2021

PILLAR – III DISCLOSURES

Union Bank of India (UK) Ltd

Table of Contents

Glossary

ACB	Audit Committee of the Board
ALCO	Asset and Liability Committee
B/S	Balance Sheet
BoE	Bank of England
BCP	Business Continuity Plan
CEO	Chief Executive Officer
CET I	Core Equity Tier One
CRD	Capital Requirements Directive
CRR	Capital Requirement Regulations
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
TCR	Total Capital Requirement
IBOR	Inter-Bank Offer Rate
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
OLAR	Overall Liquidity Adequacy Rule
PFE	Potential Future Exposure

PRA	Prudential Regulation Authority
RAG	Red Amber Green
RCC	Risk and Compliance Committee of the Board
RW	Risk Weights
RWA	Risk Weighted Assets
SFT	Securities Financing Transactions
SME	Small and Medium Enterprises
SREP	Supervisory Review & Evaluation Process
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

Overview

This document is divided into following 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.

Basis of disclosure

This document presents the Pillar 3 disclosures on capital and risk management for the Union Bank of India (UK) Ltd. ("the Bank") on an individual basis. There is no subsidiary/joint venture of the Bank that is required to be consolidated for accounting or prudential purposes. The Pillar 3 Disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purposes.

In accordance with Article 432 of the CRR, the Bank is permitted to exclude certain disclosures if they contain proprietary or confidential information or are non-material.

Disclosure Policy

The Bank has a formal, Board approved policy which details its approach to complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR (and any updates as appropriate).

Regular Update

This document will be reviewed periodically (at least annually). If necessary, adjustments will be made subject to the approval of the RCC to adequately reflect changes in business strategies or relevant external aspects (e.g., regulatory changes, operating environment changes). Disclosures will be updated annually.

Frequency

This disclosure is made on an annual basis on the website of the Bank. The disclosures will be as at the accounting reference date (ARD) i.e., as at March 31st. The current disclosures are for the balance sheet date 31st of March 2021.

Verification and Medium

In line with the revised Pillar 3 disclosure requirements published by the EBA, the Group's Pillar 3 policy requires that "information required to be disclosed by Part Eight of the CRR is subject (at a minimum) to the same level of internal review and internal control processes as the other information provided by institutions for their financial reporting".

These Pillar 3 disclosures have been verified and approved through internal governance, including review by the Management Committee and approval by the Board. The disclosures are not subject to independent audit, except where they are the same as those audited disclosures prepared under accounting requirements and disclosed in the Annual Report and Financial Statements of the Bank. Certain disclosure information required can be found in the Annual Report and Financial Statements of the Bank.

The Directors of the Bank, confirms that to the best of their knowledge that the disclosures provided according to Part Eight of the CRR have been prepared in accordance with the internal control processes agreed upon at the management body level.

Media and location

The Bank will make its Pillar III disclosures publicly available, via its website (www.unionbankofindiauk.co.uk) on an annual basis. The parent Bank's consolidated disclosures are available at (https://www.unionbankofindia.co.in/english/basel-disclosures-iii.aspx).

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 summarizes 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 authorized by the PRA and regulated by the FCA and the PRA. The Bank received authorization as a UK Bank from the PRA on 6th September 2013, and started raising deposits from 10th July 2014.

The Bank’s focus is 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 31st March 2021 was USD 391 million.

These disclosures have been prepared with due consideration to comprehensiveness and proportionality.

In 2020-21, the Bank has suffered losses, which are primarily attributable to increased provisioning requirements due to an increase in Stage 3 Loan accounts and ageing of the existing Stage 3 loans. The Board has put forth business plan for the next five financial years wherein the focus will henceforth be more on UK based assets and other assets sourced through syndication channel and minimize the stressed assets in order to ensure sustainable growth with 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 2021, at which date, the loan portfolio stood at ~ USD 318 million (compared to ~ USD 300 million on March 2020).

