December 09, 2024 (Revised)

Punjab National Bank: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount	Rating Action
Basel III Tier I Bonds	7,000.00	7,000.00	[ICRA]AA+ (Stable); reaffirmed
Infrastructure Bonds	3,000.00	3,000.00	[ICRA]AAA (Stable); reaffirmed
Basel II Lower Tier II Bonds	175.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Basel III Tier II Bonds	1,000.00	1,000.00	[ICRA]AAA (Stable); reaffirmed
Basel III Tier II Bonds	2,000.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Certificates of Deposit	60,000.00	60,000.00	[ICRA]A1+; reaffirmed
Fixed Deposits	-	-	[ICRA]AAA (Stable); reaffirmed
Total	**73,175.00**	**71,000.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in Punjab National Bank's (PNB) sovereign ownership, its robust deposit franchise, resulting in a high share of retail deposits, and its strong liquidity profile. With the recent capital raise and improved internal capital generation, the capitalisation profile is expected to remain comfortable, with limited need for fresh capital infusion to meet its growth requirements. However, ICRA expects the bank to continue receiving support from the Government of India (GoI), if required. Furthermore, PNB's systemic importance in the Indian banking sector remains high with a market share of 5.9% in net advances and 6.9% in total deposits as on June 30, 2024. Moreover, it is the third largest public sector bank (PSB) and the fifth largest bank, as on September 30, 2024, in the Indian financial system in terms of net advances.

PNB continues to report an improvement in its headline asset quality indicators, driven by the moderation in the fresh non-performing advances (NPA) generation rate. In addition, the bank has shored up its provision cover on NPAs, leading to a significant improvement in its net NPAs (NNPAs) and solvency[1] profile. With credit costs declining, the profitability levels remain on an improving trajectory. PNB is expected to maintain healthy internal capital generation in the near-to-medium term with credit costs projected to remain under control. ICRA expects PNB to maintain sufficient capital cushions over the regulatory levels, although the impact of the transition to provisioning based on the expected credit loss (ECL) framework and the additional provisioning on infrastructure financing on the capital and profitability levels will remain monitorable.

While the vulnerable book, primarily comprising restructured advances, as well as the overdue book (special mention account (SMA)-1 and SMA-2)[2], will be critical from an asset quality and profitability perspective, the same has moderated from the elevated levels in the past. Over and above this, the impact of macro-economic shocks, geopolitical concerns and the emerging stress in the retail sector will be monitorable. Nevertheless, ICRA expects the bank's operating profit to be sufficiently above the credit provisions in case any stress materialises.

Apart from the comfortable capital position, the rating for the Additional Tier-I (AT-I) bonds factors in the healthy level of distributable reserves (DRs), which can be used to service the coupon on these bonds in the unforeseeable event of a loss. The

[1] Solvency defined as (NNPAs + Net security receipts + Net non-performing investments) / Core capital

[2] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

Stable outlook on the ratings reflects ICRA's expectation that the bank will be able to maintain a steady credit profile, with stable asset quality as well as healthy profitability and capitalisation.

ICRA has withdrawn the rating assigned to the Rs. 2,000-crore Basel III Tier II bonds as these bonds have been fully redeemed with no amount outstanding against the same. ICRA has also withdrawn the rating assigned to the Rs. 175-crore Basel II Lower Tier II bonds at the bank's request as it has not utilised the same and no amount is outstanding against the same. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Sovereign ownership with demonstrated capital support from GoI – The GoI remains PNB's largest shareholder, accounting for a 70.08% equity stake as on September 30, 2024. Its stake declined from 85.59% as on September 30, 2020 after three rounds of equity capital raising, totalling Rs. 10,588 crore, from the markets in FY2021 and FY2022 as well as Rs. 5,000 crore that was raised in H1 FY2025. This follows the large capital support received by PNB and other amalgamating banks {erstwhile Oriental Bank of Commerce (e-OBC) and United Bank of India (e-UBI)} from the GoI during FY2018-FY2020 (Rs. 55,274 crore).

