

July 20, 2010

CARE ASSIGNS 'CARE AAA' RATING TO THE UPPER TIER II BONDS ISSUE OF UNION BANK OF INDIA (FOR ENHANCED AMOUNT)

CARE has assigned 'CARE AAA' rating to the Upper Tier II bonds of Union Bank of India (UBI) of Rs.700 crore (enhanced from Rs.500 crore).

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Upper Tier II Bonds	700	'CARE AAA' (Triple A)	Assigned

CARE has rated the aforesaid Upper Tier II Bond issue taking into consideration its increased sensitiveness to UBI'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 the majority ownership by the Government of India (GoI holds 55.43% stake) and the expected support from GoI, adequate capitalisation levels and reasonable profitability and operational efficiency parameters. Going forward, UBI's ability to maintain its spreads in the face of increasing competition and contain fresh slippages from the restructured portfolio would be the key rating sensitivities.

Bank Profile

Union Bank of India (UBI), incorporated in 1919 is one of the largest public sector banks in India in terms of asset size. As on March 31, 2010, the bank had a nationwide presence with 2,910 branches, 2,327 ATMs, five representative overseas offices in Shanghai, Abu Dhabi, Beijing, London and Sydney in addition to a full fledged overseas branch in Hong Kong.

During FY10, UBI recorded a Net Profit of Rs.2,075 crore on Total Income of Rs.15,277 crore, driven by healthy other income growth and improved operating and productivity metrics. UBI's gross advances grew by 22% to Rs.1,18,272 crore while Total deposits increased by 22.6% to touch Rs.1,70,040 crore. On the asset quality front, apart from credit deterioration in normal portfolio, slippages from restructured portfolio (more than Rs.1 crore) also contributed to deterioration in asset quality of the bank. As a result, gross and net NPA ratios increased to 2.20% and 0.81% as on March 31, 2010 respectively.

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CARE 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.

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

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