

ICICI BANK UK PLC

**Strategic report, Directors' report and
financial statements**

March 31, 2019

Registered number 4663024



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Strategic report

The Directors present their strategic report¹ for the year ended March 31, 2019 (FY2019) for ICICI Bank UK PLC ("the Bank").

Nature of Business

ICICI Bank UK PLC offers retail, corporate banking and treasury services. 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 largest private sector bank by total consolidated assets. 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.

The Bank has a senior debt rating of Baa1 from Moody's Investors Service Limited (Moody's).

Business Review

The Bank delivers its corporate and retail banking products and services through six branches located in the UK and one branch in mainland Europe, located in Eschborn (Germany) as well as through online banking. Additionally, during FY2019 the Bank expanded its presence in the UK by establishing six business centres in new locations to enhance its servicing capabilities for Small and Medium Enterprises (SMEs) and business banking customers.

The Bank's overall strategy in the past few years has centred on a diversification theme. During FY2019, the Bank remained focused on diversification of the business profile, continuing proactive risk management, effective liquidity and capital management and meeting the requirements of the changing market and regulatory environment. Additionally, the Bank reinvigorated its product proposition to meet banking needs of Indian community in the UK through various digitisation and customer service initiatives. The Bank ensured maintaining a sustainable business model within strong corporate governance, risk management and a robust control environment.

The Bank's corporate business includes banking services for select companies in the UK, EU and North American regions, Europe based multinational corporations which have active trade and investment flows with India, large businesses owned by persons of Indian origin and Indian corporations seeking to develop their business overseas.

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

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, 2019 of USD/INR 69.155 which has been applied across both FY2019 and FY2018².

¹The strategic report is part of the Bank's annual report and accounts.

²The numbers in INR are proforma only and should not be regarded as being audited and in compliance with UK GAAP.

Strategic report

Key strategic highlights: FY2019

The Bank's strategic objectives are increasingly focused towards creation of franchise value through building value proposition for its customers in chosen business segments. During FY2019, the Bank continued its journey on diversification of asset and liability portfolio. The Bank remained focused on building a granular lending portfolio, which included an increase in the secured loan against income generating property portfolio within a conservative risk appetite. In alignment to its core competency and inherent strength, the Bank enhanced its strategic focus towards meeting the banking needs of Indian community in the UK by strengthening its product proposition and customer services.

The Bank 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, 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 that the Bank complies with and maintains the High Quality Liquid Assets (HQLA) in line with the liquidity guidelines and that the Bank also maintains adequate capital as required under Capital Requirements Directive (CRD IV).

The Bank continued to place considerable attention on 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.

Total assets at USD 3,840 million (INR 265,566 million) marginally reduced compared with the previous year at USD 3,884 million (INR 268,622) with a decrease in balances at central banks being partially offset with a 12.6% increase in investments at USD 906 million (INR 62,662 million) for FY2019 versus USD 805 million (INR 55,662 million) for FY2018 and a nominal increase in its loan portfolio.

The Bank made an annual Loss After Tax of USD 52.9 million (INR 3,656 million) in FY2019 compared with the Loss After Tax of USD 25.5 million (INR 1,767 million) in the previous year. The Bank booked Profit before provisioning of USD 45.7 million (INR 3,163 million) as compared to USD 48.3 million (INR 3,340 million) in the previous year showing a marginal reduction. The Bank booked a loss due to higher impairment provisions of USD 105.4 million (INR 7,289 million) compared with USD 78.7 million (INR 5,443 million) in the previous year.

The Bank's risk appetite is reviewed and strengthened on a periodic basis based on the market and operating environment. The higher impairment provisions booked during the year primarily pertained to the corporate loans originated prior to the adoption of the current risk appetite framework in FY2013. The increase in provisions was on account of further deterioration in the business performance of the borrowers and delays in realisation of collateral. *(Detailed financial highlights are provided in the section "Key financial highlights")*

During the year, the Bank undertook a strategic view of its EU branches located in Eschborn (Germany) and Antwerp (Belgium). The review concluded to reposition the German branch as the operational hub for the Bank's European business. Consequently, and in readiness for Brexit, the Bank has obtained a third country license for its Germany branch from local regulators. The license will be effective post Brexit. The Bank has implemented the required infrastructure to be able to continue to service its European customer base through the third country banking license for the German branch post Brexit in line with the banking license received from the German regulators.

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In line with its risk appetite framework, the Bank continued to reduce its exposure to the Gems and Jewellery sector. Due to limited opportunities in non Gems and Jewellery business through its Belgian branch, the Bank decided to close its operations in Belgium. The Bank worked on a full plan for the closure of the branch, seeking external assistance and expertise as necessary to address issues pertaining to legal, taxation, compliance, operations and others related to the closure. The Bank received approval from the National Bank of Belgium (NBB) on withdrawal of the Belgian branch from the list of the Belgian registered branches effective March 29, 2019. The Bank is in the process of winding down the operations in Belgium office which is expected to be completed by Q1FY2020.

Corporate Banking

The Corporate Banking division continued to focus on offering the products which are core to the Bank's competencies and strategy, its clients' needs and in line with the risk appetite. The Bank extended loans primarily to clients in the UK, EU, North America and India regions. Total loans and advances to customers increased by 2% to USD 2,423 million (INR 167,575 million) compared with USD 2,366 million (INR 163,597 million) in the previous year mainly driven by an increase in its loan portfolio secured against property. While there was healthy momentum in the disbursements, prepayments especially for its UK and North America portfolio resulted in a nominal growth in the loans and advances portfolio. As a strategic component of the Bank's commitment towards its business in the UK market, the Bank continued expanding its presence in the corporate loan against property portfolio within the established risk framework.

The Bank's Germany branch registered an increase in its loans and advances portfolio offset by a reduction in balances with central bank which resulted in a marginal reduction of the total balance sheet. The Bank continued to do corporate lending through the Germany branch within the risk framework funded by local institutional deposits. The Bank availed the Targeted Longer Term Refinancing Operations (TLTRO) facility extended by the European Central Bank (ECB) which helped the Bank in raising low cost central bank funding.

Retail Banking

The Retail banking caters to a broad customer segment of Indian community through branches and business centres in the UK and to local customers through its on-line deposit franchise in the UK and Germany. The Bank offers a varied product suite, including current, savings, fixed term and notice accounts to personal banking customers as well as foreign exchange services and lending against property to the business banking community. During the year, the Bank continued on its journey of expanding the funding base by launching new series of "Hisave Bonus super saver" and forty five and ninety day notice account product which resulted in encouraging inflow of retail funds. The Bank also registered inflow of funds in the fixed term and savings deposit variant offered through intermediaries channel. The Bank ensured a good balance in the retail and wholesale funding mix.

The Retail Banking team focused on expansion of business banking secured loans against property within the risk appetite of the Bank and made reasonable progress. The team expanded and deepened its business relationships for continuous momentum of deals in the portfolio. Also, the Bank enhanced its team's strength by hiring additional resources with appropriate business skills and experience. In line with providing value added services to its client base, the Bank worked towards rejuvenating its product and service proposition to meet banking needs of Indian community in the UK through various digitisation and customer service initiatives.

The Retail Banking team worked on upgrading its Corporate Internet banking platform to enhance the customer experience for improving its business banking trade and foreign exchange product offering. Due to the ongoing efforts of enhancing customer experience, the Bank registered a healthy growth in its business banking foreign exchange and trade revenues. The Bank remain focused on strengthening its remittance product through digital initiatives including revamping of mobile application with remittance facility providing market linked real time

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exchange rate for remittances. With regards to the Bank's remittance platform in Europe "Money2 India Europe (M2I EU)", the Bank launched Immediate Payment Service (IMPS) facility and implemented auto-onboarding for all Non Resident Indian account holders in Europe for M2I EU at the time of opening of Non Resident accounts.

In continuation of its journey towards enhanced customer experience through digital channels, the Bank launched Customer Experience Team Officer (CETO): a 24*7 Chatbot, to enable answer customer queries.

During the year, the Bank launched an online exclusive platform for the Indian community "ICICI Bank India connect". The platform provides an opportunity to the community to stay connected with various cultural and social events, concerts and festivals in the UK, shares knowledge on various touch points of living in the UK and includes attractive discount offers on common areas of interest. The platform provides connection to the Bank's own range of innovative products and services to meet Banking needs of Indians in the UK.

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.

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 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. In line with the strategy of diversification of funding sources and to optimise the cost of funds, the Bank accessed diverse retail and wholesale funding sources. During the year, the Bank remained active in raising funding through various wholesale instruments including bilateral loans and bonds under its Medium Term Note (MTN) Programme at a competitive pricing driven by conducive wholesale markets. In addition, the Bank availed funding through the Term Funding Scheme (TFS) offered by the Bank of England which helped the Bank in raising low cost central bank funding. During the year, the Bank issued subordinated debt for USD 73 million under its Medium Term Note program.

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 invested in Indian bank and corporate bonds and further diversified the portfolio through investments in higher rated HQLA eligible Non India bonds within the established risk appetite of the Bank. During the year, the Bank further strengthened its Investment framework and did selective sell downs in the bond portfolio to align with the revised risk management framework.

The Bank successfully implemented the regulatory project on Markets in Financial Instruments Directive (MIFID) II.

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Liquidity Regulation

In June 2015, PRA published its policy statement on liquidity requirements for banks, which took effect from October 1, 2015. The guidelines introduced requirement for banks to maintain 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 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, 2019 was 225.0%. 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) which took effect on January 1, 2018. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. Banks are expected to hold a NSFR of at least 100% on an on-going basis and report its NSFR at least quarterly. During FY2019, the Bank contributed to the Basel quantitative impact study through quarterly submissions.

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.

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Financial Highlights

The financial performance for the financial year 2019 is summarised in the following table

| Summarised Profit and loss account | Financial 2019 | Financial 2018 | % Change | Financial 2019 | Financial 2018 |
|--|-----------------|-----------------|-------------|----------------|----------------|
| | USD 000s | USD 000s | | INR million | INR million |
| Net interest income | 70,522 | 66,905 | 5% | 4,877 | 4,626 |
| Non interest income | 14,093 | 13,359 | 5% | 975 | 924 |
| Profit/(Loss) on sale of financial assets | (4,773) | 2,960 | (261)% | (330) | 205 |
| Total revenue | 79,842 | 83,224 | (4)% | 5,522 | 5,755 |
| Operating expenses | (34,110) | (34,917) | (2)% | (2,359) | (2,415) |
| Profit before provisions, charges and taxes | 45,732 | 48,307 | (5)% | 3,163 | 3,340 |
| Impairment provision and charges | (105,393) | (78,711) | 34% | (7,289) | (5,443) |
| (Loss)/Profit before tax | (59,661) | (30,404) | 96% | (4,126) | (2,103) |
| Tax | 6,792 | 4,856 | 40% | 470 | 336 |
| (Loss)/Profit after tax | (52,869) | (25,548) | 107% | (3,656) | (1,767) |

| Summarised Balance Sheet | Financial 2019 | Financial 2018 | % Change | Financial 2019 | Financial 2018 |
|---------------------------------|------------------|------------------|-------------|----------------|----------------|
| | USD 000s | USD 000s | | INR million | INR million |
| Cash and cash equivalents | 273,101 | 500,246 | (45)% | 18,886 | 34,595 |
| Loans and advances to banks | 144,881 | 137,553 | 5% | 10,019 | 9,514 |
| Loans and advances to customers | 2,423,180 | 2,365,651 | 2% | 167,575 | 163,597 |
| Investments | 906,119 | 804,895 | 13% | 62,662 | 55,662 |
| Total assets | 3,840,160 | 3,884,340 | (1)% | 265,566 | 268,622 |
| Customer accounts | 2,140,798 | 1,748,820 | 22% | 148,047 | 120,940 |
| Shareholders' funds | 454,332 | 506,752 | (10)% | 31,419 | 35,045 |
| Wholesale liabilities | 1,168,784 | 1,577,085 | (26)% | 80,828 | 109,063 |
| Total liabilities | 3,840,160 | 3,884,340 | (1)% | 265,566 | 268,622 |

Capital³

| Capital Ratios | March 31, 2019 | March 31, 2018 | Movement |
|-------------------|----------------|----------------|----------|
| Core Tier 1 ratio | 12.9% | 14.0% | (1.1)% |
| Tier 1 ratio | 12.9% | 14.0% | (1.1)% |
| Total ratio | 16.8% | 16.5% | 0.3% |

| Risk weighted assets | March 31, 2019 | March 31, 2018 | % Change | March 31, 2019 | March 31, 2018 |
|----------------------|----------------|----------------|----------|----------------|----------------|
| | USD 000s | USD 000s | | INR million | INR million |
| Risk weighted assets | 3,424,336 | 3,498,919 | (2)% | 236,810 | 241,968 |

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

Key Financial highlights: FY2019

As at March 31, 2019, the Bank had total assets of USD 3,840 million (INR 265,566 million) compared with USD 3,884 million (INR 268,622 million) as at March 31, 2018. The balance sheet remained stable driven by increase in loans and advances and Treasury bills offset with a reduction in central bank balances.

The loans and advances portfolio at USD 2,568 million (INR 177,594 million) increased by 2% versus the previous year at USD 2,503 million (INR 173,111 million) primarily driven by its loan against property portfolio. The Bank registered a stable flow of new business volumes primarily from the UK and EU being partially offset by prepayments and sales in the corporate loan portfolio. During the year, the Bank saw a higher volume of prepayments in its UK and North America portfolio due to refinancing opportunities with the borrowers arising from the favourable interest rate environment especially in H1-FY2019. The Bank monitors adherence to the portfolio limits as prescribed in the risk appetite on a periodic basis. The Bank made significant progress on enhancing the quality of its loan portfolio coupled with a reduction in geographical and sectoral concentration. The efforts to enhance the risk profile of its loan portfolio led to an improvement in higher rated assets (A- and above) from 52% to 58% in FY2019.

With regards to liabilities, the Bank registered an increase of 22% in customer accounts at USD 2,141 million (INR 148,047 million) in FY2019 versus USD 1,749 million (INR 120,940 million) as at FY2018. While the Bank accessed wholesale markets and raised funding through various funding sources, overall deposits from Banks, Medium Term Notes and Bonds reduced by 39% (USD 798 million as at FY19 compared with USD 1,276 million as at FY18 in line with the funding requirements of the Bank. During the year, The Bank raised Tier 2 capital of USD 73 million under its Medium Term Note Program. During the year, the Bank ensured an appropriate balance of Retail and wholesale funding in its liability portfolio.

The Bank made a Loss Before Tax in FY2019 of USD 59.7 million (INR 4,125 million) compared with Loss Before Tax of USD 30.4 million (INR 2,103 million) in the previous year mainly due to higher impairment provisions. A Loss After Tax of USD 52.9 million (INR 3,655 million) was made against the Loss After Tax of USD 25.5 million (INR 1,767 million) in the previous year.

The Net Interest Income at USD 70.5 million (INR 4,877 million) increased by 5% compared with the previous year at USD 66.9 million (INR 4,626 million). Net Interest Margin (NIM) remained stable at 1.85% for FY2019.

The corporate banking fee, business banking and retail remittance income streams continued to be the key sources of non interest income, which increased by 5% during the year to USD 14.1 million (INR 975 million) as compared to USD 13.4 million (INR 924 million) during the previous year. This was mainly due to an increase in business banking foreign exchange and trade related revenues offset with a reduction in corporate fees 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. This resulted in an increase in the business banking revenues as compared to the previous year.

