

Ref: ISD/17-18/213

1st September, 2017

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
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Madam/Sir,


Subject: Rating of Basel III compliant Tier 2 Instrument and Basel II compliant various instruments - Reporting under Regulation 30 of SEBI (Listing Obligations & 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 9th September, 2015, we wish to inform you that CRISIL Rating has downgraded the ratings of Basel III compliant Tier 2 instrument and Basel II compliant various instruments of Union Bank of India from 'CRISIL AAA/Negative' (CRISIL Triple A With Negative Outlook) to 'CRISIL AA+/Negative' (CRISIL AA+ with Negative Outlook). The details of instruments and reasons for downgrade in rating are given in the enclosed rating rationale of CRISIL dated 31.08.2017.

This is for your information and appropriate dissemination.

Thanking you.

Yours faithfully,


(Dipak D. Sanghavi)
Company Secretary

Encl: As Above

Rating Rationale

August 31, 2017 | Mumbai

Union Bank of India

Rating downgraded to 'CRISIL AA+/Negative'

Rating Action

Lower Tier- II Bond (Under Basel II) Aggregating Rs.1200 Crore	CRISIL AA+/Negative (Downgraded from 'CRISIL AAA/Negative')
Rs.750 Crore Tier- II Bond Issue (Under Basel III)	CRISIL AA+/Negative (Downgraded from 'CRISIL AAA/Negative')
Rs.1000 Crore Tier-II Bond Issue (Under Basel III)	CRISIL AA+/Negative (Downgraded from 'CRISIL AAA/Negative')
Rs.2000 Crore Tier-II Bond Issue (Under Basel III)	CRISIL AA+/Negative (Downgraded from 'CRISIL AAA/Negative')
Upper Tier-II Bond Issue Aggregating Rs.2500 Crore (Under Basel II)	CRISIL AA+/Negative (Downgraded from 'CRISIL AAA/Negative')
Tier-I Perpetual Bond Issue Aggregating Rs.1040 Crore (Under Basel II)	CRISIL AA+/Negative (Downgraded from 'CRISIL AAA/Negative')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the various debt instruments of Union Bank of India (Union Bank) to 'CRISIL AA+/Negative' from 'CRISIL AAA/Negative'.

The rating action reflects CRISIL's belief that the bank's asset quality will remain under pressure in the near term mainly driven by continued stress in the corporate loan portfolio and lower levels of recovery from gross non-performing assets (NPA) given the weak credit quality of corporate borrowers. The bank's gross NPA ratio was high at 12.6% as on June 30, 2017 (11.2% as on March 31, 2017). Also, profitability is modest with the bank reporting a return on assets (RoA) of 0.1% (annualized) for quarter ended June 30, 2017 (~0.1 % for fiscal 2017). Furthermore, with provisioning expenses remaining elevated, earnings profile is expected to be under pressure in near term.

The rating, nevertheless, continues to factor in the support that Union Bank is likely to receive from majority owner, Government of India, and the bank's comfortable resource profile.

Analytical Approach

For arriving at the rating, CRISIL has considered the standalone business and financial risk profiles of Union Bank. CRISIL has also factored in the support the bank is expected to receive from the government.

Key Rating Drivers & Detailed Description

Strengths

* Strong expectation of support from the Govt:

In its ratings on public sector banks (PSBs), CRISIL continues to factor in the likelihood of strong government support as the Central government is both the majority shareholder and the guardian of India's financial system. Stability of the banking sector is of prime importance to the government, given criticality of the sector to the economy, strong public perception of sovereign backing for PSBs, and severe implications of failure of any PSB in terms of political fallout, systemic stability, and investor confidence in public sector institutions. Majority ownership creates a moral obligation on the government to support PSBs, including Union Bank. As part of the Indradhanush framework, government has pledged to infuse at least Rs 70,000 crore in PSBs between 2015-19, of which Rs 25,000 crore each was infused in fiscals 2016 and 2017.

