



Management **Discussion & Analysis**



Macro Economy

Global growth in 2019 was painted with a declining trend from both advance and emerging economies, which had been responded by a convergence of monetary easing and softer commodity prices. A rising wave of uncertainty has sent a series of quakes across global financial markets, as yield-seeking activities returned to emerging economies like Indonesia.

Such timely change of event was sought as an opportunity to issue USD denominated long-term debt by both public and private sectors, amid improvements in sovereign credit rating profile. Foreign fund inflow towards Indonesian securities amounted to USD 15 billion and helped stabilize the country's external account. The volatility of Indonesian Rupiah (Rp) had narrowed significantly from year-ago levels and closed the year at Rp13,901/USD. Consequently, USD 9 billion worth of central bank's reserve assets had been accumulated along 2019, reaching as high as USD 129 billion by year end.

Key reason behind the improvement in Rp fundamental was a narrowing gap between domestic and external demand. Indonesia's economic growth had eased to 5.0%, primarily on the back of softening fixed investment and household consumption. Yet these moderations in domestic demand had also reduced such needs for imported goods. Hence, Current Account Deficit declined from 3.0% of GDP in 2018 to 2.7% this year.

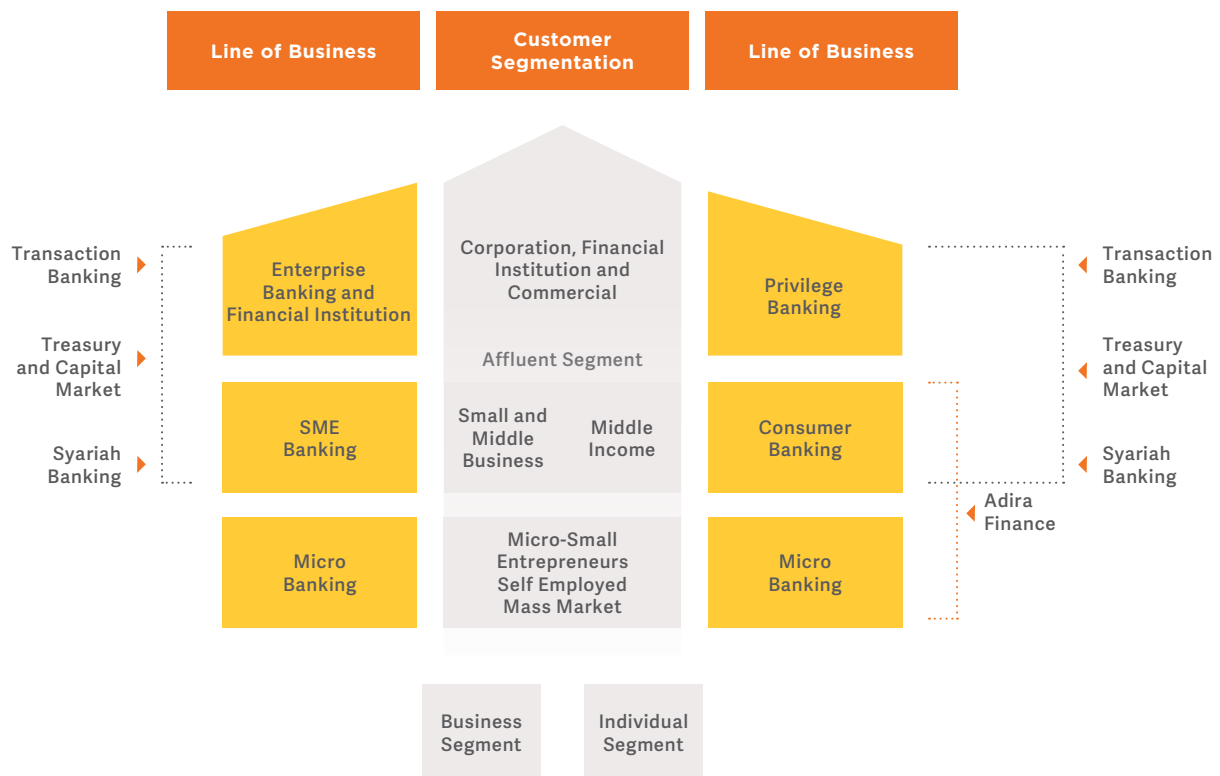
Bank Indonesia decided to loosen its monetary policy by 100bps through four separate revisions, in an effort to balance the push for growth momentum with overall macro stability. The banking system remained resilient, with manageable albeit deteriorating credit quality, while the sector's capital adequacy ratio were adequate to cover the risks. However, liquidity concentration had arisen and was addressed by the central bank through 2 times 50bps cut in primary reserve requirement ratio. A move that injected around Rp54 trillion of cash into the banking system.

Going into 2020, the Indonesia's economy is projected to grow at an even slower pace of 4.9% - 5.0% range. This is expected to mainly be driven by export of primary commodities and import management, while other engines of growth remained moderated. As such, it will induce an even stronger external balance with Current Account Deficit estimated to ease to 2.5% of GDP and provide stability for the Rupiah.





Business Segment Review



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Danamon serves all segments of banking customers in the Consumer segment, Small Medium Enterprises, Micro businesses and Enterprise (Commercial and Corporate) Banking segments. The Bank provides a comprehensive range of banking and financial products and services including Syariah banking services. In addition, Danamon provides financing for automotive and consumer goods through Adira Finance.

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Enterprise Banking

Enterprise Banking serves the Corporate, Commercial, and Financial Institution segments of Bank Danamon. It provides comprehensive financial solutions, such as lending, cash management, trade finance, and treasury services.

Through understanding and serving client's needs, Enterprise Banking aspires to make Danamon the preferred transactional bank.

PRODUCTS AND SERVICES

Enterprise Banking provides the following products and services:

- Working Capital Loans (Trade Finance and Financial Supply Chain)
- Investment Loans
- Cash Management (Payment, Collections and Liquidity Management)
- Foreign Exchange
- Custody

STRATEGIES AND INITIATIVES IN 2019

Enterprise Banking continued to focus on deepening relationships with existing clients, as well as developing its portfolio through new client acquisitions and its end-to-end value chains. Leveraging the business network of MUFG Group, Enterprise Banking also initiated a plan to tap into Japanese companies and multinational corporation value chains.

As part of its continuous transformation, Enterprise Banking kept improving its end-to-end credit process, providing a faster turnaround time to clients, while ensuring a prudent risk culture.

Enterprise Banking invested in human capital by attracting and retaining the best talent, implementing extensive training programs, and driving a performance-based organization.

2019 PERFORMANCE

By undertaking appropriate initiatives and strategies, Danamon managed to raise its performance in Enterprise banking loan grew 6.0% YoY to Rp43.9 trillion in 2019. Collaboration with MUFG become the key to support the achievement of Enterprise Banking in current year.

STRATEGIES AND INITIATIVES IN 2020

In 2020, Enterprise Banking will continue to implement the following strategies:

- Acquire new clients within the target market and capture the end-to-end value chains of existing clients.
- Collaborate with MUFG Group to tap into Japanese companies and multinational corporation value chains.
- Enforce cross-selling of transaction banking, treasury products and any other ancillary businesses to improve the Bank's wallet share from our clients and value chains.
- Enhance client engagement through loyalty events and added-value programs.
- Invest in human capital and upskill our people through training and project assignments.

Treasury and Capital Market

Treasury and Capital Market (TCM) has continued to focus on efficient and prudent balance sheet management. As a product partner of Bank Danamon's business lines, TCM provides solutions for customers requiring hedging and investment products. TCM also supports regulators in improving and deepening financial markets.

TCM is responsible for managing the Bank's liquidity risk by ensuring liquidity requirements are always fulfilled, thereby supporting business expansion under prudent principles. TCM is also tasked with managing interest rate risk inherent within the Bank's balance sheet.

PRODUCTS AND SERVICES

TCM offers a wide range of products and services geared to meet the needs of customers, as well as performing trading activities. Products offered include Foreign Exchange (including FX Today, FX Tomorrow, FX Spot, FX Forward, FX Swap, Domestic Non-Deliverable Forward), Interest Rate Swap and Cross Currency Swap, Marketable Securities (Government Bonds under both Conventional and Sharia schemes and Corporate Bonds), Money Market (Interbank & Bank Indonesia instruments), and Repo & Reverse Repo.

2019 STRATEGIES & INITIATIVES

In 2019, TCM continually focused on efficient balance sheet management strategies in Capital Management, Available for Sale (AFS) portfolio management, Contingency Funding Plan, Enhanced Treasury System and Asset Liability Management (ALM) System.

TCM also continually explored fund raising through various alternatives in capital market aside from conventional third-party funds, such as: Negotiable Certificate Deposit (NCD)/Bonds/Medium Term Note (MTN) issuance, collateralized borrowing, repo, syndicated borrowing, and other professional funding instruments.