Remittance revenues from UK and M2I EU witnessed decline compared to the previous year due to increased competition in the money transfer business with more fintech players entering the UK and EU market. The reduction in corporate fees was mainly due to limited opportunities in providing structuring and arrangement services to corporate clients. The Bank continued to follow a cautious concentration risk management strategy through selectively selling down loans in its international corporate portfolio and investments which resulted in a realised loss of USD 4.8 million (INR 330 million) compared to a profit of USD 3.0 million in the previous year driven by favourable market conditions.

The Bank remained focused on enhancing operating efficiencies without compromising the control environment. The Bank strengthened the team size in the business and control groups to invest in expansion of selected business lines and continued its focus on expense rationalization and vendor negotiation initiatives, where appropriate. Total expenses at USD 34.1 million (INR 2,359 million) were 2% lower compared with the previous year. 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 provisions made during the year were USD 105.4 million (INR 7,289 million) compared with USD 78.7 million (INR 5,443 million) in the previous year. The Bank booked impairment provisions mainly due to the deterioration in business performance of borrowers, delays in realisation of collateral, a reduction of collateral value and ageing of non performing loans. Due to the challenging market conditions in certain sectors, the Bank saw an increase in stress in the performance of some companies which resulted in loans being classified as impaired. As at March 31, 2019, the provision coverage on impaired loans and equity increased to 76% as compared to 48% in the previous year. Significant improvement is noted for Gross impairment ratio at 8.3% and Net impairment ratio of 2.6% for FY2019 versus 13.0% and 8.2% respectively for FY2018. The Bank made significant efforts on recoveries against impaired facilities which resulted in a total of USD 30 million being recovered against outstanding exposures and USD 2.4 million against provisions/write offs booked in the earlier years. As at March 31, 2019, the Bank had net impaired outstanding loans of USD 63.1 million compared to USD 194.0 million in the previous year.

The Bank recognised an overall tax credit of USD 6.8 million which included a deferred tax credit of USD 7.5 million on the consolidated loss, a credit of USD 0.5 million on account of AFS reserves partially offset by a tax provision of USD 1.2 million on the profit booked in its Germany branch. (Refer note 11 on Taxation)

In line with the CRD IV requirements, as at March 31, 2019 the total capital was 16.8% with Tier 1 ratio of 12.9%.

4Key economic and business outlook

The Bank primarily operates in UK, Europe, North America and India markets and monitors the economic outlook especially in these markets to assess the impact on its portfolio and business model.

As per the Interim Economic Outlook published by OECD in March 2019, the global expansion continues to lose momentum. Global growth is projected to ease further to 3.3% in 2019 and 3.4% in 2020, with downside risks continuing to build. Growth has been revised downwards in almost all G20 economies, with particularly large revisions in the euro area in both 2019 and 2020. High policy uncertainty, ongoing trade tensions, and a further erosion of business and consumer confidence are all contributing to the slowdown. Global trade growth has slowed sharply and survey measures of new orders continue to decline in many countries. The trade restrictions introduced last year are a drag on growth, investment and living standards, particularly for low-income households. Labour markets remain resilient and wage growth is slowly picking up, supporting household incomes and spending. Substantial policy uncertainty remains in Europe, including over Brexit. A disorderly exit would raise the costs for European economies substantially.

Overall, recent economic and financial developments, and the materialisation of some downside risks, suggest that global growth prospects have eased since the November Economic Outlook, especially in Europe. Global GDP growth is projected to slow from 3.6% in 2018 to below-trend rates of 3.3% this year and 3.4% in 2020, with downward revisions in most G20 economies.

⁴ Interim Economic Outlook March 2019 published by the OECD

Growth is projected to remain weak in the United Kingdom, at under 1% in both 2019 and 2020. The still-strong labour market continues to support household spending, but persisting uncertainty about Brexit and the ongoing growth slowdown in the euro area are weighing on business confidence, investment and export prospects.

Uncertainty persists about the timing of UK withdrawal from the European Union (Brexit) and the nature of the UK-EU trading relationship in the short and medium-term. The current projections for UK GDP growth are conditional on the assumption of a smooth Brexit, with a transition period lasting until the end of 2020. If the United Kingdom and the European Union were to separate without an agreement, the outlook would be significantly weaker. Although contingency measures to soften the impact of a no-deal outcome are being taken by both sides, UK-EU separation without an agreement would still be an adverse shock for Europe, UK and possibly elsewhere in the world, given that the United Kingdom is an important trading partner for many countries.

GDP growth in the euro area slowed sharply through 2018 and is projected to remain soft, at 1% in 2019 and 1.2% in 2020. Industrial output has been especially weak. Softening external demand and one-off factors contributed to the slowdown last year, but fading intra-area trade growth, high political uncertainty and moderating confidence point to an underlying demand slowdown that may persist.

GDP growth in India has eased, but is projected to be around 7.25% in FY2019 and FY2020. Business confidence and investment remain strong, and activity should benefit from easing financial conditions, lower oil prices, accommodative fiscal policy and recent structural reforms. India made resolving insolvency easier by adopting a new insolvency and bankruptcy code that introduced a reorganization procedure for corporate debtors and facilitated continuation of the debtor's business during insolvency proceedings.

GDP growth in the United States is projected to moderate to around 2.5 per cent in 2019 and a little over 2% in 2020 as the support from fiscal easing slowly fades. Solid labour market outcomes and supportive financial conditions continue to underpin household incomes and spending, but higher tariffs have begun to add to business costs and prices, and the growth of business investment and exports has moderated. The partial Federal government shutdown is likely to slow growth in the first quarter of 2019 but this effect will be reversed in the following quarters.

Growth outcomes could be weaker still if downside risks materialise or interact, including from further steps to raise trade barriers, persisting policy uncertainty and prolonged sub-par growth in Europe, a disorderly Brexit, a sharper slowdown in China, and renewed financial market repricing. On the upside, decisive actions by policymakers to reduce policy-related uncertainty and strengthen medium-term growth prospects, including measures that reduce barriers to trade, would improve confidence and investment around the world.

In consideration of the challenging global economic environment, the Bank took a cautious approach towards new lending and kept all its funding sources active through accessing the sources. The Bank operated within its lending framework on local lending and increased monitoring of its exposures which could be impacted by Brexit. Continued uncertainties around Brexit, change in regulatory environment, increasing competition and disruptive technology due to fintech entrants add up to the challenging environment. The Bank will continue to monitor the global economic environment as well as the economic situation and developments especially in India, UK and Europe to add selective business within its risk appetite.

Principal risks

The Bank's business is subject to inherent risks relating to borrower credit quality as well as general global economic and India conditions. 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.

Uncertainties associated with Brexit could have wide ranging effects for the markets and UK businesses. The current uncertainty on reaching to a final deal between the UK and rest of the EU over what form Brexit will take remains a key issue for all firms in the UK.

Effective risk management framework and established controls help the Bank in mitigating such risks. The Bank will continue to work within the risk framework as set out by the Board. The increased supervisory and compliance environment in the financial sector leads to increased risks of regulatory action. The Bank's continued focus on ensuring compliance with all regulatory requirements mitigates the risk of regulatory action. The Bank makes sufficient investments in addressing the risks through infrastructure development, regular training to enhance awareness of employees, and increased monitoring and management of these risks. The Bank's Directors and Management review the adequacy of systems and controls as well as the risk appetite on a regular basis and continue to make any relevant changes to ensure regulatory compliance. During the year, the Bank implemented EU's Markets in Financial Instruments Directive (MIFID II) reforms, second Payment Services Directive (PSD2) and The General Data Protection Regulation (GDPR) and is in compliant with the new regulations. Further details on the Bank's risks and management are given in Note 38.

Risk Management and Corporate Governance

Risk Management

The Bank has a centralised Risk Management Group with a mandate to identify, assess and monitor all its principal risks in accordance with defined policies and procedures. The Risk Management Group is independent of the business units and the Head of Risk reports directly to the Managing Director and Chief Executive Officer, and also has reporting lines to the Risk Management Group of the Parent Bank and the Chairperson of the Board Risk Committee. In line with the Bank's continued focus on maintaining a strong risk framework, the Bank's Executive Credit and Risk Committee, 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 and Board Risk Committee respectively.

Risk management framework

The Bank has developed a 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 as well as qualitative parameters such as conduct and reputational risk. The risk appetite statement has been further drilled down into portfolio-level limits, which include limits on country of risk and credit ratings of loans. The risk appetite framework and related limits are approved by the Board of Directors. The Risk Management Group of the Bank monitors adherence to the risk appetite framework and reports on it to the Board Risk Committee on a quarterly basis.

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 have been used to identify the material risks that the Bank is exposed to. The Bank is primarily exposed to credit risk, market risk (predominantly interest and exchange rate risk), liquidity risk and operational risk (including compliance, conduct and reputational risk). The Bank's largest regulatory capital requirements arise from credit risk in its lending operations.

The Bank maintains a detailed Recovery and Resolution Plan (RRP). It also maintains a Liquidity Contingency Plan (LCP), which forms an integral part of the RRP. The plan includes a range of recovery and liquidity indicators which allow the Bank to take preventative measures to forestall a severe stress. They also include a communication plan, which would be followed in the event of a crisis and a contingency funding plan, which sets out the corrective measures to be invoked when there is a potential or actual risk to the Bank's liquidity position.

Conduct & Operational 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 behaviour 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 management of operational risk within the Bank is governed by the Operational Risk Management Policy (ORMP) which is reviewed and approved by the Board Risk Committee (BRC) on an annual basis. Operational risk elements covered in the ORMP include operational risk incident management including reporting, techniques for risk identification, assessment and measurement, monitoring through key risk indicators and risk mitigation techniques.

The Compliance, Conduct and Operational Risk Management Committee (CORMAC) comprising of the senior management is responsible for the mitigation of operational risk including fraud and conduct risk within the Bank. The CORMAC is additionally responsible for reviewing and monitoring the financial crime prevention performance of the Bank. It approves the Bank's fraud governance framework and fraud compensation proposals and monitors the progress of reported fraudulent transactions.

The Bank has determined and articulated Operational Risk Appetite (ORA) which has been defined as the acceptable maximum level of Operational Risk (OR) that the Bank is willing to accept in pursuit of its strategic objectives, taking into account the interest of its stakeholder as well as regulatory requirements. It has been expressed both in quantitative and qualitative terms.

In order to further strengthen and proactively monitor its compliance to the 'Conduct Risk (CR)', the Bank has also defined its 'Conduct Risk Appetite (CRA)' as per the regulatory guidelines and has established both quantitative and qualitative measures of the Conduct Risk. The objective of a Conduct Risk Appetite framework of the Bank is to identify key conduct risks faced by the Bank and the steps to be taken to mitigate these risks; articulate the governance mechanisms, systems and controls which are in place to mitigate these risks; and review the exposure of the Bank to conduct risks and assist the Board in ensuring that the risk appetite is not breached.

The Bank continues to focus on the conduct risk matters as defined in its conduct risk appetite. 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 both business and Compliance.

The Bank has embedded a whistleblowing policy through regular training of staff. The policy provided for the 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.

In line with the forthcoming regulatory expectations, the Bank has established a working committee to consider and fully embed a comprehensive operational resilience framework to actively assess the vulnerabilities and recoverability of its critical services. 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 an 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.

The Bank has developed and implemented an Outsourcing Policy to mitigate outsourcing risks and ensure the application of a standardized approach for all outsourcing arrangements entered into by the Bank. As per the policy, a Service Level Agreement (SLA) between ICICI Bank UK PLC and the outsourced service provider must be executed for all Outsourcing Arrangements (OAs) by the sponsoring department/unit. To have a better understanding of the risk exposures due to outsourcing, business case assessment, cost benefit analysis and detailed vendor risk and control assessment is carried out for all proposed outsourced arrangements. They are also assessed for their criticality prior to outsourcing. The performance of vendors is also periodically reviewed on various parameters such as financial strength, organisational structure & change management, performance evaluation, compliance undertakings, and business continuity & information security and assessment report is presented to the BRC on a periodic basis. The Bank has a Data Protection Policy (DPP) to ensure that personal and sensitive personal information about its clients, employees, vendors and others with whom it communicates is dealt in accordance with the relevant national laws. This Policy conforms to the provisions of Data Protection Legislation which means (i) before 25 May 2018, the EU Data Protection Directive 95/46 and all national implementing laws (including the UK Data Protection Act 1998); and (ii) on or after 25 May 2018, the EU General Data Protection Regulation 2016/679 ("GDPR"); together with all other applicable and national implementing legislation relating to privacy or data protection.

Information security risk

The Bank is committed to making the necessary investments in Information Security which is essential to ensure the long term viability of the organisation and its data. The Bank has implemented an integrated approach to security and made significant progress in enhancing its Information Security governance through monitoring at the Information Security Committee. Additionally, periodic presentations are given to the Board Risk Committee on cyber threats and various measures taken by the Bank mitigating cyber security risks and threats. The various measures 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 demonstrated that the Bank's Information Security processes and procedures meet the UK market baseline standards.

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 Board is committed to maintaining high standards of corporate governance. During the year, Mr. N.S. Kannan resigned from the position of Non Executive Director and Chairman of the Board. The Board appointed Mr. Sandeep Batra as the Non Executive Director and Chairman of the Board effective July 17, 2018. During the year, Mr. Sudhir Dole, MD & CEO completed his assignment in the UK and rejoined ICICI Bank Limited, Mumbai India. He was replaced by Mr. Loknath Mishra as the MD & CEO effective November 01, 2018. 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 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 embedding of a controls and compliance culture throughout the organization. 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 a 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 and reference and mandate for these Committees.

Brexit

United Kingdom (UK) voted in the referendum held on June 23, 2016 to leave the European Union. Based on the outcome of referendum, UK delivered the formal notice of its intention to leave the European Union under Article 50 of the Lisbon Treaty on March 29, 2017, thereby setting March 29, 2019 as an exit date. However, there is still uncertainty on the future relationship between the UK and the EU, the exit date and the implementation period.

Following the referendum during FY2017, the Bank formed a Brexit Committee chaired by the Head of Risk and attended by the executive management with regular meetings to monitor and discuss the developments related to Brexit. In preparation of Brexit, the Bank had assessed the impact of Brexit on its operations and had concluded that given the significant proportion of its operations are based in the UK, the Bank is likely to have a limited impact. Post assessment, the Bank had initiated multiple steps to ensure that it is able to continue provide seamless services to its clients and minimise the impact on its own financial performance. The Bank continues to closely monitor developments related to Brexit through quarterly report on 'Emerging risks and challenges' to the BRC and is well prepared to take further actions as required. During FY2019, the Committee finalised its strategic planning on the Bank's operations including its branches in Belgium and Germany which relied on passported permissions from the UK.

During the year, the Bank obtained a third country license for its Germany branch effective post. The Bank has worked towards ensuring appropriate infrastructure is in place to run Germany as a third country branch post Brexit which has included preparation of the required organisation structure, policies, procedures and governance framework. The Bank decided to close its branch in Belgium for strategic reasons. The closure of the branch was approved by the National Bank of Belgium effective March 29, 2019.

The Bank acknowledges the ongoing uncertainty about the timing of UK withdrawal from the European Union (Brexit) and the nature of the UK-EU trading relationship in the short and medium-term. The possibility that a

withdrawal agreement will not be reached before the exit date remains a downside risk and source of uncertainty in the near term. The Bank reviews and presents the impact of Brexit on its portfolio to the Board on a periodic basis.

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 26, 2019
Registered address:
One Thomas More Square
London E1W 1YN

Directors' report

The Directors have pleasure in presenting the Sixteenth annual report of ICICI Bank UK PLC, together with the audited financial statements for the year ended March 31, 2019.

