بنك بروده
Bank of Baroda
India's International Bank

BANK OF BARODA (UAE)

Pillar 3: Disclosure Report Q3 2022

Contents

1. Background:

Bank of Baroda-a premier Indian State-Owned bank, operates in the UAE as a large foreign Bank with a full-fledged banking license offering a diversified range of products and services in the UAE, including Deposits and Loan Products for individuals and businesses, Remittance, Trade Finance and Treasury Operations. After its inception in India in 1908, the Bank has grown multi-fold with a global presence since 1953 when the Bank started its journey beyond the Indian border. Using innovation, technology, financial prudence, and smart enterprise, the bank has made substantial growth over the years and had celebrated its 115th Foundation Day in 2022, in India and 48 years of its service in UAE. Currently, Bank of Baroda has over 94 branches/ offices across 17 countries including major financial centers i.e., New York, London, Brussels, Dubai, and Singapore- serving over 131 million Customers.

The Bank is registered in UAE as a Foreign Branch and is regulated by the Central Bank of the U.A.E (CBUAE). The Bank currently operates from six main branches in the UAE - Dubai, Deira, Abu Dhabi, Sharjah, Ras-Al-Khaimah, and Al-Ain - as well as nine Electronic Banking Service Units (EBSUs).

Entity Name	Registered Office Address
Bank of Baroda (UAE) Foreign Branch	**UAE Zonal Office:** Umm Hurair Building, Al Doha Street, Al Karama, Dubai, U.A.E., P.O. Box 3162
Bank of Baroda	**Head Office:** Baroda Bhavan, R.C. Dutt Road, Vadodara, Gujarat, India, Pin- 390 007
	Corporate Office: Baroda Corporate Centre, C-26, Block-G, Bandra Kurla Complex, Bandra (East), Mumbai, India, Pin- 400 051

This Pillar-3 disclosure document is prepared in line with the CBUAE Regulations on Capital Adequacy Standards and Guidance along with Notice 4980/2020. This included revised Standards and Guidance with respect to Pillar 3 – Market Disclosures. Further to this, the Central Bank of UAE provided explanatory notes and disclosure templates for Pillar 3 on 30th November 2021 as part of Notice 5508/2021 and 9th May 2022 Notice 2022/1887.

The Bank has put in place a disclosure policy containing the details around requirements as per CBUAE regulations in respect of Pillar 3 disclosures. Since the UAE operations is a branch, no other entity is considered for the consolidation purpose and details around Bank of Baroda UAE Branch only are included.

Bank of Baroda is an Indian Public Sector Bank, with majority shareholding of Government of India (63.97% as on 30th September 2022). Being a branch, capital requirements of the Bank's UAE operations are provided by the Head Office (Bank of Baroda- India) by way of capital funds. The UAE capital includes Head Office allocated capital funds, Reserves and surplus, retained profits etc.

The internal controls around Pillar 3 reporting are listed below:

- Maker-checker concept: the pillar 3 disclosure process undergoes four- eye principle (maker- checker concept);

- Data reconciliation – data compiled from various sources are compared and reconciled with the financial statements, before using the same for compiling Pillar 3 disclosures;
- Validation and Reviews – Pillar 3 report undergoes several rounds of reviews by Risk, Finance and other relevant functions;
- Internal audit – Internal audit provides independent and objective assurance of disclosures in Pillar 3 report

2. Pillar 3 Disclosures Reports

2.1. Overview of Risk Management and RWA:

2.1.1 Key Risk Metrics (KM1)

The objective of below table is to provide an overview of bank's prudential regulatory metrics which covers the key prudential metrics related to regulatory capital, leverage ratio and liquidity standards. Accordingly, the Bank has disclosed all applicable metric values using the standards specified for the reporting period.

	KM1 - Key Risk Metrics	Sept 22	Jun 22	Mar 22	Dec 21	Sept 21
	Available capital **(Amounts are in AED 000 or in %)**					
1	Common Equity Tier 1 (CET1)	2,097,957	2,077,767	2,066,712	2,125,381	2,074,622
1a	Fully loaded ECL accounting model	2,077,767	2,077,767	2,066,712	2,098,461	2,036,702
2	Tier 1	2,097,957	2,077,767	2,066,712	2,125,381	2,074,622
2a	Fully loaded ECL accounting model Tier 1	2,077,767	2,077,767	2,066,712	2,098,461	2,036,702
3	Total capital	2,227,875	2,212,478	2,209,912	2,222,274	2,198,585
3a	Fully loaded ECL accounting model total capital	2,207,685	2,212,478	2,209,912	2,195,354	2,160,665
	Risk-weighted assets (amounts)					
4	**Total risk-weighted assets (RWA)**	**11,389,908**	**11,784,573**	**12,453,424**	**11,855,575**	**11,000,114**
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	18.42%	17.63%	16.60%	17.93%	18.86%
5a	Fully loaded ECL accounting model CET1 (%)	18.24%	17.63%	16.60%	17.70%	18.52%
6	Tier 1 ratio (%)	18.42%	17.63%	16.60%	17.93%	18.86%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	18.24%	17.63%	16.60%	17.70%	18.52%
7	Total capital ratio (%)	19.56%	18.77%	17.75%	18.74%	19.99%
7a	Fully loaded ECL accounting model total capital ratio (%)	19.38%	18.77%	17.75%	18.52%	19.64%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%

