

Headed For Rough Patch

- § 2015 is shaping up to be another tough year for Indonesian banks as external conditions present a challenging environment for GDP growth in Indonesia.
- § Our positive long-term view on the sector remains intact although we see near-term downside risk from cut back on corporate spending.
- § Despite lack of catalysts, the combination of improving 2016 growth outlook, falling inflation, adequate liquidity and the determination of Bank Indonesia (BI) to maintain relatively high interest rates suggest that Indonesia's banking sector poised to surprise us on the upside.
- § Risks to our sector outlook are tilted to the downside and include a continuing weak economic activity, unexpected interest rate hike and further USD/IDR appreciation.
- § Our top picks are BJTM and BTPN as they offers higher returns and potential earnings growth. We also expand our coverage universe by initiating report on PT Bank BJB, Tbk (BJBR).

Table 1. Indonesia Banking Sector – Stock Pick

| Ticker | 6/30/2015 | | Target | Up / | Div Yield | 12m |
|--------|-------------|--------|-------------|----------|-----------|--------|
| | Price (IDR) | Rating | Price (IDR) | Down (%) | 2015F | Return |
| BBKP | 660 | BUY | 745 | 12.8 | 3.6 | 16.4 |
| BJBR | 820 | BUY | 950 | 15.9 | 8.7 | 24.6 |
| BJTM | 476 | BUY | 600 | 26 | 8.8 | 34.8 |
| BTPN | 3,425 | BUY | 4,500 | 30.4 | 0.0 | 30.4 |

Source: Reliance Securities

Table 2. Change Of Price Target

| | Rating | | Target Price | |
|-------------|--------|-----|--------------|-------|
| | Old | New | Old | New |
| BBKP | BUY | BUY | 885 | 745 |
| BJBR | - | BUY | - | 950 |
| BJTM | BUY | BUY | 490 | 600 |
| BTPN | BUY | BUY | 5,470 | 4,500 |

Source: Reliance Securities

Table 3. Valuation Assumptions

| | BBKP | BJBR | BJTM | BTPN |
|---------------------|-------|-------|-------|-------|
| Risk Free Rate | 8.0% | 8.0% | 8.0% | 8.0% |
| Equity Risk Premium | 3.9% | 3.9% | 3.9% | 3.9% |
| Beta | 0.54 | 0.86 | 0.56 | 0.28 |
| Cost Of Equity | 10.1% | 11.4% | 10.2% | 9.1% |
| Sustainable ROE | 15.8% | 14.8% | 15.8% | 20.1% |
| Long-Term Growth | 8.0% | 6.3% | 4.1% | 10.0% |

Source: Reliance Securities

Jasa Adhimulya
(6221) 5793-0008 ext.159
jasamulya@reliance-securities.com

4M15 At Glance

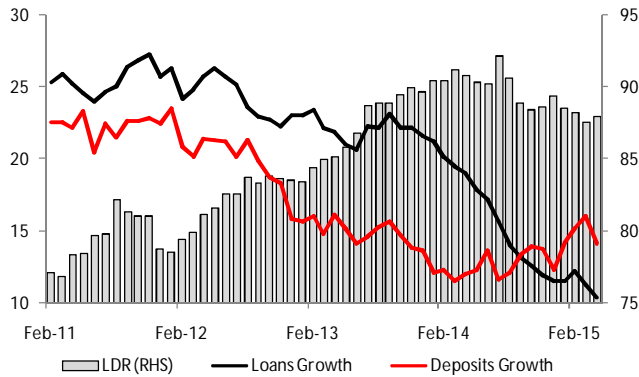
Given the headwinds in the macroeconomic environment, lower loans growth, margin pressure and rising asset quality concerns, Indonesia's banking system held up pretty well in recent quarters. Strong capitalization (20.8% CAR) and higher profitability reinforces banks' ability to absorb economic shocks and withstand substantial asset quality deterioration

As expected, banks' financial results were marked by slower growth in top lines coupled with ballooning costs. Net Interest Income grew 10.5% (yoy) to IDR96.4 trillion while non-interest expenses shot up 18.8% (yoy) to IDR120.2 trillion. As a result, net profit dipped 0.2% (yoy).

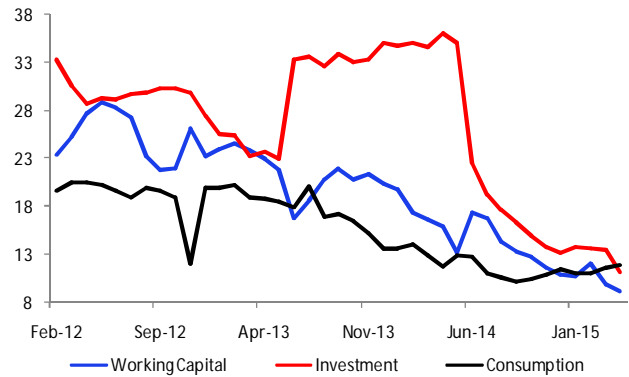
As economic growth sputtered, loan growth decelerated to 10.4% (yoy) (Graph 1) while on the other hand deposits growth accelerated to 14.2% (yoy) compared to 12% (yoy) growth in 4M14.

Investment loan grew 11.2% (yoy), a far cry from the 36% jump in previous year. The growth of Working Capital loan plummeted to 9.1% (yoy). Expanded 11.9% (yoy) 4M15, consumption loan appears to be on the gradual rebound after barely grew 10% in 9M14 (Graph 2).

Graph 1. Loan And Deposit Growth



Graph 2. Loan Growth By Types (% YOY)

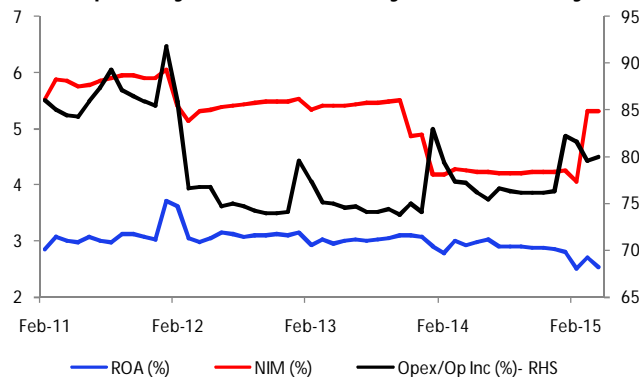


Source: Bank Indonesia, OJK

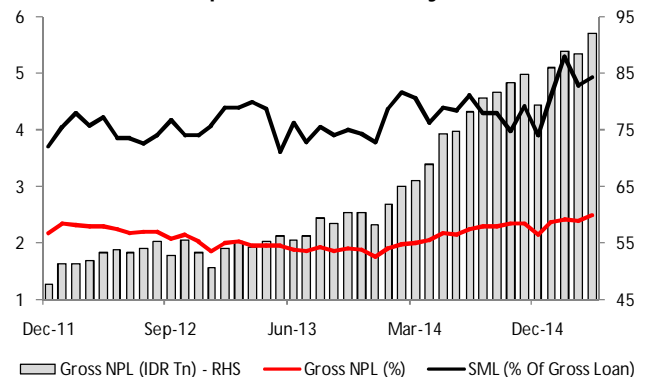
Net Interest Margin (NIM) hovered at 5.30% after compressed to 4.06% in February 2015 as the impact from interest rate hike cycle kicked in. Return On Assets (ROA) has been drifting lower below 3% since the end of 2013 (Graph 3).

Assets grew modestly 3.2% from 2014 year end, led by regional development banks (+20.5%) and foreign-owned banks (+10%). Asset quality remained stable albeit Gross Non-Performing Loans (NPL) rose to 2.48% from 2.16% in 2014 (Graph 4).

Graph 3. System Profitability And Efficiency



Graph 4. Asset Quality



Source: Bank Indonesia, OJK

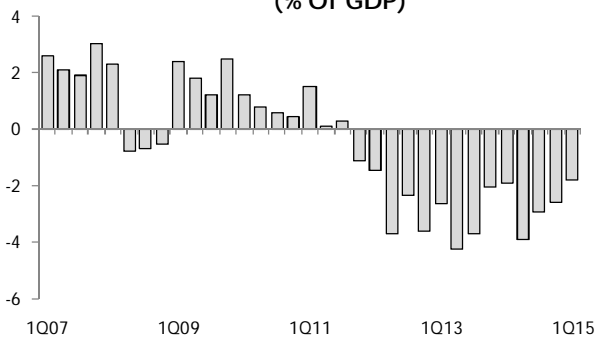
Dark Cloud Over The Horizon

2015 is shaping up to be another tough year as external conditions present a challenging environment for GDP growth in Indonesia. The expectation of U.S. monetary tightening has already strengthened the USD and raised financing costs. The tightening will affect USD denominated debt more than domestic debt, but domestic debt may face refinancing challenges, too, if foreign holders demand higher yields.

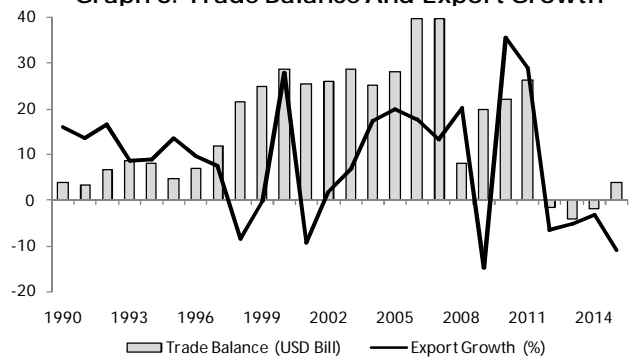
Indonesia’s current account has been in the red for the past three years (Graph 5). The Current Account Deficit (CAD) narrowed to 1.81% of GDP in 1Q2015 from 2.58% of GDP in 2014.

Concerns over a widening CAD have temporarily eased as Indonesia posted a sixth consecutive month of trade surplus in May despite signs of slowing manufacturing activities, bolstering expectations of a narrowing CAD. Ironically, the surplus in Indonesia’s trade balance prompted by sharp decline in imports rather than by robust export growth (Graph 6).

Graph 5. Current Account Surplus/Deficit (% Of GDP)



Graph 6. Trade Balance And Export Growth

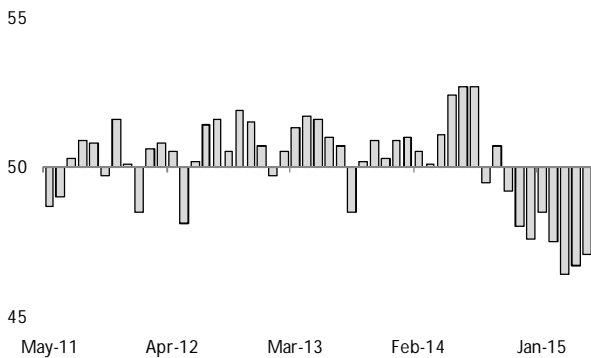


Source: Bank Indonesia, BPS

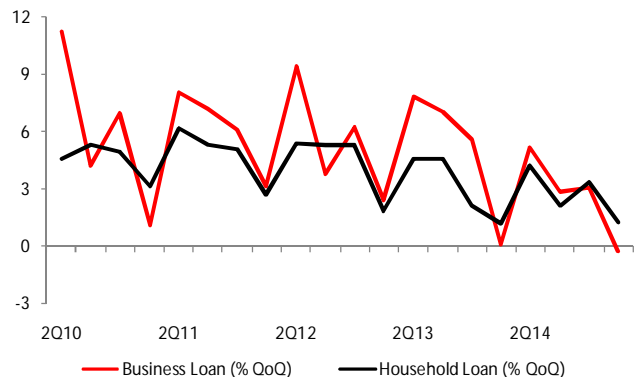
The economies of Indonesia’s two major trading partners, China and Japan, account for around 9% and 10% of the country export share respectively, are both expected to slow this year, which will add to the risk to growth. Shipments to China in the first five month of 2015 plunged 29.3% (yoy) after in January-February nose-dived 40.6% (yoy) in what appeared to be the largest drop in history.

The HSBC Indonesia Manufacturing PMI continued to contract, a reflection in part of rising prices due to strengthened USD negatively weighting on demand (Graph 7). Roughly 25% of bank lending goes to manufacture industry.

