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Scrip Code : PNB	Scrip Code : 532461
National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex, Bandra (E) Mumbai – 400 051	BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001

Date: 11.03.2025

Dear Sir(s),

Reg.: Rating Action by Fitch Ratings

The Exchange is hereby informed that Fitch Ratings vide its rating action dated 11.03.2025 has **affirmed** Bank's Long-Term Issuer Default Rating (IDR) at 'BBB-' with Stable Outlook.

Fitch Ratings has also **upgraded** the Bank's Viability Rating (VR) from 'b+' to 'bb-' and has **affirmed** the Government Support Rating (GSR) at 'bbb-'.

A copy of the detailed rating rationale is enclosed.

The above is submitted in compliance with Regulation 30 and 51 of SEBI (LODR) Regulations, 2015.

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
...भरोसे का प्रतीक !



punjab national bank
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RATING ACTION COMMENTARY

Fitch Affirms Punjab National Bank at 'BBB-/Stable; Upgrades VR to 'bb-'

Tue 11 Mar, 2025 - 5:30 AM ET

Fitch Ratings - Singapore/Mumbai - 11 Mar 2025: Fitch Ratings has affirmed Punjab National Bank's (PNB) Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Stable. Fitch has also upgraded the bank's Viability Rating (VR) to 'bb-' from 'b+', and affirmed the Government Support Rating (GSR) of 'bbb-'.

A full list of rating actions is below.

KEY RATING DRIVERS

Government Support Underpins IDR: PNB's Long-Term IDR is driven by its GSR, which is equalised with India's sovereign rating (BBB-/Stable). This reflects Fitch's expectation of a high probability of extraordinary state support for the bank, if required. Our assessment is based on PNB's 70% state ownership, its large size and market share, and our assessment that the state has a strong propensity to support the banking system in general. The Stable Outlook on the IDR mirrors that on the India's sovereign IDR.

The upgrade of PNB's VR by one notch to 'bb-' factors in ongoing improvements in PNB's risk profile, reflected in financial performance improvements that have surpassed our expectation and are likely to continue. However, the risk profile remains a key consideration in our assessment of the bank's overall intrinsic credit profile, given its highly volatile past and vulnerability because of moderate buffers.

Supportive Operating Environment: India's strong medium-term growth potential, and its large, diversified economy are reflected in Fitch's operating environment (OE) score of 'bb+', which is above the agency's implied 'b' category score. Fitch projects GDP growth of over 6% in the financial year ending March 2025 (FY25) and FY26, driven by domestic demand, government capex and improving capacity utilisation. The growth will support Indian banks' ability to sustain profitable business in the medium term, if risks are effectively managed.

Large Domestic Franchise: PNB's large nationwide franchise can support profitable business generation, yet it has exhibited a substantial risk appetite. This partly reflects the government's influence on state banks, resulting in a higher risk appetite, which previously weighed on its traditional business model and financial performance in weaker environments. This has manifested in significant earnings volatility over the previous cycle, although volatility has eased compared with previous years.

Improved Risk Profile: We have revised PNB's risk profile score to 'b+' from 'b', reflecting its improved loan mix diversification, clean-up of legacy bad loans evident from its improving financial metrics, and limited unsecured retail exposure. However, PNB's history of cyclical growth and worsening financial metrics in challenging times remain a risk for the VR. Further improvements in financial metrics are unlikely to result in a higher VR without Fitch also assessing that there have been additional enhancements in PNB's risk management practices.

Improving Asset Quality: The outlook for PNB's asset-quality score has been revised to positive, from stable, as we expect the bank's impaired-loan ratio to fall further, with the four-year average declining below Fitch's 'bb' threshold of 5% by FYE27. The impaired-loan ratio fell to 4.1% in 9MFY25, from 5.7% in FY24. The ratio remains above the industry average, but risks are better mitigated, with specific loan-loss coverage improving to 90% in 9MFY25 from 86% in FY24.

Better-than Expected Profitability: We have revised PNB's earnings and profitability score to 'bb-' from 'b+' due to profitability improvements that exceeded our expectations. The operating profit/risk-weighted asset (OP/RWA) ratio rose to 3% in 9MFY25, from 1.8% in FY24, due primarily to a sharp decline in credit costs. We expect the OP/RWA ratio to remain above the sub-2% levels experienced in recent years, even though credit costs are likely to normalise in the medium term.

Fresh Equity Raised: PNB's capitalisation and leverage score has been revised to 'bb-' from 'b+'. This reflects the bank's improved capital buffers and our expectation that its internal accruals will be sufficient to maintain the common equity tier 1 (CET1) ratio near the current level. The CET1 ratio rose by about 100bp to 12.1% in 9MFY25, including profit, driven by better internal capital generation and fresh equity injection (+60bp) in September 2024.

Robust Funding and Liquidity: Funding remains a rating strength for PNB, with customer deposits comprising about 95% of total funding in 9MFY25. This is bolstered by high depositor confidence due to the bank's close state linkages. The loans/customer deposits ratio rose slightly to 73% in 9MFY25, based on preliminary disclosures, from 72% in FY24 in comparable terms, but remains well below the peer average of 81%. The

liquidity coverage ratio was 137% in 9MFY25, down slightly from 142% in FY24, although it still indicates adequate liquidity.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDRs and GSR

The Long-Term IDR and GSR are most sensitive to Fitch's assessment of the government's propensity and ability to support PNB, based on the bank's size, systemic importance and linkages to the state. Weakening of the government's ability to provide extraordinary support - reflected in negative action on India's sovereign rating - would lead to negative action on the Long-Term IDR.

