

# THE EMERGING INDONESIAN BANKING LANDSCAPE

ASIAN BANKER ASSOCIATION  
22<sup>nd</sup> General Meeting and Seminar  
Melbourne – Australia

HANS THEILKUHL  
October 18, 2005

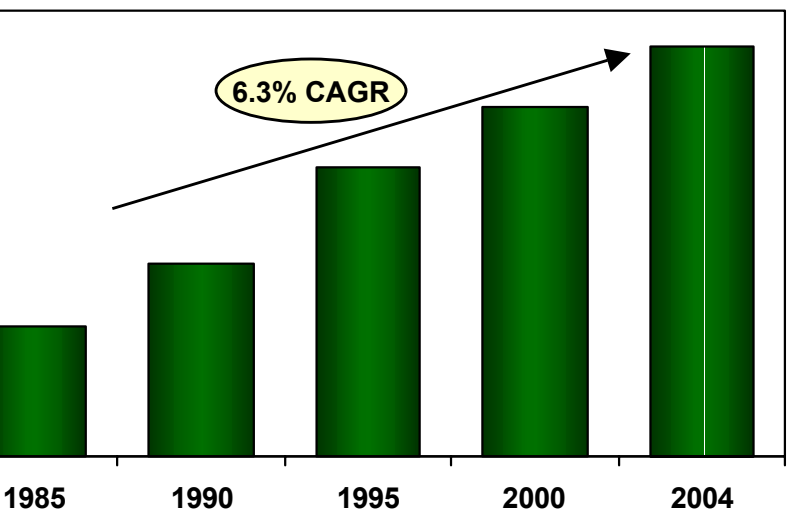
# INDONESIA MAP

## Map of Indonesia

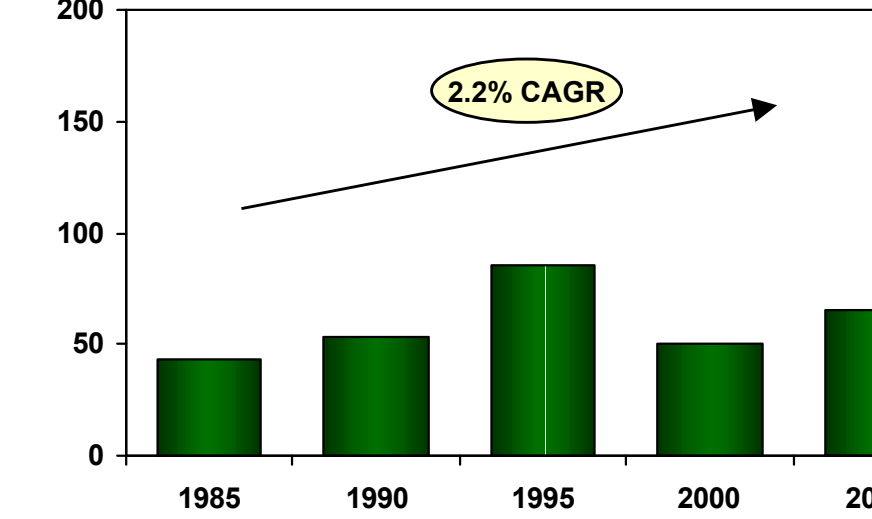


# ECONOMIC FUNDAMENTALS HAVE BEEN IMPROVING OVER TIME

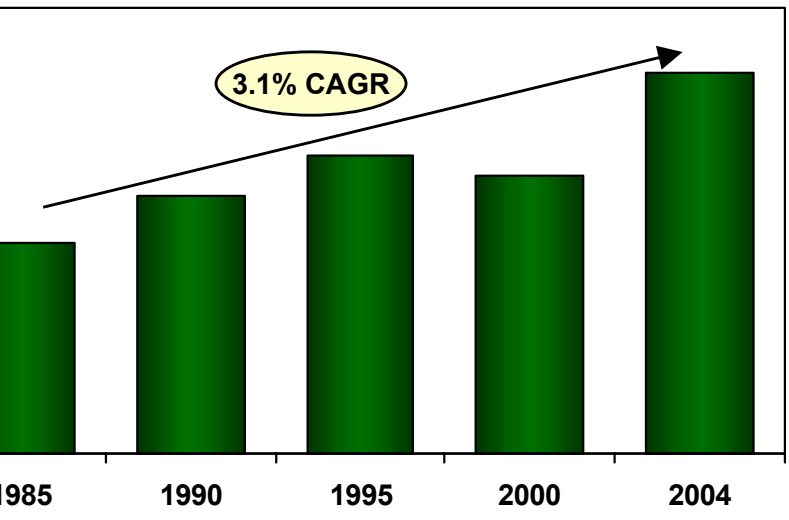
### Consumption



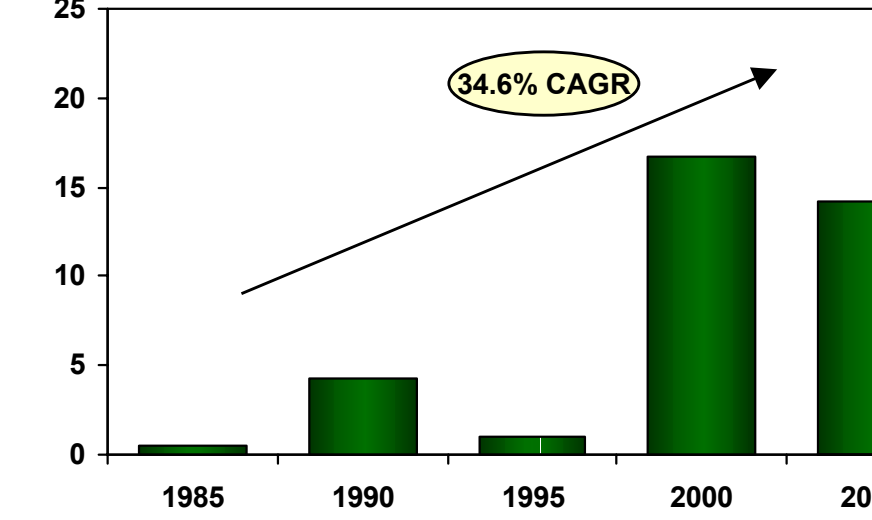
### Investment (USD Tn)



