

Central Finance Company PLC

Update

Ratings

National

Long-Term Rating	A+(lka)
Senior debt	A+(lka)
Subordinated debt	A(lka)

Sovereign Risk

Long-Term Foreign-Currency IDR	BB-
Long-Term Local-Currency IDR	BB-

Outlooks

National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

Central Finance Company PLC

	31 Mar 15 audited (12 months)	31 Mar 14 audited (12 months)
Total assets (USDm)	536	501
Total assets (LKRm)	71,204	65,430
Total equity (LKRm)	25,115	21,717
Operating profit (LKRm)	4,430	4,018
Net income (LKRm)	3,735	3,354
Comprehensive income (LKRm)	3,771	4,533
Operating ROAA (%)	6.5	6.6
Operating ROAE (%)	19.0	20.9
Internal capital generation (%)	13.3	13.8
Fitch core capital (%)	42.7	39.7
Tier 1 ratio (%)	28.8	22.2

CF has an 1.79% equity stake in Fitch Ratings Lanka Ltd. No shareholder other than Fitch, Inc. is involved in the day-to-day rating operations of, or credit reviews undertaken by, Fitch Ratings Lanka Ltd

Key Rating Drivers

Capital Buffer Supports Rating: Central Finance Company PLC's (CF) rating reflects its strong capitalisation, which is supported by healthy profitability and high profit retention. CF's capital ratios have been consistently higher than at its peers, by a significant margin. This is reflected in both its equity/assets ratio of 35% at FYE15 (31 March 2015) and Fitch Core Capital (FCC) ratio of 43%.

Pressure on Asset Quality: CF's strong capitalisation is offset by weakening asset quality and low loan-loss provisioning levels, and Fitch Ratings expects its asset quality to deteriorate further – given its exposure to volatile sectors such as agriculture. CF's regulatory non-performing loans (loans overdue by six months or more) had increased to 4.5% by FYE15 from 3.3% at FYE14.

High NIM Supports Profitability: CF is likely to maintain stronger profitability than its peers, due mainly to the company's strength in raising cheaper funds. CF's return on assets (ROA) remained stable at 5.5% in FY15 owing to the improvement in NIM to 14.2% (FY14: 13.5%), and a reduction in its cost to income ratio to 37.8% (FY14:39.6%). This was in spite of an increase in loan-impairment charges.

Healthy Funding and Liquidity: Fitch expects CF to remain primarily deposit funded and benefit from its strong franchise amongst licensed finance companies developed over its long operating history. Deposits remain fairly granular, and accounted for 85% of its funding at FYE15. Its liquidity profile is also supported by sufficient unutilised credit lines to fund its structural maturity mismatches.

Limited Product Diversity: CF's core business is likely to remain vehicle finance, similar to other licensed finance companies. This is mainly carried out through leasing and hire purchases, which comprised over 93% of the loan book at FYE15 and consisted mainly of three-wheeler and motor car financing.

Isuru Acquisition Credit Neutral: The company acquired a 100% stake in Isuru Leasing Company Limited, a small leasing company, for a consideration of LKR335m, as part of the regulator's plan for financial sector consolidation in December 2014. Fitch does not expect the acquisition to have a significant impact on CF's credit profile, as the asset base of this company constituted less than 1% of CF's total standalone assets at FYE15.

Rating Sensitivities

Greater Diversification: Greater product diversity, together with improved funding flexibility commensurate with higher-rated peers, could lead to a rating upgrade. However, Fitch does not see an upgrade as likely in the near to medium term, taking into account the pressure on asset quality.

Pressure on Capitalisation: CF's rating could be downgraded if it fails to maintain sufficient reserve coverage and/or capital buffers against further asset-quality deterioration, which results in a significant increase in the amount of unprovided NPLs relative to equity.

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Central Finance Company PLC Balance Sheet

