

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

Global Credit Research - 09 Feb 2018

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 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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Alka Anbarasu

Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Gene Fang
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077



© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or

any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.