यूनियन बैंक ऑफ इंडिया Union Bank of India

आन्ध्रा Andhra | कार्पोरेशन Corporation

Ref: ISD/20-21/60

May 29, 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: **Reporting under Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 - Rating of various bond issues**

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 pursuant to amalgamation of Corporation Bank into Union Bank of India w.e.f. April 1, 2020, India Ratings and Research has withdrawn its rating of BASEL III Compliant Tier-2 Bonds issued by erstwhile Corporation Bank. Fresh Ratings have been assigned to the said Bonds of erstwhile Corporation Bank, which are now assumed by Union Bank of India.

Further informed that India Ratings and Research has maintained its rating of various Union Bank of India's BASEL III compliant Tier I/ Tier II Bonds.

The details of the rating reports of India Ratings and Research is enclosed.

This is for your information and appropriate dissemination.

Thanking you.

Yours faithfully,

Mangesh Mandrekar

(Mangesh Mandrekar)
Company Secretary

India Ratings & Research
A Fitch Group Company

India Ratings Maintains Union Bank of India on RWE

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MAY 2020

By Ruhi Pabari

India Ratings and Research (Ind-Ra) has maintained Union Bank of India's (Union) Long-Term Issuer Rating of 'IND AA+' on Rating Watch Evolving (RWE). The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Rating Watch	Rating Action
Basel III Tier 2 bonds#	-	-	-	INR10	IND AA+/RWE	Maintained on RWE
Basel III AT1 perpetual bonds#	-	-	-	INR45	IND AA/RWE	Maintained on RWE
Basel III Complaint Tier 2 bonds*,#	-	-	-	INR15	IND AA+/RWE	Assigned; placed on RWE

*Corporation Bank's bonds have been transferred to Union
#Details in annexure

Analytical Approach: Ind-Ra had placed the ratings of Union on RWE on 4 September 2019 following the finance ministry's announcement on the proposed amalgamation of Corporation Bank and Andhra Bank with Union, with Union being the anchor bank post amalgamation. The key reasons for maintaining the ratings on RWE were the scale of the mergers and the potential integration-related challenges that would have been encountered in the process and the harmonisation of non-performing asset recognition and provisioning.

The RWE indicates that the rating may be affirmed, upgraded or downgraded. Ind-Ra expects to resolve the RWE on the availability of first set of consolidated quarterly financial results and other relevant data. The instruments that were originally held by Corporation Bank are now held by Union and hence the assignment of ratings. Ind-Ra also expects that COVID-19 linked lockdown and its aftermath could have a substantial impact on the banks' asset quality and deposit accretion as borrowers' cash flows are impacted and the demand and supply-side issues continue; this would play a role in the resolution of

RWE.

Union's ratings (barring AT1 bonds) reflect its systemically important position and Ind-Ra's expectations that the bank would continue to receive support from the government of India (GoI). The rating on Union's AT1 bonds reflects the bank's standalone credit profile, along with its ability to service coupons and manage principal write-down risk over the Basel III transition period. For AT1 instruments, the agency considers the 'discretionary component', 'coupon omission risk' and the 'write-down/conversion risk' as key parameters to arrive at the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt factoring in a higher probability of an ultimate loss for investors in these bonds. Ind-Ra envisages coupon deferrals and principal write-down risk as a remote possibility in view of Union's adequate revenue reserve buffers.

KEY RATING DRIVERS

Growth in Systemic Importance: Union is the sixth-largest public sector bank and 10th-largest bank on an overall basis in the country in terms of its net advances as at end-9MFY20. The bank's share in systemic advances has remained consistently above 3.0% between FY15 and 9MFY20 and it has also broadly maintained its share in deposits above 3.0%. Union had received a capital infusion of INR41.1 billion from the GoI in FY19 and then INR117.0 billion in FY20. The GoI also had announced the amalgamation of the bank with Corporation Bank and Andhra Bank, and the same has been effective 1 April 2020. Post amalgamation, Ind-Ra expects the bank to move up a rank in size in the overall banking system.

Improvement in PCR, Although Slippages to Continue: The agency had highlighted in its FY21 Banking Outlook that slippages from the corporate segment could decline, and that the agriculture, MSME and retail segments might witness continuing asset quality pressures. However, with the prevailing COVID-19 situation, the agency believes that certain corporate sectors would be impacted severely, despite borrowers opting for a debt moratorium. The absence of economic activity for an extended period of time is likely to result in a significant loss of income for a large cross section of the society, which is likely to result in pressure on cash flows, leading to deterioration of the asset quality for the overall banking industry. The agency believes that unsecured lending to borrowers in the informal segment, which accounts for a significant share of cash collection, would see the maximum asset quality impact in the near term.

Union's gross non-performing asset ratio stood at 14.9% in 3QFY20, after peaking out at 16.0% in 1QFY19 (3QFY19: 15.7%). The bank's provision coverage ratio (PCR; excluding technical write-offs) improved to 56.9% in 3QFY20 (3QFY19: 51.4%). The overall PCR is now largely comparable to peer group, also on an amalgamated basis this would be around 60.0% as at end-3QFY20. The agency believes that Union's profitability would remain under pressure in the near term on an amalgamated basis, due to the requirement for ageing provisions and slippages from current SMA 1 and SMA 2 pools and stressed due to COVID-19.

