



Media Release

RAM Ratings reaffirms CIMB Group's ratings

RAM Ratings has reaffirmed CIMB Group Holdings Berhad's (the Group) AA₁/Stable/P1 corporate credit ratings (CCRs) and the issue ratings of its debt instruments. The 1-notch difference between CIMB Group's long-term CCR and the AAA long-term financial institution ratings of its key Malaysian subsidiaries reflects its structural subordination as a non-operating holding company and moderate unconsolidated debt levels. CIMB Group is the fifth-largest banking group in ASEAN (by assets), with an extensive regional footprint and a commendable universal-banking franchise.

Table 1: Issue ratings of CIMB Group

Instrument	Rating action	Rating(s)
RM6.0 billion Conventional/Islamic CP/MTN Programme (2008/2038)	Reaffirmed	AA ₁ /Stable/P1
RM3.0 billion Subordinated Notes Programme (2009/2074)	Reaffirmed	AA ₃ /Stable/-
RM6.0 billion Conventional CP Programme (2015/2022)*	Reaffirmed	-/-/P1
Proposed RM6.0 billion Islamic CP Programme* (*combined limit of RM6.0 billion)	Reaffirmed	-/-/P1
RM10.0 billion Additional Tier-1 Capital Securities Programme	Reaffirmed	A ₁ /Stable/-

CIMB Group's gross impaired-loan (GIL) ratio had weakened to 3.2% as at end-September 2016 (end-December 2015: 3.0%), amid a persistent slide in asset quality in Thailand, coupled with pockets of weakness in Malaysia and Singapore. Despite having stabilised somewhat, the default rate in Indonesia remains high. Compared to a peak of 77 bps in fiscal 2015, the Group's credit-cost ratio came in slightly lower at 73 bps (annualised) in 9M fiscal 2016, albeit still the highest among Malaysian banking groups. Given the challenging environment in its main markets and its relatively large exposure to commodities (9.1% of gross loans), CIMB Group's asset quality is likely to remain under pressure. As its GILs rose, the Group's GIL coverage ratio (inclusive of regulatory reserves) had declined to 93% as at end-September 2016 (end-December 2015: 96%), although still deemed satisfactory.

With an annualised ROA of 1.0% in 9M fiscal 2016, CIMB Group's profitability remained relatively low amid hefty impairment charges and high operating expenses. Nonetheless, the Group has gained some traction in cost control, with its cost-to-income ratio (excluding one-off items) having improved from a peak of 59% in fiscal 2014 to 55% in 9M fiscal 2016, albeit still elevated. While narrowing margins and high credit costs pose downside risks to profitability, the Group's cost-saving

initiatives will provide some support.

Moving forward, we expect CIMB Group's satisfactory pre-provision profit and capitalisation to help it weather the tougher operating landscape. The Group's common-equity tier-1 (CET-1) capital ratio had improved further to 10.9% as at end-September 2016 (end-December 2015: 10.4%; end-December 2014: 10.1%), driven by profit accretion, continued dividend reinvestment and the optimisation of risk-weighted assets. On a fully loaded basis, this ratio would come up to 10.7%. The Group aims to strengthen its fully loaded CET-1 capital ratio to 12% by 2018.

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Date of release: 23 December 2016

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Published by RAM Rating Services Berhad
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