twimbit

Top 5 Indonesia Banks:

Q3 2023 Update

www.twimbit.com

Twimbit is a research and advisory firm driven by a singular mission: to empower businesses that are making a difference. We specialise in providing invaluable industry intelligence to executives and teams, acting as a catalyst for innovation and growth.

Table of Contents

Key highlights

The Indonesian economy experienced robust growth in Q3 2023 at 4.94% year-on-year, although it slowed more than anticipated to its weakest in two years.

- Slowdown was attributed to a decline in exports and a softening of household spending
- Annual GDP growth for July-September stood at 4.94%, a decrease from the 5.17% recorded in the previous quarter and falling short of the predicted 5.05%

New loan disbursements continued to grow, driven by strong demand from various sectors.

- Loan portfolio of the Indonesian banking sector expanded by 8.93% from USD 409 billion in Q3 2022 to USD 445 billion in Q3 2023
- Deposits grew by 6.43% from USD 488 billion to USD 519 billion during the same period

Revenue

Net revenues grew by 9.6% YoY to USD 7.83 billion in Q3 2023 compared to Q3 2022

The top 5 banks in Indonesia grew from USD 7.14 billion in Q3 2022 to USD 7.83 billion in Q3 2023.

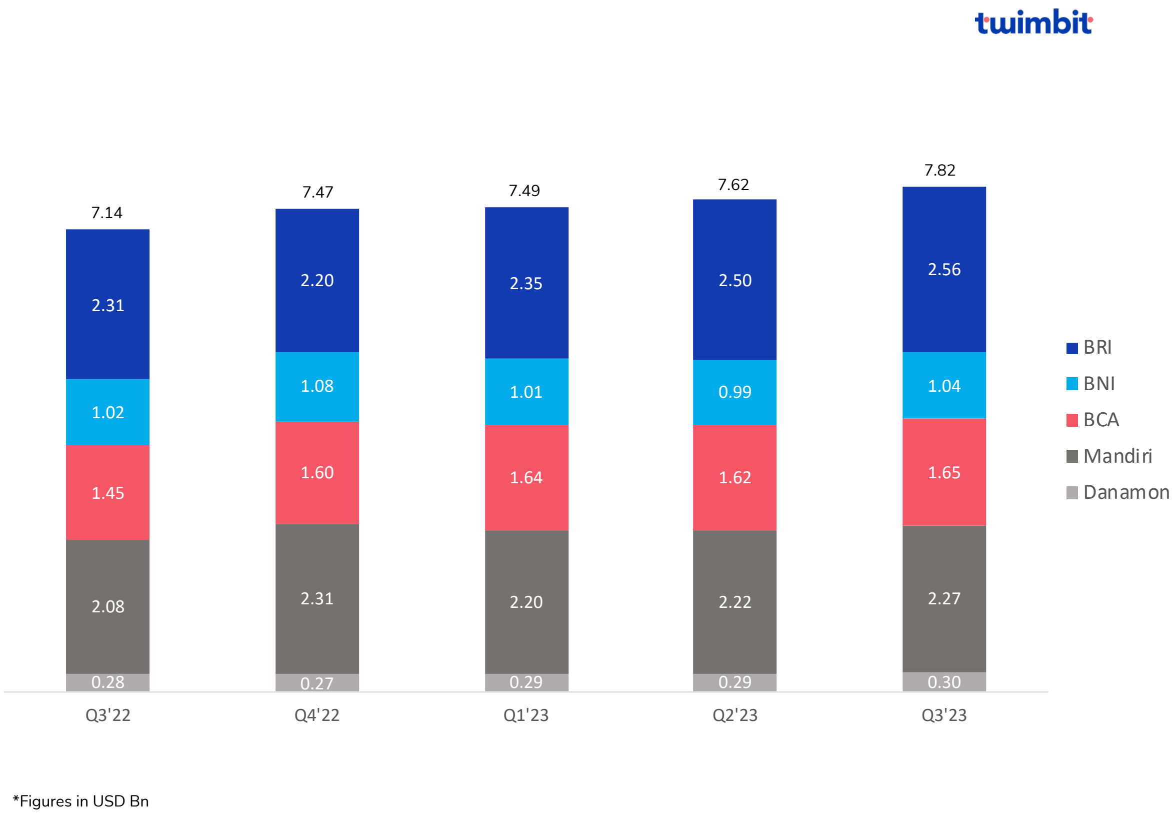
<u>BCA</u>

- Highest YOY growth in net revenues stood at 13.91% in Q3 2023
- Net revenues increased from USD 1.45 billion in Q3 2022 to USD 1.65 billion in Q3 2023
- 21.3% increase in net interest income from USD 3.06 billion to USD 3.71 billion
- 9.6% increase in non-interest income from USD 1.11 billion to USD 1.21 billion
  - This was due to an 8% increase in the fee income from USD 816 million in Q3 2022 to USD 882 million in Q3 2023
- Loan portfolio of the bank increased by 12.33% from USD 45.24 billion to USD 50.82 billion

BRI

- 2nd highest YoY growth in net revenues at 10.8% in Q3 2023
- Net revenues increased from USD 2.31 billion in Q3 2022 to USD 2.56 billion in Q3 2023.

Exhibit 1: Net revenues of the top 5 Indonesian banks



Source: Bank Financials, Twimbit analysis

Profitability

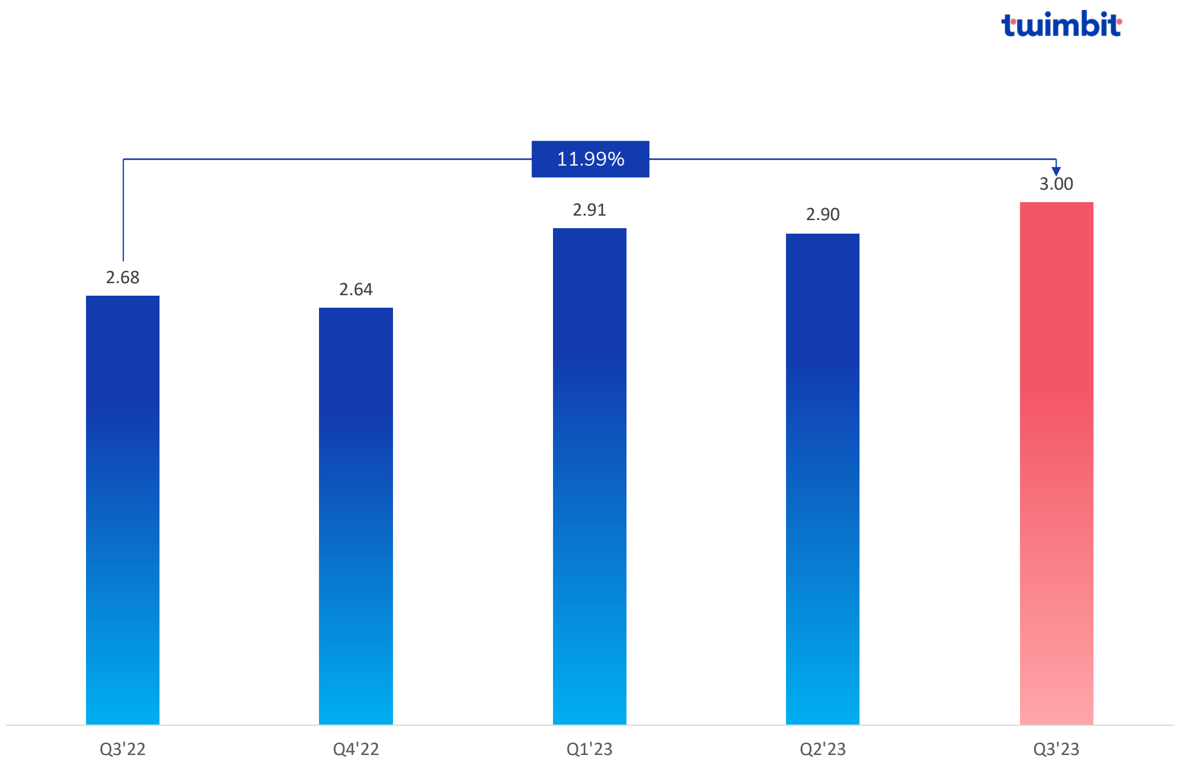
Net profits grew by 12% YoY to USD 3 billion in Q3 2023 compared to Q3 2022

The top 5 banks in Indonesia aggregated their net profits from USD 2.68 billion in Q3 2022 to USD 3 billion in Q3 2023. The top 3 – Bank Mandiri, BRI and BCA reported combined net profits of USD 2.57 billion (86% of overall net profits) in Q3 2023.