Furthermore, TCM also explored short-term and long-term funding, such as: long-term offshore borrowing. TCM conducted liquidity management through placement in Bank Indonesia instruments, interbank money market instruments, fixed income instruments (such as: NCD, Marketable Securities, and Corporate Bonds), and Repo and other new instruments allowed by OJK and BI.

TCM conducted trading activity to support Sales in providing liquidity and best prices to customers. TCM offered alternative investment for retail customers, such as: government bonds and corporate bonds to increase fee-based income for the Bank. TCM also provided additional hedging instrument, such as: Domestic Non-Deliverable Forward (DNDF).

2019 PERFORMANCE

In 2019, TCM supported the Bank to strengthen the funding structure through issuance of Medium Term Notes I Bank Danamon Year 2019 of IDR 500 billions in February 2019, Continuing Bond I Phase I Year 2019 Seri A of IDR 1.148 billions, and Continuing Bond I Phase I Year 2019 Seri B of IDR 852 billions in May 2019.

TCM supported the government's funding plan by actively joining the auction activities especially newly-issued Government Bond in 2019. TCM also provided solution alternatives for customers to fulfill their foreign exchange, hedging needs, and investment instruments by utilizing various treasury products.

2020 STRATEGIES & INITIATIVES

In 2020, Treasury and Capital Market will continue to implement the following strategies:

1. Continue to strengthen efficient balance sheet management strategies with prudential principles.
2. Collaborate with Line of Business (LoB) to support customers who need investment products and hedging instruments to manage their exposures. TCM will also continue to utilize the partnership with MUFG Group to tap business opportunity with Japanese companies and multinational corporation value chains.
3. Expand the customer base (retail, commercial, corporate and financial institution segments) by providing appropriate products that suit each customer's profile.
4. Develop additional hedging instruments for customers, such as: Call Spread Option and Overnight Index Swap.
5. Develop the Bank's investment products and services, such as: Structured Products, FX Online, and Online Retail Bonds.

Transaction Banking (Cash Management, Trade Finance & Financial Supply Chain)

"Transaction Banking continues to utilize the digital technology, focusing on financial supply chain management, while enhancing customer experience and delivering excellent customer service."

Danamon Transaction Banking offers a range of products that cater to the needs of enterprises and entrepreneurs, whether corporate, commercial or SME clients. Danamon's Cash Management, Trade Finance and Financial Supply Chain capabilities all provide customers with appropriate, competitive and efficient transaction banking solutions.

The improvement of Internet Banking platforms allows customers to enjoy integrated services between Cash Management, Trade Finance and the Financial Supply Chain, optimizing efficiency of their business activities.

PRODUCTS AND SERVICES

Transaction Banking provides the following products:

- **Cash Management**
Comprehensive cash management solutions are designed to allow customers to maximize profitability by efficiently managing cash flow, liquidity, and daily transactions. By utilizing Internet Banking and Mobile Application Corporate Danamon Cash Connect, customers can focus more on their core business.
- **Trade Finance & Services**
These services allow customers to conduct trade transactions and trade loans, whether for imports, exports or domestic trade.
- **Financial Supply Chain (FSC)**
Danamon's Financial Supply Chain aims to improve the payment cycle between distributors and principals by providing loan facilities for distributors, including comprehensive reporting and monitoring. Financing facilities for suppliers are also available to meet customer's requirement.

2019 STRATEGIES AND INITIATIVES

- **Digital Capabilities**
Danamon enhanced digital capabilities through:
 - a. Danamon Cash Connect (DCC) for tax payment in line with regulatory policy and some features like auto-debit, payroll, valas transaction and remittance service to accommodate customer need especially for MUFG collaboration as well as the capability to upload online underlying document for Valas as this is 1st time in the market
 - b. Aplikasi Jaminan Online (AJO) system, is a collaboration between PLN and Danamon which enable contractors of PLN in issuing Bank Guarantee for PLN.
 - c. Application Programming Interface (API) Central for Cash Pick Up service, enables fund to be credited in real time to client's account.
 - d. Financial Supply Chain mobile app, D-BisMart enable Danamon to extend the cash management services to wide range of customers from the corporate segment to retailers
- **MUFG Collaboration**
With strong collaboration with MUFG, Transaction Banking successfully leverage FSC ecosystem with additional new anchors and distributors from Automotive and FMCG industry. In addition the Domestic Network Services has been established as partner bank of MUFG.

2020 STRATEGIES AND INITIATIVES

- In 2020, Transaction Banking will continue to improve the collaboration with MUFG Bank in Cash Management, FSC, and Trade Finance.
- The advanced Danamon Cash Connect (DCC) with FSC System and Supplier Financing will provide sound digital capabilities to accommodate the business needs of FSC ecosystem.

Small Medium Enterprise (SME) Banking

PRODUCTS AND SERVICES

Danamon SME Banking offers the following comprehensive financial solutions:

- **Funding:** Deposit and transactional accounts for ease of operational transactions in the form of Current Account, Saving Account, and Term Deposit.
- **Lending:** Working Capital (Overdraft Facility and Demand Loan), Investment Financing (KAB – Term Installment Loan), as well as Financial Supply Chain financing, the Rural Bank (BPR) Loan, and Employee Cooperative Loan.
- **Transactions:** Offering ease of transactions anywhere, anytime through Danamon's network of branches across Indonesia and through digital channels, such as internet banking and mobile banking.
- **Bancassurance:** Offering a range of products to provide protection to business owners and their assets.

2019 STRATEGIES AND INITIATIVES

In 2019, Danamon SME Banking continued its strategic initiatives focusing on delivering comprehensive financial solutions to customers.

Focus was also directed toward capacity fulfillment of the small enterprise sales force, development and optimization of leads generation initiatives, as well as exploring collaboration with financial technology companies to increase customer acquisition through digital platforms.

From a risk perspective, the focus was on improvement of acquisition quality, loan portfolio management, and management of non-performing loans to maintain an NPL rate in line with the Bank's credit policy.

2019 PERFORMANCE

Soft economic resulted in lower demand of SME loans. Year on Year average loan grew by 1%. Despite of soft demand on loan, average deposit grew by 8% from previous year mostly driven by granular deposit. This result are in alignment to Danamon's strategy to continue focus on growing lower cost of funds.

2020 STRATEGIES AND INITIATIVES

In 2020, SME Banking will continue focus to broaden it's customer base using both traditional and digital platform through acquisition of small enterprises and E-retailer, as well as more focus on Financial Supply Chains, Rural Bank Loan linkages and Employee Cooperatives.

Danamon SME Banking will also continue to push its value proposition as a one-stop banking solution through comprehensive lending product bundling with Current and Saving Accounts and value-added services, e-channels, and additional features in existing products. These products will be marketed through cross-selling strategies to create sustainable growth and increase customer loyalty.

As continuous improvement, Danamon SME Banking will enhance credit initiation quality supported by technology and prudent credit policy to accelerate credit processes with better risk management.

In order to maintain relevance towards SME's clients need, Danamon SME Banking is collaborating with digital ecosystem in providing enhanced products and services. The two main topics of the collaboration are improvement on transactional account and lending delivery. On transactional account, Danamon SME Banking is engaging with cloud-accounting services and point-of-sales provider to provide real-time financial dashboard and provide information to optimize working capital. On lending delivery, Danamon SME Banking is collaborating with peer-to-peer lending platform, under linkage scheme, to provide faster and better distribution outreach in serving clients through cash-flow based lending.

Consumer Banking

Indonesia's stable economic growth and large population present a significant market opportunity for Danamon's Consumer Banking unit. Consumer Banking provides comprehensive financial services for individual customers and entrepreneurs.

PRODUCTS AND SERVICES

Consumer Banking offers the following products and services:

- **Deposits**
Tailored to meet the needs of market segments, our deposit products are saving accounts, checking accounts and time deposits.
- **Loans**
Consumer Banking Loans offer a variety of products, both secured (mortgages) and unsecured (credit cards, personal loans).
- **Investment and Bancassurance**
For investment and bancassurance products, Consumer Banking provides many products through partnerships with reputable third-party institutions in Indonesia. To meet the needs of more affluent customers, Consumer Banking also provides personalized and exclusive services.

STRATEGIES AND INITIATIVES 2019

Several initiatives were undertaken in 2019 covering from acquisition programs, products, and infrastructure.

Continuously refining the acquisition programs was part of the efforts to grow the customer base both through conventional channel (branch network channel) and digital channel (D-Bank platform). A clear strategy to grow granular deposits has resulted in consistent year-on-year growth. Continues betterment in providing Wealth Management (WM) solution through new WM product initiatives, improvement in WM advisory capability

of sales and specialist team and enhancement on WM infrastructure were also part of the strategy to fulfill customer's diverse needs.

Aligned with the Bank strategies to provide better services, D-Point rewards system became its anchor infrastructure for loyalty management to provide 360 degree reward points to value the relationship with clients, the D-card application provides convenience for credit card customers and new channel investment transaction execution through phone-banking provide a total solution for customers.

