

Annexure A - Rating Rationale for Bank of India Issue Rating

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 operations.

The Bank of India 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, which is evident from its NPAs ratios. The bank's gross NPAs ratio stood at 1.68 during FY 08, as compared to 2.42% for the same period a year ago, which is further reduced to 1.63% in Q3 FY 09. Similarly, the net NPAs have declined to 0.52% as against 0.96%, and the bank has provided adequate provisions to maintain the Net NPA level at 0.52% in Q3 FY 09. The bank continued to remain well within its borrowing capacity and lending patterns, which has been reflected in the bank's asset quality and capital ratios. Even though the bank's net interest margin declined marginally due to fall in the yield on investment, yet the 28.13% rise in volume of business mix, had positive impact on the net interest income that grew by 22.93%.

The bank's total deposits showed a growth rate of 25.1% in FY08 as compared to the previous year, which has grown further by 26.42% in Q3 FY 09 (y-o-y basis). During FY 08, the non-interest income of the bank covered only 80% of the operating expenses, but at present (Q3 FY 09) it covers fully.

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Q3 Financials

(INR billion) (As on 31st Dec'08)

Total Deposits	1717.24
Gross Advances	1361.10
Interest Income	43.43
Non-Interest Income	10.51
Interest Expense	28.22
Net Profit	8.72
Net Interest Margin	3.40%
C-D Ratio	79.26%
Gross NPAs	1.63%
CRAR	13.05%
CASA Deposits	31.74%

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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. 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 cost of funds stood 5.07%, was 100 bps less than that of its peers. Further, the bank's return on funds stood at 7.96%, slightly lower than that of its peers (8.48%), while the bank has achieved higher spreads of 2.89% compared to peers' average of 2.41%. The lower returns seem to confirm a less risky loan portfolio. The gross NPAs have declined to 1.68% compared to 2.02% of peers. The NPA have declined to 1.63% as of Q3 FY 09. The bank's term loan exposure at 38.73% is lower than the peers' average.

The increase in credit to deposits ratio of the bank is a cause for concern due to the economic downturn. During FY 08, the bank's credit deposit ratio stood at 75.65%, and it has increased significantly to 79.26% in Q3 FY 09.

Brickwork calculates *Leverage* that assess bank's capital adequacy with reference to both on and off balance sheet exposures. Bank of

India has shown a higher leverage of 22.41 compared to its peer group at 19.40.

Our rating for BOI carry a stable outlook, reflecting the strengthening of capital adequacy, risk asset coverage and provisioning in recent years. Indeed, the BoI's indicators of risk-adjusted assets are on par with its peers. The bank is well placed to sustain its operations in India and abroad. Furthermore, the bank has consistent focus to develop its existing product lines and improve cross-sales to achieve the continued growth.

Bank Profile:

The bank is well positioned to sustain its operations with rapidly growing branch network and ability to expand its overseas business on meaningful scale

The bank's largest shareholder, the Government of India (GoI), holds 64.47% stake. Consequently the bank enjoys easy branch network expansion, off the rack monetary support particularly in times of crises.

Shareholding Pattern:

Shareholders	Stake
Government of India	64.47%
Financial Institutions	11.00%
Foreign	16.27%
Retail	8.26%

The bank has 50 specialized branches for SME financing. In order to leverage technology to enhance customer care and banking convenience, the bank extended core banking solution to 1890 branches with 1442 RTGS and 1400 NEFT enabled branches.

The bank's strategy is consistent over the years, mainly focusing on corporate credit, SME credit, agriculture loans, EXIM services, derivative products, syndicate loans, project finance, and sale of third party products, NRI services and retail banking. In addition, it has a joint venture with Bombay stock exchange for managing the BSE clearing house.

Quarterly Analysis (Q3FY09):

Bank of India has posted an impressive performance in Q3 FY 09. As on 31st December 2008, with INR 3,078 billion business, Bank of India has benefited from robust credit growth in the domestic market, strong non-interest income and an excellent growth in total deposits. The bank continued to enjoy good asset quality with declining gross NPAs. As on 30th 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% on December 31, 2008, as compared to 0.62% the previous year.

