

Ref.: SD:40/41/11/12::2024-25

16.04.2024

The Vice President
BSE Ltd.
Phiroze Jeejeebhoy Towers
Dalal Street
MUMBAI - 400 001

Scrip Code: 532483

The Vice President
Listing Department
National Stock Exchange of India Ltd
EXCHANGE PLAZA
Bandra-Kurla Complex, Bandra [E]
MUMBAI - 400051
Scrip Code: CANBK

Dear Sir/Madam,

Sub: Affirmation of Ratings by Fitch

Ref: Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015

The Exchanges are hereby informed that the Fitch (Rating Agency) has affirmed Canara Bank's Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Stable. Fitch has also affirmed the Viability Rating (VR) at 'bb-' and Government Support Rating (GSR) at 'bbb-'.

A copy of the rating action commentary is enclosed herewith.

This is for your information and appropriate dissemination.

Yours faithfully,

SANTOSH KUMAR BARIK
COMPANY SECRETARY

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RATING ACTION COMMENTARY

Fitch Affirms Canara Bank at 'BBB-'; Outlook Stable

Tue 16 Apr, 2024 - 4:05 AM ET

Fitch Ratings - Singapore/Mumbai - 16 Apr 2024: Fitch Ratings has affirmed Canara Bank's Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Stable. Fitch has also affirmed the Viability Rating (VR) at 'bb-' and Government Support Rating (GSR) at 'bbb-'. A full list of rating actions is below.

KEY RATING DRIVERS

Government Support-Driven IDR: Canara's Long-Term IDR and its GSR are at the same level as India's sovereign rating (BBB-/Stable), reflecting our view of a high probability of extraordinary state support for the bank, if required. This takes into consideration the state's 63% ownership as well as the bank's large size and reach, and our assessment of the state's strong propensity to support the banking system in general. The Stable Outlook on the IDR mirrors that on the sovereign IDR.

Canara's 'bb-' VR is a notch below the implied VR, since Fitch believes that its risk profile has a greater impact on the VR than what is implied by the weighting.

Supportive Operating Environment: The operating environment (OE) score of 'bb+', which is higher than Fitch's implied score in the 'b' category, takes into account our view of India's robust medium-term growth potential. Fitch expects GDP to grow by 7% in 2024 and 6.5% in 2025, supported by investment prospects. The economy remains resilient as healthy business sentiment, buoyant financial markets and the government's capital spending buffered global economic headwinds and inflation. These factors are conducive for banks to sustain profitable business, provided risks are well-managed.

Large Franchise: Canara's business profile score of 'bb+' reflects the bank's strong local franchise and reach as India's fourth-largest state bank. This is counterbalanced by the

bank's high risk appetite, which has weighed on its traditional business model in the past and was partly a result of government influence, similar to other state banks.

Growing Risk Appetite: Risk profile is an influential factor that weighs on our assessment of Canara's VR, as a higher risk appetite had pressured its financial metrics when the OE was weaker. We see a return in its appetite for loan growth, which has averaged around 13% since the financial year ended March 2021 (FY21), well above the 6% average in the preceding five years.

Growth appetite is higher for farm loans, along with some opportunistic growth in corporate loans in recent years, although Canara appears to have been more cautious towards retail loans than its peers. We expect loan growth to remain broadly in line with peers, but asset-quality risks through the cycle can have an impact on the VR if not well managed.

Improving Asset Quality: We have revised Canara's asset-quality score to 'bb-', from 'b+', as we expect the bank's impaired-loan ratio to continue to fall, reaching below 3.5% in FY25. The impaired-loan ratio fell to 4.4% in 9MFY24, from 5.4% in FY23, and the loan loss allowance/impaired-loan ratio rose to 71%, from 69% in FY23. We have revised the outlook to stable from positive, as we anticipate that asset-quality metrics will remain consistent with the current score in the foreseeable future.

Improving Profitability: The revision in the earnings and profitability score to 'bb-', from 'b+', reflects an improved core metric, and our expectation that the four-year average operating profit/risk-weighted asset (OP/RWA) ratio will exceed Fitch's 'bb' threshold of 1.25% in the near term. Canara's OP/RWA rose to 3.0% in 9MFY24, from 2.4% in FY23, as loan impairment charges fell by 20bp to 1% of loans in 9MFY24, alongside a moderately better net interest margin. The outlook is stable as we believe the OP/RWA can be maintained close to our FY24 forecast of 2.9%, despite impending margin pressure.

Largely Stable Capital Buffers: We expect Canara's common equity Tier 1 (CET1) ratio to improve moderately, on steady internal capital generation, notwithstanding the 30bp fall in the ratio to 11.3% in 9MFY24. The fall was driven by the one-off impact of higher risk weights on loans to consumers and non-bank financial institutions. The bank's capital buffers can withstand moderate shocks, given its improved net impaired loans/CET1 ratio of 16.4% in 9MFY24, against 21.8% in FY23.

Robust Funding and Liquidity: Funding and liquidity is a strength for the VR, underpinned by high depositor confidence. We estimate that the loan/customer deposit ratio rose by

about 200bp in 9MFY24, from 79% in FY23, and is now close to the 82% level in FY18. We expect the ratio to increase moderately over the next one to two years, although the bank's excess investments in liquid government securities should continue to support liquidity. The liquidity coverage ratio was 135.8% in 9MFY24.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDR AND GSR

The Long-Term IDR and GSR are most sensitive to Fitch's assessment of the government's propensity and ability to support Canara, based on its size, systemic importance and state linkages. A weakening of the government's ability to provide extraordinary support - as reflected in a downgrade of India's sovereign rating - would lead to a downgrade of the bank's Long-Term IDR.