The portfolio is summarised below –

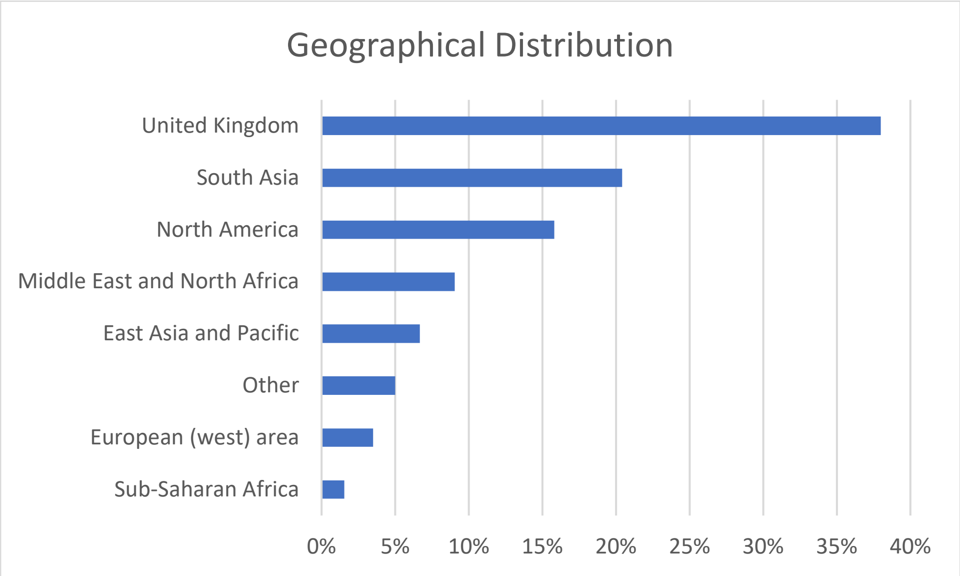

Figure 1: Geographical distribution of Credit risk exposure

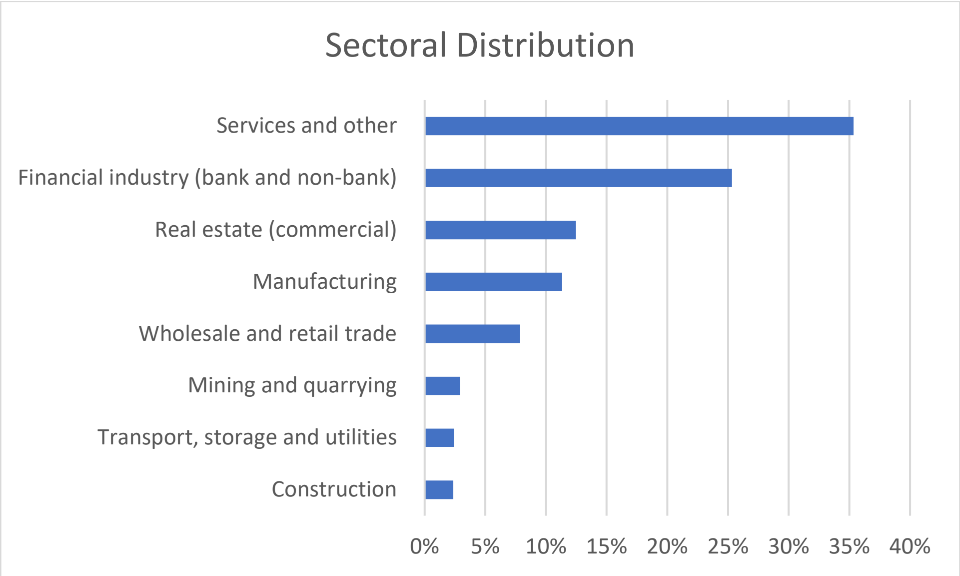

Figure 2: Sectoral distribution of Credit risk exposure

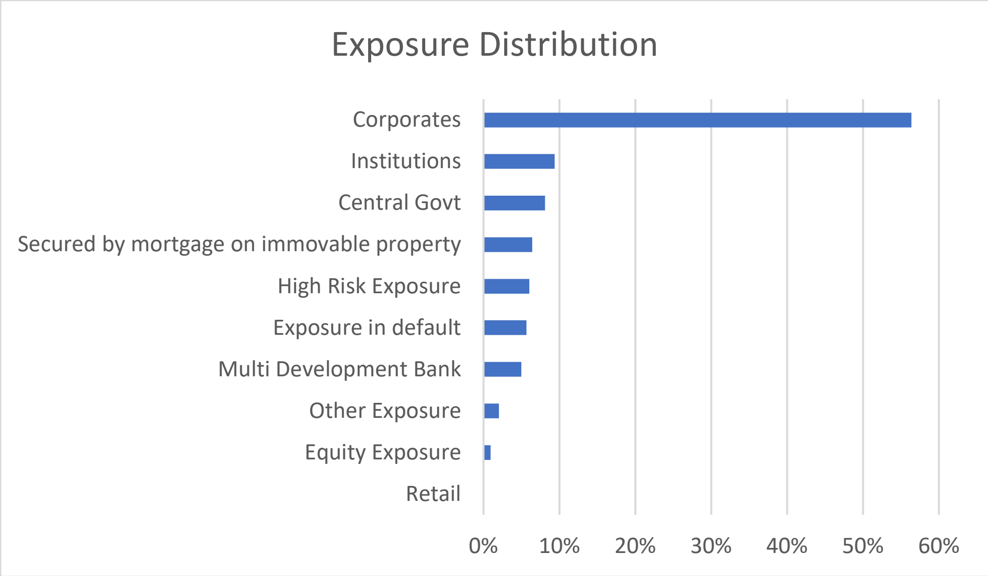

Figure 3: Constitution wise distribution of Credit risk exposure

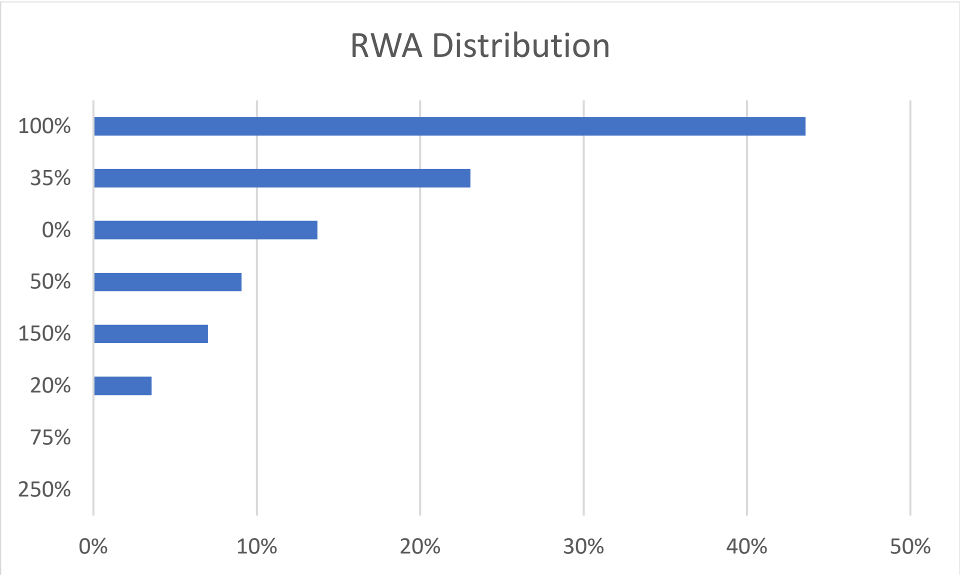

Figure 4: Risk weighted distribution of Credit risk exposure

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 and Disclosures

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.

