बैंक ऑफ़ इंडिया Bank of India BOI

संदर्भ क्र. Ref. No.: HO:IRC:RVU:2024-25:40 **दिनांक Date:** 16.04.2024

Scrip Code: BANKINDIA	**Scrip Code : 532149**
The Vice President – Listing Department, National Stock Exchange of India Ltd., Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai 400 051.	The Vice-President – Listing Department, BSE Ltd., 25, P.J. Towers, Dalal Street, Mumbai 400 001.

Dear Sir/Madam,

Disclosure under Regulation 30 and 51 of SEBI (LODR) Regulations, 2015: Fitch Ratings Affirms Bank of India and Bank of India New Zealand at BBB-; Outlook Stable

Pursuant to Regulation 30 and 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that Fitch Ratings has affirmed Bank of India's and Bank of India New Zealand's (wholly owned subsidiary of Bank of India) Long Term international rating at **BBB- with Stable Outlook**. The Press Release dated 16.04.2024 issued by Fitch Ratings is attached herewith.

This is for your information and dissemination.

भवदीय Yours faithfully,

RAJESH VENKATA RAJ UPADHYA

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(Rajesh V Upadhya)
कंपनी सचिव Company Secretary

Encl: As above.

FitchRatings

RATING ACTION COMMENTARY

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

Tue 16 Apr, 2024 - 5:24 AM ET

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

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

KEY RATING DRIVERS

Government Support-Driven IDR: BOI's Long-Term IDR and the GSR are at the same level as India's sovereign rating (BBB-/Stable), reflecting our view of a high probability of extraordinary state support for the bank, if required. This takes into consideration the state's 73% ownership of the bank and our assessment of the state's strong propensity to support the banking system in general. The Stable Outlook on the IDR mirrors that on the sovereign IDR.

The 'b+' VR is a notch below the implied score of 'bb-', as Fitch believes that BOI's risk profile has a greater influence on the bank's intrinsic creditworthiness.

Supportive Operating Environment: The operating environment (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 growth of 7% in 2024 and 6.5% in 2025, supported by investment prospects. The economy remains resilient as healthy business sentiment, buoyant 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.

Wide Reach; Intense Competition: BOI's business profile score reflects the bank's pan-India franchise and position as the country's sixth-largest state-owned bank. However, this is counterbalanced by the bank's high risk appetite, partly under government influence, similar to other state banks. We expect the bank to maintain its traditional business model - loans are 62% of assets - in the highly competitive Indian market, although some recalibration in loan growth strategy might be necessary to target segments where it can expand its franchise without elevating risks.

Risk Profile Weighs on the VR: BOI's risk profile remains a high influence factor and weighs on our assessment of the overall VR, as the bank's high risk appetite had a significant negative impact on its financial metrics in the past when the OE was weaker.

The risk profile score takes into consideration BOI's evolving portfolio mix, but also the bank's growth appetite returning to corporate lending, while retail loans continue to increase faster than total loans. Any further improvement in the score would depend on sustained improvement in asset quality, which would most likely reflect structural improvement in underwriting standards and risk controls.

Improving Asset Quality: Fitch has revised up BOI's asset-quality score to 'b+/stable', from 'b/positive', to reflect continued easing of pressures on asset quality. The ratio reached 5.4% in the nine months of the financial year ending March 2024 (9MFY24), from 7.3% in FY23, on moderately lower slippages, steady recoveries and the write-off of legacy impaired loans. We also expect further improvement in the impaired-loan ratio to around 4.1% by FY25.

Improving Profitability: We have revised BOI's earnings and profitability score to 'bb-/stable', from 'b+/positive', on the recent improvement in profitability, which is likely to be sustained. The operating profit/risk-weighted asset (RWA) ratio increased to 2.8% in 9MFY24, from 1.8% at FYE23, on a sharp decline in impairment charges, supported by loan growth and broadly stable margins. We expect some mild pressure from higher funding costs, but the operating profit/RWA ratio should remain close to 2.5% to FY26.

CET1 Ratio Broadly Stable: We expect BOI's common equity Tier 1 (CET1) ratio to remain broadly stable, and above other large state banks over the next two years, provided RWA growth is not sustained above internal accruals. The CET1 ratio of 14.4% in 9MFY24, including profit, is the highest among state peers. The ratio has improved by about 80bp since FY23, as a fresh equity raise of INR45 billion (+110bp) and internal capital generation (+123bp) more than offset the impact of higher risk density and loan growth.

Deposit-Backed Funding: Funding remains a relative strength, as customer deposits constituted about 83% of BOI's total funding by our estimates. Loans/customer deposits rose to about 80% in 9MFY24 by our estimates, from about 77% at FYE23 on comparable terms, as loan growth exceeded deposit growth, albeit, slightly lower than the average increase for the system. The bank's liquidity position remains healthy with liquidity coverage ratio at 148% and net stable funding ratio at 133% in 9MFY24.

RATING SENSITIVITIES

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

IDR AND GSR

The Long-Term IDR and GSR are most sensitive to Fitch's assessment of the government's propensity and ability to support BOI, based on the bank's size, systemic importance and linkage to the state. A weakening of the government's ability to provide extraordinary support - reflected by negative action on India's sovereign rating - would lead to a downgrade of the IDR.

Negative action on the IDR is also likely if we believe that the government's propensity to extend timely support to BOI has decreased, in which case we will reassess the GSR and 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 lead to a negative action if the Long-term IDR is downgraded.

