2017-18

PILLAR – III DISCLOSURES

Union Bank of India (UK) Ltd

Index

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ABBREVIATIONS

Union Bank	Union Bank of India (Parent Bank)
Union Bank UK	Union Bank of India (UK) Ltd
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
PRA	Prudential Regulation Authority
BoE	Bank of England
FCA	The Financial Conduct Authority
CRR	Capital Requirement Regulations
EU	European Union
ICG	Individual Capital Guidance
RW	Risk Weights
RWA	Risk Weighted Assets
RAG	Red Amber Green
LAB	Liquidity Assets Buffer
HTM	Held to Maturity
MDB	Multi-lateral Development Bank
LCR	Liquidity Coverage Ratio
ALCO	Asset and Liability Committee
CEO	Chief Executive Officer
MD	Managing Director
Dy. CEO	Deputy Chief Executive Officer
ED	Executive Director
NED	Non-Executive Director
RCC	Risk and Compliance Committee
SME	Small and Medium Enterprises
ECL	Expected Credit Loss
IRRBB	Interest Rate Risk in Banking Book
FX	Foreign Exchange
USD	US Dollars
GBP	Pound Sterling
EUR	Euro
INR	Indian Rupee

This document is divided in to 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 mitigate the 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 available on 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 “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, corporate and commercial banking, trade finance.

The principal currency (functional currency) of the Bank is US Dollars (USD). The overall balance sheet size of the Bank as at 31 March 2018 was USD 439 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 2017-18, the Bank’s strategy and business model continued to generate value for its customers and shareholders. In this context, the Bank has completed the year with sound financial results, having generated sustainable and predictable returns and fulfilled its financial and commercial commitments.

1.1 Key Business Indicators

This section provides summary of analysis of assets portfolio of the bank as of March 2018.
In the financial year 2017-18 our loan portfolio had grown by 22.19% from USD 278 million (Mar-2017) to USD 340 million (Mar-2018). Brief information about bank’s overall assets as of March 2018 is summarised below.

