

Jakarta, 10 Februari 2021
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Kepada Yth.
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Perihal: Peringkat PT Bank CIMB Niaga Tbk

Dengan hormat,

PT Fitch Ratings Indonesia (“**Fitch**”) mengafirmasi peringkat-peringkat berikut ini:

- Peringkat Nasional Jangka Panjang di '**AA+(idn)/Outlook Negatif**
- Peringkat Nasional Jangka Pendek di '**F1+(idn)**'

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Para pengguna pemeringkatan Fitch hendaknya mengerti bahwa pemeriksaan faktual atau verifikasi pihak ketiga manapun tidak dapat memastikan bahwa semua informasi yang diandalkan Fitch sehubungan dengan proses pemberian peringkat akan pasti akurat atau lengkap. Sehingga, para emiten dan penasihatnyalah yang bertanggung jawab atas keakuratan dari informasi yang mereka sediakan bagi Fitch dan bagi pasar dalam dokumen penawaran dan laporan-laporan lainnya. Dalam menerbitkan pemeringkatannya, Fitch harus mengandalkan pekerjaan dari para ahli, termasuk auditor independen sehubungan dengan laporan keuangan dan pengacara sehubungan dengan permasalahan legal dan pajak.

Lagi pula, pemeringkatan berpandangan kedepan dan menggambarkan asumsi dan perkiraan mengenai kejadian-kejadian di masa depan, yang pada dasarnya tidak bisa diverifikasi sebagai fakta. Oleh karena itu, walaupun fakta-fakta yang ada sekarang dapat diverifikasi, pemeringkatan dapat dipengaruhi oleh kejadian-kejadian atau kondisi lainnya di masa depan yang tidak dapat diantisipasi pada saat peringkat dipublikasikan atau ditetapkan.

Fitch terus berusaha meningkatkan kriteria dan metodologi pemeringkatannya, dan secara berkala memperbaharui penjelasannya sehubungan dengan kriteria dan metodologinya terhadap efek jenis tertentu dalam situs webnya. Metodologi dan kriteria yang digunakan untuk menentukan suatu tindakan pemeringkatan adalah metodologi dan kriteria yang berlaku pada saat keputusan peringkat tersebut dilakukan, yang untuk peringkat-peringkat publik yaitu tanggal komentar atas peringkat tersebut diberikan. Setiap komentar yang diberikan untuk setiap tindakan pemeringkatan menyediakan informasi mengenai kriteria dan metodologi yang digunakan untuk menghasilkan peringkat yang telah diberikan, yang dapat berbeda dari kriteria dan metodologi umum untuk tipe efek yang sama yang terdapat di situs web pada waktu-waktu tertentu. Untuk alasan ini, anda hendaknya selalu memperhatikan komentar atas tindakan pemeringkatan yang bersangkutan untuk informasi yang paling akurat berdasarkan peringkat publik apapun yang diberikan.

Peringkat didasarkan atas kriteria dan metodologi yang ditetapkan Fitch dan yang secara berkelanjutan dievaluasi dan diperbaharui. Maka, pemeringkatan adalah produk pekerjaan kolektif dari Fitch dan tidak ada pribadi atau sekelompok pribadi yang secara terpisah bertanggung jawab atas sebuah peringkat. Semua laporan Fitch adalah hasil kerjasama. Individu yang diidentifikasi dalam laporan Fitch, terhubung, tetapi tidak secara pribadi bertanggung jawab atas opini yang dinyatakan disana. Individu tersebut dicantumkan hanya untuk tujuan komunikasi.

Pemeringkatan bukanlah sebuah rekomendasi atau saran, baik secara langsung ataupun tidak langsung, kepada anda atau orang lain manapun untuk membeli, menjual, melakukan, atau menahan investasi, pinjaman atau efek apapun atau untuk menentukan strategi investasi apapun sehubungan dengan investasi, pinjaman atau efek apapun atau emiten apapun. Pemeringkatan tidak mengomentari kewajaran dari harga pasar, kecocokan dari investasi manapun, pinjaman atau efek untuk investor tertentu (termasuk namun tidak terbatas pada, penerapan prinsip akuntansi dan/atau peraturan regulator tertentu), atau sifat bebas pajak dan kena pajak dari pembayaran yang dibuat sehubungan dengan investasi, pinjaman atau efek apapun. Fitch bukanlah penasihat anda, Fitch juga tidak menyediakan bagi anda atau bagi siapapun juga nasihat apapun secara finansial, legal, auditing, akuntansi, *appraisal*, penilaian atau jasa aktuarial. Sebuah peringkat hendaknya tidak dipandang sebagai pengganti dari jasa atau nasihat tersebut.