- Bank Mandiri increased net profits by 32.44%
- BCA increased net profits by 11.88% net profits
- BRI reported a decline of 4.66% in net profits

The decline for BRI was primarily due to the declining non-operating income of 220.8% from USD 21.49 million in Q3 2022 to USD (25.94) million in Q3 2023.

Exhibit 2: Consolidated net profits of the top 5 Indonesian banks



*Figures in USD Bn

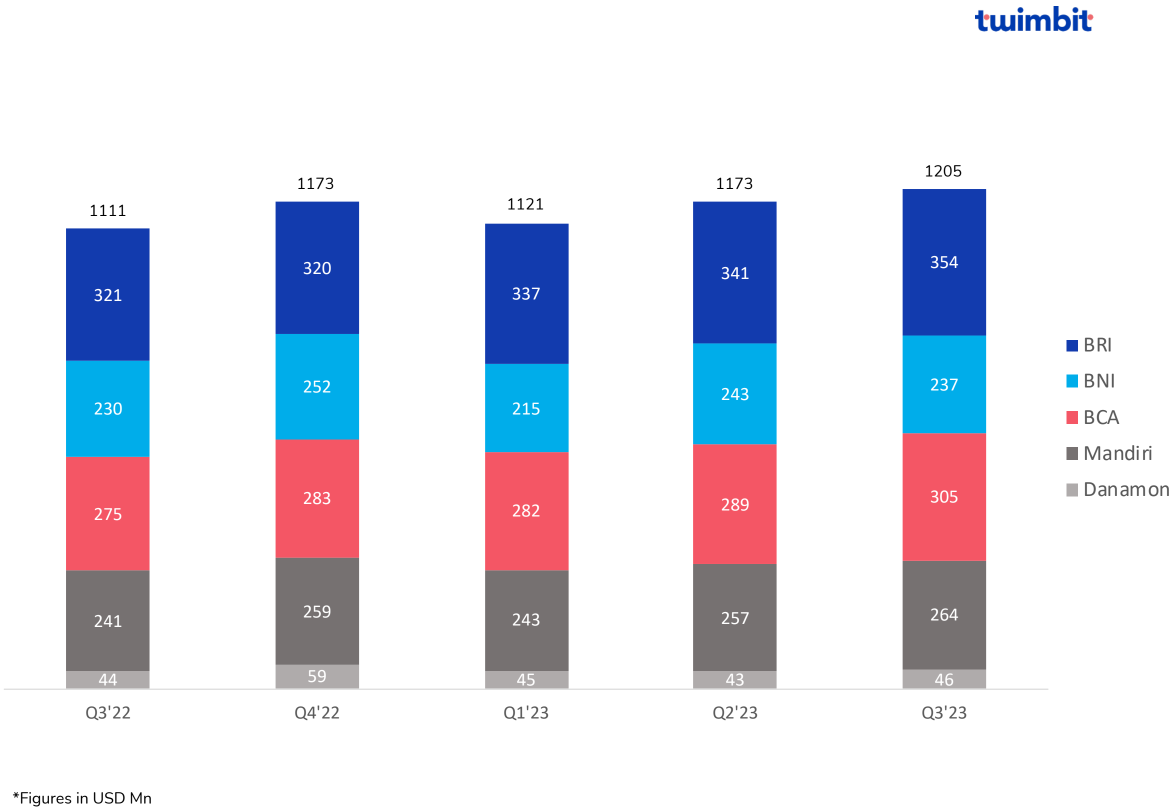
Source: Bank Financials, Twimbit analysis

Fee-based income

Fee income grew by 8.49% to USD 1.21 billion in Q3 2023 compared to Q3 2022

BCA reported the highest growth at 10.95% YoY, from USD 275 million in Q3 2022 to USD 305 million in Q3 2023. BRI reported the second-highest growth at 10.13%, from USD 321 million to USD 354 million.