Graph 7. HSBC Indonesia Manufacturing PMI



Graph 8. Household Loan Growth And Business Loan Growth



Source: Bank Indonesia, Markit

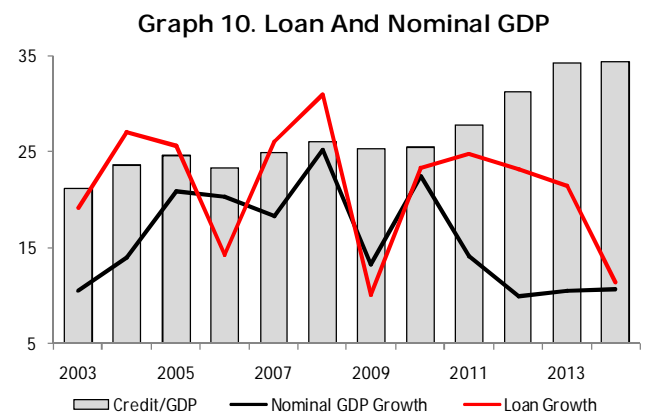
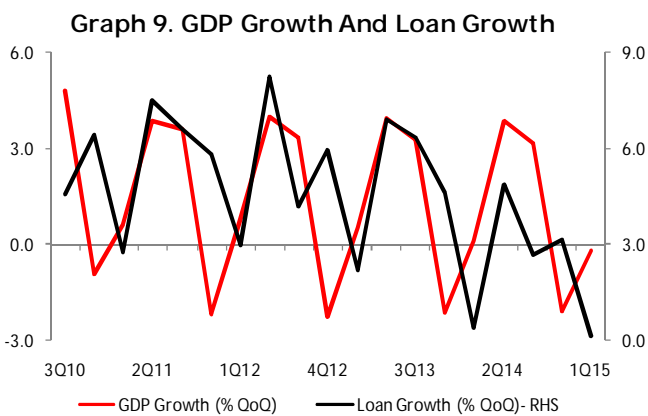
Loan Growth Remains Sluggish

Loan growth to remains sluggish in 2015 due to weaker demand for business loan. During 1Q15, business loan registered a negative growth of 0.27% (qoq) while household loan eked out 1.26% (qoq) gain (Graph 8).

Loan growth moves in tandem with quarterly GDP growth (Graph 9) where by and large demand for loan hit its peak in second and third quarter before peter out at the end of the year. However, in our view, the likelihood that loan growth this year would follow pattern in the past years is quite slim. The improvement in loan growth for the rest of this year would be marginal.

Therefore, propped up by robust household loans, a system-wide loan growth this year is forecast to be between 12%-14%, below the 15%-17% target growth set out by the Financial Services Authority (OJK) but broadly in line with the long-term average of Indonesia’s nominal GDP growth (Graph 10).

Our positive long-term view on the Indonesia banking sector remains intact. The relatively low loan penetration (Credit/GDP) ratio of 34% means the loans disbursed by banks are still insufficient to finance Indonesia’s overall economic expansion and thus suggests ample headroom for further credit growth in the long run.



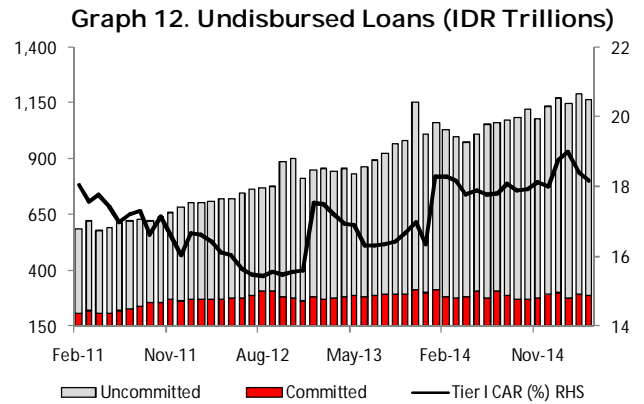
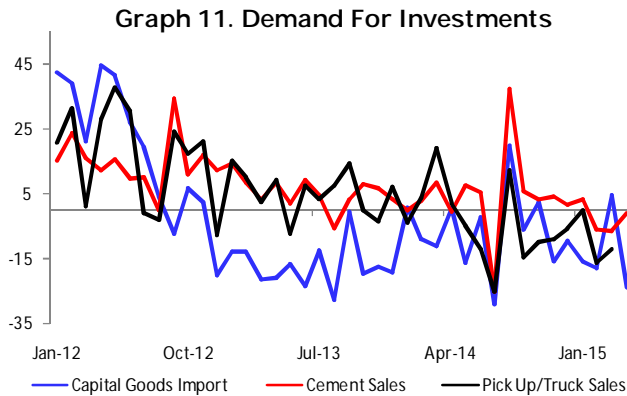
Source: Bank Indonesia, OJK

The harbingers of investment demand such as import of capital goods (accounts for 16.5% of total imports and is used to gauge direct investment), domestic cement consumption and sales of pick up or truck foretell a grim outlook as they continue to move in a downward trajectory (Graph 11).

Import of capital goods for dropped 14.6% in 5M15 compared to a 4.64% contraction for the same period in 2014. Historically expanding twice the pace of real GDP growth, the domestic cement consumption for the first five month of this year fell 3.8% (yoy), contrast with a 3.7% yoy) rise in the same period last year.

The sales of pick up or trucks fell 12.22% (yoy) in March 2015 following a 16.26% (yoy) slump in the previous month and extending the downtrend into the seventh month.

In another sign that the economy has been experiencing a cyclical downturn, the value of undisbursed loans kept piling up (Graph 12) and outpaced the loans growth. We attribute this to banks being extremely prudent in the face of elevated global financial volatility as well as the inability of corporations to absorb and optimally utilize these loans due to deterioration in operating condition, notably thinning profit margin, regulatory uncertainty and infrastructure bottleneck.



Source: Bank Indonesia, OJK

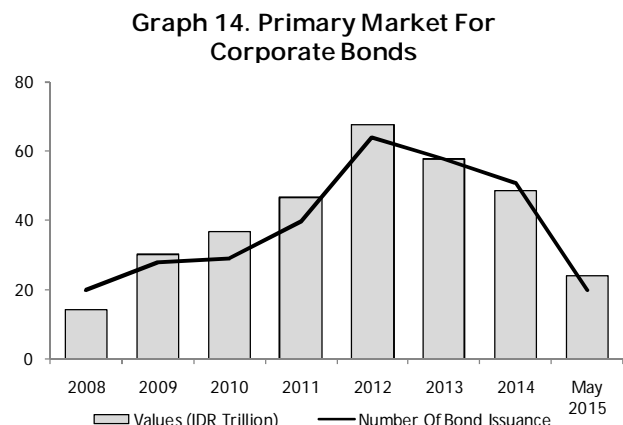
The slowing economy is making it more difficult to pay off existing debts and fuels a rise in bad loans as banks tend to charge higher lending rate to due to growing credit risk.

Moreover, we suspect that corporations has been trying to deleverage after taking advantage of lower borrowing cost abroad. Since 1H12, the external debt of Indonesia’s private sector (Non-Financial sector in particular) has exceeded that of the Indonesian Government (Graph 13).

To curb soaring private external debt, the Ministry of Finance plans to introduce a new regulation which would take effect January 2016 that ban corporations from writing off interest costs against taxable income should debt exceed four times equity. The mining, oil and gas and financial industries would be exempt from the proposed new leverage rules.

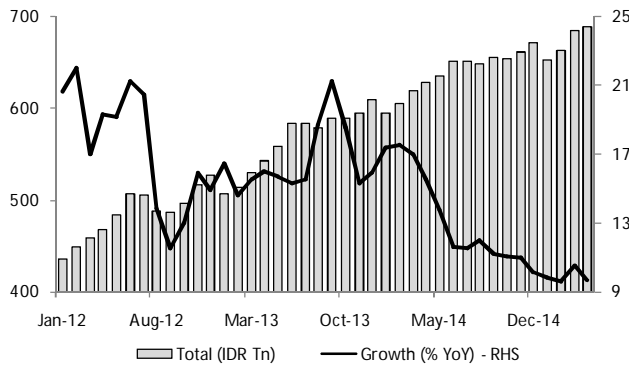
Even companies that have access to capital market are holding back their investments (Graph 14) and are content sitting on large stockpiles of cash that just gets piled up on bank balance sheets in the form of Time Deposits.

We also witnessed a dwindling appetite for loan in the Micro, Small and Medium Enterprises (MSMEs) sector (Graph 15). Contributing around 18%-19% of total outstanding bank loan, MSME loan grew only 9.8% in April, lower than 15.56% expansion recorded a year earlier. Micro loan chalked in the fastest growth, 18.11%, then distantly followed by Medium Enterprise loan (8.55%) and Small Enterprise loan (7.59%).

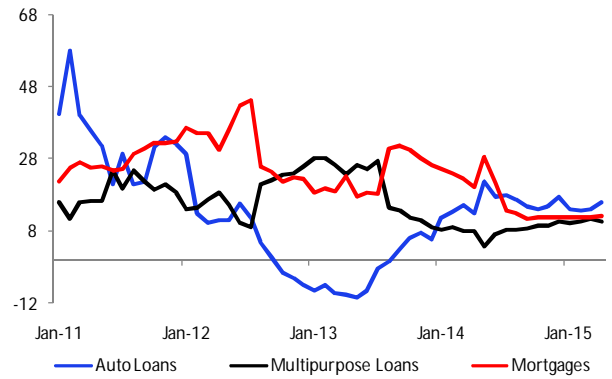


Source: Bank Indonesia

Graph 15. Micro And SME (MSME) Loan



Graph 16. Consumption Loan Growth (% YOY)



Source: Bank Indonesia, OJK

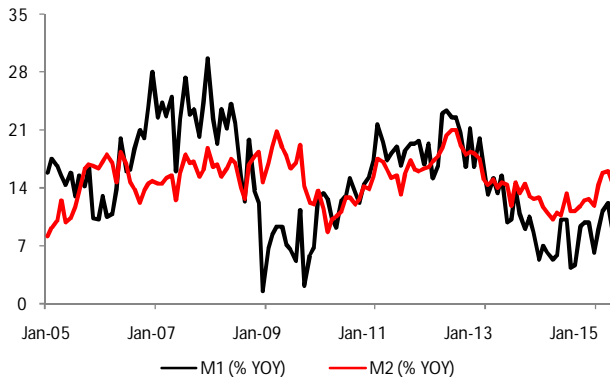
As of 1Q15, the MSMEs' gross Non-Performing Loan (NPL) stood at 4.38%, up from 3.82% a year before. Gross NPL in Small Enterprises loan climbed from 4.77% in 2014 to 5.59% while that of Medium enterprises finally breached 4% after flirting with it since August 2014. Gross NPL for Micro loan hovers around 3.5% - 3.8% in the first three month of this year.

Household demand for credit has been resilient and is on track toward greater stability, affecting private consumption and property prices.

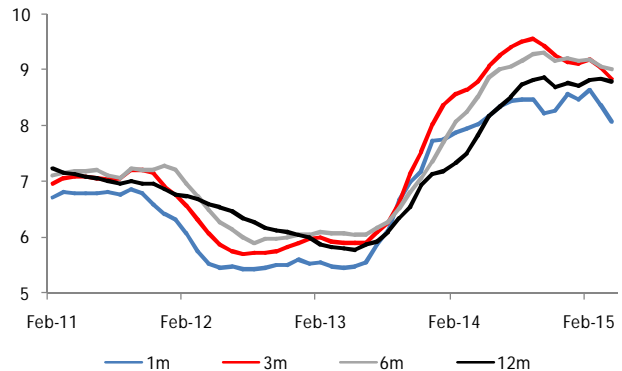
Within household or consumption loan (Graph 16), auto loan has continued to grow at a stable rate over the past few months amid waning vehicle sales volume. Multipurpose loan has also picked up pace. Despite exhibiting slower growth, mortgage loan is poised to see potential uptick as outlook on nominal interest rates for the next 12 months is flat, given benign inflationary pressure.

Going forward, inflation may ease as the base-effect from last year's fuel subsidy removal takes hold and consumption loan will likely be boosted by any relaxation in macro-prudential policies. Bank Indonesia (BI) is revising the LDR-RR regulation, LTV policy for mortgage loan as well as down payments on automotive loan.