Comfortable Capital Buffers: The bank's core equity tier 1 (CET1) capital improved from 7.9% as at end-1QFY20 to 11.4% at end-3QFY20 post the GoI's capital infusion. The bank's PCR (excluding technical write-offs) also improved in 4Q from 51.4% in 3QFY19 and 56.9% in 3QFY20. Even within the amalgamating banks, Corporation Bank's CET I ratio and PCR (excluding technical write-offs) improved to 11.4% and 67.7%, respectively, in 3QFY20 (3QFY19: 8.8% and 38.3%) and Andhra Bank's CET I ratio and PCR (excluding technical write-offs) improved to 8.8% and 67.4%, respectively (6.3% and 62.4%). Ind-Ra expects the the amalgamated Union to make INR145 billion-155 billion of provisions over FY21 (annual credit cost: 2.5%-2.6%) as against the average annual historical pre-provision operating profits of INR160 billion-165 billion (annually: 2.7%-2.8%). The COVID-19 linked lockdown and its after effects could result in incremental credit costs as the weak borrower profiles could see defaults in almost all business segments. If this is materially higher than business as usual expected slippages, then Union (on amalgamation basis) could see capital erosion; otherwise Ind-Ra expects the amalgamated Union's CET1 to remain above 8.5%.

Liquidity Indicator – Adequate: Union's short-term (one year) asset liability mismatches at FYE19 at 7.4% (FY18: 7.1%) were in line with most similar rated peers'. The average liquidity coverage ratio was 194.98% for 3QFY20 as against 186.21% for 2QFY20, well above the regulatory requirement of 100%. Also, the bank maintains 18%-20% of its total assets in balances with the Reserve Bank of India and in government securities, indicating that it will be able to meet its short-term funding requirements. The asset-liability profiles of the other two banks involved in the proposed amalgamation were weak at end-FY19; unless the asset liability mismatches had improved for these banks in FY20, the resultant entity's gaps would be

moderately worse than Union's current asset liability mismatch. Ind-Ra opines a bank with higher gaps may be under continuous refinance pressure, has stickier rates and slower transmission of rates.

Overall Deposit Market Share Declines but Synergies likely Post Amalgamation: Although Union maintained its current account savings account (CASA) franchise over FY17-3QFY20 with CASA ratio at 34%, its current account ratio declined significantly to 5.8% in 3QFY20 from 8.7% in FY16. This was due to the intensifying competition for deposits in the bank's core catchment from new private sector banks and public sector banks with the ability to lend, impacting current account deposits accretion. Most of the improvement in CASA has resulted from Union's efforts towards increasing savings account balances even as current account ratio deteriorated marginally over the same period. The bank's overall deposit market share declined over FY13-FY19 (FY19: 3.4%, FY14: 4.0%).

Union has a total of 4,285 domestic branches, which, along with Corporation Bank's more than 2,500 and Andhra's around 3,000, become around 10,000 branches in across India. Union has a strong presence in central India and western India, while Corporation Bank and Andhra have a strong presence in southern India; this is likely to give a wider spread to the amalgamated entity to leverage its liability franchise.

Profitability Will Continue to be a Challenge: Union witnessed net losses in FY18 and FY19, mainly due to high credit costs majorly on account of corporate stress slippages. Ind-Ra expects the amalgamated Union to witness at least 2.5%-2.6% credit costs in FY20 and FY21 (FY18: 4.7%, FY19: 3.9%; against expected PPOP of 2.6%); the COVID-19 impact could add 0.6%-1.2% credit costs to the estimate, implying the bank's profitability to come under pressure for FY21 and FY22. These credit costs will emanate from aging provisions, slippages from existing stressed accounts and slippages on account of COVID-19 situation. The bank has in last two years focused on retail growth and better rated corporates. Ind-Ra expects branch rationalisation benefits to materialise for the amalgamated Union over the next three-four years.

RATING SENSITIVITIES

The RWE would be resolved once the financial data for 1QFY21 and other relevant data are made available to Ind-Ra. Ind-Ra also opines that the COVID-19 linked lockdown and its aftermath could play a role in the resolution of RWE.

COMPANY PROFILE

Union is a public sector bank with operations across India. At end-December 2019, the bank had 4,282 domestic branches and 6,686 ATMs. At end-March 2020, the GoI held 86.75% stake in Union.

