UNION BANK OF INDIA (UK) LIMITED

PILLAR 3 DISCLOSURES UNDER BASEL III FRAMEWORK

For the year ended 31 March 2015

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Background
Union Bank of India (UK) Limited ('UBIUK' or the 'Bank') is a wholly owned subsidiary of Union Bank of India - India, is authorized by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

With effect from 01 January 2014, The Bank has adopted the guidelines issued under the Capital Requirement Regulations and the Capital Requirement Directives (collectively known as CRD IV) under the Basel III regime. The Pillar 3 disclosures covered in this report are in respect of its current year of operations.

Medium of Disclosure
The Bank will make its Pillar 3 disclosures available on its website (www.unionbankofindiauk.co.uk) on an annual basis.

Scope of Application:
The Pillar 3 disclosures have been prepared for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks. The disclosure is intended to convey Bank's risk profile comprehensively to market participants

The Bank is a full CRD firm and its accounting and disclosures are on solo basis. There is no subsidiary/ joint venture of the firm that is required to be consolidated for accounting or prudential purposes. Its parent, Union Bank of India, however, has to consolidate financial statements, capital adequacy and other information required for accounting, prudential and market disclosure purposes, and reports the same to its regulators and market participants on consolidated basis.

Compliance Statement
In accordance with the provisions of CRR Article 435.1(f):

- The Board considers the Bank's risk profile to be in line with its business plan;
- The exposures described in these disclosures and more fully in the annual audited statements of account, are in line with the risk appetite of the Board;
- These disclosures provide additional information to assist external stakeholders with risk-related information not provided within the annual audited statements of account;
- In making these disclosures, the Board has applied the principles of proportionality where it believes appropriate.
- These disclosures relate to the Bank on a solo basis, as the Bank has no subsidiaries.

Capital Management
The Bank endeavours to maintain sufficient capital resources to support its lending business and general business growth. Capital adequacy is reviewed 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 its Risk Appetite, the material risks to which the Bank is exposed and the appropriate management strategies for each of the material risks, including whether or not capital provides an appropriate mitigant.

Internal Capital Adequacy Assessment Process
Pillar 2A / Individual Capital Guidance (ICG) sets out requirements on firms with regard to their internal capital adequacy assessment processes (ICAAP), internal procedures and control mechanisms.

As part of its regulatory obligation, the Bank undertakes, ICAAP using the regulatory capital model. 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 to absorb losses in a normal environment and in stress.

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

The Board has ultimate responsibility for capital management and capital allocation. Day to day responsibility for capital planning and other aspects of capital management are delegated to the Head of Treasury. Stress testing and preparation of the ICAAP is delegated to the Treasury and Risk department.

The Bank submitted its last ICAAP in May 2013. The ICAAP has been fully integrated into the risk management and business planning frameworks of the Bank. The Bank was last the subject of a formal SREP by the PRA in October 2013 with the next formal SREP to be conducted in October 2015. The Bank expects to update its ICAAP and submit this to the PRA prior to this SREP.

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

The Bank’s corporate governance is driven by the Board which comprises two Executive Directors, two Non-Executive Directors representing the shareholder and two independent UK based Non-Executive Directors and meets quarterly. All Non-Executive Directors have considerable banking and regulatory experience gained at a senior level within global financial institutions.

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 scrutiny to decisions taken by the Executive Directors.

The Bank follows the industry standard approach of “3 Lines of Defence” comprising:

• Operational controls as set out in functional and departmental procedures, manuals (Level 1);
• Oversight, monitoring and periodic reporting by the Bank’s control functions (Level 2); and
• Internal and external audit (Level 3).

Senior Management is responsible for ensuring there are effective systems and controls in place to identify, manage, monitor and control risks across all of the Bank’s operations.

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 - meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as chair), the two Executive Directors, and its secretary is the Compliance Officer/MLRO.

Audit Committee - meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as chair), and its secretary is the Head of Internal Audit.

Management Committee - meets quarterly, consists of two independent UK based Non-Executive Directors, one independent Indian based Non-Executive director, and the two Executive Directors.

Risk Governance
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 will be 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 (including compliance, conduct and reputational risk).