The bank has shown robust credit growth with low slippage (delinquency) ratio 1.02% in Q3 FY 09. During Q3 FY 09, the bank was able to maintain fairly stable loan loss provision coverage at 77.28%.

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. 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 interest income on advances continued to be a major contributor to the bank's top line performance with a 45.82% y-o-y growth and bottom line performance was supported by fee income with 275 % y-o-y growth. Further, the bank has recorded an impressive non-interest income growth of 89.71% to reach a level of INR 10.51 billion in Q3 FY 09 as against INR 5.54 billion for the same period a year ago.

On the other hand, the bank's operating expenses grew modestly by 22.36% to reach INR 8.10 billion in Q3 FY 09 as against INR 6.62 billion for the same period a year ago. Similarly the bank's total expenditures grew by 32.89% in Q3 FY 09.

The bank's capital adequacy ratio under Basel I improved to 13.05% in Q3 FY 09 on from 12.54% for the same period, in 2007. Likewise, the bank's Tier I capital ratio has improved to 8.40% from 7.33%. However, the bank's CASA deposits as a percentage to total deposits has declined marginally to 31.74% in Q3 FY 09 as against 37% in Q3 FY 08.

Business Outlook:

BoI rapid growth in gross deposit and gross advances is achieved with outstanding marketing efforts.

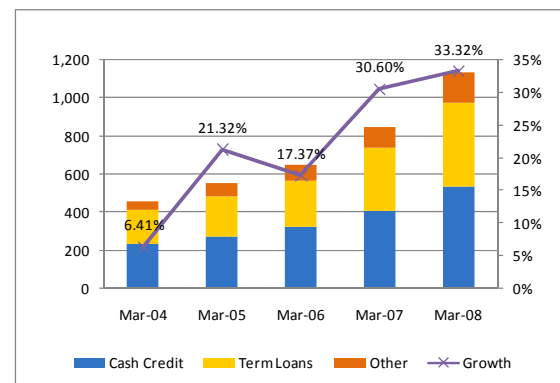
During the FY 08, the bank's global (both domestic and foreign) deposits showed a healthy growth of 25.13%. Domestic deposit growth was even more impressive at 32.37%, which was over the previous year's growth of 21.7%. The bank registered excellent growth in aggregate deposit and outperformed the peer groups with over 10% margin.

The bank's cost of funds and cost of deposits have gone up by 17.36% and 21.34% respectively as compared to the previous financial year. The foreign deposits have decreased marginally but the current and savings deposits to total deposits stood at 36%, which is favorably comparable to its peer group.

In spite of marginal decline in CASA, the bank still has an 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.

The bank's gross advance to total deposits stood at 75.64% that 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.

Advances Trend:



While advances have grown rapidly, the bank's term lending component at 38.7% is still lower than the industry average. Bank however has higher real estate exposure, compared to its peers.

International Segment Analysis:

The bank has well diversified overseas operations with 26 offices covering all major financial centers. As on 31st March 2008, the bank's foreign revenue increased by 18.9% to reach INR 21.15 billion. The bank's credit-deposit ratio for international operations stood at 94.7% as on 31st March 2008 as compared to 68% in the previous year. However, the bank's foreign deposits, has declined by 3% in FY08. Traditionally, the bank's foreign spreads are lower than its domestic spreads but operating expenses for overseas operations are slightly lower, leading to better returns than domestic operations.

Bank's Overseas Operations: FY 08

Financials (INR Billion)	Amount
Revenue	21.15
Deposits	245.96
Advances	232.9
Borrowings	39.08
Investments	44.62

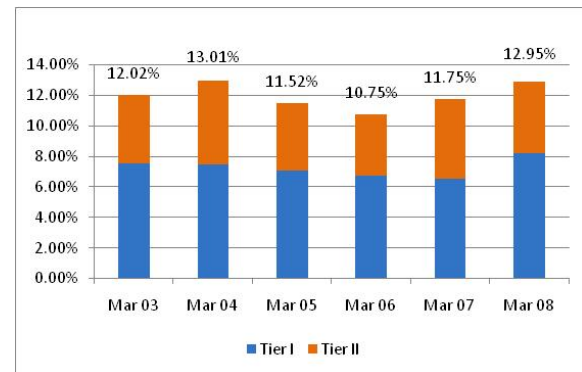
Capital Adequacy:

The bank's capital adequacy remains stable; Basel II implementations are on track.