- **Pillar 3 Disclosure** aims to complement the capital requirement and supervisory review process as mentioned in the above four parts by encouraging market discipline through developing a set of disclosure requirements that allow market participants to assess the scope of application, risk exposures, risk assessment process and capital adequacy of firms. The Pillar 3 disclosures contained within this document have two principal purposes:

    - to meet the regulatory disclosure requirements under Part Eight of the Capital Requirements Regulation (CRR), supplemented by any specific additional requirements of the European Union (EU) and the Prudential Regulatory Authority (PRA); and
    - to provide transparency and further useful information on the capital and risk profile of the Bank.

The Bank always maintains SURPLUS capital in excess of the minimum regulatory requirements prescribed by the PRA by way of SREP.

1.3 COVID-19

The pandemic has impacted the economy in many ways. From lockdown restrictions shutting down many businesses to limits on mobility, voluntary and enforced, the economic impact has been severe. However, vaccines rollout is offering a ray of economic hope.

Covid-19 risks include but not limited to coronavirus containment measures failing, worsening of volatility in financial and commodities market and the disruption in demand-supply chain. While lower official interest rates and government stimulus actions provide some relief, the slump in demand is likely to lead to declining credit quality and rising defaults, particularly among non-financial corporates with weaker credit profiles.

On operations level, the Bank had invoked BCP in March 20. The lockdown measures announced by the UK Government were implemented within the Bank and BCP plan was invoked on 23rd of Mar'20. The detailed plan approved by the management for smooth operations includes VPN connections to the staff members as per the requirement for remote access to local inhouse servers, drive access and critical servers, diversion of customer calling telephone lines to respective officials, required mail access to all the staff members, appropriate creation, management and monitoring of all IT Infrastructures. As on date, the Bank has successfully implemented work-from-home and Business as Usual (BAU) working is going on. The Bank is closely following the government guidelines and working from the primary site with proper social distancing and other measures in place. The Board considered in depth impact of Covid-19 while performing going concern assessment.

The Bank has incorporated the effects of COVID-19 as estimated at the balance sheet date, particularly in relation to the valuation of assets, impairment provisions and in considering Going Concern, and continues to monitor the situation as it develops through 2021 and beyond.

The Bank during this crisis has considered the requests of the borrowers seeking payment holidays favourably on case-to-case basis. A Board approved COVID approach paper was followed for assessing the requests received.

The impact of present pandemic over various customers were assessed by the Bank in order to assess and calculate the credit risk on the customers impacted by COVID and additional impairment allowance was booked over and above the modelled output. Such an exercise is being followed on a quarterly basis to ensure that the Bank's credit risk assessment depicts the true picture as on the date.

The Bank has booked additional provision on account of COVID overlay for USD 675,362 as of Mar'21.

The Bank shall continue to monitor the situation and apprise the Board of impact on a quarterly basis.

1.4 Regulatory Developments

The Bank continues to monitor and prepare for a number of regulatory changes taking effect over the next few years.

Regulation changes

Amendments to the CRR and Capital Requirements Directive (CRD) were published in the Official Journal of the European Union on 7 June 2019, including amendments due in June 2021. However, in a joint statement, published on 16 November 2020, Her Majesty's Treasury, the PRA and the Financial Conduct Authority (FCA) confirmed a date of 1 January 2022 for implementing those **Basel III reforms** which make up the UK equivalent to the outstanding elements of the EU's 2nd CRR.

The Group of Central Bank Governors and Heads of Supervision (GHOS), announced in March 2020 that the implementation of the **Basel 3.1 standards** would be delayed by one year to 1 January 2023. Throughout this document, the original and amended regulation (CRR and CRR2) and directive (CRD IV and CRD V) are collectively referred to as CRR and CRD.

Following the UK's withdrawal from the EU and the ending of the transition period, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.

1.5 Minimum requirement for owned funds and Eligible Liabilities (MREL)

MREL sets out the minimum requirement for own funds and eligible liabilities, which can feasibly and credibly bear losses in the event of a resolution.

In the event of an adverse and extreme stress scenario, if the Bank enters resolution, the EBA in order to ensure an orderly resolution has introduced MREL which is to be complied by all firms falling under its purview.

Based on the Bank of England guidance on MREL (June 2018) and the letter dated 9th January 2019, the Bank is a Modified Insolvency firm and its MREL requirement is equal to minimum capital requirement excluding Buffers i.e., Pillar 1 + Pillar 2A and is not an additive requirement.

As per the PRA's guidance dated November 2020, Pillar 1 + Pillar 2A is 14.57%. Therefore, as mentioned above, the MREL requirement will also be 14.57%.

Thus, the Bank maintains minimum capital requirement as per its TCR and also shall be fully compliant with MREL requirements as well.

1.6 BREXIT

The Brexit transition period ended on 31 December 2020, with the UK agreeing a trade deal with the European Union.

In preparation for Brexit, the Bank actively considered the potential risks associated with the UK's exit from the EU and their impact on both the UK financial services market and the Bank itself.

As the Bank does not have any branch or business operations outside UK, change in passporting rights does not have any direct impact on the Bank's operations.

The impact of Brexit also has been considered in stressing the capital and liquidity requirements of the Bank.
As a UK operated Bank with no major exposure in EU, the Bank does not consider BREXIT posing a major risk to its credit profile.

1.7 Climate Change

Climate Change poses a threat to the Bank's ability to deliver its customer proposition and maintain service standards, and consequently has a less direct but geographically far broader impact on the Bank's business model.