Exhibit 3: Fee incomes of the top 5 banks in Indonesia



Source: Bank Financials, Twimbit analysis

Overall, the top 5 banks in Indonesia have witnessed an increase in their fee incomes due to the following factors:

1. Digital transformation – The shift to digital centricity continues to unlock new opportunities for banks to generate fee revenue. Banks can now charge fees for digital services, such as mobile banking transactions, online bill payments, and digital financial products.
2. Growing middle class – Indonesia's substantial and expanding middle-class population drives financial products and service demand, fuelling the need for financial offerings. This encompasses fee-generating products and services, such as credit cards, investment opportunities and insurance.
3. Rising incomes – Rising income levels in Indonesia are driving fee income growth. Higher-earning consumers are more willing to make purchases using credit cards, use

BNPL services, buy bancassurance and invest in wealth management. All of these services attract fees.

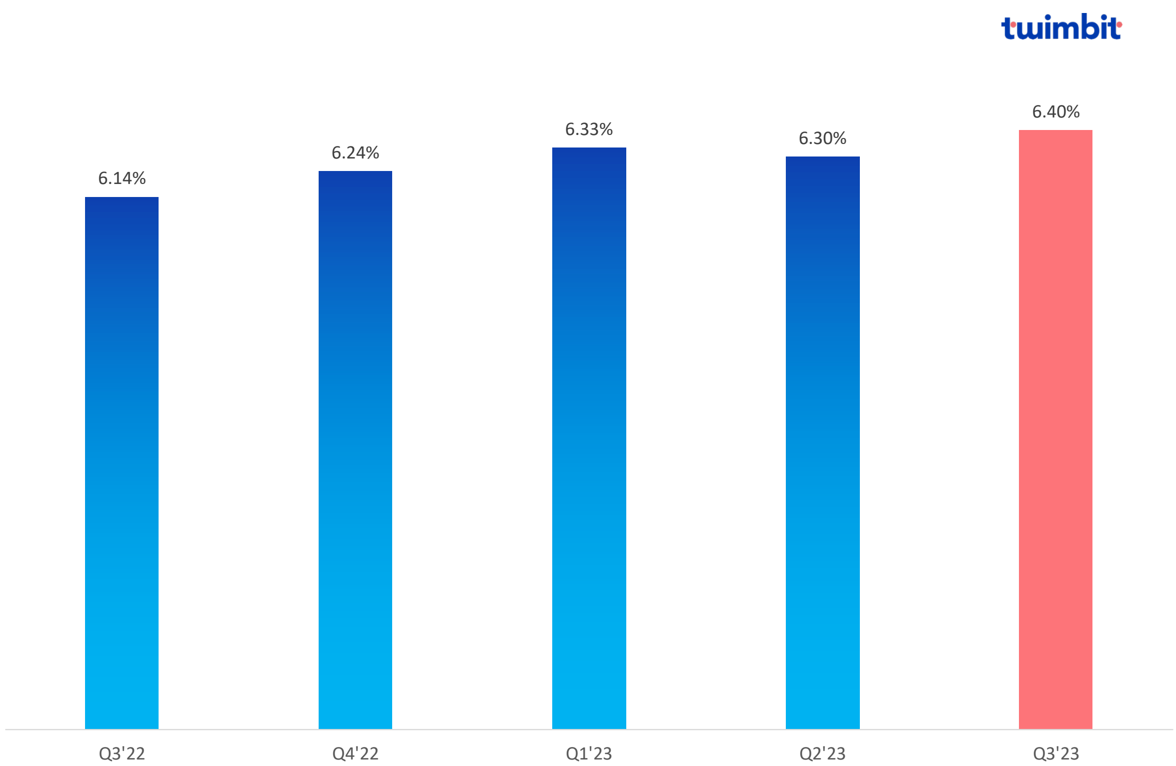
Net interest margins (NIM)

NIM grew by 26 basis points to 6.4% in Q3 2023 compared to Q3 2022

The current average NIM for Indonesian banks stands at 6.4% (highest in APAC).

