

Sharia Economy

For Stronger & Sustainable Growth

Liquidity Management

Indonesia Islamic Financial Market Instrument

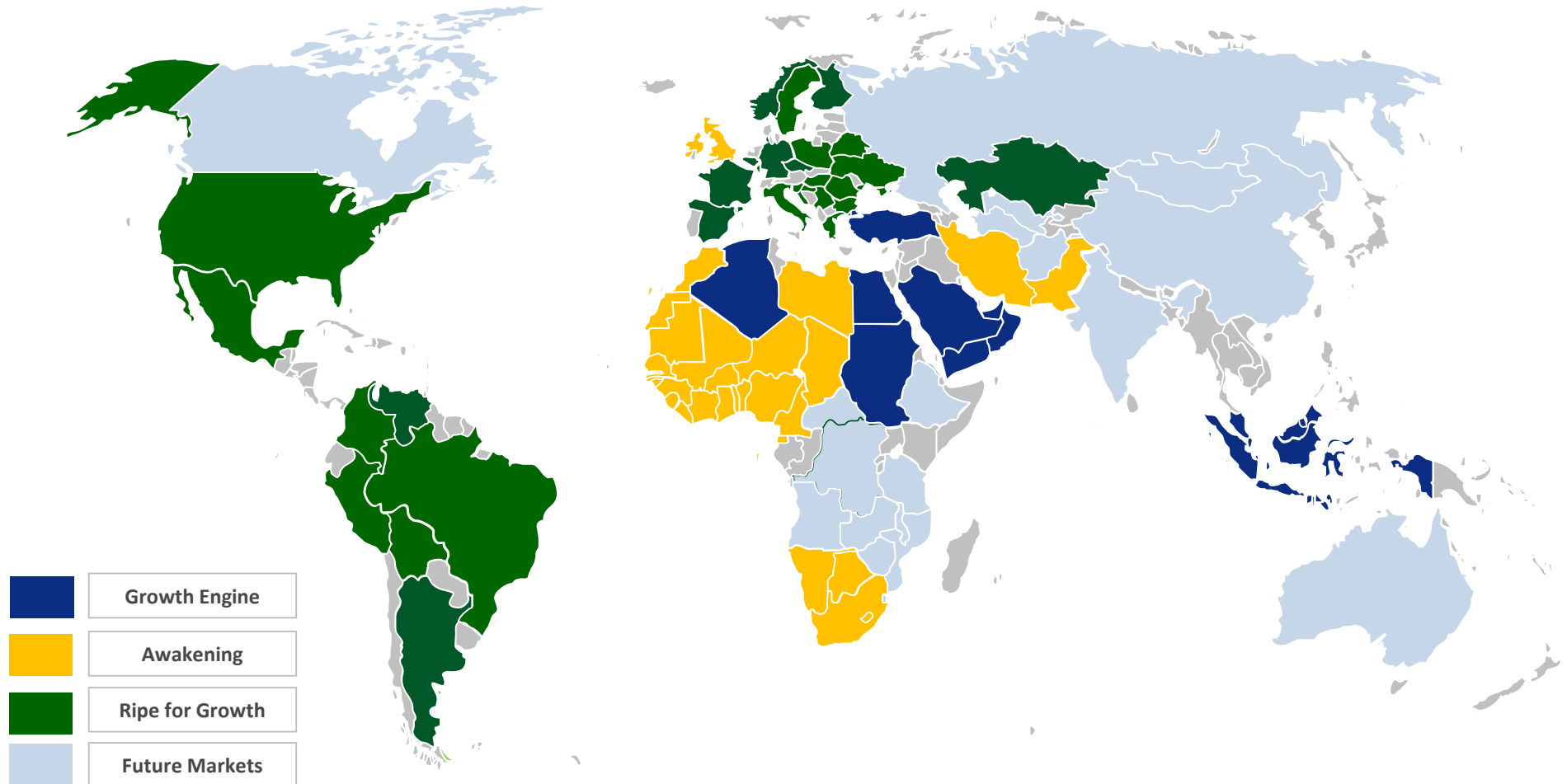


Keynote Speaker

Ade Cahyo Nugroho

Finance, Strategy & Treasury Director of Bank Syariah Mandiri

In All, The Islamic Finance Industry is Developing a Global Reach...



Sharia Introduction - Uniqueness Of Islamic Financial Institution In Indonesia



Starts from community initiatives
initiatives to set up the Islamic financial institutions (IFIs) in Indonesia were mostly coming from communities



Growth of sharia environment industry
- 34 Islamic Banks & windows, 163 Islamic Rural Banks, 49 Takaful, 51 other NBFI;
- Approximately 18 million account;



Retail orientation
The Islamic banking business model generally focusses on the retail segment, including micro, small, medium-scale enterprises and consumers, and lacks varied financing segments, such as corporations and investments,

Sharia Introduction - Potential Sharia Bank Industry In Indonesia

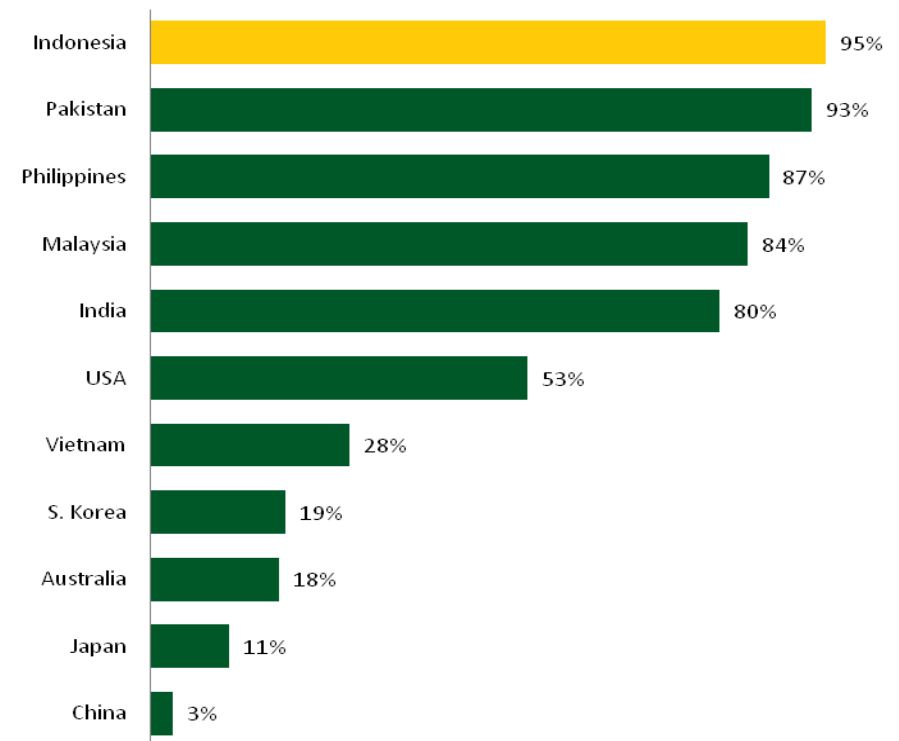
“The low penetration of sharia banks and the numbers of dedicated Muslim shows the huge potential for the development of sharia banks in Indonesia”

The lowest penetration of Sharia banking with the Muslim population by country

Country	Muslim Population (in million)	% of total population	Sharia Banking (% of total Banking Assets)
Indonesia	209.1	87.2%	5.6%
Pakistan	176.2	96.4%	10.4%
India	167.4	14.2%	14.0%
Bangladesh	134.4	90.0%	24.0%
Malaysia	19.9	61.3%	28.2%
Egypt	77.0	94.7%	9.5%
Iran	73.6	99.4%	100.0%

Dedicated Muslim population presents potential benefits to the development of Sharia banking in Indonesia