	KM1 - Key Risk Metrics	Sept 22	Jun 22	Mar 22	Dec 21	Sept 21
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	9.06%	8.27%	7.25%	8.24%	9.49%
	Leverage Ratio					
13	Total leverage ratio measure	22,398,136	22,235,366	24,755,567	24,268,025	21,204,351
14	Leverage ratio (%) (row 2/row 13)	9.37%	9.34%	8.35%	8.76%	9.78%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.28%	9.34%	8.35%	8.65%	9.61%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.37%	9.34%	8.35%	8.76%	9.78%
	Liquidity Coverage Ratio					
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
	Net Stable Funding Ratio					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
	ELAR					
21	Total HQLA	2,545,231	1,839,172	2,499,332	2,310,596	2,221,379
22	Total liabilities	13,960,489	13,933,884	13,315,882	13,166,193	13,378,357
23	Eligible Liquid Assets Ratio (ELAR) (%)	18.23%	13.20%	18.77%	17.55%	16.60%
	ASRR					
24	Total available stable funding	14,580,062	14,284,967	14,609,362	13,946,121	13,897,373
25	Total Advances	12,233,044	12,275,827	12,526,820	12,344,117	12,202,003
26	Advances to Stable Resources Ratio (%)	83.90%	85.94%	85.75%	88.51%	87.80%

2.1.2 Risk Management Approach:

The objective of this metrics is to provide an overview of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks. Accordingly, the overall Risk management approach of the bank is as under;

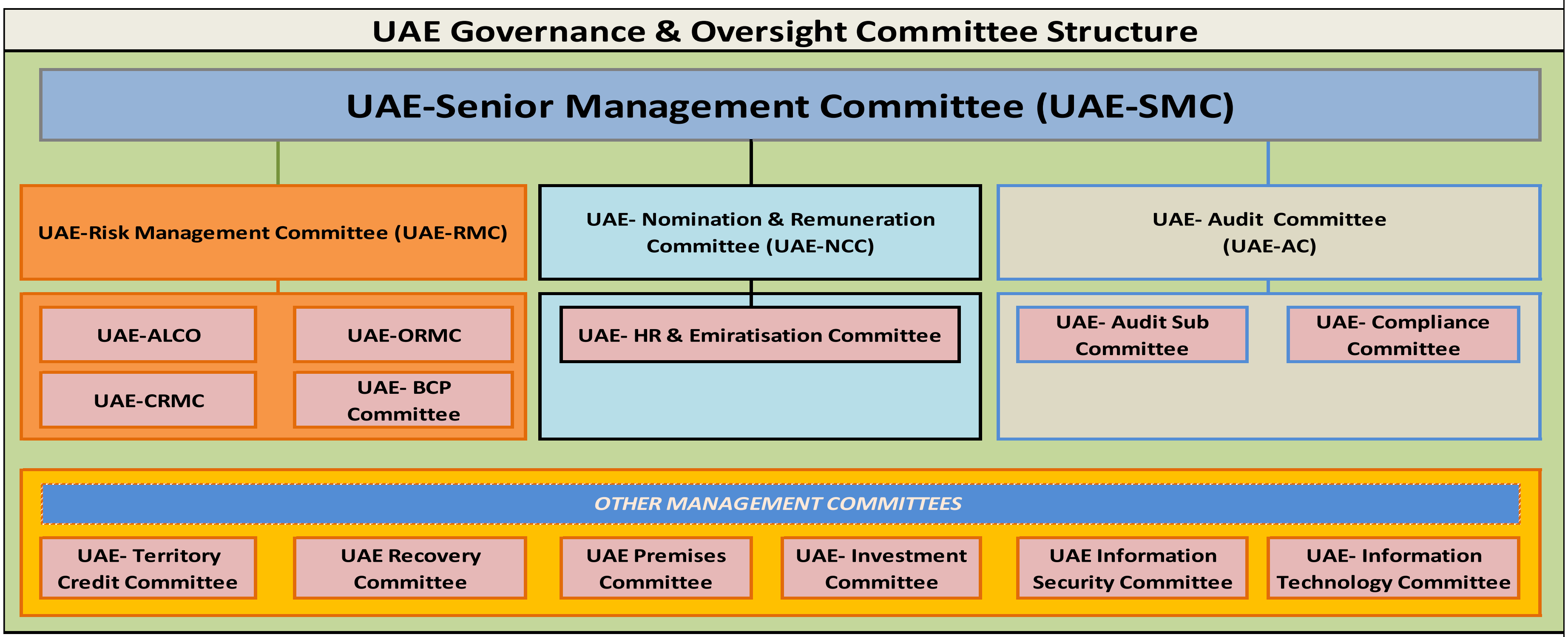
Bank's Risk Management Approach:
(A) Overall Risk Profile: Risk is an integral part of the banking business and the Bank aims to achieve an appropriate trade-off between risk and returns. To ensure sustainable and consistent growth, the Bank has developed a sound risk management framework so that the risks assumed by the Bank are properly assessed and monitored. The Bank undertakes business activities within the defined risk appetite limits and policies approved by the Board of Directors of the Bank The Bank is engaged in various commercial banking activities including accepting deposits from the retail and corporate customers, loans and advances to retail as well as corporate clients, investments, other ancillary activities such as remittances and payments and settlements and safe custody locker facilities to its clients. In the process the Bank incurs various risks, mainly categorized into credit risk, market risk, operational risk, liquidity risk, business and strategic risk, reputational risk, compliance risk etc. The Bank's risk appetite and its business strategy co-exist to achieve and enhance shareholder's value. To manage the identified risks, the Board of the Bank sets risk appetite and tolerance levels. The UAE operations are having its own risk appetite and tolerance levels approved by Board/ Board empowered committee and the operating units are adhering to the risk appetite and tolerance limits by ensuring their businesses are well within the threshold levels. The risk appetite and risk strategy are reviewed and updated on annual basis, along with the business plan, in line with the changes in risk profile of the territory.
(B) Risk Governance Structure: The Bank adopted three lines of defence model for its risk management. The increased focus on risk and the supporting governance framework includes identifying the responsibilities of different parts of the Bank for addressing and managing risk. Each of the three lines has an important role to play in risk management. These are: i. First Line of defence: This comprises of all the Bank's business line functions and operating units' employees as required to own and ensure the effective

