2018-19

PILLAR – III DISCLOSURES

Union Bank
of India (UK) Ltd

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ABBREVIATIONS

ACB	Audit Committee of the Board
ALCO	Asset and Liability Committee
B/S	Balance Sheet
BoE	Bank of England
CEO	Chief Executive Officer
CET I	Core Equity Tier One
CRD	Capital Requirements Directive
CRR	Capital Requirement Regulations
Dy. CEO	Deputy Chief Executive Officer
ECL	Expected Credit Loss
ED	Executive Director
EU	European Union
EUR	Euro
FCA	The Financial Conduct Authority
FX	Foreign Exchange
GBP	Pound Sterling
HQLA	High Quality Liquid Assets
HTM	Held to Maturity
IBRD	International Bank for Reconstruction and Development
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
INR	Indian Rupee
IRRBB	Interest Rate Risk in Banking Book
IT	Information Technology
LAB	Liquidity Assets Buffer
LCR	Liquidity Coverage Ratio
MD	Managing Director
MDB	Multi-lateral Development Bank
MLRO	Money Laundering Reporting Officer
NED	Non-Executive Director
NPA	Non-Performing Assets
NPV	Net Present Value
PFE	Potential Future Exposure
PRA	Prudential Regulation Authority
RAG	Red Amber Green

RCC	Risk and Compliance Committee
RW	Risk Weights
RWA	Risk Weighted Assets
SFT	Securities Financing Transactions
SME	Small and Medium Enterprises
UK	United Kingdom
Union Bank	Union Bank of India (Parent Bank)
Union Bank UK / the Bank	Union Bank of India (UK) Ltd
USD	US Dollars
OLAR	Overall Liquidity Adequacy Rule
SREP	Supervisory Review & Evaluation Process

This document is divided into the followings sections:

- **Section 1 – Executive summary:** This section describes high level background of the Bank and its business.

- **Section 2 – Governance:** This section explains the governance framework within the bank.

- **Section 3 – Capital management:** This section describes Union Bank UK's capital strategy and the related risk appetite. This section also provides information on the capital function in the bank and quantitative information on the available and required capital.

- **Section 4 – Internal assessment of material risks**: This section describes the methodology and models used by the Bank to identify, assess, manage and control material risks.

- **Section 5 – Stress testing:** This section explains the methodologies and scenarios used by the Bank to conduct stress testing.

- **Section 6 – Remuneration:** This section describes the remuneration structure of the Bank.

- **Section 7 – Conclusion:** This section provides information regarding frequency and availability of Pillar – III disclosure document.

REGULAR UPDATE

This document will be reviewed periodically (at least annually). If necessary, adjustments will be made subject to the approval of the Board to adequately reflect changes in business strategies or relevant external aspects (e.g. regulatory changes, operating environment changes). Disclosures will be published within four months of the Bank's financial year end and will be updated annually.

The Bank will make its Pillar III disclosures publicly available via its website (www.unionbankofindiauk.co.uk) on an annual basis.

SCOPE OF APPLICATION

The Pillar III disclosures have been prepared to explain the basis on which the Bank has prepared/disclosed information regarding capital, liquidity and leverage requirements. The disclosure is intended to convey the Bank's risk profile comprehensively to market participants.

The Bank is a full CRD compliant firm and its accounting and disclosures are on a solo basis. There is no subsidiary/ joint venture of the firm that is required to be consolidated for accounting or prudential purposes. However, its parent, Union Bank of India, has to consolidate financial statements and other regulatory reports for submission to the local regulator or other market participants.

1. Executive Summary

This section provides brief information about the Bank and summarises the information of this document.

Union Bank of India (UK) Ltd (hereinafter called "the Bank") is a subsidiary of Union Bank of India, a public-sector bank based in India with a majority stake owned by the Government of India. The bank is authorised by the PRA and regulated by the FCA and the PRA. The Bank received authorisation as a UK bank from the PRA on 6 September 2013, and started raising deposits from 10 July 2014.

The bank focuses to achieve sustainable growth with a strong and robust corporate governance and control environment. The Bank offers traditional simple products covering retail, SME, trade finance, corporate and commercial banking.

The principal currency (functional currency) of the Bank is US Dollars (USD). The overall balance sheet size of the Bank as at 31 March 2019 was USD 454 MM.

These disclosures have been prepared with due consideration to comprehensiveness and proportionality. It is further noted that there has been no significant change in the Bank's business model since the last Pillar – III Disclosure publications.

In 2018-19, the Bank has suffered losses, which are primarily attributable to increased provisioning requirements due to an increase in Stage 3 Loan accounts. The Bank has responded by prudently lowering business growth targets and will henceforth concentrate developing lower risk weighted assets in order to ensure sustainable growth and optimal use of financial resources. The Bank continues to maintain capital well in excess of regulatory requirements.

1.1 Key Business Indicators

This section provides a summary of analysis of the asset portfolio as of March 2019, at which time the loan portfolio stood at ~ USD 330 million (compared to ~ USD 340 million in March-2018).