2019 PERFORMANCE

By undertaking appropriate initiatives and strategies, Danamon managed to raise its performance in Consumer Banking. Consumer banking loan grew 10.5% YoY to Rp12.3 trillion in 2019 contributed by consumer mortgages loan that grew by 16.3% YoY to Rp9.1 trillion. Granular funding grew by 23% to Rp74.6 trillion, comprised of growth in CASA by 11.3% and TD regular by 45.9%.

2020 STRATEGIES AND INITIATIVES

2020 will be the year of transformation from product-centric to customer-centric by embarking on new propositions to attract the Emerging Affluent segment, revamp and strengthening the Affluent segment's proposition while continues with its basic offer for the middle market segment.

Danamon's consumer banking will enhance strategy to broaden the customer base by developing new digital channels and partnerships (online and offline), investing resources in the existing ecosystem, such as Adira, taking an institutional approach in acquiring payroll accounts through MUFG and Enterprise Banking collaboration, and improving branch productivity by focusing on the emerging and affluent segments.

Marketing Aspect

GROUP MARKETING

Bank Danamon bank-wide marketing and communication functions are integrated in the Group Marketing division, led by Chief Marketing Officer (CMO) who is directly to Vice President Director. Group Marketing aims to build a corporate brand image as a reputable and trusted bank, by developing brand and marketing strategy to support delivery of business plans and to build strong brand awareness and equity, thru:

- **Brand and Marketing Communication:** create a strong emotional relationship between brand & customers thru product with a solution centric communications that is relevant and connect with consumer.
- **Corporate Communication:** build strong brand equity: to leverage media/ journalists as an important channel to gain brand exposure, create good stories, influence positive image and to drive business beyond press releases.
- **Digital Marketing** as leads generator and revenue driver.
- **Event & Brand Activations:** create the perception of "everywhere" in target audience life and engage in brand experience by bringing their lifestyle and aspiration to them.
- **Marketing Planning & Research:** develop insights driven marketing organizations and robust marketing budget control.

MARKETING ACTIVITIES 2019

1. D-Bank Registration Apps

In the beginning of 2019, Bank Danamon launched D-Bank Registration application to complement D-Bank, a comprehensive digital banking solution. Using "Banking Your Way" as a tagline, this application would bring added convenience for customers in conducting end-to-end digital banking activities, anywhere and anytime. The launch of this application is conducted in five large cities, which are Jakarta, Surabaya, Medan, Makassar, and Bandung.

2. Danamon Run 2019

Danamon held the annual running race "Danamon Run" for the third time on November 10, 2019, in the ICE BSD area, South Tangerang. Danamon Run is a unique race where runners can determine the finish line while running. The event presented four running distances consisting of 5 Km, 10 Km, 15 Km, and 21 Km or Half Marathon and succeeded in inviting around 6,000 runners.

3. The Indonesia 2020 Summit

Danamon and MUFG hosted their first collaborative economic event, The Indonesia 2020 Summit, an open forum discussion on Indonesia and global economy in 2020, on November 20, 2019. Featuring prominent economists such as Chatib Basri and Fauzi Ihsan, the event gave insights on the outlook of Indonesia in 2020, including the opportunities and risks, ranging from economy to national and global politics. The event was attended by around 350 privilege, corporate, and

commercial banking customers of Bank Danamon and MUFG Bank Jakarta Branch, providing customers with the necessary economic outlook to guide their businesses into prosperity.

STRATEGY AND ACTION PLAN 2020

For 2020, overall communication effort will be aligned under the key objective of strengthening Danamon brand awareness as a credible bank that expertly handle client across the board from corporate to end consumers.

KEEP IN SIGHT TO BE KEPT IN MIND

Taking into account the MUFG directions to go strongly into business clients, the rise of the new target market and the digital force that shape the way the consumers doing their banking today, marketing strategies and initiatives are summarized in five pillars:

1. Building Reputation - How we thought of.

Reputation is about how the consumers will remember us – and influence consumers to bank with us. Now Bank Danamon as a member of MUFG, a global financial group, needs to be known to consumer both retail and wholesale.

2. Solution Centric Communication

Solution centric communication is a combination of winning product value proposition and strong, insightful and relevant emotional connection for the brand. Our products and features are designed to help consumer identify their financial needs and helping them with solution and giving them control over their financial matters.

3. Building Perceptual Scale thru Brand Presence and Experience

Creating the perception of Danamon is "everywhere" in target audience life, through perception and real experience. All Danamon's elements from LoBs to corporate to BOD to BOM should be communicates and aligned to create desirable story of our brand.

4. Digital as a True Driver of Revenue

Consumer's digital banking behaviour is inevitable in today's digital world. Danamon have to make itself essential for the consumers' in supporting their lifestyle, and be the preferred means for their financial need and goal.

5. Building Corporate Pride

Culture is the DNA of our company. It is what gives the company its personality. Work place culture translated into working blue print. Internal activities nurtures environment that motivates, inspires and empowers employees and creates the power of purpose will be broadcasted and amplified through Danamon digital assets.

Sharia Banking

INDUSTRY

Indonesia's sharia banking industry grew at a higher rate than conventional banking in 2019, as about 87% of the country's approximately 267 million people are Muslims. The sharia asset industry was recorded at IDR 335 trillion as of November 2019, growing 10% year-on-year.

Sharia market share had increased to 6% in October 2019, indicating the tremendous opportunity for the sharia industry to grow further. With the largest Muslim population in the world, Indonesia has significant potential to develop the halal ecosystem for further sharia market growth.

DANAMON SYARIAH BANKING

Syariah Banking is Danamon's business division based on the principles of Islamic law. It is managed by Danamon's Syariah Banking Unit (UUS). The vision of UUS is to help millions of people to prosper under sharia principles.

Syariah Banking serves all segments from consumers and SMEs to corporations and financial institutions in order to fulfill customer needs, supported by all Danamon infrastructure, technology and distribution channels.

PRODUCT AND SERVICES

The development of distinctive and creative products is the key to the success of Danamon's Syariah Banking. UUS offers the following competitive and customer-oriented products and services:

• Funding Products

Tabungan Haji iB is a savings account for prospective Hajj pilgrims, which comprise of 2 products: RTJH (known as Rekening Tabungan Jemaah Haji) to perform the initial deposit that is directly connected to the government Integrated Computerized Hajj System (SISKOHAT) and iB Hajj Plan Savings.

Other deposit products include Tabungan BISA Umrah iB (umrah saving account), Tabungan BISA Qurban iB (savings account for sacrificial animals), Giro iB (current account), iB Deposit, and transactional savings product with Mudharabah principle that are Danamon Lebih iB and FlexiMAX iB.

• Financing products

Employee Cooperative Financing, Sharia Working Capital Financing, Sharia Investment Financing, Sharia Trade Financing, Sharia Leasing, Sharia Home Ownership Financing, Working Capital Financing For Sharia Rural Bank, and Motor Vehicle Sharia Joint Financing.

• Bancassurance products

Prima Amanah Protection (PPA).

• Services

Cash Management, Electronic Channel, and Big Bill electricity payment service, Zakat, Infaq and sadaqah.

BUSINESS GROWTH

In line with market growth, Danamon Syariah financing grew 12% in 2019, although certain aspects of sharia products can be further improved to secure more significant growth.

• Syariah Financing Portfolio

In 2019, Danamon Syariah focused on the development of Syariah Leasing Financing and Employee Cooperatives Financing. Sharia financing by the end of 2019 grew to IDR 4.5 trillion from IDR 4.0 trillion in 2018, an increase of 12%.

• Syariah Fund Portfolio

In 2019, deposits reached IDR 4.6 trillion, an increase of 8% from IDR 4.2 trillion in 2018 and CASA grew by 30% from IDR 1.2 trillion in 2018 to IDR 1.7 trillion in 2019. This increase was due to a leveraging strategy, which expanded the Danamon Syariah branch network, leading to greater growth in the accumulation of third-party funds.

BUSINESS/PRODUCT FOCUS

Danamon Syariah provides financial solutions for customers through a comprehensive range of unique sharia-based products and services.

In 2019, Danamon Syariah retained its mandate from the National Hajj Fund Management Board (BPKH) to manage hajj funds as a collecting bank, investment partner bank, fund deposit bank and fund management bank. Through this license, Danamon Syariah continues to serve prospective hajj pilgrims from account opening to registering for the hajj pilgrimage.

On the financing side, Danamon Syariah continued to develop its unique financing product called Syariah Leasing, which gives more benefits to customers, especially in the commercial and corporate segments. branch network strategies were implemented to further augment Danamon Syariah's market share. Previously, branch network had been more product-oriented, whereas there is now a more customer-centric focus.

In line with the development of innovative products, Danamon Syariah's flagship products are all intensively promoted throughout Danamon's new distribution network.



Danamon Syariah has continued to improve its human resources productivity by enhancing knowledge and capability, especially in the promotion of sharia banking and products.

