Pillar III Disclosure - Year End December 2018

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1. Bank of Baroda, UAE- A Branch of Foreign Bank

"Bank of Baroda, UAE" is a branch of a foreign Bank. Its parent company, "Bank of Baroda", an Indian state-owned Bank is headquartered in Vadodara (earlier name Baroda) and has Corporate Office in Mumbai. The parent entity holds a rich 113-year history in India and 47 years in UAE. The Bank has worldwide presence across 21 countries including major financial centers i.e. New York, London, Brussels, Dubai, Hong Kong and Singapore- serving 131 Million Customers.

2. Legal Status and Principal Activities- Bank of Baroda, UAE

The Bank's operations in UAE commenced with first branch in Dubai on 25th June 1974 and second branch in Abu Dhabi on 23rd July 1974, followed by opening of more branches at different emirates subsequently. The Bank is registered in the UAE as a Foreign Branch holding a Commercial Banking license 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	Sheikh Rashid Building, Ali Bin Taleb Street, Bur Dubai, Dubai, U.A.E., P.O. Box 3162
Bank of Baroda-Head Office	Baroda Bhavan, R.C. Dutt Road, Vadodara, Gujarat, India, Pin- 390007
Bank of Baroda-Corporate Office	Baroda Corporate Centre, C-26, Block-G, Bandra Kurla Complex, Bandra (East), Mumbai, India, Pin- 400051

The Bank offers a diversified range of products and services in the UAE, including Deposit and Loan Products for individuals and businesses, Remittance, Trade Finance and Treasury Operations.

3. Regulatory Capital requirement

Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Bank has a strong capital base to ascertain the confidence of stakeholders, investors, creditors and the market. Strong capital base is also capable to protract future development of the business. The Bank has complied with all regulatory capital requirements throughout the year by maintaining adequate amount of capital i.e. above 13%. Total Capital includes-

- Common Equity Tier 1 Capital Ratio of 7%- a minimum, which ordinary share capital, translation reserve, fair value reserves relating to unrealized gains/ losses on investments classified as available-for-sale and derivatives held as cash flow hedges and retained earnings.
- Tier 1 capital adequacy of 8.5%- a minimum, which includes Eligible AT1 capital after grand fathering, share premium (issue of AT1 capital), minority interests
- Tier 2 capital includes general provision and subordinated term loans. General provision shall not exceed 1.25% of credit risk weighted assets ("CRWA").
- Capital Conservation Buffer (CCB) of 2.5%

4. Capital Computation

Bank maintains capital to cushion the risk of loss in value of exposures, businesses etc to protect the interest of depositors, general creditors and stake holders against unforeseen losses. In line with the guidelines of the Central Bank of the UAE, the Bank has adopted Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardized Approach for Market Risk for computing Capital Adequacy Ratio (CAR). The capital requirement is affected by the economic environment, regulatory requirement and by the risk arising from the Bank's activities. Capital Planning exercise of the bank is carried out every year to ensure the adequacy of capital at all the times by catering the changing economic scenarios, even at the time of a recession. The capital planning process of the Bank considers the current capital requirement along-with business plans requirement for next 3 years. There have been no material changes in the Bank's capital adequacy during the year and the Bank has complied with the regulatory capital requirements throughout the year.

Further in accordance with the Pillar 2 requirements, Bank prepares the ICAAP document which covers the Pillar 1 risk and other residual risks. The ICAAP process provides confidence to stake holders, shareholders and regulators with regard to adequacy of capital.

Accordingly, Pillar 3 Disclosure of the Bank comprehensively documented all risks as per regulatory requirement. The table below summarizes the composition of capital of the Bank.

Details	Summary Note and References	AED "000" 31.12.2018
Tier 1 Capital		
Share Capital	This represents the amount received from the head office as capital for the UAE branches of the Bank.	760,000
Statutory Reserve	This includes the statutory reserves in accordance with Federal Law No 2 of 2015, the fair value reserves, cash flow hedge reserve and actuarial gain/loss on retirement benefit schemes.	65,289
Other Disclosed Reserve		0
Retain Earnings	This represents the retained earnings and unremitted profits	1,567,114
Less: Regulatory Deductions	This represents deferred tax assets on tax losses.	(453,489)
Tier 1 Capital		**1,938,914**
Upper tier 2 Capital		
Collective provision	This represents the general provisions restricted to 1.25% of Credit RWA	115,564
Tier 2 Capital		**115,564**
Total Capital Base (A)	**Sum of Tier 1 and Tier 2 Capital**	**2,054,478**

Bank of Baroda- UAE branch is using the standardized approach for computation of the Risk weighted assets and capital charge on same. Accordingly, the below table describes the capital computation approaches and RWA.

