Company Registration No. 3793679

Bank Mandiri (Europe) Limited

Annual Report and Financial Statements

31 December 2021

Bank Mandiri (Europe) Limited

Annual Report and Financial Statements 2021

Contents

Bank Mandiri (Europe) Limited

Annual Report and Financial statements 2021
Officers and professional advisers

Directors

Mr Mahendra Siregar (Chairman)	
Mr Aries Syamsul Arifien (Chief Executive)	(appointed 7 December 2021)
Mr I Nyoman Gede Suarja (Chief Executive)	(resigned 7 December 2021)
Mr. Geoffrey McDonald (Non Executive Director)	
Mrs.Elisabeth R.T. Siahaan (Non Executive Director)	(resigned 19 January 2022)

Management

Mr Aries Syamsul Arifien	(Chief Executive)
Mr Ajay Joshi	(Head of Finance & Operations)
Ms Sonya Posavec	(Head of Compliance, MLRO & Internal Control))

Company Secretary

Mr Ajay Joshi

Registered Office

4 Thomas More Square
London
E1W 1YW

Bankers

HSBC Bank Plc
60 Fenchurch Street
London EC3M 4BA

Independent Auditor

Deloitte LLP
1 New Street
LONDON EC4A 3HQ

Bank Mandiri (Europe) Limited

Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the 2021 annual report and audited financial statements of Bank Mandiri (Europe) Limited ("BMEL" or the "Bank"), a wholly owned subsidiary of PT Bank Mandiri (Persero) Tbk, Indonesia.

2021 was another challenging year with the pandemic continuing to impact economies worldwide, with supply chain problems as well as inflationary pressures emerging as economies started to recover. Our priorities continued to be to serve our customers, look after the welfare of our staff and prudently manage the capital and liquidity base of the Bank. I am therefore pleased to report BMEL achieved net profits of US$376k (2020: US$440k) after estimated credit loss provision of US$123k (2020:-US$65k). The reduction in net profits was due in part to the reduction in the Bank's interest earning assets portfolio, with new customer loans delayed.

The Bank's strategy of selective and sustainable growth continues as we look to increase our assets portfolio and the diversification of our funding going forward. The Board and the executive management remain focused on the impact of climate change on the Bank's business model, to ensure a sustainable business going forward, as well as the Bank's operational resilience.

Our operating profit in 2021 before tax and provision was US$597k (2020: US$398k) with the resulting profit after tax and provisions of US$376k (2020: US$440k). Whilst the Bank does not have a trading book, the value of our fixed rate bond portfolio, held for interest income and liquidity, decreased during the year. However, we continue to closely monitor our bond portfolio given the prospect of higher interest rates in the near term.

As of 31 December 2021, our total assets were US$183m, an increase of 18% compared with 2020. The Bank continued to manage its assets and liabilities to ensure the business was supported by the appropriate level of capital, funding and liquidity resources; more details as to the Bank's liquidity management are contained in note: 26 to the financial statements. The Bank continues to demonstrate sufficient capital resources to sustain the Bank's planned business activities.

In December 2021 & January 2022 Mr Nyoman Gede Suarja & Mrs Elisabeh R.T. Siahaan, respectively, retired from the Board. On behalf of the Board, I would like to thank them for their significant contribution to the Bank as CEO and Non-Executive Ditector,respectively, over the last few years and to wish them every success in their future endeavours. I would also like to take this opportunity to welcome Mr Aries Syamsul Arifien, previously VP of Treasury with our parent bank, as the Bank's new CEO subject to UK regulatory approval. The Board and I look forward to working with Mr Arifien going forward.

Finally, I would like to express my sincere thanks to our customers and business counterparts for their support and custom over the past year, and to my fellow directors, the executive management and, not least, to the staff for their commitment and professionalism throughout the year.

Mahendra Siregar
Chairman

27 April 2022

Bank Mandiri (Europe) Limited

Strategic Report

Principal activities and review of business

The Bank is an authorised UK Bank under the Banking Act 1987 and carries on international Corporate and Institutional Banking business, which includes the following activities:

(1) Trade Finance.

(2) Inter-bank Deposits.

(3) Current and Deposit Accounts.

(4) Purchase of Investment Securities, Marketable Securities and Secondary Market Debt.

Details of the Review of Business have been covered in the Chairman's Statement.

Principal risks and uncertainties

The Board, in conjunction with Senior Management of the Bank, has established comprehensive policies and procedures in order to manage and mitigate the risks and uncertainties facing the Bank and the ongoing implementation of such policies is monitored by management and through an independent internal audit function provided by the parent company. More detail as to the principal risks and uncertainties faced by the Bank and the mitigation thereof are contained in Note: 24 to the Financial Statements.

COVID-19

Since 2019 significant economic and social disruption has been arisen from the COVID-19 pandemic. The Bank has invoked business continuity plans, as it seeks to serve and support its customers throughout the pandemic while maintaining the safety and well-being of staff. It is also closely monitoring that critical functions remain resilient and as part of this is engaging with suppliers to ensure that service levels can continue to be maintained throughout the prolonged pandemic. As a result of the pandemic, the Bank is impacted by a reduction in income due to delay in booking new business to replace the loans maturing during the year. This has ledto reduced income for the Bank in the year ended 31 December 2021. Notwithstanding this, the Bank's capital and liquidity ratios are expected to remain strong. The impact of the current economic outlook on ECLs is expected to be minimal or low mainly due to the diverse industry sector and also short term lending of the majority of the Bank's loans portfolio.

Future developments

The Bank will continue to explore trade finance business and build up its fixed income portfolio and loan portfolio. It will also look to provide services to high-profile Indonesian – UK/European trade related corporate customers, servicing their requirements in areas such as commercial borrowing, trade finance, forfeiting or bills discounting and remittance services. In so doing, BMEL will also seek to enhance relations with the interbank market by diversifying its source of funds, thus seeking to strengthen its funding structure.

Going Concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered future projections of profitability, liquidity, capital resources and the Bank's risk profile.

Management have stress tested the Bank's capital requirements. This stress testing takes into account reasonably likely developments in all of the above risks, the Board's balance sheet management strategy and the deteriorating market conditions. This stress testing has demonstrated that the Bank has adequate capital buffer above the approved Individual Capital Guidance (ICG) to support the existing business and future plans. The Bank also stress tested the liquidity position which also showed that there was adequate liquidity to meet all of its funding and regulatory obligations.

The existing and potential effects of COVID-19 on the business of the Bank have been considered as part of the going concern analysis, including impact on liquidity and capital, operational capacity, performance and asset valuations.

Bank Mandiri (Europe) Limited

Strategic Report

Financial KPIs

Key performance indicators ('KPI')

The Board of Directors monitors the Bank's progress against its strategic objectives on a regular basis. Progress is assessed by comparison with the Bank's strategy, budget plan and historical performance using financial measures.

Financial KPIs

As at 31 December 2021, the Bank had total assets of US$183 million, which was a increase of US$28 million compared to 31 December 2020. The Bank made a profit of US$383k after tax, compared to a profit of US$440k in the previous year.

Our operating model continues to be in line with the strategy for a selective and sustained growth. The economic environment in our market segment continued to be difficult in 2021 with the COVID-19 pandemic continuing to affect economies worldwide. We have set out a high-level plan to manage the climate change risk detailed in note 24.

	2021	**2020**
Return on average total shareholder equity	0.71%	0.69%
Return on assets	0.23%	0.22%
Cost efficiency	69.60%	64.70%
Yield on assets	3.03%	3.92%

Return on average total shareholder equity measures the return on the equity held in the business enabling the management to benchmark against competitors.

Return on assets measures the return on average interest earning assets.

Cost efficiency is a relative measure that indicates the consumption of resources in generating revenue. This is measured by dividing the total operating cost incurred to generate gross revenue.

Yield on assets measured the average interest rate on all interest earning assets. This is measured by dividing the gross interest income by the total of interest earning assets.

The Bank maintained good liquidity, stable funding and sufficient capital during the year.

No relevant non-financial KPIs are monitored.

