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Report of The Board of Commissioners

Didi Syafruddin Yahya

President Commissioner



As a form of support for MSME and sustainability, the clothing used by the Directors and Commissioners of CIMB Niaga uses products from ByBinzu which is an environmentally friendly product with natural dyes.



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DEAR RESPECTED SHAREHOLDERS AND STAKEHOLDERS,

We knew it would take the right strategies, policies, initiatives, and programs to face this unfavorable macroeconomic landscape. In our view, the Board of Directors has responded very well to the challenges by paying close attention to the banking industry dynamics and seizing opportunities to continue to grow.

During 2022, the Board of Commissioners of CIMB Niaga exercised our duties to oversee the Board of Directors, including how they worked on the Bank's Business Plan (RBB) and Sustainable Finance Action Plan (RAKB). We also oversaw how they were employing the Bank's strategy, especially in terms of risk management, loan disbursement, profit achievement, IT implementation, human resources development, corporate governance practices, and sustainable finance implementation.

We always ensure that the Bank is professionally managed amidst challenging economic conditions. We play this inherent role with objectivity and independency refraining from taking part in operational decision-making for the Bank, except for certain matters regulated and stipulated in the Company's Articles of Association and applicable laws and regulations.

MACRO ECONOMY 2022

Amidst the volatile global macroeconomic environment throughout 2022, most of the world's central banks were increasing their benchmark rates, eventually leading to an economic slowdown and corrections in commodity markets. Global inflationary pressure became much heavier. As demand recovery has far outpaced supply, commodity prices have started to rise globally. Other underlying causes of this trend were disruptions in global supply chains and a strengthening trend in the labor market in some developed nations. The Russia-Ukraine war also triggered supply disruptions that contributed to skyrocketing prices of food and energy across the globe.

Developed and developing countries enacted tight monetary policies to respond to inflationary pressures. The high-interest rate policy was expected to be kept long enough to help tame inflation. In the United States (US), the Fed Funds Rate (FFR) in December 2022 was recorded at 4.25% -4.50%.

A declining trend in the medium/long-term government bond yields of many developed and developing countries began to be seen. On the Additionally, the US Dollar weakened against most other currencies. There is no question that the trend gave positive sentiment toward Indonesian bond markets and the Rupiah. This reversed the months of waning interest of foreign investors in the Rupiah bond market during the pandemic. The Indonesian currency has constantly weakened against the USD since Q2 2022. The world's fiscal and monetary policymakers hoped that the economic slowdown would occur gradually instead of severely so they could avoid recession.

Domestically, the Central Bureau of Statistics (BPS) recorded domestic economic growth reaching 5.31% in 2022, positively impacting banking as the industry continued progressing. Bank Indonesia reported that loans grew by 11.4% in 2022, driven predominantly by growth in both investment and working capital loans. Quick recovery was also seen in the intermediary function of sharia banking, with financing growth of 20.1%. In the MSME segment, growth in the People's Business Loans (KUR) program in December 2022 was recorded at 29.7%. Economic liquidity also remained in line with economic activity, as reflected in the narrow (M1) and broad (M2) money supply which grew at 9.5% yoy and 8.3%, respectively.



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Indonesia saw a much more rapid upshift of people's mobility in the post-pandemic era, associated with strong growth in consumer consumption and bank loans. In 2022, household consumption expanded by 4.90% yoy. Indonesia's banking industry loans also improved in terms of quality, as seen in the Non-Performing Loans (NPL) ratio in December 2022 of 2.44% (gross) and 0.71% (net).

On the other hand, growth in Customer Deposits showed a rather leveling trend, which corresponded to Bank Indonesia's intention to normalize liquidity to help tame inflation. Increases in the banking reserve ratio (GWM) and interest rates were the main monetary instruments to keep inflation under control. By the end of 2022, the reserve requirement ratio for conventional banking had reached 9%, and the BI 7-day reverse repo rate had risen by 200 bps to 5.50%.

OUR ASSESSMENT OF THE PERFORMANCE OF THE BOARD OF DIRECTORS

We knew it would take the right strategies, policies, initiatives, and programs to face this unfavorable macroeconomic landscape. In our view, the Board of Directors has responded very well to the challenges by attending closely to the banking industry and seizing opportunities to continue to grow.

We have assessed how well they achieved the Bank targets. Most of the Bank's performance indicators improved, with some higher-than-target indicators, although the economy had not fully recovered.

