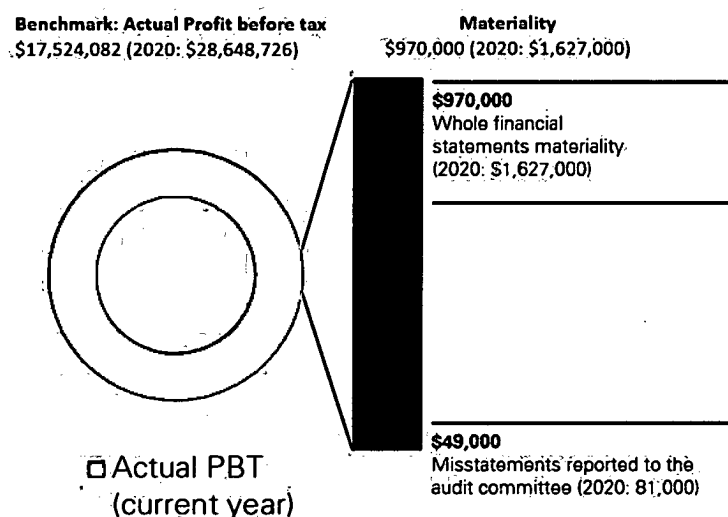
The risks	Key audit matters	Our response
<p><i>Specific impairment on loans and advances</i></p> <p>(Charge to profit and loss: \$8.67 million; 2020: \$2.7 million)</p> <p>Closing balance: \$20.71 million; 2020: \$142 million)</p> <p>Refer to pages 47 and 51 -53 (accounting policy) and page 65 (financial disclosures)</p>	<p><i>Subjective estimate:</i></p> <p>The carrying value of loans and advances held at amortised cost may be materially misstated due to impairment triggers not being identified or impairment charges not being reliably estimated, or both. The identification of impairment triggers and the valuation techniques used to assess the level of impairment, such as estimates of future cash flows or valuation of collateral, involves significant management judgment. The Bank's exposures include certain loans which are individually significant in size, primarily to companies linked to India, and some linked to volatile sectors such as commodities, retail and energy. In some instances, repayment may be dependent on the successful realisation of collateral. The widespread effect of Covid-19 has resulted in a lock-down in many countries which is having a disruptive impact on the global economy and various business sectors including those in which the Bank's customers operate. This leads to a risk of non-identification of triggers of impairment and challenges with estimating the impairment provision. We determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p><i>Our procedures included:</i></p> <p><i>Control testing:</i></p> <p>We tested the design, implementation and operating effectiveness of key controls over the capture, monitoring and reporting of loans and advances to customers, the completeness of the credit watch list, and the assessment of specific provisioning.</p> <p><i>Substantive procedures:</i></p> <p>We obtained all cases where indicators of impairment were identified by management ("watch list exposures") and examined a risk based sample of exposures not identified as impaired and formed our own judgment, based on the individual facts and circumstances (including the impact of Covid-19), as to whether the classification of those exposures as not being impaired was appropriate. Where indicators of impairment were identified, we evaluated the accuracy of the Bank's individual impairment assessments by reperforming calculations and agreeing data inputs to third party documentation, including valuation reports. We also challenged key assumptions of expected future cash flows, collateral valuation, sensitivities used and realisation assumptions, by inspecting third party correspondence and independent valuation reports. In response to specific weaknesses identified in the control environment, we expanded the extent of our detailed testing over and above that originally planned by performing an additional procedure over loan covenants.</p> <p><i>Disclosures:</i></p> <p>We assessed the Bank's compliance with the relevant accounting standards including the adequacy of the Bank's disclosures in relation to the subjectivity in impairment, credit risk, collateral and forbearance.</p> <p><i>Our results:</i></p> <p>The results of our testing were satisfactory, and we considered the specific impairment charge and provision recognised to be acceptable (2020 result: acceptable).</p>

The risks	Key audit matters	Our response
<p>Collective provision on loans and advances (Charge/(release) to profit and loss: \$(0.25) million; 2020: \$6.20 million Closing balance: \$18.36 million; 2020: \$18.63 million) Refer to pages 43 and 53 - 54 (accounting policy) and page 66 (financial disclosures).</p>	<p>Subjective estimate: Where no specific impairment is identified for an exposure, a collective provision is calculated to account for losses that are present in the portfolio but not yet identified. A model is used to calculate the level of provision for the exposures which are not specifically impaired, which incorporates the following assumptions that increases the uncertainty of the calculation: 1) Probability of default: the likelihood of an account falling into arrears and subsequently defaulting 2) Loss given default: the loss expected on an exposure once a borrower has defaulted, which is impacted by the value of collateral available; and 3) Loss emergence period: the length of the period between the counterparty incurring a loss and the point where it is identified and confirmed. In addition, a judgmental economic scalar is applied by the Bank to increase or decrease the probability of default estimates within the model and an overlay is applied by the Bank to reflect the prevailing economic environment e.g. to account for any specific stress in a particular market or the market-wide impact of Covid-19. We determined that the collective provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p><i>Our procedures included:</i></p> <p><i>Control testing:</i></p> <p>We tested the design, implementation and operating effectiveness of key controls over the capture, monitoring and reporting of loans and advances to customers, the governance of the collective provision model and management overlays made to it, and the input of key data into the collective provision model.</p> <p>We tested the design, implementation and operating effectiveness of the controls over the authorisation and application of judgmental scalars and management overlays.</p> <p><i>Substantive procedures:</i></p> <p>We evaluated the model methodology by engaging specialists and challenged management regarding the key assumptions used. We also assessed reliability and appropriateness of third party data used as an input to the collective provision model. We tested the completeness and accuracy of key inputs (e.g. year end balances, risk gradings) to the model, and performed a recalculation of the model output.</p> <p>We re-calculated the application of scalars, probability of default and loss given default to test the accuracy of the collective provision recognised.</p> <p>We challenged management's additional overlay applied to the model outcome to capture the risk on account of COVID-19 by assessing the appropriateness, reliability and accuracy of data used, including recalculating the amount.</p> <p><i>Our results</i></p> <p>The results of our testing indicated that management's judgments were satisfactory, and we considered the collective impairment charge and provision recognised to be acceptable (2020 result: acceptable).</p>

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

Materiality for the financial statements as a whole was set at \$970,000 (2020: \$1,627,000), determined with reference to a benchmark of profit before tax for the year, of which it represents 5.5% (2020: 5.7%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$49,000 (2020: \$81,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.



Our audit of the Bank was undertaken to the materiality level specified above. All procedures are scoped by the UK audit team, however, we engage our member firm in India to perform controls testing and substantive procedures over the following processes which are outsourced by the Bank to the Group head office under service level agreements:

- Loan operations;
- Assessment of centralised valuation and ratings models;
- Treasury operations;
- Certain finance processes including key reconciliations; and
- IT infrastructure and controls

We inspect the audit work performed by our network firm throughout the year to assess the audit work performed.

### 4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Bank or to cease its operations, and as they have concluded that the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Director's conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Bank will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have

anything material to add or draw attention to in relation to the Directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Bank's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

5 Fraud and breaches of laws and regulations - ability to detect

#### ***Identifying and responding to risks of material misstatement due to fraud***

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee, the Chief Risk Officer, the Head of Compliance and the Head of Legal and inspecting policy documentation as to the Bank's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Bank's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee, and Risk Committee meeting minutes; and
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Bank's management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment of loans and advances to customers and valuation of investments. On this audit we do not believe there is a fraud risk related to revenue recognition because the Bank has simple revenue streams with largely an automated recognition process, and there is limited judgement and opportunities to influence the revenue recognition.

We also identified a fraud risk related to the specific impairment of loans and advances.

In determining the audit procedures, we took into account the results of our evaluation and testing of operating effectiveness of some of the Bank-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, those posted to seldom used accounts, and those containing certain key words; and
- Assessing significant accounting estimates for bias.

#### ***Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards) and from inspection of the Bank's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Bank is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.



The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Bank is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Bank's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct, financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Bank's activities. Auditing standards limit the required audit procedures to non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

***Context of the ability of the audit to detect fraud or breaches of law or regulation***

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

**6 We have nothing to report on the strategic report and the Directors' report**

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**7 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in these respects.

## 8 Respective responsibilities

### ***Directors' responsibilities***

As explained more fully in their statement set out on page 23, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

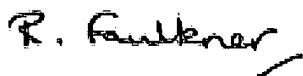
### ***Auditor's responsibilities***

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## 9 The purpose of our audit work and to whom we owe our responsibilities

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



Richard Faulkner (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
April 24, 2021

**Profit and loss account for the year ended March 31, 2021**

	Note	Convenience translation (Refer to Note 2 (b))			
		Year ended March 31, 2021 USD 000s	Year ended March 31, 2020 USD 000s	Year ended March 31, 2021 INR million*	Year ended March 31, 2020 INR million*
Interest income and similar income	5	82,846	123,971	6,057	9,064
Interest expense	6	(31,939)	(59,708)	(2,335)	(4,365)
<b>Net interest income</b>		<b>50,907</b>	<b>64,263</b>	<b>3,722</b>	<b>4,699</b>
Fees and commissions receivable		6,461	8,475	472	620
Dealing profits					
a) Foreign exchange revaluation gains		6,376	6,969	466	510
b) Income/(Loss) on financial instruments at fair value through profit or loss	7	(157)	(353)	(11)	(26)
c) Gain/(Loss) on sale of financial assets		(1,336)	(419)	(98)	(31)
Other operating income		326	375	24	27
<b>Total revenue</b>		<b>62,577</b>	<b>79,310</b>	<b>4,575</b>	<b>5,799</b>
Administrative expenses	8,9	(35,531)	(37,402)	(2,598)	(2,734)
Depreciation	22	(1,157)	(994)	(85)	(73)
Impairment on investment securities	21	49	(3,432)	04	(251)
Impairment on loans and advances	20	(8,414)	(8,902)	(615)	(651)
<b>Operating profit before tax</b>		<b>17,524</b>	<b>28,580</b>	<b>1,281</b>	<b>2,090</b>
Tax on operating profit	11	(2,732)	(5,331)	(200)	(390)
<b>Profit after tax</b>		<b>14,792</b>	<b>23,249</b>	<b>1,081</b>	<b>1,700</b>

The result for the year is derived entirely from continuing activities. The notes on pages 40 to 99 form part of these financial statements.

\* INR figures are unaudited

**Statement of other comprehensive Income for the year ended March 31, 2021**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	Convenience translation (Refer to Note 2 (b))	
			March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Profit on ordinary activities after tax</b>	<b>14,792</b>	<b>23,249</b>	<b>1,081</b>	<b>1,700</b>
<b>Other comprehensive Income</b>				
Movement in fair value during the year	47,779	(30,402)	3,493	(2,223)
Movement in cash flow hedge during the year#	-	(289)	-	(21)
Taxation relating to other comprehensive income	(9,636)	5,511	(704)	403
Net movement in other comprehensive income	38,143	(25,180)	2,789	(1,841)
<b>Other comprehensive income for the period, net of tax</b>	<b>38,143</b>	<b>(25,180)</b>	<b>2,789</b>	<b>(1,841)</b>
<b>Total comprehensive income for the year</b>	<b>52,935</b>	<b>(1,931)</b>	<b>3,870</b>	<b>(141)</b>

# refer note 41 for movement in cash flow hedge reserve

The notes on pages 40 to 99 form part of these financial statements

\* INR figures are unaudited

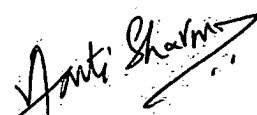
**Balance sheet at March 31, 2021**

				Convenience translation (Refer to Note 2 (b))	
	Note	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Assets</b>					
Cash and cash equivalents	16	733,560	289,988	53,631	21,201
Investment in Treasury Bills	21	125,760	263,617	9,194	19,273
Loans and advances to banks	17	52,372	168,105	3,829	12,290
Loans and advances to customers	18	1,522,138	2,074,527	111,284	151,669
Other investment securities	21	412,986	607,599	30,193	44,422
Derivative financial instruments	41	49,181	33,964	3,596	2,483
Tangible and Intangible fixed assets	22	3,549	4,107	259	300
Other assets	23	46,158	82,985	3,375	6,067
Prepayment and accrued income		11,050	15,792	808	1,154
<b>Total assets</b>		<b>2,956,754</b>	<b>3,540,684</b>	<b>216,169</b>	<b>258,859</b>
<b>Liabilities</b>					
Deposits by banks	24	65,315	285,939	4,775	20,905
Customer accounts	25	1,957,458	2,042,228	143,110	149,307
Bonds and medium term notes	26	197,852	295,301	14,465	21,589
Derivative financial instruments	41	40,360	73,225	2,951	5,353
Other liabilities	28	19,620	12,961	1,434	948
Accruals and deferred income		14,139	20,724	1,034	1,515
Subordinated liabilities	27	76,116	225,736	5,565	16,504
Repurchase agreements	29	79,153	131,238	5,787	9,595
<b>Total Liabilities</b>		<b>2,450,013</b>	<b>3,087,352</b>	<b>179,121</b>	<b>225,716</b>
<b>Shareholders' funds:</b>					
Issued share capital	30	420,095	420,095	30,713	30,713
Capital contribution		12,108	11,634	886	851
Retained earnings		72,175	57,383	5,276	4,195
Available for sale reserve		2,363	(35,780)	173	(2,616)
<b>Total Equity</b>		<b>506,741</b>	<b>453,332</b>	<b>37,048</b>	<b>33,143</b>
<b>Total Equity and Liabilities</b>		<b>2,956,754</b>	<b>3,540,684</b>	<b>216,169</b>	<b>258,859</b>

The notes on pages 40 to 99 form part of these financial statements. These financial statements were approved by the Board of Directors on April 24, 2021 and were signed on its behalf by:



**Loknath Mishra**  
Managing Director  
& Chief Executive Officer  
ICICI Bank UK PLC  
Registered number 4663024



**Aarti Sharma**  
Chief Financial Officer  
& Company Secretary

**Statement of change in equity for the year ended March 31, 2021**

	Issued share capital	Retained earnings	Other comprehensive Income	Capital contribution	Total
	USD 000s	USD 000s	USD 000s	USD 000s	USD 000s
As at April 1, 2019	420,095	34,134	(10,600)	10,703	454,332
Capital contribution (share based payments)	-	-	-	931	931
(Loss)/Profit on ordinary activities after tax and Other comprehensive income	-	23,249	(25,180)	-	(1,929)
<b>As at April 1, 2020</b>	<b>420,095</b>	<b>57,383</b>	<b>(35,780)</b>	<b>11,634</b>	<b>453,332</b>
Capital contribution (share based payments)	-	-	-	474	474
Profit on ordinary activities after tax and Other comprehensive income	-	14,792	38,143	-	52,935
<b>Closing shareholders' funds as at March 31, 2021</b>	<b>420,095</b>	<b>72,175</b>	<b>2,363</b>	<b>12,108</b>	<b>506,741</b>

The notes on pages 40 to 99 form part of these financial statements.

Convenience translation* (Refer to Note 2 (b))	Issued share capital INR million	Retained earnings INR million	Other comprehensive Income INR million	Capital contribution INR million	Total INR million
As at April 1, 2019	30,713	2,495	(775)	782	33,215
Capital contribution (share based payments)	-	-	-	69	69
(Loss)/Profit on ordinary activities after tax and Other comprehensive income	-	1,700	(1,841)	-	(141)
<b>As at April 1, 2020</b>	<b>30,713</b>	<b>4,195</b>	<b>(2,616)</b>	<b>851</b>	<b>33,143</b>
Capital contribution (share based payments)	-	-	-	35	35
Profit on ordinary activities after tax and Other comprehensive income	-	1,081	2,789	-	3,870
<b>Closing shareholders' funds as at March 31, 2021</b>	<b>30,713</b>	<b>5,276</b>	<b>173</b>	<b>886</b>	<b>37,048</b>

The notes on pages 40 to 99 form part of these financial statements.

## Notes

(Forming part of the financial statements)

### 1 Reporting entity

ICICI Bank UK PLC ("ICICI Bank" or "the Bank"), is a Company incorporated in the United Kingdom. The Bank's registered address is One Thomas More Square, London E1W 1YN. The Bank is primarily involved in providing a wide range of banking and financial services including retail banking, corporate and commercial banking, trade finance and treasury services.

### 2 Basis of preparation

The Bank has prepared its annual accounts in accordance with Financial Reporting Standard 102 (FRS 102), the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') as issued in September 2015 with reduced disclosures. The Bank has also chosen to apply the recognition and measurement provision of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU), in accordance with FRS 102.

In these financial statements, the Bank is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Key Management Personnel compensation;
- Certain disclosures required by FRS 102.26 Share based payments; and
- Related party disclosures contained in section 33 of FRS 102.

The financial statements have been prepared under the historical cost convention in accordance with the special provisions of Part XV of the Companies Act 2006 relating to banking companies and applicable accounting standards except for derivative financial instruments, financial instruments at fair value through profit or loss and available for sale financial assets which are valued at fair value.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The significant judgements and estimates have been stated in note 4.

#### (a) Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

#### (b) Functional and presentation currency and convenience translation

The financial statements are prepared and presented in US Dollars, which is the functional currency of the Bank and its foreign branch, as it represents the currency of the primary economic environment in which the Bank operates. US Dollars is one of the currencies in which significant proportion of the Bank's assets and revenues are transacted. All amounts in the financial statements have been rounded to the nearest \$1,000. The financials are also presented in Indian Rupee (INR) currency for convenience using the year end exchange rate. These numbers are proforma only and should not be regarded as being audited or in compliance with FRS102.



**(c) Cash flow exemptions**

Under section 1 of FRS 102, the Bank is exempted from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Bank in its own published consolidated financial statements. (Refer Note 44).

**(d) Related party transactions**

As the Bank is a wholly owned subsidiary of ICICI Bank Limited, the Bank has taken advantage of the exemption contained in section 33 of FRS 102 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of ICICI Bank Limited any transactions with key management personnel of the entity or its parent. (Refer Note 44).

The company discloses transactions with related parties which are not wholly owned of the same group.

**(e) Going concern**

The Board has assessed the Bank's going concern and confirms that the Directors are satisfied that the Bank has the resources to continue its business for at least 12 months from the date of approval of these financial statements.

