After the first year of PSAK 71

Analysis of the initial impact on Indonesian BUKU IV banks

31 January 2021

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Executive summary

The Indonesian banking industry is led by a handful of large banks categorized in BUKU IV, whose core capital exceeds 30 trillion Rupiah. BUKU IV banks are the focus of the analysis in this report. As of the report date, there are eight (8) BUKU IV banks, which cover PT Bank Central Asia Tbk “BBCA”; PT Bank Negara Indonesia (Persero) Tbk “BBNI”; PT Bank Rakyat Indonesia (Persero) Tbk “BBRI”; PT Bank Danamon Indonesia Tbk “BDMN”; PT Bank Mandiri (Persero) Tbk “BMRI”; PT Bank CIMB Niaga Tbk “BNGA”; PT Bank Permata Tbk “BNLI”; and PT Bank Panin Tbk “PNBN”.

In the 30 September 2020 (Unaudited) financial report of BUKU IV banks’, it is stated that PSAK 71 transition impact mostly related to two (2) areas: 1) classification & measurement; 2) Impairment. The analysis shows insignificant change of financial asset classification for the period of before and after the implementation PSAK 71. The balance sheet structure for the banks remains broadly the same, with the amortized cost category being the most used for the classification of financial assets.

In contrast, at transition on 1 January 2020, the banks' saw increases in total PSAK 71 impairment provisions of between 20% - 90% which caused a reduction of retained earnings and consequences for regulatory capital resources. By end of 30 September 2020 reporting period, most banks reflected an increase in total impairment provisions between 1-31%. However, three (3) non state-owned banks reported a decrease in provisions. This potentially driven by write-off of exposures.

The after tax impact of the increased PSAK 71 impairment provisions, in conjunction with the adjustments by the classification & measurement aspects of PSAK 71, largely resulted in the reduction of the banks’ capital adequacy ratio (CAR) from 0-5% - 2.4% at transition date. In connection with that, all banks PSAK 71 impairment provisions (accounting view) are higher compared to provisions for possible losses on earning asset (regulatory view).

Furthermore, it is clear that PSAK 71 has allowed the banks latitude to make differing judgements when modelling PSAK 71 impairment provisions, and in deciding how best to disclose this information within financial reporting is. Notable examples of differing judgements and its disclosure are in terms of the SICR indicators, forward-looking macroeconomic approach, sensitivity analysis and criteria of individual & collective assessment.

Those examples are among contributing aspects that make performing comparisons between the banks challenging. It is expected that over time these differences will reduce following regulatory pressure and peer group assessments, in particular reporting in uncertain times during COVID-19 period. Disclosures will be critical in explaining how the current economic environment has impacted the amount and uncertainty of future cash flow and to understand the key assumptions and judgements made when preparing financial information. We hope that preparers find this paper useful and consider the outcome of this report for future reporting periods.

Key topics covered in this report

Financial result impact: Analysis of the impact of PSAK 71 on the banks’ impairment provisions.

Regulatory impact: The interaction between PSAK 71 and the regulatory capital resources of the banks.

PSAK 71 impairment modelling judgements: Summary of the key areas of alignment and divergence in the PSAK 71 impairment modelling judgments made by the banks.

Classification & Measurement: Analyze the balance sheet structure of banks in terms of the measurement categories (i.e. amortized cost vs fair value) for period before and after the implementation of PSAK 71.

COVID-19 impact: Potential impact of COVID-19 in bank’s financial report

Comparability challenges: Notable challenges experienced in comparing the banks’ financial report.

Financial result impact

Financial result impact

There has been a significant impact to the banks' financial results since the transition to PSAK 71 on 1 January 2020. The new accounting standard has resulted in an increase in the banks' provisioning levels.

Introduction

Transition to PSAK 71 potentially impact banks' financial results in these following areas:

1. Classification and measurement: New approach based on the business model and characteristic of the financial instrument contractual cash flow
2. Impairment: New approach based on forward-looking expected credit loss
3. Hedge accounting: allows more exposure to be hedged and provides for principle-based requirements that more aligned with bank risk management strategy.

Based on our observations of BUKU IV banks' financial report, PSAK 71 transition impact mostly related to two (2) areas: 1) classification & measurement; 2) Impairment.

1. In this section we provide insight into the aspects of the banks' financial results most impacted by the updated impairment considerations of PSAK 71.
2. The classification and measurement impact on transition to PSAK 71 is covered separately in page 29.

Analysis

We analyzed the aspects of the banks' financial results included in the banks' Financial Reports as of 30 September 2020 that were most impacted by PSAK 71 impairment. We analyzed the change in the banks' total impairment provisions at transition to PSAK 71 on 1 January 2020 as well as the subsequent changes during the September 2020 reporting period.

We also linked the change in the PSAK 71 impairment provisions to the PSAK 71 impairment charge and compared this to the PSAK 55 historical equivalent. With regard to the analysis, please note that PSAK 71 impairment charge for 30 September 2020 reporting period is impacted by COVID-19 pandemic as well (see COVID-19 impact for details).

Furthermore, this paper focus on financial instruments within scope of PSAK 71. Therefore, financial instruments including sharia products, that will apply other accounting standard, will not be part of the analysis.

Key takeaways

Each of the banks experienced increases in total impairment provisions at transition to PSAK 71 on 1 January 2020.

Most of the banks saw total increase in PSAK 71 impairment provisions during the 2020 financial year.

Total impairment charges in the 2020 reporting period were generally higher than the PSAK 55 equivalent in the previous reporting period.

Financial result impact

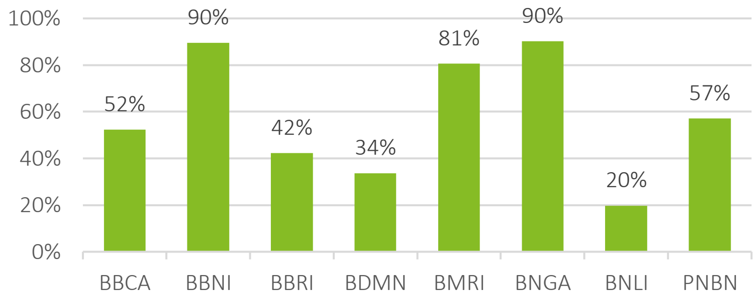
Impact of transition to PSAK 71

At initial application of PSAK 71, the bank has the option to restate comparatives and not to restate comparatives. All banks elected to not restate comparatives and, as a result, adjusted total balance sheet including the impairment provisions and retained earnings at transition to PSAK 71 on 1 January 2020.

Each of the banks saw an increase in the total level of balance sheet impairment provisions from transitioning to PSAK 71.

Notably BBNI, BNGA and BMRI had the largest increases of 90%, 90% and 81% respectively, whilst the other banks saw increases of between 20% – 57%.

% changes of impariment provision at transition PSAK 71 - 01/01/2020



Source: Bank financial disclosures, Deloitte Analysis

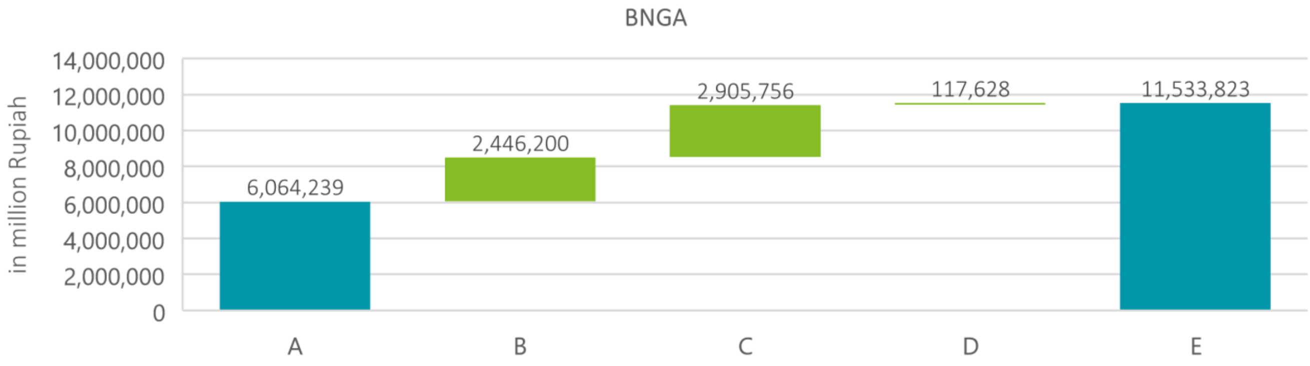
Breakdown of change in total impairment provisions at transition to PSAK 71

The graphs in the next page depict the change in total balance sheet impairment provisions at transition to PSAK 71 on 1 January 2020 as presented in the Notes to Financial Statement based on the bank's Financial Report. The increases were primarily driven by 12m ECL on Stage 1 exposures and Lifetime ECL on Stage 2 and 3 exposures.