The portfolio is summarised below:

Figure 1: Geographical distribution of credit risk exposure

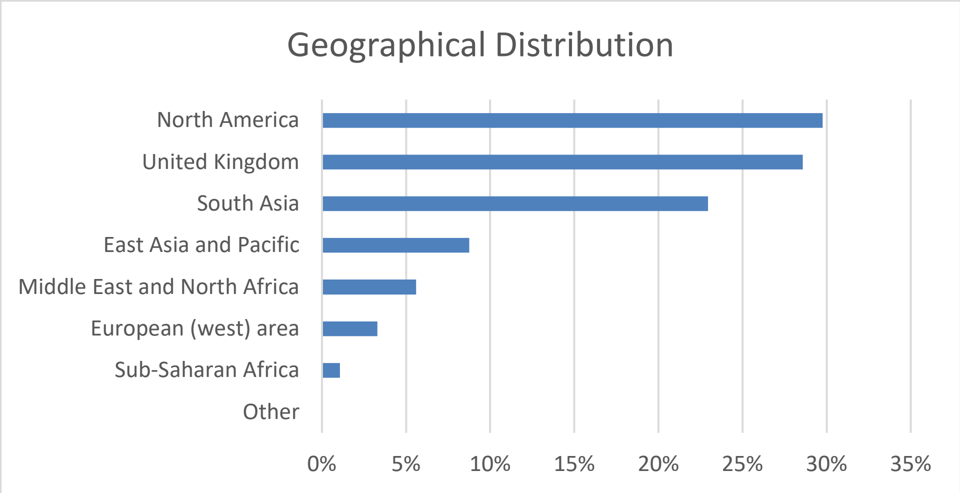


Figure 2: Sectoral distribution of credit risk exposure

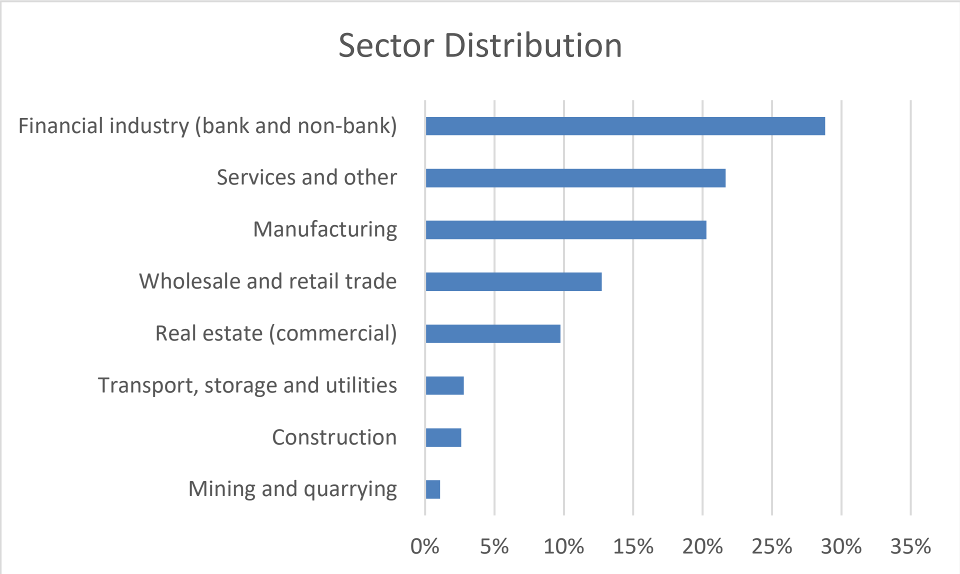


Figure 3: Constitution wise Distribution of credit risk exposures

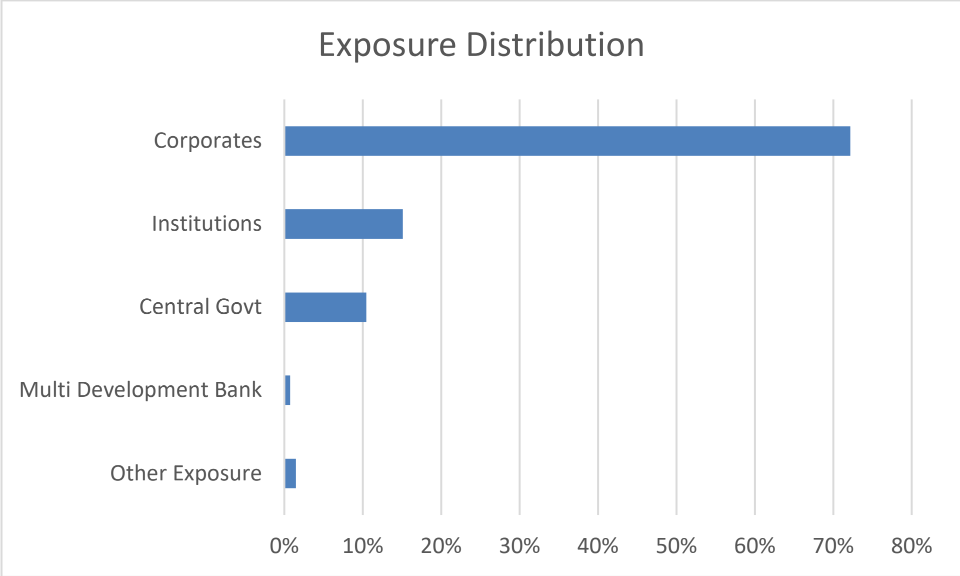
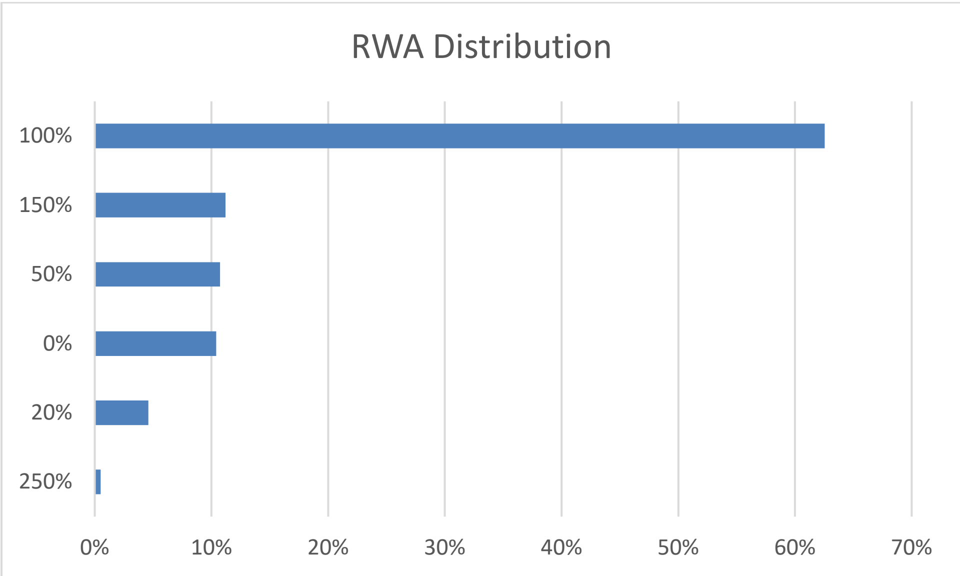