Disclosure under Section (172(1)

Under Section 172(1) of the Companies Act 2006, the Directors are required to describe how they consider a broad range of stakeholders when performing their duty to promote the success of the Bank and maintain transparency with the stakeholders. We have developed into a successful and profitable business, whose success is driven by focus on core values, a clear strategy and efforts to consider our stakeholders' interests throughout our decision-making process. In this statement we have detailed our key stakeholders, their importance to our business and how we have engaged with them throughout the year. We then provide examples of key decisions we have made in the year, describing how we considered stakeholders in these decisions and how the decisions will add long-term value.

Stakeholder engagement

We recognise and promote the importance of respectful business relationships with our stakeholders across all of our business lines, and we are committed to engaging with them to ensure we maintain long-term relationships and add long lasting value to the wider community in which we operate. Below we give examples of stakeholder engagement:

Employees

We place a great deal of faith in our employees and how they help drive the success of our business through their high levels of expertise and strong relationships with our customers and other external stakeholders. We aim to ensure that all of our employees feel valued and appreciated while working for us. The Management and the Board of Directors engage with our employees through regular meetings and feedback sessions and through a structured appraisal process to help understand the needs of the employees. During the COVID-19 pandemic period the Bank provided all the members of staff with the necessary requirements and training to ensure that were able to support their functions with ease. In addition to this there were regular weekly meetings to discuss any hardships endured due to working from home. The results allow us to analyse and identify areas needing improvement to increase commitment to and success of the Company and our customers. A particular and consistent area we have continued to focus on every year is training and development programmes for staff, to ensure we invest in and retain high calibre employees by developing, supporting and motivating them to perform well. Examples of such training include treating customers fairly and complying with General Data Protection Regulation.

Customers
Customers remain at the heart of our business. We have a customer focused strategy which is shown through our continuous interaction with customers via regular meetings. This has allowed us to have a deep understanding of our customers needs and values and provide the opportunity for us to act upon the feedback they have given. This year we have continued to focus on providing fast solutions for our customers for business transactions between UK and Indonesia and adapting to their needs by automation of processes where possible, and continuous investing in the training of our people.

Regulators
It is within the Bank's culture to promote high standards of conduct within the Bank and with all external parties. In particular, as directors of a regulated industry, adherence to all relevant aspects of regulation is key to the Bank's business model. We and relevant staff maintain awareness of this through engagement with regulators, industry bodies and specialist advisors. This engagement is typically maintained through regulatory seminars, online forums and round table events. This has allowed us to stay on top of the increasing regulatory requirements and ensure we operate to the standard required.

Key decisions
Our strategy is focused on the long term, to operate and grow sustainable selective business in segments of the market that are under served by the large banks. The Bank is a wholly owned subsidiary of a Indonesian state-owned bank and not subject to the distractions of short term share price fluctuations of the public markets. We make careful decisions to maintain strategic focus, control costs, invest and ensure sufficient capital and liquidity is held. All the decisions are made ensuring we adhere to the regulatory context and the full range of stakeholders mentioned herein. The decision to explore and assist the potential business partnership between Indonesian and prospective UK and European companies willing to invest in Indonesia was taken to optimise and expand our customer base and staff experience. This will enable the Bank to diversify and take advantage in the segmented market and enable staff to gain experience in dealing with global customers directly increasing staff motivation.

Climate change
We acknowledge the global importance of considering the potential impact of climate change on our business model and also the Bank's impact on the environment. This drove our decision to develop a Climate Change Impact plan which considers the effects on the Bank's business model from a financial and environmental perspective.

Director appointments
We are conscious that culture is filtered down from the top of an organisation and we recognise the importance of diversity across the Board of Directors and the Bank as a whole. Board composition has always been an important focus and motivated our decision to appoint one new Board member in the year ensuring the Board continues to have a varied and balanced skill set which will support the growth and success of the Bank for all stakeholders.

Authorised for issue by the Board

A J Joshi
Company Secretary
27 April 2022

Bank Mandiri (Europe) Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2021.

The Bank's approach to business relationship and employee engagements are covered within the strategic report on pages 3 to 5.

Results and dividends

The profit on ordinary activities after tax for the year amounted to US$376,000 (2020: profit of US$440,000).

The directors do not recommend the payment of a dividend (2020: nil).

Principal activities of the business

The strategic report on pages 3 to 5 contains details of the principal activities of the Bank and developments during the year, details of exposure to risks and uncertainties and indications of likely future developments and any significant post balance sheet events.

Directors

The details of the directors who served during the year and up to the date of signing can be seen on page 1 of this report. During 2021 and to the date of this report there was Directors and Officers indemnity insurance covering all the Board members from liabilities arising from the normal course of business. The purposes of this insurance is to provide financial protection for the Directors and Officers against the consequences of actual or alleged "wrongful acts" when acting in the scope of their duties.

Share Capital

The capital structure of the Bank consists of fully paid ordinary share capital and retained earnings (as detailed in the Statement of Changes in Equity on page 18 of the financial statements).

Auditor

At the date of Board approval of this Report and Financial Statements for the year ended 31 December 2021, each of the Directors has confirmed that:

- as far as they are aware, there was no relevant audit information of which the Company's auditor was unaware; and
- they have taken all the steps necessary as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor has been made aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP has expressed its willingness to continue in office as auditor.

Post balance sheet events

The Directors are unaware of any other material events that have occurred since the end of the financial year to the date of signing this report that could impact the financial health of the Bank.

Authorised for issue by the Board

A J Joshi
Company Secretary
27 April 2022

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 accounting 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF BANK MANDIRI (EUROPE) LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Bank Mandiri (Europe) Limited (the ‘company’):

- give a true and fair view of the state of the company’s affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to [29].

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC’s Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Impairment of lending receivables
Materiality	The materiality that we used in the current year was $1,560k which was determined on the basis of 3% of Shareholder’s funds.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team

Significant changes in our approach	We note that there has been continued economic uncertainty following the COVID-19 pandemic. We have implemented procedures within our audit approach to take this into account, however we have noted it has not had a significant impact on Bank Mandiri (Europe) Limited's operations, capital and liquidity. There has been no other significant change to our audit approach in the current year.

4. Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluated the sensitivity analysis and scenarios adopted by the Directors to capture potential downside risks and understood the impact on the headroom available against minimum regulatory requirements, under severe but plausible scenarios;
- Evaluated the liquidity analysis performed by the company and understood the forecast changes to the company's liquidity and funding plan, with reference to the company's internal risk appetite and regulatory minimum requirements;
- Assessed the company's capital and liquidity with the involvment of our Prudential Regulation Specialists;
- Understood management's business continuity plans and subsequent changes to those plans as a consequence of a prolonged impact from the Covid-19 pandemic; and
- Reviewed the disclosures in relation to going concern to assess whether they are appropriate.

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

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

5.1 Impairment of lending receivables

Key audit matter description	The Bank recognises a loss allowance for expected credit losses on its financial assets measured at amortised cost and fair value through other comprehensive income. The amount of expected credit losses (ECL) is updated at each reporting date. At 31 December 2021, a provision of $251k (2020: $128k) against expected credit losses has been recognised. There is a risk that loans issued by the company will not be repaid in full and indicators of impairment exist which management have not appropriately considered. As a result, the loan loss provision recognised may not be accurate and consequently, the value of receivables is overstated. The total value of loan receivables recognised at 31 December 2021 is $181,665k (2020: $153,345k) consisting of cash balances with banks, money market deposits, Usance Payable At Sight (UPAS) loans, bonds held at fair value through other comprehensive income (FVTOCI), bonds held at amortized cost, two syndicated loans, a trade finance facility and a working capital facility. Our key audit matter is focusing on loans having not been appropriately assessed by management for indicators of a significant increase in credit risk and therefore have been classified within the incorrect stage of IFRS 9: Financial Instruments expected credit loss calculations. If indicators of impairment exist, consideration should be made as to whether a loan should be classified within phase two or phase three of the expected credit loss calculations. Key input data into the ECL calculation, such as probabilities of default and loss given default impact the calculation of the ECL, consideration should be made whether the inputs used are appropriate. Due to the high level of judgements involved, we have determined that there was a potential for fraud risk through possible manipulation of this balance. Please refer to note 1 for the description of a key source of estimation uncertainty over impairment of receivables, note 5 for the expected credit loss charge for the year, note 11 for the ECL provision attributable to loans and advances to customers and note 12 for the ECL provision attributable to debt securities.
How the scope of our audit responded to the key audit matter	To address the risk over impairment of lending receivables, with the involvement of our credit specialists, we performed the following procedures: • Obtained an understanding of relevant internal controls over the identification of indicators of significant increases in credit risk. • Tested all loans to agree the principal amount, interest rate, value date and maturity date to the loan confirmations or agreements; • Assessed management's classification of assets in the ECL calculation, management's impairment reviews and reconciled the exposures to the general ledger; • Considered and assessed whether any indicators of impairment triggers exist for all existing loans, to determine if a lending receivable should be classified within stage one, two or three; • Challenged management's methodology by assessing its compliance with the accounting standards and industry practice;

	• For a sample of exposures, challenged management's source of key input data into the ECL calculation, such as probabilities of default, loss given defaults by considering their relevance and appropriateness in the context of the circumstances of the company.
Key observations	We concluded that the provision level of lending receivables was appropriate.