Union Bank received Rs 1080 crore equity capital in fiscal 2016 and Rs 541 crore in fiscal 2017. Government will continue to provide distress support to all PSBs and will not allow any of them to fail; it will also ensure they meet Basel III capital regulations.

* Adequate resource profile

Union Bank has adequate capitalisation, backed by Govt support. The bank's tier-I and overall capital adequacy ratio (under Basel III) were 9.24% and 12.0%, respectively, as on June 30, 2017 (9.0% and 11.8% as on March 31, 2017). However, networth coverage for net non-performing assets (NPAs) remained low at around 1.0 time as on June 30, 2017 (1.1 times as on March 31, 2017), given asset quality pressure. Nevertheless, CRISIL believes Union Bank's capitalisation will remain adequate over the medium term on account of continued Govt support.

* Sizeable scale of operations backed by extensive branch network

Union Bank is the sixth-largest PSB by asset size. Its share in deposits and advances in the domestic banking system was around 3.6% each as on June 30, 2017. The bank benefits from its wide reach in the rural and semi-urban areas, which accounted for 59% of its total branch network of 4286 (including 4 overseas branches) as on June 30, 2016; this facilitate access to a low-cost, stable resource base. The bank is expected to maintain its market share and pan-India presence over the medium term.

Weaknesses

* Weak asset quality

Asset quality of the bank is expected to continue to remain under pressure in the next few quarters. Gross NPAs ratio was high at 12.6% as on June 30, 2017 (~10.2% as on June 30, 2016). Slippages to NPA were high in fiscal 2017 (around 5% of opening advances) and the first quarter of fiscal 2018 (6.3% of opening advances) primarily in vulnerable sectors such as iron and steel,

infrastructure, and construction. As on June 30, 2017, about two third of the stock of gross NPAs are contributed by the corporate segment and its exposure remains high in vulnerable segment like infrastructure (~12% of advances). CRISIL believes stress will persist over the near term from weakness in corporate portfolios especially in loans in restructured category and loans structured under the strategic debt restructuring scheme (SDR).

The bank's ability to control slippages to NPAs and also improve recoveries will remain a key monitorable over the near term.

*** Modest earnings profile:**

With pressure on net interest margins and rise in NPA provisions, Union Bank's profitability has come under pressure. Return on assets was modest at 0.13% in fiscal 2017 and 0.1% (annualised) in the quarter ended June 30, 2017, due to increased provisioning cost. The net interest margin dipped to 2.06% in the quarter (2.26% in fiscal 2017), and is expected to remain under pressure due to interest reversal on NPAs and pressure on loan yields. The Banks pre-provision profits have been barely sufficient to meet the rising NPA provision requirement. Going ahead, ability to arrest weakening of asset quality and manage the resultant provisioning cost and, thereby, the impact on profitability, will remain a rating monitorable.

Outlook: Negative

CRISIL believes the asset quality and profitability of Union Bank will remain under pressure over the medium term. The ratings may be downgraded if sharper-than-expected deterioration in asset quality results in weakening of profitability. The outlook may be revised to 'Stable' if there is sustained improvement in asset quality and earnings.

About the Bank

Incorporated in 1919 in Mumbai, Union Bank was nationalised in 1969. Until August 2002, the government fully owned the bank. However, government stake was 63.44% in the bank as on June 30, 2017. Tier-I and overall capital adequacy ratios (under Basel III) were 9.24% and 12%, respectively, as on June 30, 2017.