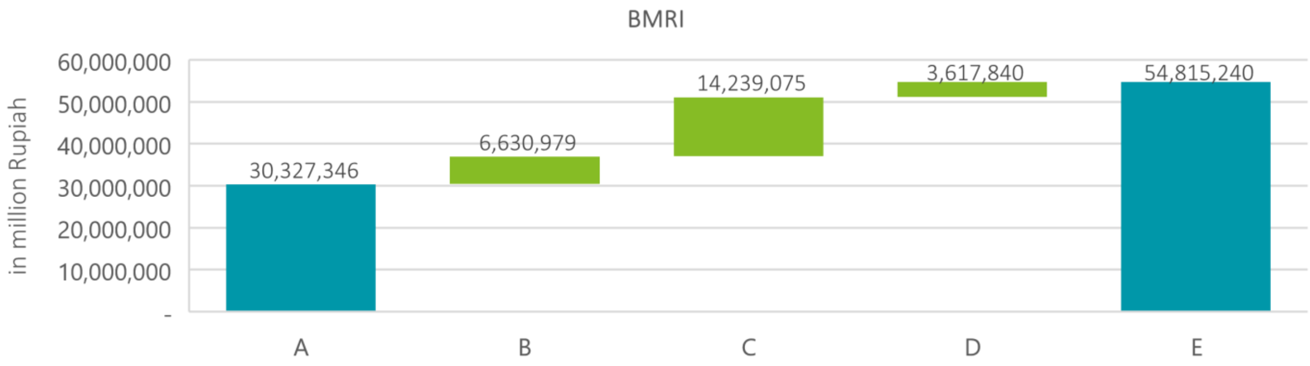
Please note that the banks have not always consistently provided the same level of granularity for these disclosures. Only few banks disclosed the details of change in total impairment provisions at transition to PSAK 71, which only consist of 12m ECL and lifetime ECL exposures. While other banks only disclosed the total transition impact of PSAK 71 impairment provisions on balance sheet.

Furthermore, few banks also adjusted the 1 January 2020 PSAK 71 impairment provision opening balances during 2020 reporting period since the release of March 2020 financial report. In such condition, we analyzed the latest PSAK 71 impairment provision opening balances reported in transition disclosure of September 2020 financial report.

Financial impact 1
Change in total balance sheet impairment provisions transitioning from PSAK 55 to PSAK 71 on 1 January 2020



Source: Bank financial disclosures, Deloitte Analysis



Source: Bank financial disclosures, Deloitte Analysis

PSAK 55 to PSAK 71 impairment provision reconciliation:

A – PSAK 55 balance at 31 December 2019
B – 12m ECL on Stage 1 exposures
C – Lifetime ECL on stage 2 exposures
D – Lifetime ECL on stage 3 exposures
E – PSAK 71 balance at 1 January 2020

Financial result impact

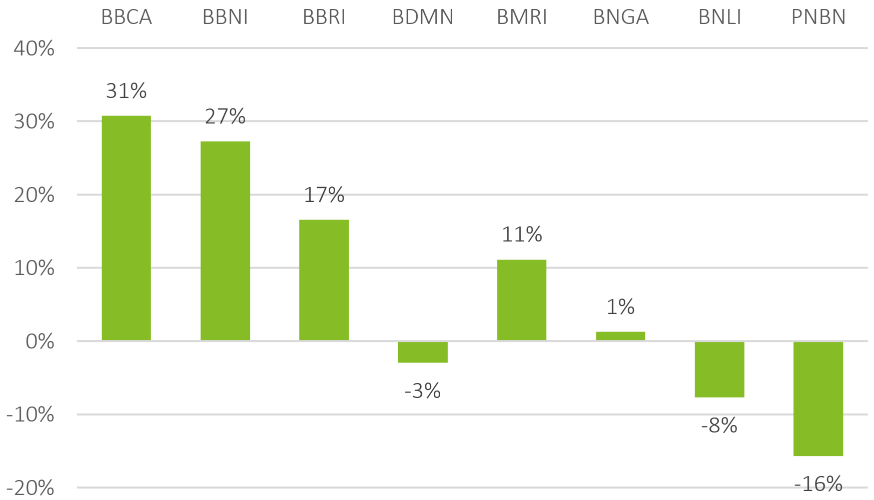
Change in impairment provision during 2020

Change in total impairment provisions

Based on the observations of 2020 reporting period, most of the banks saw increase in the total level of balance sheet impairment provisions since 1 January 2020. Except for BDMN, BNLI, and PNBN which reported a decrease of the total level of balance sheet impairment provisions. This was potentially driven by derecognition and/or write-offs of financial instruments. Furthermore, all of the banks which reported reduction of impairment provision during 2020 is non state-owned enterprises.

This may indicate a trend for non-SOE banks to write-offs their financial asset as part of its credit risk management approach. By contrast, such trend is inconsequential in SOE banks which have more strict regulation to write-offs its financial asset.

Change in total impairment provisions for 30 September 2020 reporting period



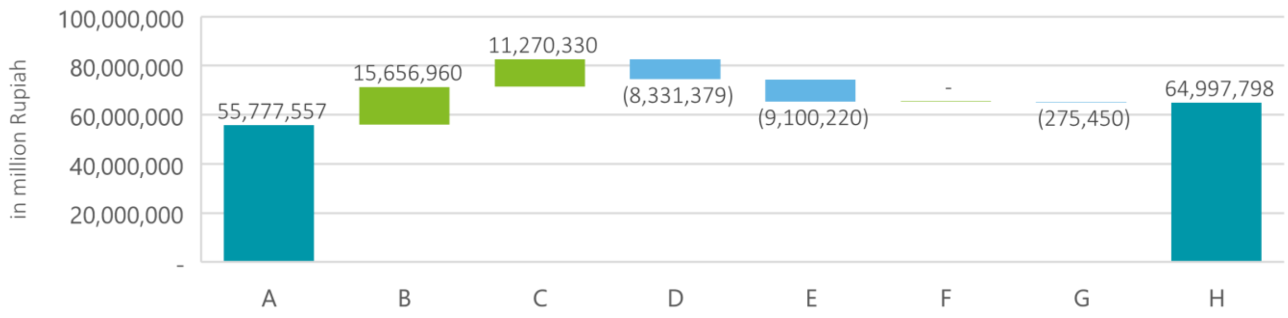
Source: Bank financial disclosures, Deloitte Analysis

Breakdown of change in total impairment provisions during 2020

The graphs in the below depict the change in total balance sheet impairment provisions during 2020 as presented in the Notes to Financial Statement based on the bank's Financial Report. Please note that the banks have not always consistently provided the same level of granularity for these disclosures.

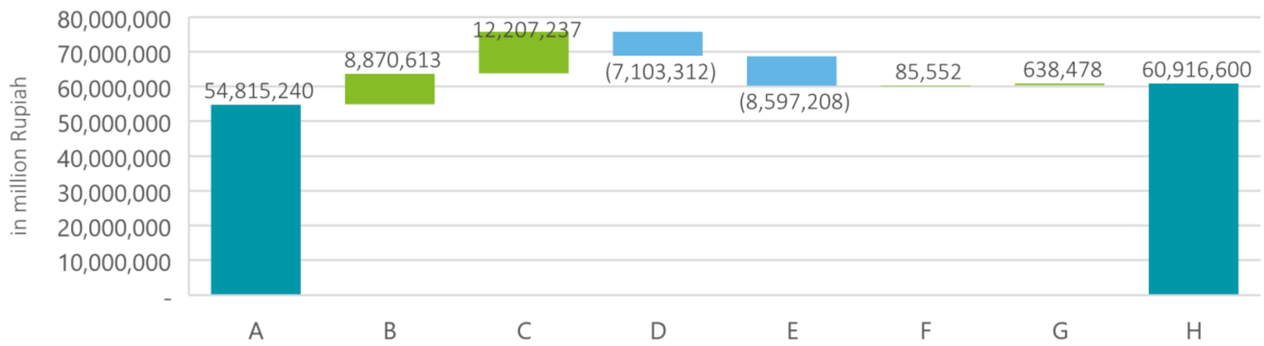
Only few banks disclosed the details of change in total impairment provisions, which consist of a) beginning balance at 1 January 2020; b)new financial asset; c)re-measurements; d) disposal; e) write-off; f) recovery & repayment; g) other movement; and h) ending balance at 30 September 2020. While other banks did not disclose such detailed information.

