



Macro Economy

Global growth edges up

Global GDP growth is predicted to reach 3.1% as the economy remains sluggish. The slowdown in China is not negated by stronger growth in the US. However, an initial turbulence in the equity market arose in the wake of the US Presidential Election and the UK Referendum proved to be brief as conditions stabilized soon after.

Next year, we expect a similar global growth to 2016, despite stronger growth from the US. Given the aforementioned expectation, we believe The Fed will raise rate during the course of 2017. Furthermore, China's economy growth is expected to be maintained at 6% level, excluding the impact of an increase in trade tariff between the US and China.

Domestic Economy

The Indonesian economy in 2016 is forecasted to slightly improved compared to 2015 with higher YoY GDP growth from 4.79% to average growth of 5.04% by 9M16. We expect GDP growth will be in-line with our expectation in the range of 5.0% to 5.2% by the year's end.

Description	2013	2014	2015	3Q'16
GDP (IDR trillion)	9,084	10,095	11,541	9,243
GDP growth (%)	5.78	5.01	4.79	5.02
Inflation (%)	8.38	8.36	3.35	3.07
Export (USD billion)	183.55	176.30	150.37	104.41
Import (USD billion)	186.63	178.22	142.70	98.70
Trade balance (USD billion)	(3.08)	(1.92)	7.67	5.71

Household consumption remains the largest contributor to Indonesia's GDP. In addition, GDP growth is also supported by strong government investment in infrastructure, offsetting the drag from exports due to weak trade developments in China.

Description	2013	2014	2015	3Q'16*	2017E**
Household Consumption	5.40	5.10	5.00	4.98	5.10
Government Spending	6.90	2.00	5.40	3.39	5.40
Investment	5.30	4.10	5.10	5.40	6.40
Export	4.20	1.00	-2.00	-4.76	1.10
Import	1.90	2.20	-5.80	-4.79	2.20
	5.60	5.00	4.79	5.04	5.30

* One year moving average of GDP growth

** RAPBN 2017

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2017 Economic Outlook

The domestic economy is forecasted to grow in the **5.0 – 5.4%** range driven by domestic consumption.

Inflation is projected within the **4 ± 1%** window, while current account deficit is expected to widen but at a stable level under 3% of GDP.

In the banking sector, credit growth is projected to be in the **9-12%** range with deposit growth within the **8-11%** range.



Government Initiatives (Tax Amnesty)

In 2016, the Government introduced The Tax Amnesty program to support infrastructure spending. As of November 2016, total tax amnesty revenue to the government reached above Rp 100T.

As of October 2016, the total declaration stands at 3,879 Trillion IDR comprises of domestic and foreign declaration, repatriation and redemption. The declared Assets reached 23% of Indonesia’s GDP making it one of the most successful Tax Amnesty Program in the world.

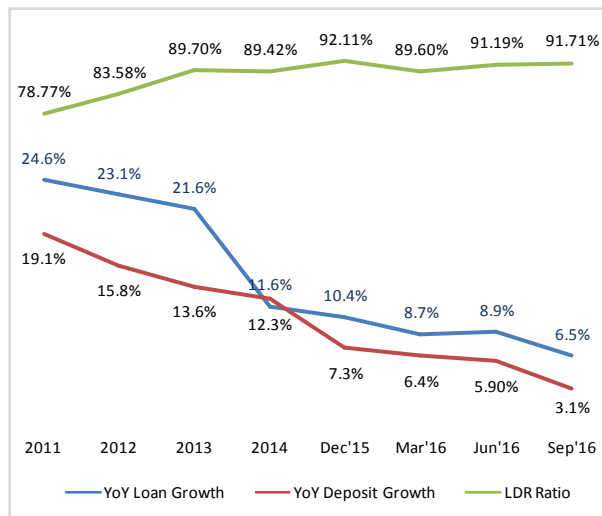
Banking Industry

Dealing with slower growth

Loan growth slowed from the previous year to 8.5% (YoY) in November 2016, with Central Bank’s expectations of 7% to 9% by the year’s end.

As of October 2016, NPL is increasing in trend, reaching gross NPL of 3.2% and expected to be around 3% by year end.

Third party funds grew 3.1% YoY by September and are expected to grow by 6% to 8% the end of the year. LDR remained at 91.7% in September, and liquidity is expected to be slightly improved due to inflows from repatriated funds by end of year.

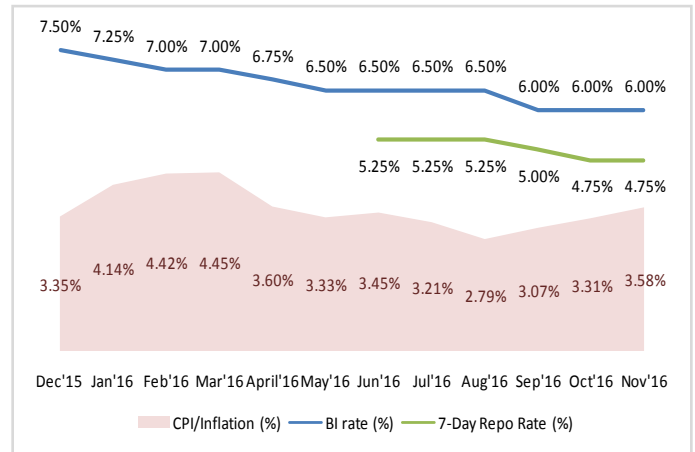


2017 BI Rate Outlook, alert on Fed rate hike

In March, OJK imposed a cap in time deposit rate for Category (BUKU) 3 and Category (BUKU) 4 banks, by 100 bps and 75 bps above the benchmark rate respectively. While in mid August, BI changed the benchmark rate from 12 months instrument to 7-Day (Reverse) Repo rate. However, the OJK TD cap is still measured based on the 9-12 months instruments, with current cap of 6.75% by mid December 2016.