### Government Spending

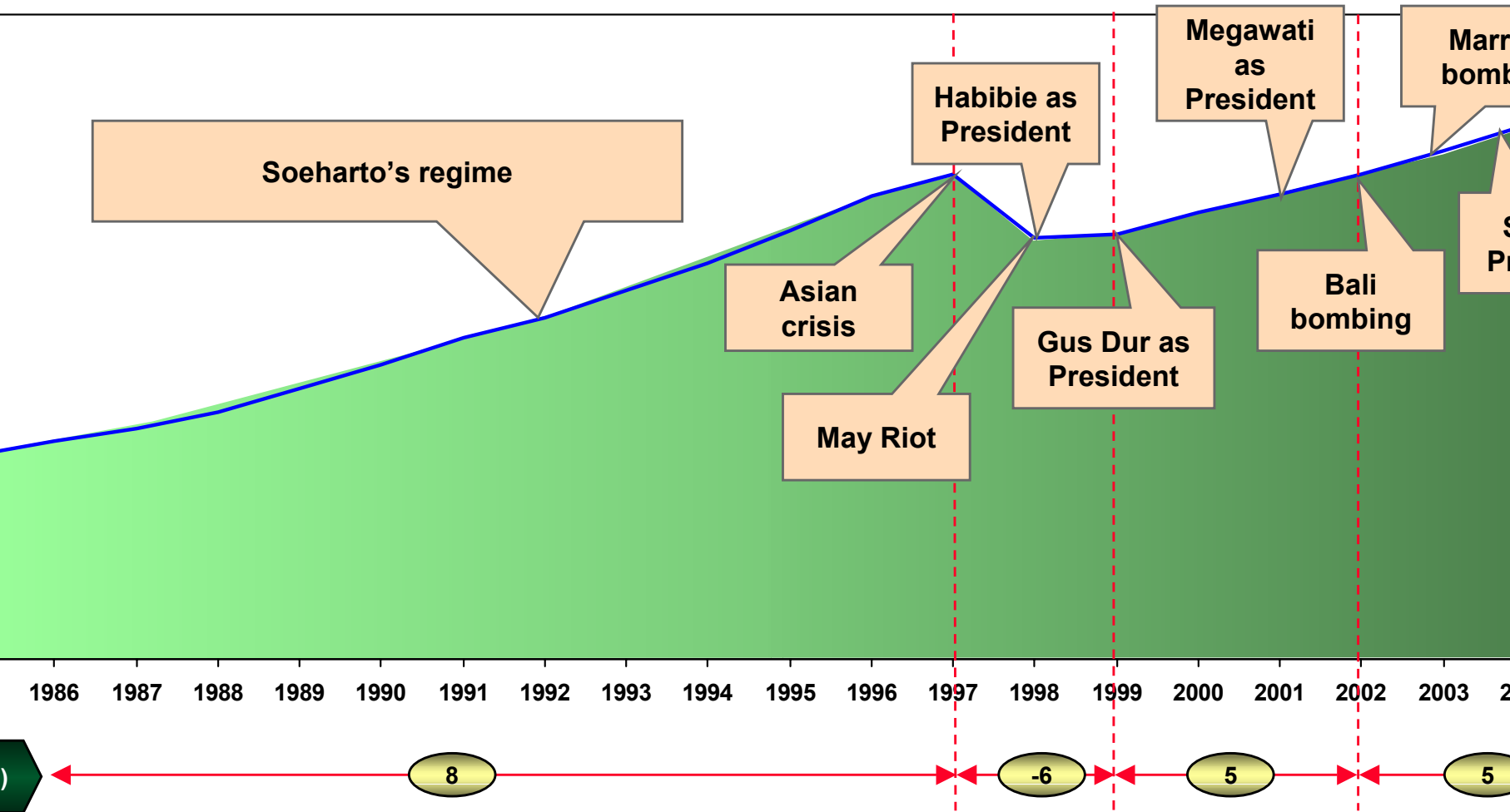


### Net Exports (USD Tn)



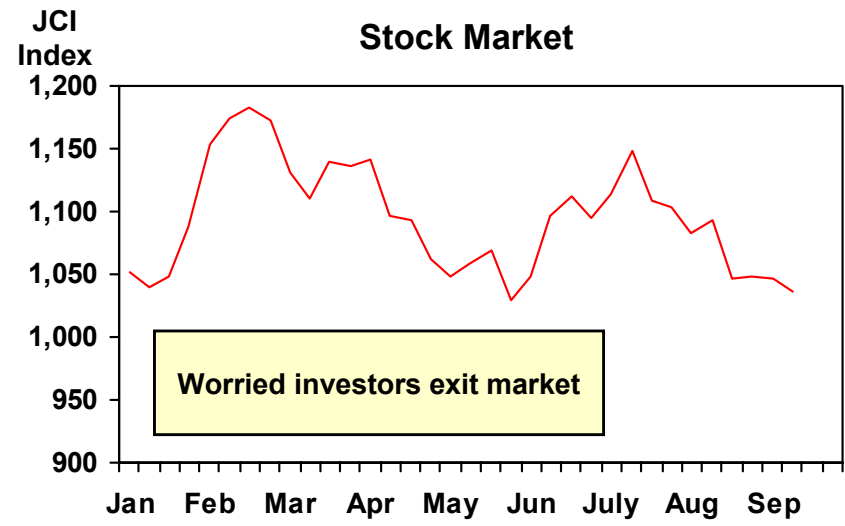
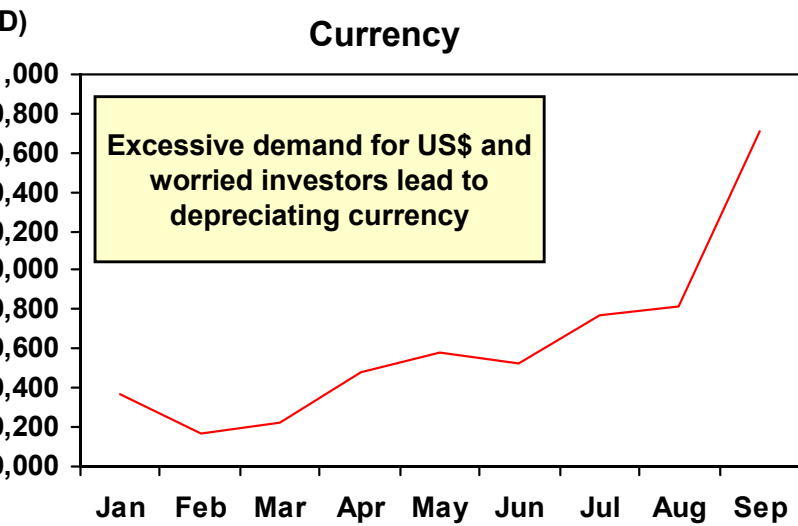
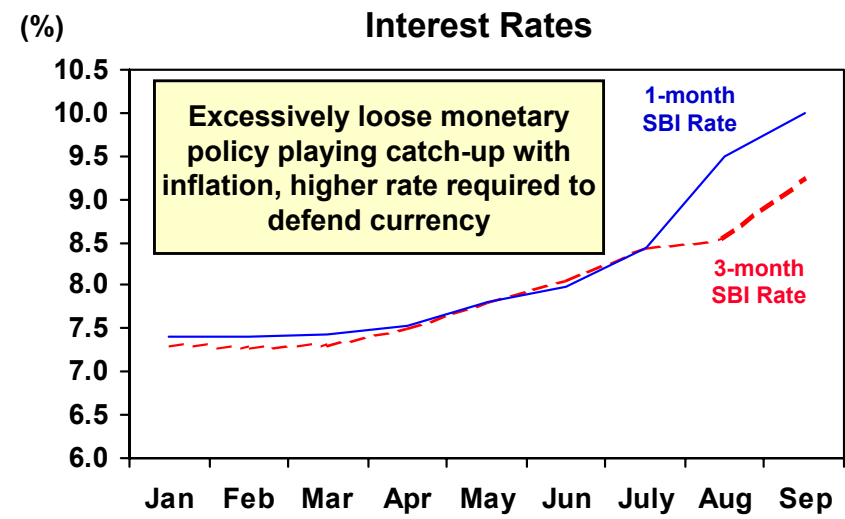
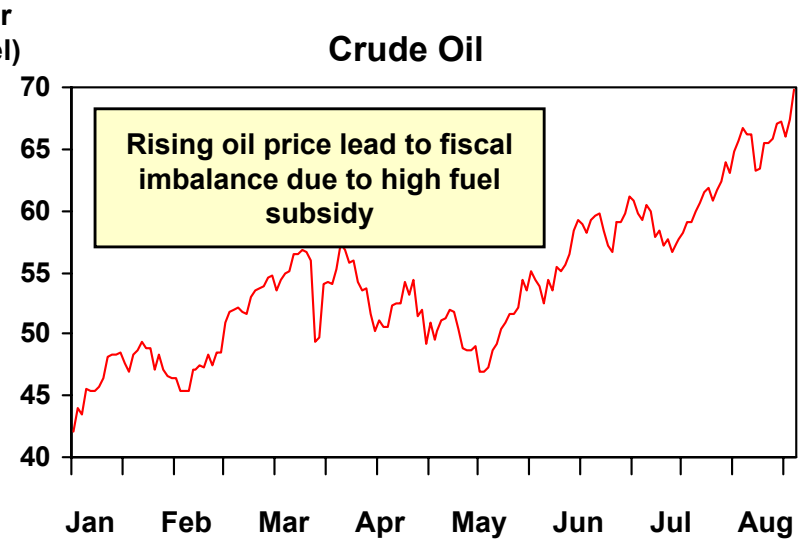
# INDONESIA ECONOMY HAS BEEN ON A LONG-TERM GROWTH TRAJECTORY Despite Many Disruptive Events In Recent Years

Indonesia: Real GDP in USD Bn



# MARKET DEVELOPMENTS REFLECT STRUCTURAL ISSUES THAT STILL NEED TO BE ADDRESSED

## 2005



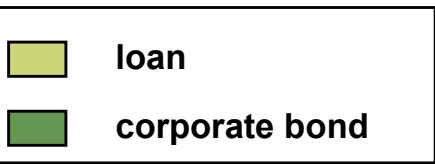
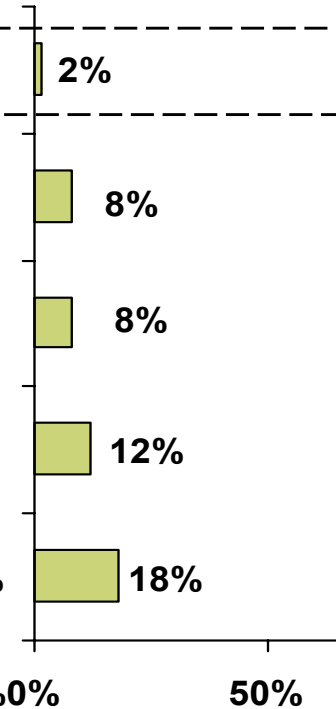
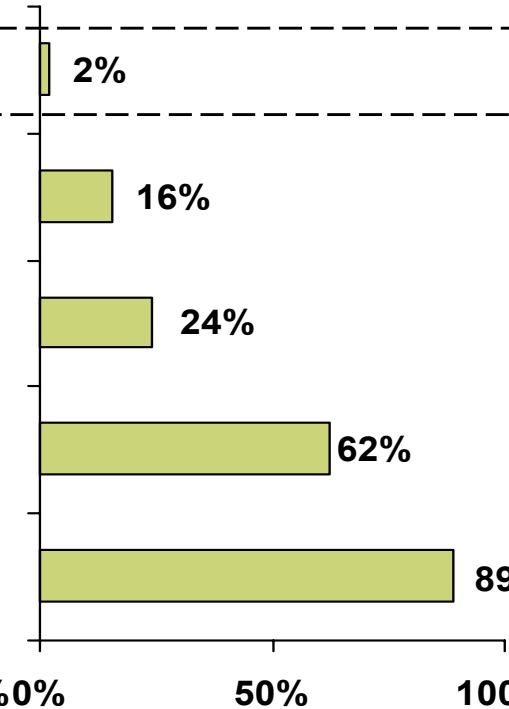
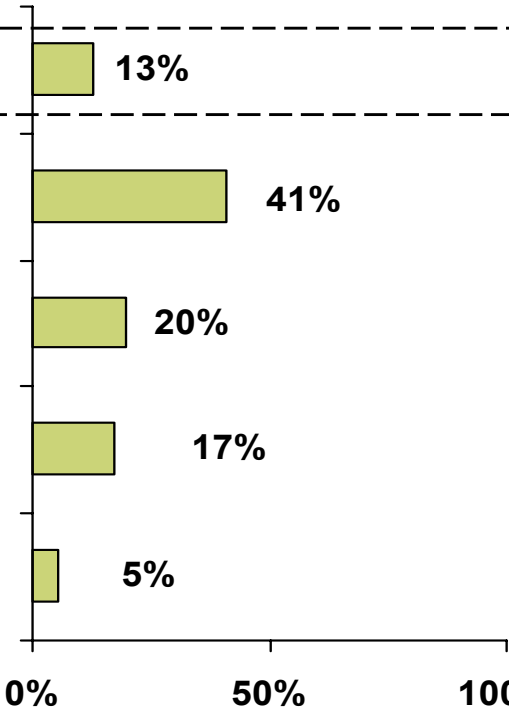
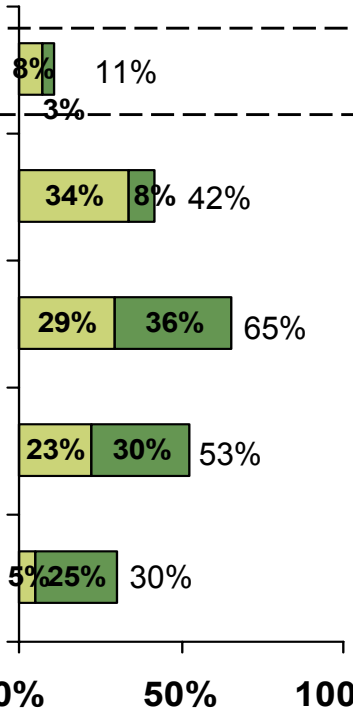
# Catching up with the Joneses