management of risk and compliance with regulations, Bank's policies and guidelines.

ii. Second line of defence – This comprises of the risk control owners, the risk management function and compliance function. It is responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis independently from the first line of defence.

iii. Third line of defence - An independent assurance is provided by the internal audit function by conducting internal risk-based and other audits. The reviews provide assurance to the Board that the overall governance framework, including the risk governance framework, is effective and that policies and processes are in place and consistently applied.

At UAE territory, the Bank is having an organization structure consisting of Senior Management, Management Committees, control functions under second and third line (Risk Management & Compliance under 2nd line and Internal Audit function- 3rd line) to manage various material risks assumed by the UAE operations during the course of business. The UAE Oversight Committee structure, its linkages with Head Office Governance structure is depicted hereunder:



The Board of Directors of the Bank, is responsible for overall risk management across the Banking group of Bank of Baroda, including UAE Operations. Specific committees of the Board have been constituted to facilitate focused oversight on various risks. The Board has also constituted a Risk Management Committee of the Board which oversees the different type of risks. Under the RMCB, various Management level Committees (Credit Policy Committee (CPC), ALCO, Enterprise Risk Management Committee (ERMC)) at Head Office manages different risk categories in the Bank. All risks are approved within the overarching Risk Appetite Framework and are adequately hedged.

As a part of implementation of Corporate Governance Regulations of 2019 of Central Bank of UAE, the Bank has constituted the following Committees, duly approved by the Board:

1. UAE Senior Management Committee (SMC), equivalent to Board for UAE operations
2. UAE- Risk Management Committee (UAE-RMC)
3. UAE Audit Committee (UAE- AC)
4. UAE Nominations and Compensation Committee (UAE-NCC)

UAE Risk Management Committee (UAE-RMC) is responsible for enterprise (UAE) wide risk management and review/ monitoring of risk exposures vis-à-vis the risk appetite set by Board/ Board empowered committee.

At senior management level, UAE Credit Risk Management Committee is responsible for Credit Risk Management. UAE ALCO monitors and manages market risk including liquidity risk of the territory. UAE ORMC is responsible for monitoring and managing operational risk.

(C) <u>Risk Culture:</u>

A strong risk culture needs consistent support and appropriate risk awareness, behavior and judgment about risk-taking within a strong risk governance framework of the Bank. The Bank is constantly endeavoring to create a strong risk culture by imparting trainings to the employees at all levels. The Risk Management Framework endeavors to inculcate risk culture and philosophy through regular awareness sessions and trainings. Risk awareness trainings shall be conducted regularly to ensure that:

- All staff in the Bank are aware of the basic concepts and benefits of risk management in their respective areas and enable them to apply risk management principles in day-to-day operations.
- All staff are made aware of the organization's approach to risk management and risk culture within the Bank.

Risk Culture is being created through continuous interactions with various functional units for implementation of risk management strategies, policies and processes.

All risk limits are defined in the Policies/ frameworks/ manuals. Business functions operate within the limits and any deviation on the same is reported to the Senior Management (both UAE and HO level).

Employees have been provided with Core value document to communicate the corporate core principles of Bank of Baroda. The following are the approaches to inculcate the Risk Culture and Risk Awareness in BOB-UAE.

- Risk Culture "Tone from the Top" – Management message on Risk
- Establishing the proper escalation matrix and process
- Internal Presentation on Risk Management
- Formal training, conferences/ seminars on risk related issues
- Reinforce behavioral, ethical and compliance standards, by circulating Bank circulars

(D) Risk Measurement Systems:

Major risk areas like Credit, Market, Operational, Country Risk, Concentration Risk, have tools or systems in place to measure and manage the risks. Key Risk Management Systems in UAE Branch include:

I. Credit Rating System (BOBRAM/ BOBICON)
II. Market Risk Management System (KGR-VAR)
III. Operational Risk Management System (SAS-GCM)
IV. Liquidity Risk Management System (ORACLE-OFSAA)
V. Expected Credit Loss System (LIC EY-ECL)

(E) Risk Reporting:

UAE Risk Management department monitors and reports various risk- related MIS to the UAE Senior Management including Chief Executive and Dy. Chief Executive and to various Risk Management Committees periodically. In addition, risk reporting for group level consolidation at Head Office is also done by the UAE Risk Management Department periodically.