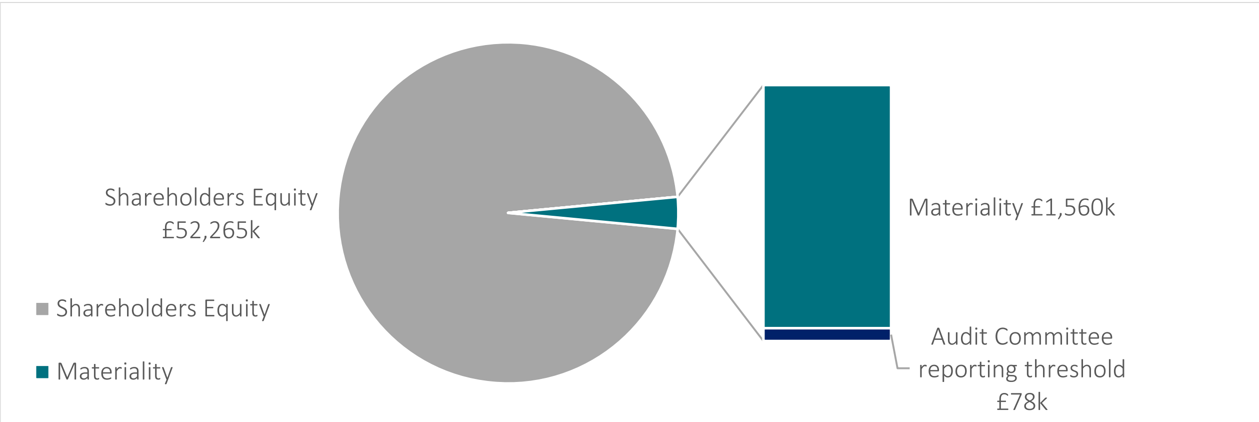
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	\$1,560,000 (2019: \$1,500,000)
Basis for determining materiality	3% of Shareholder's funds (2020: 3% of Shareholder's funds)
Rationale for the benchmark applied	Considering the company's limited activity and key stakeholders including the regulator and the parent company are focussed on solvency rather than profitability, we conclude that shareholder's funds appropriately reflects the nature of the business.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- Lack of formal control environment resulting in our inability to rely on controls; offset by

- Our past experience that indicates a very low number of corrected and uncorrected misstatements identified in prior periods.

6.3 Error reporting threshold

We agreed with the Audit & Risk Management Committee that we would report to the Committee all audit differences in excess of $78,000 (2020: $75,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Management Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

7.1 Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. The Company has no branches. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2 Our consideration of the control environment

We have noted an improvement in the control environment in the current year and, therefore, we have obtained an understanding of relevant controls over the following areas: ECL calculations, quarterly assessment of the bond portfolio and quarterly assessment of the loan portfolio following their implementation in the current year. We have also obtained an understanding of relevant controls over the financial reporting process.

7.3 Our consideration of climate-related risks

Management have considered the potential impact of climate change on their business model and the Company's impact on the environment.

We have read the climate related disclosure on page 5 and considered whether the disclosure was materially consistent with our knowledge and understanding of the bank and evidence obtained in the audit.

8 Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9 Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10 Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11 Extent to which the audit was considered capable of detecting irregularities, including fraud

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

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit & Risk Management Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team, prudential regulation specialists and credit specialist regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: impairment of lending receivables. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's regulatory solvency requirements, Prudential Regulation Authority and Financial Conduct Authority requirements and regulations which are fundamental to the company's ability to continue as a going concern.

11.2 Audit response to risks identified

As a result of performing the above, we identified impairment of lending receivables as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit & Risk Management committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK MANDIRI (EUROPE) LIMITED

Report on other legal and regulatory requirements

12 Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13 Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14 Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Audit & Risk Management committee, we were appointed by the Board of Directors on 8 November 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 December 2012 to 31 December 2021.

14.2 Consistency of the audit report with the additional report to the Audit & Risk Management committee

Our audit opinion is consistent with the additional report to the audit & risk management committee we are required to provide in accordance with ISAs (UK).

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF BANK MANDIRI (EUROPE) LIMITED

15 Use of our report

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

Christopher Brough ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 April 2022

Bank Mandiri (Europe) Limited

Profit and loss account
Year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Interest receivable	3	4,431	5,100
Interest payable	4	(928)	(1,528)
Net interest income		**3,503**	**3,572**
Fees and commissions receivable		246	328
Other operating income	6	90	31
Total operating income		**3,839**	**3,931**
Administrative expenses	7	(3,012)	(3,305)
Depreciation and amortisation	13,14&15	(230)	(228)
Loan impairment losses – (charge)/credit		(123)	65
Profit on ordinary activities before tax		**474**	**463**
Tax charge	9	(98)	(23)
Profit on ordinary activities after tax		**376**	**440**

The profit above arises from continuing operations.

The accompanying notes are an integral part of these financial statements.

Bank Mandiri (Europe) Limited

Statement of Comprehensive Income
Year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Profit for the financial year		376	440
Change in fair value of investments measured at FVTOCI	21	(938)	801
Current (charge) on FVTOCI transitional adjustment		-	(41)
Deferred tax credit on FVTOCI transitional adjustment		-	41
Deferred tax credit/(charge) on FVTOCI financial instruments		178	(152)
Effects of changes in tax rate		(34)	(18)
Total comprehensive (loss)/income for the period		(418)	1,071

Bank Mandiri (Europe) Limited

Balance Sheet
Year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Assets			
Cash and money at call and deposits with central banks		31,508	35,972
Loans and advances to banks	10	19,985	19,989
Loans and advances to customers	11	59,912	42,748
Debt securities	12	71,107	55,542
Tangible fixed assets	13	15	50
Intangible fixed assets	14	16	50
Right-of-use assets	15	37	129
Other assets, prepayments and accrued income	16	776	556
Total assets	17	183,356	155,036
Liabilities			
Deposits from banks	18	113,533	95,940
Customer accounts	19	15,862	4,374
Other liabilities, accruals and deferred income	20	1,279	1,386
Lease liability		37	129
Current tax liability	20	69	99
Deferred tax liability	20	87	201
Total liabilities excluding shareholders' funds		130,867	102,129
Shareholders' funds			
Called up share capital	21	49,000	49,000
Capital reserve		11,496	11,496
Revaluation reserve	21	425	1,219
Profit and loss account		(8,431)	(8,808)
Total shareholders' funds - equity interests		52,489	52,907
Total liabilities and shareholders' funds		183,356	155,036

The financial statements of Bank Mandiri (Europe) Limited, registered number 3793679 were approved by the Board of Directors and authorised for issue on 27 April 2022 and are signed on its behalf by:

Mr Aries Syamsul Arifien
Chief Executive

The accompanying notes are an integral part of these financial statements

Bank Mandiri (Europe) Limited

Statement of change in equity
Year ended 31 December 2021

	Notes	Total shareholders' funds US$'000	Share capital US$'000	Capital reserve US$'000	Revaluation reserve US$'000	Profit and (loss) US$'000
At 1 January 2021		**52,907**	**49,000**	**11,496**	**1,219**	**(8,808)**
Decrease in fair value of debt securities	21	(938)	-	-	(938)	-
UK corporation tax credit on fair value of financial instruments at FVTOCI	21	144	-	-	144	-
Profit for the year	PL	376	-	-	-	376
Total other comprehensive income for the year		(418)	-	-	(794)	376
At 31 December 2021		**52,489**	**49,000**	**11,496**	**425**	**(8,432)**

Description of Reserves

Share Capital - represents the nominal value of shares that have been issued

Capital reserve - represents sale proceeds less carrying value of assets sold to fellow Group undertaking.

