

December 24, 2025

## City Union Bank Limited: Ratings reaffirmed and amount enhanced for certificates of deposit programme

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer Rating <sup>^</sup>	-	-	[ICRA]AA (Stable); reaffirmed
Certificates of deposit	25.00	2,000.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
<b>Total</b>	<b>25.00</b>	<b>2,000.00</b>	

\* Instrument details are provided in Annexure I

<sup>^</sup> Issuer Rating is an opinion on the general creditworthiness of the rated issuer and is not specific to any particular debt instrument

### Rationale

The rating action continues to factor in City Union Bank's (CUB) steadily improving profitability and asset quality, along with its strong capitalisation profile (core equity tier I (CET I) ratio of 20.71%<sup>1</sup> as on September 30, 2025), while it continues to expand its scale of operations. Further, the bank's established retail franchise comprises a reasonably granular asset and liability base, which is expected to be maintained, thereby supporting its liquidity profile. Moreover, CUB was able to maintain its net interest margin (NIM) as a percentage of average total assets (ATA) in H1 FY2026 at 3.2% (3.1% in FY2025; 3.2% in H1 FY2025) on account of the faster repricing of its deposit base and advances. This was despite the current declining interest rate scenario and the compression in NIMs witnessed across the sector. The bank's steady NIMs resulted in healthy return metrics, further supported by benign credit loss provisions. However, the relatively lower share of current account and savings account (CASA) deposits in total deposits keeps the cost of interest-bearing funds relatively above the private sector banks' (PVB) average. ICRA also notes the operational changes the bank is required to undertake in its gold loan portfolio, which contributes the largest share to its advances, owing to the scheduled implementation of regulatory guidelines from April 1, 2026. Nevertheless, ICRA expects CUB to manage these changes comfortably with limited disruption to its operations. In addition, given its healthy capital and profitability profile, the impact of the proposed transition to expected credit loss (ECL) based loan loss provisioning is expected to be manageable.

ICRA also notes the continued improvement in CUB's headline asset quality metrics and the declining share of vulnerable loans {overdue loan accounts, i.e., SMA<sup>2</sup>-1 and SMA-2 advances, and standard restructured advances}. However, the overall vulnerable book remained sizeable at 4.2% of standard advances as on June 30, 2025. The performance of the residual vulnerable book will continue to be a near-to-medium-term monitorable, especially against the backdrop of the current geopolitical scenario. Nevertheless, CUB is expected to remain well placed to absorb these shocks through its operating profitability. ICRA also expects the bank to stay sufficiently capitalised with no regulatory or growth capital requirements in the near-to-medium term. Additionally, the high regional concentration of CUB's operations and the moderating yet sizeable share of the top 20 depositors in total deposits, compared with peer banks, remain constraining factors from a credit perspective.

<sup>1</sup> Excluding interim period profits

<sup>2</sup> 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. The SMA-level data is for the entire bank, including exposures below Rs. 5 crore

The Stable outlook on the long-term rating reflects ICRA's expectation that CUB will be able to maintain healthy earnings, supported by steady asset quality, along with comfortable capital cushions that are expected to remain above the negative triggers.

## Key rating drivers and their description

### Credit strengths

**Strong capitalisation profile supported by healthy internal accruals** – CUB's capitalisation profile remains strong, with CET I and Tier I capital ratios of 20.71% each as on September 30, 2025 (21.98% each as on September 30, 2024), comfortably higher than the respective regulatory requirements of 8.0% and 9.5%. The capital ratios continue to be supported by healthy internal accruals and the lower risk-weighted density of assets, aided by the high share of gold loans (carrying zero risk weight) in the overall loan book. Further, internal capital generation has been healthy and sufficient to support credit growth since the last capital raise in FY2015. The strong capital position will act as a cushion against expected slippages from the vulnerable book over the near-to-medium term. In addition, given its healthy capital and profitability profile, the impact of the proposed transition to ECL-based loan loss provisioning is expected to be manageable.