Figure 4: Risk-weighted distribution of credit risk exposure



Note: The terminology for bifurcation is kept constant with ICAAP Document.

1.2 Regulatory Framework

In December 2010, the Basel Committee on Banking Supervision (BCBS) published a revised global regulatory framework for the international capital standards (Basel III), reinforcing the requirements established in the previous frameworks (known as Basel I, Basel II and Basel 2.5). On 26 June 2013 the Basel III legal framework was implemented across the European Union via EU Directive 2013/36 (CRD IV), which repeals Directives 2006/48 and 2006/49, and Regulation 575/2013 (Prudential requirements for credit institutions and investment firms - 'CRR').

The framework for regulatory capital

The PRA determines a minimum regulatory capital level and additional buffers for the firms, as set out in terms of the Basel III and EU CRR risk-weighted frameworks. The UK regulatory capital framework comprises four parts:

- Pillar 1 — requirements to provide protection against credit, market and operational risks, for which firms follow internationally agreed methods of calculation and calibration.

- Pillar 2A — requirements imposed by the PRA reflecting estimates of risks either not addressed or only partially addressed by the international standards for Pillar 1.

- CRD IV buffers, as applicable – these comprise the Capital Conservation Buffer and the Counter-cyclical Capital Buffer, which are relevant to all firms. For Globally Systemically Important Institutions (G-SIIs), a G-SII buffer is also applied, and for domestic systemically important firms, a Systemic Risk Buffer is applied.

- The PRA buffer, as applicable – is an amount of capital that firms should hold in addition to their minimum level of regulatory capital (Pillar 1 plus Pillar 2A) to cover risks and elements of risk not covered elsewhere, and losses that may arise under a stress.

The Bank always maintains SURPLUS capital in excess of the minimum regulatory requirements prescribed by the PRA by way of ICG (Individual Capital Guidance).

The Bank's total issued and paid up share capital as at 31 March 2019 was USD 100 Million and GBP 2. One hundred percent of these shares are held by the Union Bank of India ('Parent Bank').

2. Governance

The Bank places a strong emphasis on internal governance and the maintenance of high ethical standards in its working practices.

Good governance is critical to delivering a sound and well-run business. At the centre of good governance is an effective Board. The first responsibility for maintaining the safety and soundness of the Bank lies with the Board.
Board is comprised of two Executive Directors, two Non-Executive Directors (representing the Shareholder), and two independent UK based Non-Executive Directors (all of whom have extensive banking and regulatory experience).

The Board has collective responsibility for promoting the long-term success of the Bank; whilst the Executive Directors manage business operations, the Non-Executive Directors are responsible for independent oversight and for analysis and challenge of decisions taken by the Executive Directors.

In order for the Risk Management Framework to function effectively, roles are clearly defined and senior management responsibilities are apportioned in accordance with regulatory SYSC and Conduct requirements. The Bank follows a 'Three Lines of Defence' model, under which

- The First Line of Defence ('1LOD') is responsible for tactical risk management and the operation of internal controls.
- The Second Line of Defence ('2LOD') is responsible for independent risk oversight, the development and implementation of risk Policies, assessment methodologies and challenge to First Line of Defence risk-taking decisions, assumptions and control self-assessments.
- The Third Line of Defence ('3LOD') provides independent assurance in respect of the scope adequacy and effectiveness of the overall system of internal controls, including risk assessment processes and the operation of the internal governance framework.

The Bank's Three Lines of Defence framework is illustrated in the figure below:

