MARCH 23, 2016

CARE REVISES RATINGS ASSIGNED PROPOSED ADDITIONAL TIER-1 (BASEL III) BONDS AND REAFFIRMS THE RATINGS ASSIGNED TO VARIOUS INSTRUMENTS OF UCO BANK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Lower Tier II Bonds	375 (Rupees Three hundred seventy five crore)	**CARE AA (Double A)**	**Reaffirmed**
Upper Tier II Bonds	620 (Rupees Six hundred twenty crore)	**CARE AA- (Double A Minus)**	**Reaffirmed**
Perpetual Bonds	150 (Rupees one hundred fifty crore)	**CARE AA- (Double A Minus)**	**Reaffirmed**
Proposed Infrastructure Bonds	-	**-**	**Withdrawn**
Proposed Additional Tier-1 (Basel III) Bonds	2,500 (Rupees Two thousand five hundred crore)	**CARE A (Single A)**	**Revised from CARE A+ (Single A Plus)**

CARE has rated the aforesaid Upper Tier II Bonds & Perpetual Bonds one notch lower than Lower Tier II Bonds of UCO Bank in view of their increased sensitiveness to the Bank'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 out of 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 rating compared to conventional subordinated debt instruments.

CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after taking into consideration its key features as below:

- The bank has full discretion at all times to cancel coupon payments.
- The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, coupon may be paid subject to availability of sufficient revenue reserves and / or credit balance in profit and loss account, provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios at all times and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.

Any delay in the payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above 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 with the conventional subordinated debt instruments.

Rating Rationale

The revision in the rating of Proposed Additional Tier-1 (Basel III) Bonds of UCO Bank takes into account more than expected deterioration in the asset quality and profitability of the bank following the asset quality review by RBI. The bank has reported significant loss in Q3FY16, which resulted into depletion of revenue reserve which are important for payment of coupon on Additional Tier I Bonds. However, the ratings continue to factor in the capital support and majority ownership by the Government of India (GoI), long track record of operations, average capitalization levels and pan-India presence with an extensive branch network. Continued ownership and support from GoI, asset quality, profitability, capital adequacy and any substantial decline in Iranian deposits remains the key rating sensitivities.

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

Background

UCO Bank (UCO), incorporated in 1943, is a Kolkata-based mid-sized public sector bank. UCO manages a total business of Rs.3,49,510 crore through a network of 3,043 (including four overseas branches) as on December 31, 2015. GoI is the major shareholder of UCO, holding 72.83% equity stake as on December 31, 2015.

During 9MFY16, the bank's deposits registered a growth of 6.43% y-o-y whereas advances declined by 7.21% y-o-y. UCO Bank reported a loss of Rs.1,084 crore on total income of Rs.15,412 crore in 9MFY16 (vis-à-vis profit of Rs.929 crore on total income of Rs.16,099 crore in 9MFY15). The asset quality of the bank has significantly deteriorated, with Gross NPA ratio and Net NPA ratio rising from 6.76% and 4.30% as on March 31, 2015 to 10.98% and 6.51% as on December 31, 2015, respectively. Net NPA to tangible net worth increased substantially to 53.02% (FY15: 33.43%). Outstanding standard restructured assets as a proportion of advances stood at 5.53% at the end of December 2015. The bank's Return on Assets ratio declined to negative 0.63% in 9MFY16 (FY15: positive 0.48%). As per Basel III norms, the bank reported a Total Capital Adequacy Ratio of 10.54% (Tier I: 7.69%, CET1: 7.59%) as on December 31, 2015.

Analyst Contact

Name: Utkarsh Nopany

Tel # 033-4018 1605

Mobile # 9836186474

Email: utkarsh.nopany@careratings.com

****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.

CONTACT

Head Office Mumbai

Mr. Sanjay Kumar Agarwal
Mobile: + 91 8108007676
E-mail: sanjay.agarwal@careratings.com

Mr. Amod Khanorkar
Mobile: + 91 9819084000
E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 9820998779
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355
Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

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