Figure 1: Geographical distribution of credit risk exposure

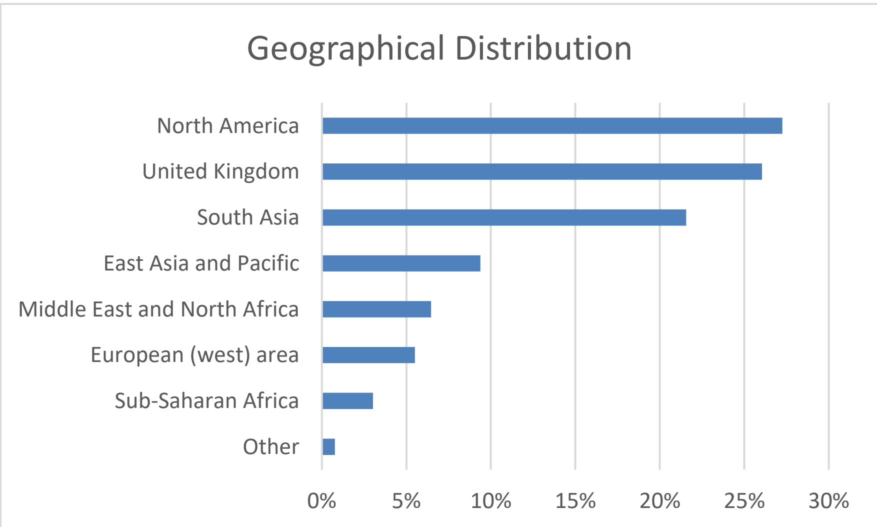


Figure 2: Sectoral distribution of credit risk exposure

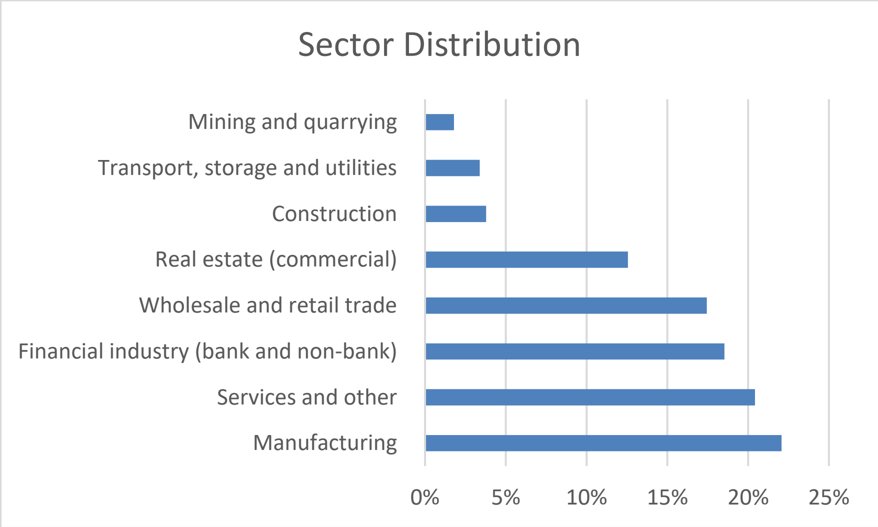


Figure 3: Constitution wise distribution of credit risk exposures

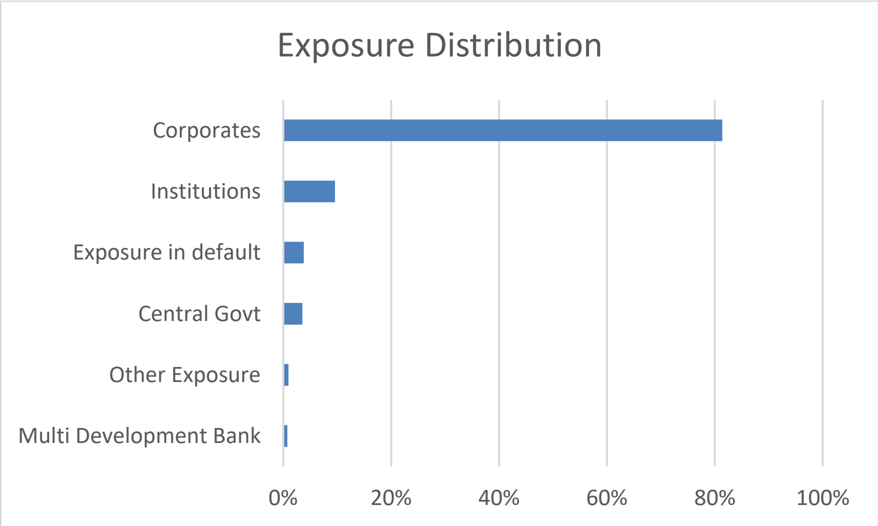
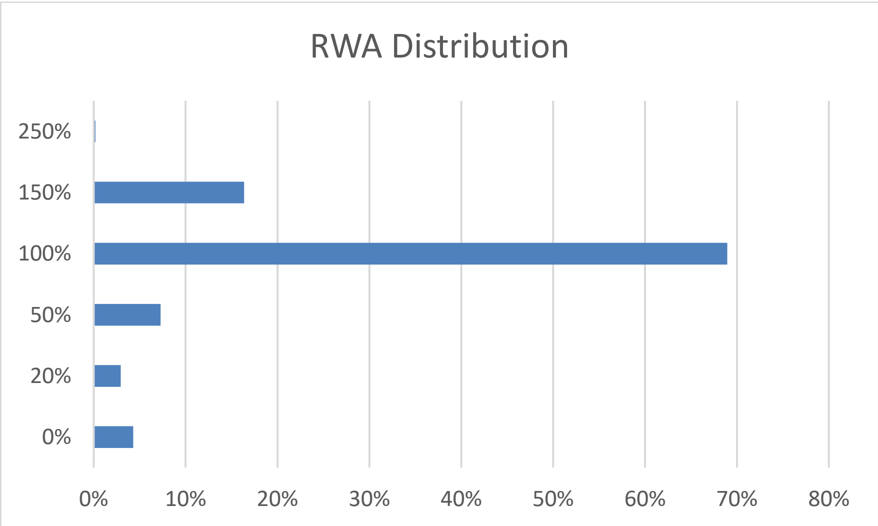