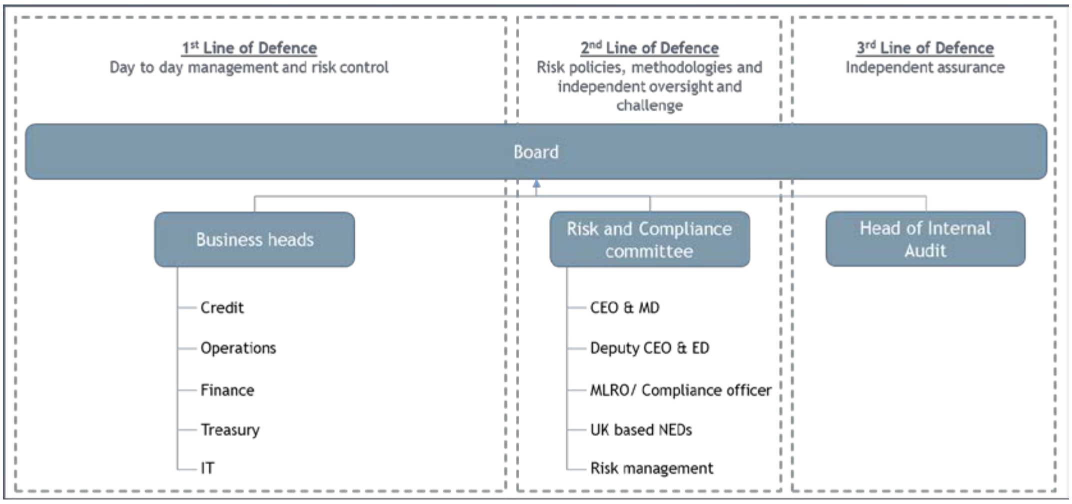


Figure 5: Lines of defence framework

Responsibility for overseeing the Risk Framework is delegated to the following Board committees (each of which is chaired by a Non-Executive Director):

- The Risk and Compliance Committee (RCC) meets quarterly, and consists of two independent UK based Non-Executive Directors (one of whom acts as Chair) and the two Executive Directors. The Head of Compliance/MLRO and the Chief Risk Officer attend and report to the RCC.

- The Audit Committee of the Board (ACB) meets quarterly consists of two independent UK based Non-Executive Directors (one of whom acts as Chair)

- The Head of Internal Audit reports to ACB.

An overview of the Bank's internal governance structure is illustrated in the figure below:

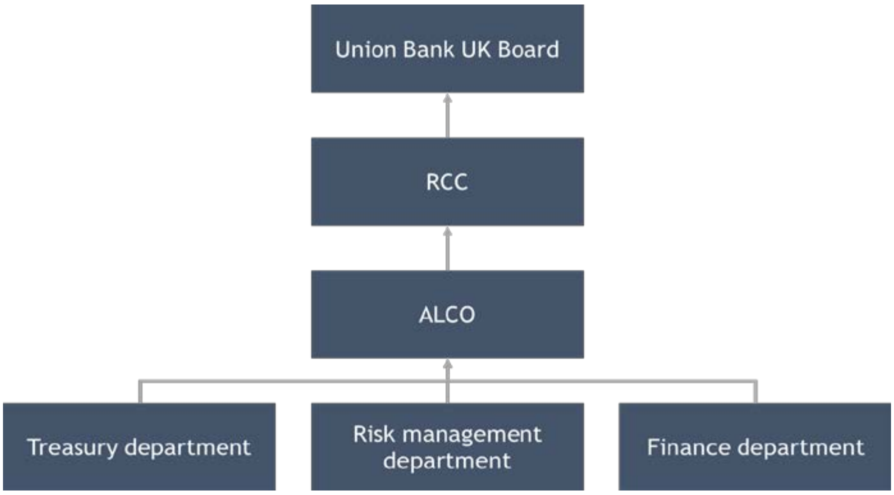


Figure 6: Governance framework

There are other internal committees such as Investment Committee, Executive Management Committee, Information Technology and Operations Committee, Credit Committee and Training Advisory Committee which also form part of the Internal Governance.

3. Capital Management

The Bank endeavours to maintain sufficient capital resources to support its lending business and general business growth. The Bank reviews its Capital adequacy periodically.

The Bank holds capital at a level that the Board considers appropriate, based on a combination of minimum regulatory requirements and sound judgment exercised by the Board. In assessing the adequacy of its capital, the Bank considers both the material risks to which the Bank is exposed, and emerging or anticipated exposures, as reviewed in detail in the internal ICAAP document.

The Bank's strategic ambition is to be a competitive financial institution enjoying the highest trust of clients and shareholders. The Bank aims to provide optimum added value to its customers and create sustainable shareholder value through business growth in a controlled and diversified manner.

In line with above, as part of the overall risk strategy, the Bank has identified seven key prudential objectives as summarized in the figure below:

1. Capital Adequacy	• Maintain sufficient capital at all times so that the capital ratios are above the minimum stressed capital requirements
2. Sound management of Funding and Liquidity Risk	• Manage Liquidity and funding liquidity risk by maintaining sufficient funds to meet all contractual, contingent and regulatory obligations both an ongoing business as ususal basis and in periods of liquidity stress
3. Diversified business model	• Minimize business concnetration on asset as well as liability side
4. Earnings as per plan	• Generate earning in line with 5-year stated finanical objectives
5. Managing Reputational Risk	• Avoid any transaction or service that brings with it the risk of a potentially unacceptable level of damage to our reputation
6. Managing and controlling Business Conduct Risk	• Conduct busines practices in line with bank's code of conduct and proactively identify sources of risk and / or breaches that may lead to reputational risk and /or regulatory sanctions
7. Operational Resilience	• Ensure quality and consistency in service delivery, and maintain Operational Resilience under both business as usual and stressed business conditions

Figure 7: Key risk objectives have been identified by Union Bank UK

Tactical risk strategy is owned by the Risk Department and approved by the Bank's Board, acting through the RCC; this is reviewed on an annual basis and if required, more frequently to reflect any significant material changes to the business, economic or regulatory outlook.

The Bank maintains a defined Risk Management Framework and Risk Appetite Statement to identify, assess, monitor and control risk exposures.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank reports annually on the effective operation of its ICAAP, and deploys forward-looking analysis of the Business Plan using stress scenarios mandated by the RCC. The ICAAP process reviews the Bank's financial and operational exposure profile, and assesses both the risk and the internal control environment, in order to estimate an appropriate level of Pillar 2 capital under stress conditions.

