



Bank of Baroda (UK) Limited

Pillar 3 disclosures

Period ending March 31, 2019

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Summary of Risk Profile

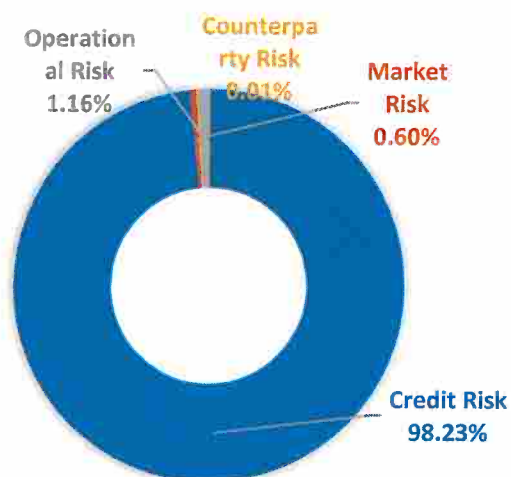
This section presents summary of risk profile of Bank of Baroda (UK) Limited as on 31.03.2019 and its interaction with Bank's risk appetite.

The following risk metrics reflect Bank's risk profile:

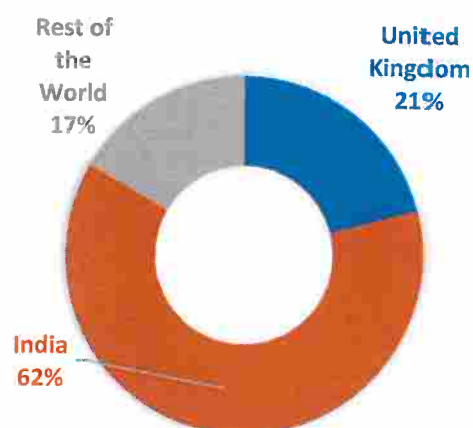
Total Assets	£1155 mn
Profit After Taxation	(£0.25 mn)
Shareholder's Fund	£140 mn
Total Capital Adequacy Ratio	24.86 %
Common Equity Tier 1 Ratio	24.86 %
Total Capital Adequacy Capital	£139.63 mn
Common Equity Tier 1 Capital	£139.63 mn
Risk Weighted Asset	£553.27 mn
Credit Risk	£553.27 mn
Market Risk	£3.38 mn
Operational Risk	£6.53 mn
Leverage Ratio	12.16 %
Liquidity Coverage Ratio	154.73 %



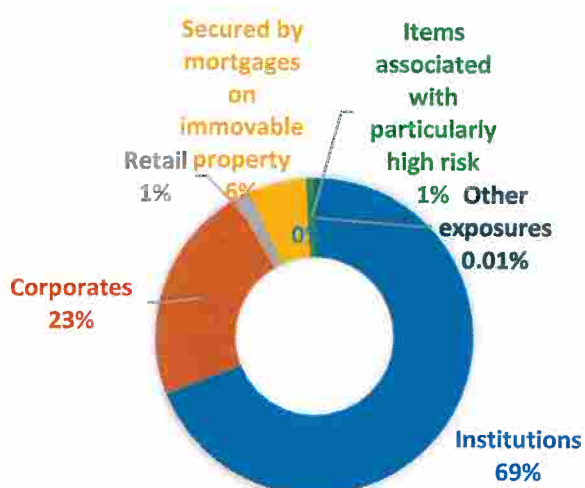
Capital requirement by Risk Type



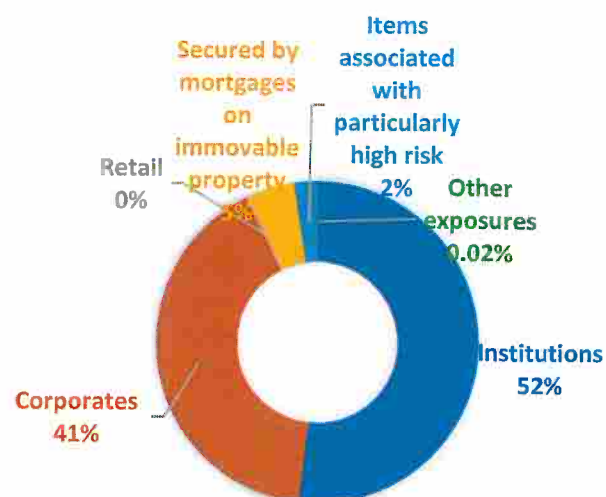
Exposure by Geography



Exposure by Asset Class



RWA by Asset Class



1. Introduction

1.1. Background

Bank of Baroda (UK) Limited ('the Bank') is a wholly owned subsidiary of Bank of Baroda ('BOB' or 'the parent').

Bank of Baroda (UK) Limited was authorized jointly by Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) on 15th December 2017.

The Bank commenced its operation on 17th December, 2018. Bank has 10 Branches namely 1. London Main Branch 2. Aldgate 3. Southall 4. Wembley 5. Kenton 6. Tooting 7. Birmingham 8. Manchester 9. Leicester 10. Ilford.

Bank of Baroda ("the Parent") is an Indian state-owned International Banking and Financial services company. It was founded in 1908 and nationalized by Government of India in 1969. BOB is third largest Bank in India and has network of 5553 branches in Indian Operations and 100 branches / offices in 21 countries, as on 31.03.2019.

1.2. Basis of Disclosure

The Pillar 3 disclosure document is prepared in accordance with the Capital Requirements Regulation (CRR) and Capital Requirement Directive (CRD IV). In particular, rules laid out in Part 8 (articles 431 to 455) of the CRR which specifies the Pillar 3 disclosure requirements.

Capital Requirements Regulation (CRR) and Capital Requirements Directive (together referred to as CRD IV) came into force on January 1, 2014 and enforced in the UK by the Prudential Regulation Authority (PRA), together with implementing rules and guidance by European Banking Authority (EBA). The rules include disclosure requirements known as "Pillar 3" which apply to banks and building societies.

Any disclosures within this report have been prepared as at 31 March, 2019 which is the Banks latest financial year end which the Board approved on 29 August, 2019.

The disclosures may differ from similar information in the annual report prepared in accordance with UK GAAP. Therefore, the information in these disclosures may not be directly comparable with the information contained in our annual report.

1.3. Scope of application of Directive Requirements

The purpose of these disclosures is to give information on the basis of Basel III capital requirements and on the management of risks faced by Bank of Baroda (UK) Limited.

Pillar 3 requires the disclosure of exposure and associated risk weighted assets for each type and approach to calculating capital requirements of Pillar I.

Distinct regulatory capital approaches are followed for each of the following risks and exposure types:

- Credit Risk
- Counterparty Credit Risk
- Market Risk
- Operational Risk

Bank of Baroda (UK) Limited uses following approaches for calculation of Pillar I regulatory capital:

- Credit Risk – Standardised Approach
- Market Risk – Standardised Approach
- Operational Risk – Basic Indicator Approach

1.4. Scope of Consolidation

The Bank is a full CRD firm and its accounting and disclosures are on a solo basis. The Bank is not having any subsidiary, and therefore does not fall within regulatory consolidation group.

1.5. Exemption from Disclosure

We have omitted the following disclosures specified in CRR as they are not applicable:

- CRR Article 441: We are not a G-SII.
- CRR Article 452: We use the Standardised Approach to credit risk, instead of Internal Rating Based Approach ('IRB') and therefore have exemption.
- CRR Article 454: We use the Basic Indicator Approach ('BIA') to operational risk, instead of Advanced Measurement Approach ('AMA') and therefore have exemption.
- CRR Article 455: We use the Simplified Standardised Approach instead of Internal Model Approach and therefore have exemption.

1.6. Criteria for Materiality

Bank of Baroda (UK) Limited has set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our procedures for individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on professional judgement, Bank of Baroda (UK) Limited has determined materiality for the financial statements as a whole as follows:

Overall Materiality	£1,400k
Benchmark applied	1% Net Assets
Performance Materiality	Performance materiality of £800k is applied.

1.7. Frequency of Disclosure

The pillar 3 disclosure document is prepared and published by us on annual basis.



1.8. Media and Location of Disclosure

The Pillar 3 disclosure document will be published on the Bank's website: www.bankofbarodauk.com

1.9. Verification of Information

The Pillar 3 disclosures have been prepared for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks. They do not constitute any form of Financial Statement or Annual Reports.

These disclosures have been subject to internal verification and are reviewed by the Chief Risk Officer and thereafter by the Board Audit Committee. The disclosures have not been, and are not required to be, subject to independent external audit.

1.10. Principal Activities

The business strategy of the Bank has been driven by the increased globalisation of the Indian economy, the growing trend of Indian corporations expanding overseas, the large population of non-resident Indians and persons of Indian origin across the World and overseas companies looking to invest in India.

The Bank has focused its efforts on specific business segments which are aligned with its core competencies and strengths, and are consistent with the risk appetite of the Bank. During the year, the primary aim of the Bank was to stabilize operations and build on the existing relationships of its parent Bank of Baroda Limited. The Bank has also initiated steps to offer retail products and has leveraged its relationships with other institutions in order to fund its asset growth. Another key focus has been to ensure that the Bank's business plans are achievable given its capital and liquidity resources.

Bank's principal activities are as under:

Retail Banking:

The Bank offers personal current accounts, personal savings accounts, business current accounts, fixed deposits and services for remittance to India. The Bank also serves Non-Resident Indian customers, based in the UK, in terms of their India-related banking needs. On the asset side, unregulated products such as buy-to-let finance, development finance, professional loans and personal loans are available.

