

Bank of India

Instrument	Amount	Rating Action (September 2016)
Corporate Governance practices	NA	CGR2; Reaffirmed

ICRA has reaffirmed the CGR2 rating for the Corporate Governance practices of Bank of India (BOI). This rating is on a scale of CGR1 to CGR6 where CGR1 denotes the highest rating. The CGR2 rating implies that in ICRA's current opinion, the rated bank has adopted and follows such practices, conventions and codes as would provide its financial stakeholders a high level of assurance on the quality of corporate governance. In case of banks, ICRA considers financial stakeholders to include both shareholders and depositors. ICRA's opinion, however, is not a certificate of statutory compliance or a comment on the rated bank's future financial performance, credit rating or stock price.

The rating reflects BOI's transparent ownership structure with majority ownership with the Government of India (GoI), experienced board composition, well-defined delegation of power and accountability, good board processes, effective oversight by the board in the area of monitoring performance and strategy formulation, well established supervisory structure with various sub-committees of the board, and the adherence to internal controls procedures and adoption of risk management practices as laid down by the Reserve Bank of India (RBI). The rating also favourably factors in the bank's adequate risk management policies and practices in line with the structure proposed by the RBI, with a board level committee overseeing risk management systems and BOI's preparedness for implementation of advanced approaches of BASEL II. Further, pursuant to the PJ Nayak Committee recommendation of splitting the position of Chairman and Managing Director for public sector banks, the bank has segregated the positions w.e.f August 2015. The favourable governance factors also include BOI's strong internal audit system which along with the inspections by independent statutory audit firms and RBI provides comfort. As for overall credit risk profile, the bank has ratings outstanding of [ICRA]AA- (Stable) for its Upper Tier II bonds & Basel II compliant IPDI and MAA+ (Stable) rating for its fixed deposits programme. The bond ratings were revised downwards by a notch in Feb-16 on account of the deteriorating asset quality and relatively weak profitability indicators of the bank.

BOI's corporate governance rating is however constrained by the systemic and structural issues facing public sector banks with respect to composition of the board, limited scope to adopt emerging best practices in the area of succession planning and executive compensation, and weaker voting rights of minority shareholders compared to listed companies in other sectors. As for Board of Directors composition, most of the directors are appointed/ nominated by GoI; as on August 31, 2016 out of eleven members on the board of BOI, nine were appointed/ nominated by GoI with the remaining two being appointed by other shareholders. Also, key executives of PSBs (Managing Director and Executive Directors) are appointed by the majority shareholder (GoI). The bank currently has the position of an executive director vacant.

The Audit Committee of the Board comprises 5 members chaired by a non-executive CA category Shareholder Director. The bank has a well defined internal audit system in place. It has adopted RBI's guidance on Risk Based Internal Audit and follows a system of assigning risk based ratings to branches. In addition, the bank also conducts concurrent audit of branches.

The disclosure practices of BOI are broadly in line with RBI requirements and are comparable to other PSBs. Overall, there has been an improvement in the disclosure standards of PSBs over the last three years especially the disclosure in investor presentations of annual/quarterly results which is valuable for investors. However, there is still scope for improvement given the limited segment-wise and forward-looking disclosures.

Profile of the Bank

Bank of India (BOI) was incorporated in 1906 and was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. Government of India held 70.32% stake in the bank as on June 30, 2016. The bank has a wide spread network of 5067 branches across India along with 7807 ATMs as on June 30, 2016. During FY2016, the bank reported net loss of Rs. 6089 crore on a total asset base of Rs. 609,914 crore as on March 31, 2016 against a net profit of Rs.1709 crore on total asset base of Rs.618,698 crore as on March 31, 2015. The bank reported a capital adequacy of 12.01% under Basel III with a Tier I capital of 9.03% as on March 31, 2016.

Recent Results

BOI had a total deposit base of Rs. 498,000 crore with a net loan portfolio outstanding at Rs. 363,386 crore as on June 30, 2016. It reported a loss of Rs. 741 crore on a total interest income of Rs. 9,426 crore in Q1FY2017.

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