Graph 17. Money Supply Growth (% YOY)



Graph 18. Average Interest On Time Deposits (%)



Source: Bank Indonesia, OJK

A Ray Of Hope In Customer Deposits

Indonesia's money supply growth (M1 and M2) has rebounded since mid 2014 (Graph 17), which bodes well for banks' deposit growth. In 4M15, M2 grew 14.6% (yoy), in line with its historical average and M1 grew 9.0% (yoy).

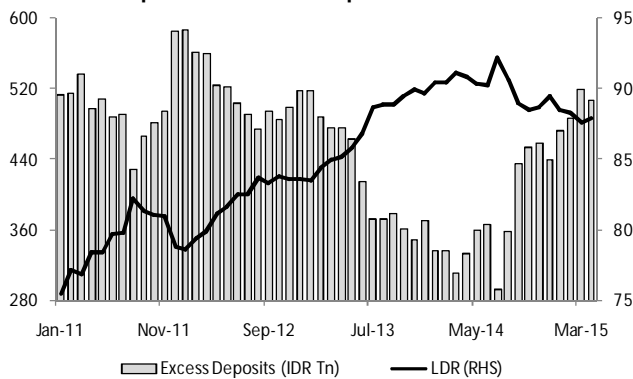
The growth of customer deposits or Third Party Funds (TPF) accelerated to 14.2% (yoy), spearheaded by a 22.3% surge in Time Deposit as savers chased higher yield by migrating their funds out of Current Accounts and Saving Accounts and at a time when both bond market and equity market perform poorly.

The average interest rate on Time Deposits in all maturities had crept up and reached its peak 9.0% in September-October 2014 (Graph 18). In contrast, Current Accounts and Saving Accounts have been offering paltry rate below 3%.

Current Accounts and Saving Accounts (CASA) ratio dipped to 51.2% in 4M15 from 52.8% in FY14 and we believe it would likely edge up to 53% by the end of this year, owing to the gradual decline in Time Deposits interest rate.

Although competition for deposits will remain fierce, we could be witnessing the first sign of easing liquidity as evidenced by banks explicitly lowering their time deposit rates. Excess deposit has steadily built up since August 2014 (Graph 19) as the threat of a slowing economy tempers borrowers' demand and lenders preserve tightened standards. Consequently, the system-wide Loan-To-Deposit (LDR) ratio slid to 87.9% in 4M15 from 89.4% in FY14.

Graph 19. Excess Deposits And LDR



Graph 20. National Saving And Private Consumption



Source: Bank Indonesia, World Bank

Key Risk Factors

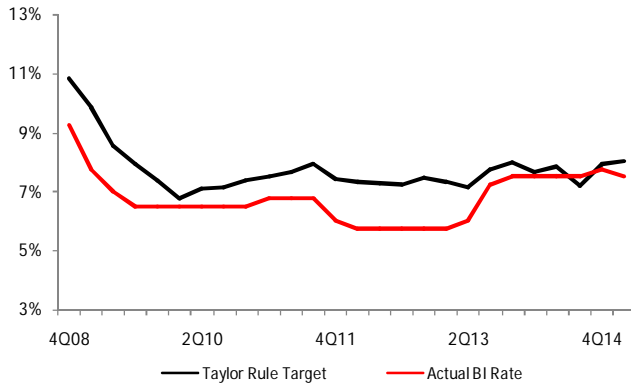
Risks to our outlook are tilted to the downside and include a continuing weak economic activity, unexpected interest rate hike and further USD/IDR appreciation.

Against the backdrop of external shocks (imminent monetary policy normalization in the U.S., softer commodity prices, weak global recovery), countercyclical policies would be the biggest tailwinds to the economy. Government must aggressively utilize fiscal spending to offset a rapid decline in spending by households (Graph 20) and businesses alike.

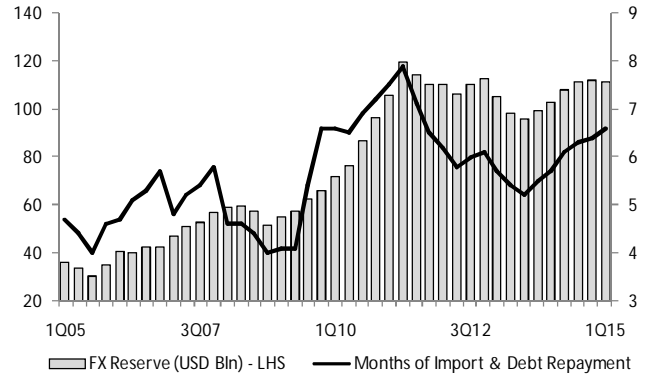
Although we view the reallocation of fuel subsidies in revised State Budget 2015 (APBN-P 2015) towards productive expenditure such as infrastructure, agriculture and health as a catalyst for faster economic growth, its effective execution and absorption rate would remain major challenges.

The revised State Budget 2015 (APBN-P 2015) is aiming for a smaller budget deficit (1.9% of GDP versus 2.2% of GDP in 2014) with ambitious tax revenues target. In the last five year, tax revenue collection failed to meet its target. In fact in 1Q15 only reached IDR264.4 trillions or 13.6% of the target. It was down from 19.2% the same period last year. Normally, 185-19% of tax revenue target is collected in the first three month of the year.

Graph 21. Actual BI Rate And Its Taylor Rule-Based Target



Graph 22. FX Reserve (USD Billions)



Source: Bank Indonesia, Reliance Securities estimate

On June 17, 2015 The International Monetary Fund (IMF) has slashed its estimate on Indonesia's economic growth for FY15 to 4.7%. It was the second revision that the IMF has made this year after it cut the projection to 5.2% in May from its original projection of 5.5%, which was made in October 2014.

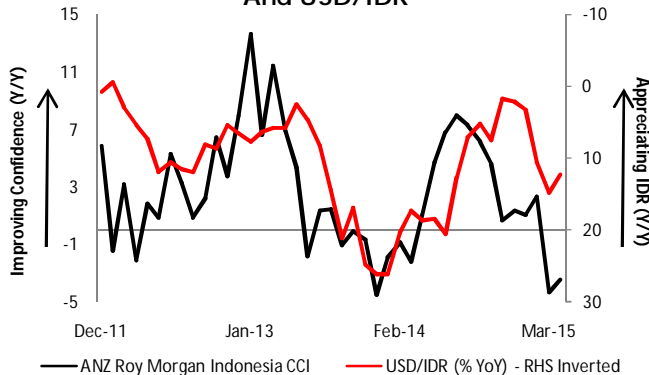
Similarly, in its global outlook summary issued on June 10, the World Bank cut its growth forecast on Indonesia to 4.7% from its previous estimate of 5.2% announced in December 2014.

While slowing domestic growth presents a case for lower policy rates, Bank Indonesia (BI) needs to maintain a tightening bias in its monetary stance (Graph 21) to rein in USD/IDR appreciation, attract capital and narrow the CAD. We estimate that BI Rate could rise as much as 50 bps to 8% in the next 12 month.

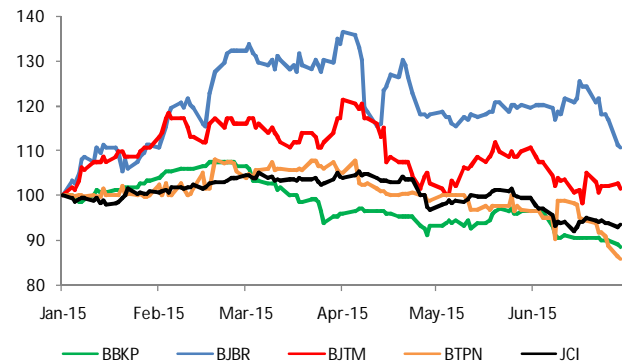
We believe CAD would likely remain sticky at 2.8% of GDP this year as the demand from infrastructure projects lead to an increase in the import of capital goods. If the CAD picked up to 3%, it could lead to further depreciation of the IDR as global financial conditions tighten ahead of the first Fed rate hike. The IDR would be even more vulnerable than it is now because interest rates are already higher and FX reserves, after being restored to pre the taper tantrums of 2013, would be run down by BI to smooth USD/IDR volatility (Graph 22).

Further USD/IDR appreciation would put a crimp in both consumer spending and clip consumer confidence (Graph 23) that in turn would drag down consumer loan growth.

Graph 23. Consumer Confidence And USD/IDR



Graph 24. Share Performance



Source: ANZ-Roy Morgan, Bloomberg

Top Picks – BJTM And BTPN

Share prices of banks under our coverage have shown a mixed performance in 1H15 with BJBR and BJTM outperforming the Jakarta Composite Index (JCI) while BBKP and BBKP are being the laggard (Graph 24).

Our top picks are BJTM and BTPN due to their higher returns and potential earnings growth.

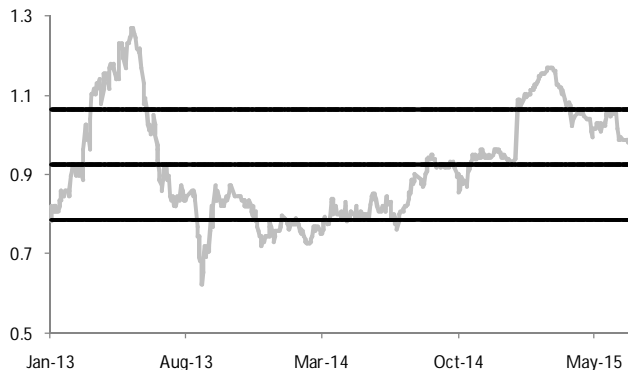
Based on historical valuation, BTPN is the most attractive as it is trading at one standard deviation below historical average on P/TBV (Graph 28). Since 2013 year end, BTPN’s valuation multiple has been sharply de-rated below its historical average, shrugging off the fact that BTPN remains fundamentally sound.

If BTPN’s forward P/TBV rebounds to historical mean, that is, 2.4x, the counter would be trading at IDR4,575, implying an upside potential of 32.6%. This is a reasonable upside because the current de-rating in our view is overdone.

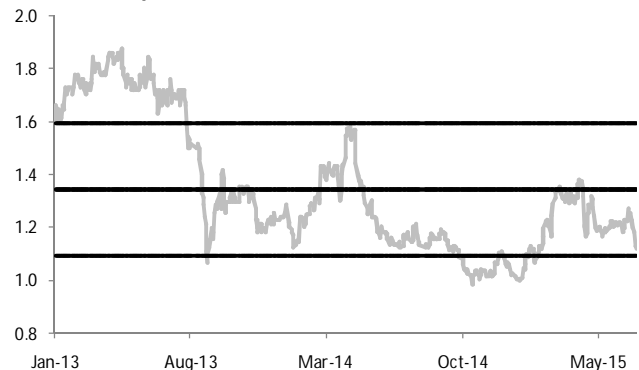
The strong visibility of earnings and dividend growth is a key bull point for BJTM and we expect EPS growth of 19.7% CAGR 2013-16E with DPS growth 15.3%.

BBKP valuation is undemanding due to its poor earning potential (-0.7% EPS CAGR 2013-16F) and its inability to earn greater return on equity (2016F ROAE 15.5%, the lowest among its peers).