Outstanding Corporate Loans  
(2004, % of GDP)

Outstanding SME Loans  
(2004, % of GDP)

Outstanding Mortgage  
(2004, % of GDP)

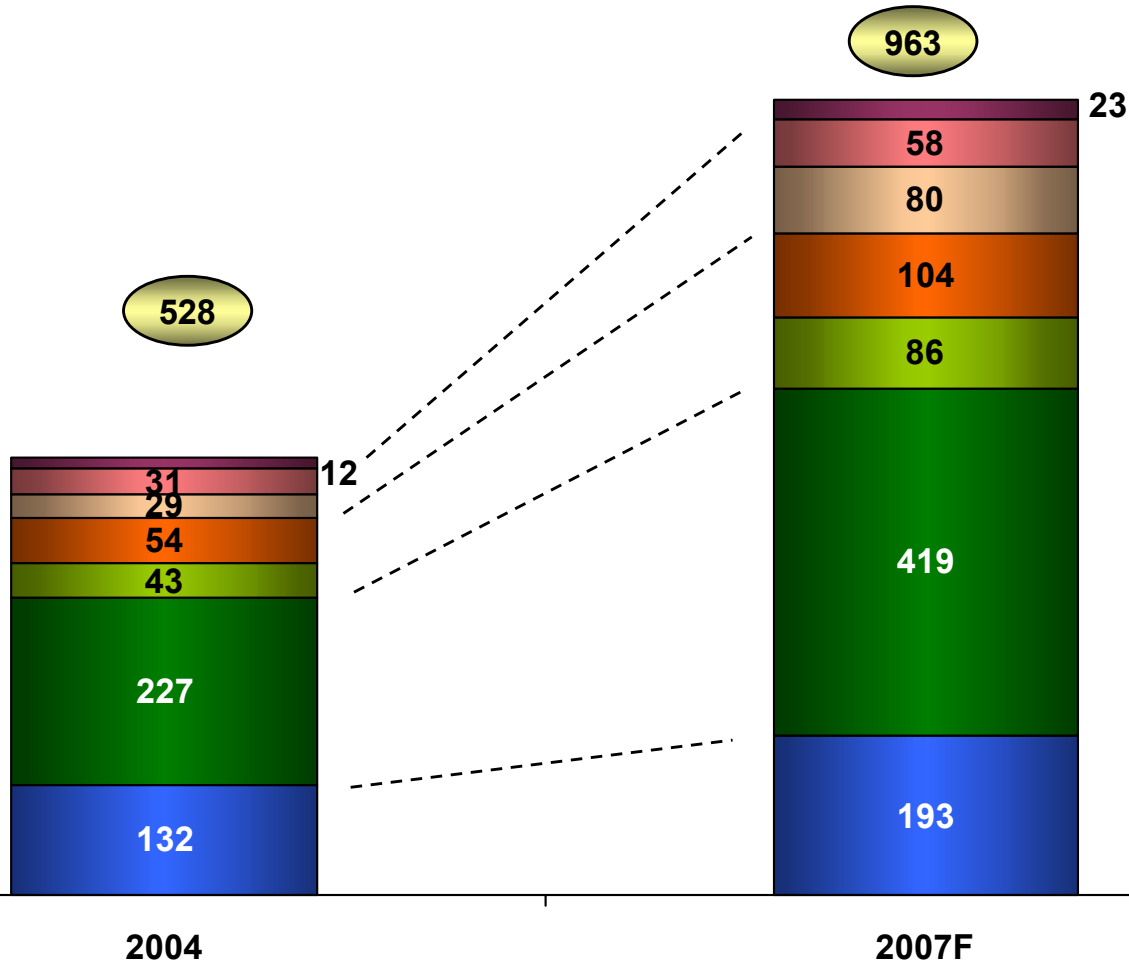
Credit Card Transactions  
(2004, % of GDP)



# ...with significant growth still to come

**Expected Market Size 2004 – 2007 for Loan Products (Rp Tn)**

**CAGR ('04-'07)**

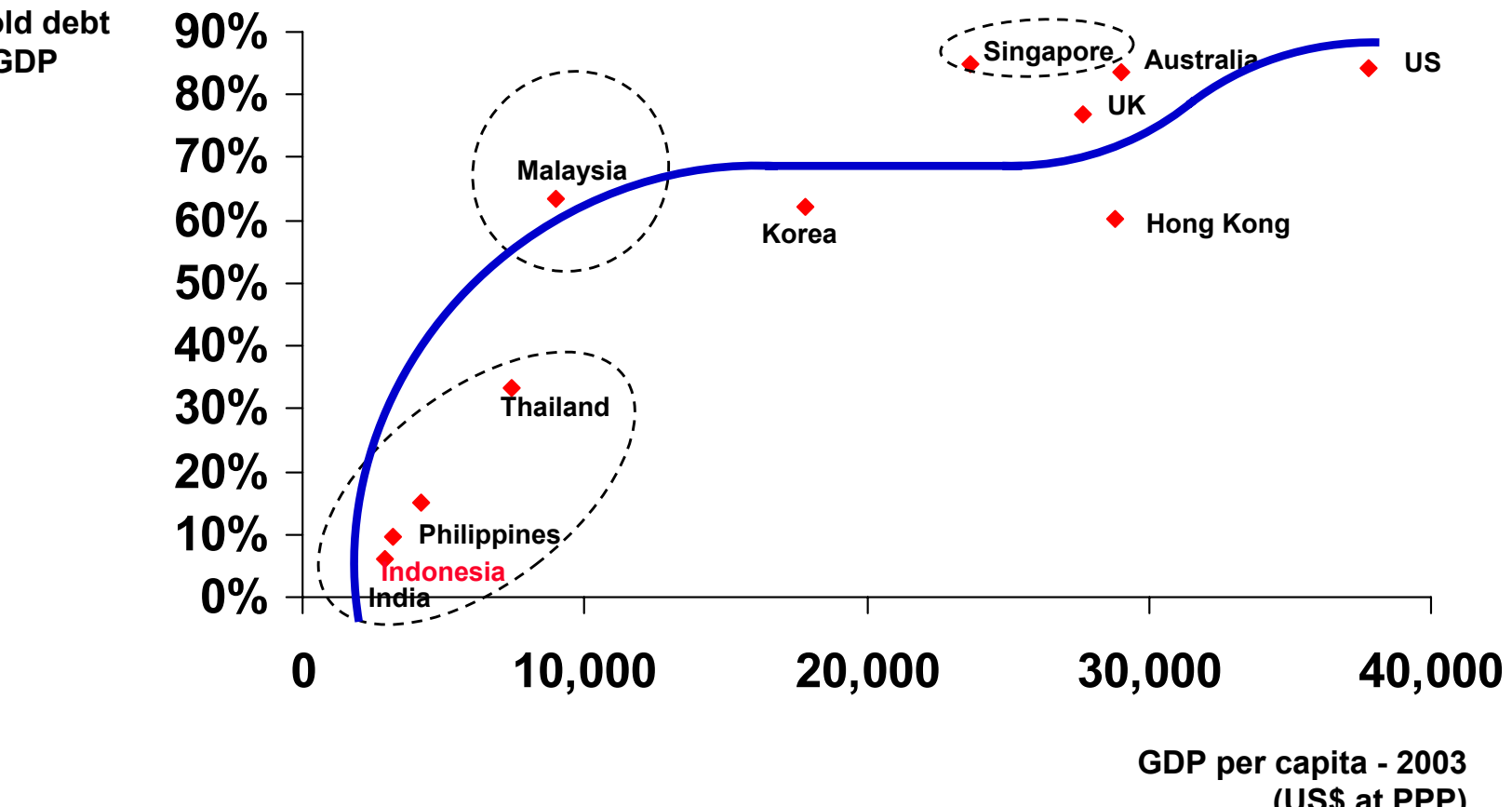


<b>Total Market</b>	<b>22%</b>
<b>Credit Card</b>	<b>24%</b>
<b>Mortgage</b>	<b>37%</b>
<b>Motorcycle</b>	<b>40%</b>
<b>Auto<sup>(1)</sup></b>	<b>24%</b>
<b>Micro</b>	<b>26%</b>
<b>SME/Commercial</b>	<b>23%</b>
<b>Corporate</b>	<b>14%</b>

