

Discussion Material



"Where is the ASEAN Economic Community heading?"



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AGENDA



01

AEC IMPLEMENTATION, ITS IMPACT TO INDONESIA AND OPPORTUNITIES AHEAD



02

INDONESIA'S CHALLENGE STRATEGY TO SUPPORT AEC



03

BANK MANDIRI INITIATIVE STRATEGIES TO GAIN BENEFIT FROM AEC





- ASEAN Economic Community (AEC), started implemented in 31 December 2015, agreed on several key sector: trade and investment, people and community and infrastructure.
- Impact on Indonesia will be in the form of: (i) Greater market for Indonesian products and e-commerce; (ii) More opportunities to become global production network; (iii) Greater market for domestic tourism sector; (iv) Greater job opportunities in ASEAN countries; (v) Greater direct investment flows especially in the areas of the construction.
- Impact on Indonesia is translated to higher direct ASEAN investment share to Indonesia that reached 31.3% of total direct investment (vs 30% of total in 2011) and higher potential e-commerce market. In 2014, the rate of internet subscription reached 28.6 per 100 inhabitants or more than doubled from 11.8 per 100 inhabitants in 2007.
- In terms of trade transaction, Indonesia's total trade increase significant to ASEAN countries. Its export jumped by USD12bn to ASEAN in the last five years. However, in terms of trade balance. Indonesia's trade was still posted at deficit to Malaysia, Singapore, Thailand, and Vietnam in 2014 and 2015.
- ASEAN economies has huge potential to grow as IMF forecasted the 10 ASEAN countries will grow by 5.5% on average from 2015 – 2020. Vietnam, Myanmar, Laos and Cambodia will be the countries with average growth of between 7% - 9% (due to low base and huge economic gap). In terms of the market, ASEAN population is predicted to reach 669.5mn in 2020 (vs currently at around 625 mn), the third largest market in the world after China and India. In terms of Middle Income and Affluent Consumers, The BCG projected that the number will increase by 111mn people from 2013 to 2020, most of the incremental are coming from Indonesia which will increase by 60mn people.

The implications of AEC to Indonesia and other ASEAN countries

	Key Points	For ASEAN	For INDONESIA
Trade & Investment	More liberalized market	Intra-ASEAN import tariffs have been eliminated and formal restrictions in services sector gradually removed	<u>Opportunities:</u> <ul style="list-style-type: none"> Greater market for Indonesian products and e-commerce. From 250mn of Indonesian population to more than 625mn ASEAN population. More opportunities to become global production network, especially for electronics, automotives, and consumer products. Greater market for domestic tourism sector. As of 2014, ASEAN tourists to Indonesia reached 3.8mn (vs 3.4mn in 2012) <u>Challenges:</u> <ul style="list-style-type: none"> Availability and quality of infrastructure is still lacking thus affecting the smooth flow of goods and services. Indonesia's rank in GCI 2015 is 37 (vs 18 for Malaysia and 32 for Thailand) The industrial sector is fragile due to its dependence on imported raw materials and semi-finished products. In 2014, Pharmaceutical products jumped to USD710mn (vs 172mn in 2004) while cotton import jumped to USD2,5bn (vs 843mn at the same period)
	Reduced trade costs	Cross-border trading processes have been simplified, including in customs procedures and rules of origin, technical regulations and mutual recognition arrangements	
	Free trade and comprehensive economic partnership agreements	More opportunities to expand their reach in the external markets, and strengthen their role in regional and global value chains	
	Improved investment regimes	Become a more attractive investment destination for international and domestic investors	
People & Community	Enhanced mobility of skilled people	Cross-border movement of skilled people and professionals has been facilitated	<u>Opportunities:</u> <ul style="list-style-type: none"> Greater job opportunities in ASEAN countries especially in 'less developed' ASEAN countries, such as Myanmar, Laos, Timor Leste and Cambodia <u>Challenges:</u> <ul style="list-style-type: none"> Quality of education remains low for labor. As per 2015, Indonesia's HDI reached 0.684 (vs Malaysia's 0.773 and Thailand's 0.772)
	A business-friendly and innovation-supportive environment	Achieved through the adoption of common frameworks, standards and mutual cooperation in various areas	
Infrastructure	Physical improvements in transportation and other infrastructure networks	Facilitated cross-border transportation and contributed to the reduction of overall costs of doing business	<u>Opportunities:</u> <p>Greater direct investment flows especially in the areas of the construction of highways, ports, power generation, and railways. In 2015, direct investment from ASEAN reached 31.3% (vs 30% in 2011)</p> <u>Challenges:</u> <p>Some delays on Gov't spending give disincentive for foreign investors</p>

The establishment of AEC brings about opportunities in the form of a huge market worth over USD2.5 trillion

ASEAN | Economy

Highly competitive region

The **7th largest in the world** and
The **3rd largest in Asia**

ASEAN
GDP

USD2.6 tn

Between 2007 and 2014,
ASEAN GDP nearly
doubled,
while current GDP per
capita increased by
76%

USD1.3 tn



2007

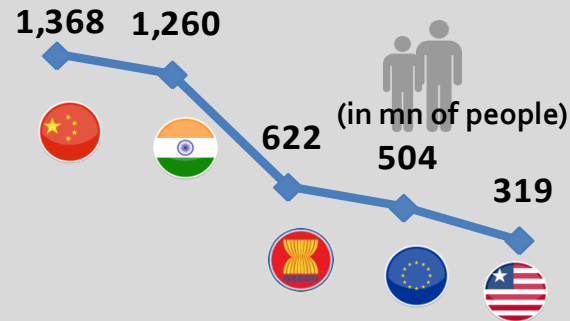


2014

ASEAN | Population

Fully integrated community

in 2014, ASEAN was
the **3rd largest market in the world**,
behind only China and India



ASEAN | Trade

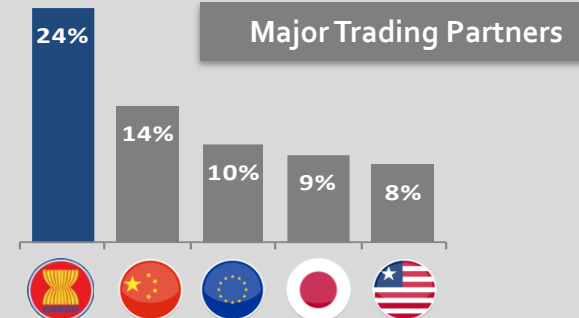
More integrated market

Total trade increased by nearly **USD1 tn**
between 2007 and 2014, with **intra-ASEAN**
trade comprising the **largest share of ASEAN's**
total trade by partner