Penetapan peringkat oleh Fitch bukan merupakan persetujuan dari Fitch untuk menggunakan namanya sebagai ahli sehubungan dengan pernyataan registrasi apapun atau pendaftaran apapun dibawah undang-undang AS, Inggris atau undang-undang efek lain manapun. Fitch tidak menyetujui dimasukkannya surat tertulis apapun yang memberitahukan tindakan pemeringkatan Fitch di dalam dokumen penawaran apapun.

Fitch memonitor peringkat secara terus menerus dan akan memperbaharui surat peringkat ini setidaknya sekali dalam satu tahun. Merupakan hal yang penting bahwa Anda harus segera memberikan kepada

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Peringkat publik akan valid dan efektif hanya setelah publikasi peringkat di situs www.fitchratings.com.

Kami senang mendapatkan kesempatan untuk memberikan layanan jasa kami kepada Anda. Apabila kami dapat membantu lebih jauh, silahkan menghubungi Gary Hanniffy, Director di +6221-29886800.

Hormat kami,

PT Fitch Ratings Indonesia

Oleh:



Indra Kampono
President Director



Iwan Wisaksana
Rating Director



RATING ACTION COMMENTARY

Fitch Affirms Indonesia's Bank CIMB Niaga at 'BBB-/'AA+(idn)'; Outlook Remains Negative

Wed 10 Feb, 2021 - 3:26 AM ET

Fitch Ratings - Sydney - 10 Feb 2021: Fitch Ratings has affirmed PT Bank CIMB Niaga Tbk's (CIMB Niaga) Long-Term Issuer Default Rating (IDR) at 'BBB-'. The bank's other international ratings have also been affirmed. At the same time, Fitch Ratings Indonesia has affirmed CIMB Niaga's National Long-Term Rating and National Short-Term Rating at 'AA+(idn)' and 'F1+(idn)' respectively. The Outlook is Negative. A full list of rating actions follows at the end of this commentary.

The Negative Outlook reflects Fitch's view that the ability of the bank's Malaysia-based parent, CIMB Group Holdings Berhad (CIMB), to support its Indonesian subsidiary has weakened as a result of the coronavirus pandemic.

'AA' National Long-Term Ratings denote expectations of a very low level of default risk relative to other issuers or obligations in the same country or monetary union. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.

'F1' National Short-Term Ratings indicate the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Under

the agency's National Rating scale, this rating is assigned to the lowest default risk relative to others in the same country or monetary union. Where the liquidity profile is particularly strong, a "+" is added to the assigned rating.

KEY RATING DRIVERS

IDRS, SUPPORT RATING AND NATIONAL RATINGS

CIMB Niaga's IDRs and National Ratings are support-driven, reflecting Fitch's expectation that the bank would be highly likely to receive extraordinary support from parent CIMB, if needed. CIMB Niaga's ratings are driven by its parent's standalone credit profile. We believe that there is sufficient uncertainty whether extraordinary support, if required, would flow from the Malaysian government through CIMB to CIMB Niaga. As such, in our opinion, potential support will most likely depend on CIMB's own financial resources.

Fitch's view of support is based on the importance of CIMB Niaga to CIMB's franchise (it accounted for 13% of the parent's consolidated assets at end-9M20), the parent's strong control over the subsidiary, and alignment between the two in areas such as operations, risk management and appointment of key personnel. We believe that a default by CIMB Niaga, which is 92.5%-owned by CIMB, would damage the parent's reputation significantly.

VIABILITY RATING

CIMB Niaga's 'bb' Viability Rating reflects its medium franchise and moderate financial profile, including asset quality and profitability that have weakened due to the coronavirus, moderate capitalisation and an improved funding and liquidity profile.

Fitch has maintained the 'bb+' operating environment score for Indonesian banks with a stable outlook. We expect a relatively healthy economic recovery to result in gradually improving business prospects for Indonesia's banks in 2021. We believe that the largest banks - including CIMB Niaga - are well placed to take advantage of improving conditions as their financial profiles should remain resilient, helped by an extension of regulatory forbearance on loan classifications to end-1Q22, from end-1Q21. Nonetheless, operating conditions for banks will remain relatively sluggish in 1H21, which will delay improvement in banks' financial profiles to pre-pandemic levels to beyond 2021.

CIMB Niaga was Indonesia's sixth-largest bank with a 3.1% share of the banking industry's assets at end-9M20. The bank provides loans to large corporates (38% of total loans),

consumers (30%), small corporates (21%) and SMEs (11%).

All the outlooks on the bank's quantitative factor scores are stable, underpinned by Fitch's expectation of macro-economic recovery and CIMB Niaga's financial headroom at current rating levels.