Danamon Syariah has continued to improve risk management and good governance. Infrastructure and technology have been upgraded and refined to be more integrated. This has improved customer service levels by minimizing and integrating several processes within the parent bank system.

AWARDS

In 2019, Danamon Syariah received several awards in recognition of its excellent service to customers. The awards are as follows:

- 3rd in Best Overall Performance, Sharia Business Unit category, Infobank Banking Service Excellence Awards
- 1st in Sharia Business Unit category, Infobank Digital Brand Awards

- 2nd in Best Customer Service, Infobank Banking Service Excellence Awards
- 3rd in Best Telephone Sharia Bank, Infobank Banking Service Excellence Awards
- 1st in Best Teller, Infobank Banking Service Excellence Awards
- 2nd in Best Overall Minus E-Banking category, Infobank Service Excellence Awards

2020 BUSINESS PLAN

Danamon has conceived a number of strategic initiatives to further expand its sharia banking services in 2020. In line with Bank's strategy in 2020 to develop sharia digital banking, Danamon Syariah will improve its products and services through digital banking platforms.

Concurrently, Danamon will continue to bring forth innovative and unique products dedicated to customers. Products will be oriented to the needs of customers and be more competitive than services and products offered by competitors.

Business Review of Subsidiary Company-ADMF


Main
Highlights

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Good Corporate
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PROFILE

PT Adira Dinamika Multi Finance Tbk (Adira Finance, ADMF) was founded in 1990 and commenced operations in 1991. In 2004, Adira Finance conducted an Initial Public Offering and Danamon became the majority shareholder with 75% ownership. Following subsequent corporate actions, Danamon presently owns 92.07% of Adira Finance.

Adira Finance has a vision of Creating Shared Value for the Sustainability of the Company and Prosperity of Indonesian Society.

The Company is committed to building long-term cooperative relationships with customers and business partners under the tagline Faithful Friends Forever. This is a manifestation of long-term business strategy with a conviction to shore up sustainable performance.

Adira Finance strives to serve customers at different stages of their life, in order to establish long-term relationships with lifelong customers. In line with its "Sahabat Adira" (Adira Companion) vision, the Company hopes that its customers will view Adira Finance as a friend they can turn to for solutions. The term "Sahabat" (Companion) embodies the Company's philosophy and has a very profound meaning. It reflects the values that Adira Finance shows toward its customers:

cerdaS (intelligence), **dipercAya** (trustworthiness), **ramaH** (friendliness), **Adira memBerikan kemudahan** (convenience), **mAu peduli** (compassion), and **komiTmen** (commitment).

PRODUCTS AND SERVICES

The business scope of Adira Finance covers the following: investment financing, working capital financing, multipurpose financing, other financing business activity approved by the Financial Services Authority, as well as operating leases and/or other fee-based activities to the extent that these do not conflict with applicable laws and regulations in the financial sector, as well as sharia-based financing principles. The scope of the Company's sharia business unit covers sale and purchase financing, investment financing, and service financing.

Products offered include automotive vehicles, including motorcycles and cars, both used and new, as well as durables such as electronics, household appliances, furniture, and others.

STRATEGY AND WORK PROGRAM 2019

Adira Finance set out its Strategy and Work Program at the beginning of the year. Some those conducted in 2019 are:

1. Strategies in Business Development

- Increasing sales in used vehicle financing and multipurpose loans by applying CRMNext for sales prospects;
- Maintaining good relationships with dealers by offering marketing campaigns and sponsor programs to increase market share;
- Building a digital order process in order to optimize speed in credit approval;
- Increasing synergy in the parent company and increasing cross selling;
- Optimizing market place platforms through momobil and momotor e-platforms.

2. Strategies in managing optimal funding

The Company will continue to diversify funding to maintain adequate levels of liquidity and ensure the availability of funds for financing purposes, operations, and payment of maturing loans and bonds.

In addition, Adira Finance seeks to maintain its gearing ratio within the limits set by the supervisory body under OJK Regulation No. 29/2014, which sets the gearing ratio at a maximum level of 10 times. To be update per 31 December 2019.

For the above reason, a joint financing scheme is a priority for Adira Finance in the disbursement consumer financing. In diversifying alternative sources of funding, ADMF's borrowing consisted of the following bank loans: both on-shore and off-shore loans, as well as from the capital market through bonds and sukuk (sharia 'compliant' bonds) issuance, with the intention of obtaining a competitive cost of funds.

3. Strategies in HR Development

Adira Finance continues to improve employee competence and loyalty through a systematic and comprehensive training program and to improve the process of evaluating employee performance more objectively. In addition, the Company has Adira Corporate University (AFCU) as a forum to foster and develop human resources so that it can produce quality employee employees.

PERFORMANCE 2019

Details of the 2019 business performance are outlined in the following table:

DETAILS	2019	2018	Y-o-Y
Total Assets (Rp trillion)	35.1	31.5	11.5%
Net Profit (Rp billion)	2,109	1,815	16.2%
New Financing (Rp trillion)	37.8	38.2	-0.9%
Non-performing Financing (%)	1.6	1.7	-5.9%
Market Share - Motorcycles (%)	11.8	11.8	0.0%
Market Share - Cars (%)	4.4	4.8	-0.4%

STRATEGY AND PLAN 2020

Adira Finance's work plan and strategies to be carried out in 2020 include the following:

- Further increasing sales in used vehicle financing and multipurpose loans by applying CRMNext for sales prospects.
- Enhancing relationships with dealers through marketing campaigns and sponsor programs to increase market share.
- Improving the digital order process in order to further accelerate credit approvals.
- Further boosting productivity and capacity in high growth business segments, mainly in the multi-purpose loan segment and used vehicles.
- Continuing investment in technology for further improvement in Enterprise Resources Planning (ERP), Digital Marketing System (DMS), and digital processing.
- Optimizing market place platforms through the Momobil and Momotor e-platforms.
- Continuing tight monitoring of asset quality and enhancing collections.
- Continuing to diversify funding sources to obtain optimal cost of funds.

Financial Review

Despite the challenging situations in the banking industry in 2019, Danamon managed to perform well in 2019. NPAT improved by 3.9% to reach Rp4.07 trillion compared to 2018. The ROA before tax and ROE were at 3.0% and 10.3% respectively, at the end of 2019, both slightly declined compared to last year of 3.1% and 10.6% respectively. NPL ratio remained at a manageable level of 3.0% at the end of 2019, despite asset quality deterioration in the banking industry, especially for the SME segment.

The financial review outlined herein refers to the year-end Financial Statements as of December 31, 2019. The Financial Statements have been audited by Tanudiredja, Wibisana, Rintis, and Partners (a member of PwC Global) Public Accounting Firm under the Audit Standards established by the Indonesian Institute of Certified Public Accountants with the entity's financial information presented fairly in all material respects.



In 2019 Danamon continued its strategy in recent years of engine growth diversification, and prudent lending. In addition, MUFG collaboration enabled Danamon to tap into the ecosystems of Japanese and multinational corporate customers including in the form of distributor financing, cash management, mortgage loans, and payroll accounts.

In billion Rupiah	2019			2018		
	Retail ¹	Wholesale ²	Total	Retail ¹	Wholesale ²	Total
Assets	86,290	90,773	177,063	96,194	76,782	172,977
Liabilities	79,097	58,561	137,658	74,569	58,020	132,589
Net Interest Income	11,019	3,560	14,579	12,120	2,121	14,241
Non-Interest Income	2,296	642	2,938	1,910	529	2,439
Income from Operations	13,315	4,202	17,517	14,029	2,650	16,680
Operational Expenses	(8,100)	(1,219)	(9,319)	(7,251)	(816)	(8,066)
Loan Expenses	(3,436)	(1,283)	(4,719)	(2,785)	(482)	(3,267)
Non-Operational Income / (Expenses)	389	(399)	(10)	39	(193)	(154)
Gain on Investment			2,288			-
Restructuring Cost			(269)			(267)
Profit Before Tax	2,169	1,300	5,488	4,033	1,159	4,926
Income Tax Expenses	(537)	(368)	(905)	(1,124)	(300)	(1,424)
Income Tax Expense for All Divestment			(781)			-
Income Tax Expense for Business Transformation			67			70
Net Income from Continuing Operations	1,632	932	3,869	2,909	859	3,571
Net Income from Disposal group classified as held for sale			372			536
Net Profit after taxes	-	-	4,241	-	-	4,107

1) Consisting of SME, credit card, sharia, insurance business, micro business, consumer finance, pawn broking, and retail banking.

2) Consisting of commercial, corporate banking, financial institutions, and treasury.

FINANCIAL POSITION REPORT

Assets 2019

Total Danamon asset as of 2019 stood at Rp193.53 trillion, 3.6% increased compared to Rp186.76 trillion last year. The increase in assets mainly due to an increase in the net loan which grew from Rp130.15 trillion in 2018 to Rp136.78 trillion in 2019.

