Indonesian banking industry: challenging yet promising

September 2015

Building a better working world

Contents

Executive Summary

The Indonesian banking sector has enjoyed a steady growth for the past five years. Steady loan growth of approximately 20% has contributed to the growth of bank's total assets. Average net interest margin (NIM) has decreased slightly due to tight competition; however, Indonesian banks' NIM remains one of the highest in the region, even globally. Despite the tremendous growth, risk remains under control, reflected by improving non-performing loan (NPL) across all industries.

Recent economic condition has slightly reduced the banking industry growth. Current business environment has led banks to be more cautious in disbursing loans, thus decelerate the loan growth across all industries. Most banks posted a single-digit loan growth and revised its business plan to adjust to the current economic condition. NPL started rising, especially for commodity-related sectors, as commodity prices tumbles due to slow global demand, especially from China.

The Financial Services Authority (*Otoritas Jasa Keuangan* [OJK]) sticks to its agenda in implementing the Indonesian Banking Architecture, which aims to create a strong and efficient banking system, and consolidate the banks in Indonesia through M&As. There are 118 commercial banks in Indonesia and the OJK already has a blueprint to consolidate number of banks to be only 60 to 70 within the next 10 to 15 years, which would be divided into the following categories: international, national and specialized or rural banks.

Appetite from foreign investors remains strong as valuation has gone down from its peak in 2012, where the valuation of top Indonesian banks reached up to four times book value. Players in the region, especially Japanese, Chinese and Korean banks, are still screening for targets to gain a foothold in Indonesia. Banks fall under Class 1 are prone to be acquired due to their limited capital for expansion and limited banking activity that can perform. Currently a few M&As from Chinese and Korean banks are in the process and waiting for approval, showing that interest in the sector is still strong.

Banking performance

Recent updates

The OJK revised its 2015 loan growth projection from 17% to 18% in the beginning of this year to 13% to 15% in June 2015. As of April 2015, year-on-year loan growth of the banking sector slowed to 10.4% compared to 11.3% in March 2015. The loan growth was mainly supported by increase in consumer loans, while working capital and investment loans weakened, due to the slowdown in economy.

Year-on-year growth of third-party funds (TPFs) remains stable at 12% as of April 2015 compared to last year. This is supported by the growth of time deposits, current and savings account (CASA), while savings accounts recorded the lowest growth rate.

The top three loan growths by industry are derived from wholesale and retail trade, processing industry and construction, which increased by IDR14.5 trillion, IDR14 trillion and IDR6 trillion, respectively, as of April 2015 compared to the end of last year. Certain industries recorded negative growth compared to last year (Figure 8). Mining and quarrying as well as community, sociocultural and entertainment services experienced negative growth by IDR8.5 trillion and IDR8.1 trillion, respectively.

The delay of government infrastructure projects, and weakening commodity and energy prices such as coal, gas and CPO, are some of the main factors which lead to the economic slow down. The 8.26% depreciation of Rupiah against US dollar since the beginning of this year have led weakening purchasing power and consumption.

Both big companies and small- and medium-sized enterprises (SMEs) encountered financial difficulties in repaying their bank loan, as their businesses were also affected by the country's economic slowdown and weakening of IDR against USD. This was indicated through the NPL, which was deteriorated in April 2015 to 2.48% compared to 2.2% at of end of 2014.

There is growing proactive restructuring process across major banks, which has helped banks to keep their NPLs manageable. Restructured loans among the major banks increased from 1.7% in 2014 to 2.5% in 2015. Outstanding restructured loans have now reached IDR38.3 trillion in 2015, up from IDR25.4 trillion in 2014.

The OJK **remains confident** that loan growth in 2015 could reach **above 13%**.

Among Indonesia's top 10 banks, 3 of them, Bank Negara Indonesia (BNI), Panin Bank, and Bank Danamon, posted lower net income growth in the first half of 2015. Despite the downturn, Bank Indonesia is still optimistic that the lending rate can be maintained, and the loan growth will still be above 13% as the government and regulators are increasingly pushing for growth through the initiations of several infrastructure projects.

Bank Mandiri, the largest lender, reported that its first half net profit grew by 3.5% to IDR9.9 trillion. Total loan increased by 13.8%, and TPF also grew by 17.8% during first half of 2015. In terms of NPL, Bank Mandiri's gross and net NPL increased to 2.0% from 1.7%, and 0.6% from 0.4%, respectively.

BNI recorded IDR2.43 trillion in its first half net profit, a 50.8% drop from same period last year. The drop in net profit was due to the provision for loan losses. In addition, some of the BNI's corporate borrowers, both big companies and SMEs, had faced difficulties to repay their loans as their businesses were affected by the economic slowdown, particularly oil-related service companies, whose businesses had been hit hard by the fall in oil prices.

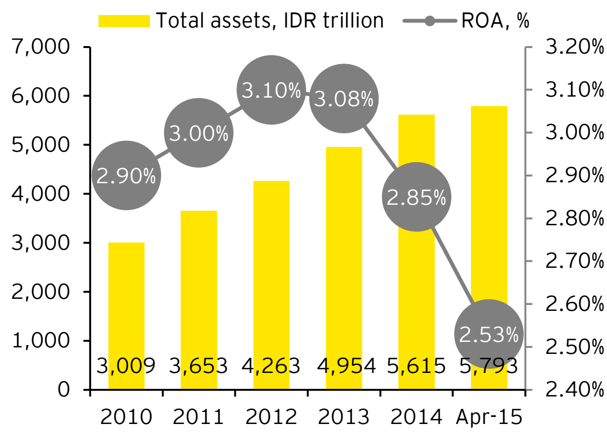
BCA is the best performer among the top four banks — it reported growth in net profit by 8.8% to IDR8.5 trillion. BCA managed to maintain its financial performance by focusing on its liquidity, credit quality and capital.