In making the assessment, the Directors have considered detailed information relating to present and potential future conditions, including profitability, cash flows and capital resources, and in particular:

- Considered existing and emerging risks which could impact the Bank's current business operations. Reviewed the Bank's plans and actions to identify, manage and control these risks
- Conducted a strategic review of the business model including the impact of Brexit and Covid 19 on the Bank's portfolio, profitability and business model
- Considered potential impact of Covid-19 including changes in the business model, collective and specific provisions, changing market environment and potential impact of Covid-19 on the portfolio.
- Assessed the Bank's three year forecasts, taking account of potential changes in its business model in subsequent years, including stress testing based on scenario simulated based on worst observed historic default rates since 1980s
- Reviewed funding profile and assessed Bank's ability to maintain adequate liquidity levels through managing both retail and wholesale funding sources and meet the regulatory liquidity requirements through maintaining liquid assets. As at March 31, 2021, the Bank maintained liquidity and capital positions in surplus over the regulatory requirements

The Directors considered the Bank's operational resilience especially under a Covid-19 situation. This included identification of critical functions and employees that support important business services, as well as ensuring safety and wellbeing of its employees and that they can safely resume their duties remotely.

The Directors considered the financial resilience of the Bank taking into account the Bank's decision to keep sufficient surplus liquidity in this uncertain economic environment. The Bank has been conserving liquidity through selective new business volumes, sell down of loans and investments and engaging with counterparties for funding. The Bank keeps in touch with the counterparties for interbank borrowings and other funding sources to test the availability of liquidity in the market. As at March 31, 2021, the Bank maintained liquidity and capital positions in surplus over the regulatory requirements. In consideration of the steps taken, the Directors are satisfied with the operational and financial resilience of the Bank.

With regards to ICICI Bank Limited (the Parent Bank) support, the Directors considered that the parent bank has issued a letter of comfort to the Bank's regulators, the Financial Services Authority (FSA), now the PRA, stating that the parent bank intends to financially support the Bank in ensuring that it meets all of its financial obligations as they fall due. The Directors also considered the last available capital adequacy ratio of the Parent Bank at 19.5% and Tier 1 ratio at 18.1% as at December 31, 2020.

In consideration of the factors mentioned above, the assessment concluded that the Bank will be able to continue in operations and meet its liabilities as they fall due for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

The Bank's risk management policies and procedures are outlined in Note 38.

### **3 Significant accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

#### **(a) Interest income and expense**

Interest income and expense are recognised in the profit and loss account using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates the future cash flows considering all contractual terms of the financial instruments but not the credit losses. The effective interest rate is established on initial recognition (or upon reclassification) of the financial asset and liability and is not revised subsequently.

#### **(b) Fees and commissions income and expense**

Fees and commission are recognised in the profit and loss account when the service has been rendered, except when those fees are an adjustment to the yield on the related asset, in which case they are amortised over the expected maturity of the asset using the effective interest rate method. Fees and commissions which are directly attributable to the issuance of borrowings are expensed to the profit and loss account over the life of the borrowing using the effective interest rate method and are included in interest expense.

#### **(c) Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the exchange rates as at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Income and expenses denominated in foreign currencies are converted into US Dollars at the rate of exchange as at the date of the transaction. The Germany branch is treated as an extension of the UK bank's activities and accordingly the translation approach is in compliance with FRS 102.30.5.

Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

#### **(d) Financial assets and financial liabilities**

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date of origination at fair value.

The Bank classifies its financial assets in the following categories: financial instruments at fair value through profit and loss; loans and receivables; available for sale financial assets and held to maturity investments. Management determines the classification of financial assets at initial recognition. The Bank derecognises financial assets if all the risks and rewards of ownership of the financial asset are substantially transferred and the bank recognises assets or liabilities for any rights and obligations created or retained in the transfer. On derecognition of a financial asset in its entirety, the difference between (a) the carrying amount and (b) the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank continues to recognise the financial asset.

Financial instruments are recognised at trade date, being the date on which the Bank commits to purchase or sell the instruments.

Financial liabilities (other than derivatives) are measured at amortised cost and are recognised at value date (or settlement date). They are de-recognised when liabilities are extinguished.

**(e) Investment securities**

Investment securities are initially measured at fair value plus incremental direct transaction costs except when the investments are classified at fair value through profit and loss as described in Note 3(g). The investments are subsequently accounted for, depending on their classification, as either held to maturity, loans and receivable, fair value through profit or loss, or available for sale.

**(f) Loans and receivables**

Loans and receivables, which include loans and advances, finance lease receivables 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 to maturity, held for trading and not designated at fair value through profit and loss or available for sale. Substantially all the risks and rewards incidental to ownership. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using the effective interest rate method. Loans and receivables are stated at amortised cost after deduction of amounts which are required as impairment provisions. When applying the effective interest method, the bank will amortise any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repurchase), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the financial statements.

Policy in relation to impairment: The policy on impairment of loans and receivables is described in Note 4.

Policy in relation to write-offs: The Bank considers an exposure for write off when the prospect of recovery over the next 12 months is remote and interest has not been serviced for the past 12 months. Any amount written off is in the first instance applied against the specific provision for the exposure. In the normal course of business the loss to be written off will already have been fully provided. Any decision for a write-off is approved by the Board Credit Committee of the Bank.

Policy in relation to write back: If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was

recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal of impairment allowance and any recovery related to a written off asset shall be recognised in profit or loss account in impairment line.

**(g) Financial instruments at fair value through profit or loss**

Financial instruments are classified in this category if they are held for trading. Instruments are classified as held for trading if they are:

- i) Acquired/incurred principally for the purposes of selling or repurchasing in the near term;
- ii) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated as an effective hedging instrument).

Financial instruments cannot be transferred into or out of this category after inception except certain assets on reclassification. Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the profit and loss account. Financial instruments at fair value through profit and loss include debt securities which are held for trading.

Derivatives are carried at fair value in the balance sheet and shown under the heading 'Derivative financial instruments'. Valuation adjustments to cover credit and market liquidity risks are made with gains and losses taken directly to the profit and loss account and reported within Income/(Loss) on financial instruments at fair value through profit and loss. The credit valuation adjustment (CVA) is an adjustment to the valuation of Over the Counter (OTC) derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Bank may not receive the full market value of the transactions. The debit valuation adjustment (DVA) is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Bank may default, and that the Bank may not pay full market value of the transactions. The Bank calculates CVA and DVA on individual derivatives instruments.

Positive and negative fair values of derivatives are offset where the contracts have been entered into under netting agreements or other arrangements that represent a legally enforceable right of set-off, which will survive the liquidation of either party, and there is the intention to settle net.

The Bank uses a Central Clearing Counterparty (CCP) for clearing its certain classes of OTC derivatives to reduce counterparty credit risk.

**(h) Held to maturity financial assets**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity, and which are not classified at fair value through profit or loss or as available for sale. Held-to-maturity investments are carried at amortised cost using the effective interest method. For impairment refer note on "identification and measurement of impairment".

Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

**(i) Available for sale financial assets**

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gain or loss on an available-for-sale financial asset is recognised in other comprehensive income, except for impairment losses, until the financial asset is derecognised. At that time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method and the dividends on an available-for-sale equity instrument are recognised in profit or loss when the right to receive payment is established.

Impairment losses on available for sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to the profit and loss account. The cumulative loss that is removed from equity and recognised in profit and loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit and loss account.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed, with the amount of the reversal recognised in the profit and loss account. However, any subsequent recovery in the fair value of an impaired available for sale equity investment is recognised directly in OCI since it cannot be reversed through the profit and loss account.

Gain or loss on a non-monetary item to be recognised in other comprehensive income, the Bank shall recognise any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, the Bank shall recognise any exchange component of that gain or loss in profit and loss.

Available For Sale (AFS) reserve captures cumulative net change in the fair value of AFS financial assets (or investments). The reserve is maintained net of tax until these assets are sold, disposed of or impaired.

**(j) Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, on the measurement date. This is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible.

When independent prices are not available or if the market for a financial instrument is not active, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques that are not supported by prices from current market transactions or observable market data.

In case of unobservable inputs or in case of equities held in unlisted entities, the inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which the level at which an arm's length transaction would occur under normal business conditions could be determined. In such cases, estimates are made in the valuation technique to reflect uncertainties in fair values resulting from a lack of market data inputs. These include most recent arm's length transaction between knowledgeable, willing parties; reference to fair value of a similar instrument; discounted cash flow; or option pricing models.

However, the valuation techniques incorporate all factors that market participants have considered in setting a price and have been consistent with accepted economic methodologies for pricing financial instruments.

Note 21 provides a detailed disclosure regarding classification and fair value of instruments held by the Bank.

**(k) Derivatives held for risk management purposes and hedge accounting instruments and hedging activities**

Transactions are undertaken in derivative financial instruments (derivatives), which include interest rate swaps, futures, forward rate agreements, currency swaps, options and similar instruments, for trading and non-trading purposes. Depending on the nature of the hedge, a relationship may be designated as a hedging instrument either for a fair value hedge of a recognised fixed rate asset or liability or an unrecognised firm commitment, a hedge of a forecasted transaction or the variability of future cash flows of a floating rate asset or liability (cash flow hedge). All derivatives are recorded under the heading 'Derivative financial instruments' on the balance sheet at their respective fair values with effective portion of unrealised gains and losses recorded in reserves in case of a cash flow hedge or in the profit and loss account in case of a fair value hedge. Derivatives that do not meet the criteria for designation as a hedge instrument under IAS 39 at inception, or fail to meet the criteria thereafter, are accounted for in other assets/other liabilities with changes in fair value recorded in the profit and loss account.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk are recorded in the profit and loss account. To the extent of the effectiveness of a hedge, changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, are recorded in reserves. For all hedging relationships, ineffectiveness resulting from differences between the changes in fair value or cash flows of the hedged item and changes in the fair value of the derivative are recognised in the profit and loss account.

At the inception of a hedge transaction, the Bank formally documents 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 ongoing quarterly basis, whether the derivative used in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item, and whether the derivative is expected to continue to be highly effective.

The Bank discontinues hedge accounting prospectively when it is either determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires, or is sold, terminated or exercised; the derivative is de-designated because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

The Bank shall discontinue hedge accounting when:

1) the hedging instrument has expired, is sold, terminated or exercised; or below mentioned conditions for hedge accounting in paragraph are no longer met.

- (a) the hedging relationship consists only of a hedging instrument and a hedged item;
- (b) the hedging relationship is consistent with the entity's risk management objectives for undertaking hedges;
- (c) there is an economic relationship between the hedged item and the hedging instrument;
- (d) the entity has documented the hedging relationship so that the risk being hedged, the

hedged item and the hedging instrument are clearly identified; and

(e) the entity has determined and documented causes of hedge ineffectiveness.

The Bank also discontinues hedge accounting prospectively when the hedged assets has been impaired. As there is a change in estimated cash flow of the hedged asset, the hedge is no longer expected to be highly effective in achieving offsetting changes in fair value or cash flow attributable to the hedged risk that is consistent with the original documented risk management strategy for the particular hedging relationship.

(f) When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortised or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flow or forecasted transaction is still expected to occur, gains and losses shall remain in reserves until the forecast transaction occurs. Gains and losses are recognised in the profit and loss account immediately if the cash flow hedge was discontinued because a forecasted transaction is no longer expected to occur amortisation/accretion is calculated through adjusting the EIR of the hedged item.

The Bank may occasionally enter into a hybrid contract that consists of a non-derivative host contract and an embedded derivative. The Bank accounts for an embedded derivative separately from the host contract when the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value. A separated derivative may be designated as a hedging instrument ; otherwise, the derivative is recorded as a freestanding derivative. Such financial instruments stand extinguished at the time of conversion e.g. debt into equity, sale and maturity.

**(m) Sale and repurchase agreements**

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet as, in substance, these transactions are in the nature of secured borrowings. As a result of these transactions, the Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction.

**(n) Identification and measurement of impairment**

Impairment provisions/charges are made where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Losses expected as a result of future events are not recognised. Evidence of impairment is considered on both an individual and a portfolio basis.

The Bank assesses an asset for specific impairment if it becomes probable that the borrower is facing significant financial difficulty. The Bank also assesses for specific impairment and makes specific provision if necessary, if there is evidence of any significant credit deterioration or any event which indicates a reduced ability for the borrower to repay its interest and principal. The indicators of impairment can include, among other things:

- a) Net worth of the risk counterparty/borrower turning negative
- b) Delay in interest and or principal repayments
- c) Breach in financial covenants
- d) Likelihood of borrower entering bankruptcy/ financial reorganization
- e) Rating downgrade by external credit rating agencies
- f) National or local economic conditions that correlate with defaults on the assets in the borrower group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a

- decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group)
- g) Substantial decline in value of security provided to the Bank, especially when security is prime consideration for the lending. The unsecured portion of the exposure may be subjected to impairment testing
- h) Invocation of contractual comfort by the Bank such as corporate guarantee/put option which is not honoured by the counterparty

The coronavirus pandemic is having a major impact on wider economy and businesses and the Bank assesses its portfolio for impairment considering the indicators and triggers mentioned above, also, in the context of Covid-19. The Bank makes the assessment in consideration of long term viability of the business of its borrowers as temporary difficulties in making near-term payments due to a temporary loss of income do not on their own automatically result in a significant increase in credit risk or a detrimental impact on the estimated future cash flows from the loan. Hence they do not, automatically result in a credit impairment.

The Bank has considered Covid-19 impact in its collective provision based on an internal stress scenario. As at March 31, 2021, the total collective Covid-19 management overlay stands at USD 11.8 million.

Refer Note 4 (a) and Note 4 (b) for the detailed policy guidance.

#### **(o) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets. Depreciation on intangible assets is provided on a straight-line basis over their estimated useful economic life. The useful economic life of the fixed assets is expected as follows:

Leasehold improvements	Over the lease period
Office equipment	6 - 7 years
Furniture, fixtures and fittings	6 - 7 years
Computer hardware	3 - 4 years
Software	Over the estimated useful life <sup>1</sup>

<sup>1</sup>The useful life averages around 5 years.

Depreciation methods, useful life and residual values are reviewed at each balance sheet date. Depreciation is charged to the profit and loss account for all fixed assets. Useful life of an intangible assets is defined based on the expected future economic benefits from the assets.

#### **(p) Provisions**

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present, legal or constructive obligation, which has arisen as a result of a past event and for which a reliable estimate can be made of the amount of the obligation. All significant provisions have been discounted for current market assessments and the time value of money.



**(q) Deposits, debt securities issued and subordinated liabilities**

Deposits, debt securities issued and subordinated liabilities are the sources of debt funding. These are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

**(r) Tax on profit on ordinary activities**

Income tax expense comprises current and deferred tax. Income tax and deferred tax expense is recognised in the profit and loss statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date and includes any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, in respect of all timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes including carry forward losses. As required by section 29 of FRS 102 "Deferred Tax", deferred tax is measured at the tax rates expected to be applied to the temporary difference when they reverse, based on the tax laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient future taxable profits from which the future reversal of the underlying timing differences can be deducted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(s) Employee benefits**

The Bank operates a stakeholder defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss account as incurred.

**(t) Leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the non-cancellable lease term provided the same is ascertainable unless another basis is more appropriate.

Income from sub lease: Income from sub lease is booked in other operating income line of the profit and loss account on a straight line basis over the remaining term of the sub lease.

**(u) Share based payments**

The Parent Bank (ICICI Bank Limited) has issued share options to the employees of ICICI Bank UK PLC. These transactions are recognised as equity-settled share based payments. The expense is recognised over the vesting period based on the market value of shares as on the date of the grant of shares, adjusted for the number of the employees leaving the Bank. A capital contribution from the Parent Bank is recognised in the books over the vesting period in the shareholders' funds. Under FRS 102 Section 26, a subsidiary should recognise an expense in its profit and loss account to reflect the effective remuneration paid to employees in respect of share awards granted by the Parent Bank. The corresponding entry is to equity as the amounts are considered to be capital contributions by the Parent Bank. Until FY2020, the fair value of the options granted was charged to profit and loss account and recorded as capital contribution. Effective FY2021, in line with the practice followed by other

subsidiary companies of the Group, the cost of the options granted from April 2020 onwards will be remitted to the Parent Bank.

As the Bank is a wholly owned subsidiary of ICICI Bank Limited, the Bank has taken advantage of the exemption contained in section 26 of FRS 102 and has therefore not disclosed certain information under section 26.18(b), 26.19 to 26.23 of FRS 102.

**(v) Cash and cash equivalents**

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

**(w) Other assets**

The other assets mainly consist of interest receivables, margins placed with the counterparties for repurchase and derivative financial transactions, cash reserves maintained with the Bank of England, deferred tax assets, amounts in clearing and other receivables.

**(x) Other liabilities**

The other liabilities consist of liabilities for the creditors, settlement balances, margins for derivatives financial instruments, corporation tax payable and other creditors. Other creditors are measured at amortised cost. These liabilities are de-recognised when liabilities are extinguished.

**(y) 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 issuance of equity instruments are shown in equity as a deduction from proceeds, net of tax.

**4 Significant judgements and estimates**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Considering the inherent uncertainty and subjectivity in making judgements and estimates, outcomes in future periods may be different from those on which management's estimates are based. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Bank's results and financial position, based upon significant judgements and estimates, are discussed below.

**(a) Allowances for credit losses**

The Bank regularly reviews its loan portfolio to assess for impairment. Provisions are established to recognise incurred losses in the loan portfolio carried at amortised cost. In determining whether an impairment has occurred at the balance sheet date, the Bank assesses if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment rather the combined effect of several events may have caused the impairment.

The Credit Risk Management Policy (CRMP) outlines the provisioning policy of the Bank which includes the approach to holding collective and specific provisions.

The Bank's policies governing specific impairment, restructuring/renegotiation and collective provision are detailed below:

- i) **Specific impairment:** In accordance with the Bank's Credit Risk Management Policy (CRMP), the Bank periodically reviews, cases that are internally rated 'B' or below and/or significantly in breach of any covenants, including delays in debt servicing and/or where there is an expectation of significant credit deterioration. The Bank then assesses whether a specific impairment is required in respect of these cases.

