



Floating Market

Puji Riswanto - Decision Management Unit Consumer Risk, Jakarta
2nd Winner Economy Category - Danamon's Photography Competition



Management Discussion & Analysis

- Business Segment Review
- Financial Review

Management Discussion & Analysis



Danamon successfully achieved growth opportunities through the implementation of strategies: increase the total loans by maintaining focus on the financing in the micro and middle business segments; raise funding both long-term and customer deposits, through leading products and utilization of the Bank's network synergies; increase HR productivity and efficiency; continuously creating a culture of service excellence; strengthen the branches networks and the ATM facilities throughout Indonesia; always consistent in complying with the prevailing laws and regulations and continue to develop necessary steps to prepare Danamon for ASEAN CG Scorecard.

Loans grew

▲ **16%**

Non-mass market grew strongly

Corporate and Commercial: Ample growth with preserved asset quality accounted for

▲ **26%**
of loan book.

Liquidity: Conscious effort to bring down LDR to

▼ **95.1%**

CASA Journey: Continues effort to increase CASA ratio from 26% (in 2008) to

▲ **48%**

- **CASA Journey:** Financial Supply Chain to boost funding

- **DSP:** Challenges in Java remain, asset quality at manageable level

- **Adira Finance:** 2Wheels share shift compensated by 4Wheels. Healthy growth in second semester

- **Adira Insurance:** Strong growth of Gross Written Premium (GWP) and number of active policy

Fee Income: Non credit related fee rose

11%

driven by general insurance, cash management, and bancassurance

SME: Loan to SME shows a robust growth at

▲ **18%**

Trade Finance: Robust growth above

▲ **30%** per annum

- Business Segment Review
- Financial Review

Macroeconomic and Industry Review



Focusing on mass market and micro segment supported by wide network of services with up to date technology information, Danamon set its position in the national banking industry as a bank with 6th biggest asset. Powered by competent human resources, Danamon has recorded performance growth above the average growth rate of banking industry.

Macroeconomic and Industry Review

Indonesia's economy in 2013 faced significant challenges due to the global economic conditions of slowing down growth quite fluctuative. The uncertainty of global financial market increases along with the negative sentiments toward the plan to reduce monetary stimulus by the US Federal Reserve (Fed), which created turmoil in global financial markets in general, and in particular the Indonesian economy.

Indonesia's economy in 2013 grew by 5.8%, lower than 2012 growth of 6.3%. However, the growth figure was considered quite well amid increased pressure on Indonesia's Balance of Payments (NPI), accompanied with weakening of the rupiah, which dipped to Rp12,000/USD, the weakest level since 2005. Jakarta Composite Index (JCI) slipped down to level 4274 from level 4317 in 2012. Inflation increased due to the volatility of food prices and rising of fuel and electricity, and went above the inflation target set by Bank Indonesia at the beginning of 2013 of 4.5% \pm 1%. Inflation was recorded at 8,38% until the end of 2013. The high inflation and intense pressure in financial market prompted Bank Indonesia to raise interest rate by up to 175bps, reaching 7.5% at the end of last year.

The decline in the growth of Indonesian economy in 2013 was also seen in the limited real export growth due to the deceleration of global economy and slumping commodity prices. In terms of domestic demand, consumption was still high and remained as a main driver of Indonesia's economic growth. As for investment growth, particularly non-building, investments started to slow down. The growth in the manufacturing sector was quite high and boosted the raw materials and capital goods increase in the middle of weak export performance due to external demand that has not fully recovered and slumped commodity prices. This resulted in a widening of the current transaction deficit estimated to reach 3.3% of Gross Domestic Product (GDP). It was higher than deficit in 2012 at 2.8%. Surplus in terms of capital transaction and financial also declined.

The condition of economic slowdown was in line with the stabilization policy direction of Government and Bank Indonesia in bringing the economy to a more healthy and balanced state. Overall, the measurable stabilization policy was accompanied by the 2013 economic growth, which was quite high in comparison to the growth of other countries.

- Business Segment Review
- Financial Review

Macroeconomic and Industry Review

	YoY	2013	2012	2011	2010	2009
National Income Account						
Real GDP	%YoY	5.8	6.26	6.49	6.22	4.63
GDP - Nominal	USD billion	871	879	845	710	539
GDP per Capita - Nominal	USD	3,490	3,596	3,509	2,986	2,330
External Sector						
Exports	USD billion	183.5	188.5	200.8	158.1	119.6
Imports	USD billion	177.4	179.9	166.0	127.4	88.7
Trade Balance	USD billion	6.1	8.6	34.8	30.6	30.9
International Reserves	USD billion	99.4	112.8	110.1	96.2	66.1
IDR/USD	end of period	12,189	9,670	9,068	8,991	9,400
Others						
BI Policy Rate	% end of period	7.5	5.8	6.0	6.5	6.5
Consumer Prices Indices	% end of period	8.4	4.3	3.79	6.96	2.78
Jakarta Composite Index (JCI)	end of period	4,274	4,317	3,822	3,704	2,534
S&P's Rating – FCY		BB+	BB+	BB+	BB-	BB-

DANAMON'S POSITION

Banking industry is highly influenced by the high capital outflow causing the market to experience tightening liquidity. In line with the increase in BI Rate, banking competition became more stringent. However, due to prudent steps taken by Bank Indonesia as industry regulator, banking conditions in general are still sound.

Bank Indonesia data shows that Capital Adequacy Ratio (CAR) of the banking sector was still at the level of 18.13% with Risk-Weighted Assets (RWA) ratio at 16.36%, and Non Performing Loans (NPL) maintained around 1.77%. Amid the relatively tighter economic conditions, banks were required to improve the efficiency of their operational costs and the banking sectors were able to comply.

The tight liquidity accompanied with the rise of BI Rate caused tougher competition in the activities of funding, with cost of funds showing upward trend. Data of Bank Indonesia stated the growth of third party funds (DPK) of banking sector in 2013 was at 14%, lower than the growth of DPK in 2012 at 15.8%.

Driven by domestic high consumption, business sectors were progressing at a relatively encouraging pace, especially for businesses with domestic market base. This was evidenced by the quite high absorption of credit in business sectors, where working capital loans grew by 20% and investment loans still grew by 35%. Meanwhile, growth of consumption loans only reached 14%. With these results, loans of the banking sector grew by 22% in 2013, a slight decline compared to 2012 at 23%.

Macroeconomic and Industry Review

In details, the national banking industry performance for commercial bank category can be seen in the following tables:

PERFORMANCE OF NATIONAL BANKING INDUSTRY (COMMERCIAL BANKS)

	Unit	YoY	2013	2012	2011	2010	2009
Assets	Rp trillion	16%	4,954	4,263	3,653	3,009	2,534
Customers Deposits	Rp trillion	14%	3,664	3,225	2,785	2,339	1,973
Loans	Rp trillion	22%	3,293	2,708	2,200	1,766	1,438
Capital	Rp trillion	26%	627	497	405	323	269
Operating Income	Rp trillion	15%	132	115	89	48	40
Net Income	Rp trillion	15%	107	93	75	57	45
Net Interest Margin	%	-0.6	4.89	5.49	5.91	5.73	5.56
Return on Assets Ratio	%	-0.03	3.08	3.11	3.03	2.86	2.60
Operating Expenses on Operating Income Ratio	%	-0.02	74.08	74.10	85.42	86.14	86.63
Loans to Deposit Ratio	%	6.12	89.70	83.58	78.77	75.21	72.88
Non-Performing Loans	%	-0.10	1.77	1.87	2.17	2.56	3.31
Capital Adequacy Ratio	%	0.70	18.13	17.43	16.05	17.18	17.42
Total Banks	Bank		120	120	120	122	121

Sources: Bank Indonesia and FSA

By focusing on mass market and micro segment as well as support of the extensive network services and up to date information technology, Danamon was able to rank 6th in national banking industry in terms of assets. Supported by competent human resources, Danamon managed to achieve above of the average performance of banking industry.

Comparison of Financial Performance

Danamon Financial Performance

Comparison	Unit	YoY	2013	2012	2011	2010	2009
Danamon's Assets	Rp trillion	18.3%	184.2	155.8	142.3	118.4	98.6
Danamon's CAR*)	%	-5.3%	17.90	18.90	17.60	16.00	20.70
Danamon's ROA	%	-7.4%	3.40	3.71	3.54	3.87	2.32
Danamon's LDR	%	-5.4%	95.10	100.70	98.30	93.80	88.80
Danamon's Loans	Rp trillion	16.1%	135.4	116.6	101.8	82.7	63.3
Danamon's TPF	Rp trillion	16.1%	110.8	91.7	88.1	81.0	68.4

Financial Performance of Indonesia Banking Industry

Comparison	Unit	YoY	2013	2012	2011	2010	2009
Industry's Assets	Rp trillion	16.2%	4,954	4,263	3,653	3,009	2,534
Industry's CAR	%	4.0%	18.13	17.43	16.05	17.18	17.42
Industry's ROA	%	-1.0%	3.08	3.11	3.03	2.86	2.60
Industry's LDR	%	7.3%	89.70	83.58	78.77	75.21	72.88
Industry's Loans	Rp trillion	21.6%	3,293	2,708	2,200	1,766	1,438
Industry's TPF	Rp trillion	13.6%	3,664	3,225	2,785	2,339	1,973

*) Before Tax

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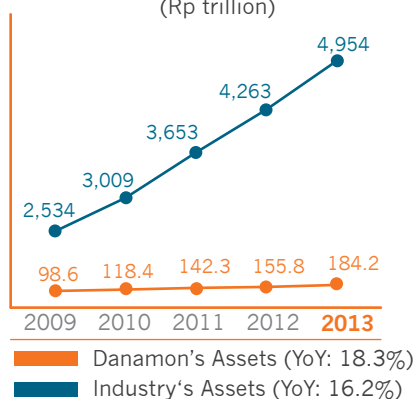
Macroeconomic and Industry Review

Analysis

Danamon

In 2013, Danamon assets grew by 18.3%. Higher than the growth of national banking assets reaching Rp184.2 trillion from Rp155.8 trillion at the end of 2012. The asset market share at the end of 2013 reached 3.72% from 3.65% in 2012. The increase in assets was mainly due by the increase in lending from Rp116.6 trillion in 2012 to Rp135.4 trillion in 2013 (16%).

Assets Growth (Rp trillion)



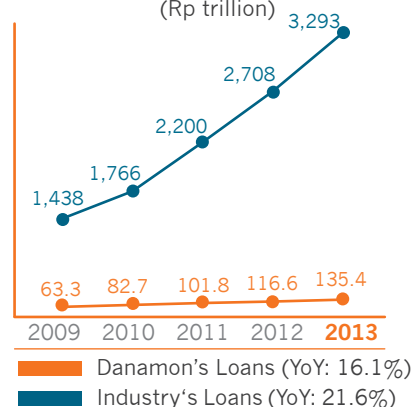
National Banking

National banking asset only increased by 16.2%, from the position of Rp4,263 trillion in December 2012 to Rp4,954 trillion at the end of December 2013, following the slowdown of national GDP.

Danamon

Danamon's loans grew by 16.1% to Rp135.4 trillion compared to growth in the year of 2012 at Rp116.6 trillion. Danamon's loan market share to total industry loan was 4.1%, decreased from 4.3% in 2012. In the last two years, Danamon has experienced challenges in lending with respect to the policy implementation on minimum downpayment of automotive financing and housing, where auto financing occupies a sizeable portion in Danamon's loan portfolio.

Loans Growth (Rp trillion)



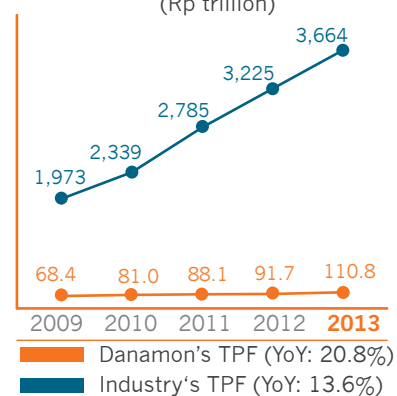
National Banking

National banking loan only increased by 21.6%, compared to the increase in 2012 at Rp2,708 trillion to Rp3,293 trillion in 2013 due to the slowing down of investment activities and decline in the national GDP growth to 5.8%.

Danamon

Under a similar situation, in 2013 Danamon's TPF grew by 20.8% to Rp110.8 trillion compared to 2012 at Rp91.7 trillion. Market share of third party funds was 3% at the end of 2013, which increased from the 2012 position of 2.8%.

Growth of Third Party Funds (TPF) (Rp trillion)



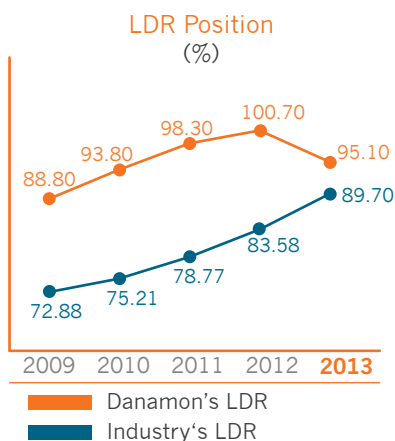
National Banking

In 2013, banking industry experienced a slowdown in Third Party Funds due to the high inflation with growth rate of 13.6% to Rp3,664 trillion. Meanwhile in 2012, TPF of banking industry grew by 15.8% to Rp3,225 trillion compared to in 2011.

Macroeconomic and Industry Review

Danamon

At the end of 2013, the Loan to Deposit Ratio (LDR) of Danamon was stood at 95.1%, a significant improvement from 100.7% in 2012. This was in line with the increase in TPF and Danamon's better liquidity management.

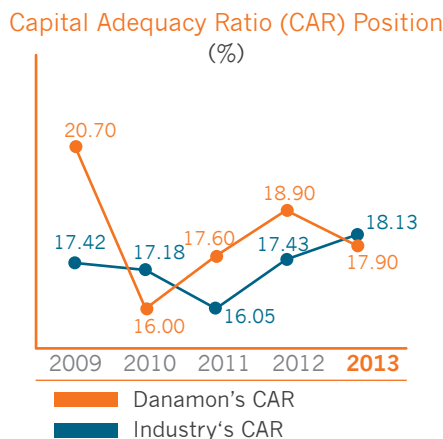


National Banking

LDR of the banking industry increased sharply from 83.6% in 2012 to 89.7% in 2013. The increase was due to low-growth of third party's fund collection compared to the growth of the banking industry loans.