BRI reported that its net profits grew by 1.16% to IDR11.8 trillion, total loan increased by 9.7% and TPF also grew by 17.3% during the first half of 2015. BRI's gross and net NPL increased to 2.33% from 1.97%, and 0.66% from 0.57%, respectively.

Industry growth

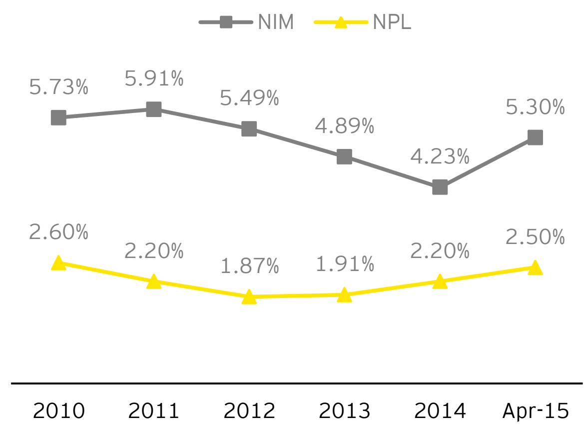
In recent years, the banking industry has enjoyed a steady asset growth, with compound annual growth rate (CAGR) of 16.9%, and is likely to continue its growth. The factors driving the growth are underpenetrated banking market, large consumer base and the rise of middle income population.

Figure 1. Asset performance — commercial banking



Source : Bank Indonesia

Figure 2. NIM and NPL commercial banking



Source : Bank Indonesia

In February 2015, Bank Indonesia cut its rate by 25 basis points to 7.5% in anticipation that the economy will grow slower than expected this year, caused by the delay of government spending for infrastructure projects, along with weakening commodity price, energy price and purchasing power.

Liquidity in the banking sector has loosened up to 87% as of April 2015, compared to 89% at the end of last year. The stable growth of TPF and weak loan growth have solved the liquidity issue that the industry experienced last year.

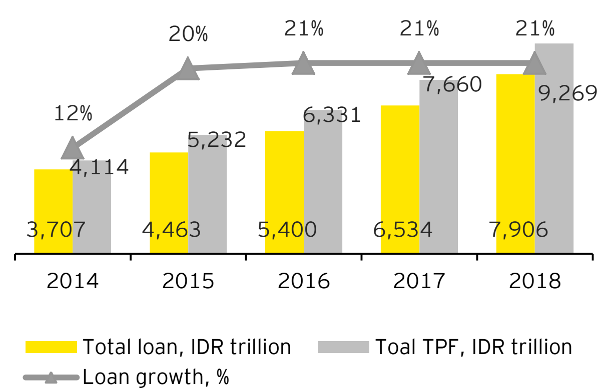
OJK expects Indonesian banks to maintain NIM at around 4% to 5%. NIM was 5.30% as of April 2015, or 1.07% higher than last year. This number is relatively high compared to neighboring Southeast Asian (SEA) countries like Malaysia and Singapore, where NIMs are hovering around 2% to 3%.

Projected loan growth in 2015 will likely be below 15% due to weak economy conditions and slow GDP growth. Banks are cautious in disbursing loans as companies face difficulty to repay their loans.

However, projected loan and TPF show stable growth in the long run, with the expected realization of infrastructure projects, driving projected GDP growth of 7% in 2019. The banking industry is expected to see sustainable loan growth which was also supported by the growing middle-income Class and strong economic platform.

We believe this year's slowdown in the economy is expected to continue until early or mid-2016. Regulatory and tax incentives introduced this year would stimulate the economy to grow amid the challenges.

Figure 3. Projected loan and TPFs growth



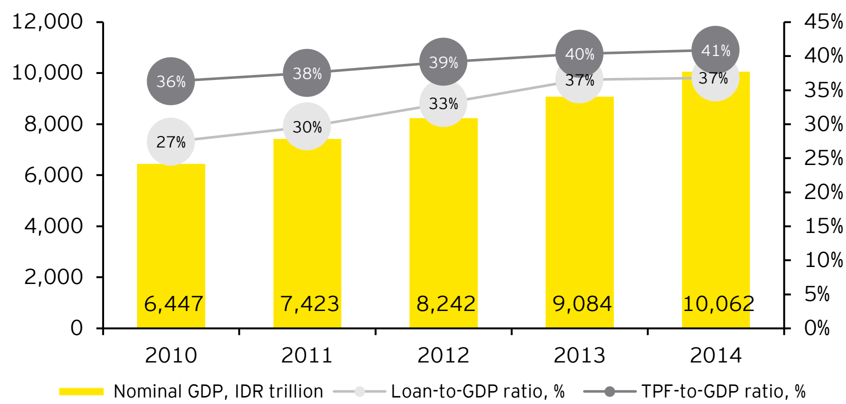
Source: Bank Indonesia, BMI

Penetration

In 2014, Indonesia's banking penetration (loan-to-GDP ratio) was **the lowest** among **Asia-Pacific (APAC)** countries.

The banking penetration rate has been increasing for the past five years. However, it is still relatively low compared to neighboring countries. As of December 2014, loan-to-GDP ratio was 37%, while TPF-to-GDP ratio was 41%.