Revaluation reserve - represents accumulated gains/ (losses) on market revaluation of debt securities

Profit & (Loss) - includes accumulated comprehensive income for the year and prior years

Notes to the financial statements
Year ended 31 December 2021

1. Accounting policies

The accounting policies, all of which, unless specifically stated, have been consistently applied throughout the year, are detailed below:

General Information

The Company is incorporated in the United Kingdom. The Company is a private company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

The nature of the Company's operations and its principal activities are set out in the strategic report on pages 3 to 5.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) and in accordance with applicable accounting standards. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2021.

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of debt securities and other financial assets and in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom.

The financial statements have been prepared in US Dollars, as this is the functional currency in which the Bank operates. The conversion rate as at 31 December 2021 between US$/GBP was 1.3506 (2020: 1.3667).

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on pages 3 to 5.

Disclosure exemptions

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the accounts of PT Bank Mandiri (Persero) Tbk. The accounts of PT Bank Mandiri (Persero) Tbk are available to the public and can be obtained as set out in Note 27.

1. Accounting policies (continued)

Foreign currencies

Transactions or accruals in foreign currencies are recorded in the profit and loss account at the rate of exchange applicable on that date, such that all profits are ultimately booked in US Dollars. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the rates of exchange prevailing as at the Balance Sheet date. Both realised and unrealised foreign exchange gains and losses are recognised in the "other operating income" line item in the profit and loss account.

Forward foreign exchange contracts are valued at the market rates applicable to their respective maturities at the balance sheet date, and the resulting profit or losses included in the profit and loss for the year.

Fixed assets

Fixed assets are included at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis from the date of use over its estimated useful life as follows:

Leasehold Improvements	5 years
Computer Hardware	3 years
Computer Software	3 years
Furniture and Fixtures	5 years

The carrying values of the tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Pensions

The Bank offers to its staff a money purchase arrangement under which it undertakes to pay a fixed percentage contribution based on the employee's gross salary. Payments to defined contribution retirement benefit schemes are charged to the Profit and Loss account as incurred.

Financial instruments

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

1. Accounting policies (continued)

Date of recognition

The purchase or sale of financial assets and liabilities that require the delivery of assets within the time frame generally established in the market place are recognised on the trade date i.e. the date that the Bank commits to purchase or sell the assets.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value less/plus any directly related costs.

Derecognition of financial assets and financial liabilities

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Determination of fair value

The determination of fair values of financial instruments is based upon quoted market prices or dealer price quotation for financial instruments traded in active markets.

(a) Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

Despite the foregoing, the Bank may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Bank may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

1. Accounting policies (continued)

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see (c) below).

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss.

(ii) Debt instruments classified as at FVTOCI

Listed redeemable notes held by the Bank are classified as at FVTOCI. Fair value is determined in the manner described in note 23. The listed redeemable notes are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these listed redeemable notes as a result of foreign exchange gains and losses (see (b) below), impairment gains or losses (see (c) below), and interest income calculated using the effective interest method (see (i) above) are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these listed redeemable notes had been measured at amortised cost. All other changes in the carrying amount of these listed redeemable notes are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these listed redeemable notes are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

1. Accounting policies (continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (ii) above) are measured at FVTPL. Specifically:

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss, if any, is recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ line item.

(b) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the ‘other operating income line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the ‘other operating income’ line item. Other exchange differences are recognised in other comprehensive income in the revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the ‘other operating income’ line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the revaluation reserve.

(c) Impairment of financial assets

The Bank recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, amounts due from customers and whole financial markets. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12m ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

1. Accounting policies (continued)

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations, namely the metal mining, food industry, telecommunications and wholesale financial markets.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Bank considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

For loan commitments and financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk

1. Accounting policies (continued)

since initial recognition of a loan commitment, the Bank considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Bank considers the changes in the risk that the specified debtor will default on the contract.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without taking into account any collaterals held by the Bank).

Irrespective of the above analysis, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event (see (ii) above);

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Bank writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described

1. Accounting policies (continued)

above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the expected credit loss is the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the loan commitment draws down the loan, and the cash flows that the Bank expects to receive if the loan is drawn down.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are banked on the following basis:

- Nature of financial instruments (i.e. the Bank's trade receivables and amounts due from customers are each assessed as a separate basis. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

The Bank recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(d) Leased assets and liabilities

IFRS 16 defines a lease as a contract, or part of a contract, that conveys a right to use the asset for a period of time in exchange for consideration'.

- For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is a lease or contains one. On determining whether a contract is a lease, the Bank assesses whether the contract meets the following criteria: The contract contains an identified asset which is either explicitly identified in the contract or implicitly specified at the point is made available for use by the Bank;and

1. Accounting policies (continued)

- the Bank has the right to obtain substantially all of the economics benefits from use of the identified asset throughout the period of use.

Lease Term

The lease term begins on the commencement date and includes any rent free or reduced periods. It comprises:

- the non-cancellable period of the lease;
- periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option.

Measurement and recognition of lease as lessee

The Bank recognises a right-of-use asset and a lease liability on the Balance Sheet on the lease commencement date.

The right-of-use is measured at cost, which is the sum of the initial measurement of the lessee liability, any initial direct costs incurred, an estimate of the costs of removal at the end of the lease and any lease payments made in advance of the commencement date, less any incentives received.

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the useful life of the right-to-use asset or end of the lease term, whichever is the earliest.

The Lease liability is the sum of the fixed payments from commencement date, any certain variable payments, amounts expected to be payable under a residual value guarantee, termination penalties and any payments arising from options reasonably certain to be exercised.

All the components of the lease liability are discounted on initial recognition to reflect the present value of the payments. The discount rate used is the Bank's incremental funding rate if this cannot be readily determined. The Bank's incremental funding rate is that which represents what the Bank would have to pay to fund the obtainment of an asset of similar value to the right-of-use asset in a similar economic environment over a similar term.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Cash and cash equivalents

Cash and money at call and deposits with central banks comprise cash in hand, and cash with banks and central banks. Other short-term investments are classified as loans and advances to banks.

1. Accounting policies (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Bank makes use of derivative financial instruments, i.e. forward foreign exchange contracts, to manage exposures to foreign currency risks, including exposures arising from forecast transactions. The derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at market prices. Derivatives are carried as financial assets when the fair value is a gain and as financial liabilities when the fair value is a loss.

Any gains and losses arising from changes in fair value on the derivatives during the year, are taken directly to the profit and loss account. As at 31 December 2021 the Bank had no outstanding financial derivative instruments.

Income recognition

Interest income is recognised in the profit and loss account as it accrues using the effective interest rate specific to each loan. Once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the estimated future cash flows for the purpose of measuring the impairment loss.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Taxation

Corporation tax payable, where applicable, is provided on taxable profits at the current UK tax rate.

Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider it more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Related parties

The Bank has taken advantage of the exemption available in FRS 101, from disclosing transactions with related parties that are part of the Bank Mandiri Group, as consolidated financial statements are publicly available.

However certain transactions with related parties are material to the financial statements and therefore the details of these transactions have been disclosed in note 28.

Critical accounting judgements

The Directors have identified no critical accounting judgements significant enough to warrant disclosure under IAS 1 – Presentation of Financial Statements.

Key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not

1. Accounting policies (continued)

readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the accounting estimates that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment allowances on loans and advances

Key estimates used by Management are as follows:

Probability of default (PD)

Describes the likelihood of a default occurring due to the customer's inability to meet their payment obligations. The Bank applies judgement to estimate the probability of default which also depends on the judgements around classification of exposure within stages one, two and three.

In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

Management considers that the PD is the key indicator for any loan defaults and hence has performed sensitivity analysis on the provision model. An increase / (decrease) in the PD by 10%, resulted in a (decrease) / increase of $25k in profit or loss.

2. Segmental analysis

Segmental information – by Class of Business

The Directors consider that the Bank does not have more than one class of business, namely Corporate & Institutional Banking, and therefore a disclosure by class of business has been deemed unnecessary.

