

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings upgrades CIMB Niaga's deposit and issuer ratings to Baa1; changes outlook to stable**

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08 May 2024

Singapore, May 08, 2024 -- Moody's Ratings (Moody's) has upgraded PT Bank CIMB Niaga Tbk's (CIMB Niaga) long-term (LT) local currency (LC) and foreign currency (FC) deposit ratings and LT FC issuer rating to Baa1 from Baa2.

Moody's has also upgraded the bank's Adjusted Baseline Credit Assessment (BCA) to baa1 from baa2, its LT LC and FC Counterparty Risk Ratings (CRRs) to A3 from Baa1, and its LT Counterparty Risk (CR) Assessment to A3(cr) from Baa1(cr).

At the same time, Moody's has affirmed CIMB Niaga's baa3 BCA, its P-2 short-term (ST) LC and FC deposit ratings, P-2 ST LC and FC CRRs as well as its P-2(cr) ST CR Assessment.

Moody's has also changed the rating outlooks, where applicable, to stable from positive.

#### RATINGS RATIONALE

The upgrade of CIMB Niaga's ratings follows the increased capacity of support from CIMB Group Holdings Berhad (CIMB Group, Baa1 stable). Moody's considers that the group has strengthened its standalone creditworthiness following its multiyear de-risking and cost optimization initiatives, as well as its more conservative approach towards provisioning and capital management. CIMB Niaga's Baa1 deposit ratings are now two notches higher than the bank's baa3 BCA due to Moody's view of a very high probability of support from CIMB Group for CIMB Niaga in times of need.

The affirmation of CIMB Niaga's baa3 BCA considers the bank's strong capitalization, which will provide sufficient buffers against the asset risks arising from its remaining stock of restructured loans. The baa3 BCA also reflects the bank's strong profitability and liquidity, as well as its modest deposit franchise.

Moody's expects CIMB Niaga's capital and liquidity levels to remain strong amid

modest loan growth. The bank's tangible common equity as a percentage of risk-weighted assets will remain strong at around 17%-18% despite its expected 50% dividend payout in 2024.

CIMB Niaga's loan quality improved over the recent quarters, with its stage 3 ratio declining to 4.2% as of the first quarter (Q1) 2024 from 5.8% a year-earlier. Its reported loans-at-risk (LAR), measured by nonperforming loans, special mention loans and restructured loans classified as current, have decreased to 10.9% from 13.9% over the same period. Moody's expects the bank's asset quality to remain stable in 2024, with a continued recovery in restructured loans in line with the country's improving operating environment.

The bank's profitability, as measured by return on tangible assets, improved to 2.1% in Q1 2024 from 1.9% in the year-earlier period underpinned by lower provisioning costs that more than offset its net interest margin compression. Moody's expects the bank's profitability to decline mildly but remain strong over the next 12-18 months, with continued pressure on funding costs with the recent policy rate hike by Bank Indonesia in April 2024, balanced by its focus on higher yielding small and medium enterprise and consumer segments, as well as low provisioning and operating costs.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade CIMB Niaga's ratings if CIMB Group's ability to provide support improves. An upgrade of CIMB Niaga's BCA would likely depend on a significant strengthening of its franchise, as well as improvements in its credit metrics including asset quality, profitability and funding.

Moody's could downgrade CIMB Niaga's ratings if CIMB Group's willingness or capacity to provide support reduces. CIMB Niaga's BCA could be downgraded if the bank's gross impaired loan ratio increases to above 8.0%, its tangible common equity/risk-weighted assets ratio decreases to below 14.0% and its net income/tangible assets ratio decreases to below 1.3%.

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

PT Bank CIMB Niaga Tbk (CIMB Niaga) is headquartered in Jakarta and reported total assets of IDR332.9 trillion as of 31 March 2024.

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Clarabelle Tan  
Analyst  
Financial Institutions Group

Moody's Investors Service Singapore Pte. Ltd.  
71 Robinson Road #05-01/02  
Singapore, 068895  
Singapore  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

Patrick Winsbury  
Associate Managing Director  
Financial Institutions Group  
JOURNALISTS: 61 2 9270 8141  
Client Service: 852 3551 3077

Releasing Office:  
Moody's Investors Service Singapore Pte. Ltd.  
71 Robinson Road #05-01/02  
Singapore, 068895  
Singapore  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

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