Figure 4: RWAs wise distribution of credit risk exposure



1.2 Regulatory Framework

In December 2010, with the aim of enhancing the quality, consistency and transparency of the capital base and improving risk coverage, the Basel Committee on Banking Supervision (BCBS) published a new 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 incorporated in the European legal order via Directive 2013/36 (CRD IV), which repeals Directives 2006/48 and 2006/49, and Regulation 575/2013 on 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 and EU risk-weighted framework. The UK capital framework comprises four parts:

- Pillar 1 — requirements to provide protection against credit, market and operational risk, 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), the G-SII buffer will be relevant and for domestic systemic firms, the systemic risk buffer will be relevant.

- 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 capital base over and above the minimum requirements as prescribed in ICG (Individual Capital Guidance).

The issued and paid up share capital as of 31 March 2017 was - USD 80 million and GBP 2. There were further infusions during the financial year 2017-18, details of which as follows:

- USD 10 million on 28 December 2017,

The total issued and paid up share capital as at 31 March 2018 was USD 90 Million and GBP 2. Hundred percent of the shares of the Bank are held by the Union Bank of India (the parent Bank).

2. Governance

The Bank places a strong emphasis on internal governance and 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.

The Bank's corporate governance is driven by the Board which comprises of two Executive Directors, two Non-Executive Director representing the shareholder and two independent UK based Non-Executive Directors. All the Directors have considerable banking and regulatory experience.

The Board has the collective responsibility of promoting the long-term success of the Bank. While the Executive Directors have direct responsibility for business operations, the Non-Executive Directors are responsible for bringing independent judgement and to analyse and challenge the decisions taken by the Executive Directors.

For a Risk Management Framework to function effectively, it is important that roles and responsibilities for the management of risk are clearly defined, are communicated and widely understood. The Union Bank UK's approach to assigning these responsibilities is based upon the three lines of defence model, where the:

- First line of defence is responsible for the day to day risk management
- Second line of defence is responsible for risk control, design of risk policies, methodologies and providing oversight and challenge to the first line of defence
- Third line of defence provides independent assurance of the overall system of internal control including assessment of the risk governance framework

The bank's three lines of defence framework is further illustrated in the figure below:

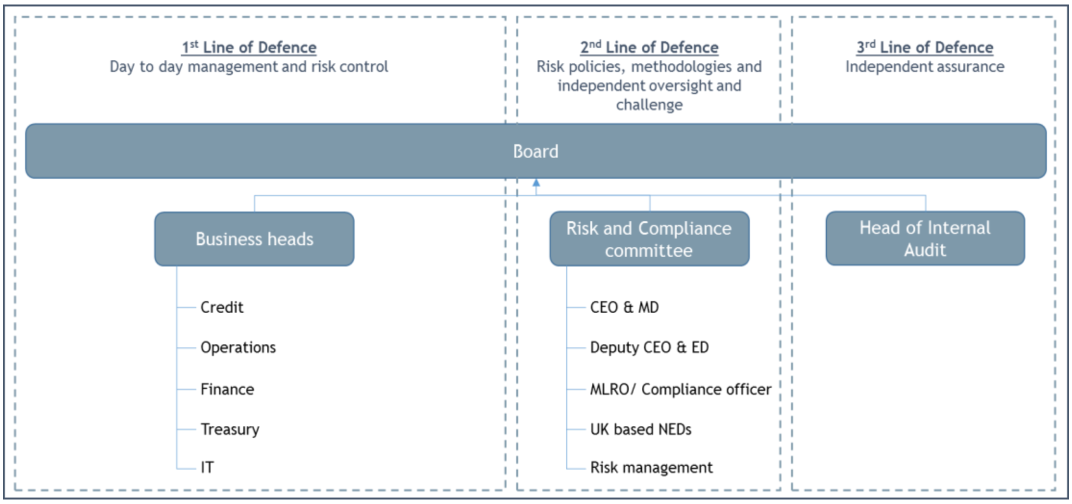


Figure 5: Lines of defence framework

Responsibility for overseeing the risk framework of the Bank is devolved to the following Board committees, each of which is chaired by a Non-Executive Director:

- Risk and Compliance Committee (RCC) meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as Chair) and the two Executive Directors. The Compliance Officer/MLRO and the Risk Manager reports to the RCC.
- Audit Committee of the Board (ACB) meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as Chair), and the Head of Internal Audit reports to ACB.

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

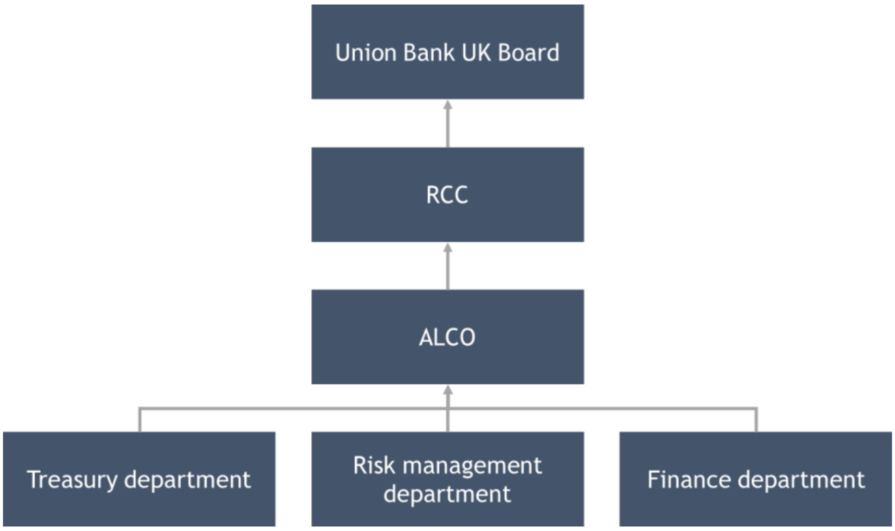


Figure 6: Governance framework

3. Capital management

This section describes Union Bank UK's capital strategy and the related risk appetite

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 necessary and the assessment of minimum capital requirements is a combination of regulatory requirement and sound judgment exercised by the Board. In assessing the adequacy of its capital, the Bank considers all the material risks to which the Bank is exposed.

Union Bank UK's vision is to be a competitive financial institution with 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 diversified manner.

In line with above, as part of the overall risk strategy, six key objectives have been identified by Union Bank UK as summarized in the figure below:

1. Capital Adequacy	Sufficient capital must be held to maintain capital ratios above both the minimum regulatory and 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 on both an ongoing business as usual basis, and in periods of liquidity stress
3. Diversified business model	Minimize business concentration on asset as well as liability side
4. Earnings as per plan	Generate earnings in line with the 5-year stated financial 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 business 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

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

The risk strategy is owned by the Risk Department and approved by the Bank's Board. It 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 has separate Risk Management Framework and Risk Appetite Statement to measure, monitor, manage and mitigate the relevant risks.