The Bank assesses an asset for specific impairment if it becomes probable that the borrower is facing significant financial difficulty. The Bank also assesses for specific impairment and makes specific provision if necessary, if there is evidence of any significant credit deterioration or any event which indicates a reduced ability for the borrower to repay its interest and principal.

**Identification of specific impairment in an account:** The Bank's policy is to identify and recognise impairment in a loan when it is probable that the Bank will not be able to collect, or there is no longer a reasonable certainty that the Bank will collect all amounts due according to the contractual terms of the loan agreement.

The following disclosure practices have been adopted in Note 19:

- Loans are disclosed as impaired where an individual allowance has been raised against the loan.
- All exposures past due for 90 days or more are classified as impaired unless restructuring terms have been substantially agreed and are due to be implemented over the next 60 days.
- Exposures past due for less than 90 days not classified as impaired include (i) loans with overdue principal, interest or other amounts at the balance sheet date but no loss is expected; and (ii) past due loans with adequate collateral cover.

The following disclosures have been provided in Note 20:

- Net loan impairment charge to profit and loss account
- Movement in impairment allowance on loans and advances

The objective of the policy is to maintain an appropriate level of provision reflective of the risk profile of the loan portfolio. It is not the Bank's policy to systematically over-provide or under-provide for its credit risk. The provision weightings included in the policy document are continually monitored against the lending experience of the Bank and are periodically adjusted to reflect such experience.

The Bank's policy is predicated on the premise that regardless of the quality of a lending institution and of its systems and procedures and of its client base the business of extending credit carries the intrinsic risk of such credit not being repaid and monies advanced proving to be irrecoverable. In accordance with the guidelines of FRS 102, an impairment loss for financial assets measured at amortized cost is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The estimated future cash flows take into account only the credit losses that have been incurred at the time of the impairment loss calculation. In case the expected cash flows are not available, the breakup value of security/collateral for respective facilities under watch is calculated in accordance with the Bank's collateral valuation policy. In line with accounting guidelines, the Bank recognises an impairment loss equal to the best estimate within the range of reasonably possible outcomes, taking into account all relevant information available about conditions existing at the end of the reporting period. For determining the specific provisions on individual impaired cases,

management exercises judgment involving matters such as realisable value of the security, estimation of the future cash flows and their timing. Consequently these allowances can be subject to variation as time progresses and the circumstances of the borrower become clearer.

**Restructured/renegotiated cases and forbearance:** A restructured account is one where the Bank, for economic or legal reasons relating to the borrower's difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of the terms of advances/securities which could include alteration of the repayment period, repayable amount, the amount of instalments, rate of interest (due to reasons other than competition). The restructuring of an asset is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised terms of the restructuring.

The Bank carries out derecognition assessment of all the modified/restructured asset/liability as per IAS39. Terms are considered to have been substantially modified when the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate differs by at least 10 percent from the present value of the remaining cash flows under the original terms. If the modification is substantial, it is accounted for as an extinguishment of the original financial instrument and the recognition of a new financial instrument. Any difference between the carrying amount of the original instrument and the fair value of the new instrument recognised immediately within the income statement, subject to observability. Consequently if there has been modification of the terms that does not meet the derecognition conditions, then the carrying amount of the asset/liability is adjusted to reflect the present value of modified cash flows discounted at the original EIR, with any resulting gain or loss recognised immediately within the income statement as a modification gain or loss.

The Bank measures any impairment in a restructured troubled loan by discounting the future cash flow using the effective interest rate of the financial asset before the modification of terms. An impairment assessment is also carried out if the restructuring is expected to result in derecognition of the existing asset.

In relation to loans and advances, the modifications of terms and conditions related to security and collateral arrangements or the waiver of certain covenants which do not affect payment arrangements, are not regarded as sufficient indicators of impairment or restructuring. As such changes do not necessarily indicate credit issues affecting the borrower's payment ability.

The Bank considers forbearance as concessions including interest rate/loan tenor towards a debtor that is experiencing difficulties in meeting its financial commitments.

The Bank charges default interest to the borrower for any delay in interest/principal payment unless a waiver has been approved by the Bank's relevant authority. As per the Bank's practice, such waivers are given in exceptional circumstances which could be mainly related to procedural delays in receiving the interest/principal payment by the due date.

The Bank derecognises a loan when there are substantial modifications to the terms of the loan on restructuring. The Bank performs a qualitative and quantitative evaluation of whether cash flows of original assets and the modified or replacement assets are substantially different.

#### **Payment deferrals under Covid-19**

Any payment deferrals and covenants relaxation sought by the borrowers are evaluated on a case to case basis. A reasonable period of the deferment is considered in line with the internal guidelines approved by the Board Credit Committee. The deferment of debt obligations under these guidelines are for specified period and for the purpose to support borrowers adversely impacted due to COVID-19. Any deferment of principal/interest/both in accordance with these guidelines will not be treated as a concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower and consequently, such a measure, by itself, shall not result in change in asset classification and will not trigger forbearance classification.

The rescheduling of above payments, including interest, will not qualify as a default, such as counting of days past due, for the purposes of accounting, supervisory reporting and reporting to credit bureau(s), if any, by the Bank. Such rescheduling shall not be considered as an objective evidence of impairment for accounting and regulatory purposes. Interest will be charged on all principal/interest deferrals.

The Bank would apply IAS 39 AG8 Accounting standard to recalculate the carrying amount by computing the present value of estimated future cash flows using the original effective interest rate on any revision in receipt estimate after initial recognition. The difference between the present value of estimated future cash flows and the carrying amount is recognised as income or expense in profit or loss (Interest line) in the period when the estimate is revised. The Bank adjust the carrying amount of its financial assets or financial liabilities carried at amortised cost in case of any revision in the estimates of its receipts or payments after initial recognition. This adjustment to the carrying amount is amortised using effective interest method over the revised tenure of the financial instrument.

- ii) **Collective provision:** Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics, when there is objective evidence to suggest that they contain impaired claims, but, the individual impaired items cannot yet be identified. In assessing the need for collective impairment allowances, management considers factors such as historical loss trends, credit quality of the portfolio, portfolio size, concentrations, and economic factors. The aggregate amount of specific and collective provisions is intended to be sufficient to absorb estimated credit losses generated in the loan portfolio.

The collective impairment policy as defined in the CRMP stipulates that collective provision, based on the credit rating of the exposures, needs to be provided in respect of the entire performing loan and receivables portfolio. The Bank has followed FRS 102 guidelines for defining its collective impairment policy wherein the provisioning is determined by the extent of the underlying credit risk in the portfolio of the Bank. This is also the direction provided by the Basel Accord. The exposures that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment. In line with market practice, the Bank has been using a representative set of Probability of Default (PD)/Loss Given Default (LGD) data to determine the extent of provisioning required to be made by the Bank in respect of its performing loan portfolio on a collective basis. The aggregate provisioning requirement is arrived at by multiplying the outstanding amounts under each portfolio type (internally rated and externally rated exposures) on the relevant date with the corresponding PD and LGD.

In the absence of adequate internal default history and on account of a similar internal credit rating scale, the Bank has used Probability of Default (PD) data of its Parent (ICICI Bank Limited) for estimating the collective provisioning on its internally rated India country of exposure portfolio. For the internally rated non-India country of exposure portfolio, the Bank has used PD data from Moody's, corresponding to the geographies which make up the majority of its non-India exposures. The Bank considers a time horizon of one year to be appropriate for estimating collective provisions, as it believes that this is reflective of the emergence period for losses in its portfolio. The Bank has used historical PDs over a ten year look back period for the India-linked, non-India linked and externally rated portfolios to calculate the collective provision. The Bank has a framework for applying economic scalars for each portfolio which are applied while estimating the collective provision and are reviewed periodically. The economic scalars take into account macroeconomic factors as well as variables relevant to the Bank's customer base. The LGD for the externally rated Asset Backed Securities (ABS) portfolio has been assumed at 50.0% based on S&P's experience of recovery rates. For the internally rated portfolio, the LGD has been calculated based on the collateral available with the Bank. LGD and haircuts applicable for each collateral as prescribed in Basel II guidelines have been considered. The historical average PD data being used covers a full economic cycle and captures periods of low economic activity when relatively higher default rates were observed.

In view of the uncertainties of the impact of the Covid-19 pandemic on global economic activities, the Bank felt it necessary to provide a management overlay for potential stress in its portfolio on this account. Accordingly, the Bank had assessed the severity of its potential impact on global economic activities vis-à-vis the previous crises and further based on GDP projections by the International Monetary Fund (IMF), fiscal and monetary stimulus rolled out by the Governments, vaccination drive for Covid-19 and probability of default data, a Covid-19 related management overlay of USD 11.8 million was computed, in addition to the collective provisioning computed based on PDs and LGDs, as at March 31, 2021.

Refer Note 38 (Risk Management Framework- Credit risk section) for sensitivity analysis on Collective provisions.

#### **(b) Impairment of available for sale financial assets**

The Bank regularly reviews its available for sale securities portfolio to assess for impairment. The Bank considers all available evidence, including observable market data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, the disappearance of an active market for the debt security because of financial difficulties relating to the issuer, information about the issuer's liquidity, business and financial risk exposures, level of and trends in default for similar financial assets and national and local economic conditions. While assessing ABS for objective evidence of impairment, the Bank considers the performance of the underlying collateral, changes in credit rating, credit enhancements, default events etc. Once impairment has been identified, the amount of impairment is measured based on the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in profit or loss. In determining whether an impairment event has occurred at the balance sheet date, the Bank considers whether there is any observable data which comprises evidence of the occurrence of a loss event, and evidence that the loss event results in a decrease in estimated future cash flows or their timings. Such observable data includes any adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on loan repayment obligations.

**Available for sale equity investments:** A significant or prolonged decline in the fair value of the equity below its cost is an objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition. The Bank measures significant and prolonged decline in the fair value based on the specifics of each case.

The negative mark to market (MTM) on the AFS portfolio is monitored by the Bank on a regular basis. The Bank follows its valuation policy for valuing its AFS portfolio (refer point (c) relating to 'Valuation of financial instruments' below).

#### **(c) Valuation of financial instruments**

The Bank values its available for sale and held for trading investment securities at fair market value. The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, the financial instruments are traded infrequently and have little price transparency or the fair value is less objective and requires varying degrees of judgment, the Bank uses valuation techniques to arrive at the fair value. The valuation techniques employ observable market data to calculate fair values, including comparisons with similar financial instruments for which market observable prices exist. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

**(d) Deferred tax asset**

A Deferred Tax Asset (DTA) is recognised after being assessed as recoverable on the basis of available evidence including projected profits, capital and liquidity position. Management makes an assessment of DTA which is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Refer Note 11(f) for DTA assumptions.

**5 Interest income and similar income**

Interest income is recognised in the profit and loss account using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument (or where appropriate, a shorter period) to the carrying amount of the financial asset.

	Year ended March 31, 2021 USD 000s	Year ended March 31, 2020 USD 000s	Year ended March 31, 2021 INR million*	Year ended March 31, 2020 INR million*
Interest income on financial assets under AFS category	11,871	15,898	868	1,162
Interest income on financial assets under HTM category	9,119	9,522	667	696
Interest income on financial assets under Loans and receivable category	65,801	98,509	4,810	7,203
Interest income on financial assets measured at FVTPL	(3,945)	42	(288)	3
<b>Total</b>	<b>82,846</b>	<b>123,971</b>	<b>6,057</b>	<b>9,064</b>

**6 Interest expense**

Interest expense is recognised in the profit and loss account using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or where appropriate, a shorter period) to the carrying amount of the financial liability.

	Year ended March 31, 2021 USD 000s	Year ended March 31, 2020 USD 000s	Year ended March 31, 2021 INR million*	Year ended March 31, 2020 INR million*
Interest expense on financial liabilities -measured at amortised cost	(31,939)	(59,708)	(2,335)	(4,365)
<b>Total</b>	<b>(31,939)</b>	<b>(59,708)</b>	<b>(2,335)</b>	<b>(4,365)</b>

**7 Income/(loss) on financial instruments at fair value through profit or loss**

Income/(loss) on financial instruments at fair value through profit or loss consists of unrealised and realised gains or losses on transactions in securities and derivatives.

	Year ended March 31, 2021 USD 000s	Year ended March 31, 2020 USD 000s	Year ended March 31, 2021 INR million*	Year ended March 31, 2020 INR million*
Realised gains/(losses) on derivative instruments	490	1,765	36	128
Unrealised gains/(losses) on derivative	(647)	(2,118)	(47)	(154)

instruments#

Total	(157)	(353)	(11)	(26)
-------	-------	-------	------	------

#includes includes reverse amortisation of fair value (MTM) of re-designated hedges and an offset lying in Net interest income on account of amortisation/accretion of MTM on de-designated hedges.

## 8 Administrative expenses

	Year ended March 31, 2021 USD 000s	Year ended March 31, 2020 USD 000s	Year ended March 31, 2021 INR million*	Year ended March 31, 2020 INR million*
Staff costs (including Directors' emoluments):				
- Wages and salaries	20,545	21,499	1,502	1,571
- Social security costs	1,937	1,987	142	145
- Other pension costs	627	673	46	49
Operating lease expenses	1,913	1,868	140	137
Other administrative expenses	10,509	11,375	768	832
<b>Total</b>	<b>35,531</b>	<b>37,402</b>	<b>2,598</b>	<b>2,734</b>

The number of persons employed by the Bank (including Directors) during the year was as follows:

	Year ended March 31, 2021 No. of Employees	Year ended March 31, 2020 No. of Employees
Management	71	77
Non Management	86	99
<b>Total</b>	<b>157</b>	<b>176</b>

## 9 Auditor's remuneration

	Year ended March 31, 2021 USD 000s	Year ended March 31, 2020 USD 000s	Year ended March 31, 2021 INR million*	Year ended March 31, 2020 INR million*
Fees payable to the Bank's statutory auditors and their associates for the audit of Bank's annual accounts	731	608	53	44
The audit of the accounts of Germany Branch	78	-	6	-
<b>Total audit services</b>	<b>809</b>	<b>608</b>	<b>59</b>	<b>44</b>
Fees payable to the Bank's statutory auditors and their associates for other services:				
Audit related assurance services	257	305	19	22
<b>Total</b>	<b>1,066</b>	<b>913</b>	<b>78</b>	<b>66</b>

## 10 Segmental reporting

The Board reviews the Bank's performance as a single business and does not seek to allocate major resources such as capital, liquidity and funding into the different customer groups (Corporate and Commercial, Retail and Treasury).



## 11 Taxation

### (a) Analysis of charge/(credit) in the year

	Year ended March 31, 2021	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
UK Corporation tax at 19% (2020: 19%)	1,148	951	84	70
Overseas corporation charge	(2)	1904	-	139
Double tax relief	-	-	-	-
Adjustments for prior years	(78)	-	(6)	-
	1,068	2,855	78	209
Deferred tax charge/(credit)	-	-	-	-
- Origination/timing and rate difference	1,664	2,476	122	181
Total tax for the year ended March 31	2,732	5,331	200	390

### (b) Analysis of total taxation in the year

USD 000s

	Year ended March 31, 2021			Year ended March 31, 2020		
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	1,068	1,664	2,732	2855	2,476	5,331
Recognised in other comprehensive income		9,636	9,636		(5,511)	(5,511)
Total tax	1,068	11,300	12,368	2,855	(3,035)	(180)

INR million\*

	Year ended March 31, 2021			Year ended March 31, 2020		
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	78	122	200	209	181	390
Recognised in other comprehensive income	-	704	704	-	(403)	(403)
Total tax	78	826	904	209	(222)	(13)

### c) Total tax reconciliation

	Year ended March 31, 2021	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
Profit before tax	17,524	28,580	1,281	2,090
Tax using the UK CT rate of 19% (2020: 19%)	3,330	5,430	244	397

Add effects of:				
- Overseas corporate taxes	(2)	587	-	43
- Expenses not tax deductible	(122)	55	(9)	4
- Timing differences on fixed assets	-	-	-	-
- Adjustment for prior years	(78)	-	(6)	-
- Base/Rate differential/reversal of DTA	(396)	(741)	(29)	(54)
<b>Total tax for year ended March 31</b>	<b>2,732</b>	<b>5,331</b>	<b>200</b>	<b>390</b>

**d) Movement in Deferred tax**

	Year ended March 31, 2021	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
<b>Deferred Tax Asset</b>				
Balance as at April 1	19,905	17,207	1,455	1,258
Origination and timing differences:				
- on consolidated taxable losses	(2,324)	(2,739)	(170)	(200)
- on timing difference on fixed assets	(91)	(126)	(7)	(9)
- on AFS (gains)/losses	(9,315)	5,563	(681)	406
<b>Total Deferred Tax Assets</b>	<b>8,175</b>	<b>19,905</b>	<b>597</b>	<b>1,455</b>
<b>Deferred Tax Liability</b>				
Balance as at April 1	(491)	(828)	(36)	(61)
Origination and timing differences;				
- on AFS transitional adjustment	356	337	26	25
- on equity gains	75	-	5	-
<b>Total Deferred Tax Liability</b>	<b>(60)</b>	<b>(491)</b>	<b>(4)</b>	<b>(36)</b>
<b>Net Deferred Tax as at March 31</b>	<b>8,115</b>	<b>19,414</b>	<b>593</b>	<b>1,419</b>

**(e) Deferred tax is composed of the tax impact of the following items:**

	Year ended March 31, 2021	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
<b>Effect of:</b>				
- On consolidated losses	8,665	10,988	632	804
- On timing difference on fixed assets	40	131	3	10
- On equity gains	(60)	(135)	(4)	(10)
- On AFS	(530)	8,430	(38)	615
<b>Total</b>	<b>8,115</b>	<b>19,414</b>	<b>593</b>	<b>1,419</b>

**(f) Factors that may affect future tax charges**

The Finance Bill 2021 enacted provisions to increase the main rate of UK corporation tax to 25% from 1 April 2023. As substantive enactment has not taken place as on March 2021, deferred tax balances as at 31 March 2021 have not been remeasured using the rate of 25%. The estimated impact in the DTA on account of the increase in the corporation tax rate would be USD 1.3 million. The DTA created on consolidated losses and timing difference on fixed assets amounting to USD 8.7 million is expected to be utilised in the foreseeable future against future profits. While the Bank assessed that it would have sufficient taxable profits to recover the Deferred Tax Asset (DTA) in the near foreseeable future, on a prudent basis, the Bank decided to restrict the DTA creation on the losses that could be recovered in

the next four financial years which resulted in an unrecognised DTA of USD 2.59 million (FY2020: USD 2.59 million). As per the Finance Act 2017, the carry forward of losses arising pre April 1, 2017 will be subject to the loss restriction rules and would therefore only be available for offset against 50% of profits (subject to an amount of £5 million which can be relieved in full). The deferred tax liability of USD 0.06 million pertains to the gain on transfer of shares under share by share scheme. This liability would be payable at the time of sale of shares in future. The Deferred Tax Liability (DTL) on AFS of USD 0.53 million created on unrealised Available For Sale (AFS) gains relating to change in the timing of AFS gains and losses. As per UK tax law, the unused trading losses could be carried forward indefinitely. The tax rate for the Germany branch was 27.4% for FY2021 (FY2020 27.4%).