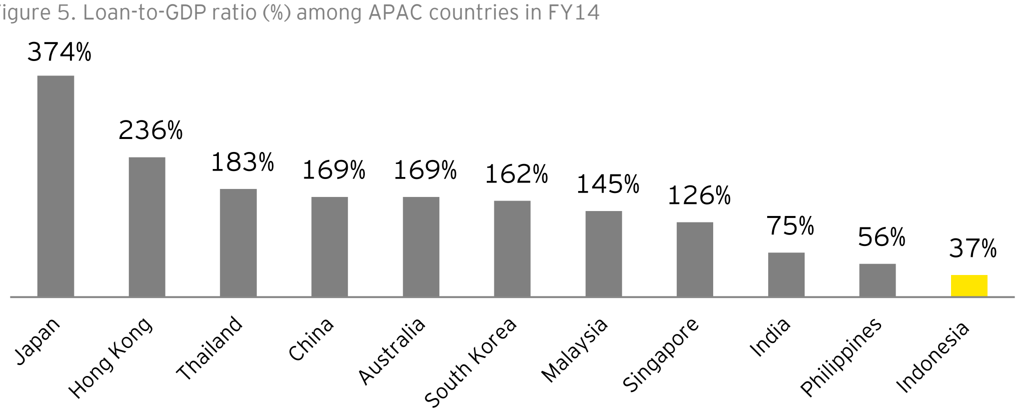
Figure 4. Indonesian banking penetration rate



Source : Bank Indonesia

Compared to other APAC countries, banking penetration in Indonesia is the lowest. The low loan-to-GDP ratio, coupled with stable GDP growth create an enormous opportunity in the industry.

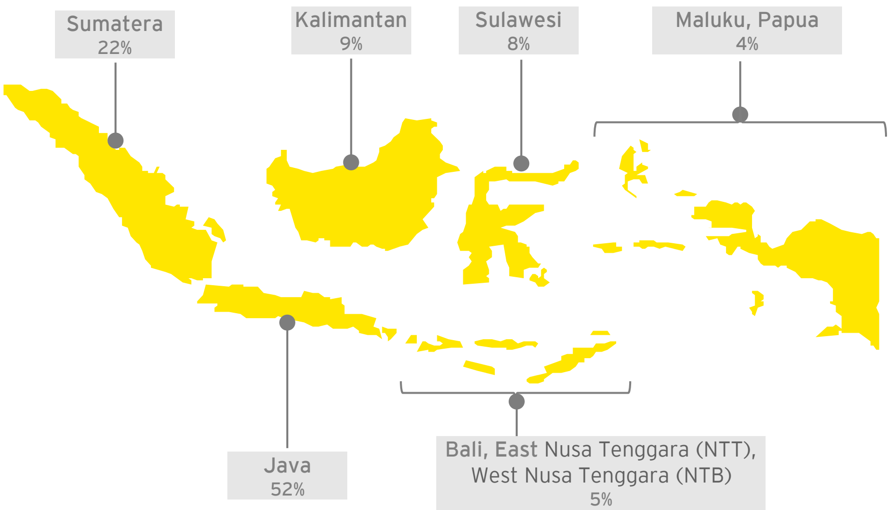
Figure 5. Loan-to-GDP ratio (%) among APAC countries in FY14



Source: Bank Indonesia, World Bank

One reason behind the relatively low penetration is the country's geographical position, which impacts the access to reach financial service providers. More than half of the commercial banks are located in Java, and most of them are located in big cities.

Figure 6. Indonesian commercial banking outlet distribution



Source: Bank Indonesia

Outlet distribution respectively describes GDP, TPF and loan allocation among islands in Indonesia. The less the access to bank outlets, the less TPF and loan allocation channels in the island; hence, affecting gross regional domestic product.

Figure 7. Indonesia's GDP, TPF and loan allocation per island as of 2014

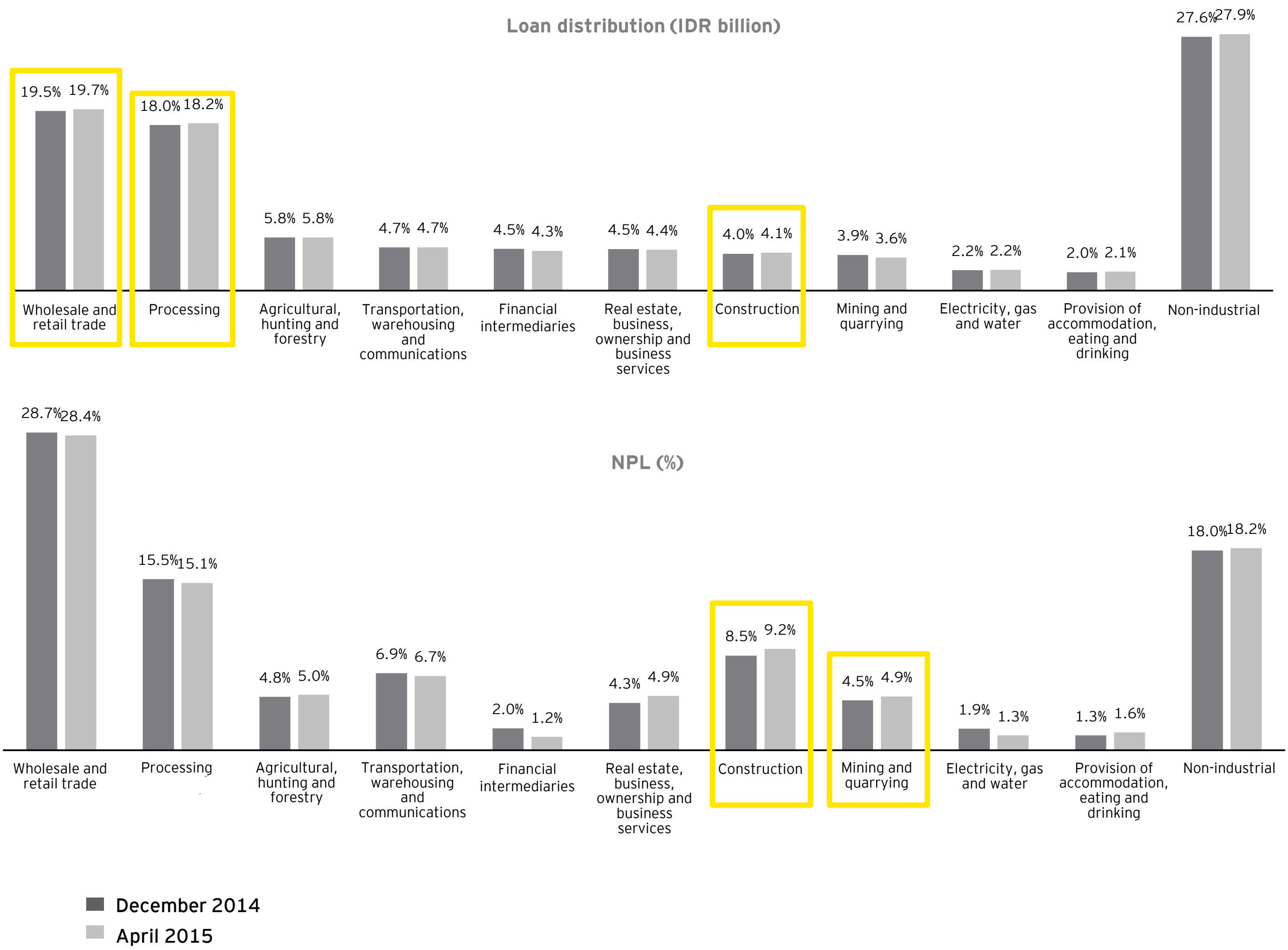
	GDP allocation	TPF allocation	Loan allocation
Sumatera	24%	12%	13%
Java	58%	76%	74%
Bali, NTT, NTB	3%	3%	2%
Kalimantan	9%	5%	4%
Sulawesi	5%	3%	4%
Maluku, Papua	2%	2%	2%

