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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](mailto:hosd@pnb.co.in)

|                                                                                                                         |                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| <b>Scrip Code : PNB</b>                                                                                                 | <b>Scrip Code : 532461</b>                                                      |
| National Stock Exchange of India Limited,<br>"Exchange Plaza"<br>Bandra – Kurla Complex, Bandra (E)<br>Mumbai – 400 051 | BSE Limited,<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street,<br>Mumbai – 400 001 |

Date: 09.09.2022

Dear Sir(s),

**Reg: Rating Action by India Ratings and Research Pvt. Ltd.**

The Exchange is hereby informed that India Ratings and Research Pvt. Ltd. vide its rating action dated 08.09.2022 has **assigned/ affirmed** ratings as below:

| Instrument Type               | Rating/ Outlook | Rating Action |
|-------------------------------|-----------------|---------------|
| AT1 Bonds*                    | IND AA+/Stable  | Assigned      |
| Long-Term Issuer Rating       | IND AAA/Stable  | Affirmed      |
| Short-Term Issuer Rating      | IND A1+         | Affirmed      |
| Fixed Deposits                | IND AAA/Stable  | Affirmed      |
| Certificates of Deposit (CDs) | IND A1+         | Affirmed      |
| Basel III Tier 2 Bonds        | IND AAA/Stable  | Affirmed      |
| AT1 Bonds                     | IND AA+/Stable  | Affirmed      |
| Senior Infrastructure Bonds   | IND AAA/Stable  | Affirmed      |

\* Proposed new Additional Tier 1 (AT1) Bonds

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

Thanking you

Yours faithfully,

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



[pnbindia.in](http://pnbindia.in)

T: 011 28075000, 28045000

**पंजाब नैशनल बैंक punjab national bank**

कॉर्पोरेट कार्यालय: प्लॉट सं.4, सेक्टर-10, द्वारका, नई दिल्ली-110075  
Corp. Office: Plot No. 4, Sector - 10, Dwarka, New Delhi 110075 India



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**पंजाब नैशनल बैंक**  
...भरोसे का प्रतीक !



**punjab national bank**  
...the name you can BANK upon !

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

Sep 08, 2022 | Banks

India Ratings and Research (Ind-Ra) has taken the following rating actions on Punjab National Bank (PNB):

| Instrument Type               | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (billion)              | Rating/Outlook    | Rating Action |
|-------------------------------|------------------|-----------------|---------------|--------------------------------------|-------------------|---------------|
| Long-Term Issuer Rating       |                  |                 |               |                                      | 'IND AAA'/Stable' | Affirmed      |
| Short-Term Issuer Rating      |                  |                 |               |                                      | 'IND A1+'         | Affirmed      |
| AT1 bonds*                    | -                | -               | -             | INR10.00                             | IND AA+/Stable    | Assigned      |
| Fixed deposits                | -                | -               | -             | -                                    | IND AAA/Stable    | Affirmed      |
| Certificates of Deposit (CDs) | -                | -               | 1-365 days    | INR600.00                            | IND A1+           | Affirmed      |
| Basel III Tier 2 bonds*       | -                | -               | -             | INR115.00                            | IND AAA/Stable    | Affirmed      |
| AT1 bonds*                    | -                | -               | -             | INR 79.95<br>(Reduced from INR94.95) | 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'), 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 10.94% in 1QFY23 (1QFY22: 11.56%) and a capital adequacy ratio (CAR) of 14.82% (15.19%). 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 ageing provisions, 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 pandemic situation continues for a protracted period and the severity is also high. Furthermore, PNB had raised INR55.9 billion (8.4% of 1QFY23 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 could 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 45.4% in 1QFY23 (1QFY22: 44.4%), continues to improve and is higher than that of SBI (CASA ratio of 43.7% in 1QFY23). PNB's cost of funds has also benefited from the improvement in its low-cost liability franchise, with the cost of deposits declining by 113bp to 3.79% over 1QFY21-1QFY23; similarly, the cost of funds declined 79bp yoy to 3.39% in 1QFY23. 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 165.07% in 1QFY23 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 nine 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 the gross non-performing assets and gross non-performing assets ratios along with a yoy fall in credit costs to 2.25% in FY23. The agency believes that while the provisioning requirement in FY23 is likely to decline on a yoy basis, 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 requirement for accounts declared as fraud.

