CIMB

CIMB Group announces 1H20 Profit Before Tax of RM910 million; underlying business remains resilient against shocks

The Group targets an absolute cost reduction of around RM500 million or 5% for FY20 through rigorous cost optimisation measures to mitigate the challenging economic environment.

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- 1H20 PBT of RM910 million and Net Profit of RM785 million with lower annualised ROE of 2.8% due to elevated loan provisions and impact of COVID-19
- Underlying business remains resilient - total gross loans and deposits increased by 3.9% and 7.8% respectively, with continued improvement in CASA ratio to 38.4%
- Operating income declined by 7.3% due to a drop in markets-related NOII, while NII remained healthy with 1.4% growth, or 6% excluding modification loss impact
- Operating expenses lower by 3.3% YoY as CIMB targets a full year cost reduction of around RM500 million to mitigate the impact of the challenging economic environment
- Capital position remains strong with a higher CET1 ratio of 12.9%[1], while the liquidity coverage ratio remains comfortably above 100%

CIMB Group Holdings Berhad ("CIMB Group" or the "Group") announced a profit before tax ("PBT") of RM910 million and net profit of RM785 million for the first half period ended 30 June 2020 ("1H20"), down from RM3.56 billion and RM2.70 billion recorded respectively in the corresponding period last year. This translates to a lower annualised return on average equity ("ROE") of 2.8% and net earnings per share ("EPS") of 7.9 sen. The Group's performance was affected by the challenging economic environment caused by the COVID-19 pandemic, which led to modification loss arising from the moratorium given to borrowers, as well as elevated provisions due to macro-economic factors ("MEF") and specific credit provisioning.

On a quarter-on-quarter ("QoQ") basis, the Group posted a PBT of RM196 million and net profit of RM277 million for the second quarter ended 30 June 2020 ("2Q20"), down from RM714 million and RM508 million recorded respectively in the previous quarter.

The Group's underlying business however, remains resilient with positive growth in gross loans and deposits and significant CASA growth. CIMB also outlined its intention to undertake rigorous cost optimisation measures and proactively strengthen its balance sheet in order to mitigate the impact of the challenging economic environment. The Group's capital position remains strong with its Common Equity Tier 1 (CET1) ratio at 12.9%[1], backed by healthy liquidity support.

Dato' Abdul Rahman Ahmad, Group Chief Executive Officer of CIMB Group said, "The subdued performance in 2Q20 came within expectations and was largely attributed to the impact of COVID-19. Moving ahead, we expect continued weaker performance for the remainder of 2020 in line with uncertain economic conditions, as we recognise elevated provisions arising from the impact

[1] Including unaudited profits

of MEF under MFRS9 and take impairments on specific accounts outside Malaysia to strengthen our financial position. Our underlying business remains resilient, and we are pleased to see that loans and deposits grew 3.9% and 7.8% respectively, driving NII to grow by 6% YoY, excluding modification loss impact."

"To mitigate the impact of the challenging economic environment, we aim to aggressively rationalise cost. We are pleased that cost on an absolute basis has already declined by 3.3% for 1H20, and we target an absolute cost reduction of around RM500 million or 5% for full year 2020. The Group continues to be well-capitalised to withstand shocks through our prudent approach with a strong CET1 ratio and liquidity coverage ratio ("LCR") remaining comfortably above 100%", Dato' Abdul Rahman added.

Financial Performance

1H20 operating income declined by 7.3% to RM8.01 billion from RM8.63 billion year-on-year ("YoY"), primarily due to a 27.6% drop in non-interest income ("NOII") to RM1.86 billion versus RM2.57 billion in 1H19 due to lower fee and trading income in line with weaker economic activity. However, net interest income ("NII") grew by 1.4% YoY to RM6.15 billion, showing solid momentum despite the modification loss for the period and slight decrease in net-interest margin ("NIM") to 2.29%.

Gross Loans and Deposits

The Group's total gross loans grew by 3.9% YoY for 1H20, led by the Consumer and Wholesale Banking segments, with Malaysia gross loans growing by 4.8%. Commercial banking loans contracted slightly YoY in line with softer economic activity, and as the Group took a more prudent stance in this segment in Indonesia and Thailand.

Total deposits grew by 7.8% YoY, driven by a 20.2% YoY growth in CASA, as the Group placed greater emphasis on lower-cost deposits across all segments and operating countries. This resulted in a continued improvement in the CASA ratio to 38.4% as at Jun-20 compared to 34.4% last year.

As a consequence, the Group's Loan-To-Deposit ("LDR") ratio stood at 88.2% (cf. 91.5%). 1H20 Net Interest Margin ("NIM") was lower at 2.29% (cf. 2.46%), owing to the impact of interest rate cuts across the region as well as the one-off modification loss arising from fixed rate loans taken in 2Q20. Excluding the modification loss, the Group's 1H20 NIM was only 7bps lower at 2.39%.

Asset Quality

The comprehensive global macroeconomic impact of COVID-19 entailed a more stringent focus on asset quality. The Group's Jun-20 Gross Impaired Loans ("GIL") ratio rose to 3.6% from 3.1% YoY, and the increase in loan provisions was mainly driven by sizeable impairments outside

Malaysia as well as MFRS9-related MEF adjustments. Allowance coverage rose to 81.9%, while the Group's annualised loan loss charge for 1H20 stood at 1.32%.

