यूनियन बैंक ऑफ इंडिया Union Bank of India

भारत सरकार का उपक्रम A Government of India Undertaking

आन्ध्रा Andhra | कार्पोरेशन Corporation

Ref: ISD/20-21/294

March 03, 2021

The Deputy General Manager Corporate Relationship Department BSE Ltd Phiroze Jee Jeebhoy towers Dalal Street Mumbai - 400 001 Scrip code: 532 477	The Deputy General Manager Listing Department NSE India Ltd Exchange Plaza, plot no. Cc/1, G Block Bandra-Kurla Complex, Bandra (E) Mumbai - 400 051 Scrip Symbol/Series: UNIONBANK - EQ

Madam/Sir,

Subject: Reporting under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In terms of Regulation 30 read with point 3 of Para A of Part A of Schedule III of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and SEBI circular no. CIR/CFD/CMD/4/2015 dated September 9, 2015, we wish to inform that CRISIL Ratings has revised its outlook on the long-term debt instruments of Union Bank of India to 'Stable' from 'Negative' while reaffirming its ratings at 'CRISIL AA+/CRISIL AA-'.

Sr. No.	Name of the Instrument	Existing Rating	Revised Rating
1.	Tier-2 Bonds	CRISIL AA+/Negative	CRISIL AA+/Stable
2.	Additional Tier-1 (AT1) Bonds	CRISIL AA-/Negative	CRISIL AA-/Stable

The rating rationale of the agency is enclosed herewith.

This is for your information and appropriate dissemination.

Thanking you.

Yours faithfully,

Mangesh Mandrekar

(Mangesh Mandrekar)

Company Secretary

Encl: As above

Ratings

CRISIL
An S&P Global Company

Pursuant to SEBI notifications, CRISIL Limited (CRISIL) has transferred its Ratings business to its wholly owned subsidiary, CRISIL Ratings Limited (CRISIL Ratings), with effect from December 31st 2020. Any reference to CRISIL in the documents published by the Ratings division of CRISIL, such as Rating Rationales, Credit Rating Reports, Press Releases, Criteria, Methodology, FAQs, Policies and Disclosures, shall henceforth refer to CRISIL Ratings.

Rating Rationale

March 02, 2021 | Mumbai

Union Bank of India

Rating reaffirmed at 'CRISIL AA+ , CRISIL AA- '; outlook revised to 'Stable'

Rating Action

Rs.2000 Crore Tier II Bonds (under Basel III)	**CRISIL AA+/Stable (Outlook revised from 'Negative')**
Lower Tier- II bond (under Basel II) aggregating Rs.800 Crore	**CRISIL AA+/Stable (Outlook revised from 'Negative')**
Tier-II bond issue (under Basel III) aggregating Rs.3750 Crore	**CRISIL AA+/Stable (Outlook revised from 'Negative')**
Upper Tier-II bond issue aggregating Rs.250 Crore (under Basel II)	**CRISIL AA+/Stable (Outlook revised from 'Negative')**
Rs.900 Crore of Tier I Bonds (Under Basel III)	**CRISIL AA-/Stable (Outlook revised from 'Negative')**
Rs.500 Crore of Tier I Bonds (Under Basel III)	**CRISIL AA-/Stable (Outlook revised from 'Negative')**
Rs.500 Crore of Tier II Bonds (Under Basel III)	**CRISIL AA+/Stable (Outlook revised from 'Negative')**
Rs.1000 Crore of Tier II Bonds (Under Basel III)	**CRISIL AA+/Stable (Outlook revised from 'Negative')**
Rs.1000 Crore Tier II Bonds (Under Basel III)	**CRISIL AA+/Stable (Outlook revised from 'Negative')**
Rs.500.1 Crore of Infrastructure Bonds	**CRISIL AA+/Stable (Outlook revised from 'Negative')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term debt instruments of Union Bank of India (Union Bank) to **'Stable'** from 'Negative' while reaffirming its ratings at 'CRISIL AA+/CRISIL AA-'.