**Earnings profile remains healthy** – CUB's NIMs remained steady at 3.2% of ATA in H1 FY2026 (3.1% in FY2025), mainly on account of the faster repricing of its deposit base than its advances. Nonetheless, the bank's NIMs continue to be lower than the PVB average (3.6% in FY2025) owing to the comparatively higher funding cost and sizeable share of relatively low-yielding gold loans. NIMs, however, continue to be supported by the granular nature of the loan book to micro, small and medium enterprises (MSMEs). The share of low-yielding gold loans (including agriculture loans backed by gold) too remained high, accounting for 28% of gross advances as on September 30, 2025 (25% as on September 30, 2024).

The net profitability continued to be supported by benign credit costs of 0.3% (annualised) in H1 FY2026 (0.3% in FY2025). As a result, the return on assets (RoA) remained healthy and improved further to 1.6% in H1 FY2026 from 1.5% in FY2025. The lower credit costs are also linked to high recoveries from non-performing advances (NPAs), given the granular and secured loan book. Going forward, with the expected uptick in the slippage rate and the slowdown in recoveries/upgrades, credit costs are likely to normalise. Despite this, profitability is expected to remain healthy.

**Granular asset and liability base** – CUB has an established retail franchise with more than 120 years of operations in South India. The top 20 exposures accounted for ~38% of Tier I capital as on March 31, 2025 (~35% as on March 31, 2024). Similarly, CUB has a strong retail deposit franchise with limited dependence on bulk deposits. More than 67% of the term deposits as on June 30, 2025 had a ticket size of less than Rs. 1 crore (73% as on June 30, 2024).

Despite its limited dependence on bulk deposits, the bank's cost of average interest-bearing funds remained high at 5.73% in H1 FY2026 (5.64% in H1 FY2025; 5.55% in FY2025) compared with the PVB average (5.53% in FY2025). This was on account of the relatively lower share of CASA deposits in the overall deposit base (28.1% as on September 30, 2025; 29.4% as on September 30, 2024).

### Credit challenges

**Asset quality remains monitorable** – The annualised gross fresh NPA generation moderated to 1.37% in H1 FY2026 from 1.83% in FY2025 (2.41% in FY2024 and 3.39% in FY2023). Meanwhile, recoveries and upgrades remained strong, resulting in a steady improvement in the headline asset quality metrics, with gross NPAs (GNPAs) and net NPAs (NNPAs) at 2.42% and 0.90%, respectively, as on September 30, 2025 (3.54% and 1.62%, respectively, as on September 30, 2024). Strong recoveries and upgrades also resulted in muted credit loss provisions, which stood at 0.3% of ATA in H1 FY2026 (0.3% in FY2025; 0.5% in FY2024).

Despite satisfactory asset quality metrics, the overall vulnerable book remained sizeable at 4.2% of standard advances as on June 30, 2025, although it witnessed sustained reduction from the higher level of 12.8% as on March 31, 2022. The asset quality remains monitorable as the loan book seasons amid high loan growth in the past year. Additionally, given the high share of exposure (~40% as of September 2025) to MSMEs, some of which are in export-oriented sectors, the prevailing geopolitical

conditions, tariff impact on exports, overleveraging among retail borrowers, and broader macroeconomic shocks could adversely affect the asset quality metrics. Moreover, the high share of gold loans in the total portfolio makes CUB's asset quality vulnerable to a sharp decline in gold prices, though adequate loan-to-value (LTV) ratios across gold loans provide comfort. Nonetheless, ICRA expects that CUB's healthy operating profitability and strong capital position will help it absorb asset quality pressures in the coming years while maintaining a strong capital profile.

The bank's cash credit (CC) and demand loans grew by more than 16% YoY as on September 30, 2025 compared with the overall book growth of 18%. Accordingly, its share in the total loan book remained high relative to the banking sector at 64% as on September 30, 2025 (64% as on September 30, 2024). As borrowers are required to service only the interest on such loans, the asset quality will remain monitorable. However, most of these loans are secured, though a decrease in the collateral value due to inventory ageing or a fluctuation in the asset value, including gold prices, could lead to asset quality challenges.

