केनरा बैंक Canara Bank
भारत सरकार का उपक्रम
A Government of India Undertaking
सिंडिकेट Syndicate

Ref:: SD:337/338/11/12::2022-23 **06.10.2022**

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 - 400 051** Scrip Code: **CANBK**

Dear Sir/Madam,

Sub : Affirmation of Long-Term Issuer Default Rating (IDR) & Upgradation of Viability Rating (VR) by Fitch Ratings (Rating Agency)
Ref : Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015

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

The ratings along with rating rationale are available on the Fitch Ratings' Website - www.fitchratings.com. (Copy enclosed)

This is for your information and appropriate dissemination.

Yours faithfully,

VINAY MOHTA
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Date: 2022.10.06 09:53:06 +05'30'

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COMPANY SECRETARY

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FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Canara Bank's IDR at 'BBB-', Upgrades VR to 'bb-'

Tue 04 Oct, 2022 - 9:05 AM ET

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

KEY RATING DRIVERS

Support-Driven IDR, VR Upgrade: Canara's IDR is driven by its GSR of 'bbb-', which is above the VR, reflecting Fitch's expectation of a high probability of extraordinary state support for the bank, if required. Fitch has upgraded Canara's VR to 'bb-' on the improvement in its asset quality and earnings, which we expect to be sustainable in a stable operating environment (OE).

High Systemic Importance: Canara's GSR is at the same level as India's sovereign rating (BBB-/Stable), which also reflects our expectation of a high probability of extraordinary state support for the bank, if required. This stems from Canara's high systemic importance due to its large size with a market share of 6% each in sector assets, loans, and deposits, and the state's 63% stake in the bank. The bank also plays a quasi-policy role through social lending. The Stable Outlook on the IDR mirrors the Outlook on the sovereign IDR.

Stable OE Supports VR: Fitch expects India's strong medium-term growth potential of 7% and a relatively stable OE - despite some near-term inflationary pressure - to create moderate opportunities for a profitable business for banks. Our view on the OE is further supported by India's large and diversified economy, high domestic consumption growth, and reasonable insulation from external risks.

Large Franchise: Canara's business profile score of 'bb+' is above the OE score of 'bb', since we believe that the bank's strong local franchise and pan-India reach as the country's fourth-largest state bank should continue to lead to sustained income and profit generation commensurate with the score. However, capital pressures due to past balance-sheet issues and more aggressive lending by peers have challenged its market share in recent years.

Government influence has weighed on Canara's traditional business model (loans and government securities: 82% of assets), even more so its risk appetite, similar to other state banks. Fitch believes the bank's risk appetite was previously higher, which, in less-benign OE conditions, exacerbated the negative impact on key financial metrics.

Improving Loan Growth: We expect Canara to surpass its guidance of more than 10% loan growth in the financial year ending March 2023 (FY23) given its current risk appetite and high corporate credit demand, including from overseas loans. The bank is still emphasising credit quality, given the need to ensure optimum capital utilisation. We expect above-average growth in retail and farm loans to continue though focus on secured asset classes such as housing and gold loans should continue to moderately balance risks and rewards.

Improving Asset Quality: Fitch has reassessed Canara's asset-quality score to 'b+' from 'b' due to easing asset-quality pressure, which we expect to be sustained and progressively reflected in the bank's four-year average impaired-loan ratio. The outlook is stable, as we expect the four-year average to remain above the 'bb' threshold of 5% in the near term.

The impaired-loan ratio fell to 7% in 1QFY23 from 8.9% in FY21 on lower fresh impaired loans and higher upgrades, although write-offs also helped. The specific loan-loss cover improved moderately to 66%, mitigating some risks. Still, the cover is below that of most peers, which could put pressure on loan impairment charges if stress were to exceed our expectations.

Improving Profitability: We have also reassessed our earnings and profitability score to 'b' from 'b-' on Canara's improved profitability, indicated by the continued rise in operating profit/risk-weighted assets (OP/RWA) to 2.2% in 1QFY23, from 1.7% in FY22. The score has a positive outlook, underpinned by Fitch's expectation that the four-year average

OP/RWA would improve further if risks associated with the gradual unwinding of regulatory forbearance prove to be manageable.

Moderate Capital Buffers: Canara's common equity Tier 1 (CET1) ratio of 10.5% at 1QFYE23 is 250bp above the regulatory minimum. The ratio has recovered by nearly 200bp since the merger with a mid-sized bank in 2020 due to better profit and a moderate amount of equity raised during the period. However, capital could be vulnerable to moderate shocks in light of its limited contingency provisions against potential risks and an elevated, albeit improved, net impaired loan/CET1 ratio of 32.5%.

Stable Funding and Liquidity: Canara's funding stability is underpinned by high depositor confidence, driven by its close state linkages. The loan/customer deposit ratio rose to 72% in FY22 from 70% a year earlier, which we expect to continue amid normalising liquidity conditions. Canara's liquidity coverage ratio (1QFY23: 135%) and funding should remain stable due to its large investments in liquid government securities in excess of statutory requirements, which can be used to generate liquidity, similar to other state banks. Still, Indian banks are directly and indirectly exposed to sovereign risks.

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 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 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

Canara's VR reflects a moderate degree of financial strength. We expect the VR to be stable over the near-to-medium term, but it could be downgraded if a significant deterioration in the OE increases risks for the bank and the risk profile becomes a more binding constraint on the bank's loss-absorption buffers.

This could manifest in weakness in three key financial metrics, such as a combination of at least two factors below, assuming our assessment of the business profile remains unchanged:

- the four-year average impaired-loan ratio exceeding 9%;

- four-year average OP/RWA falling to the point where structural profitability is very weak, if not in doubt;

- a significant drop in the CET1 ratio to closer to the regulatory minimum of 8% without a credible plan to restore it closer to 12% or above.

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

IDR AND GSR

Positive sovereign rating action 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 less likely, but it is possible if the OE and Canara's risk profile score remain stable, coupled with stronger key financial metrics on all the three following factors, provided our assessment of the business profile remains unchanged:

- four-year average impaired-loan ratio is sustained below 5%;

- sustained profitability improvement, which drives the four-year average OP/RWA ratio above 1.25%;

- the CET1 ratio is sustained above Fitch's 'bb' threshold of 12%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The bank's medium-term note programme and senior debt are rated at the same level as its Long-Term IDR, in line with Fitch's criteria.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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

VR ADJUSTMENTS

The OE score of 'bb' is 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 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

Canara's IDRs and the 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 Financial Transparency. This reflects our assessment that the quality and frequency of financial reporting and the auditing process have a moderately negative influence on Canara's credit profile, and are relevant to the ratings in conjunction with other factors. These factors have become more prominent amid the sharp financial deterioration at state banks as well as the widely reported divergence in non-performing loan recognition between the banks and the regulator, although these incidents have been less frequent and significant in recent years.

Nonetheless, government and regulatory pandemic-related relief measures pose a risk for the transparent recognition of impaired loans. We regard financial transparency as pivotal for general business and depositor confidence, and believe it can lead to significant reputational risk if not managed well.

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, are a moderately negative influence on Canara's credit profile, and 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 that has increased the level of stressed loans and credit losses compared with better rated peers. 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 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.

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
Canara Bank	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
	Viability	bb-	Upgrade	b+
	Government Support	bbb-	Affirmed	bbb-
senior unsecured	LT	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

Canara Bank	EU Endorsed, UK Endorsed

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