Total
ASEAN
Trade

**USD1.6
tn**
2007

**USD2.5
tn**
2014



ASEAN | Investment

Promised investment destination

ASEAN attracted **USD136 bn** in FDI in 2014,
accounting for **11%** of global FDI inflows, up
from only **5%** in 2007

Total
FDI
Inflows

**USD85
bn**
2007

**USD136
bn**
2014

ASEAN | Connectivity

More connected community

Annual tourist arrival were up from **62
million** in 2007 to **105 million** in 2014,
almost half of which were **intra-ASEAN**

The rate of internet subscription **more than
doubled** from **11.8 per 100 inhabitants** in
2007 to **28.6** in 2014

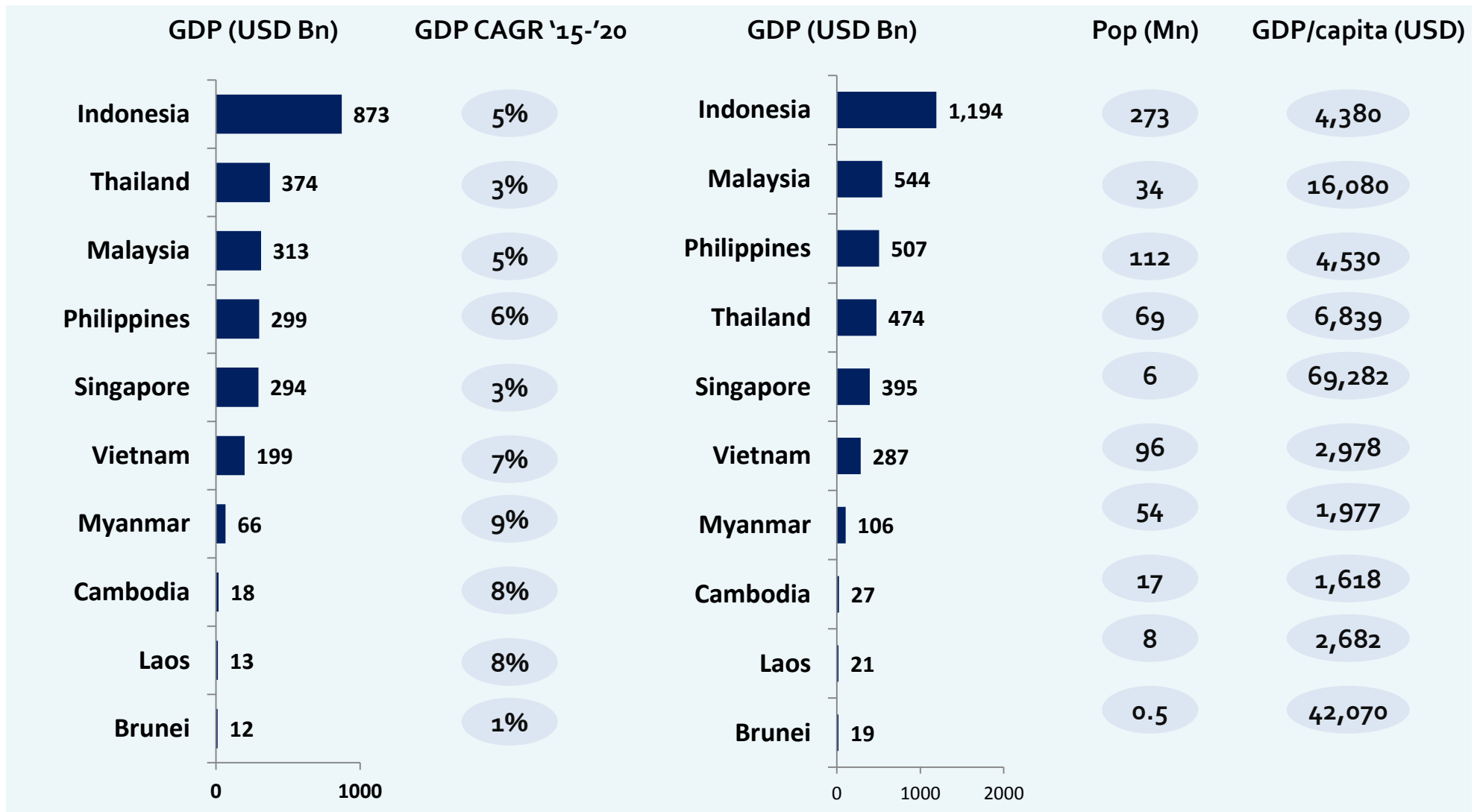


Annual tourist arrivals were up from
62 mn in 2007 to **105 mn** in 2014,
almost half of which were **intra-ASEAN**

ASEAN countries will grow fast prior to 2020 with average growth of 5.5% for ASEAN 5 and 8% for LMVC

2015

2020



Source : IMF and EIU.

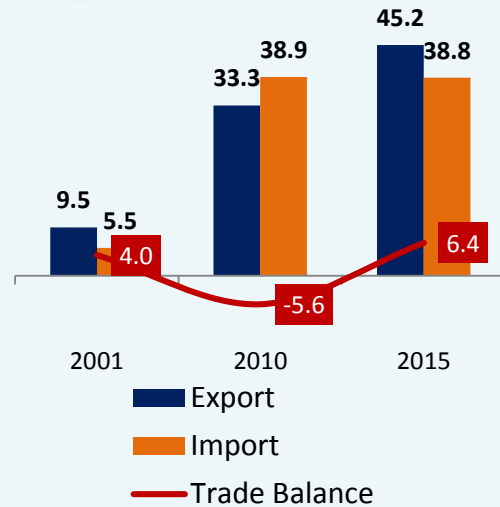
Note: ASEAN 5: Indonesia, Thailand, Malaysia, Philippines, and Singapore. LMVC: Laos, Myanmar, Vietnam and Cambodia)

Bilateral trade between Indonesia and ASEAN countries had increased significantly, but Indonesia mostly had trade deficit, except to The Philippines