CIMB Niaga's asset quality has been challenged by weaker borrower repayment capacity and loan book contraction due to weak demand caused by the coronavirus. This is reflected in the non-performing loan (NPL) ratio (loans overdue more than 90 days), which rose to 3.8% by end-9M20 (end-2019: 2.8%) and was higher than the industry average of 3.1%. Pressure on credit quality is also reflected in the bank's restructured loans ratio of 20.5% (2019: 3.1%) - in line with its large bank peer average - of which around 78% of these loans were classified as "current" under the relaxed regulation. Its loan-loss allowance coverage ratio of 163% was also in line with the sector's 166%. However, our analysis shows that there is sufficient headroom in CIMB Niaga's asset-quality metrics that a downgrade to the factor score even in a scenario more severe than our base case is now less likely. The outlook on the bank's 'bb-' asset quality factor score has been revised to stable from negative as a result.

Profitability will continue to be affected in the short term by weaker revenue and higher credit costs due to CIMB Niaga's weakened loan quality. However, the bank's satisfactory margin due to its improved funding should provide a significant buffer to absorb high credit costs. Its net interest margin of 5.1% at end-9M20 (2019: 5.4%) was above the industry's 4.4%, but its operating profit/risk-weighted assets ratio of 1.8% (2019: 2.3%) was lower than the industry average of around 2.5% due to credit costs that were higher than those of peers. We have maintained the earnings and profitability mid-point at 'bb-' and revised the outlook to stable from negative, as we believe its four-year average operating profit/risk-weighted assets ratio will be maintained above the floor for a 'bb' category score of 1.25%.

Fitch believes CIMB Niaga's capital buffers will be adequate in the near term to withstand higher risk-weighted assets and weaker earnings due to the coronavirus, and we have maintained its capitalisation and leverage mid-point at 'bb+'. We have revised the outlook on the factor to stable from negative, because we expect the bank's common equity Tier 1 (CET1) capital ratio to remain in the upper range for a 'bb' category score of between 12% and 20% even in a scenario more severe than our base case. CIMB Niaga's CET1 capital ratio of 19.7% (2019: 20.2%) was similar to its large-peer average, but below the industry's 21.8%.

Fitch has raised the funding and liquidity mid-point to 'bb+' from 'bb', reflecting the bank's improved funding profile. The share of lower-cost deposits in its deposit base increased steadily over the past few years to 60% by end-9M20, above the industry's 58%. We expect CIMB Niaga's funding and liquidity to remain stable in the near term, helped by ordinary support from its parent if necessary. Customer deposits remained CIMB Niaga's main source of funding at 93% as of end-9M20 (2019: 89%). Its loans-to-deposits ratio fell to 85% (2019: 99%) - in line with the industry trend (sector average: 83%) - and its liquidity coverage and net stable funding ratios of 194% and 113%, respectively, were above its minimum requirement of 85%. The ratio stands well above its medium-sized peer average of around 43% and we expect it to be sustained in line with, or above, the industry average. The outlook on the factor score is stable.

RATING SENSITIVITIES

IDRS, SUPPORT RATING AND NATIONAL RATINGS

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Any significant deterioration in our assessment of CIMB's standalone credit profile, which Fitch believes is better than that of its subsidiary, is likely to lead to a downgrade of CIMB Niaga's IDRs, Support Rating and National Long-Term Rating.

Downward rating pressure could also arise from any developments leading to a perceived weakening propensity of support from CIMB, such as major changes to ownership, although Fitch believes that this is unlikely in the near to medium term due to the importance of CIMB Niaga to CIMB's regional franchise.

Deterioration in CIMB Niaga's standalone credit profile is unlikely to affect its IDRs or National Ratings unless the factors underpinning parental support also weaken. A downgrade of the National Long-Term Rating could result from our assessment of a weakening in the bank's overall credit profile relative to the national-rating universe of Indonesian rated entities.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Positive rating action is unlikely in the near term, as reflected in the Negative Outlook. Stabilisation of the parent's standalone credit profile - including maintaining its financial

profile broadly in line with, or better than, Fitch's base case - could lead us to revise the Outlook on CIMB Niaga's ratings to Stable.

VIABILITY RATING

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Negative rating action could be triggered by a more prolonged and severe economic disruption from the coronavirus pandemic than Fitch currently expects. Such a scenario could lead to a lowering of the operating environment score for Indonesia's banks to 'bb', which would pressure the bank's Viability Rating (VR).

A downgrade of the VR could also stem from a greater deterioration in CIMB Niaga's financial position than Fitch expects, but we believe this would only occur if there were downward revisions to multiple factors based on our view of buffers at the current rating level. This would likely depend on a combination of non-performing, "special-mention" and restructured loan ratios deteriorating by more than we expect under our base case, the bank's four-year average operating profit/risk-weighted assets ratio falling below 1.25% for a sustained period, and the CET1 ratio falling - and remaining below - 17% for at least two years.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Positive rating action is unlikely in the near term, considering current operating conditions and prospects. Evidence of better risk appetite, including more consistent underwriting standards and stronger risk controls, which would be reflected in better and more stable asset quality, would be positive for the rating.

