

Financial Review

FINANCIAL RATIO

The following Financial Ratio was calculated from the financial performance of holding company.

DESCRIPTION		2016	2017	2018
1	Capital Adequacy Ratio (CAR)	22.91	22.96	21.21
2	Non-performing earning assets and non-earning assets to total earning assets and non-earning assets	1.46	1.38	1.41
3	Non-performing earning assets to total earning assets	1.61	1.59	1.62
4	Allowance for impairment on financial assets to earning assets	2.75	3.11	3.26
5	Gross NPL	2.03	2.10	2.14
6	Net NPL*	1.09	0.88	0.92
7	Return on Assets (ROA)	3.84	3.69	3.68
8	Return on Equity (ROE)	23.08	20.03	20.49
9	Net Interest Margin (NIM)	8.00	7.93	7.45
10	Operating Expense to Operating Income (BOPO)	68.69	69.14	68.48
11	Loan to Deposit Ratio (LDR)	87.77	88.13	89.57
Compliance				
1	a. Percentage of Legal Lending Limit Violation			
	i. Related parties	0.00	0.00	0.00
	ii. Non-related Parties	0.00	0.00	0.00
	b. Percentage of Lending in Excess of Legal Lending Limit			
	i. Related parties	0.00	0.00	0.00
	ii. Non-related Parties	0.00	0.00	0.00
2	Reserve Requirement (GWM)			
	a. Reserve Requirement - Rupiah	6.94	6.52	7.16
	b. Reserve Requirement – Foreign Currency	8.03	8.15	8.01
3	Overall Net Open Position	6.67	4.22	3.73

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SOLVENCY

The Bank's solvency is indicated by the following financial ratios:

Liquidity Ratio

- Loan to Deposit Ratio (LDR)**

Liquidity Ratio is a comparison of loan to deposit ratio or LDR. In 2018, BRI recorded LDR of 89.57%, slightly up from 88.13% in 2017. The increase of LDR indicates proper intermediary function by BRI to sustain economic growth. The LDR ratio was under BRI LDR target of 90% +/- 2% which is a maximum level to maintain BRI profitability.

- Macroprudential Intermediary Ratio (MIR)**

Pursuant to Bank Indonesia Regulation No. 20/4/PBI/2018 dated 3 April 2018, banking MIR was expected to reach 80% to 92%. In MIR calculation, securities issued and administered by KSEI was calculated and was not held by banks at a minimum of 2 months prior to report date and held corporate bonds. In 2018, BRI MIR ratio was 88.5%, increased compared to MIR in 2017 at 87.79%.

- Liquidity Coverage Ratio (LCR)**

To improve short term liquidity defense, BRI exercises Liquidity Coverage Ratio (LCR) management which is a ratio between high quality liquid asset (HQLA) with net cash outflow during the next 30 days under the stress scenario. In 2018, BRI LCR was at 217.44% and consolidated LCR was at 217.97%. With these LCR, BRI was able to maintain liquidity adequacy ratio far above the minimum limit of 100%.

- Profitability Ratio**

In the banking industry, profitability ratio is generally measured by using Return on Assets or ROA, Return on Equity or ROE, and net income margin or NIM.

Profitability Ratio (%)

	2016	2017	2018
ROA	3.84	3.69	3.68
ROE	23.08	20.03	20.49
NIM	8.00	7.93	7.45

- Return On Assets (ROA)**

BRI ROA in 2018 was at 3.68%, stable compared to 3.69% in 2017. This was among others due to BRI capability in maintaining assets quality and improving the portion of alternative income resources such as fee based income and recovery, as well as maintaining a moderate growth of OPEX.

- Return on Equity (ROE)**

By implementing capital optimization strategy such as higher dividends payout compared to 2017, BRI ROE in 2018 was 20.49%, or increased by 46 bps compared to 20.03% in 2017.

- Net Interest Margin (NIM)**

BRI NIM in 2018 was at 7.45% or lower than the 2017 level of 7.93%. The decrease of NIM was mainly due to an increase of interest expense impacted by an increase of benchmark interest rate BI7DRR at 175 bps in 2018.

Efficiency Ratio

- Operating Expense to Operating Income Ratio (BOPO)**

In 2018, BRI BOPO Ratio was at 68.48%, slightly decreased from the 2017 level of 69.14%. The decrease of BOPO was due the controlled operating expense impacted by business process re-engineering, such as business process digitization by BRI that affected on the increase of efficiency.

Moreover, BRI's ability to maintain its assets quality, eventually able to maintain the increase of provisions.

Efficiency Ratio (%)

	2016	2017	2018
BOPO (%)	68,69	69,14	68,48

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- **Capital Ratio - Capital Adequacy Ratio (CAR)**

Capital Adequacy Ratio (CAR) reflects the Bank's ability to manage credit risk, market risk, and operational risk. In 2018, BRI recorded CAR of 21.21%, slightly decreased from the 2017 level of 22.96%. This CAR Ratio was remained far above the banking regulator stipulation of 9%-10% from risk weighted assets (RWA) for the Bank with a level 2 risk profile. The CAR also has met Basel III stipulation for 2018 namely for capital buffer at 2.5% and for the bank systemic at 1,5%.

- **Compliance Ratio**

- **Percentage of Lending in Excess of Legal Lending Limit**

In 2018, there were no debtors, related parties or otherwise, that did not meet or exceeded the Legal Lending Limit (LLL).

- **Net Open Position Ratio (NOP)**

NOP is the sum of the absolute values of the net difference between assets and liabilities in the statement of financial position for each foreign currency and the net difference of commitments and contingent liabilities and receivables in the administrative accounts for each foreign currency, stated in Rupiah toward capital. In 2018, NOP ratio was at 3.73%, decreased from the 2017 level of 4,22%. This NOP is still far below the maximum level stipulated by BRI on the Commercial Banks' Net Open Position, namely 20% of the capital.

RECEIVABLES COLLECTABILITY LEVEL

Receivables collectability can be measured by assets quality ratio or Non Performing Loan (NPL). Credit collectability represented in NPL ratio was at 2.27% in 2018, slightly increased from the 2017 level of 2,23% however still far below BI stipulation of 5%. BRI will continue increasing the effectiveness of credit risk management to maintain and increase its assets quality.

Loan Collectability in 2016-2018*

(Rp million)

	2016	2017	2018
Loans	663,420,217	739,336,520	843,598,403
Current	619,793,792	692,099,915	793,276,668
Special Mention	29,474,869	30,784,126	31,173,877
Sub-Standard	3,730,004	2,995,624	2,479,185
Doubtful	1,756,805	4,229,123	2,380,777
Loss	8,664,747	9,227,732	14,287,896
NPL	14,151,556	16,452,479	19,147,858
NPL(%)	2.13	2.23	2.27

*Consolidated financial statements

SPOT AND DERIVATIVE TRANSACTIONS

To protect the value of asset portfolio in foreign currencies and hedging on interest rate, BRI exercised hedging transactions. In this instance, BRI did not issue derivative transactions for trading purposes. In practice, spot and derivative transactions refer to the risk management system that adheres to regulations and best practices. BRI's entire derivative transactions were intended to protect the interest of BRI and its customers.