

Press Release for Bank of India Issuer Rating

BWR assigns “AAA+” for Bank of India Issuer Rating

Bank of India

Issuer Rating: BWR AAA+

Brickwork Ratings has assigned BWR AAA+ (Pronounced BWR triple A plus) for Bank of India (BOI) which indicates, Issuers with this rating are considered to offer the **Best** credit worthiness. The rating reflects the Government of India ownership which is a very favorable factor, particularly in times of financial crisis. 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%. The earning assets quality of bank has shown a marked improvement over the past few years.

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%. Domestic deposit growth was even more impressive at 32.37%, which was over the previous year’s growth of 21.7%. 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 still has edge over its peer group in terms of mobilizing low cost deposits. The bank however should also have a process to translate the personal relationships that play a critical role in mobilizing deposits into sustained organizational advantage.

While advances have grown rapidly, the bank’s term lending component at 38.7% is still lower than the industry average. The bank’s gross advance to total deposits stood at 75.64% is higher than its peers’ average. The bank’s gross advances touched INR.1134.76 billion as on 31st March 2008 with growth rate of 33.32%. This growth is mainly attributed to robust loan sanctions to large corporate, mid-corporate, SME, and agriculture sector.

The bank is well capitalized among the public sector banks in India. As of 31st March 2008, the bank’s Tier 1 capital-adequacy ratio stood at a fairly high 8.19% as compared to 6.58% a year earlier. During the financial year, the bank increased its equity capital by INR.13.59 billion by way of Qualified Institutional Placement (QIP route) and also raised INR.6.55 billion through issue of Innovative Perpetual Debt Instrument (IPDI). Overall, the bank’s capitalization levels are satisfactory, reflected by bank’s capital ratio of 12.96% as on 31st March 2008. 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.

The bank’s asset quality remains strong and showed declining trends in NPAs (Non-Performing Assets) for past few years. During the year, the bank has initiated substantial measures to augment recovery and contain NPAs. The percentage of gross NPAs stood at 1.68% as on 31st March 2008 compared to 2.42% a year ago. INR.3.68 billion was recovered from written off assets. As on 31st March 2008, the bank’s net NPAs declined to 0.52% as against 0.96% a year ago. The bank’s provision coverage ratio is improved to 81.25% and it is comparable to its peer group. The bank’s credit deposit ratio is at 75.64% which is 279 bps more than the peers. While this could be a liquidity concern, bank shows slightly higher CASA compared to peers, a liquidity enhancer.

Further, 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 1.25% and ROE of 28.44%, demonstrating significant growth from the higher than average among its peers of 1.05% and 19.46%, respectively, for the year 2007-08. Currently the non-interest income of the bank covers 80 percent of the operating expenses. As on 31st March 2008, 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 bank performed well with its investment activities, the ratio of G-sec to total investment is at 89.71% as on 31st March 2008. The bank's risk management practices are appropriate for its size and the bank appears to have the necessary risk management infrastructure such as ALM committee, Credit Risk Management committee, and committee for operational Risk Management Committee.

Finally, the rating assigned to Bank of India (BoI) as an issuer rather not specific to any of the BoI's financial instruments. 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, it is expected that any pressure on financial conditions of the bank will be minimal. The detailed rationale is enclosed as Annexure A.

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