(In billion Rupiah)

Asset Table	2019	2018	growth YoY
Cash	2,951	2,824	4.5%
Current accounts with Bank Indonesia	5,403	6,460	-16.3%
Current Account at Other Banks	2,616	1,387	88.6%
Placement with Other Banks & Bank Indonesia-net	5,591	8,576	-34.8%
Marketable Securities-net	9,406	9,149	2.8%
Loans (include consumer financing receivable and lease receivable)-net	136,780	130,154	5.1%
Government Bonds	14,227	10,973	29.7%
Fixed assets-net	1,786	1,903	-6.1%
Others	14,774	15,338	-3.7%
Total assets	193,534	186,762	3.6%

Cash

Danamon's cash position reached Rp2.95 trillion as of December 31, 2019, an increase of 4.5% compared to its cash position of Rp2.82 trillion as of December 31, 2018. Cash contributed 1.5% to Danamon's total asset.

Current Accounts with Bank Indonesia

Danamon was able to maintain Primary Minimum Reserve Requirements (GWM) in Rupiah and Foreign Currency for Conventional Banks above Bank Indonesia's provisions of 6.0% each for Primary GWM denominated in Rupiah from third-party funds and Macprudential Liquidity Buffer (PLM) is set at 4.0% from total third party funds in Rupiah. GWM in foreign currency is set at 8.0% from total third party funds in foreign currency.

Danamon's GWM ratio in Rupiah was 6.0% and PLM was 16.2%, while the reserve requirement in foreign currency was 8.9% in 2019.

At the end of 2019, Danamon's current accounts with Bank Indonesia decreased to Rp5.40 trillion compared to Rp6.46 trillion last year following lower reserved requirement from Bank Indonesia from 6.5% in 2018 to 6.0% in the current year.

Current Account at Other Banks

Danamon's current account at other banks' portion of total assets reached 1.4% in 2019 compared to 0.7% in 2018. In 2019, the accounts were increased by 88.6% to Rp2.62 trillion mainly due to an increase in Rupiah current account from Rp0.20 trillion in 2018 to Rp1.21 trillion in 2019.

Placements with Other Banks and Bank Indonesia

As of December 2019, placements with other banks and BI reached Rp5.59 trillion; decreased by 34.8% compared to Rp8.57 trillion in 2018. Mainly due to a decrease in foreign currency placements in Bank Indonesia of Rp2.94 trillion in 2019 compared to Rp7.33 trillion last year. While placement to other banks increased to Rp2.23 trillion compared to Rp1.24 trillion in 2018.

Danamon allocated reserves for impairment of 2019 placements with other banks and BI amounting to Rp2.29 billion, higher compared to 2018's figure of Rp0.25 billion.

Marketable Securities

Danamon booked an increment in investment in securities by 2.8% from Rp9.15 trillion last year to Rp9.41 trillion in 2019. The increase was primarily due to higher investment in securities especially in Bank Indonesia to Rp2.62 trillion

from Rp1.05 trillion in 2018; while investment in Banks declines to Rp1.75 trillion from Rp2.05 trillion last year and Corporate bonds also decline from Rp6.09 trillion last year to Rp5.06 in 2019.

Loans

Net loans including lease receivables and consumer financing receivables grew by 5.1% to Rp136.78 trillion

in 2019 compared to Rp130.15 trillion in 2018 mainly due to improvement in the Enterprise Banking segment by 6.0% as well as a mass-market portfolio from Danamon's subsidiary, Adira Finance, and consumer banking.

In 2019, working capital loans grew by 18.0% to Rp61.45 trillion from Rp52.09 trillion. On the other hand, investment loans declined by 14.2% to Rp18.05 trillion.

Loan by type-Gross

(In billion Rupiah)

Loan by type	2019	2018	growth YoY
Consumption	60,222	59,800	0.7%
Working Capital	61,450	52,092	18.0%
Investment	18,052	21,033	-14.2%
Expor	1,736	1,594	8.9%
Total	141,460	134,519	5.2%

Loan by sector economy-Gross

(In billion Rupiah)

Loan by Economy Sector	2019	2018	growth YoY
Household and Consumer Financing	60,222	55,460	8.6%
Grocery and Retail	35,956	36,228	-0.8%
Manufacturing	22,607	19,233	17.5%
Transportation, Warehousing, Communications	3,880	4,400	-11.8%
Real Estate, Leasing, Services and Servicing Companies	2,906	3,048	-4.7%
Others	15,889	16,150	-1.6%
Total	141,460	134,519	5.2%

Based on economic sectors, household and consumer financing contribute 42.6% to Danamon's total loan. In 2019, this sector grew 8.6% to Rp60.22 trillion from Rp55.46 trillion last year. Manufacturing loans also grew double-digit in 2019.

Loan by geography-Gross (bank only)

(In billion Rupiah)

Loan by Geography	2019	2018	growth YoY
Jakarta, Bogor, Tangerang, Karawang, Bekasi and Lampung	57,946	54,202	6.9%
North Sumatera	10,700	10,882	-1.7%
West Java	9,561	6,291	51.9%
East Java	9,406	9,959	-5.6%
Central Java and Yogyakarta	6,806	5,843	16.5%
Sulawesi, Maluku and Papua	6,601	7,113	-7.2%
Kalimantan	4,911	5,534	-11.3%
South Sumatera	2,144	2,639	-18.8%
Bali, NTT, and NTB	1,898	2,109	-10.0%
Total	109,971	104,572	5.2%

From the geographical standpoint, Jabodetabek, Karawang, and Lampung contributed the most out of total loans disbursed by the Bank. Those areas grew 6.9% YoY to Rp57.95 trillion from Rp54.20 trillion last year.

LOAN COLLECTIBILITY

	2019	2018
Gross NPL	3.0%	2.7%
Special Mention	10.3%	9.7%
Current	86.7%	87.6%

Danamon continued to manage its asset quality to ensure that risk management adheres to the prudential principle. Danamon's NPL stood at 3.0% in 2019, increase 0.3% compared to last year, due to lower credit quality in banking industry, especially in the SME segment. Its special mention also increased to 10.3% from 9.7% last year with the same reason.

Rp128.39 trillion compared to last year Rp123.42 trillion. Foreign currency loans grew to Rp8.39 trillion compared to Rp6.73 trillion in 2018.

Based on the interest rate, Danamon's floating loan increased 12.2% to Rp68.55 trillion compared to Rp61.07 trillion last year; while Danamon's fixed loan declined by 1.2% to Rp68.23 trillion this year.

Credit-Based on Interest & Currency-Net

Based on currency, 93.9% of Danamon's loan was in Rupiah. Danamon's Rupiah loan slightly grew 4.0% to

(In billion Rupiah)

By type and currency	2019	2018	growth YoY
Rupiah	128,391	123,425	4.0%
Foreign Currency	8,389	6,729	24.7%
Total	136,780	130,154	5.1%

(In billion Rupiah)

Interest Rate	2019	2018	growth YoY
Floating	68,552	61,071	12.2%
Fixed	68,228	69,083	-1.2%
Total	136,780	130,154	5.1%

Consumer Financing and Lease Financing Receivables

In addition to bank loans, Danamon's loans were consolidated in the form of consumer financing receivables and finance lease receivables. Adira Finance's net consumer financing receivables grew by 4.8% to Rp29.62 trillion in 2019, compared to Rp28.26 trillion. Despite the slow down in the automotive industry, Adira Finance still is able to book a positive growth in the current year.

Fixed assets

Danamon's fixed assets in 2019 decreased by 6.1% to Rp1.79 trillion from Rp1.90 trillion last year. The decrease was mainly due to normal regular depreciation with no significant addition of fixed assets this year, except BNP merged assets. Also, there was an impact of asset deduction from the closure of Micro Branches which continued to shrink down.

Government Bonds

Bank Danamon's investment in government bonds reached Rp14.23 trillion in 2019 increased by 29.7% compared to Rp10.97 trillion last year. The increase in Government bonds holdings due to increasing Rupiah denominated government bonds which increase to Rp10.05 trillion from Rp7.88 trillion last year.

Danamon's investment in fixed assets consists of land, buildings, office equipment, and motor vehicles. The total investment of capital goods in 2019 reached Rp211.69 billion 22.2% decreased compared to last year.

(In million Rupiah)

Fixed Assets	2019	2018	growth YoY
Land	4,914	-	100.0%
Buildings	65,762	36,200	81.7%
Office Equipment	121,913	204,915	-40.5%
Motor Vehicle	19,097	31,001	-38.4%
Construction in Progress	-	2	-100.0%
Total	211,686	272,118	-22.2%

On top of that, Danamon also has the addition of capital goods from the merger with Bank Nusantara Parahyangan (BNP), with a total net book value of additional assets amounting Rp19.4 billion, consist of land, buildings, office equipment, and motor vehicles.

