बैंक ऑफ़ बड़ौदा
Bank of Baroda

BCC:ISD:115:16:189 01.09.2023

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 advise that Fitch Ratings affirms the rating of Bank of Baroda and Bank of Baroda New Zealand at 'BBB- (Outlook Stable)'.

Press Release issued by rating agency Fitch Ratings 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: 2023.09.01 11:41:43 +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

Thu 31 Aug, 2023 - 2:13 AM ET

Fitch Ratings - Singapore - 31 Aug 2023: 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

Support-Driven IDR: BOB's IDR is support-driven, with the GSR above the VR. BOB's GSR is the same as India's sovereign rating (BBB-/Stable), reflecting Fitch's view that there is a high probability of extraordinary state support for the bank. The Stable Outlook on the IDR mirrors that on the sovereign IDR.

BOB's GSR factors its systemic importance which stems from BOB's position as India's third-largest state bank with over 6% market share in sector assets and deposits, and 64% state ownership. BOB also plays a quasi-policy role through social lending.

Supportive Operating Environment: Fitch has revised the operating environment (OE) score to 'bb+' from 'bb', reflecting our view of structural improvements since the onset of the pandemic. The agency forecasts India to be one of the fastest-growing Fitch-rated sovereigns globally this fiscal year. Healthy business sentiment, resilient financial markets and the government's capital spending can buffer global economic headwinds and inflation.

Importantly, India also exhibits robust medium-term growth potential, supported by resilient investment prospects. Combined with an already large and diversified economy, we believe the environment is conducive for banks to do consistently profitable business, provided risks are well-managed.

Strong Local Reach: BOB's business profile score of 'bb+' is aligned with the OE score. It reflects our view that the bank's strong local franchise will continue to support sustained business and profit generation through the improving OE, provided government influence and risk appetite do 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 aligned with the asset quality score as credit risk accounts for 83% of risk-weighted assets (RWAs).

BOB's increasing appetite for risk was visible in the 18.1% increase in loans in the first quarter of the financial year ending March 2024 (1QFY24), following 18.5% growth in FY23, the highest among state banks. Nearly all segments reported double-digit growth, with retail loans growing the fastest by 25%. BOB's stable risk density may indicate its emphasis on credit quality, but the aggressive pace of growth, particularly in pockets such as personal loans, could nonetheless test the bank's enhanced risk controls.

Improving Loan Quality: We have revised the outlook on the 'b+' asset-quality score to positive from stable as we expect the impaired-loan ratio to continue to fall. BOB's impaired-loan ratio fell by roughly 30bp to 3.5% in 1QFY24, from FYE23, accompanied by significantly lower fresh slippages compared with FYE23, and higher specific loan loss cover of 78.5%. The stressed loan portfolio, including restructured loans and loans overdue by 30-90 days, amounted to 2.8% of loans, although it has been steadily declining.

Sharply Improved Profitability: Fitch has revised the earnings and profitability score to 'b+', from 'b', while maintaining the outlook at positive because we expect BOB to maintain the improvement in profitability. We expect operating profit/RWA, which rose to 3.3% in 1QFY24 from 2.8% in FY23, to remain broadly stable in the near term as buoyant income growth and an improving cost/income ratio should offset the slight increase in loan impairment charges expected in FY24.

Organic Capital Growth: BOB's common equity Tier 1 (CET1) ratio organically rose to 12.5% in 1QFY24 (including profits), by our estimate, from 12.2% at FYE23. Improving internal accruals is the key driver as return on equity further rose further by 100bp over FY23 to 16.3%. Net impaired loans/CET1 ratio at 8.7% 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 over 90% of BOB's total non-equity funding, while the loan/customer deposit ratio continued to normalise, rising to 87.1% in 1QFY24 by our estimates (82.6% as per preliminary disclosures), from 84.9% in FY23. The liquidity coverage ratio was around 153%.

RATING SENSITIVITIES

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

IDR AND GSR

The GSR is 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.

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% (current: 7.2%);

- four-year average operating profit/RWA (current: 1.2%) remaining much weaker than the 'bb' threshold of 1.25%.

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

IDR AND GSR

Positive sovereign rating action would lead to corresponding changes to BOB's Long-Term IDR, provided the sovereign's propensity to support remains unchanged. An upgrade to BOB's GSR could occur in the event of a sovereign upgrade if Fitch believes that the sovereign's ability and propensity to support the bank has improved. However, an upgrade of the sovereign rating appears unlikely in the near term.

VR

A VR upgrade is possible if our better assessment of the OE, together with no perceived change in BOB's risk profile, propels the bank's asset quality and capitalisation towards a path of sustained improvement.

A sustained sound OE could manifest in stronger key financial metrics as indicated below:

- four-year average impaired-loan ratio being sustained below 5%;

- sustained profitability improvement, which drives the four-year average operating profit/RWA closer to or above 1.25%;

- accumulation of capital buffers that raises the CET1 ratio to well above 12%.

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. 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). 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 IDR is upgraded, though we view this to be unlikely in the near term.

The Long-Term IDR (xgs) of BOB would move in tandem with its VR. BOB NZ's Long-Term IDR (xgs) is sensitive to BOB's ability and propensity to provide support, as assessed by Fitch, which could stem from a corresponding change in BOB's Long-Term IDR (xgs). BOB's Short-Term IDR (xgs) is primarily sensitive to changes in its Long-Term IDR (xgs) and would be mapped per 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. This is supported by the high level of integration between the two entities and 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. In addition, BOB NZ's small size relative to the parent also implies that any required support would be immaterial relative to BOB's ability to provide it.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

Any change in BOB's IDR would have a similar impact on BOB NZ, but the latter's IDR could also be downgraded by a weaker propensity of its parent and, ultimately, the government, to support the subsidiary.

Any upgrade in BOB's IDR - although highly unlikely - would have a similar effect on BOB NZ's IDR.

VR ADJUSTMENTS

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

The capitalisation and leverage score of 'bb-' is above the implied category of 'b' for 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).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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 is directly linked with BOB's IDR 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 has also reflected 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.

Fitch has revised BOB's ESG Relevance Score for Financial Transparency to the sector default score of '3' from '4'. The change primarily highlights the change in Fitch's view that risks from Covid-affected loans under forbearance have receded. This is because we believe that a large proportion of those stressed loans may actually be covered by government guarantee, which materially minimises the risk of losses from this portfolio. The quality and frequency of financial reporting and audit processes are also commensurate with a score of '3', and do not weigh materially on our assessment of the bank's intrinsic creditworthiness.

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-
	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)
	LT IDR (xgs)	BB-(xgs)	Affirmed	BB-(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. 08 Sep 2022) (including rating assumption sensitivity)

Bank Ex-Government Support Ratings Criteria (pub. 11 Apr 2023) (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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