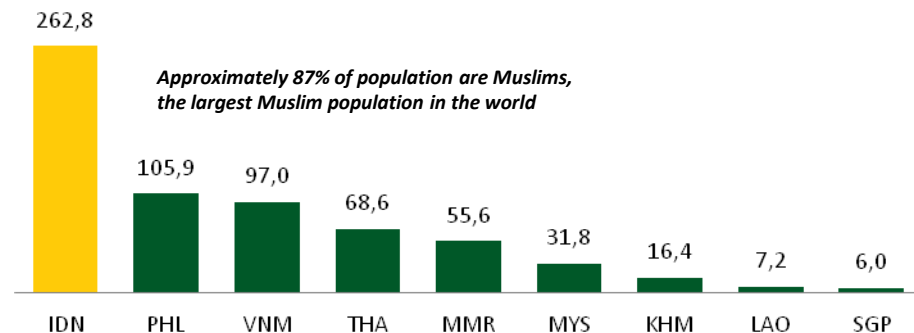
% of the population who believe that religion is priority in life



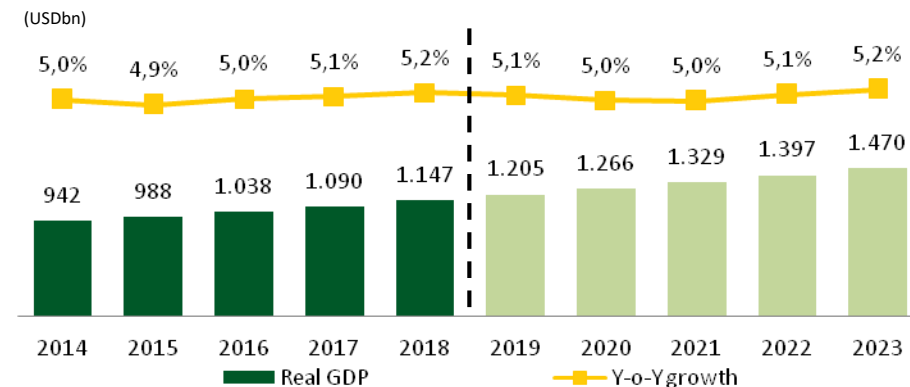
There is material upside in growth potential within Indonesia's Sharia banking market

Sharia Introduction - An Attractive Macro Environment For Banking Industry

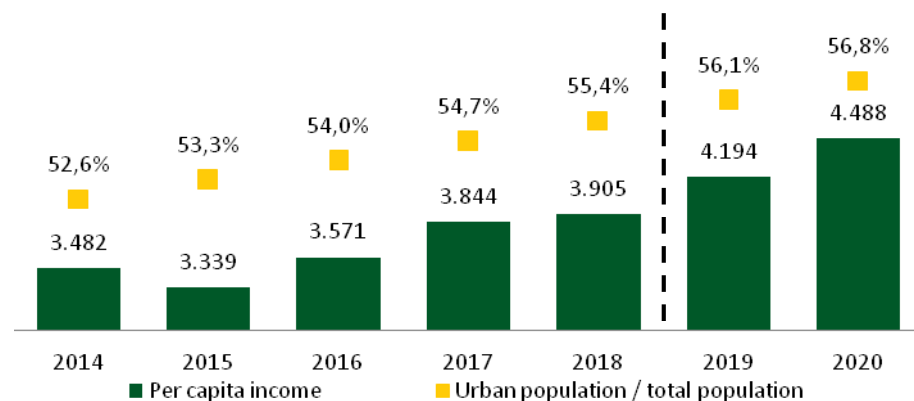
The largest market in Southeast Asia and largest Muslim population in the world (2018E population, mn)



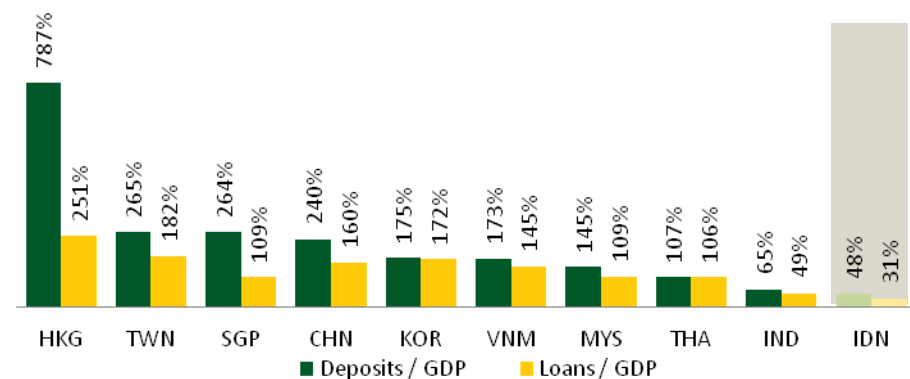
Indonesia has attractive GDP growth



Per capita income (USD) & urbanization (% of population in cities)



Significant room to increase banking penetration



Indonesia is one of the fastest growing economies in Southeast Asia with growing affluence and urbanization, which are major drivers of sector growth in one of the most under-penetrated key Asian banking markets

Sharia Introduction - BSM As Leading Sharia Bank In Indonesia



Indonesia's largest Sharia bank

- The largest Sharia bank by total assets in 2Q2019, with 8.8% YoY growth
- The largest wholesale & retail Sharia financing portfolio⁽¹⁾, which represents 40% and 60% of total financing & receivables, respectively
- Key lender and deposit owners to payroll employees of state-owned enterprises ("SOEs")



Largest physical Sharia distribution network with digital capabilities

- The largest branch network coverage⁽²⁾ among Indonesian Sharia banks with extensive distribution network
- As of 31 December 2018, we have more than 200k ATM⁽³⁾ network spread throughout all provinces
- Strong growth in online platform with close to 250,000 Mandiri Syariah Mobile active users



Majority owned by the largest financial institution in Indonesia

- Strong ties among business units and affiliates within Mandiri group, creating mutual cross-selling opportunities i.e. BSM OTO with MTF, Layanan Syariah Bank with Bank Mandiri, Bancassurance with AMFS, etc.
- The most extensive Sharia product offerings among Indonesian Sharia banks



Market share of assets: **20.90%**⁴
 Market share of financing¹: **21.53%**⁴
 Market share of deposit: **23.25%**⁴



Total Assets:
 IDR 101,011 Bn
Financing Portfolio¹:
 IDR 71,203 Bn
Total Deposits:
 IDR 87,355 Bn
Net Profit After Tax:
 IDR 551 Bn
Return On Equity:
 IDR 14,01%



