CARE Ratings
Professional Risk Opinion

20 YEARS plus
Analytical Excellence

No. CARE/BRO/RR/2016-17/1044

Mr. M.B.Ganesh
Chief Financial Officer
Corporation Bank
Corporate Office: Mangaladevi Temple Road,
Mangalore 575 001

July 18, 2016

Dear Sir

Credit rating of Corporation Bank for various bond issues

Please refer to our letters dated July 1, 2016 and July 4, 2016 on the above subject.

2. The rationale for the ratings is attached as an **Annexure-I.**

3. A write-up (brief rationale) on the above rating is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure-II.**

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Rushabh Doshi
Manager

Encl.: As above

Annexure I
Rating Rationale
Corporation Bank

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Lower Tier II Bonds(Series IV)	500.00	CARE AA- (Double A Minus)	Revised From CARE AA
Upper Tier II bonds-Series I	300.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Upper Tier II bonds-Series II	700.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Upper Tier II bonds-Series III	500.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Upper Tier II bonds-Series IV	500.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Upper Tier II bonds-Series VI	300.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Upper Tier II bonds-Series VII	550.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Perpetual Bonds –Series I	237.50	CARE A+ (Single A Plus)	Revised From CARE AA-
Perpetual Bonds –Series II	300.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Perpetual Bonds –Series III	100.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Perpetual Bonds –Series IV	100.00	CARE A+ (Single A Plus)	Revised From CARE AA-
Total Facilities	**4087.50 (Rupees Four Thousand and Eighty Seven crore and Fifty Lakh only)**		

CARE has rated the aforesaid Upper Tier II bonds and Perpetual bonds of the Corporation Bank one notch lower than Lower Tier II bonds in view of their increased sensitiveness to the Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments.

The ratings factor in the additional risk arising due to the existence of the lock-in-clause in hybrid instruments. Any delay in the payment of interest/principal (as the case may be)

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

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

Rating Rationale

The ratings revision of corporation bank takes into account more than expected deterioration in the asset quality and significant net losses reported during the year following the asset quality review by RBI. The ratings continues to factor in the capital support and majority ownership by the Government of India (GOI) as well as its long track record of operations. The rating also takes into account, average capitalisation and moderate resource profile of the bank.

Continued ownership and support from GOI, asset quality, profitability and capitalization are the key rating sensitivities.

Background

Corporation Bank is a Mangalore-based mid-sized public sector bank which was established in 1906. Government of India is the majority shareholder holding 67.20% stake in the bank. As on March 31, 2016; the bank had 2440 branches (635 rural, 804 semi urban, 510 urban and 491 metro). The bank also has its representative offices at Hong Kong & Dubai. The bank has a wholly owned subsidiary viz Corp Bank Securities Ltd., which is engaged in trading of government securities, trading of Certificate of Deposits, distribution of mutual funds & institutional broking. Mr. Jai kumar Garg is the MD and CEO, who is assisted by a highly experienced team of executive director and General Managers heading various departments. In September 2015, the GoI infused Rs.857 crore in the bank by way of issue of shares on preferential basis. The bank also raised another Rs.143 crore during FY16 (refers to April 1 to March 31) by way of allotment of shares on preferential basis to LIC. As on March 31, 2016, the bank had advances of Rs.140,322 crore.

Credit Risk Assessment

Majority ownership by Government of India with increase in FY16 & Adequate capitalization level

Government of India (GoI) continues to have majority stake in the bank, with increase in the shareholding from 63.33% as on March 31, 2015 to 67.20% as on March 31, 2016.

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During FY16 (September 2015), the GoI infused Rs.857 crore in the bank by way of issue of shares on preferential basis. The bank also raised Rs.143.00 crore by way of allotment shares on preferential basis to LIC. Nonetheless, the bank's capitalization moderated with Basel III CAR of 10.56% (PY: 11:09%) and Tier I CAR of 7.93% (PY: 8.05%) as on March 31, 2016. The common equity Tier I ratio (BASEL III) as on March 31, 2016 stood at 7.27% reducing from 7.34% as on March 31, 2015.

