



Fitch Revises UB Finance's Outlook to Negative; Affirms Rating at 'BB(lka)'

Fitch Ratings - Colombo - 09 Sep 2024: Fitch Ratings has revised the Outlook on Sri Lanka-based UB Finance PLC (UBF) to Negative from Stable and affirmed its National Long-Term Rating at 'BB(lka)'.

KEY RATING DRIVERS

Outlook Revision Driven by Parent: The revision in UBF's Outlook stems from similar action on its parent, Union Bank of Colombo PLC (UB; BBB-(lka)/Negative), on 29 August 2024. For details, see our commentary, [Fitch Revises Outlook on Union Bank to Negative; Affirms National Rating at 'BBB-\(lka\)'](#).

Shareholder Support Drives Rating: The rating continues to factor in our expectation of shareholder support for UBF, as UB remains the largest shareholder (89.9%), UB's record of support, including a capital infusion in June 2024, UB's involvement in UBF's strategic decisions through board representation, as well as common branding.

Limited Importance to Group: We rate UBF two notches below its parent's rating given its limited importance to the UB group. UBF's main products, leasing and gold lending, accounted for 5.4% of the group's gross loans while UBF's entire loan portfolio was just 10% of group gross loans at end-June 2024. Furthermore, synergies are limited between the bank and UBF, given minimal overlap between UB's and UBF's target customer profiles. UBF's weak and inconsistent profitability record also limits its importance to the group.

Materially Weak Standalone Profile: We believe UBF's intrinsic financial strength is weaker than its support-driven rating. UBF has a small franchise, with market share of less than 1% by assets as of end-2023. Fitch views UBF's risk appetite as high while its financial profile is weak, characterised by poor asset quality, weak earnings, thin capital buffers and significant deposit concentration.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

UBF's rating is sensitive to changes in UB's credit profile, as reflected in UB's National Long-Term Rating as well as Fitch's opinion of UB's ability and propensity to extend timely extraordinary support. These could include:

- a downgrade of UB's National Long-Term Rating;
- a material increase in UBF's size relative to the parent that makes extraordinary support more onerous for the parent;

- a meaningful reduction in the parent's ownership, control or influence that could weaken its propensity to support UBF;

- prolonged weak performance of UBF that we believe will weaken the parent's propensity to support the subsidiary;

- a notable decline in UBF's capital buffers, indicating reduced timeliness in financial support for growth or to meet regulatory norms;

- insufficient or delayed support from UB relative to UBF's needs, which hinders UBF's ability to meet its obligations in a timely manner.

These developments could significantly reduce shareholder support prospects and, if severe, may lead to a multi-notch downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

There is limited scope for upward rating action, given the Negative Outlook. We are likely to revise the Outlook to Stable if the parent bank's Outlook is revised to Stable.

An upgrade would most likely result from a positive rating action on UB's National Long-Term Rating, which would reflect its strengthened ability to support UBF.

A significant increase in UBF's strategic importance to UB and closer integration with UB across broader functional areas may lead to positive rating action. However, we do not expect such a change in the near term.

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

UBF's rating is driven by UB's National Long-Term Rating.

RATING ACTIONS

| ENTITY / DEBT ↕ | RATING ↕ | PRIOR ↕ |
|----------------------|---|--|
| <input type="text"/> | <input type="text"/> | <input type="text"/> |
| UB Finance PLC | Natl LT BB(Ika) - Affirmed | BB(Ika) ● |

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[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Non-Bank Financial Institutions Rating Criteria \(pub. 18 Jan 2024\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

- [Solicitation Status](#)
- [Endorsement Policy](#)
- [Potential Conflicts Resulting from Revenue Concentrations](#)

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UB Finance PLC -

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