1) Includes passenger (60-70%), commercial and commercial/retail automobiles (40-30%)  
 2) Finance included in Auto and Motorcycles

# INDONESIAN BANKING MARKET IS LEAST MATURE COMPARED TO MAJOR MARKETS ...

Household Debt as % of GDP – Comparison across Countries

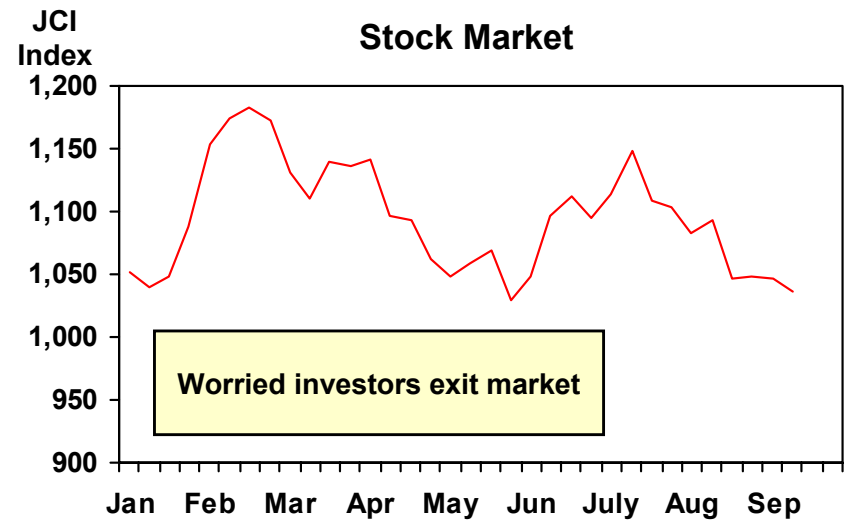
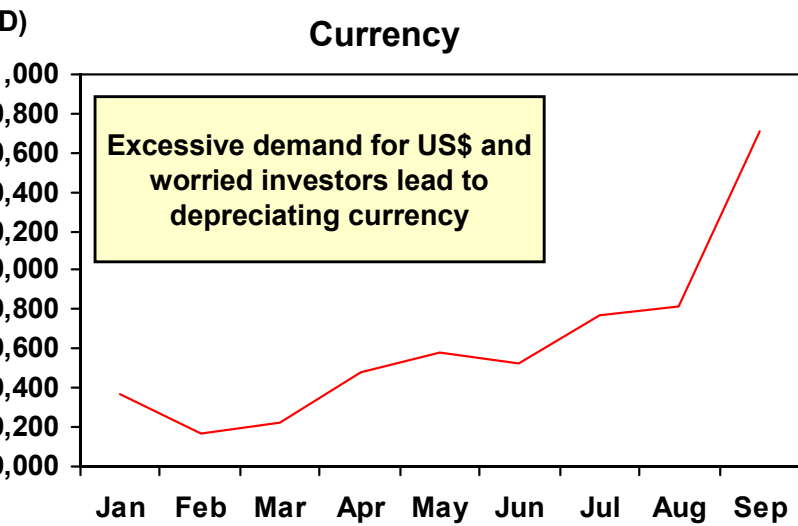
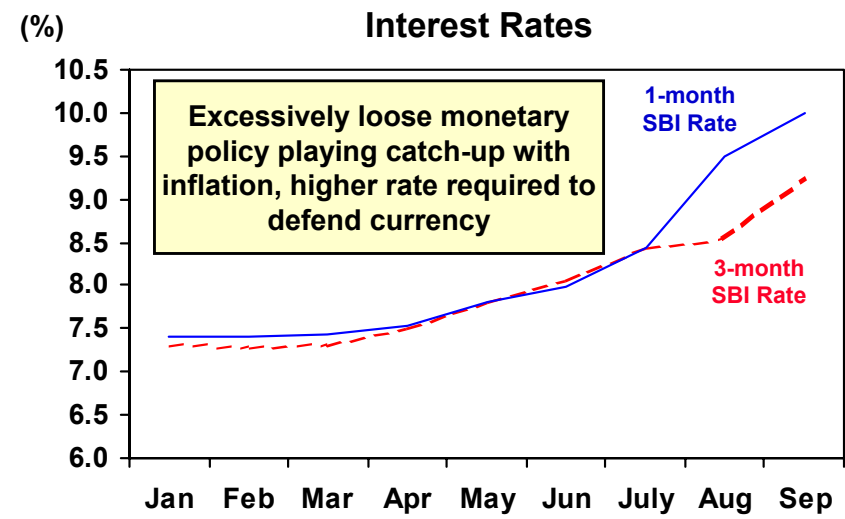
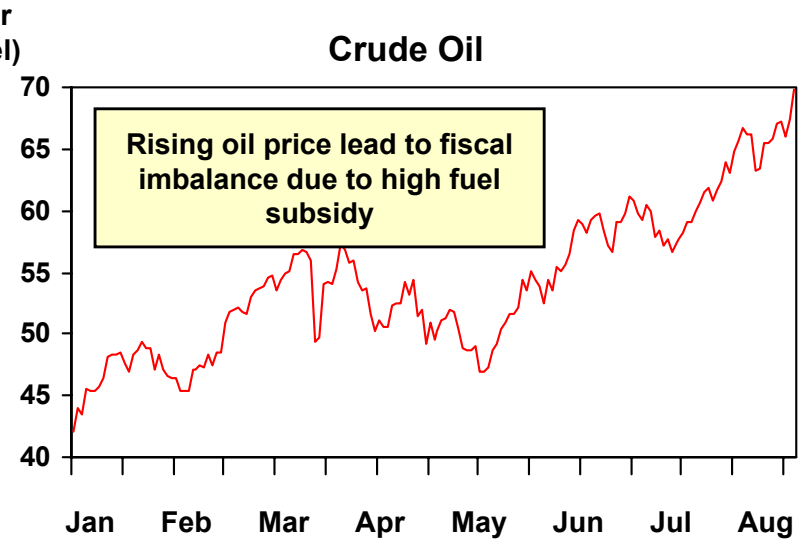






# MARKET DEVELOPMENTS REFLECT STRUCTURAL ISSUES THAT STILL NEED TO BE ADDRESSED

## 2005



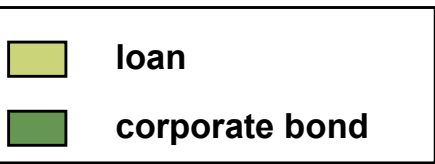
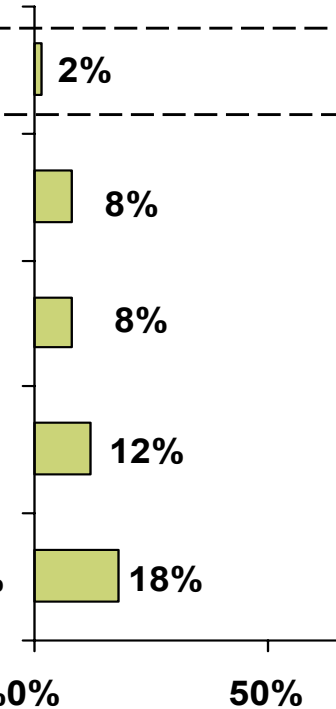
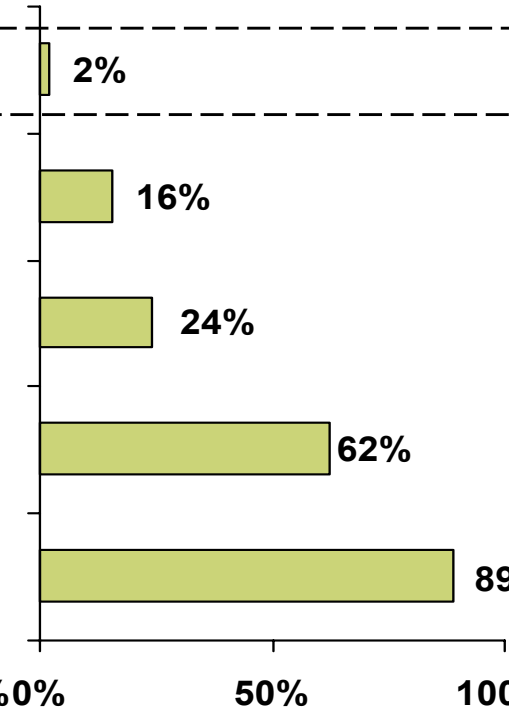
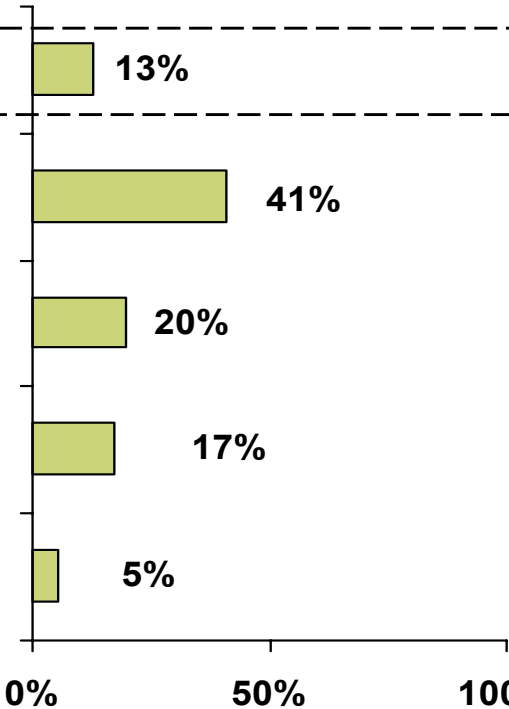
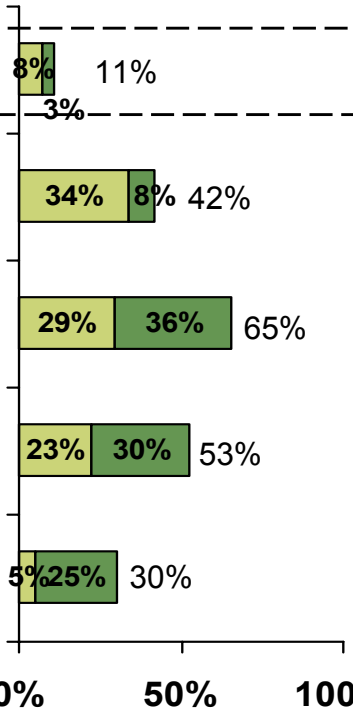
# Catching up with the Joneses