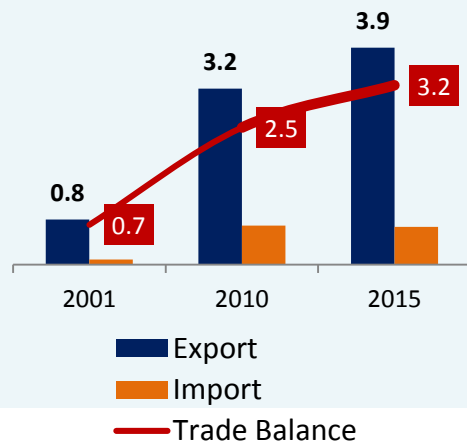


Total ASEAN

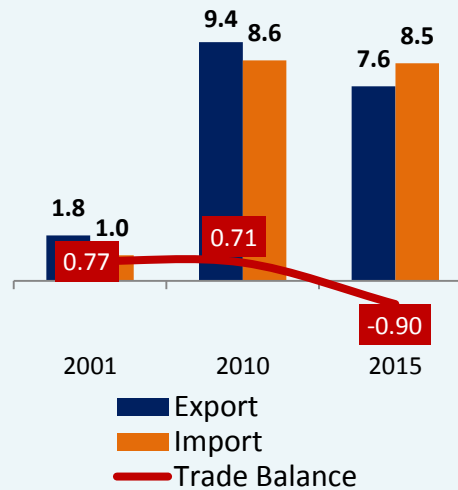
In USDbn



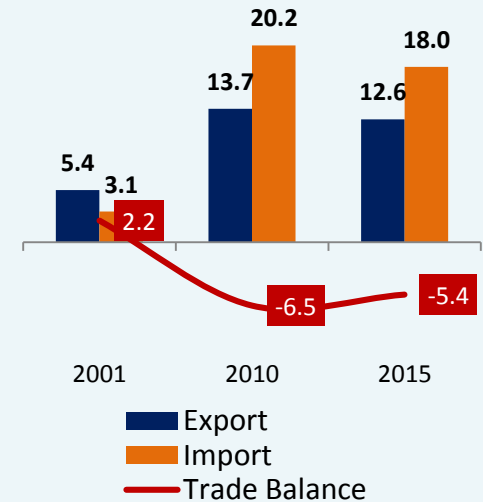
Philippines



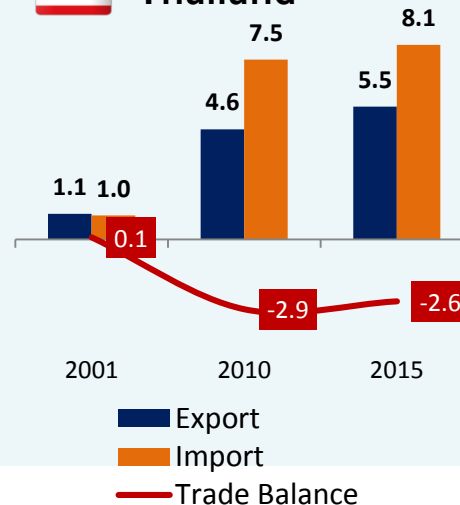
Malaysia



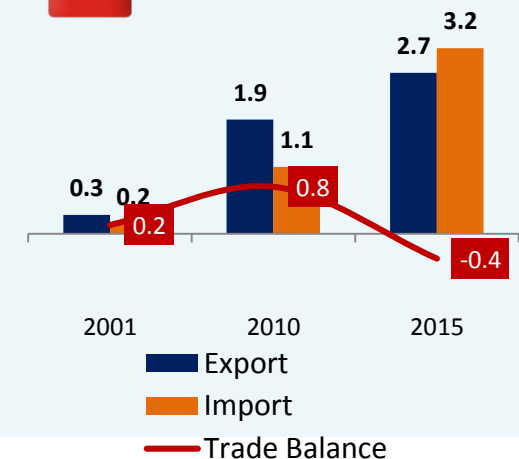
Singapore



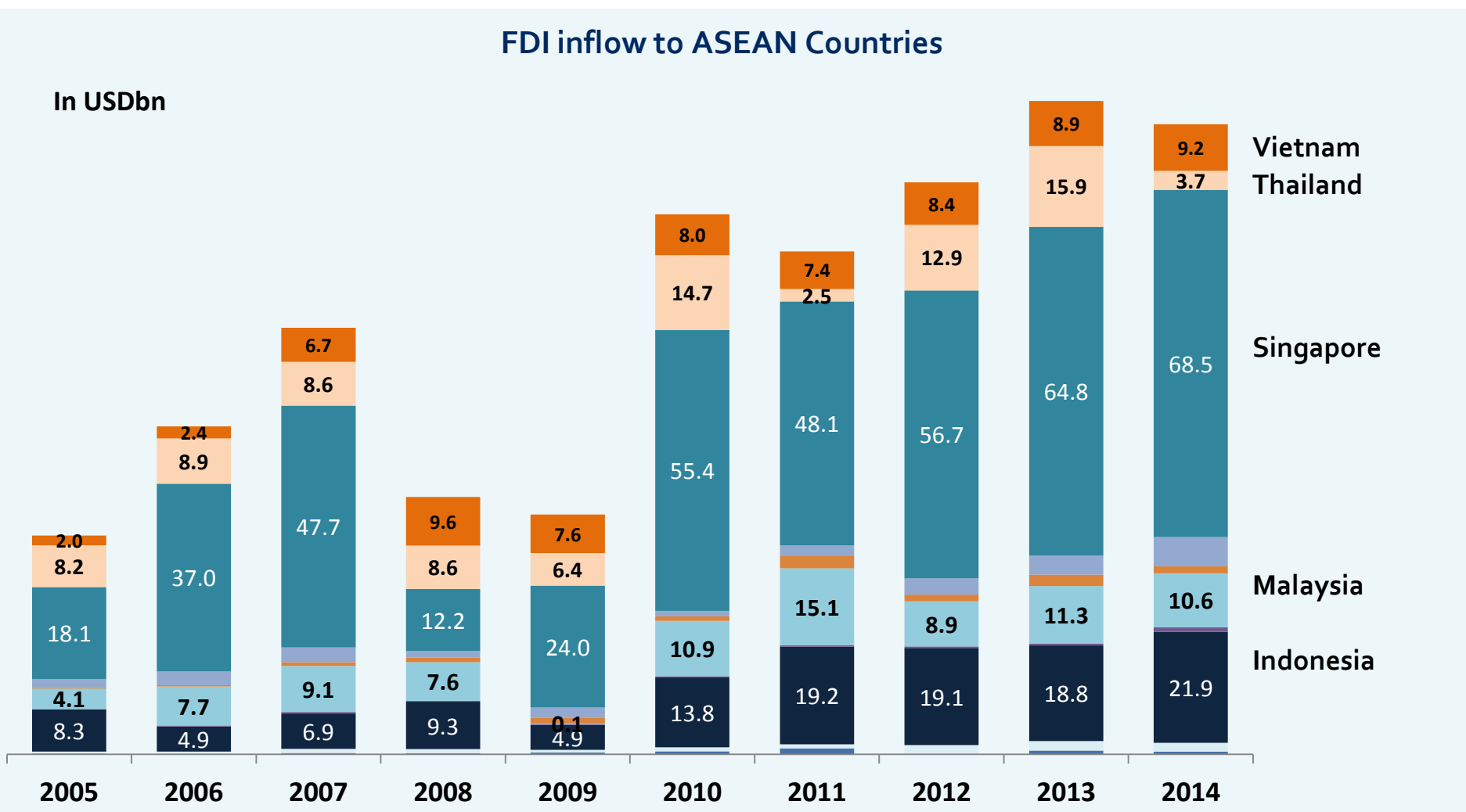
Thailand



Vietnam



Indonesia's FDI grew significantly in the last five years. Implementation of AEC should support FDI inflow to Indonesia



