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Date: 20.01.2023

Dear Sir(s),

### Reg.: Rating Action by Moody's Investors Service

Pursuant to Regulation 30 and 51 of SEBI (LODR) Regulations, 2015, the Exchange is hereby informed that Moody's Investors Service vide its rating action dated 20.01.2023 has upgraded the Long-Term Local and Foreign Currency Bank Deposit ratings of the Bank from 'Ba1' to 'Baa3' and the Baseline Credit Assessment (BCA) from 'b1' to 'ba3'. The outlook on the long-term ratings of the Bank has remained stable.

A copy of the Rating Action is enclosed herewith.

The above is for your information and record please.

Thanking You,

Yours faithfully,

(Ekta Pasricha)  
Company Secretary

Encl.: A/a



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पंजाब नैशनल बैंक **punjab national bank**

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पंजाब नैशनल बैंक **punjab national bank**  
...भरोसे का प्रतीक ! ...the name you can BANK upon !

**Rating Action: Moody's takes positive rating actions on four Indian public sector banks**

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20 Jan 2023

Singapore, January 20, 2023 -- Moody's Investors Service has affirmed the Baa3 long-term local and foreign currency bank deposit ratings of State Bank of India (SBI). Moody's has also upgraded SBI's Baseline Credit Assessment (BCA) and additional tier 1 securities (AT1) program rating to ba1 and (P)B1 from ba2 and (P)B2, respectively.

At the same time, Moody's has upgraded the long-term local and foreign currency bank deposit ratings of Bank of Baroda (BOB), Canara Bank, and Punjab National Bank (PNB) to Baa3 from Ba1. The BCAs of these three banks were also upgraded to ba3 from b1.

The outlooks on the long-term ratings of all four banks remain stable.

Please click on this link [https://www.moody's.com/viewresearchdoc.aspx?docid=PBC\\_ARFTL472999](https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL472999) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

**RATINGS RATIONALE**

The affirmation of SBI's long-term deposit ratings at Baa3 and upgrade of BOB's, Canara's and PNB's long-term deposit ratings to Baa3 from Ba1 reflect an improvement in India's Macro Profile to Moderate+ from Moderate, the improving credit metrics of the four banks and Moody's continued assumption of a very high level of government support to the banks in times of need.

Credit conditions in India have gradually improved, with a significant reduction in the banks' stock of legacy problem loans over the past three years. Corporates' financial health has also improved following a decade of deleveraging, while stress among non-bank financial institutions has abated. In addition, retail loans have performed well despite pandemic-induced economic stresses, indicating better underwriting quality and relatively low household leverage in India compared to those in many other Asian countries. Still, loans to small and medium-size enterprises continue to pose risks to the banks' asset quality because Moody's expects this segment to be the most vulnerable to interest rate rises.

Furthermore, while India's economic growth will moderate driven by rising rates and a global slowdown, the Indian economy will perform better than emerging market peers. Because of these factors, the operating environment will remain supportive for banks.

The BCA upgrades of the four banks reflect their improved asset quality and profitability. The gross nonperforming loan (NPL) ratios as of the end of September 2022 for SBI, BOB, Canara and PNB declined sharply to 3.5%, 5.3%, 6.4% and 10.5%, respectively, from 10.9%, 12.3%, 11.9% and 18.4% as of the end of March 2018. There has been a corresponding improvement in their net NPL formation rates as well.

Moody's expects the banks' asset quality to be healthy over the next 12-18 months, helped by a supportive operating environment, improved corporate balance sheets, and better retail underwriting quality.

The improvement in asset quality has translated into higher profitability because of lower credit costs. Moody's expects this increase in profitability to be sustainable over the next 12-18 months.

The banks' capitalization has increased over the past two years, driven by capital raisings from equity markets. Their capitalization will remain stable over the next 12-18 months.

Funding and liquidity will remain key credit strengths of these banks given their status as public sector banks in India and linkages with the government, which result in good deposit franchises.

Moody's continues to assume a very high level of government support in these banks' ratings, leading to a one-notch uplift for SBI and three-notch uplift for the three other banks' deposit ratings from their BCAs. SBI is

the largest bank in India by deposit market share, while the other three rank among the seven biggest banks in India, with deposit market shares ranging between 6% and 7%. Their systemic importance is further enhanced by the strong links to the government.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The deposit ratings of these four banks are already at the level of India's sovereign rating of Baa3. As such, the ratings could only be upgraded if the sovereign rating is upgraded.

Moody's could further upgrade SBI's BCA if SBI's core equity capital improves materially, while the bank maintains asset quality and profitability at current levels.

The BCAs of BOB, Canara and PNB could be further upgraded if their asset quality improves structurally, with net NPL formation rates of less than 1% of gross loans on a sustainable basis. Improvements in capital will also be positive for the BCAs.

#### WHAT COULD CHANGE THE RATING DOWN

Moody's could downgrade the BCAs of the four banks if their asset quality deteriorates materially, as reflected in net NPL formation rates being above 2% for a prolonged period, which in turn affects profitability and capital.

Moody's could downgrade the deposit ratings of BOB, Canara and PNB if their BCAs are downgraded.

SBI's deposit ratings could be downgraded if there is a multi-notch downgrade of the BCA.

The deposit ratings of the four banks will be downgraded if the sovereign rating is downgraded.

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

State Bank of India is headquartered in Mumbai and reported consolidated assets of INR56.0 trillion (\$688.6 billion) as of 30 September 2022.

Bank of Baroda is headquartered in Mumbai and reported consolidated assets of INR13.9 trillion (\$171.9 billion) as of 30 September 2022.

Punjab National Bank is headquartered in New Delhi and reported consolidated assets of INR14.0 trillion (\$172.3 billion) as of 30 September 2022.

Canara Bank is headquartered in Bangalore and reported consolidated assets of INR13.3 trillion (\$163.5 billion) as of 30 September 2022.

#### REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link [https://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_ARFTL472999](https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL472999) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Endorsement
- Lead Analyst

- Releasing Office
- Person Approving the Credit Rating

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1288235](https://ratings.moodys.com/documents/PBC_1288235).

The below contact information is provided for information purposes only. For disclosures on the lead rating analyst and the Moody's legal entity that issued the rating, please see the issuer/deal page on <https://ratings.moodys.com> for each of the ratings covered.

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