Share Department, Board & Coordination Division, HO Plot No.4 Sector 10, Dwarka, New Delhi–110075
Tel No: 011-28044857, E-mail: hosd@pnb.co.in

Scrip Code : PNB	**Scrip Code : 532461**
The Assistant Vice President National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex, Bandra (E) **Mumbai – 400 051**	The Deputy General Manager Bombay Stock Exchange Limited 1st Floor, PhirozeJeejeebhoy Towers, Dalal Street, **Mumbai – 400 001**

Date: 14.10.2020

Dear Sir(s),

Reg.: RATING ACTION BY INDIA RATINGS

The Exchanges are hereby informed that India Ratings and Research (Ind-Ra) has upgraded Punjab National Bank's (PNB) Long-Term Issuer Rating to 'IND AAA' from 'IND AA+' while resolving the Rating Watch Evolving (RWE). The Outlook is Stable. The Short-Term Issuer rating has also been affirmed at 'IND A1+'.

The instrument-wise rating actions are given below:-

Instrument Type	Size of Issue (In Billion)	Rating/ Outlook	Rating Action
Basel III Tier 2 bonds	INR 95	IND AAA/Stable	Upgraded from IND AA+; off RWE
Additional Tier I (AT1) bonds	INR 67.5	IND AA/Stable	Upgraded from IND A; off RWE
Senior infrastructure bonds	INR 20	IND AAA/Stable	Upgraded from IND AA+; off RWE

The complete rating action is enclosed herewith.

This is in compliance of SEBI (LODR) Regulations, 2015

Thanking you
Yours faithfully,

(Ekta Pasricha)
Company Secretary

India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Punjab National Bank to 'IND AAA'/Stable; Off RWE

14
OCT 2020

By Karan Gupta

India Ratings and Research (Ind-Ra) has upgraded Punjab National Bank's (PNB) Long-Term Issuer Rating to 'IND AAA' from 'IND AA+' while resolving the Rating Watch Evolving (RWE). The Outlook is Stable. The Short-Term Issuer Rating at has also been affirmed at 'IND A1+'. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III Tier 2 bonds*	-	-	-	INR95	IND AAA/Stable	Upgraded; off RWE
Additional Tier 1 (AT1) bonds*	-	-	-	INR67.5	IND AA/Stable	Upgraded; off RWE
Senior infrastructure bonds*	-	-	-	INR20	IND AAA/Stable	Upgraded; off RWE

*Details in Annexure

Analytical Approach: PNB's ratings were placed on RWE on 4 September 2019, following the Ministry of Finance's announcement on the proposed amalgamation of United Bank of India (UBI) and Oriental Bank of Commerce (OBC) with PNB, with the latter being the anchor bank post amalgamation. Subsequently, with all the necessary regulatory approvals been received, the amalgamation came into effect from 1 April 2020.

The upgrade and resolution of the RWE senior infrastructure bonds and Basel III Tier 2 bonds factors in the increase in PNB's systemic importance for the government of India (GoI) post its amalgamation with UBI and OBC and the continued support from the GoI, which had majority shareholding at 85.59%, as at end-June 2020. Post the amalgamation, the bank's total deposit and net advances market share increased to around 8.2% and 7.1%, respectively, at FY20 (FY19: 5.5% and 5.0%, respectively), thereby making it the second-largest public sector bank. PNB is also the convenor bank in six state-level banking committees (SLBCs), second only to the to State Bank of India ('IND AAA'/Stable) and also the district-level convener bank in 111 districts (15.3% of total). The amalgamated bank has a large franchise with 10,930 branches with a pan-India franchise, 13,856 ATMs and 180 million customers.

The bank has received strong equity support from the GoI even post the announcement of amalgamation (INR160.9 billion; 35.9% of end FY19 networth) which has also led to a quantum improvement in its provision coverage ratio. Despite this, the agency expects the bank's asset quality and capital buffers to be under pressure for FY21 and FY22 on account of incremental provisioning requirement apart from ageing provisions due to the challenging macro-economic environment.

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to arrive at the rating. 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 upgrade on PNB's AT1 bonds reflects the bank's strengthened standalone credit profile, which has sharply improved its ability to service coupons and manage principal write-down risk over the Basel-III transition period. The agency notes the sharp improvement in distributable reserves of the bank on an amalgamated basis as at end-June 2020, which has significantly improved the bank's coupon-paying ability on its AT1 instruments. This is the result of the bank setting-off its accumulated losses of INR287.1 billion against its securities premium account post receiving the shareholder approval on 4 August 2020 supported by an enabling provision in line with the gazette notification issued by the Ministry of Finance on 23 March 2020, which allows a nationalised bank to appropriate any sum from its share premium account by following the same procedure for reduction of paid-up capital. Ind-Ra believes that this provision reduces the risk of erosion of serviceable distributable reserve as banks can set-off their losses through premium account, if required. Post the above adjustment, the bank's distributable reserves now stand at 4.3% of risk weighted assets as at end-June 2020 (about 1.0% of risk weighted assets as on FY20 on a pre-amalgamated basis). The agency believes that with the promulgation of the aforementioned gazette notification, the loss-absorbing characteristics of the AT1 instrument stand diluted.