Outstanding Corporate Loans  
(2004, % of GDP)

Outstanding SME Loans  
(2004, % of GDP)

Outstanding Mortgage  
(2004, % of GDP)

Credit Card Transactions  
(2004, % of GDP)

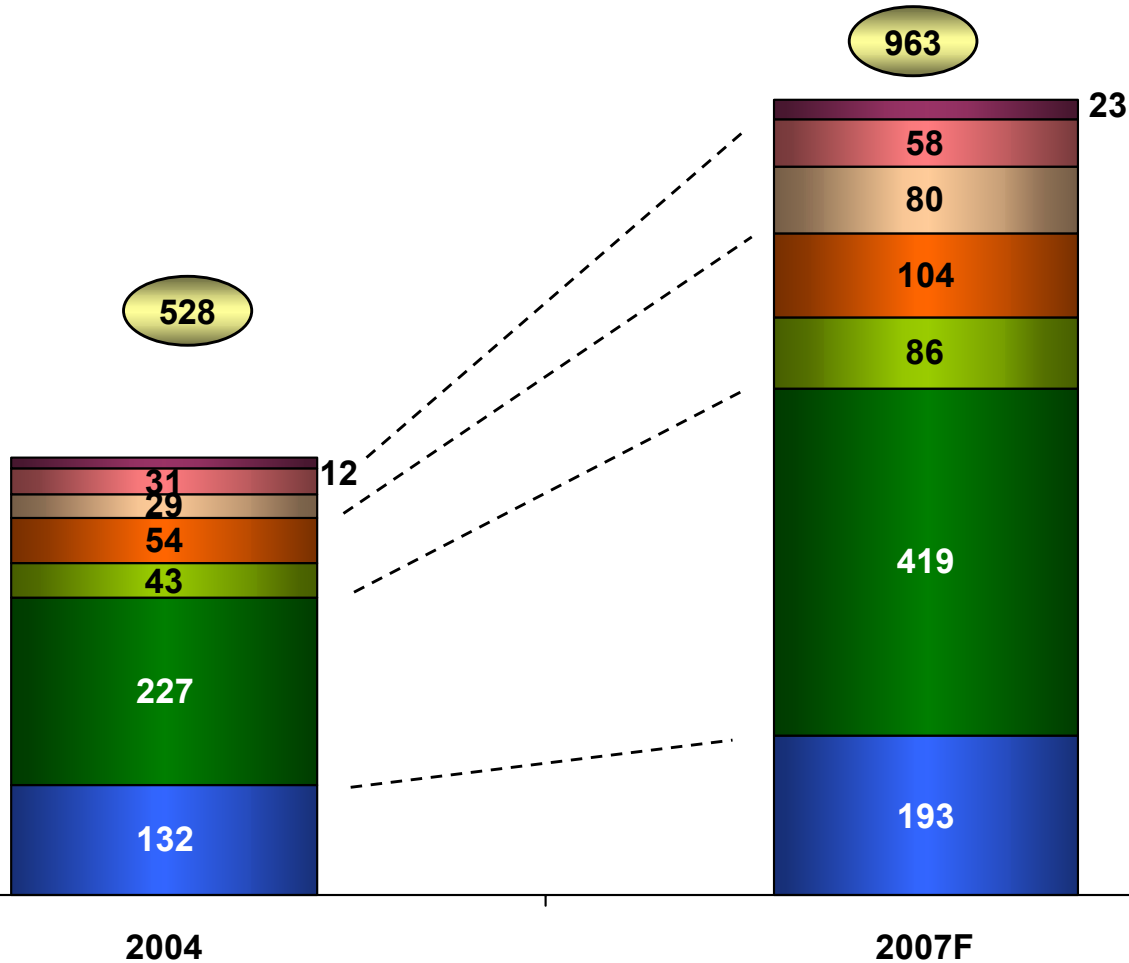


credit card spend

# ...with significant growth still to come

**Expected Market Size 2004 – 2007 for Loan Products (Rp Tn)**

**CAGR ('04-'07)**



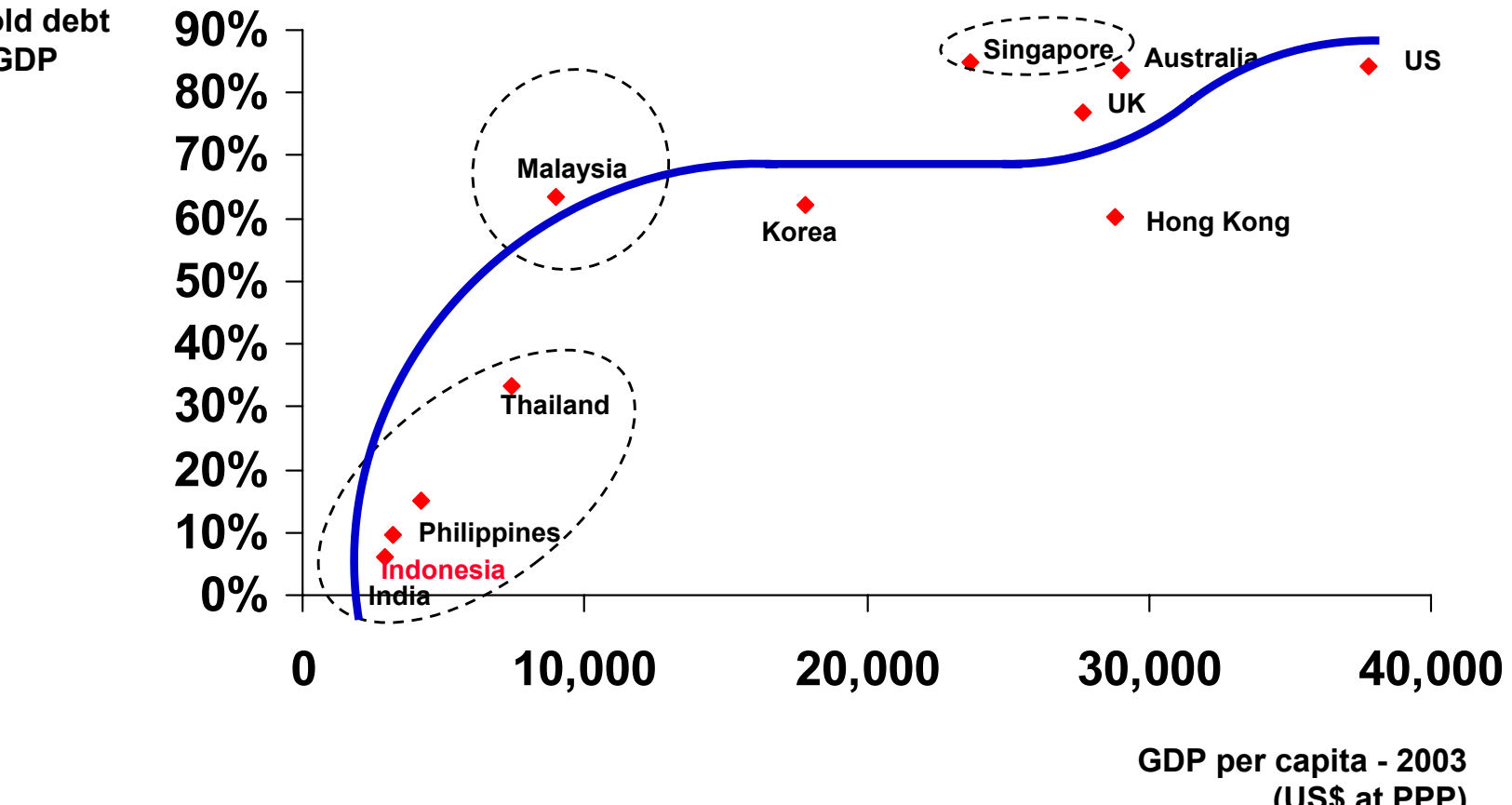
Total Market	22%
Credit Card	24%
Mortgage	37%
Motorcycle	40%
Auto <sup>(1)</sup>	24%
Micro	26%
SME/Commercial	23%
Corporate	14%

<sup>(1)</sup> includes passenger (60-70%), commercial and commercial/retail automobiles (40-30%)  
 Finance included in Auto and Motorcycles