Deterioration in asset quality following Asset Quality Review directed by the RBI

The asset quality of the bank continues to be under pressure. Following the Asset Quality Review (AQR) as directed by the RBI, the bank witnessed substantial NPA addition to the tune of Rs.10582 crore during FY16 (of which addition of Rs.2978 crore was during Q3FY16 & Rs.3837 crore during Q4FY16). The NPA addition also resulted in significant deterioration of the slippage ratio from 2.79% in FY15 to 7.53% in FY16. The Gross NPA% and Net NPA% of the bank worsened to 9.98% and 6.53% respectively as on March 31, 2016 as against 4.81% and 3.08% respectively as on March 31, 2015.

With deterioration of asset quality, stressed asset to advances weakened to 12.74% as on March 31, 2016 from 12.16% as on March 31, 2015 and stressed assets to net worth weakened to 193.20% as on March 31, 2016 from 168.60% as on March 31, 2015.

The restructured assets decreased to Rs.13612 crore as on March 31, 2016 from Rs.15452 crore as on March 31, 2015 despite fresh restructuring of Rs.1447 crore during FY16, as the restructured standard advances amounting to Rs.3287 crore ceased to attract higher provisioning or additional risk weight and were not required to be classified as restructured assets as at end-FY16. Of this, standard restructured assets stood at Rs.8578 crore as at end-FY16.

Significant losses in FY16 owing to increased provisioning on NPAs

During the year, the bank witnessed subdued growth of 0.51% in total income which stood at Rs.21146 crores as against Rs.21039 crores during FY15; which was solely on account of 17% growth in non-interest income mainly pertaining to sale of investments and profit on exchange transactions.

NIM was stable at 1.85% in FY16 (1.82% in FY15). Cost of deposits dropped during the year, which resulted in marginal improvement in core spread to 3.04% in FY16 from 3.01% in FY15. Operating cost of the company increased by 14% during the year with rise in employee cost.

Nonetheless, the bank posted net loss of Rs.506.48 crores in FY16 (as against net profit of Rs.584.26 crores in FY15) due to 97% rise in provisioning (mainly pertaining to NPAs) as a result of AQR as directed by the RBI. The company witnessed provisioning of Rs.1881 crore in Q3FY16 and further of Rs.1960 crore in Q4FY16.

Moderate resource profile albeit improvement marked by growth in CASA deposits & retail deposits

The bank's resource profile continued to be moderate although the company witnessed 15% growth in CASA deposit during FY16. CASA's share in total deposits grew to 22.14% as at March 2016 from 19.72% as on March 31, 2015. The Bank has been putting in efforts to improve the CASA deposits and higher growth of term deposits. Growth in CASA deposits also helped the bank reduce its cost of deposit to 7.11% in FY16 (PY:7.49%) and improve profitability.

The bank has also been focusing on reducing share of its bulk deposits and mobilizing retail deposits. The bulk deposits came down by Rs.8274 crores and stood at Rs.93546 crores as at March 31, 2016 which is around 45% of the total deposits (51% as on March 31, 2015), while the retail term deposits registered a growth of 13.73% from Rs.58210 crores as at March 31, 2015 to Rs.66205 crores as at March 31, 2016.

Subdued asset growth

Credit market activity was weighed down by weak demand due to sluggish industrial and corporate activity and tentative economic environment. In addition, risk aversion among banks emanating from asset quality concerns restrained credit flows during the year.

Consequently, the bank witnessed modest asset growth of 3% in FY16 to Rs.232751 crore. The advances declined by 3.27% during the year to Rs.140322 crore, while investments increased by 13.40% to Rs.71917 crore (Including investment with NABARD under RIDF) as at end-FY16. The drop in advances was primarily on account of fall in advances to large industrial sector and wholesale trades. This was partially offset by growth in advances to agricultural, MSME & retail segments.

Investment portfolio growth was primarily driven by higher investments in government & approved securities which accounted for 86% of total investments as against 77% previous year.