(F) Stress Testing Framework:

The stress testing is continued to be an important tool that is used by the Bank as part of its internal risk management that alerts the Bank's Management with regard to adverse & unexpected outcomes related to a broad variety of risks and provides an indication to the Bank on how much capital would be needed to absorb losses if large shocks occur.

Bank’s Stress testing framework (as part of the Policy on ICAAP-Stress Test-Capital Plan) has been designed to meet clear objectives that are documented and approved at the board level, or an appropriately senior-level governance body. The Bank uses regulatory prescribed stress scenarios as well as internal scenarios while carrying out the stress tests.
Stress tests are carried out with varying levels of intensity on various kinds of risks, including credit, market, operational, liquidity, and other material risks, identified from time to time.

Banks’ internal stress testing frameworks, the relevant high-level objectives are aligned with the Bank’s risk appetite and risk management framework, and relates, to the use of stress tests to inform capital and liquidity planning or to their role as an integral element of risk management. The stress testing frameworks includes an effective governance structure that is clear, comprehensive, and documented. The governance structure is specifying the roles and responsibilities of senior management, oversight bodies and those responsible for the ongoing operation of the stress testing framework.

The results of stress tests are discussed with the respective business owners and are extensively used in revising the business strategies, revising, and reviewing various risk limits etc.

(G) <u>Risk Management Process of Monitoring and Mitigation:</u>

Monitoring and reporting processes are in place for periodic monitoring of key risks through various risk metrics and methodologies appropriate for each risk category. The Bank’s Risk Appetite Framework and various risk management policies cover the identification of the material risks and their mitigation techniques commensurate with the business operations in UAE. Further, the respective risk policies and operation manuals articulate the procedure of risk identification, monitoring and mitigations.

2.1.3 Overview of RWA (OV1):

The purpose of this metrics is to provide an overview of total risk weighted assets.

(Amount in AED ”000”)

	OV1 - Overview of RWA	RWA		Minimum capital requirements
		Sept 22	Jun 22	Sept 22
1	Credit risk (excluding counterparty credit risk)	10,393,428	10,722,843	1,091,310
2	Of which: standardized approach (SA)	10,393,428	10,722,843	1,091,310
3	[redacted]			

	OV1 - Overview of RWA	RWA		Minimum capital requirements
		Sept 22	Jun 22	Sept 22
4	[redacted]			
5	[redacted]			
6	Counterparty credit risk (CCR)	45,351	54,001	4,762
7	Of which: standardized approach for counterparty credit risk	45,351	54,001	4,762
8	[redacted]			
9	[redacted]			
10	[redacted]			
11	[redacted]			
12	Equity investments in funds - look-through approach	0	0	0
13	Equity investments in funds - mandate-based approach	0	0	0
14	Equity investments in funds - fallback approach	0	0	0
15	Settlement risk	0	0	0
16	Securitization exposures in the banking book	0	0	0
17	[redacted]			
18	Of which: securitization external ratings-based approach (SEC-ERBA)	0	0	-
19	Of which: securitization standardized approach (SEC-SA)	0	0	-
20	Market risk	4,685	15,934	492
21	Of which: standardized approach (SA)	4,685	15,934	492
22	[redacted]			
23	Operational risk	991,795	991,795	104,139
24	[redacted]			
25	[redacted]			
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**11,435,259**	**11,784,573**	**1,200,702**

2.2. Credit Risk (CR)

Bank's credit risk profile: Credit Risk arises from all transactions where actual, contingent, or potential claims against any counterparty, borrower, obligor, or issuer (which we refer to collectively as "counterparties") exist, including those claims that we plan to distribute. These transactions are typically part of our non-trading lending activities (such as loans and contingent liabilities) as well as our direct trading activity with clients (such as OTC derivatives). These also include traded bonds and debt securities. The Bank's credit portfolio is segregated into three major segments: 1. Corporate & SME Loans 2. Retail Loans 3. Syndicated Loans Bank manages the respective positions within Bank's credit risk frameworks. The Bank manage its credit risk by using the following philosophy and principles: ▪ Bank Credit Risk Management function is independent from the business divisions ▪ In each credit vertical, the credit decision standards- processes-principles are consistently applied as per the Credit Risk Policy and Framework. The Bank's key principle of credit risk management is a proper client credit due diligence. The client selection is achieved in collaboration with relationship managers at each credit vertical who stands as the first line of defense. While onboarding the client, Bank aims to prevent undue concentration risks by maintaining a diversified credit portfolio in terms of client (single/ group name), industry, country and product-specific concentrations are assessed and managed against the set risk appetite of the bank. The Bank maintains underwriting standards aiming to avoid large undue credit risk on a counterparty and portfolio level. In this regard, cash margins and eligible collaterals /covenants are commanded for unsecured positions as a risk mitigant, as per the credit risk management policy/ loan policy of the Bank.
Credit risk management policy and credit risk appetite: The credit underwriting standards are enunciated in the Loan Policy and Retail Credit Policy. The risk appetite framework encompassing all types of risk, including credit risk is embedded in the Enterprise Risk Management Framework, in addition to the aforementioned credit policies. The Bank also put in place a credit risk management policy containing detailed framework of credit risk management.
Credit risk management and relationships between Control Functions:

Bank articulates roles and responsibilities at business/ control functions to actively identify, communicate and manage credit risks arising from business activities and to implement the credit risk management policy. Senior management at executive level plays a crucial role while taking the overall responsibility for policy compliance on Credit Risk Management.