CRISIL Ratings has also withdrawn its rating on the Tier-II Bond Issue (Under Basel III) of Rs. 500 crore (See Annexure 'Details of Rating Withdrawn' for details) in-line with its withdrawal policy. CRISIL has received independent verification that these instruments are fully redeemed.

CRISIL Ratings had assigned Negative outlook on the long-term debt instruments on September 01, 2020, following resolution of 'Watch with Developing Implications'. The Negative outlook was assigned to reflect the potential stress that the bank's asset quality and, consequently, profitability could witness on account of the challenging macro environment.

The revision in the outlook to Stable factors in better-than-expected performance of the bank amid the current challenging macro environment. Profitability of the bank has witnessed an improvement with the bank reporting profit after tax (PAT) of Rs 1,576 crore in the nine months ended fiscal 2021, against substantial loss of Rs 6,614 crore in fiscal 2020. At the same time, provision coverage ratio (PCR) has also increased to 71% as on December 31, 2020 (coverage on pro-forma gross non-performing assets [NPAs], excluding the Supreme Court dispensation on asset classification) from 68% as on March 31, 2020. The bank's capital position has also strengthened, supported by raising Rs 1,700 crore of Tier 1 bonds and Rs 2,000 crore of Tier 2 bonds in fiscal 2021, so far. As a result, the bank's common equity tier (CET)-1 ratio, Tier-I capital adequacy ratio (CAR) and overall CAR improved to 9.2%, 10.5% and 13.0%, respectively, as on December 31, 2020, from 8.6%, 9.8% and 12.1% as on March 31, 2020.

Overall asset quality has been supported by various schemes launched by the Government of India and the Reserve Bank of India (RBI). Nevertheless, Union Bank's pro-forma gross NPAs remained high at 15.28% as on December 31, 2020 (14.6% as on March 31, 2020). Reported gross NPAs on the same date, was 13.5%. The one-time restructuring scheme is expected to benefit reported NPA metrics. The bank plans to restructure around 3% of its advances.

The ratings continue to factor in expectation of strong support from its majority owner, the Government of India and its sizeable scale of operations. It also factors in the modest asset quality and earnings profile of the bank. The 'CRISIL

AA-/Stable' rating on Tier I bonds (under Basel III) factors in the adequacy of Union Bank's eligible reserves to service coupon after adjusting for any medium-term impact of profitability on the bank's reserves position in a stress scenario.

While economic activity has started picking up, any sudden surge in Covid-19 cases leading to partial lockdowns could negatively impact the collections. Hence, the bank's asset quality and its consequent impact on earnings profile will continue to be closely monitored.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has considered the consolidated business and financial risk profiles of Union Bank and its subsidiaries. CRISIL Ratings has also factored in the strong support that the bank is expected to receive from its majority owner, the central government, both on an ongoing basis and in the event of distress.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Expectation of strong support from the government**

  The ratings continue to factor in expectation of strong government support. This is because the central government is the majority shareholder in public sector banks (PSBs) and the guardian of India's financial system. Stability of the banking sector is of prime importance to the government, given its criticality to the economy, strong public perception of sovereign backing for PSBs, and severe implications of any PSB failure, in terms of political fallout, systemic stability and investor confidence. The majority ownership creates a moral obligation on the government to support PSBs, including Union Bank. Any material change in shareholding by GoI and/or privatisation of the bank in line with Finance Minister's announcement in the recent budget for privatisation of two PSBs will be a key rating sensitivity factor.

  As a part of the Indradhanush framework, the government had pledged to infuse at least Rs 70,000 crore in PSBs over fiscals 2015 to 2019, of which Rs 25,000 crore each was infused in fiscals 2016 and 2017. In October 2017, the government outlined a recapitalisation package of Rs 2.11 lakh crore over fiscals 2018 and 2019. Union Bank, Andhra Bank and Corporation Bank together received Rs 8,601 crore in fiscal 2018 and Rs 21,028 crore in fiscal 2019 under this package. Also, the government allocated Rs 70,000 crore in fiscal 2020, of which Rs 11,768 crore was received. Thus, over the past three fiscals, the government has infused around Rs 41,397 crore in the combined entity.