Danamon

Capital Adequacy Ratio of Danamon in 2013 declined by 18.90% in 2012 to 17.90%. The decline occurred mainly due to the growth of Danamon's loans at 16.1%. Danamon's capital level is still strong to support the business activities.

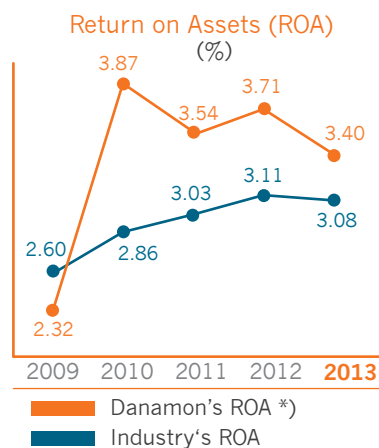


National Banking

In 2013, CAR of the banking industry experienced an increase from the position of 17.43% in 2012 to 18.13%. A high level of bank's compliance with the regulation managed to keep the level of bank's soundness where capital adequacy was one of the most important variables.

Danamon

Danamon's ROA in 2013 was still at the level of 3.40% and was above average of ROA of banking industry at 3.08%.



National Banking

ROA of national banking was relatively stable, from the position of 3.11% in 2012 to 3.08% at the end of December 2013.

*) Before Tax

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Macroeconomic and Industry Review

ECONOMIC PROJECTION AND BANKING INDUSTRY IN 2014

2014 Macroeconomic Projections

Rupiah exchange rate to USD at the end of 2014 at

Rp **11,058**/USD

BI Rate at

7.75%

Growth of real gross domestic product (GDP) is projected to grow at

5.73%

Inflation projection at

4.94%

In the following years, especially 2014, the growth of banking industry performance is predicted to slow down, affected by the fluctuation of global economy. The challenges in banking industry will be higher due to tighter liquidity while the risk of non-performing loans is expected to increase.

Bank Indonesia (BI) estimates that the growth of banking loan in 2014 will be in the range of 15.3%-16.6%. The projection is well below the 2013 estimation of loan growth, which was projected approximately at 20.8%. This is due to economic stabilization endeavors estimated to continue until 2014, and the increase in bank interest rate. The consumer loan sector, such as properties and vehicles financing in 2014, is also expected to experience slowdown due to the policy of tightening loan to value (LTV) issued by BI.

Bank's liquidity needs to be maintained in 2014. Banks will compete to offer high rate of deposits to attract customers. To maintain liquidity, banks also need to establish alternative strategies. Aside from liquidity issue, banks should also anticipate risk of non-performing loan due to the increase of loan interest rate and decrease of purchasing power. BI estimates that NPL in 2014 may reach 2.8%-3.1%.

Furthermore, regulators will remain focused on attempts to improve deficit in current account. The increase in interest rates of 175 bps last year will start to affect the economy in 2014. However, General Election is expected to sustain the economic growth that is predicted to increase at 5.7% YoY. Inflation will also return to normal and is forecasted to be lower in 2014, following waning impact of fuel price hike in 2013. Market

Macroeconomic and Industry Review

pressure may arise from surge of food prices due to floods at the beginning of the year as well as possible raise of electricity tariff in 2014.

The slowdown of economic activities will have their effect on the decrease of import. It is expected that export performance will improve, following the economic recovery of primary trading partners (US, Europe, China and Japan). The recovery of global economy also expected to have impact on the increase of commodity prices.

However, export recovery will still be restrained by the restriction on export of raw minerals, which will be effective in the beginning of this year. Current account deficit in 2014 is predicted to narrow to 2.9% against the GDP.

The recovery in the current account deficit may have positive impact on Rupiah. Rupiah is forecasted to be slightly stronger in the end of this year to the level of Rp11,058/USD. Nevertheless, there are risks to be anticipated, especially relating to the Fed's policy to taper off stimulus, provided that US economy is recovering. If this trend causes considerable pressure on rupiah, BI will possibly increase BI rate by 25bps this year.

In 2014 and in the next few years, market potentials of the banking industry will remain ample. The growth of population is not accompanied by

the level of knowledge on banking. One of the indicators of this situation is the ratio of bank account ownership, which still represents 20% of the total adult citizens. Not only opportunities, the situation also serves as a challenge for the bank industry in educating the public about banking. Another significant potential for the banking sector is the increase of welfare. According to World Bank Data, from 2007 the income of Indonesian citizens has been growing at an average of 14.17% per year. In 2011, income per capita was recorded at USD 3,550. In 2012, income per capita rose by 14.54% to USD 4,154

Indonesia also experiences quite an aggressive growth in its middle-class population. McKinsey consulting firm estimates that the middle class population in Indonesia will grow from 45 million people in 2012 to 90 million in 2030. This group will be the key-driver of Indonesian economy.

Along with the potential of middle class growth in Indonesia, Danamon is optimistic to achieve business growth. With its focus to be leading universal banking with a very strong marketing network across all segments, Danamon is present in across sectors from micro to corporate to higher financial institutions by providing optimum services to all customers.

- Business Segment Review
- Financial Review

Business Segment Review



In carrying out its business activities, Danamon has the following business segments: Micro Banking, Consumer Banking, SME Banking, Syariah Banking, Wholesale Banking, Treasury, Capital Markets & Financial Institutions, Transaction Banking, and supported by three Subsidiaries: Adira Finance, Adira Insurance, & Adira Kredit.

Business Segment Review

In 2013, net income from retail segment contributed 76.40% to the total net income of Danamon with assets contribution to the Danamon total assets of 42.27%. Meanwhile, retail segment liabilities contributed 42.26% to the total liabilities of Danamon as the holding entity.

Middle segment is the Bank's operating segment that covers small and medium business. Meanwhile, wholesale segment consists of corporate banking, financial institutions, and treasury. The contribution of net income from both segments to the net income of Danamon as holding entity was 18.65% and 4.95%, respectively.

(in Rp million)

Balance Sheet Segment (Bank Stand Alone)							(in Rp million)
	Retail	Contribution to the Total (%)	Mid Size	Contribution to the Total (%)	Wholesale	Contribution to the Total (%)	Total
2013							
Total Operating Income	15,377.38	83.3	2,227.58	12.07	855.52	4.63	18,460.48
Net Income	3,177.85	76.40	775.69	18.65	205.78	4.95	4,159.32
Total Assets	77,872.45	42.27	37,605.92	20.41	45,537.49	24.72	161,015.86
Total Liabilities	64,521.73	42.26	29,299.16	19.19	46,000.49	30.13	139,821.37
2012							
Total Operating Income	14,551.92	83.85	1,952.76	11.25	849.94	4.9	17,354.61
Net Income	3,214.78	78.08	771.42	18.74	130.94	3.18	4,117.15
Total Assets	72,155.99	46.32	30,544.32	19.61	35,483.66	22.78	138,183.97
Total Liabilities	55,080.50	43.35	23,589.53	18.57	38,474.70	30.28	117,144.73

- Total unallocated asset in 2013 & 2012 respectively Rp23,221.49 million dan Rp17,607.34 million, hence total segment assets for 2013 & 2012 respectively Rp184,237.35 million dan Rp155,791.31 million
- Total unallocated liabilities in 2013 & 2012 respectively Rp12,862.99 million dan Rp9,913.27 million hence total liability segment for 2013 & 2012 respectively Rp152,684.37 million and 127,058.99 million
- Segment Assets are loans, consumer financing and treasury assets (exclude interest receivable)
- Segment Liability are Funding and Treasury Liability

In addition to the three main segments and their sub segments, Danamon's business is also supported by three subsidiaries. In automotive financing, Danamon has PT Adira Dinamika Multi Finance Tbk (Adira Finance) as the subsidiary. In the field of insurance, Danamon has PT Asuransi Adira Dinamika (Adira Insurance) as the subsidiary. While PT Adira Quantum Multifinance (Adira Kredit) is the subsidiary of Danamon that engages in financing of consumer goods such as electronics, computers, furnitures and household equipments. Through strong synergy with the three subsidiaries, Danamon is able to achieve sustainable business growth.

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Business Segment Review

Business Segment

Consumer Segment

Micro Banking

- Mass Market
- Mass Employed

Consumer Banking

- Small & Medium Enterprise
- Middle Income

SME Banking

- Small & Medium Enterprise
- Middle Income

Syariah Banking

- Corporation & Financial Institution
- Commercial
- Affluent

Wholesale Banking

- Small & Medium Enterprise
- Middle Income

Treasury, Capital Markets & Financial Institution

- Corporation & Financial Institution
- Commercial
- Affluent

Transaction Banking

- Commercial
- Trade Finance & Cash Management

Subsidiaries

- Middle Income
- Mass Employed
- Small & Medium Enterprise
- Mass Market

Micro Banking



By the end of 2013, DSP recorded lending portfolio of Rp19.9 trillion. In addition to lending products, DSP also boosted its deposit portfolio. In 2013, DSP's third party fund grew by 22%.

- Business Segment Review
- Financial Review

Micro Banking

Micro banking in Danamon, is known as Danamon Simpan Pinjam (DSP). DSP main targets are individual entrepreneurs of micro and small business that generate annual gross sales below Rp2.5 billion.

As a business segment of Danamon, DSP has unique characteristics and is distinct from other banking business in general. Focusing on customers in micro business activities, who are mainly located in traditional markets, DSP services emphasizes on community based approach and offers unique value proposition of secure, quick, and convenient. Most of DSP units are in the middle of community, hence customers can easily access DSP's services.

DSP's transaction services are supported by Danamon's technology and network that ensured its security. DSP also provides quick services for customers with the commitment to 3-day credit application processing after receiving the complete documents. In 2013, DSP improved its information system through Credit Processing Application, intended for faster credit application processing and monitored by integrated system.

In 2013, DSP continued its business expansion through network development, launch of new products, and services enhancements, especially information technology-based services. In terms of product, in 2013 DSP launched bancassurance "Primajaga" to provide insurance services for the micro and small segment.

In terms of services, in 2013 DSP implemented debit transaction services at merchant site using ATM card of "si Pinter", a savings product of DSP. To expand customer base, DSP opened 12 new branch offices in several locations. With the new additions, as of 2013 DSP is present in 1488 locations, with total customers of more than 825,000 by the end of 2013.

As a follow-up to initiatives pioneered in 2012, in 2013 DSP enhanced transfer service by embedding Western Union transfer service in more than 600 DSP units.

In addition to community approach, in performing its business expansion, DSP also engaged in strategic partnership with companies who have distribution chain, or supply chain. This method would help strengthening the services of micro and small business to their retailers or distributors.

In line with DSP's characteristic, which is to grow alongside the communities, DSP's marketing strategies are intended to develop close rapport between target market and DSP, through DSP's staff, namely emotional bonding.

Emotional bonding is established by providing scholarships, training to develop debtors' knowledge and skills, and conducting customer gathering—an opportunity for fellow entrepreneurs to network. Social activities are also part of DSP's activities. Free medical check up, market cleaning, and exercise are some of the programs aimed to improve the living quality of the people and their environment.

Micro Banking

By the end of 2013, DSP recorded lending portfolio of Rp19.9 trillion, with a manageable gross NPL at 5.9%.

In addition to lending products, DSP also boosted its deposit portfolio. In 2013, DSP's third party funds grew by 22% to Rp1.4 trillion.

Further, DSP recognized significant opportunity in the thriving agribusiness market. After its initial success from tapping on the palm oil sector, in 2013 DSP expanded its market to other commodity sectors such as cacao, rubber, and coffee.

Aside from the implementation of various initiatives above, DSP's performance is also delivered by key components, which are competent and quality of human resources. DSP continuously prioritizes capacity enhancement of its human resources through training and retention programs.

DSP applies a number of internal programs that aim to improve the quality and convenience of working environment. Some of the programs executed in 2013 were home visiting, joint fieldwork (JFW), team bonding, boose camp, joint exercise, and values ambassador. Values ambassador is a program designed systematically, involving employees to apply Danamon values in their day-to-day activities. Periodically, DSP held appreciation night for high-performing employees.

Going forward, DSP will continue to aim for robust and sustainable business growth with improved efficiency of network operations, more competent human resources, and better controlled process.

DSP is confident it would achieve its objectives. DSP has proved its strong presence as one of the pioneers of private national banks in micro and small sector that has proven capable of overcoming various challenges, both external and internal. This experience is a valuable asset to maintain DSP's position and to ensure that DSP will stay ahead of the dynamic, competitive, and ever evolving market.

- Business Segment Review
- Financial Review

Consumer Banking



Through its business operation, Consumer Banking provide banking services to retail customer both to individual as well as to non individual customer from various segment (mass, middle, and affluent). Despite providing services to various segments, the main target market of Consumer Banking is affluent or self employed customer.

Consumer Banking

One of Danamon's business units, Consumer Banking is a key pillar in collecting third party funds, which provides stability to Danamon's funding. In its business operation, Consumer Banking provides banking service for retail customers either individual or non-individual customers from various segments (mass, middle, and affluent). Though providing services to the entire segments, the main target of Danamon Consumer Banking is the affluent and self-employed customer.

The wide scope of customer segments requires Danamon Consumer Banking to not only offers complete variant of products but also innovative products. Supported by highly competent Human Resources, Danamon Consumer Banking strives to meet all kinds of customer's needs through services and products from savings to deposits. Credit card, Personal Loans, Mortgage Loans and other variants of loans. In cooperation with insurance companies namely PT Asuransi Jiwa Manulife Indonesia and PT Asuransi Jiwa Sinarmas MSIG as well as asset management companies, Danamon Consumer Banking also provides bancassurance and investment products.

With reliable service, Consumer Banking is able to create positive business achievements. In 2013, Consumer Banking recorded 17% growth of third party funds (DPK) to Rp62,952 billion compared to 2012. The growth was also accompanied by satisfying growth of CASA of 17% to Rp32,235 billion compared to Rp27,576 billion in 2012. With this growth, CASA composition to Consumer Banking DPK is 51%.

