Bank of India

January 25, 2018

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Upper Tier II Bonds (Basel II)	3000 (Rupees Three Thousand Crore Only)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Perpetual Bonds (Basel II)	700 (Rupees Seven Hundred Crore Only)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds after taking into consideration their increased sensitivity 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.

Detailed Rationale & Key Rating Drivers

The rating continues to factor in majority ownership by the Government of India (GoI) and its demonstrated capital support, long track record of operations, comfortable resource and liquidity profile. The rating remains constrained by the bank's weak asset quality, moderate capitalisation levels and low profitability. Continued ownership and support from GoI, asset quality, profitability and capital adequacy are the key rating sensitivities.

Key Developments

RBI vide its letter dated December 19, 2017 placed Bank of India (BOI) under Prompt Corrective Action Framework, consequent to the onsite inspection under the Risk Based Supervision model carried out for the year ended March 2017. The action was in view of high net NPA, insufficient Common Equity Tier-I (CET1) capital and negative ROA for two consecutive years. As part of the restrictions placed on the bank by RBI, the bank is prohibited from taking unsecured exposure, can only invest in investment grade credit and cannot take bulk deposits at high rates.

The bank has received equity capital of Rs.2,257 crore from GOI on December 29, 2017 which the bank has kept as Share Application Money. The capital infusion is expected to improve the capital position and help the bank comply with minimum regulatory requirement in the near future.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GoI and continued capital support

GOI held a stake of 75.12% in the bank as on December 31, 2017 [68.01% on March 31, 2016]. GOI has been supporting the bank through periodic capital infusion and infused Rs.2,838 crore of equity capital in FY17 (refers to the period from

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

April 01 to March 31). Further, during 9MFY18, the bank received additional equity capital of Rs.2,257 crore (in December 2017) from GOI and raised Basel III-compliant Additional Tier I bonds of Rs.500 crore. BOI, being a systemically important bank due to its large size, is expected to receive continued supported from GOI.

Long track record of operations and global presence

BOI is a premier nationalized bank which was incorporated in 1906. As on March 31, 2017, the bank had an overseas network of 29 branches, 4 Representative Offices, 5 Subsidiaries and 1 Associate/Joint Venture over 22 countries. As on September 30, 2017, the Bank had a pan India network of 5,126 branches and 7,717 ATMs. The bank's rural and semi-urban branches constituted around 66% of the domestic branches.

Comfortable resource & liquidity profile

The bank's total deposits as on March 31, 2017 stood at Rs.540,032 crore, registering a growth of 5.27% over March 31, 2016. The bank's Current Account Savings Account (CASA) deposits registered y-o-y growth of 30.2% leading to domestic CASA proportion of 39.84% as on March 31, 2017 [P.Y.: 34.18%]. The bank displayed good granularity in deposits and its liquidity profile remained comfortable.

Key Rating Weakness

Weak profitability

The bank's profitability continued to remain weak, however, with decline in the pace of addition to NPAs, the bank saw lower provisioning during FY17 which resulted in the bank reporting net loss of Rs.1,558 crore for the year as against net loss of Rs.6,089 crore in FY16. The bank's Net Interest Margin (NIM) remained stable at 1.94% during FY17. Further in H1FY18, bank reported Profit After Tax (PAT) of Rs.267 crore as against net loss of Rs.615 crore in H1FY17 primarily owing to reduced operating expenses and provisions.

Moderate capital adequacy

Owing to capital infusion during FY17 and moderate growth in advances, the bank reported moderate capitalization levels. Capital adequacy at the end of FY17 as per Basel III stood at 12.14% (Tier I CAR: 8.90%) as compared to 12.01% (Tier I CAR: 9.03%) as on March 31, 2016. The Bank's CET I Ratio stood at 7.17% (P.Y.: 7.97%). As on June 30, 2017, the bank reported CAR of 12.38% (Tier I CAR: 9.02%) with CET I Ratio of 7.28%. As on September 30, 2017 bank's total CAR and Tier I CAR stood at 12.23% and 8.86% respectively, while CET I ratio stood at 7.21%. The bank is expected to maintain capital ratios above the minimum regulatory requirement in the near future due to infusion of equity capital by GOI during December, 2017.

Weak asset quality Indicators

The bank's asset quality parameters continued to be weak in FY17. The bank's Gross NPA ratio increased to 13.22% as on March 31, 2017 as compared to 13.07% at the end of FY16. Net NPA ratio improved to 6.90% [P.Y.: 7.79%] and Net NPA to net worth was almost stable at 118.28% [P.Y.: 118.97%]. The bank's fresh slippages in FY17 stood lower at Rs.20,321 crore as compared to Rs.38,606 crore in FY16. Asset quality indicators improved in H1FY18 with the bank reporting Gross and Net NPA ratios stood at 12.62% and 6.47%, respectively as on September 30, 2017.

Analytical approach: CARE has analysed the bank on a standalone basis, factoring in expected support from GOI.

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE Policy on Default Recognition](#)
[CARE's Rating Methodology For Banks](#)
[Bank - Rating framework for Basel III instruments (Tier I & Tier II)](#)
[Financial ratios - Financial Sector](#)
[Rating Methodology: Factoring Linkages in Ratings](#)

About the Bank

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 75.12% as on September 30, 2017. The bank had an asset size of Rs.615,217 crore as on March 31, 2017. 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 (stake 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 28.96%. Mr Melwyn Rego took over as MD & CEO of the bank in August 2015. The bank had a pan India network of 5,126 branches and 7,717 ATMs as on September 30, 2017.

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total Income	45,449	46,063
PAT	(6,089)	(1,558)
Total Assets	601,130	615,217
Net NPA (%)	7.79	6.90
ROTA (%)	(1.00)	(0.26)

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate		Maturity Date		Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
		With Call	Without Call	With Call	Without Call		
Bonds-Upper Tier II	October 16, 2008	11.15%	11.65%	October 16, 2018	October 16, 2023	500.00	CARE AA-; Stable
Bonds-Perpetual Bonds	February 10, 2009	8.90%	9.40%	February 10, 2019	-	400.00	CARE AA-; Stable
Bonds-Upper Tier II	July 28, 2009	8.45%	8.95%	July 28, 2019	July 28, 2024	500.00	CARE AA-; Stable
Bonds-Upper Tier II	January 20, 2010	8.54%	9.04%	January 20, 2020	January 20, 2025	1000.00	CARE AA-; Stable
Bonds-Upper Tier II	June 11, 2010	8.48%	8.98%	June 11, 2020	June 11, 2025	1000.00	CARE AA-; Stable
Bonds-Perpetual Bonds	September 09, 2010	9.05%	9.55%	September 09, 2020	-	300.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Upper Tier II	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)	1)CARE AAA (20-Oct-14)
2.	Bonds-Perpetual Bonds	LT	400.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)	1)CARE AAA (20-Oct-14)
3.	Bonds-Upper Tier II	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)	1)CARE AAA (20-Oct-14)
4.	Bonds-Upper Tier II	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)	1)CARE AAA (20-Oct-14)
5.	Bonds-Upper Tier II	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)	1)CARE AAA (20-Oct-14)
6.	Bonds-Perpetual Bonds	LT	300.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)	1)CARE AAA (20-Oct-14)

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