## 12 Emoluments of Directors

	Year ended March 31, 2021 USD 000s	Year ended March 31, 2020 USD 000s	Year ended March 31, 2021 INR million*	Year ended March 31, 2020 INR million*
Directors' fees and gross emoluments	902	851	66	62

The gross emoluments<sup>1</sup> of the highest paid director were USD 554,694 ( \*INR 40,553,646) (2020: USD 515,404; \*INR 37,681,169) excluding share based payments. Post-employment benefits accruing for one directors (2020: one) under a money purchase pension scheme amounted to USD 30,862 ( \*INR 2,256,292 in the current year (2020: USD 29,771; \*INR 2,176,574). Stock options<sup>2</sup> were granted and exercised by one director (2020: One). The number of stock options granted to the director during the year was 173,400 (2020: 173,400).

<sup>1</sup> Gross emoluments include base salary and performance bonus

<sup>2</sup> Refer note 13 for the details of the stock option scheme.

## 13 Share-based payments

During the year, USD 0.99 million ( \*INR 72.6 million) was charged to the profit and loss account in respect of equity-settled share-based payment transactions (2020: USD 0.93 million; \*INR 68.1 million). This expense, which was computed from the fair values of the share-based payment transactions when granted, arose under employee share awards made in accordance with the ICICI Bank Limited group's reward structures.

## Stock Option Scheme

In terms of an Employee Stock Option Scheme (ESOS), of the Parent Bank, options are granted to eligible employees and Directors of the Bank and its subsidiaries. As per the ESOS as amended from time to time, the maximum number of options granted to any employee/Director in a year is limited to 0.05% of the Parent Bank's issued equity shares at the time of the grant, and the aggregate of all such options is limited to 10% of Parent Bank's issued equity shares on the date of the grant. Until April 2013, options granted vest in a graded manner over a four year period, with 20%, 20%, 30% and 30% of the grants vesting in each year, commencing from the end of 12 months from the date of grant. Options granted from April 2014 onwards vest in a graded manner over a three-year period, with 30%, 30%, and 40% of the grants vesting in each year, commencing from the end of 12 months from the date of grant. Options granted in September 2015 vest over a two-year period, with 50% of the grants vesting in April 2018 and 50% of the grants vesting in April 2019. During FY2017, the Parent Bank modified the terms of the scheme by amending the exercise period from 'ten years from the date of grant or five years from the date of vesting whichever is later' to 'ten years from the date of vesting'. For options granted in FY2020, the exercise period would commence from the date of vesting and will expire on completion of five years from the date of vesting of the options. The option expires after the exercisable period is over as above.

## 14 Related party transactions

The Bank enters into related party transactions in the ordinary course of business. The Bank is exempt from disclosing related party transactions as they are all with companies that are wholly owned within

the Group (Refer note 2 (d)). The Bank has not entered into any related party transactions with companies outside of Group ownership.

## 15 Financial Services Compensation Scheme

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse during 2008 of a number of deposit takers. The protection of consumer deposits was funded through loans from the Bank of England and HM Treasury. The specified deposit defaults (SDD) levy was charged to Banks to cover the interest cost of the loan. The loan was fully repaid during May 2018 and no further interest will be payable. Banks will not be required to pay this levy in future.

The Bank is also obligated to pay its share of forecast management expenses based on the Bank's market share of deposits protected under the FSCS. As per the plan and budget, FSCS expects to levy the deposit taking sector a total of GBP 71.8 million of indicative annual levy for 2021/2022. The actual amount of levy will be billed to the Bank based on its share of deposits protected under the FSCS.

The Bank has recognized an expense of USD 0.4 million ( \*INR 29.24 million) during FY2021 (FY2020: USD 0.2 million; \*INR 14.6 million), in respect of all statutory levies. This mainly includes the Bank's share of the SDD levy management expense, including interest costs and regular deposit protection charges. The Bank has adopted IFRIC 21 'Levies', effective FY2014 for accounting of the FSCS liability as there is no equivalent guidance within FRS 102 and section 10 of FRS 102 (Accounting Policies) that allows for the use of alternative accounting framework, where this is the case.

## 16 Cash and cash equivalents

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Cash	245	161	18	12
Balances with Banks				
-Central Bank	653,683	229,080	47,791	16,748
-Other banks	79,632	60,747	5,822	4,441
	<b>733,560</b>	<b>289,988</b>	<b>53,631</b>	<b>21,201</b>

## 17 Loans and advances to banks

### (a) Residual Maturity

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Banks</b>				
Repayable on demand				
<i>Other loans and advances</i>				
Remaining Maturity:				
5 years or less but over 1 year	-	156	-	11
1 year or less but over 3 months	258	80,263	19	5,869
3 months or less	8,575	79,635	628	5,824
	<b>8,833</b>	<b>160,054</b>	<b>647</b>	<b>11,704</b>
<b>Parent and Group Companies</b>				
Repayable on demand		-		-
<i>Other loans and advances</i>				
Remaining Maturity:				
5 years or less but over 1 year	2,312	2,548	169	186
1 year or less but over 3 months	22,238	3,751	1,625	273
3 months or less	19,000	1,769	1,389	128
	<b>43,550</b>	<b>8,068</b>	<b>3,183</b>	<b>587</b>
Sub Total	<b>52,383</b>	<b>168,122</b>	<b>3,830</b>	<b>12,291</b>

Collective provision	(11)	(17)	(1)	(1)
<b>Total</b>	<b>52,372</b>	<b>168,105</b>	<b>3,829</b>	<b>12,290</b>

**(b) Concentration of exposure**

The Bank has the following concentrations of gross loans and advances to banks:

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Total gross advances to banks located in:</b>				
UK	-	19,012	-	1,390
Europe	-	-	-	-
North America	-	-	-	-
India	52,156	149,110	3,813	10,901
Rest of the world	227	-	17	-
<b>Total</b>	<b>52,383</b>	<b>168,122</b>	<b>3,830</b>	<b>12,291</b>

Geographical concentration represents the country of risk exposure. Generally, the risk domicile of an exposure is identified as the country of residence of the borrower provided that the cash flows of the borrower and/or the value of the security adequately covers the loan exposure of the Bank.

**18 Loans and advances to customers**

**(a) Residual Maturity**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Repayable on demand or at short notice	23	10,159	2	743
<i>Other loans and advances</i>				
Remaining Maturity:				
Over 5 years	105,939	390,266	7,745	28,532
5 years or less but over 1 year	1,058,566	1,289,243	77,391	94,256
1 year or less but over 3 months	233,483	271,094	17,070	19,820
3 months or less	153,295	261,898	11,207	19,147
<b>Sub total</b>	<b>1,551,306</b>	<b>2,222,660</b>	<b>113,415</b>	<b>162,498</b>
Collective provision	(18,336)	(18,599)	(1,341)	(1,360)
Specific impairment allowance	(20,705)	(141,543)	(1,514)	(10,348)
<b>Total</b>	<b>1,512,265</b>	<b>2,062,518</b>	<b>110,560</b>	<b>150,790</b>

**(b) Finance lease receivables**

**Residual Maturity**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Remaining Maturity:				
Over 5 years	-	-	-	-
5 years or less but over 1 year	6,186	9,465	453	693
1 year or less but over 3 months	3,411	2,223	249	163
3 months or less	738	1,008	54	74
<b>Sub total</b>	<b>10,335</b>	<b>12,696</b>	<b>756</b>	<b>930</b>
Unearned income	(446)	(674)	(33)	(49)
Collective provision	(16)	(13)	(1)	(1)

Specific impairment allowance	-	-	-	-
<b>Net investment in finance lease receivables</b>	<b>9,873</b>	<b>12,009</b>	<b>722</b>	<b>880</b>
Over 5 years	-	-	-	-
5 years or less but over 1 year	5,959	9,064	438	663
1 year or less but over 3 months	3,245	2,016	237	148
3 months or less	669	929	49	68
<b>Total</b>	<b>9,873</b>	<b>12,009</b>	<b>724</b>	<b>879</b>

The geographical concentration of the net investment in finance lease receivables is in the UK as at March 31, 2021 and as at March 31, 2020.

### c) Concentration of exposure

Geographical concentrations of loans and advances to customers

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
UK	777,110	874,197	56,815	63,912
Europe	275,917	399,677	20,172	29,220
North America	139,360	435,586	10,189	31,846
India	278,971	389,111	20,395	28,449
Rest of the World	79,948	124,089	5,845	9,072
<b>Total</b>	<b>1,551,306</b>	<b>2,222,660</b>	<b>113,416</b>	<b>162,499</b>

Geographical concentration represents the country of risk exposure. Generally, the risk domicile of an exposure is identified as the country of residence of the borrower provided that the cash flows of the borrower and/or the value of the security adequately covers the loan exposure of the Bank.

### (d) Loans to customers placed as collateral against borrowings from Central banks

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Carrying amount of loans	44,620	26,338	3,262	1,926

## 19 Potential credit risk on financial instruments

March 31, 2021

USD 000s

	Neither past due nor impaired	Past due not impaired	Impaired	Impairment allowances & collective provision	Total
Cash and cash equivalents	733,560	-	-	-	733,560
Loans and advances to banks	52,383	-	-	(11)	52,372
Loans and advances to customers	1,465,451	40,536	55,208	(39,057)	1,522,138
Investment securities	536,497	-	52,145	(49,896)	538,746
Derivative financial instruments	49,181	-	-	-	49,181
Other assets**:					
- Cheques in clearing	100	-	-	-	100
- Deposits receivable	23,628	-	-	-	23,628
Accrued income and other receivables	24,289	-	-	-	24,289

Total financial instruments	2,885,089	40,536	107,353	(88,964)	2,944,014
-----------------------------	-----------	--------	---------	----------	-----------

\*\*excludes deferred tax assets, prepaid expenses and fixed assets

March 31, 2021

INR million\*

	Neither past due nor impaired	Past due not impaired	Impaired	Impairment allowances & collective provision	Total
Cash and cash equivalents	53,631	-	-	-	53,631
Loans and advances to banks	3,830	-	-	(1)	3,829
Loans and advances to customers	107,139	2,964	4,036	(2,855)	111,284
Investment securities	39,224	-	3,812	(3,648)	39,388
Derivative financial instruments	3,596	-	-	-	3,596
Other assets**:					
- Cheques in clearing	7	-	-	-	7
- Deposits receivable	1,727	-	-	-	1,727
Accrued income and other receivables	1,776	-	-	-	1,776
Total financial instruments	210,930	2,964	7,848	(6,504)	215,238

March 31, 2020

USD 000s

	Neither past due nor impaired	Past due not impaired	Impaired	Impairment allowances & collective provision	Total
Cash and cash equivalents	289,987	-	-	-	289,987
Loans and advances to banks	168,122	-	-	(17)	168,105
Loans and advances to customers	1,994,801	18,490	221,391	(160,155)	2,074,527
Investment securities	869,007	-	56,619	(54,410)	871,216
Derivative financial instruments	33,964	-	-	-	33,964
Other assets**:					
- Cheques in clearing	15	-	-	-	15
- Deposits receivable	59,178	-	-	-	59,178
Accrued income and other receivables	18,588	-	-	-	18,588
Total financial instruments	3,433,662	18,490	278,010	(214,582)	3,515,580

March 31, 2020

INR million\*

	Neither past due nor impaired	Past due not impaired	Impaired	Impairment allowances & collective provision	Total
Cash and cash equivalents	21,201	-	-	-	21,201
Loans and advances to banks	12,292	-	-	(1)	12,291
Loans and advances to customers	145,840	1,352	16,186	(11,709)	151,669
Investment securities	63,532	-	4,139	(3,978)	63,693
Derivative financial instruments	2,483	-	-	-	2,483
Other assets**:					
- Cheques in clearing	1	-	-	-	1
- Deposits receivable	4,327	-	-	-	4,327
Accrued income and other receivables	1,359	-	-	-	1,359

<b>Total financial instruments</b>	<b>251,035</b>	<b>1,352</b>	<b>20,325</b>	<b>(15,688)</b>	<b>257,024</b>
------------------------------------	----------------	--------------	---------------	-----------------	----------------

\*\*excludes deferred tax assets, prepaid expenses and fixed assets

**Loans and advances to customers (including finance lease)**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Loans contractually past due as to principal or interest				
- Less than 60 days	40,536	18,490	2,964	1,352
- 61 to 90 days	-	-	-	-
- more than 90 days	53,585	163,985	3,918	11,989
<b>Total</b>	<b>94,121</b>	<b>182,475</b>	<b>6,882</b>	<b>13,341</b>

**Concentration of past due exposure**

United Kingdom	33,017	297	2,414	22
Europe	22,843	73,713	1,670	5,389
India	8,871	82,203	649	6,010
Rest of the World	29,391	26,262	2,149	1,919
<b>Total</b>	<b>94,122</b>	<b>182,475</b>	<b>6,882</b>	<b>13,340</b>

**Past due whether impaired or not**

Past due not impaired	40,536	18,490	2,964	1,352
Past due impaired	53,585	163,985	3,918	11,989
<b>Total</b>	<b>94,121</b>	<b>182,475</b>	<b>6,882</b>	<b>13,341</b>
<b>Past due not impaired</b>				
- Less than 60 days	40,536	18,490	2,964	1,352
- 61 to 90 days	-	-	-	-
- more than 90 days	-	-	-	-
<b>Total</b>	<b>40,536</b>	<b>18,490</b>	<b>2,964</b>	<b>1,352</b>

#Past due not impaired are stated at the total value of the exposure. This excludes gross exposures with overdues amounting USD 26.5 million which were received subsequent to the year end March 31, 2021 (FY2020: USD 0.7 million). Impaired but not past due gross exposures amounted to USD 1.6 million at March 31, 2021. (FY2020: USD 57.4 million).

During the financial year the Bank has approved requests for deferment of payment amounting to USD 23.6 mn (FY2020: USD 17.9 mn) on account of Covid-19. Out of total deferrals, payments of USD 17.5 has been received subsequently.

**Forbearance**

The outstanding exposures for restructured/forborne loans are provided below:

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Gross impaired loans	16,967	101,735	1,240	7,438
Less: Provisions	(11,275)	(91,634)	(824)	(6,699)
Net impaired loans	5,692	10,101	416	739
Gross non impaired loans	38,193	15,854	2,792	1,159
Past dues	-	0	-	-
Not past dues	38,193	15,854	2,792	1,159

\* INR figures are unaudited



## 20 Impairment on loans and advances

Net loan impairment charge to profit and loss account

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
New charges	(19,863)	(24,943)	(1,452)	(1,824)
Release of allowance	11,723	17,135	857	1,253
Write off /charge directly to profit and loss	(274)	(1,094)	(20)	(80)
	<b>(8,414)</b>	<b>(8,902)</b>	<b>(615)</b>	<b>(651)</b>

Movement in impairment allowance on loans and advances

	March 31, 2021 (USD 000s)			March 31, 2020 (USD 000s)		
	Specific Impairment	Collective Provision	Total	Specific Impairment	Collective Provision	Total
Opening Balance	141,544	18,629	160,173	153,170	12,430	165,600
Charge to profit and loss account	19,863	-	19,863	18,744	6,199	24,943
Other provision on interest income	-	-	-	-	-	-
Amounts written off	(131,647)	-	(131,647)	(14,198)	-	(14,198)
Recovery	(11,821)	(266)	(12,087)	(15,440)	-	(15,440)
Others (incl. FX)	2,766	-	2,766	(732)	-	(732)
Closing Balance	20,705	18,363	39,068	141,544	18,629	160,173

	March 31, 2021 (INR million*)			March 31, 2020 (INR million*)		
Opening Balance	10,348	1,362	11,710	11,198	909	12,107
Charge to profit and loss account	1,452	-	1,452	1,370	453	1,823
Other provision on interest income	-	-	-	-	-	-
Amounts written off	(9,625)	-	(9,625)	(1,038)	-	(1,038)
Recovery	(864)	(19)	(883)	(1,129)	-	(1,129)
Others (incl. FX)	202	-	202	(54)	-	(54)
Closing Balance	1,513	1,343	2,856	10,347	1,362	11,709

## 21 Investment securities

Classification of Investment securities

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Analysed by class:</b>				
Government Securities	125,760	263,617	9,194	19,273
Other securities				
- Bonds	399,427	595,024	29,202	43,502
- Asset Backed Securities	8,642	8,864	632	648
- Equity	4,952	3,733	362	273

Collective provisions	(35)	(22)	(3)	(2)
Total other securities	412,986	607,599	30,193	44,422
<b>Total</b>	<b>538,746</b>	<b>871,216</b>	<b>39,387</b>	<b>63,695</b>

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Analysed by issuer:</b>				
<b>Available for sale</b>				
Issued by public bodies:				
Government Issued	113,172	251,667	8,274	18,399
Other Public sector securities	120,333	220,388	8,798	16,113
Issued by other issuers	80,249	165,078	5,866	12,069
<b>Held to Maturity</b>				
Government Issued	12,589	11,950	921	874
Issued by other issuers	212,438	222,155	15,531	16,242
Collective provisions	(35)	(22)	(3)	(2)
<b>Financial instruments at fair value through profit and loss</b>				
Issued by other issuers				
<b>Total</b>	<b>538,746</b>	<b>871,216</b>	<b>39,387</b>	<b>63,695</b>

**Analysed by listing status:**

<b>Available for sale</b>				
Unlisted	44,735	229,580	3,271	16,785
Listed	269,019	407,553	19,666	29,797
<b>Held to Maturity</b>				
Listed	225,027	234,105	16,453	17,115
Collective provisions	(35)	(22)	(3)	(2)
<b>Financial instruments at fair value through profit and loss</b>				
Unlisted	-	-	-	-
<b>Total</b>	<b>538,746</b>	<b>871,216</b>	<b>39,387</b>	<b>63,695</b>

**Analysed by maturity\*:**

Due within 1 year	105,079	280,779	7,682	20,528
Due 1 year and above	428,750	586,726	31,346	42,895
<b>Total</b>	<b>533,829</b>	<b>867,505</b>	<b>39,028</b>	<b>63,423</b>

#does not include USD 4.95 million ( \*INR 362 million) of investment in equity (FY2020: USD 3.7 million, \*INR 273 million) and collective provision of USD 0.03 million \*INR 2.6 million (FY2020: USD 1.6 million)

**Investments placed as collateral against borrowings from Central banks**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Carrying value of investments	16,287	141,592	1,191	10,352

**Impairment on investment securities**

During the year the Bank booked an impairment loss of USD 0.02 million in respect of equity investments held as available for sale (amounting to USD 3.45 million impairment provision in FY2020).