Financial Results

The financial statements for the reporting year ended March 31, 2019 are shown on pages 29 to 89.

Directors

| | | |
|-----------------------|---|--------------------------------------|
| Mr. N.S. Kannan | Non Executive Director, Chairperson of the Board | <i>Resigned on June 19, 2018</i> |
| Mr Sandeep Batra | Non Executive Director, Chairperson of the Board | <i>Appointed on July 17, 2018</i> |
| Mr. Vijay Chandok | 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. Sudhir Dole | Managing Director & CEO | <i>Resigned on November 1, 2018</i> |
| Mr Loknath Mishra | Managing Director & CEO | <i>Appointed on November 1, 2018</i> |

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 Bank's business activities and financial position; the factors likely to affect its future development and performance; and its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the Business Review and Risk Management section.

The Directors have assessed, in the context of the Bank's current results and operating environment, impact of Brexit, capital and liquidity position and projections, the Bank's ability to continue as a going concern. The Directors confirm they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts.

Share Capital

As at March 31, 2019, the issued and fully paid share capital amounted to USD 420 million (INR 29,052 million).

Employees

As at March 31, 2019 the Bank had 180 employees. 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 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.

Dividends

No dividends on the share capital of the Bank are proposed during the year.

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 which would require disclosure or adjustments to the March 31, 2019 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 17, 2018 for a year. In accordance with Section 489 of the Companies Act of 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Bank is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Loknath Mishra
Managing Director & Chief Executive Officer

Aarti Sharma
Chief Financial Officer & Company Secretary

April 26, 2019
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 26, 2019

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 2019 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 2. 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 Bank's affairs as at 31 March 2019 and of its loss 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 16 financial years ended 31 March 2019. 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: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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 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.

| Particulars | Key Audit procedures | Key Audit procedures |
|---|---|---|
| <p><i>The impact of uncertainties due to the UK exiting the European Union on our audit</i></p> <p><i>Refer to strategic report page 15</i></p> | <p>Unprecedented levels of uncertainty</p> <p>All audits assess and challenge the reasonableness of estimates, in particular as described in specific impairment and collective provision on loans and advances below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the company's future prospects and performance.</p> <p>In addition, we are required to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.</p> <p>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p> | <p><i>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</i></p> <ul style="list-style-type: none"> • <i>Our Brexit knowledge</i> – We considered the directors' assessment of Brexit-related sources of risk for the Company'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. • <i>Sensitivity analysis</i> – When addressing specific impairment and collective provision on loans and advances and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • <i>Assessing transparency</i> – As well as assessing individual disclosures as part of our procedures on specific impairment and collective provision on loans and advances, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. <p><i>Our results</i></p> <p>As reported under specific impairment and collective provision on loans and advances, we found the resulting estimates and related disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Bank and this is particularly the case in relation to Brexit.</p> |

| Particulars | Key Audit procedures | Key Audit procedures |
|---|--|---|
| <p>Specific impairment on Loans and Advances</p> <p>(Charge to profit and loss: \$105 million; 2018: \$76 million)</p> <p>Closing balance: \$153 million; 2018: \$134 million)</p> <p>Refer to pages 40 and 43-44 (accounting policy) and page 58 (financial Disclosures)</p> | <p><i>Subjective estimate:</i></p> <p>The carrying value of loans and advances held at amortised cost may be materially mis-stated 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,</p> <p>The Bank's exposures include certain loans which are individually significant in size, primarily companies linked to India, and some linked to volatile sectors such as commodities, and where in some instances repayment may be dependent on the successful realisation of collateral.</p> <p>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>Manual and automated Controls:</i></p> <p>Testing the design, implementation and operating effectiveness of key controls over the capture, monitoring and reporting of loans and advances to customers, and over the completeness of the credit watch list;</p> <p><i>Substantive procedures:</i></p> <p>We tested all watchlist 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, as to whether this judgment was appropriate. Where indicators of impairment were identified, our reviews included evaluation of the accuracy of individual impairment assessments by reperforming calculations and agreeing data inputs to third party documentation, including valuation reports, and challenging key assumptions of expected future cash flows, collateral valuation and realisation assumptions, by inspecting third party correspondence and independent valuation reports.</p> <p>Where any alternation to the terms or conditions of a loan were made, we have assessed whether the loan is captured as forborne.</p> <p><i>Disclosures:</i></p> <p>We have 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 and collateral, and forbearance.</p> <p><i>Our results</i></p> <p>The results of our testing indicated that management's judgments were satisfactory and we considered the specific impairment charge and provision recognised to be acceptable.</p> |

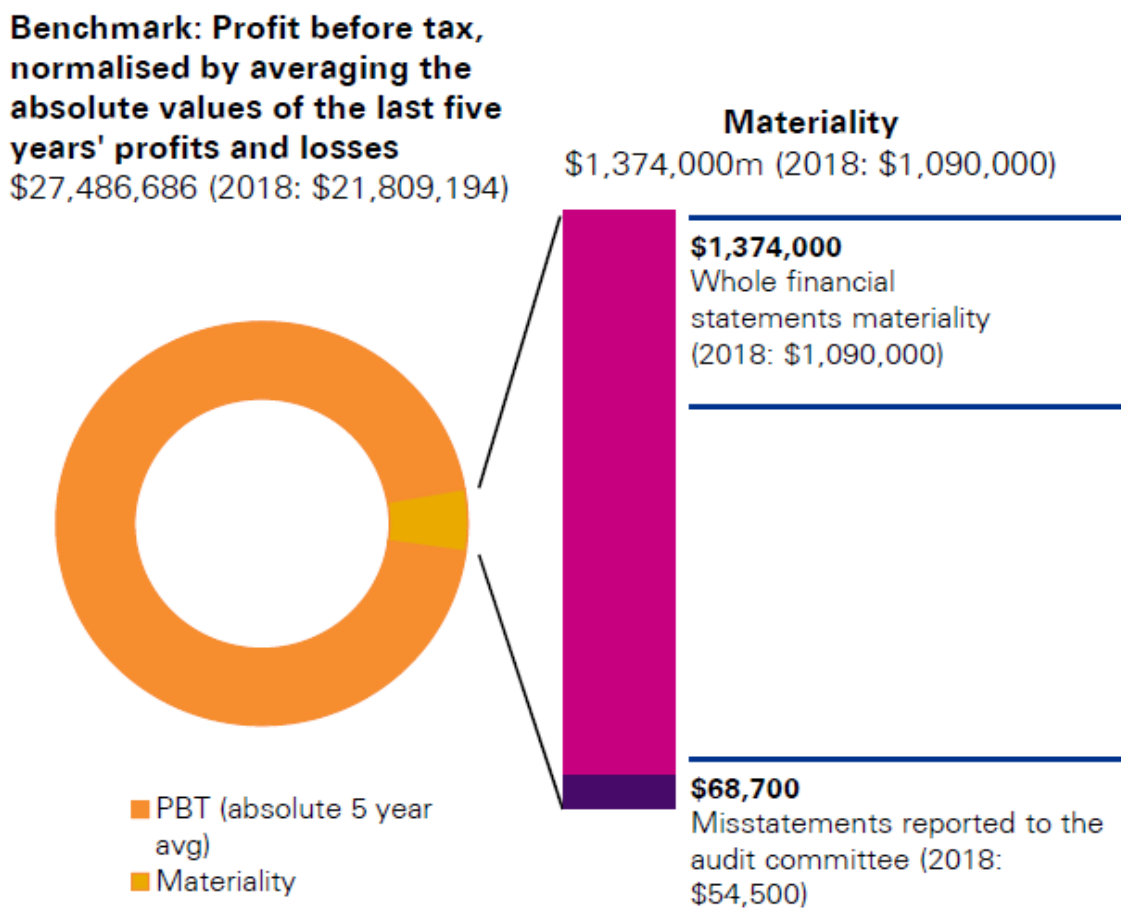
| Particulars | Key Audit procedures | Key Audit procedures |
|--|---|--|
| <p>Collective provision on Loans and Advances</p> <p>(Charge to profit and loss: \$0.1 million; 2018: \$1 million)</p> <p>Closing balance: \$12 million; 2018: \$12 million)</p> <p>Refer to pages 40 and 44-45 (accounting policy) and page 58 (financial disclosures).</p> | <p><i>Subjective estimate:</i></p> <p>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.</p> <p>A model is used to calculate the level of provision for the exposures which are not specifically impaired, which incorporates the following assumptions:</p> <ol style="list-style-type: none"> 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, 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 management to increase or decrease the probability of default estimates within the model to reflect the prevailing economic environment e.g. to account for any specific stress in a particular market. <p>We determined that the collective provision on loans and advances 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.</p> | <p><i>Our procedures included:</i></p> <p><i>Manual and automated Controls:</i></p> <p>Testing 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 the input of key data into the collective provision model.</p> <p><i>Substantive procedures:</i></p> <p>We evaluated the model methodology 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, and the appropriateness of data sourced from the Parent Bank. We have substantively tested the completeness and accuracy of key inputs (e.g. year end balances, risk gradings) to the model, and performed a recalculation of the provision. In assessing the model, we compared the observed loss history to the level of collective provision and compared the coverage rates and emergence period used to externally available industry data. We have tested the internal controls over the application of judgmental scalars. We have also substantively tested all scalars applied, including recalculating the amount and assessing the materiality of the impact on the collective provision recognised.</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.</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 \$1,374,000 (2018: \$1,089,000), determined with reference to a benchmark of profit before tax, normalised by averaging the absolute values of the last five years' profits and losses due to fluctuations in the business cycle, of which it represents 5% (2018: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$68,700 (2018: \$54,500), 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 and was performed at the Bank's head office in London.



Our audit of the Bank was undertaken to the materiality level specified above and was performed at the Bank's registered office in London and the Group head office in Mumbai, India. 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 to the Group head office under service level agreements:

- Loan operations
- Treasury operations, including the hedge accounting process
- Certain finance processes including key reconciliations

- Valuation controls and assessment of centralized valuation models
- IT infrastructure and controls

We inspect the audit work performed by our network firm throughout the year, and visit the India audit team each 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 Directors' 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.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Bank's business model and analysed how those risks might affect the Bank's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Bank's available financial resources over this period were:

- The impact of non performance of specific credits in UK;
- The impact of unidentified risk in business portfolios affecting the collective provision of the Bank;

As these were risks that could potentially cast significant doubt on the Bank's ability to continue as a going concern, 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 and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and recoverability of Deferred Tax Asset position of the Bank.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 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.

6 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 Company, 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.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 20, 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect

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. 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 licence 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 identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

These limited procedures did not identify actual or suspected non-compliance.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 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.

David AT Todd (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
26 April 2019

Profit and loss account for the year ended March 31, 2019

Convenience translation (Refer to Note 2 (b))

| | Note | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|------|---|---|---|---|
| Interest income and similar income | 5 | 130,009 | 115,269 | 8,991 | 7,971 |
| Interest expense | 6 | (59,487) | (48,364) | (4,114) | (3,345) |
| Net interest income | | 70,522 | 66,905 | 4,877 | 4,626 |
| Fees and commissions receivable | | 8,042 | 8,135 | 556 | 563 |
| Foreign exchange revaluation gains | | 5,363 | 6,907 | 371 | 478 |
| Income/(Loss) on financial instruments at fair value through profit and loss | 7 | 126 | (2,282) | 9 | (158) |
| Other operating income | | 562 | 599 | 39 | 41 |
| Profit/(Loss) on sale of financial assets | | (4,773) | 2,960 | (330) | 205 |
| Total revenue | | 79,842 | 83,224 | 5,522 | 5,755 |
| Administrative expenses | 8,9 | (33,314) | (34,135) | (2,304) | (2,361) |
| Depreciation | 22 | (796) | (782) | (55) | (54) |
| Impairment on investment securities | 21 | (992) | (1) | (69) | - |
| Impairment on loans and advances | 20 | (104,401) | (78,710) | (7,220) | (5,443) |
| Operating (loss)/ profit before tax | | (59,661) | (30,404) | (4,126) | (2,103) |
| Tax on operating (loss)/profit | 11 | 6,792 | 4,856 | 470 | 336 |
| (Loss) /Profit after tax | | (52,869) | (25,548) | (3,656) | (1,767) |

The result for the year is derived entirely from continuing activities. The notes on pages 34 to 89 form part of these financial statements.

* INR figures are unaudited

**Statement of other comprehensive Income
 for the year ended March 31, 2019**

Convenience translation (Refer to Note 2 (b))

| | Note | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|------|---|---|---|---|
| (Loss)/ Profit on ordinary activities after tax | | (52,869) | (25,548) | (3,655) | (1,767) |
| Other comprehensive Income | | | | | |
| Movement in available for sale reserve | | | | | |
| Movement in fair value during the year | | (610) | (2,542) | (42) | (176) |
| Taxation relating to available for sale reserve | | 523 | 565 | 36 | 39 |
| Net movement in available for sale reserve | | (87) | (1,977) | (6) | (137) |
| Other comprehensive income for the period, net of tax | | (87) | (1,977) | (6) | (137) |
| Total comprehensive income for the year | | (52,956) | (27,525) | (3,661) | (1,904) |

The notes on pages 34 to 89 form part of these financial statements.

* INR figures are unaudited

Balance sheet at March 31, 2019

Convenience translation (Refer to Note 2 (b))

| | Note | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--------------------------------------|------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | 16 | 273,101 | 500,246 | 18,886 | 34,595 |
| Loans and advances to banks | 17 | 144,881 | 137,553 | 10,019 | 9,514 |
| Loans and advances to customers | 18 | 2,423,180 | 2,365,651 | 167,575 | 163,597 |
| Investment in Treasury Bills | 21 | 297,509 | 192,094 | 20,574 | 13,284 |
| Other Investment Securities | 21 | 608,610 | 612,801 | 42,088 | 42,378 |
| Derivative financial instruments | 41 | 29,259 | 24,295 | 2,023 | 1,680 |
| Tangible and Intangible fixed assets | 22 | 2,302 | 2,776 | 160 | 192 |
| Other assets | 23 | 43,270 | 30,380 | 2,992 | 2,101 |
| Prepayment and accrued income | | 18,048 | 18,544 | 1,249 | 1,281 |
| Total assets | | 3,840,160 | 3,884,340 | 265,566 | 268,622 |
| Liabilities | | | | | |
| Deposits by banks | 24 | 559,541 | 916,438 | 38,695 | 63,376 |
| Customer accounts | 25 | 2,140,798 | 1,748,820 | 148,047 | 120,940 |
| Bonds and medium term notes | 26 | 238,632 | 359,781 | 16,503 | 24,881 |
| Subordinated liabilities | 27 | 223,348 | 149,880 | 15,446 | 10,365 |
| Derivative financial instruments | 41 | 19,918 | 17,572 | 1,377 | 1,215 |
| Other liabilities | 28 | 32,265 | 13,066 | 2,231 | 904 |
| Accruals and deferred income | | 24,064 | 21,045 | 1,664 | 1,455 |
| Repurchase Agreements | 29 | 147,263 | 150,986 | 10,184 | 10,441 |
| Total Liabilities | | 3,385,829 | 3,377,588 | 234,147 | 233,577 |
| Shareholders' funds: | | | | | |
| Issued share capital | 30 | 420,095 | 420,095 | 29,052 | 29,052 |
| Capital contribution | | 10,703 | 10,168 | 740 | 703 |
| Retained earnings | | 34,133 | 87,002 | 2,360 | 6,017 |
| Available for sale reserve | | (10,600) | (10,513) | (733) | (727) |
| Total Equity | | 454,331 | 506,752 | 31,419 | 35,045 |
| Total Equity and Liabilities | | 3,840,160 | 3,884,340 | 265,566 | 268,622 |

The notes on pages 34 to 89 form part of these financial statements. These financial statements were approved by the Board of Directors on April 26, 2019 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

* INR figures are unaudited

**Statement of change in equity
 for the year ended March 31, 2019**

| | 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, 2017 | 420,095 | 112,550 | (8,536) | 9,121 | 533,230 |
| Capital contribution (share based payments) | - | - | - | 1,047 | 1,047 |
| Other comprehensive income | - | - | (1,977) | - | (1,977) |
| (Loss)/Profit on ordinary activities after tax | - | (25,548) | - | - | (25,548) |
| As at April 1, 2018 | 420,095 | 87,002 | (10,513) | 10,168 | 506,752 |
| Capital contribution (share based payments) | - | - | - | 535 | 535 |
| Other comprehensive income | - | - | (87) | - | (87) |
| (Loss)/Profit on ordinary activities after tax | - | (52,869) | - | - | (52,869) |
| Closing shareholders' funds as at March 31, 2019 | 420,095 | 34,133 | (10,600) | 10,703 | 454,331 |

The notes on pages 34 to 89 form part of these financial statements.

| Convenience translation* (Refer to Note 2 (b)) | Issued Share Capital | Retained earnings | Other Comprehensive Income | Capital Con- tribution | Total |
|---|-------------------------|----------------------|----------------------------------|---------------------------|---------------|
| | INR million | INR million | INR million | INR million | INR million |
| As at April 1, 2017 | 29,052 | 7,783 | (590) | 631 | 36,876 |
| Capital contribution (share based payments) | - | - | - | 72 | 72 |
| Other comprehensive income | - | - | (137) | - | (137) |
| Profit on ordinary activities after tax | - | (1,766) | - | - | (1,766) |
| As at April 1, 2018 | 29,052 | 6,017 | (727) | 703 | 35,045 |
| Capital contribution (share based payments) | - | - | - | 37 | 37 |
| Other comprehensive income | - | - | (6) | - | (6) |
| (Loss)/Profit on ordinary activities after tax | - | (3,656) | - | - | (3,656) |
| Closing shareholders' funds as at March 31, 2019 | 29,052 | 2,361 | (733) | 740 | 31,420 |

The notes on pages 34 to 89 form part of these financial statements.

