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CIMB Group announces RM1.727 billion Net Profit for 1HFY10

1) Summary

CIMB Group Holdings Berhad ("CIMB Group") today reported a net profit of RM1.727 billion for 1HFY10, representing a 35.2% year-on-year ("Y-o-Y") growth and equivalent to net earnings per share ("EPS") of 24.5 sen. The annualized net return on equity ("ROE") of 17% remains ahead of the Group's full-year target of 16%. The Group declared an interim dividend of 4.625 sen (single tier) amounting to a net payment of RM339 million.

For 2Q10, the Group's net profit of RM889 million was 6.1% higher than 1Q10. On a Y-o-Y basis, this represented a 34.1% growth over the 2Q09 net profit of RM663 million.

"We posted our highest ever 3 and 6 months performance. The highlights were the strong rebound in corporate and investment banking, surge in contribution from CIMB Niaga and drop in loan loss provisions" said Dato' Sri Nazir Razak, Group Chief Executive.

2) CIMB Group Y-o-Y Results

CIMB Group's 1H10 revenues increased by 14.9% Y-o-Y to RM5.861 billion while the Group's profit before tax ("PBT") was 34.8% higher at RM2.314 billion.

For 1H10, the Group's Malaysian consumer bank PBT grew 23.5% Y-o-Y from a combination of sustained improvements in Retail Banking and Credit Cards as well as better recoveries at Group Special Assets Management ("GSAM"). PBT at Treasury & Investments declined 25.3% Y-o-Y to RM605 million mainly due to lower net gains from investments during the period. Corporate & Investment Banking ("CIB") PBT was higher by 72.9% Y-o-Y to RM498 million as regional capital markets were significantly better than 1H09.

CIMB Niaga's contribution surged 171.1% Y-o-Y to RM828 million from RM305 million previously owing to continued operational improvements as well as very favourable operating conditions. CIMB Thai made a RM26 million PBT contribution in 1H10 compared to a RM29 million loss in 1H09. Asset Management and Insurance PBT was 55.4% lower Y-o-Y at RM36 million largely due to the non recurrence of gains on change in accounting standards at CIMB Aviva last year.

CIMB Niaga was again the largest contributor to 1H10 Group PBT with 36% versus 18% in 1H09. The Malaysian Consumer Bank's contribution to Group PBT was slightly lower at 14% compared to 15% in 1H09, while Treasury and Investments fell to 26%. Contribution from CIB rebounded to 21% from 17% previously. Group Asset Management ("GAM") and Insurance fell to 2% from 5% last year. CIMB Thai's contribution was 1% of Group PBT compared to a negative in 1H09.

Total non-Malaysian PBT jumped to an all-time high of 44% in 1H10 from 20% in 1H09 due to the surge in contribution from Indonesia as well as the return to profitability of the Group's Thai and Singapore operations.

The Group's total gross loans expanded 16.1% Y-o-Y, underpinned by the 30.7% expansion (in RM terms) of CIMB Niaga's gross loans as well as the 15.2% growth in Malaysian consumer loans. Mortgages, credit cards and the Group's micro credit lending grew by 22.9%, 38.3% and 38.7% respectively Y-o-Y. Hire purchase loans are growing again, by 5.7% Y-o-Y but business banking loans continued to decline by 4.5% Y-o-Y. Corporate loans improved 8.7% Y-o-Y. Meanwhile, the Group's net interest margins continued to improve as well.

Total Group's deposits grew by 18.1%, driven by a 20.5% surge in CIMB Bank's retail current account balances as the Group's new Singapore retail franchise continued its excellent start. In 2Q10 CIMB Bank Malaysia registered more new customers than ever before indicating that the bank's focus on growing its deposit base is gaining momentum.

The total loan impairment (under FRS139 policies) for the Group was RM272 million in 1H10. Although this is a 52.6% Y-o-Y decline versus the loan loss provision of RM574 million in 1H09 (under Garis Panduan 3 ("GP3") policies), the numbers are not directly comparable due to differing accounting treatments. The Group's total annualised credit charge was 0.30%, much lower than the 0.60% full year target. The Group's gross impaired loans ratio was 7.2% for 1H10 down from 7.5% three months ago, with an impairment allowance coverage of 78.4%. The Group's cost to income ratio rose slightly to 54.6% compared to 53.7% in 1H09.