## Valuation Hierarchy

The valuation hierarchy is set out below:

Level 1: Investments valued using unadjusted quoted prices in active markets.

Level 2: Investments valued using valuation techniques based on observable market data for instruments where markets are considered less than active. Instruments in this category are valued using:

(a) Quoted prices for similar assets, or identical assets in markets which are considered to be less than active; or

(b) Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3: Investments valued using a valuation model based on significant non market observable inputs.

The fair value of debt securities is derived based on prevalent market quotes as at balance sheet date. In case market quotes are not available the Bank has used the internal valuation techniques to calculate the fair value. Internal valuation discounts the estimated future cash flows, computed based on the prevailing interest rates and credit spreads in the market.

Refer no 40 for detailed valuation hierarchy and assumption considered in valuation.

### Investments held at fair value at March 31, 2021, by valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Treasury Bills & Government securities	113,172	-	-	113,172
Bonds	186,988	-	-	186,988
Asset Backed Securities	-	8,642	-	8,642
Equity	4,049	-	903	4,952
<b>Total</b>	<b>304,209</b>	<b>8,642</b>	<b>903</b>	<b>313,754</b>

	Level 1	Level 2	Level 3	Total
Treasury Bills & Government securities	8,273	-	-	8,273
Bonds	13,671	-	-	13,671
Asset Backed Securities	-	632	-	632
Equity	296	-	66	362
<b>Total</b>	<b>22,240</b>	<b>632</b>	<b>66</b>	<b>22,938</b>

### Investments held at fair value at March 31, 2020, by valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Treasury Bills & Government securities	251,667	-	-	251,667
Bonds	372,868	-	-	372,868
Asset Backed Securities	-	8,864	-	8,864
Equity	402	-	3,331	3,733
<b>Total</b>	<b>624,937</b>	<b>8,864</b>	<b>3,331</b>	<b>637,132</b>

	Level 1	Level 2	Level 3	Total
Treasury Bills & Government securities	18,399	-	-	18,399
Bonds	27,260	-	-	27,260
Asset Backed Securities	-	648	-	648
Equity	29	-	245	274
<b>Total</b>	<b>45,688</b>	<b>648</b>	<b>245</b>	<b>46,581</b>

## Investments placed as collateral against liabilities/borrowings

Under repurchase agreements the Bank has placed certain Bonds & ABSs issued by financial institutions and corporates as collateral against liabilities/ borrowings (refer Note 29).

### 22 Fixed assets

	Leasehold Improvements USD 000s	Tangible Fixed Assets USD 000s	Intangible Fixed Assets USD 000s	Total USD 000s
<b>Cost:</b>				
At April 1, 2020	10,773	5,203	4,200	20,176
Additions	59	330	210	599
Disposal	-	-	-	-
<b>At March 31, 2021</b>	<b>10,832</b>	<b>5,533</b>	<b>4,410</b>	<b>20,775</b>
<b>Accumulated depreciation:</b>				
At April 1, 2020	7,607	4,553	3,909	16,069
Charge for the year	721	253	183	1,157
Disposal	-	-	-	-
<b>At March 31, 2021</b>	<b>8,328</b>	<b>4,806</b>	<b>4,092</b>	<b>17,226</b>
<b>Net book value:</b>				
<b>At March 31, 2021</b>	<b>2,504</b>	<b>727</b>	<b>318</b>	<b>3,549</b>
<b>At April 1, 2020</b>	<b>3,166</b>	<b>650</b>	<b>291</b>	<b>4,107</b>

	Leasehold Improvements INR million*	Tangible Fixed Assets INR million*	Intangible Fixed Assets INR million*	Total INR million*
<b>Cost:</b>				
At April 1, 2020	788	383	307	1,475
Additions	4	23	15	44
Disposal	-	-	-	-
<b>At March 31, 2020</b>	<b>792</b>	<b>406</b>	<b>322</b>	<b>1,519</b>
<b>Accumulated depreciation:</b>				
At April 1, 2020	556	334	286	1,175
Charge for the year	53	19	13	85
Disposal	-	-	-	-
<b>At March 31, 2020</b>	<b>609</b>	<b>353</b>	<b>299</b>	<b>1,260</b>
<b>Net book value:</b>				
<b>At March 31, 2021</b>	<b>183</b>	<b>53</b>	<b>23</b>	<b>259</b>
<b>At April 1, 2020</b>	<b>231</b>	<b>48</b>	<b>21</b>	<b>300</b>

\* INR figures are unaudited

## 23 Other assets

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
Amounts in clearing	100	15	7	1
Deposits receivable <sup>1</sup>	23,628	59,178	1,728	4,327
Deferred tax asset <sup>2</sup>	8,115	19,414	593	1,419
Other receivables	14,315	4,378	1,047	320
<b>Total</b>	<b>46,158</b>	<b>82,985</b>	<b>3,375</b>	<b>6,067</b>

<sup>1</sup> Including margin placed with clearing counterparties

<sup>2</sup> Refer note 11

## 24 Deposit by Banks

With agreed maturity dates or periods of notice, by remaining maturity:

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
<b>Banks</b>				
5 years or less but over 1 year	19,961	129,329	1,459	9,456
1 year or less but over 3 months	45,354	135,211	3,316	9,885
3 months or less but not repayable on demand	-	21,399	-	1,564
<b>Total</b>	<b>65,315</b>	<b>285,939</b>	<b>4,775</b>	<b>20,905</b>

## 25 Customer accounts

With agreed maturity dates or periods of notice, by remaining maturity:

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
More than 5 years	-	-	-	-
5 years or less but over 1 year	179,733	313,900	13,139	22,949
1 year or less but over 3 months	485,160	554,071	35,470	40,508
3 months or less but not repayable on demand	226,542	183,236	16,562	13,396
	<b>891,435</b>	<b>1,051,207</b>	<b>65,171</b>	<b>76,853</b>
Repayable on demand	1,066,023	991,021	77,938	72,454
<b>Total</b>	<b>1,957,458</b>	<b>2,042,228</b>	<b>143,110</b>	<b>149,307</b>

## 26 Bonds and medium term notes

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
<b>Bonds issued</b>				
Residual Maturity	-	-	-	-
5 year or less but over 1 year	148,076	198,555	10,825	14,517
1 year or less but over 3 months	50,000	77,833	3,656	5,690
3 months or less	-	19,278	-	1,409
	<b>198,076</b>	<b>295,666</b>	<b>14,481</b>	<b>21,616</b>
Less: Bond issue expenses	(224)	(365)	(16)	(27)
<b>Total bonds and medium term notes</b>	<b>197,852</b>	<b>295,301</b>	<b>14,465</b>	<b>21,589</b>

\* INR figures are unaudited

Details of various bonds and notes under the medium term notes programmes issued by the Bank at March 31, 2021 are as follows:

Nature of Issue: Senior unsecured bonds

Date of Issue	Interest frequency	Interest Rate	Maturity	USD 000s	INR million*
20-Feb-19	Quarterly	1.61%	Bullet repayment in February 24	25,000	1,828
17-May-19	Semi-annual	0.45%	Bullet repayment in May 22	18,076	1,322
10-Jul-19	Quarterly	1.29%	Bullet repayment in July 22	5,000	366
07-Aug-19	Quarterly	1.32%	Bullet repayment in August 22	25,000	1,828
07-Aug-19	Quarterly	1.32%	Bullet repayment in August 22	25,000	1,828
07-Aug-19	Quarterly	1.30%	Bullet repayment in August 22	25,000	1,828
07-Aug-19	Quarterly	1.32%	Bullet repayment in August 22	25,000	1,827
06-Nov-19	Quarterly	1.14%	Bullet repayment in November 21	25,000	1,827
12-Nov-19	Quarterly	1.14%	Bullet repayment in November 21	25,000	1,827
			<b>Total</b>	<b>198,076</b>	<b>14,481</b>
<b>Less: Bond issue expenses</b>				<b>(224)</b>	<b>(16)</b>
<b>Total bonds and medium term notes</b>				<b>197,852</b>	<b>14,465</b>

## 27 Subordinated debt liabilities

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Sub-ordinated debt#				
Residual Maturity				
Over 5 years				
5 year or less but over 1 year#	74,380	70,183	5,438	5,131
1 year or less but over 3 months	-	150,000	-	10,967
3 months or less				
	<b>74,380</b>	<b>220,183</b>	<b>5,438</b>	<b>16,098</b>
<b>Less: Bond issue expenses</b>	<b>(251)</b>	<b>(330)</b>	<b>(18)</b>	<b>(24)</b>
<b>Less: Adjustments to carrying amount for change in the value of hedge which is ineffective</b>	<b>1,987</b>	<b>5,882</b>	<b>145</b>	<b>430</b>
<b>Total</b>	<b>76,116</b>	<b>225,736</b>	<b>5,565</b>	<b>16,504</b>

#listed with Singapore stock exchange.

Details of the Subordinated debt liabilities issued by the Bank at March 31, 2021 are as follows:

Date of Issue	Nature of Issue	Interest Rate	Interest frequency	Maturity	USD 000s	INR million*
26-Sep-18	Subordinated Debt issued in SGD currency	5%	Semi-annual	Callable in 2023, Maturity in September 2028	74,380	5,438
				<b>Total</b>	<b>74,380</b>	<b>5,438</b>
Less: Bond issue expenses					(251)	(18)
Less: Adjustments to carrying amount for change in the value of hedge which is ineffective					1,987	145
					<b>76,116</b>	<b>5,565</b>

For all the subordinated notes, the notes and coupons are direct, unsecured and subordinated obligations of the Bank, and rank pari passu without any preference among themselves.

## 28 Other liabilities

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Amounts in clearing	1,179	946	86	69
Corporation tax payable				
Margin for derivative and repurchase transactions*	10,279	384	751	28
Other creditors	8,162	11,631	597	850
<b>Total</b>	<b>19,620</b>	<b>12,961</b>	<b>1,434</b>	<b>947</b>

\*Margin for derivative and repurchase transactions increased during the year primarily due to a increase in CSA and repo margins on account of exchange rate movement.

## 29 Repurchase agreements

	March 31, 2021 USD 000s		March 31, 2020 USD 000s	
	Carrying amount of liabilities	Carrying amount of collateral assets	Carrying amount of liabilities	Carrying amount of collateral assets
Repurchase agreements	79,153	109,731	131,238	151,886
	March 31, 2021 INR million*		March 31, 2020 INR million*	
	Carrying amount of liabilities	Carrying amount of collateral assets	Carrying amount of liabilities	Carrying amount of collateral assets
Repurchase agreements	5,787	8,022	9,595	11,104

The repurchase transactions enable the Bank to raise funds using its portfolio of government bonds or corporate/financial institution bonds and Asset Backed Securities (ABS) as collateral. These bonds and ABS are issued by corporates and financial institutions with carrying value of USD 110 million ( \*INR 8,022 million) (2020: USD 152 million; \*INR 11,104 million). These have been pledged as collateral

under GMRA (Global Master Repurchase agreement) entered by the Bank with its various counterparties. These form part of the AFS book & Loans and Receivable book (refer Note 21 and Note 40). As per the contract, the Bank agrees to repay the principal along with the interest at maturity and receive the collateral from the counter party.

**With agreed maturity dates or periods of notice, by remaining maturity:**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
5 years or less but over 1 year	61,248	61,248	4,478	4,478
1 year or less but over 3 months	17,905	26,177	1,309	1,913
3 months or less	0	43,812	-	3,203
<b>Total</b>	<b>79,153</b>	<b>131,237</b>	<b>5,787</b>	<b>9,594</b>

### 30 Called up share capital

At March 31, 2021 the Issued share capital of ICICI Bank UK PLC was:

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
420 million ordinary shares of USD 1 each	420,000	420,000	30,706	30,706
50,002 ordinary shares of £1 each	95	95	7	7
<b>Total Share Capital</b>	<b>420,095</b>	<b>420,095</b>	<b>30,713</b>	<b>30,713</b>

There is no movement in number of shares during the year. All the shares are allotted and fully paid and the holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. There are no restrictions on the distribution of dividends and the repayment of capital.

### 31 Employee benefits

During the year, the Bank made a contribution of USD 627,384, INR 45,868,030 (2020: USD 673,071; \*INR 49,208,221) to the pension scheme. Out of this amount, USD 52,465, INR 3,835,752 was accrued at the yearend (2020: USD 51,325; \*INR 3,752,383).

### 32 Contingent liabilities and commitments (Off Balance Sheet)

As a part of its banking activities, the Bank issued bank guarantees to support business requirements of customers. Guarantees represent irrevocable assurances that the Bank will pay in the event a customer fails to fulfil its financial or performance obligations. The credit risks associated with these guarantees are similar to those relating to other types of unfunded facilities. The Bank enters into guarantee arrangements after conducting appropriate due diligence on the customers. Upon default by a customer under the terms of the guarantee, the beneficiary may exercise its rights under the guarantees, and the Bank is obligated to honour payments to the beneficiaries.

The Bank extends financing to its customers by loan facilities, credit lines and other commitments to lend. Depending upon a customer's requirement and subject to its ability to maintain specific credit standards, the unexpired undrawn commitment can be withdrawn by customers. The interest rate on a significant portion of these commitments is dependent on the lending rates prevailing on the date of the loan disbursement. Further, the commitments have fixed expiration dates and are contingent upon the customer's ability to maintain specific credit standards.



**(a) Guarantees and other commitments:**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Guarantees</b>	<b>195,430</b>	<b>255,304</b>	<b>14,288</b>	<b>18,665</b>
<b>Other commitments</b>				
Undrawn formal standby facilities, credit lines and other commitments to lend maturing in:				
Less than one year	236	793	17	58
More than one year				
<b>Total guarantees and commitments</b>	<b>195,666</b>	<b>256,097</b>	<b>14,305</b>	<b>18,723</b>

**(b) Significant concentrations of contingent liabilities and commitments**

The contingent liabilities and commitments relate to counterparties primarily in Europe & UK at 90% (2020:75%) with 93% of the beneficiaries in India (2020:96%).

**(c) Foreign exchange contracts**

In addition to the commitments disclosed above, there are outstanding foreign exchange contracts of USD 1,327 million (\*INR 97,017 million) (2020: USD 1,242 million; \*INR 90,802 million).

### 33 Litigation

In the ordinary course of business, the Bank pursues litigation in order to recover any overdue exposures. There are no material litigations against the Bank.

### 34 Operating lease commitments

The Bank has entered into non-cancellable lease agreements for its offices and branches. These lease agreements contain standard terms & conditions.

As at March 31, 2021, the Bank has the following non-cancellable operating lease commitments:

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Land and Buildings</b>				
Within 1 year	1,838	1,692	134	124
Between 1 and 5 years	2,839	3,450	208	252
More than 5 years	2,233	1,397	163	102
<b>Total</b>	<b>6,910</b>	<b>6,539</b>	<b>505</b>	<b>478</b>

The Bank had sub-let a portion of its premises in the corporate office initially for 5 years with fixed lease rentals for the entire period. During the year, the Bank had terminated the sub-lease agreement and had incurred USD 0.2 million towards dilapidation charges.