Source : CEIC

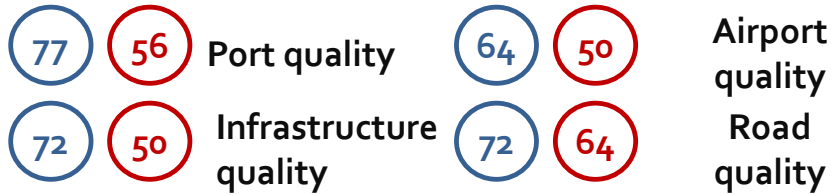


- Indonesia still has challenges in promoting the AEC, mainly from Infrastructure quality, logistic performances and labor quality. In 2015, Indonesia's infrastructure quality was ranked at 72 (vs ASEAN average rank of 50), port quality was ranked at 77 (vs ASEAN average rank of 56). In terms of logistic performance, Indonesia's logistic cost ratio to GDP reached 27% of even higher than its peers in ASEAN.
- In terms of labor market, Indonesia's labor quality is still lagged behind other countries. Its Human Development Index is ranked at 121 out of 186. This becomes more complicated when other countries conducted protection from foreign workers (certain regulations limit the hiring of foreign skilled labor). In Malaysia for example, employers will be required to prove that local citizens are not available in order to hire a foreign worker. In Singapore, they will need to advertise the job vacancy for at least 14 days on a government portal. The favorable on local talent will drive an initiative of integrated ASEAN pool talent.
- The government strategy to improve the AEC are categorized in two initiatives: (i) improving the infrastructure quality and (ii) improving the quality of labor quality. One of the initiatives is to establish the Special Economic Zone in two locations: Tanjung Lesung, Banten and Sei Mangkei, North Sumatera

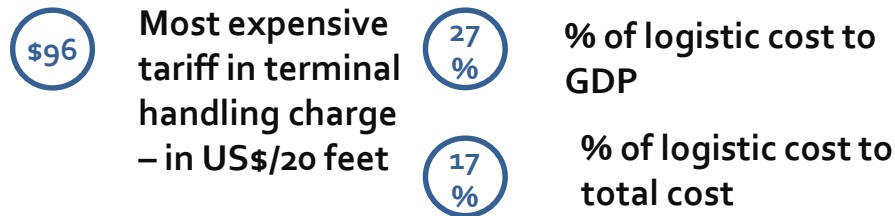


Several obstacles in Indonesia to support AEC and Initiatives to improve the AEC implementation

Indonesian infrastructure rank in Global Competitiveness Index 2014-2015



Indonesia ranked 53 out of 160 countries in logistic performance index 2014



Indonesia has large amount of productive labor but still have low quality and productivity of human resources

121 Human development index (HDI) Indonesia ranked 121 out of 186

40.8% Productive labor reached 40% of total population

 Rank Indonesia  Rank average ASEAN

Indonesia's initiative strategies to improve AEC

Improving Business Climate

- Accelerate of development of infrastructure
- Establishment of Special Economic Zone in two locations: Tanjung Lesung, Banten and Sei Mangkei, North Sumatera
- Eliminate overlapping regulations between central and regional government
- Reduce time for business approval
- Reduce logistic cost
- Eliminate double taxation on infrastructure investments
- Improve the effectiveness and efficiency of public Institutions

Improving Labor Quality

- Improve the quality of education system
- Promote higher education and training for productive labor



- Indonesian banks are not as aggressive as banks from other ASEAN countries, especially Singapore, Malaysia and Thailand. This is because of Indonesia has the biggest potential market to grow compares to other ASEAN countries and also several restrictions in many ASEAN countries.
- However, Indonesian banks, still need to see opportunity in other ASEAN countries and consider lucrative sectors that are growing quite robust in the region in the past few years. Indonesian banks can also be represented by certain segment(s) – not always a full brach - or subsidiaries that focus on each sector (e.g. automotive, construction, etc)
- Based on BCG data, there are few countries that have very good prospect according to market attractiveness, accessibility and openness, which are Vietnam and Myanmar. However, not all segment can be penetrated in Myanmar and Vietnam. For example, banks do not appear to have attractive opportunity in Corporate, SME and retail segment, in Vietnam because of the domination of 4 SOE banks, high NPL and poor data quality. In Vietnam, there is an opportunity for NBFi in consumer and cash loans. While in Myanmar, foreign banks are not allowed to enter SME and retail segment but there is consideration to open branch for long term presence. In Myanmar, there is an opportunity for NBFi in consumer durables sector and cash loans.
- Base on our calculation, most ASEAN countries, construction is the highest growth sector. This can be opportunity for Indonesian banks to support financing for Indonesian construction company that expands to ASEAN countries.
- As for Bank Mandiri, it will explore ASEAN financial sector (non-existing) with the consideration of market attractiveness, under penetrated market, suitability of capability/expertise and feasibility of regulatory framework . Furthermore, existing BMSG will be as Financial Hub for Mandiri Group in ASEAN.