Following PNB's merger with e-UBI and e-OBC, its overall market share increased and stood at 5.9% of advances and 6.9% of total deposits as on June 30, 2024. This signifies its growing systemic importance in the Indian banking system, although it is not classified as a domestic systemically important bank (D-SIB). While the bank has raised capital over the last few years, internal capital generation has also improved, thereby limiting its capital dependence on the GoI. Nevertheless, ICRA expects PNB to continue receiving support from the GoI if required.

Comfortable capitalisation levels; solvency profile improves – The bank's core equity capital (CET I) and Tier I capital stood at 11.59%[3] and 13.63%, respectively, as on September 30, 2024 (10.23% and 12.02%, respectively, as on September 30, 2023). While the capitalisation profile was supported by infusions in the past, PNB remained profitable during FY2021-H1 FY2025 after incurring huge losses in prior years, which had led to capital erosion. With the increase in the provision coverage ratio (PCR) on stressed assets, the solvency level improved to 5.25% as on September 30, 2024 from 20.06% as on September 30, 2023. Going forward, ICRA expects the bank to sustain the improvement in the solvency level, which will also be key from a credit perspective.

ICRA expects the bank to maintain healthy internal capital generation to meet its growth requirements. Its capital position is thus expected to remain well above the negative triggers. Besides this, the subsidiaries largely remain self-sufficient in meeting their capital requirements although a few may require capital support, which is likely to remain manageable in relation to the bank's profits and existing capital levels. Notwithstanding the adequate internal accruals and capital position for growth, the Reserve Bank of India's (RBI) implementation of the ECL framework for credit exposures and the additional provisioning on infrastructure financing remain monitorable for the capital position.

Earnings profile continues to improve steadily – PNB's operating profit declined slightly to 1.61% of average total assets (ATA) in FY2024 from 1.71% in FY2023 on account of lower non-interest income and higher employee expenses (wage revision impact) but was largely comparable with the public sector bank (PSB) average of 1.63% in FY2024. The trend continued in H1 FY2025 with the operating profitability declining amid the elevated cost of funds. However, with the improving asset quality indicators and the higher PCR, the credit cost continued to decline in FY2024 and H1 FY2025. As a result, the return on assets (RoA) improved to 0.94% (annualised) in H1 FY2025 and 0.55% in FY2024 from 0.18% in FY2023. Although ICRA expects the profitability to moderate slightly from the currently high level, it is likely to remain healthy.

Well-developed deposit franchise – The bank's overall deposit base grew by 11.3% year-on-year (YoY) to Rs. 14.58 lakh crore as on September 30, 2024. The share of PNB's deposits in the banking system stood at 6.9% as on September 30, 2024, supported by its extensive network of 10,159 domestic branches. Further, its current account and savings account (CASA) base

[3] *Capital ratios exclude interim profits*

stood at 39.31% of the total deposits as on September 30, 2024, which was in line with the PSB average of 37.4% (as of June 2024) during this period.

Besides the reasonably high share of CASA deposits, the share of the top 20 depositors in total deposits remained low at 5.07% as on March 31, 2024. The granular deposit base and the high share of CASA deposits continue to strengthen the bank's resource and liquidity profile while keeping the overall cost of interest-bearing funds in line with the PSB average at 4.99%[4] in H1 FY2025 (PSB average – 5.15% in Q1 FY2025). Given its strong core deposit base, widespread branch network, and comfortable credit-to-deposit ratio of 72.82% as on September 30, 2024, ICRA expects PNB's liability profile to remain a significant positive for supporting its credit growth while maintaining strong liquidity and profitability.

Credit challenges

Asset quality remains monitorable – The gross annualised fresh NPA generation rate moderated to 0.85% of standard advances in H1 FY2025 (1.02% in FY2024, 2.51% in FY2023, 3.89% in FY2022, 4.21% in FY2021). Apart from this, the bank's GNPA declined to 4.48% as on September 30, 2024 from 6.96% as on September 30, 2023 on account of lower slippages and significant write-offs in FY2024 and H1 FY2025. Further, the increase in the PCR to 90.18% (excluding written-off accounts) as on September 30, 2024 from 80.00% as on September 30, 2023 led to an improvement in the NNPA level to 0.46% from 1.47% during this period.

