बैंक ऑफ़ बड़ौदा
Bank of Baroda

BCC:ISD:116:16:127 18.04.2024

The Vice-President, B S E Ltd., Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001 BSE CODE-532134	The Vice-President, National Stock Exchange of India Ltd. Exchange Plaza, Bandra Kurla Complex, Bandra (E) Mumbai – 400 051 CODE-BANKBARODA

Dear Sir / Madam,

Re: Bank of Baroda – Credit Rating - Disclosure under Regulation 30(LODR)

We inform that Fitch has released rating rationale on Bank of Baroda, wherein-

Fitch Affirms Bank of Baroda and Bank of Baroda New Zealand at 'BBB-'; Outlook stable.

The detailed report is enclosed.

We request you to take note of the above pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015 and upload the information on your website.

Yours faithfully,

P K AGARWAL
Digitally signed by P K AGARWAL
Date: 2024.04.18 16:40:00 +05'30'

P K Agarwal
Company Secretary

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FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Bank of Baroda and Bank of Baroda New Zealand at 'BBB-'; Outlook Stable

Tue 16 Apr, 2024 - 4:39 AM ET

Fitch Ratings - Singapore - 16 Apr 2024: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) on India-based Bank of Baroda (BOB) and its wholly owned subsidiary, Bank of Baroda (New Zealand) Limited (BOB NZ), at 'BBB-'. The Outlook is Stable. Fitch has also affirmed BOB's Viability Rating (VR) at 'bb-'.

At the same time, we have also affirmed BOB's Government Support Rating (GSR) of 'bbb-' and BOB NZ's Shareholder Support Rating (SSR) of 'bbb-'. A full list of rating actions is below.

KEY RATING DRIVERS

Government Support-Driven IDR: BOB's IDR and GSR are at the same level as India's sovereign rating (BBB-/Stable), reflecting Fitch's view of a high probability of extraordinary state support for the bank, if required. It takes into consideration BOB's position as India's second-largest state bank with over 6% market share in sector assets and deposits, 64% state ownership and its quasi-policy role through social lending. The Stable Outlook on the IDR mirrors that on the sovereign IDR.

BOB's 'bb-' VR is a notch below the implied VR, since Fitch believes that its risk profile has a greater impact on the VR than what is implied by the weighting.

Supportive Operating Environment (OE): The OE score of 'bb+', which is higher than Fitch's implied score of 'b' category, takes into account our view of India's robust medium-term growth potential. Fitch expects GDP to grow by 7% in 2024 and 6.5% in 2025, supported by investment prospects. The economy has been resilient as healthy business sentiment, steady financial markets and the government's capital spending buffered global economic headwinds and inflation. These factors are conducive for banks to sustain profitable business, provided risks are well-managed.

Strong Local Reach: BOB's business profile score of 'bb+' reflects the bank's strong local franchise as the second-largest state-owned bank. This should drive sustained business and profit generation in a supportive OE, provided its high risk appetite - partly under government influence - does not overly weigh on its traditional business model, in light of the intensely competitive landscape.

Loan Growth Well Above Peers': BOB's risk profile score is closely linked to the asset quality score as credit risk accounts for 83% of risk-weighted assets (RWAs). It is a high influence factor and weighs on our assessment of the VR. High loan growth, at 18.5% in the financial year ended March 2023 (FY23) and 13.6% in 9MFY24, is also a significant consideration. All segments grew by double-digit percentages in 9MFY24, with retail loans growing the fastest at 22%. This pace of growth, particularly in pockets, such as personal loans, could test the bank's enhanced risk controls in a weaker operating environment.

Improving Loan Quality: We have revised the asset quality score to 'bb-'/stable, from 'b+'/positive as we expect the impaired-loan ratio to continue to fall, and move below 3% in FY25. BOB's impaired-loan ratio fell by 71bp to 3.1% in 9MFY24, accompanied by significantly lower fresh slippages compared with FYE23, and a specific loan loss cover of 78%. Restructured loans and loans overdue by 30-90 days amounted to 1.8% of loans, as per our estimate.

Improving Profitability: Fitch has revised the earnings and profitability score to 'bb-', from 'b+' in line with our expectations of an improving four-year average operating profit/RWA. However, the outlook on the score is stable. We expect operating profit/RWA, which rose to 3.1% in 9MFY24 from 2.8% in FY23, to slightly narrow in the near term due to lower margins and the slight increase in loan impairment charges, but not enough to reverse the improvement in the average core metric.