The Board of Directors and the management employed CIMB Niaga's 5-Pillar Strategy extremely well, enabling the Bank to deliver another positive performance in 2022. This is reflected in the record consolidated net profit booked in 2022 of Rp5,0 trillion, representing a 19.63% growth (2021 profit excludes exceptional items).

The Board of Directors remained prudent and selective in disbursing loans amidst tight competition. In 2022, loan portfolios registered a growth of 8.26% to Rp196.6 trillion. The growth was mainly driven by Mortgages, Auto Loans, Emerging Business Banking (EBB), and the Corporate Banking segment. The non-performing loans ratio (NPL-gross) improved to 2.80% from 3.46% in the previous year.

ROE and CIR ratios were better than the previous year and exceeded the 2022 target, achieving 12.59% and 44.91% respectively. The Bank also managed to maintain a good funding position with an increase in the CASA ratio from 61.34% in the previous year to 63.57%. We supported the efforts of the Board of Directors to increase low-cost funds to support future profitable growth opportunities.

SUPERVISION OF THE FORMULATION AND IMPLEMENTATION OF THE BANK'S STRATEGY AND POLICIES

Through strong cooperation, the Board of Commissioners, the Board of Directors, and all CIMB Niaga personnel responded very well to the challenges of 2022. We directly oversaw the implementation of the Bank's Business Plan targets, from the initial formulation stage to the implementation of the Bank's strategies and policies.

The Board of Directors executed the Bank's strategies and policies, focusing on the 5-Pillar Strategy, with satisfactory results. The 5 Pillars consist of 1) Playing to Our Strengths, 2) Expanding the CASA Franchise, 3) Discipline in Cost Management, 4) Preservation of Capital and Balanced Risk Culture, and 5) Leverage Information Technology, in line with CIMB Group's strategy, Forward23+. We hope that through strategy execution and synergy with the entire CIMB Group network, CIMB Niaga will be able to support the achievement of CIMB Group's purpose, namely "To build a high-performing sustainable organization to help advance customers and society."

In this report, we want to convey that we oversaw the formulation and implementation of the Bank's strategy and policies through our scheduled meetings with the Board of Directors. We also reviewed and monitored strategy through the reports submitted by committees who work under us or through other written communication facilities.

Our active participation in performing our oversight function was supported by good cooperation with the Board of Directors, which ultimately led CIMB Niaga to deliver sustainable performance.

VIEWS ON THE BUSINESS PROSPECTS PREPARED BY THE DIRECTORS

The business prospects have been prepared by the Board of Directors as stated in the Bank's Business Plan. Our overview, in general, is these were prepared with great care while also proving very realistic, in line with the direction and objectives of the Bank. This is supported by the improving domestic economy as well as better banking industry prospects.

We expect to see steady economic growth in 2023, albeit slowing slightly to somewhere between 4.5 and 5.3%. Indonesia's continued economic recovery is driven by solid domestic demand, both private consumption and investment, in line with increased mobility and financial-economic activity, sustained export performance supported by increased added value from downstream natural resource-based industries, and continued completion of the National Strategic Program (PSN).



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Entering 2023, the banking industry will face similar challenges to those of the previous year. These challenges are expected to impact several aspects, including the prospects for digital banks and lending. Amidst prolonged uncertainty, inflationary issues, interest rate trends, and geopolitical conflicts in the global macro economy, we believe the nation's banking industry will continue to deliver a positive performance despite a possible future slowdown.

Bank Indonesia (BI) expects loans to grow around 10-12% in 2023-2024. BI also predicts positive growth in loan disbursement, loan demand, and banking liquidity. On the contrary, the Deposit Insurance Corporation (LPS) predicts that growth in customer deposits will slow in 2023. This has presented a challenge for the banking industry. It will require banks to make extra efforts to respond to the likely customer deposits slowdown that will come with a stronger demand for loans.

Going forward, the Bank will respond to the possible slowdown in the global macroeconomy with prudence-based strategies. We believe that by embracing and focusing on the Banks Pillars, the Board of Directors will be able to keep growing the Bank's business in the future.

SUSTAINABLE FINANCE

We appreciate the various achievements in the Bank's sustainable finance. Amongst the achievements was the Bank's sustainable palm oil financing portfolio growth, which reached 8% of the set target of 5%, and the reduction of Greenhouse Gas (GHG) emissions scope 1 and 2 of 8.5%.

