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PRESS RELEASE

EVALUATION ON DEVELOPMENT AND RISK PROFILE OF FINANCIAL SERVICES INDUSTRY IN OCTOBER

Jakarta, October 16, 2014: Financial Services Authority (OJK) considered that development and risk profile in financial services industry until the beginning of October was generally in normal condition**.** That is the conclusion of OJK Board of Commissioners` monthly meeting, which has been held routinely every second week of each month in order to evaluate the development and risk profile in financial services industry.

Globally, economic recovery in developed countries still continued although unevenly. It must be taken into consideration about the continuing side effect of policy normalization in the United States of America (U.S.) on emerging market, and also economic deceleration in People`s Republic of China and Japan. Economic recovery in the U.S. as shown in various indicators had aroused concern over acceleration of the Federal Reserve (Fed)`s policy normalization. However, the worsening economic recovery in several other countries lead to a perception that implementation of the normalization was not as fast as estimated. China`s economy is estimated to keep growing in a moderate level (7.4%). Growth also occurred in some major emerging economies. Economic growth in Japan experienced a slow down and has not recovered from the impact of sales tax policy implementation.

National economy remained decelerating, indicated by, among other matters, private sector consumption that tended to slow down after the 2014 festival of democracy, government consumption that grew slowly due to budget tightening to control fiscal deficit and household consumption, and export performance that is also estimated to decelerate until end of 2014.

As for banking condition, capitalization and banking intermediation showed a positive progress. Rentability performance and banking efficiency were good, indicated by capitalization that remained high, capital adequacy ratio (CAR) that was at 19.52% and dominated by core capital component (Tier 1). Rentability was stable, indicated by relatively stable figures in return on assets (ROA) and net interest margin (NIM) as of August 2014, respectively at 2.9% and 4.2%. Efficiency was reasonably stable, reflected from operational cost and operational income (BOPO) figure that relatively did not change at 76.4%.

As for stock exchange condition, it experienced a quite high volatility despite that Jakarta Composite Index (IHSG) was relatively stable in point-to-point figure. Amidst fluctuation in stock exchange, net asset value (NAV) of mutual fund remained strong, backed with a quite large net subscription. NAV of mutual fund in September increased by Rp 3.39 trillion (1.58%) to a total figure of Rp 217.73 trillion. The biggest net subscription occurred in capital market mutual fund (Rp 1.81 trillion), whereas stock mutual fund registered a net redemption of Rp 175 billion, but by end of week recorded a reasonably high net subscription.

Investment value of pension fund and insurance as of August 2014 showed an increase, which is in line with market improvement during the month. Investment value of pension fund was at Rp 173 trillion, an increase of 1.38% compared to the figure in July 2014. Investment value of insurance was recorded at Rp 605.05 trillion, an increase of 2.91% compared to the figure in July.

Finance credit growth experienced a deceleration, asset of finance companies as of August increased by 8.46% (year-on-year) to Rp 412.46 trillion and finance credit increased by 8.54% (y-o-y) to Rp 363.48 trillion. As of August 2014, finance credit growth continued to decelerate and was recorded at 8.54% y-o-y (July`s figure: 10.61%). This was influenced by, among other matters, the increasing interest rate in banking, which also influenced the interest rate of channeled finance.

Liquidity risk in banking was relatively low. Loan to deposit ratio (LDR) slightly decreased, but potential liquidity risk still remained in accordance with dependency to non-core funding and core depositor ratio that was still high. In capital market, the value of stock trading in September increased when compared to previous month, this is in accordance with incessant market sentiment during the month. Meanwhile, bid-ask spread experienced a constraint.

Risk in financial services institutions was generally at a relatively low level. Credit risk in banking was reasonably low, credit quality was stable, indicated by non-performing loan (NPL) that was low and stable. But we need to keep cautious on credit concentration in core debtors that was relatively high and portion of foreign exchange that was sensitive to a change of currency rate. As for condition in finance companies as of August 2014, financing to asset ratio (FAR) and non-performing financing (NPF) increased when compared to previous month. However, we need to remain cautious on potential increase of interest rate towards NPF.

Market risk in financial services industry was relatively low. In banking sector, risk was categorized as low with average net open point (NOP) under 3% within the last year, far below the 20% limit. As for insurance and pension fund conditions, in line with the increasing market trend in August, investment value of insurance and pension fund experienced an increase compared to previous month. In mutual fund, investment value registered escalation in all main instruments except for stock. In finance companies, gearing ratio of finance companies showed a decrease again, while external debt exposure of finance companies as of August experienced an increase, which is influenced by weak Rupiah exchange rate during the month.

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