Source: Bank Indonesia

Distribution of loan by type of industry

Figures below describe the loan distribution and NPL by industry in December 2014 compared to April 2015.

Figure 8. Indonesian bank loan distribution and NPL by industry



Source: Bank Indonesia

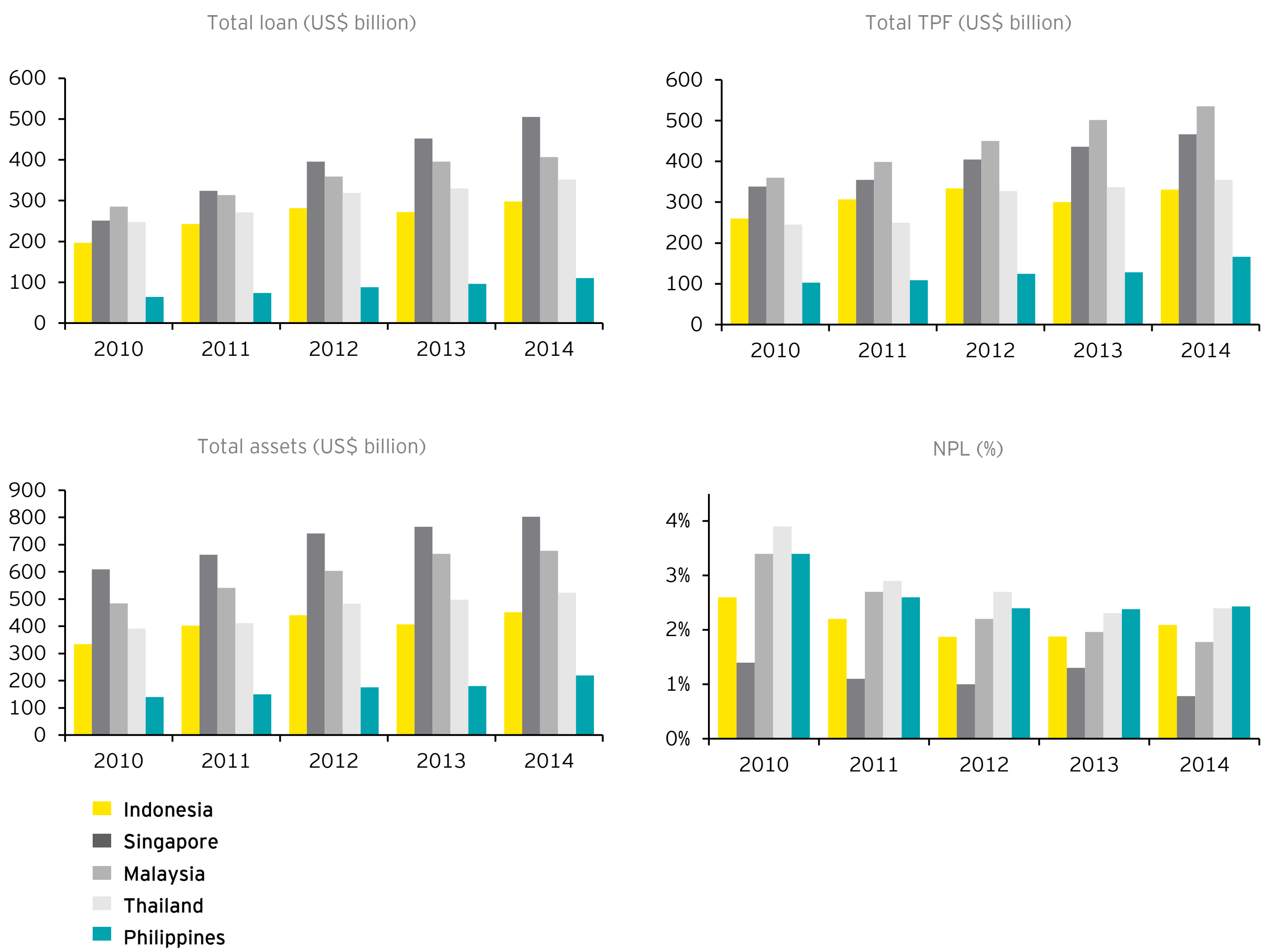
Real estate business ownership and business services, government administration, defense and compulsory social security, education services, health services and social activities, community, sociocultural, entertainment, and other individual services, individual services which serve households, international agency and other extra agency international industries are being excluded. These industries only make up about 2% of total loans.

Loan distribution to wholesale and retail trade, construction and processing industry experienced a significant growth; however, banks need to be cautious as OJK puts mining and construction under the watch list due to their rising NPL levels.

