Rating Reaffirmation Rationale for Canara Bank's Upper Tier II Bonds of ₹ 1000 crores and IPDI Bonds of ₹ 800 crores, ₹ 300 crores, ₹ 150 crores and ₹ 500 crores.

Issue Rating: BWR AAA	Outlook: Stable

Brickwork Ratings has reaffirmed the outstanding rating of BWR AAA (Pronounced BWR Triple A) with a stable outlook for the following issues of Canara Bank:

Instruments	Amount	Rating	Reaffirmed	Issue Date	Maturity Date	Rating History*		
Upper Tier II	₹ 1000 crore	BWR AAA (Stable)	Reaffirmed	Sept 29, 2010	Sept 28, 2010	BWR AAA (Stable) Sept 2010	-	-
IPDI	₹ 800 crore	BWR AAA (Stable)	Reaffirmed	Raised ₹ 749.30 cr- August 03, 2010	Call option- after 10 years	BWR AAA (Stable) Sept 2010	BWR AAA (Stable) July 2010	-
IPDI	₹ 300 crore	BWR AAA (Stable)	Reaffirmed	Raised ₹ 290.30 cr- August 21, 2009	Call option- after 10 years	BWR AAA (Stable) Sept 2010	BWR AAA (Stable) July 2010	BWR AAA (Stable) June 2010
IPDI	₹ 150 crore	BWR AAA (Stable)	Reaffirmed	August 21, 2009	Call option- after 10 years	BWR AAA (Stable) Sept 2010	BWR AAA (Stable) July 2010	BWR AAA (Stable) June 2010
IPDI	Tranche 1: ₹ 240.30 crore	BWR AAA (Stable)	Reaffirmed	March 30, 2009	Call option- after 10 years	BWR AAA (Stable) Sept 2010	BWR AAA (Stable) July 2010	BWR AAA (Stable) June 2010
	Tranche 2: ₹ 159.70 crore	BWR AAA (Stable)	Reaffirmed	August 21, 2009	Call option- after 10 years	BWR AAA (Stable) Sept 2010	BWR AAA (Stable) July 2010	BWR AAA (Stable) June 2010

**The rating history shows the details of the last three outstanding ratings for the issue. For a detailed rating history of the above instruments, refer to www.brickworkratings.com*

The rating 'BWR AAA' stands for an instrument that is considered to have the HIGHEST degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk. The rating has been reaffirmed taking into account the financial performance of the bank, publicly available information and clarifications sought from the bank.

The rating, inter alia, factors improving margins, capital adequacy ratio, asset quality and the Government of India's equity stake and continued support. Risk factors include decreasing levels of low-cost resources such as current and savings account deposits (CASA deposits) and increasing exposure to infrastructure.

Canara Bank is one of the larger public sector banks with a total global business of ₹506,440 crores as on 31st March 2011 (as compared to ₹ 403,986 crores as on 31st March 2010) registering an increase of 25.40%. Deposits have grown from ₹ 234,651 crores in FY10 to ₹ 293,973 crores in FY11, registering a growth of 25.28% and advances have grown from ₹ 169,335 crores in FY10 to ₹ 212,467 crores during FY11, a growth of 25.47%. The total business in Q1FY12 stood at ₹ 515,165 crores, with its total deposits at ₹ 300,150 crores and total advances at ₹ 215,015 crores.

While the asset quality of the bank is relatively healthy, there has been slippage in the FY11 with the gross NPA levels of ₹ 3089 crores as on 31st March 2011 as compared to ₹ 2590 crores as on 31st March 2010. The gross NPA levels as a percentage of total advances decreased from 1.52% as on 31st March 2010 to 1.45% as on 31st March 2011. The net NPA level, however, has marginally increased from 1.06% as on 31st March 2010 to 1.10% as on 31st March 2011. In FY11, most of the deterioration was witnessed in agriculture sector (21% of total NPAs were in agriculture sector only). Cash recoveries during the year aggregated to ₹ 2032 crores in FY11, higher than ₹ 1575 crores in FY10. The Bank has restructured 857 accounts worth ₹ 603 crores during FY11. Provision coverage ratio at 72.99% (77.71% in FY10), was above the Reserve Bank of India's stipulated 70%.

In Q1FY12, gross NPAs increased to 1.67%, the increase has been largely attributed to migration to system based/generated NPA recognition in case of amounts of above ₹ 2 lacs. The provision coverage ratio fell to 69.50% during the quarter.

The bank's net interest margin substantially increased to 3.12% in FY11 as compared to a NIM of 2.80% in March 2010. CASA levels stood at 28.30% in March 2011, down from 29.09% in March 2010 though Saving Bank deposits grew by 17.50% in FY11 as compared to the growth of 19.30% in FY10. The bank is taking initiatives to mobilize saving bank deposits. The cost of deposits has decreased to 5.80% during FY11 as against 6.12% during March FY10. However, this has been offset by a decreasing return on advances (from 9.81% in March FY10 to 9.73% in March FY11).

The bank's exposure to housing sector stands at ₹15,219 crores as of March 2011. The growth in lending to infrastructure stands at 22.67% (year-on-year) with total exposure to infrastructure sector of ₹ 48,163 crores as of March 2011 (₹ 32,741 crores as of June 2010). Brickwork Ratings believes that the increased exposure to the infrastructure sector is a risk factor for the bank.

Canara Bank is one of the top profitable public sector banks in India. It's consolidated net profit of ₹ 3877 crores in FY 11 reflects a growth of 38% against ₹ 2814 crores in FY 10. However, net profit in Q1FY12 decreased by 28% to ₹ 726 crores as compared to ₹ 1013 crores in Q1FY11. Lower net profit was on account of increase in provision on NPAs, derecognition of interest due to slippages under system driven NPA recognition and decline in trading profit by ₹ 300 crores.

The Bank has reported a credit-deposit ratio of 72.40% in FY11 which is around the average levels reported by the Industry.

Return on average assets has increased from 1.16% in FY 10 to 1.28% in FY 11. On consolidated basis, the cost to Income Ratio has come down to 45.40% in FY 11 from 48.70% FY 10.

As on 31st March 2011, the bank has reported a capital adequacy ratio of 15.40% of which Tier I portion is 10.90%. In order to strengthen Tier II Capital, the bank has raised ₹ 750 crores through IPDI bonds and ₹ 1000 crores through Upper Tier II Bonds. In Q4FY11, the Bank has raised ₹ 1993 crores via QIP, which has helped in shoring up Tier I Capital to 10.9%.

Asset quality is a key rating factor. The Bank has strong fundamentals and Brickwork Ratings expects it to take appropriate steps to continue to show good performance.

Analysts	**Media**
Shilpi Agarwal shilpi.a@brickworkrating.com **Sameer Singhvi** sameer.s@brickworkratings.com	**Anitha G** media@brickworkratings.com **Relationship Contact** K N Suvarna Senior V P - Business Development kn.suvarna@brickworkratings.com