Danamon Retail Banking implemented marketing strategy through Danamon creative and innovative products advertisements placed on the branch, Above The Line Media or Digital Media which has contributed new account in 2013. In addition, Danamon Retail Banking also actively conducts Brand Activation targeted to communities around the branch areas. In 2013, Danamon held around 7,000 Community Marketing activities across Indonesia, such as communal screening of Manchester United (ManUtd)'s English Premier League matches. During the season, in order to strengthen Danamon's engagement with ManUtd Fans. In addition, Danamon also put an effort in targeting the students through Danamon Lebih Goes To Campus activity, by providing important education about savings. The program was conducted through interactive games – more than 30 campuses in 7 cities throughout Indonesia participated in this event. Such achievements also accompanied by the increase in fee-based income of Consumer Banking by 15% and the sale result of bancassurance and investment products.

- Business Segment Review
- Financial Review

Consumer Banking



In 2013, Danamon expanded the network, by opening 14 new branches throughout Indonesia. Danamon also performed Branding Innovation to the branch offices both for the exterior and interior. On interior, as a pilot, Danamon selected 3 branches designed with a theme (Central Park, BSD Square Jakarta and Grand City Surabaya). As for the exterior, Danamon also conducted innovation on branches located in the strategic locations to improve its appearance and at the same time using a branch as a medium of communication.

Other than branch network expansion, Danamon also added 6,448 Electronic Data Capture (EDC) machines (including Pinpad & Mobile EDC) and 79 ATM machines. As of the end of 2013, there were 1,483 ATM and 70 Cash Deposit Machine (CDM) units throughout Indonesia.

With commitment to be in the forefront, Danamon consistently endeavors to dedicate services and new products to customers. To improve the quality of service of information technology-based

transactions, in 2013 Danamon made additions on internet banking services including transfer service features and foreign currency exchange, product simulator and lead base application, e-statement registration, online transfer of Prima network. Danamon also launched SMS Banking with a Favorite menu, and addition of payment features of Lion Air Ticket and Online Transfer of Prima network in ATM services.

In terms of products, the Bank launched Business Credit Card in the same year, a solution for entrepreneurs customers requiring a better cash flows management. In addition, Danamon also launched a mortgage (KPR) product that provide more benefits than savings products and convenient payment of interest rate with the name "KPR Lebih".

To meet bancassurance and investments' needs, Danamon in 2013 launched Credit Life, Mortgage product complemented with life insurance at competitive premium in partnership with PT Asuransi Jiwa Manulife Indonesia, under the product name of Asuransi Jiwa Kredit Manulife and with PT Asuransi Jiwa Sinarmas MSIG under the name of Asuransi Jiwa Kredit Sinar Mas. In addition, Danamon also launched Proteksi Prima

Consumer Banking

Emas, targeting customers in retirement period, and market the dengue and typhoid insurance to credit card customers.

On the investment products, Danamon Consumer Banking made additional products of mutual funds, Reksadana, and protected funds Reksa Dana Terproteksi. It also provides periodic mutual funds/regular investment plan purchase services, Government Securities in Rupiah and US Dollar denomination including initial public offering for ORI and SUKRI.

In order to increase the product selections in middle up segments, Danamon launched a savings product that has 2 features in 1 account named Tabungan Combo Savings. This product gives special benefits for customers with savings behavior for transactions and money saving for a specific purpose.

In addition to increasing Manchester United loyal customers in the middle up segment, Danamon launched a Manchester United Legend debit card featuring legendary players of ManUtd.

To continuously increase the customer satisfactions, which eventually impact on the increased loyalty of customers to Danamon, in 2013 Danamon also improved the service activity quality through the enhancement of “Service from the Heart” service campaign with service priority for “CUSTOMER FIRST” customers that has been implemented since 2012. In 2013 some enhancement initiatives ‘Great People, Great Service, Great Result’ were undertaken, including The Rising Star 2013 competition, Service Golden Ticket, Bisa! Award Service Excellence and Improvement Competition.



Marketing activity

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Consumer Banking

Furthermore, in trainings and service campaigns, Danamon is also committed to augment service quality by improving critical processes for customers. These improvements aim to eliminate unnecessary steps to the existing process so that it can provide quicker and more accurate services to the customers. Some of these process improvements targeting Danamon to be the Bank with the fastest Customer Service (CS) and Teller.

In addition, Danamon also implemented a number of improvements initiatives of customer service namely:

1. DConnect Logging System

Integrated logging system between frontliners, middle office and supporting units so that requests or complaints can be resolved in an integrated manner and the status of request can be seen online when the customers make subsequent contacts.

2. Phone PIN

A faster and easier process to create PIN-making, where customers only need to register through Danamon ATM, and customers' PIN will be directly activated.

3. More-friendly IVR Menu

Improvement in IVR menu, addition in short cut menu in a more concise language, which helps customers to quickly obtain the desired information.

4. 500-090 Single Number

With single number, customers only need to remember one number to contact Danamon Access Center for the banking needs anywhere and anytime.

5. 1 Hour Card Activation

The facility for credit card activation from 24 hours processing into maximum 1 hour, enabling customers to immediately use their credit cards for various payment needs.

6. 24 Hours Card Replacement

Especially for Danamon credit-card users with certain types domiciled in Jakarta, users can contact Danamon Access Center if their credit cards require quick replacement.

7. Back Office Integration System

The system is designed to facilitate frontliners to answer queries about the delivery of credit cards, billing statement or e-statement so that customers queries can be completely answered during the single phone call.

8. SMS Alert

For certain transactions, Danamon launched real time SMS ALERT providing quick and accurate transaction information for the mobile phones of credit-card holders, so as to provide convenience and safety in the shop using Danamon credit card.

Consumer Banking

To measure those programs, Danamon conducts an annual customer satisfaction survey through Mystery Shopping and customers' interview methods called "Customer Engagement Survey". Interview with customers is used to measure the level of satisfaction in terms of humans, products, and systems of customers doing transactions in the Bank. The survey results became one of the references for Danamon in the decision-making process in order to determine new strategies in the marketing of products and services. Danamon's 2013 Customer Engagement (CE) survey results improved compare to last year.

CREDIT CARD

Credit card business is one of Danamon Consumer Banking business units that continues to experience encouraging growth. Despite facing challenges in relation to the BI Regulations No. 14/2/PBI/2012 about the Arrangement of the Payment Instrument Activity using Card (APMK) which gives a minimum age limit and income of card holders, credit interest rate, as well as a few other things related to marketing and security of

credit cards, credit cards business of Danamon still shows growth in terms of the number of cardholders, the total value of transactions (sales volume) and the value of portfolio assets.

Through intensive marketing methods by acquisition and strengthening of credit-card holders loyalties programs through various promotions in merchants, credit card business line managed to increase the volume of circulated cards by 17% compared to previous year. Along with the increase in card volume, the number of transactions also increased by 16% compared to previous year, thus growing the value of portfolio assets to 13%.

For Danamon, in addition to serving as an instrument that provides facilities in meeting the life's needs, credit card also becomes an instrument for lifestyle.

To that end, in this business line, Danamon focuses on target market including individuals or corporates in the middle class and affluent segments.



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Consumer Banking

The success is inseparable from the implementation of various marketing initiatives. During 2013, Danamon held a promotional campaign with “Make Your Day” theme. In that campaign, Danamon embedded various programs that offers more benefits for customers such as “10X Reward Points Everyday”, a program that provides opportunities for card holders to collect points 10x quicker and redeemable for airline tickets, vouchers, and other goods for free. Danamon also continues to increase the number of merchants that provide special offers such as special discount or other instant gifts to Danamon’s creditcard holders.

Continuing the success of previous years through credit card products resulting from co-branding partnership of Danamon-Manchester United, Credit Card of Danamon-MU remains the most popular product. In 2013, the contribution of this credit card reached 50% of the total of new credit cards issued by the Bank in 2013.

In order to sustainably improving the performance of credit card business line, in 2013 Danamon launched new credit card product called “Business” Credit Card. “Business” Credit Card aims to provide solutions for entrepreneurs customers who require a better cash-flows management and have quick access to cash need with a low fee.

Going forward, Danamon will continue its endeavor to improve the performance of credit card business by increasing its customer loyalty. With a large number of branch office networks, good reputation as well as the diversity of products

that support the implementation of inter-product cross-selling programs, Danamon is confident to achieve a more optimum credit card business growth.

MORTGAGE

Along with the growth of property sector and increasing market demands for housing, the performance of Danamon’s mortgage product, Kredit Kepemilikan Rumah (KPR) is growing well. Implementation of marketing strategy is made through the increase in partnership quality and quantity with reputable developers and brokers in the residential areas of public interest. In 2013, the loan balance of Danamon mortgage loans increased to Rp3.5 trillion from Rp2.8 trillion in 2012. In terms of market share, Danamon Mortgage also grew by 23%.

Danamon reached the achievement amidst continually growing challenges in mortgage loans market. In addition to a tighter competition, in 2013 the mortgage market had to face another challenge in relation to regulator policy namely SEBI No. 15/40/DKMP governing the LTV & indenthouse payment. The impact of this policy was strongly felt by the industry and therefore the growth of mortgage was not as high as in 2012.

Danamon aims to be a financial solution provider that provides sustainable support for customers. To realize this goal, Danamon continually strives to

Consumer Banking

create product variants which provide benefits and conveniences for customers. Danamon launched a new housing credit product 'KPR Lebih', where customers can pay less credit interest by utilizing funds placed in their savings.

Not only for residential holdings such as apartments and houses, Danamon Mortgage Products also provides product variant for ready-to-build plot Kredit Kavling Siap Bangun (KSB), home renovation and construction Kredit Perbaikan dan Pembangunan Rumah (KPPR), and Multi Purpose Credit. All of the product variants has flexible loan period of up to 20 years and sizeable credit limit of up to Rp15 billion. These facilities certainly provide added value for customers, allowing for more flexibility in managing their obligations.

UNSECURED LOANS

Danamon Unsecured Loans, Kredit Tanpa Agunan (KTA) is one of the Bank's leading loan products for the individual market segment of Indonesian citizens with age range of 21 years old to 55 years old and with minimum income of Rp2 million per month. In this product, Danamon offers unsecured loans facility to customers up to Rp300 million with convenient requirements and competitive interest.

Through a focused marketing strategies, at the end of 2013 Danamon KTA recorded a sound performance growth. Sales and portfolio respectively increased by 134% and 122% compared to 2012 to Rp1,257 billion and 1,316 billion in the year of 2013. The increase in credit portfolio is also accompanied by the improvement of the rate of non performing loan (NPL) at 2% level or remained below the industry by 2.2%.

Additionally, Danamon KTA team also managed to increase market share by 2.2% in 2012 to 5% in 2013. By successfully augmenting its market share, at the end of 2013, Danamon KTA successfully ranked number five in KTA market share.

As a bank that is dedicated to provide innovative financial solutions for all customers, Danamon continues its efforts to penetrate market of all products. With the support of vast branch network area, large customer base and advanced information technology, Danamon is able to conduct various market developments for KTA. In 2013, Danamon KTA team continued to endeavor various performance improvements through sales channel outside Greater Jakarta, and develop new sales channels through e-channel, ATM, partnership, improve operational process, and enhance the capacity of KTA Help Desk.

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Small & Medium Enterprise (SME) Banking



Given the potential, Danamon SME Banking has been optimizing the market. In 2013, Danamon SME Banking recorded significant growth throughout the year. SME lending rose by 18% to Rp20,971 billion compared to 2012.

Small & Medium Enterprise (SME) Banking

Danamon's Small and Medium Enterprises (SME) Banking is committed to provide complete range of banking services, complemented with various convenience. Targeting the small and medium businesses with annual revenue ranging between Rp2-40 billion, Danamon SME Banking is able to take part in accelerating growth of a sector that has been proven resilient amid economic instability.

The statistics from Danamon's survey shows there are a significant number of 50 million of small and medium businesses in Indonesia. From that number, not more than 20% of the businesses that has used banking services to support their business activities. This situation is not only a challenge, but also substantial opportunity for banking entities, especially Danamon, to develop SME Banking.

Given the potential, Danamon SME Banking has been optimizing the market. In 2013, Danamon SME Banking recorded significant growth throughout the year. SME lending rose by 18% to Rp20,971 billion compared to 2012. With sound risk management and teamwork, NPL was maintained at 1.4%. Funding also increased by 14% from Rp12,273 billion in 2012 to Rp13,936 billion in 2013.

During 2013, SME Banking actively reached out to new customers. Until the end of 2013, the customer base of Danamon SME Banking augmented by 15% to 10,048 customers and comprised 55 business sectors. The increase of customer base was particularly important to drive Danamon SME's lending, where 60% of the loans were disbursed to new customers of Danamon SME Banking.

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Small & Medium Enterprise (SME) Banking

Continuing on the success of 2012, Danamon SME Banking implemented specific strategies to lever the business potential of Financial Supply Chain (FSC), which was designed to accelerate business growth. FSC comprehensively tailor cash management solution to support transactions between Wholesale and SME customers. This strategy provided a momentum for SME Banking to capture the opportunity in meeting FSC needs of Wholesale customers.

Similiar method was applied with Danamon Micro Banking business (DSP), by optimizing DSP branch offices. Through this optimization, the services of SME banking are accessible in 1,000 locations across Indonesia.

As an initiative to provide integrated services for customers, SME cooperated with PT Asuransi Jiwa Manulife Indonesia and on 31 October 2013 launched insurance solution for SME businesses. The solution is part of Solusi Usahaku program, a Danamon's integrated solution program for SME entrepreneurs that enables SME business players to access loans, savings, transaction, and insurance services at a single point. The insurance solution would be beneficial for SME business players, not only for them and their families, but also the employees. Through this cooperation, SME Banking generated fee-based income of Rp10 billion in 2013.

Another initiative implemented by Danamon SME Banking was the synergy with DSP and Wholesale Banking. Together, the business lines executed a joint promotional program themed "Gebrak Pasar". The activity was effective to enlarge the customer base of Danamon's three business lines.

The launch of EDC Mobile, which supports collection process, also contributed to the growth of SME Banking. With this service, customers may perform loan repayment via EDC facility provided by Danamon staff on field.

