ICRA Indonesia

PRESS RELEASE

Banking Sector: Loans Performance and Credit Quality in 2012, Expectations for 2013

Jakarta, 20 March 2013. PT ICRA Indonesia (ICRA Indonesia) has today released a commentary on the banking sector loans performance and credit quality in 2012, and its expectation for 2013.

- Bank loans grew by 23.1% in 2012 -- reaching Rp 2,708tn -- which was in line with ICRA Indonesia's estimate of 20-23%. This is lower than 24.6% recorded in 2011, among others, due to a sharp decrease in foreign currency loan growth.

- The banks had faced various obstacles during the year of 2012. The effect of slow recovery in global economy coupled with unprecedented slump in commodity prices had stifled the economic growth, as reflected in the lower than expected GDP growth. This, in turn, affected the loans performance. The minimum down payment regulation for vehicle and housing purchase that was imposed in mid 2012 also slowed the credit disbursements, particularly in consumer segment.

- The overall credit quality of the banks was strong in 2012 as indicated by higher capital adequacy ratio (CAR) of 17.4%, lower non performing loans (NPL) of 1.9%, and stable net interest margin (NIM) of 5.5%; and ICRA Indonesia expects it to remain intact in 2013, with the potential impact of unfavourable macroeconomic conditions to be managed by a more conservative approach to lending.

- ICRA Indonesia thus expects total bank loans to grow by 20%-22% in 2013 amid less favorable macroeconomic conditions as a result of slow recovery in global economy; threat of inflation emanating from various aspects, such as increased electricity tariff and wages, as well as issues related to food supply/prices; and subdued commodity prices. The banks also need to adapt to new banking regulations which signaled an indication to trade-off industry's expansion with prudence.

- Key challenges for the banking sector in 2013 onwards: the management of asset quality, especially with credit to micro, small and medium enterprises will be encouraged, and amid the increasing proportion of special mention accounts; the operating efficiency that has to be accompanied by better performance in taking on intermediary role, which should be translated to lower operating expense relative to operating income; also generally Indonesian banks would need to strengthen their capital, not only to address the regulatory requirements, but also to prepare themselves for the regional/global competition.

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

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