CIMB Bank's risk weighted capital ratio was 15.0% while CIMB Group's double leverage and gearing stood at 118.3% and 25.3% respectively as at end-June 2010.

3) CIMB Group Q-on-Q Results

The Group's 2Q10 revenues of RM3.019 billion was 6.2% higher versus 1Q10, giving rise to a 6.1% increase in Q-o-Q net profits of RM889 million.

The Group's Malaysian Consumer Banking division PBT improved 52.8% Q-o-Q largely due to improved recoveries at GSAM. Excluding these legacy assets, the consumer "good bank" earnings were 5.9% higher. Corporate and Investment Banking expanded 14.7% as the capital market momentum continued but Treasury and Investments fell 18.3% Q-o-Q. CIMB Niaga's PBT contribution was 4.5% lower Q-o-Q due to the higher gain from the ex-Lippo Bank bond sale in 1Q10. GAM and Insurance PBT contributions rose 262.5% to RM28 million. CIMB Thai's PBT contribution jumped by 233.3% Q-o-Q to RM20 million versus RM6 million in 1Q10.

4) CIMB Niaga Results

On 23 August 2010, CIMB Niaga reported a 1H10 net profit of IDR1,129 billion, a 62.2% Y-o-Y growth with a 1H10 net ROE of 19.2%. The stronger performance was attributed to the strong loans growth and improved non-performing loan (“NPL”) ratios. Profits from sale of AFS bonds by CIMB Niaga are not recognised in CIMB Niaga itself but at Group consolidated accounts. On a sequential basis, the 2Q10 net profit was 15.5% higher than 1Q10 primarily due to stronger revenue and lower operating expenses.

Bank CIMB Niaga’s gross loans grew 25.6% Y-o-Y in 1H10 driven by the corporate and auto loans segments. Gross NPL was lower at 2.7% as at end-June 2010 compared to 3.1% as end-March 2010 and unchanged versus the corresponding period last year. CIMB Niaga continues to retain the 2nd lowest position in net NPL ratios amongst Indonesian banks while loan loss coverage was increased to 140.0% as at end-1H10 compared to 96.3% as at end-1H09.

CIMB Niaga’s Tier 1 capital and risk weighted capital ratios stood at 10.5% and 12.1% respectively as at 30 June 2010.

5) CIMB Thai Results

On 21 July 2010, CIMB Thai announced a 1H10 net profit of THB714 million compared to a THB502 million loss in 1H09. This had included a THB508 million gain from the sale of the Sathorn building and BT Asset Management. Excluding this one-off gain, CIMB Thai would have recorded a 1H10 net profit of THB206 million. For the 6-month period, CIMB Thai chalked revenue of THB3.607 billion, up 5.6% Y-o-Y. As a result of GAAP adjustments, CIMB Thai’s contribution to the Group’s 1H10 earnings was RM26 million, compared to a negative RM29 million in 1H09.

As at 30 June 2010, CIMB Thai’s Tier 1 capital and risk weighted capital ratios (based on Basel II framework) were at 6.3% and 12.4% respectively.

6) CIMB Islamic

CIMB Islamic’s Y-o-Y PBT jumped 144.6% to RM159 million as Syariah-compliant banking products continue to gain ground. CIMB Islamic’s gross financing assets grew 141.4% Y-o-Y, accounting for 14.3% of total Group loans. Total deposits grew by 71.9% Y-o-Y to RM20.3 billion.

7) Market Shares

CIMB Group’s market shares in key areas remain strong for 1H10.

CIMB Investment Bank is the leading stockbroker in Malaysia and top of the league tables for Malaysian M&A’s, Debt Capital Markets, Initial Public Offering’s (“IPO”) and loan syndications.

With its total assets at RM27.8 billion as at 31 March 2010, CIMB Islamic is now the second largest Islamic bank in Malaysia with a 12% market share and the second largest Islamic mortgage player with a 16.5% market share. CIMB Islamic remained no 1 for Malaysian sukuk and number 2 in global sukuk.