Negative action on the Long-Term IDR 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 bank's Long-Term IDR and senior debt ratings, although that is not our base case.

The Short-Term IDR is mapped to the Long-Term IDR in line with Fitch's criteria, and will lead to a negative action if the Long-Term IDR is downgraded.

VIABILITY RATING

We expect the VR to be stable over the near-to-medium term, but it could be downgraded if Fitch believes that Canara's risk profile has deteriorated to a point where it can pose risks in a less benign OE and become a more binding constraint on the bank's loss-absorption buffers.

Such a scenario would also be likely to manifest as significant weakness in key financial metrics from current levels, such as a combination of those below:

- The four-year average impaired-loan ratio approaching 10% (FY23: 7.5%, but trending towards 6.5% in 9MFY24);

- The four-year average OP/RWA ratio falling to the point where structural profitability is very weak, if not in doubt;
- A drop in the CET1 ratio to 10% or below.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDR and GSR

Positive rating action on the sovereign appears unlikely in the near term, but it could lead to corresponding changes to Canara's Long-Term IDR if Fitch believes that the sovereign's ability and propensity to support the bank have improved. A VR upgrade is unlikely to affect the IDR, as it is three notches below the IDR.

The bank's Short-Term IDR may also be upgraded in the event that the sovereign's Short-Term IDR is upgraded. If the bank's Long-Term IDR is upgraded based on a strengthening of its VR, any upgrade of the bank's Short-Term IDR would be contingent on our assessment of the funding and liquidity score being at least 'bbb+', which is two notches above our current assessment. We do not foresee this possibility in the medium term.

VR

Internal

A VR upgrade is possible if we believe the bank's risk profile has meaningfully and sustainably improved, which would be likely to manifest in stronger key financial metrics, such as a combination of the factors mentioned below, assuming no changes to our assessment of the OE score:

- The four-year average impaired-loan ratio being sustained well below 3%;
- A sustained profitability improvement that keeps the four-year average OP/RWA ratio at or above 3%; and
- The CET1 ratio being sustained at or above 15%.

An improvement in the OE score to the 'bbb' category that also indicates an improving risk profile could potentially lead to a VR upgrade, although we do not see it as likely in the near future.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The bank's medium-term note (MTN) programme and senior notes are rated at the same level as its Long-Term IDR, in line with Fitch's criteria. The notes constitute the bank's direct, unsubordinated and unsecured obligations and rank pari passu with all its other unsecured and unsubordinated obligations.

Canara's Long-Term IDR (xgs) is driven by its VR, and its Short-Term IDR (xgs) is in accordance with its Long-Term IDR (xgs) and the short-term rating mapping outlined in Fitch's criteria. Canara's senior unsecured long-term ratings (xgs) are assigned at the level of the Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Canara's MTN programme rating and senior debt will move in line with its IDR. The ratings will be downgraded if the Long-Term IDR is downgraded. They will also be upgraded should the IDR be upgraded, although we think this is unlikely in the near term.

The Long-Term IDR (xgs) would move in tandem with the VR, while the Short-Term IDR (xgs) is primarily sensitive to changes in its Long-Term IDR (xgs) and is mapped as per Fitch's criteria. A change in Canara's Long-Term IDR (xgs) would lead to a similar change in its long-term senior unsecured ratings (xgs).

Internal

VR ADJUSTMENTS

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 continues to have a greater impact on the VR than suggested by the weighting.

The OE score of 'bb+' is above the implied category score of 'b' for the following adjustment reasons: economic performance and size and structure of the economy (positive).

The business profile score of 'bb+' is below the implied category of 'bbb' for the following adjustment reason: management and governance (negative).

The asset-quality score of 'bb-' is above the implied category of 'b' for the following reason: historical and future metrics (positive).

The earnings and profitability score of 'bb-' is above the implied category of 'b' for the following reason: historical and future metrics (positive).

The funding and liquidity score of 'bbb-' is above the implied category of 'bb' for the following reason: deposit structure (positive).

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

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

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

ESG CONSIDERATIONS

Canara has an ESG Relevance Score of '4' for Governance Structure, in line with other 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, have a moderately negative influence on Canara's credit profile and are relevant to the ratings in conjunction with other factors.

Fitch regards Canara's governance as less developed, similar to other Indian state banks. This is evident from its significant lending to higher-risk borrowers and segments, which has increased the level of stressed loans and credit losses compared with higher-rated peers.

The board is dominated by government appointees, while the business model is focused on supporting government strategies, with lending directed towards promoting socio- and macroeconomic policies, including lending to government-owned companies. These factors also drive our view on the bank's state linkages, which affect support prospects and therefore drive the long-term ratings.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an

observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/topics/esg/products#esg-relevance-scores

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			PRIOR ⇅
Canara Bank	LT IDR	BBB- Rating Outlook Stable		BBB- Rating Outlook Stable
	Affirmed			
	ST IDR	F3	Affirmed	F3
	Viability	bb-	Affirmed	bb-
	Government Support	Internal bbb-	Affirmed	bbb-
	LT IDR (xgs)	BB-(xgs)	Affirmed	BB-(xgs)
	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)
senior unsecured	LT	BBB-	Affirmed	BBB-
senior unsecured	LT (xgs)	BB-(xgs)	Affirmed	BB-(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 16 Mar 2024\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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Canara Bank

EU Endorsed, UK Endorsed

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