

Rating Reaffirmation for outstanding Ratings of Bank of India

Issue Rating: BWR AAA

Outlook: Stable

Brickwork Ratings (BWR) has reaffirmed BWR AAA (Pronounced BWR Triple A) for the following issues of Bank of India:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History				
						Review As on	Review As on	Review As on	Review As on	Rating As on*
Issuer Rating	NA	BWR AAA (Stable)	Reaffirmed	NA	NA	BWR AAA (Stable) December 2010	BWR AAA (Stable) June 2010	BWR AAA (Stable) Placed under Ratings Watch March 2010	BWR AAA (Stable) December 2009	BWR AAA+* (Stable) December 2008
IPDI	₹ 400 Crores	BWR AAA (Stable)	Reaffirmed	10-02- 2009	NIL Call Option 10- 02-2019	-	BWR AAA (Stable) June 2010	BWR AAA (Stable) Placed under Ratings Watch March 2010	BWR AAA (Stable) December 2009	BWR AAA+* (Stable) January 2009
IPDI	₹ 325 Crores	BWR AAA (Stable)	Reaffirmed	09-12- 2009	NIL Call Option 09-12- 2019	-	BWR AAA (Stable) June 2010	BWR AAA (Stable) Placed under Ratings Watch March 2010	BWR AAA (Stable) December 2009	BWR AAA (Stable) September 2009

(* Pursuant to the SEBI advisory requiring standardization and uniformity of rating symbols across rating agencies, the rating scale of Brickwork Ratings was modified and BWR AAA and BWR AAA+ rating categories merged into one rating category called as BWR AAA. A rating grade change from AAA+ to AAA reflects this change in the rating scale and does not denote a rating downgrade.)

Instruments with BWR AAA Rating are considered to offer the BEST credit quality in terms of timely servicing of debt obligations. A “Stable” rating outlook signifies the expectation of the rating being stable in the near term.

During Q3FY11, the Bank reported total domestic business of ₹ 365,620 crores compared to ₹ 349,524 crores in Q2FY11, registering a growth of 4.61%. Deposits have grown from ₹ 204,828 crores in Q2FY11 to ₹ 214,717 crores in Q3FY11 registering a growth of 4.83% and gross advances have grown from ₹144,696 crores in Q2FY11 to ₹ 150,903 crores

during Q3FY11 registering a growth of 4.29%. Interest income grew by 6.05% to ₹ 5467.52 crores in Q3FY11 vs ₹ 5155.5 crores in Q2FY11 and Interest expenses saw an increase of 2.99%, leading to increase in operating profit by 0.67% to ₹ 1388.78 crores in Q3FY11 vs ₹ 1379.6 crores in Q2FY11.

The Bank's global Gross NPA% and Net NPA% stood at 2.36% and 0.88% respectively as on 31st Dec, 2010 lower than that on 30th Sep, 2010 (Gross NPA- 2.64% & Net NPA – 1.14%). However, Brickwork Ratings has taken cognizance of the fact that in Dec 2010 quarter the bank's total restructured accounts stood at ₹ 10348 crores of which ₹ 9092.20 crores was from domestic business and ₹ 1255.80 crores from foreign business. Of this ₹ 718.70 crores were additions during this quarter. The Provision Coverage ratio stood at 74.52% as on December 31, 2010, higher than 70% as stipulated by the Reserve Bank of India.

In domestic business NIM for Q3FY11 increased to 3.49% over last quarter's 3.17% mainly due to increase in yield on funds. The cost of deposits has marginally decreased to 5.61% during Q3FY11 as against 5.65% during Q2FY11. However, the Yield on funds has increased from 8.05% in Q2FY11 to 8.29% in Q3FY11. The Bank's CASA level decreased to 32.49% this quarter vs 33.48% last quarter.

The Bank's Capital Adequacy Ratio stood at 12.41% in Q3FY11 compared to 13.04% in Q2FY11. Tier I capital ratio stood at 7.97% and Tier II ratio stood at 4.44%, well above the minimum required levels. Comfort is also derived from the Government of India's (64.47% stake) holding in the Bank and with the Government's decision to infuse capital into public sector banks that require additional capital, the capital adequacy of the bank is considered to be healthy at present.

The Bank has seen an increase in its operational costs with its cost-to-income (CI) ratio increasing to 47.30% in December 2010 from 41.56% in September 2010 mainly on account of increasing employees cost on account of pension, increased gratuity and arrears in salary.

The credit deposit ratio stood at 76.33% as on December 2010 compared to 76.48% as of September 2010, this is well above the industry average. The bank has, however, asset liability mismatch in the medium term.

Operating efficiency was stable during last two quarters as seen in Business per employee and business per branch numbers. For Q3FY11 Business per employee stood at ₹ 10.81 crores as compared to ₹ 10.28 crores in Q2FY11, the Business per branch stood at ₹ 131.04 crores in December 2010 as compared to ₹ 125.80 crores in September 2010.

Brickwork Ratings expects the performance of the Bank to be "Stable" over the next one year.

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Brickwork Ratings (BWR) has adopted SEBI’s standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15, 2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to <http://www.brickworkratings.com/scale.html>. It is clarified that the said change in the definition should not be construed as a change in the Rating.