While PNB's vulnerable pool, as indicated by SMA-1, SMA-2 and standard restructured advances, has moderated, it remains high in relation to the core capital. The performance of the vulnerable book and the impact of macro-economic shocks, geopolitical concerns, and emerging stress in the retail sector on the servicing abilities of many borrowers will be key monitorable factors where the asset quality is concerned.

Environmental and social risks

While banks like PNB do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into credit risks for banks. However, such risk is not material for PNB as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure. PNB has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. PNB has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

The bank's liquidity profile remains strong, as depicted by the positive cumulative mismatches in the up to 1-year maturity bucket as per the structural liquidity statement for September 30, 2024. This is supported by the high share of core deposits and the excess statutory liquidity ratio (SLR) position. The liquidity coverage ratio remained strong at 129% (daily average for Q2 FY2025) while the reported net stable funding ratio (NSFR) stood at 131.9% in Q2 FY2025 against the regulatory requirement of 100%. Supported by its sovereign ownership, healthy liabilities profile and excess SLR holdings, ICRA expects PNB to continue maintaining a strong liquidity profile. The excess SLR holding above the regulatory level can be utilised to avail liquidity support from the RBI (through repo) apart from the marginal standing facility of the RBI in case of urgent liquidity requirement.

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[4] *As per ICRA's calculations*

Rating sensitivities

Positive factors – Not applicable as all the ratings are at the highest level for the respective instruments

Negative factors – The ratings will be reassessed in case of a change in the sovereign ownership. ICRA could also downgrade the ratings if the bank's solvency profile weakens with net stressed assets/core capital exceeding 40% on a sustained basis. Further, an RoA of less than 0.3% and/or a decline in the capital cushions over the regulatory levels to less than 100 basis points (bps) on a sustained basis will remain negative triggers. A sharp deterioration in the profitability and weakening of the distributable reserves (DRs) eligible for the coupon payment on the AT-I bonds will be negative triggers for the rating for these bonds.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions Policy on Withdrawal of Credit Ratings
Parent/Group support	The ratings factor in PNB's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support the bank with capital infusions, if required.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of PNB. However, in line with ICRA's consolidation approach, the standalone assessment of the bank factors in the ordinary and extraordinary support it is expected to extend to its various subsidiaries/joint ventures.

About the company

Incorporated in 1894, Punjab National Bank merged with erstwhile United Bank of India (e-UBI) and erstwhile Oriental Bank of Commerce (e-OBC) on April 1, 2020 to form the third largest PSB and the fifth largest bank in the Indian banking system in terms of net advances as on September 30, 2024. The bank had a market share of 5.9% and 6.9% in net advances and total deposits, respectively, as on June 30, 2024, with the GoI holding a majority stake (70.08% as on September 30, 2024). It had a network of 10,159 domestic branches and 12,040 ATMs as on September 30, 2024.

Key financial indicators (standalone)

Punjab National Bank	FY2023	FY2024	H1 FY2025
Total income^	47,772	52,777	27,099
Profit after tax	2,507	8,245	7,555
Total assets (Rs. lakh crore)*	14.53	15.54	16.77
CET I	11.22%	11.04%	11.59%#
CRAR	15.50%	15.97%	16.36%#
PAT/ATA	0.18%	0.55%	0.94%
Gross NPAs	8.73%	5.73%	4.48%
Net NPAs	2.72%	0.73%	0.46%

Source: PNB, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore unless mentioned otherwise
^ Total income = Net interest income + Non-interest income (excluding trading gains)
**Total assets and net worth exclude revaluation reserves*
#Excluding profits for the period