Indonesian Banks are less aggressive in ASEAN due to domestic huge market. Going forward, they need to consider open some business in other potential markets

The Top 20 ASEAN Banks have regional footprints and significant asset, 2014 (USD mn)

Bank	Headquarter	Net Income	Total Assets	Market Capitalization	Cash or near cash holding	Selected host country
DBS Group	Singapore	3,194	332,653	38,447	14,733	Indonesia
Oversea-Chinese Banking Corp.	Singapore	3,033	302,881	31,457	19,109	Brunei D., Indonesia, Malaysia
United Overseas Bank	Singapore	2,565	231,551	29,678	26,484	Indonesia, Malaysia, Philippines, Thailand
Malayan Banking	Malaysia	2,053	182,864	24,405	18,858	Indonesia, Philippines, Singapore, Cambodia
CIMB Group	Malaysia	950	118,280	13,376	10,332	Brunei D., Indonesia, Singapore, Cambodia, Myanmar, Thailand, Viet Nam
Public Bank	Malaysia	1,381	98,735	20,181	3,220	Cambodia, Lao PDR, Viet Nam
Bangkok Bank	Thailand	1,119	83,862	11,252	1,822	Cambodia, Lao PDR, Viet Nam, Indonesia, Malaysia, Myanmar, Philippines, Singapore
Krung Thai Bank	Thailand	1,022	83,238	9,640	2,269	Lao PDR, Myanmar, Singapore
Siam Commercial Bank	Thailand	1,642	82,033	18,771	1,282	Lao PDR, Myanmar, Singapore, Cambodia, Viet Nam
Kasikorn Bank	Thailand	1,421	72,596	16,653	1,764	Lao PDR, Myanmar, Viet Nam
Bank Mandiri	Indonesia	1,676	68,788	20,227	5,746	Malaysia, Singapore
Bank Rakyat Indonesia	Indonesia	2,045	64,518	23,121	5,935	Singapore
RHB Capital	Malaysia	623	62,646	5,598	6,185	Brunei D., Indonesia, Singapore, Cambodia, Myanmar, Thailand, Viet Nam, Lao PDR
Hong Leong Financial Group	Malaysia	526	59,256	5,268		Cambodia, Singapore, Viet Nam
Hong Leong Bank	Malaysia	648	53,079	7,735		Cambodia, Singapore, Viet Nam
Bank Central Asia	Indonesia	1,391	44,443	26,034	4,710	Singapore
BDO Unibank	Philippines	514	41,655	8,788	6,951	Singapore
AMMB Holdings	Malaysia	557	40,643	6,646	3,771	Indonesia
Metropolitan Bank and Trust	Philippines	453	35,864	5,092	5,594	Singapore
Bank Negara Indonesia	Indonesia	910	33,514	9,152	2,904	Singapore
Total		27,723	2,093,099	331,521	141,669	

Source: UNCTAD, Bloomberg, ASEAN secretariat (ASEAN Investment report, December 2015)

Vietnam and Myanmar are the potential new market for Indonesian banks due to its highest rate in attractiveness and accessibility

		Market attractiveness			Market accessibility		
		Asset size (USD Bn)	Loan/GDP (%)	GDP growth (%)	Competitiveness level	Regulation restriction	Digitization
	SG	811	141%	3%	High	?	High
	MY	721	124%	5%	Mid	Open	Mid
	TH	488	75%	3%	High	Close	Low
	ID	401	38%	5%	Mid	Open	Mid
	PH	234	38%	6%	Mid	Open	Low
	VN	218	55%	7%	Mid	Close	Mid
	MM	29	13%	9%	Low	Open	Low

Based on sector, Construction is the highest growth sector in most ASEAN countries. Banks's support for Indonesian construction companies are needed

Potential Sector in Selected ASEAN Countries

Country	Singapore	Malaysia	Thailand	Philippines	Viet Nam
Top 5 Sector with Highest Growth (annual GDP Growth in 2015)	Ownership of Dwellings (5.0%)	Construction (8.2%)	Construction (15.8%)	Construction (8.8%)	Electricity & Gas (7.5%)
	Services Producing Industries (3.4%)	Services (5.1%)	Hotels & Restaurants (14.0%)	Services (6.7%)	Construction (7.3%)
	Construction (2.5%)	Manufacturing (4.9%)	Transport, Storage & Communication (7.4%)	Manufacturing (5.7%)	Forestry (7.2%)
	Utilities (1.2%)	Mining & Quarrying (4.7%)	Financial Intermediation (7.2%)	Electricity, Gas, & Water Supply (4.8%)	Mining & Quarrying (5.3%)
	Goods Producing Industries (-3.4%)	Agriculture, Forestry & Fishing (1.0%)	Other Community, Social & Personal Service (5.7%)	Agriculture & Forestry (0.6%)	Water Supply & Waste Management (5.1%)

Bank Mandiri Expansion of Existing Regional Business (1/2)

Overseas offices need to transform and sharpening strategy to support achievement of Vision to be The Best Bank in ASEAN in 2020

Long Terms Goals For Overseas Offices

- ✓ BMSG as Financial Hub for Mandiri Group in ASEAN
- ✓ BMHK as International Trade Hub in ASEAN
- ✓ BMSH as Renmimbi Center for Indonesian businesses
- ✓ BMCI as extension of Bank Mandiri's liquidity management
- ✓ BMEL as Mandiri Group's gateway to UK & European market

Strategic Initiatives

1

Process Enhancement

- Busines Process Improvement and Overseas Branches
- Development & pilot GAM-FAM Coverage model
- Pilot & Roll out international account planning process for Anchor clients

2

Product & Services

- Development of Cross-Border Services
- Development of Local Banking Services
- Development of Investment Solution

Bank Mandiri Expansion of Existing Regional Business (2/2)

Development plan for overseas offices

SINGAPORE



5 New branches

With General Retail & Wealth services– Cash Outlet, Clearing, Issuing check book & debit card



6 ATM

ATM outside branches without following requirement to increase more capital



Opening Saving Account

For individual & corporation in foreign exchange SGD, USD and other currencies according to customer's needs (Indonesian citizen)



Opening Deposit SGD

Current Account & Time Deposit in the name of resident, individual or corporation without limit of minimum amount



Opening of Outlet for remmitances

Using RAOS and Mandiri Money Transfer (USD & SGD), allowing pick-up service, and lisece for money changer

MALAYSIA

Bank Mandiri is trying to get the ease of opening foreign branches, including :

- Flexibility of capital installment of MYR 300 mn in 5 years
- Flexibility to open branches
- Flexibility to install ATM and equality of tariff between local & foreign banks in MEPS membership

Other ASEAN Presence: Several consideration aspects



Description

Exploring the potency of penetration in ASEAN financial service

Consideration Aspects

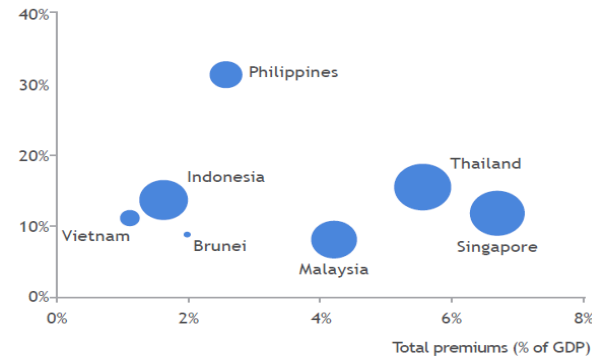


- Market Attractiveness
- Under-penetrated market
- Suitability of Capability /Expertise of Bank Mandiri
- Feasible Regulatory Framework