Graph 25. BBKP One Year Forward P/TBV

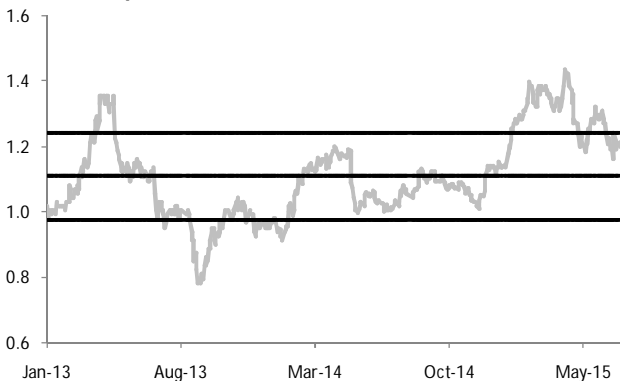


Graph 26. BJBR One Year Forward P/TBV

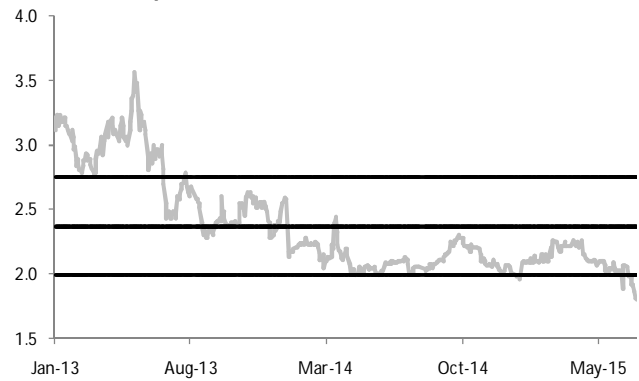


Source: Bloomberg, Reliance Securities June 2015

Graph 27. BJTM One Year Forward P/TBV

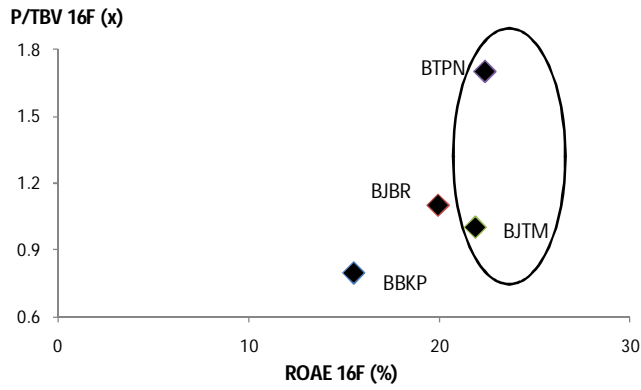


Graph 28. BTPN One Year Forward P/TBV

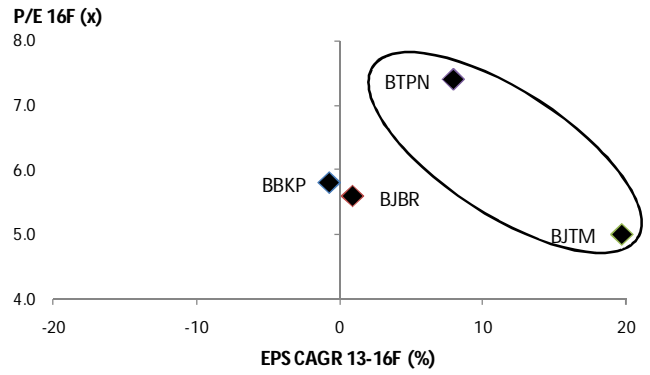


Source: Bloomberg, Reliance Securities June 2015

Graph 29. P/TBV – ROAE Metric



Graph 30. P/E – EPS CAGR Metric



Source: Reliance Securities

Bank Bukopin (BBKP)

Target Price Change

BUY

Financial Institutions Group (FIG) Commercial Banks

| | |
|-----------------------------|------|
| 12-month Target Price (IDR) | 745 |
| Stock Price @30/6/15 (IDR) | 660 |
| Upside/Downside (%) | 12.8 |
| Forecast Dividend Yield (%) | 3.6 |
| Potential Return (%) | 16.4 |

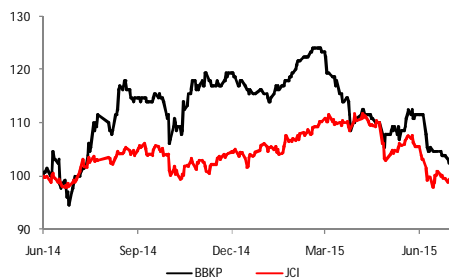
| | |
|--------------------------|---------|
| Bloomberg Ticker | BBKP.IJ |
| Reuters Ticker | BBKP.JK |
| Market Cap (IDR Bn) | 5,997.2 |
| 52 Week Hi-Lo | 805-610 |
| 3-Month Avg Volume (000) | 6,402 |
| Shares Outstanding (Mn) | 9,117 |
| Free Float (%) | 40.5 |

Major Shareholders (%)

| | |
|-------------------|------|
| Kopelindo | 18.1 |
| Govt Of Indonesia | 11.4 |
| Bosowa Corporindo | 30.0 |
| Public | 40.5 |

Share Performance

| | 1m | 3m | 6m | 12m |
|----------|------|------|-------|-----|
| Absolute | -8.3 | -7.0 | -12.0 | 5.6 |
| Relative | -2.5 | 4.0 | -5.9 | 4.9 |



Jumping Into The Fray

Last month BBKP issued IDR400 billions in 7 year subordinated debts with 12% coupon rate. The proceeds would be used to finance credit disbursement that will focus on expanding the retail loan.

Micro lending (particularly to pensioners and civil servants) has been the fastest growing segment within the Retail loan.

BBKP plans to muscle its way into the pensioners markets by providing more direct loan to the pensioners of Government employees (including the military and the police force) to complement its indirect loan (channeling) through cooperatives and other third parties.

Our View: In 2013, the number of civil servants was approximately 4.36 millions or 1.84% of total Indonesia's population at the time. Although looks small, the market for pensioners and civil servants is actually quite crowded as banks are vying for a dominant position. Other banks under our coverage (BJBR, BJTM, BTM) also serve this market.

In our view, BBKP is well-equipped to compete in this market given its core competencies and its strategic alliances with other government institutions. As an early indication, Direct Retirement loan grew a whopping 874.6% in 2014 and 41.7% (qoq) in 1Q15.

We have adjusted our NIM assumptions for 2015 and 2016 from 4.8% and 5.0% to 4.1%-4.2%.

Valuation: We maintain our Buy rating but lower our target price from IDR885 to IDR745. Our new target price is based on the two stage DDM (CoE: 10%; beta: 0.53; Risk free: 8.5%).

Base on our revised 2015F BVPS of IDR684, BBKP trades at 6.4x 2015E EPS and 1.0x P/TBV with a forecast ROE of 14.6%. Our new target price implies 1.09x P/TBV and 7.0x EPS, modest multiples in light of our 12.4% EPS CAGR expectation (2014-19E).

Risks: 1) Softer macro environment increases potential for deterioration in asset quality; 2). Weaker than expected loan demand; 3). New regulations affecting banks' operation and profitability.

KEY FINANCIALS AND VALUATION

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|--------------------------|-------|-------|-------|-------|-------|
| Net Int Income (IDR Bln) | 2,444 | 2,473 | 3,145 | 3,665 | 4,132 |
| Net Profit (IDR Bln) | 935 | 727 | 953 | 1,060 | 1,228 |
| Basic EPS (IDR) | 117 | 80 | 105 | 114 | 127 |
| Tangible BVPS (IDR) | 749 | 727 | 682 | 799 | 917 |
| BVPS (IDR) | 779 | 800 | 684 | 807 | 934 |
| DPS (IDR) | 31 | 24 | 31 | 35 | 43 |
| Dividend Yield (%) | 4.7 | 3.6 | 4.7 | 5.4 | 6.5 |
| P/E (x) | 5.7 | 8.3 | 6.3 | 5.8 | 5.2 |
| P/B (x) | 0.8 | 0.8 | 1.0 | 0.8 | 0.7 |
| P/TBV (x) | 0.9 | 0.9 | 1.0 | 0.8 | 0.7 |

Source: Reliance Securities June 2015

Jasa Adhimulya

(6221) 5793-0008 ext.159

jasamulya@reliance-securities.com

FINANCIAL SUMMARY**P&L STATEMENT (IDR bn)**

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|---------|---------|---------|---------|---------|
| Interest Income | 5,950 | 7,093 | 8,499 | 9,670 | 10,748 |
| Interest Expense | 3,506 | 4,620 | 5,353 | 6,005 | 6,617 |
| Net Interest Income | 2,444 | 2,473 | 3,145 | 3,665 | 4,132 |
| Loan Loss Provision | 91 | (164) | (95) | (152) | (180) |
| Operating Income | 786 | 945 | 1,115 | 1,272 | 1,431 |
| Operating Expense | (2,160) | (2,297) | (2,912) | (3,410) | (3,814) |
| Net Operating Income | 1,174 | 944 | 1,253 | 1,375 | 1,569 |
| Non-Operating Items | 19 | 27 | 27 | 25 | 28 |
| Profit Before Tax | 1,194 | 971 | 1,280 | 1,400 | 1,597 |
| Income Tax | (259) | (244) | (327) | (340) | (368) |
| Net Profit | 935 | 727 | 953 | 1,060 | 1,228 |

BALANCE SHEET (IDR bn)

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|--------|--------|--------|---------|---------|
| Net Loans | 47,663 | 54,344 | 61,180 | 75,132 | 91,323 |
| Securities | 13,018 | 15,652 | 18,953 | 17,631 | 14,383 |
| Other Earning Assets | 729 | 66 | 579 | 418 | 306 |
| Total Earning Assets | 62,245 | 70,982 | 80,712 | 93,182 | 106,011 |
| Non-Earning Assets | 8,011 | 8,988 | 8,699 | 10,211 | 11,348 |
| Total Assets | 69,458 | 79,051 | 89,411 | 103,393 | 117,360 |
| Core Deposits | 55,822 | 65,391 | 75,378 | 88,584 | 103,956 |
| Other Deposits | 1,975 | 2,007 | 2,689 | 3,028 | 3,411 |
| S/T Borrowings | 1,528 | 1,593 | 1,239 | 1,648 | 2,212 |
| L/T Funding | 2,125 | 2,117 | 2,673 | 2,596 | 2,770 |
| Other Liabilities | 1,794 | 1,122 | 1,805 | 2,120 | 2,376 |
| Total Liabilities | 63,244 | 72,230 | 83,188 | 95,965 | 108,508 |
| Total Equity | 6,213 | 6,821 | 6,222 | 7,428 | 8,852 |
| Risk Weighted Assets | 43,469 | 48,552 | 52,988 | 63,116 | 74,847 |
| Tier I Capital | 5,599 | 6,411 | 6,222 | 7,428 | 8,852 |

BALANCE SHEET RATIOS (%)

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|------------------------------|------|------|-------|-------|-------|
| Tier I CAR | 11.6 | 11.6 | 11.7 | 11.8 | 11.8 |
| Loan/Deposit | 86.8 | 84.5 | 82.4 | 86.0 | 88.9 |
| LLP / Total Assets | 0.1 | 1.2 | 1.1 | 0.1 | 0.2 |
| Net Loans/Assets | 68.6 | 68.7 | 68.4 | 72.7 | 77.8 |
| CASA | 41.7 | 37.2 | 41.9 | 41.9 | 40.9 |
| Liquid Assets / Total Assets | 27.1 | 28.1 | 21.2 | 17.1 | 12.3 |

OPERATING RATIOS (%)

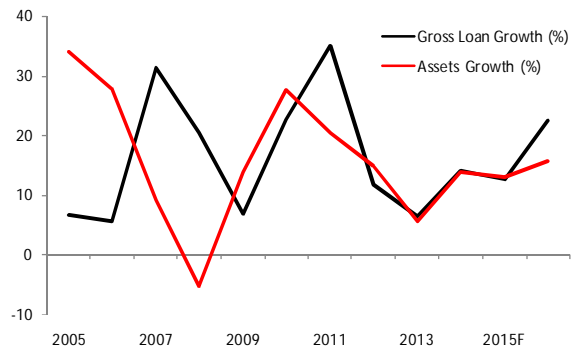
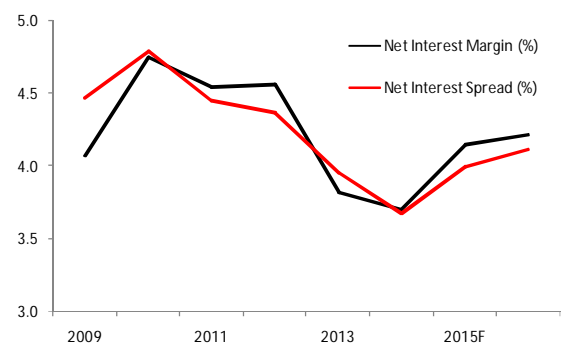
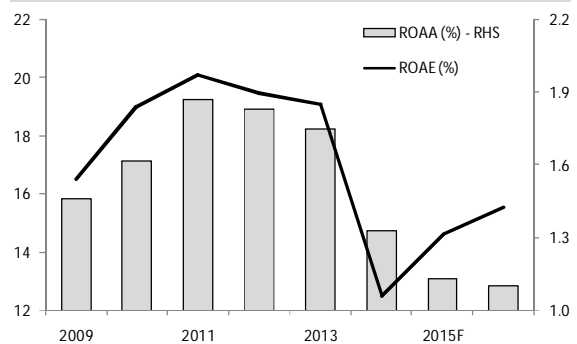
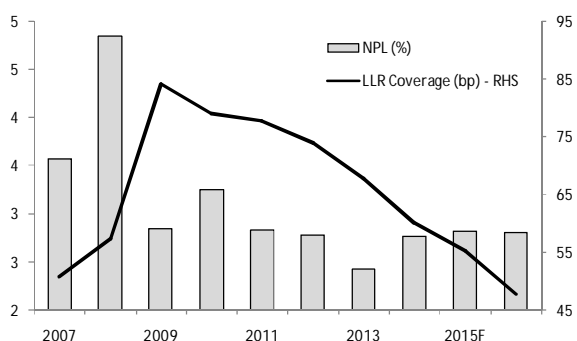
| | 2013 | 2014 | 2015F | 2016F | 2017F |
|--------------------|------|------|-------|-------|-------|
| Cost/Income | 66.9 | 67.2 | 68.3 | 69.1 | 68.6 |
| Effective Tax Rate | 21.7 | 25.2 | 25.5 | 24.3 | 23.1 |
| NPL Gross | 2.4 | 2.8 | 2.8 | 2.8 | 2.7 |
| LLR Coverage | 67.9 | 60.1 | 55.2 | 47.9 | 44.2 |
| ROAA | 1.4 | 1.0 | 1.1 | 1.1 | 1.1 |
| ROAE | 16.7 | 11.2 | 14.6 | 15.5 | 15.1 |