The ICAAP evaluates the emerging risk profile over the medium term, in the context of the Bank's particular business model and financial forecasts. These projections are tested under a range of idiosyncratic and market-wide stress scenarios, and the outputs achieved are considered in the calibration of Risk Appetite and the implementation of appropriate control and mitigation strategies.

The ICAAP has been fully integrated into the risk management and business planning frameworks of the Bank.

3.1 Enhanced disclosures

This section provides key regulatory ratios and a summary of the attendant calculations

3.1.1 Comparison of accounting assets vs regulatory exposures

The table below summarises the comparison between carrying amounts of assets for financial reporting purposes and the corresponding regulatory exposure value.

(USD'000)

		Mar-19
1	Total assets as per published financial statements	454,100
2	Adjustment for general & specific provisions for impairment	-
3	Adjustment for Off Balance Sheet exposures	41,255
4	**Total Accounting exposure value**	**495,355**
5	Adjustment for valuation of investments (HTM)	(450)
6	Adjustments for valuation of derivative financial instruments	1,101
7	Adjustment for Cash collateral for Off Balance Sheet exposures	(10,400)
8	Regulatory exposure before credit conversion factor [1]	**485,606**
9	**Regulatory exposure after credit conversion factor**	**460,726**
10	**Risk Weighted Assets before SME supporting factor**	**400,674**
11	**Risk Weighted Assets after SME supporting factor**	**400,674**

Table 1: comparison of accounting assets vs regulatory exposures

3.1.2 Bank's prudential regulatory metrics

The below table provides capital adequacy, leverage and liquidity ratios as of 31 March 2019 and 31 March 2018.

(USD'000)

		Mar-19	Mar-18
	Available capital (amount)		
1	Common Equity Tier 1 (CET1)	92,980	94,472
2	Tier 1	92,980	94,472
3	Total capital	92,980	94,472
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	443,828	459,690
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	20.95%	20.55%
6	Tier 1 ratio (%)	20.95%	20.55%
7	Total capital ratio (%)	20.95%	20.55%
	Basel III leverage ratio		
8	Total Basel III leverage ratio exposure measure	460,623	445,036
9	Basel III leverage ratio (%) (row 2 / row 8)	20.19%	21.23%
	Liquidity Coverage Ratio		
10	Total HQLA	49,916	24,913
11	Total net cash outflow	4,485	6,086
12	LCR ratio (%)	1113%	409%

3.1.3 Overview of total RWA

(USD'000)

S No.	Particulars	RWA Mar-19	Minimum capital req. @ 8%
1	Credit risk: Standardised approach	400,674	32,054
2	Credit valuation adjustment (CVA)	318	25
3	Market risk: Standardised approach	21,872	1,750
4	Operational risk: Basic Indicator Approach	20,964	1,677
	Total (1 + 2 + 3)	**443,828**	**35,506**

Table 2: Overview of total RWA

3.1.4 The leverage ratio framework

To complement the risk-weighted capital regime, the Bank also takes into account the risk of excessive leverage when assessing the adequacy of capital levels.

For major Banks and Building Societies subject to the UK leverage ratio framework, the PRA requires a minimum leverage ratio be met at all times and expects firms in scope to have regulatory capital that is equal to or greater than any applicable leverage ratio buffers. This framework comprises three parts:

- a 3% leverage ratio minimum requirement, denominated in Tier 1 capital, which must be met with at least 75% Common Equity Tier 1 (CET1) capital;

- an additional leverage ratio buffer, applicable to UK Global Systemically Important Institutions (G-SIIs) identified by the PRA, with the buffer rate calibrated at 35% of a relevant firm's G-SII capital buffer rate, which must be met with CET1 capital; and

- a counter-cyclical leverage ratio buffer of CET1 capital, calibrated at 35% of a relevant firm's countercyclical capital buffer rate and rounded to the nearest 10 basis points.

Since Union Bank UK's entire capital is CET-1, it gives comfort in maintaining the capital and leverage ratio requirement.

Table below provides detailed breakdown of the components of the leverage ratio denominator:

(USD'000)

		Mar-19
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	414,697
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(336)
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of rows 1 and 2)	**414,361**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	765
5	Add-on amounts for PFE associated with all derivatives transactions	745
6	**Total derivative exposures (sum of rows 4 to 5)**	**1,510**
Securities financing transaction exposures		
7	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	38,547
8	(Netted amounts of cash payables and cash receivables of gross SFT assets)	--
9	CCR exposure for SFT assets	--
10	Agent transaction exposures	--
11	**Total securities financing transaction exposures (sum of rows 7 to 10)**	**38,547**
Other off-balance sheet exposures		
12	Off-balance sheet exposure at gross notional amount	41,256
13	(Adjustments for conversion to credit equivalent amounts)	(35,050)
14	**Off-balance sheet items (sum of rows 12 and 13)**	**6,206**
Capital and total exposures		
15	**Tier 1 capital**	92,980
16	**Total exposures (sum of rows 3, 6, 11 and 14)**	**460,623**
Leverage ratio		
17	**Basel III leverage ratio (Row 15 / Row 16)**	**20.19%**

Table 3: Breakdown of the components of the leverage ratio denominator

4. Internal assessment of Material risks

This section describes the methodology and models used by the Bank to assess and manage its material risks.