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
<b>Land and Buildings</b>				
Within 1 year	-	296	-	22
Between 1 and 5 years	-	443	-	32
More than 5 years	-	-	-	-
<b>Total</b>	<b>-</b>	<b>739</b>	<b>-</b>	<b>54</b>

### 35 Categories and classes of Financial Instruments

The carrying amounts of the financial assets and liabilities include:

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Financial assets measured at fair value through profit or loss	49,181	33,964	3,596	2,483
Financial assets under Available for Sale category	313,754	637,133	22,939	46,581
Financial assets under Loans and receivable category	2,356,087	2,610,402	172,254	190,847
Financial assets under Held to maturity category	224,992	234,082	16,449	17,114
<b>Total financial assets</b>	<b>2,944,014</b>	<b>3,515,581</b>	<b>215,238</b>	<b>257,025</b>
Liabilities measured at fair value through profit or loss	40,360	73,225	2,951	5,353
Liabilities measured at amortised cost	2,409,653	3,014,127	176,170	220,364
<b>Total financial liabilities</b>	<b>2,450,013</b>	<b>3,087,352</b>	<b>179,121</b>	<b>225,717</b>

### Assets:

As at March 31, 2021

USD 000s

	Fair value though P&L	Available for Sale	Loans & Receivables	Held to maturity	Total
Cash and cash equivalents	-	-	733,560	-	733,560
Loans and advances to banks	-	-	52,372	-	52,372
Loans and advances to customers	-	-	1,522,138	-	1,522,138
Investment Securities	-	313,754	-	224,992	538,746
Derivative financial instruments	49,181	-	-	-	49,181
Other assets <sup>#</sup>	-	-	38,044	-	38,044
Accrued income	-	-	9,973	-	9,973
<b>Total financial assets</b>	<b>49,181</b>	<b>313,754</b>	<b>2,356,087</b>	<b>224,992</b>	<b>2,944,014</b>

\* INR figures are unaudited

**As at March 31, 2021**

**INR million\***

Cash and cash equivalents	-	-	53,631	-	53,631
Loans and advances to banks	-	-	3,829	-	3,829
Loans and advances to customers	-	-	111,284	-	111,284
Investment Securities	-	22,939	-	16,449	39,388
Derivative financial instruments	3,596	-	-	-	3,596
Other assets <sup>#</sup>	-	-	2,781	-	2,781
Accrued income	-	-	729	-	729
<b>Total financial assets</b>	<b>3,596</b>	<b>22,939</b>	<b>172,254</b>	<b>16,449</b>	<b>215,238</b>

**As at March 31, 2020**

**USD 000s**

Cash and cash equivalents	-	-	289,988	-	289,988
Loans and advances to banks	-	-	168,105	-	168,105
Loans and advances to customers	-	-	2,074,527	-	2,074,527
Investment in Securities	-	637,133	-	234,082	871,215
Derivative financial instruments	33,964	-	-	-	33,964
Other assets <sup>##</sup>	-	-	63,563	-	63,563
Accrued income	-	-	14,219	-	14,219
<b>Total financial assets</b>	<b>33,964</b>	<b>637,133</b>	<b>2,610,402</b>	<b>234,082</b>	<b>3,515,581</b>

**As at March 31, 2020**

**INR million\***

Cash and cash equivalents	-	-	21,201	-	21,201
Loans and advances to banks	-	-	12,290	-	12,290
Loans and advances to customers	-	-	151,669	-	151,669
Investment in Securities	-	46,581	-	17,114	63,695
Derivative financial instruments	2,483	-	-	-	2,483
Other assets <sup>##</sup>	-	-	4,647	-	4,647
Accrued income	-	-	1,040	-	1,040
<b>Total financial assets</b>	<b>2,483</b>	<b>46,581</b>	<b>190,847</b>	<b>17,114</b>	<b>257,025</b>

<sup>#</sup> excludes deferred tax assets, prepaid expenses and fixed assets

<sup>##</sup> excludes deferred tax assets, prepaid expenses, fixed assets and assets acquired in settlement of loan claims, held as inventory at lower of cost or net realizable value

**Liabilities:**

As at March 31, 2021		USD 000s	
	Fair value through P&L	Non trading liability	Total
Deposits by banks	-	65,315	65,315
Customer accounts	-	1,957,458	1,957,458
Bonds and Medium term notes	-	197,852	197,852
Subordinated debts	-	76,116	76,116
Derivative financial instruments	40,360	-	40,360
Other liabilities	-	19,620	19,620
Accruals and deferred income	-	14,139	14,139
Repurchase agreements	-	79,153	79,153
<b>Total financial liabilities</b>	<b>40,360</b>	<b>2,409,653</b>	<b>2,450,013</b>

As at March 31, 2021		INR million*	
Deposits by banks	-	4,775	4,775
Customer accounts	-	143,110	143,110
Bonds and Medium term notes	-	14,465	14,465
Subordinated debts	-	5,565	5,565
Derivative financial instruments	2,951	-	2,951
Other liabilities	-	1,434	1,434
Accruals and deferred income	-	1,034	1,034
Repurchase agreements	-	5,787	5,787
<b>Total financial liabilities</b>	<b>2,951</b>	<b>176,170</b>	<b>179,121</b>

As at March 31, 2020		USD 000s	
Deposits by banks	-	285,939	285,939
Customer accounts	-	2,042,228	2,042,228
Bonds and Medium term notes	-	295,302	295,302
Subordinated debts	-	225,736	225,736
Derivative financial instruments	73,225	-	73,225
Other liabilities	-	12,960	12,960
Accruals and deferred income	-	20,724	20,724
Repurchase agreements	-	131,238	131,238
<b>Total financial liabilities</b>	<b>73,225</b>	<b>3,014,127</b>	<b>3,087,352</b>

As at March 31, 2020		INR million*	
Deposits by banks	-	20,905	20,905
Customer accounts	-	149,307	149,307
Bonds and Medium term notes	-	21,590	21,590
Subordinated debts	-	16,504	16,504
Derivative financial instruments	5,353	-	5,353
Other liabilities	-	948	948
Accruals and deferred income	-	1,515	1,515
Repurchase agreements	-	9,595	9,595
<b>Total financial liabilities</b>	<b>5,353</b>	<b>220,364</b>	<b>225,717</b>

Refer to Note 3 for descriptions of categories of assets and liabilities.

### 36 Capital Management

The Bank's regulatory capital requirements are set and monitored by the PRA. The Bank implemented the CRD IV (Basel III) framework for calculating minimum capital requirements, with effect from January 1, 2014. The Bank's regulatory capital is categorised into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings and regulatory adjustments to Tier 1 capital.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective provision and regulatory adjustments to Tier 2 capital.

Banking operations are categorized as either trading or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures.

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 under CRD IV is primarily based on monitoring the Capital Resource Requirement to available capital resources. The PRA also sets Total Capital Requirement (TCR) (earlier known as Individual Capital Guidance (ICG)) 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 Internal Capital Adequacy Assessment Process (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'.

Effective January 01, 2019, the capital conservation buffer applicable to banks in the UK increased from 1.875% to 2.5% in line with guidance from the PRA. As determined by the Financial Policy Committee (FPC) during 2017, UK countercyclical capital buffer (CCyB) rate increased from 0% to 0.5% from with effect from June 2018 and from 0.5% to 1% with effect from November 2018. During December 2019, FPC announced to increase the UK CCyB rate from 1% to 2% with effect from December 2020. However during March 2020, the FPC reduced the UK CCyB rate from 1% to 0% of banks' exposures to UK borrowers with immediate effect as part of measures to support the credit supply on account of COVID-19 related disruption. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

The Bank's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also 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. The Bank has complied with all regulatory capital requirements throughout the year.

The Bank has redeemed subordinated Tier 2 capital of USD 150.0 million (FY2020: NIL), on its scheduled maturity, during the year under its Medium Term Note Program.

The Bank's regulatory capital resources to be reported under CRD IV are as follows:

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD million	USD million	INR million*	INR million*
<b>Total Capital</b>	586.7	547.2	42,894	40,006
- Tier I	493.9	440.9	36,109	32,234
- Tier II	92.8	106.3	6,785	7,772

### 37 Country by country reporting

The Capital Requirements Directive 4 ("CRD IV") requirements stipulate reporting on a consolidated basis, by country where the reporting institution has an establishment, the name, nature of activities, geographical location, number of employees, turnover, pre-tax profit/loss, corporation taxes paid and any public subsidies received.

The Bank has one branch in the EU which is outside UK, in Eschborn (Germany). The details of the business activities are provided in the Business Review section of the Strategic Report. Details as at March 31, 2021 are provided below:

	UK		Germany	
<b>Number of employees</b>	141		16	
	USD million	INR million*	USD million	INR million*
<b>Turnover<sup>1,2</sup></b>	55.5	4,057	7.1	518
<b>Pre-tax profit</b>	18.7	1,369	(1.2)	(88)
<b>Corporation tax paid</b>	0.1	7	(1.0)	(70)

<sup>1</sup>Income before operating expenses and provisions

<sup>2</sup>Includes P&L on sale of financial assets

There were no public subsidies received during the year. It may be noted that the corporation tax paid are the cash taxes paid. Refer Note 11 for information on the current year taxation (which includes taxes accrued not yet paid).

### 38 Risk Management Framework

The Bank has adopted a governance framework in line with the corporate governance practices adopted by other UK financial institutions. The Board is assisted by its sub-committees, the Audit Committee, the Board Governance Committee (BGC), the Board Risk Committee (BRC), the Board Credit Committee (BCC), and the Board Conduct Risk Committee (BCRC), and follows ICICI Group's overall risk management framework. The Board has delegated responsibility for the day-to-day management of the Bank to the Managing Director and Chief Executive Officer. In this role, the Managing Director and Chief Executive Officer is supported by the Management Committee, which he chairs. The Management Committee is supported by various other committees, which include the Executive Credit and Risk Committee (ECRC), the Asset Liability Management Committee (ALCO), the Compliance Conduct and Operational Risk Committee (CORMAC), the Product and Process Approval Committee (PAC) and the Information Security Committee (ISC).

As a financial institution, the Bank is exposed to various types of risks. The objective of the risk management framework is to ensure that the key risks facing the Bank are identified, understood, measured and monitored; and that the policies and procedures established to address these risks are strictly adhered to.

The key principles underlying the Bank's risk management framework are as follows:

1. The Board of Directors has oversight over the risks assumed by the Bank. Specific Board committees have been constituted to facilitate focused oversight of various risks.
2. Policies approved from time to time by the Board of Directors or Committees of the Board form the governing framework for each type of risk. The business activities are undertaken within this policy framework.
3. Independent groups and sub-groups have been constituted across the Bank to facilitate independent evaluation, monitoring and reporting of risks. These groups function independently of the business groups/sub-groups.

As part of implementation of an Enterprise Risk Management framework, the Bank has developed a risk appetite framework based on its strategy, an examination of best practices and the risk appetite statement of the Parent. The risk appetite statement has been further drilled down into portfolio-level limits.

The Bank has a risk register which documents the material and non-material risks faced by the Bank and categorises the material risks as High, Medium or Low risk based on likelihood and severity of impact. The key material risks to which the Bank is exposed include credit risk (including concentration risk), market risk (including interest rate risk in banking book and credit spread risks), liquidity risk and operational risk (including compliance and legal risks and conduct risk).

The approach adopted by the management to manage the key risks facing the Bank including the third country branch in Germany, is outlined below.

### **Credit Risk**

Credit risk is the risk that losses may arise as a result of the Bank's borrowers or market counterparties failing to meet obligations under a contract. All credit risk related aspects are governed by the Credit Risk Management Policy (CRMP), which is approved and reviewed annually by the Board Credit Committee. The CRMP describes the principles which underpin and drive the Bank's approach to credit risk management together with the systems and processes through which they are implemented and administered.

The Bank ensures that there is independent challenge of credit proposals by adopting a two stage process whereby a commercial officer assesses and proposes a transaction or limit and this proposal is then reviewed independently and assessed by a credit officer within the risk team. The CRMP lays down a structured credit approval process, which includes the procedure for independent credit risk assessment and the assignment of an internal risk rating (IRR) to the borrower. The risk rating is a critical input in the credit approval process and is used as an input in arriving at the risk premium for the proposal.

The Bank uses credit rating software through which it assesses a variety of risks relating to the borrower and the relevant industry while assigning an internal rating. Borrower risk is evaluated by considering, inter alia:

- The financial position of the borrower, by analysing the quality of its financial statements, its past financial performance, its financial flexibility in terms of ability to raise capital and its cash flow adequacy;
- The borrower's relative market position and operating efficiency; and
- The quality of management by analysing its track record, payment record and financial conservatism.

Industry risk is evaluated by considering, inter alia:

- Certain industry characteristics, such as the importance of the industry to the economy, its growth outlook, cyclicalities and government policies relating to the industry;
- The competitiveness of the industry; and
- Certain industry financials, including return on capital employed, operating margins, and earnings stability.

After conducting an analysis of a specific borrower's risk, the Bank assigns an internal risk rating to the borrower. The Bank has a rating scale ranging from 'AAA' to 'D' (AAA signifying the highest level of credit worthiness and D signifying default). AAA to BBB- are considered as 'Investment Grade' while BB and below are considered as 'Non-Investment Grade'.

### **Credit approval**

The delegation structure for approval of credit limits is approved by the Board Credit Committee. Credit proposals are approved by the Executive Credit and Risk Committee (ECRC) or the Board Credit Committee (BCC) based on, inter alia, the amount and internal risk rating of the facility. All credit proposals put up to the BCC are passed through the ECRC.

The Credit Risk team is also responsible for the following with respect to managing the Bank's credit risk:

- Developing credit policies in consultation with the Corporate Banking Group and Retail Banking Group which cover collateral management, the credit rating framework, provisioning, etc.
- Establishing the delegation of sanctioning powers available to individuals, singly or jointly, and the credit committees which are documented in the Credit Approval Authorisation Manual.
- Limiting and monitoring concentrations of exposure to counterparties, geographies, industrial sectors, internal rating categories, etc.
- Performing portfolio specific reviews, thematic reviews and presenting the results to the BCC for guidance
- Performing periodic credit stress tests on the Bank's portfolio and communicating the results to the BCC.

The credit middle office function is responsible for credit administration which includes monitoring compliance with the terms and conditions prior to disbursement. It also reviews the completeness of documentation and creation of security.

### **Concentration risk**

Concentration risk arises from significant exposures to groups of counterparties where likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type. The key parameters of risk concentrations measured in the Bank include sectoral, country, rating category based, product specific exposures, counterparty and large exposures. To manage these risks, limits have been stipulated in the risk appetite framework. These are monitored and reported to BCC at quarterly intervals.

### **Credit monitoring**

Credit quality is monitored on an ongoing basis but can also be triggered by any material credit event coming to the Bank's notice through either primary or secondary sources. The Bank has established a credit forum, which is comprised of Heads of Businesses and the Head of Risk. The credit forum focuses on management & monitoring of impaired and watchlist assets/investments and also monitors developments in the Bank's portfolio through the Early Warning Indicators (EWI) framework to identify potential vulnerabilities. It is the Bank's policy to review borrower accounts at least on an annual basis



or at shorter interval(s) if recommended by the credit officer or the relevant sanctioning committee. A risk based asset review framework has been put in place wherein the frequency of asset review would be higher for cases with higher exposure and/or lower credit rating. The Bank has established an approach to assets under watch as an additional tool for monitoring exposures which show or are expected to show signs of weakness. The assets under watch are reviewed on a quarterly basis by the BCC, in addition to review and monitoring by the credit forum. The Bank documents the 'lessons learned' from its experiences of exposures against which specific provisions have been made. These are presented jointly by the business and risk groups to the BCC.

Credit risk is also managed at the portfolio level by monitoring and reporting risk dashboards to the Board at specified intervals. The credit risk dashboard is constructed using key risk indicators for underlying portfolio rating, counterparty concentration, geographical concentration, stressed assets, breaches in risk appetite, sectoral concentration, recovery risk and documentation risk.

The segregation of responsibilities and oversight by groups external to the business groups ensure adequate checks and balances.

**An analysis of the Bank's investment portfolio based on credit ratings provided by external rating agencies is as follows:**

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
AAA	68,926	61,450	5,039	4,493
AA+	8,727	21,636	638	1,582
AA	5,852	228,274	428	16,689
AA-	87,272	27,404	6,380	2,004
A+	-	-	-	-
A and A-	10,794	-	789	-
BBB-	268,534	477,206	19,633	34,889
BB+ and below	83,724	51,537	6,121	3,768
Unrated	4,952	3,733	362	273
<b>Total</b>	<b>538,781</b>	<b>871,239</b>	<b>39,390</b>	<b>63,698</b>

#### Credit quality of loan portfolio

The definition of internal risk rating for the loans and advances are given below:

AAA to AA-	: Highest safety/High Safety
A+ to A-	: Adequate safety
BBB+ to BBB-	: Moderate safety
BB and below	: Inadequate safety/High risk

The Bank's internal risk rating scale is a measure of relative credit worthiness and does not map exactly with that of external rating agencies.

The exposure detailed below for loans and advances to banks and customers are gross of collective and specific impairment.

## Loans and advances to banks

### Internal risk rating of loans and advances to banks

Rating	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
AAA to AA-	52,117	117,803	3,809	8,613
A+ to A-	266	50,319	19	3,679
BBB+ to BBB-	-	-	-	-
BB and below	-	-	-	-
<b>Total</b>	<b>52,383</b>	<b>168,122</b>	<b>3,828</b>	<b>12,292</b>

### Loans and advances to customers

The details of the rating distribution have been provided in the following three categories:

#### (a) Internal risk rating of loans and advances to customers

Rating	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
AAA to AA-	85,765	99,437	6,270	7,270
A+ to A- <sup>#</sup>	908,150	1,262,057	66,395	92,269
BBB+ to BBB- <sup>##</sup>	452,244	586,899	33,064	42,908
BB and below	106,364	252,222	7,776	18,440
<b>Total</b>	<b>1,552,523</b>	<b>2,200,615</b>	<b>113,505</b>	<b>160,887</b>

<sup>#</sup>Includes USD 502.76 million ( \*INR 36,757 million) of loans classified as "Strong" (2020: USD 492.1 million: \*INR 35,976 million); the classification is based on the supervisory slotting criteria under the Basel framework.

<sup>##</sup>Includes USD 110.0 million ( \*INR 8,043 million) of loans classified as "Good" (2020: USD 50.5 million: \*INR 3,689 million); the classification is based on the supervisory slotting criteria under the Basel framework.

#### (b) Investments held as loans and receivables which are externally rated:

Rating	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
AAA to AA-	2,651	6,248	194	457
A+ to A-	6,021	27,819	440	2,034
BBB+ to BBB-	-	-	-	-
BB and below	-	-	-	-
<b>Total</b>	<b>8,672</b>	<b>34,067</b>	<b>634</b>	<b>2,491</b>

The Bank has adopted the standardised approach to Credit Risk Management under the Basel II framework.

## Industry exposure

The following is an analysis of loans and advances to customers by industry:

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
Industrials	188,746	372,290	13,799	27,218
Consumer Discretionary	174,986	325,288	12,793	23,782
Consumer Staples	96,584	118,820	7,061	8,687
Energy	80,169	81,678	5,861	5,971
Financials	100,263	90,818	7,330	6,640
Gems and Jewellery	18,143	56,398	1,326	4,123
Healthcare	27,166	41,308	1,986	3,020
Information Technology	3,978	107,362	291	7,849
Materials	229,247	342,492	16,760	25,040
Real Estate <sup>#</sup>	633,799	656,872	46,336	48,024
Telecom Services	8,115	40,847	593	2,986
Utilities		0	0	0
Others		509	0	37
<b>Total</b>	<b>1,561,196</b>	<b>2,234,682</b>	<b>114,136</b>	<b>163,377</b>

<sup>#</sup>Includes ABS/MBS portfolio held as loans and receivables

## Collateral management

The Bank has a policy on collateral management and credit risk mitigation which provides guidance for identifying eligible collateral as per the relevant articles of the Capital Requirements Regulation (CRR).

