FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Indonesia's Bank CIMB Niaga at 'BBB-'/'AA+(idn)'; Outlook Stable

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Fitch Ratings - Sydney/Jakarta - 21 Jan 2022: Fitch Ratings has affirmed PT Bank CIMB Niaga Tbk's (CIMB Niaga) Long-Term Issuer Default Rating (IDR) at 'BBB-'. The bank's other international ratings have also been affirmed. At the same time, Fitch Ratings Indonesia has affirmed CIMB Niaga's National Long-Term Rating and National Short-Term Rating at 'AA+(idn)' and 'F1+(idn)', respectively. The Outlook is Stable. A full list of rating actions is included below.

'AA' National Long-Term Ratings denote expectations of a very low level of default risk relative to other issuers or obligations in the same country or monetary union. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.

'F1' National Short-Term Ratings indicate the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Under the agency's National Rating scale, this rating is assigned to the lowest default risk relative to others in the same country or monetary union. Where the liquidity profile is particularly strong, a "+" is added to the assigned rating.

KEY RATING DRIVERS

IDRS, SHAREHOLDER SUPPORT RATING AND NATIONAL RATINGS

CIMB Niaga's IDRs and National Ratings are driven by its Shareholder Support Rating (SSR), reflecting Fitch's expectation that the bank would be highly likely to receive extraordinary support from its parent, Malaysia-based CIMB Group Holdings Berhad (CIMB), if needed. CIMB Niaga's ratings are driven by its parent's standalone credit profile. We believe there is sufficient uncertainty whether extraordinary support, if required, would flow from the Malaysian government through CIMB to CIMB Niaga. Therefore, we think potential support will most likely depend on CIMB's own financial resources.

Fitch's view of support is based on the importance of CIMB Niaga to CIMB's franchise, with the subsidiary accounting for 14% of the parent's consolidated assets at end-9M21, the parent's strong control over the subsidiary, and the alignment between the two in areas such as operations, risk management and appointment of key personnel. We believe that a default by CIMB Niaga, which is 92.5%-owned by CIMB, would damage the parent's reputation considerably.

VIABILITY RATING

CIMB Niaga's Viability Rating (VR) has been affirmed in line with its implied VR at 'bb'. The VR reflects Fitch's view of the bank's standalone credit profile, which is characterised by a moderate business profile, above-average risk profile relative to the largest Indonesian banks, and weaker-than-peer asset quality and profitability that are counterbalanced by adequate capitalisation, funding and liquidity.

We expect Indonesia's economic recovery - reflected in our real GDP growth forecast of above 6% in 2022, from around 3.5% in 2021 - to improve business prospects for domestic banks in 2022. We believe the largest banks, including CIMB Niaga, are well placed to take advantage of stronger conditions.

The large banks' financial profiles should remain resilient, helped by an extension of regulatory forbearance on loan classifications to end-1Q23. We have maintained the 'bb+' operating environment (OE) score for Indonesian banks with a stable outlook. The implied OE category score for local banks is 'b', but we have adjusted the score upwards due to Indonesia's sovereign rating of 'BBB'/Stable to reflect greater market and macroeconomic stability than is captured in the implied score.

CIMB Niaga was Indonesia's sixth-largest bank with a 3.0% share of the banking industry's assets at end-9M21. The bank provides loans to large corporates (37% of total loans), consumers (32%), small corporates (19%) and SMEs (12%). CIMB Niaga's business profile score at 'bb+' is in line with its implied category score.

CIMB Niaga's asset quality has been maintained at 'bb-', in line with the implied 'bb' category score. The outlook on the factor score is stable. We expect loans at risk to remain elevated in the near term, despite improving economic conditions. Impaired loans, reflected in the non-performing loan (NPL) ratio of 3.3% at end-9M21 (end-2020: 2.8%), were in line with the industry average of 3.2% but "special-mention" loans of 6.8% were significantly above the industry's 5.0%.

Pressure on credit quality is also reflected in the bank's restructured-loan ratio of 18.8% (2020: 20.0%), which is in line with its large bank peer average. Around 66% of these loans were classified as "current", benefitting from the relaxed regulation. Its loan-loss allowance coverage ratio of 217% was above the sector's 187%.

We have maintained the profitability and earnings score at 'bb-' with a stable outlook, as we believe the bank will maintain its four-year average operating profit/risk-weighted asset ratio within the 1.25%-4.75% range for an implied 'bb' category score. The annualised ratio at end-9M21 was 2.9%, lower than the peer average of 3.3%.

We expect profitability to benefit from lower credit costs in 2022, but provisioning pressure will linger due to the bank's high stock of problem loans. Credit costs accounted for 2.4% of average gross loans in 9M21.