Example: INSURANCE MARKET

ASEAN insurance market performance

Total Premium Growth, avg 2009-2014



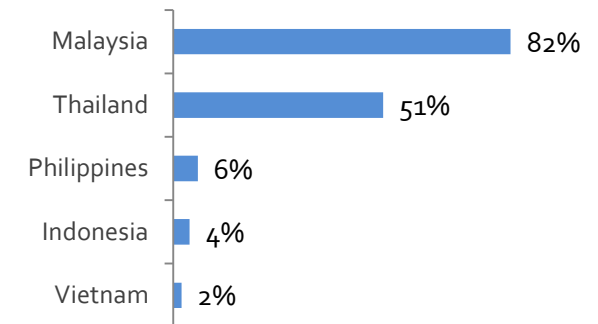
Note: bubble size indicates total premiums (USD bn)

Source: Swiss Re, IMG GC calculation

Example: AUTOMOTIVE MARKET

Share of household who owned vehicle

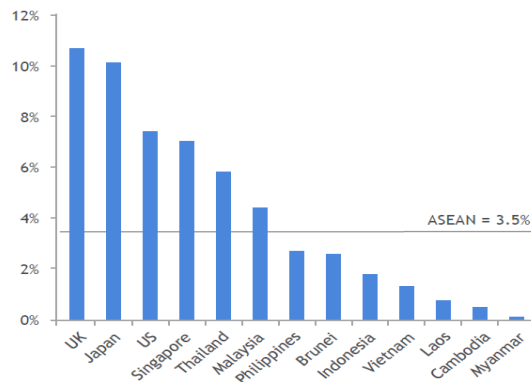
%, 2014



Source: PWC research centre

ASEAN insurance market penetration

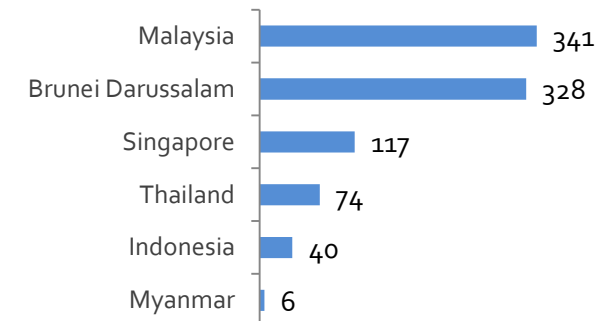
Total Premium (% of GDP), 2014



Source: Swiss Re, IMG GC calculation

Density of Passenger Vehicle (Per 1000 orang)

Unit, 2011



Source: Bloomberg

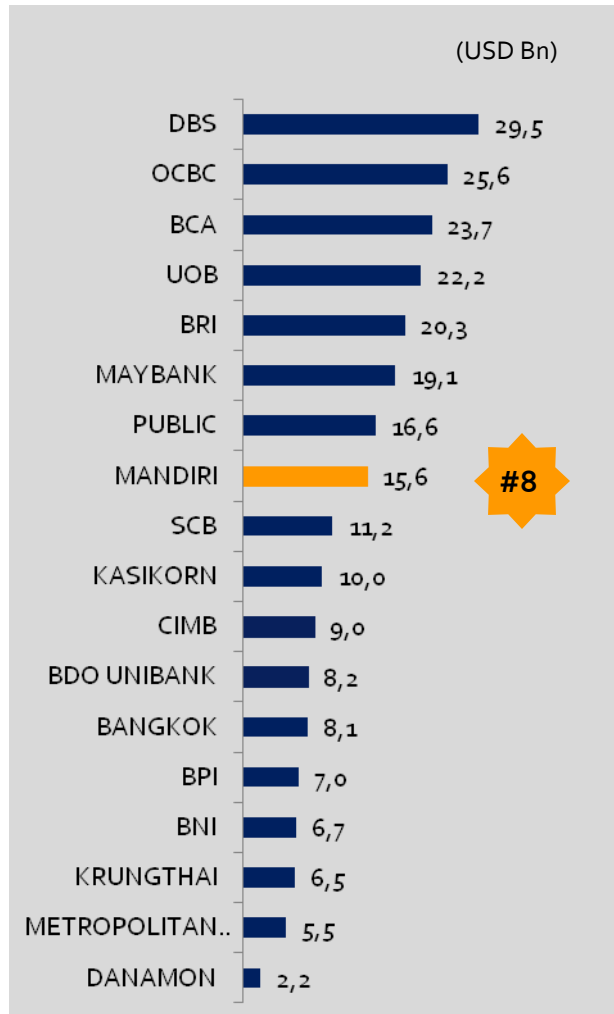
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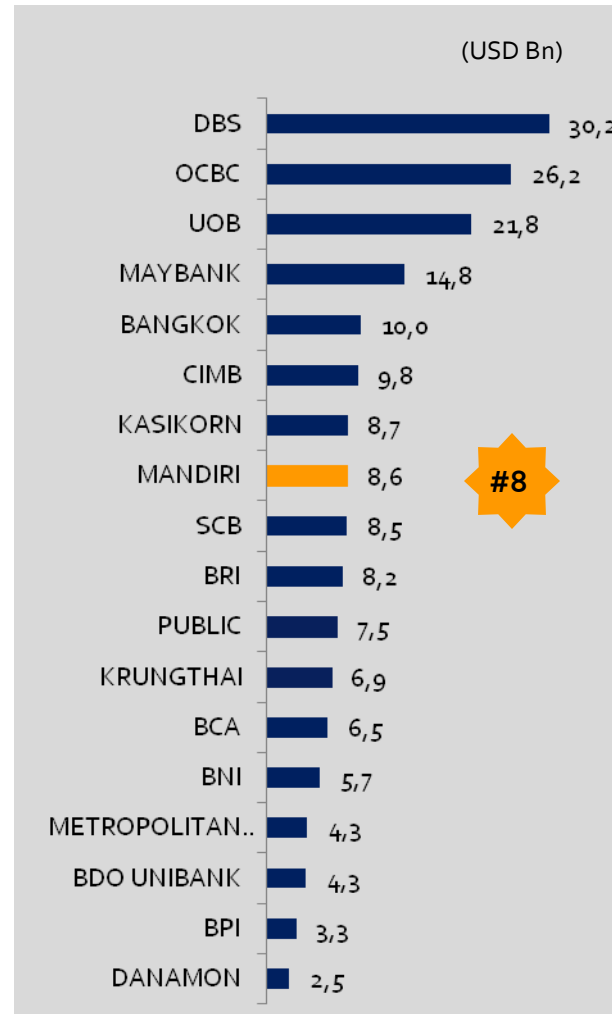
Appendix: Comparison of Bank Mandiri's peers in ASEAN (1/3)