Branch Networks:
 1,336 branches² across Indonesia



ATM Networks:
 202,245 ATMs³



Mandiri Syariah Mobile :
 296,000 active users



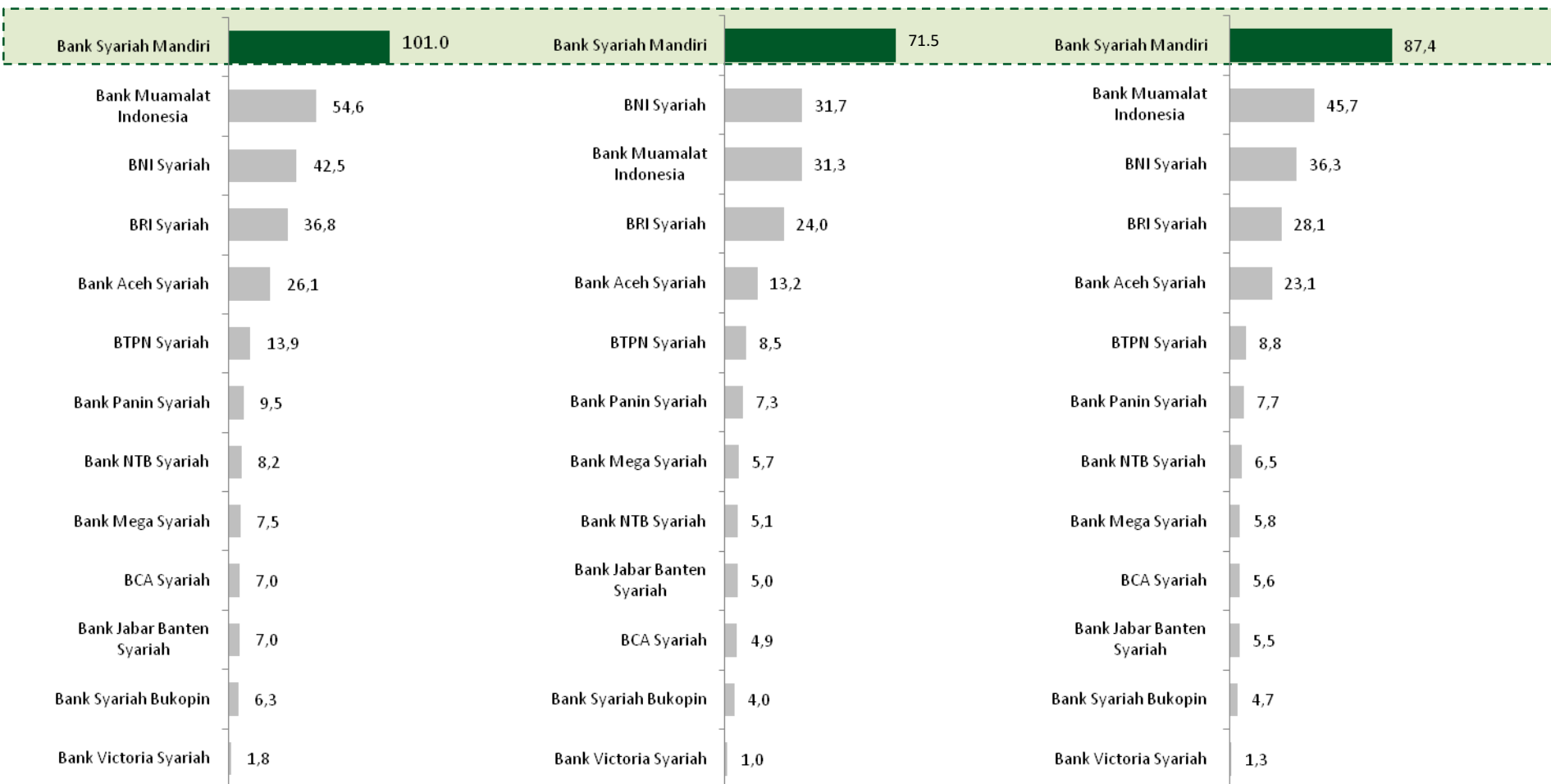
Deposit Accounts:
 8,83 million deposit accounts



Sharia Introduction - BSM As Leading Sharia Bank In Indonesia

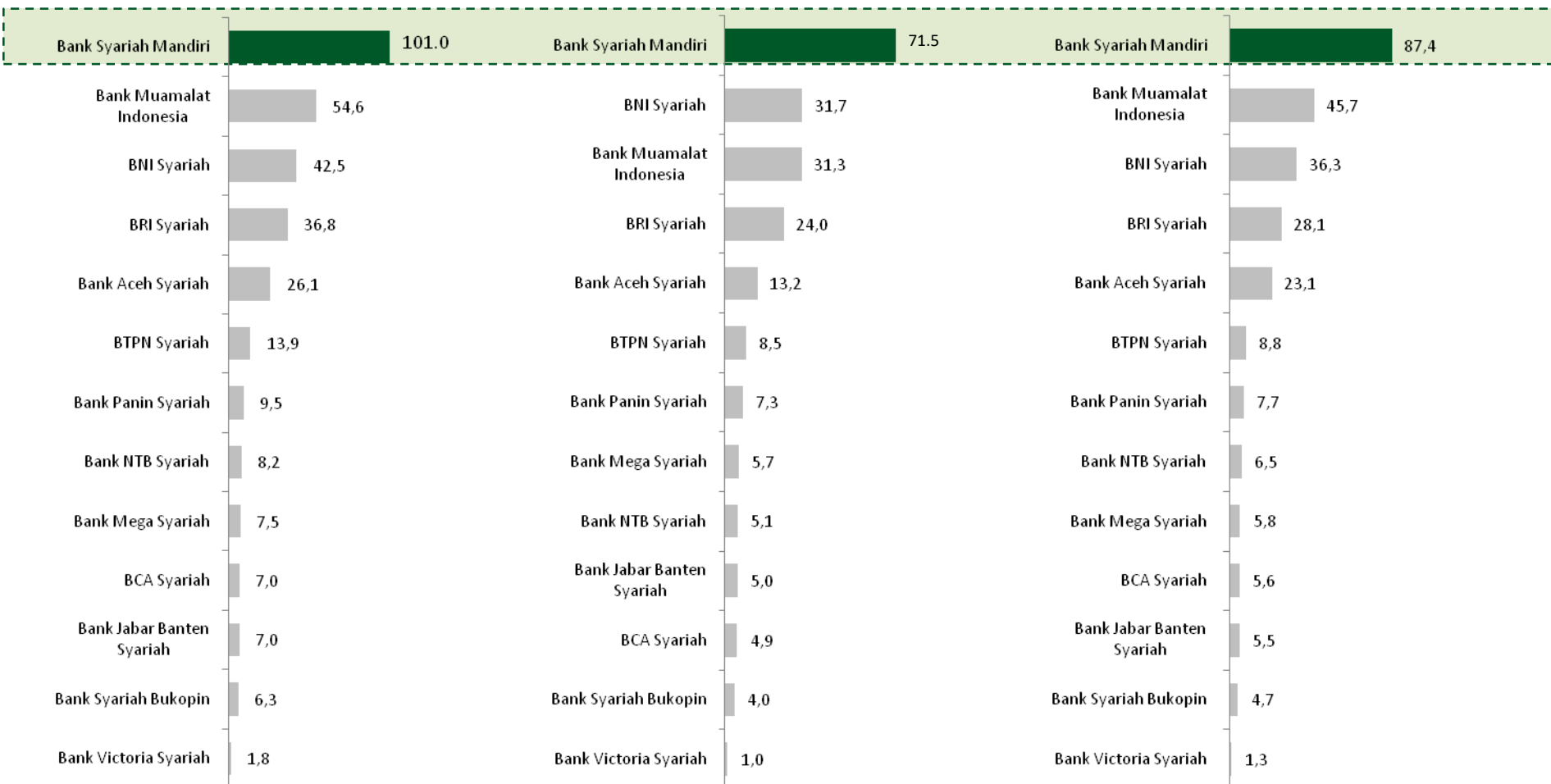
Largest Total Assets

(IDR tr)



