DECEMBER 13, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE VARIOUS INTRUMENTS OF PUNJAB NATIONAL BANK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Infrastructure Bonds	5,000	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Basel III Compliant Tier II Bonds	2,000	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Perpetual Bonds	2,663	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Upper Tier II Bonds	9,500	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Basel III Compliant Perpetual Tier I Bonds	1,500	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Certificate of Deposit	60,000	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**80,663 (Rupees Eighty Thousand Six Hundred Sixty Three crore only)**		

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds (under Basel II) one notch lower than the Tier II Bonds in view of their increased sensitiveness to the bank's Capital Adequacy Ratio (CAR), capital-raising ability and profitability during the long tenure of the instruments. The ratings for these hybrid instruments factor in the additional risk arising due to the existence of the lock-in clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in clause, would constitute an event of default as per CARE's definition of default and as such, these instruments may exhibit a somewhat sharper migration of the rating compared with conventional subordinated debt instruments.

CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after taking into consideration its key features as below:

- The bank has full discretion at all times to cancel coupon payments.
- The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, coupon may be paid subject to availability of sufficient revenue reserves and / or credit balance in profit and loss account, provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios at all times and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.
- Any delay in the payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared with the conventional subordinated

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

debt instruments.

Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess the rating of Tier II instruments even under Basel II. CARE has rated the Tier II Bonds under Basel III after factoring in the additional feature of PONV.

Rating Rationale

The ratings assigned to the various instruments of Punjab National Bank (PNB) continue to factor in the capital support and majority ownership by the Government of India (GoI), its long track record of operations, adequate capitalization levels and comfortable liquidity and resource profile. These rating strengths are partially offset by PNB's weak asset quality indicators. Going forward, continued ownership and support from GoI, asset quality, profitability and capital adequacy of the Bank would be the key rating sensitivities.

Background

PNB was incorporated under the Indian Companies Act, 1882 (Act VI of 1882) in 1894 as Punjab National Bank Ltd and it commenced operations on April 12, 1895, from Lahore. On June 29, 1947, the registered office of the Bank was shifted from Lahore to New Delhi. The Government of India (GOI) holds majority stake (65.01% as on September 30, 2016) in the bank. The GoI has been supporting public sector banks including PNB with regular capital infusions. During FY16, GoI infused Rs.1,732 crore of fresh equity capital into the bank. The bank has also received Rs.2,112 crore of fresh equity share capital on September 30, 2016 as per Indradhanush scheme. Post nationalization in 1969, PNB has grown substantially to a bank with 6849 branches (including overseas branches) and 9,841 ATMs as on September 30, 2016 catering to a customer base of over 9.5 crore Pan-India. The Bank has four domestic subsidiaries, namely, PNB Gilts Ltd (74.07% stake), PNB Housing Finance Ltd (51.01% stake), PNB Investment Services Ltd (100% stake), PNB Insurance Broking Pvt. Ltd (81% stake) and two international subsidiaries, namely, PNB (International) Ltd., UK (100% stake) and Druk PNB Bank Ltd., Bhutan (51% stake).

During FY16 (refers to the period April 1 to March 31), the bank registered interest income of Rs.47,424 crore, while total income was Rs.54,301 crore and reported net loss of Rs.3,974 crore. CASA ratio of the bank stood at 37.17% as on March 31, 2016. As on March 31, 2016, the Gross NPA ratio and Net NPA ratio stood at 12.90% and 8.61%, respectively.

During H1FY17, the Bank reported net profit of Rs.856 crore on total income of Rs.28,148 crore. As on September 30, 2016, the Gross NPA ratio and Net NPA ratio stood at 13.63% and 9.10%, respectively. Furthermore, capital adequacy ratio (CAR) and Tier-I CAR stood at 11.65% and 8.78%, respectively, as on September 30, 2016.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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