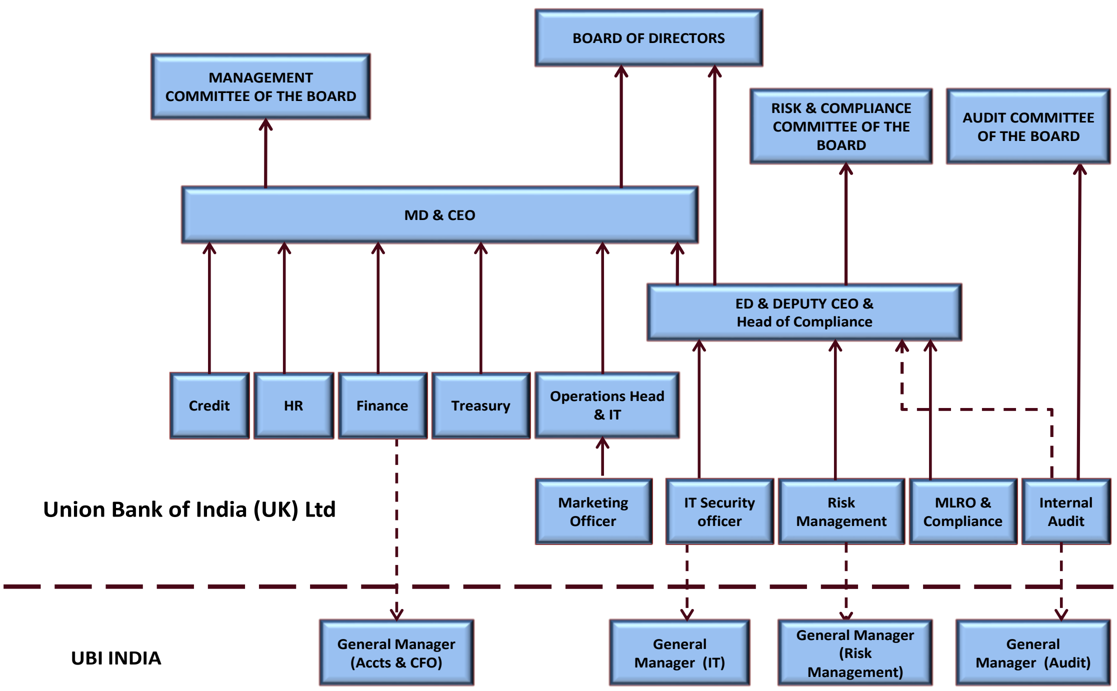
The Bank's risk appetite has been developed and articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. The anchors on which the framework has been based include quantitative parameters such as liquidity - the Individual Liquidity Adequacy Assessment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

The ILAA is prepared on an annual basis along with stress testing and is approved by the Board of the Bank. This is developed as a part of the planning and budgeting process to ensure that the Bank's business plans are achievable within its capital and liquidity resources. ILAA is subject to an interim review and update, should there be any material changes in the business or regulatory environment.

The ILAA and the ICAAP are reviewed by the PRA and PRA advises the Individual Liquidity Guidance (ILG) and Individual Capital Guidance (ICG) for the Bank. The Bank complies with the ILG and ICG at all times.

Stress testing is the process by which the Group's business plans are regularly subjected to severe adverse impact scenarios to assess the potential impact on the business including projected capital and liquidity positions. These are captured in the ILAA and in the ICAAP.

Organisation chart



The Bank has the following committees of executives which help in collective responsibilities for various functions:

Asset and Liability Committee (ALCO)
Executive Management Committee (EMC)
IT and Operations Committee (ITOC)
Investment Committee (IC)
Credit Committee (CC)

The Risk Management department ensures that effective procedures for risk assessment are maintained, to identify the risks relating to the activities, processes and systems of the bank and to recommend such amendments and changes as may be required from time to time to ensure the framework remains fit for purpose.

The Role of the Risk Management department is to:

- recommend appropriate changes to risk governance and organisational structures
- draft and implement policies and procedures in order to maintain compliance with the regulatory framework,
- independently review and comment on all credit applications,
- prepare the ICAAP and ILAA for submission to the Board
- provide periodic reports on risk positions and events to Bank and Board Committees at their regular meetings and
- perform ongoing monitoring and on a regular basis assess the adequacy and effectiveness of the measures and procedures put in place, and the actions taken to address any deficiencies in, the Bank's compliance with its prudential obligations.

In order to assist the Bank management in prioritising and focusing its risk management efforts, the control functions working with line managers maintain a “Risk Register” covering the principal risks faced by the business and which is reviewed annually or in response to material developments in the business environment.

AML and Compliance

The Bank maintains an independent compliance function, which ensures that the business is conducted in compliance with all regulatory requirements. The Bank has a robust AML regime.

The Bank’s compliance function is responsible for ensuring that adequate policies and procedures are in place to maintain the Bank’s and its employees’ compliance with the legal and regulatory obligations in respect of both AML and conduct of business issues. Such policies and procedures are designed to detect and minimise any risk of failure by the Bank to comply with its regulatory obligations, as well as any associated risks.

