

# Report of the Board of Commissioners

**It is essential that we maintain our leadership position in transaction banking and remain steadfast as a reliable business partner as we continue to serve the needs of our valuable customers during these unstable times**

**Djohan Emir Setijoso**  
President Commissioner

Dear Shareholders,

On behalf of the Board of Commissioners, I am pleased to report a successful year for BCA, a year which both fulfilled expectations and tested the Bank's capacity for confronting unexpected events. Indonesia began transitioning into a period of slower economic growth and tighter banking liquidity in 2013. Throughout the year, the Board of Directors maintained the Bank's strong balance sheet, ensuring that BCA remained steadfast in servicing the transactional and funding needs of our customers. The Board of Commissioners recognizes and supports the efforts of the Board of Directors in leading the Bank and achieving solid financial performance in 2013.

## **2013 Economic Conditions**

Even though Indonesia's GDP growth slowed in 2013, falling from 6.2% in 2012 to 5.8% in 2013, this growth figure is based on a stronger national output platform and places Indonesia's economy as one of the top performers among the world's major economies.



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Realized foreign and domestic direct investment flows remained buoyant throughout 2013, a sign of long-term confidence towards the Indonesian economy and political stability.

In 2013, Indonesia faced less favorable economic conditions. Indonesia's economy was adversely affected by the slower growth of both global and regional economies, particularly the major Asian economies of China and India. The global economic downturn negatively impacted the prices of Indonesia's major commodity exports, which resulted in a deterioration in Indonesia's trade balance. Weaker exports were poorly balanced with stubbornly high imports, specifically in oil and gas. This trade imbalance created a current account deficit from the fourth quarter of 2011 that continued through 2013.

In addition to, and partly caused by, the high current account deficit, Indonesia faced an unstable flow of liquid funds from global financial markets as a result of the expected tapering of the US Federal Reserve's quantitative easing policy. In the last few years,



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Independent Commissioner



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Independent Commissioner



emerging markets, including Indonesia, enjoyed positive inflows of global portfolio investment funds. These flows, however, were highly volatile, and were tied directly to the US economic recovery process. The reversal of these fund flows and the widening of Indonesia's current account deficit resulted in increased Rupiah volatility. Since the end of 2012, the Rupiah has lost 20.9% of its value against the US Dollar with most of the depreciation occurring in the second half of 2013.

To offset the widening current account deficit, the Indonesian Government took significant and fiscally prudent measures in 2013 to reduce fuel subsidies. Unfortunately, the fuel subsidy cut coincided with high domestic consumption and a higher import cost due to the weakening Rupiah. These challenging factors created inflationary pressure in the second half of the year with inflation reaching 8.4% at the end of 2013, a significant increase from the 4.3% inflation rate recorded in 2012.

In response to the current account deficit, inflationary pressure, and an unstable currency, the Indonesian Central Bank acted prudently by raising interest rates and allowing the Rupiah to reach a new equilibrium in line with economic fundamentals. Bank Indonesia's reference rate was raised by 175 bps in 2013. Ultimately, the central bank's tight monetary policy was intended to cool down loan growth, thus prevent any overheating of the economy, and

improve the banking sector's liquidity reserve. Loans in the banking sector grew faster than the deposit base in recent years, which led to a tighter position of the banking sector's liquidity reserves in 2013. The sector's LDR was 89.7% as of December 2013, compared to 74.6% 5 years ago. BCA is optimistic that the Indonesian government and the Central Bank will continue to take additional steps necessary to steer Indonesia's economy in the right direction.

#### **The Board of Commissioners Applauds the Steps Taken by Management in the Face of Instability**

BCA initiated independent measures to meet foreseeable macroeconomic trends by raising interest rates, strengthening prudent lending principles, sustaining a healthy liquidity position and securing a strong capital position in 2013.

In response to the Rupiah's volatility, BCA maintained a sound net open position with a significant foreign currency liquidity buffer. The weaker Rupiah had no material effect on BCA's earnings. The Board of Commissioners is pleased to witness that these measures were carefully taken to successfully ensure a comfortable assets and liabilities position for the Bank.

BCA focused on remaining a leader in transaction banking. With a high number of transaction accounts, or Current and Savings Accounts (CASA), BCA maintained CASA market share at around 16% over the year. CASA accounts make

up the bulk of our third party funds and gave the Bank a substantial pricing advantage in cost of funds allowing it to stay competitive through these unstable times. In an environment of rising interest rates and tighter sector liquidity, the Bank quickly responded by upwardly adjusting time deposits rates since May 2013 to cautiously sustain overall third party funds and maintain a healthy liquidity position. The Bank's Loan to Deposit Ratio (LDR) was at 75.4% per December 2013, in the low range for the banking sector.