Segmental information - by Geographic Segment

Region:	UK and Europe		Asia		Others		Total	
	2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000
Interest receivable	319	623	4,034	4,327	78	150	4,431	5,100
Interest payable	(445)	(713)	(478)	(807)	(5)	(8)	(928)	(1,528)
Net interest income	(126)	(90)	3,556	3,520	73	142	3,503	3,572
Fees and commissions receivable	332	355	4	4	-	-	336	359
Net revenue	206	265	3,560	3,524	73	142	3,839	3,931
Operating expenses	(443)	(633)	(2,746)	(2,803)	(53)	(97)	(3,242)	(3,533)
Provision due to recognition of financial assets at amortised costs	-	-	(123)	65	-	-	(123)	65
Operating profit/(loss)	(237)	(368)	691	786	20	45	474	463
Profit/(loss) before taxation	(237))	(368)	691	786	20	45	474	463
Total assets employed	50,069	47,042	98,125	74,388	35,162	33,606	183,356	155,036
Total net assets/(liabilities)	16,950	(1,414)	536	20,715	35,162	33,606	52,648	52,907

Notes:

(i) Geographic segments are based on the market in which the customers are located.

(ii) Operating expenses have been allocated to each geographic segment based on the percentage of income attributed to that segment.

(iii) The Bank's capital is not directly attributed to business lines but its benefit is evenly distributed on the basis of assets employed within each respective segment.

3. Interest receivable

	2021 US$'000	2020 US$'000
Due from banks	52	298
Debt securities	2,627	2,711
Loans and advances to customers	1,752	2,091
	4,431	5,100

The interest income from financial assets at amortised cost is US$2,619,000 (2020: US$3,354,000) and interest income derived from financial assets held at FVTOCI is US$1,812,000 (2020: US$1,746,000)

4. Interest payable

Due to banks - including amounts due to inter Bank companies of US$136,000 (2020: US$487,000).

	2021 US$'000	2020 US$'000
Bank deposits	915	1,521
Interest cost on lease liabilities	13	7
	928	1,528

5. Profit on ordinary activities before tax

The profit before tax is stated after charging/(crediting) the following:

		2021 US$'000	2020 US$'000
Auditor's remuneration	- auditing of the financial statements	103	103
Depreciation		230	227
Loss allowance on trade receivables		-	-
Loss allowance on other financial assets measured at amortised cost		(79)	(75)
Loss allowance on debt investments measured at FVTOCI		(44)	10

Notes to the financial statements
Year ended 31 December 2021

6. Other operating income

	2021 US$'000	2020 US$'000
Foreign exchange profit	90	31
	90	31

7. Administrative expenses

	2021 US$'000	2020 US$'000
Staff Costs:		
Wages and salaries	1,465	1,522
Social security costs	227	192
Pension costs (Note 22)	111	84
Other staff costs	291	329
Other administrative expenses	918	1,178
	3,012	3,305

The average monthly number of employees during the year ended 31 December 2021 was 13 (2020:12). All were employed in management, operations and administrative roles and were UK based on permanent employment contracts.

8. Emoluments of directors

	2021 US$'000	2020 US$'000
Directors' remuneration and other emoluments were:		
Directors' emoluments	705	502

There is no director accruing benefits under a money purchase pension scheme (2020: none). The emoluments of the highest paid director were US$ 517,000 (2020: US$ 465,000). No director received benefits in the form of pension contributions during 2021 or 2020. No shares were granted to directors as part of their emoluments.

Notes to the financial statements
Year ended 31 December 2021

9. Tax on profit on ordinary activities

(a) Analysis of charge for the year

	2021 US$'000	**2020 US$'000**
Current tax		
UK corporation tax on profit on ordinary activities	(69)	(57)
Adjustment prior year	1	-
Total current tax (charge)	(68)	(57)

(b) Deferred Tax

	2021 US$'000	**2020 US$'000**
Current Year		
UK corporation tax		
Relating to origination and reversal of temporary differences	(44)	28
Effects of changes in tax rate	14	6
Total deferred tax /credit	(30)	34

(c) Tax included in profit and loss account

	2021 US$'000	**2020 US$'000**
UK corporation tax	(98)	(23)
Total current tax (charge)	(98)	(23)

(d) Other Comprehensive Income items

UK corporation tax on profit on ordinary activities	-	(41)
Relating to origination and reversal of temporary differences	144	(129)
Total current tax (charge)	144	(170)

9. Tax on profit on ordinary activities (continued)

(e) Factors affecting total tax charge for the years

	2021 US$'000	**2020 US$'000**
Profit on ordinary activities before tax	475	463
Corporation tax at 19.00% (2020: 19.00 %)	(90)	(88)
Effects of:		
Expenses not deductible for tax purposes	-	(2)
Adjustment prior year	1	-
Tax rate changes	14	6
Movement in unrecognised deferred tax	(23)	61
Total tax (charge) for the year	(98)	(23)

(f) Deferred tax

Deferred Tax recognised:

	2021 US$'000	**2020 US$'000**
Deferred tax (assets) / liabilities:		
Tax losses	(29)	(67)
Accelerated capital allowances	(6)	1
Tac credit on fair value of financial instruments	144	288
IFRS 9 transitional adjustment	(22)	(20)
IFRS 16 transitional adjustment	-	(1)
	87	201
Deferred tax movements are:		
At 1 January	201	106
Origination and reversal of temporary differences	(135)	83
Effect of change in tax rate	21	12
At 31 December	87	201

9. Tax on profit on ordinary activities (continued)

Unrecognized deferred tax assets (gross)

	2021 US$'000	2020 US$'000
Deferred tax assets:		
Tax losses	(28,481)	(28,601)
	(28,481)	(28,601)

Bank Mandiri (Europe) Limited has tax losses as at 31 December 2021 of $28,364,190 (2020: $28,600,694) which were all incurred prior to 31 March 2015. These tax losses are available indefinitely against future taxable profits. The amount of current year taxable profits that can be relieved by unused tax losses incurred by 31 March 2015 is restricted to 25% of such profits. A deferred tax asset has not been recognised in respect of a partial amount of these losses of $28,364,190 gross as there is uncertainty as to whether there will be sufficient profits in the near future to fully utilise the losses.

(g) Factors that may affect future tax charges

Finance Act 2021, enacted on 10th June 2021, increases the headline corporation tax rate from 19% to 25% on 1 April 2023. Deferred tax balance have been calculated at the rate at which the balances are expected to be settled, based on tax rates that have been substantively enacted at the balance sheet date.

10. Loans and advances to banks

	2021 US$'000	2020 US$'000
Interest bearing unsecured loans maturity within three months or less	19,985	19,989
	19,985	19,989

11. Loans and advances to customers

	2021 US$'000	2020 US$'000
Remaining maturity:		
Repayable on demand or short notice	43	416
Three months or less (excluding demand or at short notice)	39,457	28,058
Between three months and one year	17,901	11,028
Between one year and five years	2,560	3,280
Over 5 years	-	-
Less provision under IFRS 9	(49)	(34)
	59,912	42,748

11. Loans and advances to customers (continued)

The Bank derives and manages its loan portfolio in a risk averse manner. The Directors have agreed that the customer portfolio will comprise principally of short-term self-liquidating trade finance exposures and medium-term syndicated loans. The loans and advances to customers after expected credit loss provisions of US$59,912k (2020: US$42,784k) comprises of US$46,317k of trade finance exposures (2020: US$27,811k).

12. Debt securities

	FVTOCI	
	2021	**2020**
	US$'000	**US$'000**
Investment securities		
Issued by public bodies - government securities	24,596	10,103
Pledged as collateral	8,796	9,099
Other debt securities – banks/corporates	27,515	28,409
	60,907	47,611
Investment securities		
Listed	60,907	47,611
Remaining maturity:		
Less than one year	10,999	-
Between one year and five years	49,908	27,762
Over five years	-	19,849
	60,907	47,611

	2021	**2020**
	US$'000	**US$'000**
Valuation		
Floating rate notes and Fixed rate notes	60,907	47,611

Securities (floating and fixed rate notes) are purchased with the dual purpose of complying with the necessary regulatory liquidity requirements, and to provide an even flow of floating and fixed rate interest receipts.

The loss allowance for the corporate bonds measured at FVTOCI is recognised in other comprehensive income. The movement in loss allowance is disclosed in note 21.