**Geographically concentrated operations** – CUB's operations remain geographically concentrated, with ~83% of its total branches (889) located in southern India and 63% in Tamil Nadu as on September 30, 2025. As a result, 86% of its advances and 90% of its deposits were from southern India (67% and 78%, respectively, from Tamil Nadu) as on the same date. Moreover, the share of the top 20 deposits in total deposits increased to 12.13% as on March 31, 2025 (8.67% as on March 31, 2024), remaining comparatively higher than peer banks. This exposes its assets and liabilities to local socio-economic and political risks. ICRA expects the bank's operations to remain regionally concentrated and it is unlikely to improve in the medium term.

## Environmental and social risks

While banks like CUB do not face material physical climate risks, they are indirectly exposed to environmental risks through their asset portfolios. If entities or businesses to which banks and financial institutions have exposure face business disruptions due to physical climate adversities or transition risks arising from technological, regulatory or customer behaviour changes, these could translate into credit risks. However, such risks are not material for CUB, as it benefits from adequate portfolio diversification. Moreover, its 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. CUB has not faced such lapses over the years, underscoring its sensitivity to these risks. It operates responsibly in terms of selling practices, with no instances of regulatory fines for misconduct. Customer preference is increasingly shifting towards digital banking, providing opportunities to reduce operating costs. CUB has been at the forefront of 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 steadily improving asset quality numbers.

## Liquidity position: Strong

CUB's liquidity profile remains strong, with excess statutory liquidity ratio (SLR) holdings of 7.6% of net demand and time liabilities (NDTL) as on September 19, 2025, partly supporting the positive cumulative gaps across all near-term maturity buckets as per the structural liquidity statement as on September 15, 2025. The bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stood at 116% and 141%, respectively, in Q2 FY2026, well above the regulatory requirement of 100%. In addition, access to call money markets and the Reserve Bank of India's (RBI) repo and marginal standing facility (MSF) in case of urgent liquidity needs aid CUB's liquidity profile.

## Rating sensitivities

**Positive factors** – Material improvement in the scale of operations and achieving meaningful geographical diversification, while maintaining healthy asset quality and profitability, will be positive triggers.

**Negative factors** – Pressure on the capitalisation profile, with the cushion over the regulatory Tier I capital adequacy falling below 2% on a sustained basis, will be a negative trigger. Further, the inability to internally generate growth capital (RoA below 1.0%) or a deterioration in the liability franchise will also be a negative trigger.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Rating Methodology for Banks and Financial Institutions</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of CUB

## About the company

Incorporated as The Kumbakonam Bank Limited in 1904, CUB is one of the oldest private sector banks, with its headquarters in Kumbakonam, Tamil Nadu. As on September 30, 2025, it had a network of 889 branches and 1,709 ATMs, with about 83% of its branches located in South India. About 57% of its branches were in semi-urban and rural areas as on September 30, 2025.

CUB reported a capital adequacy ratio of 21.68% (Tier I: 20.71%) and gross and net NPAs of 2.42% and 0.90%, respectively, as on September 30, 2025. In H1 FY2026, the bank reported a net profit of Rs. 635 crore on an asset base of Rs. 84,402 crore compared with a net profit of Rs. 550 crore on an asset base of Rs. 71,366 crore in H1 FY2025. CUB had a market share of 0.3% in net advances and total deposits as on September 30, 2025.

## Key financial indicators (standalone)

City Union Bank	FY2024	FY2025	H1 FY2026
Total income	2,813	3,165	1,738
Profit after tax	1,016	1,124	635
Total assets (Rs. lakh crore)	0.71	0.78	0.84
CET I	22.69%	22.70%	20.71%*
CRAR	23.73%	23.75%	21.68%*
PAT/ATA	1.48%	1.51%	1.57%^
Gross NPAs	3.99%	3.09%	2.42%
Net NPAs	1.97%	1.25%	0.90%

Source: City Union Bank, ICRA Research; Amount in Rs. crore unless mentioned otherwise; All ratios as per ICRA's calculations; ^ Annualised  
\*CET I and CRAR exclude profits for H1; Total income = Net interest income + Non-interest income (excluding trading gains)