Comparison to SEA banking industry

Compared to the SEA banking industry, the Indonesian banking industry has a smaller amount of loan, TPFs and assets. Net performing loan of Indonesian banks is the lowest after Singapore. Furthermore, net interest margins of Indonesian banks are known to be the highest among SEA banks.

Figure 9. Indonesian banking compared to SEA banking



Source: BMI

The steady historical performance and robust projected growth justify that Indonesia is still the main investment destination in the SEA banking industry.

Key players

State-owned banks dominate the Indonesian banking industry, with Bank Mandiri as the top player with the largest assets and TPFs.

However, in recent years, joint ventures and private banks have captured market share by providing additional services and product variety.

Figure 10. Indonesian banking key players as of December 2014

Bank	Assets	Loan	TPF	Revenue	Net income
Bank Mandiri	855,040	533,854	576,326	51,120	19,872
Bank Rakyat Indonesia (BRI)	801,955	521,293	600,404	52,933	24,242
Bank Central Asia (BCA)	537,210	346,300	447,942	37,494	16,089
Bank Negara Indonesia (BNI)	416,574	280,484	299,021	27,593	10,783
Bank CIMB Niaga	233,162	178,407	168,269	10,031	2,342
Bank Danamon Indonesia	195,709	152,983	115,001	14,502	2,604
Bank Permata	185,350	136,441	135,700	6,209	1,587
Panin Bank	172,582	124,867	121,061	7,648	2,356
Bank Internasional Indonesia (BII)	143,318	108,852	98,796	6,069	699
Bank Tabungan Negara (BTN)	142,428	110,538	99,526	5,588	1,261

Source : Bank Indonesia

Regulation

Limitation on banking ownership

Following the limitation on banking ownership regulation, shareholders have until the **end of 2018** in case a **divestment** is required.

In 2012, Bank Indonesia (BI) issued regulation No. 14/8/PBI/2012 that affected the investment in Indonesian banking industry. The regulation introduced limitation on banking ownership, permitted activities and office networks.

The regulation stipulates the maximum ownership in an Indonesian bank based on the type of the investor. Furthermore, the ownership cap is applicable on a single party basis, meaning that each single party must comply with the cap individually. A single-party may comprise multiple individuals/entities and is defined as follows:

- Individuals/entities for which there is an ownership relation
- Individuals/entities which are acting in concert
- Individuals for which there is a family relation of up to second degree

Figure 11. Ownership limitation based on type of investor

Type of investor		Ownership limitation
Bank		>= 40%
Non-bank financial institution	▸ Allowed to invest for a long period of time as set by company articles ▸ Supervised by financial authorities Example: Multi-finance, insurance and pension fund	40%
	Non-bank financial institution that does not fulfill the previous criteria Example: Special Purpose Vehicle (SPV), fund management and hedge fund	30%
Nonfinancial institution		30%
Individual		20%

Source: Bank Indonesia

Under the regulation, a bank can acquire more than 40% ownership of another bank; however, to gain such ownership, BI's approval is required and the bank needs to fulfill certain criteria, such as bank's composite rating of 1 or 2; to meet certain capital adequacy ratio, minimum Tier-1 capital of 6%; to be publicly listed; and to be committed to the development of the Indonesian economy.

Single Presence Policy (SPP)

On December 2012, BI published BI Regulation No.14/24/PBI/2012 (2012 Regulation) which amends certain aspects of BI Regulation No.8/16/PBI/2006 (2006 Regulation) and combines the existing BI Regulation No. 8/17/PBI/2006 on Incentives for Banking Consolidation. The 2006 Regulation itself is no longer valid.

The key principles in the 2012 Regulation are as follows:

A. **Single presence**

Each party can only be the controlling shareholder of one bank. Controlling shareholder is defined as a legal entity and/or individual and/or a group of businesses which:

- Owns 25% or more of the total issued voting shares in a bank
- Owns less than 25% of the total issued voting shares in a bank, but is proven to have control of the bank whether directly or indirectly

B. **Exemptions**

This requirement does not apply to:

- The controlling shareholder of two banks, where one of the banks is a conventional bank and the other bank is a Sharia bank
- The controlling shareholder of two banks, where one of the banks is a joint venture bank

C. **Merger, bank holding company or holding function**

A party which already controls more than one bank, or which acquires a bank which will result in that party controlling more than one bank, must comply with the SPP by following one of these conditions:

- Undertake a merger or consolidation of the banks controlled by that party
- Form a bank holding company (for this purpose, a bank holding company is defined as a legal entity incorporated in Indonesia which is formed and/or owned by the controlling shareholder for the purpose of consolidating and directly controlling all the activities of the banks which are its subsidiaries)
- Form a holding function (for this purpose, holding function is defined as the function of a controlling shareholder [where the controlling shareholder in question is an Indonesian bank or the Government of Indonesia] of consolidating and directly controlling all the activities of the bank which are its subsidiaries)

Under the 2006 Regulation, the option of forming a bank holding company only applies to a party that already controls more than one bank on the effective date of the 2006 Regulation. The 2012 Regulation has widened the scope of the bank holding company exemption to cover the new acquisition of a bank which results in a party controlling more than one bank.

D. Merger incentives

To encourage banking sector consolidation, BI is offering certain incentives for bank mergers. A bank that undertakes a merger or consolidation will be provided various incentives in the form of:

- Temporary relaxation of compliance with prescribed Minimum Statutory Reserve requirement for banks (*Giro Wajib Minimum* [GWM])
- Time extension in relation to curing any legal lending limit (LLL) requirement for banks which has been exceeded
- Ease of opening branches
- Temporary relaxation of application of good corporate governance (GCG) principles

E. Bank holding company

- A bank holding company must be in the form of a limited liability company (LLC) incorporated in Indonesia and must comply with applicable laws in Indonesia.
- A qualifying bank holding company can only carry out the activity of equity participation, which includes providing management services in order to increase the effectiveness of consolidation, business strategy and optimizing the finances of the group which is being controlled.
- The bank holding company must be one level above the banks that are directly controlled by it.
- A bank holding company can exist alone as a legal entity or be a financial holding company which consolidates the financial institutions owned by the controlling shareholder.