Risk Weighted Assets (RWA) Pillar 1	Summary Note and References	AED "000" 31.12.2018
Credit Risk	Credit risk weighted assets as per Standardized Approach	9,245,111
Market Risk	Market risk weighted assets as per Standardized Approach	8,062
Operational Risk	Operational risk weighted assets as per Basic Indicator Approach	1,144,271
Risk Weighted Assets (B)	**Total Risk Weighted Assets**	**10,397,444**
Capital Adequacy Ratio (Pillar1) (C)	**Capital Adequacy Ratio =** **Total Capital Base (A)/ Risk Weighted Assets (B)**	**19.76%**
Tier 1 Ratio	Tier-1 Capital Adequacy Ratio = Total Tier-1 Capital Base (A)/ Risk Weighted Assets (B)	18.65%

5. Financial Risk Management

The Bank has exposure to various risks from the financial instruments and are classified under the following:

- Credit Risk
- Market Risk
- Liquidity Risk and
- Operational Risk

The Bank's risk management policies are established to identify and analyze the risks faced by it, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the regulatory updation, changes in market conditions, products and services offered. All the standards are governed by specific policies which are defined and documented. The Bank, through training and management, standards and procedures- aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The overall risk management framework relies upon the Bank's internal entity wise standards that cover credit, market, operational, liquidity and other risks- including measuring, monitoring and reporting of the same. Limits and appetite for credit, market and liquidity risks are approved by the Board/ appropriate Committee authorized by the Board.

In order to effectively discharge this responsibility, the Bank has established Risk Committees viz. Asset and Liability Management Committee (ALCO), Territorial Credit Committee (TCC) and Operational Risk Management Committee (ORMC) which are responsible for developing and monitoring risk management policies in their specified areas. These Committees comprise Officers in Senior Levels and their meetings are convened at defined frequencies to oversee and manage the risk profile.

The Bank adopted three lines of defence approach for risk management detailed as under:

1st Line of Defence:	2nd Line of Defence	3rd Line of Defence:
First line of defence are operating units and business line functions which are responsible for identifying and managing the risks inherent in the products, services and activities.	Second line of defence includes Risk Management & Compliance Department, which designs, implements, co-ordinates, reports and facilitates effective Risk Management in the Bank and complements the business line's risk management activities	Internal Audit acts as the third line of defence which reviews and provides assurance with regard to adequacy of internal controls and their effective implementation. Internal audit works as an independent function and provides assurance to the Senior Management/Board.

5.1 Credit Risk Management:

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its commitment / contractual obligation, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The management of credit risk is following a series of fundamental policies including:

- Lending criteria, underwriting standards, credit risk management as enunciated in the Loan Policy including for credit assessment, collateral management, customer due diligence, obligor rating and facility risk rating etc.
- Credit proposals are sanctioned with due risk assessment independently by Risk Management function headed by the Chief Risk Officer (CRO).
- Establishment of authorization of limits, renewal of credit facilities, lending authorities have been established within a framework of multiple credit approval delegated powers. The limits and actual level of exposure to obligors are reviewed on a periodic basis.
- Analytics used to manage the credit risk includes risk rating through BOB-RAM, Industry Risk Assessment, Portfolio Analysis, Concentration Risk estimation through statistical measures like Gini & HHI, Expected Credit Loss (ECL) provisioning under IFRS-9, Stress Sectors Analysis and Stress Testing of the portfolio etc.
- Independent risk management responsibility for managing credit risk;
- Periodic reviews are conducted by the internal audit team to audit compliance with all aspects of the credit policies governing lending.

5.1.1. Exposure to Credit Risk

The Bank has assessed the provision requirement pursuant to clause 6.4 of the Central Bank of UAE guidance and it has been identified that the provision under IFRS 9 for stage 1 and stage 2 is higher than the general provision under circular 28/ 2010 of the Central Bank of UAE and stage 3 provisions under IFRS 9 is higher than specific provisions under the guidance of circular 28/2010 of the Central Bank of UAE and therefore no amount shall be transferred to the regulatory impairment reserve.

