

## **Press Release for Bank of India Issue Rating**

### **BWR assigns “AAA+” for Bank of India’s IPDI Issue Rating of INR 4 bn**

**Bank of India**

**Issue Rating: BWR AAA+**

Brickwork Ratings has assigned BWR AAA+ (Pronounced BWR triple A plus) for Bank of India’s proposed Innovative Perpetual Debt Instrument (IPDI) issue of INR 400 crore or INR 4.00 billion. Brickwork ratings’ ‘BWR AAA+’ stands for an instrument that is considered to offer the BEST credit quality in terms of timely serving of debt obligations. The rating reflects Government of India’s ownership stake, higher operating profits, healthy earning assets, comfortable Tier I and capital adequacy ratio, optimum cost structure, robust credit growth, and well diversified overseas operations.

The bank has relatively strong presence in India with its diversified loan portfolio and growing income streams. Since 2005, the bank has achieved significant progress in improving its financial results, while the bank’s cost of funds stood at 5.07%, less than 100 basis points than that of peers. The bank has achieved higher spreads of 2.89% compared to peers’ average of 2.41%. With all time high net profit of INR 20.09 billion for FY 08, the earning assets quality of bank has shown a marked improvement over the past few years. Further, the bank posted 70.31% growth in net profit to reach INR 8.72 billion in Q3 FY 09, as compared to INR 5.12 billion for the same period, a year ago.

The bank’s largest shareholder, the Government of India (GoI), holds 64.47% stakes. The bank is well positioned to sustain its operations with rapidly growing branch network and ability to expand its overseas business on meaningful scale. During FY 2008, the bank’s global (both domestic and foreign) deposits showed a healthy growth of 25.13%, which has grown further by 26.42% in Q3 FY 09 (y-o-y basis). The bank registered excellent growth in aggregate deposit and outperformed the peer groups with over 10% margin. In spite of marginal decline in CASA, the bank’s ratio is higher than that of its peers.

While advances have grown rapidly, the bank’s term lending component at 38.7% is still lower than the industry average. The bank continued to enjoy good asset quality with declining gross NPAs. As on 30<sup>th</sup> December 2008, the gross NPAs stood at 1.63% as compared to 1.90% for the same period a year ago. Similarly, the bank’s net NPAs at 0.52% as compared to 0.62%.

During FY 08, the bank’s Tier I capital has been comfortable at 8.19% and capital adequacy at 12.95% is higher than the peers’ average of 7.77% and 12.91% respectively. Further, the bank was able to slightly improve its capital adequacy ratio to 13.05% in Q3 FY 09, when the industry witnessed declining trend in the capital adequacy ratio. The bank is well capitalized among the public sector banks in India. Brickwork calculates *Leverage* that assess bank’s capital adequacy with reference to both on balance and off balance sheet exposures. Bank of India has shown a marginally higher leverage of 22.41 compared to its peer group at 19.40.

During FY 08, the bank’s credit deposit ratio stood at 75.64%, which is 279 bps more than the peers and it has significantly increased to 79.26% in Q3 FY 09. While this could be a liquidity concern, bank shows slightly higher CASA compared to peers, a liquidity enhancer.

Further, the increase in net interest margin by 26 bps and fall in cost to income ratio by 9.02% has helped the bank to report strong quarterly operating income of INR 17.62 billion for the third quarter ended December 31, 2008, up 81.46% y-o-y growth. The bank reported

a net income of INR.20.09 billion (INR.12.71 billion in 2007) in 2008, which translated into a healthy ROA of 1.52% (in Q3 FY 09). During FY 08, the bank's foreign revenue increased by 18.9% to reach INR. 21.15 billion. Going forward, Brickwork expects the bank's revenue and earnings streams to be stable. The bank continued to focus on increasing the lowest cost deposits, enlarge the customer base, improve the asset quality and augment the non-interest income.

The ratings by-and-large factored the Government of India ownership, high quality of risk weighted assets, stable low cost deposit base, above average growth in profit, decline in the gross NPA, and favorable non-interest income. In line with industry trend, the bank's revenues and earnings are likely to suffer in the near term due to continuing financial crises. However, the bank well-diversified nature of its business portfolios and the strength of its activities in India's retail and corporate banking, the better credit quality of its global banking activities, its solid capitalization and good asset quality, will help the bank to withstand such pressures. The detailed rationale is enclosed as Annexure A.

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