Organic Capital Growth: BOB's common equity Tier 1 (CET1) ratio organically rose to 12.4% in 9MFY24 (including profits), from 12.2% at FYE23, despite a 260bp increase in risk density during this period due to regulatory measures and a rising share of loans in the balance sheet. Improving internal accruals were the key driver as return on equity rose by 110bp over FY23 to 16.4% in 9MFY24. Net impaired loans/CET1 ratio at 8.4% was at its lowest in several years, providing more headroom against moderate stress.

Mainly Deposit-Funded: Funding and liquidity is a strength for BOB, similar to other Indian state banks. Customer deposits account for close to 90% of BOB's total non-equity funding, although the loan/customer deposit ratio at 84.3% in 9MFY24 (as per preliminary disclosures), from 84.9% in FY23, is the highest among Fitch-rated state banks. The liquidity coverage ratio was around 137%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDRs AND GSR

The Long-Term IDR and GSR are most sensitive to Fitch's assessment of the government's propensity and ability to support BOB, based on the bank's high systemic importance and its linkages with the state. Weakening of the government's ability to provide extraordinary support - reflected in negative action on India's sovereign ratings - would lead to similar action on the Long-Term IDR.

Negative action on the Long-Term IDR is also likely should Fitch perceive any reduction in the government's propensity to extend timely support, in which case the agency will reassess the GSR and the bank's Long-Term IDR, although that is not our base case.

The Short-Term IDR is mapped to the bank's Long-Term IDR in line with Fitch's criteria, and will be downgraded if the Long-Term IDR is downgraded.

VR

We expect the VR to be stable over the near to medium term, but it could be downgraded if Fitch believes that BOB's risk profile has increased to a point where it can pose potential risk in a less benign OE, and become a more binding constraint on its improving but moderate loss-absorption buffers.

Such a scenario would also likely manifest in significantly weaker key financial metrics across all factors below, from current levels:

- drop in BOB's CET1 ratio closer to or below 10%;

- four-year average impaired-loan ratio exceeding 10% (FY23: 7.2% but trending towards 5.6% in 9MFY24);

- four-year average operating profit/RWA (FY23: 1.2%, but the annualised metric is now around 3%) remaining much weaker than the 'bb' threshold of 1.25%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDRs AND GSR

Positive rating action on the sovereign could lead to corresponding changes to BOB's GSR and, in turn, its Long-Term IDR, provided the sovereign's propensity to support remains unchanged. However, an upgrade of the sovereign rating appears unlikely in the near term.

The bank's Short-Term IDR may also be upgraded in the event that the sovereign's Short-Term IDR is upgraded. If the bank's Long-Term IDR is upgraded based on a strengthening of its VR, any upgrade of the bank's Short-Term IDR would be contingent on our assessment of the funding and liquidity score being at least 'bbb+', which is two notches above our current assessment. We do not foresee this possibility in the medium term.

VR

A VR upgrade is possible if we perceive a positive change in BOB's risk profile that propels the bank's asset quality and capitalisation towards a path of sustained improvement without any changes to our OE assessment.

It could manifest in stronger key financial metrics as indicated below:

- four-year average impaired-loan ratio being sustained below 3%;

- sustained profitability improvement, which drives the four-year average operating profit/RWA well-above 3%;

- accumulation of capital buffers that raises the CET1 ratio to 15%.

However, an improvement in the OE score to the 'bbb' category that also indicates at an improving risk profile could potentially lead to a VR upgrade, although we do not see it as likely in the near future.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The medium-term note programme and senior notes are rated at the same level as BOB's Long-Term IDR, in line with Fitch's criteria. The notes constitute direct, unsubordinated and unsecured obligations of the banks, and rank equally with all their other unsecured and unsubordinated obligations.

The Long-Term IDR (xgs) of BOB is driven by its VR. BOB's Short-Term IDR (xgs) is in accordance with its Long-Term IDR (xgs) and the short-term rating mapping outlined in Fitch's criteria. Senior unsecured long-term ratings (xgs) are assigned at the level of Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

BOB's programme rating and senior debt rating will move in tandem with the IDR. Both ratings would be downgraded if the Long-Term IDR is downgraded. They will also be upgraded in the event the Long-Term IDR is upgraded, although we view this as unlikely in the near term.