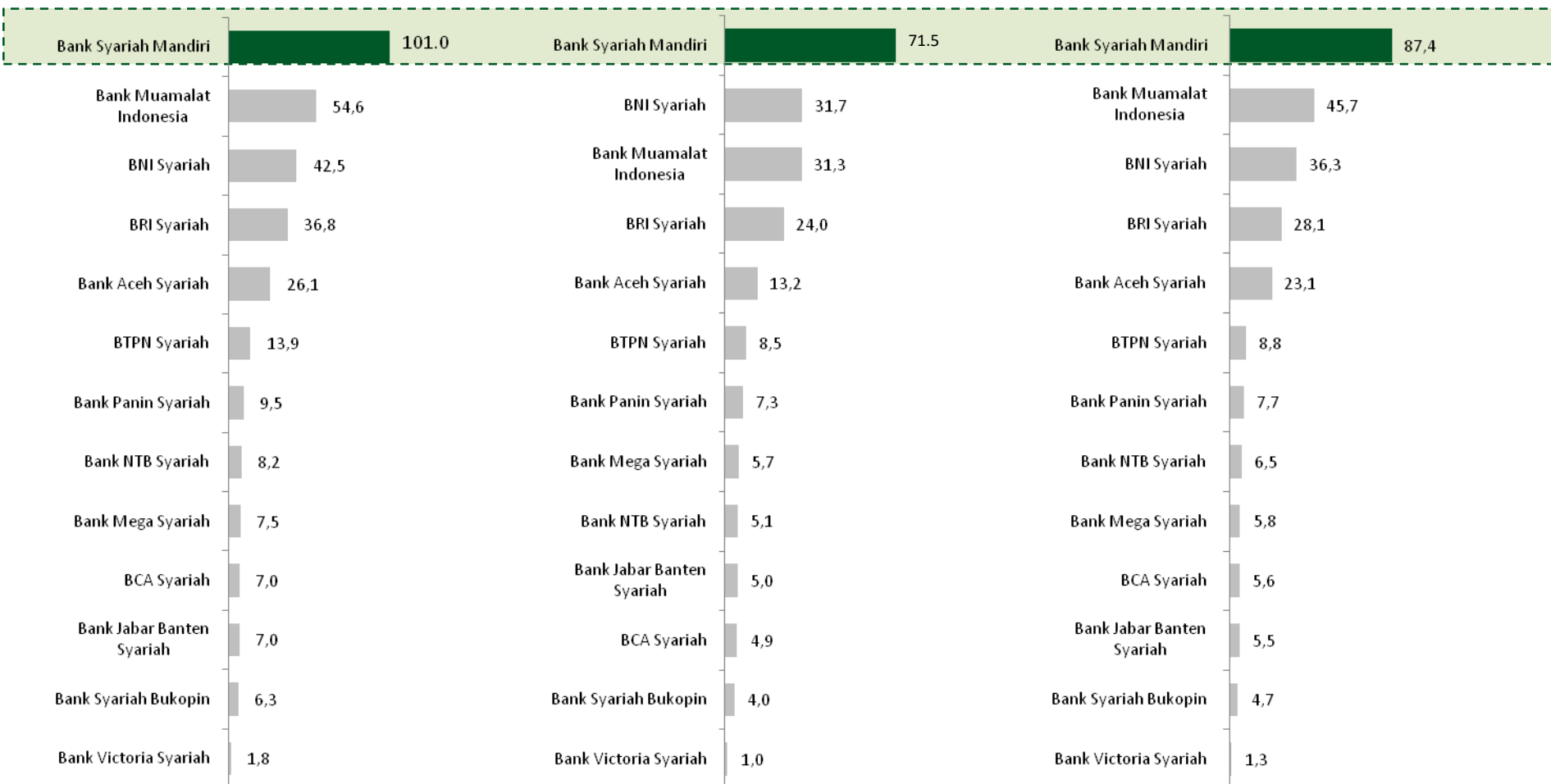
Largest Financing Portfolio

(IDR tr)



Largest Deposits Base

(IDR tr)



Source: OJK, SNL.

Note: As of 2Q2019.

Sharia Introduction - BSM As Top 10 Deposit Bank In Indonesia

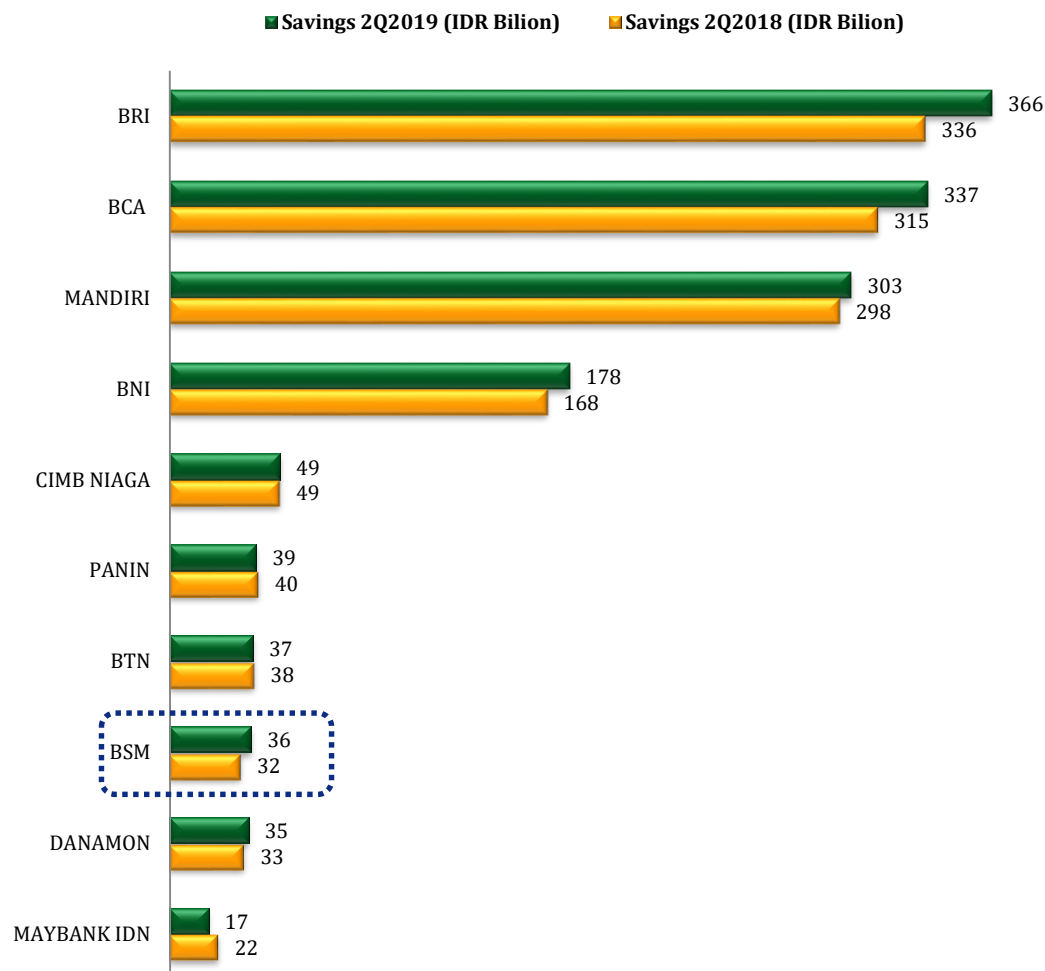
BSM Achievement In Third Party Deposit Fund

Savings	Jul 18 (IDR Billion)	Jul 19 (IDR Billion)	(IDR YoY
General Banking	1,717,863	1,827,583	6.39%
BSM	32.263	36.693	13,38%

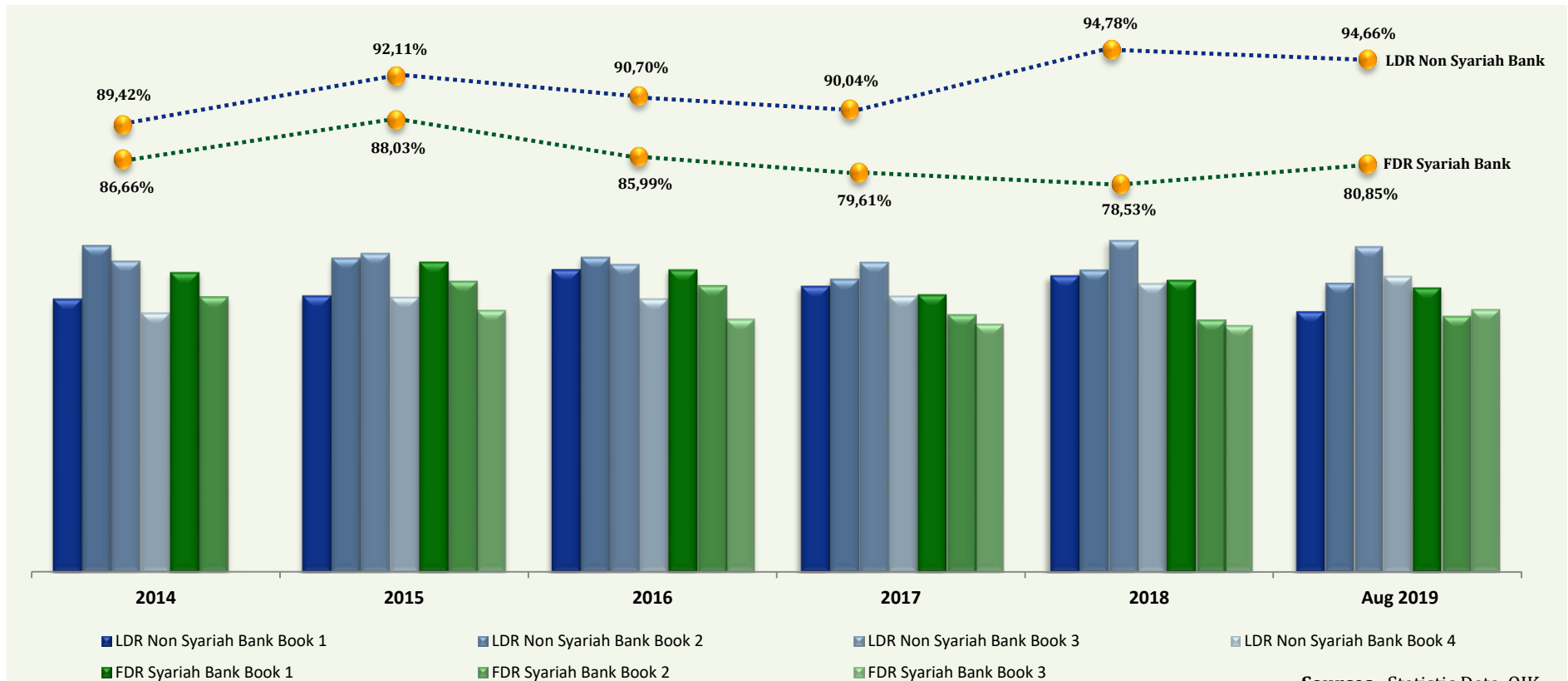
The Rose of BSM Deposit was 13,38% yoy in July 2019. This number was higher than general banking deposit growth whose increased only 6,39% yoy on July 2019.