FINANCIAL SUMMARY

Particulars	**9MFY20**	**FY19**	**FY18**
Total assets (INR billion)	5,299.51	4,940.39	4,874.06
Total equity (INR billion)	376.63	264.87	250.97
Net income/loss (INR billion)	-3.95	-29.48	-52.47
Return on average assets (%)	0.1	-0.6	-1.1
CET I (%)	11.3	8.0	7.6
Capital adequacy ratio (%)	14.7	11.8	11.5
Source: Union, Ind-Ra			

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook/Rating Watch			
	Rating Type	Rated Limits (billion)	Rating	5 November 2019	4 September 2019	30 October 2018	9 October 2017
Issuer Rating	Long-term	-	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/Negative	IND AA+/Stable
Basel III AT1 Bonds	Long-term	INR45	IND AA/RWE	IND AA/RWE	IND AA/RWE	IND AA/Negative	IND AA/Negative
Basel III-Complaint Tier II Bonds	Long-term	INR25	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/Negative	IND AA+/Stable

ANNEXURE

Issue Name/Type	ISIN	Date of Allotment	Tenor (years)	Maturity Date	Amount Mobilised (billion)	Coupon Rate (%)	Put/Call Option	Rating/Rating Watch
Basel III Compliant Tier II Bonds								
Basel III-Complaint Tier II Bonds	INE692A09274	29 March 2016	10	29 March 2026	INR10	8.61	Nil	IND AA+/RWE
Basel III-Complaint Tier II Bonds	INE112A08044	14 November 2017	10	14 November 2027	INR5	8.02	Nil	IND AA+/RWE
Basel III-Complaint Tier II Bonds	INE112A08051	8 November 2019	10	8 November 2029	**INR10**	8.93	Nil	IND AA+/RWE
Total utilised					**INR25**			
Basel III Compliant AT1 Bond								
Basel III AT1 Bonds	INE692A08029	15 September 2016	Perpetual	Perpetual	INR10	9.50	Call - 15 September 2021	IND AA/RWE
Basel III AT1 Bonds	INE692A08037	4 November 2016	Perpetual	Perpetual	INR10	9.00	Call - 4 November 2021	IND AA/RWE
Basel III AT1 Bonds	INE692A08052	29 March 2017	Perpetual	Perpetual	INR2.5	9.10	Call - 29 March 2022	IND AA/RWE
Basel III AT1 Bonds	INE692A08060	30 March 2017	Perpetual	Perpetual	INR7.5	9.10	Call - 30 March 2022	IND AA/RWE

Basel III AT1 Bonds	INE692A08078	31 March 2017	Perpetual	Perpetual	INR5	9.10	Call - 31 March 2022	IND AA/RWE
Basel III AT1 Bonds	INE692A08086	3 May 2017	Perpetual	Perpetual	INR5	9.08	Call - 3 May 2022	IND AA/RWE
Total utilised					**INR40**			
Total unutilised					**INR5**			

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

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Applicable Criteria

Financial Institutions Rating Criteria
Rating of Bank Legacy Hybrids and Sub-Debt

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A Fitch Group Company

India Ratings Withdraws Corporation Bank's Ratings

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MAY 2020

By Ruhi Pabari

India Ratings and Research (Ind-Ra) has withdrawn Corporation Bank's (CB) Long-Term Issuer Rating of 'IND AA-'. The rating was on Rating Watch Evolving (RWE). The instrument wise rating actions are as follows:

Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Basel III-compliant Tier II bonds*	-	-	-	INR15	WD	Withdrawn (transferred to Union Bank of India (UBI))

*Details in Annexure

KEY RATING DRIVERS

India Ratings had placed CB on RWE, following the finance ministry's announcement on 30 August 2019, on the proposed amalgamation of the UBI ('IND AA+'/RWE) with Andhra Bank and CB, with UBI being the anchor bank.

The Reserve Bank of India's notification dated 28 March 2020, stated that the Amalgamation of CB into the Union Scheme, 2020 (dated 4 March 2020), issued by the government of India will be effective 1 April 2020. As per the circular, from 1 April 2020, all branches of CB will function as the branches of UBI, and the customers, including depositors of CB, will be treated as the customers of UBI.

Further, based on the filings made by the anchor bank on the Bombay Stock Exchange on 1 April 2020, UBI has issued and allotted equity shares of UBI to the eligible shareholders of CB, as per the fair equity exchange ratio approved in the board meeting on 5 March 2020.

Hence, in view of the above, Ind-Ra is no longer required to maintain the ratings of CB as the bank is amalgamated with UBI and resultantly, the agency has withdrawn the ratings. Fresh ratings are assigned to erstwhile CB's instruments, which are now assumed by UBI.

COMPANY PROFILE

CB had an operational branch network of more than 2,400 branches and 3,000 ATMs FYE20.

RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	4 September 2019	26 June 2018	17 October 2017
Issuer Rating	Long-term	-	WD	IND AA-/RWE	IND AA-/Stable	IND AA/Stable
Basel III-compliant Tier II bonds	Long-term	INR15	WD	IND AA-/RWE	IND AA-/Stable	IND AA/Stable

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating
Basel III-compliant Tier II bonds	INE112A08044	14 November 2017	8.02	14 November 2027	INR5	WD
Basel III-complaint Tier II bonds	INE112A08051	8 November 2019	10	8 November 2029	INR10	WD

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators

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Applicable Criteria

Financial Institutions Rating Criteria
Rating Bank Subordinated and Hybrid Securities

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