Fitch believes CIMB Niaga's capital buffers will be adequate in the near term to withstand potential tail risks due to the Covid-19 pandemic. Its common equity Tier 1 (CET1) capital ratio of 21.6% at end-9M21 (2020: 20.8%) was similar to its large-peer average, but below the industry's 23.6%. We have maintained its capitalisation and leverage mid-point at 'bb+' with a stable outlook, below its implied category score of 'bbb'. We have applied a negative adjustment for historical and future metrics as we expect the CET1 ratio to be maintained slightly below the 20.0% threshold for a 'bbb' category score.

Fitch has maintained the funding and liquidity mid-point at 'bb+', in line with its implied category score, reflecting the bank's steady funding profile. The share of lower-cost deposits in its deposit base increased to 62% by end-9M21, above the industry's 60%. The ratio stands well above its medium-sized peer average of around 48% and we expect it to be sustained in line with, or above, the industry average.

We expect CIMB Niaga's funding and liquidity to remain stable in the near term, helped by ordinary support from its parent if necessary. Its loan-to-deposit ratio fell to 78% by end-9M21 from 84% in 2020, in line with the sector decline and the industry average of 80%. Its liquidity coverage and net stable funding ratios of 238% and 125%, respectively, were well above its minimum requirement of 85%. The outlook on the factor score is stable.

RATING SENSITIVITIES

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

IDRS, SSR AND NATIONAL RATINGS

Any significant deterioration in our assessment of CIMB's standalone credit profile, which Fitch believes is better than that of its subsidiary, is likely to lead to a downgrade of CIMB Niaga's IDRs, SSR and National Long-Term Rating.

Downward rating pressure could also arise from any developments leading to a perceived weakening in the propensity of support from CIMB, such as major changes to ownership, although Fitch believes that this is unlikely in the near-to-medium term due to the importance of CIMB Niaga to the parent's regional franchise.

Deterioration in CIMB Niaga's standalone credit profile is unlikely to affect its support-driven ratings unless the factors underpinning parental support also weaken. A downgrade of the National Long-Term Rating could result from our assessment of a weakening in the bank's overall credit profile relative to the national-rating universe of Indonesian rated entities. The National Short-Term Rating could be downgraded if the SSR is downgraded by three notches, which we believe is highly unlikely in the near-to-medium term.

VR

A downgrade of the VR could stem from significant deterioration in CIMB Niaga's financial position, but this would only occur amid downward revisions of multiple key rating drivers based on our view of buffers at the current rating level. This would be likely to depend on a combination of non-performing, "special-mention" and restructured loan ratios deteriorating by more than we expect under our base case, the bank's four-year average operating profit/risk-weighted asset ratio falling to below 1.25% on a sustained basis, the CET1 ratio falling - and remaining below - 17%, and a persistent weakening of the bank's funding and liquidity position, likely reflected in a significant rise in the proportion of higher-cost funding sources and tight liquidity buffers above minimum requirements. Negative rating action could also be triggered by a prolonged and severe economic disruption from the pandemic than we currently expect.

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

IDRS, SSR AND NATIONAL RATINGS

An upgrade of the support-driven ratings would result from our view of the parent's greater capacity or propensity to provide support to CIMB Niaga. Our assessment of the parent's greater propensity to support the subsidiary could result from a sustained increase in CIMB Niaga's contribution to the parent, such as a contribution above 20% in terms of asset size and profit, combined with an assessment that the group considers Indonesia a core and integral market and any required support remains manageable relative to the ability of the parent.

An upgrade of the National Long-Term Rating could result from our assessment of a strengthening in the bank's overall credit profile relative to the national-rating universe of Indonesian rated entities. There is no upside for CIMB Niaga's National Short-Term Rating as it is already at the highest point on the scale.

VR

An upgrade of the VR would depend on sustained improvements in multiple key rating drivers, for example, if its core ratios in asset quality, earnings and profitability, and capitalisation and leverage were more in line with those of higher-rated peers. This would require the bank to maintain its non-performing, "special-mention" and restructured loan ratios in line with those of higher-rated peers, its four-year average operating profit/risk-weighted asset ratio at the higher end of the 1.25% to 4.75% range, and its CET1 ratio above 20%. An upgrade could also result from an upward revision of the operating environment score into the 'bbb' category, if the bank is able to maintain its moderate financial profile.

VR ADJUSTMENTS

The OE score has been assigned above the implied category score due to the following adjustment reason: sovereign rating (positive).

The capitalisation and leverage score has been assigned below the implied category score due to the following adjustment reason: historical and future metrics (negative).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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

CIMB Niaga's support-driven ratings are directly linked to the standalone credit profile of CIMB, based on our view of potential extraordinary support.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 23 Dec 2020)

Bank Rating Criteria (pub. 13 Nov 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

PT Bank CIMB Niaga Tbk	EU Endorsed, UK Endorsed

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Banks Asia-Pacific Indonesia