Punjab National Bank

February 20, 2018

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Infrastructure Bonds	5,000	CARE AA+ (Double A Plus) (Under Credit Watch with Developing Implications)	Placed on Credit Watch with Developing Implications
Basel III Compliant Tier II Bonds	2,000	CARE AA+ (Double A Plus) (Under Credit Watch with Developing Implications)	Placed on Credit Watch with Developing Implications
Perpetual Bonds	2,163	CARE AA (Double A) (Under Credit Watch with Developing Implications)	Placed on Credit Watch with Developing Implications
Upper Tier II Bonds	9,000	CARE AA (Double A) (Under Credit Watch with Developing Implications)	Placed on Credit Watch with Developing Implications
Basel III Compliant Perpetual Tier I Bonds	1,500	CARE AA- (Double A Minus) (Under Credit Watch with Developing Implications)	Placed on Credit Watch with Developing Implications
Certificate of Deposit	60,000	CARE A1+ (A One Plus) (Under Credit Watch with Developing Implications)	Placed on Credit Watch with Developing Implications
Total	**79,663 (Rupees Seventy Nine Thousand Six Hundred and Sixty Three Crore only)**		

Details of instruments/facilities in Annexure-1

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 payment may be paid subject to availability of*
  - *i. Profits brought forward from previous years, and/or*
  - *ii. Reserves representing appropriation of net profits, including statutory reserves, and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation.*

  The accumulated losses and deferred revenue expenditure, if any, shall be netted off from (i) and (ii) to arrive at the

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

available balances for payment of coupon.

- However, payment of coupons on PDIs from the reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios including the additional capital requirements for Domestic Systemically Important Banks at all times and subject to the restrictions under the capital buffer frameworks
- 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 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 the rating compared with the conventional subordinated debt instruments.

Detailed Rationale & Key Rating Drivers

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 and with modest financial performance in FY17 and 9M, FY18.
Going forward, continued ownership and support from GoI, asset quality, profitability and capital adequacy of the Bank would be the key rating sensitivities.

The ratings assigned to various instruments of Punjab National Bank have been placed on Credit Watch with Developing Implications following the disclosure by the bank on February 14, 2018 that the bank has detected some fraudulent and unauthorized transactions in one of its branch in Mumbai. The quantum of transactions involved in fraud (USD 1,771.69 million or approximately Rs. 11,400 crore) is large in relation to annual net profits of the bank (Rs.1,325 crore in FY17 & Rs.1,134 crore in 9M, FY18) and CET 1 capital of Rs.39,616 crore as on December 31, 2017. In addition, PNB's fund based exposure to companies of the concerned group could also come under stress following these events. Clarity is yet to emerge on whether entire fraud amount will be absorbed by PNB. Also, clarity is yet to emerge on eventual net losses on this fraud amount and consequent provisioning requirement and timeline for same. Enforcement agencies have seized various assets of the group concerned. CARE will closely follow the developments in this regard and consequent impact on PNB's capitalization profile and will consider taking appropriate rating action in due course.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by the Government of India (GoI)

Government of India is majority shareholder of the bank with holding 57.04% stake in the bank as on December 31, 2017. GoI has been supporting public sector banks including PNB with regular capital infusions.
Further, as part of recapitalization plans of PSU banks, GoI has announced fresh equity capital infusion of Rs. 5,473 crore which is likely to be infused in March-2018.

Long track record of operations with a strong market position

PNB has a long and established track record of 123 years with a network of 6,962 branches (including overseas branches) as on December 31, 2017. PNB continues to be one of the largest nationalized banks in terms of business.

Adequate capitalization levels and comfortable liquidity profile

PNB's capitalization profile remains adequate with total CRAR at 11.58%, Tier-I CAR at 9.15% and CET 1 Ratio at 8.05% as on December 31, 2017 supported by equity capital raising of Rs.5,000 crore through QIP in December 2017. Also, as part of recapitalization plan of PSU banks, GoI has announced capital infusion of Rs. 5,473 crore, which is likely to be infused in March-2018. PNB's liquidity profile is comfortable; as per its Structural Liquidity Statement as on December 28, 2017, the bank has positive cumulative mismatches in all the buckets.

Comfortable resource profile

PNB continues to maintain comfortable resources profile; as on December 31, 2017, total borrowed funds of the bank stood at Rs. 706,791 crore with deposits of Rs.647,998 crore and borrowings of Rs.58,793 crore. Share of deposits in PNB's total resources profile remains healthy at 91.7% as on December 31, 2017. The Global CASA ratio of bank was 41.31% as on December 31, 2017 (41.82% as on March 31, 2017) vs. 37.17% as on March 31, 2016.

Key Rating Weaknesses

Moderate business growth with modest financial performance in FY17 & 9M, FY18

During FY17, total business of PNB registered an increase of 7.8% to Rs. 10,41,197 crore with net advances and deposits

registering y-o-y growth of 1.7% and 12.4%, respectively. Though the average cost of deposits declined to 5.1% in FY17 (from 5.65% in FY16), on account of growth in average CASA, a more than proportionate decline in the average yield on advances to 7.92% in FY17 from 8.69% in FY16, resulted in a reduction in core spread by 21bps to 2.83%. During FY17, Net interest income declined by 2.08% to Rs.14,993 crore. Interest income declined by 0.31% over last year while interest expenses grew by 0.53% resulting in decrease in NIM to 2.19% during FY17. The Bank reported net profit of Rs.1,325 crore during FY17 as against a net loss of Rs.3,974 crore during FY16. As a result the ROTA of Bank has improved to 0.19% in FY17 as against -0.63% in FY16.
As on December 31, 2017, PNB's deposits and advances registered y-o-y growth of 5.9% and 17.2% respectively. During 9MFY18, the bank reported PAT of Rs.1,134 crore on total income of Rs.43,931 crore (vs. PAT of Rs.1.063 crore during 9MFY17) with a ROTA of 0.20%.