Other Assets

Danamon's other assets, consisting of accounts other than those described above decreased by 3.7% to Rp14.77 trillion in FY 2019 from Rp15.33 trillion last year.

Liabilities

Danamon's funding source to support credit growth, consists of customer deposits, deposits from other banks, issued securities and borrowings. Through a focus on granular Danamon's CASA ratio was improved by 2.6% in 2019 to 49.7% compared to 47.1% last year.

Table of Liabilities

(In billion Rupiah)

Liabilities	2019	2018	growth YoY
Deposits from customer	109,792	107,696	1.9%
Deposits from other banks	4,483	3,152	42.2%
Total third party fund	114,275	110,848	3.1%
Securities sold under repurchase agreements	-	248	-100.0%
Securities issued	13,446	9,640	39.5%
Borrowings	10,400	11,828	-12.1%
Subordinated loan	25	25	0.0%
Others	9,971	12,233	-18.5%
Total	148,117	144,822	2.3%

Customer Deposits

Customers deposit is a major contributor to Danamon's liabilities. Danamon's total amount of customer deposits reached Rp109.79 trillion, higher than Rp107.70 trillion in 2018. Danamon has consistently prioritized lower-cost funding sources from lower ticket size current accounts/demand deposits and savings.

(In billion Rupiah)

Total Deposits from Third Party	2019	2018	growth YoY
Deposits from customer			
Current account	15,837	15,885	-0.3%
Savings	38,258	33,945	12.7%
Time Deposit	55,697	57,865	-3.7%
Total Deposits from customer	109,792	107,696	1.9%
Deposits from other banks	4,483	3,152	42.2%

Deposits from Other Banks

Deposits from other banks in 2019 increased by 42.2% to Rp4.48 trillion from Rp3.15 trillion last year. The increase mainly due to an increase in call money from Rp290.0 billion last year to Rp1.98 trillion in 2019.

Borrowing

Long term financing with a maturity of more than one year is managed to maintain the Bank's ability to handle liquidity gaps and interest rate risk.

Total borrowings in 2019, amounted to Rp10.40 trillion decrease from Rp11.83 trillion last year. The decrease in borrowing mainly due to a decrease in foreign currency borrowing from Rp7.83 trillion to Rp6.95 trillion in 2019.

Danamon's funding source diversification also came from borrowing from various domestic and foreign financial institutions.

Securities Issued

In 2019, Bank Danamon issued bonds and MTN amounted to Rp2.0 trillion and Rp 500.0 billion respectively to support the business growth. The Bank's total outstanding bonds and MTN, minus underwriting fee and others, amounted to Rp2.49 trillion. Bank Danamon's MTN is rated idAAA by PT Pemeringkat Efek Indonesia (Pefindo), while the bond is rated AAA(IDN) by PT Fitch Ratings Indonesia.

Moreover, Bank Danamon, through its Subsidiary, Adira Finance, issued bonds to support the financing business. Adira Finance's total outstanding bonds, minus underwriting fee and others, amounted to Rp10.32 trillion higher than Rp8.91 trillion last year. In addition, Adira Finance had unmatured Sukuk Mudharabah amounting to Rp637.0 billion in 2019 lower compared to Rp728.0 billion in 2018.

All of ADMF's bonds are rated idAAA by PT Pemeringkat Efek Indonesia (Pefindo).

Other Liabilities

Other liabilities consisting of accounts, other than those mentioned above, slightly declined by 20.1% to Rp9.97 trillion compare to Rp12.41 trillion.

EQUITY

Danamon's equity continued to strengthen in 2019. Danamon's equity attributable to equity holders of the parent entity grew by 8.8% to Rp44.94 trillion in 2019 compared to Rp41.31 trillion in 2018 mainly due to the improvement of retained earnings from Rp28.30 trillion in 2018 to Rp30.83 trillion in 2019.

(In billion Rupiah)

Description	2019	2018	growth YoY
Issued and Fully Paid Up Capital	5,996	5,901	95
Additional Paid Up Capital	7,986	7,256	730
Other Equity Components	121	(154)	275
Retained Earnings	30,834	28,308	2,526
Non-Controlling Interest	480	629	(149)
Total Equity	45,417	41,940	3,477

PROFIT/LOSS REPORT

Danamon's NPAT improved by 3.9% to reach Rp4.07 trillion compared to Rp3.92 trillion NPAT in 2018. Net operating income declined, largely due to additional provisionings taken to boost NPL coverage and improve balance sheet strength going forward. However, the decline was more than offset by an increase in non-operating income, primarily due to the gain from Adira Insurance divestment.

(In billion Rupiah)

Description	2019	2018	growth YoY
Net interest income	14,579	14,241	2.4%
Other operating income	3,788	3,696	2.5%
Other operating expense	15,093	12,779	18.1%
Net Operating Income	3,274	5,158	-36.5%
Non-operating income/(expense)-net	2,214	(232)	1,054.3%
Income Before Tax	5,488	4,926	11.4%
Income Tax Expense	1,619	1,354	19.6%
Net income from continuing operation	3,869	3,571	8.3%
Net income from disposal group classified as held-for-sale	372	536	-30.5%
Income After Income Tax Expenses	4,241	4,107	3.3%
Net Income Attributable to Equity Holders of the Parent Entity	4,074	3,922	3.9%
Net Income Attributable to Non-controlling Interest	167	185	-9.6%
Basic Earnings Per Share-full amount	416.78	409.21	1.8%
Comprehensive income attributable to equity holders of the parent entity	4,175	3,939	6.0%
Comprehensive income attributable to Non controlling interest	155	188	-17.2%

Net Interest Income

Danamon net interest income rose 2.4% to Rp14.58 trillion compared to Rp14.24 trillion in 2018. The increase in net interest income was aligned with loan growth in Danamon's key segments, netted off with margin compression which is impacted from shifting on loan portfolio composition with more portion on lower bearing interest rate portfolio in Enterprise Banking and lower high-interest portfolio in Micro Banking

Other Operating Expenses

Danamon's general and administrative expenses slightly increase to Rp2.94 trillion compared to Rp2.72 trillion last year. Danamon's allowance for impairment losses also increased to Rp4.71 trillion compared to Rp3.27 trillion last year to boost NPL coverage.

Net Operating Income

Bank Danamon's net operating income decreased by 36.5% to Rp3.27 trillion compared to Rp5.16 trillion last year. The decrease in Danamon's net operating income was mainly due to an increase in the cost of credit following lower asset quality in certain segments and an effort to boost NPL coverage.

Net Income from Continuing Operation

Net income from continuing operation increased by 8.3% in 2019 to Rp3.87 trillion compared to Rp3.57 trillion last year. Besides improvement in loan growth and higher interest income, the increase was mainly due to the capital gain from transaction of Adira Insurance divestment.

Income Before Income tax

Due to an increase in non-operating income in 2019, Danamon posted pre-tax profit of Rp5.49 trillion, increase by 11.4%, compared to Rp4.93 trillion last year.

Net Income attributable to equity holders of the parent entity

Danamon's net income, attributable to the equity holders of the parent entity, grew by 3.9% to Rp4.07 trillion after taking into account income tax expense in 2019. Danamon's earning per share reached Rp416.78 per share compare to Rp409.21 per share in 2018.

CASH FLOW REPORT

(In billion Rupiah)

Description	2019	2018
Net Cash flows (used by)/provided from operating activities	(9,005)	4,445
Net Cash flows provided from investing activities	2,031	3,387
Net Cash flows provided from/(used by) from financing activities	1,093	(4,382)
Net decrease in cash and cash equivalents from disposal group classified as held for sale	-	(344)
Net (decrease)/increase in cash and cash equivalent	(5,881)	3,106
Net effect on changes in exchange rates on cash and cash equivalent	(73)	89
Cash and cash equivalents at beginning of year	19,029	15,834
Cash and cash equivalents at the end of year	13,075	19,029

Cash Flow from Operations

Bank Danamon posted a deficit net cash flow from operations of Rp9.01 trillion in 2019 compared to surplus Rp4.44 trillion in 2018, which was mainly due to a decrease in time deposit from third party fund.

Cash Flows from Investments

Danamon's net cash provided from investing activities stood at Rp2.03 trillion surplus compared to surplus of Rp3.39 trillion last year. This was due to a decrease in proceeds from sales of matured marketable securities and Government Bonds (held-to-maturity and available-for-sale) netted off with cash provided from transaction of Adira Insurance divestment.

Cash Flow from Financing

Net cash provided from financing activities surplus by Rp1.09 trillion compared to Rp4.38 trillion deficit last year, mainly due to lower payment of principals of bonds and borrowings.

Commitments and Contingencies

Danamon is committed to providing loan facilities to customers as well as a contingency in the form of income from settlements and bank guarantees received. Total net commitment payables and contingent payables in 2019 stood at Rp5.77 trillion 1.0% lower compared to Rp5.83 trillion last year.