The Bank has developed a comprehensive risk management framework, setting out the Board risk appetite and covering all relevant exposure categories, to ensure that the risk profiles clearly identified, assessed, monitored, managed and controlled, and that the policies and operational controls used to manage these risks are implemented strictly and adhered to on an ongoing basis. The Bank categorizes its primarily risk exposures as Credit risk (lending and counterparty), market risk (interest rate and FX related), liquidity & funding risk, and operational risk (including threats to business continuity and resilience, and the emerging challenges presented by Climate Change).

ICAAP and ILAAP are reviewed as part of the annual planning and budgeting process to ensure that the Bank's business plans are achievable within its capital and liquidity resources. Both the ICAAP and ILAAP are subject to interim reviews and are updated in response to material changes to the business and regulatory environment.

The ILAAP and the ICAAP are included in the annual PRA SREP review, which sets the Individual Liquidity Guidance (ILG) and Individual Capital Guidance (ICG) for the Bank. The Bank adheres to the benchmarks set by the PRA at all times.

Pillar 1 RWAs assessment as at 31 March 2019 is summarised as follows:

Pillar 1 risk	**RWA (USD 000s)**	**% Contribution**
Credit risk	400,992	90.34%
Market risk	21,872	4.93%
Operational risk	20,964	4.73%
Total	**443,828**	**100%**

Table 4: RWAs as at 31 March 2019

4.1 Credit risk

Credit risk reflects potential losses arising from a borrower or counterparty failing to meet its obligations to the Bank as they fall due; these exposures arise both by virtue of the Bank's lending business, and also from the Bank's interbank money market placements and investments in marketable securities.

Risk management

The Bank has a robust process in place to manage the credit risk at origination as well as on a portfolio basis over the lifetime of the loan, interbank placement and investment books.

All loans are subject to a rigorous pre-sanction appraisal process which considers the loan's specific characteristics and applies the Bank's corresponding policies and risk appetite parameters. Loan approval authority is delegated to various Management committees depending on the size of the loan, and during the appraisal process, all loans are also assigned an internal credit risk rating which is then monitored at a minimum frequency of every 12 months. Further details of the Bank's credit risk management are summarized in its Credit risk policy.

Risk Assessment

Credit RWAs are assessed using the Standardized Approach. The table below shows the summary of average risk weights (RWA/Exposure) across all portfolios as of March 2019:

Portfolio	Balance Sheet exposure (USD 000s)	Exposure for RWA (USD 000s)	Average risk weight	RWA (USD 000s)
Cash in Hand and at Bank	4,244	4,244	20%	843
Contingent liabilities*	41,255	6,206	107%	6,659
Debt Securities (including Placement)	141,287	141,287	40%	56,075
Loans to Customers	302,055	300,958	108%	326,325
Other Assets	7,168	8,262	130%	10,772
Total Credit Risk	**496,009**	**460,957**		**400,674**

*This forms part of off-balance sheet item.

Table 5: Credit risk RWAs as at 31 March 2019

Below table shows a comprehensive picture of the credit quality of the bank's (on and off-balance sheet) assets.

(USD'000)

	Portfolio	a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	63,956	265,572	27,473	302,055
2	Debt Securities	-	141,287	-	141,287
3	Off-balance sheet exposures	-	41,255	-	41,255
4	Total	**63,956**	**448,114**	**27,473**	**484,597**

Table 6: Credit quality of assets

The Bank uses various techniques to manage credit risk in its loan portfolio. These include comprehensive reviews of the continued ability of the counterparty to honour the facility without distress and in some cases the receipt of collateral security to support the facility:

(USD'000)

	Portfolio	a	b	c	d	d
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives	Total
1	Loans	18,098	284,083	4,983	-	307,164
2	Debt securities	141,287	-	-	-	141,287
3	**Total**	159,385	284,083	4,983	-	448,451
4	Of which defaulted	-	63,956	-	-	63,956

Table 7: Credit Risk mitigation techniques

Table below provides an overview of exposure by asset class and risk weight:

(USD'000)

		a	b	c	d	e	f	g
	Risk Weights ➡	**0%**	**20%**	**50%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF)**
	Asset classes ⬇							
1	Sovereigns and their central banks	44,520	-	-	3,717	-	-	48,237
2	Multilateral development banks (MDBs)	3,466	-	-	-	-	-	3,466
3	Banks	31	17,176	41,537	10,989	-	-	69,733
4	Corporates	-	3,962	7,929	239,527	-	-	251,418
5	High Risk categories	-	-	-	-	44,417	-	44,417
6	Other assets	-	-	-	4,380	-	2,372	6,752
7	Exposure in default	-	-	-	29,712	7,222	-	36,934
	Total	**48,017**	**21,138**	**49,466**	**288,325**	**51,639**	**2,372**	**460,957**

Table 8: Exposure by asset class and risk weights

4.2 Market risk

Market risk is the risk of losses resulting from adverse changes in the value of positions arising from movements in market prices across commodity, credit, equity, FX and interest rates risk factors.

Risk management

The Bank's asset portfolio is based on simple products and there is no market-making nor any significant propriety trading activity undertaken by the bank. In this context Union Bank UK is classified by the PRA as a category 5 firm.

The Bank's key driver of market risk is from its exposure to GBP, USD and EUR (with some insignificant exposure to INR). All open positions are monitored against specific risk appetite limits on a daily basis.

Risk Assessment

Union Bank UK assesses market risk by calculating the net open position for foreign currencies.

