

Treasury and International Banking

BCA Treasury proactively manages the Bank's balance sheet while BCA International Banking focuses on enhancing the Bank's presence in trade finance and remittance services

Treasury Services

During 2013 the BCA Treasury managed the Bank's liquidity position by investing in well diversified high quality assets to optimize portfolio returns. The Division also provides treasury related services to meet the foreign exchange and capital market needs of BCA's broad customer base, thereby supporting the Bank in expanding and deepening customer relationships.

Sound Balance Sheet

In 2013, a number of external events had a direct impact on the Treasury business, specifically the market uncertainty resulting from the US Federal Reserve's plans to taper Quantitative Easing, Indonesia's increased trade deficit and higher inflation and interest rates, and increased Rupiah versus US Dollar exchange rate volatility. In this challenging environment BCA maintained a strong and well managed balance sheet with ample liquidity and no material exposure to exchange rate fluctuations. BCA's net open position stood at 0.2% of capital at the end of 2013, well below Bank Indonesia's threshold of 20%.

As at year end 2013, BCA Treasury managed investments valued at Rp 102.4 trillion, down 6.5% from Rp 109.5 trillion in 2012. These investments are prudently placed particularly in short-term central bank (Bank Indonesia) instruments, government bonds, and corporate bonds. This mix is designed to both balance Bank liquidity and achieve positive returns on investments. These sound treasury investments represented 25.0% of the Bank's total third party funds as of December 31, 2013. The bulk of these investments are placed in low-risk sovereign instruments such as Bank Indonesia term deposits, Bank Indonesia Certificates, reverse-repo instruments with Bank Indonesia and government bonds.

To strengthen money market liquidity and stabilize the Rupiah, Bank Indonesia issued a series of policy packages related to treasury instruments, including the issuance of new instruments such as swap auction, Bank Indonesia Deposit Certificates and overnight foreign exchange term deposits. Bank Indonesia shortened the monthly holding period

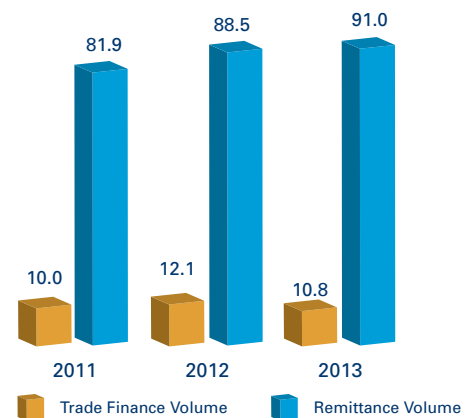
Treasury Portfolio

(in billion Rupiah)



International Banking Business Volume

(in USD billion)



for Bank Indonesia Certificates from 6 months to 1 month as well as shortening swap hedging time from 1 month to 1 week. BCA viewed these initiatives from Bank Indonesia positively and participated in Bank Indonesia's foreign exchange swap auction, while remaining a regular investor in various Bank Indonesia instruments.

Due to its solid liquidity position, BCA maintained a low overall cost of funds even with the rising interest rate environment in 2013. Although the Bank gradually raised Rupiah Time Deposits rates between May 2013 and December 2013 in response to increased competition for funding, the Bank's overall cost of funds was 2.0% at year end, low in comparison to the overall banking sector. The competitive cost of funds and increasing earning asset yield achieved a strong margin for the Bank, with a net interest margin above 6% in 2013.

Increasing Treasury Activities in Facilitating Customer Needs

BCA is pleased to see increasing efforts in facilitating customer needs across the corporate, commercial and SME and individual business segments, which is reflected in the increased frequency of foreign exchange transactions to 596.6 thousand in 2013, compared to 2012's 576.6 thousand. Despite the increase, total transaction volume reduced to USD 45.0 billion in 2013 from USD 52.4 billion in 2012 due to the tightening USD liquidity market that was prompted by concerns about Indonesian economy amidst global economic uncertainty.

In relation to capital market products, BCA Treasury manages the selling of Indonesian Retail Bonds (ORI) and Sukuk Ritel (SR) as an official sales agent for the Government of Indonesia. BCA was recognized as the best-selling agent of ORI009, in 2012. In 2013, Treasury sold Rp 2.1 trillion in ORI010 and Rp 857 billion in SR005, an increase over 2012's Rp 1.4 trillion for ORI009 and Rp 300 billion for SR004. On the SR005, BCA worked with UNICEF to support the

Early Childhood Development program in Aceh with a contribution made for each bond sold. For ORI010, the Bank worked with Yayasan Kehati in a program to rehabilitate mangrove forest ecosystems in the Pantura region of Central Java.

In meeting customer demands for solutions and higher business volumes, BCA Treasury works with related BCA business units and branches. BCA Treasury is continuing to develop and expand the range of treasury products and services while simultaneously improving staff knowledge across the Bank's Branch network. In 2013 BCA developed new services designed to facilitate customer transactions, such as providing online foreign exchange transaction services to corporate customers and e-Rate products, which allows for faster and more accurate service foreign exchange transactions at a reduced cost.

BCA Treasury received several awards in 2013 for previous year performance, including Best Selling Agent for ORI009 and Best Primary Dealer 2012 as well as Best Overall Domestic Provider of FX Services in Indonesia, as voted by corporations.

International Banking

Despite the economic challenges in 2013, BCA maintained its status as one of the largest remittance providers in Indonesia. BCA processed a total volume of USD 91 billion.

BCA continued its innovation in foreign exchange remittance services, such as Total Yuan Solution, which offers remittance services, current accounts, deposits, and banknotes in Yuan. The Total Yuan Solution product is linked with the Bank's e-banking facilities for business (KlikBCA Business).

To accommodate the large demand of remittance from overseas workers, BCA has developed a web-based remittance service, FIRE cash (Financial Institution Remittance) since 2007, enabling remittance transactions to local bank

to be processed more effectively. To facilitate a more convenient process for cash remittance recipients, cash can now be withdrawn in all BCA branches and at FRe cash BCA agents throughout Indonesia, including the National Post Office. Currently FRe cash BCA services cover more than 100 countries, with a focus on those countries popular with Indonesian migrant workers.

In 2013, BCA's trade service volume was lower than the previous year due to slower economic growth globally and softer Indonesia international trade flows. Weakening prices of key export commodities, especially coal and crude palm oil (CPO), had a significant impact on the reduction in Indonesian exports in 2013. This in turn led to a reduction in trade financing for BCA of 12.0% to USD 10.8 billion.

In the midst of a challenging situation, BCA continues to develop a variety of trade finance products and services and to improve the quality of human resources in order to accommodate the increasingly sophisticated and complex trade requirements of the Bank's customers.

Going Forward

BCA Treasury will further step up its efforts to enhance products and services to better meet customer needs in Indonesia's dynamic environment, while ensuring that the Bank maintains sufficient liquidity, particularly in the softer economic environment expected in 2014, as well as delivering optimum returns on its investments.

Facing increasing competition in the future, BCA International Banking will continue to provide solutions and services of the highest quality, and actively expand the Bank's presence and connections with financial service companies around the world.