MARCH 21, 2016

CARE REVISES THE RATINGS ASSIGNED TO THE UPPER TIER II BONDS AND PERPETUAL BONDS OF BANK OF INDIA

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Upper Tier II Bonds (under Basel II)	3000	**CARE AA- (Double A Minus)**	**Revised from CARE AA+ (Double A Plus)**
Perpetual Bonds (under Basel II)	700	**CARE AA- (Double A Minus)**	**Revised from CARE AA+ (Double A Plus)**
Total	**3700 (Rupees Three Thousand Seven Hundred crore only)**		

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds after taking into consideration their increased sensitiveness to Bank of India's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared to conventional subordinated debt instruments.

Rating Rationale

The rating revision of Bank of India takes into account more than expected deterioration in the asset quality and profitability of the bank following the asset quality review by RBI. The ratings continue to factor in the capital support and majority ownership by the Government of India (GoI), its long track record of operations and average capitalization levels. Continued ownership and support from GoI, asset quality, profitability and capital adequacy are the key rating sensitivities.

Background

Bank of India (BOI) is a premier nationalized bank which was incorporated on September 07, 1906. Bank of India is one of the five largest public sector banks in India, with GoI holding of 70.13% as on December 31, 2015. The bank had an asset size of Rs.6,14,743 crore along with a pan India network of 4,984 branches and 6,771 ATMs as on December 31, 2015. The Bank has four domestic subsidiaries viz. BOI Shareholding Ltd (100% stake), BOI AXA Investment Managers Private Limited (stake of 51%), BOI AXA Trustee Services Private Limited (stake of 51%) & BOI Merchant Bankers Limited (stack of 100%). The bank has five overseas subsidiaries as well viz. PT Bank of India Indonesia Tbk (stake of 76%), Bank of India (Tanzania) Ltd. (stake of 100%), Bank of India (New Zealand) Ltd. (stake of 100%), Bank of India (Uganda) Ltd. (stake of 100%) and Bank of India (Botswana) Limited (stake of 100%). The Bank has sponsored four Regional Rural Banks operating in four States viz. Jharkhand Gramin Bank, Narmada Jhabua Gramin Bank, Vidharba Konkan Gramin Bank and Gramin Bank of Aryavart. The Bank's associates are Indo Zambia Bank Limited (stake of 20%), STCI Finance Ltd. (29.96%) and ASREC India Ltd. (26.02%). It has one joint venture viz. Star Union Dai-ichi Life Insurance Company Limited in which it holds 48% a stake. Mr Melwyn Rego took over as MD & CEO of the bank in August 2015.

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[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

During FY15, the bank's deposits and advances registered a growth of 12% and 9% year-over-year, respectively. During FY15, the bank's total income grew by 13% to Rs.47,663 crore, whereas PAT reduced to Rs. 1,709 crore as against Rs. 2729 crore in FY14. Consequently, Bank's RoTA declined to 0.29% in FY15 as against 0.53% in FY14. During FY15, Bank's absolute slippages increased by 89% over the previous year to Rs.16651 crore from Rs.8811 crore in FY14. The Gross NPA ratio and Net NPA ratio as on March 31, 2015 stood at 5.39% (P.Y.: 3.15%) and 3.36% (P.Y.:2.00%) respectively, while Net NPA to tangible net worth stood at 48.7% (P.Y.:28.5%). As per Basel III norms, the bank reported a Capital Adequacy Ratio of 10.73% (Tier I – 8.17%) as on March 31, 2015.

During 9MFY16, the bank's deposits and advances registered a decline of 0.3% and 3.0% year-over-year, respectively. During 9MFY16, Bank reported loss of Rs.2502 crore on total income of Rs.34064 crore as against PAT of Rs.1765 crore on total income of Rs.35409 crore during 9MFY15. In 9MFY16, Bank reported loss of Rs.3785 crore at PBT level as against profit of Rs.2624 crore at PBT level in 9MFY15. Bank's provisions increased by 143% in 9MFY16 and stood at Rs.8356 crore (9MFY15: Rs.3437 crore). During Q3FY16, Bank reported loss of Rs.1506 crore as against profit of Rs.173 crore in Q3FY15. The asset quality deteriorated with Gross NPA ratio rising from 5.39% at the end of FY15 to 9.18% as on December 31, 2015. Net NPA ratio increased to 5.25% (FY15: 3.36%). Outstanding standard restructured assets as a proportion of advances stood at 4.34% at the end of December 2015. As per Basel III norms, the bank reported a Total Capital Adequacy Ratio of 11.28% (Tier I: 7.88%, CET1: 7.00%) as on December 31, 2015. RBI's recent guideline on Basel III capital regulations provide some relief to the capital adequacy position of bank but deterioration in asset quality and profitability continues.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CIN - L67190MH1993PLC071691