No	Rank Bank 2Q2018	Savings 2Q2018 (IDR Billion)	Savings 2Q2019 (IDR Billion)	YoY Growth
1	BRI	336.245	365.825	8.8%
2	BCA	315.098	337.195	7.0%
3	MANDIRI	298.023	303.196	1.7%
4	BNI	168.053	177.983	5.9%
5	CIMB NIAGA	49.11	49.175	0.1%
6	PANIN	39.648	38.593	-2.7%
7	BTN	37.744	37.064	-1.8%
8	BSM	31.744	36.331	14.4%
9	DANAMON	33.194	35.164	5.9%
10	MAYBANK IDN	21.834	17.429	-20.2%

Source: OJK
Note: As of 2Q2019.



Sharia Banking Liquidity Overview - Non Syariah Bank vs Syariah Bank

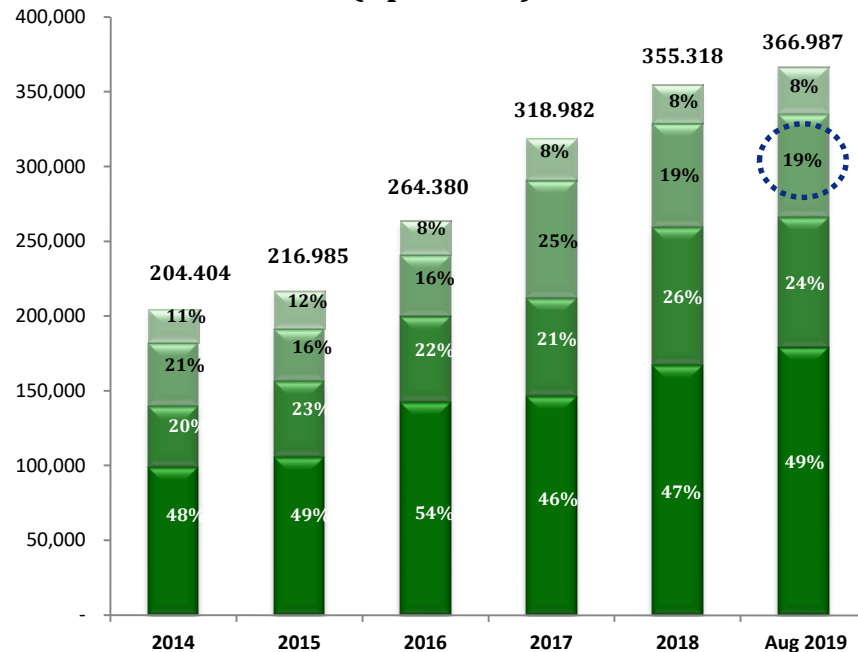


Description	2014	2015	2016	2017	2018	Aug 2019
LDR Non Syariah Bank Book 1	85,11%	86,04%	94,23%	89,09%	92,27%	81,14%
LDR Non Syariah Bank Book 2	101,72%	97,81%	98,04%	91,22%	94,03%	89,99%
LDR Non Syariah Bank Book 3	96,99%	99,37%	95,96%	96,63%	103,37%	101,40%
LDR Non Syariah Bank Book 4	80,73%	85,63%	85,16%	85,96%	89,90%	92,18%
FDR Syariah Bank Book 1	93,38%	96,60%	94,18%	86,52%	90,99%	88,63%
FDR Syariah Bank Book 2	85,73%	90,55%	89,21%	80,18%	78,51%	79,70%
FDR Syariah Bank Book 3	-	81,70%	78,91%	77,38%	76,97%	81,96%

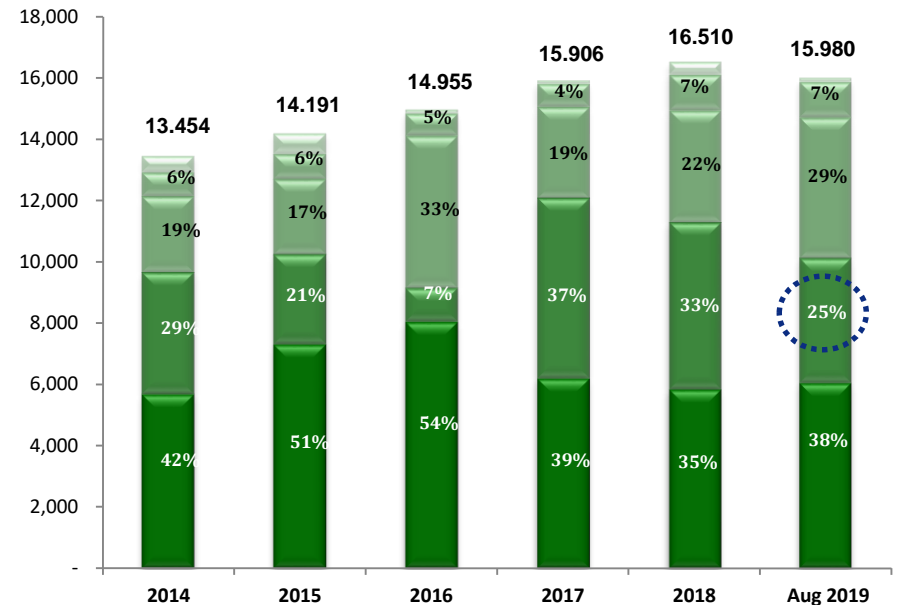
Non - sharia banking industry has more stringent liquidity than sharia banking industry

Sharia Banking Liquidity Overview - Hajj Fund As Important Third Party Deposit

**Sharia Bank Third Party IDR Deposit
(Rp Billion)**



**Sharia Bank Third Party USD Deposit
(Rp Billion)**



Description	2014	2015	2016	2017	2018	Aug 2019
Individual	98.997	105.482	142.496	146.194	167.295	178.789
Private Non Financial Institution	40.428	50.794	56.935	66.023	92.262	87.259
Government *)	42.554	35.153	41.193	78.181	69.087	69.140
Private Financial Institution Non Bank	22.171	25.255	23.320	28.224	26.290	31.365
Non Resident Third Party Funds	254	300	436	361	385	434

Description	2014	2015	2016	2017	2018	Aug 2019
Private Non Financial Institution	5.683	7.298	8.034	6.191	5.840	6.044
Government *)	3.961	2.924	1.091	5.865	5.420	4.061
Individual	2.497	2.481	4.986	3.000	3.684	4.602
Non Resident Third Party Funds	780	810	727	748	1.157	1.162
Private Non Bank Financial Institution	533	677	116	102	408	111

*) Include BPKH Funds on 2018 around Rp 65 Trillion

Islamic banking industry still relies on the placement of Hajj funds. In the future Islamic banking industry needs to obtain alternative funding for replace hajj funds which going to managed by Badan Pengelola Keuangan Haji (BPKH).