As of 4Q'15

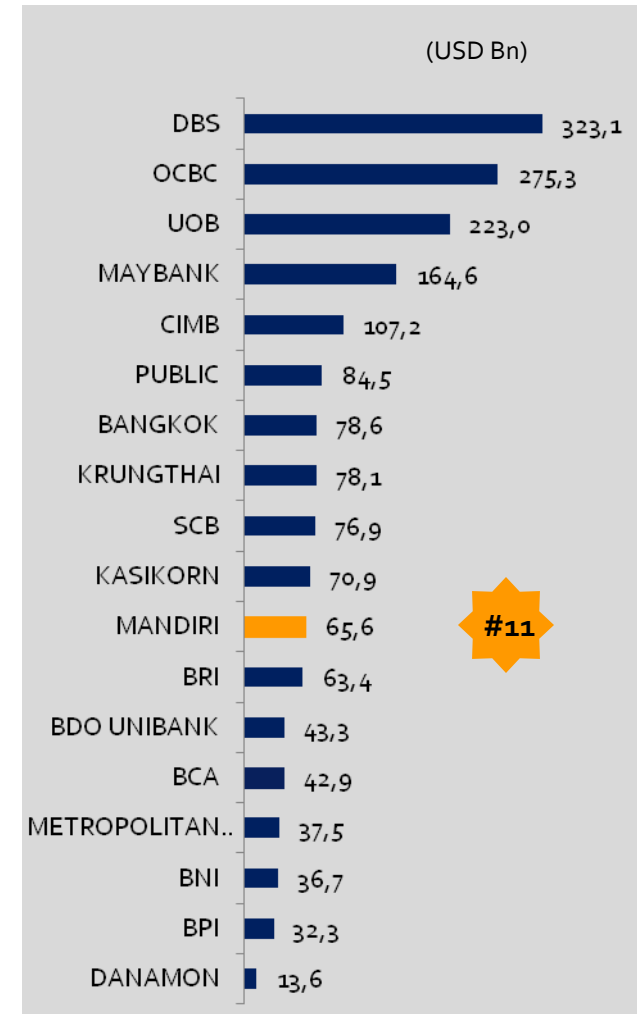
Market Cap



Equity



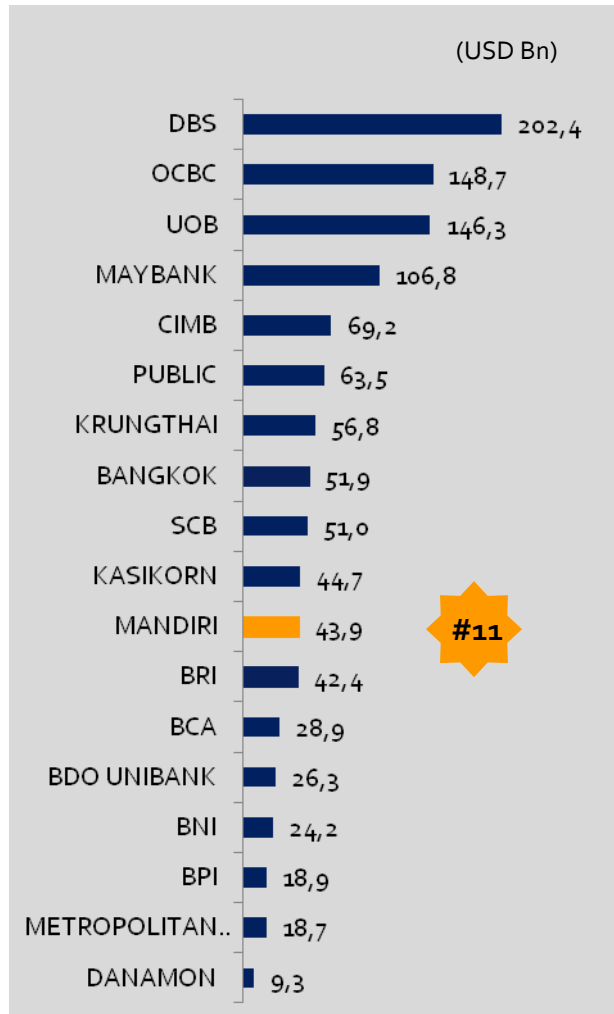
Asset



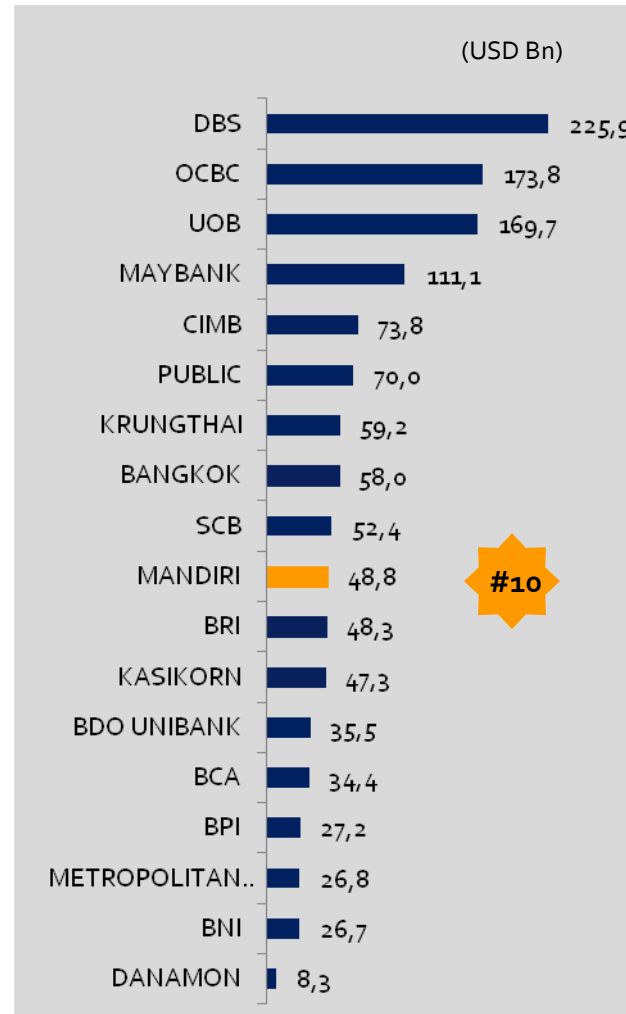
Appendix: Comparison of Bank Mandiri's peers in ASEAN (2/3)

