

**Rating Action: Moody's changes outlook of Central Bank of India and Indian Overseas Bank to positive from stable**

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Singapore, February 09, 2018 -- Moody's Investors Service has affirmed the long-term local and foreign currency bank deposit ratings of Central Bank of India (CBI) and Indian Overseas Bank (IOB) at Ba3, and changed the outlook to positive from stable.

In the case of IOB, Moody's has also affirmed the bank's senior unsecured debt rating at Ba3 and changed the outlook to positive. It issues its senior unsecured debt out of its Hong Kong branch.

Moody's has also affirmed the two banks' baseline credit assessments (BCA) at b3 and their counterparty risk assessments (CRA) at Ba2(cr)/NP(cr).

In addition, Moody's has -- as indicated -- changed the outlook on CBI as well as IOB and its Hong Kong branch to positive from stable.

The list of affected ratings is provided at the end of this press release.

**RATINGS RATIONALE**

**UPWARD PRESSURE ON THE TWO BANKS' BCAs**

The positive outlook reflects the upward pressure that could develop on these banks' long-term ratings, if their credit fundamentals -- namely their capital positions -- continue to improve over the next 12-18 months due to capital infusions from the Indian government (Baa2 stable).

The positive outlook also reflects Moody's view on the expected evolution of their balance sheets, including a stabilization in asset quality, a moderate improvement in profitability metrics, and stable funding and liquidity positions.

According to the recapitalization plan announced in October 2017, the government has committed to infuse INR1.53 trillion into the public-sector banks by March 2019.

It will inject INR800 billion into 20 of such banks by March 2018 in the form of recapitalization bonds.

In addition, it will infuse another INR100 billion from budgetary sources by March 2018.

And, after factoring in the amount already allocated, the government will infuse another INR650 billion in new capital in fiscal 2019. Its budget for fiscal 2019 already reflects this amount, although the details on the timings and scale of allocations to individual banks have yet to be released.

On January 24, the government provided details on how much capital each public sector bank will receive in the current fiscal year ending March 2018 (fiscal 2018).

Based on the announced allocations, CBI will receive INR51.6 billion and IOB will receive INR46.9 billion in new capital.

Moody's estimates the capital infusion will increase the common equity tier 1 CET1 ratio for CBI by 280bps and for IOB by 320bps compared to the reported ratios of 7.0% and 7.1%, respectively, as of September 2017.

Furthermore, the government has made it explicit that all public sector banks will meet their minimum regulatory capital requirements after factoring in the provisioning requirements for non-performing loans (NPLs), as well as requirements resulting from the transition to IFRS 9 accounting standards in April 2018.

**IMPACT ON LONG-TERM RATINGS**

Moody's continues to assume a very high probability of government support for CBI and IOB, resulting in a

three-notch uplift to their deposit ratings from their BCAs.

The positive outlook on their deposit ratings reflects a likely ratings upgrade if the their standalone BCAs move up over the next 12-18 months.

#### WHAT COULD CHANGE THE RATING UP:

##### Central Bank of India

Given the positive outlook, CBI's ratings could be upgraded in the next 12-18 months, if the capital infusion helps strengthen the bank's capital to a level above minimum regulatory requirements (including the capital conservation buffer) under Basel III standards, and/or the bank returns to profitability on a sustainable basis.

##### Indian Overseas Bank:

Given the positive outlook, IOB's ratings could be upgraded in the next 12-18 months, if the capital infusion helps strengthen the bank's capital to a level above minimum regulatory requirements (including a capital conservation buffer) under Basel III standards, and/or the bank returns to profitability on a sustainable basis.

#### WHAT COULD CHANGE THE RATING DOWN:

##### Central Bank of India

Downward pressure on CBI's ratings will emerge if further credit losses worsen its capital position. Any indication that government support has diminished beyond what Moody's anticipates in this rating action could also lead to a ratings downgrade.

##### Indian Overseas Bank

Downward pressure on IOB's ratings will emerge if further credit losses worsen its capital position. Any indication that government support has diminished beyond what Moody's anticipates in this rating action could also lead to a ratings downgrade.

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

Central Bank of India, headquartered in Mumbai, reported total assets of INR3.3 trillion (\$51 billion) as of 30 September 2017.

Indian Overseas Bank, headquartered in Chennai, reported total assets of INR2.5 trillion (\$38 billion) as of 30 September 2017.

The ratings and outlooks of the affected financial institutions are listed below.

##### Central Bank of India

Long-term local and foreign currency bank deposit ratings affirmed at Ba3; outlook changed to positive from stable

Short-term local and foreign currency bank deposit ratings affirmed at NP;

BCA and Adjusted BCA affirmed at b3

Long-term CRA affirmed at Ba2(cr)

Short-term CRA affirmed at NP(cr)

Outlook for the bank changed to positive from stable

##### Indian Overseas Bank

Long-term local and foreign currency bank deposit ratings affirmed at Ba3; outlook change to positive from stable

Short-term foreign currency bank deposit ratings affirmed at NP

Foreign currency other short term program rating affirmed at (P)NP  
Foreign currency senior unsecured MTN program rating affirmed at (P)Ba3  
Foreign currency subordinate MTN program rating affirmed at (P)B3  
Foreign currency junior subordinate MTN program rating affirmed at (P)Caa1  
BCA and Adjusted BCA affirmed at b3

Long-term CRA affirmed at Ba2(cr)  
Short-term CRA affirmed at NP(cr)  
Outlook for the bank changed to positive from stable

Indian Overseas Bank, Hong Kong branch

Foreign currency other short term program rating affirmed at (P)NP  
Foreign currency senior unsecured debt rating affirmed at Ba3, outlook changed to positive from stable  
Foreign currency senior unsecured MTN program rating affirmed at (P)Ba3  
Foreign currency subordinate MTN program rating affirmed at (P)B3  
Foreign currency junior subordinate MTN program rating affirmed at (P)Caa1  
Long-term CRA affirmed at Ba2(cr)  
Short-term CRA affirmed at NP(cr)  
Outlook for the branch changed to positive from stable

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