Apart from obtaining eligible collateral for capital relief, the Bank endeavours to reduce or mitigate, to the extent possible, the credit risk on credit facilities by way of securing the facilities with appropriate collateral. The Bank determines the appropriate collateral for each facility based on the type of product, the counterparty and the appropriateness of the collateral typically offered in the jurisdiction of the borrower.

The security accepted by the Bank includes cash deposits, pledge/contractual comfort over equity shares (both listed and unlisted), charges over fixed assets (including plant and machinery and land and building) for term loans, charges over current assets for working capital finance, charges on specific receivables with escrow arrangements, mortgages on residential/commercial property, assignment of underlying project contracts for project finance loans. The Bank also accepts corporate guarantees and related support undertakings from borrower group entities for mitigating credit risk. The Bank has a collateral management policy which details the types of collaterals, frequency of valuation and valuation adjustments. The Bank also has a collateral valuation policy for cases assessed for specific provisions. The Bank applies Basel II guidelines on the collateral available with the Bank for its internally rated portfolio to determine the Loss Given Default (LGD) and haircuts applicable against each collateral for computing the collective provisioning requirements.

The Bank's risk appetite framework has prescribed a limit on the quantum of unsecured exposures.

The CRMP provides guidance on identifying and defining secured facilities and valuing the underlying security. The Bank monitors and reports the proportion of unsecured exposures in the loans and advances portfolio to the ECRC on a monthly basis and to the BCC on a quarterly basis.

As per the policy, the basis of valuation depends on the type of security. The CRMP details the general basis of valuation of various collateral and the expected frequency of valuation. Management may

apply haircuts (in the range of 10%-20%) to the valuations if required (for example, when the valuation available is not recent and may not reliably reflect the recoverable value of the security).

The table below provides the value of collateral/collaterals held by the Bank:

Loans and advances to customers	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
Collateral value	<b>906,131</b>	<b>1,018,630</b>	<b>66,247</b>	<b>74,472</b>
Gross loans and advances	<b>1,561,196</b>	<b>2,234,682</b>	<b>114,136</b>	<b>163,377</b>
Less: Investments held as loans and receivables	<b>(17,344)</b>	<b>(34,067)</b>	<b>(1,268)</b>	<b>(4,982)</b>
Outstanding balance against which collateral held	<b>1,543,852</b>	<b>2,200,615</b>	<b>112,868</b>	<b>158,395</b>

Value of collateral held against loans and advances to banks as at March 31, 2021 is NIL (2020:USD 19.0 million).

The collateral valuations in the table above are based on the valuation available from the latest available audited financial statements of the security provider, valuation reports for tangible assets wherever applicable, and reports from security trustee/market value of listed shares for loans against the shares. The valuations exclude any charges which might be incurred for selling or obtaining the collateral, or time value. In the ordinary course of business, the Bank pursues litigation in order to recover any overdue exposures. Sometimes the successful outcome of litigation can be material to the results of the Bank.

The maximum amount of on balance sheet credit risk, without taking account any collateral or netting arrangements, as at March 31, 2020 is approximately USD 3.2 billion ( \*INR 234 billion) (2020: USD 3.5 billion; \*INR 256 billion). The maximum amount of off balance sheet credit risk on guarantees and letters of credit is approximately USD 196 million ( \*INR 14,330 million) (2020: USD 255 million; \*INR 18,643 million). Potential credit risk on financial instruments is detailed in Note 19.

The collateral value in the above table excludes the value of such collateral which the Bank may accept to manage its risks more effectively such as a second charge on assets, other liens and corporate guarantees and related support undertakings from borrower group entities. The Bank has applied appropriate haircuts when calculating the collateral value detailed above.

The Bank follows FRS102 guidelines for collective impairment wherein the provisioning is determined based on underlying credit risk and is sensitive to various factors including credit ratings and economic scalars for countries and sectors. For example, a 5% increase in all country scalars would result in USD 0.3 million increase in the collective impairment allowance and 5% increase in LGD and PD would result in USD 0.3 million increase in the collective impairment allowance.

### Market risk

Market risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices. It also includes the interest rate risk in the banking book (IRRBB). The Bank's key policies for managing market risk as approved by the BRC/ ALCO are:

- Treasury policy manual and mandate (TPMM) which also includes the trading book policy statement (TBPS)
- IRRBB management policy
- Valuation, model validation policy and independent price verification policy

These policies are designed to ensure that transactions in securities, foreign exchange and derivatives are conducted in accordance with sound and acceptable business practices as well as regulatory guidelines and laws governing such transactions. The policies are reviewed periodically to take into account changed business requirements, the economic environment and revised policy guidelines.

The key market risks to which the Bank is exposed relate to:

- **Interest rate risk** - Interest rate risk is defined as the risk of loss which the Bank will incur as a result of an increase or decrease in interest rates. Interest income and expense from interest sensitive assets and liabilities are impacted by changes in interest rates. The overall value of the investment portfolio, the underlying value of the Bank's other assets, its liabilities, and off balance sheet (OBS) instruments are also impacted due to changes in interest rates because the present value of future cash flows changes when interest rates change.

Interest rate risk on the balance sheet is measured by the use of re-pricing gap reports and estimating the sensitivity of the Bank's net interest income (defined as Delta NII) to changes in interest rates. The sensitivity is calculated for various interest rate scenarios across different currencies that the Bank's balance sheet is exposed to including a standard scenario of a 200 basis points adverse change in the level of interest rates. The various limits set for interest rate risk are monitored and the utilisations reported to the ALCO and BRC on a periodic basis.

The Bank uses Duration of Equity (DoE) as an all-encompassing measure, which takes into consideration the duration and value of both assets and liabilities. DoE is a measure of interest rate sensitivity, which indicates how much the market value of equity would change if interest rates change by 1%. Currently a limit band of -2.0 to +2.0 has been prescribed for the overall net DoE of the Bank. Additionally, the Bank computes Delta EVE for various interest rate scenarios across different currencies that the Bank's balance sheet is exposed to including a standard scenario of a 200 basis points adverse change in the level of interest rates.

Further, to manage the interest rate risk in the investment portfolio and ineffective derivatives, the bank uses various risk metrics such as value-at-risk (VaR), price value of basis point (PV01) and credit spread per basis point (CS01).

- **Forex risk** - This risk arises due to positions in non-US Dollar denominated currencies, which in turn arise from assets and liabilities in those currencies. Foreign exchange risk is managed within the Treasury function in accordance with approved position limits. The net overnight open position (NOOP) of the Bank as at March 31, 2021 was USD 2.19 million ( \*INR 160 million) (2020: USD 4.3 million; \*INR 314 million). Further, to manage the forex risk, the Bank uses value-at-risk measure.

The Bank has devised various risk metrics for different products and investments. These risk metrics are measured and reported to senior management by an independent Treasury Control and Services Group (TCSG). Some of the risk metrics adopted by the Bank for monitoring its risks are VaR, DoE, Delta NII, Delta EVE, PV01 and stop loss amongst others. The risk appetite of the Bank includes limits for these risk metrics.

\*VaR is calculated using a parametric approach at a 99% confidence level over a one day holding period. The total VaR for the Bank's AFS book portfolio, including its investment portfolio as at March 31, 2021 was USD 1.54 million ( \*INR 113 million) (2020: USD 3.59 million; \*INR 263 million). The maximum, average and minimum VaR during the year for the AFS book portfolio, including its investment portfolio, was USD 4.89 million ( \*INR 358 million) (2020: USD 3.59 million; \*INR 263 million), USD 3.85 million ( \*INR 282 million) (2020: USD 2.29 million; \*INR 168 million) and USD 1.52 million ( \*INR 111 million) (2020: USD 1.88 million; \*INR 138 million) respectively.

\* VAR calculation and INR figures are unaudited

The impact of an increase in interest rates on investments held in the AFS portfolio (bonds, asset backed securities, treasury bills and government securities), assuming a parallel shift in yield curve, has been set out in the following table:

Particulars	March 31, 2021 USD 000	March 31, 2020 USD 000	March 31, 2021 INR million*	March 31, 2020 INR million*
Portfolio size (Market value)	288,838	633,400	21,117	46,308
Change in value due to 100 bps movement in interest rate	(5,692)	(12,271)	(416)	(897)
Change in value due to 200 bps movement in interest rate	(11,384)	(24,541)	(832)	(1,794)

The impact of a decrease in interest rates on investments held in the AFS portfolio (bonds, asset backed securities, treasury bills and government securities), assuming a parallel shift in yield curve, has been set out in the following table:

Particulars	March 31, 2021 USD 000	March 31, 2020 USD 000	March 31, 2021 INR million*	March 31, 2020 INR million*
Portfolio size (Market value)	288,838	633,400	21,117	46,308
Change in value due to 100 bps movement in interest rate	5,692	12,271	416	897
Change in value due to 200 bps movement in interest rate	11,384	24,541	832	1,794

Volatility in interest rates has an impact on an entity's interest earnings. The impact of an increase/decrease in interest rates on the Bank's net interest income (Delta NII) as at March 31, 2021, assuming a parallel shift in the yield curve, has been set out in the following table:

Equivalent in USD million			Equivalent in INR million*	
Currency	Impact on Net Interest Income over a one year horizon		Impact on Net Interest Income over a one year horizon	
	Increase in interest rates by 200 bps	Decrease in interest rates by 200 bps	Increase in interest rates by 200 bps	Decrease in interest rates by 200 bps
USD	5.7	0.5	417	37
GBP	8.2	(8.8)	600	(643)
EUR	0.5	2.4	37	175
Other currencies	0.2	(0.2)	15	(15)
<b>Total</b>	<b>14.6</b>	<b>(6.1)</b>	<b>1,069</b>	<b>(446)</b>

The equivalent impact analysis as at March 31, 2020 is set out in the following table:

Equivalent in USD million			Equivalent in INR million*	
Currency	Impact on Net Interest Income over a one year horizon		Impact on Net Interest Income over a one year horizon	
	Increase in interest rates by 200 bps	Decrease in interest rates by 200 bps	Increase in interest rates by 200 bps	Decrease in interest rates by 200 bps
USD	5.9	(2.3)	431	(168)
GBP	6.9	(6.4)	504	(468)
EUR	1.4	4.0	102	292
Other currencies	0.3	(0.2)	22	(15)

Total	14.5	(4.9)	1,059	(359)
-------	------	-------	-------	-------

### Liquidity risk

Liquidity risk arises due to insufficient available cash flows including the potential difficulty of resorting to the financial markets in order to meet payment obligations. The Bank's key policies for managing liquidity risk, as approved by the Board, are:

- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Liquidity contingency, Recovery and Resolution plan (LC-RRP)

The Bank has implemented the CRD IV liquidity guidelines as specified by PRA. As per the guidelines, the Bank has prepared an ILAAP document outlining the liquidity risk appetite of the Bank. The ILAAP document sets out the framework used to ensure that the Bank maintains sufficient liquidity, including periods of stress. This has been done through the robust liquidity stress testing under various identified scenarios. Under each scenario, the Bank assesses the behaviour of each liquidity risk drivers and estimates the amount of liquidity required to mitigate net stress outflows. The stress testing is carried out daily. The results of the stress test are reported to the ALCO, BRC and Board on a monthly and quarterly basis respectively. The Bank also tracks its NSFR, though it is yet to be introduced as a regulatory requirement in the United Kingdom.

The Bank also has a LC-RRP which details the overall approach and actions the Bank would undertake in order to manage the Bank's liquidity position during stressed conditions. The LC-RRP addresses both the funding and operational requirements of the Bank and sets-out a funding, operational and communication plan to enable the Bank to deal with a liquidity crisis. In summary, the Bank seeks to follow a conservative approach in its management of liquidity and has in place, a robust governance structure, policy framework and review mechanism to ensure availability of adequate liquidity even under stressed market conditions.

The Bank differentiates liquidity risk between funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk when the Bank will not be able to efficiently meet cash flow requirements in a timely manner for its payment obligations including liability repayments, even under adverse conditions, and to fund all investment/lending opportunities, even under adverse conditions. Market liquidity refers to the Bank's ability to execute its transactions and to close out its positions at a fair market price. This may become difficult in certain market conditions either because of the underlying product itself or because of the Bank's own creditworthiness.

The Bank's liquidity risk management philosophy is to be able, even under adverse conditions, to meet all liability repayments on time and to fund all investment opportunities by raising sufficient funds either by increasing liabilities or by converting assets into cash expeditiously and at reasonable cost.

The Bank maintains a diversified funding base comprising retail, corporate customer deposits and institutional balances. These deposits are augmented by wholesale deposits, borrowings and through issuance of bonds and subordinated debt from time to time. Loan maturities and sale of investments also provide liquidity. Further, the Bank holds unencumbered HQLA to protect against stress conditions.

The Bank monitors and manages its overall liquidity risk appetite by ensuring that it maintains liquidity coverage ratio above regulatory requirements, by having adequate liquid assets for projected stressed outflows under various scenarios and also by ensuring that its liquidity gap position is within the approved limit for the various time buckets. This framework is further augmented by defining risk limits for certain liquidity risk drivers. ALCO and BRC review these parameters on monthly and quarterly basis respectively.

The Bank mitigates the risk of a liquidity mismatch in excess of its risk appetite by managing the liquidity profile of the balance sheet through both short-term liquidity management and a long-term funding strategy. Short-term liquidity management is considered from two perspectives; firstly, business as usual and secondly, stressed conditions, both of which relate to funding in the less than

one-year time horizon. Longer term funding is used to manage the Bank's strategic liquidity profile which is determined by the Bank's balance sheet structure.

The Bank uses various tools for measurement of liquidity risk including the statement of structural liquidity (SSL), dynamic cash flow reports, liquidity ratios and stress testing through scenario analysis. The SSL is used as a standard tool for measuring and managing net funding requirements and for assessing the surplus or shortfall of funds in various maturity buckets in the future. The Bank also prepares dynamic cash flow reports, which in addition to scheduled cash flows, also consider the liquidity requirements pertaining to incremental business and the funding thereof.

As part of the stock and flow approach of monitoring liquidity, the Bank monitors certain liquidity ratios covering various liquidity risk drivers inter-alia short-term liquidity risk, structural mismatch risk, wholesale funding risk, off balance sheet risk and non-marketable assets risk as detailed in the Bank's ILAAP. The Bank places particular emphasis on the withdrawable funding ratio and the deposits that can be withdrawn by customers without providing notice to total funding resources. The ratio as at March 31, 2021 was 0.37 (0.29 as at March 31, 2020). The customer advances to total assets ratio provides a measure of the structural liquidity of the Bank's asset portfolio. The ratio as at March 31, 2021 was 0.54 (0.60 as at March 31, 2020).

Refer Note 39 for details on the cash flow payable under contractual maturity.



### 39 Cash flow payable under contractual maturity

At March 31, 2021, the contractual maturity comprised

USD 000s

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
Deposits by banks	3	32,939	12,421	19,961	-	65,324
Customer accounts <sup>#</sup>	1,294,956	289,983	201,031	184,551	-	1,970,521
Other liabilities	9,306	-	-	10,279	35	19,620
Derivative financial liabilities	11,319	2,404	1,727	22,637	2,215	40,302
Accruals and deferred income <sup>#</sup>	14,139	-	-	-	-	14,139
Bonds and medium term notes	619	619	51,016	149,366	-	201,620
Subordinated debt	1,011	1,011	2,034	82,266	-	86,322
Repurchase Agreements	-	-	17,905	61,247	-	79,152
<b>Total Liabilities</b>	<b>1,331,353</b>	<b>326,956</b>	<b>286,134</b>	<b>530,307</b>	<b>2,250</b>	<b>2,477,000</b>

INR million\*

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
Deposits by banks	-	2,408	908	1,459	-	4,775
Customer accounts <sup>#</sup>	94,674	21,201	14,697	13,493	-	144,065
Other liabilities	680	-	-	751	3	1,434
Derivative financial liabilities	828	176	126	1,657	162	2,949
Accruals and deferred income <sup>#</sup>	1,034	-	-	-	-	1,034
Bonds and medium term notes	45	45	3,730	10,920	-	14,740
Subordinated debt	74	74	149	6,014	-	6,311
Repurchase Agreements	-	-	1,309	4,478	-	5,787
<b>Total Liabilities</b>	<b>97,335</b>	<b>23,904</b>	<b>20,919</b>	<b>38,772</b>	<b>165</b>	<b>181,095</b>

At March 31, 2020, the contractual maturity comprised

USD 000s

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
Deposits by banks	22,080	18,020	118,770	129,437	-	288,307
Customer accounts <sup>#</sup>	1,177,834	340,330	223,019	323,869	-	2,065,052
Other liabilities	18,360	-	-	384	1	18,745
Derivative financial liabilities	15,489	12,232	5,761	28,139	5,728	67,349
Accruals and deferred income <sup>#</sup>	20,724	-	-	-	-	20,724
Bonds and medium term notes	20,932	45,163	36,951	205,768	-	308,814
Subordinated debt	3,608	3,608	153,406	79,523	-	240,145
Repurchase Agreements	44,625	26,776	1,059	64,687	-	137,147
Total Liabilities	1,323,652	446,129	538,966	831,807	5,729	3,146,283

INR million\*

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
Deposits by banks	1,614	1,317	8,683	9,463	-	21,077
Customer accounts <sup>#</sup>	86,111	24,882	16,305	23,678	-	150,976
Other liabilities	1,342	-	-	28	-	1,370
Derivative financial liabilities	1,132	894	421	2,057	419	4,923
Accruals and deferred income <sup>#</sup>	1,515	-	-	-	-	1,515
Bonds and medium term notes	1,530	3,302	2,701	15,044	-	22,577
Subordinated debt	264	264	11,216	5,814	-	17,558
Repurchase Agreements	3,263	1,958	77	4,729	-	10,027
Total Liabilities	96,771	32,617	39,403	60,813	419	230,023

<sup>#</sup> Interest accrued on customer deposits is reclassified into customer accounts.

The balances as noted above incorporate all cash flows on an undiscounted basis which relates to the principal and future coupon payments (except for trading liabilities and trading derivatives).

The Bank does not have any convertible debt securities as on March 31, 2021 (Nil for March 31, 2020)

\* INR figures are unaudited

#### 40 Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Bank's trading and non trading financial assets and financial liabilities as at the year end.