In terms of customer approach, similiarly with Micro Banking, SME Banking also develops unique relationship with its customers as the main driver of growth. Danamon consistently endeavors to strengthen its relationship with SME customers through various means, including regular visit to maintain update from customers as well as part of risk management strategy.

A number of trainings to advance the businesses of SME Banking customers were also held by Danamon. Among these trainings were loans and receivables collection and general banking knowledge. Danamon also held training for BPR as the linkage in channeling SME loans. In 2013, Danamon held SME trainings in three provinces: Bali, Lampung, and Central Java, delivering topics of credit analysis, recruitment training, and audit control.

Syariah Banking (Islamic Banking)



TPF of Danamon Syariah grew by 9% to Rp1,456 billion compared to Rp1,335 billion in 2012. With this growth, in 2013 CASA, as source of low-cost funds, accounts for 48% in the total composition of TPF.

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Syariah Banking (Islamic Banking)

Danamon Syariah is an alternative to conventional banking. Amidst the competition of both conventional and syariah banking, Danamon Syariah is able to show its prominence. Supported by a bank that is fully committed to the country's economic development, Danamon Syariah concluded its tenth year journey from 2002 with sound performance.

In its eleventh year, Danamon Syariah delivered excellent results. Growth of assets was recorded at 29% from Rp2,030 billion in 2012 to Rp2,613 billion in 2013. Financing grew by 22% to Rp1,884 billion compared to Rp1,545 billion in 2012.

Implementation of robust and measurable risk management succeeded in improving Danamon Syariah's overall asset quality, as evidenced by the decrease in non performing financing (NPF) from 2% in 2012 to 1.6% in 2013. Small and Medium Enterprise (SME) segment is the main driver of growth for financing activities of Danamon Syariah.

On funding, through various products that offer benefits and convenience to customers, Danamon Syariah successfully generated significant increase of Third Party Funds (TPF), particularly from savings, which grew at 52%. At the end of 2013, TPF of Danamon Syariah grew by 9% to Rp1,456 billion compared to Rp1,335 billion in 2012. With this growth, in 2013 CASA, as source of low-cost funds, accounts for 48% in the total composition of TPF.

In 2013, Danamon Syariah focused on the financing of productive sectors. This strategy is reflected by growth of financing in the SME and commercial segments, which showed satisfying performance of 31% from Rp1,290 billion in 2012 to Rp1,694 billion.

SMEC Syariah

Rp billion

	YOY	2013	2012	2011	2010	2009
Financing	31%	1,694	1,290	958	678	747

Financing & Funding Growth

Rp billion

	2013	2012	2011	2010	2009
Financing	1,884	1,545	998	683	747
Funding	1,456	1,335	926	838	737

Syariah Banking (Islamic Banking)



The focus of Danamon Syariah on mass market and SME segment is also supported by financing with linkage model with Bank Perkreditan Rakyat Syariah and employee cooperative entities. Until the end of 2013, linkage financing accounts for 85% of Danamon Syariah's total financing composition.

For wholesale segment, Danamon Syariah offers Trade Finance, Asset Based Financing (ABF), and Cash Management. For cash management, Danamon Syariah signed Memorandum of Understanding with four banks of Bank Perkreditan Rakyat Syariah (BPRS). The MoU marked the first step toward APEX BPRS. The commitment partnership in cash management and electronic banking services will further the commitment of Danamon Syariah to always provide better services.



In implementing its business operations, Danamon Syariah has a vision to become the best Syariah bank in Indonesia. To realize the vision, Danamon Syariah is consistent in its expansion endeavors, such as optimizing office network to enlarge customer base, improving performance, and integrating syariah products.

Continuing the success of office network expansion in 2012, where 160 offices and 178 syariah channeling offices were opened, in 2013 Danamon Syariah completed integration process of syariah products in its entire Syariah office network. With its vast presence, Danamon Syariah is one of the syariah banks in Indonesia with the largest distribution network.

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Syariah Banking (Islamic Banking)

To enhance performance and strengthen synergy with the other line of businesses in Danamon, in 2013 Danamon Syariah implemented reorganization initiative. This strategy allows Danamon Syariah greater capabilities to conduct business expansion through funding and financing product marketing to retail and SMEC segments. The scope of SMEC products marketing, which previously were only available in 11 syariah offices, would be enhanced to cover the entire Danamon Syariah's network. The reorganization is expected to deliver better business performance and to improve staff's capacities as astute syariah bankers, who are ready to meet various needs of customers for syariah banking solutions.

In line with the development of syariah business, the products Danamon Syariah include savings Danamon Syariah iB, current account Danamon Syariah iB, and time deposit Danamon Syariah iB.

Syariah iB also showed positive results. To meet the needs of Muslim customers, Danamon Syariah offers haj savings, Tabungan Haji Danamon Syariah iB, which facilitates haj pilgrimage through flexible financial planning based on certain period and customers' capacities.

Going forward, Danamon Syariah will continue to develop leading products that are tailored to the characteristics of each segment, improve operational efficiency, enhance sales process, and increase the quality and productivity of its human resources.

Wholesale Banking



Wholesale Banking served commercial and corporate customers. In Wholesale Banking, the commercial segment targets business units with annual revenue between Rp40-500 billion, while for corporate segment, the target market is business entities that generate annual revenue of above Rp500 billion.

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Wholesale Banking

The implementation of reorganization strategy, combining commercial and corporate banking under Wholesale Banking that was carried out in the previous year successfully drove significant performance growth.

With the reorganization strategy, Wholesale Banking in 2013 served the commercial and corporate customers. In Wholesale Banking, commercial segment, targets business units with annual revenue between Rp40-500 billion, while for corporate segment, the target market is business entities that generate annual revenue of above Rp500 billion.

In meeting the needs of both segments, aside from having sophisticated services supported by advanced technology, Wholesale Banking also offers products that address the complex needs of the customers. The focus to optimize facilities that were not yet popular among customers was the main strategy to grow the financial performance in 2013.

Corporate loans rose by 49% to Rp18,828 billion in 2013 compared to 2012. During the same year, commercial loans grew by 31% to Rp16,635 billion from Rp12,737 billion in 2012. The growth was accompanied by improved quality of asset as evidenced by low level of non-performing loan. Until end of 2013, NPL of corporate and commercial segments were 1% and 0.3%, respectively.

In terms of funding, Wholesale Banking overall achieved 33% growth compared to 2012 and generated Rp32,349 billion in 2013. Amid enforcement of regulation that prohibited export of raw mining commodities, trade finance product grew from Rp6,839 billion in 2012 to Rp9,814 billion in 2013.

Throughout the year, the coverage of Danamon Wholesale Banking experienced expansion. Previously dominated by customers located in Jakarta, Wholesale Banking in 2013 witnessed significant growth in regions such as Sumatera and Surabaya. In terms of industry sector, Wholesale Banking is present in 30 industry sectors, from livestock food to garments, from construction to media. In 2013, Wholesale Banking also reached to plantation sector. The distribution of customers constituted wide-range portfolio and reflected sound risk management practices.

All these results are supported by the various strategies and initiatives. In 2013, a number of initiatives were successfully and seamlessly implemented.

By enhancing the quality of relationship with customers, Danamon succeeded in implementing a strategy that commenced in 2012, Financial Supply Chain. The strategy was part of

Wholesale Banking

Danamon's efforts to capture business opportunities from existing customers, by leveraging services to all customers' business units and distributors of corporate customers. In principle, Financial Value Chain is a one-stop banking service, where customers may enjoy additional value from Danamon's entire range of banking services.

Wholesale Banking also continuously strives to improve synergy with other lines of business, Retail/Consumer, Micro, and SME banking to enlarge customer base. The strategy was similarly implemented by other business lines to drive performance growth.

Synergy with SME banking successfully increased the number of new customers of Wholesale Banking due to conversion from SME customers following the customers' business advancement. In 2013, the volume of loans for new customers in this category amounted to Rp300 billion. In Wholesale Banking internally, efforts were made to improve business scale of Commercial customers to Corporate, which in 2013 reached Rp600 billion in terms of loans volume.

In performing its business, Danamon is committed to grow alongside the customers. Wholesale Banking fulfill this commitment by continuously improving its relationship with customers through the exchange of information regarding economic condition with Corporate customers and organization of training as required by Commercial customers.

For Corporate customers, Danamon held seminars and discussions on economic development, to provide information on global and regional economic issues. Meanwhile, for Commercial customers in the middle segment, Wholesale Banking provided trainings with topics tailored to their needs, such as Human Resources, Credit Analysis, Knowledge of Business Risk Profile, and other materials.

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Treasury, Capital Markets and Financial Institutions



Treasury, Capital Market & Financial Institution (TCM & FI) serves primarily to obtain diversified funding at efficient cost and ensure a strong liquidity position to support the Bank's growth.

Treasury, Capital Markets and Financial Institutions

The Treasury, Capital Markets & Financial Institution (TCM & FI) Division serve primarily to maintain overall Bank's liquidity condition. TCM's role is to ensure the availability of liquidity at any given time to support the Bank's business growth and to manage interest rate and other risks embedded in the Bank's balance sheet.

TCM has established relationships with several reputable professional counterparties in the onshore and offshore markets in order to diversify the Bank's funding sources.

In 2013, TCM & FI in order to strengthen the Bank's funding, support its loan's growth and increase long term liquidity, accessed funding through several products like : bilateral loans, Banker's Acceptances, Repos, bonds issuance and major deposits from professional counterparties. In 2013, TCM & FI booked professional funding amounting Rp6.42 trillion in Danamon.

TCM & FI also oversaw Adira's funding, with total amount of Rp4.47 trillion of bond's issuance and bank's loans totaling Rp10.8 trillion. Bank loans were from onshore and offshore markets including succesfull first Adira's international loan syndication of USD200million.

Aside from its principal responsibilities, TCM & FI also offers a wide range of treasury products for corporate and individual customers, while taking advantage of market opportunities through controlled trading activities. As a product partner, TCM offers a wide range of treasury products and services through the Bank's line of businesses in serving customers' needs against foreign exchange or Interest Rate risk, such as FX Spot & Forward, Cross Currency Swaps, and Interest Rate Swaps. Also, actively participated tin the Fixed Income market through the Primary Auction and Secondary market of Government and Corporate bonds. To complement the TCM Sales Unit, the TCM Trading Team is engaged to deal on interbank markets, thus securing the most competitive prices for Danamon customers.

FI unit is one of division in Danamon that support Danamon's services to banks, Securities companies, fund managers, pension funds, insurance companies, non governmental organization and other non-bank financial institutions as well. Cash management, trade service, custody, treasury products and loans are products offered by FI that play an important role in increasing wholesale & Professional funding for Danamon. In 2013, FI secured new partner for DNS (Domestic Network Services), adding alternatives source of revenue for the bank.

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Treasury, Capital Markets and Financial Institutions

Supported by competent resources, Danamon's economist team, working under the TCM & FI division, actively carries out research related to macroeconomics condition and market forecast analysis. Due to the quality of their research and the relatively accurate on their economic and market forecasts, Danamon's economist team are known domestically and globally, among foreign investors, foreign institutions, the media, and government institutions. This economist team was awarded as the world's best economic forecasters in 2013 by the Bloomberg Markets magazine for Indonesia.

The Danamon economist team was also acknowledged as a "Highly Commended" Researcher in Asian Currency Bonds in 2013 by the Asset magazine. Furthermore Danamon Chief Economist was named by the President of the Republic of Indonesia as one of two candidates to fill the position of Senior Deputy Governor of Bank Indonesia.

Moving forward to 2014, TCM & FI will continue to maintain prudent liquidity management, thus supporting business growth. The Directorate will continue to implement new system for managing the balance sheet, as TCM & FI works to gain and secure the trust of its stakeholders, as well as to maintain a strong position for facing any potential market crisis.

Transaction Banking (Trade Finance & Cash Management)



Danamon Transaction Banking focused on products and services enhancements, by launching products that meet customers' needs.

- Business Segment Review
- Financial Review

Transaction Banking (Trade Finance & Cash Management)

Transaction Banking aims to be the bank of preferred choice for customers' transactions, through offering comprehensive Trade Finance and Cash Management solutions.

Despite the volatile history and declining performance of exports in 2013, Danamon's Trade Finance service recorded asset growth of 45%, to Rp9.9 trillion. During the same year, Trade Finance also booked 22% income growth, moving from Rp292 billion in 2012 to Rp385 billion. Open Account Financing was the leading product in 2013, and in subsequent years Danamon will focus on fee-based income.

As the leading Trade Finance Bank in Indonesia, Danamon continuously improves its service quality, from product features, Service Level Agreement (SLA), to the development of a Trade Service Point at Port (TSPP). In 2014, Danamon will implement the latest Trade Finance system, to accommodate a transaction volume that continues to increase from year to year.

Meanwhile, Danamon recorded a 30% increase in transaction volume from its Cash Management service, rising from Rp14.6 trillion in 2012 to Rp19 trillion in 2013. This increment contributed to Danamon's fee-based income growth, from Rp248 billion in 2012 to Rp254 billion.

In 2013, Danamon continued to focus on enhancement of leading products, adjusting their compatibility to better fit customers' needs; among others are a Financial Supply Chain module & eTax module for cash@work, and the launch of a Hand-held Terminal service for Cash Pick Up customers.

Success resulted from the implementation of strategies and initiatives. To boost its growth in performance, Danamon Transaction Banking focused on product and service enhancements, launching products to better meet customers' needs, while providing product-bundling solutions through synergy with other banking products.

