



## RATING ACTION COMMENTARY

# Fitch Affirms and Withdraws 'BBB-'/AA+(idn)' Ratings of Indonesia's Bank CIMB Niaga

Mon 22 Aug, 2022 - 8:49 AM ET

Fitch Ratings - Sydney/Jakarta - 22 Aug 2022: Fitch Ratings has affirmed PT Bank CIMB Niaga Tbk's 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.

'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.

Fitch has chosen to withdraw the ratings of CIMB Niaga for commercial reasons.

## KEY RATING DRIVERS

**Support-Driven Ratings:** CIMB Niaga's IDRs and National Ratings are driven by its Shareholder Support Rating (SSR), reflecting Fitch's expectation that extraordinary support would flow from its parent, Malaysia-based CIMB Group Holdings Berhad (CIMB), to its Indonesian subsidiary in times of need.

**Anchored to Parent's SCP:** CIMB Niaga's ratings are driven by its parent's standalone credit profile (SCP) as we think there is sufficient uncertainty over whether extraordinary support, if required, would flow from the Malaysian government through CIMB to CIMB Niaga. As such, we believe potential support will most likely depend on CIMB's own financial resources.

**Strategically Important Subsidiary:** Fitch's view of support is based on the importance of CIMB Niaga to CIMB's franchise, the parent's strong control over the subsidiary, and alignment between the two in key areas such as operations, risk management and appointment of key personnel.

CIMB Niaga provides the group with a presence in Indonesia, which offers high growth potential in the banking market. CIMB Niaga's total assets accounted for 14% of CIMB's consolidated assets at end-3M22, with the subsidiary remaining the largest profit and loan contribution to the group outside Malaysia. We believe that a default by CIMB Niaga, which is 92.5%-owned by CIMB, would damage the parent's reputation considerably.

**Moderate Business Profile:** The Viability Rating (VR) of 'bb' reflects CIMB Niaga's moderate business profile, above-average risk profile relative to the largest Indonesian banks, and weaker-than-peer asset quality and profitability, counterbalanced by adequate capitalisation, funding and liquidity.

**Stable Operating Environment:** We expect the Indonesian economy to continue its recovery, with GDP growth accelerating to 5.6% in 2022 and 5.8% 2023 from 3.7% in 2021. This should help support loan demand, provide a cushion for asset quality, and improve the banking sector's profitability. Our 'bb+' operating environment (OE) score also considers Indonesia's sovereign rating, which reflects greater market and economic stability than is captured in the implied OE score of 'b'.

**Modest Domestic Franchise:** CIMB Niaga is the sixth-largest bank in Indonesia, with around 3% share of the banking industry's assets, loans and deposits at end-3M22. The bank's operations are focused on traditional banking activities - providing loans to large corporates (38% of total loans), consumers (34%), small corporates (16%) and SMEs (12%).

CIMB Niaga's business profile score at 'bb+' is consistent with its implied 'bb' category score.

**Above-Average Risk Profile:** Fitch sees CIMB Niaga's underwriting standards and risks controls as weaker than that of its major domestic bank peers and less robust than that of the global industry. The bank slowed loan growth and tightened underwriting standards and risk controls during the Covid-19 pandemic. Nevertheless, it has slowly turned opportunistic with loan growth accelerating to 9% yoy in 6M22 as economic conditions improved and it completed its plan to reduce the commercial loan portfolio. We maintained the scoring for the risk profile at 'bb'.

**Asset Quality Still Under Pressure:** CIMB Niaga's asset quality score at 'bb-' is in line with the implied 'bb' category score, reflecting Fitch's expectation its impaired loans will be sustained at an elevated level in the near term. Impaired loans were reflected in the non-performing loan (NPL) ratio of 3.6% at end-3M22 (6M22: 3.5%), higher than the industry average of 3.0%, and the 'special-mention' loan ratio of 6.4% (6M22: 6.4%), which was also significantly above the industry's 4.6%.

**Lower Provisions and Better Efficiency:** We expect profitability to be supported by lower credit costs and an improved cost-to-income ratio. We have maintained the profitability and earnings score at 'bb-' but revised the factor outlook to positive from stable, as we expect the recent rebound in earnings to be sustainable, increasing its headroom within the 'bb' category.

**Satisfactory Capitalisation:** CIMB Niaga's capitalisation and leverage scoring of 'bb+' is below its implied category scoring of 'bbb' as we expect the common equity Tier 1 (CET1) ratio to fall below 20% by end-2023, within the implied 'bb' category score range. Improvement in loan demand and a high dividend payout ratio, which we expect to be 55% of net income for the next two years, will pressure the CET1 ratio. CIMB Niaga's CET1 ratio declined to 20% by end-6M22 (end-2021: 22%).

**Steady Funding and Liquidity:** Fitch maintained the funding and liquidity mid-point at 'bb+', with a stable outlook. We expect the bank's funding and liquidity profile to remain satisfactory. CIMB Niaga's loan-to-deposit ratio fell to 77% by end-3M22 (6M22: 82%, 2020: 84%), similar to the industry's 78%. Its liquidity coverage and net stable funding ratios of 228% and 129%, respectively, were maintained well above the minimum regulatory requirement of 100%.

## RATING SENSITIVITIES

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

Rating sensitivities do not apply as the ratings have been withdrawn.

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

Rating sensitivities do not apply as the ratings have been withdrawn.

### **VR ADJUSTMENTS**

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

The capital and leverage score of 'bb+' has been assigned below the 'bbb' category implied 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 ratings are credit-linked to the parent's standalone credit profile based on our expectation of 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](http://www.fitchratings.com/esg).

Following the withdrawal of ratings for CIMB Niaga, Fitch will no longer be providing the associated ESG Relevance Scores.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
PT Bank CIMB Niaga Tbk	LT IDR	BBB- Rating Outlook Stable		BBB- Rating Outlook Stable
	Affirmed			
	LT IDR	WD	Withdrawn	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
	ST IDR	WD	Withdrawn	F3
	Natl LT	AA+(idn) Rating Outlook Stable		AA+ (idn) Rating Outlook Stable
	Affirmed			
	Natl LT	WD(idn)	Withdrawn	AA+ (idn) Rating Outlook Stable
Natl ST	F1+(idn)	Affirmed	F1+(idn)	

	Natl ST	WD(idn)	Withdrawn	F1+(idn)
	Viability	bb	Affirmed	bb
	Viability	WD	Withdrawn	bb

[VIEW ADDITIONAL RATING DETAILS](#)

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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**

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## **ENDORSEMENT STATUS**

PT Bank CIMB Niaga Tbk

EU Endorsed, UK Endorsed

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Banks   Asia-Pacific   Indonesia

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