BOB's Long-Term IDR (xgs) would move in tandem with its VR. BOB's Short-Term IDR (xgs) is sensitive primarily to changes in its Long-Term IDR (xgs) and would be mapped according to Fitch's criteria. A change in BOB's Long-Term IDRs (xgs) would lead to a similar change in its senior unsecured long-term ratings (xgs).

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

BOB NZ's IDR is equalised with BOB's IDR, driven by Fitch's expectations of a high probability of support from its parent and, ultimately, from the Indian government, despite ongoing efforts to sell the subsidiary. This is mainly due to the parent's binding legal commitment in the form of a guarantee to support the fully owned subsidiary, as required by the New Zealand regulator, which is expected to hold until the proposed sale is completed.

The Long-Term IDR (xgs) of BOB NZ is driven by expectations of shareholder support from its parent, and is the same as BOB's Long-Term IDR (xgs).

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

Any change in BOB's IDR would have a similar impact on BOB NZ's ratings until its sale, but the latter's IDR could also be downgraded by a weaker propensity of its parent and, ultimately, the government, to support the subsidiary. Post-sale, BOB NZ's IDR could be lowered if in Fitch's assessment, the new shareholder's ability and propensity to provide support to BOB NZ is weaker than that of its current owner.

Any upgrade in BOB's IDR - although highly unlikely - would have a similar effect on BOB NZ's IDR, until the sale is completed and provided the financial guarantee remains unchanged. Post-sale, BOB NZ's IDR could be higher if in our assessment, the new shareholder's ability and propensity to provide support to BOB NZ is stronger.

BOB NZ's Long-Term IDR (xgs) is sensitive to BOB's ability and propensity to provide support, as assessed by Fitch, and would change if there is a corresponding change in BOB's Long-Term IDR (xgs).

VR ADJUSTMENTS

Fitch has used the risk profile as a negative adjustment factor to arrive at the assigned VR. This reflects the greater impact of BOB's risk profile on its VR - as seen in its asset quality, earnings and capitalisation - than what the weighting suggests.

The OE score of 'bb+' is above the implied category of 'b' for the following adjustment reasons: economic performance (positive), and size and structure of the economy (positive).

The business profile score of 'bb+' has been assigned below the implied category of 'bbb' for the following adjustment reason: management and governance (negative).

The asset quality score of 'bb-' is above the implied category of 'b' for the following adjustment reason: historical and future metrics (positive).

The earnings and profitability score of 'bb-' is above the implied category of 'b' for the the following adjustment reason: historical and future metrics (positive).

The funding and liquidity score of 'bbb-' is above the implied category of 'bb' for the following reason: deposit structure (positive).

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BOB's IDRs and Outlook are the same as India's sovereign rating and are thus directly linked with the sovereign IDRs via the bank's GSR, which reflects our view of the probability of extraordinary state support, should there be a need.

BOB NZ's IDR and Outlook are directly linked with those of BOB via the SSR, which reflects our view of the probability of extraordinary state support flowing through to BOB NZ, should there be a need.

ESG CONSIDERATIONS

BOB has an ESG Relevance Score of '4' for governance structure, in line with similarly rated state banks. It reflects our assessment that key governance aspects, in particular board independence and effectiveness, ownership concentration and protection of creditor or stakeholder rights, are of moderate negative influence on BOB's credit profile, and are relevant to the ratings in conjunction with other factors.

Fitch views BOB's governance to be less developed, similar to other Indian state banks. This is evident in the significant lending to higher-risk borrowers and segments - although this also reflects the bank's own appetite for risk in pursuing business growth - that has led to above-average levels of poorly performing loans and credit losses, particularly in less-benign conditions. The board is dominated by government appointees, and business models often focus on supporting government strategy with lending directed towards promoting socioeconomic and macroeconomic policies, which may include lending to government-owned companies. These factors also drive our view on the bank's state linkages, which affect support prospects that drive the long-term ratings.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Bank of Baroda	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
	Viability	bb-	Affirmed	bb-
	Government Support	bbb-	Affirmed	bbb-
	LT IDR (xgs)	BB-(xgs)	Affirmed	BB-(xgs)
	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)
senior unsecured	LT	BBB-	Affirmed	BBB-
senior unsecured	LT (xgs)	BB-(xgs)	Affirmed	BB-(xgs)
Bank of Baroda (New Zealand) Limited	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	LT IDR (xgs)	BB-(xgs)	Affirmed	BB-(xgs)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 16 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bank of Baroda	EU Endorsed, UK Endorsed
Bank of Baroda (New Zealand) Limited	EU Endorsed, UK Endorsed

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