	31 Mar 2015			31 Mar 2014		31 Mar 2013		31 Mar 2012	
	Year End USDm	Year End LKRm	As % of Assets	Year End LKRm	As % of Assets	Year End LKRm	As % of Assets	Year End LKRm	As % of Assets
Assets									
A. Loans									
1. Residential Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Other Loans	411.0	54,628.5	76.72	49,522.5	75.69	44,614.5	78.88	38,390.6	77.09
6. Less: Reserves for Impaired Loans	6.3	833.1	1.17	494.3	0.76	296.4	0.52	237.0	0.48
7. Net Loans	404.8	53,795.4	75.55	49,028.2	74.93	44,318.1	78.36	38,153.6	76.62
8. Gross Loans	411.0	54,628.5	76.72	49,522.5	75.69	44,614.5	78.88	38,390.6	77.09
9. Memo: Impaired Loans included above	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Other Earning Assets									
1. Loans and Advances to Banks	12.8	1,703.9	2.39	1,332.8	2.04	717.2	1.27	1,551.8	3.12
2. Reverse Repos and Cash Collateral	20.9	2,772.8	3.89	2,676.8	4.09	n.a.	-	n.a.	-
3. Trading Securities and at FV through Income	1.6	218.1	0.31	536.7	0.82	33.1	0.06	24.7	0.05
4. Derivatives	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Available for Sale Securities	2.0	267.0	0.37	207.0	0.32	437.7	0.77	357.4	0.72
6. Held to Maturity Securities	n.a.	n.a.	-	n.a.	-	1,920.1	3.39	1,411.9	2.84
7. Equity Investments in Associates	23.8	3,167.8	4.45	2,719.1	4.16	2,364.9	4.18	2,011.4	4.04
8. Other Securities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Total Securities	48.3	6,425.7	9.02	6,139.6	9.38	4,755.8	8.41	3,805.4	7.64
10. Memo: Government Securities included Above	20.9	2,772.8	3.89	1,547.3	2.36	2,162.4	3.82	1,577.3	3.17
11. Memo: Total Securities Pledged	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Investments in Property	0.3	41.3	0.06	n.a.	-	n.a.	-	n.a.	-
13. Insurance Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Earning Assets	466.3	61,966.3	87.03	56,500.6	86.35	49,791.1	88.04	43,510.8	87.38
C. Non-Earning Assets									
1. Cash and Due From Banks	3.3	443.2	0.62	570.7	0.87	689.0	1.22	356.5	0.72
2. Memo: Mandatory Reserves included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Foreclosed Real Estate	0.3	41.1	0.06	65.5	0.10	68.1	0.12	92.4	0.19
4. Fixed Assets	43.7	5,801.1	8.15	5,467.3	8.36	4,047.4	7.16	3,745.8	7.52
5. Goodwill	0.1	15.9	0.02	n.a.	-	n.a.	-	n.a.	-
6. Other Intangibles	1.3	169.7	0.24	27.9	0.04	37.0	0.07	38.3	0.08
7. Current Tax Assets	n.a.	n.a.	-	n.a.	-	6.2	0.01	37.7	0.08
8. Deferred Tax Assets	0.1	12.9	0.02	16.4	0.03	10.7	0.02	0.1	0.00
9. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Other Assets	20.7	2,753.5	3.87	2,781.2	4.25	1,907.8	3.37	2,016.0	4.05
11. Total Assets	535.8	71,203.7	100.00	65,429.6	100.00	56,557.3	100.00	49,797.6	100.00
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Customer Deposits - Current	0.0	0.0	0.00	n.a.	-	n.a.	-	n.a.	-
2. Customer Deposits - Savings	9.1	1,213.5	1.70	880.7	1.35	792.9	1.40	854.1	1.72
3. Customer Deposits - Term	242.5	32,234.8	45.27	31,792.4	48.59	26,191.9	46.31	21,941.3	44.06
4. Total Customer Deposits	251.7	33,448.3	46.98	32,673.1	49.94	26,984.8	47.71	22,795.4	45.78
5. Deposits from Banks	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Repos and Cash Collateral	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Commercial Paper and Short-term Borrowings	14.2	1,890.4	2.65	909.3	1.39	5,042.1	8.92	6,618.5	13.29
8. Total Money Market and Short-term Funding	265.9	35,338.7	49.63	33,582.4	51.33	32,026.9	56.63	29,413.9	59.07
9. Senior Unsecured Debt (original maturity > 1 year)	30.8	4,090.1	5.74	5,207.1	7.96	1,740.2	3.08	1,782.0	3.58
10. Subordinated Borrowing	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Other Long-term Funding	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Total LT Funding (original maturity > 1 year)	30.8	4,090.1	5.74	5,207.1	7.96	1,740.2	3.08	1,782.0	3.58
14. Derivatives	0.1	6.9	0.01	2.5	0.00	23.1	0.04	66.6	0.13
15. Trading Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
16. Total Funding	296.7	39,435.7	55.38	38,792.0	59.29	33,790.2	59.75	31,262.5	62.78
E. Non-Interest Bearing Liabilities									
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	6.9	917.3	1.29	764.4	1.17	571.1	1.01	480.0	0.96
4. Current Tax Liabilities	2.5	338.3	0.48	158.7	0.24	258.3	0.46	140.4	0.28
5. Deferred Tax Liabilities	20.0	2,658.9	3.73	2,243.5	3.43	1,939.1	3.43	1,623.3	3.26
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Liabilities	20.6	2,738.9	3.85	1,753.6	2.68	2,477.5	4.38	1,769.5	3.55
10. Total Liabilities	346.8	46,089.1	64.73	43,712.2	66.81	39,036.2	69.02	35,275.7	70.84
F. Hybrid Capital									
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
G. Equity									
1. Common Equity	182.2	24,216.1	34.01	20,959.0	32.03	15,558.0	27.51	12,543.2	25.19
2. Non-controlling Interest	6.0	796.0	1.12	731.7	1.12	630.8	1.12	614.1	1.23
3. Securities Revaluation Reserves	0.8	102.5	0.14	26.7	0.04	12.9	0.02	(0.8)	(0.00)
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	-	n.a.	-	1,319.4	2.33	1,365.4	2.74
6. Total Equity	189.0	25,114.6	35.27	21,717.4	33.19	17,521.1	30.98	14,521.9	29.16
7. Total Liabilities and Equity	535.8	71,203.7	100.00	65,429.6	100.00	56,557.3	100.00	49,797.6	100.00
8. Memo: Fitch Core Capital	187.6	24,929.0	35.01	21,689.5	33.15	17,484.1	30.91	14,483.6	29.08
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Exchange rate USD1 = LKR132.90000 USD1 = LKR130.69500 USD1 = LKR126.85300 USD1 = LKR128.18800