Furthermore, the Bank has implemented its Human Rights Policy (HAM) and the principles of No Deforestation, No Peat, and No Exploitation (NDPE). CIMB Niaga has entered a new phase in implementing sustainable finance by issuing two financial products that adopt or support sustainable finance principles, namely the Sustainability Market Linked Deposit and Giro Kartini.

Together with CIMB Group, the Bank has set interim targets for two economic sectors, which are to halve the thermal coal mining sector exposure by 2030 (from base year 2021) and reduce emissions intensity from the cement sector financing by 36% (with a baseline of 2021) to 0.46 tons CO₂ equivalent/ton cement production in 2030. We hope that the Board of Directors can continue this strong performance in the years ahead and eventually realize the target of net zero GHG (scope 1 & 2) in 2030, phase out coal financing by 2040, and achieve net zero GHG (scope 1, 2 & 3) in 2050.

HUMAN RESOURCES

For the Bank, Human Resources (HR) management and development are important growth strategies. Given the increasingly tough challenges of the banking industry that require highly competent human resources as one of our targets in recent years has been to have professional bankers with competence and integrity. This is why we support the efforts of the Board of Directors and their management team in implementing the various strategic human resource development plans.

One strategic step was launching the Bank's new culture, namely EPICC (Enabling Talent, Passion, Integrity & Accountability, Collaboration, and Customer Centricity), to encourage CIMB Niaga personnel to provide their best for the Company. We hope that all CIMB Niaga employees can live up to the EPICC values in their daily lives.

We support the efforts of the Board of Directors to keep our employees passionate about their jobs, and we offer the widest possible opportunities for internal career development. We also support the Bank in giving appreciation to the best talents who have contributed to realizing the aspiration as we have expected.

INFORMATION TECHNOLOGY

One of the keys to the Bank's sustainable growth is the implementation of digitalization by utilizing the latest Information Technology (IT). An optimized IT application can give us speed, accuracy, convenience, and security for customers in making online banking transactions. The Bank supports IT development with a solid risk management system that runs effectively, robustly, and comprehensively.

The Bank has effectively utilized and developed digital technology for internal processes and serving customers. The technology ranges from OCTO Mobile and OCTO Clicks as digital applications for consumer banking customers, to BizChannel@CIMB as a digital application for corporate customers. Internally, the Bank has also digitized various tools to speed up internal processes and make it easier for relationship managers to provide the best services to our customers.

We have mandated to the Board of Directors that the Bank's IT implementation should pay heed to macroeconomic conditions and the banking industry, competition, and adjustments to the new normal. Various advances in the latest digital technology are also continuously optimized to assist in making data analytic-backed decisions.



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Therefore, we will continue to support the Bank in further cementing its position as a leader in digital banking services with IT utilization. CIMB Niaga is one of the banking institutions in Indonesia that is actively developing digital banking capabilities to provide convenience and comfort for customers' banking transaction needs.

VIEWS ON THE IMPLEMENTATION OF BANK GOVERNANCE

The implementation of the principles of Good Corporate Governance (GCG) is one of the main focuses of our oversight duty. We always encourage the Board of Directors to make continuous improvements and refinements to GCG in line with business needs.

CIMB Niaga has carried out GCG practices properly, manifested through the 4 pillars of Bank Governance, which include governance commitment, governance structure, governance processes, and governance outcome. We have assessed that overall, the Bank's GCG was very well implemented during 2022.

The Bank's consistent effort to improve and refine GCG also garnered recognition from external parties. These included the ASEAN Top 20 PLCs, Indonesia Top 3 PLCs, and ASEAN Asset Class PLCs in the 2021 ASEAN Corporate Governance Scorecard Award, and the TOP GRC Award 2022. We are highly appreciative and hope that this achievement will inspire the Bank to continue to excel.

VIEWS ON WHISTLEBLOWING SYSTEM

CIMB Niaga has in place and operates a Whistleblowing System as a means for external and internal parties to report any alleged violations of the principles of Corporate Governance, ethical values, and applicable policies or procedures based on accountable evidence/data/information so long as the allegation is made with good intentions and for the best interests of the Bank.

We actively participated in implementing and supervising the implementation of the Bank's whistleblowing system. We cosigned the Integrity Pact, where we declared our commitment to playing an active role in preventing and eradicating types of fraud, as well as our willingness to report when an alleged violation occurs within the Bank.

We also receive reports submitted through the Audit Committee and review the report once every quarter and accordingly provide directions for follow-up improvements to significant issues based on whistleblowing reports.