RATES AND MARGINS (%)

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|------|------|-------|-------|-------|
| Net Interest Margin | 4.0 | 3.7 | 4.1 | 4.2 | 4.1 |
| Earning Assets Yield | 9.8 | 10.6 | 10.5 | 10.4 | 10.1 |
| Cost Of Funds | 5.8 | 7.0 | 6.5 | 6.3 | 5.9 |
| Net Interest Spread | 4.0 | 3.7 | 4.0 | 4.1 | 4.2 |

GROWTH (% YoY)

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|------|-------|-------|-------|-------|
| Loans | 6.4 | 14.0 | 12.5 | 22.5 | 21.4 |
| Total Assets | 5.7 | 13.8 | 13.1 | 15.6 | 13.5 |
| Risk Weighted Assets | 22.0 | 11.7 | 9.1 | 19.1 | 18.6 |
| Core Deposits | 3.5 | 17.1 | 15.3 | 17.5 | 17.4 |
| Net Profit | 12.0 | -22.2 | 31.2 | 11.2 | 15.8 |

Loan And Assets Growth**Net Interest Margin And Interest Spread****ROAA & ROAE****NPLs And Reserve Against NPLs**

Bank BJB (BJBR)

Initiate Coverage

BUY

Financial Institutions Group (FIG) Commercial Banks

| | |
|-----------------------------|------|
| 12-month Target Price (IDR) | 950 |
| Stock Price @30/6/15 (IDR) | 820 |
| Upside/Downside (%) | 15.9 |
| Forecast Dividend Yield (%) | 8.7 |
| Potential Return (%) | 24.6 |

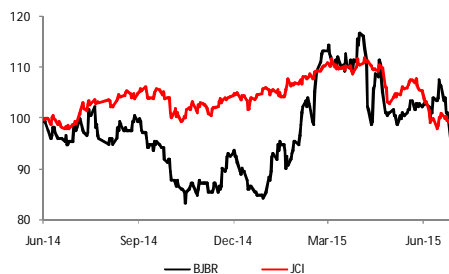
| | |
|--------------------------|-----------|
| Bloomberg Ticker | BJBR.IJ |
| Reuters Ticker | BJBR.JK |
| Market Cap (IDR Bn) | 7,951.0 |
| 52 Week Hi-Lo | 1,025-720 |
| 3-Month Avg Volume (000) | 17,094 |
| Shares Outstanding (Mn) | 9,696 |
| Free Float (%) | 25.0 |

Major Shareholders (%)

| | |
|---------------------------|------|
| West Java Provincial Govt | 75.0 |
| West Java Municipal Govt | 23.6 |
| Banten Provincial Govt | 5.4 |
| Banten Municipal Govt | 7.8 |

Share Performance

| | 1m | 3m | 6m | 12m |
|----------|------|-------|------|------|
| Absolute | -7.9 | -18.0 | 12.3 | -0.6 |
| Relative | -2.0 | -7.0 | 18.4 | -1.3 |



Aspires To Be Bigger And Better

We initiate coverage on Bank BJB (BJBR) with a Buy recommendation and a DDM-based 12-month target price of IDR950, implying 2015F P/E of 7.1x and P/TBV of 1.2x.

Company Profile

Nationalized from NV DENIS, a Dutch-owned mortgage lender, BJBR was established in 1961 as a regional development bank of the provincial government of West Java.

BJBR is based in Bandung, West Java and operates through 62 branches, 312 sub branches and 1,197 ATMs spread across 13 provinces. BJBR went public in July 2010, the first for regional development bank.

BJBR focuses on providing consumer loan to civil servants in West Java and Banten. Its market share in those provinces has stagnated around 12%-13% over the last 4 year, reflecting a poor record in defending its turf. By contrast, its market share of national banking industry steadily increases to 1.35% in 1Q15 from 1.27% in 2011.

Micro loan has been a major problem in recent quarters as it is experiencing severe contraction and recording dangerously high NPL (25.5% in 1Q15).

For 2015-16F we expect a healthy growth in loan book, 11.% and 15.7%. NIM is forecast to stabilize at 6.8%. We also expect lower LDR 85% and 84%. As BJBR attempts to improve loan quality, we expect lower LDR, 85% and 84% parallel with lower NPL (3.5% and 3.1% in 2015-16F).

Valuation

BJBR trades at a P/TBV 2015F of 1.1x on a ROAE of 18.5% for the same period, well below its historical trading average. BJBR has a higher stock beta than its peers, which raises its cost of equity

Risks: 1) Softer macro environment increases potential for deterioration in asset quality; 2). Weaker than expected loan demand; 3). New regulations affecting bank's operation and profitability

KEY FINANCIALS AND VALUATION

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|--------------------------|-------|-------|-------|-------|-------|
| Net Int Income (IDR Bln) | 4,745 | 4,233 | 4,792 | 5,243 | 5,515 |
| Net Profit (IDR Bln) | 1,376 | 1,120 | 1,311 | 1,417 | 1,482 |
| Basic EPS (IDR) | 142 | 115 | 135 | 146 | 152 |
| Tangible BVPS (IDR) | 693 | 731 | 731 | 736 | 922 |
| BVPS (IDR) | 693 | 731 | 731 | 736 | 922 |
| DPS (IDR) | 78 | 72 | 86 | 91 | 94 |
| Dividend Yield (%) | 9.5 | 8.7 | 10.5 | 11.1 | 11.4 |
| P/E (x) | 5.8 | 7.1 | 6.1 | 5.6 | 5.4 |
| P/B (x) | 1.2 | 1.1 | 1.1 | 1.1 | 0.9 |
| P/TBV (x) | 1.2 | 1.1 | 1.1 | 1.1 | 0.9 |

Source: Reliance Securities June 2015

Jasa Adhimulya

(6221) 5793-0008 ext.159

jasamulya@reliance-securities.com

FINANCIAL SUMMARY

P&L STATEMENT (IDR bn)

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|---------|---------|---------|---------|---------|
| Interest Income | 8,096 | 8,563 | 9,663 | 10,749 | 11,485 |
| Interest Expense | 3,351 | 4,330 | 4,870 | 5,505 | 5,970 |
| Net Interest Income | 4,745 | 4,233 | 4,792 | 5,243 | 5,515 |
| Loan Loss Provision | (616) | (663) | (712) | (812) | (924) |
| Operating Income | 494 | 795 | 737 | 859 | 972 |
| Operating Expense | (2,871) | (2,948) | (3,158) | (3,481) | (3,656) |
| Net Operating Income | 1,752 | 1,416 | 1,660 | 1,808 | 1,907 |
| Non-Operating Items | 1 | 23 | 41 | 51 | 55 |
| Profit Before Tax | 1,753 | 1,438 | 1,702 | 1,859 | 1,962 |
| Income Tax | (376) | (318) | (390) | (442) | (480) |
| Net Profit | 1,376 | 1,120 | 1,311 | 1,417 | 1,482 |

BALANCE SHEET (IDR bn)

| | | | | | |
|----------------------|--------|--------|--------|--------|--------|
| Net Loans | 47,821 | 52,329 | 56,690 | 65,376 | 78,438 |
| Securities | 12,921 | 12,455 | 17,797 | 13,306 | 5,014 |
| Other Earning Assets | 521 | 518 | 334 | 288 | 73 |
| Total Earning Assets | 13,442 | 12,973 | 18,131 | 13,595 | 5,087 |
| Non-Earning Assets | 9,696 | 10,534 | 10,674 | 11,328 | 12,310 |
| Total Assets | 70,958 | 75,837 | 84,787 | 89,497 | 94,114 |
| Core Deposits | 47,221 | 53,488 | 60,079 | 70,508 | 82,083 |
| Other Deposits | 8,290 | 8,177 | 10,020 | 10,248 | 10,416 |
| S/T Borrowings | 2,978 | 2,063 | 3,189 | 3,290 | 3,596 |
| L/T Funding | 2,721 | 2,178 | 2,014 | 1,395 | 1,332 |
| Other Liabilities | 3,030 | 2,847 | 3,197 | 3,540 | 3,740 |
| Total Liabilities | 64,240 | 68,753 | 77,694 | 82,365 | 85,176 |
| Total Equity | 6,718 | 7,084 | 7,093 | 7,132 | 8,938 |
| Risk Weighted Assets | 32,351 | 35,818 | 36,488 | 42,137 | 54,476 |
| Tier I Capital | 5,350 | 5,738 | 7,093 | 7,132 | 8,938 |

BALANCE SHEET RATIOS (%)

| | | | | | |
|------------------------------|-------|-------|------|------|------|
| Tier I CAR | 16.5 | 16.0 | 19.4 | 16.9 | 16.4 |
| Loan/Deposit | 103.6 | 101.0 | 91.7 | 90.4 | 93.4 |
| LLP / Total Assets | 1.5 | 2.2 | 2.0 | 1.9 | 2.0 |
| Net Loans/Assets | 67.4 | 69.0 | 66.9 | 73.0 | 83.3 |
| CASA | 60.4 | 64.3 | 60.8 | 57.8 | 56.0 |
| Liquid Assets / Total Assets | 28.4 | 27.1 | 30.2 | 24.4 | 15.6 |

OPERATING RATIOS (%)

| | | | | | |
|--------------------|------|------|------|------|------|
| Cost/Income | 54.8 | 58.6 | 57.1 | 57.1 | 56.4 |
| Effective Tax Rate | 21.5 | 22.1 | 22.9 | 23.8 | 24.5 |
| NPL Gross | 2.83 | 4.16 | 3.49 | 3.14 | 3.02 |
| LLR Coverage | 79.5 | 77.0 | 83.1 | 81.7 | 76.5 |
| ROAA | 1.9 | 1.5 | 1.6 | 1.6 | 1.6 |
| ROAE | 21.6 | 16.2 | 18.5 | 19.9 | 18.4 |

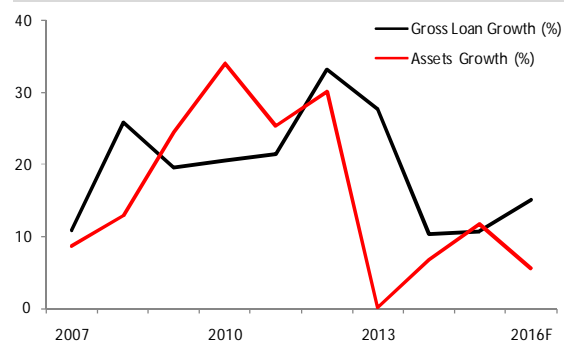
RATES AND MARGINS (%)

| | | | | | |
|----------------------|------|------|------|------|------|
| Net Interest Margin | 7.6 | 6.5 | 6.8 | 6.8 | 6.8 |
| Earning Assets Yield | 12.9 | 13.2 | 12.9 | 13.6 | 13.7 |
| Cost Of Funds | 5.4 | 6.8 | 6.5 | 6.4 | 6.1 |
| Net Interest Spread | 7.5 | 6.4 | 6.4 | 7.2 | 7.6 |