CIMB Bank is the second largest mortgage lender in Malaysia, third largest player in other key areas such as retail deposits, credit cards and SME loans and fourth in hire purchase financing.

In Singapore, CIMB Securities has the 3rd largest share of SGX trades and is number 3 in corporate advisory for mid-sized companies.

In Indonesia, CIMB Niaga, the country's 5th largest bank, is the 2nd largest mortgage lender while PT CIMB Securities has the 3rd largest share of IDX trades.

CIMB Principal Asset Management remains the second largest asset manager in Malaysia.

8) Southeast Asia Special Asset Management Berhad ("SEASAM")

SEASAM is the wholly-owned entity of CIMB Group dedicated to management of legacy NPLs. On 1 December 2009, SEASAM had acquired a portfolio of NPLs with a gross loan amount of RM 8.4 billion and net book value ("NBV") of RM 925 million from CIMB Bank. Its NBV as at 30 June 2010 is RM714.6 million.

CIMB Group had explored the sale of a controlling stake in SEASAM but has decided not to proceed with the divestment following the introduction of Basel II risk-based capital adequacy framework effective 1 July 2010. Under the new framework, lower loss value is estimated for SEASAM's portfolio as compared to the provision estimated under FRS 139, therefore making a sale of SEASAM economically unattractive.

9) Outlook

"Apart from our good financial performance, the first half has also been about integrating our operations and our people across the region. We are developing into a single regional franchise and are starting to realise more internal synergies and deliver more regional products for customers", said Nazir.

"As for the near term, Asean economies are fundamentally strong and growing well this year. Given our first half momentum we expect our full year ROE to be 16.5% excluding any impact from the recent acquisition of 20% of CIMB Niaga. However, we remain conservative on our capital position as we are migrating to Basel II and the international banking reform process has yet to land on some important details."

If you have further queries or require more information, please contact:

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APPENDIX

Significant Corporate Developments in 2010

1) Mergers and Acquisitions

- a. On 26 March 2010, CIMB Group completed the acquisition of the 32.22% interest in Touch N' Go Sdn Bhd ("TnG") for RM53.8 million. CIMB Group now holds a 52.22% equity interest in TnG.
- b. On 14 May 2010, CIMB Group entered into a conditional share sale and purchase agreement with Khazanah Nasional to acquire up to 19.67% equity interest in CIMB Niaga for up to RM1.94 billion via the issue of up to 268 million CIMB Group shares at RM7.25 per share. Upon completion, CIMB Group will hold up to 97.93% in CIMB Niaga. The exercise received shareholder approval at the EGM on 26 July 2010 and was completed on 19 August 2010.

2) Capital Management

- a. On 23 February 2010, CIMB Group proposed a 1-for-1 bonus issue of up to 3,582,387,823 new CIMB shares of RM1.00 each. To facilitate this issue CIMB Group's authorized share capital will be raised from RM5 billion to RM10 billion. The ex-date for the bonus issue was 19 May 2010.
- b. On 2 April 2010, CIMB Group increased the offering size of its Proposed listing on the Stock Exchange of Thailand ("SET"), from up to 35 million CIMB Shares to up to 50 million CIMB Shares (100 million after completion of the bonus issue).
- c. On 5 April 2010, CIMB Group completed the issuance of RM750 million cumulative subordinated fixed rate notes.
- d. On 29 June 2010, CIMB Niaga completed the issuance of Rp1.38 trillion of subdebt.

3) Others

- a. On 5 April 2010, CIMB Group announced its plans to set-up a research institute dedicated to promoting ASEAN integration, to be named CIMB ASEAN Research Institute.
- b. On 12 April 2010, CIMB Group announced the submission of the application to the SET in respect of the Proposed SET Listing.
- c. On 7 May 2010, MARC upgraded the long-term ratings for CIMB Bank and CIMB Islamic Bank to AAA/MARC-1 (stable) from AA+ previously.
- d. On 9 May 2010, CIMB Group obtained an approval-in-principle to offer banking services in Cambodia by the National Bank of Cambodia.