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October 25, 2010

**CARE REAFFIRMS THE RATING ASSIGNED TO VARIOUS DEBT INSTRUMENTS OF BANK OF INDIA**

CARE has reaffirmed the 'CARE AAA' [Triple A] rating assigned to Bank of India's Upper Tier II Bonds and Innovative Perpetual Bonds. CARE has also reaffirmed 'CARE AAA (Is)' (Triple A (Issuer)) rating assigned to Bank of India.

Instruments	Amount o/s (Rs. crore)	Rating <sup>1</sup>
Upper Tier II bonds	3,000	AAA
Perpetual Bonds	700	AAA

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 somewhat sharper migration of rating compared to conventional subordinated debt instruments.

**Rating Rationale**

The rating factors in majority ownership of Bank of India by the Government of India (GoI), its long track record of operations, pan-India presence, adequate capitalisation levels, diversified risk profile and consistent growth. Bank of India's ability to improve its margins, increase its Current Account and Savings Account (CASA) deposits and improve its asset quality, especially by controlling incremental slippages from its relatively higher restructured assets portfolio 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 14.3% decline in other income and 71% jump in provisions.

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<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 improved sequentially 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. 5.7% of gross advances (FY10: 6.2%) and 76.8% of net worth (FY10: 83%). Capital adequacy improved with the overall CAR at 13.29% (FY10: 12.94%) while the Tier I CAR stood at 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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