Rating Rationale 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 crises. The bank 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. The bank has remained well within its borrowing capacity and lending patterns, which is 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 deposits too showed a growth rate of 25.1% in FY08. Currently the non-interest income of the bank covers 80 percent of the operating expenses. With all time high net profit of Rs.20.09 billion, the earning assets quality of bank has shown a marked improvement over the past few years.

The bank's cost of funds stood at 5.07%, less than 100 basis points than that of peers. While the bank's return of funds at 7.96% is slightly lower than that of its peers (8.48%), 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 bank's term loan exposure at 38.73% is lower than the peers' average. Further, the bank's Tier 1 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.

Key Financials
(INR billion)
(As on 31st March'08)

Total Deposits	1500.12
Gross Advances	1147.93
Interest Income	123.55
Non-Interest Income	21.16
Interest Expense	81.25
Net Profit	20.09
Net Interest Margin	3.11%
C-D Ratio	75.64%
Gross NPAs	1.68%
CRAR	12.96%
CASA Deposits	36.00%

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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 higher leverage of 22.41 compared to its peer group at 19.40.

Our ratings 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 a 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% stakes. 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, 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.

Business Outlook:

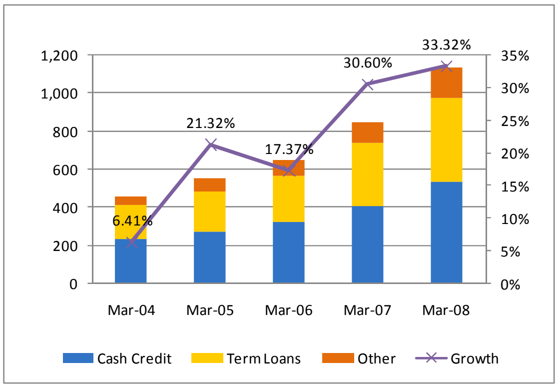
BoI rapid growth in gross deposit and gross advances is achieved with outstanding marketing efforts.

During the 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.

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

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.

Advances Trends:



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.

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. The bank's foreign deposits however have declined by 3% during FY08. Traditionally, the bank's foreign spreads are lower than domestic spreads but operating expenses for overseas operations are slightly lower, leading to better returns than domestic operations.

The Bank's Overseas Operations:

Financials (INR Billion)	Amount
Revenue	21.15
Deposits	245.96
Advances	232.90
Borrowings	39.08
Investments	44.62

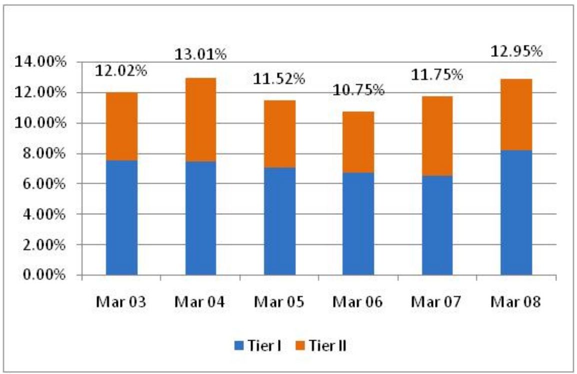
Capital Adequacy:

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-adequacy 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 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 steadily increasing over the years, the ratio remains above the minimum capital requirement of 9%. 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.

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. 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 net NPAs to total assets is 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 is improved to 81.25% and it is comparable to its peer group. However, the slippage has increased by 44% compared to last year.

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, and hence the bank's total priority advances account for 49.33% of net bank credit as against stipulated benchmark of 40%.

Liquidity:

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.

Profitability:

The bank's has shown an excellent performance and its ROE is nearly 900 basis points higher than that of peers.

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.

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.

Bank's Financials:

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 2008 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 measures figure 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 lowest 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 2008. 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 committee for 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 issuer 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 (BoI) as an issuer rather not specific to any of the BoI's financial instruments. The ratings 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.

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 are likely to suffer in the near term. However, the bank 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, it is expected that any pressure on financial conditions of the bank will be minimal.

Brickwork Ratings has assigned the rating based on the information obtained from issuer and other reliable sources, which are deemed to be accurate. Brickwork has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. Brickwork does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by Brickwork should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument or other instruments of the rated entity. The issuer rating does not imply any rating on particular issues that need to be studied separately and rated. The issuer rating is not meant to be used while raising funds. Brickwork has the right to change, suspend or withdraw the ratings at any time for any reasons. Further, Brickwork should not be held responsible for any losses incurred from publishing or reproducing this report.

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 on31st 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**)**		
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	14.66%	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**