Corporate and Commercial Banking:

The Bank's corporate business aims to provide products and services to enhance trade and investment between the UK and other countries, including India. The regulatory and emerging business environment both in the UK and India will determine the mix of products offered to clients. In the future, the Bank is looking to build on its operations by expanding its product range, developing existing relationships and creating new ones, in addition to minimising risk by remaining focused on its core competencies.



Treasury:

The treasury function focuses on managing the funding and the market and liquidity risk of the Bank at the same time as looking to maximise returns. The Bank has not undertaken any proprietary trading activities.

The Bank is able to access wholesale borrowings from the market and has been able to raise bilateral loans and borrowings at competitive cost of funds by leveraging on the existing relationships of the Bank of Baroda group. Future priorities would include diversifying funding sources both in terms of products and markets.

The Bank's primary objectives are:

- To create profitable and sustainable business growth within the UK without relying on support from the parent.
- To improve existing customer relationships by increasing the range of products and services available to the customers.
- To ensure that the risks inherent in the business are subject to robust controls and oversight by risk and compliance.
- To ensure that new and enhanced technologies are implemented to support the business.
- To build and develop leadership capability and management expertise.
- To be the Bank of choice for households of Indian origin in the UK.



2. Risk and Capital Position

The Bank's regulatory capital requirements are set and monitored by the Prudential Regulatory Authority ("PRA"). The Bank implemented the CRD IV ("Basel III") framework for calculating minimum capital requirements as part of its capital planning within its Internal Capital Adequacy Assessment Process ("ICAAP").

The Bank uses regulatory capital ratios in order to monitor its capital base, and these capital ratios are based on international standards for measuring capital adequacy. The PRA's approach to such measurement is based upon the CRD IV framework which determines the Capital Resource Requirement against available capital resources.

The Bank's policy is to maintain an adequate capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises 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. There were no breaches in regulatory capital requirements reported in the year. The Bank's regulatory capital resource under CRD IV is £139.63 million as on 31 March 2019.

2.1. Capital Requirement Framework

Under the current PRA guidelines, the total capital adequacy requirement for the Bank equals the aggregate of the Pillar 1 capital requirement, the Pillar 2A capital requirement, and applicable macro-prudential buffers (the Countercyclical Capital Buffer ("CCyB"), the Capital Conservation Buffer ("CCoB") and the "PRA buffer").

The capital framework as applicable to the Bank is described below:

Pillar 1: Pillar 1 sets out the minimum capital requirement that each bank is required to meet at all the times, for Credit Risk, Market Risk, Operational Risk and Credit Value Adjustment Risk.

Pillar 2A: These are adjustment to minimum requirements to reflect risks not captured or not adequately captured in Pillar 1 (e.g. trading book and pension deficit risk). The banks are required to meet its Pillar 2A capital with at least 56% in CET1.

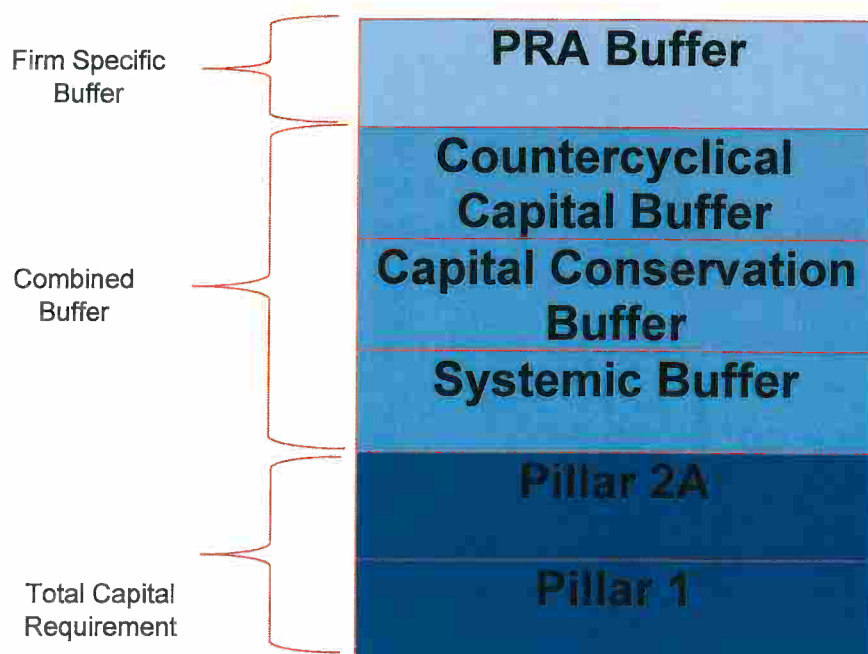
Countercyclical Buffer (CCyB): The primary objective of the countercyclical capital buffer is to ensure that the banking system is able to withstand stress without restricting essential services, such as the supply of credit, to the real economy. Each Bank's CCyB depends on its weighted average CCyB rate determined according to the CCyB rates that apply in the jurisdictions in which the bank has relevant exposures. This buffer can be varied over time.

Capital Conservation Buffer (CCoB): The capital conservation buffer (CCoB) is a capital buffer of 2.5% of a bank's total exposures that needs to be met with an additional amount of Common Equity Tier 1 capital. The buffer sits on top of the 4.5% minimum requirement for Common Equity Tier 1 capital. Its objective is to conserve a bank's capital. When a bank breaches the buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make.

Pillar 2 B (PRA Buffer): This buffer sets using supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources, and taking account where appropriate of other factors including leverage, systemic importance and weaknesses in firms' risk management and governance.

G-SII Buffer: The Bank is not Systemically Important Institution and hence, a separate systemic buffer is not required.

The diagram illustrating view of the capital framework is as under:



2.2. Capital Position

The Bank's capital consists of Core Equity Tier I Capital only which is fully subscribed by the Parent (Bank of Baroda). As on 31 March 2019, Bank has not issued any other capital.

Table 1: Capital Ratios

As on 31.03.2019 bank's minimum capital requirement was 14.99% (8%-Pillar I, 3.90%-Pillar II, 2.50% Capital Conservation Buffer, 0.588% Countercyclical Buffer). Bank has capital position of 24.86% which is above the minimum regulatory requirement.

Bank's capital position as on 31.03.2019 is as below:

Particulars	Ratios
CET 1	24.86%
Tier 1	24.86%
Tier 2	-
Total Capital	24.86%

Table 2: Capital Resources

Details of capital resources as on 31.03.2019 is as below:

Particulars	GBP million
CET 1	139.63
Tier 1	139.63
Tier 2	-
Total Available Capital	139.63



Table 3: Composition of Tier 1 Capital

Components of Tier 1 capital as on 31.03.2019 is as below:

Particulars	GBP million
Paid up Capital	140.00
Retained Earnings	(0.25)
Fair Value Reserve	(0.10)
DTA	(0.02)
Total Tier 1 Capital	139.63

Table 4: Capital Reconciliation with Balance Sheet

Particulars	Balance Sheet Extract (£ mn)	Eligible Capital Components (£ mn)
Equity		
Share Capital	140.00	
of which: amount eligible for common equity tier 1 capital		140.00
Fair Value Reserve	(0.10)	
of which: amount eligible for tier 1 capital		(0.10)
Deferred Tax Asset	(0.02)	
of which: amount eligible for tier 1 capital		(0.02)
Profit and Loss Account		
of which: Retained Earnings	0.006	
of which: Profit or loss for year	(0.255)	
of which: amount eligible for tier 1 capital		(0.249)
Total Equity	139.63	
Regulatory Capital Calculation		
Share Capital		140.00
Retained Earnings		(0.25)
Accumulated Other Comprehensive Income		(0.12)
Common Equity Tier 1 Capital		139.63
Tier 2 Capital		-
Total Regulatory Capital		139.63



3. Pillar 1 Capital Requirement

Our Bank has adopted standardised approach for credit risk and market risk. For operational risk we have adopted Basic Indicator Approach.

Risk Category	Regulatory Approaches	Approach adopted by the Bank
Credit Risk	1. Standardised Approach 2. Internal Rating Based Approach	Standardised Approach
Market Risk	1. Standardised Approach 2. Internal Model Approach	Standardised Approach
Operational Risk	1. Basic Indicator Approach 2. Standardised Approach 3. Advanced Measurement Approach	Basic Indicator Approach

Table 5: Pillar I Capital Requirement

Table presents total capital required by pillar 1 risks:

Particulars	Risk Weighted Exposure (£ mn)
Credit Risk	553.27
Counterparty Credit Risk	0.06
Market Risk	3.38
Operational Risk	6.53
Total	563.24

3.1. Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business and also from off-balance sheet products, such as guarantees and credit derivatives.

The tables below set out details of the credit risk exposures and risk weighted exposures under Asset Class, Geographical distribution, residual maturity, risk weight etc.

