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31.08.2023

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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. The same is also available in the following web link: -

<https://www.fitchratings.com/research/banks/fitch-affirms-canara-bank-at-bbb-outlook-stable-31-08-2023>

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

Thu 31 Aug, 2023 - 3:19 AM ET

Fitch Ratings - Singapore/Mumbai - 31 Aug 2023: Fitch 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

Support-Driven IDR: Canara's IDR is driven by its GSR and is at the same level as the India sovereign rating (BBB-/Stable). This reflects a high probability of extraordinary state support for the bank, if required. The Stable Outlook on the IDR mirrors the Outlook on the sovereign IDR.

High Systemic Importance: Canara's GSR reflects its high systemic importance. This is based on the state's 63% ownership of Canara as well as the bank's large size and reach and quasi-policy role via social lending.

Supportive Operating Environment: We have revised the operating environment (OE) score to 'bb+', from 'bb', to reflect our view of structural improvements since the onset of the Covid-19 pandemic. We forecast India to be one of the fastest-growing Fitch-rated sovereigns in 2023, while healthy business sentiment, resilient financial markets and the government's capital spending should buffer global economic headwinds and inflation. India also exhibits robust medium-term growth potential, supported by resilient investment prospects.

Combined with an already large and diversified economy, we believe the environment is conducive for banks to do consistently profitable business, provided risks are well-managed.

Large Franchise: Canara's business profile score of 'bb+' is aligned with the OE score. It reflects our expectation that the bank's strong local franchise and reach, as India's fourth largest state bank, will sustain its business and revenue generation,

commensurate with the score, provided risks are well managed. That said, government influence can weigh on its traditional business model and risk appetite, similar to other state banks.

Growing Risk Appetite: Loans rose by 13.3% yoy in the first quarter of the financial year ending March 2024 (1QFY24), well above the bank's 10%-11% guidance for FY24. This reflects risk appetite returning for farm and corporate loans, although Canara has been more cautious towards retail loans. We expect the bank to moderately surpass its loan growth guidance for FY24, but to remain broadly in line with peers. Managing asset-quality risk through the cycle is important for the VR, as a higher risk appetite had previously raised financial pressure in a less benign OE.

Improving Asset Quality: We have revised our outlook on the 'b+' asset quality score to 'positive', from 'stable', as we expect a further improvement in the bank's four-year average impaired-loan ratio. The ratio declined to 5.2% in 1QFY24 (FY23: 5.4%, FY22: 7.5%) and the loan loss allowance/impaired loans ratio rose to 71% (FY23: 69%). We expect credit costs, which stood at 1.1% in 1QFY24, to remain stable, as we expect the bank to sustain its asset-quality improvement and do not believe that the unwinding of forbearance measures will significantly affect its asset quality.

Sharp Improvement in Profitability: We have revised Canara's earnings and profitability score to 'b+', from 'b', to reflect the bank's improving profitability. We also have a positive outlook on score, as we expect the four-year average operating profit/risk-weighted asset (OP/RWA) ratio to exceed our 'bb' threshold of 1.25% by FYE24. The ratio rose to 3.3% in 1QFY24, from 2.4% in FY23, as loan impairment charges continued to decline, accompanied by higher loan growth and a better net interest margin.

Improving Capital Buffers: We have revised Canara's capitalisation and leverage score to 'bb-', from 'b+', following its improved 1QFY24 common equity Tier 1 (CET1) ratio of 12.1%, including profit, as per our estimate, from 10.3% in FY22. The higher score also reflects our opinion that the bank's capital buffers can withstand moderate shocks, given its better net impaired loans/CET1 ratio of to 19.6%, against 33.8% in FY22. The improvements have been driven by better internal capital generation and lower regulatory deductions.

We expect accruals to remain supportive and for the CET1 ratio to remain stable amid steady loan growth, dividend payouts and a gradual rise in risk density.

Robust Funding and Liquidity: Canara's 'bbb-' funding and liquidity score is underpinned by high depositor confidence and is a strength for the VR. We estimate

that the loan/customer deposit ratio was about 80% in 1QFY24, slightly up from 79% in FY23, albeit still below the 82% levels seen in FY18. There is potential for further normalisation, although the bank's excess investments in liquid government securities should continue to support liquidity, with a liquidity coverage ratio of 129.5% in 1QFY24.

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 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 be likely to lead to negative action on 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.

VR

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 increased to a point where it can pose risk 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 in significant weakness in key financial metrics from current levels, such as a combination of all three factors below:

the four-year average impaired loans ratio approaching 10% (current: 7.5%);

the four-year average OP/RWA ratio (current: 1.1%) remaining well below the 'bb' threshold of 1.25%;

a drop in the CET1 ratio closer to 10%.

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 would lead to corresponding changes to Canara's Long-Term IDR if Fitch believes that the sovereign's ability and propensity to support the bank has improved. A VR upgrade is unlikely to affect the IDR, as it is three notches below the IDR.

VR

A VR upgrade is possible if we revise up our assessment of the bank's key rating factors and believe the bank's risk profile has meaningfully and sustainably improved amid a better OE, which would be likely to manifest in stronger key financial metrics, such as a combination of the factors mentioned below:

the four-year average impaired loan ratio being sustained at well below 5%;

a sustained profitability improvement that keeps the four-year average OP/RWA ratio well above 1.25%; and

the CET1 ratio is sustained well above Fitch's 'bb' threshold.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The bank's medium-term note 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 programme rating and senior debt will move in line with its IDR. The ratings will be downgraded if the Long-Term IDR is downgraded. It will also be upgraded should the IDR be upgraded, though 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 IDRs (xgs) would lead to a similar change in its long-term senior unsecured ratings (xgs).

VR ADJUSTMENTS

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 capitalisation and leverage score of 'bb-' is above the implied category of 'b and below' for the following adjustment 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).

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

The 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 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.

Similar to other Indian state banks, Fitch regards Canara's governance as less developed. This is evident from significant lending to higher-risk borrowers and segments, which has increased the level of stressed loans and credit losses compared with better-rated peers. The board is dominated by government appointees and the business model is focused on supporting government strategies, with lending directed towards promoting socio and macroeconomic policies. This may include 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.

Fitch has revised Canara's ESG Relevance Score for Financial Transparency to the sector default score of '3', from '4', as the agency believes risks from Covid-19 pandemic-affected loans under forbearance have receded, despite some limitation in disclosure for those loans. This is because we believe a large proportion of stressed loans may be covered by a government guarantee, which limits the risk of losses from this portfolio. The quality and frequency of financial reporting and audit processes are also commensurate with a score of '3' and do not weight materially on our assessment of intrinsic creditworthiness.

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	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 \(pub. 08 Sep 2022\) \(including rating assumption sensitivity\)](#)

[Bank Ex-Government Support Ratings Criteria \(pub. 11 Apr 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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Canara Bank

EU Endorsed, UK Endorsed

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