The bank is well capitalized among the public sector banks in India. As of 31st March 2008, the bank's Tier 1 capital ratio stood at a fairly high 8.19% as compared to 6.58% a year earlier. The bank's capital adequacy is comfortable given that majority stake is held by Government of India (GoI). 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).

The bank's capitalization levels are satisfactory, reflected by bank's capital ratio of 12.96% as on 31st March 2008. The bank's Basel II preparations are on track, and the impact of bank migration to Basel II implementation is expected to be minimal to its capital ratio. Therefore, the bank is in a relatively comfortable position to maintain positive trends in return on equity (ROE). The net worth of the bank stood at INR 86.28 billion as on 31st March 2008 with a growth rate of 57% over the previous year.

Capital Adequacy Trend:



The bank's capitalization levels have been steadily increasing over the years, the ratio remains above the minimum capital requirement of 9%. During Q3 FY 09, the bank has recorded comfortable capital adequacy ratio of 13.05% (under Basel I) and 13.39% (under Basel II). Similarly, the bank's Tier I capital ratio at 8.40% and 8.92%.

Asset Quality:

While the bank's asset quality trends seem to be strong, the deteriorating macro economic conditions might lead to change in the risk profile of its earning assets.

The bank's asset quality remains strong and showed declining trends in NPAs (Non-Performing Assets) for past few years. 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.

The bank has recovered INR 3.68 billion 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 net NPAs to total assets stood at 0.33% and the net NPAs

declined by 27.1% year-on-year to INR. 5.92 billion. The bank's provision coverage ratio has improved to 81.25% and it is comparable to its peer group.

The bank has shown remarkable focus on retail segment during the year 2007-08 through 20 Retail Hubs across the country to facilitate the single window banking. As a result, the bank's retail credit has improved to INR 193.78 billion and constituted 21.07% of non food credit. The bank's educational loan growth stood at 42% as on 31st March 2008, hence the bank's total priority advances account for 49.33% of net bank credit as against stipulated benchmark of 40%.

Liquidity:

During FY08, 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. The enhanced credit deposit ratio could be a liquidity concern.

Profitability:

The bank's has shown an excellent performance and its ROE is nearly 9% higher than that of peers.

The bank reported a net income of INR. 0.09 billion (INR.12.71 billion in 2007) in 2008, which translated into a healthy ROA of 1.25% and ROE of 28.44%, which is significantly higher than peers average of 1.05% and 19.46%, respectively, for the year 2007-08. The Bank has reported 1.52% ROA for the Q3 FY 09.

The bank's net interest income continues to account for the major part of operating income. As on 31st March 2008, the bank's

net interest income accounted for 66.7% (68.7% in 2007) of operating income and 33.3% (31.3% in 2007) by non-interest income. Overall, the net interest margin has decreased to 3.11% in 2008 compared to 3.20% in 2007.

Historically the bank's performance was constrained by the large expenditures related to branch expansion and ATMs development. However the bank's cost-to-income ratio improved to 41.68% in FY 08 compared to 52.13% in the previous year.

Financials (INR Billion)	2007-08
Interest Income	123.55
Interest Expenses	(81.26)
Net Interest Income	42.29
Fees & Commission	7.83
Trading Revenue	3.66
Other Income	9.67
Operating Income	63.45
Employee Expenses	(16.57)
Other Operating Expenses	(9.87)
Operating Profits	37.01
Provision for NPA	(6.97)
Other Provisions & Contingencies	(3.11)
Profit Before Tax	26.93
Tax	(6.84)
Profit After Tax	20.09

The bank's profitability stands at the top end of the range of public sector banks in India. However, the bank's strategic domestic positioning and the supportive foreign market conditions that prevailed in recent years have equally contributed to the bank's profitability.