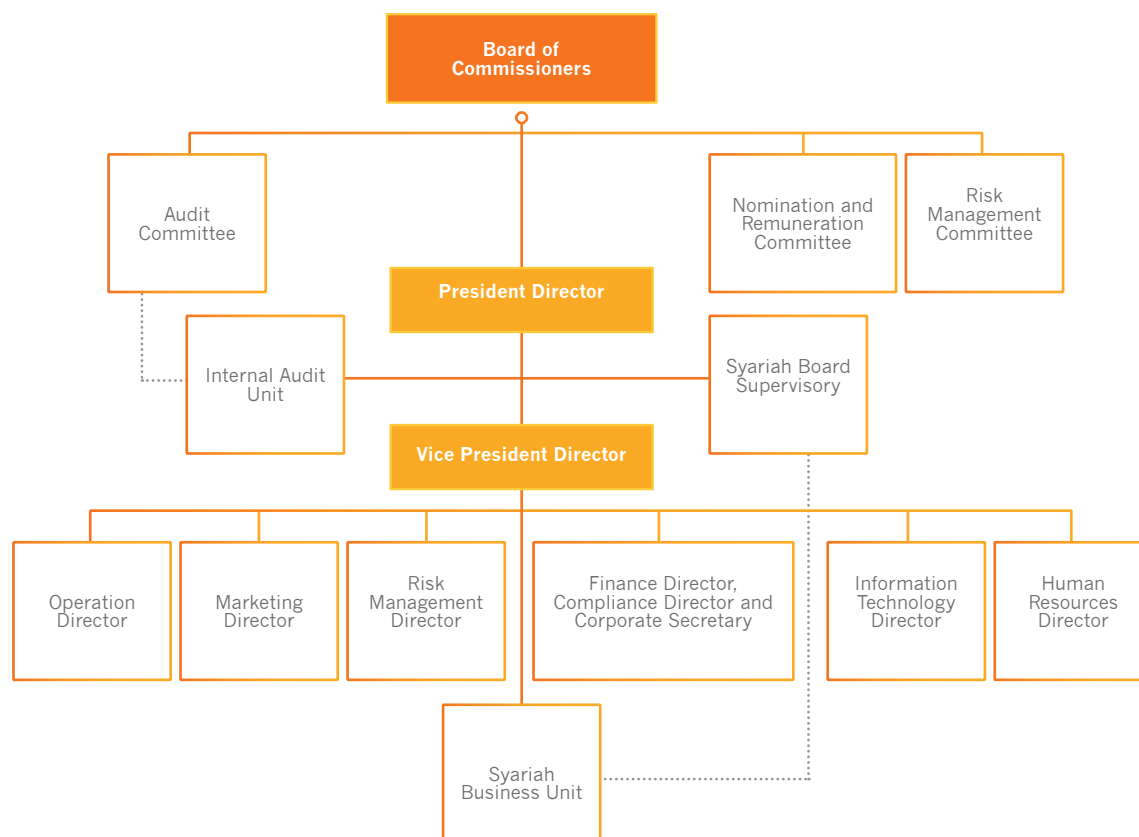
Subsidiaries Business Review



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Organization Structure of Adira Finance



Adira Finance

PT Adira Dinamika Multi Finance Tbk (known as “Adira Finance”) is a subsidiary of Danamon with operations in auto financing. Danamon has 95% share ownership over Adira Finance.

Adira Finance’s business operations contribute significantly to Danamon’s consumer lending. In 2013, Adira Finance achieved 5% growth of financing receivables, which rose to Rp48,294 billion from 2012. The increase was mainly driven by car financing growth at 17%.

Further, the market share of Adira Finance for new motorcycle and new car financing are 12.6% and 5.4%, respectively. Financing quality improved, as reflected by the decreased rate of non-performing loan from 1.4% in 2012 to 1.3% at the end of 2013.

Adira Finance Performance

	YoY	2013	2012	2011	2010	2009
Financing (Rp. Billion)	5%	48,294	45,793	41,545	30,675	19,134
Non-Performing Loan (NPL) (%)	(0.1)	1.3	1.4	1.3	1.2	0.9
Market Share Motorcycle (%)	(3.1)	12.6	15.7	15.8	15.7	13.2
Market Share CAR (%)	(0.3)	5.4	5.7	6.6	5.2	3.4

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Business Review Subsidiaries

Throughout 2013, some significant changes took place in the operating environment of Indonesia's financing industry: the regulation of minimum down payment for syariah-based financing was enforced, cost of financing increased, and competition in the financing industry heightened. Nevertheless, Adira Finance was able to increase its new loan disbursement from Rp32,448 billion in 2012 to Rp33,739 billion in 2013.

To support growing financing activities and with the purpose to diversify the sources of funding, in 2013 Adira Finance issued fixed-rate bonds amounting to Rp4.1 trillion. During the same year, Adira Finance also issued syariah/sukuk bonds of Rp379 billion.

As a subsidiary that is able to deliver significant contributions to Danamon, Adira Finance is committed to continuously improve its solid synergy with the parent company and with other subsidiaries of Danamon, such as Adira Insurance.

With respect to synergy with Danamon, aside from strategizing joint financing, Adira Finance also encourage its customers, a total of 3.7 million customers at the end of 2013, to open savings accounts with Danamon. Furthermore, Adira Finance also commenced synergy with DSP. DSP's market segment is a sizeable opportunity for Adira Finance's future growth.

Business Review Subsidiaries

In addition, Adira Finance also consistently seeks to improve sales of insurance premium from Danamon's other subsidiary in the insurance business, Adira Insurance. Not only auto insurance, Adira Finance also implemented cross-selling strategy with Adira Insurance for health and accident coverage products.

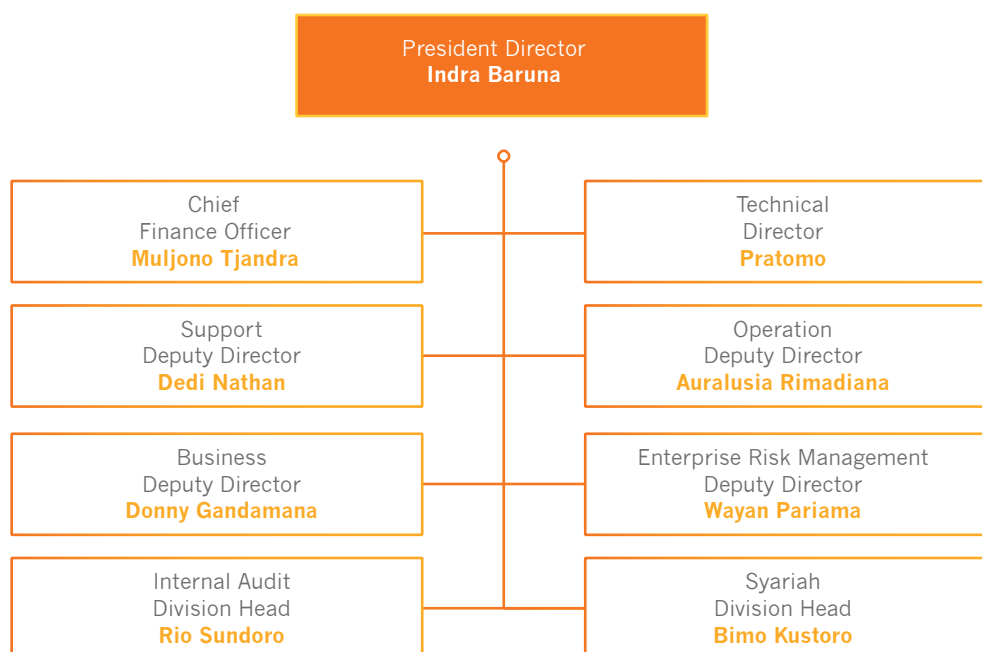
Amid the increasingly intense competition, Adira Finance is committed to ongoing improvement of its contributions to Danamon, by consistently growing its new loan disbursement. Adira Finance is also determined to maintain the quality of its financing assets through the implementation of prudent strategies, such as focus on portfolio with high return and application of appropriate risk management. These aptly executed efforts have delivered Adira Finance's net profit of Rp1.7 trillion in 2013, a 20% increment from previous year.

Concurrently, Adira Finance also improves its performance through productivity and efficiency; by maintaining close relationship with producers, dealers, and customers; expansion of business network; development of information technology (IT) and human resources; and by ensuring synergy with parent company.

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Organization Structure of Adira Insurance



Adira Insurance

PT Asuransi Adira Dinamika (known as “Adira Insurance”), established in 2002, is a subsidiary of Danamon with operations in general insurance. Danamon owns 90% shares of Adira Insurance.

In 2013, Adira Insurance gross written premium (GWP) rose by 12% from Rp1,605 billion in 2012 to Rp1,792 billion in 2013. Motor vehicle contributed 63% of the total portfolio, while other insurance products constituted the remaining 37%.

In implementing its business, Adira Insurance offered two categories of general insurance – motor vehicle and non-motor vehicle insurance that includes products such as accident and fire insurance. On the market, Autocillin and Motopro are Adira Insurance’s leading brands for car and motorcycle insurance.

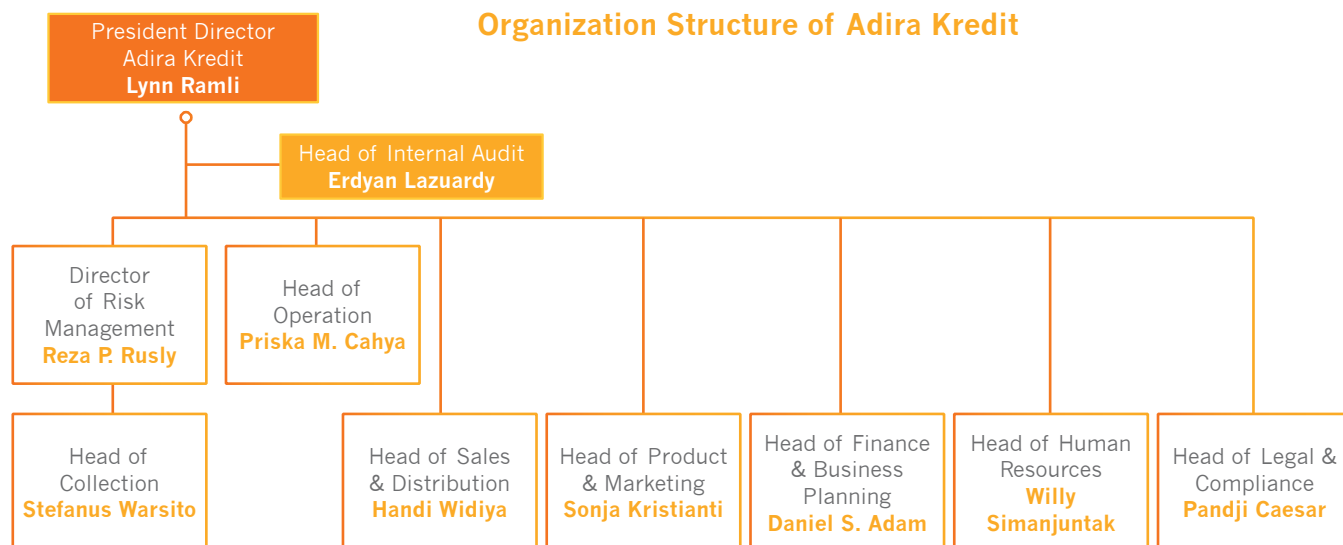
In 2013, Adira Insurance launched several new products, namely health insurance Medicilin, travel insurance Travelin, gadget and cell-phone insurance, and other new products. Adira Insurance generated Rp138 billion of new premium (gross) from the new products.

Synergy with parent company Danamon as well as other subsidiaries is a key strategy that drove the growth of Adira Insurance. Adira Insurance also implemented other initiatives, such as robust risk management through a more careful customer selection process to minimize risk, considering the increasing rate of auto theft.

- Business Segment Review
- Financial Review



Organization Structure of Adira Kredit



By the end of 2013, through its 242 outlets, Adira Kredit recorded Rp1.6 trillion financing, increased from Rp1.4 trillion in 2012. Total new financing booked was Rp2.5 trillion. Intensive implementation of marketing strategies managed to increase number of accounts from 790,000 in 2012 to 830,000 accounts in 2013. Computer financing remained as the largest portfolio with 40% contribution, followed by electronics (34%), furniture (21%), and mobile phones and other products (5%).

Adira Kredit

PT Adira Quantum Multifinance (known as “Adira Kredit”) is a subsidiary company of Danamon which provides consumer financing for products such as electronics, computer, furniture, and other household appliances. Adira Kredit aims mass-market segment, with more than 100 million potential customers to grab. Serving through its outlet spreaded in more than 200 cities in Indonesia and supported by almost 9,000 merchants, Adira Kredit leads the consumer financing industry.

Through prudent customer acquisition process, non-performing loan was kept at 3.2% at the end of 2013.

The company’s consistent effort to provide the best financing services and strong brand reputation in the market have led Adira Kredit to some prestigious brand recognition awards such as Top Brand Award, Best Brand Award, Corporate Image Award, Most Recommended Brand Award, Word of Mouth Marketing Award, Net Promotor Score Award. Adira Kredit also consistently recognized for its financial performances from year to year.

To be closer with its loyal customers, Adira Kredit launched the company’s new mascot in mid 2013, ADIT. ADIT represents the company’s work ethics; Active, Dynamic, Innovative, and Trustworthy. With the support of almost 9,000 merchants and the solid cooperation with the Principal, Adira Kredit is expected to solidify its leadership as one of the leading players in the durable financing business.

- Business Segment Review
- Financial Review

Marketing Campaign

As a customer oriented bank, Danamon is able to identify, develop and provide product and services suitable to specific target segment, offering respectively unique value and accordingly to risk management philosophy. With national wide network, Danamon is able to provide front-to-end comprehensive services.

To that end, Danamon conducted a series of marketing campaign to meet the need of society on target segment respectively. The marketing campaign program among others are:

Danamon Simpan Pinjam

Rebut hadiah heboh langsung dengan buka tabungan SiPinter

Mekanisme Program Hadiah Rebut

- Jika hadiah sesuai dengan besarnya penempatan dana
- Penempatan dana akan dibayar selama 1 (satu) tahun
- Merah, tipe dan warna hadiah disesuaikan dengan penempatan
- Dana baru, dana yang ditempatkan bukan dari penempatan deposito atau pendanaan tabung antar rekening
- SiPinter/Tabungan atau hasil pencairan pinjaman
- Untuk informasi lengkap hubungi unit unit DSP terdekat Anda.
- 1 (satu) hadiah hanya diperbolehkan mengundi dan mendapatkan 1 (satu) jenis hadiah
- 1 (satu) dari beberapa jenis

Penempatan Dana	Jenis Hadiah
1. Rp 100.000.000 - 200.000.000	Motor
2. Rp 200.000.000 - 300.000.000	Kulkas
3. Rp 300.000.000 - 400.000.000	Mesin Cuci
4. Rp 400.000.000 - 500.000.000	Laptop
5. Rp 500.000.000 - 600.000.000	Desktop
6. Rp 600.000.000 - 700.000.000	LCD TV
7. Rp 700.000.000 - 800.000.000	HP
8. Rp 800.000.000 - 900.000.000	Laptop
9. Rp 900.000.000 - 1.000.000.000	Desktop

Sedekat Sahabat Sebahagia Keluarga

PT Bank Danamon Indonesia, Tbk.