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Dec 09, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Certificates of Deposit	Short term	60,000.00	[ICRA]A1+	12-Dec-23	[ICRA]A1+	22-Nov-22	[ICRA]A1+	26-Nov-21	[ICRA]A1+
				23-Nov-23	[ICRA]A1+	08-Jun-22	[ICRA]A1+	03-Nov-21	[ICRA]A1+
				10-Aug-23	[ICRA]A1+	-	-	-	-
Fixed Deposits	Long term	-	[ICRA]AAA (Stable)	12-Dec-23	[ICRA]AAA (Stable)	22-Nov-22	[ICRA]AA+ (Stable)	26-Nov-21	MAAA (Stable)
				23-Nov-23	[ICRA]AAA (Stable)	08-Jun-22	[ICRA]AA+ (Stable)	03-Nov-21	MAAA (Stable)
				10-Aug-23	[ICRA]AA+ (Positive)	-	-	-	-
Infrastructure Bonds	Long term	3,000.00	[ICRA]AAA (Stable)	12-Dec-23	[ICRA]AAA (Stable)	22-Nov-22	[ICRA]AA+ (Stable)	26-Nov-21	[ICRA]AA+ (Stable)
				23-Nov-23	[ICRA]AAA (Stable)	08-Jun-22	[ICRA]AA+ (Stable)	03-Nov-21	[ICRA]AA+ (Stable)
				10-Aug-23	[ICRA]AA+ (Positive)	-	-	-	-
Basel II Lower Tier II Bonds	Long term	175.00	[ICRA]AAA (Stable); withdrawn	12-Dec-23	[ICRA]AAA (Stable)	22-Nov-22	[ICRA]AA+ (Stable)	26-Nov-21	[ICRA]AA+ (Stable)
				23-Nov-23	[ICRA]AAA (Stable)	08-Jun-22	[ICRA]AA+ (Stable)	03-Nov-21	[ICRA]AA+ (Stable)
				10-Aug-23	[ICRA]AA+ (Positive)	-	-	-	-
Basel II Lower Tier II Bonds	Long term	-	-	-	-	22-Nov-22	[ICRA]AA+ (Stable)	26-Nov-21	[ICRA]AA+ (Stable)
				-	-	08-Jun-22	[ICRA]AA+ (Stable)	03-Nov-21	[ICRA]AA+ (Stable)
				10-Aug-23	[ICRA]AA+ (Positive) withdrawn	-	-	-	-
Basel III Tier II Bonds	Long term	1,000.00	[ICRA]AAA (Stable)	12-Dec-23	[ICRA]AAA (Stable)	22-Nov-22	[ICRA]AA+ (Stable)	26-Nov-21	[ICRA]AA+ (Stable)
				23-Nov-23	[ICRA]AAA (Stable)	08-Jun-22	[ICRA]AA+ (Stable)	03-Nov-21	[ICRA]AA+ (Stable)
				10-Aug-23	[ICRA]AA+ (Positive)	-	-	-	-
Basel III Tier II Bonds	Long term	2,000.00	[ICRA]AAA (Stable); withdrawn	12-Dec-23	[ICRA]AAA (Stable)	22-Nov-22	[ICRA]AA+ (Stable)	26-Nov-21	[ICRA]AA+ (Stable)
				23-Nov-23	[ICRA]AAA (Stable)	08-Jun-22	[ICRA]AA+ (Stable)	03-Nov-21	[ICRA]AA+ (Stable)
				10-Aug-23	[ICRA]AA+ (Positive)	-	-	-	-
Basel III Tier I Bonds	Long term	4,000.00	[ICRA]AA+ (Stable)	12-Dec-23	[ICRA]AA+ (Stable)	22-Nov-22	[ICRA]AA (Stable)	26-Nov-21	[ICRA]AA (Stable)
				23-Nov-23	[ICRA]AA+ (Stable)	08-Jun-22	[ICRA]AA (Stable)	-	-
				10-Aug-23	[ICRA]AA (Positive)	-	-	-	-
Basel III Tier I Bonds	Long term	2,000.00	[ICRA]AA+ (Stable)	12-Dec-23	[ICRA]AA+ (Stable)	-	-	-	-

