

August 6, 2010

CARE ASSIGNS 'CARE AA' RATING TO LOWER TIER II BONDS ISSUE AND REAFFIRMS RATINGS OF VARIOUS INSTRUMENTS OF PUNJAB & SIND BANK

Ratings

Instrument	Amount o/s (Rs. Crore)	Ratings ¹	Remarks
Lower Tier II bonds	400	CARE AA	Reaffirmed
Lower Tier II bonds	175	CARE AA	Reaffirmed
Upper Tier II bonds	350	CARE AA-	Reaffirmed
Lower Tier II bonds	300	CARE AA	Assigned

CARE has assigned '**CARE AA**' [**Double A**] rating to PSB proposed issue of Lower Tier II bonds of Rs.300 crore. Further, CARE has also retained other existing ratings to PSB's various bonds issues.

Rating Rationale

The rating for Upper Tier II bonds is one notch lower than the Lower tier II Bonds in view of its increased sensitiveness to PSB's capital adequacy ratio, capital raising ability and profitability during the long tenure of the instrument. It also factors in the additional risk arising due to the existence of the lock-in clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in clause, would constitute as an event of default as per CARE's definition of default, and as such this instrument may exhibit somewhat sharper migration of rating as compared to conventional subordinated debt instruments.

The rating factors in strong growth in asset base, improving profitability and asset quality over the last couple of years. The ratings are however constrained by PSB's relatively small size, low technology orientation and declining proportion of low cost deposits. PSB's ability to grow its business, improve profitability and core capital through equity infusion while maintaining asset quality are the key rating sensitivities.

CARE has considered existing 100% Government of India (GoI) ownership of PSB and the recent restructuring of its equity capital into preference shares and hybrid instruments which is expected to pave way for raising fresh capital in the near future.

Background

PSB was established at Amritsar, Punjab in 1908, by Bhai Vir Singh, Sir Sunder Singh Majitha and Sardar Tarlochan Singh. The Bank was nationalized in 1980 and became a public sector bank. It is wholly owned by GoI. It has a network of 918 branches (as on March 31, 2010) spread all over India. However, majority of branches are in northern India. PSB is managed by a broad-based Board of Directors having rich and varied experience with Mr. P.K. Anand as Executive Director (ED).

¹ Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

During FY10, PSB's advances grew by 32% to Rs.32,639 crore while its deposits grew by 41.76% to Rs.49,155 crore. It earned a PAT of Rs.509 crore on Total Income of Rs.4,346 crore. Its asset quality remained relatively comfortable with Gross NPA ratio and Net NPA ratios at 0.63% and 0.36%, respectively as on March 31, 2010. PSB reported a Capital Adequacy Ratio of 13.10% (Tier I - 7.68%) as on March 31, 2010.

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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