In fiscal 2017, PAT was Rs 555 crore on total income (net of interest expense) of Rs 13,868 crore, against PAT of Rs 1352 crore on a total income (net of interest expense) of Rs 11946 crore in the previous year

Key Financial Indicators

Particulars	Unit	2017	2016
Total Assets	Rs. Cr.	452704	404695
Total income	Rs. Cr.	13868	11946
Profit after tax	Rs. Cr.	555	1352
Gross NPA	%	11.17	8.7
Overall capital adequacy ratio	%	11.79	10.56
Return on assets (annualized)	%	0.13	0.34

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Outstanding rating with Outlook
	Debentures/Bonds					
INE692A09134	XI-Lower Tier II 1st Tranche	12-Dec-07	9.35	12-Apr-18	400	CRISIL AA+/Negative
INE692A09241	XVI-B Lower Tier II	28-Dec-12	8.9	28-Dec-22	800	CRISIL AA+/Negative
INE692A08045	Basel III compliant Tier 2 Bonds	24-Nov-16	7.74	24-Nov-26	750	CRISIL AA+/Negative
INE692A08011	Basel III compliant Tier 2 Bonds	22-Aug-16	8	22-Aug-26	1000	CRISIL AA+/Negative
INE692A09266	XVII-A Basel III compliant Tier II bonds	22-Nov-13	9.8	22-Nov-23	2000	CRISIL AA+/Negative
INE692A09142	XI-II Tranche Perpetual	12-Dec-07	9.9	Perpetual	200	CRISIL AA+/Negative
INE692A09159	XII - Perpetual	9-Sep-08	11.15	Perpetual	200	CRISIL AA+/Negative
INE692A09191	XII Perpetual	30-Mar-09	9.1	Perpetual	140	CRISIL AA+/Negative
INE692A09209	XIV-A Perpetual	16-Jun-09	8.85	Perpetual	200	CRISIL AA+/Negative
INE692A09217	XIV-B Upper Tier II	25-Jun-09	8.65	25-Jun-24	500	CRISIL AA+/Negative
INE692A09225	XIV-C Upper Tier II	27-Jan-10	8.55	27-Jan-25	500	CRISIL AA+/Negative
INE692A09233	XV-A Upper Tier II	28-Jun-10	8.48	28-Jun-25	500	CRISIL AA+/Negative
INE692A09118	Perpetual bond	10-Oct-06	9.45	Perpetual	300	CRISIL AA+/Negative
INE692A09126	Upper Tier II (under Basel II) *	16-Oct-06	8.95	16-Oct-21	750	CRISIL AA+/Negative
NA^	Upper Tier II (under Basel II)	NA	NA	NA	250	CRISIL AA+/Negative

^yet to be issued

*CRISIL is awaiting independent confirmation of redemption before withdrawing ratings on these instruments

Annexure - Rating History for last 3 Years

	Current	2017 (History)	2016	2015	2014	Start of 2014

Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST		--		--	07-10-16	Withdrawal		No Rating Change		No Rating Change	CRISIL A1+
Lower Tier-II Bonds (under Basel II)	LT	1200	CRISIL AA+/Negative		No Rating Change		No Rating Change	18-02-15	CRISIL AAA/Negative		No Rating Change	CRISIL AAA/Stable
Perpetual Tier-I Bonds (under Basel II)	LT	1040	CRISIL AA+/Negative		No Rating Change		No Rating Change	18-02-15	CRISIL AAA/Negative		No Rating Change	CRISIL AAA/Stable
Tier I Bonds (Under Basel III)	LT		--		--	24-08-16	Withdrawal	18-02-15	CRISIL AA/Negative		--	--
Tier II Bonds (Under Basel III)	LT	3750	CRISIL AA+/Negative		No Rating Change		No Rating Change	18-02-15	CRISIL AAA/Negative		No Rating Change	CRISIL AAA/Stable
Upper Tier-II Bonds (under Basel II)	LT	2500	CRISIL AA+/Negative		No Rating Change		No Rating Change	18-02-15	CRISIL AAA/Negative		No Rating Change	CRISIL AAA/Stable

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating Criteria for Banks and Financial Institutions](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

[Criteria for rating Short-Term Debt \(including Commercial Paper\)](#)

[Rating Criteria for Hybrid Capital in Banks](#)

[Rating criteria for Basel III - compliant non-equity capital instruments](#)

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