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Dec 09, 2024	Date	Rating	Date	Rating	Date	Rating
				23-Nov-23	[ICRA]AA+ (Stable)	-	-	-	-
Basel III Tier I Bonds	Long term	1,000.00	[ICRA]AA+ (Stable)	12-Dec-23	[ICRA]AA+ (Stable)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed Deposits	Very Simple
Infrastructure Bonds	Very Simple
Basel II Lower Tier II Bonds	Simple
Basel III Tier II Bonds	Highly Complex
Basel III Tier I Bonds	Highly Complex
Certificates of Deposit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating Action
INE160A08019	Basel III Tier II Bonds	Feb-24-2014	9.65%	Feb-24-2024	1,000	[ICRA]AAA (Stable); withdrawn
INE141A08019	Basel III Tier II Bonds	Oct-27-2014	9.20%	Oct-27-2024	1,000	[ICRA]AAA (Stable); withdrawn
INE141A08035	Basel III Tier II Bonds	Oct-26-2015	8.34%	Oct-26-2025	1,000	[ICRA]AAA (Stable)
INE160A08290	Basel III Tier I Bonds	Dec-28-2023	8.55%	Dec-28-2028^	1,153	[ICRA]AA+ (Stable)
INE160A08308	Basel III Tier I Bonds	Mar-22-2024	8.47%	Mar-22-2029^	1,859	[ICRA]AA+ (Stable)
Unplaced	Basel III Tier I Bonds	-	-	-	1,330	[ICRA]AA+ (Stable)
INE160A08209	Basel III Tier I Bonds	Dec-09-2021	8.40%	Dec-09-2026^	2,000	[ICRA]AA+ (Stable)
INE160A08233	Basel III Tier I Bonds	Sep-21-2022	8.30%	Sep-21-2027^	658	[ICRA]AA+ (Stable)
Unplaced	Basel II Lower Tier II Bonds	-	-	-	175	[ICRA]AAA (Stable); withdrawn
INE160A08084	Infrastructure Bonds	Mar-24-2015	8.35%	Mar-24-2025	1,800	[ICRA]AAA (Stable)
Unplaced	Infrastructure Bonds	-	-	-	1,200	[ICRA]AAA (Stable)
-	Fixed Deposits	-	-	-	-	[ICRA]AAA (Stable)
Unplaced*	Certificates of Deposit	-	-	-	43,040	[ICRA]A1+
INE160A16PX2	Certificates of Deposit	Sep-20-2024	7.26%	Dec-12-2024	2,800	[ICRA]A1+
INE160A16PX2	Certificates of Deposit	Sep-20-2024	7.27%	Dec-12-2024	2,000	[ICRA]A1+
INE160A16PX2	Certificates of Deposit	Sep-23-2024	7.26%	Dec-12-2024	50	[ICRA]A1+
INE160A16PX2	Certificates of Deposit	Sep-23-2024	7.25%	Dec-12-2024	125	[ICRA]A1+
INE160A16PY0	Certificates of Deposit	Sep-24-2024	7.26%	Dec-23-2024	1,000	[ICRA]A1+
INE160A16PY0	Certificates of Deposit	Sep-25-2024	7.25%	Dec-23-2024	400	[ICRA]A1+
INE160A16PY0	Certificates of Deposit	Sep-26-2024	7.26%	Dec-23-2024	1,000	[ICRA]A1+
INE160A16PY0	Certificates of Deposit	Sep-26-2024	7.25%	Dec-23-2024	100	[ICRA]A1+
INE160A16OH8	Certificates of Deposit	Feb-01-2024	7.88%	Jan-31-2025	2,310	[ICRA]A1+
INE160A16OH8	Certificates of Deposit	Feb-02-2024	7.88%	Jan-31-2025	725	[ICRA]A1+
INE160A16OH8	Certificates of Deposit	Feb-05-2024	7.84%	Jan-31-2025	800	[ICRA]A1+
INE160A16OH8	Certificates of Deposit	Feb-07-2024	7.88%	Jan-31-2025	200	[ICRA]A1+
INE160A16OH8	Certificates of Deposit	July-26-2024	7.41%	Jan-31-2025	25	[ICRA]A1+
INE160A16OI6	Certificates of Deposit	Feb-07-2024	7.84%	Feb-06-2025	650	[ICRA]A1+
INE160A16OI6	Certificates of Deposit	Feb-07-2024	7.87%	Feb-06-2025	1225	[ICRA]A1+
INE160A16OI6	Certificates of Deposit	Feb-07-2024	7.88%	Feb-06-2025	100	[ICRA]A1+
INE160A16OI6	Certificates of Deposit	Feb-09-2024	7.84%	Feb-06-2025	200	[ICRA]A1+
INE160A16OI6	Certificates of Deposit	Feb-09-2024	7.88%	Feb-06-2025	1,475	[ICRA]A1+
INE160A16OI6	Certificates of Deposit	Feb-12-2024	7.84%	Feb-06-2025	500	[ICRA]A1+
INE160A16OI6	Certificates of Deposit	Jul-25-2024	7.41%	Feb-06-2025	625	[ICRA]A1+
INE160A16QJ9	Certificates of Deposit	Nov-18-2024	7.18%	Feb-17-2025	500	[ICRA]A1+
INE160A16QJ9	Certificates of Deposit	Nov-18-2024	7.17%	Feb-17-2025	150	[ICRA]A1+