After Fed increased by 25 bps last week, BI maintained the current benchmark of 4.75% reverse repo rate as inflation is manageable within BI’s target around 3% to 3.5% and spread to 9-12 months SBI is still sufficient at 2.5% to 3%.

In 2017, with expectations on increasing electricity tariff, gas and oil price, we expect Bank Indonesia to remain alert on the Fed hikes.





BBRI

Financial Highlights

Description	3Q'15	2015	1Q'16	1H'16	3Q'16	g(YoY)	g(Ytd)
Asset/Liabilities							
Total Asset (IDR Bn)	775,816	845,998	832,092	872,970	894,360	15.3%	5.7%
Total Loans (IDR Bn)	518,952	558,436	561,098	590,691	603,461	16.3%	8.1%
Total Deposits (IDR Bn)	611,325	642,774	631,781	656,122	665,529	8.9%	3.5%
Asset Quality							
NPL (gross)	2.24%	2.02%	2.22%	2.31%	2.22%		
NPL (nett)	0.59%	0.52%	0.59%	0.60%	0.57%		
Liquidity							
LDR	84.89%	86.88%	88.81%	90.03%	90.68%		
Profitability							
Net Profit (IDR Bn)	18,285	25,204	6,137	12,047	18,623	1.8%	
NIM	8.08%	8.13%	8.09%	8.43%	8.41%		
ROE B/S	24.21%	24.39%	21.44%	20.51%	20.00%		
ROA before tax	3.95%	4.19%	3.65%	3.68%	3.59%		
Capital							
Tier1 CAR	16.68%	16.76%	15.84%	18.56%	20.88%		
Total CAR	20.59%	20.59%	19.49%	22.10%	21.88%		

Solid growth driven by Micro Business

Despite of the slowdown in the banking industry, BRI's loan growth reached 9.4% YtD as of October. The growth was driven by micro segment of 15.4% YtD or amounting 27,6 Trillion.

KUR in 2016 contributed much of the growth in micro. Until October, BRI has disbursed Rp 58.95T of both Micro and Retail KUR, thus we expect that BRI will reach its disbursement target of Rp 69.5T by the year's end.

Margin expansion due to higher LDR

BRI's LDR increased from average of 85%-90% in 2015 to 90% - 91% in 2016, while Cost of Funds lowered by 30bps YtD from 4.2% in December 2015 to 3.9% in September 2016, mainly due to OJK TD cap. These two factors have contributed in maintaining NIM above 8% level.

Despite weak industry deposit growth, BRI's third party fund grew 5.2% YtD in October and we expect LDR to remain tight at 90% by year's end.

Stable NPL Level

Stable domestic consumption and slightly better commodity prices have eased loan quality pressure during 2016.

To maintain loan quality in a sustainable level, our strategy is to optimize loan restructuring program in all segments with expectation of a better economy condition in the future.

Our NPL coverage in September 2016 is 166% which exceeds the management's target of 150% in order to maintain credit risk buffer during a dynamic economy condition.

Description	3Q'15	2015	1Q'16	1H'16	3Q'16
Micro	1.44	1.13	1.54	1.49	1.34
Consumer	1.61	1.30	1.48	1.53	1.53
Small Commercial	3.87	2.90	3.78	3.78	3.66
Medium	7.26	5.82	6.68	6.45	6.52
SoE	-	-	-	-	-
Corporate non SoE	3.62	4.78	3.78	4.67	4.78
NPL	2.24	2.02	2.22	2.31	2.22

2017 Outlook: Continuing the Resilience

Seeing the development in 2016, we expect that the economy environment in 2017 to be relatively similar in performance. We do not foresee significant improvement in global growth. Further increase in commodity prices will be a positive surprise to the domestic economy. Better prices in these main commodities will have positive impacts in export performance. Furthermore, the government plans to speed up disbursement of state spending in the first half, which may also benefit the real sector.

Improved economic conditions in commodity related region is expected to benefit the banking industry, especially in terms of loan quality and potential increase in disposable income which will support stronger domestic driven sectors. Therefore, the micro segment and consumer salary- based loans will especially be the priority for loan growth in 2017.

Description	3Q'15	2015	1Q'16	1H'16	3Q'16	g(YoY)	g(Ytd)
Micro	170.2	178.9	189.7	202.9	204.8	20.3%	14.5%
Consumer	85.8	88.5	91.2	94.4	96.8	12.8%	9.4%
Small Commercial	103.7	114.5	106.9	110.3	113.0	9.0%	-1.3%
Medium	19.6	20.2	18.5	19.8	20.5	4.6%	1.5%
SoE	73.7	81.2	78.5	83.5	90.9	23.3%	11.9%
Corporate non SoE	66.0	75.1	76.4	79.7	77.3	17.1%	2.9%
Loan	519.0	558.4	561.2	590.6	603.3	16.2%	8.0%