Table 6: Analysis of Risk Weighted Asset by Asset Class

Particulars	Risk Weighted Exposure (£ mn)
Institutions*	287.03
Corporates	225.13
of which SME:	-
Retail	1.21
of which SME:	-
Secured by mortgages on immovable property	26.33
of which SME	-



Items associated with particularly high risk	13.48
Other exposures	0.10
Total	553.27

**includes RWA of derivative exposure*

Table 7: Analysis of Exposure by Asset Class

Particulars	Exposure Before CRM & CCF (£ mn)	Exposure After CRM & CCF (£ mn)
Institutions*	777.45	769.76
Corporates	254.40	225.13
of which SME:	-	-
Retail	17.52	1.61
of which SME:	-	-
Secured by mortgages on immovable property	67.07	60.15
of which SME:	-	-
Items associated with particularly high risk	10.63	8.99
Other exposures	0.10	0.10
Total	1,127.17	1,065.73

**includes derivative exposure*

Table 8: Analysis of on and off balance sheet exposure

Asset Class	Exposure Before CRM & CCF (£ mn)	Exposure After CRM & CCF (£ mn)	RWA (£ mn)
On Balance Sheet Exposure			
Institutions	768.16	767.66	285.47
Corporates	225.98	219.29	219.29
Retail	11.66	0.63	0.47
Secured by mortgages on immovable property	58.51	58.43	25.49
Items associated with particularly high risk	8.58	8.58	12.87
Other exposures	0.10	0.10	0.10
Total On-Balance Sheet Exposure	1,072.98	1,054.69	543.69
Off Balance Sheet Exposure			
Institutions	8.97	1.78	1.49
Corporates	28.41	5.83	5.83
Retail	5.86	0.98	0.74
Secured by mortgages on immovable property	8.56	1.71	0.84
Items associated with particularly high risk	2.06	0.41	0.62
Other exposures	-	-	-
Total Off-Balance Sheet Exposure	53.87	10.72	9.51



Asset Class	Exposure Before CRM & CCF (£ mn)	Exposure After CRM & CCF (£ mn)	RWA (£ mn)
Counterparty Exposure			
Derivatives	0.320485011	0.320485011	0.06
Total Counterparty Exposure	0.320485011	0.320485011	0.06
Total	1,127.17	1,065.73	553.27

Table 9: Analysis of Exposure by Geographic Distribution

Particulars	Exposure Before CRM & CCF (£ mn)	Exposure After CRM & CCF (£ mn)
United Kingdom	236.05	182.29
India	703.03	702.25
Rest of the World	187.68	180.76
Total	1,127.17	1,065.73

Table 10: Analysis of Exposure by Geographic Distribution and Asset Class

Particulars	Exposure Before CRM & CCF (£ mn)				Exposure After CRM & CCF (£ mn)			
	United Kingdom	India	Rest of the World	Exposure (£ mn)	United Kingdom	India	Rest of the World	Exposure (£ mn)
Institutions	0.32	626.23	150.91	777.45	0.32	625.45	144.00	769.76
Corporates	148.76	76.81	28.83	254.40	119.49	76.81	28.83	225.13
Retail	17.52	0.00	0.00	17.52	1.61	0.00	0.00	1.61
Secured by mortgages on immovable property	59.13	0.00	7.94	67.07	52.21	0.00	7.94	60.15
Items associated with particularly high risk	10.63	0.00	0.00	10.63	8.99	0.00	0.00	8.99
Other exposures	0.10	0.00	0.00	0.10	0.10	0.00	0.00	0.10
Total	236.47	703.03	187.68	1,127.17	182.71	702.25	180.76	1,065.73

Table 11: Analysis of Risk Weighted Exposure by Geographic Distribution and Asset Class

Particulars	United Kingdom	India	Rest of the World	Risk Weighted Exposure (£ mn)
Institutions	0.06	239.86	47.10	287.02
Corporates	119.49	76.81	28.83	225.13
Retail	1.21	0.00	0.00	1.21
Secured by mortgages on	22.36	0.00	3.97	276.77



immovable property				
Items associated with particularly high risk	13.48	0.00	0.00	276.77
Other exposures	0.10	0.00	0.00	0.10
Total	156.70	316.67	79.90	553.27

Table 12: Analysis of On and Off-Balance sheet Exposure by Risk Weight

	Exposure Before CRM & CCF (£ mn)	Exposure After CRM & CCF (£ mn)	RWA (£ mn)
= 0%	0.00	0.00	0.00
> 0 and ≤ 12%	0.00	0.00	0.00
> 12 and ≤ 20%	344.22	343.26	68.65
> 20 and ≤ 50%	484.60	476.91	234.96
> 50 and ≤ 75%	17.52	1.61	1.21
> 75 and ≤ 100%	270.20	234.97	234.97
> 100 and ≤ 425%	10.63	8.99	13.48
> 425 and ≤ 1250%	-	-	-
Total on and off balance sheet exposure	1,127.17	1,065.73	553.27

Credit Exposure as per Credit Quality Step (CQS)

The Bank uses external credit assessments provided by Moody's, Standard & Poor's and Fitch. These are all recognised as eligible external credit assessment institutions (ECAI) under CRR for the purpose of calculating credit risk requirements under the standardised approach.

The exposure rated by ECAI as per Credit Quality Steps (CQS) are as under:

Table 13: Exposure to Corporates rated by ECAI Credit quality step wise

Credit Quality Step	Risk Weight %	Exposure Before CRM & CCF (£ mn)	Exposure After CRM & CCF (£ mn)	RWA
1	20%	-	-	-
2	50%	-	-	-
3	100%	52.71	52.71	52.71
4	100%	-	-	-
5	150%	-	-	-
6	150%	-	-	-
Unrated	100%	201.68	172.41	172.41
Total		254.40	225.13	225.13

Table 14: Exposure to Institutions rated by ECAI Credit quality step wise

Credit Quality Step	Risk Weight % (Credit Assessment Method)		Exposure Before CRM & CCF (£ mn)	Exposure After CRM & CCF (£ mn)	RWA
	Maturity > 3 months	Maturity 3 months of less			
1	20%	20%	84.33	84.33	16.87



2	50%	20%	-	-	-
3	50%	20%	683.37	676.45	251.61
4	100%	50%	-	-	-
5	100%	50%	-	-	-
6	150%	150%	-	-	-
Unrated	100%	100%	8.35	8.35	8.35
Total			776.05	769.13	276.83

3.1.1. Credit Risk Mitigation

The Bank uses credit mitigation techniques for loans where collateral is provided in the form of cash held by the customer with the bank (for example lending against fixed deposits held by the customers with the Bank). Though the Bank does not apply credit risk mitigation techniques for mortgage lending, all mortgages are secured by a first charge over the property being purchased or re-mortgaged, to safeguard the Bank's assets from customer default. No second charges are permitted. Valuation of the property is conducted as part of the application process by a Royal Institute of Chartered Surveyors certified valuer from the Bank's approved panel of valuers for a new mortgage. This is performed to mitigate the credit risks due to its exposure to potential bad debts arising from the inherent risk that customers may default on their obligations.

Table 15: Analysis of Financial Collateral by Asset Class

Particulars	Amount of Financial collateral (£ mn)
Institutions	0.39
Corporates	9.24
Retail	11.99
Secured by mortgages on immovable property	0.07
Items associated with particularly high risk	0.00
Other exposures	-
Total	21.70

3.1.2. Dilution Risk

Non-Performing Assets are those that satisfy either or both of the following criteria:

- Material exposures which are more than 90 days past due
- Any exposure of the obligor has been found impaired in accordance with the IFRS accounting framework and/or the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

As on reporting date, Bank of Baroda (UK) Limited doesn't have any non-performing loans and advances.

3.2. Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. It arises on derivatives, securities financing transactions and exposures to central counterparties ('CCP') in both the trading and non-trading books.

3.3. Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce the group's income or the value of its portfolios.

Market risk is measured using the standardised approach for position risk under CRD IV.

The table below sets out details of the bank's market risk exposures by type and approach.

Table 16: Market Risk

Particulars	RWA (£ mn)	Capital Required (£ mn)
Interest Rate Risk (general & Specific)	2.53	0.20
Foreign Exchange Risk	0.84	0.07

3.4. Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems, or from external events.

Operational risk is relevant to every aspect of our business. It covers a wide spectrum of issues, such as, compliance, operational resilience, legal, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

Bank of Baroda (UK) Limited follows Basic Indicator Approach (BIA) for Operational Risk Capital calculation, in accordance with Article 315 of the CRR.

Since Bank has commenced its operations in Dec 2018, financials for previous 2 years are not available. During FY 2018-19, Bank has incurred losses, therefore Operational Risk Capital is calculated on projected gross income of two years only.

Table 17: Operational risk RWAs and capital required as on 31.03.2019

Particulars	RWA (GBP' million)	Capital Required (GBP million)
Own funds requirement for operational risk – assessed on the Basic Indicator Approach	6.53	0.52

3.5. Leverage Ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. A leverage ratio has also been introduced to safeguard against excessive risk taking. It is a back stop measure based on gross exposure and in variant level of risk of the asset.

It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement.

Leverage ratio as on 31.03.2019 was 12.16%.



Table 18: Leverage Ratio as on 31.03.2019

Particulars	GBP million
Balance Sheet Assets	1,135.85
Off Balance Sheet Assets	12.21
Less: Intangibles	
Other Adjustments	
Total Leverage Exposure	1,148.06
Tier 1 Capital Resources	139.63
Less Intangibles	
Total	139.63
Leverage Ratio	12.16

Table 19: Split up of On Balance sheet exposure

Particulars	GBP million
Total on balance sheet exposure (excluding derivatives, SFTs, and exempted exposures), of which:	1,135.85
Trading book exposure	-
Banking book exposure, of which:	1,135.85
Covered bonds	0.00
Exposure treated as sovereigns	50.76
Exposure to regional governments, MDB, international organizations and PSE not treated as sovereigns	-
Institutions	776.05
Secured by mortgages of immovable properties	58.51
Retail exposures	11.66
Corporate	225.98
Exposure in default	
Other exposures	12.90

3.6. Liquidity Risk

Table 20: Liquidity Coverage Ratio

Particulars	GBP million
Total HQLA	50.99
Total Outflows	131.81
Total Inflows	326.28
Net Cash Outflow	-194.47
25% of total cash outflows	32.95
Total Net Cash Outflows (max of above 2)	32.95
Liquidity Coverage Ratio	155%



4. Asset Encumbrance

As on 31.03.2019, Bank doesn't have any encumbered asset.

