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Scrip Code : PNB	**Scrip Code : 532461**
National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex, Bandra (E) Mumbai – 400 051	BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001

Date: 16.04.2024

Dear Sir(s),

Reg.: Rating Action by Fitch Ratings

The Exchange is hereby informed that Fitch Ratings vide its rating action dated 16.04.2024 has **affirmed** Bank's Long-Term Issuer Default Rating (IDR) at 'BBB-' with Stable Outlook.

Fitch Ratings has also **affirmed** the Bank's Viability Rating (VR) at 'b+' and Government Support Rating (GSR) at 'bbb-'.

A copy of the detailed rating rationale is enclosed.

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

Thanking You,

Yours faithfully,

EKTA PASRICHA

Digitally signed by EKTA PASRICHA
DN: cn=EKTA PASRICHA, c=IN, st=Delhi, o=Personal, title=5725, serialNumber=BEE4AE6E829EEEE60E0B52E2EF065410CCB94EC654442F55DAEC24909CCAF6C9
Date: 2024.04.16 18:11:22 +05'30'

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

(Ekta Pasricha)
Company Secretary
Encl.: A/a

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Punjab National Bank at 'BBB-'; Outlook Stable

Tue 16 Apr, 2024 - 5:11 AM ET

Fitch Ratings - Singapore/Mumbai - 16 Apr 2024: Fitch Ratings has affirmed Punjab National Bank's (PNB) Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Stable. Fitch has also affirmed the bank's Viability Rating (VR) at 'b+' and Government Support Rating (GSR) of 'bbb-'.

A full list of rating actions is below.

KEY RATING DRIVERS

Government Support Underpins IDR: PNB's Long-Term IDR and GSR are at the same level as India's sovereign rating (BBB-/Stable), reflecting Fitch's expectation of a high probability of extraordinary state support for the bank, if required. This takes into consideration its large size with a market share of 6% in sector assets and 7% in deposits, the state's 73% ownership, and PNB's quasi-policy role through social lending. The Stable Outlook on the IDR mirrors that on the Indian sovereign's IDR.

PNB's 'b+' VR is a notch below the implied VR, because Fitch believes that the bank's risk profile has a greater impact on the VR than what is implied by the weighting.

Supportive Operating Environment: The operating environment (OE) score of 'bb+', which is higher than Fitch's implied score of 'b' category, takes into account our view of India's robust medium-term growth potential. Fitch expects GDP growth of 7% in 2024 and 6.5% in 2025, supported by investment prospects. The economy remains resilient as healthy business sentiment, buoyant financial markets and the government's capital spending buffered global economic headwinds and inflation. These factors are conducive for banks to sustain profitable business, provided risks are well-managed.

Large Domestic Franchise: PNB's business profile score reflects the bank's large franchise and its ability to support profitable business generation. However, this is counterbalanced by PNB's larger risk appetite - due partly to the government's influence - that has weighed on its traditional business model, similar to other state banks. This has resulted in significant earnings volatility over the previous cycle, although volatility has eased amid the clean-up of bad loans.

Risk Profile Weighs on the VR: PNB's risk profile remains a high influence factor, and weighs on our assessment of the VR, given the bank's high risk appetite had a significant negative impact on its financial metrics in the past when the OE was weaker. The risk profile score takes into consideration PNB's evolving portfolio mix, but also the bank's growth appetite returning. Any further improvement in the score would depend on sustained improvement in asset quality, which would most likely reflect structural improvement in underwriting standards and risk controls.

Improving Asset Quality: Fitch has revised PNB's asset-quality score to 'b+/stable', from 'b/positive', reflecting continued improvement in asset quality. We expect PNB's impaired-loan ratio to improve further, and fall below 5% in FY25. It fell to 6.2% in the first nine months of the financial year ending March 2024 (9MFY24), from 8.7% in FY23, as recent bad loans were more than offset by steady recoveries and write-offs. The ratio is still above the industry average, but risks are better covered, as PNB's specific loan-loss cover improved significantly to 85% in 9MFY24 from 71% in FY23.

Improving Profitability: Fitch has revised PNB's earnings and profitability score to 'b+/stable', from 'b/positive', given the recent improvement in profitability, which we expect to be sustained. The operating profit/RWA ratio rose to 1.5% in 9MFY24 (FY23: 0.7%) on lower credit costs, moderately better margins, and steady loan growth. We expect the ratio to remain close to 2% in FY25 and FY26.

The stable outlook on the score also takes into consideration the high volatility in earnings through cycles, weighing on our assessment. Any higher score for this factor would be contingent upon evidence of sustained earnings stability.

Capital Buffers Below Average: PNB's common equity Tier 1 (CET1) ratio of 10.6% in 9MFY24 (including profit) is nearly 140bp below the state bank average by our estimates. The CET1 ratio fell by 65bp in 9MFY24 due to loan growth and higher regulatory risk-weights on loans.

We expect improving internal accruals will help maintain the CET1 ratio at the margin of our 10% 'bb' threshold. However, capital buffers could be vulnerable to moderate shocks if not replenished by fresh equity in light of the bank's risk appetite.