Permitted activities and networking

The 2012 BI Regulation Classifies commercial banks based on core capital and stipulates permitted activities for each Classification, known as BUKU (Commercial Bank Based on Business Activities/*Bank Umum berdasarkan Kegiatan Usaha*).

Figure 12. Bank grouping by Tier-1 capital

Category	Tier-1 capital requirement
BUKU/Class 1	IDR100 billion-1 trillion
BUKU/Class 2	IDR1 trillion-5 trillion
BUKU/Class 3	IDR5 trillion-30 trillion
BUKU/Class 4	> IDR30 trillion

Source : Bank Indonesia

Figure 13. Matrix of permitted activities

No.	Activities	Class 1	Class 2	Class 3	Class 4
Funding activities					
1	Time deposits, saving accounts, certificate deposits, borrowings and/or debt issuance	△	✓	✓	✓
2	Asset securitization	X	✓	✓	✓
Lending activities					
3	Loan, factoring, purchase of government bonds, placement in BU and/or placement in other banks	△	✓	✓	✓
4	Purchase of corporate shares and bonds, and acting as lead arranger for syndicated loan	X	✓	✓	✓
Trade finance activities					
5	Domestic Letter of Credit	△	✓	✓	✓
6	Letter of Credit and other trade financing activities	X	✓	✓	✓
Treasury activities					
7	SPOT transaction, plain vanilla derivative transactions and/or complex derivative transactions (i.e., structure products and credit derivatives)	X	✓	✓	✓
Foreign currency dealer activities					
8	Foreign currency dealer	✓	✓	✓	✓
Selling agent and working agreement with other party's/parties' activities					
9	Foreign currency dealer	△	✓	✓	✓
10	Selling agent for mutual funds, government bonds and government Sharia bonds, custodian, trustee, trust and/or bancassurance with distribution business model	X	✓	✓	✓
Payment system and electronic banking activities					
11	Fund transfer, clearing, settlement, ATM, debit card and e-money	△	✓	✓	✓
12	Credit card issuance and internet banking	X	✓	✓	✓
Other activities					
13	Bank guarantee and safe deposit box	△	✓	✓	✓

Legends:
X = Activities are not permitted
✓ = Limited to transactions in Rupiah only
△ = Activities are permitted for transactions in both Rupiah and foreign currencies

Source: Bank Indonesia

Figure 14. Matrix of permitted maximum equity participation in financial institutions

No.	Activities	Class 1	Class 2	Class 3	Class 4
Maximum equity participation in financial institutions					
1	As a percentage of total capital (core and supplementary capital)	–	15%	25%	35%
Locations for equity participation in financial institutions					
2	Located within Indonesia	X	✓	✓	✓
3	Located within Asia	X	X	✓	✓
4	Located worldwide	X	X	X	✓

Legends:
X = Not permitted
✓ = Permitted

Source: Bank Indonesia

Figure 15. Permitted location for office network expansion

No.	Activities	Class 1	Class 2	Class 3	Class 4
Location for office network expansion					
1	Expansion within Indonesia	✓	✓	✓	✓
2	Expansion within Asia	X	X	✓	✓
3	Expansion worldwide	X	X	X	✓

Legends:
X = Not permitted
✓ = Permitted

Source: Bank Indonesia

Figure 16. Minimum loan to productive sector requirement

No.	Activities	Class 1	Class 2	Class 3	Class 4
Minimum loan to productive sector					
1	Minimum loan amount (as a percentage to total loan)	55%	60%	65%	70%

Source: Bank Indonesia

Branchless banking

A. Bank issuer

- OJK Circular Letter No. 6/SEOJK.03/2015 on Branchless Banking stipulates additional terms in relation to OJK Regulation No. 19/POJK.03/2014 on Branchless Financial Services (POJK Branchless Banking). Branchless banking, which is defined as providing banking or financial services activities without any office branch, but through collaboration with other parties using sophisticated information technology (IT) systems to support the implementation of branchless banking, among others are:
  - Real-time bookkeeping system
  - Security mechanisms for system
  - Data, network and monitoring system

- As stipulated in POJK Branchless Banking, branchless bank's products include:
  - Basic saving account (BSA)
  - Micro credit
  - Micro insurance
  - Other financial products approved by OJK

- Bank issuer must meet the following criteria to provide BSA:
  - Indonesian legal entity
  - Risk profile, operational and compliance risks with rating 1, 2 or 3
  - Have networks in Eastern Indonesia and/or NTT province, unless the bank owned by local government/headquartered outside DKI Jakarta
  - Have an established infrastructure to provide electronic transaction services (i.e., SMS banking/mobile banking and internet banking/host-to-host)

- BSA characteristics:
  - Owned by Indonesian citizens
  - Denominated in IDR
  - Maximum balance is IDR20 million
  - Maximum debit transaction per account per month is IDR5 million
  - Free from monthly administrative fee, account opening fee, deposit fee, transfer (in and out) fee and account closing fee

- Bank issuer must submit:
  - Branchless bank first-time realization report, no later than 15 working days after the operation of branchless bank
  - Annual report plan to increase cooperation with agents
  - Report on cooperation realization with agents in conjunction with the report on bank's business plan
  - Quarterly progress report on branchless bank's implementation, in March, June, September and December
  - Report on first cooperation plan with corporate agents that have collaborated with other bank issuers in which their similar business activities are reported at the earliest seven working days prior to the cooperation being carried out

  These reports must be submitted to OJK.

Individual agents or network of retail outlets of corporate agents can only offer product from one conventional bank and/or one Islamic bank.