Untuk Anda, Bisa

Tabungan SiPinter

Saving account product available with low starting amount of deposit suitable for customer in micro segment. Customer with certain criteria will receive more benefit, such insurance benefit and free premiums, ATM and fund transfer facilities, electricity and phone billing facility and cash pick up service

Segment: Micro

Unit : **Danamon Simpan Pinjam**

Danamon

Giro Bisa

Memberi Banyak Keleluhan dengan Banyak Keuntungan

Giro Bisa

Dana Anda jadi lebih menguntungkan dengan layanan Giro Bisa dari Danamon.

Jangan khawatir kehabisan isi, segera hubungi cabang Danamon terdekat atau Danamon Access Center untuk informasi lebih lanjut.

500-090

PT Bank Danamon Indonesia, Tbk.

Untuk Anda, Bisa

Giro Bisa Account

Excellent Giro Account provide more benefits compared to regular Giro, suitable to customers' need in SME segment

Segment : SME

Unit : **Danamon SME Banking**

Danamon

7%

Buka Tabungan FlexiMAX dapat bunga spesial & hadiah langsung

Diperpanjang hingga Desember 2013 Mulai Rp100 juta

500090

<https://www.danamonline.com>

PT Bank Danamon Indonesia, Tbk.

Untuk Anda, Bisa

Fleximax

Premium saving which provide 9 benefits worth more that Rp10 million per year:

- Free administration fee
- Free RTGS/LLG transaction and clearing fee
- Free withdrawal fee in all ATM worldwide
- Free-queue access
- Free Airport Lounge
- Fantastic Gift
- Business Card (selected customer only)

Segment: Affluent

Unit: **Danamon Privilege Banking**

Danamon

5 Kelebihan Danamon LEBIH

**Mau lebihkannya?
Buka segera tabungannya!**

500-090
https://www.danamonline.com

PT Bank Danamon Indonesia, Tbk. Untuk Anda, Bisa

Danamon Lebih

A saving account with 5 benefits :

- Free Administration fee
- Cashback 5%
- Lowest transfer fee through Danamon online banking and free withdrawal fee by ATM Bersama and ALTO
- Free life insurance
- Gifts for customer

Danamon

Bayar taksinya, nikmati makanannya!

Potongan Rp 50.000,- di OldTown White Coffee

Gunakan Kartu Danamon Anda di SilverBird dan dapatkan potongan sebesar Rp 50.000,- di OldTown White Coffee untuk setiap transaksi hingga Rp 250.000,-.

Untuk informasi lebih lanjut, hubungi Danamon Access Center di (021) 3435 8888

Periode: 1 November - 31 Desember 2013

SILVER BIRD EXECUTIVE TAXI OLD TOWN WHITE COFFEE

Untuk Anda, Bisa

Danamon Card

Special credit card provides shopping convenience and modern lifestyle. The card also offers various attractive and unique programs in thousands of places in cooperation with Danamon

Segment : Middle Income Customer

Unit : **Danamon Consumer Banking**

Danamon

Kini kirim valas kemanapun bisa*

Baik ke currency yang sama/beda melalui Danamon Online Banking.

Daftarkan Sekarang!

EUR, HKD, SGD, AUD, USD

021-3435 8811

Untuk Anda, Bisa

Danamon Online Banking

Internet Banking Service in conducting banking transaction such as balance information, domestic and foreign fund transfer, billing, payment and online statement. This service is provided with SMS and email notification to enhance the safety and convenience for customers.

Danamon Syariah

Deposito Danamon Syariah

Investasi Aman, Berkembang Sesuai Harapan Anda

Fasilitas

- Layanan informasi perbankan 24 jam melalui Danamon Access Center (DAC)
- Automatic Roll Over (ARO)
- Bebas menentukan jangka waktu (1, 3, 6, atau 12 bulan).
- Bagi hasil dapat dikreditkan ke rekening yang diinginkan

Manfaat

- Aman dan fleksibel.
- Bagi hasil yang kompetitif
- Dana dioperasikan kepada sektor riil yang menguntungkan dan sesuai prinsip Syariah

PT Bank Danamon Indonesia, Tbk. Untuk Anda, Bisa

Danamon Syariah Deposit

Investment product with syariah principles by Mudharabah Contract (profit sharing) and choices of term 1,3,6 or 12 months.

Segment: Syariah

Unit : **Danamon Syariah**

Danamon

cash@work

Internet Banking for Your Business

Menghadirkan layanan perbankan berbasis teknologi modern untuk kemudahan bisnis Anda

Bisa

PT Bank Danamon Indonesia, Tbk. Untuk Anda, Bisa

cash@work

Internet banking services for cash management in which customer is able to conduct various banking transaction directly and easily in their office through internet.

Segment : Commercial Customer with turnover of Rp 40-500 billion per year

Unit : **Danamon Commercial Banking**

Danamon

Trade Finance Transaction Banking

As the leading trade bank in Indonesia, Danamon have a unique selling proposition that will help you expand your business:

- Strong Domestic Coverage
- Competitive Global Network
- Trade & Commodity Financing
- Trade Service Point at Port (TSPP)

Local & International. Trade & Commodity. Conventional & Sharia } **Bisa**

PT Bank Danamon Indonesia, Tbk. Untuk Anda, Bisa

Trade Commodity Financing

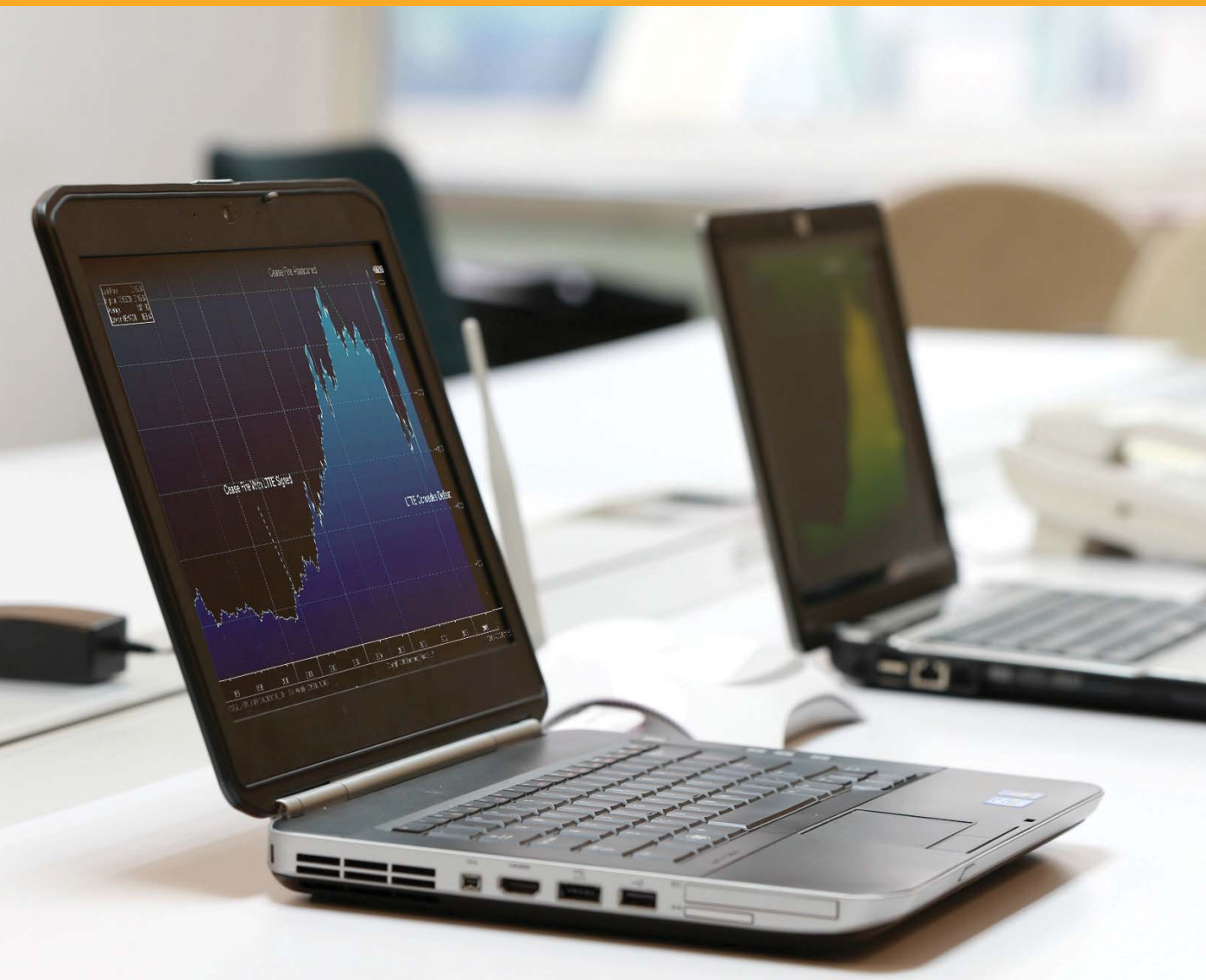
Designed as specific financing scheme adjusted to customer's type of business and commodity.

Segment: Corporate Customer with turnover above Rp500 billion per year and Financial Institutions.

Unit: **Danamon Corporate Banking**

- Business Segment Review
- Financial Review

Financial Review



In 2013, Danamon grew its assets at 18.3% to Rp184,237 billion from Rp155,791 billion in 2012. In the same year, Capital Adequacy Ratio (CAR) Danamon was at the level of 17.9%. Net income increased 1.02% become Rp4,159.3 billion compared to Rp4,117.2 billion in 2012.

Financial Review

The following section will present detailed discussion on Danamon's financial performance in 2013 in comparison with the financial performance of 2012 as well as presenting the history of performance in the past five years.

This financial review should be read in reference to Consolidated Financial Statements of PT Bank Danamon Tbk and Subsidiary for the years ended 31 December 2013 and 31 December 2012, which has been audited by Public Accountant Firm Purwantono, Suherman & Surja.

With the development of national banking industry, Danamon maintains its focus on Mass Market segment and medium-scale businesses (SME and Commercial), while sustaining the balance between risk, return, business growth, and profitability.

In 2013, Danamon's assets increased by 18.3% to Rp184,237 billion from Rp155,791 billion in 2012. During the same year, Danamon's capital adequacy ratio (CAR) was at 17.9%. Net income rose by 1.02% to Rp4,159 billion compared to Rp4,117 billion in 2012. Loan disbursement was up 16%, from 116.6 billion in 2012 to Rp135.4 billion, accompanied by improvement of asset quality where NPL was maintained from 2.3% in 2012 to 1.9% in 2013.

Customer deposit (TPF) grew by 21% to Rp110,806 billion from Rp91,675 billion in 2012. The growth was followed by significant increase of low-cost fund (CASA) ratio by 23.3%. In contrast, CASA ratio in 2012 was increased by 18.4% from 2011.

Aside from TPF, Danamon also has other funding sources that support the Bank's liquidity, namely long-term funding from professional market that amounted to Rp15,750 billion, to manage asset and liability maturity gap as well as interest rate risk. The long-term funding is suitable to Danamon's lending profile, which mainly comprised of fixed-rate loans.

With its sound performance of lending and funding, Danamon managed to improve its liquidity position by decreasing the loan to deposit ratio (LDR) from 100.7% in 2012 to 95.1% in 2013, allowing Danamon more room to conduct lending expansion.

Profit/Loss

PROFIT/LOSS

Rp (in billion)

CONSOLIDATED STATEMENTS OF INCOME	YoY	2013	2012	2011	2010	2009
Interest Income	6.8%	20,131	18,858	16,882	14,418	15,683
Interest Expense	11.2%	6,600	5,936	6,033	4,510	6,221
Net Interest and Underwriting Income	4.7%	14,018	13,386	11,241	10,281	9,758
Other Operating Income	10.9%	5,156	4,649	4,213	3,584	2,883
General and Administrative Expenses	8.9%	3,689	3,388	3,080	2,545	2,466
Salaries and Employees Benefits	10.7%	5,713	5,163	4,413	3,839	3,003
Allowance for Impairment Losses	6.3%	3,348	3,151 ^{*)}	2,183	2,134	2,842
Net Operating Income	0.6%	5,605	5,571	5,174	4,630	2,849
Non-Operating Expenses-Net	-10.7%	75	84 ^{*)}	623	628	478
Income Before Tax and Minority Interest	0.8%	5,530	5,487	4,551	4,002	2,371
Income Tax Expense	0.1%	1,371	1,370	1,149	1,018	757
Net Income	1.0%	4,159	4,117	3,402	2,984	1,614
Net Income-attributable to parent entity	0.7%	4,042	4,012	3,294	2,883	1,532
Other Comprehensive Income/(Expense)	134.1%	-83	(35)	(76)	400	500
Total Comprehensive Income	-0.1%	4,077	4,082	3,326	3,384	2,114
Basic Earnings Per Share	0.7%	421,68	418,57	373,99	342,92	186,36

*) Reclassification of impairment losses of deposit receivables & loss on sale of repo

Comprehensive Income

In 2013, comprehensive income experienced Rp5 billion decrease to Rp4,077 billion compared to Rp4,082 billion in 2012. The decrease was mainly driven by increase of comprehensive expenses by 134%, following decrease of fair value of marketable securities in 2013 by Rp83 billion, from Rp35 billion decrease in 2012.

Consolidated Net Income

In 2013, consolidated net income increased by 1% to Rp4,159 billion compared to Rp4,117 billion in 2012. The increase was mainly due to increase of net interest income by Rp632 billion,

which amounted to Rp14,018 billion in 2013 (see loans table). The overall increase of interest rate for funding in 2013 led to increase of cost of funds, which impacted net interest margin (NIM) to decrease from 10.1% in 2012 to 9.6% in 2013.