An upgrade could also result from an upward revision of the operating environment score, if the bank is able to maintain its moderate financial profile.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of

best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The IDRs and National Ratings on CIMB Niaga are directly linked to CIMB's standalone credit profile, based on our view of potential extraordinary support.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
PT Bank CIMB Niaga Tbk	LT IDR	BBB- Rating Outlook Negative	BBB- Rating Outlook Negative
	ST IDR	F3	F3

ENTITY/DEBT	RATING	PRIOR
Natl LT	AA+(idn) Rating Outlook Negative	Affirmed AA+(idn) Rating Outlook Negative
Natl ST	F1+(idn)	Affirmed F1+(idn)

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)[National Scale Rating Criteria \(pub. 23 Dec 2020\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

PT Bank CIMB Niaga Tbk

EU Endorsed, UK Endorsed

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Feedback

PT Bank CIMB Niaga Tbk

Key Rating Drivers

Support-Driven Ratings: The Issuer Default Ratings (IDRs) and National Ratings on PT Bank CIMB Niaga Tbk are support-driven and reflect Fitch Ratings' expectation that the bank would be highly likely to receive extraordinary support from Malaysia-based parent, CIMB Group Holdings Berhad (CIMB), if needed. The Negative Outlook reflects Fitch's view that the ability of the parent to support its Indonesian subsidiary has weakened as a result of the coronavirus pandemic.

Linked to Parent's Credit Profile: CIMB Niaga's ratings are driven by its parent's standalone credit profile. We believe that there is sufficient uncertainty whether extraordinary support, if required, would flow from the Malaysian government through CIMB to CIMB Niaga. As such, in our opinion, potential support will most likely depend on CIMB's own financial resources.

Important to Parent: Fitch's view of support is based on the importance of CIMB Niaga to CIMB's franchise (it accounted for 13% of the parent's consolidated assets at end-9M20), the parent's strong control over the subsidiary, and alignment between the two in areas such as operations, risk management and appointment of key personnel. We believe a default by CIMB Niaga, which is 92.5%-owned by CIMB, would damage the parent's reputation significantly.

Standalone Assessment: CIMB Niaga's Viability Rating (VR) reflects its medium franchise and moderate financial profile, including asset quality and profitability that have weakened due to the coronavirus; moderate capitalisation; and an improved funding and liquidity profile. All the outlooks on the bank's quantitative factor scores are stable, underpinned by Fitch's expectation of macro-economic recovery and CIMB Niaga's financial headroom at current rating levels.

Improved Funding and Liquidity: We expect CIMB Niaga's funding and liquidity to remain stable in the near term, helped by ordinary support from its parent if necessary. The share of lower-cost deposits in its deposit base increased steadily over the past few years to 60% by end-9M20, above the industry's 58%. The ratio stands well above its medium-sized peer average of around 43% and we expect it to be sustained in line with, or above, the industry average.

Rating Sensitivities

Parental Support: Any significant deterioration in our assessment of CIMB's standalone credit profile, which Fitch believes is better than that of its subsidiary, is likely to lead to a downgrade of CIMB Niaga's support-driven ratings. Downward rating pressure could also arise from any developments leading to a perceived weakening propensity of support from CIMB, such as major changes to ownership, although Fitch believes that this is unlikely in the near- to medium-term due to the importance of CIMB Niaga to CIMB's regional franchise.

Rating Upside: Positive rating action is unlikely in the near term, as reflected in our Negative Outlook. Stabilisation of the parent's standalone credit profile – including maintaining its financial profile broadly in line with, or better than, Fitch's base case – could lead us to revise the Outlook on CIMB Niaga's ratings to Stable.

VR Sensitivities: A VR downgrade could be triggered by a more prolonged and severe economic disruption from the coronavirus pandemic than Fitch currently expects. Negative rating action could also stem from a greater deterioration in CIMB Niaga's financial position than Fitch expects, but we believe this would only occur if there were downward revisions to multiple factors – based on our view of buffers at the current rating level. Near-term VR upside is unlikely due to current operating conditions and prospects.

