February 13, 2026

Canara Bank: [ICRA]AAA (Stable) assigned to Basel III Tier II bonds; ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Basel III Tier I bonds	11,000.00	11,000.00	[ICRA]AA+ (Stable); reaffirmed
Basel III Tier II bonds	-	5,000.00	[ICRA]AAA (Stable); assigned
Basel III Tier II bonds	6,500.00	6,500.00	[ICRA]AAA (Stable); reaffirmed
Basel III Tier II bonds	2,400.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Certificates of deposit	10,000.00	10,000.00	[ICRA]A1+; reaffirmed
Total	**29,900.00**	**32,500.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Canara Bank's (Canara) sovereign ownership and its strong franchise with a market share of 5.91% in net advances and 6.55% in total deposits as on September 30, 2025. As on December 31, 2025, it was the fourth largest public sector bank (PSB) and the sixth largest bank in the Indian financial system in terms of total business (cumulative advances and deposits). The ratings are further supported by Canara's robust deposit franchise, resulting in a well-developed retail deposit base and a strong liquidity profile.

The ratings consider the bank's robust profitability and strong capitalisation profile with the same expected to remain healthy, going forward. The Government of India (GoI) has a track record of providing capital support to Canara, which has also raised capital from the market, supporting its overall capital profile.

While net interest margins (NIMs) of banks had moderated in recent periods, the same is now expected to stabilise at the current level and gradually improve from Q1 FY2027. ICRA expects Canara to generate sufficient internal accruals to meet its growth capital requirements while keeping the desired cushion on the capital well above the regulatory levels {including capital conservation buffers (CCB)}. The proposed transitioning to loan loss provisioning, based on the expected credit loss (ECL) framework, on its capital and profitability levels is also expected to be manageable, given the improved capital and profitability position.

The headline asset quality indicators continue to improve and the residual vulnerable book, comprising overdue (SMA-1, SMA-2)[1] and standard restructured advances, witnessed a sustained improvement over the last few years. Further, given the high provision coverage for legacy stressed assets, ICRA expects Canara's asset quality and solvency position to remain healthy. However, the asset quality remains monitorable due to loan book seasoning, given the high loan growth in recent years and the likelihood of any shock arising out of the ongoing macroeconomic and geopolitical developments. The rating for the Tier I (AT-I) bonds factors in the healthy level of distributable reserves (DRs)[2], which can be used to service the coupon on these bonds in the unforeseeable event of a loss.

The Stable outlook on the ratings reflects ICRA's expectation that the bank will be able to maintain a steady credit profile, with stable asset quality as well as healthy profitability and capitalisation.

[1] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days
[2] DRs consist of reserves created through appropriation of profits (including statutory reserve)

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 2,400.00-crore Basel III Tier II bonds as these bonds have been fully redeemed with no amount outstanding against the same. The rating was withdrawn in accordance with ICRA's withdrawal policy (click here for the policy).

Key rating drivers and their description

Credit strengths

Sovereign ownership with demonstrated capital support from GoI – The GoI remains the bank's largest shareholder with a 62.93% equity stake as on December 31, 2025. With two rounds of equity capital of Rs. 4,500 crore raised from the market in FY2021 and FY2022, the GoI's shareholding had declined from 69.33% as on March 31, 2021. However, this provides enough headroom to raise capital from the markets, if required. The GoI has not infused any capital into Canara in the last four fiscals as its capital position remained comfortable and it raised capital from the market. Canara and Syndicate Bank (e-SB), which merged with Canara, had received sizeable equity capital support from the GoI, amounting to Rs. 18,234 crore during FY2018-FY2020. Recapitalisation and improving internal accruals over the years have helped the bank reduce its net non-performing advances (NNPAs) substantially. ICRA believes that Canara has comfortable capital cushions and is likely to remain self-sufficient for its capital requirements and expects it to continue receiving support from the GoI, if required.