Credit risk identification and assessment are carried out through a comprehensive mechanism comprising three levels of defense. The first level of defense lies with the business units/ Loan Departments which are responsible for maintaining a sound credit quality of assets in line with the approved business strategy and credit risk appetite. These functions assess the risk on a customer at facility level and ensures proper documentation of customer, facility and security documents. The second level of defense is Risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Individual credit proposals over a certain threshold level are also evaluated independently by the Risk Management function, prior to onboarding/ assuming the risk.

Internal Audit acts as a third level of defense with regular reviews of credit and the risk functions to check the compliance with policies and procedures of the Bank. Key control functions of the Bank include Risk Management, Compliance and Internal Audit. Roles and responsibilities of Control Functions in Credit risk management include:

Risk Management:

Risk Management function independently carries out the following credit risk monitoring and management activities (includes, but not limited to):

- Examining process, systems of first line of defense
- Review of portfolio risk
- Monitoring of external credit ratings and credit default swap spreads in case of a listed corporate;
- Internal rating model governance
- Improvement of deficiency of process, system, pointed out by third line of defense or otherwise, is noticed by the department
- Reporting and escalating genuine limit violations and excesses.
- Ensuring appropriate independent credit analysis is undertaken and independently verifying the internal rating calculated by the Credit department for the counterparty, using an appropriate rating model.

Compliance:

Compliance function ensures adherence of various regulatory prescriptions and Bank's Policy guidelines with regard to credit risk management are implemented, including KYC/ AML and CFT risk assessment requirements by the business function.

Internal Audit:

Internal Audit acts as the third line of defense. It carries out independent review of credit & risk function and provides assurance to the Board. In addition to audit of first line and second line credit risk management functions, the Internal Audit team also performs Credit Audit for individual credit transactions, over a certain threshold level.

Credit Risk Reporting Structure:

Risk Management Department monitors the prudential limits and risk appetite as per the approved policies. The status of various limits and credit risk related MIS is presented to the Credit Risk Management Committee and also to the Senior Management, for strategic direction and taking necessary remedial action, if any.

The risk management department will report the credit risk profile of the bank to Risk Management Committee (RMC), Credit Risk management Committee (CRMC), senior management and corporate office (International operations and Global Risk Management Department) as per the defined periodicity in policies.

Qualitative information on the mitigation of credit risk (CRC)

This section describes qualitative information on the mitigation of credit risk.

Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank holds collateral against loans and advances to customers in the form of cash margins, pledges/liens over deposits, mortgage interests over property, other registered securities over assets and guarantees.

The Bank accepts guarantees from parent companies for loans to their subsidiaries or other associate companies. Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses.

As per the Bank’s Loan policy, it is ensured that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on collateral. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be secured/ unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

The Bank has complied with regulatory capital requirements throughout the year. There have been no material changes in the Bank’s management of capital during the year.

Counterparty credit risk (CCR)

Under the credit risk standardized approach the exposure at default (EAD) is calculated as the product of the Potential Future Exposure (PFE) and Replacement Cost of exposure by multiplier ‘Alpha’ (α) (1.40%). The scaling factor alpha is applied in order to correct for amongst other correlations between parties, concentration risk and to account for the level of volatility/correlation that might coincide with a downturn.

2.3. Market Risk (MRA)

Bank describes its risk management objectives and policies for market risk according to the framework as follows:

General Qualitative disclosure requirements related to market risk

Bank has a Board approved Market Risk Management Policy which seeks, in line with Central Bank's regulation no. 164/2018 dated 29th August 2018 on 'Market Risk', containing a comprehensive market risk identification, measurement, monitoring, management and reporting framework that allows market risks are tracked, managed and overseen on a timely and effective manner. The policy covers limits, triggers and risk management techniques across various instruments involving the Bank's trading portfolio. The policy also seeks to create processes to actively mitigate market risks and optimize resources primarily to protect the Bank against any downside risk element. Under the Market Risk Management Policy framework, the market risk is managed in such a way that the risk taken is within the risk appetite of the Bank. The policy is also reviewed on a yearly basis considering regulatory guidelines, future business projections and the best market practices with regard to market risk management.

Currently, Bank doesn't engage in commodity business. The Bank also does not hold any trading positions in debt instruments. The Bank is having minimal currency gap positions and therefore, foreign currency risk is the component of market risk capital requirements.

Bank's UAE Asset Liability Management Committee (UAE-ALCO) manages the Market Risk of the Bank in UAE including Asset Liability Management (ALM). Market Risk Management Team at UAE regularly monitors the following.

- Marking -to-market of trading book
- Value at Risk (VaR) on the trading portfolio against the respective limits as defined in the policy.
- Perform Stress Test/ Back Test of the Market Risk Portfolio
- Monitors the Stop Loss limits/ Dealer wise limits for various trading portfolios-Bonds, Forex and Derivatives etc.
- Tracking modified duration of trading portfolio
- Tracking compliance with PV01 limits of interest rate sensitive instruments in the trading portfolio
- Monitoring dealer-wise limits/ deal size/ stop-loss limits
- Monitors various forex limits.
- Compute the Market Risk Capital charge for the trading book

Risk Management function is independent of the business/ treasury function and the Chief Risk Officer at UAE has a direct line of reporting to the Head of Risk Management/ Chief Risk Officer at Head Office. The Risk Management Team at UAE is well qualified and experienced and regularly upgrades the knowledge by undergoing regular trainings.