Table 21: Encumbered and unencumbered assets

Encumbered and unencumbered assets						
	Carrying amount of encumbered assets	Fair encumbered assets	value of encumbered assets of which notionally eligible EHQLA and HQLA	Carrying amount of unencumbered assets	Fair unencumbered assets	value of unencumbered assets of which EHQLA and HQLA
Asset of the reporting institution	-	-	-	50.99	50.99	50.99
Equity instruments	-	-	-	-	-	-
Debt securities	-	-	-	50.99	50.99	50.99
of which: covered bonds	-	-	-	-	-	-
of which: asset backed securities	-	-	-	-	-	-
of which: issued by general governments	-	-	-	50.99	50.99	50.99
of which: issued by financial corporations	-	-	-	-	-	-
of which: issued by non-financial corporations	-	-	-	-	-	-
Other assets	-	-	-	-	-	-

5. Countercyclical 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 create 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, the Financial Policy Committee is responsible for the determination of CCyB rates in respect of foreign exposures.

The tables below use the standard template issued by the European Banking Authority (EBA) to show the distribution of relevant credit exposures for the calculation of the institution's specific countercyclical capital buffer (CCyB). The CCyB rates for only those countries that are recognized by the Financial Policy Committee (FPC) in the UK as of March 31, 2019 have been mentioned in the table:

Table 22: Countercyclical Buffer

Breakdown by Country	General Credit Exposures (£ mn)	Own Fund Requirements (£ mn)	Own Fund Weights	Countercyclical Capital Buffer Rate
UK	236.14	12.52	58.80%	1%
India	76.81	6.14	28.87%	0%
All Other Countries*	36.77	2.62	12.33%	0%
Total	349.72	21.28		

*The details are mentioned in Annexure I

Table 23: Institution Specific Countercyclical Capital Buffer

Description	£ mn
Total Risk Exposure Amount (RWAs)	563.24
Institution specific countercyclical buffer rate (%)	0.5880%
Institution specific countercyclical capital buffer requirement	3.31



6. Pillar 2 and ICAAP

6.1. Pillar 2

The Bank's Total Capital Requirement, applicable as at March 31st 2019 was 14.99% (of which the Pillar 2A comprises of 3.9%) of total risk weighted assets.

6.2. Internal Capital Adequacy Assessment Process

Bank of Baroda (UK) Limited conducts ICAAP on annual basis as a forward looking assessment of its capital requirement given business strategy, risk profile, risk appetite and capital plan.

Under ICAAP, Bank of Baroda (UK) Limited oversees and regularly assesses its processes, strategies and systems, the major sources of risk to the Bank's ability to meet its liabilities as they fall due, the results of internal stress testing of these risks and the amounts and types of financial and capital resources within the Bank and whether they are adequate to cover the nature and level of the risks to which the Bank is exposed.

This process incorporates the Bank's internal governance structure and assurance framework, risk management framework, key risk areas that are relevant to the Bank, the adequacy of capital resource and internal capital in relation to the overall risk profile and hence the Bank's overall ability to meet its liabilities as they fall due, and the way in which the ICAAP is used in the business.

The ICAAP is updated annually, but in the event of a significant change to the circumstances of the Bank, such as the development of a new business line or a significant change in business strategy, it can be updated as soon as possible to reflect these changes.

The Board of Bank of Baroda (UK) Limited in its capacity as the ultimate decision making body and owns the ICAAP and the outputs arising from it. The ICAAP and completion of the process itself has been delegated to the Head of Risk and Compliance. The Board is supported in their review of the ICAAP as periodically submitted to them for discussion and approval by the Board Risk & Compliance Committee who provides an initial review of the materials provided to ensure that the assessment framework and its component parts as well as the capital resource estimates generated are appropriate given the size nature and complexity of the Bank and aligned to the Risk Appetite agreed by the Board.

While the Board has delegated responsibility for the update and maintenance of the ICAAP to the Head of Risk and Compliance, the Risk Department is responsible for collating and drafting the document with support from other areas of the business such as Finance and Compliance in particular.

The ICAAP is broadly distributed and debated across the business to ensure that all senior managers have the opportunity to contribute. This process includes workshops and committee meetings (including the Board Risk and Compliance Committee) in which aspects of the approaches documented in the ICAAP can be reviewed and challenged, and a near final version is submitted to the Board for final review, challenge and authorisation.

Although ICAAP forms a key corporate risk document in its own right, it sets out ongoing number of processes that will be carried out by the Bank. ICAAP is authorised by the Board



and therefore effectively acts as a policy governing these ongoing processes. These include the following:

- The identification, monitoring, management and reporting of material risks to the Bank
- Having robust risk management and governance structures in place to oversee and carry out the risk management
- Comprehensive management information provided to the risk management and governance committees to enable the ongoing monitoring and oversight of the key risks
- Stress testing to identify key vulnerabilities to certain stress scenarios. These also help to provide feedback to the Board in relation to certain aspects of the risk appetite set
- Capital planning: The approaches and methodologies given in the ICAAP are incorporated into the forward business plans in order to provide a forward looking view of capital adequacy, and therefore to determine whether there is sufficient capital available to support planned business growth, or whether there is a need to request any additional injections of capital from the Bank of Baroda Group.

We have carried out stress test based on various scenarios and have found the capital to be sufficiently adequate as per our business strategy as detailed in our regulatory business plan.

7. Risk Management Objective and Policies

Bank of Baroda (UK) Limited has adopted a proactive approach to ensure risks arising from the operation of the Bank are appropriately identified and managed. Risk Management processes include identification, assessment, measurement, control, mitigation, analysis, monitoring and reporting,

Bank has a robust and comprehensive Risk Management Framework (RMF) to facilitate qualitative and quantitative assessment of various types of risks. The framework commensurate to Bank's size, nature and complexities of its activities and in compliance with applicable regulatory requirements.

At the highest level the approach to risk management adopted revolves around the following principles:

- Risk Management should be transparent and inclusive.
- The Risk Management process should involve all relevant stakeholders at each stage of the decision making process.
- Bank of Baroda (UK) Limited believes that risk management is one of Senior Management's foremost responsibilities.
- There must be continual evaluation of the inputs relied on at each step of the risk management process.
- The Bank must strive to continuously improve the risk management arrangement in place



Bank's Risk Management Framework consists of following risk areas and policies:

Risk Category	Bank's Mitigation Plan	Key Policies
Credit Risk <i>Credit risk is defined as the risk of loss as a result of the failure of a party with whom the Bank has contracted to meet its obligations.</i>	<p>The main credit risk that the Bank faces relates to its exposure to banks and corporates from its trade finance business, inter-bank lending, and advances to corporate and retail borrowers.</p> <p>The Board of Directors has delegated the management of credit risk to the BRCC. The BRCC monitors and approves all credit related risks at the Bank, while the Credit Policy Guidelines are approved by the Board of Directors. The BRCC reviews all the major advances granted by the Bank and ensures the maintenance of strong internal controls over credit risk.</p>	<ul style="list-style-type: none"> ■ Credit Risk Management Policy ■ Provisioning Policy ■ Credit Monitoring & Recovery Policy
Market Risk <i>Market Risk is defined as the potential adverse change in the bank's income or net worth arising from movement in interest rates, exchange rates, equity price and/or other market prices. Effective identification and management of market risk is required for maintaining stable net interest income.</i>	<p>The most significant forms of market risk to which the bank is exposed are interest rate risk and exchange risk. The Bank's liabilities are at a fixed rate of interest while most of the Bank's assets are at a floating rate of interest. The Bank regularly analyses the exposure and has set limits for maximum mismatches.</p> <p>Interest rate risk is managed by matching and monitoring the yield and duration exposure that is built into the Bank's portfolio.</p> <p>The Bank is monitoring its interest rate mismatches on a regular basis, and the potential loss on account of upward or downward movement of interest rates by 2% based on currency exposures.</p> <p>The bank is exposed to foreign exchange risk to the extent of its open position in each currency. The Bank has stipulated an internal limit for maximum open positions and measures and monitors this open position on a daily basis.</p>	<ul style="list-style-type: none"> ■ Investment Policy ■ Derivative Policy
Operational Risk <i>Operational Risk is defined as the risk of loss due to</i>	<p>Overview of operational risk is undertaken by the BRCC, and ultimately the Board of Directors, who retain responsibility for operational risk. The operational risk management framework is developed by</p>	<ul style="list-style-type: none"> ■ New Product Approval Policy ■ Business Continuity Plan Policy