Central Finance Company PLC Summary Analytics

	31 Mar 2015 Year End	31 Mar 2014 Year End	31 Mar 2013 Year End	31 Mar 2012 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	23.63	24.24	22.69	21.82
2. Interest Expense on Customer Deposits/ Average Customer Deposits	10.04	12.90	12.09	10.15
3. Interest Income/ Average Earning Assets	21.12	22.40	20.95	19.97
4. Interest Expense/ Average Interest-bearing Liabilities	10.43	12.87	12.51	9.75
5. Net Interest Income/ Average Earning Assets	14.17	13.51	12.23	12.89
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	13.62	13.00	12.22	13.33
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Asset	14.17	13.51	12.23	12.89
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	15.55	16.10	18.97	22.25
2. Non-Interest Expense/ Gross Revenues	37.80	39.58	40.16	41.75
3. Non-Interest Expense/ Average Assets	5.51	5.59	5.32	5.87
4. Pre-impairment Op. Profit/ Average Equity	26.40	26.96	26.29	27.56
5. Pre-impairment Op. Profit/ Average Total Assets	9.06	8.54	7.92	8.18
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	28.23	22.47	2.87	(4.59)
7. Operating Profit/ Average Equity	18.95	20.90	25.53	28.83
8. Operating Profit/ Average Total Assets	6.51	6.62	7.69	8.56
9. Taxes/Pre-tax Profit	29.89	29.67	32.11	31.47
10. Pre-impairment Operating profit/Risk Weighted Assets	10.57	9.49	10.38	10.18
11. Operating Profit / Risk Weighted Assets	7.58	7.36	10.08	10.64
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	15.98	17.45	20.50	23.22
2. Net Income/ Average Total Assets	5.49	5.53	6.18	6.90
3. Fitch Comprehensive Income/ Average Total Equity	16.13	23.58	20.78	22.62
4. Fitch Comprehensive Income/ Average Total Assets	5.54	7.47	6.26	6.72
5. Taxes/ Pre-tax Profit	29.89	29.67	32.11	31.47
6. Net Income/ Risk Weighted Assets	6.39	6.14	8.09	8.58
7. Fitch Comprehensive Income/Risk Weighted Assets	6.46	8.30	8.20	8.35
D. Capitalization				
1. Fitch Core Capital/ Risk Weighted Assets	42.68	39.72	43.08	40.59
2. Fitch Eligible Capital/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	35.10	33.16	30.93	29.11
4. Tier 1 Regulatory Capital Ratio	28.8	22.16	26.36	19.62
5. Total Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	35.27	33.19	30.98	29.16
8. Cash Dividends Paid & Declared/ Net Income	10.81	10.96	9.26	8.57
8. Cash Dividends Paid & Declared/ Fitch Comprehensive Income	10.70	8.11	9.14	8.80
8. Cash Dividends Paid & Share Repurchase/ Net Income	n.a.	n.a.	n.a.	n.a.
9. Internal Capital Generation	13.26	13.75	17.01	19.26
E. Loan Quality				
1. Growth of Total Assets	8.82	15.69	13.57	27.89
2. Growth of Gross Loans	10.31	11.00	16.21	37.42
3. Impaired Loans/ Gross Loans	n.a.	n.a.	n.a.	n.a.
4. Reserves for Impaired Loans/ Gross Loans	1.53	1.00	0.66	0.62
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	n.a.	n.a.	n.a.
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
7. Impaired Loans less Reserves for Impaired Loans/ Equity	n.a.	n.a.	n.a.	n.a.
8. Loan Impairment Charges/ Average Gross Loans	0.64	0.58	0.01	(0.50)
9. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	n.a.	n.a.
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Ass	0.08	0.13	0.15	0.24
F. Funding and Liquidity				
1. Loans/ Customer Deposits	163.32	151.57	165.33	168.41
2. Interbank Assets/ Interbank Liabilities	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits/ Total Funding (excluding derivatives)	84.83	84.23	79.91	73.07
4. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.

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