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Viability Rating	bb
------------------	----

Support Rating	2
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National

National Long-Term Rating	AA+(idn)
National Short-Term Rating	F1+(idn)

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB
--------------------------------	-----

Long-Term Local-Currency IDR	BBB
Country Ceiling	BBB

Outlooks

Long-Term Foreign-Currency IDR	Negative
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National Long-Term Rating	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable

Sovereign Long-Term Local-Currency IDR	Stable
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Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Fintech Acquisitions May Affect Competition Among ASEAN Banks \(January 2021\)](#)

[Fitch Ratings 2021 Outlook: Asia-Pacific Emerging Market Banks \(December 2020\)](#)

[Indonesian Large Banks Dashboard:1H20 \(October 2020\)](#)

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Institutional Support Assessment

Institutional Support				Value
Total Adjustments (notches)				
Institutional Support:				BBB-
Support Factors (negative)	Equalised	1 Notch	2+ Notches	
Parent ability to support and subsidiary ability to use support				
Parent/group regulation		✓		
Relative size		✓		
Country risks	✓			
Parent Propensity to Support				
Role in group		✓		
Potential for disposal		✓		
Implication of subsidiary default		✓		
Integration		✓		
Size of ownership stake	✓			
Support track record		✓		
Subsidiary performance and prospects		✓		
Branding		✓		
Legal commitments				✓
Cross-default clauses				✓

Strategically Important to CIMB

Fitch believes that CIMB Niaga's medium-sized franchise provides the parent with a significant presence in Indonesia, which offers high growth potential in a profitable banking market. Our assessment also takes into account synergies between the parent and subsidiary manifested by alignment in key areas (operations, risk management and key personnel); the high potential for damage to the parent's reputation if the subsidiary were to default; name and brand sharing; and CIMB's large ownership stake.

Our assessment of CIMB's ability to support its Indonesian subsidiary takes into consideration the parent's standalone credit profile, which we believe is stronger than that of CIMB Niaga, and the subsidiary's moderate size compared with its parent.

Ratings Navigator

PT Bank CIMB Niaga Tbk



Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Institutional Support	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB- Negative
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Significant Changes

Funding and Liquidity Score Revised Upwards

Fitch has raised the funding and liquidity mid-point to 'bb+' from 'bb', reflecting the bank's improved funding profile. Improvement in its deposit franchise is reflected in the greater proportion of lower-cost deposits in its deposit mix over the past few years.

Stable Outlooks on All Financial Factors

We have revised the outlooks on the asset quality, earnings and profitability, and capitalisation and leverage factor scores to stable from negative. All the outlooks on the bank's financial factor scores are now stable, reflecting our belief that downside risks to the scores have receded due to our expectation of macroeconomic recovery and CIMB Niaga's financial headroom at current rating levels.

Bar Chart Legend	
Vertical bars – VR range of Rating Factor	
Bar Colors – Influence on final VR	
	Higher influence
	Moderate influence
	Lower influence
Bar Arrows – Rating Factor Outlook	
	Positive
	Negative
	Evolving
	Stable

Brief Company Summary

Slowly Improving Operating Environment

Fitch has maintained the 'bb+' operating environment score for Indonesian banks with a stable outlook. We expect a relatively healthy economic recovery – please see *Global Economic Outlook - December 2020* for details – to result in gradually improving business prospects for Indonesia's banks in 2021. We believe that the largest banks – including CIMB Niaga – are well placed to take advantage of improving conditions as their financial profiles should remain resilient, helped by an extension of regulatory forbearance on loan classifications to end-1Q22, from end-1Q21. Nonetheless, operating conditions for banks will remain relatively sluggish in 1H21, which will delay improvement in financial profiles to pre-pandemic levels to beyond 2021.

Moderate Franchise

CIMB Niaga was Indonesia's sixth-largest bank with a 3.1% share of the banking industry's assets at end-9M20. The bank's operations are geared towards traditional banking activities – providing loans to large corporates (38% of total loans), consumers (30%), small corporates (21%) and SMEs (11%). The bank benefits from its status as a CIMB subsidiary, particularly in product and service development, IT, risk management and treasury collaboration.

We believe CIMB Niaga has one of the best digital banking offerings in the industry, and is one of the leaders in rolling out new digital banking products and services. We believe that this has been a significant driver of the bank's improved funding franchise in recent years. Nonetheless, it is generally a 'price-taker' with respect to lending and funding.

Acceptable Management and Strategy

We believe that CIMB Niaga's senior management team has an acceptable degree of depth and experience, although not as strong as at higher-rated entities. The management team comprises senior bankers with both national and international experience, including representatives from parent CIMB. The board of commissioners and directors of CIMB Niaga were appointed by the parent company, as the majority shareholder, and each appointee is subject to the regulator's fit and proper test.

Fitch believes CIMB Niaga's strategic objectives are well-documented and reflect medium-term goals. The bank's medium-term plan is based on a '5 Pillar Strategy' to deliver on its aspiration of being "the bank of choice for Indonesian businesses and consumers". The 5 pillars relate to 1) playing to our strengths, 2) expanding CASA franchise, 3) discipline in cost management, 4) preservation of capital and balanced risk culture, and 5) leverage information technology.

