

September 14, 2010

**CARE ASSIGNS 'AAA' RATINGS TO THE PERPETUAL DEBT OF  
BANK OF INDIA**

CARE has assigned a 'CARE AAA' [Triple A] rating to the issue of Perpetual bonds (Tier I) of Rs.300 crore.

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Perpetual Bonds	300	AAA (Triple A)	Assigned

CARE has rated the aforesaid Perpetual Bond issue taking into consideration its increased sensitiveness to Bank of India's capital adequacy ratio, capital raising ability and profitability during the tenure of the instruments. The rating also factors in additional risk arising due to existence of lock-in clause in these hybrid instruments. Any delay in payment of interest/principal (as the case may be) following the 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 somewhat sharper migration of rating as compared to conventional subordinated debt instruments.

**Rating Rationale**

The rating factors in Bank of India's long track record, government ownership, adequate capitalisation levels, diversified risk profile, excellent operating efficiency and consistent growth. Bank of India's ability to improve its margins, increase its Current Account and Savings Account (CASA) deposits, manage cost of funds and improve its asset quality by controlling incremental slippages from its restructured accounts are the key rating sensitivities.

**Background**

Bank of India is one of the largest PSU banks in India with Government of India (GoI) holding of 64.47% as on March 31, 2010. The Bank had an asset size of Rs.273,522 crore along with a network of 3,236 branches (including 29 branches/offices overseas) as on March 31, 2010.

During FY10, despite a 5.6% growth in Total Income to Rs.20,495 crore, BoI's Net Profit fell by 42% to Rs.1,741 crore due to a 14% decline in other income and 71% jump in provisions.

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

During Q1FY11, the Bank earned a Net Profit of Rs.725 crore on a Total Income of Rs.5,408 crore. Asset quality remained under stress with Gross NPA ratio and Net NPA ratio at 2.71% (FY10: 2.85%) and 1.18% (FY10:1.31%), respectively. Restructured assets o/s stood at Rs.10,128.7 crore i.e. 5.73% of gross advances (FY10: 6.2%) and 76.8% of net worth (FY10: 85.2%). Capital adequacy improved with the overall CAR at 13.29% (FY10: 12.94%) while the Tier I CAR rose to 8.47% (FY10: 8.48%) as on June 30, 2010.

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

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