



PRESS RELEASE

Jakarta, 19 March 2014

**Banking Sector: Sustained Performance in 2013, but
Will Remain Challenging Ahead**

PT ICRA Indonesia (ICRA Indonesia) has today released a commentary on the banking sector loans performance and credit quality in 2013, and its expectations for 2014. The key points in the commentary are:

- Bank loans grew by 21.6% in 2013 to Rp 3,293tn, which was in line with ICRA Indonesia's estimate of 20-22%. This growth has moderated further in the span of last three years, posted lower than 23.1% of growth in 2012, due to the high interest rate environment that was taking place in mid year.
- The banks have dealt with various challenges in 2013. The fuel subsidy removal right before the traditionally high inflationary period of fasting and Islamic festive season had triggered high inflation -- which subsequently left central bank increasing the BI (reference) rate by cumulative of 175 basis points -- and that was compounded by current account and trade balance situation plus US Federal Reserve's tapering in its stimulus program that caused sudden unfavourable course of direction in exchange rate. Those heavily impactful factors seemed to mute the effect of housing loan regulation.
- The overall credit quality still hold up in 2013 as indicated by even higher capital adequacy ratio of 18.1%, lower non performing loans (NPL) at 1.8%, although the net interest margin (NIM) cut to 4.9%.
- ICRA Indonesia expects total bank loan to grow by 17-19% in 2014 amid the uncertainties posed by the market, both domestic and global, and the high interest rate environment which will slow down major capital expenditure plans. There is no evident so far of any problem arised from new banking regulation that was imposed since the end of 2012.
- Further, ICRA Indonesia also expects the key structural indicators such as capital and asset quality to remain unchanged broadly in 2014, with the looming impact of unfavourable macroeconomic conditions plus the event of general election to be countered by selective lending.
- Key challenges for the banking sector in 2014 would include management of asset quality, especially as witnessed in few catastrophic events happened in early 2014 and also in light of major political events this year, 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.

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

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