यूनियन बैंक ऑफ इंडिया Union Bank of India

भारत सरकार का उपक्रम A Government of India Undertaking

आन्ध्रा Andhra | कार्पोरेशन Corporation

Ref: ISD/20-21/216 December 17, 2020

The Deputy General Manager, Corporate Relationships Dept. **BSE Ltd.** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001. Scrip Code-532 477	The Deputy General Manager, Listing Dept. **National Stock Exchange of India Ltd.** Exchange Plaza, Plot No.C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai-400 051. Scrip Symbol/Series-UNIONBANK-EQ

Madam/Sir,

Subject: Credit Rating

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 S&P Global Ratings has assigned the credit ratings to the Bank as under:

Sr No.	Parameter	Existing Rating	Revised Rating
1.	Issuer Credit Rating (Long term/ Short Term)	BB+/Stable/B	BB+/Stable/B
2.	Standalone Credit Profile (SACP)	bb	bb-
3.	Bank's Senior Unsecured Notes (Long term)	BB+	BB+

The rating rationale of Standard & Poor is enclosed herewith.

This is for your information and appropriate dissemination.

Thanking you.

Yours faithfully,

Mangesh Mandrekar

(Mangesh Mandrekar)
Company Secretary

Encl: As above

Research Update:

Union Bank of India 'BB+/B' Ratings Affirmed With Stable Outlook; SACP Revised To 'bb-' On Weakened Capital Buffers

December 17, 2020

Overview

- We believe Union Bank of India's (UBI) capital buffers have weakened due to the institution's merger with Andhra Bank and Corporation Bank earlier this year, as well as three consecutive years of accumulated losses.
- We are therefore revising down our assessment of the India-based bank's stand-alone credit profile (SACP) to 'bb-'from 'bb'.
- We are affirming our 'BB+' long-term and 'B' short-term issuer credit ratings on UBI, and the 'BB+' long-term issue rating on the bank's senior unsecured notes.
- The stable outlook reflects our view that UBI will maintain its financial profile over the next 12-18 months despite tough operating conditions, and benefit from government support.

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Rating Action

On Dec. 17, 2020, S&P Global Ratings affirmed its 'BB+' long-term and 'B' short-term issuer credit ratings on UBI. The outlook on the long-term rating is stable. We also affirmed the 'BB+' long-term issue rating on the bank's senior unsecured notes.

Rationale

We believe UBI's capital buffers have weakened following the bank's merger with domestic peers Andhra Bank and Corporation Bank earlier in 2020, as well as three consecutive years of accumulated losses. We have therefore revised down our assessment of UBI's SACP to 'bb- from 'bb'.

The COVID-19 outbreak has heightened stress levels and uncertainty across the Indian banking system. This has set back recovery at UBI, which was already grappling with high nonperforming assets (NPAs) and credit costs. S&P Global Ratings forecasts India's GDP will contract 7.7% in the

fiscal year ending March 31, 2021, and rebound by 10% in fiscal 2022.

We believe the amalgamated entity could take more than two years to benefit from the significant improvement in scale and franchise, and generate superior profitability. UBI's Tier 1 capital ratio fell to 10.1% as of Sept. 30, 2020, compared with the pre-merger level of 10.7% as of March 31, 2020.

UBI's risk-adjusted capital (RAC) ratio is likely to be about 4.5% over the next 12-18 months, compared with 4.2% as of Sept. 30, 2020. Our forecast factors in equity capital infusion from the bank's capital-raising plans. We have stopped assigning equity credit to additional Tier 1 instruments issued by Indian public sector banks, including Union Bank, due to uncertainty over their ability to absorb losses on a going-concern basis.

We see signs of a pick-up in economic activity in India since the lockdowns ended. UBI's performance has improved in the first half ended Sept. 30, 2020, in line with the broader banking sector. The bank's net profit was Indian rupee (INR) 8.5 billion in the first half, a marked reversal from the net loss in the previous year. Its gross NPA ratio also reduced to 14.7% as of Sept. 30, 2020, from 15.8% a year earlier. We believe much of this improvement is due to the six-month loan moratorium that ended on Aug. 31, 2020, as well as a Supreme Court ruling barring banks from classifying any loan as a NPA.

While we see upside to UBI's growth and earnings, headwinds to recovery remain. Economic activity in India is soft, and the pandemic is not fully under control. Meanwhile, the sizable pile of stressed assets on the bank's books will continue to be a drag on earnings, in our opinion.

We expect UBI to maintain its very important role and very strong link with the Indian government. The government is statutorily required to hold at least 51% in the bank, and influences the bank's strategic decision-making via its representation on the board and the appointment of the bank's chairman and managing director. UBI has also benefitted from periodic capital infusions from the government to ensure compliance with regulatory minimum capital requirements.

Outlook

The stable outlook on UBI reflects our view that the bank will maintain its financial profile over the next 12-18 months amid tough operating conditions. We also expect government support to continue to underpin the ratings. We classify Union Bank as a government-related entity, and see a very high likelihood that the bank will receive support from the Indian government if needed.

Downside scenario

We would lower the rating by a notch if UBI's RAC ratio falls below 3% on a sustained basis. Large unanticipated asset quality shocks or prolonged operating losses could also result in a downgrade of the bank. Such a situation could arise due to a deeper recession that is beyond our base-case forecast, such that the bank's capitalization deteriorates due to high provisioning costs.

Upside scenario

We believe an upgrade is highly unlikely over the next 12-18 months given the challenging operating conditions in India.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB+/Stable/B	BB+/Stable/B
SACP	bb-	bb
Anchor	bb+	bb+
Business Position	Adequate (0)	Adequate (0)
Capital, Leverage, and Earnings	Weak (-1)	Moderate (0)
Risk Position	Weak (-2)	Weak (-2)
Funding and Liquidity	Above average and Strong (+1)	Above average and Strong (+1)
Support	2	1
GRE Support	2	1
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Union Bank of India	
Issuer Credit Rating	BB+/Stable/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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