Comfortable capital position and solvency – The bank's core equity capital (CET I) and Tier I capital stood at 12.37%[3] and 14.60%, respectively, as on December 31, 2025 (12.03% and 14.37%, respectively, as on March 31, 2025), maintaining a buffer over the regulatory ratios. With the enhanced capital position and the decline in the NNPA level, NNPA/core capital improved to 5.34% as on December 31, 2025 from 8.26% as on March 31, 2025. In ICRA's view, Canara remains well placed for growth, in terms of its capital position, while absorbing any incremental stress and maintaining more than the desired cushion of 1% on the capital above the regulatory levels. Besides this, the subsidiaries largely remain self-sufficient in meeting their capital requirements although a few may need capital support, which is likely to remain manageable in relation to the bank's profit and the existing capital levels. Notwithstanding the sufficient internal accruals and capital position for growth, the Reserve Bank of India's (RBI) implementation of the ECL framework for credit exposures remains manageable.

Healthy earnings profile – Canara continued to report healthy core operating profitability, as a percentage of average total assets (ATA), though it moderated to 1.82% in FY2025 from 1.97% in FY2024 due to the compression in NIMs. It declined further to 1.59% in 9M FY2026. Moreover, credit costs remained at manageable levels and stood at 0.38% (annualised) of ATA in 9M FY2026 and 0.55% in FY2025 (0.69% in FY2024) due to controlled slippages and healthy recoveries/upgrades. The bank also reported strong trading gains of Rs. 5,424 crore in 9M FY2026 and Rs. 2,666 crore in FY2025 (Rs. 1,623 crore in FY2024), which led to a healthy return on assets (RoA) of 1.12% (annualised) in 9M FY2026 and 1.08% in FY2025 (1.03% in FY2024). Going forward, the bank's profitability margins are expected to remain broadly stable, supported by the normalisation of non-interest income and the fact that the compression in interest spreads has largely bottomed out following the recent policy rate cuts. The ability to control fresh slippages and maintain lower credit provisions will be key for healthy profitability, going forward.

Well-developed deposit franchise – Canara has a well-developed deposit franchise and draws support from its extensive network of 10,066 domestic branches as on December 31, 2025, with a strong footprint across South India. It witnessed a healthy global deposit growth of 12.95% YoY during the quarter ended December 31, 2025, leading to a credit-to-deposit (CD) ratio of 77.09% (73.15% as on June 30, 2025). Further, the deposit growth of 4.88% in H1 FY2026 was higher than the PSB average of 3.25%. However, Canara had a relatively lower domestic current account and savings account (CASA) base of 29.5% as on December 31, 2025 (31.2% as on March 31, 2025) compared to the PSB average. Lower CASA deposits and the high interest rates on term deposits offered by the bank have kept its overall cost of funds historically above the PSB average. Canara's cost of funds stood at 5.61% compared to the PSB average of 5.11% in H1 FY2026. ICRA expects the bank to continue maintaining a strong liquidity profile on account of its healthy core deposit base and widespread branch network.

[3] *Including interim profit*

Credit challenges

Asset quality improved but remains monitorable – The annualised gross fresh NPA generation rate stood at 0.79% in 9M FY2026 (1.18% in FY2025, 1.59% in FY2024), materially below the elevated levels seen in the past (4-8% over FY2017-FY2020). Further, write-offs, healthy recoveries/upgrades and loan book growth led to a decline in the gross NPA (GNPA) percentage to 2.08% as on December 31, 2025 from 3.34% as on December 31, 2024. Nevertheless, the asset quality remains monitorable for loan book seasoning amid the high loan growth in recent years. Additionally, geopolitical issues, the impact of macroeconomic shocks on borrowers {especially micro, small and medium enterprises (MSMEs)} and concerns around overleveraging among retail borrowers could impact the asset quality metrics adversely.

Environmental and social risks

While banks like Canara do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, it could translate into credit risks for banks. However, such risk is not material for Canara as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure. Canara has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. Canara has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

Canara's reported daily average liquidity coverage ratio of 126.06% and net stable funding ratio of 129.6% in Q3 FY2026 were well above the regulatory requirement of 100%. ICRA expects the bank to maintain its strong liquidity profile, given the large proportion of retail deposits and the high portfolio of liquid investments. It can also avail liquidity support from the RBI (through reverse repo against excess statutory liquidity ratio (SLR) investments and marginal standing facility mechanism) in case of urgent liquidity requirements.