Robust Funding and Liquidity: Funding remains a strength for PNB. Customer deposits constituted about 91% of total funding in 9MFY24 by our estimates, driven by high depositor confidence due to the bank's close state linkages. We estimate that the bank's loans/customer deposits normalised to 73% in 9MFY24, based on preliminary disclosures, from 69% in FY23 in comparable terms, which is well below the peer average of 82%. The bank has sufficient liquidity, reflected in its liquidity coverage ratio of 137% in 9MFY24.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDR AND GSR

The Long-Term IDR and GSR are most sensitive to Fitch's assessment of the government's propensity and ability to support PNB, based on the bank's size, systemic importance and linkages to the state. Weakening of the government's ability to provide extraordinary support - reflected in negative action on India's sovereign ratings - would lead to negative action on the Long-Term IDR.

Negative action on the Long-Term IDR is also likely should Fitch perceive any reduction in the government's propensity to extend timely support, in which case the agency would reassess the GSR, and in turn, the bank's Long-Term IDR, although that is not our base case.

The Short-Term IDR is mapped to the bank's Long-term IDR, in line with Fitch's criteria, and will lead to a negative action if the Long-term IDR is downgraded.

VR

We expect PNB's VR to be stable in the near term, although it is below the implied VR. A downgrade is less likely in our base scenario, but possible if there is significant deterioration in the OE, or if the bank's risk profile becomes a more binding constraint on its modest loss-absorption buffers, reflected in a significant deterioration in key financial parameters, such as in the following:

- four-year average of the impaired-loan ratio approaching 15% (FY23: 12.2%, but the ratio is close to 10% in 9MFY24);

- resurgence of losses, putting PNB's structural profitability in doubt; and

- a significant drop in PNB's CET1 ratio from current levels towards the regulatory minimum of 8%, without a credible plan to restore it above Fitch's 'bb' threshold of 10%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDR AND GSR

Positive sovereign rating action could lead to a corresponding change to PNB's Long-Term IDR, if Fitch believes that the sovereign's ability and propensity to support the bank has improved. However, an upgrade of the sovereign rating appears unlikely in the near term. A VR upgrade is unlikely to affect the IDR, as it is four notches below the IDR.

The bank's Short-Term IDR may also be upgraded in the event that the sovereign's Short-Term IDR is upgraded. If the bank's Long-Term IDR is upgraded based on a strengthening of its VR, any upgrade of the bank's Short-Term IDR would be contingent on our assessment of the funding and liquidity score being at least 'bbb+', which is two notches above our current assessment. We do not foresee this possibility in the medium term.

VR

A VR upgrade is less likely in the near term, but possible if we revise upwards our assessment of its key rating factors, particularly if we assess that the bank's risk profile has improved more meaningfully and sustainably. It could also manifest in stronger key financial metrics, such as two or more of the factors below, assuming no changes to our assessment of the OE score:

- the CET1 ratio is sustained above Fitch's 10% 'bb' threshold;

- four-year average of the impaired-loan ratio is sustained below 5%;

- four-year average of the operating profit/RWA ratio is sustained above 1.25% along with lower earnings volatility.

PNB's risk profile will also remain an important consideration in determining whether the improvements to its financial metrics can be sustained.

The VR could also move up if the OE score is revised up to 'bbb-', while also positively influencing the bank's risk profile. However, we do not see it as likely in the near term.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

PNB's Long-Term IDR (xgs) is driven by its VR. Its Short-Term IDR (xgs) is in accordance with its Long-Term IDR (xgs) and the short-term rating mapping outlined in Fitch's criteria.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The bank's Long-Term IDR (xgs) will move in tandem with its VR. Its Short-Term IDR (xgs) is sensitive to changes in its Long-Term IDR (xgs) and is mapped in line with Fitch's criteria.

VR ADJUSTMENTS

PNB's VR is one notch lower than Fitch's implied VR. Fitch has used the risk profile as a negative adjustment factor to arrive at the assigned VR, as we believe that the bank's risk profile continues to have a greater impact on the VR than suggested by the weighting.

The OE score of 'bb+' has been assigned above the implied category of 'b' for the following adjustment reasons: economic performance, and size and structure of the economy (positive).

The business profile score of 'bb+' has been assigned below the implied category of 'bbb' for the following adjustment reason: management and governance (negative).

The funding and liquidity score of 'bbb-' has been assigned above the implied category of 'bb' for the following reason: deposit structure (positive).

Sources of Information

The principal sources of information used in the analysis are described in the applicable criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

PNB's IDRs and the Outlook are the same as India's sovereign rating and is thus directly linked with the sovereign IDR via the bank's GSR, reflecting our view of the probability of extraordinary state support, if needed.

ESG CONSIDERATIONS

PNB has an ESG Relevance Score of '4' for Governance Structure, in line with other state banks. This reflects our assessment that key governance aspects, in particular board independence and effectiveness, ownership concentration and protection of creditor or stakeholder rights, have a moderate, yet negative, influence on PNB's credit profile, and are relevant to the ratings in conjunction with other factors.

We regard PNB's governance as less developed, similar to our view of other state banks. This is evident from PNB's significant lending to higher-risk borrowers and instances of weak oversight, which has led to levels of stressed loans and credit losses above those of peers. Government appointees dominate the board and its business model is often focused on supporting government strategies, with lending directed towards promoting social and economic policies, which may include lending to government-owned companies. These factors also drive our view on the bank's state linkages, which affect support prospects that determine the long-term ratings.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Punjab National Bank	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
	Viability	b+	Affirmed	b+
	Government Support	bbb-	Affirmed	bbb-
	LT IDR (xgs)	B+(xgs)	Affirmed	B+(xgs)

	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 16 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Punjab National Bank	EU Endorsed, UK Endorsed

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