



## RATING ACTION COMMENTARY

# Fitch Affirms CBC Finance at 'A(Ika)'; Outlook Stable

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Fitch Ratings - Colombo - 01 Mar 2021: Fitch Ratings Lanka has affirmed CBC Finance LTD's (CBCF) National Long-Term Rating at 'A(Ika)'. The Outlook is Stable.

## KEY RATING DRIVERS

CBCF's rating is driven by Fitch's view that its parent, Commercial Bank of Ceylon PLC (CB; 'AA-(Ika)/Stable) would provide extraordinary support to CBCF, if required. CB's ability to support CBCF is reflected in its credit profile, which is underpinned by its standalone strength, and CBCF's relatively small size. The support assessment also takes into account CB's full ownership of CBCF, a record of ordinary support via multiple equity infusions, CBCF's management and operational integration with CB and closer alignment of branding than under its former identity as Serendib Finance. The Stable Outlook on CBCF reflects the Stable Outlook on CB.

CBCF is rated two notches below its parent to reflect our assessment of its limited importance to the CB group. This mainly stems from its limited role in the CB group's core business, with CBCF accounting for less than 1% of CB's consolidated gross loans at end- September 2020. It also reflects CBCF's weak performance.

We see CBCF's intrinsic credit profile as being considerably weaker than its support-driven rating due to its small franchise, volatile business model, high risk appetite, and weak financial profile.

CBCF's performance has been pressured by the challenging operating environment, which has been exacerbated by the Covid-19 pandemic. Its reported gross non-performing loan ratio of 19.6% at end-September 2020 remained significantly higher than that of the industry. Its pre-tax return on assets improved in the financial year ended 31 March 2020 (FY20) to 2.5%, but continued to be weighed down by high impairment charges. Its funding profile has limited diversity due to its dependence on secured bank borrowings, as it only recently started to accept deposits. CBCF's capital position continues to be supported by capital from the parent, which have enabled it to meet the minimum capital requirements.

## **RATING SENSITIVITIES**

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

An upgrade would most likely result from an upgrade of CB's National Long-Term Rating, which would reflect the parent's increased ability to support the subsidiary, or an increase in CB's propensity to support CBCF. This could be through significant increase in CBCF's strategic importance to CB driven by a greater role within the group through a substantial increase in the scale of its operations, contribution to the consolidated group and a longer track record of successful operations.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

CBCF's National Long-Term Rating could be downgraded if CB's ability to support CBCF were to weaken, as signalled through a downgrade of CB's National Long-Term Rating or any perceived weakening in CB's propensity to support CBCF. This could arise from weakening links with the parent that result in wider notching and may be in the form of a material reduction in CB's ownership stake in CBCF or persistently weak performance at CBCF.

A deterioration in CBCF's intrinsic credit profile is unlikely to affect its National Rating due to the support-driven nature of the rating.

## **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

CBC Finance's rating is driven by the rating on its parent, Commercial Bank of Ceylon PLC.

### RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR	
CBC Finance LTD	Natl LT	A(Ika) Rating	Outlook Stable	Affirmed	A(Ika) Rating Outlook Stable

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**APPLICABLE CRITERIA**

[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

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CBC Finance LTD

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