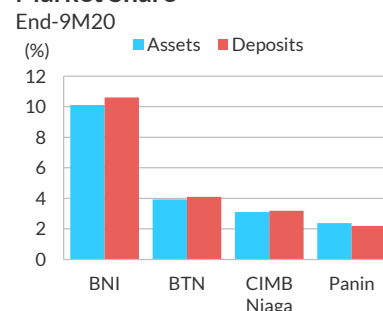
Higher Risk Appetite than Major Peers

Fitch believes CIMB Niaga's underwriting standards and risk controls have strengthened in recent years, although they remain weaker than those of some large domestic bank peers and are less robust than global industry practice. The bank slowed down its growth and tightened underwriting standards and risk controls in response to the pandemic – similar to peers – and we expect this tightening to be gradually unwound as economic conditions improve.

Loans are well-diversified by industry sector, with the largest exposures to the manufacturing; trading, restaurant and hotels; and housing sectors. Loans to each of the three sectors accounted for around 19% of the bank's total loans by end-9M20. Exposure to traditionally higher-risk sectors of agriculture, construction and mining were manageable at 8%, 6% and 1% of loans, respectively.

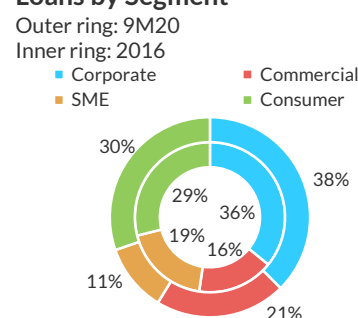
Market risk arises mainly from interest-rate risk in the banking book. The bank uses Value-at-Risk (VaR) as the main parameter to measure estimated maximum loss in the event of an adverse movement in interest rates and exchange rates. Foreign-exchange risk exposure is manageable, with foreign-currency loans accounting for 57% of equity and 13% of total loans at end-9M20, slightly lower than the industry's 15%. CIMB Niaga's foreign-currency loan/deposit ratio of 63% (2019: 59%) was well below the industry's 86%.

Market Share



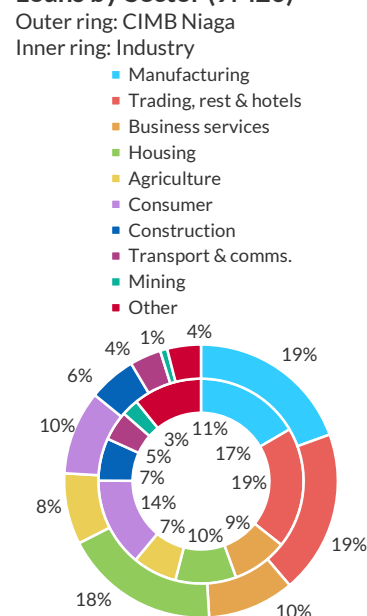
Source: Fitch Ratings, Fitch Solutions, OJK

Loans by Segment



Source: Fitch Ratings, CIMB Niaga

Loans by Sector (9M20)



Source: Fitch Ratings, CIMB Niaga, OJK

Summary Financials and Key Ratios

	30 Sep 20		31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end	Year end
	(USDm)	(IDRbn)	(IDRbn)	(IDRbn)	(IDRbn)	(IDRbn)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	621	9,258.1	12,568.1	12,011.9	12,403.7	12,095.0
Net fees and commissions	68	1,013.3	1,698.0	1,514.4	2,134.8	1,342.9
Other operating income	135	2,010.1	2,558.7	2,301.9	1,217.7	1,722.5
Total operating income	823	12,281.5	16,824.8	15,828.2	15,756.2	15,160.4
Operating costs	410	6,119.5	8,634.4	8,004.1	7,569.5	7,433.0
Pre-impairment operating profit	413	6,162.0	8,190.4	7,824.1	8,186.7	7,727.4
Loan and other impairment charges	243	3,621.5	3,319.4	2,990.8	3,964.3	4,572.0
Operating profit	170	2,540.5	4,871.0	4,833.3	4,222.4	3,155.4
Other non-operating items (net)	6	83.8	82.9	17.5	-67.4	-304.7
Tax	51	760.8	1,311.0	1,368.4	1,177.3	769.0
Net income	125	1,863.5	3,642.9	3,482.4	2,977.7	2,081.7
Other comprehensive income	29	438.8	744.6	-279.4	8.6	3,446.5
Fitch comprehensive income	154	2,302.3	4,387.5	3,203.0	2,986.3	5,528.2
Summary balance sheet						
Assets						
Gross loans	12,123	180,853.6	194,237.5	188,467.5	185,135.4	180,164.1
- Of which impaired	463	6,912.8	5,334.5	5,764.4	6,832.0	6,916.0
Loan loss allowances	757	11,285.5	6,060.0	6,102.3	7,316.7	8,128.7
Net loans	11,367	169,568.1	188,177.5	182,365.2	177,818.7	172,035.4
Interbank	1,450	21,632.0	14,266.9	12,321.1	16,888.5	6,048.5
Derivatives	95	1,416.1	725.5	1,084.8	280.3	484.6
Other securities and earning assets	4,035	60,195.4	34,649.5	35,273.3	38,417.2	28,075.0
Total earning assets	16,947	252,811.6	237,819.4	231,044.4	233,404.7	206,643.5
Cash and due from banks	508	7,572.6	17,088.8	14,728.7	15,418.7	16,607.4
Other assets	1,429	21,311.6	19,559.0	21,008.4	17,482.0	18,320.8
Total assets	18,883	281,695.8	274,467.2	266,781.5	266,305.4	241,571.7
Liabilities						
Customer deposits	14,201	211,855.9	195,600.3	190,750.2	189,317.2	180,571.1
Interbank and other short-term funding	400	5,961.2	11,835.3	18,583.6	23,070.2	8,658.8
Other long-term funding	721	10,757.5	11,971.3	5,494.1	6,002.9	7,721.7
Trading liabilities and derivatives	70	1,045.2	474.9	684.3	110.8	362.9
Total funding	15,392	229,619.8	219,881.8	215,512.2	218,501.1	197,314.5
Other liabilities	805	12,010.9	11,291.2	11,688.7	10,853.3	10,049.6
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	2,686	40,065.1	43,294.2	39,580.6	36,951.0	34,207.6
Total liabilities and equity	18,883	281,695.8	274,467.2	266,781.5	266,305.4	241,571.7
Exchange rate		USD1 = IDR14,918	USD1 = IDR13,901	USD1 = IDR14,542	USD1 = IDR13,548	USD1 = IDR13,436