**Waiting on Slides 12 – 15 FROM AMADOR**

# INDONESIAN BANKING MARKET IS LEAST MATURE COMPARED TO MAJOR MARKETS ...

Household Debt as % of GDP – Comparison across Countries

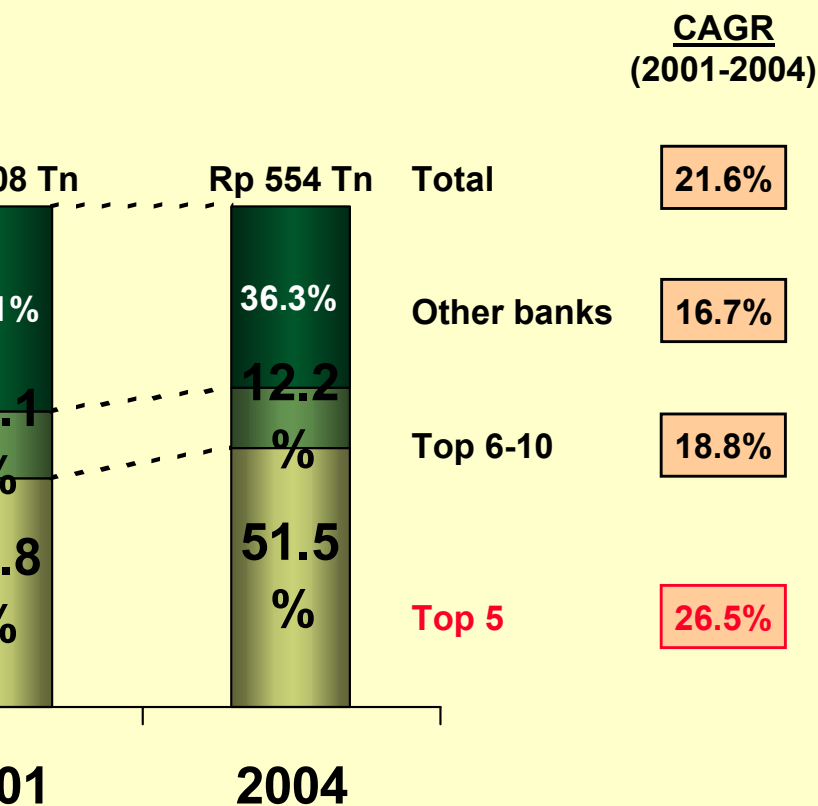


# TOP BANKS ARE LEADING THE COMPETITION AND BECOMING MORE DOMINANT

## Top 5 Most Aggressive

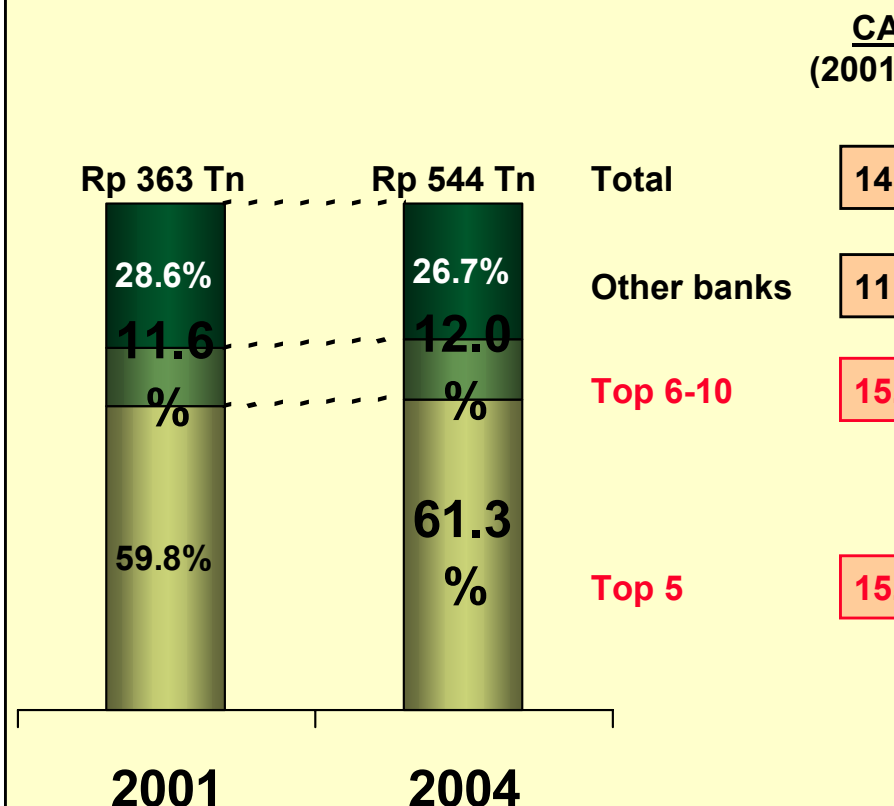
Top 5 banks are taking shares of domestic loans ...

Breakdown Outstanding Loan by Tier (2001 vs. 2004)



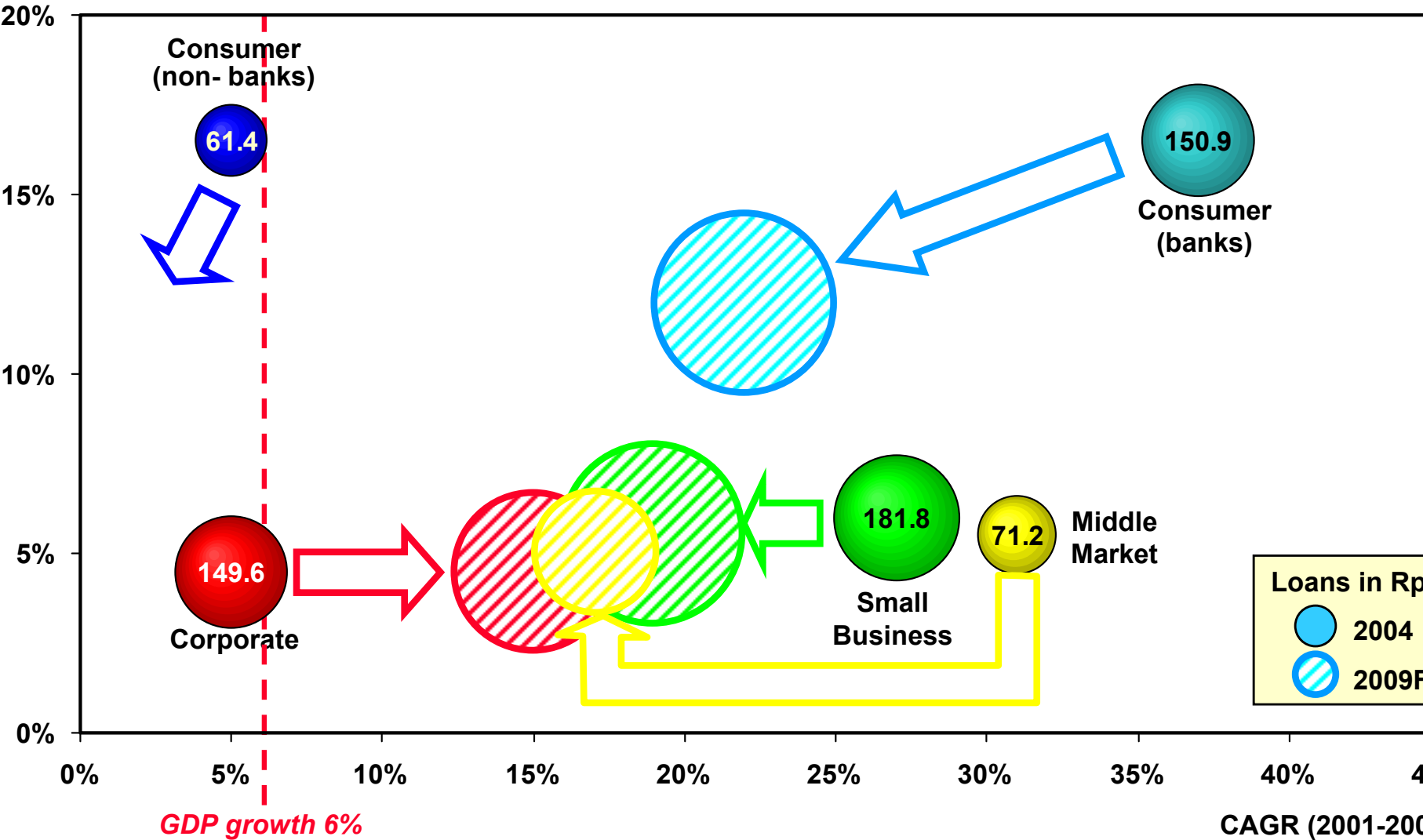
... and domestic low-cost deposits from smaller competitors

Breakdown of Low-cost Deposit by Tier (2001 vs. 2004)



# THE GAME WILL CHANGE MOVING FORWARD

Comparison of Size, Growth and NIM across Domestic Lending Segments



Loans in Rp

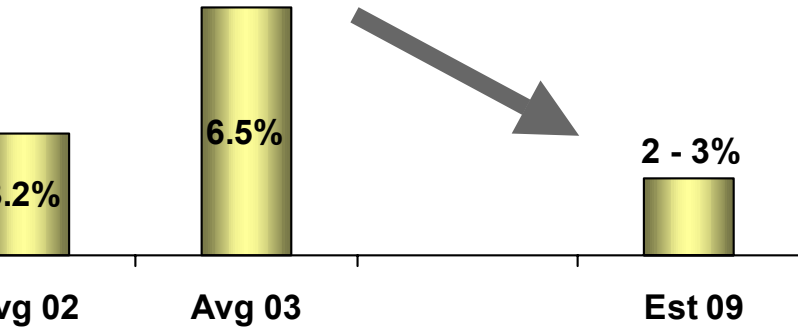
- 2004
- 2009F

CAGR (2001-2009)