Internal Capital Adequacy Assessment Process

The Bank undertakes an ICAAP using RCC approved stress scenarios. The ICAAP process considers all of the known risks faced by the Bank, the probability of these risks occurring and how these are mitigated to derive the amount of Pillar 2 capital that is deemed appropriate to hold in order to absorb losses in a normal environment and under stress conditions.

The ICAAP considers all the relevant risks to establish additional capital resource requirement over the medium term considering Bank's business plans and financial projections. These projections are stress tested under various idiosyncratic and market scenarios, the results of which informed to the management for necessary actions to be taken.

The Board has ultimate responsibility for capital management and capital allocation. The Bank had submitted its last ICAAP in January 2016. 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 summary of calculation of the same.

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 regulatory exposure value of the same.

(USD'000)

		March-2018
1	Total assets as per published financial statements	439,294
2	Adjustment for general & specific provisions for impairment	+3,300
3	Adjustment for Off Balance Sheet exposure	+2,624
4	**Total Accounting exposure value**	**445,218**
5	Adjustment for valuation of investments (HTM)	(355)
6	Adjustments for valuation of derivative financial instruments	+296
7	Other adjustments	(122)
8	**Regulatory exposure before credit conversion factor[1]**	**445,037**
9	**Regulatory exposure after credit conversion factor**	**445,156**
10	**Risk Weighted Assets before SME supporting factor**	**436,976**
11	**Risk Weighted Assets after SME supporting factor**	**436,976**

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 2017 and 31 March 2018.

(USD'000)

		Mar-2018	Mar-2017
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	94,472	81,287
2	Tier 1	94,472	81,287
3	Total capital	94,472	81,287
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	459,690	358,699
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	20.55	22.66
6	Tier 1 ratio (%)	20.55	22.66
7	Total capital ratio (%)	20.55	22.66
	Basel III leverage ratio		
8	Total Basel III leverage ratio exposure measure	445,036	355,619
9	Basel III leverage ratio (%) (row 2 / row 8)	21.23	22.86
	Liquidity Coverage Ratio		
10	Total HQLA	24,913	24,896
11	Total net cash outflow	6,086	1,669
12	LCR ratio (%)	409	1492

Table 2: Bank's prudential regulatory metrics[2]

[1] Credit conversion factors and SME supporting factor are used as per CRR.

[2] Figures are as of 31/03/2017 and 31/03/2018

3.1.3 Overview of total RWA

(USD'000)

Mar-2018		RWA	Minimum capital req. @ 8%
1	Credit risk: Standardised approach	436,976	34,958
2	Credit valuation adjustment (CVA)	63	5
3	Market risk: Standardised approach	7,238	579
4	Operational risk: Basic Indicator Approach	15,413	1233
	Total (1 + 2 + 3)	**459,690**	**36,775**

Table 3: Overview of total RWA

3.1.4 The leverage ratio framework

To complement the risk-weighted capital regime, 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 countercyclical 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-2018
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	402,649
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(120)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)	402,529
Derivative exposures[3]		
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	46
5	Add-on amounts for PFE associated with *all* derivatives transactions	250
6	Total derivative exposures (sum of rows 4 + 5)	296
Securities financing transaction exposures		
7	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	39,587
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 11)	39,587
Other off-balance sheet exposures		
12	Off-balance sheet exposure at gross notional amount	12,934
13	(Adjustments for conversion to credit equivalent amounts)	(10,310)
14	Off-balance sheet items (sum of rows 12 and 13)	2,624
Capital and total exposures		
15	Tier 1 capital	94,472
16	Total exposures (sum of rows 3, 6, 11 and 14)	445,036
Leverage ratio		
17	Basel III leverage ratio (row 15/row 16)	21.23%

Table 4: Breakdown of the components of the leverage ratio denominator

4. Internal assessment of Material risks

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

The Bank has developed a comprehensive risk management framework, setting out the Bank's risk appetite, covering all relevant risks, to ensure that the key risks facing the Bank are clearly identified, understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to. The outcomes of each of these risk management processes are used to identify the material risks that the Bank is exposed to. The Bank is primarily exposed to credit risk, market risk, liquidity risk and operational risk.

