

बैंक ऑफ महाराष्ट्र प्रधान कार्यलय लोकमंगल, 1501, शिवाजीनगर, पुणे-5		BANK OF MAHARASHTRA Head Office LOKMANGAL, 1501, SHIVAJINAGAR, PUNE-5
Investor Services Department		
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AX1/ISD/STEX/2016-17		Date: 13.10.2016

Assistant Manager - Listing Compliance,
 National Stock Exchange of India Ltd.,
 Exchange Plaza,
 Bandra Kurla Complex,
 Bandra (East), Mumbai-400 051

Dear Sir/ Madam,

Sub: Clarification on the Revision of Ratings for Bonds.

This has reference to your email dated 10th October, 2016 on the captioned subject. In this regard, we would like to clarify on the following points as under:

1. In case of downward rating, the disclosure may include reasons published by rating agency for such downward rating.

Reply: Copy of Press release dated 04th October, 2016 issued by CRISIL is hereby enclosed for your reference.

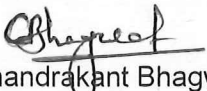
2. Further also clarify when was the information regarding the revision in rating was received by the Bank.

Reply: The above referred copy of press release was uploaded by CRISIL on its website on 06th October, 2016. We are yet to receive the physical copy of letter on above captioned subject from CRISIL.

This is for your information and records please.

Thanking you,

Yours faithfully,
 For **Bank of Maharashtra**


 (Chandrakant Bhagwat)
 Company Secretary

Encl: As above



Rating Rationale

October 04, 2016 | Mumbai

Bank of Maharashtra
Ratings downgraded to 'CRISIL AA-/CRISIL A+/CRISIL A-/Negative'

Lower Tier-II Bonds (Under Basel II) aggregating to Rs.13.30 Billion [Reduced from Rs.15.55 Billion]	CRISIL AA-/Negative (Downgraded from 'CRISIL AA/Negative')
Rs.2.95 Billion Perpetual Tier-I Bonds (Under Basel II)	CRISIL A+/Negative (Downgraded from 'CRISIL AA-/Negative')
Rs.12.5 Billion Upper Tier-II Bonds (Under Basel II)	CRISIL A+/Negative (Downgraded from 'CRISIL AA-/Negative')
Rs.10 Billion Tier-I Bonds (Under Basel III)	CRISIL A-/Negative (Downgraded from 'CRISIL A+/Negative')
Rs.150 Billion Certificate of Deposits	CRISIL A1+ (Reaffirmed)

CRISIL has downgraded its rating on the Lower Tier-II Bonds (under Basel II) of Bank of Maharashtra (BoM) to '**CRISIL AA-/Negative**' from 'CRISIL AA/Negative', on the bank's Tier-I Perpetual Bonds and Upper Tier-II Bonds (hybrid instruments; under Basel II) to '**CRISIL A+/Negative**' from 'CRISIL AA-/Negative', and on Tier-I Bonds (under Basel III) to '**CRISIL A-/Negative**' from 'CRISIL A+/Negative'. The ratings on the bank's certificates of deposit programme has been reaffirmed at 'CRISIL A1+'.

The downgrade reflects the sharp deterioration in BoM's asset quality, leading to pressure on earnings profile, and continued weak profitability. Continuation of the negative outlook reflects CRISIL's belief that the asset quality will remain stressed over the next few quarters until a substantial pick-up in the economy, and may lead to further pressure on the bank's already weak profitability. The ratings, nevertheless, continue to factor in the support that BoM is likely to receive from its majority owner, the Government of India (GoI), and the bank's comfortable resource profile. These strengths are partially offset by high regional concentration in its business.