Risk Category	Bank's Mitigation Plan	Key Policies
<i>inadequate or failed internal processes, people, systems and external events.</i>	<p>the Risk Management Department and the implementation of controls to address operational risk is part of line managers' day-to-day responsibilities.</p> <p>Qualitative and quantitative reports and metrics are collated by the Risk Management Department and reported regularly to the RMC and a summary report submitted to the BRCC and Board of Directors on a quarterly basis. Capital will be allocated by the Bank in order to mitigate operational risk in accordance with the Bank's ICAAP.</p>	<ul style="list-style-type: none"> ■ Outsourcing policy ■ Whistle Blowing Policy ■ Financial Crime Management Policy ■ Training & Competence Policy ■ Data Protection Policy ■ Record Retention Policy
<p>Liquidity Risk</p> <p><i>Liquidity risk is the risk that the Bank may not be able to meet its payment obligations with respect to customer deposits or any other borrowings, within the stipulated repayment frame and without significant additional cost.</i></p>	<p>The Bank has a Board approved ILAAP in place, which is in line with the guidelines issued by PRA. The Bank has a system in place to monitor total contractual inflow and outflow and to manage liquidity gaps within pre-stipulated limits that are prescribed by the Board.</p> <p>The Bank is also holding sufficient high quality liquid assets ("HQLA") in approved securities and to meet its obligations over a 90 day period under stressed conditions. The Bank is also maintaining no negative mismatch under wholesale fund flows over a 90 day period.</p>	<ul style="list-style-type: none"> ■ Liquidity Risk Management Policy ■ Liquidity Contingency Plan ■ Asset Liability Management Policy
<p>Conduct Risk</p> <p><i>Conduct risk is the risk of customers being treated unfairly or being disadvantaged by the actions of the Bank. It also includes the risk of failing to meet market rules or standards, or general laws covering its activities.</i></p>	<p>Conduct risk arises in all of Bank of Baroda (UK) Limited's front office activities. The Bank seeks to mitigate as far as possible conduct risks by establishing a clear framework of policies for dealing with clients and transacting in markets. This includes providing appropriate training for all staff in these policies and procedures and in the standards expected of Bank staff when dealing with clients and markets.</p> <p>Within the Bank, the ultimate responsibility for ensuring appropriate conduct risk management mechanism are in place rests with the Board which has delegated day-to-day responsibility to Head of risk and compliance with oversight from BRCC.</p>	<ul style="list-style-type: none"> ■ Conduct Risk Policy framework ■ New Product Approval Policy ■ Conflicts of Interest Policy ■ Compliance Manual ■ Financial Crime and AML Policy ■ TCF Policy ■ Gifts and Hospitality Policy ■ Whistle blowing Policy ■ Remuneration Policy
<p>Reputational Risk</p> <p><i>Reputational risk is</i></p>	<p>Bank of Baroda (UK) Limited manages reputational risk in its strategic setting, business planning and operations.</p>	



Risk Category	Bank's Mitigation Plan	Key Policies
<p><i>about fundamental perception of the value of the brand of and the strategic direction of the Bank.</i></p>	<p>Reputational Risk arises in all activities of Bank of Baroda (UK) Limited. The Bank seeks to mitigate as far as possible reputational risks by establishing a clear framework of policies for dealing with clients and transacting in markets. This includes providing appropriate training for all staff in these policies and procedures and in the standards expected of Bank staff when dealing with clients and markets.</p> <p>The Bank has established low tolerance for reputational risk, in particular:</p> <ul style="list-style-type: none"> ■ Regulatory breaches ■ Material litigation ■ Compliance or Anti-Money Laundering failure ■ Business malpractice which causes material damage to clients ■ Unethical business and employment practices. 	
<p>The Board of Bank of Baroda (UK) Limited has set a risk appetite within which the wider strategy of the Bank must be delivered. This risk appetite is captured in the Risk Appetite Statement ("RAS") and is cascaded into the business through the RMF which ensures that the Bank has the ability to identify, monitor and manage the risk inherent in the new business.</p>		



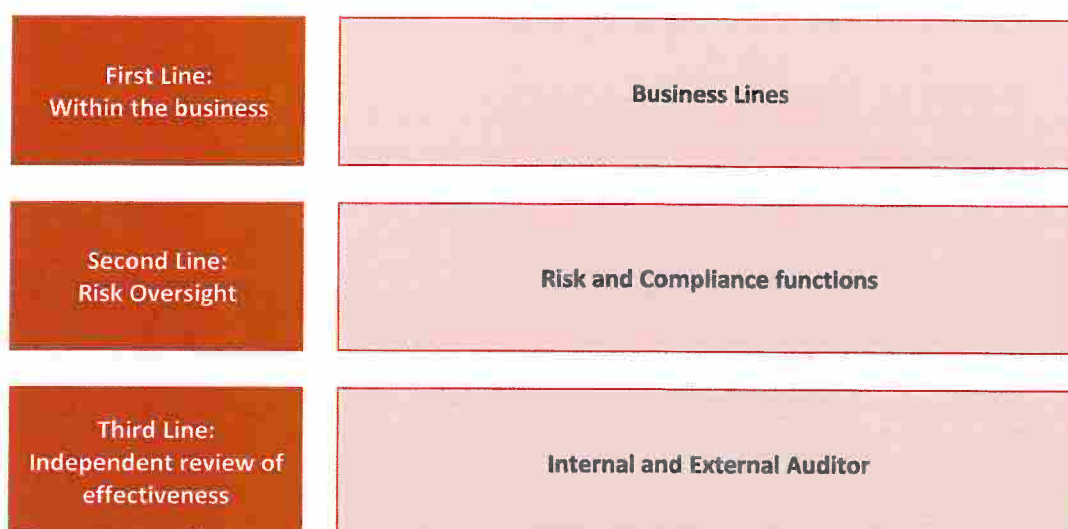
8. Approaches for Risk Management

To ensure these principles are adhered to, Bank of Baroda (UK) Limited has adopted three lines of defence model built specifically to meet the needs of the Bank.

Three Lines of Defence Model

A “three lines of defence” model has been adopted by the Bank for the effective oversight and management of risks across the Bank. Functions, teams and branches in the first line undertake frontline operational and support activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of controls. Each Head of First Line Function/Team carries responsibility for ensuring that activities undertaken are within the board-approved risk appetite for that point in time.

Figure 2: Diagram of Bank of Baroda (UK) Limited Three Lines of Defence model



First line of defence: Management and front line of staff is the first line of defence who is responsible for implementing strategy and the establishment and maintenance of internal control and risk management in the business as defined by the policies and processes. This includes senior management and business line heads.

Specific responsibilities of the first line of defence include:

- Embedding risk management frameworks, policies, and sound risk management practices into standard operating procedures.
- Adhering to frameworks, policies and procedures set by the Board.
- Reporting on the performance of risk management activities (including ongoing risk identification, assessment, mitigation, monitoring and reporting).
- Accounting for the effectiveness of risk management in operation including ensuring that procedures and controls are operated in a consistent and ongoing basis in order to effectively manage risks.



Second line of defence: The Risk Management and Compliance Functions are independent risk management functions, and are a key component of the Bank's second line of defence. The Risk Management Department and the Compliance Department are responsible for the ongoing assessment and monitoring of risk-taking activities across the Bank.

The second line is responsible for:

- Developing and implementing risk management frameworks, policies, systems, processes and tools.
- Ensuring that risk management frameworks, policies, systems, processes and tools are updated and reviewed periodically and that these are communicated effectively to the first line.
- Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting.
- Establishing an early warning system for breaches of the Bank's Risk Appetite.
- Influencing or challenging decisions that give rise to material risk exposure.
- Reporting via the Head of Risk & Compliance to BRCC, on all these items, including risk mitigating actions, where appropriate.

Third line of defence: The Internal Audit function is the third line of defence and is responsible for providing independent and objective assurance of the effectiveness of internal controls established by the first and second lines of defence. The Bank's Internal Audit function operates under a co-source basis with KPMG LLP and reports to the BAC.

Responsibilities of third line of defence include:

- Independently reviewing the design and operating effectiveness of the Bank's internal controls, risk management and governance systems and processes.
- Periodically assessing the Bank's overall risk governance framework, including, but not limited to an assessment of:
 - The effectiveness of the Risk Management and Compliance Functions.
 - The quality of risk reporting to the Board and Senior Management.
 - The effectiveness of the Bank's system of internal controls.
- Providing independent assurance to the Board on the above.
- Recommending improvements and enforcing corrective actions and assigning respective action owners where necessary.
- Tracking the implementation of all internal audit recommendations and external audit management letter points.

8.1. Risk Management and Governance Framework

This section sets out the arrangements for the risk governance associated with the implementation of the RMF within Bank of Baroda (UK) Limited, including key committees involved, the management structure and associated reporting lines.

■ Board of Bank of Baroda (UK) Limited ("Board")

The Board of Bank of Baroda (UK) Limited has overall responsibility for ensuring appropriate risk management arrangements are in place within the Bank in accordance with the Senior Management Systems and Controls Sourcebook ("SYSC") 7. The key risk management responsibilities of the Board include approving the risk appetite, approving the control framework, monitoring its operations, approving specific policies and reviewing adherence to these and other regulatory norms.



The Board has oversight of:

- Bank's capital adequacy and ICAAP
- Bank's liquidity position and ILAAP

The Board has delegated the responsibility for the ongoing Board level oversight of the RMF to the BRCC. The Board has also delegated day-to-day responsibility for risk management at an operational level to the Head of Risk with the Risk Manager providing 'four eyes'. The Board of Bank of Baroda (UK) Limited makes decisions related to risk management independent of the parent bank in India.