Source: Punjab National Bank

**Certificates of deposit are outstanding as on November 22, 2024*

^Call option due date

Key features of rated debt instruments

The servicing of the Basel II Lower Tier II bonds, Basel III Tier II bonds, infrastructure bonds, fixed deposits and certificates of deposit is not subject to any capital ratios and profitability. However, the Basel III Tier II bonds and Basel III Tier I bonds (AT-I bonds) are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. The Basel III bonds have equity-like loss-absorption features. Such features may translate into higher loss severity vis-à vis conventional debt instruments.

The rated AT-I bonds have the following loss-absorption features that make them riskier:

- Coupon payments are non-cumulative and discretionary, and the bank has full discretion at all times to cancel coupon payments. Cancellation of discretionary payments shall not be an event of default.
- Coupons can be paid out of the current year's profits. However, if the current year's profit is not sufficient or if the payment of the coupon is likely to result in a loss, the coupon payment can be made through the reserves and surpluses created

through the appropriation of profits (including statutory reserves). The coupon payment is subject to the bank meeting the minimum regulatory requirements for CET I, Tier I and total capital ratios (including capital conservation buffer, CCB) at all times as prescribed by the RBI under the Basel III regulations.

These Tier I bonds are expected to absorb losses through the write-down mechanism at the objective prespecified trigger point fixed at the bank's (CET I) ratio as prescribed by the RBI, i.e. 6.125% of the total risk-weighted assets (RWAs) of the bank or when the PONV trigger is breached in the RBI's opinion.

Given the above distinguishing features of the Tier I bonds, ICRA has assigned a one notch lower rating to these than the rating on the Tier II instruments. The DRs[5] that can be used for servicing the coupon in a situation of inadequate profit or a loss during the year stood at a comfortable 5.17% of RWAs as on March 31, 2024. The rating on the Tier I bonds continues to be supported by the bank's capital profile, which is likely to remain comfortable given its healthy capital-raising ability and the expectation that it will remain profitable. However, the transition to the ECL framework and its impact on the capital and DRs remain monitorable.

[5] *Calculated as per the amendment in Basel III capital regulations for Tier I bonds by the RBI, vide its circular dated February 2, 2017. As per the amended definition, DRs include all reserves created through appropriations from the profit and loss account*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership^	Consolidation Approach[6]
PNB Cards & Services Ltd.	100.00%	Full Consolidation
PNB Investment Services Ltd.	100.00%	Full Consolidation
PNB International Ltd.	100.00%	Full Consolidation
PNB Gilts Ltd.	74.07%	Full Consolidation
Druk PNB Bank Ltd., Bhutan	51.00%	Full Consolidation
JSC Tengri Bank*	41.64%	Full Consolidation
Dakshin Bihar Gramin Bank, Patna	35.00%	Full Consolidation
Sarva Haryana Gramin Bank, Rohtak	35.00%	Full Consolidation
Himachal Pradesh Gramin Bank, Mandi	35.00%	Full Consolidation
Punjab Gramin Bank, Kapurthala	35.00%	Full Consolidation
Prathama UP Gramin Bank, Moradabad	35.00%	Full Consolidation
Assam Gramin Vikas Bank, Guwahati	35.00%	Full Consolidation
Bangiya Gramin Vikash Bank, Murshidabad	35.00%	Full Consolidation
Manipur Rural Bank, Imphal	35.00%	Full Consolidation
Tripura Gramin Bank, Agartala	35.00%	Full Consolidation
PNB Housing Finance Ltd.	28.11%	Full Consolidation
PNB MetLife India Insurance Ltd.	30.00%	Full Consolidation
Canara HSBC OBC Life Insurance Ltd.	23.00%	Full Consolidation
India SME ARC Ltd. (ISARC)	20.90%	Full Consolidation
Everest Bank Ltd.	20.02%	Full Consolidation