The Bank's risk appetite has been developed and articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. The anchors on which the framework has been based, include quantitative parameters such as liquidity - the Internal Liquidity Adequacy Assessment Process (ILAAP) and capital - the Internal Capital Adequacy Assessment Process (ICAAP) as well as qualitative parameters such as reputation risk and conduct risk.

[3] Derivative exposure calculated as per article 274 of CRR.

ICAAP and ILAAP is developed as part of the 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 updated in response to material changes to the business and regulatory environment.

The ILAAP and the ICAAP are reviewed by the PRA, 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 2018 is summarised in the table below.

Pillar 1 risk	**RWA (USD 000s)**	**% Contribution**
Credit risk	436,976	95.07
Market risk	7,238	1.58
Operational risk	15,413	3.35
Total	**459,627**	**100%**

Table 5: RWAs as at 31 March 2018

4.1 Credit risk

Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due. The Bank is exposed to credit risk by virtue of its lending business. In addition, credit risk also arises from the Bank's interbank money market placements and investments in bonds.

Risk management

The Bank has a robust process in place to manage the credit risk at origination as well as during the lifetime of the loan, placement and investments.

All loans go through a detailed pre-sanction appraisal process which considers the loan's specifics and compares with bank's policies and risk appetite. Loan approval authority is delegated to various committees depending on the size of the loan. During 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

The RWAs for credit risk are assessed based on the standardized approach. The table below shows the summary of average risk weights (RWA/Exposure) for different portfolios as of March 2018:

Portfolio	**Exposure (USD 000s)**	**Average risk weight**	**RWA (USD 000s)**
Cash in Hand and at Bank	1,353	20.0%	270
Contingent liabilities	12,934	25.2%	3,264
Debt Securities	97,649	54.4%	53,159
Loans to Customers	339,009	110.6%	374,785
Other Assets	4,521	121.6%	5,498
Total Credit Risk			**436,976**

Table 6: Credit risk RWAs as per March 2018 B/S

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	16,911	323,207	3,300	336,818
2	Debt Securities	-	98,004	-	98,004
3	Off-balance sheet exposures	-	12,934	-	12,934
4	***Total***	**16,911**	**434,145**	**3,300**	**447,756**

Table 7: Credit quality of assets

The Bank uses various techniques to reduce credit risk in its loan portfolio. These include comprehensive review of the ability of the counterparty to repay the facility without distress and in some cases the receipt of collateral for the facility. Below table provides an overview of Credit risk mitigation techniques:

(USD'000)

	Portfolio	a	b	c	d	e
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives	Total Exposure (a+b+c+d)
1	Loans	19,544	318,036	2,538	-	340,118
2	Debt securities	98,004	-	-	-	98,004
3	**Total**	**117,548**	**318,036**	**2,538**	**-**	**438,112**
4	Of which defaulted	-	16,911	-	-	16,911

Table 8: Credit Risk mitigation techniques

Below table provides an overview of exposure by asset class and risk weights:

(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	15,725	-	-	-	-	-	15,725
2	Multilateral development banks (MDBs)	3,411	-	-	-	-	-	3,411
3	Banks	19	2,098	26,092	14,449	-	-	42,658
4	Corporates	-	10,968	6.311	289,027	-	-	306,306
5	High Risk categories					55,920		55,920
6	Other assets	-	-	-	3,416	-	809	4,225
7	Exposure in default					16,911		16,911
	Total	**19,155**	**13,066**	**32,403**	**306,892**	**72,831**	**809**	**445,156**

Table 9: 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

Union Bank UK's portfolio is based on simple products and it does not conduct any significant propriety trading activities. It may be noted that Union Bank UK is classified as a category 5 bank by PRA.