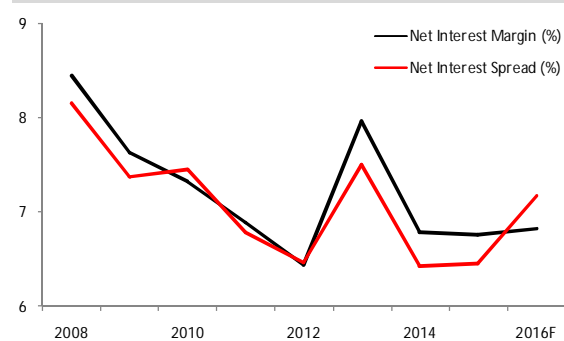
GROWTH (% YoY)

| | | | | | |
|----------------------|------|-------|------|------|------|
| Loans | 28.1 | 9.5 | 11.0 | 15.7 | 20.3 |
| Total Assets | 0.2 | 6.9 | 11.8 | 5.6 | 5.2 |
| Risk Weighted Assets | 28.2 | 10.7 | 1.9 | 15.5 | 29.3 |
| Core Deposits | -1.5 | 13.3 | 12.3 | 17.4 | 16.4 |
| Net Profit | 15.3 | -18.6 | 17.1 | 8.1 | 4.6 |

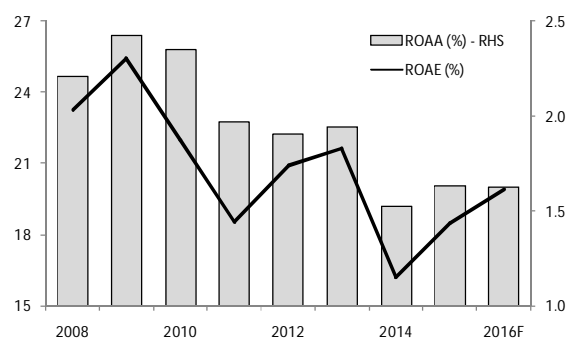
Loan And Assets Growth



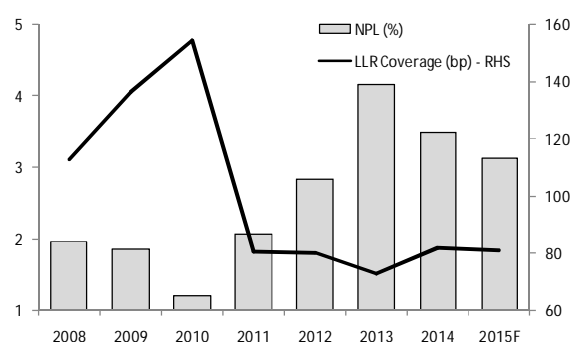
Net Interest Margin And Interest Spread



ROAA & ROAE



NPLs And Reserve Against NPLs



BUY

Financial Institutions Group (FIG) Commercial Banks

| | |
|-----------------------------|------|
| 12-month Target Price (IDR) | 600 |
| Stock Price @30/6/15 (IDR) | 476 |
| Upside/Downside (%) | 26.0 |
| Forecast Dividend Yield (%) | 8.8 |
| Potential Return (%) | 34.8 |

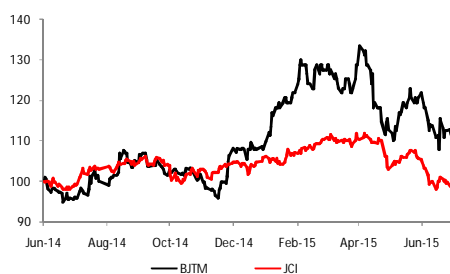
| | |
|--------------------------|---------|
| Bloomberg Ticker | BJTM.IJ |
| Reuters Ticker | BJTM.JK |
| Market Cap (IDR Bn) | 7,951 |
| 52 Week Hi-Lo | 580-407 |
| 3-Month Avg Volume (000) | 13,094 |
| Shares Outstanding (Mn) | 14,918 |
| Free Float (%) | 25.7 |

Major Shareholders (%)

| | |
|------------------------------|------|
| County Govts In East Java | 28.5 |
| Provincial Govt Of East Java | 51.5 |
| Public | 20.0 |

Share Performance

| | 1m | 3m | 6m | 12m |
|----------|------|-------|-----|------|
| Absolute | -7.6 | -13.5 | 3.5 | 16.7 |
| Relative | -1.7 | -2.4 | 9.5 | 16.0 |



Jasa Adhimulya

(6221) 5793-0008 ext.159

jasamulya@reliance-securities.com

Integrity Matters

We express our concern regarding BJTM's lack of prudential banking practices. This year alone, the police has succeeded in unraveling two fraud schemes. First, it investigated a fictitious IDR24.8 billions Community Business Loan (KUR) in Jombang, resulting in IDR19.3 billions loss. Then, similar fraud scheme reoccurred in Malang, with the loss of IDR10 billions.

Near-Term Catalyst

Enhancing service to its customers, BJTM launched an internet banking in May as the latest addition to its e-Channel offering after launching SMS Banking and Bank Jatim Flazz card last year. We expect these products would bear fruit in the coming years.

To generate more revenue stream, BJTM last year expanded into micro loan and established Treasury Dealing Room, a unit within Treasury division to execute transactions in money, capital and FX market.

To reflect the less favorable conditions in the banking sector, we cut our BJTM's loan growth forecast for 2015 from 18.1% to 14.3%, still ahead of our forecast for the industry, 13.7%.

We forecast net profit to jump 23% (yoy) this year, higher than 18.8% targeted by BJTM, owing to the robust economic growth in East Java.

We expect gross NPL to marginally rise from 3.31% to 3.38% and NIM continues to expand as BJTM focuses more on the higher yielding segment (the consumer and micro segments).

Valuation: We are reiterating our Buy rating and upgrading our TP for BJTM to IDR600 based on the two stage DDM which assumes a sustainable ROE of 15.8%, COE of 10.2 % (down from 16.5%) and an assumed sustainable growth rate of 4.1%. BJTM is offering a prospective dividend yield of 8.8%, making it more attractive to investors.

Risks: 1) Softer macro environment increases potential for deterioration in asset quality; 2). Weaker than expected loan demand; 3). New regulations affecting bank's operation and profitability

KEY FINANCIALS AND VALUATION

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|--------------------------|-------|-------|-------|-------|-------|
| Net Int Income (IDR Bln) | 2,472 | 2,881 | 3,169 | 3,749 | 4,302 |
| Net Profit (IDR Bln) | 824 | 939 | 1,155 | 1,414 | 1,581 |
| Basic EPS (IDR) | 55 | 63 | 77 | 95 | 106 |
| Tangible BVPS (IDR) | 383 | 405 | 397 | 467 | 592 |
| BVPS (IDR) | 411 | 405 | 397 | 467 | 592 |
| DPS (IDR) | 41 | 42 | 50 | 62 | 71 |
| Dividend Yield (%) | 8.5 | 8.8 | 10.6 | 13.1 | 14.9 |
| P/E (x) | 8.6 | 7.6 | 6.1 | 5.0 | 4.5 |
| P/B (x) | 1.2 | 1.2 | 1.2 | 1.0 | 0.8 |
| P/TBV (x) | 1.2 | 1.2 | 1.2 | 1.0 | 0.8 |

Source: Reliance Securities June 2015

FINANCIAL SUMMARY**P&L STATEMENT (IDR bn)**

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|---------|---------|---------|---------|---------|
| Interest Income | 3,386 | 4,084 | 4,766 | 5,543 | 6,330 |
| Interest Expense | 913 | 1,203 | 1,598 | 1,795 | 2,029 |
| Net Interest Income | 2,472 | 2,881 | 3,169 | 3,749 | 4,302 |
| Loan Loss Provision | (596) | (504) | (460) | (499) | (553) |
| Operating Income | 361 | 373 | 472 | 545 | 574 |
| Operating Expense | (1,127) | (1,399) | (1,585) | (1,860) | (2,150) |
| Net Operating Income | 1,110 | 1,351 | 1,595 | 1,935 | 2,172 |
| Non-Operating Items | 43 | 24 | 25 | 41 | 51 |
| Profit Before Tax | 1,154 | 1,376 | 1,620 | 1,976 | 2,223 |
| Income Tax | (329) | (437) | (465) | (562) | (642) |
| Net Profit | 824 | 939 | 1,155 | 1,414 | 1,581 |

BALANCE SHEET (IDR bn)

| | | | | | |
|----------------------|--------|--------|--------|--------|--------|
| Net Loans | 21,559 | 25,544 | 29,170 | 34,371 | 42,199 |
| Securities | 5,976 | 6,670 | 6,337 | 6,348 | 2,941 |
| Other Earning Assets | 512 | 575 | 585 | 607 | 252 |
| Total Earning Assets | 28,573 | 33,440 | 36,092 | 41,326 | 45,392 |
| Non-Earning Assets | 5,000 | 5,209 | 6,490 | 6,748 | 7,365 |
| Total Assets | 33,047 | 37,998 | 42,583 | 48,074 | 52,758 |
| Core Deposits | 25,988 | 30,270 | 35,149 | 40,751 | 47,661 |
| Other Deposits | 314 | 612 | 368 | 424 | 471 |
| S/T Borrowings | 316 | 317 | 368 | 424 | 471 |
| L/T Funding | 0 | 0 | 0 | 0 | 0 |
| Other Liabilities | 710 | 755 | 971 | 1,236 | 1,388 |
| Total Liabilities | 27,328 | 31,954 | 36,682 | 41,084 | 43,923 |
| Total Equity | 5,719 | 6,044 | 5,900 | 6,991 | 8,834 |
| Risk Weighted Assets | 21,138 | 25,439 | 28,738 | 33,896 | 41,570 |
| Tier I Capital | 4,802 | 5,528 | 5,900 | 6,991 | 8,834 |

BALANCE SHEET RATIOS (%)

| | | | | | |
|------------------------------|------|------|------|------|------|
| Tier I CAR | 22.7 | 21.2 | 20.5 | 20.6 | 21.3 |
| Loan/Deposit | 85.0 | 86.5 | 85.2 | 86.4 | 90.5 |
| LLP / Total Assets | 1.8 | 1.3 | 1.1 | 1.0 | 1.0 |
| Net Loans/Assets | 65.2 | 67.2 | 68.5 | 71.5 | 80.0 |
| CASA | 76.8 | 77.4 | 78.4 | 77.1 | 79.8 |
| Liquid Assets / Total Assets | 32.3 | 30.2 | 27.6 | 26.2 | 18.8 |

OPERATING RATIOS (%)

