प्रधान कार्यालय :
डा.पे.सं. 88,
मंगलादेवी मंदिर मार्ग,
पांडेश्वर,
मंगलूरु - 575 001.
कर्नाटक राज्य

कार्पोरेशन बैंक
Corporation Bank

Head Office :
P.B. No. 88,
Mangaladevi Temple Road,
Pandeshwar,
MANGALURU - 575 001.
Karnataka State

सार्वजनिक क्षेत्र का अग्रणी बैंक ***A Premier Public Sector Bank***

निवेशक सेवा विभाग
INVESTOR SERVICES DEPARTMENT

संदर्भ Ref. :नि.से.वि.ISD/77/2017-18 **दिनांक Date: 29th मई May 2017**

To: **BSE Ltd,** Corporate Relationship Department Ist Floor, New Trading Ring Rotunda Building, P J Towers Dalal Street, Fort Mumbai - 400 001 Email: corp.relations@bseindia.com http://listing.bseindia.com –Listing Centre **Ref: Code No.532179**	To, The Manager Listing Department, **National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No.C/1, G Block Bandra Kurla Complex, Bandra (E) Mumbai - 400 051 https://www.connect2nse.com-NEAPS **Symbol: CORPBANK**

प्रिय महोदय Dear Sir,

Subject: Revision in Ratings by India Ratings and Research Pvt. Ltd.

This is to inform that India Ratings and Research Pvt. Ltd. has revised the credit ratings of the Bank's Debt Instrument as below:

Instrument	Issue Size (Rs. in Crore)	Rating	Remarks
Long-Term Issuer Rating	-	IND AA (Outlook Stable)	Affirmed
Basel III Tier 2 Bonds*	500	IND AA (Outlook Stable)	Affirmed
Basel III AT 1 Bonds	1000	IND A + (Outlook Negative)	Affirmed; Outlook Revised to Negative

* Yet to be raised, copy of Rating Rationale enclosed.

This information is furnished in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

भवदीय Yours faithfully,

(एस.के. दाश S.K. DASH)
उप महाप्रबंधक (कंपनी सचिव)
Deputy General Manager (Company Secretary)

India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on Corporation Bank's AT1 Bonds to Negative; Affirms 'IND AA'

25 MAY 2017

By Chetan Dhawan

India Ratings and Research (Ind-Ra) has taken the following rating actions on Corporation Bank (CB):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AA/Stable	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR5,000	IND AA/Stable	Affirmed
Basel III AT1 bonds	February 2015 – March 2017	9.51% – 10.28%	-	INR10,000	IND A+/Negative	Affirmed; Outlook Revised to Negative

* Yet to be raised

The Outlook revision for AT1 bonds reflects the weakening of CB's standalone profile because of continued high levels of unrecognised stressed exposure, which is likely to keep credit costs at an elevated level, and stretched profitability. While the bank posted a net income of INR5,612.0 million during FY17 (FY16: loss of INR5,064.8 million), it was supported by its treasury income of INR14,320.0 million (INR2,070 million). Ind-Ra expects the share of treasury income to moderate over the next 12 months, if the interest rate cycle bottoms out.

For the AT1 instruments, the agency has considered the 'discretionary component', 'coupon omission risk' and the 'write-down/conversion risk' as the key parameters to arrive at the ratings. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt factoring in a higher probability of an ultimate loss for investors in these bonds. The rating for CB's AT1 bond reflects the bank's standalone credit profile, along with its ability to service coupons, and its equity requirement to avoid write-down triggers compared to other public sector banks'.

The rating of CB's other long-term instruments remains intact because of Ind-Ra's expectation of continuous support from the government of India (GoI) due to the bank's systemically important position (1.9% market share in advances as at end-September 2016). The GoI has majority ownership (70.76% at end-March 2017) in the bank and continues to provide equity support (FY17: INR5.08 billion in FY17; FY16: INR10 billion along with Life Insurance

Corporation combined). Over 54% of the bank's total branches are located in rural and semi-urban areas; this makes CB an important agent in implementing the GoI's financial inclusion policies in these states.

KEY RATING DRIVERS

Larger Share of Unrecognised Stress: According to Ind-Ra, the stock of stressed corporates with minimal provisioning remains higher for CB than its 'IND AA' rated peers'. This unrecognised stress could slip to the substandard category over the next 12 to 18 months which, along with the ageing impact of NPLs recognised under the asset quality review, would drive up the credit costs towards 300bp in FY18 (FY17: 250bp). CB's exposure to the telecom sector (INR27.62 billion at end-March 2017) constitutes 2.0% of its net bank credit – which could entail a higher provisioning requirement following the Reserve Bank of India's April 2017 directive.

Capitalisation Remains Comfortable: CB's capitalisation (March 2017 CET1: 7.99%) is comparable to other large government banks', and has remained stable largely on account of low loan growth in the past two years. Ind-Ra estimates CB would need INR32 billion of Tier I capital (assuming CAGR growth of 7% over FY18-FY19) to maintain a Tier I ratio of 10% (including a capital conservation buffer of 2.5%) by FYE19; which is around 26% of the bank's Tier 1 capital. After accounting for government shareholding, Ind-Ra believes the capital requirement from external investors is high and could be challenging for the bank. CB's distributable reserves remain comfortable (FY17: 4.6%), thereby providing cushion towards coupon serviceability in terms of free and eligible reserves and distance to trigger through FY19. The risk of a coupon deferral will depend upon continued equity injections by the GoI and an improvement in the bank's profitability over the life of the instrument.

Standalone Profile Remains Weak: CB's funding profile remains weak on account of low current account and savings account deposits (March 2017: 26.47%) and high bulk deposits (38%), resulting in stretched pre-provisioning operating profit buffers available to cover its credit costs. Moreover, CB has a low adjusted provision coverage, of 32.82% (56.93% including technical write-offs) at end-December 2016. CB's current account and savings account market share has slipped during the past five years (1HFY17: 1.5%; FY11: 1.7%), with the CA share falling to 2.0% in 1HFY17 from 2.5% in FY11. The bank's franchise is largely in the southern states (45% of branch network as at end-December 2016), which are highly competitive markets and Ind-Ra believes that building a strong liability base remains challenging for the bank.

RATING SENSITIVITIES

A Stable Outlook would result from a significant improvement in CB's core income and meaningful resolution and thereby reduction in the unrecognised stressed exposure, resulting in a sustained improvement in profitability as well as maintenance of reasonable capital buffers.

A negative rating action on the Long-Term Issuer Rating and Tier-II instruments aligned to it would result from a change in the GoI's support stance – either explicitly or from the weakening of CB's systemic importance due to deterioration in its standalone profile.

A negative rating action on the AT1 instruments could result from deterioration in CB's profitability metrics which could result in material deterioration in its coupon paying reserves or capital buffers.

COMPANY PROFILE

CB is a medium-sized public sector bank, headquartered in Mangalore, Karnataka. At end-December 2016, the bank had 2,545 branches, of which nearly 45% were in southern India.

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook

	Rating Type	Outstanding Limits (million)	Rating	25 April 2016	5 January 2015
Issuer rating	Long term	-	IND AA/Stable	IND AA/Stable	IND AA+/Stable
Basel III Tier 2 Bonds	Long term	INR5,000	IND AA/Stable	IND AA/Stable	IND AA+
Basel III AT1 bonds	Long term	INR10,000	IND A+/Negative	IND A+/Stable	IND AA-

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

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

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

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Applicable Criteria

Financial Institutions Rating Criteria
Rating FI Subsidiaries and Holding Companies

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