KEY RATING DRIVERS

Large Pan-India Franchise And Increase in Systemic Importance: PNB's systemic importance has increased further with the amalgamation, making it the second-largest public sector bank (PSB) and hence, a high probability of support from the GoI (85.59% stake in June 2020), if required, has also been factored into the ratings. In terms of systemic importance, PNB has a total deposit and net advances market share of about 8.2% and 7.1% on an amalgamated basis, respectively. The amalgamated

bank, with about 10,930 branches, 13,856 ATMs and 180 million customers, continues to be the second-largest PSB, but with a significantly bigger franchise.

Capital Buffers Adequately Placed: PNB is one of the well-capitalised PSBs with a common equity tier-1 (CET-1) ratio of 9.44% in 1QFY21 (on amalgamated basis on 1 April 2020: 9.17%) and capital adequacy ratio of 12.63% (12.33%). The bank's CET levels are comparable to larger PSBs. With the capital ratios on the amalgamated basis already factoring in the elevated provisioning requirements for harmonisation of asset quality of OBC and UBI, the agency estimates there will be a small buffer to maintain the capital ratios above the regulatory requirements, unless the COVID-19 situation prolongs. PNB also has a board approval to raise INR140 billion in FY21 through a mix of debt and equity, which should add about 200bp to the total capital adequacy ratio, as of 1QFY21.

Continued Strong Low-cost Liability Franchise: PNB's liability franchise has increased in size and dominance within the Indian banking industry with it becoming the second-largest PSB on an amalgamated basis. However, its strong and stable low-cost current account and savings account (CASA) deposit base, with CASA ratio at 42.2% in 1QFY21 (on amalgamated basis 4QFY20: 41.3%, 1QFY20: 39.7%) remains strong, though marginaly diluted from the pre-amalgamation level of 43.0% in 4QFY20. On an amalgamated basis, PNB is well placed than its peers, having the second-highest CASA ratio, preceeded by the State Bank of India.

Liquidity Indicator - Superior: PNB maintained a small surplus on the contractual asset-liability management in the up-to one-year maturity bucket at end-1QFY21. PNB also maintained about 24.8% of the total assets in balances with the Reserve Bank of India and in government securities in 1QFY21, which assures Ind-Ra that it is adequately placed to meet its short-term funding requirements. Moreover, PNB maintained a liquidity coverage ratio of 171.90% as of 1QFY21 on a consolidated basis as against the regulatory requirement of 80%. On an amalgamated basis, the agency believes the banks' funding gap will not widen materially, unless they change their liability structure materially.

Asset Quality Challenges Continue: Ind-Ra, in its FY21 Mid-Year Banking Outlook, highlighted that around 7.7% of the total bank credit at end-March 2020 could come under restructuring from corporate and non-corporate segments. With the prevailing COVID-19 pandemic situation, the agency believes certain corporate sectors would be impacted severely, despite borrowers opting for a debt moratorium. Ind-Ra also believes the weakening economy (gross domestic product contracting 11.8% in FY21) could result in continuing pressure on asset quality for the overall banking industry.

PNB indicated about 29% of its customers, by value of loan book, had availed the Reserve Bank of India-prescribed moratorium at end-June 2020. The agency further expects about 8% of its book to come under restructuring which is higher than the management estimate of 5%-6%. The agency believes the stressed assets that were not eligible for restructuring could subsequently slip into non-performing assets (NPAs), thereby increasing the provisioning requirement in the near term.

PNB's gross NPA and net NPA stood at 14.1% and 5.4%, respectively, at end-1QFY21 (on amalgamated basis, 4QFY20: 13.8% and 5.5%, 1QFY20: 15.5% and 7.0%). The overall provision coverage ratio (excluding technical write-offs) improved to 65.3% at end-1QFY21 (on amalgamated basis, 4QFY20: 64.0%, 1QFY20: 59.2%) in line with its similar-rated peers. Further, the special mention accounts-2 pool stood at INR106.4 billion, constituting 1.6% of the net advances.

Profitability Remains under Pressure: On an amalgamated basis, PNB reported a profit of INR3.1 billion in 1QFY21 (4QFY21: net loss of INR101.3 billion). The management has guided for credit costs of 2.0%-2.5% in FY21, after factoring in the impact of COVID-19, which in the agency's opinion could be difficult to achieve given the challenging macro-economic environment. The agency expects the provisioning requirement in FY21 to still be significant due to 1) ageing provisioning requirements; 2) provisioning requirements for fresh slippages; 3) provisioning for any non-banking financial company exposures if the credit migration is faster than expected; and 4) provisioning requirement for accounts declared as fraud. Also, any large stressed asset resolution, though unlikely in the near term can provide an upside to PNB's profitability.

