NOVEMBER 17, 2016

# CARE REAFFIRMED 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 (Basel II) | 3000.00 | **CARE AA- (Double A Minus)** | **Reaffirmed** |
| Perpetual Bonds (Basel II) | 700.00 | **CARE AA- (Double A Minus)** | **Reaffirmed** |
| 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 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.  The rating is however constrained by continued deterioration in the asset quality and profitability of the bank. 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 70.32% as on June 30, 2016. The bank had an asset size of Rs.6,01,130 crore along with a pan India network of 5,016 branches and 7,807 ATMs as on March 31, 2016. 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 a stake of 48%.Mr Melwyn Rego took over as MD & CEO of the bank in August 2015.

During FY16, the bank's deposits and advances registered decline of 3.55% and 7.30% year-over-year, respectively. Total income for FY16 decline by 4.64 % to Rs.45,449 crore due to 3.76% decline in interest income. Cost to income ratio

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

increased to 60.75% (P.Y.: 51.93%) due to 15.5% rise in operating cost. In FY16, the bank reported net loss of Rs.6089 crore as against profit of Rs.1709 crore due to higher operating expenses & provisions. RoTA declined to -1.00% in FY16 as against 0.29% in FY15. NIMs remained stable at 1.93% in FY16 as against 1.92% in FY15. Gross NPA ratio increased to 13.07% as on March 31, 2016 as compared to 5.39% at the end of FY 2015. Net NPA ratio stood at 7.79% (FY15: 3.36%) and Net NPA to net worth increased to 118.97% (FY15: 48.69%).Capital adequacy at the end of FY16 as per Basel III stood at 12.01% [P.Y.: 10.73%]. Tier I CAR stood at 9.03% [P.Y.: 8.17%].

Further in Q1FY17, bank reported net loss of Rs.741 crore as against of net profit of Rs.130 crore in Q1FY16 on account of higher provision expenses. As on June 30, 2016 bank's total CAR and Tier I CAR stood at 12.1% and 9.0% respectively. At the end of Q1FY17, Gross and Net NPA stood at 13.38% and 7.78%, respectively.

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****For detailedRationale 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