At the end of 2013, the return on average assets (ROAA) was 2.5%, with return on average equity (ROAE) of 14.5%. In 2012, Danamon's ROAA and ROAE was higher than the 2013 position of 2.7% and 16.2%, respectively. However, Danamon's ratio of earnings per share (EPS) increased from Rp418.57 in 2012 to Rp421.68 in 2013.

Income

INCOME

OPERATING INCOME		Full Year				
Rp billion	YoY	2013	2012	2011	2010	2009
Interest Income	7%	20,131	18,858	16,882	14,418	15,683
Premium Income	9%	1,258	1,152	958	768	633
Other Operating Income	11%	5,156	4,649	4,213	3,584	2,883
Total Operating Income	8%	26,545	24,659	22,053	18,770	19,199
Non Operating Income	-49%	43	84	100	55	89
Total	7%	26,588	24,743	22,153	18,825	19,288

In 2013, the total income rose by 7% to Rp26,588 billion compared to Rp24,743 billion in 2012. The growth was contributed mainly by operating income, specifically interest income, which increased by Rp1,273 billion and amounted to Rp20,131 billion compared to 2012.

Interest Income

Interest income is income from the interest on loans and other investment instruments, with the following details:

INTEREST INCOME		Full Year	
Rp billion	YoY	2013	2012
Loans	3%	13,581	13,147
Government bonds	0%	232	231
Marketable securities and other bills receivable	-2%	718	735
Consumer financing income	18%	5,428	4,613
Placement with other banks and BI	30%	172	132
Total	7%	20,131	18,858

Interest income from loans is the main component of Danamon's interest income. In 2013, interest income from loans rose by 3% to Rp13,581 billion compared to 2012.

Interest income from consumer financing grew by 18% from Rp4,613 billion in 2012 to Rp5,428 billion in 2013. The enforcement of regulations that set the limit for minimum down payment of auto financing and upper threshold for joint financing created pressure for Danamon's consumer financing activities. In 2013, growth of interest income from consumer financing was less compared to the 35% growth in 2012 from 2011 (see loans table by segment).

- Business Segment Review
- Financial Review

Income

Despite its relatively small amount, income from funds placement in other banks and Bank Indonesia experienced significant growth of 30% from Rp132 billion in 2012 to Rp172 billion in 2013. One of the main drivers were increase of FASBI rate by 175bps from 4% to 5.75% in December 2013.

Net Interest Income

NET INTEREST INCOME		Full Year				
In Rp billion	YoY	2013	2012	2011	2010	2009
Interest Income*	7%	20,131	18,858	16,882	14,418	15,683
Interest Expense	11%	6,600	5,936	6,033	4,510	6,221
Total	5%	13,531	12,922	10,849	9,908	9,462

*) Starting 1 January 2010, all cost directly related to acquisition for loans or consumer financing (acquisition cost) is deferred and amortized in accordance with the period of the loans or consumer financing. The amortization of acquisition cost is recorded as a deduction to interest income from previously recognized as part of provision & commission expense and other operating expense.

In 2013, net interest income increased by 5% from Rp12,922 billion in 2012 to Rp13,531 billion. The increase was lower than the growth of net interest income in 2012, which rose by 19.1% from 2011. The decreased growth of net interest income in 2013 was due to loan growth in 2013 that was not optimum. At the same time, the increase of benchmark interest rate was experienced by almost all of Danamon's funding source of instruments, which led to significant increase of interest expense of 11%.

Income

Other Operating Income

OTHER OPERATING INCOME		Full Year				
Rp billion	YoY	2013	2012	2011	2010	2009
Fees and commissions income	13%	1,728	1,536	1,323	1,205	1,159
Fees	9%	3,271	2,992	2,844	2,125	1,427
(Loss)/gain from changes in fair value of financial instrument	95%	80	41	22	(12)	69
Realized gain (loss) from derivative instruments	573%	208	(44)	(47)	20	326
(Expense) income from foreign exchange transaction	-231%	(139)	106	42	1	(142)
Dividend income	0%	5	5	5	2	3
Gains on sale of marketable securities and Government bonds – net	-77%	3	13	24	242	41
Others		-	-	-	1	-
Total	11%	5,156	4,649	4,213	3,584	2,883

At the end of 2013, other operating income rose by 11% to Rp5,156 billion compared to Rp4,649 billion in 2012. This was largely driven by the growth of fee-based income from administrative fees and credit card transactions of Rp279 billion and income from derivative instruments that amounted to Rp208 billion. In contrast, in 2012 Danamon experienced loss from derivative instruments that amounted to Rp44 billion.

Fees and Commission Income

Income from fees and commission rose by 13% from Rp1,536 billion to Rp1,728 billion in 2013. Fees and commission income are fees from loans to customer and commission of services, which amounted to Rp173.9 billion and Rp624.7 billion, respectively.

Fees

In 2013, fees rose by 9% to Rp3,271 billion compared to Rp2,992 billion in 2012. Income from fees derived from banking transactions such as administration fees from loans, which amounted to Rp2,749 billion, income from credit cards that amounted to Rp190 billion, and other fees of Rp335 billion.

- Business Segment Review
- Financial Review

Income

Gains from Sales of Securities and Government Bonds

In 2013, gains from sales of securities and government bonds decreased by 77% to Rp3 billion, compared to Rp13 billion in 2012. This was mainly due to decline of sales of government bonds in 2013 compared to 2012.

Realized Gains on Financial Instruments

In 2013, realized gains on derivative instruments rose by 573% to Rp208 billion. This was in line with maturity dates of long-term derivative contracts and depreciation of Rupiah against US Dollar. In 2012, Danamon recorded losses from derivative financial instruments that amounted to Rp44 billion.

Gains/(Losses) from Foreign Exchange

In 2013, Danamon recorded loss from foreign exchange of Rp139 billion, due to increase of liabilities in foreign currency and depreciation of Rupiah against US Dollar.

Expenses

EXPENSES

OPERATIONAL EXPENSES		Full Year				
In Rp billion	YoY	2013	2012	2011	2010	2009
Interest Expense	11%	6,600	5,936	6,033	4,510	6,221
Insurance Underwriting Expenses	12%	771	689	566	395	337
Other Operating Expense	9%	13,569	12,464	10,280	9,235	9,792
Total Operating Expense	10%	20,940	19,089	16,879	14,140	16,350
Non Operating Expense	-30%	118	168	723	683	567
Total	9%	21,058	19,257	17,602	14,823	16,917

In 2013, the total amount of expenses rose by 9% to Rp21,058 billion compared to Rp19,257 billion in 2012. The increase was due to 10% increase of operating expenses, specifically other operating expense that showed Rp1,851 billion increase compared to Rp19,089 billion in 2012. Increase of interest expense and underwriting expense from 2012, each amounted to Rp665 billion and Rp82 billion, also contributed to the increase in total expenses.

Interest Expense

INTEREST EXPENSES		Full Year				
Rp billion	YoY	2013	2012	2011	2010	2009
Deposits from customers	4%	4,099	3,951	4,485	3,469	5,089
Borrowings and deposits from other banks	51%	1,124	744	591	631	723
Securities issued	12%	1,187	1,060	785	272	263
Deposit insurance guarantee expense	5%	189	181	172	138	146
Total	11%	6,600	5,936	6,033	4,510	6,221

In 2013, interest expense rose by 11% to Rp6,600 billion compared to Rp5,936 billion in 2012. In terms of percentage, the increase was driven by significant increase of interest expense from receivables and deposits from other banks of 51%, from Rp744 billion in 2012 to Rp1,124 billion in 2013. In terms of nominal value, interest expense from customer deposits that showed an increase of Rp148 billion, from Rp3,951 billion in 2012 to Rp4,099 billion in 2013, also contributed to the augmenting of overall interest expense throughout 2013.

- Business Segment Review
- Financial Review

Expenses

Meanwhile, increase of FASBI interest rate and BI Rate during 2013 led to increase of cost of funds of the banking industry. Danamon was no exception, who in 2013 experienced increase of interest rate on almost all of its entire funding instruments. The increase of BI rate throughout 2013 and total increase of interest rate on average on deposits from other banks reached 4.21% in 2013 from 4.10% in 2012. In addition, interest rate on borrowings in foreign currency also contributed to the increase of Danamon's interest rate in 2013.

The following table presents details of weighted average effective interest rate per annum for deposits from other banks and borrowings:

The weighted average effective interest rate per annum from other banks	2013	2012
Current Accounts	4.74%	4.08%
Savings	3.51%	3.99%
Deposito and deposito on call	5.57%	5.87%
Call money-Rupiah	5.21%	4.57%
Call money-foreign currency	2.00%	1.99%
Overall average	4.21%	4.10%

The weighted average effective interest rate per annum for borrowings	2013	2012
Rupiah	7.90%	7.94%
Foreign currency	2.20%	2.07%

Other Operating Expense

OTHER OPERATING EXPENSE		Full Year				
In Rp billion	YoY	2013	2012	2011	2010	2009
Fees and commissions expense	15%	354	309	241	329	1,247
General and administrative expenses	9%	3,689	3,388	3,080	2,545	2,466
Salaries and employee benefits	11%	5,713	5,163	4,413	3,839	3,003
Allowance for impairment losses	6%	3,348	3,151	2,183	2,134	2,842
Addition of possible losses on commitments and contingencies	0%	-	-	-	-	5
Others	2%	465	454	363	388	229
Total	9%	13,569	12,465	10,280	9,235	9,792

Expenses

In 2013, other operating expenses increased by 9% to Rp13,569 billion from Rp12,465 billion in 2012. In terms of nominal value, the increase was mainly due to reasonable increase of salaries and employee benefits, following regulation on minimum regional wage that in general, experiences annual increments.

In line with business expansion conducted in 2013, the opening of Danamon's new branch offices contributed to the increase in salaries due to increase of total employees as well as general and administration expenses, in particular office, rent, and communication expenses.

Fees and Commission Expense

In 2013, fees and commission expense rose by 15% to Rp354 billion compared to Rp309 billion in 2012. Fees and commission expense is expenses from loan administration. The increase of expense was in line with increase of fees and commission during 2013, each by 12.7% and 6.2% to Rp173.9 billion and Rp624.7 billion compared to 2012, respectively

General and Administration Expense

General and administration expense increased by 9% to Rp3,689 billion in 2013 compared to Rp3,388 billion in 2012. The increase was due to augmentation of office expense of Rp133.3 billion compared to 2012, to Rp1,837.7 billion in 2013. Advertisement and promotion expense that increased by Rp164 billion to Rp265.7 billion in 2013 compared to 2012 was also a contributing factor. The increase in both expense accounts was in line with activities of network and distribution expansion as well as new products and services launched during 2013.

Salaries and Employee Benefits

In 2013, salaries and employee benefits rose by 11% from Rp5,163 billion in 2012 to Rp5,713 billion. Increase in salaries was particularly significant and was up by 23.5% from Rp2,026 billion in 2012 to Rp2,502 billion in 2013 inline with the increase of Regional Minimum Wage at almost all of Danamon's operational areas.

Allowance for Impairment Losses

In 2013, allowance for impairment losses increased by 6% from Rp3,151 billion in 2012 to Rp3,348 billion. This was mainly due to increase of allowance of Rp32.7 billion from Rp2,280 billion in 2012 to Rp2,312 billion in 2013.

Non-operating Income & Expense

In 2013, the total amount of non-operating expense decreased by 11% to Rp75 billion compared to Rp84 billion in 2012 in line with decrease of all variables in the non-operating expense account that consists of loss on write-off of fixed assets, loss on disposal of foreclosed assets, tax assessment expense, loss on disposal of fixed assets, and others.

- Business Segment Review
- Financial Review

Expenses

DuPont Analysis

DUPONT ANALYSIS Rp billion	Full Year				
	2013	2012	2011	2010	2009
Operating Income	10.0%	11.1%	10.5%	11.2%	11.5%
Operating Expense	-5.3%	-5.7%	-5.4%	-5.6%	-5.7%
Cost of Credit	-1.7%	-1.9%	-1.9%	-2.1%	-3.2%
Net Operating Income	3.0%	3.6%	3.2%	3.6%	2.6%
Non Operating Income (Expense)	-0.1%	-0.1%	-0.1%	-0.3%	-0.3%
Taxes	-0.7%	-0.9%	-0.8%	-0.9%	-0.8%
Asset Turnover	2.2%	2.6%	2.3%	2.4%	1.6%
Leverage	6.6X	6.3X	7.4X	7.6X	7.2X
ROAE	14.5%	16.2%	17.2%	18.5%	11.2%

In accordance with the purpose of DuPont analysis, which is to identify characteristics of an industry, the main characteristic of banking industry is the high leverage/debts. Investors need to be aware of banks with high debt ratio, as such banks would be vulnerable to volatility in economic condition.

Reviewing the DuPont analysis table above, it can be concluded that Danamon is a bank with sound performance and is able to maintain its debt ratio at over 6.6, despite a slight movement from 6.3 in 2012. Further, Danamon also has excellent capacity to generate return on shares for investors, with stable ROAE in 2013 of 14.5%, or slightly moved from 16.2% in 2012.

Balance Sheets

BALANCE SHEETS

ASSETS

BALANCE SHEET											
Rp billion	YoY	Full Year									
		2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
Cash	20%	2,944	2%	2,457	2%	1,895	1%	1,985	2%	2,117	2%
Current accounts with Bank Indonesia	20%	9,261	5%	7,718	5%	7,760	5%	5,275	4%	3,820	4%
Current accounts with other banks - net	44%	5,335	3%	3,717	2%	2,640	2%	1,658	1%	1,908	2%
Placements with other banks and Bank Indonesia - net	16%	7,399	4%	6,361	4%	13,232	9%	9,257	8%	4,189	4%
Marketable securities - net	6%	7,727	4%	7,307	5%	4,820	3%	5,324	4%	4,432	4%
Loans - net	15%	130,646	71%	113,289	73%	98,984	70%	79,931	68%	61,022	62%
Government bonds	38%	5,598	3%	4,063	3%	3,947	3%	6,138	5%	11,011	11%
Fixed assets - net	5%	2,199	1%	2,096	1%	1,899	1%	1,771	1%	1,550	2%
Others	49%	13,128	7%	8,783	6%	7,115	5%	7,053	6%	8,549	9%
Total	18%	184,237	100%	155,791	100%	142,292	100%	118,392	100%	98,598	100%

*) Including consumer financing receivables

Note: All figures are presented in net amount.