Internal Audit

The Internal audit function is the third line of defence and is independent of operations. It is responsible for reviewing all business lines and support functions such as IT, Compliance and Risk Management within the Bank. Internal audit provides independent assurance that the Bank’s policies and procedures have been implemented effectively and that there are adequate controls in place to mitigate significant risks so that exposure is within acceptable tolerance levels.

Board Composition and Organisation

The Bank makes the following additional disclosures in respect of the Board:

The Board and its Committees normally meet quarterly, more frequently or by circulation as required to consider specific issues;

The Board duly met in August 2014 and November 2014 and in February 2015 The Board comprises two executive and 4 non-executive directors, 2 of whom are Indian nationals and 2 of whom are British nationals.

The non-executive directors include 2 UK non-executives with considerable banking and regulatory experience gained at a senior level within global financial institutions. Neither holds any other responsibilities within the wider Union Bank of India - Group and between them they Chair Risk and Compliance Committee (RCC) and Audit Committee.

The remaining non-executive directors, which include the Board Chair, have been appointed by the shareholder.

It is the policy to maintain a balance of Indian and UK directors as this best matches the business mix and risk profile of the Bank.

Capital Requirements

The Bank calculates its capital requirements using the Standardised Approach for credit and market risks, and the Basic Indicator Approach for its operational risk charge.

The Bank is currently operating under ICG set by the Prudential Regulatory Authority at the time of the Bank's authorisation in September 2013.

As at the reporting date the Bank's Own Funds per Article 437 were as follows:

Detail	Amount (USD '000)	Notes
Called up share capital	40,000	
Revenue reserves	(1,852)	Retained earnings and Fair value reserves
Tier 1 capital	38,148	

The Bank's Capital Requirements as at the reporting date were:

Detail	Risk weighted amount (USD '000)	Pillar 1 @ 8% Capital Requirement
Central governments	-	-
Corporates	51,299	4,104
Institutions	54,168	4,333
Multinational Bank	-	-
Other assets	2,618	209
Retail	672	54
Total credit risk	108,757	8,700
Market risk	2,950	236
Operational risk	261	21
Total Risk exposure	111,968	8,957
Surplus of CET1 capital	33,109	
Surplus of total capital	29,191	
Capital adequacy ratio	34.07%	

Risk Management

The Bank uses a risk register to assess its key risks. The risk MI is reviewed every quarter by the RCC. The internal controls is designed to enable the Bank to achieve its corporate objectives within a managed risk profile, not to eliminate risk entirely.

Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in financial loss to the Bank. The Bank has a Credit Risk Management and Loan Policy ("CRMLP") in place. The CRMLP describes the principles which underpin and drive the Bank's approach to credit risk management together with the systems and processes through which they are implemented and administered. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Concentration risk, which adds a further dimension to credit risk, arises as a result of any concentration of exposures within the same category, be it geographical location, industry sector or counterparty type. For the Bank's customer advances, the principal concentration risk is geographical, as the majority of its lending is in India. While much of the business is concentrated there, advances are also made to customers in the UK, USA and other parts of world.

Counterparty Credit Risk Exposures

The Bank operates under comprehensive credit risk management policies which include exposure limits designed to mitigate concentration risks in the portfolio. These limits are set by the Bank's Credit Committee and are continually monitored to ensure ongoing compliance.

Limits have been set for:

- Individual and aggregate large exposures
- Maximum exposures for assets of particular credit ratings at both individual asset and portfolio levels
- Maximum exposures to individual countries and economic sectors
- Product limits

Individual loan assets are analysed and rated using the credit rating model of Union Bank of India, the parent Bank, India, such ratings being reviewed and affirmed by the risk function.

Loan Portfolio Analyses as at 31st March 2015

Country exposure:

Countries	USD '000 Exposure	% of Total Exposure
Belgium	8,976	6.8%
Germany	267	0.2%
India	75,604	57.2%
Philippines	4,020	3.0%
Switzerland	10,000	7.6%
UK	18,273	13.8%
USA	15,098	11.4%
Total	132,238	100.0%

Economic sector:

Industry	USD '000 Exposure	% of Total Exposure
Banking	80,980	61.2%
Engineering	7,866	5.9%
Infrastructure	9,000	6.8%
Jewellery	8,976	6.8%
Manufacturing	10,679	8.1%
Mining and quarrying	5,939	4.5%
Real estate	2,375	1.8%
Retail and other	1,673	1.3%
Trade	4,750	3.6%
Total	132,238	100.0%

Credit risk mitigation
The Bank uses various techniques to reduce credit risk of its lending. 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 advanced as well as structuring transactions in order that the underlying commodity is effectively under the control of the Bank.