Table 24: Details of directors' attendance in the Board meetings during FY 2018-19

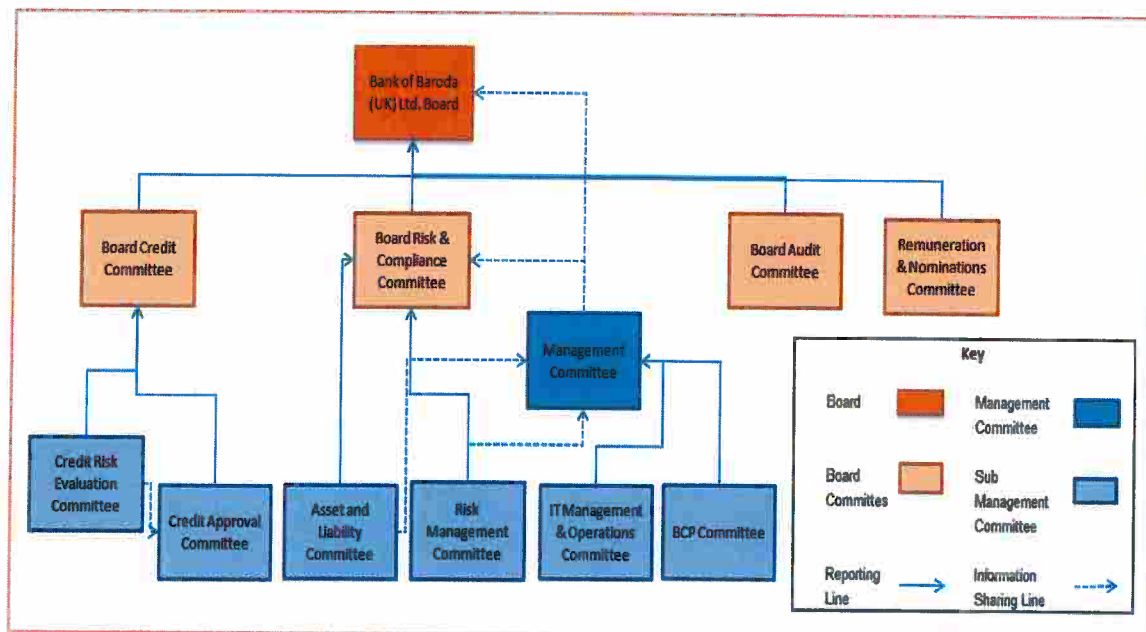
S.N.	Name of The Director	Category	Appointment/ Resignation During – 2018-2019	No. of Board Meeting Held in Directors Tenure	Attendance Particulars No. Of Board Meetings	
					Held	Attended
1.	Mr. P.S. Jayakumar	Chairman/ NED	-	4	4	2
2.	Mr. Sanjaya Agarwal	Managing Director	-	4	4	4
3.	Mr. Anil Manambrakat	Deputy Managing Director	-	4	4	4
4.	Mr. Eric Tucker	NED	Resigned w.e.f. – 25.03.2019	4	4	3
5.	Mr. Christopher P.J. Fitzgibbon	INED	-	4	4	3
6.	Mr. Martin Charles Say	INED	-	4	4	3



Committees

The committee structure of Bank of Baroda (UK) Limited is shown below:

Figure1: Committee structure



The following committees support the Board:

- Board Risk and Compliance Committee ("BRCC")
- Board Credit Committee ("BCC")
- Board Audit Committee ("BAC")
- Remuneration and Nominations Committee ("RNC")
- Asset and Liability Committee ("ALCO")
- Management Committee ("ManCo")
- Credit Approval Committee ("CAC")
- Risk Management Committee ("RMC")
- Credit Risk Evaluation Committee ("CREC")

■ Board Risk and Compliance Committee ("BRCC"):

The Board Risk and Compliance Committee ("BRCC") is a sub-committee of the Board of Bank of Baroda (UK) Limited and, as such, has direct delegated responsibility from the Board.

The objective of the committee is to achieve oversight of the overall compliance and risk management functions including credit, liquidity, interest rate, foreign exchange and operational risks, together with regulatory and legal compliance. The Committee aims to effectively monitor the risks arising in the Bank across business lines, product areas and geographies and more generally, to monitor procedures and identify solutions to minimise or mitigate those risks.

The committee is chaired by an Independent Non-Executive Director.



■ **Board Credit Committee (“BCC”)**

The Board Credit Committee (“BCC”) is appointed by the Board of the Bank of Baroda (UK) Limited and, as such, has direct delegated responsibility from the Board. The BCC is constituted to ensure the credit decisions beyond the delegated authority of both local branch managers and the Head of Credit/Credit Approval Committee (“CAC”) are appropriately considered at the level of this Board. Additionally, the committee is tasked with periodically reviewing the Banks’ overall strategy and approach with respect to credit (Inc. credit risk appetite).

The objective of the Committee is to oversee the scrutiny of the Bank’s lending and other businesses that involves credit risk. Additionally, the committee discusses and reviews the Banks’ overall strategy and approach with respect to credit, including credit risk appetite. The Committee aims to effectively monitor the credit risks arising in the Bank across business lines, product areas and geographies and more generally, to monitor procedures and identify solutions to minimise or mitigate those risks.

The Board Credit Committee is chaired by Managing Director.

■ **Board Audit Committee (“BAC”)**

The Board Audit Committee (“BAC”) of Bank of Baroda (UK) Limited (“the Bank”) is a sub-committee of the Board and, as such, has direct delegated responsibility from the Board.

The objective of the committee is to provide oversight of the Bank’s financial affairs and related control arrangements and monitor inspection reports submitted by the Internal Auditors/ External Auditors as well as consider any relevant regulatory matters.

The committee is chaired by an Independent Non-Executive Director.

■ **Remuneration and Nominations Committee (“RNC”)**

The Board Remuneration and Nominations Committee (“BRNC”) is appointed by the Board of Bank of Baroda (UK) Limited and, as such, has direct delegated responsibility from the Board.

The objective of the Committee is to be responsible for appointments and remuneration at the most senior level of management at the Bank.

The committee is chaired by Chairman of Bank of Baroda (UK) Limited.

■ **Asset and Liability Committee (“ALCO”)**

The Asset & Liability Management Committee (“ALCO”) is appointed by the Board of the Bank of Baroda (UK) Limited and, as such, has direct delegated responsibility from the Board.

The objective of the Committee is to be responsible for overseeing the Liquidity Risk and Interest Rate Risk of the Bank. It is responsible for Balance Sheet Management of the Bank and ensuring that the bank is compliant with all the regulatory requirements on liquidity and funding. The ALCO reports to the Board Risk and Compliance Committee (BRCC).

The committee is chaired by Managing Director.



■ **Management Committee of Bank of Baroda (UK) Limited (“ManCo”)**

The Management Committee (“ManCo”) is appointed by the Board of the Bank of Baroda (UK) Limited (“the Bank”) and, as such, has direct delegated responsibility from the Board.

The ManCo objective is to take whatever steps are necessary to oversee the business of the Bank of Baroda (UK) Limited. on a day to day basis. The ManCo ensures that at all times it acts within the confines of the Board approved strategy, policies, operating plans and budgets. It is the key committee within the Bank of Baroda (UK) Limited. (Subsidiary) to oversee the day-to-day running of BOB’s UK’s business. The ManCo reports to the Board.

The committee is chaired by Managing Director.

■ **Credit Approval Committee (“CAC”)**

The Credit Approval Committee (“CAC”) is appointed by the Board of the Bank of Baroda (UK) Limited (“the Bank”) and, as such, has direct delegated responsibility from the Board.

The objective of the Committee is to be responsible for Sanction of Credit Proposals under its Discretionary Powers as per the Credit Policy. The CAC reports to the Board Credit Committee.

The committee is chaired by Managing Director.

■ **Risk Management Committee (“RMC”)**

The Risk Management Committee (“RMC”) is appointed by the Board of the Bank of Baroda (UK) Limited (“the Bank”) and, as such, has direct delegated responsibility from the Board.

Risk Management Committee is responsible for overseeing the overall Risk management function, including Credit, Market & Operational Risk including Conduct Risk, Legal Risk, Reputational Risk etc.

It is also responsible for reviewing and recommending the Bank’s risk appetite to Board Risk & Compliance Committee.

The Risk Management Committee reports to the Board Risk & Compliance Committee, which is chaired by the Head of Risk & Compliance Committee. In addition, Chief Manager (Risk Management) has a direct line of report to the Chair of the Risk Management Committee.

The committee is chaired by Head – Risk & Compliance.

■ **Credit Risk Evaluation Committee (“CREC”)**

The Credit Risk Evaluation Committee (“CREC”) is appointed by the Board of the Bank of Baroda (UK) Limited and, as such, has direct delegated responsibility from the Board.

The objective of the Committee is to be responsible for evaluation and analysis of individual credit proposals from all angles of risk before taking a credit decision by the competent authorities, of proposals falling under its remit as per the Credit Policy of the Bank.

The observations of the committee are submitted to respective Sanctioning Authority /Credit Approval Committee/Board Credit Committee as per the Discretionary Lending Powers of the Bank.



The committee is chaired by Head – Risk & Compliance.

8.2. Credit Risk Management

Bank of Baroda (UK) Limited's credit risk management includes identification, assessment, measurement, and mitigation of credit risk. The primary responsibility of credit risk starts from the Credit Appraising Officer who acts as the First Line of Defence for credit risk management. When a customer submits an application, it is processed and risk rated by the Credit Appraising Officer. The rating is validated by an independent risk management function, i.e. validating officer.

The Second Line of Defence for credit risk for individual credit proposals is the CREC. Before any application is submitted to the respective sanctioning committee, the Credit Appraising Officer submits the proposal within the remit of the CREC as per the Credit Policy to the CREC for clearance from risk management angle. The CREC assesses the proposal against various risks including but not limited to:

- Business Risk
- Financial Risk (Risk due to poor financial status of the borrower)
- Regulatory Risk
- Compliance Risk
- Liquidity Risk

On the basis of its assessment the CREC submits its report to the respective sanctioning committee, depending upon the delegated lending powers approved by the Board. Based on the appraisal of the credit officer and any observations of the CREC, the sanctioning committee takes a decision on the proposal.

The Third Line of Defence for credit risk is the internal and external audit function.

The Credit Policy provides detailed guidelines on all the risk management mechanism for credit risk.