Capital and Liquidity Management

The Group remains well-capitalised with an improved CET1 ratio, and a total capital ratio of 16.4%[2] as at Jun-20. However, in view of the global economic slowdown and uncertainties, capital management and conservation remains a core priority. The Board has therefore not proposed an interim dividend for 1H20. The Group will review the position at year end, subject to economic conditions and regulatory approvals. Liquidity management continues to be a priority, with LCR remaining healthy for all banking entities within the Group.

Segment Performance

Group Consumer Banking 1H20 PBT declined by 38.7% YoY from a combination of the impact of the modification loss on NII as well as higher provisions owing to 2Q20 MEF adjustments. Nevertheless, excluding the modification loss, the segment's NII would have grown 0.5% QoQ compared to the 16.2% decline, despite the interest rate cuts during the period. Consumer NOII was weaker on the back of softness in wealth management and credit card fees. However, operating expenses continue to be kept under control with 1H20 costs declining 3.1% YoY.

Group Commercial Banking 1H20 PBT was impacted by a material impairment in 1Q20 as well as provision writebacks in 1H19. However, underlying performance remains robust with improved NII and operating expenses decreasing YoY. 2Q20 NOII was weaker as a result of slower trade activity due to economic lockdown measures.

Group Wholesale Banking 1H20 PBT declined due to significantly weaker market-related NOII as well as higher provisions arising from a material impairment in 2Q20 and the negative impact of MEF adjustments. The 5.4% YoY growth in corporate loans drove the 9.9% improvement in segmental NII, while overhead expenses were 11.1% lower YoY.

Group Ventures, Partnerships & Funding ("GVPF") 1H20 PBT was lower largely due to a contraction in NII arising from interest rate cuts during the period and the absence of a one-off gain from the sale of our Malaysia equities business in 1H19. Operating expenses increased 21.4% YoY due to higher expenses at Touch 'n Go and CIMB Philippines. Encouragingly, both TNG Digital and CIMB Philippines have seen significant traction in registered users and customers at over 10 million and 2.4 million respectively.

CIMB Islamic 1H20 PBT was also impacted by a combination of the modification loss and profit rate cuts on Net Financing Income ("NFI"), as well as higher provisions owing to the MEF adjustments in 2Q20. Reduced capital-market activity due to the slower economy impacted fee-related income, resulting in lower Non-Financing Income ("NOFI").

[2] Including unaudited profits

Moving Forward

Dato' Abdul Rahman said, "The short term economic outlook will remain challenging. In recognition of the new challenges posed by a fluid and uncertain economic landscape, we are recalibrating our mid-term Forward23 plan to ensure the Group is well positioned to take advantage of economic recovery. We will share the updated Strategic Plan in due course."

"In the meantime, the Group will continue to be prudent and maintain the utmost discipline in managing both risk and asset quality. Our priority remains on supporting customers affected by the pandemic, especially in Malaysia, as we approach the end of the blanket moratorium in September. We are committed to continue providing extended relief and support to affected customers with CIMB's Targeted Assistance Programme. These customised relief options are aimed at providing temporary breathing space to help our customers get back on their feet again."

As at end-June, CIMB Group's COVID-19 financial assistance initiatives have benefitted over 1.25 million retail customers and around 16,000 SMEs and corporate clients in terms of cash flow alleviation. The Group's support for affected customers in Malaysia will continue post-moratorium via its Targeted Assistance Programme ("TAP"), in line with the Government's extended COVID-19 relief initiatives.

For the TAP, the Group has proactively reached out to a 330,000 retail customers in Malaysia to offer support, and 12.7% or 42,000 customers have responded. Out of the 42,000 customers who have responded, 17% have declined the offer, with the assumption that they will be able to resume payments once the moratorium ends, while the remainder are all approved under the TAP. For non-retail customers, the Group has engaged with over 11,000 of our business customers covering SME, commercial and corporates in Malaysia, and will provide assistance where necessary. Customers are reminded to contact the bank as soon as possible if they need further assistance with their loan/financing obligations.

"We remain committed to supporting the financial well-being and business-viability of all our customers, from individuals to SMEs and corporate clients. We are also committed in supporting the Government's initiatives to continue help affected borrowers weather this period, which we believe will benefit the communities in which we operate and ultimately overall economic recovery," Dato' Abdul Rahman concluded.

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About CIMB Group

CIMB Group is one of ASEAN's leading universal banking groups and is Malaysia's second largest financial services provider, by assets. It offers consumer banking, commercial banking, investment banking, Islamic banking and asset management products and services. Headquartered in Kuala Lumpur, the Group is present in all 10 ASEAN nations (Malaysia, Indonesia, Singapore, Thailand, Cambodia, Brunei, Vietnam, Myanmar, Laos and Philippines). Beyond ASEAN, the Group has market presence in China, Hong Kong, India, Korea, the US and UK.

CIMB Group has one of the most extensive retail branch networks in ASEAN with 669 branches as at 30 June 2020. The Group's investment banking arm is one of the largest Asia Pacific-based investment banks, while it offers comprehensive research coverage around of 950 stocks in the region via its CGS-CIMB joint venture.

CIMB Group operates its business through three main brand entities, CIMB Bank, CIMB Investment Bank and CIMB Islamic. CIMB Group is also the 92.5% shareholder of Bank CIMB Niaga in Indonesia, and 94.8% shareholder of CIMB Thai in Thailand.

CIMB Group is listed on Bursa Malaysia via CIMB Group Holdings Berhad. It had a market capitalisation of approximately RM35.1 billion as at 30 June 2020. The Group has around 35,000 employees located in 15 countries.

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