Debt securities with a carrying amount of US$8.796 million (2020 US$9.099 million) have been pledged to secure the borrowings (see note 18). The Bank is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Notes to the financial statements
Year ended 31 December 2021

12. Debt securities (continued)

	Held- at Amortised cost 2021 US$'000	2020 US$'000
Investment securities		
Listed	10,200	7,931
Remaining maturity:		
Between one year and five years	10,200	7,931
	10,200	7,931

Securities (floating and fixed rate notes) are purchased with the purpose to provide an even flow of floating and fixed rate interest receipts.

Market value of held to maturity investments as at 31 December 2021 is US$10,492,709 (2020:US$8,451,420).

13. Tangible fixed assets

	Leasehold improvements US$'000	Computer hardware and other equipment US$'000	Furniture fixtures and fittings US$'000	Total US$'000
Cost				
Balance as at 1 January 2021	676	287	287	1,250
Additions	-	4	-	4
At 31 December 2021	676	290	287	1,254
Accumulated depreciation				
At 1 January 2021	650	263	287	1,200
Charge for the year	26	13	-	39
At 31 December 2021	676	276	287	1,239
Net book value				
At 31 December 2021	-	15	-	15
At 31 December 2020	26	24	-	50

Notes to the financial statements
Year ended 31 December 2021

14. Intangible fixed assets

	Computer software US$'000
Cost	
Balance as at 1 January 2021	884
Additions	4
At 31 December 2021	888
Accumulated depreciation	
At 1 January 2021	834
Charge for the year	38
At 31 December 2021	872
Net book value	
At 31 December 2021	16
At 31 December 2020	50

15. Right-of-use assets

(Lease liability maturity within one year)

	Right-of-use assets US$'000
Cost	
Balance as at 1 January 2021	449
Additions	-
F/X translation difference	55
At 31 December 2021	504
Accumulated depreciation	
At 1 January 2021	320
Charge for the year	154
F/X translation difference	(7)
At 31 December 2021	467
Net book value	
At 31 December 2021	37
At 31 December 2020	129

There has been no impairment recognised in the Right-of-use assets.Total cash ouflow associated with the lease for the year was £121,406 (2020: £121,406)

Notes to the financial statements
Year ended 31 December 2021

16. Other assets, prepayments and accrued income

	2021 US$'000	**2020 US$'000**
Prepaid expenses	135	144
Other receivables	641	412
	776	556

17. Assets and liabilities

Assets and liabilities denominated in foreign currencies

	2021 US$'000	**2020 US$'000**
Denominated in US dollars	176,479	143,682
Denominated in Euro	3,224	6,611
Denominated in GBP	3,625	4,673
Denominated in other currencies	28	70
Total assets	183,356	155,036
Denominated in US dollars	124,045	90,586
Denominated in Euro	3,897	7,117
Denominated in GBP	2,925	4,426
Total liabilities excluding capital and other reserves	130,867	102,129

18. Deposits from banks

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

	2021 US$'000	**2020 US$'000**
-Repayable on demand	12,447	13,640
-three months or less	5,924	-
-between three months and one year	85,158	76,370
-between one and five years	10,004	5,930
	113,533	95,940

Amounts include funding received from fellow Bank undertakings:

Due to fellow Bank undertakings	60,025	53,673

Notes to the financial statements
Year ended 31 December 2021

19. Customer accounts

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

	2021 US$'000	2020 US$'000
Repayable on demand	15,862	4,374

20. Other liabilities accruals and deferred income

	2021 US$'000	2020 US$'000
Accrued expenses payable	1,279	1,386
Current tax liability	69	99
Deferred tax liability	87	201
Lease liability	37	129
	1,472	1,815

21. Called up share capital

	2021 US$'000	2020 US$'000
Authorised, issued, allotted and fully paid		
49,000,000 ordinary shares of US$1 each and 2 subscription shares of £1 each*	49,000	49,000

*The 2 subscription shares of £1 each were translated at the exchange rate on the date of issuance.

Revaluation reserve

The revaluation reserve represents the cumulative gains and losses arising on the revaluation of debt instruments classified as FVTOCI, net of cumulative loss allowance on these investments and cumulative gain/loss reclassified to profit and loss upon disposal or reclassification of these investments.

	2021 US$'000	2020 US$'000
Balance as at 1 January	1,219	588
Fair (loss)/gain arising during the period	(938)	801
Income tax relating to gain arising during the period	144	(170)
Balance as at 31 December	**425**	**1,219**

Notes to the financial statements
Year ended 31 December 2021

21. Called up share capital (continued)

The following table shows the movement in 12-month ECL that has been recognised for corporate bonds classified as at FVTOCI.

	2021 US$'000	2020 US$'000
Balance as at 1 January	65	55
Net movement for the year	79	10
Balance as at 31 December	**144**	**65**

22. Pensions

The Bank provides each of its employees with an individual money purchase pension arrangement which is administered by the Standard Life Assurance Company. The sums allocated into each individual's pension fund are paid on a monthly basis. The cost of the contributions to the money purchased pension scheme amount to US$111,000 for 2021 (2020: US$84,000) and represents contributions payable to these schemes by the Company at rates specified in the rules of the plans.

23. Financial Instruments

Fair value of financial assets and liabilities

	Carrying Amount		Fair Value	
	2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000
Financial assets at amortised cost				
Debt securities	10,200	7,931	10,493	8,440
Financial assets at FVTOCI				
Financial instruments at FVTOCI	60,907	47,611	60,907	47,611

The carrying value of other financial instruments held recorded in the financial statements approximates to their fair value.

Fair value hierarchy

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Notes to the financial statements
Year ended 31 December 2021

23. Financial Instruments (continued)

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the reporting period ended 31 December 2021, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of the level 3 fair value measurements.

As at 31 December 2021, the company held the following financial instruments measured at fair value:

	2021	Level 1	Level 2	Level 3
	US$'000	US$'000	US$'000	US$'000
Assets measured at fair value				
Financial assets at FVTOCI				
Financial instruments at FVTOCI	60,907	60,907	-	-

As at 31 December 2020, the company held the following financial instruments measured at fair value:

	2020	Level 1	Level 2	Level 3
	US$'000	US$'000	US$'000	US$'000
Assets measured at fair value				
Financial assets at FVTOCI				
Financial instruments at FVTOCI	47,611	47,611	-	-

The fair value of debt securities carried at amortised cost disclosed on page 37 consists of US$10,200,000 (2020: US$7,931,000) level 1 securities. Fair value of any other financial assets or liabilities not disclosed separately is due to the fact that the carrying amount approximates the fair value.

24. Risk management

The identification, measurement and containment of risk are integral to the management of our business. Our risk policies and procedures are regularly updated to meet changing business requirements. Our parent company, PT Bank Mandiri (Persero) Tbk, via its internal audit function, conducts an in-depth review at least once a year of our asset portfolio and also conducts a review of our internal controls/procedures. Our Audit & Risk Management Committee is apprised of these and other developments throughout the year to ensure adequate controls are in place to meet our changing business requirements.

(A) Risk management and control

The Bank is committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given priority throughout the Bank.

Responsibility for risk management policies, limits, and the level of risk assumed, lies with the Board of Directors. The Board charges Senior Management with developing, presenting and implementing these policies and limits. The structure is designed to provide a reasonable degree of assurance that no single event, or contribution of events, will materially affect the wellbeing of the Bank.

24. Risk management (continued)

An Audit and Risk Management Committee comprised of Non-Executive Directors and Executive Management plays a key role in the identification, evaluation and management of all risks. Credit and other new product decisions require direct Executive Management and Audit and Risk Management Committee approval. The Bank has controls and procedures in place for the monitoring of the financial instruments employed in its business. Before any new financial instrument is employed by the Bank approval must be sought from the Bank's Management Committee and as part of this approval process the Management Committee ensures that the Bank has the relevant expertise, adequate controls and operating procedures in place before the new financial instrument is initiated. Where it is deemed necessary product or sector limits are established and monitored such that concentration risk is minimised.

The Bank's Board of Directors, Asset and Liability Committee and Audit and Risk Management Committee, assist in appraising market trends, economic and political developments and providing strategic direction for all aspects of risk management.

The Bank has in place a number of limit controls and management information systems to facilitate effective management oversight. Limits are approved by the Board of Directors and are reviewed at least annually. Limit breaches, if any, are reported to the Chief Executive and Senior Management on a daily basis.

The following basic elements of risk management are applied to all financial risk instruments, including derivatives.