5.1.2. Collaterals

The Bank holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored on a periodic basis.

The Bank has in place policies, which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The Bank's major collaterals are mortgaged properties, cash margins, vehicles and other register-able assets.

5.1.3. Impaired loans and advances

Bank followed the impaired loans and advances definition as per the IFRS 9 guidelines and Central Bank of UAE circular 28/2010. Impaired loans and advances and non-trading investments are financial assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

5.1.4. Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The tables below set out the concentration of credit risk by sector, geography and currency.

The Bank's maximum gross exposure to credit risk, before taking into account any collateral held or other credit enhancements can be analyzed by the following location and sector wise.

5.1.5. Concentration by location

Concentration by location	Loans and advances		Due from banks, Head Office and other branches		Investment securities	
	2018 AED "000"	2017 AED "000"	2018 AED "000"	2017 AED "000"	2018 AED "000"	2017 AED "000"
United Arab Emirates	**13,436,585**	11,260,869	**200,000**	34,427	**142,880**	143,980
Other Middle East Countries	**60,490**	32,868	**171,920**	-	**-**	
India	**1,679,586**	1,323,804	**1,193,725**	1,965,097	**-**	
Europe	**101,939**	320,379	**1,193,725**	641,730	**-**	
USA	**15,436**	19,853	**550,950**	550,950	**-**	
Others	**893,454**	1,272,571	**1,101,900**	682,869	**-**	
	16,187,490	14,230,344	**4,412,220**	3,875,073	**142,880**	143,980

5.1.6. Concentration by sectors

Concentration by sectors	Loans and advances		Due from banks, Head Office and other branches		Investment securities	
	2018 AED "000"	**2017 AED "000"**	**2018 AED "000"**	**2017 AED "000"**	**2018 AED "000"**	**2017 AED "000"**
Mining, quarrying	**591,441**	1,130,273	**-**	-	**-**	-
Manufacturing	**2,645,028**	3,119,883	**-**	-	**-**	-
Electricity, gas and water	**185,176**	1,260	**-**	-	**-**	-
Real estate	**585,291**	-	**-**	-	**-**	-
Trade	**3,948,577**	4,788,850	**-**	-	**-**	-
Transport and communication	**365,955**	251,228	**-**	-	**-**	-
Banks and financial institutions	**893,906**	212,190	**4,412,220**	3,875,073	**-**	-
Government	**785,036**	785,036	**-**	-	142,880	143,980
Others	**6,187,080**	3,941,624	**-**	-	-	
Total	**16,187,490**	14,230,344	**4,412,220**	**3,875,073**	**142,880**	143,980

5.1.7. Investment Securities –Banking Book

The Bank has investments in debt securities which are measured at fair value through other comprehensive income. Credit risk in these investments is managed within the overall credit risk appetite for corporate and financial institutions. The following table provides analysis of the debt securities. The standard credit ratings used by the Bank are those assessed by Standard & Poor's or their equivalent.

Investment securities

Rating	2018 AED"000"	2017 AED"000"
A- to A+	**142,880**	143,980
Total	**142,880**	143,980

5.1.8. Aging analysis of past due but not impaired loans

The following table sets out the aging of loans and advances which are past due but not impaired and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due status of a loan does not necessarily mean that the counterparty is impaired.

Particulars	2018 Loans to customers			2017 Loans to customers		
	Consumer AED "000"	Wholesale AED "000"	Total AED "000"	Consumer AED "000"	Wholesale AED "000"	Total AED "000"
Up to 30 days past due	**-**	**472,824**	**472,824**	-	1,628,870	1,628,870
Between 31-60 days past due	**1,450**	**312,115**	**313,565**	-	127,327	127,327
Between 61-90 days past due	**6,557**	**145,313**	**151,870**	-	156,955	156,955
	8,007	**930,252**	**938,259**	-	1,913,152	1,913,152

