

Bank of Baroda

Instrument	Amount	Rating Action
Corporate Governance practices of Bank of Baroda	NA	CGR2 Rating Reaffirmed

ICRA has reaffirmed a CGR2 rating to the Corporate Governance practices of Bank of Baroda (BOB). This rating is on a scale of CGR1 to CGR6 where CGR1 denotes the highest rating. The CGR2 rating implies that in ICRA's current opinion, the rated bank has adopted and follows such practices, conventions and codes as would provide its financial stakeholders a high level of assurance on the quality of corporate governance. In case of banks, ICRA has considered financial stakeholders to include both shareholders and depositors. ICRA's opinion, however, is not a certificate of statutory compliance or a comment on the rated bank's future financial performance, credit rating or stock price.

The rating reflects BOB's transparent ownership structure with majority ownership with Government of India (GoI), experienced board composition, well-defined delegation of power and accountability, satisfactory board processes, effective oversight by the Board in the area of monitoring performance, strategy formulation, ensuring adherence to internal control procedures and adoption of risk management practices as per the guidelines laid down by the Reserve Bank of India (RBI) and well established structure with various sub committees of the Board. The rating also favourably factors in the bank's good risk management policies and practices in line with the structure proposed by RBI, Board level committee for overseeing risk management system and BOB's preparedness for implementation of advanced approaches of BASEL II. Further, the bank has formed a separate Board level committee to monitor recovery from such stressed accounts. The favourable factors also include BOB's strong internal audit system which along with inspection by independent statutory audit firms and inspection by RBI provides comfort towards the audit process of the bank. As for overall credit risk profile of BOB, the bank carries a [ICRA]AAA (Stable) credit rating from ICRA for its bond programmes. The ratings factor in BOB's majority sovereign ownership, its relatively better current capitalisation level (Core Tier 1 capital 10.29%) vs. other public sector banks or PSBs, its strong franchise imparting healthy and stable deposits base and sound liquidity profile.

BOB's corporate governance rating is however constrained by systemic and structural issues facing Public Sector Banks (PSBs) with respect to composition of the Board, lack of succession planning, restrictions on voting rights for Non Govt shareholders and other structural challenges. Most of the directors are appointed/nominated by GoI; as on Mar-2016 out of ten members on the board of BOB, six were appointed/ nominated by GoI, one by RBI and three were appointed by minority shareholders (shareholders other than GoI). Also, key executives of PSBs (Managing Director and Executive Directors) are appointed by majority shareholder (GoI). However, the Board has been strengthened in FY16. There has been an increase in the number of directors from 8 as on Mar-15 to 10 as on Mar-16. GOI has appointed separate MD and Chairman to the Board of BOB. Also, the bank has the position of 1 executive director vacant, for which the bank has already initiated the process for appointment.

The disclosure practices of BOB are broadly in line with RBI requirements in this regard and better than some of PSBs. Overall there have been improvement in disclosure standards of BOB over last four-five years especially disclosure provided as part of investor presentation on annual/quarterly results of the banks. However, there is still scope for improvement due to irregular disclosure of industry wise credit break up in quarterly presentation, limited segment-wise disclosures and limited disclosures of forward-looking nature.

Bank Profile

BOB was incorporated in 1908 and was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. Government of India held 59.24% stake in the bank as on Mar 31, 2016. The bank has a wide spread domestic network of 5,330 across India (as on Mar 31, 2016) and a large overseas presence with 106 branches. BOB has an asset base of Rs 671,376 Crore as on Mar 31, 2016.



During the year ended March 31, 2016, BoB reported a net loss of Rs. 5,396 crore on a total income of Rs. 49,060 crore as compared to a net profit of Rs.3,398 crore on a total income of Rs. 47,366 crore during the previous year. The bank's asset quality deteriorated significantly in FY16 with Gross NPA% at 10.0% and Net NPA% at 5.1% as on March 31, 2016 against 3.7% and 1.9%, respectively, as on March 31, 2015. The regulatory capital adequacy ratio stood at 13.17% as on March 31, 2016 (Tier 1: 10.79%).

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