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## **Press Release for Andhra Bank's Lower Tier II Bonds Issue Rating**

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**Brickwork Ratings assigns "BWR AAA" for Andhra Bank's Lower Tier II Bonds Issue of INR 500 crore or INR 5 billion.**

**Issue Rating: BWR AAA**

**Outlook: Stable**

Brickwork Ratings (BWR) has assigned BWR AAA (Pronounced BWR Triple A) for Andhra Bank's proposed Lower Tier II Bonds issue of INR 500 crore or INR 5 billion. BWR AAA signifies 'Excellent Safety' and the Rating Outlook further signifies the direction of the rating being stable in the near term. BWR has relied upon the audited financial statements and information and clarifications provided by the issuer.

The rating factored inter alia, the majority stake held by the Govt of India, essential characteristics of the Lower Tier II bonds, comfortable capital adequacy and Tier I capital, performance, well diversified credit profile, and higher loan loss coverage.

The bank has been consistently improving its total business over the years. During FY09, the bank has adopted several business development initiatives to grow its business and one important initiative is to bring all the branches under core banking solution (CBS). With 100% CBS branches, the bank competently managed the challenging economic conditions during FY 09, to grow its total business by 23.60% to reach Rs 103,818 crore in FY09 as compared to Rs 83,993 crore during FY08, which has further increased to Rs 110,461 crore in Q2 FY10.

During the year, the bank has gradually grown its asset base aided by robust growth in deposits and advances. With the help of several new deposits schemes and marketing channels, the bank's total deposits increased to Rs 59,390 crore during FY09, from Rs 49,437 crore in FY08, reflecting a good growth rate of 20.13%. Low cost deposits increased to Rs 18,653 crore in FY 09 as compared to Rs 16,593 crore in FY08, representing 31.41% of the total deposits. However, in percentage term, the bank's low cost deposits to total deposits had come down by 2.16%.

The bank's gross advances has posted excellent growth by 28.56% to reach a level of Rs 44,428 crore in FY09 from Rs 34, 557 crore in FY08. The bank has a well diversified loan profile of agriculture credit, SME (Small, and Micro Enterprises) credit and large corporate credit.

Andhra Bank is one of the highly profitable mid-sized public sector banks in India in spite of economic down turn witnessed in the domestic market during financial year 2009. The bank's total income increased by 26.96% to Rs 4,836 crore during FY09, reflecting the significant buoyancy in core banking operations, excellent fee based income and focus on healthy earning assets which contributed to improvement in the profitability. As a result, the bank's operating profit and net profit surged 21.86% and 13.46% respectively. Interest income recorded a growth of 27.68% to Rs 5,374 crore in FY09 from Rs 4,209 crore in FY08 as against the interest expenses which grew from Rs 2,869 crore during FY08 to Rs 3,747 crore during FY09.

The Bank's tier-I capital ratio stood at 8.67% as on 31<sup>st</sup> March 2009, which is marginally higher than the previous year figure of 8.54% under Basel II. Overall, the Bank has achieved capital adequacy ratio of 13.22% under Basel II in FY 2009 (11.61% in FY08) which has increased to 14.03% in Q2 FY10. During FY 09, the bank's Return on Assets (ROA) had decreased marginally to reach 1.09% as compared to 1.16% in FY08. It has, however, increased to 1.53% in Q2 FY10.

BWR calculates the 'leverage', which assesses the bank's net worth with reference to on and off balance sheet items. During FY09, the bank's leverage though higher was still comfortable at 18.31 in FY09 as compared to 16.4 in FY08. When compared with its peers' average, the bank's leverage was lower by 274 bps.

During FY09, the Bank has restructured nearly 58,612 accounts, which is 3.5% of its gross advances during FY09. This ratio is comparatively high. Consequently, the bank's asset quality could be affected slightly in the coming year.

The bank's operations are largely concentrated in the state of Andhra Pradesh which might be a limiting factor for growth.

Brickwork Ratings (BWR) Issue Rating is based on CAMEL-TP framework. The rating assigned is specific to the proposed lower Tier II bonds issue of Rs 500 crore and has taken into consideration the essential features of such type of Bonds. The rating also factored Andhra Bank's ownership structure, (majority stake held by Government of India), performance, capital adequacy as well as asset quality and has assigned a stable rating outlook for the issue.

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