

Annual Surveillance

Rationale for Rating Reaffirmation Corporation Bank's Upper Tier II Bonds of ₹ 1000 crore and Perpetual Tier I Bonds of ₹ 300 crore

Issue Rating: BWR AAA

Outlook: Stable

Brickwork Ratings has reaffirmed the rating of BWR AAA (Pronounced BWR Triple A) with a stable outlook for the following ratings of Corporation Bank:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History		
						Review As on	Review As on	Review As on
Upper Tier II Bonds	Amount rated: Rs 1000 crore, Amount raised: Rs. 500 crore	BWR AAA (Stable)	Reaffirmed	May 06, 2009	May 06, 2024	BWR AAA (Stable) June 2010	BWR AAA (Stable) April 2010	BWR AAA (Stable) Dec 2009
Perpetual Tier I Bonds	Rs 300 crore	BWR AAA (Stable)	Reaffirmed	July 10, 2009	Perpetual Call option after 10 yrs	BWR AAA (Stable) June 2010	BWR AAA (Stable) April 2010	BWR AAA (Stable) July 2009

* The rating history shows the details of the last three outstanding ratings for the issue. For a detailed rating history of the above instruments, refer to www.brickworkratings.com

The rating “BWR AAA” stands for an instrument that is considered to have the HIGHEST degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk. The rating has been reaffirmed taking into account the financial performance of the Bank and publicly available information.

The rating, inter alia, factors the comfortable capital adequacy position, reduced cost of funds, strong business growth, improving asset quality and the Government of India holding in the bank. Risk factors include decreasing levels of low-cost resources such as current and savings account deposits (CASA deposits) and a significant exposure to infrastructure.

The Bank has performed well during FY11. Total business has doubled within a span of three years with a total business of ₹ 203,598 crores as on 31st March 2011 (vs ₹ 155,936 crores during the previous year), registering an increase of 30.56% over the last year. Deposits have grown from ₹ 92,734 crores in FY10 to ₹ 116,748 crores during FY11 registering a growth of 25.90% and advances have grown from ₹ 63,203 crores in FY10 to ₹ 86,850 crores during FY11, a growth of 37.42%.

The bank has seen falling levels of low cost deposits and depends to a large extent on high cost term deposits. CASA levels stood at 25.95% as of March 2011, down from 28.55% in March 2010, leading to pressurized interest margins. While the interest rate scenario in the industry has helped the bank in reducing its cost of deposits down to 5.74% in March 2011 from 5.95% in March 2010, it is likely that the bank will continue to face pressure on its cost of funds due to its dependence on high cost resources. The bank has stepped up efforts on improving its CASA deposits. Due to interest rate scenario, Return on advances increased from 9.90% in FY10 to 10.05% in FY11. Net interest margins improved slightly over the last year and stood at 2.52% in FY11 (2.41% in FY10).

With a growth in its deposits and advances year-on-year, Corporation Bank has improved its operating and net profits by 22.73% and 20.77% respectively to reach a level of ₹ 2622.40 crore (₹ 2136.73 crore in FY10) and ₹ 1413.27 crore (₹ 1170.25 crore in FY10) during FY 11. Similarly, the bank's net interest income has increased significantly during the year to achieve a level of ₹ 2939.74 crore during FY 11 from the previous level of ₹ 1903.34 crore during FY 10. Increasing operating efficiency has helped the bank to maintain a cost-to-income ratio of 38.50% as of March 2011.

Prudential management of the bank's portfolio, asset quality and adequate provisioning has seen an improvement in the bank's asset quality. The bank's gross NPAs have decreased from 1.02% in FY10 to 0.91% in FY11. However, the net NPAs have increased slightly from 0.31% in FY10 to 0.46% in FY11. The bank is well placed in terms of provisioning with provisioning levels at 74.70% in FY11.

As on March 2011, the Bank has reported a capital adequacy ratio of 14.11% out of which Tier I capital adequacy ratio stood at 8.69%. Government of India has contributed ₹ 309 crores to equity capital in March 2011. During FY11, the bank raised Upper Tier II Bonds of ₹ 550 crores.

The bank's exposure to real estate stands at ₹ 13,576 Crores as of March 2011 of which ₹ 2,934 Crores have been lent to the commercial real estate sector. The growth in lending to real estate increased by 34.58% in FY11 as compared to the growth of 13.63% in March 2010 where as the growth in lending for commercial real estate stood at 9.85%. Brickwork Ratings believes that the increased exposure to the commercial real estate sector is a risk factor for the bank and will continue to monitor the exposure levels for this segment.

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

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