* INR figures are unaudited

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 to 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 as it represents the currency of the primary economic environment in which the Bank operates. A significant proportion of the Bank's assets and revenues are transacted in US Dollars. 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 and disclosure requirement of 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 with the same group. It does not disclose transactions with members of the same group that are wholly owned.

(e) Going concern

The financial statements are prepared on a going concern basis as the Bank is satisfied that it has the resources to continue its business for the foreseeable future. The Bank meets its liquidity requirements through managing both retail and wholesale funding sources and meets the regulatory liquidity requirements through maintaining liquid assets. With regard to Capital, the Bank maintains adequate surplus over regulatory capital requirements. The Bank's risk management policies and procedures are outlined in Note 38.

The Bank is a wholly owned subsidiary of ICICI Bank Limited. 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. In addition, the Bank's forecasts and projections, taking account of possible changes in its business model in subsequent years, including stress testing and scenario analysis, show that the Bank will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. In making their assessment, the Directors have also considered future projections of profitability, cash flows and capital resources as well as the strategic review of the business model including impact of Brexit which is conducted on a periodic basis. The Bank has been maintaining adequate capital and Tier 1 capital ratio. During FY2019, despite the losses, the capital and liquidity position of the Bank remained adequate. The Directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future and therefore it is appropriate to prepare the Annual Accounts on a going concern basis.

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 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 the borrowings are expensed to the profit and loss account over the life of the borrowing raised 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 ruling 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 ruling at the date of the transaction. The Germany and Belgium branches are 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.

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. The 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(h). 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 for trading, designated at fair value through profit and loss, available for sale or held to maturity. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using effective interest rate method. Loans and receivables are stated at amortised cost after deduction of amounts which are required as impairment provisions. Where loans have been acquired at a premium or discount, these premiums and discounts are amortised through the profit and loss account from the date of acquisition to the expected date of maturity using the effective interest rate method.

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 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 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.

(g) 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 provide a detailed disclosure regarding classification and Fair value of instruments held by the Bank.

(h) Financial instruments at fair value through profit and 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 derivative that is a financial guarantee contract or a designated as 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 and valued at fair value.

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 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 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.

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.

(i) Held to maturity financial assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated 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.

(j) 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 and foreign exchange gains and 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 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 or 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 profit or loss account, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss account. However, any subsequent recovery in the fair value of an impaired available for sale equity investment is recognised directly in reserves since it cannot be reversed through the profit and loss account.

(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 hedge instrument either for a fair value of a recognised fixed rate asset or liability or an unrecognised firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of future cash flows of a floating rate asset or liability (cash flow hedge) or a foreign-currency fair value or cash flow hedge (foreign currency hedge). All derivatives are recorded under the heading 'Derivative financial instruments' on the balance sheet at their respective fair values with unrealised gains and losses recorded in reserves in case of cash flow hedge or in the profit and loss account in case of 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.

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 did not occur.

(l) Other derivatives

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 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 hedge; 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 individual and portfolio basis.

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 ¹ |

¹The useful life is on an average is currently between 1-5 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 the fixed 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) Income tax expense

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 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.

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 liabilities

The other liabilities consist of liabilities for the creditors, settlement balances, margins for derivatives financial instruments, Corporation tax payable and other creditors. The derivative financial instruments are measured at fair value through profit and loss; other creditors are measured at amortised cost. These liabilities are de-recognised when liabilities are extinguished.

(x) Share Capital

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

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 the 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. During the year, the policy was amended for enhancing the objectivity in the impairment classification process and to enhance the alignment with regulatory benchmarks for exposures in default.

- i) 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 next 60 days.

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

- ii) **Specific impairment:** In accordance with the Bank's Credit Risk Management Policy (CRMP), the Bank identifies on a monthly basis, 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.

Borrower's financial difficulty/credit deterioration/trigger event: 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.

Identification of specific impairment in an account: The Bank's policy is to identify and recognize 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 Bank's policy is to identify and recognize 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 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 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, the 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 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 measures a restructured troubled loan by reducing its recorded value to its net realisable value, taking into account the cost of all concessions at the date of the restructuring. The reduction in the carrying value is recorded as a charge to the profit and loss statement in the period in which the loan is restructured.

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 penal 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 qualitative and quantitative evaluation of whether cash flows of original assets and the modified or replacement assets are substantially different.

iii) 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.

(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, or 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 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, or 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. The Bank values the equity option embedded in the financial instruments such as FCCBs based on valuation techniques with observable market inputs.

(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. The management makes an assessment of a deferred tax asset 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.

5 Interest income and similar income

Interest income is recognised in profit and loss 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, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|---|---|---|---|---|
| Interest income on financial assets under AFS category | 16,759 | 11,523 | 1,159 | 797 |
| Interest income on financial assets under HTM category | 9,698 | 9,940 | 671 | 687 |
| Interest income on financial assets under Loans and receivable category | 102,763 | 90,851 | 7,106 | 6,283 |
| Interest income on financial assets measured at FVTPL | 789 | 2,955 | 55 | 204 |
| | 130,009 | 115,269 | 8,991 | 7,971 |

6 Interest expenses

Interest expense is recognised in profit and loss 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, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|---|---|---|---|
| Interest expense on financial liabilities measured at amortised cost | (59,487) | (48,364) | (4,114) | (3,345) |
| Total | (59,487) | (48,364) | (4,114) | (3,345) |

7 Income/(Loss) on financial instruments at fair value through profit and loss

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

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|---|---|---|---|
| Realised gains/(losses) on derivative instruments | 1,247 | 4,379 | 86 | 303 |
| Unrealised gains/(losses) on derivative instruments [#] | (1,121) | (6,661) | (77) | (461) |
| Total | 126 | (2,282) | 9 | (158) |

[#]includes MTM on terminated hedge deals having an offset in Net Interest Income on account of amortisation of MTM on the underlying deals.

* INR figures are unaudited

8 Administrative expenses

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|---|---|---|---|
| Staff costs (including Directors' emoluments): | | | | |
| - Wages and salaries | 18,726 | 19,373 | 1,295 | 1,340 |
| - Social security costs | 1,573 | 1,623 | 109 | 112 |
| - Other pension costs | 509 | 475 | 35 | 33 |
| Operating lease expenses | 1,958 | 1,836 | 135 | 127 |
| Other administrative expenses | 10,548 | 10,828 | 730 | 749 |
| Total | 33,314 | 34,135 | 2,304 | 2,361 |

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

| | Year ended March 31, 2019 No. of Employees | Year ended March 31, 2018 No. of Employees |
|----------------|--|--|
| Management | 65 | 55 |
| Non Management | 115 | 123 |
| Total | 180 | 178 |

9 Auditor's remuneration

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|---|---|---|---|
| Fees payable to the Bank's statutory auditors and their associates for the audit of Bank's annual accounts | 497 | 475 | 34 | 33 |
| Fees payable to the Bank's statutory auditors and their associates for other services: | | | | |
| Audit related assurance services | 444 | 399 | 31 | 28 |
| Total | 941 | 874 | 65 | 61 |

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).

* INR figures are unaudited

11 Taxation

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

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|---|---|---|---|
| UK Corporation tax at 19% (2018: 19%) | | | | |
| Overseas corporation charge | 1,198 | 1,279 | 83 | 88 |
| Double Tax Relief | - | - | - | - |
| Adjustments for prior years | (403) | (279) | (28) | (19) |
| | 795 | 1,000 | 55 | 69 |
| Deferred tax charge/(credit) | - | - | - | - |
| - Origination/timing and rate difference | (7,587) | (5,856) | (525) | (405) |
| | | | | |
| Total Tax for the year ended March 31 | (6,792) | (4,856) | (470) | (336) |

(b) Analysis of total taxation in the year

| | Year ended March 31, 2019 USD 000s | | | Year ended March 31, 2018 USD 000s | | |
|---|---------------------------------------|----------------|----------------|---------------------------------------|----------------|----------------|
| | Current tax | Deferred tax | Total tax | Current tax | Deferred tax | Total tax |
| Recognised in Profit and loss account | 795 | (7,587) | (6,792) | 1000 | (5,856) | (4,856) |
| Recognised in other comprehensive income [#] | - | (523) | (523) | - | (565) | (565) |
| Total tax | 795 | (8,110) | (7,315) | 1000 | (6,421) | (5,421) |

| | Year ended March 31, 2019 INR million* | | | Year ended March 31, 2018 INR million* | | |
|---|---|--------------|--------------|---|--------------|--------------|
| | Current tax | Deferred tax | Total tax | Current tax | Deferred tax | Total tax |
| Recognised in Profit and loss account | 55 | (525) | (470) | 69 | (405) | (336) |
| Recognised in other comprehensive income [#] | - | (36) | (36) | - | (39) | (39) |
| Total tax | 55 | (561) | (506) | 69 | (444) | (375) |

* INR figures are unaudited

(c) Total tax reconciliation

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|---|---|---|---|---|
| (Loss)/Profit before tax | (59,661) | (30,404) | (4,126) | (2,103) |
| Tax using the UK CT rate of 19% (2018: 19%) | (11,335) | (5,777) | (784) | (400) |
| Add effects of: | | | | |
| - Overseas corporate taxes | 1,198 | 1,279 | 83 | 88 |
| - Expenses not tax deductible | 535 | 13 | 37 | 1 |
| - On timing difference on fixed assets | - | (72) | - | (5) |
| - Adjustment for prior years | (311) | (292) | (22) | (20) |
| - Base/Rate differential/reversal of DTA | 3,121 | (7) | 216 | - |
| Total tax for year ended March 31 | (6,792) | (4,856) | (470) | (336) |

(d) Movement in Deferred tax

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|---|---|---|---|
| Deferred Tax Asset | | | | |
| Balance as at April 1 | 9,674 | 4,266 | 669 | 295 |
| Origination and timing differences; | | | | |
| - on consolidated taxable losses | 7,064 | 4,889 | 489 | 338 |
| - on timing difference on fixed assets | - | 72 | - | 5 |
| - on AFS losses | 469 | 447 | 32 | 31 |
| | 17,207 | 9,674 | 1,190 | 669 |
| Deferred Tax Liability | | | | |
| Balance as at April 1 | (1,406) | (2,419) | (97) | (167) |
| Origination and timing differences; | | | | |
| - on AFS transitional adjustment | 578 | 1,013 | 40 | 70 |
| - on equity gains | - | - | - | - |
| | (828) | (1,406) | (57) | (97) |
| Net Deferred Tax as at March 31 | 16,379 | 8,268 | 1,133 | 572 |

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

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--|---|---|---|---|
| Effect of: | | | | |
| - On consolidated losses | 13,727 | 6,662 | 949 | 461 |
| - On timing difference on fixed assets | 257 | 257 | 18 | 18 |
| - On equity gains | (155) | (149) | (11) | (10) |
| - On AFS | 2,550 | 1,498 | 177 | 103 |
| Total | 16,379 | 8,268 | 1,133 | 572 |

* INR figures are unaudited

(f) Factors that may affect future tax charges: Reductions in the UK corporation tax rate from 20% to 19% (effective from April 1, 2017) and to 17% (effective April 1, 2020) were substantively enacted on October 26, 2015 and September 6, 2016 respectively. These reductions will reduce the company's future current tax charge accordingly. The deferred tax asset created on consolidated losses and timing difference on fixed assets amounting to USD 13.7 million is expected to be utilised in the foreseeable future against future profits. 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 0.16 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 net deferred tax asset on AFS of USD 2.5 million represents deferred tax asset of USD 3.2 million created on unrealised Available For Sale (AFS) losses less deferred tax liabilities of USD 0.7 million reflecting liabilities pursuant to amendments in Finance Act 2015, 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. Tax rate for the Germany branch was 27.4% for FY2019.

12 Emoluments of Directors

| | Year ended March 31, 2019 USD 000s | Year ended March 31, 2018 USD 000s | Year ended March 31, 2019 INR million* | Year ended March 31, 2018 INR million* |
|--------------------------------------|---|---|---|---|
| Directors' fees and gross emoluments | 992 | 948 | 69 | 66 |

The gross emoluments¹ of the highest paid director were USD 458,655 (INR* 31,718,313) (2018: USD 582,399; INR* 40,275,774) excluding share based payments. Post-employment benefits accruing for two directors (2018: One) under a money purchase pension scheme amounted to USD 27,440 (INR* 1,897,646) in the current year (2018: USD 24,976; INR* 1,727,203). Stock options² were granted and exercised by one director (2018: One).

¹ Gross emoluments include base salary and performance bonus

² Refer note 13 for the details of the stock option scheme.