(In billion Rupiah)

Commitments and Contingencies Payables	2019	2018	Growth YoY
Unused loan facilities to-debtors	144	45	99
Outstanding irrevocable-letters of credit	1,538	1,932	(394)
Total commitment payables	1,682	1,977	(295)
Contingent receivables			
Guarantee from other banks-Interest receivable on-	95	66	29
Non-performing assets	557	531	26
Total contingent receivables	652	597	55
Contingent payables			
Guarantee issued in the form of Bank guarantees-	4,597	4,206	535
Standby letters of credit-	144	240	(240)
Total contingent payables	4,741	4,446	295
Contingent payables-net	4,089	3,850	239
Commitment payables and Contingent payables-net	5,771	5,827	(56)

KEY FINANCIAL RATIOS

Bank Danamon consistently conducts business with prudence and complies with Bank Indonesia regulations, the Financial Services Authority, and all applicable

legislation. Danamon was able to meet the financial ratios stipulated by the regulators despite limited economic growth. Some of the main key financial ratios are explained further as follows.

in %	2019	2018	growth YoY
CAR-Consolidated	24.2	22.2	2.0
NPL	3.0	2.7	0.3
NIM	8.3	8.9	-0.6
BOPO - Bank Only	82.7	70.9	11.8
ROA (before tax)	3.0	3.1	-0.1
RIM	99.7	97.2	2.5

ABILITY TO SETTLE ACCOUNTS PAYABLE AND COLLECTIBLES

Danamon's ability to meet all its obligations, both long-term and short-term liabilities, is measured through several ratios, including solvency ratios, profitability ratios, and liquidity ratios. The following indicates the financial ratios of banks to measure solvency, profitability and liquidity.

Bank Solvency

Bank Danamon ensures the Bank's solvency by having sufficient capital in order to meet the risks of fund disbursement and market risk as reflected in the Minimum Capital Adequacy Requirement (KPMM). Danamon's consolidated CAR it 2019 stood at 24.2% an improvement compares to 22.2% last year.

Bank Profitability

The profitability performance of Bank Danamon is measured using the ratio of Return on Assets (ROA), Return on Equity (ROE), Net Income Margin (NIM), and Operating Cost to Operating Revenue (BOPO). Danamon's NIM stood at an 8.3% decline compared to 8.9% last year due to an increase in the cost of funds and a higher composition of the lower margin loan segment. Danamon's ROA before tax also slightly declined to 3.0% from 3.1% last year as well as ROE which slightly declined to 10.3% compared to 10.6% last year.

Bank Liquidity

Bank liquidity management is crucial because it is influenced by funding structure, asset liquidity, liabilities to counterparty and commitment to providing financing to debtors. Bank Danamon measures liquidity risk in liquidity management using Macroprudential Intermediation Ratio or "RIM". RIM position at the end of 2019 stood at 99.7%, higher compared to 97.2% last year. Despite higher year-end RIM, Danamon continued to improve its funding franchise by continuing to prioritize its cheaper funding from its granular funding through Danamon branches network.

CAPITAL STRUCTURE

The Bank's current capital structure consists of:

- The core capital (tier 1) consists of paid-up capital and additional reserves of capital minus deferred tax calculations, intangible assets, and inclusion in subsidiaries.

Additional capital reserves consist of premiums of stock, general reserves, profits of past years, current year earnings, other comprehensive income, less net excess of PPA and allowance for impairment losses on earning assets, and PPA on non-earning assets that must be calculated.

- Tier 2 capital consists of general reserves of PPA on the required productive assets (maximum of 1.25% of the RWA for credit risk) and subordinated loan which is qualified as capital instrument in tier 2.

Capital Management

Capital management is done through monitoring the capital base and capital ratios based on industry standards in order to measure capital adequacy. BI's and OJK's approach to such measurement is primarily based on the measurement and monitoring the minimum capital requirement to the available capital resources.

The Bank has fulfilled the BI's and OJK's regulations regarding the Minimum Capital Adequacy Requirement (CAR) and calculation of Risk-Weighted Assets (RWA).

The Bank has also implemented Internal Capital Adequacy Assessment Process (ICAAP) mechanism, which is self-assessment process by Bank where it does not only cover capital adequacy from basic risks under Pillar I (Credit, Market, and Operational Risk) but also take into consideration capital adequacy of other risks (Credit Concentration Risk, Banking Book Interest Risk, Liquidity Risk and Stress Test Impact) as specified in Pillar 2 Basel II & OJK's regulation.

(In billion Rupiah)

	Bank Only			Consolidated		
	2019	2018	YoY	2019	2018	YoY
Common Equity (Tier-1)	32,181	28,496	3,685	39,893	35,193	4,700
Supplemental Capital (Tier-2)	1,264	1,223	41	1,405	1,368	37
Total Core and Supplemental Capital	33,445	29,719	3,726	41,298	36,561	4,737
Risk Weighted Asset based on Credit Risk, Market Risk, Operational Risk)	135,997	130,387	5,610	170,789	164,394	6,395
Total CAR ratio	24.6%	22.8%	1.8%	24.2%	22.2%	2.0%

IMPACT OF INTEREST RATE CHANGES, CURRENCY FLUCTUATIONS, AND CHANGES IN REGULATION ON DANAMON'S PERFORMANCE

Impact of Interest Rate Changes

Interest rate risk is the probability loss that may occur from an adverse movement in market interest rates vis-à-vis the Bank position or transaction. The interest rate risk management is supplemented by regularly conducting sensitivity analyzes on scenarios to see the impact of changes in interest rate.

Impact of Exchange Rate Fluctuations

Foreign exchange risks arise from on and off-balance sheet positions both on the asset and liability sides through transactions in foreign currencies. The Bank measures the foreign exchange risk to understand the impact of the exchange rate movement on the Bank's revenue and capital.

TARGET VERSUS ACHIEVEMENT COMPARISON

In 2019, Danamon successfully achieved its profit target despite missing the loan target in 2019. Danamon's consolidated loan stood at Rp141.5 trillion lower than the Rp153.0 trillion target that we set last year. In terms of profit, Danamon's NPAT profit stood at Rp4.07 trillion above last year's target.

MATERIAL INFORMATION AND FACTS OCCURRING AFTER DATE OF ACCOUNTANT AUDIT REPORTS

None noted.

OTHER IMPORTANT TRANSACTIONS OF A SIGNIFICANT AMOUNT

On September 27, 2018, the Bank has signed the Conditional Sale and Subscription Agreement ("CSSA") with Zurich Insurance Company Ltd ("Zurich"). related to the plan to sell the Bank's shares in PT Asuransi Adira Dinamika ("AI") of 70% of the shares issued by AI.

On November 27, 2019, the Bank has completed the sale of 70% share ownership in AI to Zurich based on the approvals from Financial Service Authority (FSA) Non-Bank and FSA Capital Market on September 27, 2019 and November 22, 2019, respectively with the selling price amounted to Rp3.74 trillion. Based on AI's Article of Association No.181 dated November 27, 2019, the Bank's ownership of the AI shares to 19.81%, so that the financial statements of AI are no longer consolidated into the Bank. The AI ownership will be recorded by the Bank as an investment in an associate entity. As part of the sale of shares, the Bank will receive additional consideration provided that there is an increase in the value of shares sold by the Bank to Zurich which calculated based on the performance metric of the Bank and ADMF in contributing gross written premium for AI.

DIVIDEND POLICY

The dividend policy is determined annually through the approval of the Annual General Meeting of Shareholders (AGM). In 2019, Bank Danamon paid a cash dividend of Rp1.37 trillion or 35% of its net profit for the fiscal year 2018.

*(In billion Rupiah)

Profit for the Year	Date of AGM	% Net profit	Dividend per Share for Series A and Series B (Rp full amount)	Dividend Payment Amount*	Payment date	General & Mandatory Reserves*
2018	26-Mar-19	35%	143.22	1,372.8	26-Apr-19	39.2
2017	20-Mar-18	35%	134.44	1,288.5	18-Apr-18	36.8
2016	12-Apr-17	35%	97.48	934.3	12 May 17	26.7

SHARE OWNERSHIP PROGRAM FOR MANAGEMENT AND EMPLOYEES

In 2019, Danamon have no stock option program yet, for the Board of Directors, Board of Commissioners or employees.

SIGNIFICANT CHANGES OCCURRING IN THE BANK AND BANK'S BUSINESS GROUP IN 2019

As indicated above, due to the sale completion of the 70% share ownership in AI, AI's financial statements are no longer consolidated into the Bank, but have been recorded by equity method.

MATERIAL INFORMATION ON INVESTMENT, EXPANSION, DIVESTMENT, ACQUISITION, OR RESTRUCTURING OF PAYMENT AND CAPITAL

Investment

In 2019, the Bank did not undertake any investment proceedings.

Expansion

In 2019, the Bank did not undertake any expansion proceedings, other than the merger with Bank BNP described in the Acquisitions section below.