BBRI



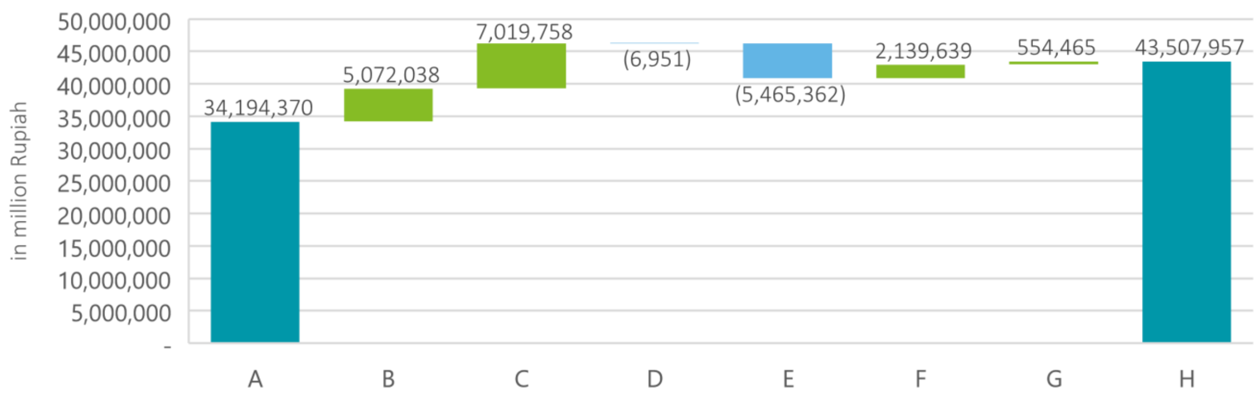
Source: Bank financial disclosures, Deloitte Analysis

BMRI



Source: Bank financial disclosures, Deloitte Analysis

BBNI



Source: Bank financial disclosures, Deloitte Analysis

PSAK 71 impairment provision reconciliation:

A – Beginning Balance at 1 Jan 2020
B – New financial asset
C – Re-measurements
D – Disposals
E – Write-offs
F – Recovery & repayment
G – Other movements
H – Ending Balance at 30 September 2020

Financial result impact

PSAK 55 vs PSAK 71 impairment charge

Change in total PSAK 71 impairment provisions and impact on PSAK 71 impairment charges

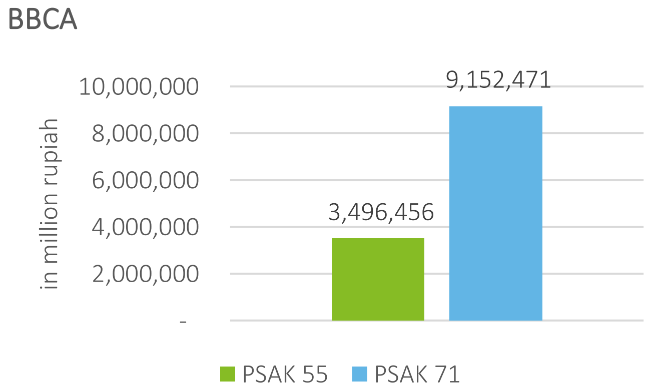
The graphs below compare the total income statement PSAK 71 impairment charge from the 30 September 2020 reporting period against the PSAK 55 from 30 September 2019 reporting period. The banks' PSAK 71 impairment charges were higher than the previous reporting period.

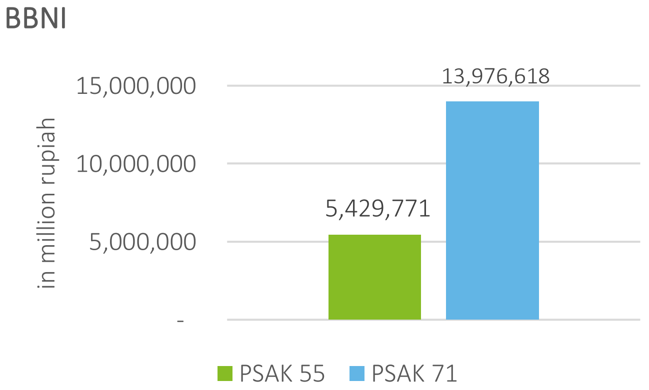
The purpose of presenting a comparison of the PSAK 71 impairment charge alongside historical PSAK 55 impairment charges, is to highlight the portion of the change in total balance sheet impairment provisions that have the direct impact of reducing accounting retained earnings. Accounting retained earnings is used as one the building blocks for regulatory capital resources before other regulatory adjustments. Therefore, comparing the bank's PSAK 71 impairment charge with historical PSAK 55 impairment charges, provides an indication of the relative impact to regulatory capital resources from changes in credit risk dynamics under the different accounting standards.

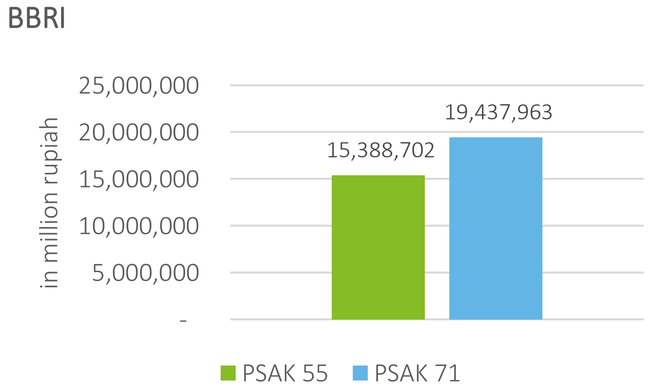
Please note that it is otherwise not appropriate to directly compare the PSAK 71 and PSAK 55 impairment charges, because of the incomparable basis used for calculating the impairment provisions.

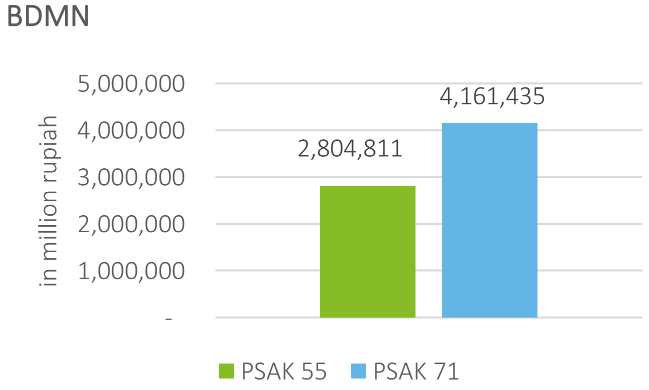
Financial Result 1

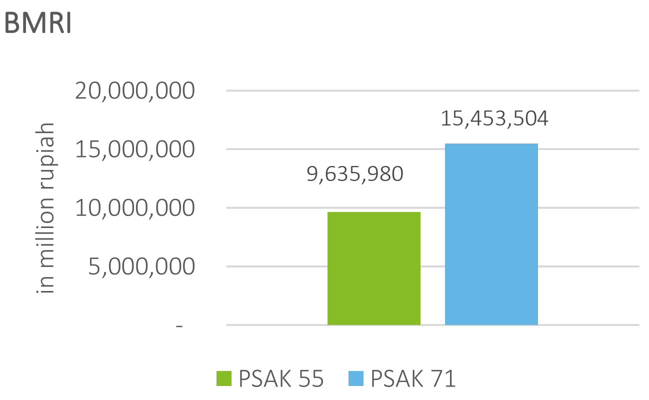
PSAK 55 to PSAK 71 impairment charge provisions.

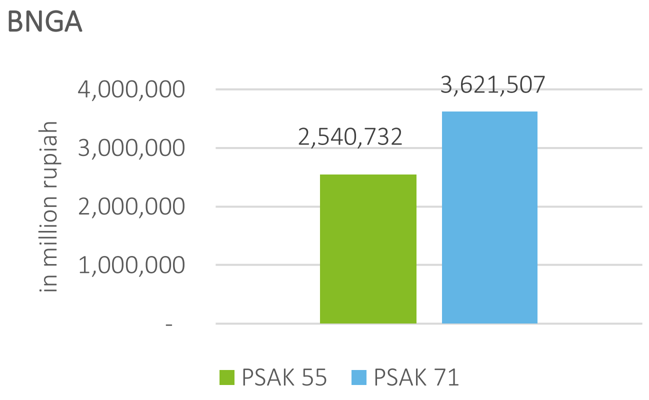


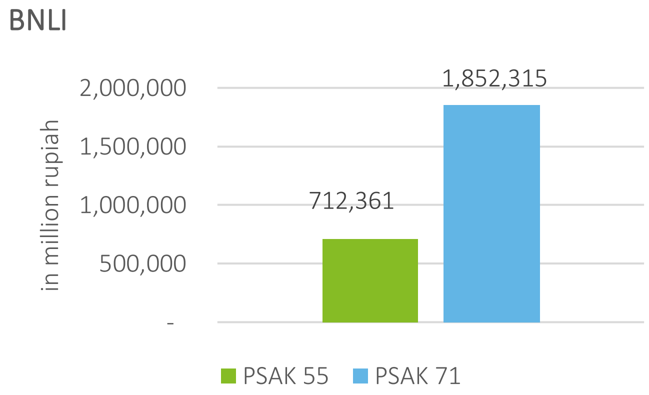


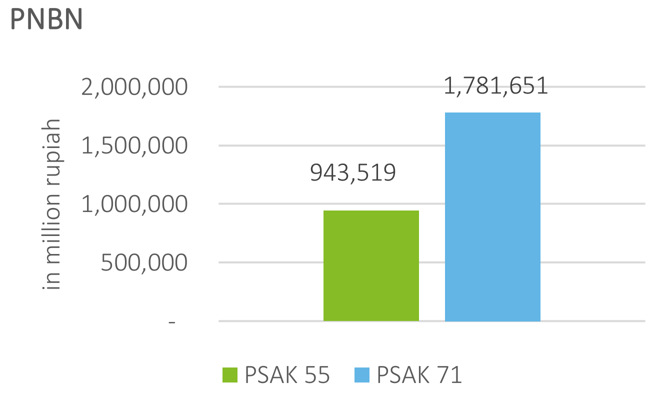












Source: Bank financial report

Regulatory impact

Regulatory Impact

PSAK 71 implementation has impacted the banks' Capital Adequacy Ratio. Moreover, PSAK 71 impairment provisions are higher compared to provisions for possible losses on earning asset (regulatory view) consistent across all BUKU IV banks.