Considering the PRA's recent Policy statements, Board had approved the Climate Change Risk policy for the Bank. It has mandated that, the potential consequences of Climate Change should be factored into all aspects of business planning and forecasting, stress testing and the assessment of current assets and future business propositions.

The Bank ensures that all new loan exposures are being assessed from a Climate Change perspective, and Risk Management has been championing the need for assessing Climate Change Risk. The Credit Committee and the Head of Corporate Lending has been reviewing this for all the new exposures and ensuring the guidelines as per policy is met, before taking a new exposure.

The evolution of quantitative metrics related with climate-related risk exposures is heavily dependent upon the introduction of regulatory requirements and corresponding reporting obligations. Hence, the Bank has not considered it as necessary to allocate additional risk capital to these exposures until better informed scenarios, viable assessment metrics and regulatory expectations are stabilised and implemented.

1.8 IBOR Reform

The Bank is in process of moving its exposure linked to the LIBOR to the new Risk-Free Rate regime. The process is overseen and monitored by a Steering Committee for ensuring compliance to all the regulatory guidelines and smooth transition.

2. Risk Management and Governance framework

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

The Bank has a Risk Management Department which identify, assess and monitor all its principal risks in accordance with defined policies and procedures. The Risk Management department is independent of the business units and the Chief Risk Officer reports directly to the Risk and Compliance Committee of the Board primarily, and to the Managing Director and Chief Executive Officer for operational & administrative purposes. The Bank has developed a Risk Management Framework articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. The framework is based on both quantitative parameters such as capital, liquidity and earnings volatility as well as qualitative parameters such as conduct and reputational risk as detailed in the Board approved Risk Appetite Statement of the Bank.

The risk appetite statement has been further drilled down into portfolio-level limits, which include concentrations limits encompassing sectoral and large exposure limits. The Risk Management department of the Bank monitors adherence to the risk appetite limits and reports it to the Risk and Compliance Committee on a quarterly basis. The individual limits have also been assigned an Appetite owner and a sub-committee to monitor them on more frequent basis and taking remedial actions on breaches immediately.

The Bank operates within a comprehensive risk management framework to ensure that the key risks are clearly identified, understood, measured and monitored with established processes and procedures to address and manage these risks. The Bank is primarily exposed to credit risk, market risk (predominantly interest and exchange rate risk), liquidity risk and operational risk.

Good governance is critical to delivering a sound and well-run business. At the centre of good governance is an effective Board.

Board is comprised of two Executive Directors, two Non-Executive Directors (representing the shareholder), two independent UK based Non-Executive Directors and one UK Based Non-Executive Director (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 and responsibilities are clearly defined and also 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 (RCSA)
- 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 –

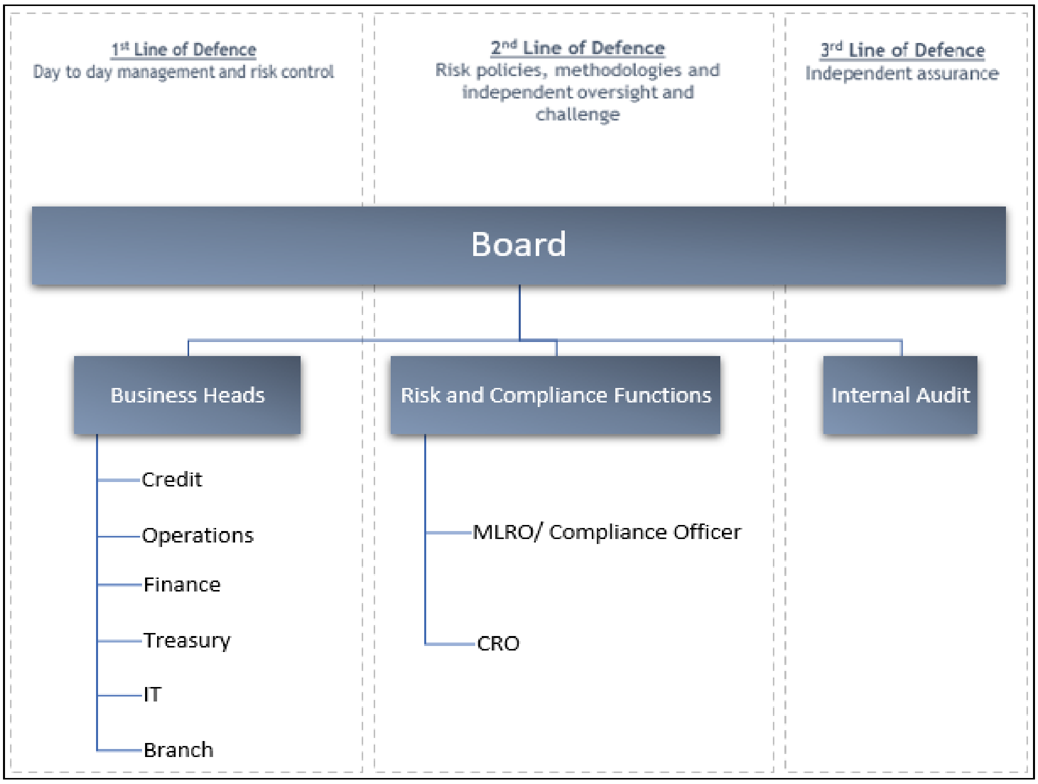

Figure 5: Lines of defence framework

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 the Chair), one UK based Non-Executive Director 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 the Chair).

- The Internal Auditor reports to ACB.

