यूनियन बैंक ऑफ इंडिया Union Bank of India
भारत सरकार का उपक्रम A Government of India Undertaking
आन्ध्रा Andhra कार्पोरेशन Corporation

संदर्भ Ref.:नि.से.वि.ISD/244/2022-23 दिनांक Date : 04 October 2022

BSE Ltd. Corporate Relationships Dept. Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001. **BSE Listing Centre** Scrip Code-532477	**National Stock Exchange of India Ltd.** Listing Dept. Exchange Plaza, Plot No.C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai-400 051. **NSE Digital Exchange** Scrip Symbol-UNIONBANK-EQ Security - UBI-AT/BB

महोदया Madam/महोदय Sir,

Subject: Reporting under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015-Revision in Credit Rating

In terms of Regulation 30 read with point 3 of Para A of Part A of Schedule III and Regulation 55 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 Fitch Ratings Ltd. on October 04, 2022 has reaffirmed the rating and outlook of the Bank as per following details:

S. No	ISIN	Name of the Credit Rating Agency	Parameter	Credit Rating assigned	Outlook (Stable/Positive/Negative/No outlook)	Rating Action (New/Upgrade/Downgrade/Reaffirm/Other	Specify other rating action	Date of Credit Rating	Verification status of Credit Rating Agencies	Date of Verification
1	INE692A01016	Fitch Ratings	Long -Term Issuer Default Rating (IDR)	BBB-	Stable	Reaffirmed	NA	04-10-2022	Verified	04-10-2022
2			Short -Term Issuer Default Rating (IDR)	F3			NA			
3			Viability	b			NA			
4			Government Support rating	bbb-			NA			

This is for your information and appropriate dissemination.

Thanking you.

भवदीय Yours faithfully,

(सीएस एस. के. दाश CS S. K. Dash)
कंपनी सचिव Company Secretary
एफ़सीएस FCS - 4085
Cc to : Debenture Trustees

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Union Bank of India at 'BBB-'; Outlook Stable

Tue 04 Oct, 2022 - 7:17 AM ET

Fitch Ratings - Singapore/Mumbai - 04 Oct 2022: Fitch Ratings has affirmed Union Bank of India's Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Stable. The agency has also affirmed the bank's Viability Rating (VR) at 'b' and its Government Support Rating (GSR) of 'bbb-'. A full list of rating actions is below.

KEY RATING DRIVERS

Support-Driven IDR, Given Higher Risk Profile: Union Bank of India's IDR is driven by its GSR of 'bbb-', which is the same as India's sovereign rating (BBB-/Stable) and reflects Fitch Ratings' expectation of a high probability of extraordinary state support for Union, if required. Union's 'b' VR is one notch below the implied VR, since we believe that the bank's risk profile has a greater impact on the VR than what is implied by its weighting, while factoring in Union's improving capitalisation and profitability.

High Systemic Importance: Union's GSR stems from its high systemic importance due to its large size, with a market share of 6% in sector assets and deposits, and the state's 83.5% ownership. The bank also plays a quasi-policy role through social lending. The Stable Outlook on the IDR mirrors the Outlook on the sovereign IDR.

Risk Profile Drives VR: Union's risk profile score of 'b' has a high influence on our assessment of the VR. The score is closely aligned with Union's asset quality score and reflects the quality of its underwriting and risk controls, since credit risk accounts for over 80% of risk-weighted assets (RWAs). Its risk profile should continue driving the VR as the bank pursues higher loan growth across segments, which will test risk management processes and systems.

We expect management to be focused on diversified growth, including granular and secured loan segments within retail and farm loans, and be cautious towards SME loans. Nevertheless, Union's risk appetite was previously significantly higher, which has exacerbated the negative impact on key financial metrics in less-benign operating environments (OEs).

Stable Operating Environment Supports VR: Fitch expects India's strong potential GDP growth of 7% over the medium term and stable OE - despite some near-term inflationary pressures - to result in moderate opportunities for profitable business for banks. Our view is further aided by India's large and diversified economy, high domestic consumption growth, and reasonable insulation from external risks.

Large Franchise: Union's business profile score of 'bb+' is above the OE score of 'bb', as we believe its large franchise should support business volumes commensurate with the score, provided the risks are well controlled. This is important since the bank's significantly higher risk appetite has weighed on its business profile, partly under government influence, similar to other state banks.

Union has a nationwide franchise as one of India's top five state-owned banks and has a traditional business model, with loans and government securities comprising 83% of assets. It has a renewed focus on loan growth as capital-related challenges gradually ease, but the bank faces stiff competition from large state and private banks.

Impaired Loans Yet to Ease: Its impaired-loan ratio (Q1FY23: 10.2%) is above most peers', despite a 350bp drop since FY21 that was driven by write-offs and moderately better recoveries, but pressures are yet to ease despite regulatory forbearance on Covid-affected loans. We expect a moderate improvement in FY23, followed by fresh pressures in FY24 as relief measures unwind. Fitch has a stable outlook on the score, as we expect the four-year average impaired-loan ratio to remain well above the 'bb' category threshold of 5% in the near term.