Successful weathering of negative external conditions was mostly due to BCA's ability to leverage liquidity and low-cost CASA funds to maintain its loan growth. As the economy moved to a new equilibrium, the Bank exercised extra diligence in lending, prioritizing existing customers, as a part of the Bank's strategy of strengthening our commitment to stand by our customers, and to cement our role as a trustworthy and reliable business partner.

Despite the headwinds, business showed resilience with strong demand for investment loans and increased requirements for working capital needs in all lending sectors. Lending opportunities were undertaken in line with BCA's risk appetite, including to maintain a wide portfolio diversification across various industrial sectors. Total Bank lending increased 21.6% in 2013, in line with the banking industry's growth.

Following an effective strategy to deepen the Bank's relationships with customers, management enhanced product offerings and focused on deepening customer engagement. Throughout 2013, BCA continued developing its payment settlement platform, enhancing the credit process and strengthening the operations of its subsidiaries in the insurance, vehicle financing, Sharia banking and securities businesses. These subsidiaries will allow the Bank to offer a wider product range with customers assured of the same quality and service that they expect from BCA.

The positive overall operational results of 2013 led to a rise in Net Income of 21.6% with Non Performing Loan's (NPL's) low at 0.4% and Capital Adequacy Ratio's (CAR's) strong at 15.7%, fully within a healthy target range, while securing a Return on Assets (ROA) of 3.8% and Return on Equity (ROE) of 28.2%.

### **Implementing Good Governance**

The Board of Commissioners places a high importance on the implementation of Good Corporate Governance (GCG) practices and is very pleased to see BCA named the Best Bank for Disclosure & Transparency in the IICD Conference and Corporate Governance Awards 2013. Efforts by the Board of Directors to instill and reinforce strong ethical values were integral to the Bank's culture, and throughout 2013, the Bank carefully monitored best practices with the intention of moving closer to the standards of the ASEAN Corporate Governance Scorecard.

Throughout 2013, the Board of Commissioners worked closely with its committees, the Audit, Risk Oversight and Remuneration and Nomination Committees, to ensure the ability of the Board of Commissioners to carry out its duties and responsibilities to the highest degree of competence and quality. This strong structure, with careful attention paid to all business areas, allows the Bank to best satisfy customer needs and maintain a healthy risk profile.

### **Corporate Social Responsibility**

In expanding the standing of BCA in the wider community, BCA's management and staff remain engaged with numerous Corporate Social Responsibility programs and efforts. These programs, primarily centered on education, cultural and health needs, assist members of the communities and their families and highlight the long-term commitment of BCA in growing stronger together.

We are pleased to note that BCA's commitments in Corporate Social Responsibility have increased as the Bank itself has grown. In choosing new projects, BCA is mindful to ensure that project goals are achievable and the benefits are sustainable.

### **Looking to the Future**

We do not foresee a full and fast recovery of global trade and economic performance occurring in 2014, and therefore, we do not expect the Indonesian economy and the

banking sector activities to be as strong as they had been in previous years. The challenge for the Board of Directors is to remain vigilant in the face of unresolved lingering economic problems, most notably in Europe, the United States of America and the slowing down of major Asian economies, China and India.

In remaining steadfast in standing by our customers, BCA has effectively communicated with customers that in order to meet the challenges of uncertain economic conditions, all parties must work together to achieve success. The Board of Directors intends to continue investing in banking infrastructure, while improving internal procedures, developing subsidiaries business platform, and naturally, enhancing customer relationships.

Selective improvements in certain industries and regions, both domestically and internationally, will provide ample opportunity for Indonesia as a whole to maintain positive economic growth in the coming years. The Board of Commissioners remains optimistic that once the economy regains higher momentum BCA will be in a strong position to capture emerging business opportunities.

2014 will see Indonesia hold Presidential and People's Assembly elections. While indications in 2013 in terms of increased business investment bode well in terms of

confidence, BCA will maintain a prudent yet optimistic course given the rising political uncertainty that is normal during election years.

#### **Dividend Policy**

BCA has had a long-standing dividend policy to distribute a significant percentage of Net Income to shareholders upon approval at the Annual General Meeting of Shareholders. This distribution, however, remains flexible and will be adjusted due to balance sheet considerations, the need for growth and other strategic concerns.

#### **Sincere Appreciation to All Stakeholders**

I would like to thank all of those who have contributed to the successes of the Bank in 2013. The Board of Commissioners is ever grateful to our shareholders, business partners, customers, staff of both the Bank and its subsidiaries, and other BCA stakeholders for their ongoing support, trust and loyalty. Also, to Bank Indonesia, the Financial Services Authority (OJK) and other regulators, we are thankful for the guidance and support given to the Indonesian banking industry and to BCA.

We also applaud the Board of Directors and the management of BCA, as well as our employees, for their unwavering dedication and support.

Jakarta, March 2014

On behalf of the Board of Commissioners,



**Djohan Emir Setijoso**  
President Commissioner