13 Share-based payments

During the year, USD 0.5 million (INR* 37.4 million) was charged to the profit and loss account in respect of equity-settled share-based payment transactions (2018: USD 1.0 million; INR* 72.0 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 FY2019, 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 transaction

The Bank enters into transactions with other related parties in the ordinary course of business. During the year, the Bank has not entered into any transactions with other related parties. The Bank is exempt from disclosing other related party transactions as they are with the companies that are wholly owned within the Group. (Refer note 2 (d))

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 such as Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer & Friedlander Limited, Landsbanki 'Icesave', Dunfermline Building Society and London Scottish Bank plc. The protection of consumer deposits is currently funded through loans from the Bank of England and HM Treasury. Based on the letter issued by FCA, the amount that the FSCS had borrowed from HM Treasury was repaid, however, the bank could be liable to a further levy to cover costs that might occur to FSCS. 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. This levy is called the specified deposit defaults (SDD) levy. As per the outlook issued by FSCS in November 2018, FSCS expects to levy the deposit taking sector a total of GBP 21.3 million of indicative annual levy for 2018/19. 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 0.2 million (INR* 12 million) during FY2019 (FY2018: USD 0.5 million; INR* 37 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 accrued the SDD levy based on its estimated share of total market protected deposits. 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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|----------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Cash | 373 | 397 | 26 | 27 |
| Balances with Banks | | | | |
| -Central Bank | 238,018 | 446,266 | 16,460 | 30,862 |
| -Other banks | 34,710 | 53,583 | 2,400 | 3,706 |
| | 273,101 | 500,246 | 18,886 | 34,595 |

* INR figures are unaudited

17 Loans and advances to banks

(a) Residual Maturity

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|-----------------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Banks | | | | |
| Repayable on demand | - | - | - | - |
| <i>Other loans and advances</i> | | | | |
| Remaining Maturity : | | | | |
| 5 year or less but over 1 year | 160 | | 11 | - |
| 1 year or less but over 3 months | 31,594 | 40,082 | 2,185 | 2,772 |
| 3 months or less | 97,765 | 96,335 | 6,761 | 6,663 |
| | 129,519 | 136,417 | 8,957 | 9,435 |
| Parent and Group Companies | | | | |
| Repayable on demand | - | - | - | - |
| <i>Other loans and advances</i> | | | | |
| Remaining Maturity : | | | | |
| 5 year or less but over 1 year | 310 | 1,049 | 21 | 73 |
| 1 year or less but over 3 months | 15,022 | 103 | 1,039 | 7 |
| 3 months or less | 101 | - | 7 | - |
| | 15,433 | 1,152 | 1,067 | 80 |
| Sub Total | 144,952 | 137,569 | 10,024 | 9,515 |
| Collective provision | (71) | (16) | (5) | (1) |
| Total | 144,881 | 137,553 | 10,019 | 9,514 |

(b) Concentration of exposure

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

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Total gross advances to banks located in: | | | | |
| UK | 30,582 | 50,064 | 2,115 | 3,462 |
| Europe | - | - | - | - |
| North America | - | - | - | - |
| India | 114,370 | 82,192 | 7,909 | 5,686 |
| Rest of the World | - | 5,313 | - | 367 |
| Total | 144,952 | 137,569 | 10,024 | 9,515 |

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.

(c) Loans to banks placed as collateral against borrowings from Central banks

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Carrying amount of loans | 30,582 | 35,064 | 2,115 | 2,425 |

18 Loans and advances to customers

(a) Residual Maturity

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Repayable on demand or at short notice | 10,944 | 10,740 | 757 | 743 |
| <i>Other loans and advances</i> | | | | |
| Remaining Maturity : | | | | |
| Over 5 years | 723,959 | 551,629 | 50,065 | 38,148 |
| 5 years or less but over 1 year | 1,129,403 | 1,074,345 | 78,104 | 74,296 |
| 1 year or less but over 3 months | 275,158 | 245,295 | 19,029 | 16,963 |
| 3 months or less | 428,742 | 612,565 | 29,650 | 42,362 |
| Sub total | 2,568,206 | 2,494,574 | 177,605 | 172,512 |
| Collective provision | (12,318) | (12,217) | (852) | (845) |
| Specific impairment allowance | (153,170) | (134,101) | (10,592) | (9,274) |
| Total | 2,402,718 | 2,348,256 | 166,161 | 162,393 |

(b) Finance lease receivables

Residual Maturity

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Remaining Maturity : | | | | |
| Over 5 years | 2,156 | 2,206 | 149 | 153 |
| 5 years or less but over 1 year | 13,756 | 12,101 | 951 | 837 |
| 1 year or less but over 3 months | 4,569 | 3,530 | 316 | 244 |
| 3 months or less | 1,310 | 793 | 91 | 55 |
| Sub total | 21,791 | 18,630 | 1,507 | 1,289 |
| Unearned income | (1,288) | (1,189) | (89) | (82) |
| Collective provision | (41) | (46) | (3) | (3) |
| Specific impairment allowance | - | - | - | - |
| Net investment in finance lease receivables | 20,462 | 17,395 | 1,415 | 1,204 |
| Over 5 years | 2,132 | 2,146 | 147 | 148 |
| 5 years or less but over 1 year | 12,950 | 11,326 | 896 | 784 |
| 1 year or less but over 3 months | 4,208 | 3,237 | 291 | 225 |
| 3 months or less | 1,172 | 686 | 81 | 47 |
| | 20,462 | 17,395 | 1,415 | 1,204 |

The Geographical concentration of Net investment in finance lease receivables is in the UK as on As at March 31, 2019 and as at March 31, 2018.

* INR figures are unaudited

(c) Concentration of exposure

Geographical concentrations of loans and advances to customers

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|-------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| UK | 953,609 | 874,125 | 65,947 | 60,450 |
| Europe | 536,452 | 572,465 | 37,098 | 39,589 |
| North America | 613,592 | 489,185 | 42,433 | 33,830 |
| India | 347,916 | 437,026 | 24,060 | 30,223 |
| Rest of the World | 116,637 | 121,773 | 8,066 | 8,421 |
| Total | 2,568,206 | 2,494,574 | 177,604 | 172,513 |

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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Carrying amount of loans | 32,539 | 35,741 | 2,250 | 2,472 |

19 Potential credit risk on financial instruments

March 31, 2019

USD 000s

| | Neither past due nor impaired | Past due not impaired | Impaired | Impairment allowances & collective provision | Total |
|--------------------------------------|--|-----------------------------|----------------|---|------------------|
| Cash and cash equivalents | 273,101 | - | - | - | 273,101 |
| Loans and advances to banks | 144,952 | - | - | (71) | 144,881 |
| Loans and advances to customers | 2,364,063 | 8,398 | 216,248 | (165,529) | 2,423,180 |
| Investment securities | 905,593 | - | 51,516 | (50,990) | 906,119 |
| Derivative financial instruments | 29,259 | - | - | - | 29,259 |
| Other assets**: | | | | | |
| - Cheques in clearing | 26 | - | - | - | 26 |
| - Deposits receivable | 13,814 | - | - | - | 13,814 |
| Accrued income and other receivables | 29,075 | - | - | - | 29,075 |
| Total financial instruments | 3,759,883 | 8,398 | 267,764 | (216,590) | 3,819,455 |

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

* INR figures are unaudited

March 31, 2019

INR million*

| | Neither past due nor impaired | Past due not impaired | Impaired | Impairment allowances & collective provision | Total |
|--------------------------------------|-------------------------------|-----------------------|---------------|--|----------------|
| Cash and cash equivalents | 18,886 | - | - | - | 18,886 |
| Loans and advances to banks | 10,024 | - | - | (5) | 10,019 |
| Loans and advances to customers | 163,487 | 581 | 14,955 | (11,447) | 167,576 |
| Investment securities | 62,627 | - | 3,563 | (3,526) | 62,664 |
| Derivative financial instruments | 2,023 | - | - | - | 2,023 |
| Other assets**: | | | | | |
| - Cheques in clearing | 2 | - | - | - | 2 |
| - Deposits receivable | 955 | - | - | - | 955 |
| Accrued income and other receivables | 2,011 | - | - | - | 2,011 |
| Total financial instruments | 260,015 | 581 | 18,518 | (14,978) | 264,136 |

March 31, 2018

USD 000s

| | Neither past due nor impaired | Past due not impaired | Impaired | Impairment allowances & collective provision | Total |
|--------------------------------------|-------------------------------|-----------------------|----------------|--|------------------|
| Cash and cash equivalents | 500,246 | - | - | - | 500,246 |
| Loans and advances to banks | 137,569 | - | - | (16) | 137,553 |
| Loans and advances to customers | 2,177,902 | 6,004 | 328,109 | (146,364) | 2,365,651 |
| Investment securities | 803,363 | - | 51,516 | (49,984) | 804,895 |
| Derivative financial instruments | 24,295 | - | - | - | 24,295 |
| Other assets**: | | | | | |
| - Cheques in clearing | 72 | - | - | - | 72 |
| - Deposits receivable | 6,812 | - | - | - | 6,812 |
| Accrued income and other receivables | 30,847 | - | - | - | 30,847 |
| Total financial instruments | 3,681,106 | 6,004 | 379,625 | (196,364) | 3,870,371 |

March 31, 2018

INR million*

| | Neither past due nor impaired | Past due not impaired | Impaired | Impairment allowances & collective provision | Total |
|--------------------------------------|-------------------------------|-----------------------|---------------|--|----------------|
| Cash and cash equivalents | 34,595 | - | - | - | 34,595 |
| Loans and advances to banks | 9,515 | - | - | (1) | 9,514 |
| Loans and advances to customers | 150,613 | 415 | 22,690 | (10,122) | 163,596 |
| Investment securities | 55,556 | - | 3,563 | (3,457) | 55,662 |
| Derivative financial instruments | 1,680 | - | - | - | 1,680 |
| Other assets**: | | | | | |
| - Cheques in clearing | 5 | - | - | - | 5 |
| - Deposits receivable | 471 | - | - | - | 471 |
| - Unsettled securities | - | - | - | - | - |
| Accrued income and other receivables | 2,133 | - | - | - | 2,133 |
| Total financial instruments | 254,568 | 415 | 26,253 | (13,580) | 267,656 |

**excludes deferred tax assets, prepaid expenses and fixed assets * INR figures are unaudited

Loans and advances to customers (including finance lease)

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Loans contractually past due as to principal or interest | | | | |
| - Less than 60 days | 47,122 | 16,374 | 3,259 | 1,132 |
| - 61 to 90 days | - | - | - | - |
| - more than 90 days | 112,807 | 251,490 | 7,801 | 17,392 |
| Total | 159,929 | 267,864 | 11,060 | 18,524 |

Concentration of past due exposure

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|-------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| United Kingdom | 1,349 | - | 93 | - |
| Europe | 38,724 | - | 2,678 | - |
| India | 88,707 | 244,806 | 6,135 | 16,930 |
| Rest of the World | 31,149 | 23,058 | 2,154 | 1,594 |
| Total | 159,929 | 267,864 | 11,060 | 18,524 |

Past due whether impaired or not

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|-----------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Past due not impaired | 8,398 | 6,004 | 581 | 415 |
| Past due impaired | 151,531 | 261,860 | 10,479 | 18,109 |
| Total | 159,929 | 267,864 | 11,060 | 18,524 |

Past due not impaired[#]

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| - Less than 60 days | 8,398 | 6,004 | 581 | 415 |
| - 61 to 90 days | - | - | - | - |
| - more than 90 days | - | - | - | - |
| Total | 8,398 | 6,004 | 581 | 415 |

[#]Past due not impaired are stated at the total value of the exposure. This excludes gross exposures with overdues which were paid subsequent to the yearend (FY2019 overdues USD Nil and FY2018 overdues of USD 9.2 million (INR* 600 million)). Impaired but not past due exposures amounted to USD 64.7 million at March 31, 2019. (FY2018: USD 38.7 million)

Forbearance

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

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Gross impaired loans | 132,354 | 152,904 | 9,153 | 10,574 |
| Less: Provisions | (108,325) | (43,358) | (7,491) | (2,998) |
| Net impaired loans | 24,029 | 109,546 | 1,662 | 7,576 |
| Gross non impaired loans | 3,562 | 24,178 | 246 | 1,672 |
| Past dues | - | - | - | - |
| Not past dues | 3,562 | 24,178 | 246 | 1,672 |

* INR figures are unaudited

20 Impairment on loans and advances

Net loan impairment charge to profit and loss account

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| New charges | (104,936) | (76,804) | (7,257) | (5,311) |
| Release of allowance | 2,461 | - | 170 | - |
| Write off /charge directly to profit and loss | (1,926) | (1,906) | (133) | (132) |
| | (104,401) | (78,710) | (7,220) | (5,443) |

Movement in impairment allowance on loans and advances

| | March 31, 2019 (USD 000s) | | | March 31, 2018 (USD 000s) | | |
|------------------------------------|---------------------------|----------------------|----------------|---------------------------|----------------------|----------------|
| | Specific Impairment | Collective Provision | Total | Specific Impairment | Collective Provision | Total |
| Opening Balance | 134,101 | 12,279 | 146,380 | 86,436 | 11,033 | 97,469 |
| Charge to profit and loss account | 104,785 | 151 | 104,936 | 75,558 | 1,246 | 76,804 |
| Other provision on interest income | 419 | - | 419 | 99 | - | 99 |
| Amounts written off | (82,952) | - | (82,952) | (30,412) | - | (30,412) |
| Recovery | (1,322) | - | (1,322) | - | - | - |
| Others (incl. FX) | (1,861) | - | (1,861) | 2,420 | - | 2,420 |
| Closing Balance | 153,170 | 12,430 | 165,600 | 134,101 | 12,279 | 146,380 |

| | March 31, 2019 (INR million*) | | | March 31, 2018 (INR million*) | | |
|------------------------------------|-------------------------------|------------|---------------|-------------------------------|------------|---------------|
| Opening Balance | 9,274 | 849 | 10,123 | 5,977 | 763 | 6,740 |
| Charge to profit and loss account | 7,246 | 10 | 7,256 | 5,225 | 86 | 5,311 |
| Other provision on interest income | 29 | - | 29 | 7 | - | 7 |
| Amounts written off | (5,737) | - | (5,737) | (2,103) | - | (2,103) |
| Recovery | (91) | - | (91) | - | - | - |
| Others (incl. FX) | (129) | - | (129) | 167 | - | 167 |
| Closing Balance | 10,592 | 859 | 11,451 | 9,273 | 849 | 10,122 |

21 Investment securities

Classification of Investment securities

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Analysed by class: | | | | |
| Government Securities | 297,509 | 192,094 | 20,575 | 13,284 |
| Other securities | | | | |
| - Bonds | 591,977 | 586,122 | 40,938 | 40,533 |
| - Asset Backed Securities | 10,176 | 19,557 | 704 | 1,352 |
| - Equity | 6,493 | 7,122 | 449 | 493 |
| Collective provisions | (36) | - | (2) | - |
| Total other securities | 608,610 | 612,801 | 42,089 | 42,378 |
| Total | 906,119 | 804,895 | 62,664 | 55,662 |

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Analysed by issuer: | | | | |
| Available for sale | | | | |
| Issued by public bodies: | | | | |
| Government Issued | 280,054 | 173,884 | 19,367 | 12,025 |
| Other Public sector securities | 212,995 | 181,939 | 14,730 | 12,582 |
| Issued by other issuers | 159,030 | 187,152 | 10,997 | 12,942 |
| Held to Maturity | | | | |
| Government Issued | 17,455 | 18,210 | 1,208 | 1,259 |
| Issued by other issuers | 236,621 | 243,710 | 16,364 | 16,854 |
| Collective provisions | (36) | - | (2) | - |
| Financial instruments at fair value through profit and loss | | | | |
| Issued by other issuers | | - | | |
| Total | 906,119 | 804,895 | 62,664 | 55,662 |

| | March 31, 2018 USD 000s | March 31, 2017 USD 000s | March 31, 2018 INR million* | March 31, 2017 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Analysed by listing status: | | | | |
| Available for sale | | | | |
| Unlisted | 256,217 | 123,798 | 17,719 | 8,561 |
| Listed | 395,862 | 419,177 | 27,375 | 28,988 |
| Held to Maturity | | | | |
| Listed | 254,076 | 261,920 | 17,572 | 18,113 |
| Collective provisions | (36) | - | (2) | - |
| Financial instruments at fair value through profit and loss | | | | |
| Unlisted | - | - | - | - |
| Total | 906,119 | 804,895 | 62,664 | 55,662 |

* INR figures are unaudited

| Analysed by maturity#: | | | | |
|------------------------|----------------|----------------|---------------|---------------|
| Due within 1 year | 320,635 | 213,514 | 22,174 | 14,766 |
| Due 1 year and above | 579,028 | 584,259 | 40,043 | 40,404 |
| Total | 899,663 | 797,773 | 62,217 | 55,170 |

#does not include USD 6.5 million (INR* 449 million) of investment in equity (FY2018: USD 7.1 million, INR* 492 million) and collective provision of USD 0.04 million INR* 2 million (FY2018: Nil)

Investments placed as collateral against borrowings from Central banks

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|-------------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Carrying value of investments | 130,977 | 133,186 | 9,058 | 9,210 |

Impairment on investment securities

During the year the Bank booked an impairment loss of USD 0.956 million in respect of equity investments held as available for sale (amounting to USD 0.002 million impairment provision in FY2018).