Divestment

As indicated above, on November 27, 2019, the Bank has completed the sale of 70% share ownership in AI to Zurich Insurance.

Merger

PT Bank Danamon Indonesia Tbk ("Bank Danamon") and PT Bank Nusantara Parahyangan Tbk ("Bank BNP" or "Merged Bank"), a member of Mitsubishi UFJ Financial Group, Inc. ("MUFG") have completed their legal merger process. Effective on May 1, 2019, Bank BNP is merged with Bank Danamon as the Surviving Bank.

Following the legal merger, 33 branches of Bank BNP converted into the Danamon network through operational integration. All rights and obligations, as well as assets and liabilities of Bank BNP shall by law be transferred to Bank Danamon.

With the completion of the legal merger, MUFG BANK, LTD. ("MUFG Bank"), the core banking unit of MUFG, will become the controlling shareholder of Bank Danamon, which will allow greater collaboration and synergy that will positively contribute to the growth of the Indonesian banking sector and the economy as a whole.

MUFG is one of the world's leading financial groups. We believe that MUFG's investment in Bank Danamon will add value to our customers and franchise, and help us continue to grow as a leading bank in Indonesia. We will be able to tap on MUFG's strengths, expertise and network to facilitate Bank Danamon's growth and delivery of long term value to all stakeholders.

Debt and Capital Restructuring

In 2019, the Bank did not undertake any debt or capital restructuring.

REALIZATION OF PUBLIC OFFERING PROCEEDS

In 2019, Danamon issued MTN of Rp500 billion and Bonds of Rp2.0 trillion with up to Rp5 trillion shelf registration. The proceeds were used to fund Danamon's lending business activities.

In 2019, Danamon as a parent company did not conduct any stock issuance public offering.

MATERIAL TRANSACTION INFORMATION CONTAINING CONFLICTS OF INTEREST

None noted.

DISCLOSURE OF TRANSACTIONS WITH RELATED PARTIES

Danamon conducts various transactions with related parties in the conduct of its business activities which do not cause any conflict of interest transactions. Such transactions are carried out according to normal commercial terms such as transactions conducted with non-related parties. More details related to transactions with related parties can be seen in the notes of the 2019 audited financial statements of PT Bank Danamon Tbk (note No. 47).

*(In million Rupiah)

No	Parties with special relation with the Bank	Relationship with the Bank	Type of Transaction	Value of Transaction*
1	MUFG BANK, LTD.	Shareholders	Placement	205,831
2	PT Mitra Pinasthika Mustika Finance	Owned by the same shareholders	Loan disbursed	45,976
3	MUFG BANK, LTD.	Shareholders	Loan disbursed	436
4	PT Asuransi Adira Dinamika Tbk	Associate entity	Loan disbursed	198
5	Board of Commissioners, Board of Directors and Key Employees	Key Executive and employees	Loan disbursed	23,164
Total				275,605

CHANGES IN REGULATION THAT HAVE SIGNIFICANT EFFECT ON THE BANK

Some of the new banking regulations issued by the Financial Services Authority and Bank Indonesia in 2019 and their impact on Bank Danamon are outlined in the following table:

Regulations	Descriptions	Impacts on BDI
PADG No.21/14/PADG/2019 dated June 26, 2019 regarding second changes of PADG No.20/10/PADG/2018 about Minimum Reserve Requirement in Rupiah and Foreign Currency for Conventional Commercial Banks (BUK), Sharia Commercial Banks (BUS), and Sharia Business Units (UUS)	<ol style="list-style-type: none"> Decrease of Minimum Reserve Requirement in Rupiah for BUK from 6.5% to 6% : <ol style="list-style-type: none"> Must be fulfilled on daily basis decrease from 3.5% to 3% Must be fulfilled on biweekly average remain on 3% Decrease of Minimum Reserve Requirement in Rupiah for BUS/UUS from 5% to 4.5% : <ol style="list-style-type: none"> Must be fulfilled on daily basis decrease from 2% to 1.5% Must be fulfilled on biweekly average remain on 3% <p>This regulation is effective starting from July 1, 2019</p>	Implementation of new policy has a positive impact to Bank's daily liquidity management.
PBI No. 21/13/PBI/2019 dated November 25, 2019 regarding changes of PBI No. 20/8/PBI/2018 about Loan to Value Ratio (LTV) for Property Loans (KP), Financing to Value (FTV) for Property Financing (PP), Advances of Motor Vehicles Loans (KKB) and Motor Vehicles Financing (PKB)	<p>LTV ratio for KP and FTV ratio for PP:</p> <ol style="list-style-type: none"> Relaxation of LTV/FTV requirement by 5%. In addition, for environmentally friendly (green) property, there is additional LTV/FTV relaxation by 5% from LTV/FTV that has been relaxed. For LTV/FTV which have reached 100%, it will not be determined by Bank Indonesia but will be left to the bank's policy by considering the prudential principle. Changes in KP/PP threshold limits by independent appraisers for collateral valuation from Rp5 billion to Rp10 billion. Changes of NPL ratio max 5 % for LTV/FTV requirement, from net to gross. <p>Down Payment of Motor Vehicles Loans (KKB) and Motor Vehicles Financing (PKB):</p> <ol style="list-style-type: none"> Reduction of vehicle down payment obligation : <ol style="list-style-type: none"> 5% for two wheels vehicle 10% for three/more wheels vehicle. In addition, for environmentally friendly (electric) vehicle, there is additional down payment reduction by 5% from the Down Payment that has been reduced. Changes of NPL vehicle loan max 5 % for down payment requirement, from gross to net <p>This regulation is effective starting from December 2, 2019</p>	The LTV policy is a relaxation given by BI and provide chance for Bank to increase the property loans growth

Regulations	Descriptions	Impacts on BDI
PBI No. 21/9/PBI/2019 dated August 30, 2019 regarding Integrated Commercial Bank Reporting	<ol style="list-style-type: none"> 1. In order to reduce the burden of Bank's reports submission and to increase data quality and reporting effectiveness, BI develop an integrated reporting system and metadata-based by upholding the collaborative, efficiency, and consistency principle. 2. The reporting requirement refers to metadata which determined by Regulators, i.e. BI, OJK, and Indonesia Deposit Insurance Corporation (LPS) 3. Reporting period consist of Daily, Weekly, Monthly, and Quarterly 4. Bank's obligation to prepare and submit the report/correction in timely manner. 5. The submission of LHBUS, LBBUS, LBBUS Sharia, LKPBU and LSMK BUS/UUS reporting is still valid for 9 months, starting from data in December 2019 until August 2020 6. Bank which is late or not submit reports will be subjected to administrative sanctions in the form of written warnings (starting from data position end of June 2020 until end of August 2020) and/or obliged to pay the sanctions (starting data position end of September 2020) <p>This regulation is effective starting from August 30, 2019</p>	Bank is required to adjust the reporting to be in line with new policy and prepare a system that support the reporting process
POJK No. 32/POJK.03/2018 dated December 26, 2018 regarding Legal lending Limits (LLL) and Provision of Large Funds for Commercial Bank	<ol style="list-style-type: none"> 1. Provision of funds given to related parties maximum is 10% of Bank's capital 2. Provision of funds given to borrower or group of borrower other than related parties maximum is 25% of Bank's core capital 3. Provision of large exposure is provision of funds to one borrower or one group of borrower other than related parties which is \geq 10% from Bank's core capital 4. Changes in related parties definition 5. Changes in provision of funds calculation 6. Submission of LLL report to OJK and deadline of LLL report submission <p>This regulation is effective starting from June 1, 2019</p>	Bank updates the LLL guidelines according to new policy

CHANGES IN ACCOUNTING POLICIES

The following standards, amendments and interpretations became effective since January 1, 2019 and are relevant to the Bank and Subsidiaries:

- ISAK 33: Foreign Currency Transactions and Advance Consideration. ISAK 33 is an adoption of IFRIC 22 Foreign Currency Transactions and Advance Consideration. It clarifies the use of the date of the transaction in determining the exchange rate to be used for initial recognition of asset, expense or income when the entity receives or pays advance consideration in foreign currency.
- ISAK 34: Uncertainty over Income Tax Treatments. ISAK 34 is an adoption of IFRIC 23 Uncertainty over Income Tax Treatments. It clarifies how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
- Amendments to PSAK 24: Employee Benefits. This amendment requires the use of updated assumptions after a plan amendment, curtailment or settlement.
- Annual improvement 2018 PSAK 22: Business Combination. The amendments clarify that obtaining control of a business that is a joint operation, is a business combination achieved in stages.
- Annual improvement 2018 PSAK 26: Borrowing Costs. The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.
- Annual improvement 2018 PSAK 46: Income Taxes. The amendment clarifies that income tax consequences of dividends should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- Annual improvement 2018 PSAK 66: Joint Arrangements. The amendment clarifies that the party obtaining joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.

The implementation of the above standard did not result in changes to accounting policies and had no significant impact to the consolidated financial statements for current year or prior financial years.