  The bank also has flexibility to raise additional equity from the market, with the central government stake at 89.1% as on December 31, 2020. The bank has raised Rs 1,700 crore of Tier 1 and Rs 2,000 crore of Tier 2 bonds in the current fiscal. It is also in the process of raising additional capital in the coming quarters. The bank's CET-1 ratio, Tier-I CAR and overall CAR stood at 9.2%, 10.5% and 13.0%, respectively, as on December 31, 2020 (8.6%, 9.8% and 12.1% as on March 31, 2020).

- **Sizeable scale of operations, backed by extensive branch network**

  Union Bank is the fourth-largest PSB by asset size, as on December 31, 2020. Its share in deposits and advances in the domestic banking system was 6.2% and 6.1%, respectively, as on December 31, 2020. The bank has 45% of its total advances in the form of loans to corporates followed by retail (18%), micro, small and medium enterprises (19%) and agriculture (18%). Within retail, housing loans constituted almost 54% of the loan book.

  The bank benefits from its sizeable branch network of 9,587 as on December 31, 2020, and wide reach in rural and semi-urban areas, which facilitates access to low-cost, stable resource base. As on December 31, 2020, current account and savings account (CASA) deposits-to-total deposit ratio was 35.4% (34.1% in March 31, 2020). While this is adequate, it is lower than that for some of the other large banks. Union Bank is likely to maintain its market share and pan-India presence over the medium term.

Weaknesses:

- **Modest asset quality**

  The bank's asset quality, with reported and pro-forma gross NPAs of 13.5% and 15.3%, respectively, as on December 31, 2020 (14.6% as on March 31, 2020) remains modest. Around 61% of the pro-forma NPAs are contributed by large corporates, which have pro-forma gross NPAs of around 19% as on December 31, 2020 (19.5% as on March 31, 2020). As on December 31, 2020, retail, agriculture and micro-and-small segments had pro-forma gross NPAs of around 6%, 13% and 18%, respectively.

  The pro-forma slippages for the bank also remained high at 3.2% (annualised; Rs 14,370 crore) of opening net advances for the nine months ended December 31, 2020. However, it has improved from slippages of 4.1% (Rs 23,580 crore) and 4.5% (Rs 25,135 crore) witnessed in fiscal 2020 and fiscal 2019, respectively. Furthermore, the bank restructured accounts worth 0.5% of advances till December 31, 2020, which is expected to increase to around 3%.

  Nevertheless, asset quality of the bank, as well as performance of the restructured accounts and ability of the management to contain slippages to NPAs and improve recoveries will remain key monitorables in the near to medium term.

- **Modest, albeit improving, earnings profile**

  Profitability, for the last few years, had been constrained primarily by high provisioning costs taken by the bank. The amalgamated bank is estimated to have reported a net loss of Rs 6,614 crore (with a negative return on assets [RoA] of 0.7%) for fiscal 2020, against net loss of Rs 12,066 crore (with negative RoA of 1.3%) for fiscal 2019.

However, the profitability of the bank improved in fiscal 2021 with profit of Rs 1,576 crore with RoA of 0.2% for the nine months ended fiscal 2020, driven by lower provisioning costs of 1.7% (annualised; Rs 14,079 crore) against provisioning costs of 2.5% (Rs 24,317 crore) of average assets for fiscal 2020. PCR on the pro-forma NPAs of the bank continues to remain high at around 71% as on December 31, 2020 (78% on reported NPAs on the same date).

Supported by cost rationalisation measures, operating expenses improved to 1.6% of average assets for the nine months ended fiscal 2021, from 1.8% in fiscal 2020. Pre-provisioning profits of the bank were stable at 1.8% for the nine months ended fiscal 2021 (1.8% for fiscal 2020).

Nevertheless, improvement and sustainability of the profits will remain a key rating sensitivity factor.

Liquidity: Strong

Liquidity should remain comfortable, supported by strong retail deposit base. Liquidity coverage ratio stood at 179%, which is well above the minimum regulatory requirement as on December 31, 2020. Excess investments eligible for statutory liquidity ratio was Rs 69,880 crore (7.8%) as on December 31, 2020. Liquidity also benefits from access to systemic sources of funds, such as the liquidity adjustment facility from RBI and access to the call money market.