The distinguishing features of non-equity Tier-I capital instruments (under Basel III) are the existence of coupon discretion at all times, high capital thresholds for likely coupon non-payment, and principal write-down (on breach of a pre-specified trigger). These features increase the risk attributes of non-equity Tier-I instruments over those of Tier-II instruments under Basel III, and capital instruments under Basel II. To factor in these risks, CRISIL notches down the rating on these instruments from the bank's corporate credit rating. The rating on BoM's Tier-I Bonds (under Basel III) is now lower by three notches from the bank's corporate credit rating, as against two notches earlier, which is in line with CRISIL's criteria (refer to 'CRISIL's rating criteria for Basel III-compliant instruments of banks'). The downgrade reflects CRISIL's belief that BoM's profitability and capital coverage for unprovided weak assets will remain under significant pressure because of expected continued increase in gross non-performing assets (NPAs) over the next few quarters. This will exert pressure on profitability and may result in continued losses over the next few quarters and decrease in revenue reserve, thus increasing the risk of any potential coupon non-payment (refer to Annexure for key features of the instrument).

The factors that could trigger a default event for non-equity Tier-I capital instruments (under Basel III), resulting in non-payment of coupon, include: i) the bank exercising coupon discretion, ii) inadequacy of revenue reserve to honour coupon payment if the bank reports low profits or loss, or iii) the bank breaching the minimum regulatory common equity Tier (CET) I, including counter cyclical buffer (CCB), ratio. Moreover, given their additional risk attributes, the rating transition for non-equity Tier-I capital instruments (under Basel III) can potentially be higher than that for Tier-II instruments.

BoM's asset quality has deteriorated sharply over the past few quarters, as reflected in the rise in its gross NPAs and weak assets¹. Slippages to NPAs, as a percentage of opening net advances, in the quarter ended June 30, 2016, were high at 10.88% (annualized), and were mainly from the large, and micro and small enterprise portfolios. This was higher than the estimated average for public sector banks (PSBs)-hereon referred to as industry average-of 7.2%. Consequently, BoM's gross NPA ratio increased to 12.64% as on June 30, 2016, from 9.34% as on March 31, 2016 and 6.33% as on March 31, 2015. This is significantly higher than the estimated industry average of 10.4% as on June 30, 2016.

BoM's outstanding restructured standard advances (RSAs) stood at 3.8% of its gross advances as on June 30, 2016. Large gross NPAs and RSAs translated into substantial weak assets of 14.45% of gross advances as on June 30, 2016 (11.15% as on March 31, 2016, and 7.96% as on March 31, 2015), against the estimated industry average of 12%. Any delay in economic improvement could lead to high slippages over the next few quarters. Recovery, as a percentage of opening gross NPAs, was weak in the first quarter of fiscal 2017, and may be subdued in the next three quarters as well. CRISIL, therefore, believes BoM will face difficulty in containing its gross NPAs and weak assets over the medium term. More-than-expected deterioration in asset quality will put pressure on the bank's credit risk profile, and hence, remains a key monitorable.

BoM's weak earnings are reflected in lower-than-industry-average return on assets (RoA). The RoA declined sharply to negative 1.02% (annualised) for the quarter ended June 30, 2016 (0.07% for fiscal 2016 and 0.32% for fiscal 2015), while the industry average is estimated at a negative 0.1%. High credit cost² over the last few quarters have

impacted the overall profitability. BoM is focusing on improving the net interest margin by lending to high-yielding segments and managing operating expense. CRISIL believes the bank's profitability will remain weak over the medium term because of continued asset quality pressure. BoM's ability to manage incremental slippages and recover from NPAs will be key determinants of profitability, especially given the relatively low provisioning coverage (excluding technical write-off) of 34.0% as on June 30, 2016.

In its ratings on PSBs, CRISIL continues to factor in the likelihood of strong support from GoI, both on an ongoing basis and in the event of distress. This is because GoI is both the majority shareholder in PSBs and the guardian of India's financial system. The stability of the banking sector is of prime importance to the government, given the criticality of the sector to the economy, the strong public perception of sovereign backing for PSBs, and the severe implications of any PSB failure in terms of political fallout, systemic stability, and investor confidence in public sector institutions. CRISIL believes that the majority ownership creates a moral obligation on GoI to support PSBs, including BoM. Since fiscal 2009, the government has already infused or committed to infuse capital of around Rs 960 billion in PSBs. Furthermore, under the Indradhanush plan, it has committed that all PSBs will maintain a safe buffer over the regulatory minimum. CRISIL believes that GoI will continue to provide distress support to all PSBs and not allow any of them to fail. It will also ensure that PSBs meet their Basel-III capital regulations.