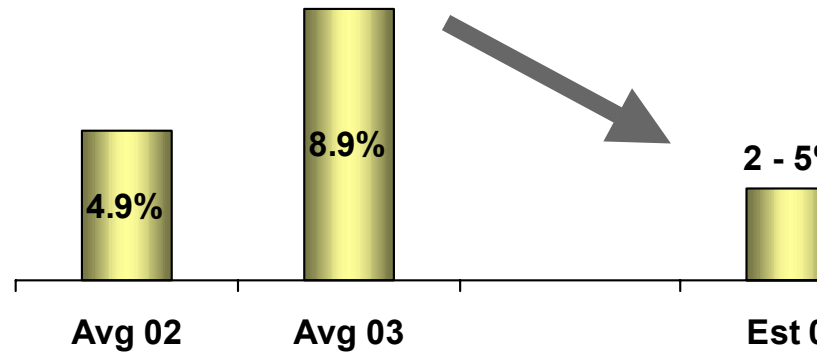


# INCREASING COMPETITION WILL DRIVE NIM LOWER IN ALL SEGMENTS

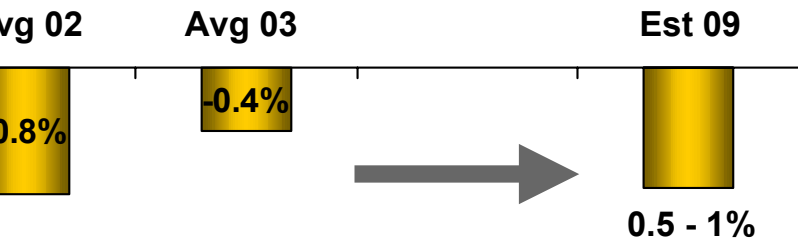
Corporate / Commercial Loan Spread Over SBI



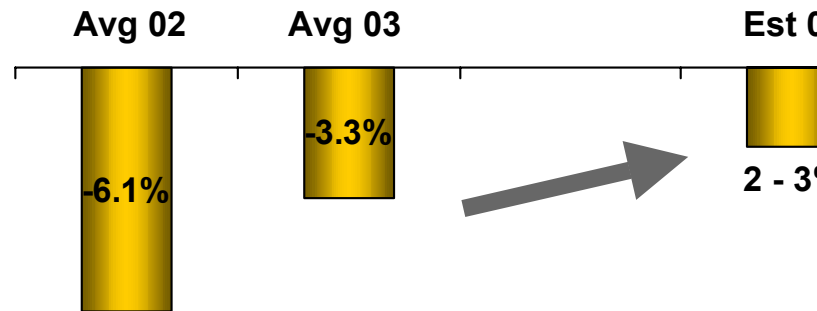
Consumer Loan Spread Over SBI



Time Deposit (1 Month) Over SBI

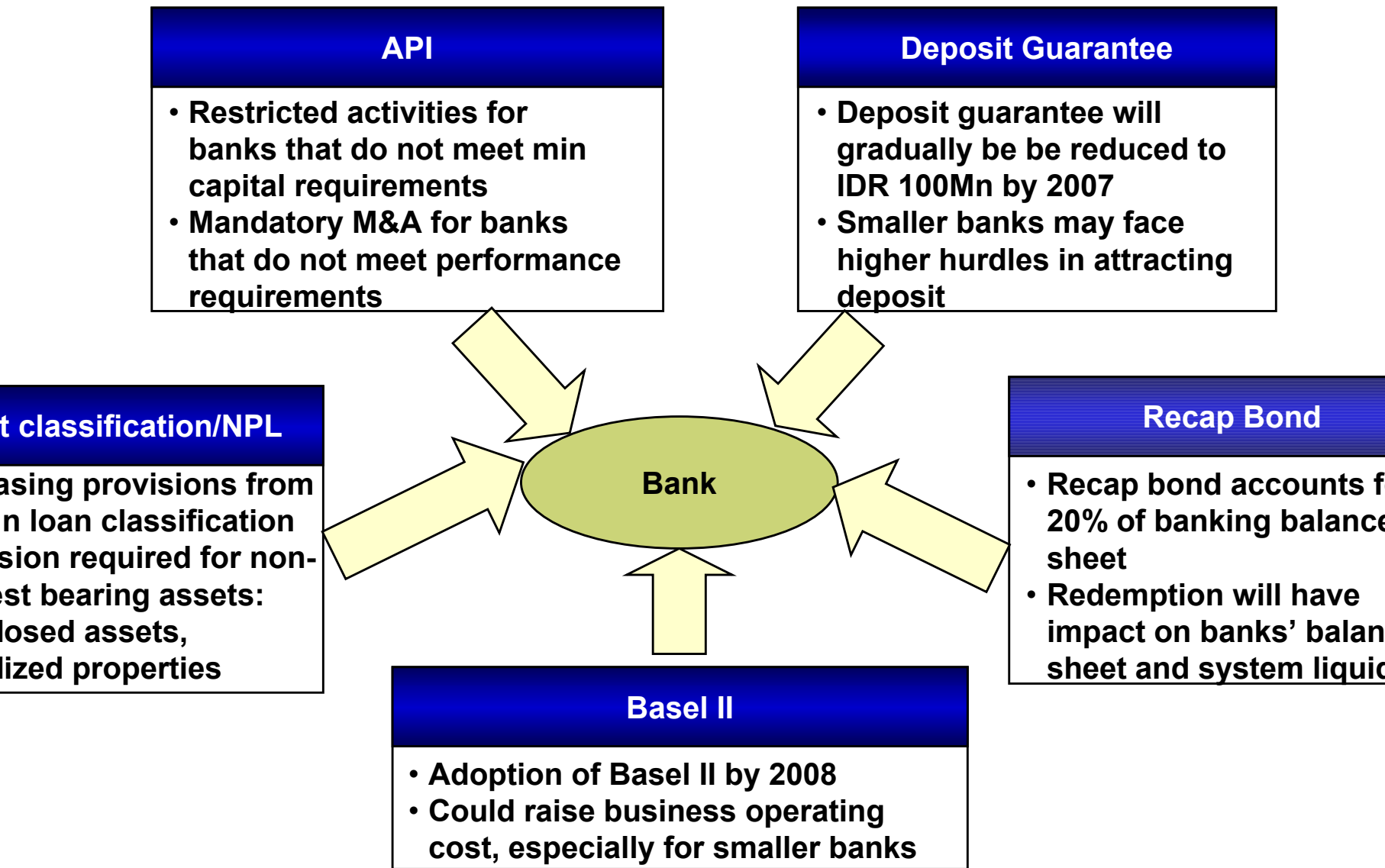


Savings Over SBI

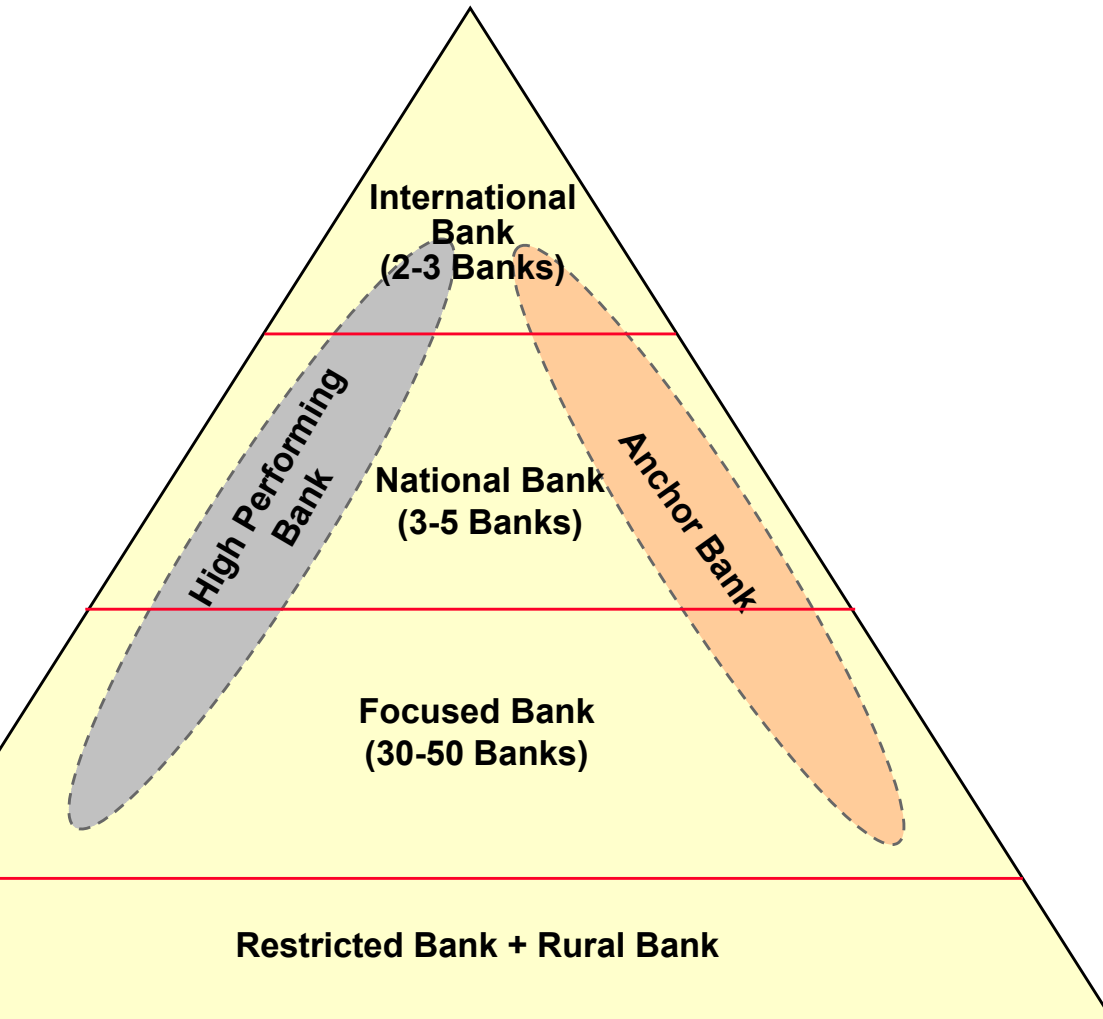


Increasing emphasis on loan quality and operating expenses to safeguard net profit levels