Introduction

In this section we explore the impact of PSAK 71 on the regulatory capital positions on the banks. Furthermore, we also examine PSAK 71 impairment provisions ("accounting view") connection with the provisions for possible losses on earning asset ("regulatory view") recognised in the statement of financial position at 30 September 2020.

Analysis

We analyzed the regulatory capital disclosures included in each banks' Quarterly Financial Publication published for September 2020 to understand the impact of PSAK 71 on the regulatory capital position of the banks. In particular, we looked at the interaction between PSAK 71 provisions and the regulatory capital.

Then, we compare PSAK 71 impairment accounting view with the provisions for possible losses on earning asset ("regulatory view") recognised in the statement of financial position at 30 September 2020. To our further analysis, we also compare PSAK 55 impairment accounting view with the provisions for possible losses on earning asset at 30 September 2019.

Key takeaways

The increase in the banks' PSAK 71 impairment provisions at transition on 1 January 2020 impact capital adequacy ratios

Consistent across all banks, PSAK 71 impairment provisions (accounting view) are higher compared to provisions for possible losses on earning asset (regulatory view).

Whereas with PSAK 55 period, not all banks' PSAK 55 accounting view of impairment provisions exceed the regulatory view.

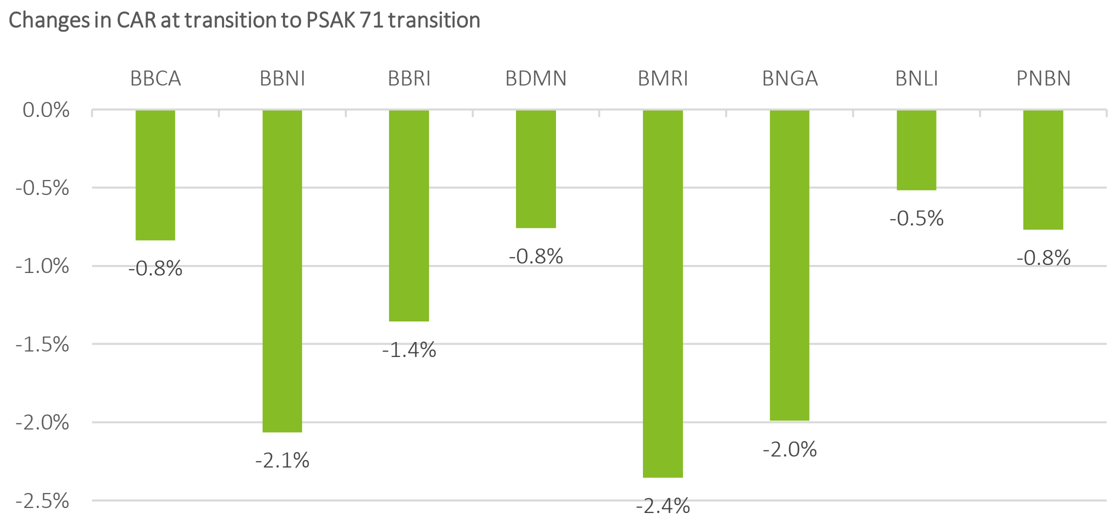
Regulatory Impact
Changes in CAR at transition to PSAK 71

Introduction
The increased level of PSAK 71 impairment provisions notably impacted a number of elements used in the banks' regulatory capital thus impact to capital adequacy ratio calculations.

Changes in Capital Adequacy Ratio, at transition to PSAK 71
All the banks experienced increases in PSAK 71 impairment provisions after transition from PSAK 55 on 1 January 2020. The after tax impact of the increased PSAK 71 impairment provisions, in conjunction with the adjustments required by the Classification & Measurement aspects of PSAK 71, largely resulted in the reduction of the banks' regulatory capital. The reduction of banks' regulatory capital resulted in the reduction of banks' capital adequacy ratio.

The reduction of capital adequacy ratio is ranged from 0.5% - 2.4%. Notably, the banks with the highest deduction of CAR at transition date also aligned with banks with the highest the increase of impairment provision.

Regulatory impact 1



Source: Bank quarterly financial report publication, Deloitte Analysis

Regulatory Impact
Regulatory view of provisions

Comparison of total PSAK 71 impairment provisions with the equivalent regulatory view

The accounting impairment provision is in accordance with PSAK 71/55 regarding financial instrument. The regulatory Impairment provision is based on POJK No. 40/POJK.03/2019 regarding assessment of commercial bank asset quality.

The impairment provisions recognized in the statement of financial position at 30 September 2019 ("PSAK 55 accounting view") and 30 September 2020 ("PSAK 71 accounting view") differ from provisions for possible losses on earning asset ("regulatory view") for each period. The graphs in the next page depict the % difference between the accounting and regulatory views of the banks' total impairment provisions.

Based on our observation:

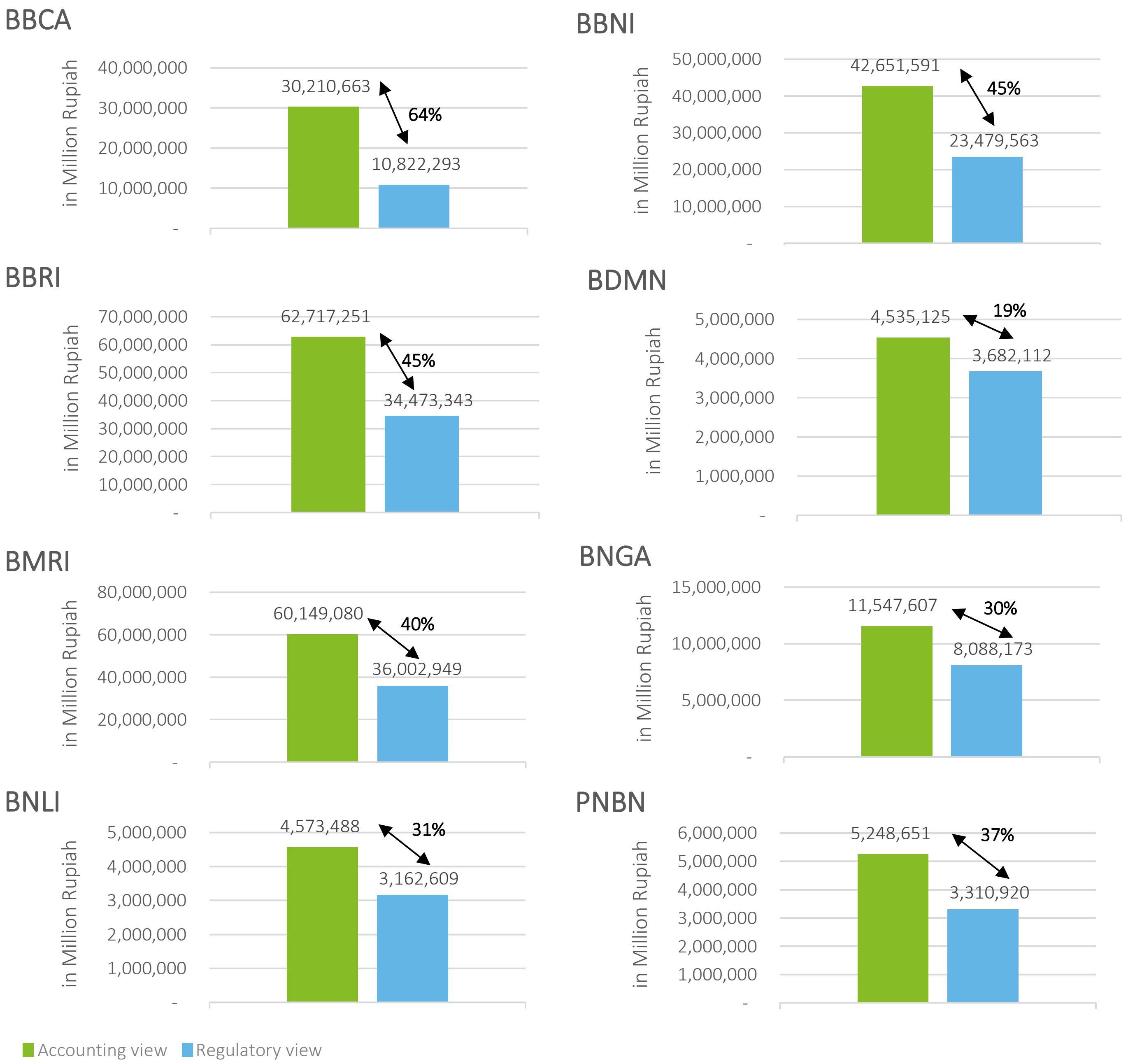
1. All banks' PSAK 71 accounting view of impairment provisions exceed the regulatory view

2. In comparison with PSAK 55 period, *not* all banks' PSAK 55 accounting view of impairment provisions exceed the regulatory view.