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Current (FY2026)					Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Dec-24-2025	Date	Rating	FY2025		FY2024		FY2023	
						Date	Rating	Date	Rating	Date	Rating
<b>Issuer Rating</b>	Long term	-	[ICRA]AA (Stable)	Nov-21-2025	[ICRA]AA (Stable)	Nov-28-2024	[ICRA]AA- (Positive)	Nov-09-2023	[ICRA]AA- (Stable)	Nov-17-2022	[ICRA]AA- (Stable)
<b>Certificates of deposit</b>	Short term	2,000	[ICRA]A1+	Nov-21-2025	[ICRA]A1+	Nov-28-2024	[ICRA]A1+	Nov-09-2023	[ICRA]A1+	Nov-17-2022	[ICRA]A1+

## Complexity level of the rated instruments

Instrument	Complexity indicator
<b>Issuer Rating</b>	NA
<b>Certificates of deposit</b>	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	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	<b>Issuer Rating</b>	NA	NA	NA	NA	[ICRA]AA (Stable)
<b>Unplaced</b>	<b>Certificates of deposit*</b>	NA	NA	7-365 days	2,000.00	[ICRA]A1+

Source: City Union Bank; \* Certificates of deposit outstanding was NIL against the rated amount as on December 18, 2025

**Annexure II: List of entities considered for limited consolidated analysis**

Not applicable

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

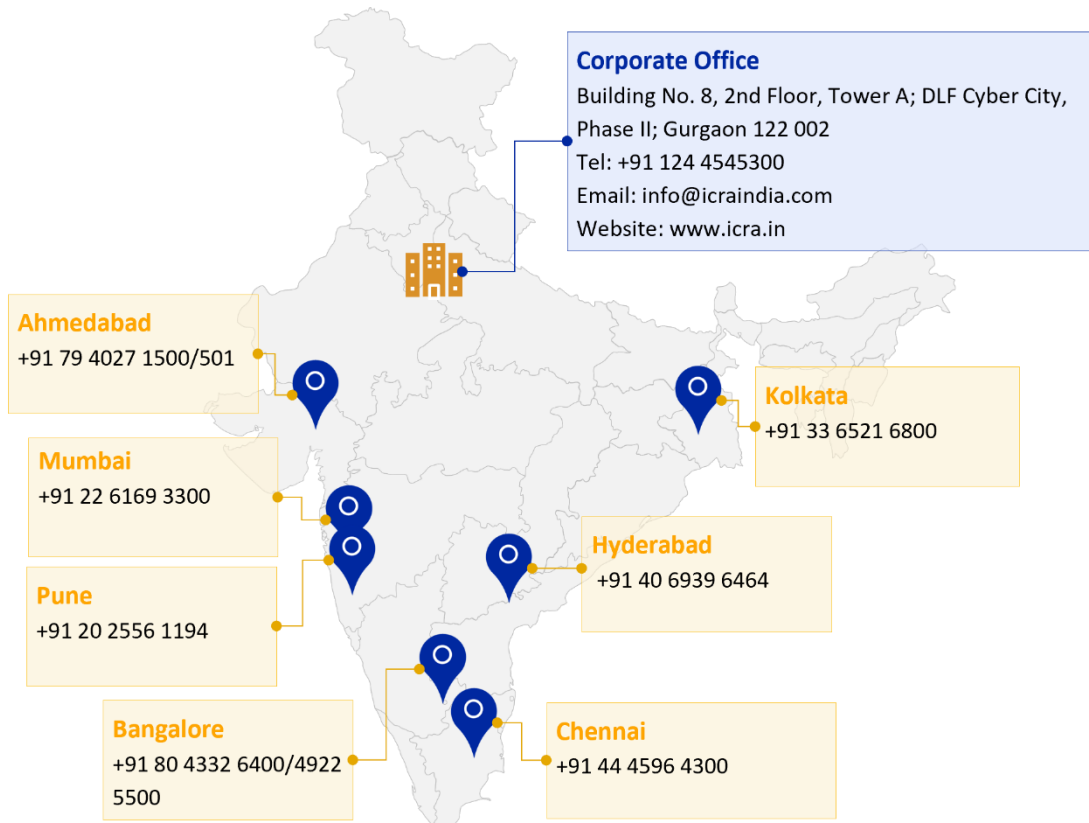


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