The RWA calculation as per March 2019 B/S is summarized below:

Foreign Currency	**Open position (USD 000s)**	**Risk weight**	**RWA (USD 000s)**
GBP	21,872	100%	21,872
EUR & INR	-	100%	-
Total Market Risk	**21,872**		**21,872**

Table 9: Market risk RWAs as at 31 March 2019

4.3 Operational risk

Operational risk reflects unintended outcomes and harm to customers resulting from inadequate or failed internal processes, people and systems or from external events. This includes change management, legal, information and technology risks including Cyber threat, in each case aligned to a business process or customer proposition, whether or not this could potentially give rise to a material financial loss

Risk management

The Bank has developed its Operational Risk Framework to oversee and control operational exposures in an integrated and consistent manner. Within the Operational risk framework, new products, processes and services introduced by the Bank are subject to rigorous risk evaluation and approval. In addition to the policy, the Bank has specific operational policies in place covering (inter alia) IT Security, Outsourcing policy and a Business Continuity Plan.

The Bank has implemented a comprehensive internal risk & control self-assessment process to identify, assess, monitor and control risks, supported by tactical First Line of Defense policies and standard operating procedures, which are reviewed on a regular basis.

Risk Assessment

The Bank follows the Basel/CRR Basic Indicator Approach for measuring Operational Risk, which calculates Pillar 1 capital as 15% of average of the last three years' relevant indicator[1]. As of March 2019, is the equivalent Pillar 1 RWA component is assessed as follows:

	Relevant Indicator (USD 000s)
Year 1 (2019)	**13,696**
Year 2 (2018)	**11,900**
Year 3 (2017)	**7,940**

Table 10: Relevant indicator for past 3 years (as at 31 March 2019)

[1] Calculation as per Article 316 of CRR

	Relevant indicator (USD 000s)	Operational risk scalar	Operational risk capital (USD 000s)	Operational risk RWAs (USD 000s)
Average	**11,179**	**15%**	**1,677**	**20,960**

Table 11: Operational risk RWAs as at 31 March 2019

4.4 Counterparty Credit Risk (CCR)

The Bank's customer proposition and investment portfolio are based on simple products and there is no significant propriety trading activity. Counterparty Credit Risk exposure as of March 2019 is related to 37 derivative exposures with total notional USD 1.51 Million and assessed in accordance with CRR article 274 under Pillar 1 credit risk RWAs.

4.5 Credit concentration risk

Credit concentration risk arises as a consequence of concentration of exposures due to the inevitable imperfect portfolio diversification which arises due to the modest size of the Bank's loan portfolio (which features a large number of exposures to specific obligors – 'single name concentration', sectors or geographies)

The Bank monitors the following metrics on a periodic basis, and has assigned RAG triggers aligned to its overall risk appetite:

- Top 20 counterparties on the asset side as a proportion of the **Balance Sheet** (%)
- Top 20 loan accounts as a proportion of the lending book (%)
- Top 20 deposit accounts as a proportion of the deposit book (%)
- Largest exposure to a single counterparty (as % of capital) excl. US Treasury/IBRD/UK Treasury
- Share of loan assets in any industry as a proportion of the lending book (%) (Top 3 industry segments)
- (Total investments – HQLA)/ (Total B/S – placements - HQLA)

4.6 Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is the risk of losses arising from changes in the interest rates associated with Banking Book items creating a structural imbalance between the term structure of Assets and Liabilities.

The Bank aims to deploy a natural hedge by matching Assets and Liabilities by Tenor and Currency. In this regard, the following metrics are monitored and assigned (Red, Amber and Green) trigger thresholds aligned with Board risk appetite:

- USD Balance Sheet only - % of Long-term assets funded by Long Term Liabilities
- GBP Balance Sheet only - % of Long-term assets funded by Long Term Liabilities
- EUR Balance Sheet only - % of Long-term assets funded by Long Term Liabilities

Further details of the Bank's approach to Interest Rate Risk management are summarized in its Market Risk Policy, as follows:

Union Bank UK measures IRRBB by assessing the impact of a 200-bps parallel shock on the Economic Value of Equity. Exposures are assigned to defined time buckets on the basis of the next contractual re-pricing date. The NPV of the net gap position in each time bucket is calculated based on a GBP yield curve sourced from Bloomberg. This curve is then shifted 200-bps parallel up and down to assess the value impact. The highest of the 2 value impacts ignoring the sign is taken as the IRRBB stress value and capitalized accordingly under Pillar II A.

4.7 Liquidity risk

In the OLAR context, the PRA expects all firms to take responsibility for ensuring that there is no significant risk that they cannot meet their liabilities as they fall due and has increased supervisory activities to ensure that firms are running their business in a prudent manner to ensure they have an appropriate degree of resilience to liquidity stresses.

In accordance with these evolving requirements, the Bank aims to maintain sufficient liquidity to ensure both OLAR and survival throughout a 90-day combined stress period. In addition, the Bank aims to maintain 30-day LCR above 110% at all times, and conducts forward-looking projections of both the sufficiency of liquid assets and the LCR ratio.
Liquidity risk appetite and strategy are approved by the Board and reviewed annually, and the stress testing framework is challenged and recalibrated as part of the annual ILAAP review.