BoM received equity capital of Rs 8.0 billion from GoI in fiscal 2014. In addition, in fiscal 2015, preference shares worth Rs 5.9 billion were converted to equity. Additional equity capital of Rs 3.9 billion was infused in October 2015. This indicates the government's commitment to extend capital support to the bank. The bank also received Rs 4.0 billion of equity capital from Life Insurance Corporation of India in fiscal 2015.

BoM has a comfortable resource profile, indicated by a large proportion of low-cost current account and savings account (CASA) deposits, at 38% of total deposits as on June 30, 2016. The bank's CASA deposits continued to be higher than the estimated industry average of 33%.

BoM remains exposed to risks related to concentration of its operations in Maharashtra; the state accounted for 70% of the bank's business and 61% of its branches as on March 31, 2016. While BoM has opened branches outside the state, the concentration risk is likely to reduce only over the long term.

Outlook: Negative

CRISIL believes BoM's asset quality and profitability will continue to remain under pressure over the medium term. The ratings may be downgraded in case of a sharper-than-expected deterioration in the bank's asset quality, resulting in further weakening of profitability. The outlook may be revised to 'Stable' in case of a substantial and sustained improvement in asset quality and earnings.

About the Bank

BoM is a medium-sized PSB, with assets of Rs 1490 billion, and a network of 1895 branches and 1866 automated teller machines (ATMs), as on June 30, 2016, with 57% of its branches being in rural and semi-urban areas. With deposits of Rs 1274 billion and net advances of Rs 987 billion, the bank had a market share of 1.3% of deposits and 1.4% of advances in the banking system, as on June 30, 2016.

BoM made a profit after tax (PAT) of Rs 1.0 billion on a net interest income of Rs 38.8 billion in fiscal 2016, against a PAT of Rs 4.5 billion on a net interest income of Rs 38.8 billion in fiscal 2015. It made a loss of Rs 3.9 billion on a net interest income of Rs 8.6 billion for the quarter ended June 30, 2016, against a PAT of Rs 594.4 million and Rs 10.2 billion, respectively, for the corresponding period of the previous fiscal.

Annexure: Key features of Bank of Maharashtra's Rs 10.0 Billion Tier I Bonds Issue (under Basel III)

- * Non-Convertible Perpetual Unsecured subordinated Basel III-compliant Tier-I Bonds.
- * Coupon payments are on an annual basis and are non-cumulative.
- * The bank has full discretion at all times to cancel coupon payment (in full or in part).
- * Coupon is to be paid out of the current year's profit. However, if the current year's profit is not sufficient, that is, payment of coupon is likely to result in a loss during the current year, the coupon payment can be made out of revenue reserve (subject to the bank meeting minimum regulatory requirements for common equity Tier I [CET I], Tier-I, and total capital ratios at all times as prescribed by the Reserve Bank of India [RBI] and subject to the requirements of capital buffer frameworks) and/or credit balance in the profit and loss account.
- * Loss-absorption features as per RBI's BASEL III norms are applicable
- ° Instrument will be temporarily written down on CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019.
- ° Instrument may be permanently written down at the option of RBI on occurrence of trigger event called point of non-viability (PONV) trigger.
- ° The PONV trigger shall be determined by RBI.

¹ Weak assets is CRISIL's measure for assessing banks' asset quality. Weak assets = Gross NPAs + 40% of outstanding restructured standard advances (excluding state power utilities) + 75% of investments in security receipts (from NPAs sold to asset reconstruction companies) + 15% of loans structured under 5/25 (flexible structuring of long-term project loan)

² Credit cost is measured as: (Provisions made in the year) / Average of the assets at the start and end of the year). For a quarter, the calculation is: (Provisions made in the quarter * 4) / Average of the assets at the start and end of the quarter)

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Last updated: April 2016

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