Source: PNB, ICRA Research; ^ Ownership as on September 30, 2024
** Under liquidation*

Corrigendum:

Rationale dated December 09, 2024, has been revised with the following changes:

- Description of symbol '*' and '^' in **Annexure I: Instrument details** table was missing and has now been added.

[6] *For ICRA's analysis*

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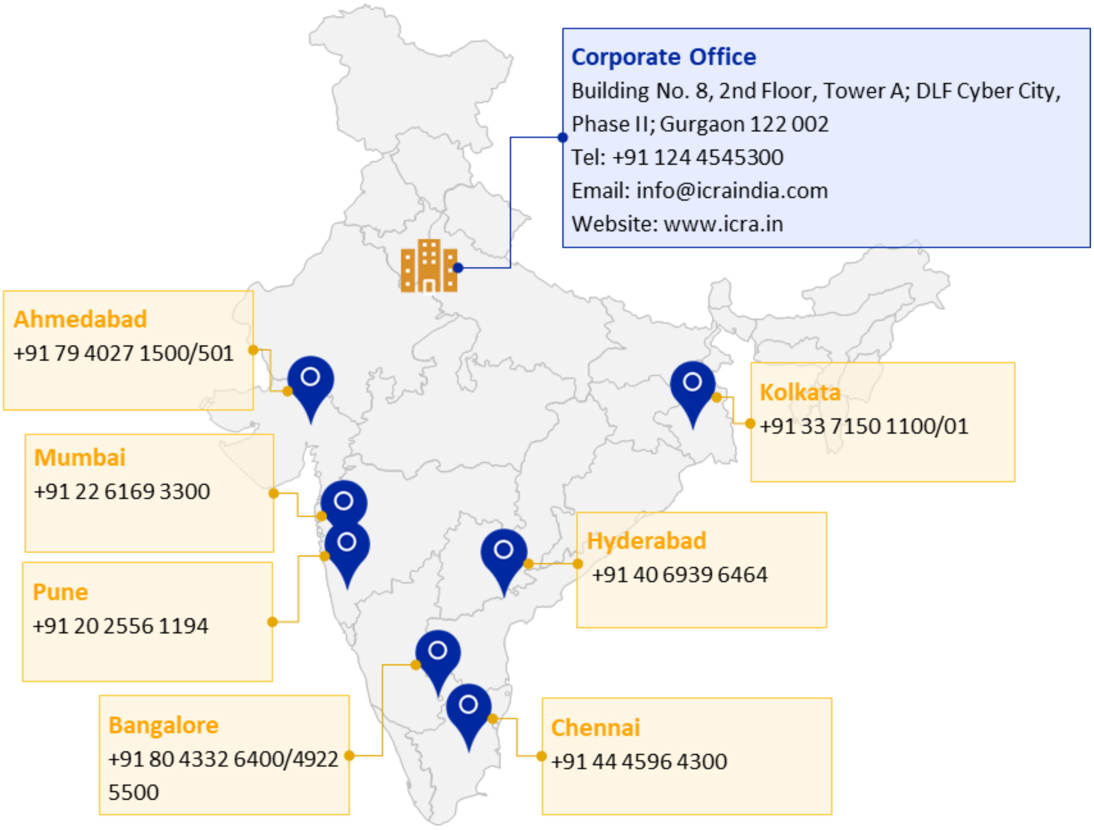

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