# REGULATIONS / GOVERNMENT ACTIONS IMPACTING BANKING LANDSCAPE



# STRATEGIC INTENT IS TO CONSOLIDATE BANKING SECTOR FURTHER



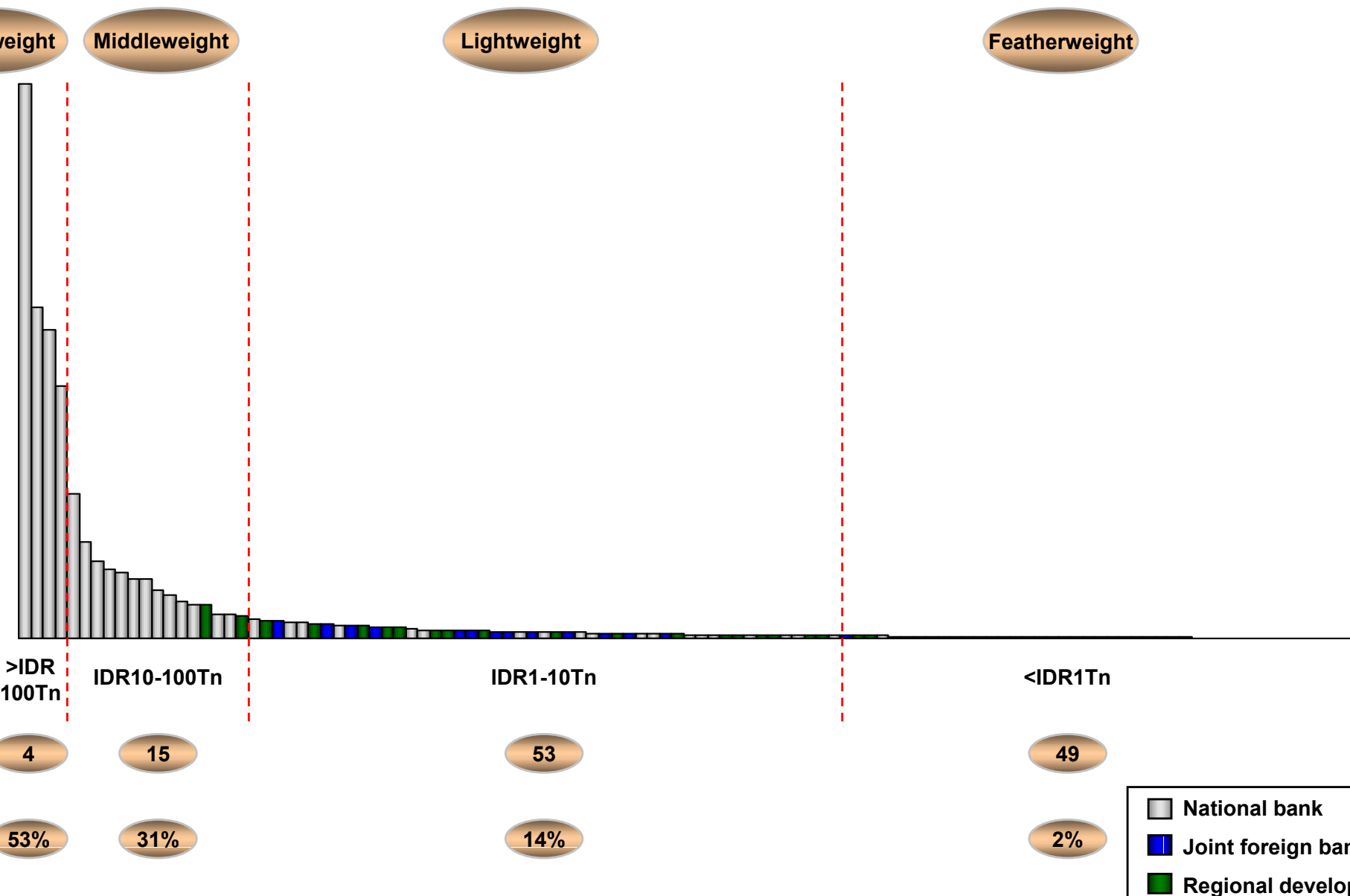
- Min. capital >IDR50Tn
- Capacity to operate on international scale

- Capital requirement: IDR10-50Tn
- Offers wide range of business and national coverage

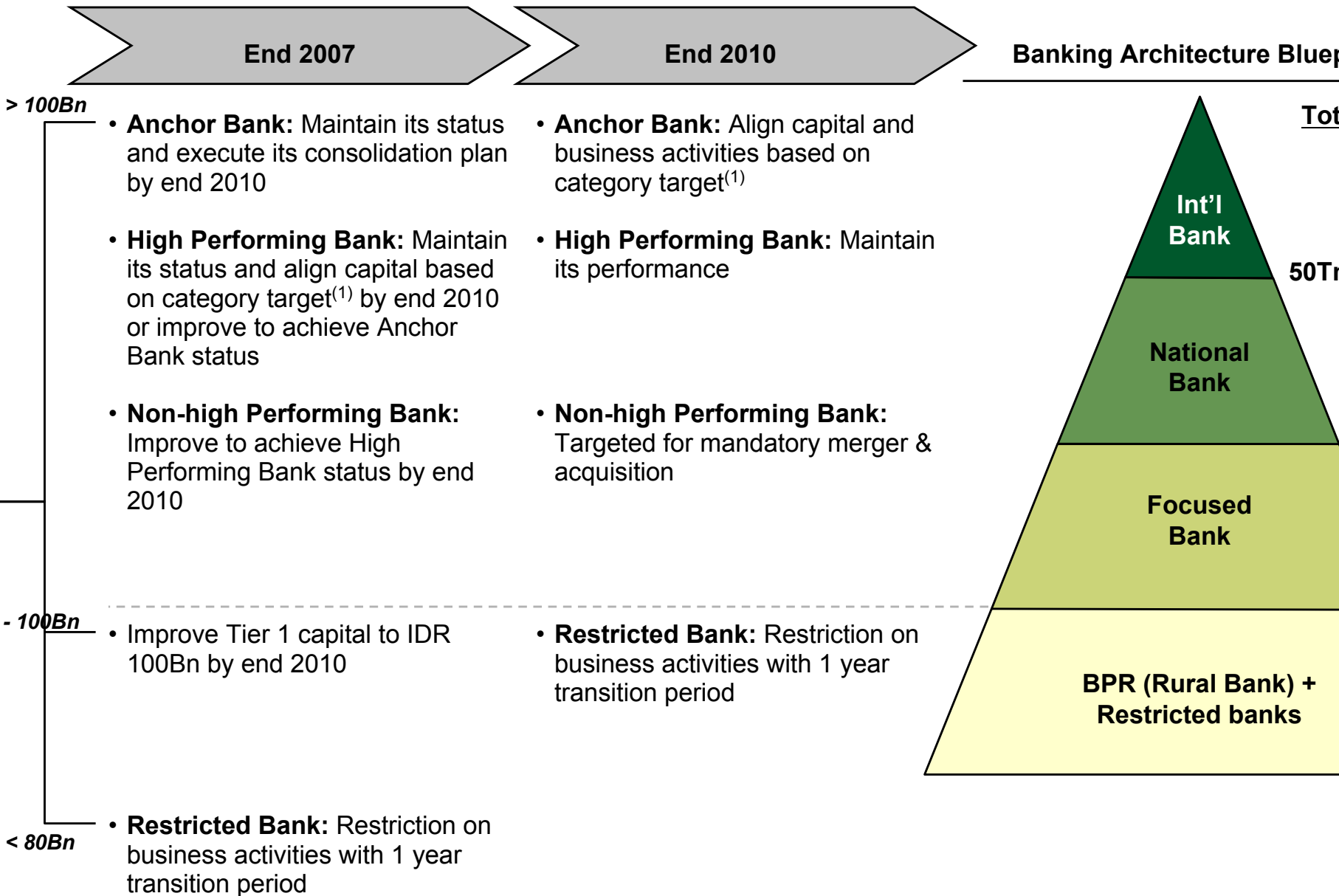
- Capital requirement: IDR100Bn-10Tn
- Focus on particular business or customer segments, e.g. retail, corporate, regional

- Banks with capital <IDR100Bn
- Limited business activities and territorial coverage

# CHALLENGE FOR INDONESIAN BANKING SECTOR: CONSOLIDATION OF SMALL B



# ENDGAME FOR 2010



# MARKET WILL BE BIGGER, RICHER AND TOUGHER IN 2010

## “Lending market”

- Traditional banking market is expected to more than double by 2010
- Establishment of credit bureau will facilitate credit market growth
- Capital market products will become more important at the expense of traditional banking products

## “Product offerings”

- Product offerings will be richer, more segment-specific, and more innovative in terms of features and pricing
- Alternative distribution – e.g. low cost branch, direct sales, Internet banking etc – will become more important
- New business and operating models – e.g. shared services, non-traditional partnership/alliance etc – will emerge

## “Market competition”

- Competitive landscape will shift: the big gets bigger, small margin players exit, new faces emerge, the middle one gets squeezed
- Customers become more demanding with more choices and increasing sophistication
- Banks need to pull many more levers to make money