2.4. Operational Risk (OR1)

This section describes the main characteristics and elements of bank's operational risk management framework including the following.

Bank's policies, framework, and guidelines for the management of operational risk.

Bank has put in place a Board/ Board empowered Committee approved Operational Risk Management Policy. The purpose of this policy is to establish explicit and consistent standards for Operational Risk Management in the Bank that will result in systematic and proactive Identification, Assessment, Measurement, Mitigation and Monitoring of Operational Risks and reporting of Operational Risk events.

The Operational Risk Management Policy is applicable to all branches / offices of the Bank of Baroda UAE operations. The Bank has separate verticals for management of operational risks related to Information Security, Compliance, Fraud prevention, Compliant Management Business Continuity Planning and Disaster Recovery Planning (BCP/DRP) activity and related risks in outsourcing of financial services. Management of Operational Risk includes its Identification, Assessment, Measurement, Control, Mitigation, Analysis, Monitoring and Reporting, which requires Bank to have a robust and comprehensive Operational Risk Management Framework (ORMF). The ORMF comprises of following:

- Policy which Objectives, Principle, Benefits, Definition, Guidelines on Operational Risk Management.
- Organization & Governance Structure on Operational Risk Management
- Resources required for managing Operational Risk including skilled Manpower deployment, Training, Awareness Program, etc.
- Systems used by the Bank in Identifying, Measuring, Monitoring, Controlling and Mitigating Operational Risk.

The Board of Directors and Senior Management of the Bank are responsible for creating an awareness of Operational Risks and establishing a culture within the Bank that emphasizes and demonstrates to all the levels of personnel the importance of Operational Risk Management. Bank credence on a strong risk culture while managing the emerging risks in a rapidly changing environment/ vulnerability of Risk Occurrences, Near Misses, and Forgone Opportunities. Bank's Operational Risk Culture ascribes a set of shared attitudes, values, goals, and practices that characterize how the Bank considers risks in its day-to-day operations. The key to create an Operational Risk culture is the goal of the risk management that is being aligned with the bank's business goals.

The Bank expresses its acceptable level of Operational Risk through "Risk Appetite" Statement. Risk Appetite sets at both business unit and Bank wide levels by way of establishing tolerance and risk limits.

- Key Risk Indicators (KRI) has been made a part of Comprehensive Risk Appetite Framework of the Bank. KRIs are monitored vis-a-vis their respective thresholds as per the Risk Appetite statement approved by the Board. The Bank continuously strives to reduce Operational Risk to an acceptable level in terms of expected loss and regulatory requirements.
- Bank carries out RCSA of its products, process, systems, services, functions on a regular basis (i.e., whenever there is a launch of a new product/ change in existing process)
- The Bank's Operational Risk (OR) Profile is an aggregate description of the Operational Risk assessment which provides a summary description of the Operational Risk exposure of the Bank vis-à-vis their acceptable levels and thus provides a picture of the effectiveness of the Operational Risk Management across the Bank. OR profile of the Bank is assessed taking into consideration of the following factors.
  - Internal Loss Database
  - Risk and Control Self-Assessment (RCSA)
  - Key Risk Indicators (KRIs)

The Bank's strategy towards Operational Risk Management focuses on the following:

- Emphasis on minimizing the losses to an acceptable level as per Risk Appetite of the Bank.
- Provide for Operational Risk Capital which is sensitive to the Bank's Risk Profile
- Use of results of Operational Risk Management tools (RCSA, KRI, Loss Data, etc.) in day-to-day business operations and decision-making process
- Analyze the impact of failures in technology/ systems and develop mitigants to minimize the impact.
- Develop plans for external shocks that will adversely impact the continuity in the bank's operations.

Bank currently uses Basic Indicator Approach (BIA) under the regulatory prescriptions of CBUAE, for computation of Operational Risk Capital Charge in its UAE operations.

The structure and organization of the operational risk management and control function.

Board of Directors of the Bank is primarily responsible for ensuring effective management of Operational Risks and provides Senior Management with clear guidance and direction. The Board has overall responsibility in respect of Operational Risk Management Framework, including the UAE operations and its continued appropriateness. Board has delegated its responsibilities to Risk Management Committee of the Board.

To have a sound Operational Risk Governance Structure and manage Operational Risk, the Bank has adopted Three Lines of Defense Mechanism. Board and Senior Management ensures that Three Lines of Defense Approach is implemented and operated in an appropriate and acceptable manner.

- First line of defense is the operating units and business line functions which are primarily responsible for identifying and managing the risks inherent in the products, services and activities. Further they are responsible for the reporting of losses to Risk Management Department on immediate basis.
- Second line of defense is Risk Management Function, an independent function from business lines, which designs, implements, co-ordinates, reports and facilitates effective Operational Risk Management in the Bank and complements the business line's Operational Risk Management activities
- Third line of defense is Internal Audit which reviews policies and procedures that are appropriate and are implemented effectively. Internal Audit works as an independent function and provides assurance to Board/ Board Committee.