Sources: Statistic Data, OJK

1
Liquidity Run Risk

2
Asset Liability Mismatch Risk

3
Credit Risk

Challenging In Asset



There is requirement to maintain liquidity reserves by central bank

Islamic banks have to maintain 2 reserve; reserve requirement from central bank, and statutory liquidity requirement (Cash in vault or cash reserve) in the internal bank



Islamic banks prefers extending funds to short term debt-base financing

Because extending funds to long-term equity-based financing demands complicated procedures, strong efforts, and appropriate knowledge and experiences in business



Challenge when entrepreneurs' default in trade-based contracts

Because Islamic Banks prohibited from charging any accrued interest or imposing any penalty on defaulting entrepreneurs while every delay causes nonproductive capital (asset)



Islamic Banks have to arrange robust portfolio investments

This is not easy since the Islamic Financial markets and banking industry are less developed.



The lack of instrument to optimally manage the funds.

In Indonesia, there is a lack of easily liquidated long-term investments, minor liquid financial market instruments, and immature Islamic financial markets

Challenging In Liabilities



The return on Mudarabah time deposit is uncertain

whereas depositors expect to know it up upfront and to always have a positive and continuous return on their deposits



Unwillingness of depositors to bear any loss on their deposit

When Islamic banks face business losses in utilizing funds, it is very unlikely that depositors would want to bear such losses, so banks have to cover by using reserve fund (Investment Risk Reserves) or in Indonesia called PPAP



Additional Reserve are needed for sustainability

In order to maintain the sustainability of the payment on deposit return, Islamic banks are encouraged to retain some of their gross profit for the Profit Equalization Reserve (PER).



The domination of the short term deposit tenors

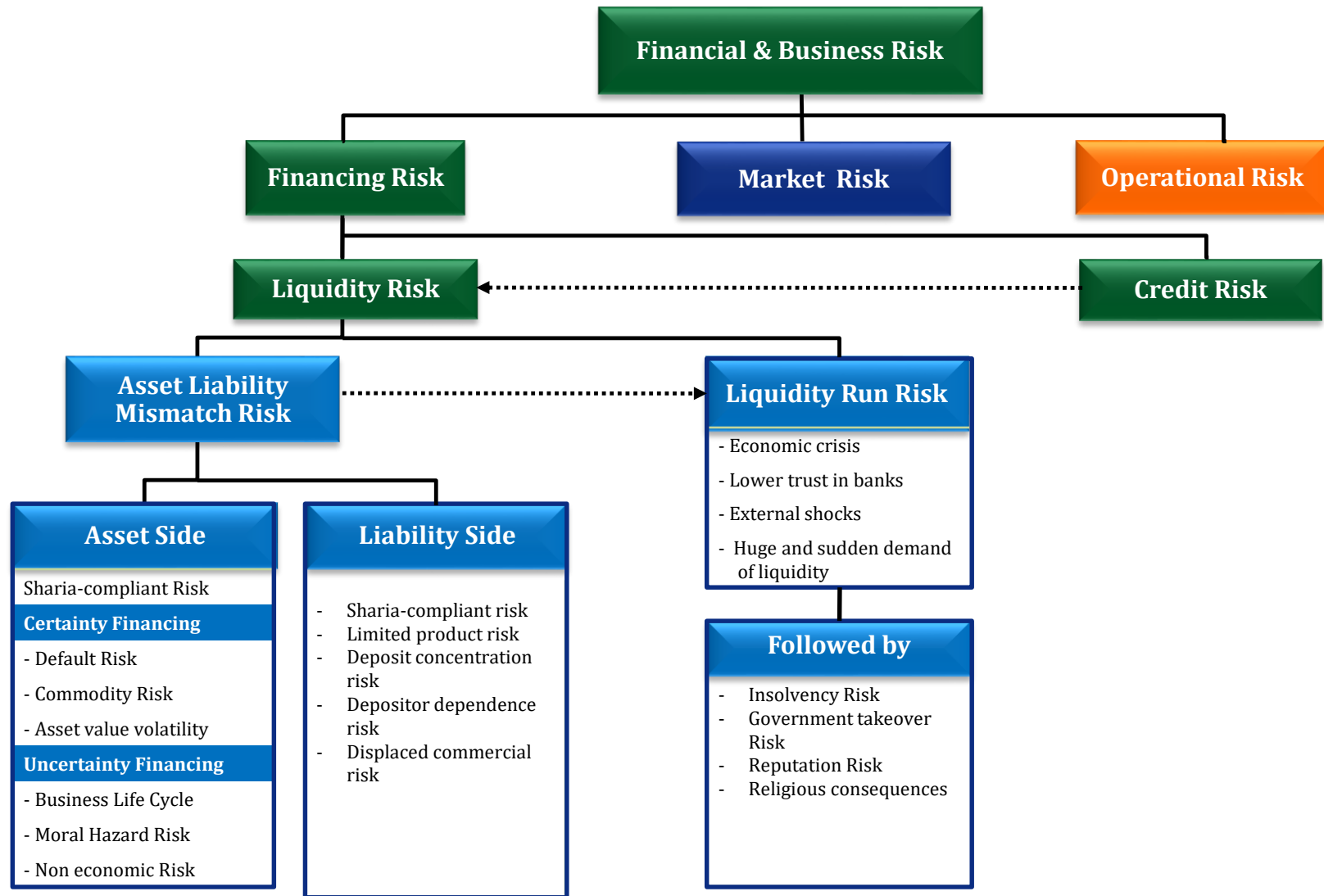
Majority of Mudarabah time deposit in Indonesia are of short term tenors, particularly one month tenor.



limited types of Islamic deposit products

The expansions of products requires demand from market and understanding (familiarity) of depositors to the new proposed products

Liquidity Risk - Islamic Banking Liquidity Risk Framework



Source: Islamic Banking in Indonesia, Rifki Ismail (2013)

Liquidity Management - Techniques To Mitigate Liquidity Risk Based On Sharia



To Solve the Regular demand for liquidity

- Liquidity (standby) reserves
- Regulating the redemption time of deposits
- Mitigating Business Losses and default in Equity-based Financing
- Mitigating Default in Debt-based Financing
- Internal Liquidity agreement with the Parent Company



To Solve the Predictable Irregular Demand for Liquidity

- Selling short-term Islamic Financial Instruments
- Selling Long-term Islamic Financial Instruments
- Borrowing from the Islamic Money market



To Solve the Unpredictable Irregular Demand for Liquidity

- Parent company lending
- Shareholder lending
- Central bank emergency liquidity funds
- Government bailout

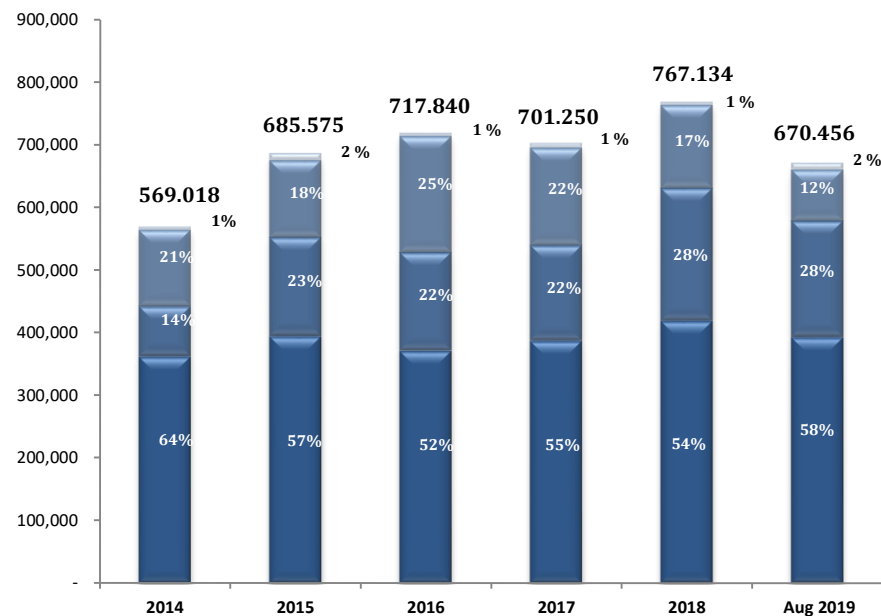
Liquidity Management - Sharia Money Market Instrument