The OJK Circular Letter also stipulates the due diligence procedure of branchless banking agents, training and education to the agents, letter of appointment of agents and the cooperation agreement.

Individual agents' abilities include, at least, knowledge on products and services offered by the bank, and to provide explanations to customers; capability to operate electronic devices to assist transactions and provide explanations to customers; ability to do basic bookkeeping and manage personal finance; and ability to place deposits and/or collaterals with the appropriate amount, as set by bank issuer.

Indonesian legal entity: supervised by regulatory and supervisory authority and is allowed to conduct activities in the field of finance, or is a trading company that has a network of retail outlets. Retail outlet means a network of branches in the form of a store or place of business owned by a legal entity.

- Bank issuer shall provide:
  - Technical guidelines for the implementation of branchless banking to agents
  - Operational tools to support agents
  - Education about financial products and services in branchless banking

- Bank issuer, in cooperation with agents, must be supported with IT that applies principles of customer data security control and e-banking transactions on an electronic system.

- Bank issuer ensures the readiness of IT infrastructure and other supporting infrastructures, which among others include:
  - The availability of application system used by agents
  - Data center
  - Disaster recovery
  - Transaction processing technology

B. Cooperation in organizing branchless banking (agents)

Individual agents	Corporate agents
Located in a place where the branchless bank is organized	Indonesian legal entity
Have the ability, credibility, reputation and integrity	Have good reputation, credibility and good business performance
Have a major source of income derived from business activities and/or other activities for a minimum period of two years	Have business activities in one location, are ongoing, for a minimum period of two years
Are not an agent from bank issuer with similar business activities	Able to perform liquidity management as required by bank issuer
Pass the due diligence according to policies and procedures of bank issuer	Able to provide human resources who have technical capabilities to support the operation of branchless banking
	Pass the due diligence according to policies and procedures of bank issuer

C. IT

- Organizing bank, in cooperation with agents, must be supported with IT that applies principles of customer data security control and e-banking transactions on an electronic system, which include confidentiality, integrity, availability, authentication non-repudiation, authorization control, segregation of duties and maintenance of audit trails.
- Organizing bank ensures the readiness of IT infrastructure and other supporting infrastructure.

Banking M&A transactions in Indonesia

Mergers, shares acquisition and capital market transactions

Top domestic banks have formed strategic alliances with foreign investors; banking mergers were seen since early 2000, with Bank OCBC NISP, Bank UOB, Bank CIMB Niaga, Bank Rabobank International Indonesia as surviving banks.

Figure 17. Recent banking transactions in Indonesia

No.	Year	Bank	Acquirer	Stake
1	2015	Bank Centratama Nasional Bank (CNB)	Shinhan Bank	75%
2	2015	Bank Mayapada Internasional	Cathay Financial Holdings	40%
3	2015	Bank Bukopin	Bosowa Corporindo	30%
4	2015	Bank Metro Express	Shinhan Bank	40%
5	2014	Bank Tabungan Pensiunan Nasional (BTPN)	Sumitomo Corporation	17.5%
6	2014	Bank Mutiara	J Trust	100%
7	2014	Bank Index Selindo	Creador Capital	20%
8	2013	Bank Himpunan Saudara	Woori Bank	33%
9	2011	Bank Kesawan	Qatar National Bank	69.6%
10	2010	Bank Dipo Internasional	Sampoerna Strategic	85%
11	2009	Bank Akita	Barclays	99%
12	2009	Bank Utama International Bank (UIB)	BCA	100%
13	2008	Bank Ekonomi Raharja	HSBC	N/A
14	2007	Bank Halim Indonesia	Industrial and Commercial Bank of China (ICBC)	90%
15	2007	Bank Sri Partha	Mercy Corps IFC, Hivos - Triodos Fund, and CORDAID	68%
16	2007	Bank Swadesi	State Bank of India	76%
17	2007	Bank Finconesia	Commerzbank	51%
18	2007	Bank Nusantara Parahyangan	Acom Co. Ltd. and BoTM - UFJ	66.2%
19	2006	Bank Haga & Hagakita	Rabobank	N/A
20	2002	Bank Niaga	Commerce Berhad Malaysia	N/A

Source: Bank Indonesia, BMI

Opportunities to invest in Indonesian banks

Smaller banks with potential M&A needs

Pursuant to the central 2012 Regulation, banks in Indonesia are grouped into four categories determined by the level of core capital they possess.

Currently, there are 118 banks in Indonesia, which are grouped into the following categories:

Figure 18. Number of banks based on category

Category	Number of banks
Class 1	47
Class 2	45
Class 3	22
Class 4	4

Source: Bank Indonesia, BMI

According to Indonesian Banking Architecture, BI/OJK plan to create a strong and efficient banking system, and to consolidate the sector through M&As. The plan aims to consolidate the industry and to produce 60-70 banks in the next 10 years. By having a smaller number of banks, the industry would be more competitive in the local and regional market, as currently, the top 15 banks dominate approximately 70% of the market share.

In order to expedite the consolidation process, BI/OJK have been supportive in encouraging the Class 1 banks to increase their capital, which then translates into Class 1 banks' annual business plan submission to BI/ OJK, allowing them to open doors for investors.

As evidenced by the involvement of financial institutions from Japan, Korea and China in the recent acquisitions of local banks, consolidation in the Indonesian banking sector presents opportunities for foreign investors. International investors are currently presented with the opportunity to buy and participate in the consolidation process by obtaining stakes in local banks with the ultimate goal of preparing it to merge with another bank.

Banks with core capital less than IDR1 trillion

A transformation on the old-fashioned Class 1 banks is critical to revamp their business model and to be able to compete in the market. Those banks must reinvent themselves to be successful and master the transformation; not just to respond to the current pressures, but to adapt with their future challenges.