5.1.9. Credit Risk Exposure:

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

Items	2018 AED'000	2017 AED'000
Cash and balances with the UAE Central Bank (excluding cash on hand)	**2,873,392**	3,090,558
Due from banks	**884,373**	741,318
Due from Head Office and other branches	**3,610,584**	3,133,754
Loans and advances to customers	**16,187,490**	14,230,344
Customers' indebtedness under acceptances	**380,227**	622,486
Other assets (excluding prepayments)	**58,980**	69,020
On Balance Sheet	**23,995,046**	**21,887,480**
Letters of credit	**561,680**	613,706
Guarantees	**1,121,830**	1,276,455
Foreign Exchange forward commitments	**3,296,362**	5,442,558
Undrawn loan commitments	**2,923,630**	5,284,849
Off Balance Sheet	**7,903,502**	12,617,568
Total credit risk exposure	**31,898,548**	34,505,048

5.1.10. Collateral and other credit enhancements

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 Bank companies. Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitor the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

It is the Bank's policy to ensure 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 unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

Asset Classes (In AED "000")	**On & Off-Balance Sheet**	**Credit Risk Mitigation (CRM)**		**On & Off-Balance Sheet**	**Risk Weighted Assets**
As per Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	Gross Outstanding	Exposure Before CRM	CRM	Net Exposure After Credit Conversion Factors (CCF)	
CLAIMS ON SOVEREIGNS	3,021,585	3,021,585	0	3,021,585	0
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	0	0	0	0	0
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	0	0	0	0	0
CLAIMS ON BANKS	4,797,394	4,797,394	0	4,797,394	1,330,610
CLAIMS ON SECURITIES FIRMS	0	0	0	0	0
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	13,496,986	13,453,115	7,160,983	12,803,369	6,252,141
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	194,966	194,966	0	194,966	146,225
CLAIMS SECURED BY RESIDENTIAL PROPERTY	657,082	657,082	0	657,082	229,979
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	661,690	661,690	0	661,690	661,690
PAST DUE LOANS	3,949,935	146,484	0	146,484	146,484
HIGHER-RISK CATEGORIES	0	0	0	0	0
OTHER ASSETS	1,049,351	1,049,351	0	1,049,351	477,983
SECURITIZATION EXPOSURES	0	0	0	0	0
CREDIT DERIVATIVES (Banks Selling protection)	0	0	0	0	0
TOTAL CLAIMS	**27,828,989**	**23,981,667**	**7,160,983**	**23,331,921**	**9,245,111**

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

5.2 Market Risk:

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is segregated interest rate risk, equity risk, foreign exchange risk and Commodity risk. Bank is having Market Risk exposure towards Foreign Exchange Risks only.

Capital requirement for Market Risk is calculated using standardized approach and is reported in BRF 95 as on 31.12.2018 as under.

INTEREST RATE RISK - TRADING BOOK	**AED 000's**
	Capital requirement
1) SPECIFIC RISK	0
2) GENERAL RISK - MATURITY BASED	0
3) GENERAL RISK - DURATION BASED	0
FOREIGN EXCHANGE RISK	**8,062**
EQUITY EXPOSURE RISK- TRADING BOOK	
1) GENERAL RISK	0
2) SPECIFIC RISK	0
COMMODITY RISK- TRADING BOOK	
1) MATURITY LADDER APPROACH	0
2) SIMPLIFIED APPROACH	0
OPTIONS RISK	
1) SIMPLIFIED APPROACH	0
2) INTERMEDIATE APPROACH	0
MARKET RISK TOTAL CAPITAL CHARGE	**8,062**

- **Foreign Exchange Risk:** To manage foreign exchange risk, Bank's Board has laid down various limits such as Day-Light Limit, Net Overnight Position Limit (NOOPL), Nostro Balance Limit, Total Aggregate GAP Limit (TAGL), Aggregate Gap Limit (AGL), Individual Gap Limit (IGL), Stop Loss Limits, Value at Risk Limits which are being regularly monitored.

5.3 Operational Risk:

Operational Risk is inherent due to Banking Products, Processes, Systems and Activities. Opposed to two other Pillar I risks, viz. credit risk and market risk, operational risks are not diversifiable. This means that as long as people, systems, processes and external events remain imperfect, Operational Risk cannot be fully eliminated. Management of operational risk includes its identification, assessment, measurement, control, mitigation, analysis, monitoring and reporting.