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 valuation model based on significant non market observable inputs.

Investments held at fair value at March 31, 2019, by valuation method:

USD 000s

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|---------------|--------------|----------------|
| Treasury Bills & Government securities | 280,054 | - | - | 280,054 |
| Bonds | 355,357 | - | - | 355,357 |
| Asset Backed Securities | - | 10,176 | - | 10,176 |
| Equity | 562 | 1,457 | 4,474 | 6,493 |
| Total | 635,973 | 11,633 | 4,474 | 652,080 |

INR million*

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------------|------------|------------|---------------|
| Treasury Bills & Government securities | 19,367 | - | - | 19,367 |
| Bonds | 24,575 | - | - | 24,575 |
| Asset Backed Securities | - | 704 | - | 704 |
| Equity | 39 | 101 | 309 | 449 |
| Total | 43,981 | 805 | 309 | 45,095 |

* INR figures are unaudited

Investments held at fair value at March 31, 2018, by valuation method:

USD 000s

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|---------------|--------------|----------------|
| Treasury Bills & Government securities | 173,884 | - | - | 173,884 |
| Bonds | 321,234 | 21,178 | - | 342,412 |
| Asset Backed Securities | - | 19,557 | - | 19,557 |
| Equity | 1,533 | 1,115 | 4,474 | 7,122 |
| Total | 496,651 | 41,850 | 4,474 | 542,975 |

INR million*

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------------|--------------|------------|---------------|
| Treasury Bills & Government securities | 12,025 | - | - | 12,025 |
| Bonds | 22,215 | 1,465 | - | 23,680 |
| Asset Backed Securities | - | 1,352 | - | 1,352 |
| Equity | 106 | 77 | 310 | 493 |
| Total | 34,346 | 2,894 | 310 | 37,550 |

Investments placed as collateral against liabilities/borrowings

Under Repurchase agreements the Bank has placed certain Bonds, ABSs & FCCBs issued by financial institutions & 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 |
|----------------------------------|------------------------------------|-----------------------------------|-------------------------------------|-------------------|
| Cost: | | | | |
| At April 1, 2018 | 8,961 | 4,740 | 3,824 | 17,525 |
| Additions | - | 229 | 95 | 324 |
| Disposal | (234) | (60) | - | (294) |
| At March 31, 2019 | 8,727 | 4,909 | 3,919 | 17,555 |
| Accumulated depreciation: | | | | |
| At April 1, 2018 | 6,629 | 4,500 | 3,620 | 14,749 |
| Charge for the year | 544 | 106 | 146 | 796 |
| Disposal | (231) | (61) | - | (292) |
| At March 31, 2019 | 6,942 | 4,545 | 3,766 | 15,253 |
| Net book value: | | | | |
| At March 31, 2019 | 1,785 | 364 | 153 | 2,302 |
| At April 1, 2018 | 2,332 | 240 | 204 | 2,776 |

* INR figures are unaudited

| | Leasehold Improvements INR million* | Tangible Fixed Assets INR million* | Intangible Fixed Assets INR million* | Total INR million* |
|----------------------------------|--|---------------------------------------|---|-----------------------|
| Cost: | | | | |
| At April 1, 2018 | 620 | 328 | 264 | 1,212 |
| Additions | - | 15 | 7 | 22 |
| Disposal | (16) | (4) | - | (20) |
| At March 31, 2019 | 604 | 339 | 271 | 1,214 |
| Accumulated depreciation: | | | | |
| At April 1, 2018 | 458 | 312 | 250 | 1,020 |
| Charge for the year | 38 | 7 | 10 | 55 |
| Disposal | (16) | (4) | - | (20) |
| At March 31, 2019 | 480 | 315 | 260 | 1,055 |
| Net book value: | | | | |
| At March 31, 2019 | 124 | 24 | 11 | 159 |
| At April 1, 2018 | 161 | 17 | 14 | 192 |

23 Other assets

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---------------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Amounts in clearing | 26 | 72 | 2 | 5 |
| Deposits receivable | 13,814 | 6,812 | 955 | 471 |
| Deferred tax asset ¹ | 16,378 | 8,268 | 1,133 | 572 |
| Other receivables ² | 13,052 | 13,728 | 903 | 949 |
| Others ³ | - | 1,500 | - | 104 |
| Total | 43,270 | 30,380 | 2,993 | 2,101 |

¹Refer note 11

²Cash collateral of USD 8.0 million towards TLTRO borrowings as at March 31, 2018 was repaid during FY2019.

³During the year the Bank sold assets acquired in settlement of loan claims which were held as inventory.

24 Deposits by banks

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

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Banks | | | | |
| 5 years or less but over 1 year | 272,541 | 294,579 | 18,848 | 20,372 |
| 1 year or less but over 3 months | 147,500 | 349,860 | 10,200 | 24,194 |
| 3 months or less but not repayable on demand | 139,500 | 271,999 | 9,647 | 18,810 |
| | 559,541 | 916,438 | 38,695 | 63,376 |

* INR figures are unaudited

25 Customer accounts

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

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| More than 5 years | - | 3,081 | - | 213 |
| 5 years or less but over 1 year | 263,958 | 225,303 | 18,254 | 15,581 |
| 1 year or less but over 3 months | 668,752 | 319,013 | 46,248 | 22,061 |
| 3 months or less but not repayable on demand | 112,486 | 74,917 | 7,779 | 5,181 |
| | 1,045,196 | 622,314 | 72,281 | 43,036 |
| Repayable on demand | 1,095,602 | 1,126,506 | 75,766 | 77,904 |
| Total | 2,140,798 | 1,748,820 | 148,047 | 120,940 |

26 Bonds and medium term notes

| Bonds issued | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Residual Maturity | | | | |
| 5 year or less but over 1 year | 25,000 | 160,000 | 1,729 | 11,065 |
| 1 year or less but over 3 months | 178,045 | 130,000 | 12,313 | 8,990 |
| 3 months or less | 35,822 | 70,000 | 2,477 | 4,841 |
| | 238,867 | 360,000 | 16,519 | 24,896 |
| Less: Bond issue expenses | (235) | (219) | (16) | (15) |
| Total bonds and medium term notes | 238,632 | 359,781 | 16,503 | 24,881 |

Details of various bonds and notes under the medium term notes programmes issued by the Bank at March 31, 2019 are as follows:

Nature of Issue: Senior unsecured bonds

| Date of Issue | Interest frequency | Interest Rate | Maturity | USD 000s | INR million* |
|--|--------------------|---------------|----------------------------|----------------|---------------|
| 15-Mar-17 | Quarterly | 3.66% | Bullet repayment in Mar 20 | 50,000 | 3,458 |
| 18-Jul-17 | Quarterly | 3.51% | Bullet repayment in Jul 19 | 10,000 | 691 |
| 25-Jul-17 | Quarterly | 3.51% | Bullet repayment in Jul 19 | 50,000 | 3,458 |
| 29-Aug-17 | Quarterly | 3.50% | Bullet repayment in Sep 19 | 50,000 | 3,458 |
| 25-May-18 | Semi-annual | 0.25% | Bullet repayment in May 19 | 9,022 | 624 |
| 30-May-18 | Quarterly | 3.30% | Bullet repayment in May 19 | 10,000 | 691 |
| 08-Jun-18 | Annual | 3.30% | Bullet repayment in Jun 19 | 16,800 | 1,162 |
| 24-Jul-18 | Semi-annual | 0.20% | Bullet repayment in Jul 19 | 18,045 | 1,248 |
| 20-Feb-19 | Quarterly | 4.07% | Bullet repayment in Feb 24 | 25,000 | 1,729 |
| | | | Total | 238,867 | 16,519 |
| Less: Bond issue expenses | | | | (235) | (16) |
| Total bonds and medium term notes | | | | 238,632 | 16,503 |

* INR figures are unaudited

27 Subordinated debt liabilities

| Sub-ordinated debt [#] | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Residual Maturity | | | | |
| Over 5 years | - | - | - | - |
| 5 year or less but over 1 year [#] | 223,771 | 150,000 | 15,475 | 10,373 |
| 1 year or less but over 3 months | - | - | - | - |
| 3 months or less | - | - | - | - |
| | 223,771 | 150,000 | 15,475 | 10,373 |
| Less: Bond issue expenses | (423) | (120) | (29) | (8) |
| Less: Adjustments to carrying amount for change in the value of hedge which is ineffective | | | | - |
| | 223,348 | 149,880 | 15,446 | 10,365 |

[#]Listed with Singapore stock exchange.

Details of the Subordinated debt liabilities issued by the Bank at March 31, 2019 are as follows:

| Date of Issue | Nature of Issue | Interest Rate | Interest frequency | Maturity | USD 000s | INR million* |
|---------------|--|---------------|--------------------|--|----------------|---------------|
| 23-Nov-10 | Subordinated Debt issued in USD currency | 7% | Semi-annual | Bullet payment in November 2020 | 150,000 | 10,373 |
| 26-Sep-18 | Subordinated Debt issued in SGD currency | 5% | Semi-annual | Callable in 2023, Maturity in September 2028 | 73,771 | 5,102 |
| | | | | Total | 223,771 | 15,475 |
| | Less: Bond issue expenses | | | | (423) | (29) |
| | | | | | 223,348 | 15,446 |

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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Amounts in clearing | 1,260 | 1,613 | 87 | 112 |
| Margin for derivative and repurchase transactions | 23,005 | 3,918 | 1,591 | 271 |
| Other creditors | 8,000 | 7,535 | 553 | 521 |
| Total | 32,265 | 13,066 | 2,231 | 904 |

* INR figures are unaudited

29 Repurchase agreements

| | March 31, 2019 USD 000s | | March 31, 2018 USD 000s | |
|-----------------------|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|
| | Carrying amount of liabilities | Carrying amount of collateral assets | Carrying amount of liabilities | Carrying amount of collateral assets |
| Repurchase agreements | 147,263 | 177,006 | 150,986 | 178,878 |

| | March 31, 2019 INR million* | | March 31, 2018 INR million* | |
|-----------------------|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|
| | Carrying amount of liabilities | Carrying amount of collateral assets | Carrying amount of liabilities | Carrying amount of collateral assets |
| Repurchase agreements | 10,184 | 12,241 | 10,441 | 12,370 |

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 & financial institutions with carrying value of USD 177 million (INR* 12,241 million) (2018: USD 179 million; INR* 12,370 million). These have been pledged as collateral under repurchase agreements entered by the Bank. 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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|----------------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| 5 years or less but over 1 year | 59,771 | 62,942 | 4,133 | 4,353 |
| 1 year or less but over 3 months | 87,492 | 88,044 | 6,051 | 6,088 |
| 3 months or less | - | - | - | - |
| Total | 147,263 | 150,986 | 10,184 | 10,441 |

30 Called up share capital

At March 31, 2019 the Issued share capital of ICICI Bank UK PLC was:

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| 420 million ordinary shares of USD 1 each | 420,000 | 420,000 | 29,045 | 29,045 |
| 50,002 ordinary shares of £1 each | 95 | 95 | 7 | 7 |
| Total Share Capital | 420,095 | 420,095 | 29,052 | 29,052 |

* INR figures are unaudited

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 509,021, INR 35,201,380 (2018: USD 475,149; INR* 32,858,929) to the pension scheme. Out of this amount, USD 41,668, INR 2,881,572 was accrued at the yearend (2018: USD 42,597; INR* 2,945,814).

32 Contingent liabilities and commitments (Off Balance Sheet)

As a part of 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 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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Guarantees | 253,527 | 339,759 | 17,533 | 23,496 |
| Other commitments | | | | |
| Undrawn formal standby facilities, credit lines and other commitments to lend maturing in: | | | | |
| Less than one year | - | 103 | - | 7 |
| More than one year | - | - | - | - |
| Total guarantees and commitments | 253,527 | 339,862 | 17,533 | 23,503 |

(b) Significant concentrations of contingent liabilities and commitments

Approximately 69% (2018: 60%) of the total contingent liabilities and commitments relate to counterparties in India and the majority of the remaining balance primarily relates to Europe.

(c) Foreign exchange contracts

In addition to the commitments disclosed above, there are outstanding foreign exchange contracts of USD 1,542 million (INR* 106,637 million) (2018: USD 953 million; INR* 65,905 million).

* INR figures are unaudited

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

As at March 31, 2019, the Bank has the following non cancellable operating lease commitments:

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Land and Buildings | | | | |
| Within 1 year | 1,859 | 2,044 | 129 | 141 |
| Between 1 and 5 years | 4,986 | 6,905 | 345 | 478 |
| More than 5 years | 1,833 | 2,100 | 127 | 145 |
| | 8,678 | 11,049 | 601 | 764 |

The Bank had sub-let a portion of its premises in corporate office, the sub-lease agreement provides for fixed lease rentals for the entire period. The lease will expire between 1 and 5 years. Following is the future minimum lease payments receivable under non cancellable operating lease:

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Land and Buildings | | | | |
| Within 1 year | 311 | 335 | 22 | 23 |
| Between 1 and 5 years | 689 | 995 | 48 | 69 |
| More than 5 years | - | - | - | - |
| | 1,000 | 1,330 | 70 | 92 |

35 Categories and classes of Financial Instruments

The carrying amounts of the financial assets and liabilities include:

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Financial assets measured at fair value through profit or loss | 29,259 | 24,295 | 2,023 | 1,680 |
| Financial assets under Available for Sale category | 652,080 | 542,975 | 45,095 | 37,549 |
| Financial assets under Loans and receivable category | 2,884,077 | 3,041,181 | 199,448 | 210,313 |
| Financial assets under Held to maturity category | 254,040 | 261,920 | 17,568 | 18,113 |
| Total financial assets | 3,819,456 | 3,870,371 | 264,134 | 267,655 |
| Liabilities measured at fair value through profit or loss | 19,918 | 17,572 | 1,377 | 1,215 |
| Liabilities measured at amortised cost | 3,365,910 | 3,360,016 | 232,770 | 232,362 |
| Total financial liabilities | 3,385,828 | 3,377,588 | 234,147 | 233,577 |

* INR figures are unaudited

Assets:

As at March 31, 2019

USD 000s

| | Fair value though P&L | Available for Sale | Loans & Receivables | Held to maturity | Total |
|----------------------------------|--------------------------|-----------------------|------------------------|---------------------|------------------|
| Cash and cash equivalents | - | - | 273,101 | - | 273,101 |
| Loans and advances to banks | - | - | 144,881 | - | 144,881 |
| Loans and advances to customers | - | - | 2,423,180 | - | 2,423,180 |
| Investment Securities | - | 652,080 | - | 254,039 | 906,119 |
| Derivative financial instruments | 29,259 | - | - | - | 29,259 |
| Other assets# | - | - | 26,892 | - | 26,892 |
| Accrued income | - | - | 16,023 | - | 16,023 |
| Total financial assets | 29,259 | 652,080 | 2,884,077 | 254,039 | 3,819,455 |

