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**
National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex, Bandra (E) Mumbai – 400 051	BSE Limited 1st Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001

Date: 23.06.2022

Dear Sir (s),

Reg.: Rating Action by India Ratings and Research.

The Exchange is hereby informed that India Ratings and Research vide its rating action dated 22.06.2022 has **affirmed** Bank's Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. Further, it has **assigned** Bank's fixed deposits 'IND AAA'/Stable and Certificate of Deposits (CDs) 'IND A1+'. The Bank's proposed new additional Tier 1 (AT1) bonds have been **assigned** 'IND AA+', with a Stable Outlook.

This is in compliance with Regulation 30 and 51 of SEBI (LODR) Regulations, 2015.

Thanking you

Yours faithfully,

(Ekta Pasricha)
Company Secretary
Encl.: as above

पंजाब नैशनल बैंक P.N.B. शेयर विभाग बोर्ड व समन्वय प्रभाग Board & Coord Division Share Department H.O., New Delhi-110075 प्र.का. नई दिल्ली-110075

India Ratings Assigns Punjab National Bank's New AT1 Bonds 'IND AA+'/Stable; Affirms Existing Ratings

Jun 22, 2022 | Banks

India Ratings and Research (Ind-Ra) has affirmed Punjab National Bank's (PNB) Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. Also, the agency has assigned PNB's new additional Tier 1 (AT1) bonds 'IND AA+', fixed deposits 'IND AAA'/Stable, and Certificate of Deposits (CDs) 'IND A1+' with a Stable Outlook. The detailed rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
AT1 bonds*	-	-	-	INR20.00	IND AA+/Stable	Assigned
Fixed deposits	-	-	-	-	IND AAA/Stable	Assigned
CDs	-	-	-	INR600.00	IND A1+	Assigned
Basel III Tier 2 bonds*	-	-	-	INR115.00	IND AAA/Stable	Affirmed
AT1 bonds*	-	-	-	INR74.95 (reduced from INR97.45)	IND AA+/Stable	Affirmed
Senior infrastructure bonds*	-	-	-	INR20.00	IND AAA/Stable	Affirmed

*Details in Annexure

Analytical Approach: The Long-Term Issuer Rating factors in PNB's systemically important position and the likelihood of the bank continuously receiving the support from the government of India (GoI). The rating also considers PNB's demonstrated equity raising ability and the likelihood of improved profitability over FY23, helping the bank maintain and possibly grow its market share in advances and deposits.

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.

Key Rating Drivers

High Systemic Importance: PNB's systemic importance has increased further with the amalgamation, making it the second-largest public sector bank (PSB) in terms of deposit market share and third-largest in terms of net advances market share, leading to high probability of support from the GoI, if required. In terms of systemic importance, on an amalgamated basis, PNB's market share in total deposits and net advances was about 7.1% and 6.3%, respectively, in FY22. Even if private banks were to be included, PNB's positioning would remain significant, with the bank being the third-largest in terms of deposits market share and fifth-largest in terms of net advances market share. The amalgamated bank has 10,098 branches, two international branches, 13,350 automated teller machines and 180 million customers. PNB is also the convenor bank in six state-level banking committees, second only to the State Bank of India (SBI; 'IND AAA'/Stable (https://www.indiaratings.co.in/pressrelease/57877)), and it is also the district-level convener bank in 111 districts (18.3% of total).

Capital Buffers Adequately Placed: PNB is a well-capitalised PSB, with a common equity tier-1 (CET-1) ratio of 10.56% in 4QFY22 (4QFY21: 10.62%) and a capital adequacy ratio (CAR) of 14.50% in 4QFY22 (4QFY21: 14.32%). The bank's CET levels are largely in line with that of larger PSBs. Even after factoring in elevated provisioning requirements in the near term on account of the pandemic, the agency believes that the capital buffers would remain significantly higher than regulatory requirements, owing to increasing internal accruals. The existing capital buffers are adequately placed to also absorb asset quality shocks, unless the economic situation continues for a protracted period and the severity is also high. Furthermore, PNB had raised INR55.9 billion (8.8% of 4QFY22 CET I capital) through two qualified institutional placements in FY21 and FY22; this gives the agency incremental comfort with respect to the bank's capital raising ability. Moreover, the bank also has board approvals in place to raise INR120 billion in FY23 through the issuance of bonds – both tier II and additional tier I bonds, which would add up to 200bp to the CAR.

Continuing Improvement in 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. Its strong and stable low-cost current account and savings account (CASA) deposit base, with CASA ratio at 46.6% in 4QFY22 (4QFY21: 44.5%), continues to improve and is higher than that of SBI (CASA ratio of 43.8% in 4QFY22). PNB's cost of funds has also benefited from the improvement in its low-cost liability franchise, with the cost of deposits declining by 102bp to 3.90% over 1QFY21-4QFY22; similarly, the cost of funds declined 75bp to 3.43% in 4QFY22 (1QFY21: 4.18%)-. The agency believes that given the bank's market share in system advances is significantly higher than that of its current account deposit market, it would continue to benefit from its focus on improving the CASA ratio.

Liquidity Indicator - Superior: PNB's short-term (one year) asset-liability surplus stood at 7.5% at 4QFYE22. The bank also maintained 24.4% of the total assets in balances with the Reserve Bank of India and in government securities in 4QFY22, which assures Ind-Ra that it is adequately placed to meet its short-term funding requirements. Moreover, PNB maintained a liquidity coverage ratio of 183.92% in 4QFY22 on a consolidated basis as against the regulatory requirement of 100%.