Bank computes Capital Charge under Operational Risk using Basic Indicator Approach (BIA). Position of OR Cap charge as on 31.12.2018 is summarized as under.

Approach & Banking Activities	Gross Income (Audited)									Three-year average	Beta Factor	Capital Charge (Basel)	Capital Charge (U.A.E.)
	YEAR-3			YEAR-2			LAST YEAR						
	Net Interest Income	Net non-interest income	Gross Income	Net Interest Income	Net non-interest income	Gross Income	Net Interest Income	Net non-interest income	Gross Income				
Basic Indicator Approach (BIA)	473,779	198,660	672,439	424,928	138,943	563,871	442,278	152,245	594,523	610,278	15%	91,542	120,148

Bank's Operational Risk Management Framework (ORMF) comprises of following:

- Operational Risk Management Policy, Procedures and Processes;
- Operational Risk Profile, Risk Appetite and Strategy to Mitigate Risk
- Operational Risk Organizational and Governance Structure
- Operational Risk Management System (ORMS) to identify, measure, monitor, control and mitigate Operational Risk, i.e. Loss Data Management, System &Tools, Business Line Mapping, Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Operational Risk Capital Computation
- New Product Approval through Product Approval Committee (PPAC).

Internal and External Fraud is managed by Fraud Management Division of the Bank. Bank is continuously strengthening its anti-fraud activities through enhanced anti-fraud strategies viz. centralized fraud management function, staff trainings, enabling IT security features in the products and services being offered. The same is continuously reducing fraud losses to the Bank.

Bank manages Operational Risk through Internal Loss Data (ILD) Management, Risk & Control Self- Assessment and Business Environment and Internal Control Factors as under.

- **Internal Loss Data (ILD) Management:**

Internal Loss Data of Operational loss events are an important aspect in the management and measurement of operational risk. Loss Data is collected through system.

Management of Business Environment and Internal Control Factors (BEICFs): BEICF, being a forward-looking element and be responsive to changes in the Bank's operational risk profile, Bank uses BEICF tools like RCSA and KRI to identify key material risks to react appropriately to reduce the same.

- **Risk Control and Self-Assessment (RCSA):**

Bank conducts RCSA of its Products, Services, and Systems & Processes on an ongoing basis. Risk Register is maintained in respect of all products/ services/ processes/ systems. RCSA workshops and Trainings on Operational Risk are conducted to the business functions on an ongoing basis.

5.4 Liquidity Risk

Banks daily liquidity requirement is managed through treasury operations and same is monitored by risk management function. Liquidity Risk is measured and monitored through various limits and approaches like Eligible Liquid Assets Ratio (ELAR), Lending to Stable Resources Ratio (LSRR), Stock Approach Ratios, Structural Liquidity Ratios, Intraday Liquidity Management, Concentration of Deposits Indicators, Currency Wise Resources-Deployment Ratios.

The Asset Liability Management Committee (ALCO) of the bank is responsible for review and management of liquidity at aggregated level. Treasury function ensures that sufficient liquidity is available in the Bank.

5.5 Interest Rate Risk

The Bank manages interest rate risk by matching the repricing of assets and liabilities through risk management strategies. Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Bank's net interest income. Interest rate risk is monitored through the following indicators.

- **Interest Rate Sensitivity (IRS):** Interest Rate Risk in the Banking Book ('IRRBB') arises from timing mismatches in the repricing of non-traded assets and liabilities and is the potential adverse impact of changes in interest rates on earnings and capital. For the purpose of managing the IRRBB, Bank aims to balance and mitigate the impact of future interest rate movements against the cost of hedging.

- **Earnings at Risk (EaR):** Earning at Risk is computed in order to evaluate the impact of interest rate changes on Bank's net interest income (NII) for the period of next one year. Accordingly, Interest rate risk is assessed by measuring the impact of reasonably possible interest rate movements. Assuming a fluctuation in interest rates of 200 basis point, the Bank estimates the following impact on the net interest income before taxation for the year:

Parallel Shift in Yield Curve	Net Interest Income	Impact on Regulatory Capital	Whether Economic Value declines exceeded 20% of T1+T2 Capital
Movement	**AED Mn**	**AED Mn**	**(AED Mn)**
+200 b.p.	+44.98	+23.62	No
-200 b.p.	-44.98	-23.62	No