



Indian Overseas Bank

ICRA has assigned LAA (pronounced L double A) rating to the Rs. 7 billion Upper Tier II Bonds programme of Indian Overseas Bank (IOB or the Bank). The rating indicates high credit quality and the rated instrument carries low credit risk. IOB already has LAA+ rating for its Lower Tier II Bonds, LAA rating for its other Upper Tier II Bonds and Perpetual Bonds and A1+ rating for its Certificate of Deposits programmes from ICRA. The one notch lower rating assigned to the Upper Tier II bonds as compared with the LAA+ rating to the lower Tier II Bonds of the bank reflects the specific features of these instruments wherein the debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. The domestic regulatory norms for hybrid debt capital instruments need regulatory approvals from the Reserve Bank of India for debt servicing (including principal repayments) in case the bank were to report a loss and are not liable to service the debt in case the bank breaches the minimum regulatory capitalization norms.

The ratings reflect IOB's steady core profitability, consistently improving asset quality indicators by curtailing generation of fresh non-performing assets (NPAs), its strong retail franchise as reflected by its strong retail deposit base, its wide-spread distribution network and the implicit sovereign support given the systemic importance of the bank. Even as the

cost of deposits increased to 6.3% during fiscal 2008 (fiscal 2007: 4.9%) owing to the hardening interest rate environment and interest spreads declined to 2.6% (fiscal 2007: 3.3%), IOB's interest margins at 2.9% compared favourably with peer banks. With an improvement in cash recoveries and curtailing fresh NPA generations, the bank's gross NPA has steadily improved to 1.6% as of March 2008 as compared to 2.3% as of March 2007, albeit a marginal rise to 1.7% during Q1 of fiscal 2009. Provisioning costs also declined to 0.7% of average assets as compared to 0.9% during the previous year. The strong growth in credit over the past couple of years has also impacted the regulatory capital adequacy which declined to 11.25% (Basel II) as of June 2008. Overall, while strong credit growth in the relatively high-yielding mid-corporates segment should ensure stable interest margins for the bank, the potential vulnerability of this segment could impact profitability in case of volatility in the macro-economic environment. The impact on this account could be mitigated by improvement in non-interest revenue sources, which has, so far remained relatively low.

Bank profile

With a 61% ownership by the Government of India (GoI), IOB is one of the larger commercial banks in the country, with an asset base of Rs. 1,018 billion and a network of 1,847 domestic branches, 51 extension

counters and 451 own ATMs as of March 31, 2008. Headquartered in Chennai, IOB also has an overseas presence through its 6 branches located abroad including Hong Kong, Singapore, Seoul, Sri Lanka including one branch in Bangkok taken over from Bharat Overseas Bank (BhOB), apart from 3 representative offices, 2 remittance centres and 1 extension counter. The bank also offers merchant banking services, credit cards, and is a depository participant with NSDL. The bank's asset quality improved further during fiscal 2008, with its gross NPA percentage declining to 1.6% (from 2.3% as on March 31, 2007). The bank adopted Basel II norms during fiscal 2008 and its regulatory capital adequacy ratio under Basel II stood at 11.59%. Capital adequacy ratio under Basel I declined to 11.93% as compared to 13.27% as of March 31, 2007. For the year ended March 31, 2008, IOB reported a total income of Rs. 90.4 billion and a net profit of Rs. 12.0 billion, as against Rs. 66.9 billion and Rs. 10.1 billion respectively, for the previous year.

Recent Results:

During the quarter ended June 30, 2008 IOB reported a net profit of Rs. 2.6 billion on a total income of Rs. 16.2 billion as against Rs. 2.7 billion and Rs. 12.9 billion, respectively for the corresponding quarter ended June 30, 2007.

September 2008



Financial snapshot of Indian Overseas Bank

Rs. Billion	Mar-08	Mar-07	Mar-06
Total Assets	1,017.5	821.4	592.4
Deposits	843.3	687.4	505.3
Net Advances	604.2	470.6	347.6
Equity Capital	5.4	5.4	5.4
Net Worth	47.2	38.7	30.5
Total Income	90.4	66.9	51.3
Net Profit	12.0	10.1	7.8
Net Interest Margin	2.9%	3.6%	3.8%
Fee based Income/Operating income	24.0%	19.6%	17.9%
Operating Expenses/Avg. Total Assets	1.6%	2.0%	2.3%
Operating Profits/Avg. Total Assets	2.2%	2.5%	2.3%
Profit after Tax / Average Total Assets	1.3%	1.4%	1.4%
Gross Non-Performing Assets /Gross Advances (%)	1.6%	2.3%	3.4%
Net Non-Performing Assets / Net Advances (%)	0.6%	0.5%	0.6%
Capital/Risk Assets (%) (Basel I)*	11.9%	13.3%	13.0%
Total Deposits/Total Liabilities (%)	82.9%	83.7%	85.3%
Advances/Deposits (%)	71.7%	68.5%	68.8%
Savings Deposits/Total Deposits (%)	22.8%	24.9%	28.6%
Term Deposits/Total Deposits (%)	66.5%	65.1%	60.1%

* Capital adequacy under Basel II was 11.6% as of Mar-08

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