In addition, Brickwork expects the bank's revenue and earnings streams to be stable. The bank continued to focus on increasing

the low cost deposits, enlarge the customer base, improve the asset quality and augment the non-interest income.

Investment Portfolio: The bank's investment framework is well defined.

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 high proportion of G-sec securities in the HTM category with low yield of 7.94% but profitable overseas business helped the bank in a rising interest rate scenario prevailing in FY 08. As on 31st March 2008, the bank invested INR 338.06 billion in SLR securities, which is slightly higher than statutory limit.

Risk Management: The bank has a robust risk management system

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 Operational Risk Management Committee.

The board of directors of the bank provides comprehensive guidelines and tools for risk taking and this approach has come to characterize the overall risk culture of the bank. The bank's risk appetite is limited and conservative. The bank's liquidity management is well developed, which is typical for public sector banks in India.

The bank has implemented policies in order to be in compliance with the board's recent guidelines for the prevention of any credit fraud. The bank signed an agreement with Hewlett Packard Ltd for credit management software. The bank is also in the process of implementing a Basel II compliant internal rating classification system.

Significant Developments:

The bank has launched two new products namely Akshay Urja under retail trade category and Star Dhanvantari Suvidha scheme & scheme for tax returns preparers under P&SE category to overreach the bank's customers' requirements.

The bank has formed Strategic Business Unit (SBUs) based on customer segmentation to provide a good banking experience for its customers and branches have been formed according to their business focus, i.e. resources center, profit center, priority sector center and general banking center.

On 15th July 2007, the bank has opened a representative office in Johannesburg to increase the number of overseas offices to 26 spread over 14 countries.

The bank has acquired 76% stake in PT bank Swadeshi Tbk, a listed bank in Indonesia during the year to expand international operations.

The bank has entered mutual fund tie-up arrangement with ING investment management and Franklin Templeton

Investment to market their mutual fund products to augment its fee income.

Rating Outlook:

Brickwork issue rating is based on CAMEL-TP framework, which is used to assess the bank's financial health and risk exposures. The rating assigned to Bank of India is specific to the proposed Innovative Perpetual Debt Instruments (Capital Bond Series IV) issue of Rs. 400 crore or INR 4.0 billion.

The rating 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.

Favorable rating factors:

- Government of India ownership
- Higher operating profits

- Healthy earning assets
- Comfortable capital adequacy ratio
- Optimum cost structure
- Robust credit growth
- Well diversified overseas operations

Unfavorable ratings factors:

- High credit deposit ratio
- Higher real estate exposure

Brickwork expects that the continuing financial crises in India should affect the banking industry performance in near future, therefore, Bank of India's revenues and earnings could suffer in the near term. However, the bank's well-diversified nature of its business portfolios, 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.

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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.

Annexure I

(As on 31st March 2008)

Key Ratios	BOI	Peers
Operating Ratios		
Cost of Deposits	5.23%	5.93%
Cost of Borrowings	7.83%	5.38%
Cost of Funds	5.07%	6.07%
Return on Funds	7.96%	8.48%
Spread	2.89%	2.41%
NIM	3.11%	2.83%
Earnings (as % of Assets) FY2008		
Interest Income	6.91%	7.30%
Interest Expense	4.54%	4.95%
Net Interest Income	2.36%	2.35%
Loan Loss provision	0.39%	0.35%
Non-Interest income	1.18%	1.21%
Non-Interest Expense	2.05%	2.20%
PBT	1.50%	1.35%
Taxes	0.38%	0.40%
PAT	1.12%	0.96%
Profitability		
Return on Assets (ROA)	1.25%	1.05%
Return on Equity (ROE)	28.44%	19.46%
Asset Quality (As % of Advances)		
Gross NPA	1.68%	2.02%
Net NPA	0.52%	0.53%
Real Estate Loans	12.30%	6.80%
Term Loans	38.73%	47.85%
Capital Adequacy		
Tier 1	8.19%	7.77%
Total Capital	12.95%	12.91%
Leverage	22.41	19.40
Liquidity		
CASA	36%	35%
Credit Deposit Ratio	75.64%	72.85%
Market Statistics (March 31,2008)		
Price to Book Value	1.51	1.41
PE Ratio	6.74	10.01