Negative action on the Long-Term IDR is also likely should Fitch perceive any reduction in the government's propensity to extend timely support, in which case the agency would reassess the GSR and IDR, although that is not our base case.

The Short-Term IDR is mapped to the bank's Long-term IDR, in line with Fitch's criteria, and will lead to a negative action if the Long-Term IDR is downgraded.

VR

We expect PNB's VR to be stable in the near term. A downgrade appears unlikely in our base scenario, but is possible if there is significant deterioration in the OE and/or its key financial parameters, indicating a weaker risk profile, such as the following:

- the four-year average of the impaired-loan ratio significantly worsening from the current level (9MFY25: 7.6%);
- the four-year average of the OP/RWA ratio is below 1.25% (9MFY25: 1.5%) for a sustained period;
- a significant drop in PNB's CET1 ratio from current levels towards the regulatory minimum of 8%, without a credible plan to restore it above Fitch's 'bb' threshold of 10%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDRs and GSR

Positive sovereign rating action could lead to a corresponding change to PNB's Long-Term IDR and GSR, if Fitch believes that the sovereign's propensity to support the bank remains unchanged. However, an upgrade of the sovereign rating appears unlikely in the near term.

The bank's Short-Term IDR may also be upgraded in the event that the sovereign's Short-Term IDR is upgraded. If the bank's Long-Term IDR is upgraded based on a strengthening of its VR, any upgrade of the bank's Short-Term IDR would be contingent on our assessment of the funding and liquidity score being at least 'bbb+', which is two notches above our current assessment. We do not foresee this possibility in the medium term.

VR

A VR upgrade is less likely in the near term as it has just been upgraded, assuming no changes to our assessment of the OE score. However, it is possible if we view the bank's risk profile to have further improved, backed by continuing significant improvement in key financial metrics, such as any two of the three factors mentioned below:

- the CET1 ratio is sustained around 15% or higher;
- the four-year average of the impaired-loan ratio is sustained well below 3%;
- the four-year average of the OP/RWA ratio is sustained closer to 3%.

PNB's risk profile will remain an important consideration in determining whether the improvements to its financial metrics can be sustained.

The VR could also move up if the OE score is revised up to 'bbb-', while also positively influencing the bank's risk profile.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Ex-Government Support Rating

Fitch has upgraded PNB's Long-Term IDR (xgs) rating to 'BB-(xgs)' from 'B+(xgs)', in line with the bank's VR upgrade. The bank's Short-Term IDR (xgs) is in accordance with its Long-Term IDR (xgs) and the short-term rating mapping outlined in Fitch's criteria.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The bank's Long-Term IDR (xgs) will move in tandem with its VR. Its Short-Term IDR (xgs) is sensitive to changes in its Long-Term IDR (xgs) and is mapped in line with Fitch's criteria.

VR ADJUSTMENTS

The OE score of 'bb+' has been assigned above the implied category score of 'b' for the following adjustment reasons: economic performance, and size and structure of the economy (positive).

The business profile score of 'bb+' has been assigned below the implied category score of 'bbb' for the following adjustment reason: management and governance (negative).

The earnings and profitability score of 'bb-' has been assigned above the implied category score of 'b and below' for the following adjustment reason: historical and future metrics (positive).

The funding and liquidity score of 'bbb-' has been assigned above the implied category score of 'bb' for the following reason: deposit structure (positive).

Sources of Information

The principal sources of information used in the analysis are described in the applicable criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

PNB's IDRs are driven by India's sovereign ratings. A change in the sovereign's IDRs would be reflected in PNB's IDRs.

ESG CONSIDERATIONS

PNB has an ESG Relevance Score of '4' for Governance Structure, in line with other state banks. This reflects our assessment that key governance aspects, in particular board independence and effectiveness, ownership concentration and protection of creditor or stakeholder rights, have a moderate, yet negative, influence on PNB's credit profile, and are relevant to the ratings in conjunction with other factors.

We regard PNB's governance as less developed, similar to our view of other state banks. This is evident from PNB's significant lending to higher-risk borrowers and instances of weak oversight, which have led to levels of stressed loans and credit losses above those of peers. Government appointees dominate the board and its business model is often focused on supporting government strategies, with lending directed towards promoting

social and economic policies, which may include lending to government-owned companies. These factors also drive our view on the bank's state linkages, which affect support prospects that determine the long-term ratings.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
<input type="text"/>	<input type="text"/>			<input type="text"/>
Punjab National Bank	LT IDR	BBB-	Affirmed	BBB-
	ST IDR	F3	Affirmed	F3
	Viability	bb-	Upgrade	b+
	Government Support	bbb-	Affirmed	bbb-
	LT IDR (xgs)	BB-(xgs)	Upgrade	B+(xgs)
	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)

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Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 16 Mar 2024\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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ENDORSEMENT STATUS

Punjab National Bank

EU Endorsed, UK Endorsed

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