Weak asset quality
PNB's asset quality profile remains weak as reflected in high Gross and net NPAs of 12.11% & 7.55% respectively as on December 31, 2017, marginally improved from 12.53% and 7.81% as on March 31, 2017. Furthermore, net stressed assets (Net NPAs+ restructured standard assets + security receipts) of Rs. 46,464 crore continue to constitute a high proportion of tangible net worth at 145.55% as on March 31, 2017 (PY: 183.58%).

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for placing rating on credit watch
CARE's Rating Methodology for Banks
Financial Sector –Financial Ratios

About the company
Punjab National Bank (PNB) was incorporated under the Indian Companies Act, 1882 (Act VI of 1882) in 1894 as Punjab National Bank Limited and commenced operations on April 12, 1895 from Lahore. It is one of India's largest nationalized banks in terms of business and number of branches. On June 29, 1947 the registered office of the Bank was shifted from Lahore to New Delhi. Post nationalization in 1969, PNB has grown substantially to a bank with 6,957 branches and 9,598 ATMs as on December 31, 2017 throughout the country. Mr. Sunil Mehta, has been appointed as Managing Director and Chief Executive officer from 05th May, 2017. The Bank has three domestic subsidiaries, namely, PNB Gilts Ltd (74.07% 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).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	53,424	56,227
PAT	-3,974	1,325
Total Assets	6,59,928	7,10,479
Net NPA (%)	8.61	7.81
ROTA (%)	-0.63	0.19
Capital Adequacy Ratio (%)	11.28	11.66

A: Audited
Note: Total Assets (excluding DTA and Revaluation Reserve)

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Perpetual Bonds	11.12.2007	8.9-9.75%	19.01.2019	900.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Upper Tier II	21.04.2009	8.37-8.8%	27.11.2024	2000.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Perpetual Bonds	28.08.2009	9-9.15%	27.11.2019	700.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Upper Tier II	12.12.2007	8.95-9.35%	18.12.2023	1000.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Upper Tier II	18.02.2009	9.15%	18.02.2024	1000.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Upper Tier II	24.05.2010	8.5%	24.05.2025	3000.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Upper Tier II	5.3.2008	9.35-10.85%	29.9.2023	2000.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Perpetual Bonds	-	-	Proposed	563.00	CARE AA; (Under Credit watch with developing implications)
Bonds-Tier I Bonds	13.02.2015	9.15%	13.02.2025-	1500.00	CARE AA-; (Under Credit watch with developing implications)
Bonds-Infrastructure Bonds	-	-	Proposed	2000.00	CARE AA+; (Under Credit watch with developing implications)
Bonds-Infrastructure Bonds	09.02.2015	8.23-8.35%	24.03.2025	3000.00	CARE AA+; (Under Credit watch with developing implications)
Bonds-Tier II Bonds	05.02.2006	8.65%	05.02.2026	2000.00	CARE AA+; (Under Credit watch with developing implications)
Certificate Of Deposit	-	-	-	60000.00	CARE A1+; (Under Credit watch with developing implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Perpetual Bonds	LT	900.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
3.	Bonds-Upper Tier II	LT	-	-	1)Withdrawn (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
4.	Bonds-Perpetual Bonds	LT	-	-	1)Withdrawn (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
5.	Bonds-Upper Tier II	LT	2000.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
6.	Bonds-Perpetual Bonds	LT	700.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA	1)CARE AAA (22-Oct-14)

							(29-Oct-15)	
7.	Bonds-Upper Tier II	LT	1000.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
8.	Bonds-Upper Tier II	LT	1000.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
9.	Bonds-Upper Tier II	LT	3000.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
10.	Bonds-Upper Tier II	LT	2000.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
11.	Bonds-Perpetual Bonds	LT	563.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
12.	Certificate Of Deposit	ST	60000.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (13-Dec-16) 2)CARE A1+ (19-Jul-16)	1)CARE A1+ (25-Mar-16) 2)CARE A1+ (29-Oct-15)	1)CARE A1+ (22-Oct-14)
13.	Bonds-Tier I Bonds	LT	1500.00	CARE AA- (Under Credit	1)CARE AA-; Stable	1)CARE AA-; Stable	1)CARE AA (25-Mar-	1)CARE AA+

				watch with Developing Implications)	(06-Oct-17)	(13-Dec-16) 2)CARE AA- (19-Jul-16)	16) 2)CARE AA+ (29-Oct-15)	(27-Jan-15)
14.	Bonds-Infrastructure Bonds	LT	2000.00	CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+; Stable (06-Oct-17)	1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (27-Jan-15)
15.	Bonds-Infrastructure Bonds	LT	3000.00	CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+; Stable (06-Oct-17)	1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (25-Mar-15)
16.	Bonds-Tier II Bonds	LT	2000.00	CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+; Stable (06-Oct-17)	1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Feb-16)	-

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