In order for its implementation to run optimally, the Whistleblowing System is managed by an independent and professional consultant, PT Deloitte Advis Indonesia,

which provides the Bank with the facilities and officers who will receive reports and forward them to the Bank while bridging CIMB Niaga with a whistleblower when necessary. The Anti-Fraud Management Unit (AFM) is appointed as the coordinator for handling whistleblowing routinely and periodically submits reports to the Board of Directors and the Board of Commissioners (through the Audit Committee). The reports submitted contain the number of reports received, proven and unproven, along with sanctions given to employees if proven to have committed fraud/violations, and any follow-up actions the Bank has taken on whistle-blown cases.

FREQUENCY AND METHOD OF GIVING ADVICE TO THE BOARD OF DIRECTORS

We provided advice and recommendations to the Board of Directors both formally in meetings and informally, as well as through committees under the Board of Commissioners. Formal meetings consist of our internal meetings, meetings of committees under the Board of Commissioners, and meetings to which the Board of Directors have been invited.

During 2022, we held 7 (seven) internal meetings and 5 (five) joint meetings with the Board of Directors. Through these meetings, we discussed various matters, including providing direction on the Bank's strategy and business plan, reviewing financial performance, and analyzing reports of committees under the Board of Commissioners. When we give advice and suggestions to the Board of Directors, we always consider inputs from the committees under the Board of Commissioners. These committees have actively supervised the areas that have been their respective responsibilities during 2022.

VIEWS ON THE PERFORMANCE OF THE COMMITTEES UNDER THE BOARD OF COMMISSIONERS

The Board of Commissioners is assisted by Committees under the Board of Commissioners, including the Audit Committee, Nomination and Remuneration Committee, Risk Monitoring Committee, and Integrated Governance Committee. In 2022, these committees did well in their respective duties and responsibilities as we discharged our oversight function. The basis for the assessment includes collegial assessment and individual assessment of their respective chairman and members.

These assessments cover the structure of the committee, performance achievements, competence, attendance at meetings, and the effectiveness of the implementation of duties and responsibilities in the financial year. Committees under the Board of Commissioners have also provided input, suggestions, and recommendations to the Board of Commissioners in accordance with their areas of responsibility.



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The Audit Committee did well in its duties and responsibilities in overseeing several matters related to the quality of financial information, the effectiveness and adequacy of the internal control system, the effectiveness and adequacy of risk management, the effectiveness of audits by external and internal auditors, and compliance with laws and regulations.

Respectively, the Nomination and Remuneration Committee also did well in the area of nomination and remuneration of members of the Board of Commissioners, Sharia Supervisory Board, Directors, and members of Committees under the Board of Commissioners, including overall employee remuneration.

The Risk Monitoring Committee did a great job as they were overseeing and giving advice to the Board of Directors to ensure the Bank's risk management met the elements of the adequacy of risk management procedures and methodologies that keep the Bank's business activities under control, within the Bank's risk appetite, and within limits that are favorable to the Bank.

Finally, the Integrated Governance Committee discharged their duties and responsibilities in overseeing the implementation of Governance at each Financial Services Institution (LJK) within the CIMB Indonesia Financial Conglomerate to ensure they remain in adherence to the Integrated Governance Guidelines.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The Board of Commissioners supported the implementation of the Social and Environmental Responsibility (TJSL) program as part of the Bank's commitment to developing sustainable economic

aspects with consistent heed to the balance of Environmental, Social, and Governance (ESG) aspects. CIMB Niaga has sustainably grown its business by always serving customers and other stakeholders with integrity, complying with applicable laws and regulations, and upholding business ethics.

We also support the Bank's TJSL programs and activities, which are run on 4 (four) pillars, namely Education, Health and Community Well-being, Economic Empowerment, and Climate and Environment. The four pillars are aligned with the Vision and Mission of the Bank's Sustainable Finance.

CHANGES IN THE COMPOSITION OF THE BOARD OF COMMISSIONERS

During 2022, the Bank kept the composition of the members of its Board of Commissioners the same.

APPRECIATION AND CLOSING

As a closing statement, we always mandate that the Board of Directors and all levels of management and employees can collaborate and synergize with all stakeholders and provide the best service to customers.

On behalf of the members of the Board of Commissioners, we would like to thank the Board of Directors, the management, and all CIMB Niaga personnel for their strong dedication in dealing with the tough challenges of 2022. We would also like to extend our appreciation to all partners and all other stakeholders for their cooperation. Hopefully, we all can continue to deliver the best and most sustainable performance in the future.

10 March 2023

Didi Syafuruddin Yahya

President Commissioner