Rating sensitivities

Positive factors – Not applicable as all the ratings are at the highest level for the respective instruments

Negative factors – The ratings will be reassessed in case of a change in the sovereign ownership. Further, an RoA of less than 0.3% and/or a decline in the capital cushions over the regulatory levels to less than 100 basis points (bps) on a sustained basis will remain negative triggers. A sharp deterioration in the profitability and weakening of the DRs eligible for the coupon payment on the AT-I bonds will be negative triggers for the rating for these bonds.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[ICRA's Rating Methodology for Banks and Financial Institutions] [ICRA's Policy on Withdrawal of Credit Ratings]
Parent/Group support	The ratings factor in Canara's sovereign ownership and the track record of capital infusions by the GoI. ICRA expects the GoI to support the bank with capital infusions, if required.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Canara. However, in line with ICRA's consolidation approach, the standalone assessment of the bank factors in the ordinary and extraordinary support that it is expected to extend to its subsidiaries.

About the company

Canara was incorporated in 1906 and nationalised in 1969, along with 12 PSBs, by the GoI. The bank is headquartered in Bengaluru.

Canara was merged with Syndicate Bank (e-SB) on April 1, 2020. It had a total asset base of Rs. 18.15 lakh crore as on December 31, 2025. The bank had a market share of 5.91% and 6.55% in net advances and total deposits, respectively, as on September 30, 2025, with the GoI holding a majority stake (62.93%). It had a network of 10,066 domestic branches and 7,048 ATMs as on December 31, 2025.

Key financial indicators (standalone)

Canara Bank	FY2024	FY2025	9M FY2026
Total income	53,909	56,859	43,992
Profit after tax	14,554	17,027	14,681
Total assets* (Rs. lakh crore)	14.82	16.76	18.15
CET I	11.58%	12.03%	12.37%^
CRAR	16.28%	16.33%	16.50%^
PAT/ATA	1.03%	1.08%	1.12%
Gross NPAs	4.23%	2.94%	2.08%
Net NPAs	1.27%	0.70%	0.45%

Source: Canara Bank, ICRA Research; All ratios as per ICRA Research; Amount in Rs. crore unless mentioned otherwise
** Total assets exclude revaluation reserves*
^ Including 9M FY2026 profit
Total income includes net interest income and non-interest income excluding trading income/loss

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2026)							Chronology of rating history for the past 3 years			
	Type	Amount rated	FY2026					FY2025	FY2024		FY2023
		(Rs. crore)	February-13-2026	October-30-2025	Aug-28-2025	Aug-11-2025		Aug-12-2024	Nov-28-2023	Aug-17-2023	Aug-19-2022
Basel III Tier I bonds	LT	4,000.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)		[ICRA]AA+ (Stable)	-	-	-
Basel III Tier I bonds	LT	3,500.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
Basel III Tier I bonds	LT	3,500.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-		-	-	-	-
Basel III Tier I bonds	LT	-	-	-	-	[ICRA]AA+ (Stable); withdrawn		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
Basel III Tier II bonds	LT	6,500.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)		[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
Basel III Tier II bonds	LT	2,400.00	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)		[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
Basel III Tier II bonds	LT	5,000.00	[ICRA]AAA (Stable)	-	-	-		-	-	-	-
Basel III Tier II bonds	LT	-	-	-	-	-		[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
Certificates of deposit	ST	10,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-		-	-	-	-

LT – Long term; ST – Short term

Complexity level of the rated instrument

Instrument	Complexity indicator
Basel III Tier I bonds	Highly Complex
Basel III Tier II bonds	Highly Complex
Certificates of deposit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/ Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
INE476A08241	Basel III Tier I bonds	Aug-29-2024	8.27%	Aug-29-2029^	3,000.00	[ICRA]AA+ (Stable)
INE476A08225	Basel III Tier I bonds	Feb-14-2024	8.40%	Feb-14-2029^	2,000.00	[ICRA]AA+ (Stable)
INE476A08217	Basel III Tier I bonds	Dec-11-2023	8.40%	Dec-11-2028^	1,403.00	[ICRA]AA+ (Stable)
INE476A08266	Basel III Tier I bonds	Dec-02-2025	7.55%	Dec-02-2030^	3,500.00	[ICRA]AA+ (Stable)
Unplaced	Basel III Tier I bonds	-	-	-	1,097.00	[ICRA]AA+ (Stable)
INE476A08050	Basel III Tier II bonds	Apr-27-2016	8.40%	Apr-27-2026	3,000.00	[ICRA]AAA (Stable)
INE476A08043	Basel III Tier II bonds	Jan-07-2016	8.40%	Jan-07-2026	900	[ICRA]AAA (Stable); withdrawn
INE476A09264	Basel III Tier II bonds	Dec-31-2015	8.40%	Dec-31-2025	1,500.00	[ICRA]AAA (Stable); withdrawn
INE476A08175	Basel III Tier II bonds	Aug-26-2022	7.48%	Aug-26-2032	2,000.00	[ICRA]AAA (Stable)
Unplaced	Basel III Tier II bonds	-	-	-	6,500.00	[ICRA]AAA (Stable)
INE476A16G10	Certificates of deposit	Jan-23-2026	6.94%	Jan-22-2027	750.00	[ICRA]A1+
INE476A16G10	Certificates of deposit	Jan-27-2026	6.94%	Jan-22-2027	250.00	[ICRA]A1+
INE476A16G51	Certificates of deposit	Feb-05-2026	6.98%	May-07-2026	2,115.00	[ICRA]A1+
INE476A16G69	Certificates of deposit	Feb-06-2026	6.98%	May-08-2026	5,650.00	[ICRA]A1+
Unplaced	Certificates of deposit	-	-	7-365 days	1,235.00	[ICRA]A1+

