



PRESS RELEASE

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Banking Sector: Underperforming 2014, NPL Concern and Slight Recovery in 2015

PT ICRA Indonesia (ICRA Indonesia) has today released a commentary on the banking sector loans performance and credit quality in 2014, and its expectations for 2015. The key points in the commentary are:

- Bank loans grew by 11.6% in 2014, far below ICRA Indonesia's estimate, to Rp 3,674tn. This growth marks the lowest for the last four years, and much less than 21.6% recorded in 2013.
- Banks dealt with various challenges in 2014 such as high interest rate environment, slump in business activities with two national elections, rising inflationary pressures, increase in electricity tariffs and minimum wages and tight liquidity, moreover as US showed continuous improvements in their key economic indicators.
- The banks' credit quality in 2014 are mixed as indicated by even stronger in capitalization as CAR rose to 19.6% (2013: 18.1%) while other key indicators such as non performing loans (NPL) deteriorated to 2.2% from 1.8% and net interest margin (NIM) further suppressed to 4.2% from 4.9%. ICRA Indonesia however views 2014 as underperforming for banks from the perspective of intermediary role, underpinned by significantly lower loan growth than expected.
- In 2015, ICRA Indonesia expects total bank loan to grow by 13-15% taken into account political backdrop has gradually stabilized, ongoing economic reform by new government and the dynamics of global economy, particularly related to recovery in the US. Further, ICRA Indonesia also expects the key structural indicators such as profitability and asset quality to be mildly challenged in 2015, with the lingering impact of unfavourable macroeconomic conditions. Our expectations also include NIM of 4.0-4.5%, CAR of 17-19%, LDR around 89% and NPL of 2.0-2.5% for the course of 2015.
- Key challenges for the banking sector in 2015 would include management of asset quality, especially as businesses have to adjust to policies under new regime, operating efficiency -- the ability to optimize the existing network, products offered and ability to further extract from fee based income as well as acting as an agent of development.
- The capital level is still strong even when viewed from the more stricter Basel III perspective, as central bank has introduced more conservative approach, requiring banks to deposit additional liquidity reserves.

The full commentary is available at www.icraindonesia.com.

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