Instrument			Contract	Maturity		Description
Sertifikat Investasi Antarbank (SIMA)	Mudharabah		Mudharabah	<ul style="list-style-type: none"> • Overnight • 1 week • 2 week 	<ul style="list-style-type: none"> • 1 Month • 2 Month • 6 Month 	SIMA (Interbank Call Money) is a lending and borrowing of funds activity between banks on the money market
Fasilitas Simpanan Syariah (FASBIS)	Bank Indonesia		Ju'alah	Overnight – 2 week		FASBIS is sharia deposit facility provided by Central Bank of Indonesia.
Sertifikat Bank Indonesia (SBI-S)	Bank Indonesia	Syariah	Ju'alah	1 Month – 1 Year		SBIS is an Indonesia Government Securities issued in IDR currency
SUKUK - BI			Musarakah	<ul style="list-style-type: none"> • 1 Week • 2 Week 	<ul style="list-style-type: none"> • 1 Month • 3 Month 	SUKUK BI is a Sharia Indonesia Government Bonds Issued in IDR currency
Sertifikat Perdagangan Berdasarkan Prinsip Syariah (SiKA)	Perdagangan Komoditi		Murabahah	Overnight – 1 Year		SiKA is a certificate issued based on sharia principles by sharia banks in money market transactions as an evidence of buying/selling with suspension of payments in commodities exchange
Repurchase Agreement (REPO) and Reverse REPO (RR REPO)			Al Ba'i	<ul style="list-style-type: none"> • Overnight • 1 Week 	<ul style="list-style-type: none"> • 2 Week • 1 Month 	<ul style="list-style-type: none"> • REPO is a contract transaction to sell or buy securities with a promise to buy or resell at an agreed time and price. • RR REPO
Surat Perbendaharaan Indonesia Syariah (SPN-S)	Negara		Ijarah	1 Month – 1 Year		SPN-S is a Sharia Indonesia Government Bonds Issued by Ministry of Finance in IDR currency.
Negotiable Certificate Deposit (NCD Syariah)			Mudharabah	<ul style="list-style-type: none"> • 1 Month • 3 Month • 6 Month 	<ul style="list-style-type: none"> • 1 Year • 2 Year • 3 Year 	Certificate of deposit are debt instruments issued by banks or other financial institutions that can be transferable. This certificate can be issued with script or scriptless.

“Sharia Banks Use Money Market Instrument To Maintain Their Liquidity Management”

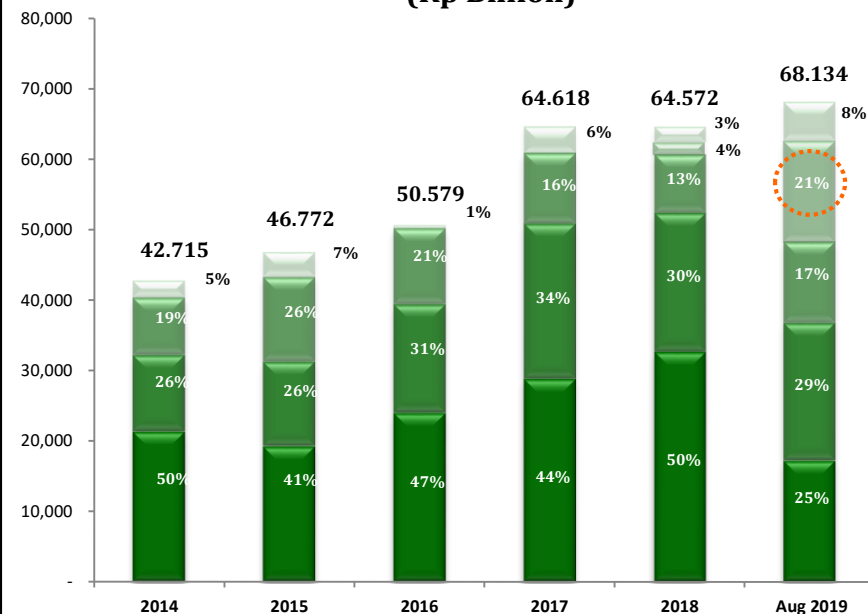
Liquidity Management - Bank Indonesia Placement Portfolio

**Non Syariah Bank – Placement BI
(Rp Billion)**



Description	2014	2015	2016	2017	2018	Aug 2019
Giro	361.588	393.362	370.727	386.361	417.888	391.963
Fine Tune Operation	79.917	158.264	156.936	152.706	212.031	185.935
Fasbis	123.020	123.177	185.371	155.691	132.528	81.889
Others	4.493	10.772	4.806	6.492	4.687	10.669

**Syariah Bank – Placement BI
(Rp Billion)**



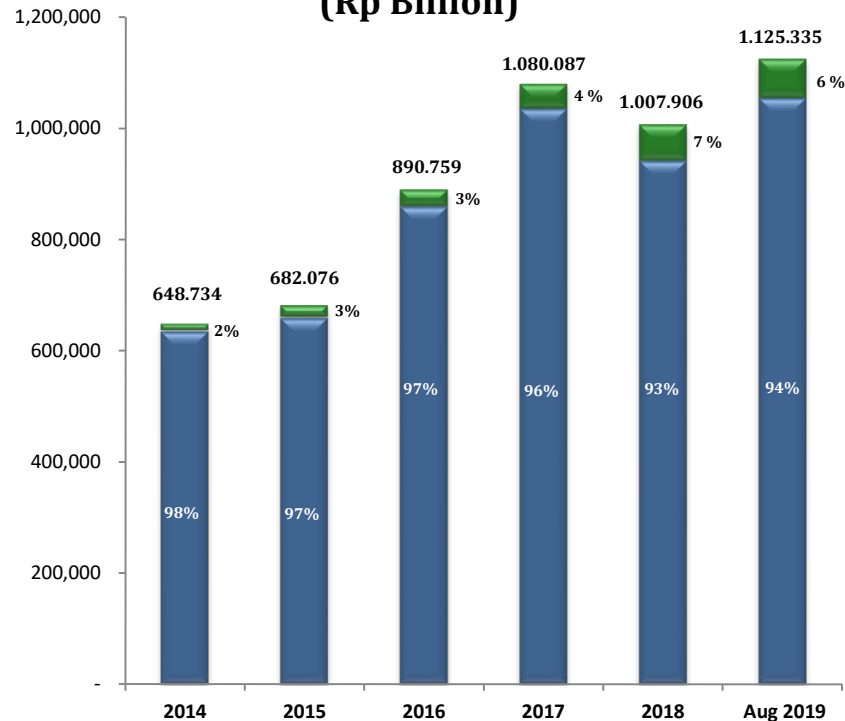
Description	2014	2015	2016	2017	2018	Aug 2019
Fasbis	21.294	19.218	23.926	28.747	32.591	17.165
Giro	10.903	12.001	15.442	22.020	19.684	19.546
SBIS	8.130	12.001	10.788	10.017	8.269	11.534
Sukuk BI	-	-	-	-	1.828	14.324
Others	2.388	3.551	424	3.834	2.201	5.565

- For over past 3 years the placement of BI Instrument at Non Sharia Bank was placed into Giro for GWM's fulfillment allocation. While at sharia Bank placed into Bank Indonesia *overnight facilities* (FASBIS).
- Bank Indonesia has issued SukBi instrument at the end of 2018. Sukbi provides an alternative placement in addition FASBIS for sharia Bank .