Annexure II

Bank of India - Common Size Profit & Loss Statement (% of Total Income)					
Financials	31-Mar-08	31-Mar-07	31-Mar-06	31-Mar-05	31-Mar-04
I. Total Income (INR Billion)	144.72	104.99	82.13	71.87	75.88
Interest Income	85.37%	85.11%	85.58%	83.92%	76.38%
Non-Interest Income	14.63%	14.89%	14.42%	16.08%	23.62%
II. Expenditure					
Interest on Deposits	48.77%	43.89%	42.59%	43.64%	41.46%
Interest on Borrowings	3.88%	5.17%	4.41%	4.23%	3.39%
Other Interest	3.49%	3.28%	6.53%	4.93%	2.53%
Employee Expenses	11.45%	15.37%	16.17%	17.58%	15.45%
Other Operating Expenses	3.54%	4.87%	5.26%	5.56%	4.95%
Other Provisions & Contingencies	10.31%	12.81%	13.88%	17.65%	14.45%
Taxes	4.67%	3.90%	2.61%	1.68%	4.51%
III. Profit (INR Billion)	20.09	16.65	9.21	3.40	10.07
Net Profit for the Year	13.88%	10.70%	8.54%	4.73%	13.26%
Dividend Pay-out Ratio	10.66%	15.57%	21.47%	29.82%	14.78%
Earnings Per Share (In Rs.)	37.53	22.48	13.95	6.70	20.27
Book Value per Share (In Rs.)	167.83	117.71	98.88	88.07	78.57
Number of Outstanding Shares (In Million.)	525.91	488.14	488.14	488.14	488.14
Bank of India - Common Size Balance Sheet (% of Total Assets)					
Financials	31-Mar-08	31-Mar-07	31-Mar-06	31-Mar-05	31-Mar-04
Liabilities					
Capital	0.29%	0.34%	0.43%	0.51%	0.58%
Reserves & Surplus	5.63%	3.81%	4.00%	4.19%	4.15%
Subordinated Debts	2.77%	3.36%	2.94%	2.47%	2.60%
Deposits (INR Billion)	1500.12	1198.82	939.32	788.21	714.82
Demand Deposits	6.97%	6.60%	6.60%	6.42%	6.88%
Savings Bank Deposits	18.70%	20.63%	22.70%	22.25%	21.28%
Term Deposits	58.21%	57.30%	54.37%	54.32%	56.07%
Borrowings in India	1.83%	2.91%	1.38%	2.56%	1.12%
Borrowings Outside India	2.19%	1.76%	3.87%	3.72%	3.64%
Other Liabilities & Provisions	3.42%	3.29%	3.71%	3.56%	3.67%
TOTAL LIABILITIES (INR Billion)	1788.30	1418.17	1122.74	949.78	848.60
Assets					
Cash & with RBI Balances	6.57%	5.07%	4.98%	4.09%	4.99%
Inter-Banks / Call Money	3.34%	7.20%	5.22%	3.79%	5.10%
Investments	23.38%	25.03%	28.31%	30.05%	32.01%
Advances (INR Billion)	1134.76	851.16	651.74	560.13	458.56
(i) Working Capital Loans	29.92%	28.86%	28.90%	28.78%	28.08%
(ii) Term Loans	24.58%	23.41%	21.91%	22.20%	21.07%
Fixed Assets	1.36%	0.56%	0.72%	0.85%	0.94%
Other Assets	1.91%	2.12%	2.73%	2.54%	2.93%
TOTAL ASSETS (INR Billion)	1788.30	1418.17	1122.74	954.62	848.60