Outlook: Stable

Union Bank should continue to benefit from strong government support and its large size and scale.

Rating Sensitivity factors

Upward factors

- Improvement in asset quality and profitability on a sustained basis with the bank reporting RoA of over 0.4% on steady-state basis.
- Capitalisation metrics improving considerably with significant cushion over the regulatory requirements
- Improvement in proportion of CASA deposits to overall deposits from current levels

Downward factors

- Material change in shareholding and/or expectation of support from GoI
- Deterioration in asset quality with gross NPAs rising from current levels
- Decline in CAR below minimum regulatory requirements (including CCB, which is Tier I of 9.5% and overall CAR of 11.5% with effect from October 01, 2021) for an extended period

About the Bank

Incorporated in 1919 in Mumbai, Union Bank was nationalised in 1969. The government's ownership stood at 89.1% as on December 31, 2020, post issuing shares under amalgamation to the shareholders of Andhra Bank and Corporation Bank.

Amalgamation of Andhra Bank and Corporation Bank into Union Bank was effective from April 1, 2020. Post amalgamation, the merged entity enjoys the benefits of larger balance sheet and wider geographical reach. As on December 31, 2020, Union Bank is the fourth largest PSB with total assets of Rs 1,033,346 crore and strong domestic branch network comprising 9,587 branches and 13,239 automated teller machines.

The bank reported a profit of Rs 1,576 crore on total income (net of interest expense) of Rs 26,072 crore in the nine months ended December 31, 2020, against Rs 543 crore and Rs 25,741 crore, respectively, in the corresponding period of the previous year.

Key Financial Indicators

Particulars as on December 31,	Unit	2020	2019
Total assets	Rs crore	1033346	999131
Total income (net of interest expense)	Rs crore	26072	25741
Profit after tax	Rs crore	1576	543
Gross NPA	%	13.5	15.8
Overall CAR	%	12.98	14.1
RoA (annualised)	%	0.2	0.1

Note: Income statement numbers/ratios for FY20 represents pro-forma merged entity financials

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity level	Outstanding rating with Outlook
INE692A08094	Tier II Bonds (under Basel III)	16-Sep-20	7.42	16-Sep-30	1000	Complex	CRISIL AA+/Stable

INE692A08102	Tier II Bonds (under Basel III)^	26-Nov-20	7.18	26-Nov-35	1000	Complex	CRISIL AA+/Stable
INE692A09241	XVI-B Lower Tier II	28-Dec-12	8.9	28-Dec-22	800	Complex	CRISIL AA+/Stable
INE692A08045	Basel III compliant Tier 2 Bonds	24-Nov-16	7.74	24-Nov-26	750	Complex	CRISIL AA+/Stable
INE692A08011	Basel III compliant Tier 2 Bonds	22-Aug-16	8	22-Aug-26	1000	Complex	CRISIL AA+/Stable
INE692A09266	XVII-A Basel III compliant Tier II bonds	22-Nov-13	9.8	22-Nov-23	2000	Complex	CRISIL AA+/Stable
NA	Upper Tier II (under Basel II)^	NA	NA	NA	250	Highly complex	CRISIL AA+/Stable
INE434A08083	Tier-I Bond Issue (Under Basel III)	31-Oct-2017	9.2%	Perpetual	500	Highly complex	CRISIL AA-/Stable
INE434A08067	Tier-I Bond Issue (Under Basel III)	5-Aug-16	10.99%	Perpetual	900	Highly complex	CRISIL AA-/Stable
INE434A08075	Tier-II Bond Issue (Under Basel III)	24-Oct-2017	7.98%	24-Oct-27	1000	Complex	CRISIL AA+/Stable
INE434A08059	Tier-II Bond Issue (Under Basel III)	27-Jun-16	8.65 %	27-Jun-26	1000	Complex	CRISIL AA+/Stable
INE434A08018	Infrastructure Bond Issue	22-Aug-14	9.35%	22-Aug-21	500.10	Complex	CRISIL AA+/Stable

^yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity level
INE434A08034	Tier-II Bond Issue (Under Basel III)	18-Dec-15	8.63%	18-Dec-25	500	Complex

Annexure – List of entities consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
Union Bank of India (UK) Ltd	Full	Subsidiary
Union Asset Management Co Pvt Ltd	Full	Subsidiary
Union Trustee Co Pvt Ltd	Full	Subsidiary
Corp Bank Securities Limited	Full	Subsidiary
Andhra Bank Financial Services Limited	Full	Subsidiary
Star Union Dai-ichi Life Insurance Co. Limited	Proportionate	Joint venture
India First Life Insurance	Proportionate	Joint venture
ASREC India limited	Proportionate	Joint venture
India International Bank (Malaysia) BHD	Proportionate	Joint venture
Chaitanya Godavari Gramina Bank	Proportionate	Associate

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Infrastructure Bonds	LT	500.1	CRISIL AA+/Stable		--	23-10-20	CRISIL AA+/Negative		--		--	--
Lower Tier-II Bonds (under Basel II)	LT	800.0	CRISIL AA+/Stable		--	23-10-20	CRISIL AA+/Negative	20-12-19	CRISIL AA+/Watch Developing	31-08-18	CRISIL AA+/Stable	CRISIL AA+/Negative
			--		--	10-09-20	CRISIL AA+/Negative	05-09-19	CRISIL AA+/Stable	25-01-18	CRISIL AA+/Stable	--
			--		--	01-09-20	CRISIL AA+/Negative	27-08-19	CRISIL AA+/Stable		--	--
Perpetual Tier-I Bonds (under Basel II)	LT		--		--	23-10-20	Withdrawn	20-12-19	CRISIL AA+/Watch Developing	31-08-18	CRISIL AA+/Stable	CRISIL AA+/Negative
			--		--	10-09-20	CRISIL AA+/Negative	05-09-19	CRISIL AA+/Stable	25-01-18	CRISIL AA+/Stable	--
			--		--	01-09-20	CRISIL AA+/Negative	27-08-19	CRISIL AA+/Stable		--	--
Tier I Bonds (Under Basel III)	LT	1400.0	CRISIL AA-/Stable		--	23-10-20	CRISIL AA-/Negative		--		--	--

Tier II Bonds (Under Basel III)	LT	8250.0	CRISIL AA+/Stable		--	23-10-20	CRISIL AA+/Negative	20-12-19	CRISIL AA+/Watch Developing	31-08-18	CRISIL AA+/Stable	CRISIL AA+/Negative
			--		--	10-09-20	CRISIL AA+/Negative	05-09-19	CRISIL AA+/Stable	25-01-18	CRISIL AA+/Stable	--
			--		--	01-09-20	CRISIL AA+/Negative	27-08-19	CRISIL AA+/Stable		--	--
Upper Tier-II Bonds (under Basel II)	LT	250.0	CRISIL AA+/Stable		--	23-10-20	CRISIL AA+/Negative	20-12-19	CRISIL AA+/Watch Developing	31-08-18	CRISIL AA+/Stable	CRISIL AA+/Negative
			--		--	10-09-20	CRISIL AA+/Negative	05-09-19	CRISIL AA+/Stable	25-01-18	CRISIL AA+/Stable	--
			--		--	01-09-20	CRISIL AA+/Negative	27-08-19	CRISIL AA+/Stable		--	--

All amounts are in Rs.Cr.

Links to related criteria
CRISILs Approach to Financial Ratios
Rating Criteria for Banks and Financial Institutions
CRISILs Criteria for rating short term debt
Rating criteria for Basel III - compliant non-equity capital instruments
Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	Krishnan Sitaraman Senior Director **CRISIL Ratings Limited** D:+91 22 3342 8070 krishnan.sitaraman@crisil.com Subhasri Narayanan Director **CRISIL Ratings Limited** D:+91 22 3342 3403 subhasri.narayanan@crisil.com Mitul Patel Senior Rating Analyst **CRISIL Ratings Limited** D:+91 22 3342 3271 Mitul.Patel@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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