In the ILAAP, the bank considers following risk as the key risks:

Risk driver

- The run-off of retail funding
- The reduction of unsecured wholesale funding
- The correlation and concentration of funding
- Additional contingent off-balance sheet exposures
- FX convertibility and access to FX markets
- The impact on a firm’s reputation or franchise
- Marketable asset risk
- Non-marketable asset risk

Following table provides breakdown of the Bank's cash Outflows and Inflows, compared to available High-Quality Liquid Assets (HQLA), as measured and defined according to EU Delegated Act 575/2013 (as implemented by EU2016/61) [2]

Amounts in 000' USD

		a	b
		Total unweighted value	**Total weighted value**
		Average for the Quarter Jan'19-Mar'19	
High-quality liquid assets			
1	Total HQLA		35,406
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	6,261	683
3	Stable deposits	4,970	497
4	Less stable deposits	1,291	186
5	**Unsecured wholesale funding, of which:**	17,274	12,267
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	7,709	2,702
8	Unsecured debt	9,565	9,565
9	**Secured wholesale funding**	-	-
10	**Additional requirements, of which:**	**37,371**	**3,737**
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	37,371	3,737
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	615	5
16	**TOTAL CASH OUTFLOWS**		**16,692**
Cash inflows			
17	**Secured lending (eg reverse repos)**		
18	**Inflows from fully performing exposures**	17,441	13,804
19	Other cash inflows	3,324	3,324
20	**TOTAL CASH INFLOWS**	**20,765**	**17,128**
			Total adjusted value
21	**Total HQLA**		34,640
22	**Total net cash outflows**		4,173
23	**Liquidity Coverage Ratio (%)**		830%

Table 12: Details regarding LCR reporting

[2] Figures reported in column "a" & "b" are the simple average of LCR data as of 31/01/2019, 28/02/2019 and 31/03/2019.

5. Stress testing

Stress testing, as a tool and technique, plays an important role in ensuring effective risk management and in fostering an understanding of how economic cycles, especially downturns, may adversely affect the Bank's risk profile as a consequence of extreme but plausible economic circumstances and operational events.

It is conducted continuously in order to guide tactical risk-taking decisions and ensure effective oversight of limits and risk indicators, and annually as part of Bank's ICAAP and ILAAP reviews.

Stress tests simulate business performance during abnormal market periods with increased turbulence and measure how these can affect the risk profile of the Bank particularly in relation to the viability of the business plan and adherence to Board risk appetite metrics.

Outputs from these stress scenarios – and the potential Management Responses to stress events - are important forward-looking assessments of risk which may help to overcome the limitations of models and historical data, and challenge underlying assumptions.

Leveraging the processes defined in the Risk Framework, the Bank conducts stress testing by:

- Identifying key risk factors and developing extreme but plausible scenarios to analyse how these behave under stressed conditions. (This may include "Reverse Stress Testing" and detailed Business Model Analysis).
- Determining "mitigating management" actions that can be taken in response to the risks identified, and assessing the likely timeliness, effectiveness and availability of these under stressed conditions.

In summary, stress testing is designed to:

- Evaluate the adequacy of the Bank's resources under stressed environments, and its ability to sustain its forecast business development,
- Assess potential tail-event vulnerabilities and risk concentrations,
- Identify and examine the plausibility of management actions in response to extreme adverse events,
- Inform calibration of early warning Key Risk Indicators (KRIs), and
- Allow the Bank to better forecast, monitor and manage the risk profile

The Bank undertakes parameter-based stress testing of the following stress scenarios:

- **<u>Idiosyncratic stress</u>** - increase in the ECL estimates across its portfolio, along with the reduction in the recoveries and increase in NPA rate assumptions which leads to increased P&L impact of provisions,

- **<u>Market stress</u>** - increase in the cost of funding, and

- **<u>Combined stress</u>** - increase in the cost of funding as well as increase in the ECL estimates, reduction in the recoveries and increase in NPA estimates across the entire Loan portfolio.

Under the combined stress, the management would consider the following management actions:

- Restriction of new asset generation or sell off of existing assets and minimize roll-over of maturing assets,
- Cost cutting

Reverse stress test assumption:

Under the Reverse stress, Union Bank UK assumes a simultaneous combination of the following:

1. Reduced asset origination,
2. Sell-off of Existing assets,
3. Higher loss rates, and
4. Increase in cost of funding.

6. Remuneration

The Bank has two pay groups of employees in the UK - those on deputation from the Parent Bank and those who are locally recruited. The employees on deputation are governed by the salary structure approved by the Board of Directors of the Parent Bank. Their salary, perquisites and allowances are fixed accordingly and include certain fixed net of tax basic pay, payment of tax and National Insurance (NI) and reimbursement of certain expenses.

The salary to the locally recruited staff is as per their respective employment contracts. The Bank currently has no incentivised pay structure for its employees and directors. Two independent Non-Executive Directors are paid a fixed salary per annum.

None of the employees of the Bank fall into the category of high earners. Staff pay does not include any variable elements (such as a bonus, overtime or incentive pay) and there is no link between pay and performance. As such, the Bank has deemed it not necessary to have a separate Remuneration Committee. In addition, there is no deferral policy in place, and no employee or director has received a sign-on or severance pay.

The table below provides remuneration awarded during the financial year 2018-19:

			a	b
	Remuneration amount in USD'000		Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	9	3
2		Total fixed remuneration (3 + 5 + 7)	524	155
3		Of which: cash-based	524	155
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	-	-
10		Total variable remuneration (11 + 13 + 15)	-	-
11		Of which: cash-based	-	-
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration (2 + 10)**		**524**	**155**

Table 13: Remuneration details

7. Conclusion

This disclosure document, prepared in accordance with the requirements of Basel Framework and is intended to provide information on the Bank's approach to risk management. It also provides detailed information about asset and capital management.

Future disclosures will be published within four months of the Bank's financial year end and will be updated annually.

In the event that a user of this disclosure document requires further explanation regarding the disclosures, application should be made in writing to the Executive Director and Deputy CEO, Union Bank of India (UK) Ltd 85 Senator House, Queen Victoria Street, London EC4V 4AB.