Sources: Statistic Data, OJK

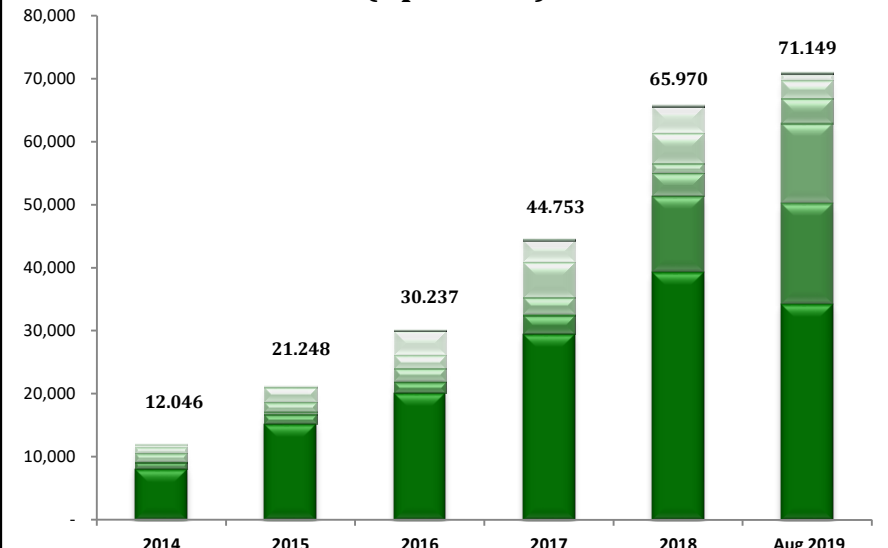
Liquidity Management - Bank Marketable Securities Placement Portfolio

**Bank Marketable Securities
(Rp Billion)**



Description	2014	2015	2016	2017	2018	Aug 2019
Marketable Securities - Non Sharia Bank	636.688	660.828	860.522	1.035.335	941.936	1.054.186
Marketable Securities - Sharia Bank	12.046	21.248	30.237	44.753	65.970	71.149

**Sharia Bank - Marketable Securities
(Rp Billion)**



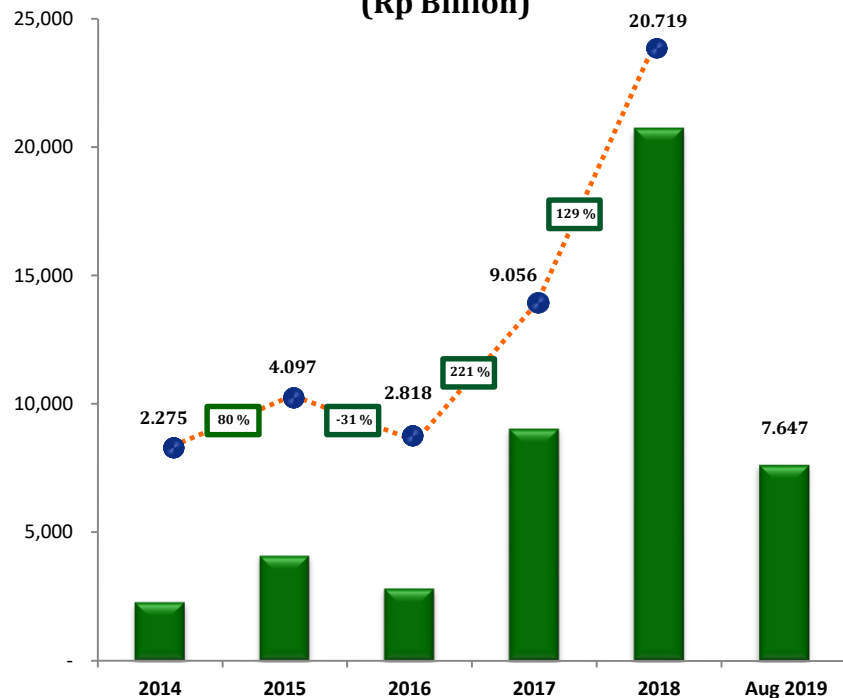
Description	2014	2015	2016	2017	2018	Aug 2019
Government Bonds (SBSN)	8.007	15.242	20.111	29.427	39.227	34.209
Others Sukuk (Inc Sharia Corp Bond)	1.054	1.444	1.730	2.973	12.130	16.012
Others Money Market Bonds	190	443	176	239	3.673	12.615
Sharia Mutual Fund Certificate	1.324	1.527	1.934	2.580	1.473	4.027
Indonesia Sharia T Bills (SPNS)	951	2.285	2.144	5.631	4.814	2.916
Sharia MM Interbank (SIMA)	380	160	3.785	3.490	4.291	965
Subordinated Sukuk	30	30	231	246	201	201
Others Sharia Capital Market Ins	111	119	126	167	162	204

- There is a growth in placement Banks excess funds in securities instrument. Past over 3 years trend line show that proportion sharia bank placement in securities increased if compare to Non Sharia Bank.
- SIMA transaction as part of Sharia Securities have positive growth more than 100% for more over past 3 years.

Sources: Statistic Data, OJK

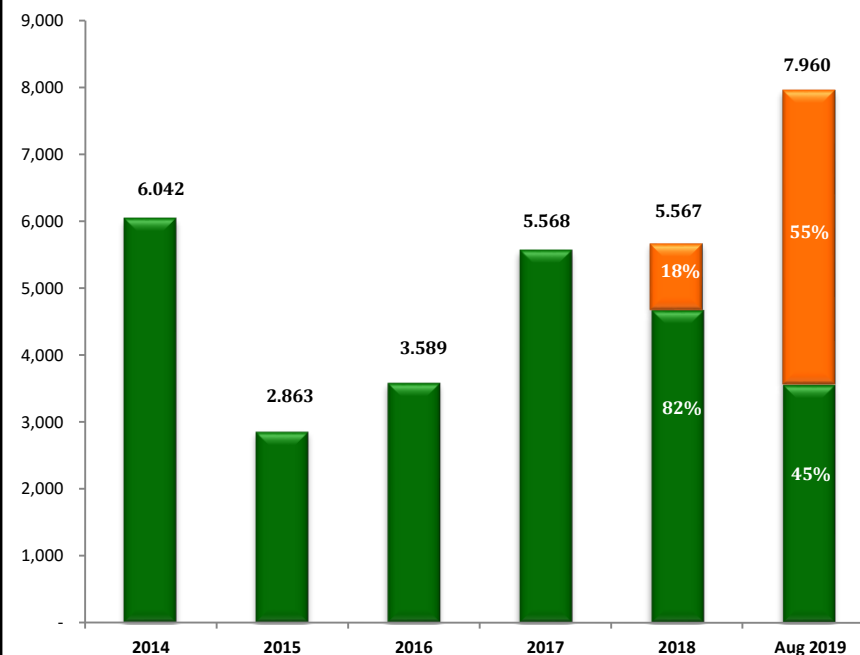
Liquidity Management - BSM SIMA & SukBi Transaction

BSM Interbank Mudharabah Investment Certificate (SIMA) Volume Transaction (Rp Billion)



Description	2014	2015	2016	2017	2018	Aug 2019
Placement	2.275	4.097	2.618	9.056	20.619	5.070
Borrowing	-	-	200	-	100	2.577

BSM SukBI Portfolio Investment (Rp Billion)



Description	2014	2015	2016	2017	2018	Aug 2019
FASBIS	6.042	2.863	3.589	5.568	4.667	3.560
SukBI	-	-	-	-	1.000	4.400

- BSM as the largest sharia bank already used SIMA instruments to maintain liquidity sustainability for Indonesia sharia banking industry.
- BSM already use Sukbi as one alternative instrument for maintain bank liquidity management.

Next Project - Enhance The Sustainability Sharia Banking Industry

Active Bank Indonesia Tradable Instrument Secondary Market

- Develop SukBi secondary market transaction. BSM as market maker in Sukbi secondary market transaction.
- Encourage non Sharia Bank participation in Sukbi secondary market transaction.

Introduce Indonesia Interbank Mudharabah Investment Certificate (SIMA) To Off Shore Market

- Enlarge SIMA market by inviting off shore financial institution participation.
- Create major currencies SIMA transaction for off shore market.

Establish Global Master Repurchase Agreement (GMRA) For Sharia Banking

- Compose Global Master Repurchase Agreement (GMRA) specific for sharia Banking industry.
- Discuss with Sharia Board Authority to solving all issue in Repo Sharia agreement in term counterparty with non sharia financial institution.

Generate Market For Other Money Market Instrument In Indonesia

- Issuing and develop market for new sharia money market instrument (For example Sharia NCD).
- Develop new sharia money market instrument for liquidity management purpose.



End of File

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