Source: Fitch Ratings, Fitch Solutions

Summary Financials and Key Ratios

	30 Sep 20	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.8	2.3	2.3	2.1	1.6
Net interest income/average earning assets	5.1	5.4	5.2	5.8	6.0
Non-interest expense/gross revenue	49.8	51.3	50.6	48.0	49.0
Net income/average equity	6.1	8.8	9.2	8.3	6.4
Asset quality					
Impaired loans ratio	3.8	2.8	3.1	3.7	3.8
Growth in gross loans	-6.9	3.1	1.8	2.8	1.5
Loan loss allowances/impaired loans	163.3	113.6	105.9	107.1	117.5
Loan impairment charges/average gross loans	2.5	1.7	1.6	2.2	2.6
Capitalisation					
Common equity Tier 1 ratio	19.7	20.2	18.4	17.3	16.4
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	20.0	18.2	17.2	16.4
Tangible common equity/tangible assets	13.4	15.3	14.3	13.3	13.5
Basel leverage ratio	13.3	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	-11.6	-1.7	-0.9	-1.4	-3.7
Net impaired loans/Fitch Core Capital	n.a.	-1.7	-0.9	-1.4	-3.7
Funding and liquidity					
Loans/customer deposits	85.4	99.3	98.8	97.8	99.8
Liquidity coverage ratio	193.5	166.7	124.5	136.5	208.1
Customer deposits/funding	92.7	89.2	88.8	86.7	91.7
Net stable funding ratio	113.2	108.6	105.8	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions

Key Financial Metrics – Latest Developments

Weakened Asset Quality

CIMB Niaga's asset quality has been challenged by weaker borrower repayment capacity and loan book contraction due to weak demand caused by the coronavirus. This is reflected in the non-performing loan (NPL) ratio (loans overdue more than 90 days), which rose to 3.8% by end-9M20 (end-2019: 2.8%) and was higher than the industry average of 3.1%.

Pressure on credit quality is also reflected in the bank's restructured loans ratio of 20.5% (2019: 3.1%) mainly in line with its large bank peer average – of which around 78% of these loans were classified as "current" under the relaxed regulation. This allows loans restructured due to the coronavirus pandemic to be classified as current to end-1Q22. Its loan-loss allowance coverage ratio of 163% was also in line with the sector's 166%.

The stable outlook on CIMB Niaga's 'bb-' asset quality factor score reflects our belief that there is sufficient headroom in CIMB Niaga's asset-quality metrics that a downgrade to the factor score even in a scenario more severe than our base case is now less likely.

Profitability Pressure to Persist

Profitability will continue to be affected in the short term by weaker revenue and higher credit costs due to CIMB Niaga's weakened loan quality. However, the bank's satisfactory margin due to its improved funding should provide a significant buffer to absorb high credit costs. Its net interest margin of 5.1% at end-9M20 (2019: 5.4%) was above the industry's 4.4%, but its operating profit/risk-weighted assets ratio of 1.8% (2019: 2.3%) was lower than the industry average of around 2.5% due to credit costs that were higher than those of peers. Provision expenses rose to 59% of the bank's pre-provision operating profit in 9M20 (2019: 41%) – equivalent to 2.5% of average loans (2019: 1.7%) – higher than its peer average of 45% and 2.2%, respectively.