RATING SENSITIVITIES

Negative: PNB's Basel III Tier 2 bond and senior infrastructure bond ratings have been equated to its Long-Term Issuer Rating, which could change if there is a change in the GoI's support stance, thereby restricting the bank's ability to maintain its systemic importance, or if the equity buffers of the bank consistently operate at close to the minimum regulatory levels.

The rating of the AT1 bonds could be downgraded in case of a material deterioration in the unsupported credit profile of the bank which, among other factors, could reflect in a material decline in PNB's market share, loss of deposit franchise or a large spike in delinquencies. The ratings could also be downgraded in the event of the bank reporting high annual losses, or a significant and consistent depletion of CET-1 capital buffers (threshold of 100 basis points above the minimum regulatory requirements for CET-1 and Tier-1), which could impair the coupon-servicing capability. This could be important in case the bank incurs losses, causing the capital ratios to fall below the minimum regulatory requirement, thereby impairing its ability to pay coupons.

COMPANY PROFILE

PNB had a domestic branch network of 10,930 branches and 13,856 ATMs as of June 2020. Of the existing branches, 36% are located in rural areas, 25% in semi-urban and the balance 39% in urban and metro regions.

FINANCIAL SUMMARY

Particulars	1QFY21	1 April 2020
Total assets (INR billion)	12,324.0	12,513.9
Total equity (INR billion)	862.9	851.7
Net income/loss (INR billion)	3.1	-101.3
Return on assets (%)	0.09	-3.03
CET-1 (%)	9.44	9.17
Capital adequacy ratio (%)	12.63	12.33
Source: PNB, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Rating Watch/Outlook

	Rating Type	Rated Limits (billion)	Rating	24 September 2020	4 September 2019	17 June 2019	18 May 2018
Issuer rating	Long-term/Short-term	-	IND AAA/Stable/IND A1+	IND AA+/RWE/IND A1+	IND AA+/RWE/IND A1+	IND AA+/Negative/IND A1+	IND AA+/Negative/IND A1+
Basel III Tier 2 bonds	Long-term	INR95	IND AAA/Stable	IND AA+/RWE	IND AA+/RWE	IND AA+/Negative	IND AA+/Negative
AT1 bonds PNB-PDI-I	Long-term	INR67.5	IND AA/Stable	IND A/RWE	IND A/RWE	IND A/Negative	IND A+/Negative
Senior infrastructure bonds	Long-term	INR20	IND AAA/Stable	IND AA+/RWE	IND AA+/RWE	IND AA+/Negative	IND AA+/Negative

ANNEXURE

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Basel III AT1 bonds series VII	INE160A08076	13 February 2015	9.15	Perpetual	INR15	IND AA/Stable
Basel III AT1 bonds series VIII	INE160A08100	3 March 2017	8.95 (semi-annual)	Perpetual	INR15	IND AA/Stable
Basel III AT1 bonds series IX	INE160A08118	29 March 2017	9.21	Perpetual	INR5	IND AA/Stable
Basel III AT1 bonds series X	INE160A08126	31 March 2017	9.21	Perpetual	INR2.5	IND AA/Stable
Basel III AT1 bonds series XI	INE160A08134	25 July 2017	8.98	Perpetual	INR15	IND AA/Stable
Total utilised						INR52.5
Total unutilised						INR15
Basel III Tier 2 bonds series XV	INE160A08027	28 March 2014	9.68	28 March 2024	INR5	IND AAA/Stable
Basel III Tier 2 bonds series XVI	INE160A08035	3 April 2014	9.68	3 April 2024	INR5	IND AAA/Stable
Basel III Tier 2 bonds series XVII	INE160A08043	9 September 2014	9.35	9 September 2024	INR5	IND AAA/Stable
Basel III Tier 2 bonds series XVIII	INE160A08050	30 September 2014	9.25	30 September 2024	INR10	IND AAA/Stable
Basel III Tier 2 bonds Series XIX	INE160A08092	5 February 2016	8.65	5 February 2026	INR15	IND AAA/Stable
Basel III Tier 2 bonds Series XX	INE160A08142	26 December 2019	8.15	26 December 2029	INR15	IND AAA/Stable
Basel III Tier 2 bonds Series XXI	INE160A08159	29 July 2020	7.25	29 July 2030	INR9.94	IND AAA/Stable
Basel III Tier 2 bonds Series XXII	INE160A08167	14 October 2020	7.25	14 October 2030	INR15	IND AAA/Stable
Total utilised						**INR79.94**
Total unutilised						**INR15.06**
Senior infrastructure bonds Series I	INE160A 08068	9 February 2015	8.23	9 February 2025	INR10	IND AAA/Stable
Total utilised						**INR10**
Total unutilised						**INR10**

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

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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 Bank Subordinated and Hybrid Securities

Analyst Names

Primary Analyst

Karan Gupta

Associate Director
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40001744

Secondary Analyst

Ruhi Pabari

Senior Analyst
+91 22 40001757

Committee Chairperson

Prakash Agarwal

Director and Head Financial Institutions
+91 22 40001753

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121