As of 4Q'15

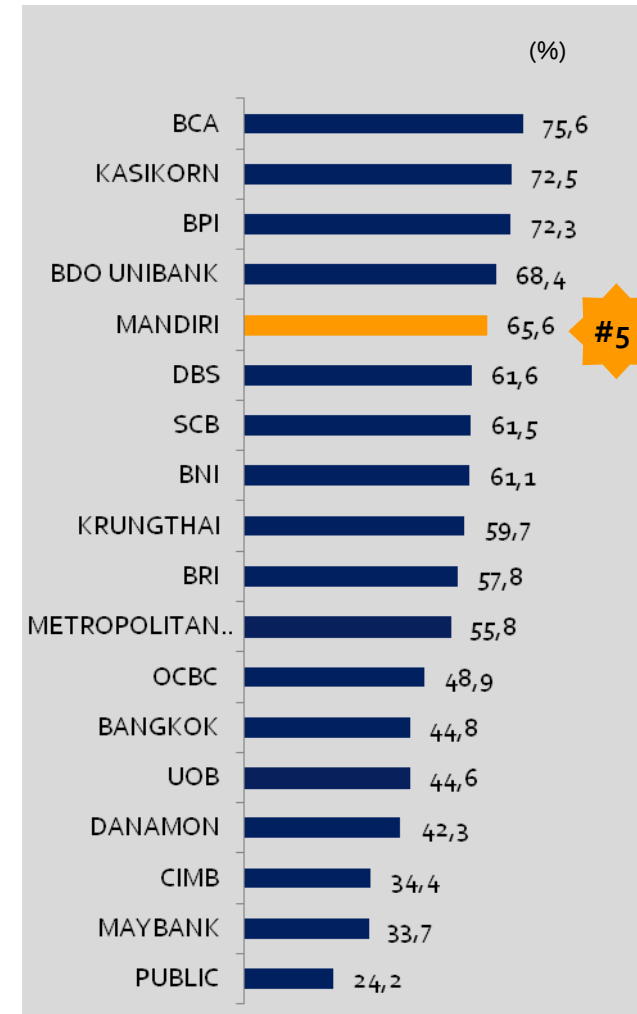
Total Loan



Total Customer Deposit



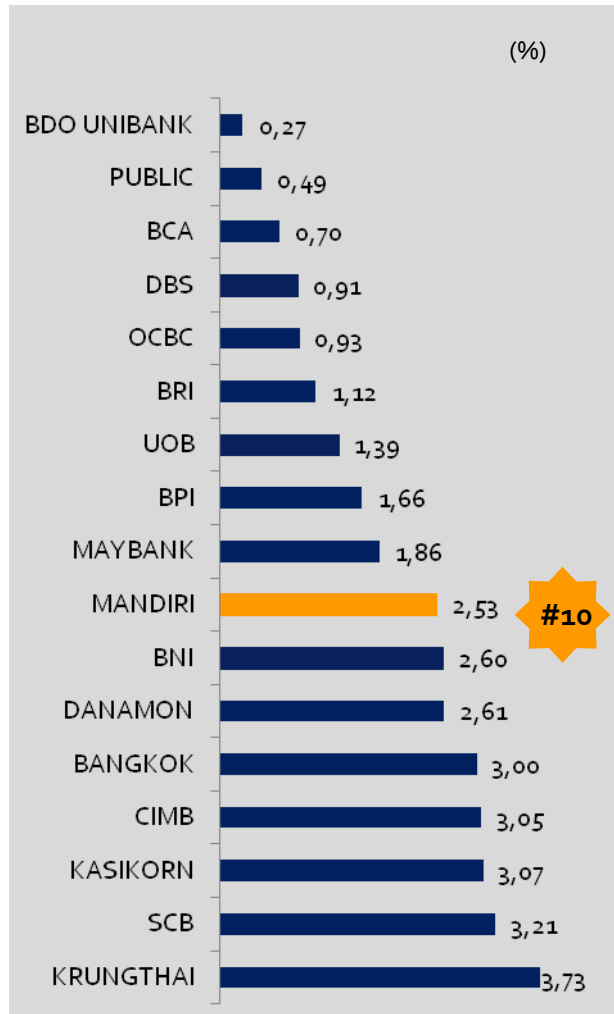
CASA Ratio



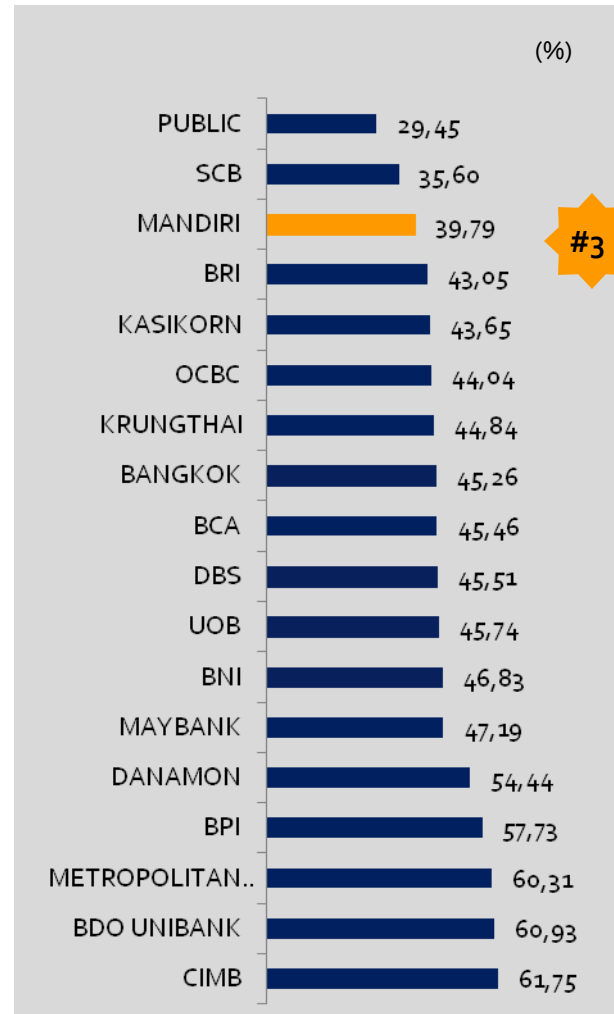
Appendix: Comparison of Bank Mandiri's peers in ASEAN (3/3)

As of 4Q'15

NPL



Efficiency Ratio



Risk Based Capital Ratio