CIMB Niaga's 'bb-' earnings and profitability mid-point has a stable outlook as we believe its four-year average operating profit/risk-weighted assets ratio will be maintained above the floor for a 'bb' category score of 1.25%.

Adequate Capital Buffers

Fitch believes CIMB Niaga's capital buffers will be adequate in the near term to withstand higher risk-weighted assets and weaker earnings due to the coronavirus. The capitalisation and leverage mid-point at 'bb+' with a stable outlook reflect our expectation that the bank's common equity Tier 1 (CET1) capital ratio will remain in the upper range for a 'bb' category score of between 12% and 20% – even in a scenario more severe than our base case.

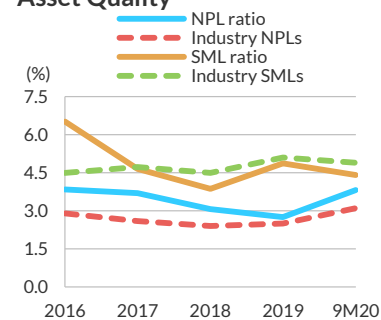
CIMB Niaga's CET1 capital ratio of 19.7% (2019: 20.2%) was similar to its large-peer average, but below the industry's 21.8%. CIMB Niaga's capital ratios benefited from a lower risk-weight density in 9M20 (similar to peers) as weak loan demand resulted in a shift to securities – mostly government bonds and paper that carry zero risk-weight.

Better Funding and Liquidity

Fitch's view of CIMB Niaga's improved funding and liquidity profile is reflected in the bank's proportion of lower-cost current and savings account deposits in its funding mix which is above those of its peers. Deposits from these sources accounted for 60% of total deposits at end-9M20 (2019: 55%, industry: 58%) and the ratio was more in line with – although still below – the four major bank's average of 67%.

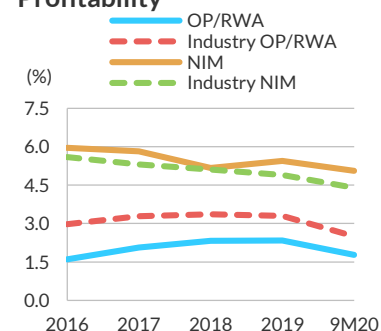
We expect CIMB Niaga's funding and liquidity to remain stable in the near term, helped by ordinary support from its parent if necessary. Customer deposits remained CIMB Niaga's main source of funding at 93% (2019: 89%). Its loans-to-deposits ratio fell to 85% (2019: 99%) – in line with the industry trend (sector average: 83%) – and its liquidity coverage and net stable funding ratios of 194% and 113%, respectively, were above its minimum requirement of 85%.

Asset Quality



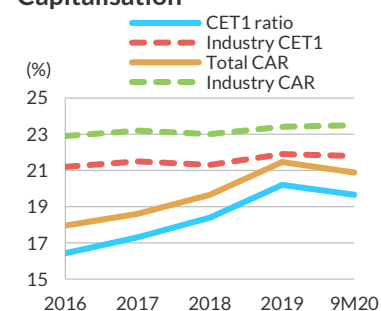
Source: Fitch Ratings, Fitch Solutions, OJK

Profitability



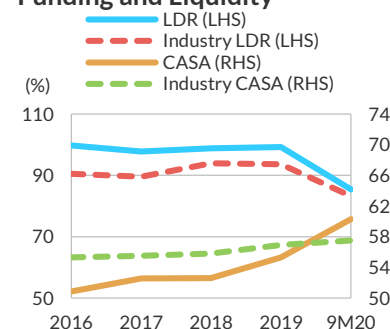
Source: Fitch Ratings, Fitch Solutions, OJK

Capitalisation



Source: Fitch Ratings, Fitch Solutions, OJK

Funding and Liquidity



Source: Fitch Ratings, Fitch Solutions, OJK

Environmental, Social and Governance Considerations

FitchRatings PT Bank CIMB Niaga Tbk

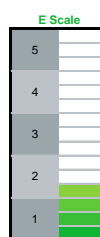
Banks
Ratings Navigator

Credit-Relevant ESG Derivation

PT Bank CIMB Niaga Tbk has 5 ESG potential rating drivers ▶ PT Bank CIMB Niaga Tbk has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. ▶ Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	5	issues	3	
	not a rating driver	4	issues	2	
		5	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

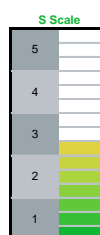
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

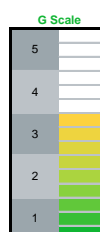
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE		
How relevant are E, S and G issues to the overall credit rating?		
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.	
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.	
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.	
2	Irrelevant to the entity rating but relevant to the sector.	
1	Irrelevant to the entity rating and irrelevant to the sector.	

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