3. There are 5 of 8 banks with PSAK 55 accounting view of impairment provision that is higher than the regulatory view.

4. For most of the banks mentioned above in point no. 4, the differences between accounting and regulatory view become wider in PSAK 71 implementation period. With the exception of one (1) bank, which gap reduced from 41% to 31%. The reduction gap is potentially driven by a relatively smaller, compared to the other banks, increase in impairment provision at transition date and derecognition and/or write-offs of financial asset during 2020 reporting period.

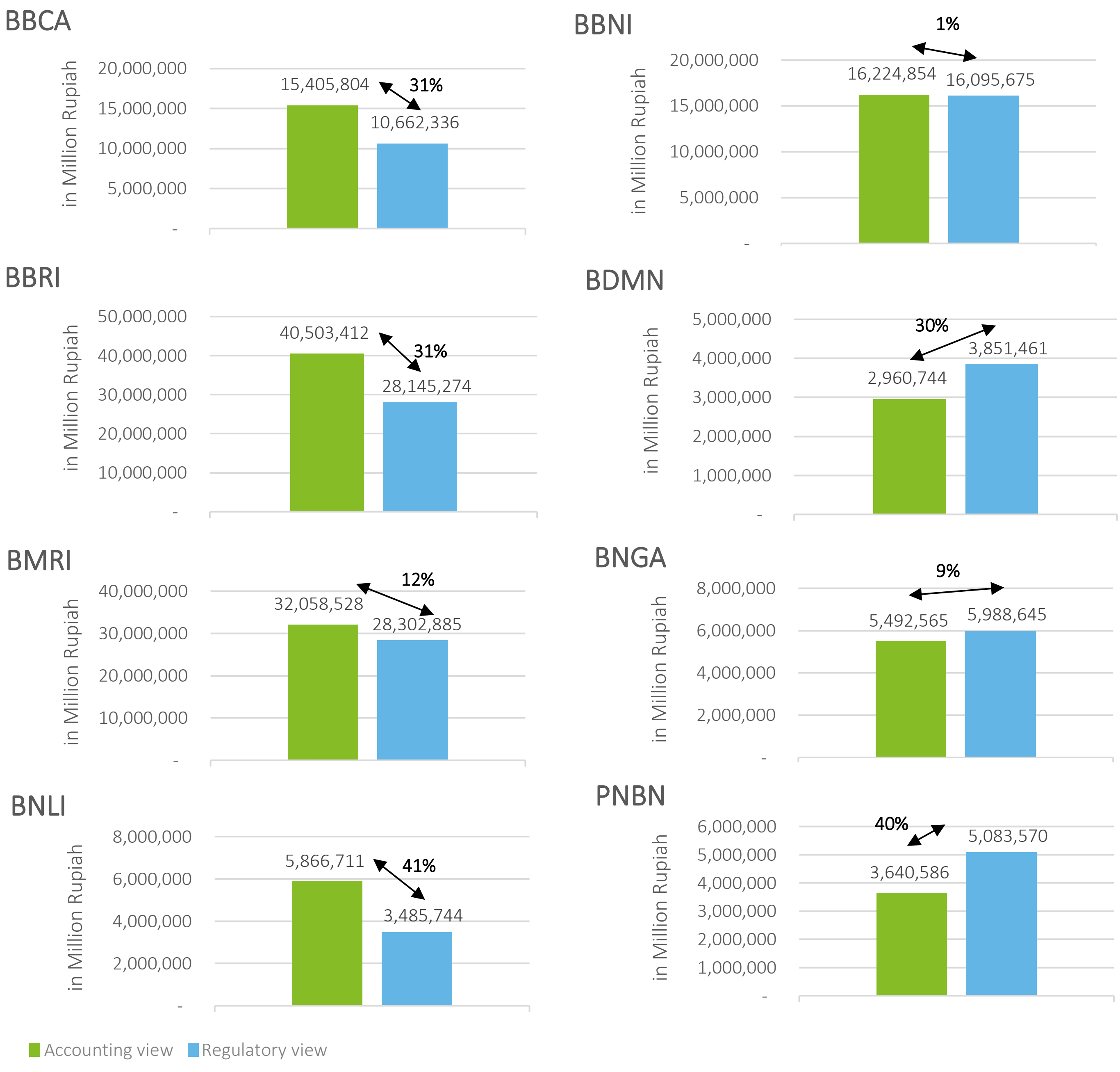
Regulatory impact 2
PSAK 71 Accounting and Regulatory impairment provisions at 30 September 2020



Source: Bank quarterly financial report publication

Regulatory impact 3

PSAK 55 Accounting and Regulatory impairment provisions at 30 September 2019



Source: Bank quarterly financial report

PSAK 71 impairment modelling judgement

PSAK 71 impairment modelling judgement

The banks were required to make many judgments in constructing models to comply with the PSAK 71 impairment requirements.

Introduction

In this section we categorize key aspects of the banks' PSAK 71 impairment modelling judgements based on whether similar or differing approaches have been followed.

Analysis

We analyzed the PSAK 71 impairment provision modelling judgements detailed in the banks' Financial Reports as of 30 September 2020. The focus was on the PSAK 71 impairment provision modelling related detail, which was included in Notes to the Financial Statement sections of the Financial Reports.

We summarized certain key aspects of the banks' PSAK 71 impairment provision modelling judgements where generally similar approaches have been followed.

We further summarized aspects of the banks' PSAK 71 impairment provision modelling judgements where more pronounced differences were noted and categorised some of the approaches where applicable.

Some key aspects of ECL model that covered in this section include:

- definition of default
- approach in determining SICR
- macroeconomic variables (MEV) used in modelling
- macroeconomic scenario (MES) approach and its weighting
- sensitivity analysis
- approach in determining individual and collective assessment

Key Takeaways

There is alignment in the application of certain key areas of PSAK 71 impairment modelling judgments such as for the applicable definitions of default, the approach to determining SICR, and forward-looking macroeconomic variables and scenarios

There are divergences in the application and disclosure of certain key areas of PSAK 71 impairment modelling judgments, such as SICR indicators, MEV used in modeling, sensitivity analysis and approach in determining individual vs collective assessment.

PSAK 71 impairment modelling judgement

Alignment in approach

Introduction

The banks are broadly aligned in their application of certain key areas of PSAK 71 impairment modelling judgments detailed in the banks' financial disclosures.

This includes PSAK 71 impairment modelling judgements such as the:

- Definition of default;
- Approach to determining an SICR; and
- Forward-looking macroeconomic variables and scenarios

Area	Observations
Definition of default	The banks are applying definitions of default for PSAK 71 that are mostly aligned with each other. The banks consider a financial asset as default when the debtor is unlikely to pay in full amount, or the financial asset has certain credit grades. Also, the banks consistently apply 90 days past due rebuttable presumption to serve as a backstop as introduced by PSAK 71.
Approach to determining an SICR	Most banks apply a similar SICR approach that includes a combination of a quantitative, qualitative and backstop assessment in line with the recommendations of the GPPC. **Quantitative and Qualitative** The banks are applying the use of internal credit risk measures as predictive indicators of SICR. This include: • internal rating, • internal "watch list" criteria as a SICR trigger, • asset quality measures such as collectability, • movement in PD, • other delinquency measures such as days past due and forbearance (i.e. restructured accounts). **Backstop** Furthermore, please note that consistent use of 30 day backstop applied across the banks.
Forward-looking macroeconomic variables and scenarios	Small number of banks disclosed macroeconomic variables used in their impairment model. The common macroeconomic variable identified in those banks are GDP and interest rate. Other macroeconomic variable observed include unemployment rate, oil price, exchange rate, inflation rate, credit growth rate, commodity price, property price, and Indonesia Stock Exchange ("IDX") Composite Index. Most banks applied three (3) macroeconomic scenarios that is upside, base and downside. In terms of its weighting, most banks mentioned that the base scenario has the highest probability.

Source: Bank financial disclosures

PSAK 71 impairment modelling judgement

Divergences in approach

Introduction

There is divergence in the impairment modelling judgements used in the application of certain key requirements of PSAK 71 detailed in the banks' financial reports.

