

September 17, 2010

**CARE UPGRADES RATING OF TIER II SUBORDINATED BONDS OF
CITY UNION BANK LTD.**

CARE has revised the rating assigned to the Tier II Subordinated Bond Issue of City Union Bank Limited (CUBL) amounting to Rs.40 crore from 'CARE A' [Single A] to 'CARE A+' [Single A plus]. Instruments with this rating are considered to offer adequate safety for timely servicing of debt obligations. Such instruments carry low credit risk.

Annual Surveillance		
Instrument	Amount (Rs. crore)	Rating ¹
Tier II Subordinated Bonds	40	'CARE A+' (upgraded from 'CARE A')

Rating Rationale

The revision in rating takes into account CUBL's consistent robust profitability and operating efficiency parameters, improving asset quality, long-standing operations and healthy capitalization levels characterised by high Tier I capital. The rating is, however, constrained by CUBL's small size, regional concentration and relatively lower proportion of Low Cost Deposits (LCDs). CUBL's ability to maintain asset quality in its retail and Micro, Small and Medium Enterprises (MSME) portfolio as well as alleviate slippages in its restructured advances portfolio, protect its spreads and improve its LCD mix are the key rating sensitivities.

Company Profile

Incorporated in October 1904, City Union Bank Ltd. (CUBL) is an old private sector bank, with operations mostly concentrated in Southern India. Almost 73% of its total business comes from Tamil Nadu. The bank has no identifiable promoter and the shareholding is widely distributed. CUBL mainly focuses on lending to Traders & MSME (micro, small and medium enterprises) segment. As on Mar 31, 2010, the bank had a network of 222 branches and 157 ATMs. During FY10, CUBL earned a Net Profit of Rs.152.76 crore on a Total income of Rs.1100.11 crore. Its Capital Adequacy Ratio (CAR) stood at 13.46% (Basel-II) as on March 31, 2010.

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

During Q1FY11, CUBL earned a Net Profit of Rs.44.37 crore on a Total Income of Rs.299.35 crore. Asset Quality has improved both on a y-o-y basis and sequential basis. Gross NPA (%) and Net NPA (%) improved to 1.30% and 0.54% respectively as on June 30, 2010 as against 1.36% and 0.58% as on Mar 31, 2010 (1.96% and 1.45% as on June 30, 2009). Bank has reached at Provision coverage of 70% as mandated by RBI. Overall CAR of the bank stood at a healthy 13.06% [Basel-II] 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. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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