Monitoring of Credit Risk

For credit risk, the following key risk indicators are used by the Management/ ManCo/ BRCC/Board to ensure the Board/Management is aware of increased credit risk concentration:

- Counterparty / Single name concentration
- Sectoral Concentration
- Geographical Concentration
- Credit excesses
- Critical Accounts / Potential Defaults
- Overdue Review Position
- Unsecured Loan Portfolio
- Loans in arrears

Monitoring of credit risk takes place at two levels; Individual Risk Monitoring; and Portfolio Risk Monitoring.



All the accounts are reviewed on an annual basis, except for short term loans/ advances maturing within 12 months. However, in case of accounts causing concern with potential signs of default shall be reviewed more frequently, say quarterly/ semi-annually where the situation warrants.

The Bank uses the Standardised Approach method for the capital calculation as proposed under the Basel accord.

8.3. Market Risk Management

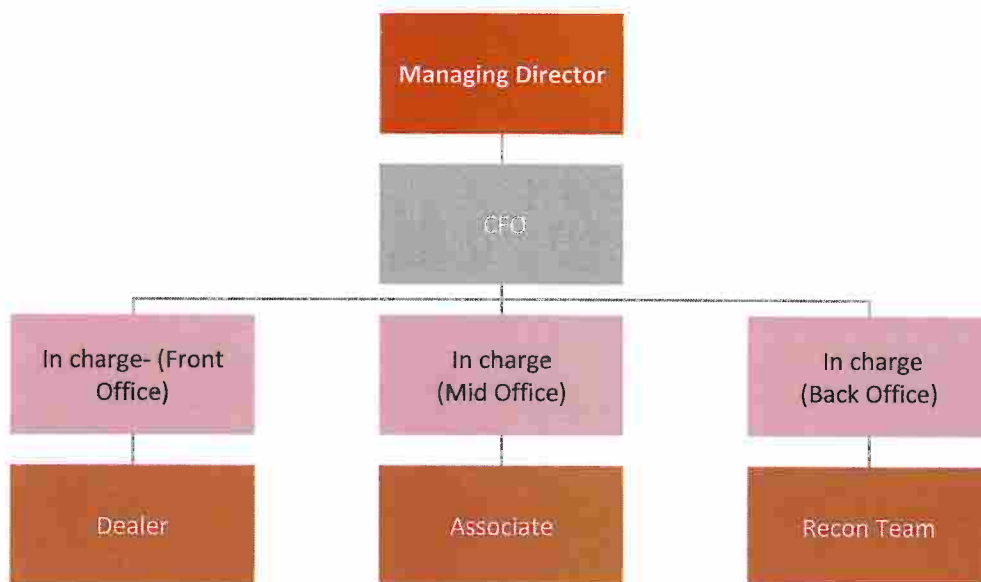
Current portfolio of Bank of Baroda (UK) Limited, under Market Risk is exposed to:

- Interest rate risk: The risk that interest rates and/or their implied volatility will change
- Exchange rate risk: The risk that foreign exchange rates and/or their implied volatility will change
- Bank at present is not considering exposure in equity and commodities segments. Hence market risk due to equity price movements and commodities price movements are not going to impact.

Managing Market Risk

The objective of managing market risk is to reduce the Bank's exposure to volatility inherent to financial instruments such as foreign exchange contract, equity and derivative instruments, and securities. The Treasury have robust policies, systems, and procedures in order to control the risks arising from these instruments. To enable adequate delineation of duties, the treasury has separate front and back office desk. This is shown in the treasury operational set up below:

Figure 2: Organisational structure of the Treasury function



Monitoring of Market Risk

Bank of Baroda (UK) Limited ensures that the market risk is continuously monitored with limits and caps in place to mitigate risk of adverse price changes.



The Bank has developed market risk limits structure, including but not limited to Day light exposure limit, overnight exposure limits, stop loss limits, Interest Rate Risk in Banking Book is monitored through FSA 017 templates, with 200 bps shock.

The Bank uses the Simplified Standardised Approach method for the capital calculation as proposed under the Basel accord.

8.3.1. Interest Rate Risk Management

Interest rate risk arises from financial instruments where net interest income or expense and the fair value of the Bank's assets or liabilities are exposed to movements in interest rates. Interest rate risk is managed by matching and monitoring the yield and duration exposure that is built into the Bank's portfolio.

Managing Interest Rate Risk

The Bank is monitoring its interest rate mismatches on a regular basis, and the potential loss on account of upward or downward movement of interest rates by 2% based on currency exposures.

Position as at 31 March 2019 is presented below:

- Effect of 200 basis increase in interest rates across maturity bands = £22.03 million.
- Effect of 200 basis decrease in Interest rates across maturity bands = £24.88 million.

Effect of 200 basis points increase in interest rates would increase the Bank's net interest income by £6.08 million over a year horizon. A loss in net interest income would happen for a decrease in interest rates by 200 bps over a one-year horizon assuming a parallel shift in the yield curve.

Interest Rate Risk is being monitored on quarterly basis.

8.4. Liquidity Risk Management

Liquidity risk is the risk that failure to meet payment obligations as and when they fall due. The risk arises when the assets maturing during a particular period are lower than the liabilities maturing during the same period. An increase in assets or a decrease in liabilities can also create liquidity risk. The probable causes of liquidity risk for the Bank are as follows:

- **Funding Liquidity Risk:** the risk that Bank of Baroda (UK) Limited will not be able to meet efficiently the expected and unexpected current and future cash flows and collateral needs without affecting either its daily operations or its financial condition
- **Market Liquidity Risk:** the risk that a bank cannot easily offset or eliminate a position at the prevailing market price because of inadequate market depth or market disruption

Managing Liquidity Risk

The short term management of liquidity risk is achieved by traditional maturity mismatch ladders and gap statements, stress testing the Bank's position and the setting of applicable limits to manage the liquidity risks arising.



Structural liquidity is monitored through a liquidity planning schedule statement that is used to measure liquidity risk. A maturity ladder approach is used and gaps between inflows and outflows are identified.

There are multiple indicators of stress for liquidity risk such as increased currency mismatches, negative publicity, macro-economic changes, market movements and increased retail deposit outflow. Bank of Baroda (UK) Limited monitors and measures its liquidity risk levels using both a stock and flow approach. Under flow approach, assets and liabilities are placed in different maturity buckets and gaps are calculated. Under stock approach, liquidity risk is measured using certain ratios.

The predominant oversight for liquidity risk in the Bank is undertaken by ALCO.

8.5. Operational Risk Management

Operational risk is the risk of loss on account of inadequate or failed internal process, people and systems or external factors. This includes:

- Business continuity risk
- Legal/litigation risk
- Compliance risk

Operational risk can be created by a wide range of different external events ranging from power failures to floods or earthquakes to terrorist attacks. Similarly, operational risk can arise due to internal events such as the potential for failures or inadequacies in any of the Bank's processes and systems or those of its outsourced service providers.

Operational risk arising from human resources management ("People Risk") may refer to a range of issues such as mismanaged or poorly trained employees; the potential of employees for negligence, and wilful misconduct. Therefore, the emergence of mistrust, failure to communicate, low morale and cynicism among staff members, as well as increased turnover of staff, should be regarded as indicative for potential increase in operational risk.

Managing Operational Risk

Bank of Baroda (UK) Limited seeks to mitigate these risks through the adoption of policies and procedures for operational risk management, compiling operational manuals for each product and defining business processes and related internal control measures. The major policies containing operational risk management processes include but not limited to:

- New Product Approval Policy
- Business Continuity Plan Policy
- Outsourcing policy
- Whistle Blowing Policy
- Financial Crime Management Policy
- Training & Competence Policy
- Data Protection Policy
- Record Retention Policy



The first line for operational risk is the business and supporting functions where the risks arise. As far as possible, the first line seeks to identify the operational risk arising in their area, mitigate these through identifying appropriate actions communicating risk and any mitigation to the Risk Management Department. The day to day management of operational risk is governed through Bank's policies and procedures.

Monitoring of Operational Risk

Bank of Baroda (UK) Limited monitors its ongoing exposure to operational risk through:

- Identifying those responsible for assessing, measuring, monitoring and controlling operational risk
- Challenging business and supporting functions to ensure all operational risks are identified
- Documenting the operational risks (and near misses) identified by the business and supporting functions and proposing and monitoring any mitigating actions
- Analysing the key operational risks and regularly report these to senior level committees
- Operational risk categorisation including regulatory requirements
- Using the risk management tools and Key Risk Indicators, to assess, monitor, manage the operational risk
- Conduct risk and controls analysis to be reported to the Risk Management department
- Identifying key risk and performance indicators

Bank of Baroda (UK) Limited follows the Basic Indicator Approach for its Operational Risk regulatory capital calculation purposes.

8.6. Conduct Risk Management

Conduct risk is the risk of customers being treated unfairly or being disadvantaged by the actions of the Bank. It also includes the risk of failing to meet market rules or standards, or general laws covering its activities. Within the Bank, the ultimate responsibility for ensuring appropriate conduct risk management mechanism are in place rests with the Board which has delegated day-to-day responsibility to Head of Risk with oversight from BRCC.