These include where appropriate:

- review by the Board of Directors and Senior Management;
- risk management processes with integral product risk limits;
- measurement procedures and information systems;
- risk monitoring and frequent management reporting; and
- segregation of duties, internal controls and audit procedures.

(B) Market risk

Market risk refers to the uncertainty of future earnings, resulting from changes in interest rates, foreign exchange rates, market prices and volatility. Although, there is a low presence of market risk, there is market risk arising from the investments held. The Bank has little appetite for market risk and takes a very conservative and low risk approach to market risk.This is reflected in our strategy not to run a trading book of any sort and therefore the Bank does not run the risk of significant trading losses.

(C) Interest rate risk

Interest rate risk arises when there is a mis-match between assets and liabilities which are subject to interest rate risk within a specific period. In the Bank's funding/lending activities, fluctuations in interest rates are reflected in interest margins and earnings. Our interest rate risk profile is short term and liquid and the Directors therefore feel that risks have been minimised. Hedging techniques can be applied on a limited basis should the need arise.

An interest rate gap is a common measure of interest rate sensitivity (note 26). A liability gap occurs when more liabilities than assets are subject to rate changes during a prescribed future time period. Interest rate gaps are monitored by Senior Management and Asset and Liability Committee regularly.

24. Risk management (continued)

(D) Currency risk

Currency risk arises due to exposure of the Bank to currencies other than its primary currency in the normal course of business.

The Bank does not actively trade in the foreign exchange markets on its own account, and foreign exchange swaps and forward foreign exchange contracts are entered into to manage the Bank's expenses and the Bank's assets and liabilities.

Where possible the Bank matches its currency transactions. The majority of the asset and liability positions are denominated in US Dollars and therefore, in the opinion of the Directors, the level of currency risk is considered to be minimal.

The currency exposure at the year end is presented in note 17. The currency exposure presented in this note was economically hedged using forward exchange contracts.

(E) Liquidity risk

Liquidity risk arises from mismatches in inflows and outflows in cash. The liquidity risk management process ensures that the Bank is able to honour all of its financial commitments as they fall due. Liquidity is monitored daily through reports provided to Senior Management against appropriate limits set by the Board of Directors and with reference to regulatory requirements. In addition, the Asset and Liability Committee and the Audit and Risk Management Committee review the liquidity position periodically. The Bank has access to a variety of funding sources including bank deposits, loan facilities, customer deposits and corporate trade finance deposits. Regular reviews are conducted, via meetings of the Asset and Liability Committee, of these sources and requirements for perusal by Senior Management. In practice, the Bank operates well within its prescribed liquidity levels.

Analysis of financial liabilities by remaining contractual maturities:

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2021 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date particularly as the majority of the total financial liabilities of US$130,705k below are payable to fellow Bank undertakings. Therefore, the table below does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	Carrying amount	Gross cash flow	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2021							
Due to banks	113,533	114,091	12,447	-	91,336	10,308	-
Customer accounts	15,862	15,862	15,862	-	-	-	-
Other financial liabilities	1,472	1,472	1,472	-	-	-	-
Total financial liabilities	130,867	131,425	29,781	-	91,336	10,308	-

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24. Risk management (continued)

	Carrying amount	Gross cash flow	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2020							
Due to banks	95,940	96,853	13,640	-	77,017	6,196	-
Customer accounts	4,374	4,374	4,374	-	-	-	-
Other financial liabilities	1,815	1,815	1,815	-	-	-	-
Total financial liabilities	102,129	103,042	19,829	-	77,017	6,196	-

(F) Operational risk

Operational Risk is the risk that deficiencies in information systems or internal controls result in unexpected business, financial and operating losses. Operational Risk is ultimately managed by the Board of Directors and is given the highest priority. Senior Management are charged with applying stringent procedures to mitigate risk of error, fraud, money laundering, and other irregularities. In addition, strong disaster recovery procedures have been formulated and are tested on at least a yearly basis. Internal Audit reviews the risk mitigation processes to ensure that these meet the organisation's current needs and are being properly implemented and controlled.

(G) Climate Change risk

BMEL has set out a high-level plan of key matters that will be addressed to implement the appropriate framework. The project work streams will cover the following: -

1. Risk Management:
   - Identification and assessment of the financial risks from climate change, categorised into transition and physical risks.
   - The output from the assessment will also feed into the overall risk appetite and the strategy to include appropriate longer-term metrics for the climate risk
2. Governance:
   - To allocate clear roles and responsibilities at executive level to manage the inherent climate risks in the Bank's business model.
   - The Bank will ensure that the Board has the right knowledge and tools to discharge this duty in relation to climate change.
   - Individuals or committees designated with accountability will have the required knowledge in climate risk.
3. Scenario Analysis:
   - Development of scenario analysis to assess the impact of identified physical and transition risk scenarios.
   - Output will inform strategy setting so that the Bank can align the business to the adjustment to a climate-impacted and lower carbon operating environment.

24. Risk management (continued)

(H) Capital adequacy risk

The Bank is managing and monitoring its capital requirement as per the Individual Capital Guidance "ICG" as set out by the PRA (Prudential Regulatory Authority) and have met the capital requirement as at the reporting date. The Bank's capital resources consist of share capital, capital reserve and accumulated losses. There are no terms and conditions attached to the Bank's Tier 1 capital resources.

The Bank's own assessment of the capital required to hold against its risks is known as ICAAP (Internal Capital Adequacy Assessment Process) and the SREP (Supervisory Review and Evaluation Process) is the qualitative and quantitative assessment of the ICAAP.

Controls are in place to constantly monitor the level of capital to ensure the Bank is able to meet its regulatory obligation on a daily basis. In doing so the Board of Directors believe that the interest of all stakeholders including customers and shareholders are fully protected. Account is taken of all potential events that could have an impact on capital.

The following table summarises the regulatory Tier 1 resources of the Bank as at 31st December:

	2021 US$'000	**2020 US$'000**
Called up share capital	49,000	49,000
Capital reserve	11,496	11,496
Revaluation reserve	425	1,219
Retained earnings	(8,432)	(8,808)
Total tier 1 capital	**52,489**	**52,907**

(I) Credit Risk

The Bank uses a formal credit process to quantify and evaluate the risk of proposed credits, and to ensure appropriate returns for assuming risks. Treasury and Financial Institution Division in conjunction with Credit Committee will aim to undertake a financial review of each client at least annually, so that the Bank remains aware of counterparties' risk profiles. This analysis includes a review of previous historical financial data, future projections, industry reviews, broker reports and credit analysis techniques.

Securities, Letters of Credit, Guarantees and Off-Balance Sheet instruments are managed by the same process. Settlement and any other credit risks are restricted through product limits and counterparty netting agreements.

From time to time the Bank takes collateral to mitigate credit or transactional risks. The taking of collateral as security is governed by detailed policies and procedures and where necessary the security is registered and perfected in the relevant jurisdictions using legal counsel. Other credit mitigates that the Bank is considering when assessing a credit facility are personal and corporate guarantees, fixed and floating charges over the assets of the borrower and mortgages on real estate properties. These credit mitigates were not assigned a value as at the year end as this value cannot be measured reliably.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through use of master netting agreements and collateral agreements.

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24. Risk management (continued)

		Gross maximum exposure		Net maximum exposure	
	Notes	**2021 US$'000**	**2020 US$'000**	**2021 US$'000**	**2020 US$'000**
Cash and money at call and deposits with central banks		31,508	35,972	31,508	35,972
Loans and advances to banks	[10]	19,985	19,989	19,985	19,989
Loans and advances to customers *	[11]	59,912	42,748	25,574	17,079
Debt securities	[12]	71,107	55,542	71,107	55,542
Other assets prepayments and accrued income	[16]	776	556	776	556
Total		183,288	154,807	148,950	129,138
Contingent Liability (note 25)		-	10,570	-	-

*Loans and advances to customers includes US$34,338k (2020: US$25,670k) of UPAS transactions with customers of fellow Bank companies (see note 28). These transactions are funded by inter Bank cash deposits and a set-off agreement against the cash deposit is in place which can be utilised in the event of default. The net maximum exposure for loans and advances to customers in the table above is presented after the netting of inter Bank deposits against these transactions. In addition to this, letter of credit issued as at 31 December were fully cash collaterlised, hence the net exposure has been reflected above.