Moderate Earnings Recovery Underway: Fitch has revised Union's earnings and profitability score to 'b', from 'b-', on improving profitability. The operating profit/RWA ratio was stable at 1.6% in 1QFY23 (FY22: 1.6%, FY21: 0.4%) on the back of steady loan-impairment charges. We expect profitability to improve further, but any further upward revision would be contingent on our view of sustained earnings stability, which will depend on the bank's ability to control loans and securities impairment charges through the cycle.

Improving Capitalisation: Fitch has revised Union's capitalisation and leverage score to 'b+', from 'b', to reflect the improvement in its common equity Tier 1 (CET1) ratio of 10.7% at 1QFY23 from 9.1% in FY21, and our expectation that the ratio would improve further. Capital buffers improved, largely due to better internal capital generation along with lower regulatory deductions. We expect the momentum to continue, with some additional upside in the near term with fresh equity-raising to reduce the government's majority shareholding to below 75%, as per market regulations.

Stable Funding and Liquidity: Union's stable funding is driven by high depositor confidence, thanks to its close state linkages, as reflected in the high share of customer deposits in its total funding (95% in 1QFY23). The loan/customer deposit ratio normalised to 73% in 1QFY23 from 70% in FY22, in line with our expectations. We expect the trend to continue amid normalising system liquidity, but liquidity and funding should remain stable due to its large investments in government securities well over statutory norms. That said, Union, like other banks in India, is exposed to the sovereign, directly and indirectly.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

IDR AND GSR

The GSR is most sensitive to Fitch's assessment of the government's propensity and ability to support Union, based on its 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 ratings - would likely lead to negative action on the IDR.

Negative action on the IDRs is also likely should Fitch perceive any reduction in the government's propensity to extend timely support, in which case the agency will reassess the GSR, and in turn, the banks' IDRs, although that is not our base case.

VR

We expect Union's VR to be stable since it is below the implied VR. A downgrade is less likely in our base scenario, but it is possible if there is significant deterioration in the OE, and if the bank's risk profile were to become a more binding constraint on its modest loss-absorption buffers.

This could manifest in case of a significantly weaker levels on all the three key financial metrics mentioned below, and accompanied by a lower business profile score:

- the four-year average impaired-loan ratio approaching 20%;

- resurgence of losses that puts Union's structural profitability in doubt;

- a significant drop in Union's CET1 ratio from current levels, and closer to the regulatory minimum of 8%, without a credible plan to restore it to closer to 12% or above.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

IDR AND GSR

Positive sovereign rating action would lead to a corresponding change to Union's Long-Term IDR, if Fitch believes that the sovereign's ability and propensity to support the bank has improved. However, an upgrade of the sovereign rating appears less likely in the near term.

A VR upgrade is unlikely to affect the IDR, as it is five notches below the IDR.

VR

A VR upgrade is possible if the score is revised upwards for two or more of the Key Rating Drivers. It could manifest in stronger key financial metrics, such as a combination of two or more of the factors mentioned below, assuming our assessment of the business profile remains unchanged:

- the CET1 ratio is sustained closer to 12%;

- the four-year average impaired-loan ratio drops below 10%;

- the four-year average operating profit/RWA ratio approaches and sustains close to 1.25%, coupled with lower earnings volatility.

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

VR ADJUSTMENTS

Union's VR is one-notch lower than Fitch's implied VR. Fitch has used the risk profile as a negative adjustment factor to arrive at the assigned VR, as we believe that the bank's risk profile has a greater impact on the VR than suggested by the weighting.

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

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

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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

Union's IDR and Outlook are the same as India's sovereign rating and are thus directly linked via the bank's GSR, which reflects our view of the probability of extraordinary state support, should there be a need.

ESG CONSIDERATIONS

Union Bank has an ESG Relevance Score of '4' for governance structure, in line with similarly rated state banks. This reflects our assessment that key governance aspects, particularly board independence and effectiveness, ownership concentration and protection of creditor or stakeholder rights, are of moderate influence, yet negative for Union's credit profile, and relevant to the ratings in conjunction with other factors.

Fitch views Union's governance as less developed, similar to other Indian state banks, evident from significant lending to higher-risk borrowers and segments that has led to high levels of poorly performing loans and credit losses. The board is dominated by government appointees, and business models often focus on supporting government strategy, with lending directed towards promoting socioeconomic and macroeconomic policies. This may include lending to central state-owned companies. These factors also drive our view on the bank's state linkages. This affects the support prospects that drive the long-term ratings.

Union has an ESG Relevance Score of '4' for financial transparency, reflecting our assessment that the quality and frequency of financial reporting and the auditing process are of moderate influence, yet negative for Union's credit profile, and relevant to the ratings in conjunction with other factors. These factors have become more prominent in the past few years due to the sharp financial deterioration at state banks and widely reported divergence in non-performing loan recognition between the banks and the regulator, although these incidences have declined. Still, we view financial transparency as pivotal for general business and depositor confidence, as it can lead to significant reputational risk if not managed well.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Union Bank of India	LT IDR	BBB- Rating Outlook Stable Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3 Affirmed	F3
	Viability	b Affirmed	b
	Government Support	bbb- Affirmed	bbb-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 08 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Union Bank of India	EU Endorsed, UK Endorsed

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