The Bank's key driver of market risk is from its exposure to multiple currencies. The bank operates in three currencies – GBP, USD and EUR with some insignificant exposure to INR as well. All open positions per currency are monitored against specific risk appetite limits on daily basis.

Risk Assessment

Union Bank UK assesses the market risk by calculating the net open position for foreign currencies. The reporting currency of the bank is USD. The RWA calculation as per March 2018 B/S is summarized below:

Foreign Currency	**Open position (USD 000s)**	**Risk weight**	**RWA (USD 000s)**
GBP	7,239	100%	7,239
EUR & INR	-	100%	-
Total Market Risk	**7,239**		**7,339**

Table 10: Market risk RWAs as at 31 March 2018

4.3 Operational risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events.

Risk management

The Bank has put in place an Operational Risk policy to manage operational risk in an effective manner. The primary objective of the policy is to identify the operational risks that the Bank is exposed to from failed, inadequate and/or missing controls, processes, people and systems or from external events or a combination of all five, assess or measure their magnitude, monitor them and control or mitigate them by using a variety of checks. 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 put in place an internal control framework to mitigate identified risks. This framework is set out in the form of departmental policies and procedures, which are reviewed on a regular basis.

Risk Assessment

Union Bank UK follows Basic Indicator Approach for measuring Operational Risk which calculates Pillar 1 capital as 15% of average of the last three years' relevant indicators[4]. The calculation for Operational risk RWAs as of March 2018 is summarised below:

	Relevant Indicator (USD 000s)
Year 1 (2018)	**11,900**
Year 2 (2017)	**7,940**
Year 3 (2016)	**4,810**

Table 11: Relevant indicator for past 3 years (as at 31 March 2018)

	Relevant indicator (USD 000s)	Operational risk scalar	Operational risk capital (USD 000s)	Operational risk RWAs (USD 000s)
Average	**8,217**	**15%**	**1,233**	**15,413**

Table 12: Operational risk RWAs as at 31 March 2018

4.4 Counterparty credit risk (CCR)

Union Bank UK's portfolio is based on simple products and it does not conduct significant propriety trading activities. Counterparty credit risk exposure as of March 2018 is related to 10 derivative exposures with total notional of USD 25MM and measured in line with article 274 of the CRR under Pillar 1 credit risk RWAs.

[4] Calculation as per Article 316 of CRR

4.5 Credit concentration risk

Credit concentration risk is the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions.

Having a diversified business model is one of the key objectives of the bank. In this regard, Union Bank UK monitors the following metrics on a periodic basis and has also assigned them RAG triggers in aligned with its risk appetite:

- Top 20 counterparties on the asset side as a proportion of the B/S (%)
- 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 (Group level) (in % of capital) excl. UST/IBRD/UK Treasury
- Share of loan assets in any industry as a proportion of the lending book (%) (Top 3 industry)
- (Total investments – HQLA)/ (Total B/S – placements - HQLA)

4.6 Interest rate risk in banking book (IRRBB)

IRRBB is the risk of losses arising from changes in the interest rates associated with banking book items.

The bank aims to have a natural hedge by matching assets and liabilities by tenor and currency. In this regard, Union Bank UK monitors the following metrics on a periodic basis and has also assigned them RAG (Red, Amber and Green) triggers aligned with its risk appetite:

- USD B/S only - % of Long term assets funded by Long Term Liabilities
- GBP B/S only - % of Long term assets funded by Long Term Liabilities
- EUR B/S only - % of Long term assets funded by Long Term Liabilities

Further details of bank's interest rate risk management are summarized in its Market risk policy document.

Union Bank UK measures IRRBB by assessing the impact of a 200-bps parallel shock on its Economic Value of Equity. All the exposures are segmented by time buckets on the basis of the next re-pricing date. The NPV of the net gap 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 capital.

4.7 Liquidity risk

This section describes Union Bank UK's risk appetite and strategy.