USD 000s

	March 31, 2021	March 31, 2021	March 31, 2020	March 31, 2020
	Fair value	Book value	Fair value	Book value
<b>Non trading book financial assets and liabilities</b>				
<b>Assets:</b>				
Cash and cash equivalents	733,560	733,560	289,987	289,987
Loans and advances to banks	52,372	52,372	168,102	168,102
Loans and advances to customers	1,518,792	1,522,138	2,069,053	2,074,527
Investment securities	551,996	538,746	861,362	871,216
<b>Liabilities:</b>				
Deposits by banks and customer accounts	2,022,773	2,022,773	2,328,301	2,328,167
Bonds and medium term notes	199,783	197,852	287,167	295,301
Subordinated debts	76,707	76,116	216,670	219,854
Repurchase agreements	79,153	79,153	131,238	131,238
<b>Financial assets and liabilities at fair value through profit and loss</b>				
<b>Assets:</b>				
Derivative financial instruments	49,181	49,181	33,964	33,964
<b>Liabilities:</b>				
Derivative financial instruments	42,346	40,360	73,225	73,225

INR million\*

<b>Non trading book financial assets and liabilities</b>				
<b>Assets:</b>				
Cash and cash equivalents	53,631	53,631	21,201	21,201
Loans and advances to banks	3,829	3,829	12,290	12,290
Loans and advances to customers	111,039	111,284	151,268	151,669
Investment securities	40,356	39,388	62,974	63,695
<b>Liabilities:</b>				
Deposits by banks and customer accounts	147,885	147,885	170,222	170,212
Bonds and medium term notes	14,606	14,465	20,995	21,589
Subordinated debts	5,608	5,565	15,841	16,074
Repurchase agreements	5,787	5,787	9,595	9,595
<b>Financial assets and liabilities at fair value through profit and loss</b>				
<b>Assets:</b>				
Derivative financial instruments	3,596	3,596	2,483	2,483
<b>Liabilities:</b>				
Derivative financial instruments	3,096	2,951	5,353	5,353

**Notes:**

1. Fair value of loans and advances to banks and customers is determined using weighted average margins on market transactions done by the Bank during the year for loans with similar maturity and rating profile. The fair valuation is carried out post segmenting the disbursements done during the year by internal rating and tenor and comparing the pricing on the new disbursements with the existing portfolio. The difference is considered as the fair value adjustment.
2. The fair value of deposits by banks and customers has been estimated using current interest rates offered for deposits of similar maturities.
3. The fair value of debt securities is derived based on prevalent market quotes as at balance sheet date. In case market quotes are not available the Bank has used the internal valuation technique to calculate the fair value. Internal valuation discounts the estimated future cash flows, computed based on the prevailing interest rates and credit spreads in the market.
4. Financial instruments such as other assets and other liabilities are expected to have the similar fair value as the carrying value as these are short term in nature.

**41 Derivative financial instruments**

The Bank enters into various financial instruments as principal to manage balance sheet interest rate and foreign exchange rate risk. These mainly include interest rate swaps and exchange rate related contracts.

Exchange rate related contracts include spot; currency swaps and forward transactions. The Bank's currency swap transactions generally involve an exchange of currencies and an agreement to re-exchange the currency at a future date where the swaps relate to assets and liabilities denominated in different currencies.

The Bank uses derivatives to mitigate interest rate risk. 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. The swaps exchange fixed rate for floating rate on assets/liabilities to match the floating rates paid/received on funding or exchanges fixed rates on funding to match the floating rates received/paid on assets/liabilities. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss.

The Bank has computed the Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio which amounted to USD 67.5 thousand ( \*INR 5 million) and USD 10.4 thousand ( \*INR 0.76 million) respectively. The probability of defaults (PD) used for computation of CVA/DVA are in line with the PDs used for collective provision computation at March 31, 2021. The loss given default (LGD) of 45% is used for the calculation (except for real estate transactions) based on Basel guidelines for credit risk capital charge computation under foundation Internal Risk Based (IRB) approach for senior unsecured claims. The CVA for real estate transactions is calculated based on scalar adjusted expected loss.

**Change in fair value under hedge accounting:**

The Bank enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value caused by movements in market interest rates on certain fixed-rate financial instruments that are not measured at fair value through profit or loss, including debt securities held and issued. As at March 31, 2021, the notional amounts of interest rate swaps and foreign exchange contracts designated as fair value hedges were USD 245 million ( \*INR 17,937 million) (2020: USD 545 million; \*INR 39,863 million) and these contracts had a net negative fair value of USD 4.46 million ( \*INR 325 million) (2020: net negative fair value of USD 14.83 million; \*INR 1,085 million). The notional principal amounts of these instruments are not indicative of the amounts at risk which are smaller amounts payable under the terms of these instruments and upon the basis of the contract or notional principal amount. Derivatives contracts in the non-trading book are used for hedging purposes only and are accounted for on this basis and are executed with bank counterparties for whom volume and settlement limits have been approved. Counterparty group limits are approved for connected exposures.

The methodologies for the valuation of derivative products are defined in the Valuation Policy of the Bank, which has been approved by the Board Risk Committee of the Bank. The Bank uses swap rates, cross currency basis spreads and spot rates as inputs for the valuation of currency swaps and foreign exchange forward transactions. Further, the Bank uses swap rates and interest rate basis spreads as inputs for the valuation of interest rate swaps. Inputs are drawn from Reuters on a real time basis. While the currency wise cash flows for currency swaps and forward transactions are discounted with the appropriate swap rate for the respective currency and the applicable cross currency basis spread, cash flows for interest rate swaps are discounted with the appropriate zero rate for the currency. Further, the floating rate cash flows for currency swaps and forward transactions are calculated from the zero rates derived from the swap curve and the appropriate basis spread applicable for the currency. The floating rate cash flows for interest rate swaps are calculated from the zero rates derived from the swap curve and the appropriate interest rate basis applicable for the currency.

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
Change in fair value of hedged items recognised in profit and loss account	(3,431)	18,039	(250)	1,319
Investments	(9,567)	16,218	(699)	1,186
Borrowings	6,263	1,415	458	103
Loans and receivable	(107)	107	(08)	8
Deposits	(20)	299	(01)	22
Change in fair value of hedging instruments recognised in profit and loss account#	3,786	(17,499)	277	(1,279)

#excludes Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio

#### Change in cash flow hedge accounting:

During FY2020, the Bank had entered into a cash flow hedge to hedge interest rate risk which got matured during the current year. There is no outstanding cash flow hedge deal as at March 31, 2021. As at March 31, 2021, the notional amounts of interest rate swaps designated as cash flow hedge was USD NIL (\*INR NIL ) (2020:USD 25 million \*INR 1,828 million) and these contract had a net negative fair value of USD NIL (\*INR NIL ) (2020: 0.29 million \*INR 22 million).

	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
Change in fair value of hedged items	-	289	-	22
Borrowings	-	289	-	22
Change in fair value of hedging instruments#	-	(289)	-	(22)

#excludes Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio

Description of hedge relationship and hedged risk#	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
	USD 000s	USD 000s	INR million*	INR million*
Cash flow hedge of interest rate risk				
Recycled to net interest income:				
a) Amount recycled from other comprehensive income due to hedged item affecting income statement	(354)	(24)	(26)	(02)

#excludes Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio

#### Principal amounts of derivative financial instruments

As at March 31, 2021

USD 000s

Instrument	Non-trading Notional Principal	Trading Notional Principal	Gross Positive Fair Value	Gross Negative Fair Value
Foreign exchange & Cross currency interest rate swaps	172,354	1,423,539	16,775	25,075
Interest rate	245,336	2,775,799	49,202	40,324
<b>Total</b>	<b>417,690</b>	<b>4,199,338</b>	<b>65,977</b>	<b>65,399</b>

As at March 31, 2021

INR million\*

Instrument	Non-trading Notional Principal	Trading Notional Principal	Gross Positive Fair Value	Gross Negative Fair Value
Foreign exchange & Cross currency interest rate swaps	12,601	104,075	1,225	1,833
Interest rate	17,937	202,939	3,597	2,948
<b>Total</b>	<b>30,538</b>	<b>307,014</b>	<b>4,822</b>	<b>4,781</b>

#### Principal amounts of derivative financial instruments

As at March 31, 2020

USD 000s

Instrument	Non-trading Notional Principal	Trading Notional Principal	Gross Positive Fair Value	Gross Negative Fair Value#
Foreign exchange & Cross currency interest rate swaps	72,982	1,286,815	15,329	33,972
Interest rate	497,254	1,203,637	18,635	39,259
<b>Total</b>	<b>570,236</b>	<b>2,490,452</b>	<b>33,964</b>	<b>73,231</b>

As at March 31, 2020

INR million\*

Instrument	Non-trading Notional Principal	Trading Notional Principal	Gross Positive Fair Value	Gross Negative Fair Value#
Foreign exchange & Cross currency interest rate swaps	5,336	94,079	1,121	2,484
Interest rate	36,354	87,998	1,362	2,870
<b>Total</b>	<b>41,690</b>	<b>182,077</b>	<b>2,483</b>	<b>5,354</b>

#excludes Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio which amounted to USD 57 thousand (2020: USD 6 thousand)

**Derivative financial instruments by valuation hierarchy**

As at March 31, 2021

USD 000s

	Foreign exchange contracts		Interest rate	
	Gross Positive Fair Value	Gross Negative Fair Value	Gross Positive Fair Value <sup>#</sup>	Gross Negative Fair Value
Level 1	110	158	-	-
Level 2	32,317	15,091	16,316	24,324
Level 3	-	-	459	751
Total	32,427	15,249	16,775	25,075

As at March 31, 2021

INR million\*

	Foreign exchange contracts		Interest rate	
	Gross Positive Fair Value	Gross Negative Fair Value	Gross Positive Fair Value <sup>#</sup>	Gross Negative Fair Value
Level 1	8	12	-	-
Level 2	2,362	1,103	1,193	1,778
Level 3	-	0	34	55
Total	2,370	1,115	1,227	1,833

As at March 31, 2020

USD 000s

	Foreign exchange contracts		Interest rate	
	Gross Positive Fair Value	Gross Negative Fair Value	Gross Positive Fair Value	Gross Negative Fair Value <sup>#</sup>
Level 1	55	148	-	-
Level 2	15,274	33,822	18,635	39,259
Level 3	-	-	-	-
Total	15,329	33,970	18,635	39,259

As at March 31, 2020

INR million\*

	Foreign exchange contracts		Interest rate	
	Gross Positive Fair Value	Gross Negative Fair Value	Gross Positive Fair Value	Gross Negative Fair Value <sup>#</sup>
Level 1	4	11	-	-
Level 2	1,117	2,473	1,362	2,870
Level 3	-	-	-	-
Total	1,121	2,484	1,362	2,870

<sup>#</sup>excludes Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio which amounted to USD 57 thousand (2020: USD 6 thousand).

**IBOR reform**

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. Many uncertainties remain but the roadmap to replacement is becoming clearer. Interest rate benchmarks including, among others, the London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR), the Euro Overnight Index Average (EONIA) and certain other Interbank Offered Rates (IBORs) are being reformed. The Bank formed a Steering Committee chaired by the Head of Corporate Banking and Legal and attended by the executive management with regular meetings to monitor and discuss the developments related to IBOR reform.

The Financial Conduct Authority (FCA), announced on March 5, 2021, the future cessation or loss of representativeness of the 35 LIBOR benchmark settings currently published by ICE Benchmark Administration (IBA), an authorised administrator, regulated and supervised by the FCA.

- Publication of all seven euro LIBOR settings, all seven Swiss franc LIBOR settings, the Spot Next, 1-week, 2-month and 12-month Japanese yen LIBOR settings, the overnight, 1-week, 2-month and 12-month sterling LIBOR settings, and the 1-week and 2-month US dollar LIBOR settings will cease immediately after December 31, 2021.
- Publication of the overnight and 12-month US dollar LIBOR settings will cease immediately after June 30, 2023.

A high degree of uncertainty still remains with IBOR reform and LIBOR transition to the alternate risk free rates. Following to this, the Bank is still applying Phase 1 amendment on all hedging relationships.

#### Progress made during FY 2021

During 2021, the Bank has successfully executed new issuance linked to base rate in the sterling market. The Bank has detailed plans, processes and procedures in place to ensure operational readiness in preparation for IBOR transition to RFRs. The Bank has initiated its communication plan with the clients and counterparties to have a smooth transition or include the appropriate fallback provisions. During FY2021, SONIA (Sterling Overnight Index Average) rate functionality has been deployed in the Bank's core systems for loans and treasury products which enables booking of new loans and derivatives with SONIA as the RFR (Risk Free Rate). Following the progress made during 2021, the Bank will continue to implement the required processes during 2022 in line with its project plan and the regulatory requirements.

The IAS 39 requirements in respect of hedge accounting have been amended in two phases. The Phase 1 amendments, which were adopted by the Bank in April 2019, provide relief to the hedge accounting requirements prior to changing a hedge relationship due to the interest rate benchmark reform. The phase 2 amendments provide relief when changes are made to hedge relationships as a result of the interest rate benchmark reform.

The phase 2 amendments have been adopted as at March 31, 2021 to hedging relationships. As on March 31, 2021 there is no modification of financial instruments on which phase 2 relief applies.

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

USD 000s			
Current benchmark rate	Expected convergence to RFR	Nominal amount of hedged items directly impacted by IBOR reform	Nominal amount of hedging instruments directly impacted by IBOR reform
USD LIBOR	Secured Overnight Financing Rate (SOFR)	567,437	570,236
<b>Total IBOR Notionals</b>		<b>567,437</b>	<b>570,236</b>

\* INR figures are unaudited



INR million*			
Current benchmark rate	Expected convergence to RFR	Nominal amount of hedged items directly impacted by IBOR reform	Nominal amount of hedging instruments directly impacted by IBOR reform
USD LIBOR	Secured Overnight Financing Rate (SOFR)	41,485	41,690
<b>Total IBOR Notionals</b>		<b>41,485</b>	<b>41,690</b>

The following table summarises the significant exposures impacted by interest rate benchmark reform as at 31 March 2021:

USD 000		
Particulars	GBP Libor	USD Libor
<b>Non-derivative financial assets</b>		
Loans and advances at amortised cost	682,820	343,708
Financial assets at fair value through other comprehensive income	2,643	3,483
<b>Non-derivative financial liabilities</b>		
Debt securities in issue		25,000
<b>Total</b>	<b>685,463</b>	<b>372,191</b>

INR 000		
Particulars	GBP Libor	USD Libor
<b>Non-derivative financial assets</b>		
Loans and advances at amortised cost	49,921	25,128
Financial assets at fair value through other comprehensive income	193	255
<b>Non-derivative financial liabilities</b>		
Debt securities in issue		1,828
<b>Total</b>	<b>50,114</b>	<b>27,211</b>

The table below provides detail on the residual maturity of the above exposures:

USD 000					
Current benchmark rate	Within one year	Over one year but not more than two years	Over two years but not more than five years	Over five years but not more than ten years	Over ten years
<b>Non-derivative financial assets</b>					
<b>Loans and advances at amortised cost</b>					
GBP LIBOR	89,273	205,047	363,529	23,729	1,242
USD LIBOR	34,246		226,357	83,105	
<b>Loans and advances at fair value through other comprehensive income</b>					
USD LIBOR					3,483

GBP LIBOR					2,643
<b>Non-derivative financial liabilities</b>					
<b>Debt securities in issue</b>					
USD LIBOR			25,000		
<b>Total</b>	<b>123,519</b>	<b>205,047</b>	<b>614,886</b>	<b>106,834</b>	<b>7,367</b>

INR 000

Current benchmark rate	Within one year	Over one year but not more than two years	Over two years but not more than five years	Over five years but not more than ten years	Over ten years
<b>Non-derivative financial assets</b>					
<b>Loans and advances at amortised cost</b>					
GBP LIBOR	6,527	14,991	26,578	1,735	91
USD LIBOR	2,504	0	16,549	6,076	0
<b>Loans and advances at fair value through other comprehensive income</b>					
USD LIBOR					255
GBP LIBOR					193
<b>Non-derivative financial liabilities</b>					
<b>Debt securities in issue</b>					
USD LIBOR			1,828		
<b>Total</b>	<b>9,030</b>	<b>14,991</b>	<b>44,954</b>	<b>7,811</b>	<b>539</b>

#### 42 Assets and liabilities denominated in foreign currency

	March 31, 2021 USD 000s	March 31, 2020 USD 000s	March 31, 2021 INR million*	March 31, 2020 INR million*
Denominated in US Dollars	1,043,466	1,629,392	76,289	119,125
Denominated in Sterling	1,422,254	1,258,743	103,981	92,026
Denominated in other currencies	491,030	652,549	35,899	47,708
<b>Total assets</b>	<b>2,956,754</b>	<b>3,540,684</b>	<b>216,169</b>	<b>258,859</b>
Denominated in US Dollars	984,041	1,269,361	71,944	92,802

\* INR figures are unaudited

Denominated in Sterling	1,641,800	1,852,437	120,032	135,432
Denominated in other currencies	330,913	418,886	24,193	30,625
<b>Total liabilities</b>	<b>2,956,754</b>	<b>3,540,684</b>	<b>216,169</b>	<b>258,859</b>

The above should not be considered to demonstrate the Bank's exposure to foreign exchange risk due to the existence of compensating exchange rate contracts as discussed in Note 41 which are held for hedging purposes.

The Bank follows a conservative policy with regard to its foreign exchange risk which is managed within the Treasury function in accordance with the position limits approved by the Board Risk Committee and by using value-at-risk measure. The Net overnight open position (NOOP) of the Bank as at March 31, 2021 was USD 2.19 million ( \*INR 160 million) (2020: USD 4.1 million; \*INR 300 million).

#### 43 Post balance sheet events

There have been no material events after the balance sheet date up until the date of signing these financial statements which would require disclosure or adjustments to the March 31, 2021 financial statements.

#### 44 Ultimate parent company and parent undertaking of larger group of which the Bank is a member

The Bank is a wholly owned subsidiary of ICICI Bank Limited. The parent company is incorporated in India, having registered address at ICICI Bank Tower, Near Chakli Circle, Old Padra Road, Vadodara 390007, Gujarat, India. Copies of the group accounts for ICICI Bank Limited can be obtained from the Secretarial Department, ICICI Bank Limited, ICICI Bank Towers, Bandra-Kurla Complex, Mumbai 400051, India.