As at March 31, 2019

INR million*

| | Fair value though P&L | Available for Sale | Loans & Receivables | Held to maturity | Total |
|----------------------------------|--------------------------|-----------------------|------------------------|---------------------|----------------|
| Cash and cash equivalents | - | - | 18,886 | - | 18,886 |
| Loans and advances to banks | - | - | 10,019 | - | 10,019 |
| Loans and advances to customers | - | - | 167,575 | - | 167,575 |
| Investment Securities | - | 45,095 | - | 17,568 | 62,663 |
| Derivative financial instruments | 2,023 | - | - | - | 2,023 |
| Other assets# | - | - | 1,860 | - | 1,860 |
| Accrued income | - | - | 1,108 | - | 1,108 |
| Total financial assets | 2,023 | 45,095 | 199,448 | 17,568 | 264,134 |

As at March 31, 2018

USD 000s

| | Fair value though P&L | Available for Sale | Loans & Receivables | Held to maturity | Total |
|----------------------------------|--------------------------|-----------------------|------------------------|---------------------|------------------|
| Cash and cash equivalents | - | - | 500,246 | - | 500,246 |
| Loans and advances to banks | - | - | 137,553 | - | 137,553 |
| Loans and advances to customers | - | - | 2,365,651 | - | 2,365,651 |
| Investment in Securities | - | 542,975 | - | 261,920 | 804,895 |
| Derivative financial instruments | 24,295 | - | - | - | 24,295 |
| Other assets## | - | - | 20,612 | - | 20,612 |
| Accrued income | - | - | 17,119 | - | 17,119 |
| Total financial assets | 24,295 | 542,975 | 3,041,181 | 261,920 | 3,870,371 |

As at March 31, 2018

INR million*

| | Fair value though P&L | Available for Sale | Loans & Receivables | Held to maturity | Total |
|----------------------------------|--------------------------|-----------------------|------------------------|---------------------|----------------|
| Cash and cash equivalents | - | - | 34,595 | - | 34,595 |
| Loans and advances to banks | - | - | 9,512 | - | 9,512 |
| Loans and advances to customers | - | - | 163,597 | - | 163,597 |
| Investment in Securities | - | 37,549 | - | 18,113 | 55,662 |
| Derivative financial instruments | 1,680 | - | - | - | 1,680 |
| Other assets## | - | - | 1,425 | - | 1,425 |
| Accrued income | - | - | 1,184 | - | 1,184 |
| Total financial assets | 1,680 | 37,549 | 210,313 | 18,113 | 267,655 |

excludes deferred tax assets, prepaid expenses and fixed assets

##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

* INR figures are unaudited

Liabilities:

As at March 31, 2019

USD 000s

| | Fair value through P&L | Non trading liability | Total |
|------------------------------------|------------------------|-----------------------|------------------|
| Deposits by banks | - | 559,541 | 559,541 |
| Customer accounts | - | 2,140,798 | 2,140,798 |
| Bonds and Medium term notes | - | 238,632 | 238,632 |
| Subordinated debts | - | 223,348 | 223,348 |
| Derivative financial instruments | 19,918 | - | 19,918 |
| Other liabilities | - | 32,265 | 32,265 |
| Accruals and deferred income | - | 24,063 | 24,063 |
| Repurchase agreements | - | 147,263 | 147,263 |
| Total financial liabilities | 19,918 | 3,365,910 | 3,385,828 |

As at March 31, 2019

INR million*

| | Fair value through P&L | Non trading liability | Total |
|------------------------------------|------------------------|-----------------------|----------------|
| Deposits by banks | - | 38,695 | 38,695 |
| Customer accounts | - | 148,047 | 148,047 |
| Bonds and Medium term notes | - | 16,503 | 16,503 |
| Subordinated debts | - | 15,446 | 15,446 |
| Derivative financial instruments | 1,377 | - | 1,377 |
| Other liabilities | - | 2,231 | 2,231 |
| Accruals and deferred income | - | 1,664 | 1,664 |
| Repurchase agreements | - | 10,184 | 10,184 |
| Total financial liabilities | 1,377 | 232,770 | 234,147 |

As at March 31, 2018

USD 000s

| | Fair value through P&L | Non trading liability | Total |
|------------------------------------|------------------------|-----------------------|------------------|
| Deposits by banks | - | 916,438 | 916,438 |
| Customer accounts | - | 1,748,820 | 1,748,820 |
| Bonds and Medium term notes | - | 359,781 | 359,781 |
| Subordinated debts | - | 149,880 | 149,880 |
| Derivative financial instruments | 17,572 | - | 17,572 |
| Other liabilities | - | 13,066 | 13,066 |
| Accruals and deferred income | - | 21,045 | 21,045 |
| Repurchase agreements | - | 150,986 | 150,986 |
| Total financial liabilities | 17,572 | 3,360,016 | 3,377,588 |

As at March 31, 2018

INR million*

| | Fair value through P&L | Non trading liability | Total |
|------------------------------------|------------------------|-----------------------|----------------|
| Deposits by banks | - | 63,376 | 63,376 |
| Customer accounts | - | 120,940 | 120,940 |
| Bonds and Medium term notes | - | 24,881 | 24,881 |
| Subordinated debts | - | 10,365 | 10,365 |
| Derivative financial instruments | 1,215 | - | 1,215 |
| Other liabilities | - | 904 | 904 |
| Accruals and deferred income | - | 1,455 | 1,455 |
| Repurchase agreements | - | 10,441 | 10,441 |
| Total financial liabilities | 1,215 | 232,362 | 233,577 |

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

* INR figures are unaudited

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 Individual Capital Guidance (ICG) for the Bank that sets capital requirements in excess of the minimum Capital Resource Requirement. A key input to the ICG 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 buffer rate increased from 0% to 0.5% from with effect from June 2018 and from 0.5% to 1% with effect from November 2018.

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.

During the year, The Bank raised Tier 2 capital of USD 73 million under its Medium Term Note Program.

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

| | March 31, 2019 USD million | March 31, 2018 USD million | March 31, 2019 INR million* | March 31, 2018 INR million* |
|----------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| Total Capital | 576.5 | 578.6 | 39,868 | 40,020 |
| - Tier I | 442.8 | 488.8 | 30,622 | 33,810 |
| - Tier II | 133.7 | 89.8 | 9,246 | 6,210 |

* INR figures are unaudited

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 two branches in the EU which are outside UK, in Antwerp (Belgium) and Eschborn (Germany). The details of the business activities are provided in the Business Review section of the Strategic Report. Details as on March 31, 2019 are provided below:

| | UK | | Belgium | | Germany | |
|--------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|
| Number of employees | 162 | | 3 | | 15 | |
| | USD million | INR million* | USD million | INR million* | USD million | INR million* |
| Turnover ^{1,2} | 66.1 | 4,573 | 2.7 | 185 | 11.0 | 761 |
| Pre-tax profit | (28.5) | (1,974) | (35.5) | (2,458) | 4.4 | 303 |
| Corporation tax paid | - | - | - | - | 2.3 | 158 |

¹Income before operating expenses and provisions

²Includes 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).

During the year, the Bank decided to close its branch in Belgium for strategic reasons. The closure of the branch has been approved by the National Bank of Belgium effective March 29, 2019.

38 Risk Management Framework

ICICI Bank UK PLC has adopted the 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 of the Bank 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 risk management framework of the Bank 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.

* INR figures are unaudited

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 risks faced by the Bank and categorises them 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 and political risk), market risk (including interest rate and credit spread risks), liquidity risk and operational risk (including compliance and legal risk and conduct risks).

The approach adopted by management to manage the key risks facing the Bank 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, cyclicity 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 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 BRC 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 a list of 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 booked. These are presented to the BCC and circulated to the commercial officers.

Credit risk is also managed at the portfolio level by monitoring and reporting risk dashboards to the BCC 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:

| Rating | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---------------|----------------------------|----------------------------|--------------------------------|--------------------------------|
| AAA | 108,824 | 81,675 | 7,526 | 5,648 |
| AA+ | - | 12,834 | - | 888 |
| AA | 198,862 | 124,915 | 13,752 | 8,638 |
| AA- | 19,293 | 4,953 | 1,334 | 343 |
| A+ | - | 7,223 | - | 500 |
| A and A- | - | - | - | - |
| BBB- | 507,673 | 517,593 | 35,108 | 35,794 |
| BB+ and below | 65,010 | 48,580 | 4,496 | 3,360 |
| Unrated | 6,493 | 7,122 | 449 | 493 |
| Total | 906,155 | 804,895 | 62,665 | 55,664 |

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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--------------|----------------------------|----------------------------|--------------------------------|--------------------------------|
| AAA to AA- | 119,952 | 79,450 | 8,295 | 5,494 |
| A+ to A- | 25,000 | 56,973 | 1,729 | 3,940 |
| BBB+ to BBB- | - | 1,146 | - | 79 |
| BB and below | - | - | - | - |
| Total | 144,952 | 137,569 | 10,024 | 9,513 |

* INR figures are unaudited

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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|----------------|----------------------------|----------------------------|--------------------------------|--------------------------------|
| AAA to AA- | 122,924 | 65,263 | 8,501 | 4,513 |
| A+ to A-# | 1,307,665 | 1,169,585 | 90,432 | 80,883 |
| BBB+ to BBB-## | 904,502 | 843,179 | 62,551 | 58,310 |
| BB and below | 214,707 | 399,543 | 14,848 | 27,630 |
| Total | 2,549,798 | 2,477,570 | 176,332 | 171,336 |

Includes USD 387.1 million (INR* 26,769 million) of loans classified as "Strong" (2018: USD 317.7 million: INR* 21,969 million); the classification is based on the supervisory slotting criteria under the Basel framework.

Includes USD 78.2 million (INR* 5,409 million) of loans classified as "Good" (2018: USD 42.4 million: INR* 2,936 million); the classification is based on the supervisory slotting criteria under the Basel framework.

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

| Rating | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--------------|----------------------------|----------------------------|--------------------------------|--------------------------------|
| AAA to AA- | - | - | - | - |
| A+ to A- | - | - | - | - |
| BBB+ to BBB- | - | - | - | - |
| BB and below | 5,020 | 5,020 | 347 | 347 |
| Total | 5,020 | 5,020 | 347 | 347 |

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

| Rating | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--------------|----------------------------|----------------------------|--------------------------------|--------------------------------|
| AAA to AA- | 6,406 | - | 443 | - |
| A+ to A- | 5,984 | 6,382 | 414 | 440 |
| BBB+ to BBB- | 21,499 | 23,043 | 1,487 | 1,594 |
| BB and below | - | - | - | - |
| Total | 33,889 | 29,425 | 2,344 | 2,034 |

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

* INR figures are unaudited

Industry exposure

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

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|------------------------|----------------------------|----------------------------|--------------------------------|--------------------------------|
| Industrials | 408,302 | 340,171 | 28,236 | 23,525 |
| Consumer Discretionary | 467,028 | 459,782 | 32,297 | 31,796 |
| Consumer Staples | 180,756 | 240,305 | 12,500 | 16,618 |
| Energy | 77,644 | 85,005 | 5,369 | 5,879 |
| Financials | 130,087 | 75,812 | 8,996 | 5,243 |
| Gems and Jewellery | 67,478 | 91,631 | 4,666 | 6,337 |
| Healthcare | 70,654 | 89,617 | 4,886 | 6,197 |
| Information Technology | 191,589 | 188,434 | 13,249 | 13,031 |
| Materials | 379,668 | 413,574 | 26,256 | 28,601 |
| Real Estate# | 556,461 | 481,221 | 38,482 | 33,279 |
| Telecom Services | 53,448 | 40,823 | 3,696 | 2,823 |
| Utilities | 5,020 | 5,020 | 347 | 347 |
| Others | 572 | 620 | 40 | 43 |
| Retail loans | - | - | - | - |
| Total | 2,588,707 | 2,512,015 | 179,020 | 173,719 |

#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 loan portfolio to the ECRC on a monthly basis and to the BCC on a quarterly basis.

* INR figures are unaudited

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, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---|----------------------------|----------------------------|--------------------------------|--------------------------------|
| Collateral value | 804,705 | 669,577 | 55,649 | 46,305 |
| Gross loans and advances | 2,588,707 | 2,512,015 | 179,020 | 173,719 |
| Less: Investments held as loans and receivables | (38,909) | (34,445) | (2,691) | (2,381) |
| Outstanding balance against which collateral held | 2,549,798 | 2,477,570 | 176,329 | 171,338 |

Value of collateral held against loans and advances to banks as at March 31, 2019 is USD 30.6 million (2018:USD 35.0 million).

The collateral valuations in the table above are based on the valuation available from the latest available audited financial statements of the organisation, 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 of any collateral or netting arrangements, as at March 31, 2019 is approximately USD 3.8 billion (INR* 266 billion) (2018: USD 3.9 billion; INR* 269 billion). The maximum amount of off balance sheet credit risk on guarantees and letters of credit is approximately USD 254 million (INR* 17,533 million) (2018: USD 340 million; INR* 23,503 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 by underlying credit risk and is sensitive to various factors including credit ratings and economic scalars. For example, a 5% increase in UK economic scalars would result in an increase of USD 0.09 million 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 banking book. The Bank's key policies for managing market risk as approved by the Board Risk Committee (BRC)/Asset Liability Management Committee (ALCO) are:

- Treasury policy manual and mandate (TPMM) which also includes the trading book policy statement (TBPS)

* INR figures are unaudited

- 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 Earnings at Risk) 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.

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-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, 2019 was USD 1.8 million (INR* 127 million) (2018: USD 3.7 million; INR* 256 million). Further, to manage the forex risk, the Bank uses value-at-risk measure.
- Equity Risk – Equity price risk arises due to the volatility of price movements on the Bank's investment in equity shares and convertibles. Threshold triggers are defined for decline in the values of equity investments and an escalation framework is in place. The value of the Bank's equity investments as at March 31, 2019 was USD 6.5 million (INR* 449 million) (2018: USD 7.1 million, INR* 493 million). The option value of convertibles was Nil at March 31, 2019 (2018: Nil).

The Bank has devised various risk metrics for different products and investments. These risk metrics are measured and reported to senior management by the Bank's independent Treasury Control & Services Group (TCSG). Some of the risk metrics adopted by the Bank for monitoring its risks are value-at-risk (VaR), duration of equity (DoE), price value of basis point (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 investment portfolio, as at March 31, 2019 was USD 2.10 million (INR* 145 million) (2018: USD 1.48 million; INR* 102 million). The maximum, average and minimum VaR during the year for the AFS book portfolio, including investment portfolio, was USD 2.77 million (INR* 192 million) (2018: USD 3.01 million; INR* 208 million), USD 1.90 million (INR* 132 million) (2018: USD 1.92 million; INR* 133 million) and USD 1.25 million (INR* 87 million) (2018: USD 1.40 million; INR* 97 million) respectively.