In the UAE, territory specific Operational Risk Management Committee (ORMC) oversees the operational risk aspects.

The operational risk measurement system.

The Bank periodically evaluates the need for systems, solutions, tools and models which can facilitate in the effective implementation of all the components of ORMF, taking into account its size, nature and complexity of its business. Bank uses SAS-EGRC system for effective management of Operational Risk.

The risk mitigation and risk transfer used in the management of operational risk.

For all material Operational Risks that have been identified, the Bank decides the appropriate risk treatment such as acceptance, reduction, avoidance or transfer. An appropriate risk treatment depends upon various factors such as:

- Nature of the risk
- Risk appetite of the Bank
- Business strategy
- Available risk measures with the Bank
- Cost / Benefit
- Regulatory requirements

Commonly used Risk & Control/ Mitigation Measures are:

- Internal Control System/ Environment
- Insurance
- Outsourcing
- Business Continuity Plan/ Disaster Recovery Plan

Risk management awareness is an integral part of the ORM culture across the Bank. Bank devises and implements the risk management training at all levels across the Bank. Senior Management ensures that an appropriate level of Operational Risk management training is available at all levels throughout the Bank. Training that is provided will reflect the role and responsibilities of the individuals for whom it is intended.

2.5. Leverage Ratio

This section describes the leverage ratio of the bank that indicates the financial position of the bank in terms of its debt and its capital or assets, and it is calculated by Tier 1 capital divided by consolidated assets where Tier 1 capital includes common equity, reserves, retained earnings and other securities after subtracting goodwill. The summarized position of leverage ratio is described in below sections (i.e., LR-1 & 2).

2.5.1 Summary comparison of accounting assets vs leverage ratio exposure measure (LR1):

This section details the source of material differences between the total balance sheet assets, as reported in the financial statements, and the leverage ratio exposure measure.

	LR1 - Comparison of accounting assets vs leverage ratio exposure measure	**Sept 22 (Amount in AED "000")**
1	Total consolidated assets as per published financial statements	20,792,548
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference	0
4	Adjustments for temporary exemption of central bank reserves (if applicable)	0
5	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	0
7	Adjustments for eligible cash pooling transactions	0
8	Adjustments for derivative financial instruments	0
9	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	0
10	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	0
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	0
12	Other adjustments	0
13	**Leverage ratio exposure measure**	**20,792,548**

2.5.2 Leverage ratio common disclosure template (LR2)

This section describes the key factors that have had a material impact on the leverage ratio for this reporting period.

(Amount in AED "000")

	LR2 - Leverage ratio common disclosure template (LR2)	Sept 22	June 22
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	20,792,548	20,603,708
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	0	0
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	0	0
4	(Adjustment for securities received under securities financing transactions that are recognized as an asset)	0	0
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	0	0
6	(Asset amounts deducted in determining Tier 1 capital)	0	0
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**20,792,548**	**20,706,493**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	14,637	5,382
9	Add-on amounts for PFE associated with *all* derivatives transactions	93,172	90,827
10	(Exempted CCP leg of client-cleared trade exposures)	0	0
11	Adjusted effective notional amount of written credit derivatives	0	0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
13	**Total derivative exposures (sum of rows 8 to 12)**	150,933	134,693
Securities financing transactions			
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	0	0
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
16	CCR exposure for SFT assets	0	0
17	Agent transaction exposures	0	0
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	0	0
Other off-balance sheet exposures			

	LR2 - Leverage ratio common disclosure template (LR2)	Sept 22	June 22
19	Off-balance sheet exposure at gross notional amount	4,471,492	4,877,828
20	(Adjustments for conversion to credit equivalent amounts)	(3,016,837)	(3,380,864)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0
22	**Off-balance sheet items (sum of rows 19 to 21)**	1,454,655	1,496,964
Capital and total exposures			
23	**Tier 1 capital**	**2,097,957**	**2,077,767**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**22,398,136**	**22,235,366**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	9.37%	9.34%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.37%	9.34%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable leverage buffers**	3.00%	3.00%

2.6. Liquidity:

This section describes bank's business models and liquidity risk profiles, organization and functions involved in liquidity risk management and bifurcated as qualitative and quantitative.

2.6.1 Liquidity Coverage Ratio (LIQA):

Qualitative / Quantitative disclosures
Liquidity Risk Management Governance Structure: The management of the liquidity risk of the Bank is governed by the Central Bank of UAE's Regulation no. 33/2015 on Regulations re Liquidity Risk at Banks dated 27/05/2015. In line with the liquidity regulatory requirements, the Bank put in place a comprehensive Asset Liability Management Policy, covering extensively the liquidity risk and interest rate risk management within the Bank. As per the Policy, the territory's liquidity risk is overseen by the Asset Liability Management Committee (UAE ALCO). UAE Treasury is responsible for managing the liquidity risk of the territory, being first line of defense. Risk Management Department acts as the second line of defense and Internal Audit acts as the third line of defense in liquidity risk management. The Bank's UAE operations, uses CBUAE prescribed UAE specific alternative approaches (i.e., ELAR and ASRR as reported in BRF 8 & 7 templates of CBUAE respectively) and accordingly, the Bank is not under LCR/ NSFR regime currently.
Funding strategy & diversification in the sources of funding: The Bank uses its funding strategy on a diversified profile in terms of investor types, geography and wide range of retail and corporate products, which forms an important element of bank's liquidity risk management framework. Bank's most stable funding element (i.e., Capital) in UAE is sourced from its Corporate Office, which is raised from capital markets issuances and equity. Other sources comprise of customer deposits (retail as well as corporate) and inter bank borrowings, which act as an additional source of funding. Unsecured wholesale funding represents unsecured wholesale liabilities sourced primarily by bank's deposit mobilization team in UAE. Given the relatively short-term nature of these liabilities, they are predominantly used to fund liquid trading assets. Unsecured wholesale funding comprises a range of institutional products, such as corporate deposits, bank borrowings as well as Money Market deposits. To avoid any unwanted reliance on these short-term funding sources, and to promote a sound funding profile which complies with the defined risk appetite, Bank has implemented risk limits (across various tenors) on these funding sources, which are derived from Bank's regular behavioral and stress testing analysis. In addition, Bank limits the total volume of unsecured wholesale funding to manage the reliance on these funding sources as part of the overall funding diversification.