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

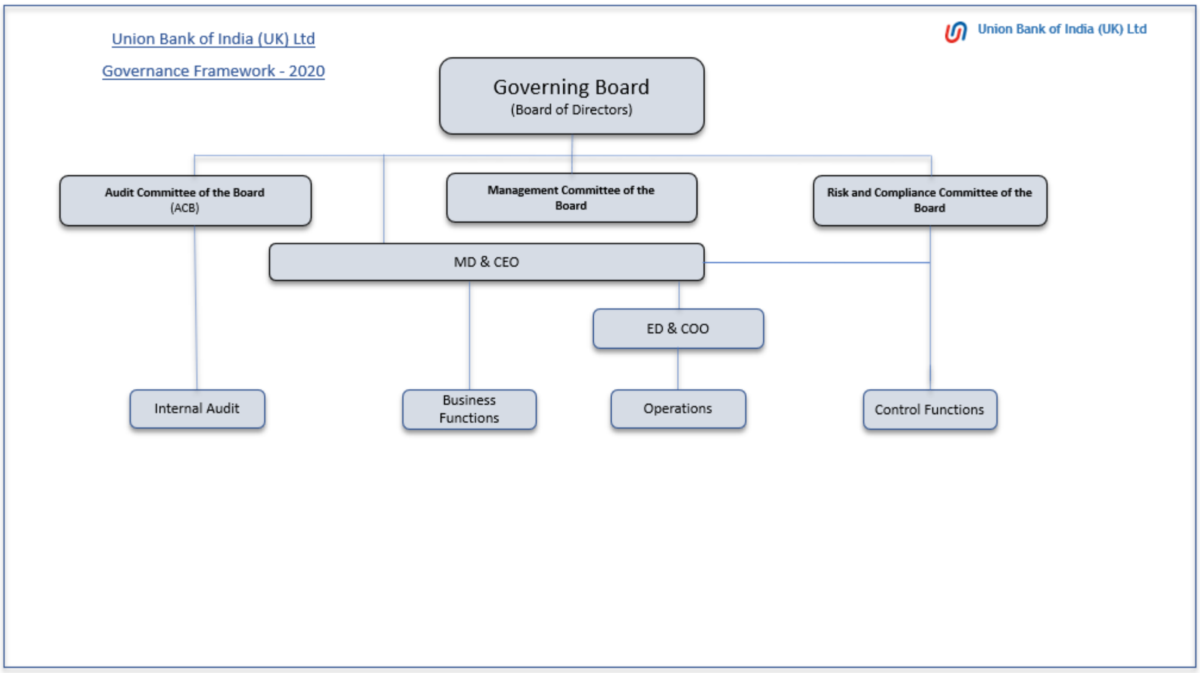

Figure 6: Governance framework.

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 endeavors to maintain sufficient capital resources to support its lending business and overall 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 shareholder. 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 concentration 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 the 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
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 context of the Bank's 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 Capital Adequacy

The Bank aims to provide optimum added value to its customers and create sustainable shareholder value through business growth in a diversified manner. The Bank's capital comprises Tier 1 equity funded by its Parent Bank with an additional 1.25% of the Credit risk RWA as Tier II Capital.

For the planning horizon, the Bank's capital strategy is to retain all earnings and pay no dividends to build up its capital base further.

The amount and composition of the Bank's capital requirement is determined by assessing the minimum capital requirements under Pillar 1 based upon the Capital Requirements Directive, regulatory Pillar 2A requirement, the impact of stress and scenario tests and the Bank's Total Capital Requirement (earlier known as Individual Capital Guidance).

The Bank uses regulatory capital ratios in order to monitor its capital base and these capital ratios remain the international standards for measuring capital adequacy. The PRA's approach to such measurement under CRD IV is primarily based on monitoring the Capital Resource Requirement to available capital resources. The Bank continues to comply with the regulatory capital requirements.

In line with the regulatory requirements of PRA, the Bank has instituted an Internal Capital Adequacy Assessment Process (ICAAP) which is used to estimate the capital requirements in line with the risk appetite of the Bank. The ICAAP is approved by the Board of the Bank.

Capital is provided for the purposes of unforeseen and unexpected events based on the risk assessment for each of the underlying asset class in the Bank's portfolio. Further, in line with industry practice, the Bank acknowledges that capital is not the only mitigating factor for all unforeseen events and contingencies. Therefore, appropriate risk management and governance practices are in place to actively monitor and manage the risks the Bank is exposed to in the course of executing its business. Further information on the Bank's risk management and governance is provided in subsequent sections and details are available in the Bank's Annual Report for the year ended March 31, 2021.

3.1.1 Enhanced disclosures

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

Capital resources

At March 31, 2021, the capital ratio remained adequate at 33.52%, with a Tier 1 capital ratio of 32.37% which is above the regulatory requirements. The following tables summaries the capital position and detail the capital resources of the Bank as at March 31, 2021.

Capital Ratios

Particular	Ratios (March 2021)
Overall Capital Adequacy Ratio	33.52%
Tier I	32.37%

Available Capital

Particular	2021 (USD'000)
Tier I Capital	111,081

Composition of Tier I Capital

Particular	2021 (USD'000)
Paid up capital	150,000
Accumulated other comprehensive income	537
Retained earnings	-38,720
Deduction from Capital	-736[1]
Total Available Capital	**111,081**

[1] Other adjustments include deduction on account of Credit Valuation Adjustment and deduction on account of Intangible assets.