**VaR calculation and INR figures are unaudited*

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

| Particulars | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|----------------------------|----------------------------|--------------------------------|--------------------------------|
| Portfolio size (Market value) | 645,587 | 535,853 | 44,646 | 37,057 |
| Change in value due to 100 bps movement in interest rate | (12,373) | (12,167) | (856) | (841) |
| Change in value due to 200 bps movement in interest rate | (24,745) | (24,335) | (1,711) | (1,683) |

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

| Particulars | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|----------------------------|----------------------------|--------------------------------|--------------------------------|
| Portfolio size (Market value) | 645,587 | 535,853 | 44,646 | 37,057 |
| Change in value due to 100 bps movement in interest rate | 12,373 | 12,150 | 856 | 840 |
| Change in value due to 200 bps movement in interest rate | 24,745 | 24,227 | 1,711 | 1,679 |

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 as at March 31, 2019, assuming a parallel shift in the yield curve, has been set out in the following table:

Equivalent in USD million

| Currency | Impact on Net Interest Income over a one year horizon | |
|------------------|---|---------------------------------------|
| | Increase in interest rates by 200 bps | Decrease in interest rates by 200 bps |
| USD | 6.1 | (5.8) |
| GBP | 5.6 | (6.0) |
| EUR | 2.7 | 5.7 |
| Other currencies | (0.4) | 0.4 |
| Total | 14.0 | (5.7) |

Equivalent in INR million*

| Impact on Net Interest Income over a one year horizon | |
|---|---------------------------------------|
| Increase in interest rates by 200 bps | Decrease in interest rates by 200 bps |
| 423 | (401) |
| 384 | (418) |
| 188 | 391 |
| (24) | 36 |
| (971) | (392) |

* INR figures are unaudited

The equivalent impact analysis as at March 31, 2018 is set out in the following table:

Equivalent in USD million

| Currency | Impact on Net Interest Income over a one year horizon | |
|------------------|---|---------------------------------------|
| | Increase in interest rates by 200 bps | Decrease in interest rates by 200 bps |
| USD | 5.1 | (4.1) |
| GBP | 5.0 | (7.8) |
| EUR | 2.8 | 2.8 |
| Other currencies | (0.2) | 0.4 |
| Total | 12.7 | (8.7) |

Equivalent in INR million*

| Impact on Net Interest Income over a one year horizon | |
|---|---------------------------------------|
| Increase in interest rates by 200 bps | Decrease in interest rates by 200 bps |
| 353 | (286) |
| 346 | (532) |
| 191 | 192 |
| (14) | 27 |
| 876 | (599) |

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 plan (LCP)

The Bank differentiates liquidity risk between funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that 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 a 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 ensures 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.

*INR figures are unaudited

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 customer advances to total assets ratio. The withdrawable funding ratio indicates the proportion of deposits that can be withdrawn by customers without providing notice to total funding resources. The ratio as at March 31, 2019 was 0.30 (0.31 as at March 31, 2018). 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, 2019 was 0.65 (0.62 as at March 31, 2018).

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 and BRC & Board on a monthly and quarterly basis respectively. The Bank also tracks its Net Stable Funding ratio (NSFR), though it is yet to be introduced as a regulatory requirement in the United Kingdom.

The Bank also has a LCP which details the overall approach and actions the Bank would undertake in order to manage the Bank's liquidity position during stressed conditions. The LCP 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.

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

39 Cash flow payable under contractual maturity

At March 31, 2019, 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 | 142,004 | 104,411 | 47,727 | 277,452 | - | 571,594 |
| Customer accounts [#] | 1,210,243 | 372,913 | 309,136 | 270,602 | - | 2,162,894 |
| Other liabilities | 32,265 | - | - | - | - | 32,265 |
| Derivative financial liabilities | 3,985 | 1,947 | 1,634 | 4,434 | 3,523 | 15,523 |
| Accruals and deferred income [#] | 16,480 | - | - | - | - | 16,480 |
| Bonds and medium term notes | 37,698 | 129,255 | 51,411 | 29,037 | - | 247,401 |
| Subordinated debt | 3,599 | 3,599 | 7,237 | 244,448 | - | 258,883 |
| Repurchase Agreements | - | 40,959 | 46,534 | 59,770 | - | 147,263 |
| Total Liabilities | 1,446,274 | 653,084 | 463,679 | 885,743 | 3,523 | 3,452,303 |

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 | 9,820 | 7,221 | 3,301 | 19,187 | - | 39,529 |
| Customer accounts [#] | 83,694 | 25,789 | 21,378 | 18,713 | - | 149,574 |
| Other liabilities | 2,231 | - | - | - | - | 2,231 |
| Derivative financial liabilities | 276 | 135 | 113 | 307 | 244 | 1,075 |
| Accruals and deferred income [#] | 1,140 | - | - | - | - | 1,140 |
| Bonds and medium term notes | 2,607 | 8,939 | 3,555 | 2,008 | - | 17,109 |
| Subordinated debt | 249 | 249 | 500 | 16,905 | - | 17,903 |
| Repurchase Agreements | - | 2,833 | 3,218 | 4,133 | - | 10,184 |
| Total Liabilities | 100,017 | 45,166 | 32,065 | 61,253 | 244 | 238,745 |

[#] Interest accrued on customer deposits is reclassified into customer accounts.

* INR figures are unaudited

At March 31, 2018, 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 | 275,199 | 177,386 | 177,375 | 301,973 | - | 931,933 |
| Customer accounts [#] | 1,202,509 | 147,262 | 176,362 | 229,324 | 3,181 | 1,758,638 |
| Other liabilities | 12,906 | - | - | - | 159 | 13,065 |
| Derivative financial liabilities | 6,647 | 215 | 83 | 5,911 | 245 | 13,101 |
| Accruals and deferred income [#] | 15,274 | - | - | - | - | 15,274 |
| Bonds and medium term notes | 72,595 | 32,120 | 103,555 | 162,778 | - | 371,048 |
| Subordinated debt | 2,613 | 2,613 | 5,255 | 167,315 | - | 177,796 |
| Repurchase Agreements | - | 35,064 | 52,980 | 62,942 | - | 150,986 |
| Total Liabilities | 1,587,743 | 394,660 | 515,610 | 930,243 | 3,585 | 3,431,841 |

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 | 19,031 | 12,267 | 12,266 | 20,883 | - | 64,447 |
| Customer accounts [#] | 83,160 | 10,184 | 12,196 | 15,859 | 220 | 121,619 |
| Other liabilities | 893 | - | - | - | 11 | 904 |
| Derivative financial liabilities | 460 | 15 | 6 | 409 | 17 | 907 |
| Accruals and deferred income [#] | 1,056 | - | - | - | - | 1,056 |
| Bonds and medium term notes | 5,020 | 2,221 | 7,161 | 11,257 | - | 25,659 |
| Subordinated debt | 181 | 181 | 363 | 11,571 | - | 12,296 |
| Repurchase Agreements | - | 2,425 | 3,664 | 4,353 | - | 10,442 |
| Total Liabilities | 109,801 | 27,293 | 35,656 | 64,332 | 248 | 237,330 |

[#] 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, 2019 (Nil for March 31, 2018)

* 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, 2019 | March 31, 2019 | March 31, 2018 | March 31, 2018 |
|---|----------------|----------------|----------------|----------------|
| | Fair value | Book value | Fair value | Book value |
| Non trading book financial assets and liabilities | | | | |
| Assets: | | | | |
| Cash and cash equivalents | 273,101 | 273,101 | 500,246 | 500,246 |
| Loans and advances to banks | 144,881 | 144,881 | 137,553 | 137,553 |
| Loans and advances to customers | 2,403,365 | 2,423,180 | 2,379,471 | 2,365,651 |
| Investment securities | 909,042 | 906,119 | 805,365 | 804,895 |
| Liabilities: | | | | |
| Deposits by banks and customer accounts | 2,701,445 | 2,700,339 | 2,667,500 | 2,665,258 |
| Bonds and medium term notes | 239,251 | 238,632 | 360,899 | 359,781 |
| Subordinated debts | 229,683 | 223,348 | 159,336 | 149,880 |
| Repurchase agreements | 147,263 | 147,263 | 150,986 | 150,986 |
| Financial assets and liabilities at fair value through profit and loss | | | | |
| Assets: | | | | |
| Derivative financial instruments | 29,259 | 29,259 | 24,295 | 24,295 |
| Liabilities: | | | | |
| Derivative financial instruments | 19,918 | 19,918 | 17,572 | 17,572 |

INR million*

| | March 31, 2019 | March 31, 2019 | March 31, 2018 | March 31, 2018 |
|---|----------------|----------------|----------------|----------------|
| | Fair value | Book value | Fair value | Book value |
| Non trading book financial assets and liabilities | | | | |
| Assets: | | | | |
| Cash and cash equivalents | 18,886 | 18,886 | 34,595 | 34,595 |
| Loans and advances to banks | 10,019 | 10,019 | 9,512 | 9,512 |
| Loans and advances to customers | 166,205 | 167,575 | 164,552 | 163,597 |
| Investment securities | 62,865 | 62,663 | 55,695 | 55,663 |
| Liabilities: | | | | |
| Deposits by banks and customer accounts | 186,818 | 186,742 | 184,471 | 184,316 |
| Bonds and medium term notes | 16,545 | 16,503 | 24,958 | 24,881 |
| Subordinated debts | 15,884 | 15,446 | 11,019 | 10,365 |
| Repurchase agreements | 10,184 | 10,184 | 10,441 | 10,441 |
| Financial assets and liabilities at fair value through profit and loss | | | | |
| Assets: | | | | |
| Derivative financial instruments | 2,023 | 2,023 | 1,680 | 1,680 |
| Liabilities: | | | | |
| Derivative financial instruments | 1,377 | 1,377 | 1,215 | 1,215 |

*INR figures are unaudited

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.

Change in fair value under hedge accounting:

As at March 31, 2019, the notional amounts of interest rate swaps and foreign exchange contract designated as fair value hedges were USD 521 million (INR* 36,010 million) (2018: USD 433 million; INR* 29,952 million) and these contracts had a net positive fair value of USD 2.32 million (INR* 161 million) (2018: net positive fair value of USD 8.47 million; INR* 585 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 (BRC) 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.

* INR figures are unaudited

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|--|----------------------------|----------------------------|--------------------------------|--------------------------------|
| Change in fair value of hedged items recognised in profit and loss account | 5,885 | (1,003) | 407 | (70) |
| Investments | 5,491 | (4,725) | 380 | (327) |
| Borrowings, including repurchase | 394 | 3,722 | 27 | 257 |
| Loans and receivable | - | - | - | - |
| Deposits | - | - | - | - |
| Change in fair value of hedged instruments recognised in profit and loss account | (6,027) | 1,199 | (417) | 83 |

The Bank has computed the Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio which amounted to USD 65 thousand (INR* 5 million) and USD 32 thousand (INR* 2 million) respectively. The CVA and DVA have been computed similar to Basel II collective provisioning using the MTM exposures; rating wise probability of defaults as published by S&P; and 45% loss given default as used in the Basel's foundation IRB approach.

Principal amounts of derivative financial instruments

As at March 31, 2019

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 | 1,587,566 | 21,327 | 9,077 |
| Interest rate | 447,732 | 732,505 | 7,932 | 10,807 |
| Total | 520,714 | 2,320,071 | 29,259 | 19,884 |

As at March 31, 2019

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 | 5,047 | 109,788 | 1,474 | 628 |
| Interest rate | 30,963 | 50,656 | 549 | 747 |
| Total | 36,010 | 160,444 | 2,023 | 1,375 |

* INR figures are unaudited

Principal amounts of derivative financial instruments

As at March 31, 2018

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 | - | 1,014,509 | 13,377 | 10,852 |
| Interest rate | 433,117 | 402,096 | 10,918 | 6,668 |
| Total | 433,117 | 1,416,605 | 24,295 | 17,520 |

As at March 31, 2018

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 | - | 70,158 | 925 | 750 |
| Interest rate | 29,952 | 27,807 | 755 | 461 |
| Total | 29,952 | 97,965 | 1,680 | 1,211 |

#excludes Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio which amounted to USD 34 thousand (INR* 3 million) (2018: USD 52 thousand (INR* 3 million)).

As at March 31, 2019, the value of the equity options relating to the Foreign Currency Convertible Bonds was Nil. As at March 31, 2018 these equity options had Nil value. These options were valued based on valuation techniques with observable market inputs and are classified as level 2. Refer to note 21 for details of fair value leveling methodology. There were no transfers of derivative financial instruments between level 1, level 2 and level 3 during the year.

Derivative financial instruments by valuation method

As at March 31, 2019

USD 000s

| | Foreign exchange contracts | | Interest rate | |
|---------|----------------------------|---------------------------|---------------------------|----------------------------|
| | Gross Positive Fair Value | Gross Negative Fair Value | Gross Positive Fair Value | Gross Negative Fair Value# |
| Level 1 | 559 | 216 | - | - |
| Level 2 | 20,768 | 8,861 | 7,932 | 10,807 |
| Level 3 | - | - | - | - |
| Total | 21,327 | 9,077 | 7,932 | 10,807 |

As at March 31, 2019

INR million*

| | Foreign exchange contracts | | Interest rate | |
|---------|----------------------------|---------------------------|---------------------------|----------------------------|
| | Gross Positive Fair Value | Gross Negative Fair Value | Gross Positive Fair Value | Gross Negative Fair Value# |
| Level 1 | 39 | 15 | - | - |
| Level 2 | 1,435 | 613 | 549 | 747 |
| Level 3 | - | - | - | - |
| Total | 1,474 | 628 | 549 | 747 |

* INR figures are unaudited

As at March 31, 2018

USD 000s

| | Foreign exchange contracts | | Interest rate | |
|--------------|----------------------------|---------------------------|---------------------------|--|
| | Gross Positive Fair Value | Gross Negative Fair Value | Gross Positive Fair Value | Gross Negative Fair Value [#] |
| Level 1 | 320 | 542 | - | - |
| Level 2 | 13,057 | 10,310 | 10,918 | 6,668 |
| Level 3 | - | - | - | - |
| Total | 13,377 | 10,852 | 10,918 | 6,668 |

As at March 31, 2018

INR million*

| | Foreign exchange contracts | | Interest rate | |
|--------------|----------------------------|---------------------------|---------------------------|--|
| | Gross Positive Fair Value | Gross Negative Fair Value | Gross Positive Fair Value | Gross Negative Fair Value [#] |
| Level 1 | 22 | 37 | - | - |
| Level 2 | 903 | 713 | 755 | 461 |
| Level 3 | - | - | - | - |
| Total | 925 | 750 | 755 | 461 |

[#]excludes Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) for the derivative portfolio which amounted to USD 34 thousand (INR* 3 million) at March 31, 2019 (FY2018: USD 52 thousand, INR* 3 million).

42 Assets and liabilities denominated in foreign currency

| | March 31, 2019 USD 000s | March 31, 2018 USD 000s | March 31, 2019 INR million* | March 31, 2018 INR million* |
|---------------------------------|----------------------------|----------------------------|--------------------------------|--------------------------------|
| Denominated in US Dollars | 1,807,871 | 1,850,631 | 125,023 | 127,980 |
| Denominated in Sterling | 1,226,844 | 1,163,053 | 84,842 | 80,431 |
| Denominated in other currencies | 805,445 | 870,656 | 55,701 | 60,210 |
| Total assets | 3,840,160 | 3,884,340 | 265,566 | 268,621 |
| Denominated in US Dollars | 1,468,615 | 2,005,739 | 101,562 | 138,707 |
| Denominated in Sterling | 1,907,565 | 1,500,233 | 131,918 | 103,749 |
| Denominated in other currencies | 463,980 | 378,368 | 32,087 | 26,166 |
| Total liabilities | 3,840,160 | 3,884,340 | 265,567 | 268,622 |

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, 2019 was USD 1.8 million (INR* 127 million) (2018: USD 3.7 million; INR* 241 million).

43 Post balance sheet events

There have been no material events after the balance sheet date which would require disclosure or adjustments to the March 31, 2019 financial statements.

* INR figures are unaudited

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.