- Bank Mandiri reported a 34 bps increase in its NIM, currently standing at 5.59%
- Danamon reported a 10 bps increase in its NIM, currently standing at 8.1%
- BRI reported an 82 bps increase in its NIM, currently standing at 8.05%
- BCA reported a 10 bps increase in its NIM, currently standing at 5.5%
- BNI reported a 2 bps decline in its NIM, currently standing at 4.78%

Exhibit 4: Consolidated net interest margins of the top 5 banks in Indonesia



Source: Bank Financials, Twimbit analysis

Indonesian banks tend to have high NIMs when compared to other APAC regions due to the following factors:

1. High loan rates – Indonesian banks charge higher interest rates on loans than banks in other countries due to the country's high risk of default and high cost of funds.
2. Low deposit rates – The large savings pool in the Indonesian banking sector gives banks more flexibility, as they do not need to compete as aggressively for deposits. This allows the banks in Indonesia to pay lower deposit rates than banks in other countries.

The difference between the high loan rates and low deposit rates in Indonesian banks has helped best position them to boost their margins.

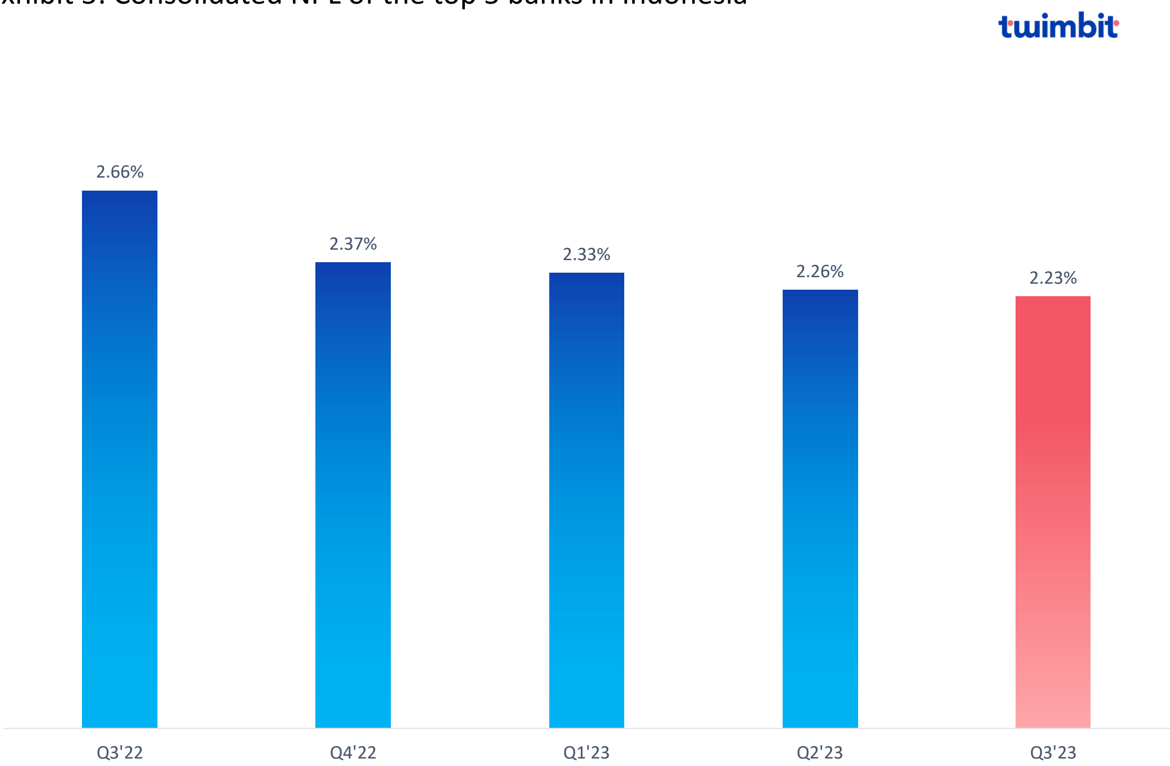
Non-performing loans (NPL)

NPL fell by 3 basis points (bps) in Q3 2023 compared to Q3 2022

The top 5 banks' average NPL witnessed a 3 basis points decline, resulting in a current NPL of 2.23% (Exhibit 5).