3.2 Comparison of accounting assets vs regulatory exposures

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

(USD'000)

	Particulars	Mar-21
1	Total assets as per published financial statements	391,215
2	Adjustment for general & specific provisions for impairment	3,815
3	Adjustment for Off Balance Sheet exposure	10,088
4	**Total Accounting exposure value**	**405,118**
5	Adjustment for valuation of investments (HTM)	2,869
6	Adjustments for valuation of derivative financial instruments	3,056
7	Adjustment for cash collateral	-
8	**Regulatory exposure before credit conversion factor [1]**	**411,043**
9	**Regulatory exposure after credit conversion factor**	**402,973**
10	**Risk Weighted Assets before SME supporting factor**	**314,895**
11	**Risk Weighted Assets after SME supporting factor**	**314,895**

Table 1: Comparison of accounting assets vs regulatory exposures

3.3 Minimum capital requirement

The PRA last reviewed the bank's Total Capital Requirement ("TCR") on 18th November 2020. Composition of TCR is as follows: -

TCR component	PRA guidance, in 18th Nov 2020 letter (% of RWAs)
Pillar 1	**8.00%**
Pillar 2A	**6.57%**
- Concentration risk	*3.95%*
- Operational risk	*1.55%*
- IRRBB	*1.13%*
- Market risk	*0.12%*
- Less P2A adjustment as per PS15/20[2]	*(0.18%)*
Total	**14.57%**

Pillar 1

Banking operations are categorized as either trading or banking book[3], and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank determines its Pillar 1 regulatory capital requirement based on the following approaches: -

- Credit risk - Standardised approach
- Operational risk - Basic Indicator Approach
- Market risk - Standardised Approach

The Pillar 1 RWA assessment as of the 31st March 2021 Balance Sheet is summarised in the table below.

Pillar 1 risk	Capital @ 8% (USD 000s)
Credit risk (includes CVA)	25,273
Market risk	480
Operational risk	1,699
Total	**27,452**

[2] PS 15/20 https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policystatement/2020/ps1520.pdf

[3] As on Mar'21 only derivative exposure was classified as trading exposure.

Pillar 2A

The Bank's Pillar 2A requirement as per the PRA's Total Capital Requirement, (earlier known as Individual Capital Guidance) applicable as at March 31, 2021 was 6.57% of total Risk Exposure amount.

Countercyclical Capital Buffer

The countercyclical capital buffer ("CCyB") aims to ensure that banking sector capital requirements take account of the macro-financial environment in which banks operate. Its primary objective is to use a buffer of capital to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk.

In United Kingdom, Financial Policy Committee is responsible for recognizing or setting up of CCyB rates in respect of foreign exposures.

As a measure to boost the credit growth in the economy on account of impact of COVID-19 pandemic, Financial Policy Committee (FPC) set the UK countercyclical capital buffer (CCyB) rate at 0% with immediate effect on 11th of Mar'20. FPC's decision supports continued provision of financial services to the real economy, including the supply of credit.

As a result, the CCyB as on Mar'21 applicable for the Bank on UK exposures is 0%.

3.4 Bank's prudential regulatory metrics

The below table provides capital adequacy, leverage and liquidity ratios as of 31st March 2021 and 31st March 2020.

(USD'000)

		Mar-21	Mar-20
	Available capital (amount)		
1	Common Equity Tier 1 (CET1)	111,081	120,703
2	Tier 1	111,081	120,703
3	Total capital	115,017	120,703
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	343,147	354,835
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	32.37%	34.02%
6	Tier 1 ratio (%)	32.37%	34.02%
7	Total capital ratio (%)	33.52%	34.02%
	Basel III leverage ratio		
8	Total Basel III leverage ratio exposure measure	402,973	410,130
9	Basel III leverage ratio (%) (row 2 / row 8)	27.57%	29.43%
	Liquidity Coverage Ratio		
10	Total HQLA	64,886	30,713
11	Total net cash outflow	4,486	2,067
12	LCR ratio (%)	1446%	1486%

Table 2: Comparison of Capital Adequacy, Leverage, and Liquidity Coverage Ratio

3.5 Overview of total RWA

(USD'000)

S No.	Particulars	RWA Mar-21	Minimum capital req. @ 8%
1	Credit risk: Standardised approach	314,895	25,192
2	Credit valuation adjustment (CVA)	1,018	82
3	Market risk: Standardised approach	6,003	480
4	Operational risk: Basic Indicator Approach	21,231	1,698
	Total (1 + 2 + 3)	**343,147**	**27,452**

Table 3: Overview of total RWA

3.6 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.

Table below provides detailed breakdown of the components of the leverage ratio denominator for the Bank–

(USD'000)

S No	Particulars	Mar-21
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	388,727
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	--
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (Sum of rows 1 and 2)	**388,727**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	2,959
5	Add-on amounts for PFE associated with all derivatives transactions	1,533
6	**Total derivative exposures (sum of rows 4 to 5)**	**4,492**
Securities financing transaction exposures		
7	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	7,737
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)**	**7,737**

S No	Particulars	Mar-21
Other off-balance sheet exposures		
12	Off-balance sheet exposure at gross notional amount	10,087
13	(Adjustments for conversion to credit equivalent amounts)	(8,070)
14	**Off-balance sheet items (sum of rows 12 and 13)**	**2,017**
Capital and total exposures		
15	**Tier 1 capital**	111,081
16	**Total exposures (sum of rows 3, 6, 11 and 14)**	**402,973**
Leverage ratio		
17	**Basel III leverage ratio (Row 15 / Row 16)**	**27.57%**

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

4 Internal assessment of material risk

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 are 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 primary 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 Total Capital Requirement (TCR) for the Bank. The Bank adheres to the benchmarks set by the PRA at all times.