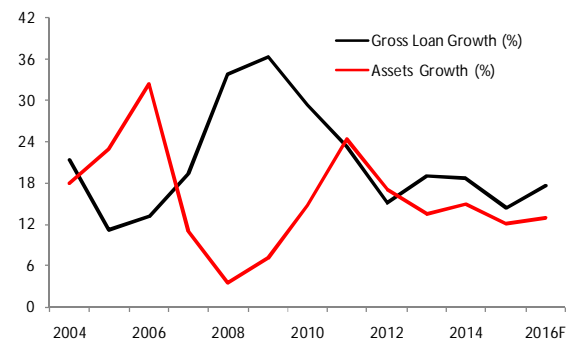
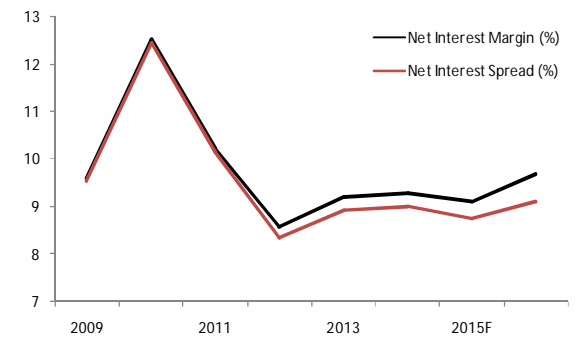
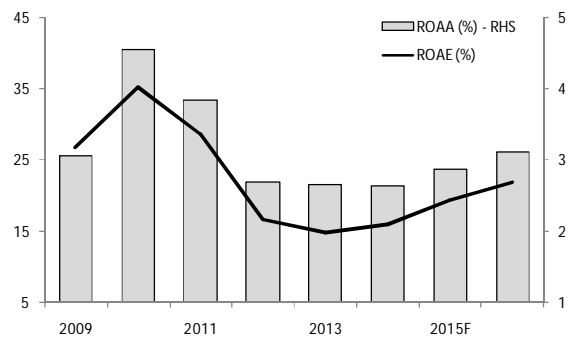
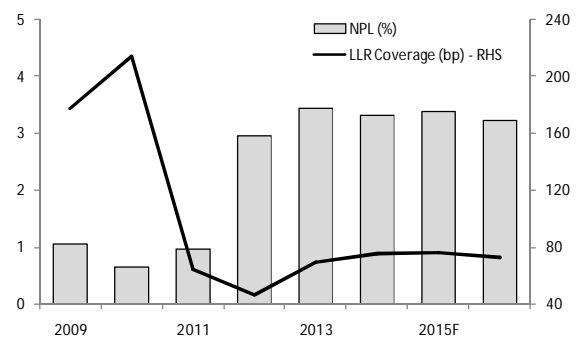
| | | | | | |
|--------------------|------|------|------|------|------|
| Cost/Income | 39.8 | 43.0 | 43.5 | 43.3 | 44.1 |
| Effective Tax Rate | 28.5 | 31.7 | 28.7 | 28.4 | 28.9 |
| NPL Gross | 3.4 | 3.3 | 3.4 | 3.2 | 2.7 |
| LLR Coverage | 69.2 | 75.0 | 75.7 | 72.5 | 81.5 |
| ROAA | 2.7 | 2.6 | 2.9 | 3.1 | 3.1 |
| ROAE | 14.7 | 16.0 | 19.3 | 21.9 | 20.0 |

RATES AND MARGINS (%)

| | | | | | |
|----------------------|------|------|------|------|------|
| Net Interest Margin | 9.2 | 9.3 | 9.1 | 9.7 | 9.9 |
| Earning Assets Yield | 12.6 | 13.2 | 13.2 | 13.4 | 13.9 |
| Cost Of Funds | 3.7 | 4.2 | 4.5 | 4.3 | 4.2 |
| Net Interest Spread | 8.9 | 9.0 | 8.8 | 9.1 | 9.8 |

GROWTH (% YoY)

| | | | | | |
|----------------------|------|------|------|------|------|
| Loans | 19.0 | 18.6 | 14.3 | 17.6 | 22.6 |
| Total Assets | 13.5 | 15.0 | 12.1 | 12.9 | 9.7 |
| Risk Weighted Assets | 15.9 | 20.3 | 13.0 | 17.9 | 22.6 |
| Core Deposits | 17.0 | 16.5 | 16.1 | 15.9 | 17.0 |
| Net Profit | 13.8 | 13.9 | 23.0 | 22.4 | 11.8 |

Loan And Assets Growth**Net Interest Margin And Interest Spread****ROAA & ROAE****NPLs And Reserve Against NPLs**

Bank Tabungan Pensiunan Nasional (BTPN)

Target Price Change

BUY

In Full Swing

Financial Institutions Group (FIG) Commercial Banks

| | |
|-----------------------------|-------|
| 12-month Target Price (IDR) | 4,500 |
| Stock Price @30/6/15 (IDR) | 3,450 |
| Upside/Downside (%) | 30.4 |
| Forecast Dividend Yield (%) | 0.0 |
| Potential Return (%) | 30.4 |

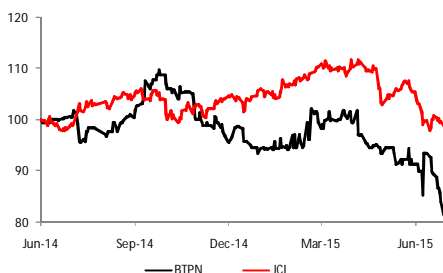
| | |
|--------------------------|-------------|
| Bloomberg Ticker | BTPN.IJ |
| Reuters Ticker | BTPN.JK |
| Market Cap (IDR Bn) | 20,003 |
| 52 Week Hi-Lo | 4,650-3,400 |
| 3-Month Avg Volume (000) | 40,328 |
| Shares Outstanding (Mn) | 14,918 |
| Free Float (%) | 32.3 |

Major Shareholders (%)

| | |
|------------------------------|------|
| Sumitomo Mitsui Banking Corp | 40.0 |
| Summit Global Capital Mgt | 20.0 |
| TPG Nusantara S.a.r.l | 8.4 |
| Public | 31.6 |

Share Performance

| | 1m | 3m | 6m | 12m |
|----------|-------|-------|-------|-------|
| Absolute | -11.3 | -18.8 | -13.3 | -19.4 |
| Relative | -5.4 | -7.8 | -7.2 | -20.1 |



Jasa Adhimulya

(6221) 5793-0008 ext.159

jasamulya@reliance-securities.com

Along with BJTM, BTPN is our top pick in the sector. Since 2013 year end, BTPN's valuation multiple has been sharply de-rated below its historical average. If BTPN's forward P/TBV rebounds to historical mean, that is, 2.4x, the counter would be trading at IDR4,575, implying an upside potential of 32.6%.

Near-Term Catalyst

It is widely reported that BTPN has submitted an application to the Financial Services Authority (OJK) to acquire a local life insurance company with the sole intention to turn it into a business unit that serves retail segment by offering micro loan insurance.

To diversify its funding sources and lower its cost of funds, BTPN plans to withdraw US\$500 millions worth of standby loan facilities from Sumitomo Mitsui Banking Corporation or SMBC (US\$325 millions) and International Finance Corporation (IFC), US\$175 millions. The fresh funds would be used to demonstrate BTPN's commitment to finance micro loan.

In addition, BTPN Syariah, a sharia-based subsidiary of BTPN (70% ownership) received an IDR160 billions capital injection. 30% of that amount (IDR112 billions) provided by BTPN. This elevated BTPN Syariah to BUKU 2 category that enables it to do branchless banking.

Valuation: We maintain BUY rating with reduced TP of IDR4,525 from IDR5,470, given the lower loan growth and the less favorable macro environment which will have a negative impact on BTPN's NIM due to high proportion of Time Deposits in its funding structure.

Based on our Residual Income valuation model, we estimate BTPN's fair 12-month forward P/TBV at 1.9x. It has decreased from 2.1x a year ago. We believe a further significant downward re-rating is unlikely, given higher ROE prospects.

Risks: 1) Softer macro environment increases potential for deterioration in asset quality; 2). Weaker than expected loan demand; 3). New regulations affecting bank's operation and profitability.

KEY FINANCIALS AND VALUATION

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|--------------------------|-------|-------|-------|-------|--------|
| Net Int Income (IDR Bln) | 7,048 | 7,041 | 8,823 | 9,594 | 10,174 |
| Net Profit (IDR Bln) | 2,131 | 1,869 | 2,454 | 2,706 | 2,798 |
| Basic EPS (IDR) | 365 | 320 | 420 | 463 | 479 |
| Tangible BVPS (IDR) | 1,668 | 2,018 | 1,905 | 2,087 | 2,357 |
| BVPS (IDR) | 1,696 | 2,065 | 1,969 | 2,168 | 2,449 |
| DPS (IDR) | 0 | 0 | 0 | 0 | 0 |
| Dividend Yield (%) | 0 | 0 | 0 | 0 | 0 |
| P/E (x) | 9.5 | 10.8 | 8.2 | 7.4 | 7.2 |
| P/B (x) | 2.0 | 1.7 | 1.8 | 1.6 | 1.4 |
| P/TBV (x) | 2.1 | 1.7 | 1.8 | 1.7 | 1.5 |

Source: Reliance Securities June 2015

your **reliable** partner | 17

FINANCIAL SUMMARY

P&L STATEMENT (IDR Bn)

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|--------|--------|--------|--------|--------|
| Interest Income | 10,943 | 12,293 | 14,721 | 16,028 | 16,997 |
| Interest Expense | 3,895 | 5,252 | 5,898 | 6,434 | 6,822 |
| Net Interest Income | 7,048 | 7,041 | 8,823 | 9,594 | 10,174 |
| Loan Loss Provision | 591 | 744 | 817 | 891 | 1,002 |
| Operating Income | 400 | 740 | 712 | 567 | 649 |
| Operating Expense | 3,980 | 4,501 | 5,391 | 5,696 | 6,136 |
| Net Operating Income | 2,878 | 2,535 | 3,328 | 3,574 | 3,686 |
| Non-Operating Items | 9 | 13 | 20 | 14 | 11 |
| Profit Before Tax | 2,869 | 2,523 | 3,308 | 3,560 | 3,675 |
| Income Tax | (738) | (653) | (854) | (854) | (877) |
| Net Profit | 2,131 | 1,869 | 2,454 | 2,706 | 2,798 |

BALANCE SHEET (IDR Bn)

| | | | | | |
|----------------------|--------|--------|--------|--------|---------|
| Net Loans | 45,619 | 51,487 | 58,434 | 66,117 | 76,555 |
| Securities | 15,345 | 13,841 | 15,611 | 18,772 | 18,356 |
| Other Earning Assets | 1,614 | 2,001 | 1,944 | 2,200 | 2,015 |
| Total Earning Assets | 16,959 | 15,842 | 17,555 | 20,972 | 20,371 |
| Non-Earning Assets | 6,597 | 7,180 | 8,657 | 9,780 | 10,625 |
| Total Assets | 69,661 | 75,015 | 84,646 | 96,870 | 107,552 |
| Core Deposits | 50,898 | 51,141 | 59,179 | 69,687 | 78,322 |
| Other Deposits | 1,319 | 2,204 | 2,088 | 1,877 | 2,195 |
| S/T Borrowings | 1,303 | 2,204 | 2,088 | 1,877 | 2,195 |
| L/T Funding | 6,342 | 8,214 | 8,068 | 9,338 | 10,469 |
| Other Liabilities | 1,195 | 1,395 | 1,949 | 1,818 | 1,988 |
| Total Liabilities | 59,754 | 62,954 | 73,149 | 84,207 | 93,247 |
| Total Equity | 9,908 | 12,061 | 11,497 | 12,663 | 14,305 |
| Risk Weighted Assets | 38,861 | 46,791 | 51,429 | 57,107 | 65,210 |
| Tier I Capital | 8,600 | 11,126 | 11,126 | 12,189 | 13,767 |

BALANCE SHEET RATIOS (%)

| | | | | | |
|------------------------------|------|-------|------|------|------|
| Tier I CAR | 22.1 | 23.8 | 21.6 | 21.3 | 21.1 |
| Loan/Deposit | 90.6 | 101.7 | 99.7 | 95.8 | 98.7 |
| LLP / Total Assets | 0.82 | 0.68 | 0.69 | 0.67 | 0.71 |
| Net Loans/Assets | 65.5 | 68.6 | 69.0 | 68.3 | 71.2 |
| CASA | 14.4 | 15.4 | 14.0 | 14.7 | 14.9 |
| Liquid Assets / Total Assets | 25.7 | 27.7 | 23.3 | 23.1 | 24.6 |

OPERATING RATIOS (%)

| | | | | | |
|--------------------|-------|-------|-------|-------|-------|
| Cost/Income | 53.4 | 57.9 | 56.5 | 56.1 | 56.7 |
| Effective Tax Rate | 25.7 | 25.9 | 25.8 | 24.0 | 23.9 |
| NPL Gross | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| LLR Coverage | 157.7 | 139.1 | 137.5 | 139.2 | 141.4 |
| ROAA | 3.3 | 2.6 | 3.1 | 3.0 | 2.7 |
| ROAE | 24.2 | 17.0 | 20.8 | 22.4 | 20.7 |