Market risk
Currency risk is the risk that arises from the change in price of one currency against another.

The Bank is mainly exposed to fluctuations in the value of INR and GBP. During the ordinary course of its business, the Bank enters into sales and purchase transactions denominated in foreign currencies, hence an exposure to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters.

The currency risk is managed by minimising the time delays between the date the Bank becomes party to the contract and the date of the related cash receipt or payment.

Operational risk
Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process, systems, people or external events. Major sources of operational risks for the Bank are identified by management as IT security, internal and external fraud, process errors, money laundering risks and external events like failure of transportation, non- availability of utilities etc.

The Bank has identified each of such possible eventualities and established mitigation processes and internal controls, including IT Security Policy for all financial transactions, a Business Continuity Plan in case of a disaster, documentation of processes and procedures, AML/CFT guidelines, staff handbook, TCF policy, anti-bribery and corruption policy, records retention policy, compliance code of conduct etc. These are reviewed periodically.

Conduct risk
Conduct Risk is the Risk of the Bank treating its retail customers unfairly and delivering inappropriate outcomes. The fair treatment of customers is of paramount importance to the Bank. The Board believes that the way the Bank conducts its business and the fair treatment of its customers shall be integral to its corporate culture, embracing the FCA Principle 6 which states: “a firm must pay due regard to the interests of its customers and treat them fairly”.

Liquidity risk
Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due.

Liquidity risk is managed by balancing its cash flows with forward thinking rolling time bands so that under normal conditions the Bank is comfortably placed to meet its payment obligations as they fall due. The immediate focus is on short-term liquidity because assets and liabilities run off and are replaced; the pattern of the Bank’s more long-term liquidity will be reconstituted many times over before their settlement time draws near.

The Bank has developed its ILAA document as required by the PRA and has stress tested the liquidity adequacy, the results of which have been reviewed by Senior Management during the year.

The responsibility for ensuring that the Bank can meet the obligations as they fall due rests with the Bank’s management. Under the PRA regulations the Bank is compliant of its ILG on an ongoing basis. The Bank has a prudent liquidity policy and adequate management systems and controls in place to ensure that the policy is adhered to at all times.

The Bank maintains a Liquid Asset Buffer (LAB) in eligible securities as part of its routine liquidity management activities and in order to meet its regulatory obligations.

The Bank was fully compliant with its ILG set by the Prudential Regulatory Authority throughout the year and at the year end. The Bank is comfortably placed in meeting its liquidity requirements and is confident to meet the LCR guidelines when they become operational this year.

Monitoring and reporting
The Bank monitors and tracks current exposures against the limits defined from the Risk Appetite and reports exceptions on a quarterly basis to the Risk and Compliance Committee and Board. Adherence to these limits is monitored, measured and reported on using a suite of key indicators defined by RCC.

Leverage ratio
From January 2014, the Basel III capital accord, which is being implemented by the EU via 'Capital Requirements Directive IV' (CRD IV), has become effective. This requires the disclosure of the Bank's leverage ratio, which measures the level of Tier 1 capital against both on and off balance sheet exposures. At 31 March 2015 the Bank's leverage ratio was 27.09%, against the minimum ratio required by CRD IV of 3.0%.

Impairment
The Bank follows IFRS standards in accounting for its impaired assets.

The Bank has a comprehensive Policy which sets out the processes and procedures covering the identification and subsequent management and recovery of impaired assets

The Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The Bank had no impaired assets as at 31st March 2015 and provisions on loans and other exposures to counterparties at that date stood at Nil.

Derivatives
The Bank has not traded in derivatives during the year. Any derivatives held are solely for balance sheet management and hedging purposes. At the reporting date, neither the absolute level of exposure nor the mark-to-market profit or loss was considered material for purposes of these disclosures.

Remuneration
The Bank has two pay groups of employees in the UK - those on secondment to the Bank from the Parent Bank and those who are locally recruited. The employees on secondment 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 NI and reimbursement of furnished accommodation, utility bills, telephone, newspaper and medical 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 fixed salary and allowances per annum.

None of the employee of the Bank falls in the category of high earners. There is no separate remuneration committee of the Bank. No external consultant has been engaged for the purpose. No bonus, overtime or incentive is paid by the Bank to its employees. There is no link between pay and performance. There is no deferral policy or variable pay. There is no variable remuneration. No sign-on or severance payment was paid to any employee/ director.

Conclusion
This disclosure document, prepared in accordance with the requirements of BIPRU 11.3, is intended to provide background information on the Bank's approach to risk management. It also provides asset information and capital calculations under Pillar I.

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 of the disclosures given, 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.