Figure 19. List of Class 1 Banks

No.	Bank	Assets (IDR million)	Equity (IDR million)	CAR (%)	NPL (%)	ROA (%)	ROE (%)	NIM (%)
Asset above IDR5 trillion								
1	Bank Pembangunan Daerah Istimewa Yogyakarta (BPD DIY)	7,821,133	816,394	16.60%	1.23%	2.88%	22.59%	7.83%
2	Bank of India Indonesia	5,199,185	461,675	15.27%	1.17%	3.36%	23.92%	4.97%
3	Bank Lampung	5,002,230	462,886	18.87%	1.06%	3.89%	34.72%	7.61%
4	Bank Index Selindo	6,238,006	821,048	22.21%	0.36%	2.23%	12.25%	4.95%
5	Bank Jambi	5,780,235	791,621	27.11%	0.48%	3.14%	19.09%	6.52%
6	Bank NTB	5,807,404	713,060	19.34%	1.46%	4.61%	30.70%	8.60%
7	Bank Bumi Arta	5,155,423	464,088	15.07%	0.25%	1.52%	11.34%	5.81%
8	Bank Jasa Jakarta	5,097,858	756,369	23.37%	0.13%	2.04%	9.82%	3.59%
9	Bank Sulut Gorontalo	10,715,636	690,238	14.26%	1.29%	2.16%	23.16%	9.72%
10	BRI Agroniaga	6,385,191	851,414	19.06%	2.02%	1.53%	7.36%	4.62%
11	Bank Capital Indonesia	9,251,776	851,681	16.43%	0.34%	1.33%	8.93%	3.96%
12	Bank Jawa Barat (BJB) Syariah	6,090,945	627,379	15.78%	5.84%	0.72%	3.73%	8.34%
13	Bank Syariah Bukopin	5,161,300	478,110	15.85%	4.07%	0.27%	2.44%	2.76%
14	Bank Mega Syariah	7,042,489	766,394	18.82%	3.89%	0.29%	2.50%	8.33%
15	Bank Pundi Indonesia	9,044,046	646,905	10.05%	6.94%	-1.58%	-16.31%	9.65%
16	Bank J Trust Indonesia	12,682,021	904,945	13.58%	12.24%	-4.96%	-57.88%	0.24%
Asset between IDR2.5 trillion and IDR5 trillion								
1	Bank Bengkulu	3,921,483	352,875	17.25%	0.39%	3.70%	32.58%	8.39%
2	Bank Sulteng	2,757,722	373,055	25.16%	1.40%	3.73%	24.06%	9.65%
3	Bank Pembangunan Kalteng	4,581,097	676,675	29.15%	0.82%	4.09%	27.59%	8.74%
4	Bank Sahabat Sampoerna	3,471,949	588,413	23.54%	2.35%	1.25%	5.89%	4.40%
5	Bank Sultra	3,420,422	472,336	23.83%	2.86%	4.13%	28.85%	8.68%
6	Bank Mayora	4,621,759	598,067	19.97%	0.52%	0.64%	2.96%	3.56%
7	Bank BCA Syariah	2,994,449	618,636	29.57%	0.12%	0.76%	2.90%	0.78%
8	Bank Yudha Bhakti	2,692,234	227,516	15.22%	3.74%	0.69%	5.53%	5.38%
9	Bank Maspion	4,828,575	604,669	19.43%	0.71%	0.80%	4.07%	4.93%
10	Bank Agris	4,111,036	433,924	17.58%	0.67%	0.29%	1.30%	2.78%
11	Bank SBI Indonesia	3,392,398	517,347	25.20%	6.85%	0.78%	4.32%	4.21%
12	Bank Maluku	4,542,776	466,610	17.34%	2.38%	0.01%	-0.36%	10.78%
13	Bank Kesejahteraan Ekonomi	2,526,445	288,466	13.74%	8.72%	-0.06%	-5.69%	5.32%
14	Bank BTPN Syariah	3,780,498	849,985	33.88%	1.29%	4.23%	13.75%	33.29%
Asset below IDR2.5 trillion								
1	Bank Mantap	1,755,525	184,497	19.69%	1.25%	2.39%	11.41%	11.13%
2	Royalbank	630,014	126,526	28.56%	0.31%	1.27%	3.60%	6.38%
3	Bank Ina Perdana	1,951,587	283,949	24.94%	0.80%	1.26%	5.46%	4.71%
4	Bank Bisnis	549,941	131,859	31.39%	0.96%	2.53%	7.61%	5.89%
5	Bank Fama International	945,369	172,851	24.26%	3.40%	2.50%	9.79%	4.84%
6	Bank Harda Internasional	2,021,726	231,868	15.73%	3.58%	0.98%	6.20%	4.96%
7	Bank Metro Express	995,298	211,055	37.11%	0.38%	1.16%	2.83%	4.32%
8	Prima Bank	2,397,012	218,472	14.18%	1.63%	0.91%	6.90%	3.66%
9	Bank Dinar Indonesia	1,641,451	302,459	31.24%	0.86%	0.45%	1.66%	3.50%
10	Bank Mitraniaga	1,892,362	189,410	18.53%	0.16%	0.59%	3.24%	2.16%
11	Bank Amar Indonesia	231,002	143,678	94.42%	1.79%	0.27%	0.28%	9.81%
12	Bank Artos Indonesia	839,836	104,467	16.99%	3.66%	0.27%	1.03%	4.69%
13	Bank Ganesha	2,135,757	178,344	14.18%	4.55%	0.21%	1.62%	4.89%
14	Bank Andara	1,011,062	169,606	44.18%	3.05%	-1.91%	-11.00%	4.95%
15	Bank Victoria Syariah	1,439,983	129,659	15.27%	7.10%	-1.87%	-17.61%	3.34%
16	Bank CNB	1,008,041	133,486	22.89%	1.89%	0.12%	0.49%	5.97%
17	Bank Antardaerah	1,880,295	150,037	13.30%	0.35%	0.86%	7.71%	5.35%
	TOTAL	187,443,982	21,235,004					

Source: Bank Indonesia, BMI

Appendices

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