AUGUST 17, 2015

CARE REAFFIRMS THE RATINGS OF LOWER TIER II AND UPPER TIER II BONDS AND WITHDRAWS THE RATING ASSIGNED TO LOWER TIER II BONDS (SERIES X) OF CENTRAL BANK OF INDIA

Ratings

Instruments	Amount Rated (Rs. crore)	Ratings[1]	Remarks
Lower Tier II Bonds	659.1	CARE AA- [Double A Minus]	Reaffirmed
Upper Tier II Bonds	2285.0	CARE A+ [Single A Plus]	Reaffirmed
Lower Tier II Bonds (Series X)*			Withdrawn

*CARE has withdrawn the rating assigned to the Lower Tier II Bonds (Series X) of Central Bank of India with immediate effect, as the bank has fully repaid the amounts under the said issue and there is no amount outstanding under the issue as on date.

CARE has rated the aforesaid Upper Tier II Bonds after taking into consideration their increased sensitiveness to Central 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 the 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 the conventional subordinated debt instruments.

Rating Rationale

The rating factors in the majority ownership and capital support by the Government of India (GoI), long track record of operations with an extensive branch network, comfortable CASA base and average capitalisation. However, the rating is constrained by weak asset quality, high level of restructured assets and weak profitability parameters. Continued ownership and support from GoI, capital adequacy, profitability and asset quality are the key rating sensitivities.

Background

Central Bank of India was founded in 1911 by Sir Sorabjee Pochkhanawalla. CBI is one of the major players in the Indian banking system with an asset base of Rs.311,940 crore as on March 31, 2015. Government of India is the major shareholder with 81.46% stake as on March 31, 2015 (March 31, 2014 – 88.63%). The bank had a network of 4689 branches and 4835 ATMs as on March 31, 2015. All the branches are CBS enabled. About 65% of branches are in rural and semi urban areas.

During FY15, the bank's profitability improved & bank reported a net profit of Rs.606 crore. In the previous year, bank had reported a loss of 1263 crore due to high provisions for NPAs and restructured assets. During the year, Bank raised 1208 crore from LIC by allotment of equity shares on preferential basis. As a result, the bank's total capital adequacy ratio (as per Basel III) has improved to 10.90% with Tier I CAR at 8.05% at the end of FY15. The bank will still require substantial capital infusion for funding future advances growth.

Bank's Asset quality parameters continue to be weak, however with Gross NPA at 6.09% in FY15, as compared to 6.27% in FY14. Net NPA to Net worth reduced to 43.5% at the end of FY15 from 47.7% at the end of FY14. The bank's outstanding

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

standard restructured assets increased 22% to Rs.29618 crore as on March 31, 2015 which is 15.7% of net advances [P.Y.: 13.6%] and 189% of net worth [P.Y.: 173%].

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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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