बैंक ऑफ़ बड़ौदा Bank of Baroda

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BCC:ISD:117:16:106 28.03.2025

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

Dear Sir / Madam,

Re: Bank of Baroda – Credit Rating - Disclosure under Regulation 30 of SEBI (LODR), 2015.

We inform that Fitch has Affirmed the rating of Bank of Baroda and Bank of Baroda New Zealand at 'BBB-'; Outlook Stable as released by Fitch Ratings dated 28.03.2025.

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: 2025.03.28 19:05:43 +05'30'

P K Agarwal
Company Secretary

FitchRatings

RATING ACTION COMMENTARY

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

Fri 28 Mar, 2025 - 3:21 AM ET

Fitch Ratings - Singapore/Mumbai - 28 Mar 2025: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of 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-' and Government Support Rating (GSR) at 'bbb-'. At the same time, Fitch has affirmed BOB NZ's Shareholder Support Rating (SSR) at 'bbb-'. A full list of rating actions is below.

## KEY RATING DRIVERS

**Government Support-Driven IDR:** BOB's IDR and GSR are equalised with India's sovereign rating (BBB-/Stable), reflecting Fitch's view of a high probability of extraordinary state support for the bank, if required. This takes into consideration the state's 64% ownership in BOB, BOB's position as India's second-largest state bank and Fitch's assessment that the state has a strong propensity to support the banking system in general. The Stable Outlook on the IDR mirrors that on the sovereign IDR.

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

**Risk Profile Varies Through Cycles:** Loan growth slightly decelerated to 11.8% in the nine months to the financial year ending March 2025 (FY25), from 12.5% in FY24, due to slower corporate lending. BOB's risk appetite tends to vary over economic cycles, evidenced by the rapid expansion in unsecured personal loans in recent years, albeit off a low base. The bank has tightened underwriting following regulatory measures and portfolio pressure, but its above-average loan growth and swift build-up of personal loans influences the risk profile assessment and weighs on the VR, as Fitch believes the risks have not been fully tested.

**Supportive Operating Environment:** India's strong medium-term growth potential and its large, diversified economy are reflected in Fitch's operating environment (OE) score of 'bb+', which is above the agency's implied 'b' category score. Fitch projects GDP growth of over 6% in FY25 and FY26, driven by domestic demand, government capex and improving capacity utilisation. The growth will support banks' ability to sustain profitable business in the medium term, if risks are effectively managed.

**Strong Nationwide Reach:** BOB benefits from a robust local franchise as India's second-largest state-owned bank. This should sustain business and profit generation in a supportive OE, provided government influence through risk appetite - similar to other state banks - does not overly weigh on its traditional business model amid intense competition.

**Declining Impaired Loans:** Fitch has revised the outlook for the asset-quality score to positive, from stable, as the agency expects BOB to retain most of the improvement in its impaired-loan ratio and forecasts the ratio at around 2.5% by FY27. The ratio decreased to 2.4% in 9MFY25, from 2.9% in FY24, following an 11% reduction in bad loans, loan growth and write-offs. Credit costs at 0.5% of loans were well within bank guidance and loan loss cover was steady at 76%. Loans overdue by 30-90 days posed limited risk, comprising just 0.5% of loans.

**Profitability Close to Peak:** The operating profit/risk-weighted asset ratio was largely steady at 3.2% in 9MFY25 amid lower risk density, growth in non-interest income and lower credit costs offsetting the impact of a narrower margin. Fitch believes profitability is near its peak and expects operating profit/risk-weighted asset to fall by about 40bp by FY27. However, the ratio should remain well above the 1.25% 'bb' category threshold.

**Organic Capital Growth:** BOB's common equity Tier 1 (CET1) ratio organically increased to 14.1% in 9MFY25, including profit, from 12.5% at FYE24, supported by reduced risk density and steady internal accruals. Fitch expects the ratio to settle at around 13.5% in FY25 after factoring in dividend payments. The net impaired loans/CET1 ratio further declined by 104bp to 6.6% over FY24, indicating improved capital buffers.

**Mainly Deposit-Funded:** BOB's funding and liquidity profile remains robust, similar to other Indian state banks. Customer deposits constituted nearly 92% of total non-equity funding. The loan/customer deposit ratio declined to 84.2% in 9MFY25, as per preliminary disclosure, from 88.3% in FY24; the highest among Fitch-rated state banks. The liquidity coverage ratio was around 126% at 9MFY25, underscoring the bank's sound liquidity position.

## 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 state linkages. A weakening of the government's ability to provide extraordinary support - reflected in a downgrade of India's sovereign rating - 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, which would lead to a reassessment of the GSR and BOB's Long-Term IDR, although that is not Fitch's base case.

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

VR

A VR downgrade is not Fitch's base case, but it is possible if Fitch believes that BOB's risk profile has increased to a point where it can pose risk in a less benign OE and become a more binding constraint on the bank's improving, but moderate, loss-absorption buffers. Such a scenario would likely manifest in significantly weaker key financial metrics across all factors below:

- the CET1 ratio dropping closer to or below 10% (9MFY25: 14.1%);

- significant worsening in the four-year average impaired-loan ratio (9MFY25: 3.9%); and

- the four-year average operating profit/risk-weighted assets ratio remaining below 1.25% (9MFY25: 2.7%).

### 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 the Long-Term IDR and GSR, provided the sovereign's propensity to provide support remains unchanged. However, an upgrade of the sovereign rating appears unlikely in the near term.

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

VR

A VR upgrade is possible, without changes to the OE assessment, if Fitch believes that the influence of BOB's risk profile on its VR has declined. This would be possible should the bank's financial performance show sustained improvement that justifies a higher VR and could manifest in stronger key financial metrics, as indicated below:

- the four-year average impaired-loan ratio sustained at or below 3%;

- the four-year average of operating profit/risk-weighted assets sustained at or above 3%; and

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

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.

## OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

BOB's medium-term note programme is rated at the same level as its Long-Term IDR, in line with Fitch's criteria.

The Long-Term IDR (xgs) is driven by the VR. The Short-Term IDR (xgs) is in accordance with the 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 will move up and down in tandem with the IDR, although Fitch views an upgrade as unlikely in the near term.

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

## SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

BOB NZ's IDR is equalised with BOB's IDR, driven by Fitch's expectation of a high probability of support from its parent and, ultimately, from the Indian government, despite ongoing efforts to sell the subsidiary. This is 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 should 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. However, BOB NZ'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 of BOB's IDR - although 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 Fitch believes 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, governance and strategy (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 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 are driven by India's sovereign rating. A change in the sovereign's IDRs would be reflected in BOB's IDRs.

BOB NZ's IDRs are driven by BOB's IDRs. A change in BOB's IDRs would be reflected in BOB NZ's IDRs.

### ESG CONSIDERATIONS

BOB has an ESG Relevance Score of '4' for governance structure, in line with similarly rated state banks. This 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- | Affirmed | BBB- |
| | 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- | Affirmed | BBB- |
| | LT IDR (xgs) | BB-(xgs) | Affirmed | BB-(xgs) |

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

Bank Rating Criteria (pub. 22 Mar 2025) (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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