This includes PSAK 71 impairment modelling judgements such as:

- Significant Increase in Credit Risk (SICR) indicators
- Macroeconomic variable (MEV)
- Macroeconomic scenario (MES) approach and weighting
- Application of sensitivity analysis
- Collective and individual impairment assessment

Area	Observations
Significant Increase in Credit Risk indicators	Based on our observation, most banks apply a similar SICR approach that includes a combination of a quantitative, qualitative and backstop assessment. There are, however, some differences in the application of the SICR indicators; granularity level of SICR disclosure provided; and availability of disclosure related to COVID-19 impact to SICR assessment. The banks' approaches to assessment of significant increase in credit risk summarized as follow:
SICR Indicator information provided by Bank 1	The Bank use these criteria for determining whether there has been a significant increase in credit : • quantitative test based on movement in PD • qualitative indicators • a backstop of 30 days past due Furthermore, the criteria are determined using factors including determination based on arrear day status. The Bank can also use the judgment of credit analysts and, if possible, relevant historical experience, in determining that the exposure may have experienced a significant increase in credit risk based on certain qualitative indicators that are considered to indicate this and their effects may not be fully reflected in quantitative analysis in a comprehensive manner on a timely manner. However, the Bank did not provide details about such qualitative indicators.
SICR Indicator information provided by Bank 2	The Bank use these criteria for determining whether there has been a significant increase in credit : • quantitative test based on movement in PD • qualitative indicators • a backstop of 30 days past due The Bank can also use the judgment of credit analysts and, if possible, relevant historical experience, in determining that the exposure may have experienced a significant increase in credit risk based on certain qualitative indicators that are considered to indicate this and their effects may not be fully reflected in

Area	Observations
	quantitative analysis in a comprehensive manner on a timely manner. However, the Bank did not provide details about such qualitative indicators.
SICR Indicator information provided by Bank 3	The Bank applies a combination of asset quality measures including rescheduling or restructuring; collectability; and days past due to determine if instrument has significant increase in credit risk. Moreover, financial assets that are 30 or more days past due and not credit-impaired will be considered to have experienced a SICR. Under normal conditions, a rescheduling or restructuring of a loan would indicate a significant increase in credit risk and a move to Stage 2. However, please note that specifically for debtors impacted by COVID-19 and under COVID-19 restructuring program, in term of the ECL calculation, it may not automatically trigger a significant increase in credit risk.
SICR Indicator information provided by Bank 4	The Bank determine the credit risk of financial instrument has significantly increased if one of below criteria occur: a. Financial instrument that are 31 to 90 days past due; b. Financial instrument with BI collectability 2; or c. Financial instrument is restructured and before restructuring event the account is in Stage 1 or Stage 2
SICR Indicator information provided by Bank 5	Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. However, the Bank did not provide details about the indicators. Bank determine financial assets that are 30 or more days past due and not credit-impaired will be considered to have experienced a SICR.
SICR Indicator information provided by Bank 6	As disclosed in the notes of financial statement, the Bank SICR assessment criteria depends on the type of product: Wholesale banking a. Quantitative criteria: movement in credit grading from origination b. Qualitative criteria: assets of debtors that have been placed on High Risk Early Alert Retail Banking a. Quantitative criteria: accounts that are 30 days past due b. Qualitative criteria: debtors with less than 30 days past due which have been restructured or included in High Risk Early Alert category in SME Business Banking portfolio. Please note that specifically for debtors impacted by COVID-19 and under COVID-19 restructuring program, in term of the ECL calculation, it may not automatically trigger a significant increase in credit risk.

Source: Bank financial disclosures

Area	Observations
Macroeconomic variable	Based on our observation, only 3 of 8 banks provide the information about macroeconomic variables applied in the impairment modelling. Among the banks that provided information about MEV, some differences found.
Macroeconomic variable information provided by Bank 1	For most exposures, the main macroeconomic indicators include: GDP growth, benchmark interest rates, and the unemployment rate. For exposures in certain industries and/or regions, the analysis can include commodity prices and/or relevant property prices. Furthermore, the Bank disclosed the key economic assumptions for each indicators through the projection period.
Macroeconomic variable information provided by Bank 2	For most exposures, the main macroeconomic indicators include: GDP growth, benchmark interest rates, and the unemployment rate. For exposures in certain industries and/or regions, the analysis can include commodity prices and/or relevant property prices. Furthermore, the Bank disclosed the key economic assumptions for each indicators through the projection period.
Macroeconomic variable information provided by Bank 3	The Bank used following macroeconomic variable in the impairment model: 1. Oil price 2. USD to IDR exchange rate 3. Credit growth rate 4. IDX Composite index

Source: Bank financial disclosures

Area	Observations	
Macroeconomic scenario approach and weighting	Based on our observation, only 4 of 8 banks provide the information about macroeconomic scenario approach. The following 3 key areas in relation to the banks' MES are covered below: 1. Scenario approach: A number of discrete economic scenario. 2. Forecast horizons: The period of years into the future covered by the banks' MES; and 3. Probability weightings: The structure of the banks' MES and associated probability weightings	
Macroeconomic scenario approach and weighting information provided by Bank 1	**Scenario approach** Economic scenario: • Upside • Base • Downside **Forecast horizon** 5 years	**Probability weightings** The Bank mentioned that the base scenario has the highest probability and is used in strategic planning and budgeting. However, the Bank did not provide detail of its weighting.
Macroeconomic scenario approach and weighting information provided by Bank 2	**Scenario approach** Economic scenario: • Good • Base • Bad **Forecast horizon** 2 years	**Probability weightings** The Bank disclosed that the base scenario has the highest probability and is used in strategic planning and budgeting. However, the Bank did not provide detail of its weighting.
Macroeconomic scenario approach and weighting information provided by Bank 3	**Scenario approach** Economic scenario: • Upside • Base • Downside **Forecast horizon** The Bank did not provide detail of its forecast horizon	**Probability weightings** The Bank mentioned that the base scenario has the highest probability. However, the Bank did not provide detail of its weighting.
Macroeconomic scenario approach and weighting information provided by Bank 4	**Scenario approach** Economic scenario: • Upside • Base • Downside **Forecast horizon** The Bank did not provide detail of its forecast horizon.	**Probability weightings** The Bank did not provide detail of its weighting.

Source: Bank financial disclosures

Area	Observations
Application of sensitivity Analysis	Where determination of ECLs is identified as a source of uncertainty, sensitivity analysis can help financial report users understand the judgements that banks has made about future economic conditions and the sensitivity of the ECL estimates to those judgements. However, based on our observation, only 1 of 8 banks disclosed their sensitivity analysis ECLs to changes in economic variables. The sensitivity analysis performed by the banks can be allocated into: 1. The application of 100% weighting to the alternative economic scenarios; 2. Change in key macroeconomic variables; and 3. Other assessment
Application of sensitivity Analysis by Bank	Change in key macroeconomic variables: A sensitivity analysis of ECL was undertaken to explore the effect of the global COVID-19 pandemic that leads to Indonesia economy slowdown. Some of the MEV update during the sensitivity analysis: crude oil price fall by USD20 per barrel, USD/IDR exchange rate increase by 700 point and inflation rate rise by 10 bps. Modelled expected credit loss provisions would approximately increase by 15%-20% compared to the ECL provision of Stage 1 and 2 as of September 2020.

Source: Bank financial disclosures

Area	Observations
Collective and individual assessment	Based on our observation, few banks disclosed changes in the impairment policy for collective and individual assessment at PSAK 71 transition.
Collective and individual assessment information provided by Bank 1	After PSAK 71 implementation Individual: • Significant financial asset with total exposure of more than Rp 5 billion and has defaulted or has been restructured. Collective: • Aside from the financial asset that met individual criteria Before PSAK 71 implementation Individual: • Loan which individually has significant amount and objectives evidence of impairment. However, the Bank did not disclose the threshold for significant individual financial asset. • Restructured loan which individually has significant amount Collective: • Loans which individually has significant value and there are no objectives evidence of impairment; or • Loans which individually has insignificant value; or • Restructured loans which individually has insignificant value
Collective and individual assessment information provided by Bank 2	After PSAK 71 implementation Individual: • for large exposure portfolios with impaired conditions and exposures above Rp10 billion Collective: • Aside from the financial asset that met individual criteria. This includes portfolio base for retail/consumer/mass-market/auto-finance business lines and for large portfolio under Rp20 billion. Before PSAK 71 implementation Individual: • Financial asset which has significant amount. However, the Bank did not disclose the threshold for significant individual financial asset Collective: • Financial asset which individually has insignificant amount • Financial asset which individually has significant amount but not impaired individually
Collective and individual assessment information provided by Bank 3	After PSAK 71 implementation Individual: • Financial asset per debtor with cumulative outstanding amounted to more than Rp 25 billion • Loan with corporate, Institutional, Financial Institutions, Commercial, and SME Banking segmentation.