Pillar 1 RWAs assessment as at 31 March 2021 is summarised as follows –

Pillar 1 risk	RWA (USD 000s)	% Contribution
Credit risk (including CVA)	315,913	92.06%
Market risk	6,003	1.75%
Operational risk	21,231	6.19%
Total	**343,147**	**100%**

Table 5: RWAs as at 31st March 2021

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 31st March 2021 –

Portfolio	**Balance Sheet exposure**	**Exposure for RWA**	**Average risk weight**	**RWA**
	(USD 000s)	**(USD 000s)**		**(USD 000s)**
Cash in Hand and at Bank	6,150	12,576	10%	1,231
Contingent liabilities*	10,096	2,017	107%	2,168
Debt Securities (including Placement)	127,726	127,726	44%	56,382
Loans to Customers	317,525	254,393	99%	251,169
Other Assets	6,260	6,260	63%	3,946
Total Credit Risk	**467,758**	**402,973**		**314,895**

Table 6: Credit risk RWAs as at 31st March 2021

*This forms part of off-balance sheet item

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

(USD'000)

Portfolios	a	b	c	d
	Gross carrying values of		Allowance Impairments	Net Values (a+b-c)
	Defaulted Exposures	Non-Defaulted Exposures		
Loans	83,031	234,494	60,768	256,757
Debt Securities (including Placement)	-	127,726	-	127,726
Off-Balance sheet exposures	-	10,096	-	10,096
Total	**83,031**	**372,316**	**60,768**	**394,579**

Table 7: 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	e
	Exposures Unsecured: Carrying amount	Exposures secured by collaterals	Exposures secured by financial guarantees	Exposure secured by credit derivatives	Total
Loans	70,289	244,864	2,373	-	317,525
Debt Securities (including Placement)	127,726	-	-	-	127,726
Total	**198,015**	**244,864**	**2,373**	**-**	**445,251**
Of which defaulted	-	83,031	-	-	83,031

Table 8: Credit risk mitigation techniques

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

(USD'000)

Risk Weights	0%	20%	50%	100%	150%	Others*	Total Credit Exposures Amount – Post CCF
Asset Classes							
Sovereigns and their Central Banks	26,667	4,070	-	-	-	-	32,738
Multilateral developments banks	20,138	-	-	-	-	-	20,138
Institutions	-	6,325	30,613	13,311	-	-	50,249
Corporates	-	3,948	5,919	141,698	19,848	92,949	264,363
Exposure in Default	-	-	-	18,812	8,354	-	27,166
Other Assets	6,458	-	-	1,768	-	92	8,318
Total	**55,263**	**14,343**	**36,533**	**175,590**	**28,202**	**93,042**	**402,973**

Table 9: Exposure by asset class and risk weights

*Other include 35% and 75% risk weight assets.

Table below provides an overview of exposure by CQS

USD'000

CQS	Total Credit Exposures Amount – Post CCF	% Exposure
1	52,926	13%
2	24,496	6%
3	46,395	12%
4	14,519	4%
Unrated	264,637	66%
Total	**402,973**	**100%**

Table 10: Exposure by CQS

USD'000

CQS	Risk Factor (Total Credit Exposures Amount – Post CCF)								Total
	0%	20%	35%	50%	75%	100%	150%	250%	
1	48,806	4,120	-	-	-	-	-	-	52,926
2	-	10,222	-	14,274	-	-	-	-	24,496
3	-	1	-	12,729	-	33,665	-	-	46,395
4	-	-	-	9,529	-	4,990	-	-	14,519
Unrated	6,458	-	92,949	-	92	136,935	28,202	-	264,637
Grand Total	**55,263**	**14,343**	**92,949**	**36,533**	**92**	**175,590**	**28,202**	**-**	**402,973**

Table 11: Exposure by CQS and Risk Factor

USD'000

CQS	Exposures Classification[4]										
	CG	Corp.	DE	EE	High Risk	Inst.	MDB	RL	SIMP	OE	Total
1	28,667	3,948	0	0	0	172	20,138	0	0	0	52,926
2	4,070	10,011	0	0	0	10,414	0	0	0	0	24,496
3	0	29,909	0	3,755	0	12,730	0	0	0	0	46,395
4	0	0	0	0	0	14,519	0	0	0	0	14,519
Unrated	0	183,381	22,747	0	24,268	0	0	92	25,923	8,226	264,637
Total	**32,738**	**227,249**	**22,747**	**3,755**	**24,268**	**37,836**	**20,138**	**92**	**25,923**	**8,226**	**402,973**

Table 12: Exposure by CQS and type of exposure

Securitisation –

The Bank is a participant in the securitisation market, acting as an investor only. All of the Bank's securitisation positions are on-balance sheet exposures.

At March 31st, 2021, the balance outstanding was USD 5.22 million on the Bank's balance sheet against a total of 7.74 million of encumbered assets.

[4] CG-Central Government, Corp. - Corporate, DE - Default Exposure, EE - Equity Exposure, Inst. - Institution, MDB - Multilateral Development Bank, RL - Retail, SIMP - Secured by Mortgage on Immovable Properties, OE - Other Exposure

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 2021 B/S is summarized below –

Foreign Currency	Open position (USD 000s)	Risk weight	RWA (USD 000s)
GBP	2,904	100%	2,904
EUR & INR	3,099	100%	3,099
Total Market Risk	**6,003**		**6,003**

Table 13: Market risk RWAs as at 31st March 2021

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 and related procedures 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 Defence 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[5]. As of March 2021, the equivalent Pillar 1 RWA component is assessed as follows –

Year	Relevant indicator (USD'000)
Year 1 (2021)	7,263
Year 2 (2020)	13,005
Year 3 (2019)	13,702

Table 14: Relevant indicator for past 3 years (as at 31st March 2021)

	Relevant indicator (USD'000)	Operational risk scalar	Operational risk capital (USD'000)	Operational risk RWAs (USD'000)
Average	11,323	15%	21,231	1,698

Table 15: Operational risk RWAs as at 31st March 2021

[5] Calculation as per Article 316 of CRR

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 2021 is related to 57 derivative exposures with total notional USD 153.24 million (Exposure value USD 4.49 Mn) and assessed in accordance with CRR article 274 under Pillar 1 credit risk RWAs.

Total RWA as on Mar'21 was USD 1.02 Mn on the assessed exposure value of USD 4.49 Mn.