Bank of Baroda (UK) Limited considers that the most material types of Conduct Risks that could arise in the Bank to be:

- Failure to take into account of client needs such as selling inappropriate products to clients or giving inappropriate advice to clients
- Failure to treat clients fairly or to act in their best interests: misleading marketing information, pricing products inappropriately or deal inappropriately with complaints
- Failure to meet required standards such as market rules or standards, or the general regulatory or legal framework
- Failure to implement systems infrastructure adequate to meet clients' needs. The ability for Bank of Baroda (UK) Limited to transact business in a reliable and transparent manner is hampered by flawed or inadequate infrastructure and/or maintenance
- Failure to implement governance arrangements or management information to enable effective oversight or management of conduct risk



- Failure to allocate resource properly between the Branch and the Subsidiary leading to unfair outcomes for customers

Managing and Monitoring Conduct Risk

Conduct risk arises in all of Bank of Baroda (UK) Limited's front office activities. The Bank seeks to mitigate as far as possible conduct risks by establishing a clear framework of policies for dealing with clients and transacting in markets. This includes providing appropriate training for all staff in these policies and procedures and in the standards expected of Bank staff when dealing with clients and markets. Within the Bank, the key policies that govern how conduct risk is managed are:

- Conduct Risk Policy framework
- New Product Approval Policy
- Conflicts of Interest Policy
- Compliance Manual
- Financial Crime and AML Policy
- TCF Policy
- Gifts and Hospitality Policy
- Whistle blowing Policy
- Remuneration Policy

In managing conduct risk, the Bank has also adopted the Three Lines of Defence model. The first line is the business units and supporting functions in which the conduct risks arise. The conduct risk framework requires that business areas and support functions undertake regular review of the conduct risks arising from their activities and report those risks regularly to senior management. Additionally, it requires that policies and procedures are enforced to mitigate and that all staff receive training in those policies and procedures and in the general standards of conduct expected. The oversight of the conduct risk management arrangements are performed by the Compliance on a day-to-day basis with Board level oversight from BRCC.

To support the management of conduct risk, Risk Management/ Compliance Department monitors a set of Key Risk Indicators ("KRIs") specifically focussed on Conduct Risk and reports are provided to the BRCC periodically. The suite of KRIs and calibration of KRIs trigger points for escalation are maintained and overseen by Risk Management.

8.7. Pension Risk

Pension risk is defined as the risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit. Pension risk can adversely impact in Bank's cash funding obligations to the defined benefit pension schemes.

Changes in investment returns from the assets and the value of the liabilities both cause volatility in the Fund's deficit. The key risk factors impacting the deficit are the realised return on assets, the valuation of liabilities and any underlying actuarial assumptions, including the discount rate.

Bank operates a pension plan for current and former employees which provides both defined benefit and defined contribution pensions, which expose us to different types of risks.



Bank has a responsibility to ensure that Fund members are paid the pension they have been promised. To support this aim, Bank has dedicated pension resource that ensures pension risk is appropriately monitored and managed, whilst helping to educate and engage Fund members about their pension benefits.

For the defined benefit pension scheme there are only 32 employees as on date who have opted for the scheme which has now since discontinued. The parent has given the guarantee to make good for the shortfall in Defined benefit Pension scheme. Only in case of extreme stress scenario for the parent we see some risk to Pension fund. Moreover, we are also contributing to Pension Regulator which provides Insurance cover upto 90% of Pension fund losses.

We do not foresee any Pension Risk for the bank.

8.8. Reputational Risk Management

Reputational risk is about fundamental perception of the value of the brand of and the strategic direction of the Bank. Bank of Baroda (UK) Limited will manage reputational risk in its strategic setting, business planning and operations.

Reputational Risk arises in all activities of Bank of Baroda (UK) Limited. The Bank seeks to mitigate as far as possible reputational risks by establishing a clear framework of policies for dealing with clients and transacting in markets. This includes providing appropriate training for all staff in these policies and procedures and in the standards expected of Bank staff when dealing with clients and markets.

The Bank has established low tolerance for reputational risk, in particular:

- Regulatory breaches
- Material litigation
- Compliance or Anti-Money Laundering failure
- Business malpractice which causes material damage to clients
- Unethical business and employment practices.

Managing and monitoring of Reputational Risk

The Bank has adopted scorecard based approach for monitoring of Reputation Risk and identified 6 parameters for assessment of Reputational Risk. Each parameter is sub divided into various factors.

Parameters identified for assessment of Reputational Risk are as under:

- Legal & Regulatory Compliance
- Media
- Customer Service
- Employee Relations
- Industry Standing
- Governance



8.9. Tax Risk

Risk management and governance

The Bank maintains internal controls over tax affairs and have clear lines of accountability. The Senior Management is responsible for establishing and maintaining appropriate processes to ensure adherence with the Tax Principles in business decision-making.

Taxation is a fundamental part of our Finance function and there is constant dialogue between the Senior Management and the Finance function to whom the day to day management of tasks are delegated to ensure the Bank manages its tax risk.

The Bank does not undertake nor facilitate transactions which are designed to achieve tax results that are contrary to the intention of tax legislation. We are committed to combating financial crime including money laundering arising from tax evasion and;

The Bank does not engage in tax planning other than that which supports our genuine commercial activity or where the arrangements could adversely impact the Bank's reputation, corporate responsibilities and working relationships with HMRC. We do not enter into arrangements which are against the intention of Parliament and we do not use artificial tax structures that are intended for tax avoidance.

Level of tax risk

As an organisation, our structure and our tax affairs are not complex. Accordingly, our appetite for tax risk remains low, and this is reflected in our business activities.

When conducting our business activities, we consider the applicable tax laws with a view to optimising value on a sustainable basis for our clients and stakeholders. This is best served through the maintenance of a low tax risk appetite and we ensure that any inherent tax risks are appropriately mitigated.

Approach to dealing with HMRC

We foster a culture of transparency and are transparent in our interaction with taxation authorities. We maintain an open and honest relationship based on collaboration and integrity.



9. Remuneration Disclosure

Bank of Baroda (UK) Limited has prepared Remuneration Disclosure as per article 450 of CRR. The disclosure includes

Remuneration structures and their purpose

Fixed pay: In order to attract and motivate employees to achieve the objectives of the Bank within its stated risk appetite and risk management framework, employees are paid base salaries and benefits such as pension scheme and staff loans.

Ratios between fixed and variable remuneration: The Capital Requirements Directive ("CRD") limits variable remuneration to no more than that paid as a fixed salary. The bank currently does not exceed the limit as there is no variable pay component.

Definition of Remuneration Code staff – The following persons are considered the remuneration codes staff:

1. Managing Director
2. Deputy Managing Director
3. Head Risk and Compliance
4. Head Audit
5. Chief Financial Officer
6. Money Laundering Reporting Officer

Bank of Baroda (UK) Limited has instituted a Board Remuneration & Nominations Committee (BRNC) with the following constitution:

1. Chairman
2. Managing Director
3. Independent Non-Executive Director 1
4. Independent Non-Executive Director 2

Table 25: Total Remuneration during FY 2018-19

S. N.	Description	Amount (£ mn)
1	India based officers (IBO) including MD & CEO and secondment from parent	0.503
2	Local Staff	0.761
3	Medical insurance of UK Staff	0.008
4	Total expenditure of UK staff	0.769
5	Expenditure of India staff	0.503
6	Total Staff expenses	1.272
7	Out of above: Remuneration to staff whose actions have a material impact on risk profile of the bank (SMF Functions)	0.059*
8	Aggregate Total Remuneration for Independent Non-Executive Directors (all fixed remunerations)	0.090
9	Number of Code staff as Non-Executive Directors as on 31.03.2019	2

*Since all other SMF functions, except Dy. Managing Director, are double hatting and their remuneration being paid by the parent Bank. Hence, remuneration paid only to Dy. Managing Director has been shown in point no. 7.

The above table is based on remuneration committed and costs accrued during the year as charged to the Income Statement. The figures exclude estimated bonuses accrued at 31 March 2019 that will be payable later on.



Bank of Baroda (UK) Limited does not remunerate or assess the performance of staff in a way that conflicts with their duty to act in the best interest of the firm's clients.

Bank of Baroda (UK) Limited ensures that client interest and the right to be treated fairly are not impaired by the remuneration practices adopted by the firm in the short, medium or long term.

Bank of Baroda (UK) does not pay any variable remuneration.

Note : No individual received more than £100,000 during 2019.

A handwritten signature in blue ink is written over a circular stamp. The stamp contains the text "BANK OF BARODA (UK) LIMITED" around the perimeter and "2019" in the center.

Annexure I:

Countercyclical Buffer

Breakdown by Country	General Credit Exposures (£ mn)		Trading book exposures (£ mn)		Securitisation Exposures (£ mn)		Own Fund Requirement (£ mn)				Own funds requirements weights	Counter-cyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitization exposures	Total		
UK	236.14						12.52			12.52	58.80%	1%
India	76.81						6.14			6.14	28.87%	0%
Indonesia	28.83						2.31			2.31	10.84%	0%
USA	7.94						0.32			0.32	1.49%	0%
Total	349.72						21.28			21.28		

Institution specific countercyclical capital buffer

Description	Amount (£ mn)
Total Risk Exposure Amount (RWAs)	563.24
Institution specific countercyclical buffer rate	0.5880%
Institution specific countercyclical capital buffer requirement	3.31



Abbreviations

The following abbreviated terms are used throughout this document

AT1	Additional Tier 1
ALCO	Asset and Liability Committee
BAC	Board Audit Committee
BCC	Board Credit Committee
BRCC	Board Risk and Compliance Committee
CAC	Credit Approval Committee
CCyB	Countercyclical Buffer
CET1	Common Equity Tier 1
CREC	Credit Risk Evaluation Committee
CRD	Capital Requirement Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
KRI	Key Risk Indicator
ManCo	Management Committee
RMC	Risk Management Committee
RMF	Risk Management Framework
RNC	Remuneration and Nominations Committee
RWA	Risk Weighted Asset
SYSC	Senior Management Systems and Controls Sourcebook