Area	Observations

	• Financial asset included in Stage 2 due to restructuring, Stage 3 or Purchased or originated credit impaired (POCI) category
	
	Collective:
	• Non-performing financial asset (or having > 90 days past due) and having cumulative balance amount ≤ Rp25 billion for Corporate, Institutional, Financial Institutions, Commercial, dan SME Banking segmentation.
	• Performing financial asset (or having ≤ 90 days past due) and not restructured for Corporate, Institutional, FI, Commercial, and SME Banking segmentation.
	• All loan in Micro Banking and Consumer segmentation.
	
	<u>Before PSAK 71 implementation</u>
	Individual:
	• Loan which individually has significant amount and impairment objective evidence.
	  o Loans which individually has significant value and which impairment occurred will have material impact to the consolidated financial statements, i.e. loans with Gross Annual Sales (GAS) Corporate and Corporate, as well as loans with GAS outside Corporate and Corporate with outstanding balance of more than Rp 5 billion;
	  o Loans which individually has no significant value, i.e. loans with GAS Business, Micro and Consumer with outstanding balance of less than or equal to Rp 5 billion
	• Restructured loan which individually has significant amount
	
	Collective:
	• Loans which individually has significant value and there are no objectives evidence of impairment; or
	• Loans which individually has insignificant value; or
	• Restructured loans which individually has insignificant value

Source: Bank financial disclosures

Classification and measurement

Classification and measurement

The classification and measurement impact on transition to PSAK 71 can be deemed as not significant within Bank BUKU IV banks context.

Introduction

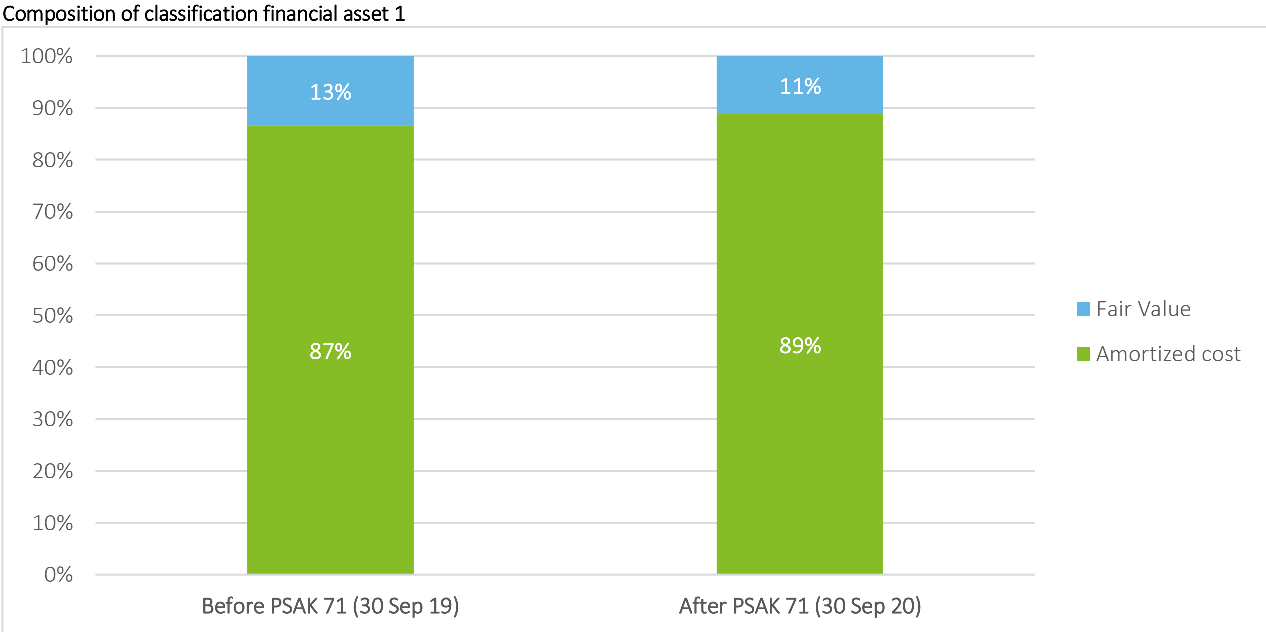
The allocation of financial instruments to the different categories under PSAK 71 leads to an impact due to the changes in the measurement of those instruments. PSAK 71 requires banks to classify financial assets to amortized cost (AC), fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI), based on business model and contractual cash flow assessment.

This section focus on two areas related to classification and measurement. Firstly, we analyze the balance sheet structure of banks in terms of the measurement categories (i.e. amortized cost vs fair value) for period before and after the implementation of PSAK 71. Secondly, we analyze the reclassification between financial instruments categories on transition date to PSAK 71.

Composition of classification financial asset

The graph shows insignificant change of financial asset classification for period before and after the implementation PSAK 71. The balance sheet structure for the banks remains broadly the same, with the amortized cost category being the most used for the classification of financial assets. To be more specific, amortized cost is the measurement basis attributed to more than 80% of banks' total financial assets.

Composition of classification financial asset 1



Source: Bank financial report, Deloitte Analysis

Reclassification between categories in transition date

Classification and measurement impact on transition PSAK 71 impact few number of BUKU IV banks. The most relevant reclassification observed related to the measurement of investment in equity instrument. For most banks, the financial assets of equity instruments held for strategic purposes have been classified to fair value through other comprehensive income according to PSAK 71 from available for sale measured at amortized cost according to PSAK 55.

In relation to that, most of the bank's financial statement disclosure include these following information at transition date:

- The original measurement category and carrying amount determined in accordance with PSAK 55
- The new measurement category and carrying amount determined in accordance with PSAK 71
- The impact to retained earnings at transition date (see table below)
- qualitative information to enable user to understand how the bank applied the classification requirements in PSAK 71 to those financial assets whose classification has changed as a result of applying PSAK 71 (e.g. the reason and rationale for reclassification whether it relates to contractual cash flow or business model assessment).

Classification and measurement 1

Banks	Class of instrument	Reclassification at transition date	Impact to retained earnings [gain (loss)]
BMRI	Marketable securities	From amortized cost (AC) to fair value through profit or loss (FVTPL)	IDR 1,147 million
	Equity instrument	From available-for-sale (AFS) to FVTPL and FVTOCI	nil
BBNI	Equity instrument	From AFS measured at amortized cost to FVTOCI	nil
BBRI	Equity instrument	From AFS measured at amortized cost to FVTOCI	nil
BNGA	Equity instrument	From AFS measured at amortized cost to FVTOCI	nil

Source: Bank financial report

COVID-19 impact

COVID-19 impact

Most of the banks increase their impairment charge during COVID-19 pandemic period. Further assessment in relation to that can be challenging as there is lack of harmonization regarding COVID-19 disclosure across banks' financial statements.

Introduction

This section attempt to estimate the COVID-19 impact on expected credit loss (ECL) measurement. Moreover, we examine the banks' disclosure related to COVID-19 impact. Particularly the qualitative and quantitative disclosure that enable financial statements user to understand the effect of credit risk on the amount, timing, and uncertainty of ECL.

Analysis

With regard to COVID-19 disclosure, we focus our analysis on four (4) components:

1. Support measures provided to borrower
2. Sensitivity analysis to highlight the impact of changes to input in ECL
3. Identification of potential concentration risk due to pandemic
4. Other critical assumption & judgement to measure the ECL, include but not limited to:
    a. macroeconomic input;
    b. macroeconomic scenarios & its weights;
    c. post-model adjustment (PMA).

Pertaining to the assessment of COVID-19 impact on ECL measurement, we collected data of impairment charges in banks' 31 March 2020 financial report to represent pre-COVID-19 charging and impairment charges in banks' 30 September 2020 financial reports to represent post-COVID-19 charging. Secondly, we estimated simple average of monthly impairment charges for both period. Then, we compared the monthly impairment charges for both period to estimate COVID-19 impact.

Key takeaways

There is divergence in the COVID-19 disclosure presented in the banks' financial report

Most of the banks increase their impairment charge during COVID-19 pandemic period

COVID-19 impact
COVID-19 disclosure in financial report

When reporting in uncertain times, it is particularly important to provide users of the financial statements with appropriate insight into the bank's resilience in the face of the current uncertainty and to understand the key assumptions and judgements made when preparing financial information. The relevant judgment and assumption might include the availability and extent of support through government support measures that have been announced.

In this time of COVID-19 pandemic, government has issued press release SP 28/DHMS/OJK/IV/2020, regulations POJK No. 11/POJK.03/2020 and its revision on POJK 48/POJK.03/2020. The regulation stated banks could implement policy to support economic growth stimulus in compliance with risk management policy. The banks could provide relief (e.g. restructuring credit), to debtors affected by the pandemic and consider the debtors ability to repay the debt in staging assessment. Such relief will affect the banks' impairment calculation. In addition, if the impact of COVID-19 cannot be reflected in the impairment model, post-model overlays or adjustments will need to be considered.