4.5 Credit valuation adjustment ("CVA")

The Bank has computed the Credit Value Adjustment (CVA) on the outstanding EAD of the derivative portfolio, which amounted to USD 4.49 Mn. Total risk exposure assessed as on Mar'21 was USD 1.02 Mn on a discounted EAD of USD 4.38 Mn.

4.6 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/MDB/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)

4.7 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 blended-yield curve. 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.

4.8 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)[6].

(USD'000)

		a	b
		Total unweighted value	**Total weighted value**
		Average for the Quarter	
		Jan'21-Mar'21	
High-quality liquid assets			
1	Total HQLA		67,255
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**191,700**	**942**
3	Stable deposits	11,449	572
4	Less stable deposits	180,251	370
5	**Unsecured wholesale funding, of which:**	**18,551**	**10,384**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	18,551	10,384
8	Unsecured debt	-	-
9	**Secured wholesale funding**	-	-
10	**Additional requirements, of which:**	**12,314**	**1,767**
11	Outflows related to derivative exposures and other collateral requirements	95	95
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	12,219	1,672
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	4,704	4,204
16	**TOTAL CASH OUTFLOWS**		**17,297**
Cash inflows			
17	**Secured lending (e.g., reverse repos)**		
18	**Inflows from fully performing exposures**	39,474	35,994

[6] Figures reported in column "a" & "b" are the simple average of LCR data as of 31/01/2021, 28/02/2021 and 31/03/2021.

		a	b
		Total unweighted value	**Total weighted value**
		Average for the Quarter	
		Jan'21-Mar'21	
19	Other cash inflows		
20	**TOTAL CASH INFLOWS**	**39,474**	**35,994**
			Total adjusted value
21	**Total HQLA**		**67,255**
22	**Total net cash outflows**		**4,324**
23	**Liquidity Coverage Ratio (%)**		1555%

Table 16: Details regarding LCR reporting

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 analyze 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,
- Informed 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 –

- **Idiosyncratic stress** - 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,

- **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, 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, repo against the marketable securities 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. Three 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 2020-21 –

			a	b
	Remuneration amount in USD'000		**Senior management**	**Other material risk-takers**
1	Fixed remuneration	Number of employees	6	2
2		Total fixed remuneration (3 + 5 + 7)	558,783.47	182,743.57
3		Of which: cash-based	558,783.47	182,743.57
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)**		**558,783.47**	**182,743.57**

Table 17: Remuneration details

7. Conclusion

This disclosure document, prepared in accordance with the requirements of Basel Framework 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 COO, Union Bank of India (UK) Ltd 85 Senator House, Queen Victoria Street, London EC4V 4AB.

Annexure I: Own Funds Disclosure Template

	Common Equity Tier 1 capital: instruments and reserves	**(A) 31 Mar 2020**	**(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE**
1	Capital instruments and the related share premium accounts	150,000,002	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: ordinary shares	150,000,002	EBA list 26 (3)
2	Retained earnings	- 38,719,682	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	537,488	26 (1)
3a	Funds for general banking risk		26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium ac-counts subject to phase out from CET1		486 (2)
	Public sector capital injections grandfathered until 1 January 2018		483 (2)
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**111,817,809**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	- 100,605	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	- 98,643	36 (1) (b), 37, 472 (4)
9	Empty set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges		33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b) (c)
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the		36 (1) (g), 44, 472 (9)

Common Equity Tier 1 capital: instruments and reserves		(A) 31 Mar 2020	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
	institution designed to inflate artificially the own funds of the institution (negative amount)		
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% thresh-old and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)		48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment		

	Common Equity Tier 1 capital: instruments and reserves	(A) 31 Mar 2020	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468		
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**- 537,488**	
29	**Common Equity Tier 1 (CET1) capital**	**111,081,073**	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts		51, 52
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium ac-counts subject to phase out from AT1		486 (3)
	Public sector capital injections grandfathered until 1 January 2018		483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)

Common Equity Tier 1 capital: instruments and reserves		(A) 31 Mar 2020	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e., CRR residual amounts)		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		477, 477 (3), 477 (4) (a)
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**111,081,073**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts		62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium ac-counts subject to phase out from T2		486 (4)
	Public sector capital injections grandfathered until 1 January 2018		483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase-out		486 (4)
50	Credit risk adjustments	3,936,182	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	**3,936,182**	
Tier 2 (T2) capital: regulatory adjustments			

	Common Equity Tier 1 capital: instruments and reserves	(A) 31 Mar 2020	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)
54a	Of which new holdings not subject to transitional arrangements		
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements		
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)		
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		475, 475 (2) (a), 475 (3), 475 (4) (a)
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**	**3,936,182**	
59	**Total capital (TC = T1 + T2)**	**115,017,256**	

	Common Equity Tier 1 capital: instruments and reserves	(A) 31 Mar 2020	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amount)		
	Of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g., Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	Of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g., Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)		475, 475 (2) (b), 475 (2) ©, 475 (4) (b)
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g., Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	**Total risk-weighted assets**	**343,147,161**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	32.37%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount	32.37%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount	33.52%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	2.50%	CRD 128, 129, 140
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement		
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	32.37%	CRD 128
69	[Non-relevant in EU regulation]		
70	[Non-relevant in EU regulation]		

	Common Equity Tier 1 capital: instruments and reserves	(A) 31 Mar 2020	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
71	[Non-relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	--	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	--	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU	--	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	--	36 (1) (c), 38, 48, 470, 472 (5) Applicable caps on the inclusion of provisions in Tier 2
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	--	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	--	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	--	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	--	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements	N/A	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	N/A	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	N/A	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	484 (5), 486 (4) & (5)