Prospects

The Indian economy grew by 7.6% in FY16 as compared to 7.3% in FY15. The growth was primarily driven by manufacturing sector and agriculture, forestry & fishing. Sectors like mining, quarrying and electricity & other utility services were the weak performers in FY16. As on April 1, 2016, the y-o-y growth in advances (non-food credit) and deposits was weak at 9.9% (FY15: 9.4%) and 9.1% (FY15: 10.9%), respectively. Advances to industries grew just by 2.7% in FY16 which is lower than the already tepid growth rate of 5.6% in FY15. Demand for credit was supported by the services sector and retail loans which grew by 9.1% (FY15: 5.7%) and 19.4% (FY15: 15.5%), respectively. Overall slowdown in the domestic economy, asset quality stress on the banks' balance sheet and capital constraints for PSU banks all contributed for low advances growth. Significant slippages from restructured assets and the Asset Quality Review mandated by RBI resulted in increased provisioning by banks which impacted their profitability. Recovery in the economic environment would reduce the pace of NPA addition. Further, the regulatory guidelines formulated by RBI to assist banks in dealing with stressed assets would help in effective resolution of these assets. However, the improvement would be gradual. On the capital adequacy front, there is substantial requirement of capital especially for PSU banks given the significant deterioration in asset quality. The government's plan of infusing equity capital as per the Indradhanush scheme would help banks; however they may require further capital to strengthen their balance sheet. Going forward, the revival in the banking sector hinges on economic revival which would lead to improvement in asset quality and profitability.

Continued ownership and support from GOI, asset quality, profitability and capitalization are the key rating sensitivities for Corporation Bank.

Financial Performance

(Rs. Cr)

For the period ended / as at Mar.31,	*2014 (12m, A)*	*2015 (12m, A)*	*2016 (12m, A)*
Working Results			
Interest Income	17959	19556	19411
Non - Interest Income	1648	1482	1735
Total Income	19606	21039	21146
Interest Expenses	14175	15486	15172
Operating Expenses (Incl. Depreciation)	2392	2525	2880
Provisions (excl tax)	2798	2552	5026
PAT	562	584	-506
Financial Position			
Deposits	193393	199346	205171
Tangible Networth (Excluding Deffered tax asset)	9976	10464	9253
Advances	137086	145066	140322
Investments	66191	63412	71917
Total Assets	221939	225972	232751
Key Ratios (%)			
Profitability			
Interest Income/Avg Interest Earning Assets*	9.35	9.44	9.09
Interest Expenses / Avg Interest Bearing Liabilities*	7.36	7.44	7.09
Interest Spread*	2.00	2.00	2.00
Net Interest Margin (NIM)*	1.82	1.82	1.85
Net Spread	0.09	0.17	-0.86
Operational Expenses / Avg Total Assets*	1.15	1.13	1.26
Cost of Deposits	7.37	7.49	7.11
CASA/Total Deposits*	20.33	19.72	22.14
Yield on Advances*	10.33	10.49	10.15
Treasury Income/PBT	140.14	22.03	-10.73
Core Spread (Yield on Advances – Cost of Deposits)	2.96	3.01	3.04
Return on total assets*	0.27	0.26	-0.22
Return on networth*	5.72	5.72	-5.14
Solvency			
Overall Gearing (times)	20.83	20.17	23.73
Capital Adequacy Ratio	11.64	11.09	10.56
Tier I Capital Adequacy Ratio	8.14	8.05	7.93
Credit/Deposit ratio (times)	70.88	72.77	68.39
Asset Quality			

BD

Net NPA to Net Advances	2.32	3.08	6.53
Net NPA to Tangible Networth	31.88	42.67	98.99
Gross NPA to Gross Advances	3.42	4.81	9.98

**Note: Ratios have been computed based on average of annual opening and closing balances. NIM has been calculated as net interest income/average annual total assets*

Details of Instruments Outstanding

Instruments	Rating Amount (Rs. Crores)	Rating
Lower Tier II bonds		
Lower Tier II bonds (Series-IV)	500.00	CARE AA-
Upper Tier II bonds		
Upper Tier II bonds (Series I)	300.00	CARE A+
Upper Tier II bonds (Series II)	700.00	CARE A+
Upper Tier II bonds (Series III)	500.00	CARE A+
Upper Tier II bonds (Series IV)	500.00	CARE A+
Upper Tier II bonds (Series VI)	300.00	CARE A+
Upper Tier II bonds (Series VII)	550.00	CARE A+
Perpetual Bonds		
Perpetual Bonds (Series-I)	237.50	CARE A+
Perpetual Bonds (Series-II)	300.00	CARE A+
Perpetual Bonds (Series-III)	100.00	CARE A+
Perpetual Bonds (Series-IV)	100.00	CARE A+
Total	**4087.50**	

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.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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Annexure II
Brief Rationale
CARE revises ratings assigned to the various debt instruments of Corporation Bank

Ratings

Instruments	Amount (Rs. crore)	Ratings[2]	Remarks
Lower Tier II Bonds(Series IV)	500.00	CARE AA- (Double A Minus)	Revised From CARE AA
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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

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.