In relation to that, disclosures will be critical in explaining how the current economic environment has impacted the amount and uncertainty of, among others, the expected credit loss measurement. Moreover, the qualitative and quantitative disclosure- that provide an adequate level of transparency- may enable financial statements user to understand the effect of credit risk on the amount, timing, and uncertainty of future cash flows.

This section will focus on COVID-19 disclosure related to these following component:

1. Support measures provided to borrower
   User of financial statement can obtain greater understanding of this matter if there's available disclosure about:
   - Description of the measures including information about whether the measures required by government or initiated by the bank
   - Type of measures (e.g. payment holiday, guarantee scheme)
   - Its impact to SICR assessment
   - Its potential financial impact

2. Sensitivity analysis to highlight the impact of changes to input in ECL
   Where determination of ECLs is identified as a source of uncertainty, especially heightened in this pandemic situation, sensitivity analysis can help financial report users understand the judgements that banks has made about future economic conditions and the sensitivity of the ECL estimates to those judgements

3. Identification of potential concentration risk due to pandemic
   There are industry sectors that is highly affected by COVID-19 pandemic. Disclosure related to potential concentration risk can help user of financial statement better understand the potential increased credit risk faced by banks related to exposures to borrowers in greatly impacted segment.

4. Other critical assumption & judgement to measure the ECL, include but not limited to:
   - macroeconomic input,
   - macroeconomic scenarios & its weights
   - post-model adjustment

Analysis

The table below summarized our analysis related to COVID-19 disclosure in the bank financial report.

COVID-19 impact 1

Area	Observations
Support measures provided to borrower	- Most of banks disclosed they provided restructuring credit scheme to debtors affected by COVID-19 pandemic. - Only 2 of 8 banks provide information regarding the outstanding balance of restructured loan per reporting date and disclosure about the type of restructuring given to the debtors. Based on the observations, none of the bank disclosed the net modification gain or loss recognized for financial instrument for which the contractual cash flow has been restructured. - Only 2 of 8 banks disclosed its impact to SICR assessment. Both banks disclosed that they consider such restructuring credit event will not automatically trigger a significant increase in credit risk.
Sensitivity analysis	Only 1 of 8 banks disclosed the sensitivity analysis of ECL model as the impact of MEV update. The Bank disclosed the change in three (3) macroeconomic variables -crude oil price, USD/IDR exchange rate and inflation rate- and its potential impact to ECL provisions.
Identification of potential concentration risk due to the pandemic	Only 2 banks indicated and disclosed that management: - performs a risk-based assessment of those sectors most impacted by the COVID-19 downturn and - performs a qualitative review of its impact to the ECL or bank financial condition. However, the banks disclosure did not provide further details on whether the assessment indicate potential concentration risk due to pandemic. In relation to this, the banks disclosed they diversified their portfolio into different industry, type of products, debtor, and geographic area to minimize concentration credit risk.
Other critical assumption & judgement to measure the ECL	Only 2 banks indicated that they have taken into account adjustment factors to ensure the expected value of ECL recognized in financial statements is stated fairly. However, the banks did not provide further details on how they include the overlay to the model. To be more specific, detailed information not disclosed include: - Background and rationale of the post-model adjustment e.g. the effects of COVID-19 cannot be reflected in models, therefore post-model adjustment or adjustments will be considered - overlay or adjustment amount - the type product or relevant business segment impacted

Source: Bank financial disclosures

COVID-19 impact

COVID-19 impact on PSAK 71 impairment charges

In accordance with PSAK 71, banks are required to develop impairment estimates based on the best available information about past events, current conditions and forecasts of economic conditions. Thus, the current uncertainty resulting from the COVID-19 pandemic shall be taken into account in the impairment measurement.

This section attempted to estimate the COVID-19 impact on ECL measurement by analyzing the impairment charges before and after the pandemic deemed prevalent in Indonesia context. To be more specific, firstly we collected data of impairment charges in banks' 31 March 2020 financial report to represent pre-COVID-19 charging and impairment charges in banks' 30 September 2020 financial report to represent post-COVID-19 charging. Secondly, we estimated simple average of monthly impairment charges for both period. Then, we compared the monthly impairment charges for both period to estimate COVID-19 impact.

Please note that the approach to estimate COVID-19 impact assumes other factors such as financial instrument carrying amount, new instrument purchased, disposal (derecognition) of instrument, write off, recovery etc. – which may also impact impairment charges amount – remains unchanged. The approach also assumes impairment charges will be fairly equal for each month observed. We acknowledged that they may be different with the actual condition. Further examination of other relevant factor will be beneficial to gain greater understanding of COVID-19 impact on impairment measurement.

Based on our observation, most of the banks increase their impairment charge during COVID-19 pandemic period. Only 2 banks decrease their impairment charge by 1% to 2%. Further analysis performed related those results. The reduction in both banks' impairment charge potentially due to increase in derecognition and/or write-offs of asset.

COVID-19 Impact 2
In million Rupiah

Bank	Impairment charge in PL statement period:		Estimated Impairment charge per month		Diff	% Diff
	31-Mar-20	30-Sep-20	Mar-20	Sep-20		
BBCA	2,179,178	9,152,471	726,393	1,016,941	290,549	40%
BBNI	2,270,768	13,976,618	756,923	1,552,958	796,035	105%
BBRI	6,587,871	19,437,963	2,195,957	2,159,774	(36,183)	-2%
BDMN	1,145,992	4,161,435	381,997	462,382	80,384	21%
BMRI	3,047,418	15,453,504	1,015,806	1,717,056	701,250	69%
BNGA	746,735	3,621,507	248,912	402,390	153,478	62%
BNLI	621,670	1,852,315	207,223	205,813	(1,411)	-1%
PNBN	467,863	1,781,651	155,954	197,961	42,007	27%

Source: Bank financial report, Deloitte Analysis

Comparability challenges

Comparability challenges

The Indonesian banking industry, in particular the BUKU IV banks, invested significant resources to update financial reporting for PSAK 71. However, there are still certain aspects that make performing comparisons between the banks challenging.

We recognise that this is the first year of PSAK 71 adoption and that disclosures will continue to develop over time. We hope that preparers find this paper useful and consider the outcome of this paper for future reporting periods.

We expect over time these differences will reduce following regulatory pressure and peer group assessments. In spite of this, it should not be expected that banks will follow identical approaches, as each has a unique credit risk profile. Below we note key challenges experienced in performing the analysis on the banks' financial reporting.

Comparability Challenges

Presentation of quantitative disclosure

The banks have not consistently presented the quantitative disclosures in Notes to the Financial Statement sections of the Financial Reports, including but not limited to:

- Few banks adjusted PSAK 71 impairment provision opening balances during 2020 reporting period since the release of March 2020 financial report.
- The banks did not consistently provide the detail of change in total impairment provision at transition to PSAK 71 and at reporting date.
- Sensitivity analysis of macroeconomic variable to ECL.
- Quantitative disclosure related to covid-19 impact including but not limited to:
    - Support measures provided to borrower as well as its potential impact
    - Sensitivity analysis to highlight the impact of changes to input in ECL
    - Other critical assumption & judgement to measure the ECL

Presentation of qualitative disclosure

The banks have not consistently presented the qualitative disclosures in Notes to the Financial Statement sections of the Financial Reports, including but not limited to:

- Approach in determining SICR.
- Forward-looking macroeconomic information used in scenario and its scenario weighting
- Approach in determining individual and collective assessment
- Qualitative disclosure related to covid-19 impact including but not limited to:
    - Support measures provided to borrower as well as its impact to SICR assessment
    - Other critical assumption & judgement to measure the ECL

References

The banks' Financial Reports and Quarterly Financial Publication as of 30 September 2020, 31 March 2020, 31 December 2019 and 30 September 2019 were the primary sources of the quantitative and qualitative data used in our analysis.

Bank	Document Name	Internet Location
BBCA	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://www.bca.co.id/Tentang-BCA/Hubungan-Investor/Laporan-Keuangan/Laporan-Finansial-Per-Kuartal
BBNI	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://www.bni.co.id/en-us/company/hubunganinvestor/presentationreport
BBRI	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://ir-bri.com/financials.html#quarterly-table
BDMN	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://www.danamon.co.id/en/Tentang-Danamon/InformasiInvestor/Informasi-Keuangan/Laporan-Keuangan-Publikasi

Bank	Document Name	Internet Location
BMRI	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://bankmandiri.co.id/web/ir/quarterly-financials
BNGA	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://investor.cimbniaga.co.id/financials_quartely.html
BNLI	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://www.permatabank.com/id/tentang-kami/hubungan-investor#!/Laporan-Keuangan
PNBN	Financial Reports as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), 31 December 2019 (Audited) and 30 September 2019 (Unaudited)	https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/
	Quarterly Financial Publication as of 30 September 2020 (Unaudited), 31 March 2020 (Unaudited), and 31 December 2019 (Audited)	https://www.panin.co.id/pages/1305/laporan-triwulan-2

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