

निवेशक संबंध विभाग
प्रधान कार्यालय :
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Ref No.:HO:IRC:RB:2018-19:100

Date: 06.06.2018

The Vice President – Listing Department, National Stock Exchange of India Ltd., Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai 400 051.	The Vice-President – Listing Department, BSE Ltd., 25, P.J. Towers, Dalal Street, <u>Mumbai 400 001.</u>
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Dear Sir/Madam,

Revision in Credit Rating

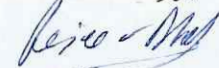
In compliance of Regulation 84 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations-2015, this is to inform you that India Ratings & Research Pvt. Ltd. has revised its Rating on following Bank of India Bonds:

Sr. No.	Types of Bonds	Revised Rating
1.	Tier II Bonds (Basel III Complaint) aggregating to Rs.1000 Crore	IND AA+/Negative (Rating affirmed, outlook to Negative)
3.	Additional tier I Bonds (Basel III Compliant) aggregating to Rs.500 Crore	Withdrawn (Fully Paid)

We enclose a copy of letter dated 06.06.2018 issued by India Ratings & Research Pvt. Ltd. about Review of Rating of above bond issues.

Thanking you,

Yours faithfully,



(Rajeev Bhatia)
Company Secretary

Encl.: As Above



India Ratings Revises Bank of India's Outlook to Negative; Affirms 'IND AA+'

06

By [Jindal Haria](#)

JUN 2018

India Ratings and Research (Ind-Ra) revised Bank of India's (BoI) Outlook to Negative from Stable while affirming the Long-Term Issuer Rating at 'IND AA+'. The instrument-wise ratings are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III Tier 2 bonds	INE084A08110	27 March 2017	8	27 March 2027	INR10	IND AA+/Negative	Rating affirmed; Outlook to Negative
Basel III AT1 perpetual bonds	INE084A08128	2 November 2017	8.79	Perpetual	INR5	WD	Withdrawn (fully repaid)

KEY RATING DRIVERS

Minimum Sustainability Support-driven Rating: The Outlook revision reflects the impairment in BoI's ability to sustain its current position of systemic importance, with the possibility of a dip in its overall share of systemic assets and liabilities, mirroring the sharp deterioration in its asset quality. Ind-Ra expects BoI's stock of non-performing assets, restructured assets and overdue loans (in the special mention category) resulted in substantial credit costs of 4.26% in FY18 (FY17: 3.22%) and this would continue in FY19. Also, the capital infused by the government of India (GoI) in FY18, although substantial, is likely to prove inadequate and the bank would require a higher additional quantum to expand lending operations. The Negative Outlook also reflects the possibility of the bank remaining under 'prompt corrective action' for an extended period, due to its expected weak capital position and high non-performing assets in FY19. This could result in the bank continuing to cede its market share (either by not growing or by declining) in deposits and advances and thereby its systemic importance.

Large Capital Requirement through FY19-FY20: BOI's capitalisation remains weak, despite regular infusions by the GoI. The bank reported a common equity tier-1 ratio of 7.9% at end-March 2018, supported by the GoI's infusion of INR92.3 billion in the bank in 2HFY18. Ind-Ra expects the bank's credit costs in Q4FY18-FY19 to exceed the total capital expected from the GoI under the current bank recapitalisation programme; and hence, the capitalisation levels may

deteriorate. Ind-Ra expects the bank's to require about INR150 billion of equity in FY19-FY20, part of which could come from infusions by the GoI from the balance amount of the programme, to maintain the minimum regulatory Tier 1 capital requirements (9.5%).

Asset Quality Overhang to be Severe and Persistent: Ind-Ra expects BoI's asset quality levels to remain under pressure over the next two years, given the chunky exposures on its balance sheet in various categories of stressed assets. Most of the exposures, where S4A, SDR, 5:25 etc were under various stages of approvals have slipped to NPAs mostly in 4QFY18 and the balance (INR32 billion) could slip in FY19. In addition, slippages from other stressed-but-restructured standard assets (FY18: 2.7% of advances) and haircuts on National Company Law Tribunal cases could cause the credit costs to remain elevated at 2.5%-3.5% annually till FY20 (4.26% of advances in FY18), without any regulatory forbearance. Ind-Ra also expects substantial incremental slippages from the SMA1-SMA2 stock (significant proportion of which are exposures below INR100 million) that constituted 8%-10% of FY18 gross advances; adjusted for the overlap with earlier categories of stressed loans.

Standalone Profile Weak: The bank's operating buffers are weaker than those of its peers, on account of its high credit costs and modest net interest margins. Lower current account deposit ratio and overall declining share in deposits could also add pressure on the bank's liability profile. Ind-Ra expects return on assets to remain in the negative territory over FY19-FY20 (FY16: negative 1%, FY17: negative 0.3%; FY18: negative 0.91%).

Deposit Profile & Liquidity See Marginal Improvement; but Share Declines: The domestic current and savings account deposits improved to 41% in FY18 from 39% while foreign deposits declined over 16% yoy. The bank's deposit share declined to about 5% in FY18 from about 5.4% in FY17. The significant decline in the deposits could result in a further decrease in the share in deposits and thereby BoI's systemic importance could decline over the medium term. On the liquidity front, BoI's short-term funding gap has improved to 2%-3% in FY17 and 9MFY18 from negative 11% in FY16. At end-December 2017, BoI's liquidity coverage ratio was 136%, higher than the regulatory requirement of 100%. However, the bank's stable deposits as a percentage of retail and small customer deposits is about 2% against 25%-30% for peers and hence the pressure to replenish the retail deposits would be high.

RATING SENSITIVITIES

Negative: The tier 2 instruments rating has been linked to BoI's Long-Term Issuer Rating which could change in absence of even stronger demonstration of government support.

Positive: A positive rating action would be contingent on stronger demonstration of government support, a significant improvement in the financial profile of the bank, including an enhancement of the capitalisation buffers and its ability to grow its systemic importance.

COMPANY PROFILE

BoI had a branch network of 5,127 branches and 7,717 ATMs as of 3QFY18. At end-December 2017, the bank had an advances share of about 4.5% and deposit share of about 4.9%.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Total assets (INR million)	6,095,748	6,263,093
Total equity (INR million)	355,406	307,651

Net income (INR million)	-60,437	-15,583
Return on assets (%)	-0.24	-0.91
CET1 (%)	7.87	7.17
Capital adequacy ratio (%)	12.94	12.14
Source: Company annual report		

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook	
	Rating Type	Rated Limits (billion)	Rating	14 September 2017	27 March 2017
Issuer Rating	Long-term	-	IND AA+/Negative	IND AA+/Stable	IND AA+/Stable
Basel III Tier 2 bonds	Long-term	INR10	IND AA+/Negative	IND AA+/Stable	IND AA+/Stable
Basel III AT1 perpetual bonds	Long-term	INR5	WD	IND A+/Stable	-

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, structured finance and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Financial Institutions Rating Criteria](#)
[Rating FI Subsidiaries and Holding Companies](#)

Analyst Names

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