- NPL for Bank Mandiri declined by 33.48% YoY, from 2.24% in Q3 2022 to 1.49% in Q3 2023
- NPL for BNI declined by 23.33% YoY, from 3% in Q3 2022 to 2.3% in Q3 2023

Exhibit 5: Consolidated NPL of the top 5 banks in Indonesia



Source: Bank Financials, Twimbit analysis

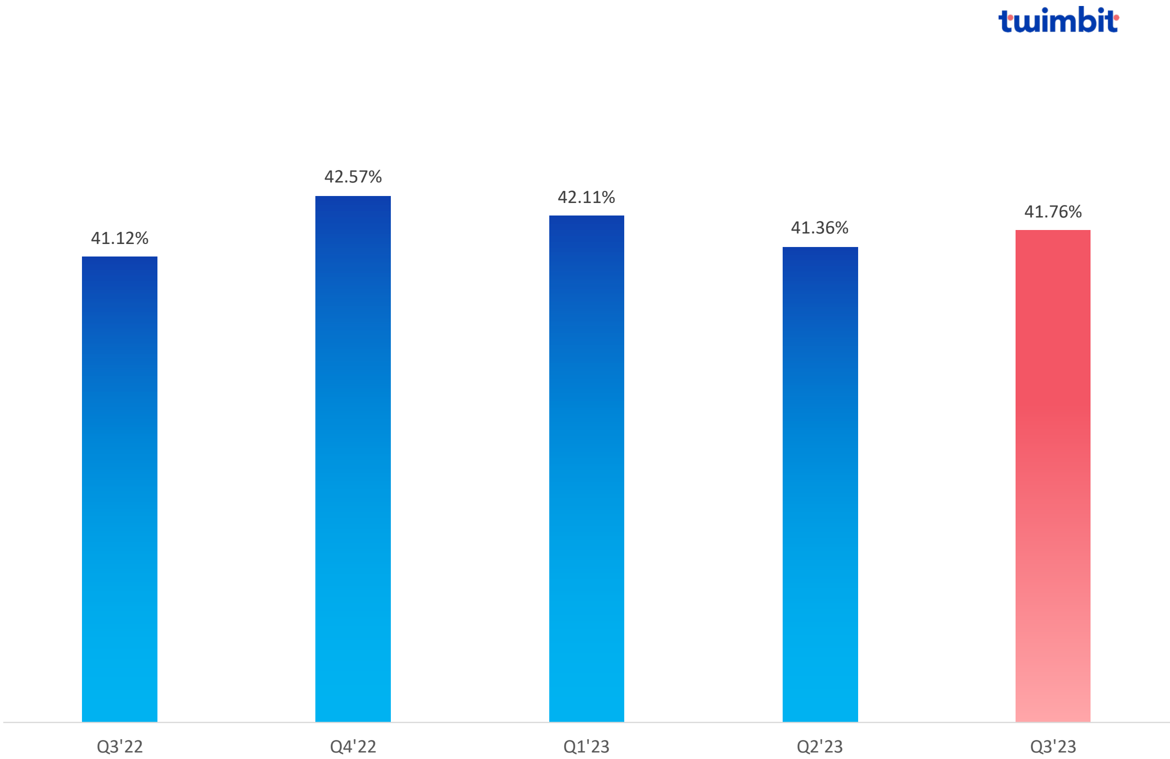
Cost efficiency (CE)

CE for Indonesia banks increased by 64 bps in Q3 2023 compared to Q3 2022

The average cost efficiency for the top 5 banks in Indonesia stood at 41.76% in Q3 2023. Indonesian banks generally operate at better efficiency when compared to peers in the APAC region.

However, it should be noted that these banks have experienced a higher cost efficiency in this quarter compared to Q3 2022, when the cost efficiency stood at 41.12%. The average cost efficiency has also declined by 40 bps compared to the previous quarter when the cost efficiency was 41.36%.

Exhibit 6: Consolidated cost-efficiency ratio of the top 5 banks in Indonesia



Source: Bank Financials, Twimbit analysis

Four of the five banks analysed have cost efficiency ratios way below the threshold value of 50%. However, Danamon reported a cost-efficiency ratio of 54.3%, above the threshold value.

Southeast Asia's largest economy is anticipated to cool off for the remainder of the year

The settlement will be driven by domestic interest rate hikes, decreasing commodity prices, and a global economic slowdown. Bank Indonesia also recently implemented an unexpected interest rate hike to safeguard the depreciating rupiah, with cumulative rate hikes reaching 250 basis points since 2022.

Additionally, asset quality is anticipated to continue to be effectively managed. However, it should be considered that the rising interest rates may result in increased borrowing costs for both businesses and consumers, which could potentially offset the loan expansion.