^ Call option date; Can be exercised on respective dates and annually on the coupon payment dates thereafter

Source: Canara Bank

Key features of rated debt instruments

The servicing of the Basel III Tier II bonds is not subject to any capital ratios and profitability. However, the Basel III Tier II bonds and Basel III Tier I bonds (AT-I bonds) are expected to absorb losses once the point of non-viability (PONV) trigger is invoked by the RBI. These Basel III bonds have equity-like loss-absorption features. Such features may translate into higher loss severity vis-à vis conventional debt instruments.

Further, the exercise of the call option on the Basel III Tier I bonds is contingent upon the prior approval of the RBI. Moreover, the bank will need to demonstrate that the capital position is well above the minimum regulatory requirement after the exercise of the said call option.

The rated Tier I bonds have the following loss-absorption features that make them riskier:

- Coupon payments are non-cumulative and discretionary, and the bank has full discretion at all times to cancel the same. Cancellation of discretionary payments shall not be an event of default.
- Coupons can be paid out of the current year's profits. If the current year's profit is not sufficient or if the payment of the coupon is likely to result in a loss, the coupon payment can be made through the reserves and surpluses[4] created via the appropriation of profits (including statutory reserves). However, the coupon payment is subject to the bank meeting the minimum regulatory requirements for the CET I, Tier I and total capital ratios (including CCB) at all times as prescribed by the RBI under the Basel III regulations.

These Tier I bonds are expected to absorb losses through the write-down mechanism at the objective prespecified trigger point fixed at the bank's CET I ratio as prescribed by the RBI, i.e. 6.125% of the total risk-weighted assets (RWAs) of the bank or when the PONV trigger is breached in the RBI's opinion.

Given the above distinguishing features of the Tier I bonds, ICRA has assigned a one notch lower rating to these than the rating for the Tier II instruments. The DRs that can be used for servicing the coupon in a situation of inadequate profit or a loss during the year stood at a comfortable 9.4% of RWAs as on March 31, 2025.

[4] *Calculated as per the amendment in Basel III capital regulations for Tier I bonds by the RBI, vide its circular dated February 2, 2017. As per the amended definition, DRs include all reserves created through appropriations from the profit and loss account*

The rating for the Tier I bonds continues to be supported by Canara's capital profile, which is likely to remain strong, given the outlook on its profitability. However, the transition to the ECL framework and its impact on the capital and DRs remain monitorable.

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership*	Consolidation approach
Canbank Financial Services Ltd.	100.00%	Full consolidation
Canbank Venture Capital Fund Ltd.	100.00%	Full consolidation
Canara Bank Securities Ltd.	100.00%	Full consolidation
Canara Tanzania Ltd.	100.00%	Full consolidation
Canbank Factors Ltd.	70.00%	Full consolidation
Canbank Computer Services Ltd.	69.14%	Full consolidation
Canara HSBC Life Insurance Company Ltd.	36.50%	Full consolidation
Canara Robeco AMC Ltd.	38.00%	Full consolidation
Karnataka Grameena Bank	35.00%	Full consolidation
Kerala Gramin Bank	35.00%	Full consolidation
Can Fin Homes Ltd.	29.99%	Full consolidation

*Source: Canara Bank, ICRA Research; *As on December 31, 2025*

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