Liquidity Risk Management Mitigation For liquidity risk management, the Bank maintains high quality liquid funds in the form of m- bills, cash balances with Central Bank, highly liquid securities qualifying the definition of CBUAE. The Bank monitors liquidity position on a daily basis, through various measures including stock approach ratios, flow approach (maturity ladder). Treasury manages the liquidity position keeping in view of the risk appetite and threshold limits set under the risk appetite framework and ALM policy of the territory. The Bank's liquidity risk is managed through various frameworks and risk appetite triggers, approved by the Board/ Board empowered committee, as enunciated in the ALM Policy, which also includes the Contingency Funding Plan (CFP). These are designed to enable the Bank to maintain liquidity risk to an acceptable level.
Liquidity Stress Testing As part of the liquidity risk management, stress tests are conducted for idiosyncratic as well as market wide stress scenarios and combined stress scenarios. The stress tests are conducted in accordance with the Policy on ICAAP-Stress Test-Capital Plan. Stress test outcomes are taken into consideration for reviewing the liquidity risk strategies, policies and positions and for developing the contingency funding plan.
Contingency funding plans Contingency funding plan (CFP) is part of Bank's ALM Policy, for addressing severe liquidity disruptions which might affect the bank's ability to fund some or all of its liabilities in a timely manner at a reasonable cost. The contingency funding plan contains a detailed description of the liquidity early warning signals, communication mechanism with various stakeholders, sources of contingency funds, roles and responsibilities of the implementation team etc.

2.6.2 Liquidity Coverage Ratio (LIQ1):

Bank is using the alternative approach for Liquidity Coverage Ratio (LCR) as per the provisions in Liquidity Risk Regulation of CBUAE (2015), i.e., ELAR (Eligible Liquid Assets Ratio). ELAR details are provided in "Table ELAR".

2.6.3 Net Stable Funding Ratio (LIQ2):

Bank is using the alternative approach for Net Stable Funding Ratio (NSFR) as per the provisions in Liquidity Risk Regulation of CBUAE (2015), i.e., ASRR (Advances to Stable Resources Ratio). ASRR details are provided in "Table ASRR". Though NSFR is not applicable for the Bank at UAE, for consolidation at Corporate Office as per regulatory requirement of Reserve Bank of India (RBI), UAE branch reports NSFR to Corporate Office on a monthly basis.

2.6.4 Eligible Liquid Assets Ratio (ELAR):

This section describes as simple averages of daily observations for computations of ELAR over the previous quarter (i.e., the average calculated over a period of, typically, 90 days) in the AED.

(Amount in AED 000 or %)

1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,260,820	
1.2	UAE Federal Government Bonds and Sukuks	851,203	
	Sub Total (1.1 to 1.2)	2,112,023	2,112,023
1.3	UAE local governments publicly traded debt securities	26,328	
1.4	UAE Public sector publicly traded debt securities	-	
	Sub total (1.3 to 1.4)	26,328	26,328
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	**Total**	**2,138,351**	**2,138,351**
2	Total liabilities		13,462,884
3	**Eligible Liquid Assets Ratio (ELAR)**		**15.88%**

2.6.5 Advances to stable resources ratio (ASRR);

This section presents the breakdown of bank's advances to Stables Resource ratio as per the Liquidity regulations.

(Amount in AED 000 or %)

		Items	**Amount**
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	11,228,912
	1.2	Lending to non-banking financial institutions	466,203
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	(840,571)
	1.4	Interbank Placements	1,378,500
	1.5	**Total Advances**	**12,233,044**
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	2,599,224

		Deduct:	
	2.1.1	Goodwill and other intangible assets	-
	2.1.2	Fixed Assets	11,983
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	-
	2.1.6	Investment in subsidiaries, associates and affiliates	-
	2.1.7	**Total deduction**	**11,983**
	2.2	**Net Free Capital Funds**	**2,587,241**
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	-
	2.3.2	Interbank deposits with remaining life of more than 6 months	-
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	610,633
	2.3.5	Customer Deposits	11,014,888
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	367,300
	2.3.7	**Total other stable resources**	**11,992,821**
	2.4	**Total Stable Resources (2.2+2.3.7)**	**14,284,967**
3		**Advances To Stable Resources Ratio (1.6/ 2.4*100)**	**83.90%**