**Asset Quality Challenges Continue:** PNB maintained a provision coverage ratio of 64.8% (excluding technical write-offs) in 1QFY23 (1QFY22: 62.9%), which was at the lower end within the peer group. The bank also carried almost 100% provisions against its exposures to the National Company Law Tribunal (NCLT)-1 and -2 lists and 97.8% against the overall NCLT exposure in 1QFY23. In 1QFY23, its gross non-performing assets and net non-performing assets continued

to decline but remained elevated at 11.27% and 4.28%, respectively, (1QFY22: gross non-performing assets at 14.33% and net non-performing assets at 5.84%) compared to peers. Furthermore, the special mention accounts-2 pools accounted for 0.27% of the net advances in 1QFY23 along with a COVID-19 restructuring pool of INR147.0 billion and emergency credit line guarantee scheme disbursements of INR184.6 billion (together 4.7% 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 Govt'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](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## Company Profile

PNB had a domestic branch network of 10,058 branches, two international branches and 13,219 automated teller machines as of June 2022. Of the existing branches, 38% are located in rural areas, 25% in semi-urban and the balance 37% 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](http://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

| Instrument Type             | Current Rating/Outlook |                        |                        |                        |                        |                        |
|-----------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                             | Rating Type            | Rated Limits (billion) | Rating                 | 22June2022             | 24December 2021        | 16November 2021        |
| 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+ |
| Basel III Tier 2 bonds      | Long-term              | INR115                 | IND AAA/Stable         | IND AAA/Stable         | IND AAA/Stable         | IND AAA/Stable         |
| Basel III AT1 bonds         | Long-term              | INR89.95               | IND AA+/Stable         | IND AA+/Stable         | IND AA+/Stable         | IND AA+/Stable         |
| Senior infrastructure bonds | Long-term              | INR20                  | IND AAA/Stable         | IND AAA/Stable         | IND AAA/Stable         | IND AAA/Stable         |
| Fixed Deposit               | Long-term              |                        | IND AAA/Stable         | IND AAA/Stable         |                        |                        |
| Certificate of Deposit      | Short-term             | INR600                 | IND A1+                | 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 XI     | INE160A08134 | 25 July 2017     | 8.98            | Perpetual     | INR15                   | WD (Paid in Full) |
| 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    |
| Basel III AT1 bonds series XV     | INE160A08225 | 6 July 2022      | 8.75            | Perpetual     | INR20.00                | IND AA+/Stable    |
| Total utilised                    |              |                  |                 |               |                         | INR79.66          |
| Total unutilised                  |              |                  |                 |               |                         | INR10.29          |
| 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<br>series XVII   | INE160A08043  | 9 September 2014  | 9.35 | 9 September<br>2024  | INR5     | IND AAA/Stable |
| Basel III Tier 2 bonds<br>series XVIII  | INE160A08050  | 30 September 2014 | 9.25 | 30 September<br>2024 | INR10    | IND AAA/Stable |
| Basel III Tier 2 bonds<br>Series XIX    | INE160A08092  | 5 February 2016   | 8.65 | 5 February<br>2026   | INR15    | IND AAA/Stable |
| Basel III Tier 2 bonds<br>Series XX     | INE160A08142  | 26 December 2019  | 8.15 | 26 December<br>2029  | INR15    | IND AAA/Stable |
| Basel III Tier 2 bonds<br>Series XXI    | INE160A08159  | 29 July 2020      | 7.25 | 29 July 2030         | INR9.94  | IND AAA/Stable |
| Basel III Tier 2 bonds<br>Series XXII   | INE160A08167  | 14 October 2020   | 7.25 | 14 October<br>2030   | INR15    | IND AAA/Stable |
| Basel III Tier 2 bonds<br>Series XXIII  | INE160A08175  | 11 November 2020  | 7.10 | 11 November<br>2030  | INR15    | IND AAA/Stable |
| Basel III Tier 2 bonds<br>Series XXIV   | INE160A08191  | 18 November 2021  | 7.10 | 18 November<br>2031  | INR19.19 | IND AAA/Stable |
| Total utilised                          |               |                   |      |                      |          | INR114.13      |
| Total unutilised                        |               |                   |      |                      |          | INR0.87        |
| Senior infrastructure<br>bonds Series I | INE160A 08068 | 9 February 2015   | 8.23 | 9 February<br>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>.

## Contact

### Primary Analyst

Karan Gupta

Director

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051

+91 22 40001744

For queries, please contact: [infogrp@indiaratings.co.in](mailto:infogrp@indiaratings.co.in)

**Secondary Analyst**

Ankit Jain  
Senior Analyst  
+91 22 40356160

**Chairperson**

Jindal Haria  
Director  
+91 22 40001750

**Media Relation**

Ankur Dahiya  
Senior Manager – Corporate Communication  
+91 22 40356121

**APPLICABLE CRITERIA**

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**Evaluating Corporate Governance**

**Rating Bank Subordinated and Hybrid Securities**

**Financial Institutions Rating Criteria**

**Rating FI Subsidiaries and Holding Companies**

**The Rating Process**

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