Profitability Improving, but Stability is Key: Post-amalgamation, which was effective from 1QFY21, PNB has reported profit for the last eight consecutive quarters and profit for FY22 grew significantly over FY21. However, the trend has been volatile, partially due to the pandemic. The management has guided for a further decline in the GNPA and NNPA ratios along with a yoy lower credit costs of 1.75% in FY23. The agency believes that while the provisioning requirement in FY23 is likely to decline on a yoy baisis, it will still remain significant due to: i) ageing provisioning requirements; ii) provisioning requirements for fresh slippages, including that from the emergency credit line guarantee scheme and COVID-19 restructuring pools; iii) provisioning for credit migration of two large corporate accounts; and iv) provisioning requirement for accounts declared as fraud.

Asset Quality Challenges Continue: PNB maintained a provision coverage ratio of 62.2% (excluding technical write-offs) in 4QFY22 (4QFY21: 63.1%), which was at the lower end within the peer group. The bank also carries almost 100% provisions against its exposures to the National Company Law Tribunal (NCLT)-1 and 2 lists and 97.5% against the overall NCLT exposure at 4QFYE22. Its gross non-performing assets and net non-performing assets continued to be elevated at 11.7[illegible] and 4.80%, respectively, at 4QFYE22 (4QFYE21: gross non-performing assets at 14.12% and net non-performing assets at 5.73%) compared to peers. Furthermore, the special mention accounts-2 pools accounted for 0.02% of the net advances at 4QFYE22 along with a COVID-19 restructuring pool of INR135.0 billion and emergency credit line guarantee scheme disbursements of INR178.9 billion (together 4.3% of the net advances), which are the potential pool for slippages over the near- to medium-term.

Rating Sensitivities

Negative: PNB's Basel III Tier 2 bond ratings have been equated to its Long-Term Issuer Rating, which could change if, in Ind-Ra's opinion, the GoI's support stance for PSBs changes or there is material drop in the banks' systemic importance which could, among other things, reflect in a material decline in PNB's market share or loss of deposit franchise.

The notching of the AT1 bonds could be widened from its anchor ratings if Ind-Ra believes that there is a dilution in the government's support stance towards hybrid instruments of PSBs or any delay in the timeliness of extending this support. This could reflect among other things in capital buffers continuing to be close to the regulatory levels. Ind-Ra also expects that for banks with weaker unsupported profiles, the capital buffers would be higher; if not, it could reflect in wider notching from the Long-Term Issuer Rating. These capital buffers could be important as PNB's ability to service the instrument could be impaired in the event of the bank making losses and/or if the capital levels are below the regulatory minimum.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Axis, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here (https://www.indiaratings.co.in/PressRelease?pressReleaseID=56916&title=India%20Ratings%20Launches%20ESG%20Relevance%20Disclosure%20to%20Show%20Impact%20of%20ESG%20on%20Credit). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here (https://www.indiaratings.co.in/PressRelease?pressReleaseID=57016).

Company Profile

PNB had a domestic branch network of 10,098 branches, two international branches and 13,350 automated teller machines as of March 2022. Of the existing branches, 38% are located in rural areas, 24% in semi-urban and the balance 38% in urban and metro regions.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Total assets (INR billion)	13,148.0	12,606.3
Total equity (INR billion)	954.8	909.4
Net income/loss (INR billion)	34.6	20.2
Return on assets (%)	0.26	0.15
CET-1 (%)	10.56	10.62
Capital adequacy ratio (%)	14.50	14.32
Source: PNB, Ind-Ra		

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.

Rating History

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RATING HISTORY

Instrument Type	Current Rating/Outlook								
	Rating Type	Rated Limits (billion)	Rating	24December 2021	16November 2021	13 October 2021	21 October 2020	14 October 2020	24 Se 2
Issuer rating	Long-term/Short-term	-	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	I AA+/F
Basel III Tier 2 bonds	Long-term	INR115	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND A
Basel III AT1 bonds	Long-term	INR94.95	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND
Senior infrastructure bonds	Long-term	INR20	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND A
Fixed Deposit	Long-term		IND AAA/Stable						
Certificate of Deposit	Short-term	INR600	IND A1+						

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	WD (Paid in Full)
Basel III AT1 bonds series IX	INE160A08118	29 March 2017	9.21	Perpetual	INR5	WD (Paid in Full)
Basel III AT1 bonds series X	INE160A08126	31 March 2017	9.21	Perpetual	INR2.5	WD (Paid in Full)
Basel III AT1 bonds series XI	INE160A08134	25 July 2017	8.98	Perpetual	INR15	IND AA+/Stable
Basel III AT1 bonds series XII	INE160A08183	22 January 2021	8.60	Perpetual	INR4.95	IND AA+/Stable
Basel III AT1 bonds series XIII	INE160A08209	9 December 2021	8.40	Perpetual	INR20.00	IND AA+/Stable
Basel III AT1 bonds series XIV	INE160A08217	17 January 2022	8.50	Perpetual	INR19.71	IND AA+/Stable
Total utilised						INR74.66
Total unutilised						INR20.29
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
Basel III Tier 2 bonds Series XXIII	INE160A08175	11 November 2020	7.10	11 November 2030	INR15	IND AAA/Stable
Basel III Tier 2 bonds Series XXIV	INE160A08191	18 November 2021	7.10	18 November 2031	INR19.19	IND AAA/Stable

Total utilised						**INR114.13**
Total unutilised						**INR0.87**
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

Complexity Indicator	Complexity Indicator
Fixed Deposits	Low
Certificate of Deposits	Low
Basel III Tier 2 instrument	Low
Basel III AT1 bonds	High
Senior infrastructure bonds	Low

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

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