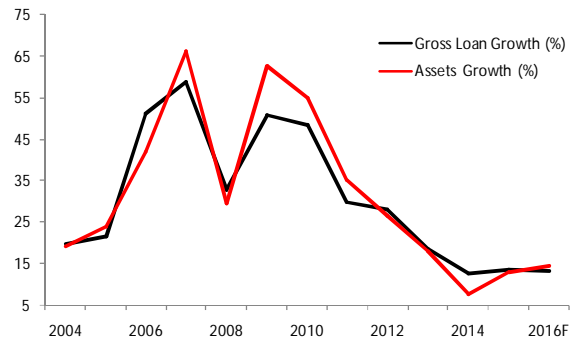
RATES AND MARGINS (%)

| | | | | | |
|----------------------|------|------|------|------|------|
| Net Interest Margin | 12.1 | 10.8 | 12.3 | 11.8 | 11.1 |
| Earning Assets Yield | 18.9 | 18.8 | 19.4 | 18.4 | 17.5 |
| Cost Of Funds | 7.2 | 8.7 | 8.5 | 8.0 | 7.5 |
| Net Interest Spread | 11.7 | 10.0 | 10.9 | 10.5 | 10.0 |

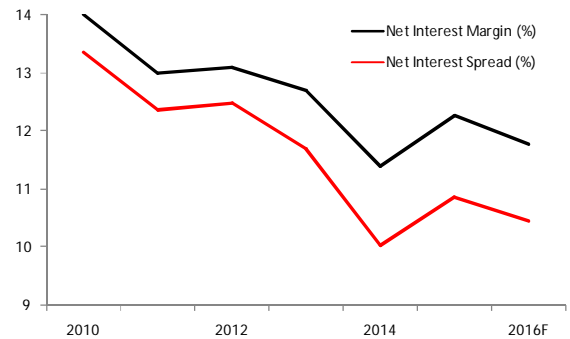
GROWTH (% YoY)

| | | | | | |
|----------------------|------|-------|------|------|------|
| Loans | 18.7 | 12.8 | 13.5 | 13.1 | 15.8 |
| Total Assets | 17.9 | 7.7 | 12.8 | 14.4 | 11.0 |
| Risk Weighted Assets | 21.6 | 20.4 | 9.9 | 11.0 | 14.2 |
| Core Deposits | 15.8 | 2.2 | 11.0 | 17.8 | 12.4 |
| Net Profit | 7.7 | -12.3 | 31.3 | 10.3 | 3.4 |

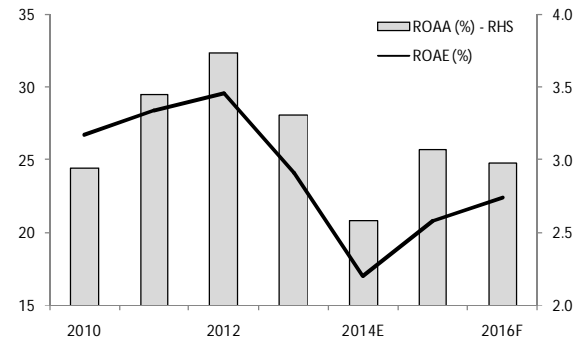
Loan And Assets Growth



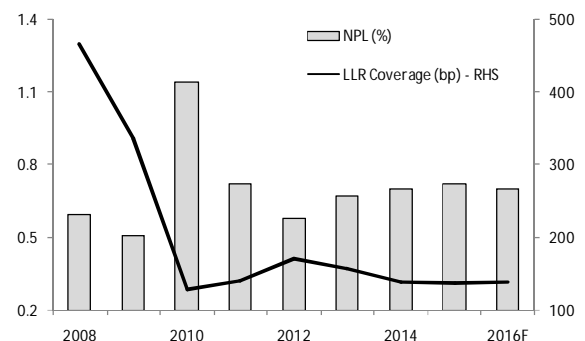
Net Interest Margin And Interest Spread



ROAA & ROAE



NPLs And Reserve Against NPLs



STOCK RATING DEFINITION :

Reliance Securities research recommendations are based on an Absolute Total Return (price appreciation + dividends) Rating system, defined as follows

BUY – Expected positive Total Return of 15% or more over the next 12 months.

HOLD – Expected Total Return of between -15% and +15% over the next 12 months.

SELL – Expected negative Total Return of 15% or more over the next 12 months.

NOT RATED - Stock is not within regular research coverage

Reliance Securities research is available on the following electronic platform: Reliance Securities (www.reliance-securities.com), Reuters and Bloomberg (RIJK GO).

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter:

| Disclosure of Interest Statement | | |
|---|--|----|
| 1. | Analyst ownership of the stock | No |
| 2. | Clients/Company Associates ownership of the stock | No |
| 3. | Broking relationship with company covered | No |
| 4. | Investment Banking relationship with company covered | No |

GENERAL DISCLAIMER :

The information contained in this report has been obtained from public sources believed to be reliable and the opinions contained herein are expressions of belief based on such information. No representation or warranty, express or implied, is made that such information or opinions is accurate, complete or verified and it should not be relied upon as such.

This report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investments. Information and opinions contained in this report are published for reference of the recipients and are not to be relied upon as authoritative or without the recipient's own independent verification or taken in substitution for the exercise of judgment by the recipient.

All opinions contained herein constitute the views of the analyst(s) named in this report, they are subject to change without notice and are not intended to provide the sole basis of any valuation of the subject securities and companies mentioned in this report.

Any reference to past performance should not be taken as an indication of future performance. No member company of RELIANCE Group accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report.

Contact Us

HEAD OFFICE

Reliance Building
Jl. Pluit Kencana No. 15A,
Pluit Penjaringan
Jakarta 14450
T +62 21 661 7768
F +62 21 661 9884

RESEARCH DIVISION

Jasa Adhi Mulya
jasamulya@reliance-securities.com
Robertus Yanuar Hardy
robertus@reliance-securities.com
Pieter Djatmiko
pieter@reliance-securities.com
Aji Setiawan
aji@reliance-securities.com
Alan Milgerry
alan@reliance-securities.com
Shanti Dwi Jayanti
santi@reliance-securities.com
Lanjar Nafi Taulat I
lanjar@reliance-securities.com

Senior Analyst
Senior Analyst
Analyst
Associate Analyst
Associate Analyst
Associate Analyst
Technical Analyst

EQUITY DIVISION

Jakarta- Pluit
Jl. Pluit Kencana No. 15A
Pluit Penjaringan
Jakarta 14450
T +62 21 661 7768
F +62 21 661 9884

Bandung
Jl.Cisangkuy No.58
Bandung 40115
T +62 22 721 8200
F +62 22 721 9255

Surabaya - Gubeng
Jl. Bangka No. 22
Surabaya 60281
T +62 31 501 1128
F +62 31 503 3196

Makassar
Jl. Boto Lempangan No. 34 J
Makassar 90113
T +62 411 3632388
F +62 411 3614634

Jakarta - Sudirman
Menara Batavia 27th floor
Jl. KH. Mas Mansyur Kav 126
Jakarta 10220
T +62 21 5790 5455
F +62 21 5795 0728

Tasikmalaya
Ruko Tasik Indah Plaza No.21
Jl. KHZ Mustofa No. 345
Tasikmalaya 46121
T +62 265 345000
F +62 265 345003

Surabaya – Diponegoro
Jl. Diponegoro 141-143
Surabaya 60264
T +62 31 567 0388
F +62 31 561 0528

Pekanbaru
Jl. Sumatera No. 9, Simpang
Empat, Pekanbaru - Riau
28000
T +62 761 7894368
F +62 761 7894370

Jakarta – Kebon Jeruk
Plaza Kebon Jeruk
Jl.Raya Perjuangan Blok A/2
Jakarta 11530
T +62 21 532 4074
F +62 21 536 2157

Yogyakarta
Jl. Juadi No. 1 Kotabaru
Yogyakarta 55224
T +62 274 550 123
F +62 274 551 121

Bali - Denpasar
Dewata Square Blok A3
Jl. Letda Tantular Renon
Denpasar 802361
T +62 361 225099
F +62 361 245099

Medan
Jl. Teuku Amir Hamzah No.26
T +62 61 6638592
F +62 61 6638023

BSD
Jl. Pahlawan Seribu Ruko BSD
Sektor 7 Blok RK kav. 9
Tangerang 15310
T +62 21 5387495
F +62 21 5387494

Surakarta
Jl. Slamet Riyadi 330A
Solo 57145
T +62 271 736599
F +62 271 733478

Pontianak
Jl. MT Haryono No. 6
Pontianak 78121
T +62 561 575674
F +62 561 575670

Bali - Ubud
Jl. Suweta 19, Ubud
Gianyar, Bali 80571
T +62 361 970692

Jakarta – Centro
Ruko Centro Residence Kav. 4-5
Tower C Lt. 1 No. 26-29
Jl. Macan, Daan Mogot
Jakarta 14450
T +62 21 56945227
F +62 21 56945226

Malang
Jl. Guntur No. 19
Malang 65112
T +62 341 347 611
F +62 341 347 615

Balikpapan
Ruko Bukit Damai Indah
Blok I, No. 3, Rt.34
Jl. MT. Haryono, Gunung
Bahagia, Balikpapan Selatan
76114
T +62 542 746313-16
F +62 542 746317

Contact Us

IDX CORNER & INVESTMENT GALLERY

UPN "Veteran" Jakarta

Jl. RS Fatmawati, Pondok Labu
Jakarta 12450
T +62 21 7656971 ext. 197
F +62 21 7656971 ext. 138

President University

Resto Plaza 1F - Jababeka
Education Park
Jl. Ki Hajar Dewantara Raya
Cikarang - Bekasi 17550
T +62 21 89106030

Universitas Siliwangi Tasikmalaya

Jl. Siliwangi No. 24
Tasikmalaya 46151
T +62 265 323685
F +62 265 323534

UPN "Veteran" Yogyakarta

Jl. Babarsari 2, Tambak Bayan
Yogyakarta
T +62 274 485268
F +62 274 487147

Universitas Muhammadiyah Sidoarjo

Jl. Majapahit 866B
Sidoarjo, Jawa Timur
T +62 31 8945444
F +62 31 8949333

Universitas Tanjungpura Pontianak

Jl. Jendral Ahmad Yani
Pontianak 78124
T +62 561 743465
F +62 561 766840

STIE "AUB" Surakarta

Jl. Mr. Sartono 97, Cengklik
Nusukan, Surakarta 57135
T +62 271 854803
F +62 271 853084

Universitas Surabaya

Jl. Raya Kalirungkut
Surabaya 60293
T +62 31 298 1203
F +62 31 298 1204

Universitas Muhammadiyah Gresik

Jl. Sumatra 101 GKB
Gresik 61121
T +62 31 395 1414
F +62 31 395 2585

Universitas Negeri Malang

Jl. Surabaya No. 6
Malang 65145
T +62 341 585914
F +62 341 552888

Universitas Muhammadiyah Malang

Jl. Raya Tlogomas 246
Malang 65144
T +62 341 464318-9
F +62 341 460782

Universitas Pesantren Tinggi Darul 'Ulum

Gd. Pasca Sarjana UNIPDU
Komplek PP Darul 'Ulum
Peterongan, Jombang
Jawa Timur
Telp. 0321-873655
Fax. 0321-875771

Universitas Brawijaya

Jl. Veteran Malang 65145
T +62 341 551611 / 575777
F +62 341 565420

STIE Malangkucecwara

Jl. Terusan Candi Kalasan
Malang 65142
T +62 341 491813
F +62 341 495619

Universitas Jember

Jl. Jawa No. 17
Jember 68121
T +62 331 330732
F +62 331 326419

STIESIA Surabaya

Jl. Menur Pumpungan 30
Surabaya
T +62 31 5947505
F +62 31 5932218

Universitas 17 Agustus 1945

Banyuwangi
Jl. Adi Sucipto 26
Banyuwangi, Jawa Timur
T +62 333 419613
F +62 333 419163

Politeknik Kediri

Jl. Mayor Bismo No. 27
Kediri 64121
T +62 354 683128
F +62 354 683128

Sekolah Tinggi Manajemen Informatika dan Teknik Komputer Bali

Jalan Puputan No. 86, Renon,
Denpasar
Telp. +62361 244445
Faks. +62361 264773

Universitas Muhammadiyah

Pontianak
Fakultas Ekonomi UM
Pontianak
Jl. Ahmad Yani, No. 111,
Pontianak 78124
Telp. +62561 743465
Faks. +62561 766840

Universitas Negeri Makassar

Fakultas Ekonomi Gedung BT
Lt.2
Jl. A.P. Pettarani, Kampus
UNM, Gunungsari Baru
Makassar 90222
T +62 411 889464 / 881244
F +62 411 887604