VR

A VR downgrade is less likely in our base scenario, but is possible if, upon a significant deterioration in the OE, we assess the bank's risk appetite to have increased significantly, such that it becomes a more binding constraint on its moderate loss-absorption buffers or if its key financial parameters deteriorate by more than we expect. This deterioration could manifest through significantly weaker key financial metrics, on all of the following three factors:

- four-year average of the impaired-loan ratio approaching 15% (FY23: 11.5%, but trending down quickly);

- four-year average of the operating profit/RWA ratio is sustained well below 1.25% (FY23: 0.73%, but trending towards 2% in 9MFY24);

- a significant drop in BOI's CET1 ratio closer to the regulatory minimum of 8%, without a credible plan to restore it to closer to or above 10%.

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

IDR AND GSR

Positive sovereign rating action could lead to corresponding changes to BOI's Long-Term IDR, provided the sovereign's propensity to provide support remains unchanged. An upgrade of the IDR and GSR could occur in the event of a sovereign upgrade if Fitch believes that the sovereign's ability and propensity to support BOI has improved. 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 upon a higher score in any of the key rating factors, particularly if we assess the BOI's risk profile to have improved. This improvement could manifest in stronger key financial metrics, on one of the three factors below, assuming no changes to our assessment of the operating environment score:

- the CET1 ratio is sustained above 15%;

- four-year average of the impaired-loan ratio is sustained well below 5%;

- four-year average of the operating profit/RWA ratio is sustained above 1.25%.

BOI's risk profile - which currently weighs on the VR - will also remain an important consideration in determining whether the improvements to its financial metrics can be sustained on a steady-state basis.

The VR could also move up if the OE score is revised up to 'bbb-', while also positively influencing the bank's risk profile. However, we do not see it as likely in the near term.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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

BOI's Long-Term IDR (xgs) is driven by its VR.

BOI'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. BOI's senior unsecured long-term ratings (xgs) are assigned at the level of the Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

BOI's MTN programme rating will move in tandem with the IDR. The rating will be downgraded if the bank's Long-Term IDR is downgraded. It will also be upgraded in the event the IDR is upgraded, although we view this to be unlikely in the near term.

BOI's Long-Term IDR (xgs) would move in tandem with its VR.

BOI's Short-Term IDR (xgs) is primarily sensitive to changes in its Long-Term IDR (xgs) and would be mapped to it under Fitch's criteria. A change in BOI's Long-Term IDRs (xgs) would lead to a similar change in its long-term senior unsecured ratings (xgs).

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

BOI NZ's IDR is equalised with BOI's IDR, driven by a high probability of support from the parent and, ultimately, the Indian government.

Fitch's expectation of BOI's support for BOI NZ is underpinned by the parent's strong legal commitment to support its wholly owned subsidiary and the parent's strong ability to provide that support should there be a need. The latter is supported by BOI NZ's small size relative to the parent, which implies that any required support would be immaterial relative to the ability of the parent to provide it.

Fitch believes that favourable shareholder regulations and BOI NZ's high level of integration with BOI also support the parent's ability and propensity to support BOI NZ.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

Any change in BOI's IDR would have a similar impact on BOI NZ's IDR. The subsidiary's IDR could also be downgraded due to a weaker propensity of its parent and, ultimately, the Indian government, to support it. However, the latter scenario would first require the removal of the parent's guarantee.

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

BOI NZ's Long-Term IDR (xgs) and Long-Term Local-Currency IDR (xgs) are driven by Fitch's expectations of shareholder support from the parent. It is sensitive to BOI's ability and propensity to provide support, as assessed by Fitch, which could stem from a corresponding change in BOI'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 BOI's risk profile on its VR - as seen in its asset quality, earnings and capitalisation - than what the weighting suggests.

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

The earnings and profitability score of 'bb-' is above the implied category of 'b' for the following 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

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

BOI NZ's IDRs and Outlook are the same as BOI's IDR and Outlook and directly linked via the subsidiary's SSR. It reflects our view of the high probability of extraordinary support from BOI, if needed.

ESG CONSIDERATIONS

BOI has an ESG Relevance Score of '4' for Governance Structure, in line with other state banks. This reflects our assessment that key governance aspects, particularly board independence and effectiveness, ownership concentration and protection of creditor or stakeholder rights, are of a moderately negative influence on BOI's credit profile, and are relevant to the ratings in conjunction with other factors.

We regard BOI's governance as less developed, evident from its significant lending to higher-risk borrowers and large exposure to some sectors, resulting in high levels of impaired loans and losses in recent years. Government appointees dominate the board and the business model often focuses on supporting government strategy with lending directed towards socioeconomic and macroeconomic policies, which may include lending to government-owned companies. These factors also drive our view on the bank's state linkages. These affect support prospects and 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 www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Bank of India	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3

	Viability b+ Affirmed		b+
	Government Support bbb- Affirmed		bbb-
	ST IDR (xgs) B(xgs) Affirmed		B(xgs)
	LT IDR (xgs) B+(xgs) Affirmed		B+(xgs)
senior unsecured	LT BBB- Affirmed		BBB-
senior unsecured	LT (xgs) B+(xgs) Affirmed		B+(xgs)
Bank of India (New Zealand) Limited	LT IDR BBB- Rating Outlook Stable Affirmed		BBB- Rating Outlook Stable
	LC LT IDR BBB- Rating Outlook Stable Affirmed		BBB- Rating Outlook Stable

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

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