The Bank aims to maintain sufficient liquidity to have a survival period of 90 days in a combined stress. In addition, the Bank aims to maintain 30-day LCR above 110% at all times.

The risk appetite and strategy are approved by the Board and reviewed annually.

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. PRA 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.

On 10 October 2014, the European Commission published a Delegated Act to supplement EU Regulation (EU) No 575/2013 ('Delegated Act') with regard to the liquidity coverage requirement (LCR) for credit institutions. EU legislation sets out direct requirements for firms on liquidity. The EU Liquidity Coverage Requirement (LCR) sets a prescribed 30-day stress test, which firms must meet with qualifying liquid assets.

The PRA has proposed that UK Banks and in-scope investment firms need to meet a higher LCR requirement of 100% from 1 January 2019.

The Bank conducts stress testing on regular basis to ensure liquidity adequacy. The Board approves the stress testing framework and reviews the outputs of stress testing as part of the approval processes of the ILAAP.

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

Below table provides breakdown of the bank's cash outflows and cash inflows, as well as available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard. [5]

(USD'000)

		a	b
		Total unweighted value (average)	**Total weighted value** (average)
High-quality liquid assets			
1	Total HQLA		30,930
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	11,981	1,839
3	Stable deposits	5,571	557
4	Less stable deposits	6,410	1,281
5	**Unsecured wholesale funding, of which:**	23,462	18,244
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	23,462	18,244
8	Unsecured debt	-	-
9	**Secured wholesale funding**	4,977	4,977
10	**Additional requirements, of which:**	-	-
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	-	-
14	**Other contractual funding obligations**	16,778	1,678
15	**Other contingent funding obligations**	1,440	72
16	**TOTAL CASH OUTFLOWS**		26,809
Cash inflows			
17	Secured lending	-	-
18	Inflows from fully performing exposures	6,994	2,741
19	Other cash inflows	7,333	7,333
20	**TOTAL CASH INFLOWS**	14,327	10,074
			Total adjusted value
21	Total HQLA		24,850
22	Total net cash outflows		16,735
23	Liquidity Coverage Ratio (%)		148

Table 13: Details regarding LCR reporting

[5] Figures reported in column "a" & "b" are the simple average of LCR data as of 31/01/2018, 28/02/2018 and 31/03/2018.

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, affect the Bank's risk profile. It is conducted as part of Bank's annual ICAAP and ILAAP processes.

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 business plan and risk appetite.

These findings are important forward-looking assessments of risk which help to overcome the limitations of models and historical data.

At a high-level the Bank conducts stress testing by:

- Identifying key risks and developing scenarios to analyse how these behave under stressed conditions
- Determining mitigating management actions that can be taken now or on in the future against the risks identified

In summary, stress testing is designed to:

- Evaluate the Bank's robustness under stressed environments,
- Identify key potential vulnerabilities and risk concentrations,
- Identify and demonstrate the impact of management actions (tactical vs. strategic, reactive vs. proactive, top down vs. bottom up, triggers etc.),
- Inform development of early warning Key Risk Indicators (KRIs), and
- Allow the Bank to better understand, plan and manage the risk profile

The Bank conducts stress testing relating to liquidity and capital on regular basis and underlying assumptions are discussed and approved by the Board.

Union Bank UK undertakes the following stress scenarios as part of its ICAAP:

- Idiosyncratic stress - increase in the ECL estimates across its portfolio which leads to increased P&L impact of provisions,
- Market stress - increase in the cost of funding, and
- Combined stress - increase in the cost of funding as well as increase in the ECL estimates across the entire portfolio.

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

- Restriction of new asset generation 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. Higher loss rates, and
3. 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 contract. 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 2017-18:

			a	b
	Remuneration amount in USD'000		Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	8	2
2		Total fixed remuneration (3 + 5 + 7)	713	199
3		Of which: cash-based	713	199
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)**		**713**	**199**

Table 14: 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.