The Bank's current credit risk grading framework comprises the following categories:

Category	**Description**	**Basis for recognising expected credit losses (ECL)**
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Bank has no realistic prospect of recovery	Amount is written off

All exposure as at 31 December 2021 is included within the performing group**.**

24. Risk management (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and industry sector. The maximum credit exposure to any non-bank client during the year has been within the prescribed Large Exposure limit set by the PRA before taking into account of collateral.

The Bank's financial assets, before taking into account any collateral held, other credit enhancements or impairment allowances can be analysed by the following geographical regions based on the location of the customer:

	2021 US$'000	2020 US$'000
United Kingdom	17,105	8,502
Europe	12,938	18,151
Asia	118,089	74,456
North America	35,156	53,698
Total	183,288	154,807

An industry sector analysis of the Bank's financial assets, before taking into account collateral held, other credit enhancements or impairment allowances is as follows:

	2021 US$'000	2020 US$'000
Bank	69,170	67,048
Sovereign	18,271	18,145
Telecommunications	2,568	3,296
Energy	4,880	4,872
Metal & Mining	11,979	3,032
Transportation & Port Authorities	4,951	4,925
Food Industry	3,061	18,018
Other	3,267	5,311
Manufacturer of textile	181	865
Manufacturer of paper and paper products	31,399	11,019
Electrical goods	267	994
Oil Industry	22,310	6,303
Property Management	10,984	10,979
Total	183,288	154,807

24. Risk management (continued)

Credit quality per class of financial assets:

31 December 2021	Neither past due nor impaired US$'000	12 - month ECL US$'000	Total US$'000
Due from banks			
Investment grade (rated Baa3- or above by Moody's)	51,513	(20)	51,493
Debt securities			
Investment grade (rated Baa3- or above by Moody's)	51,166	(25)	51,141
Sub-investment grade (rated BBB- or above by Moody's)	20,123	(157)	19,966
Loans and advances to customers			
Unrated	59,961	(49)	59,912
Other assets			
Unrated	776	-	776
Total	183,539	(251)	183,288

Loss allowances measured on all financial assets at an amount equal to 12 month expected credit losses.

31 December 2020	Neither past due nor impaired US$'000	12 - month ECL US$'000	Total US$'000
Due from banks			
Investment grade (rated Baa3- or above by Moody's)	55,979	(18)	55,961
Debt securities			
Investment grade (rated Baa3- or above by Moody's)	29,865	-	29,865
Sub-investment grade (rated BBB- or above by Moody's)	25,753	(76)	25,677
Loans and advances to customers			
Unrated	42,782	(34)	42,748
Other assets			
Unrated	556	-	556
Total	154,935	(128)	154,807

25. Contingent Liabilities

	2021 US$'000	2020 US$'000
Irrecovocable letters of credit	-	10,570
Total	-	10,570

One of the areas of business for the Bank is international trade finance, where, amongst other products offered classified as on balance sheet assets and liabilities, guarantees and irrevocable letters of credit are classified as off-balance sheet contingent liabilities. They have been classified as such due to being possible obligations whose existence depends on the outcome of uncertain future events.

26. Non trading book interest rate risk

The Bank does not have a trading book. However, interest rate exposure exists within its non-trading book. Instruments have been allocated to time bands by reference to the earlier of their next contractual interest rate repricing date and their maturity date.

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26. Non trading book interest rate risk (continued)

As at 31 December 2021, interest rate risk comprised:

Category of asset/liability	Less than 3 months US$'000	3 months to 6 months US$'000	6 months to 1 year US$'000	1 year to 5 years US$'000	More than 5 years US$'000	Non-int. bearing US$'000	Total US$'000
Cash and money at call and deposits with central banks	-	-	-	-	-	31,508	31,508
Loans and advances to banks	19,985	-	-	-	-	-	19,985
Loans and advances to Customers	39,500	6,827	11,025	2,560	-	-	59,912
Debt securities	-	1,021	9,978	60,108	-	-	71,107
Other assets	-	-	-	-	-	844	844
Total assets	59,485	7,848	21,003	62,668	-	32,352	183,356
Deposits by banks	5,924	60,158	25,000	10,004	-	12,447	113,533
Customer accounts	-	-	-	-	-	15,862	15,862
Shareholders' funds	-	-	-	-	-	52,489	52,489
Other liabilities	-	-	-	-	-	1,472	1,472
Total liabilities & shareholders' funds	5,924	60,158	25,000	10,004	-	82,270	183,356
Gap	53,561	(52,310)	(3,997)	52,664	-		
Cumulative gap	53,561	1,251	(2,746)	49,918			
Effects on profit & equity							
Interest rate risk -1%	(536)	(13)	27	(499)			(1,021)
Interest rate risk +2%	1,072	25	(55)	998			2,040

26. Non trading book interest rate risk (continued)

The above figures do not provide the exposure of the Bank to particular interest rates as they have been consolidated across all currencies. The majority of the Bank's balance sheet is denominated in US Dollars, with only a minor element of currencies regarded as volatile. The Directors therefore consider that a further currency analysis of interest rate risk is not required. Given the current outlook for interest rates, management considers that the interest rate gap shown above is manageable in view of the fact that the assets and liabilities are of short term nature and the interest rates are principally based upon floating rates.

As at 31 December 2020, interest rate risk comprised:

Category of asset/liability	Less than 3 months US$'000	3 months to 6 months US$'000	6 months to 1 year US$'000	1 year to 5 years US$'000	More than 5 years US$'000	Non-int. bearing US$'000	Total US$'000
Cash and money at call and deposits with central banks	-	-	-	-	-	35,972	35,972
Loans and advances to banks	19,989	-	-	-	-	-	19,989
Loans and advances to Customers	19,484	12,264	11,000	-	-	-	42,748
Debt securities	-	-	10,103	41,400	4,039	-	55,542
Other assets	-	-	-	-	-	785	785
Total assets	39,473	12,264	21,103	41,400	4,039	36,757	155,036
Deposits by banks	46,072	21,228	15,000	-	-	13,640	95,940
Customer accounts	-	-	-	-	-	4,374	4,374
Shareholders' funds	-	-	-	-	-	52,907	52,907
Other liabilities	-	-	-	-	-	1,815	1,815
Total liabilities & shareholders' funds	46,072	21,228	15,000	-	-	72,736	155,036
Gap	(6,599)	(8,964)	6,103	41,400	4,039		
Cumulative gap	(6,599)	(15,563)	(9,460)	31,940	35,979		
Effects on profit & equity							
Interest rate risk -1%	66	156	95	(319)	(360)		(362)
Interest rate risk +2%	(132)	(311)	(189)	639	720		727

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27. Ultimate parent company

PT Bank Mandiri (Persero) Tbk, a part government owned bank incorporated in the Republic of Indonesia, is the immediate and ultimate parent, and the ultimate controlling party of the Bank.

The registered address is:

Plaza Mandiri
JL. Gatot Subroto Kav 36-38
Jakarta 12190
Indonesia

The smallest and largest bank in which the results of the Bank are consolidated is that headed by PT Bank Mandiri (Persero) Tbk. The consolidated financial statements of PT Bank Mandiri (Persero) Tbk are available to the public at its registered office.

28. Related parties

The banking transactions with related parties are executed on the same terms, including interest rates (deposit/advances) as those prevailing at the time for comparable transactions with unrelated parties. The details of the transactions are as listed below.

Usance payable at sight ("UPAS") transactions with the parent company

Usance Payable at Sight "UPAS" transactions are advances given to customers against letters of credit issued by other banking institutions. During the year UPAS transactions were entered into with customers of our parent company. At the year-end the outstanding balance of these transactions was US$34.8 million (2020: US$25.7 million) all of which had full recourse against our parent company and for which a set-off agreement is in place.

Borrowings/deposits from immediate parent and connected counterparties:

	2021 US$'000	2020 US$'000
PT Bank Mandiri (Persero) Tbk.	62,472	53,673

Financial assets with immediate parent and connected counterparties:

	2021 US$'000	2020 US$'000
PT Bank Mandiri (Persero) Tbk.	101	70

	2021 US$'000	2020 US$'000
Interest Receivable: PT Bank Mandiri (Persero) Tbk.	44	178
Interest Expenses: PT Bank Mandiri (Persero) Tbk.	136	486

29. Post balance sheet events

There have been no material post-balance sheet events which would require adjustments to the 31 December 2021 financial statements.