In 2013, total assets increased by 18% to Rp184,237 billion compared to Rp155,791 billion in 2012. The increase was mainly due to increase of loans by 15% or Rp17,357 billion, from Rp113,289 billion in 2012 to Rp130.646 billion in 2013. Loans is a component of assets with the most significant contribution of 71% from total assets.

In terms of percentage, increase of assets was due to increase of current accounts in other banks of 44%, or Rp1,618 billion, from Rp3,717 billion in 2012 to Rp5,335 billion in 2013. This was part of the Bank's strategy in optimizing asset performance amid tight competition of loans and stringent liquidity, which impacted on increase of interest rate on funding.

Also contributing to the increase of assets was increase of current accounts in Bank Indonesia of 20%, or Rp1,543 billion, from Rp7,718 billion in 2012 to Rp9,261 billion. Further, there was also a 16% increase of placements with other Banks and Bank Indonesia, or Rp1,038 billion, from Rp6,361 billion in 2012 to Rp7,399 billion in 2013.

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Increase of other components of assets, which mainly comprised of interest receivables, other receivables, premium receivables on option, receivables from sales of marketable securities, and receivables from credit card transactions, rose by 49% or Rp4,345 billion, from Rp8,783 billion in 2012 to Rp13,128 billion in 2013.

Current Assets

As part of its prudent liquidity management, Danamon always strives to maintain the liquidity of its assets. Other than liquid funding sources from cash and placements with Bank Indonesia and other banks, securities portfolio presented in the available for sale (AFS) account also constitutes Danamon's liquid asset portfolio. The amount of liquid assets is determined by the structure of balance sheet and market condition.

LIQUID ASSETS In Rp billion	YoY	Full Year				
		2013	2012	2011	2010	2009
Cash	20%	2,944	2,457	1,895	1,985	2,117
Current accounts with Bank Indonesia	20%	9,261	7,718	7,760	5,275	3,820
Current accounts with other banks - gross	44%	5,335	3,717	2,640	1,658	1,924
Placements with other banks and Bank Indonesia – gross	16%	7,399	6,361	13,232	9,257	4,215
Marketable securities – available for sale and trading	8%	7,347	6,811	4,173	9,572	4,125
Government bonds – available for sale and trading	38%	5,598	4,063	3,947	6,138	8,676
Total Current / Liquid Assets	22%	37,884	31,127	33,647	33,885	24,877

In 2013, current assets increased by 22% to Rp37,884 billion compared to Rp31,127 billion in 2012. Increase of current accounts was mainly due to significant increase of current accounts with other banks, placements with other banks and Bank Indonesia, and current accounts with Bank Indonesia, as described in the section of asset increment.

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Loans

LOANS BY SEGMENT		Full Year									
In Rp billion	YoY	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
Wholesale	49%	18,828	14%	12,663	11%	12,532	12%	10,689	13%	7,790	12%
SME&Commercial	23%	37,606	28%	30,544	26%	24,241	24%	19,639	24%	16,481	26%
Consumer	26%	8,988	7%	7,115	6%	5,652	6%	5,145	6%	6,703	11%
Mass Market	6%	69,961	52%	66,261	57%	59,434	58%	47,185	57%	32,304	51%
Total	16%	135,383	100	116,583	100%	101,859	100%	82,658	100%	63,278	100%

Note: all amounts are gross amounts

In 2013, balance of gross loans rose by 16% from Rp116,583 billion in 2012 to Rp135,383 billion. With this result, Danamon was able to maintain lending market share to total lending industry at 4.1%, where Danamon's lending market share to total industry in 2012 was 4.3%.

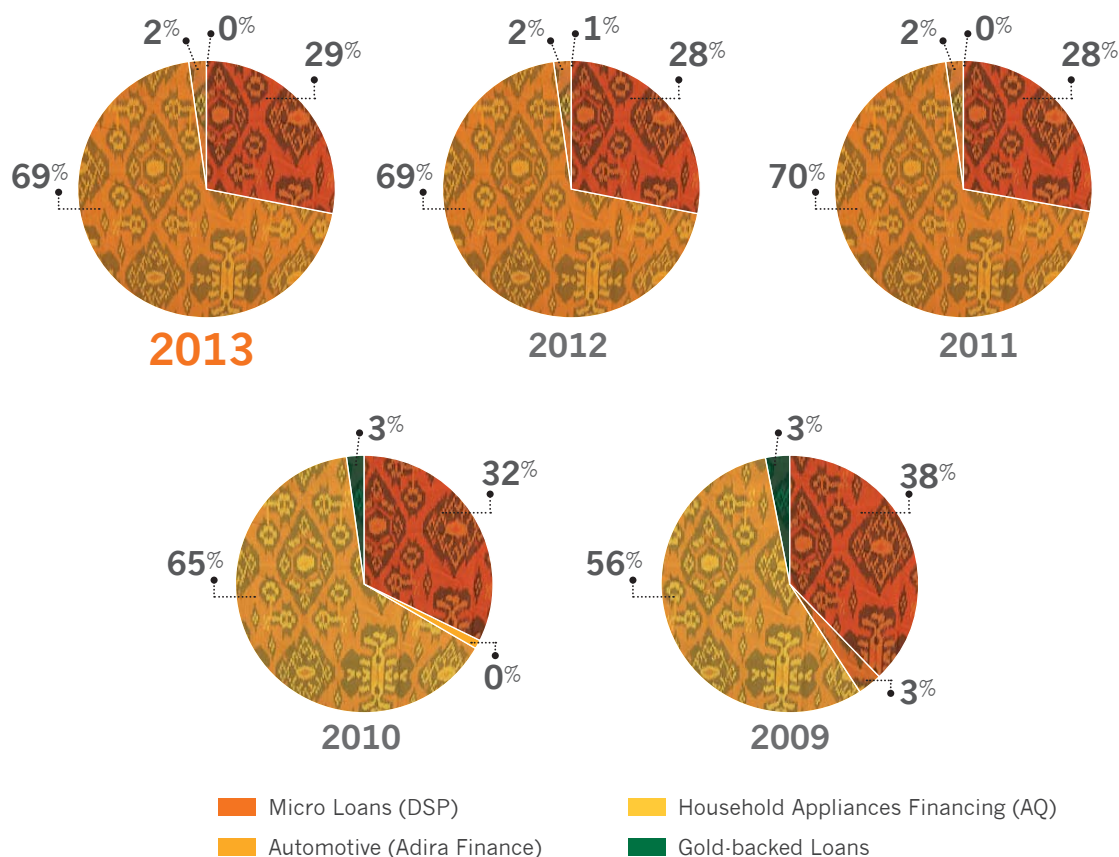
The slight movement in Danamon's lending market share was due to financing slow-down in the past two years with respect to regulation of minimum down payment for auto financing and mortgage. Automotive financing is a significant component in Danamon's total lending portfolio and accounts for 37%.

To improve the performance of loan disbursement, Danamon consistently applies prudent strategy to anticipate market trend and market development, in order to balance capital, quality of asset, growth, and profitability.

The Mass Market loans are loans disbursed to micro business segment through Danamon Simpan Pinjam (DSP) business line, and consumer financing that consists of automotive financing through subsidiary Adira Finance as well as electronics and household appliances financing through Adira Kredit. The Mass Market portfolio is a predominant component that accounts for 52% of Danamon's overall lending portfolio.

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Mass Market Loans



In 2013, loan disbursement on this segment rose by 6%, or Rp3,700 billion, from Rp66,261 in 2012 to Rp69,961 billion. The increment of loans in the Mass Market segment was mainly driven by the increase of automotive financing (Adira Finance) of 5%, from Rp45,793 billion in 2012 to Rp48,294 billion in 2013 as well as micro loans through DSP, which rose by 6% to Rp19,865 billion compared to Rp18.777 billion in 2012. The contributions of automotive financing and micro loans to the total loans of Mass Market segment are 69% and 29%, respectively.

Loans in the medium-scale business (SME & Commercial) grew by 23% to Rp37,606 billion compared to Rp30,544 billion in 2012. With this growth, contribution of SME & Commercial loans to Danamon's total loans increased from 26% in 2012 to 28% in 2013.

The Financial Value Chain strategy and optimization of facilities for corporate customers were important drivers of the significant 49%

Balance Sheets

increment in loan disbursement for corporate segment, from Rp12,663 billion in 2012 to Rp18,828 billion in 2013. In line with the increase of loans, contribution from wholesale loans to Danamon's total loans also increased from 11% in 2012 to 14% in 2013.

Meanwhile, integration of services carried out at all of Danamon branches ; investments in information technology, especially infrastructure that supports loan disbursement; additions of new features in credit cards and launch of new credit card in 2013 were strategies that successfully contributed to 26% growth of consumer loans, from Rp7,115 billion in 2012 to Rp8,988 billion in 2013.

Lending by Loan Category

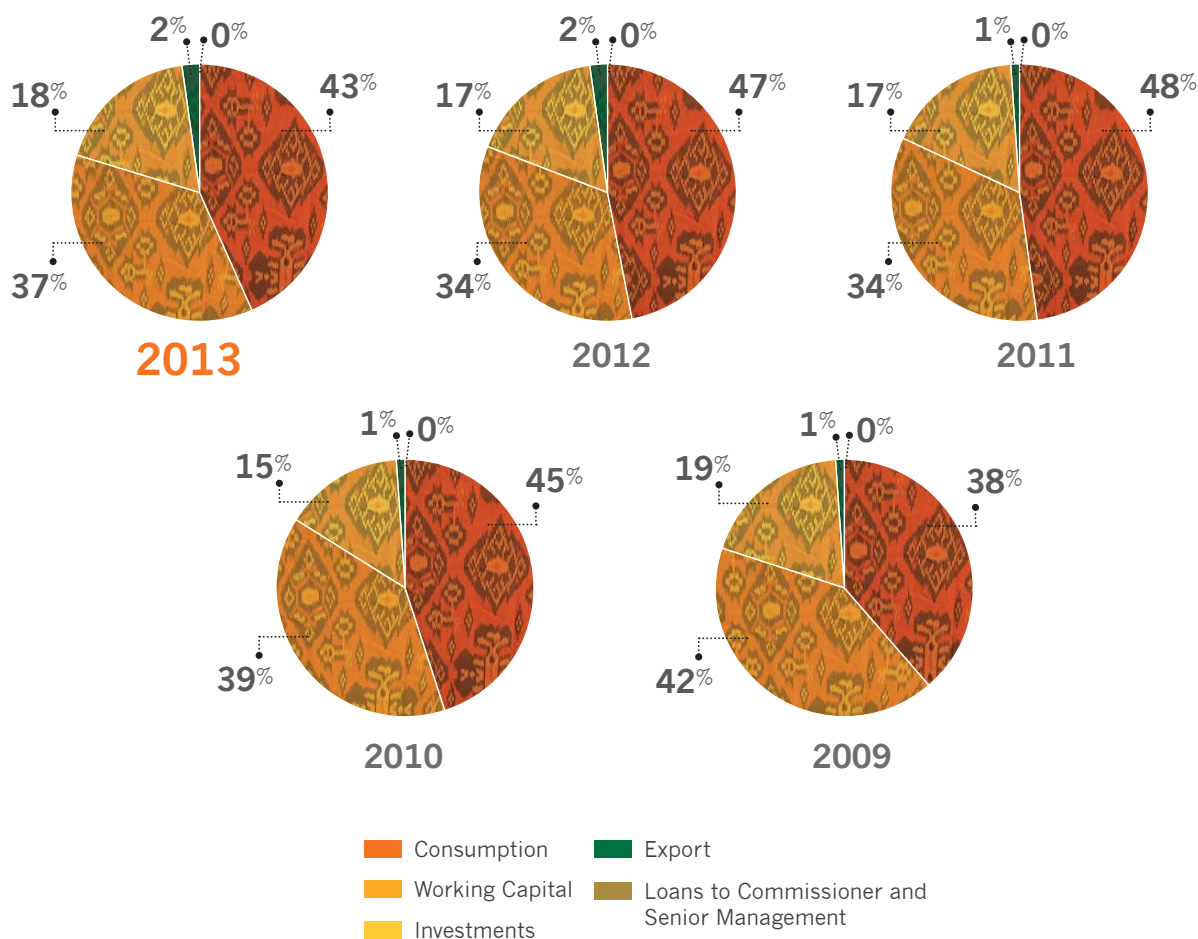
Lending by Loan Category		Full Year									
In Rp billion	YOY	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
Consumption*	7%	58,506	43%	54,811	47%	48,634	48%	36,834	45%	24,363	39%
Working Capital	24%	49,288	36%	39,718	34%	34,737	34%	32,127	39%	26,389	42%
Investments	20%	24,314	18%	20,238	17%	17,152	17%	12,530	15%	11,803	19%
Export	80%	3,248	2%	1,801	2%	1,323	1%	1,156	1%	710	1%
Loans to Commissioner and Senior Management	80%	27	0%	15	0%	13	0%	11	0%	13	0%
Total	16%	135,383	100%	116,583	100%	101,859	100%	82,658	100%	63,278	100%

*) Including consumer financing receivables and leasing for customers of Adira Finance

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Lending by Loan Category



Based on the category, Danamon's lending mainly consists of consumption loans, which accounts for 43% of the total portfolio followed by working capital (37%), investment loans (18%), and export loans (2%).

In 2013, consumption loans increased by 7% from Rp54,811 billion in 2012 to Rp58,506 billion. The increase mainly derived from the 5% increment of automotive loans, or Rp2,501 billion

growth from the earlier year. Danamon's working capital loans were mainly absorbed by SME and micro businesses. In 2013, this loan category experienced 24% growth from Rp39,718 billion to Rp49,288 billion, while investment loans increased by 20% to Rp24,314 billion.

The low absorption of global market resulted on adverse impact on pricing, which led to decreasing prices of commodities and reduction of national

Balance Sheets

exports. However, in terms of volume, Indonesian exports did not experience significant changes. Danamon was able to optimize the potential and boost export loans in 2013 by 80% compared to 2012, in line with the increase of activities in trade finance.

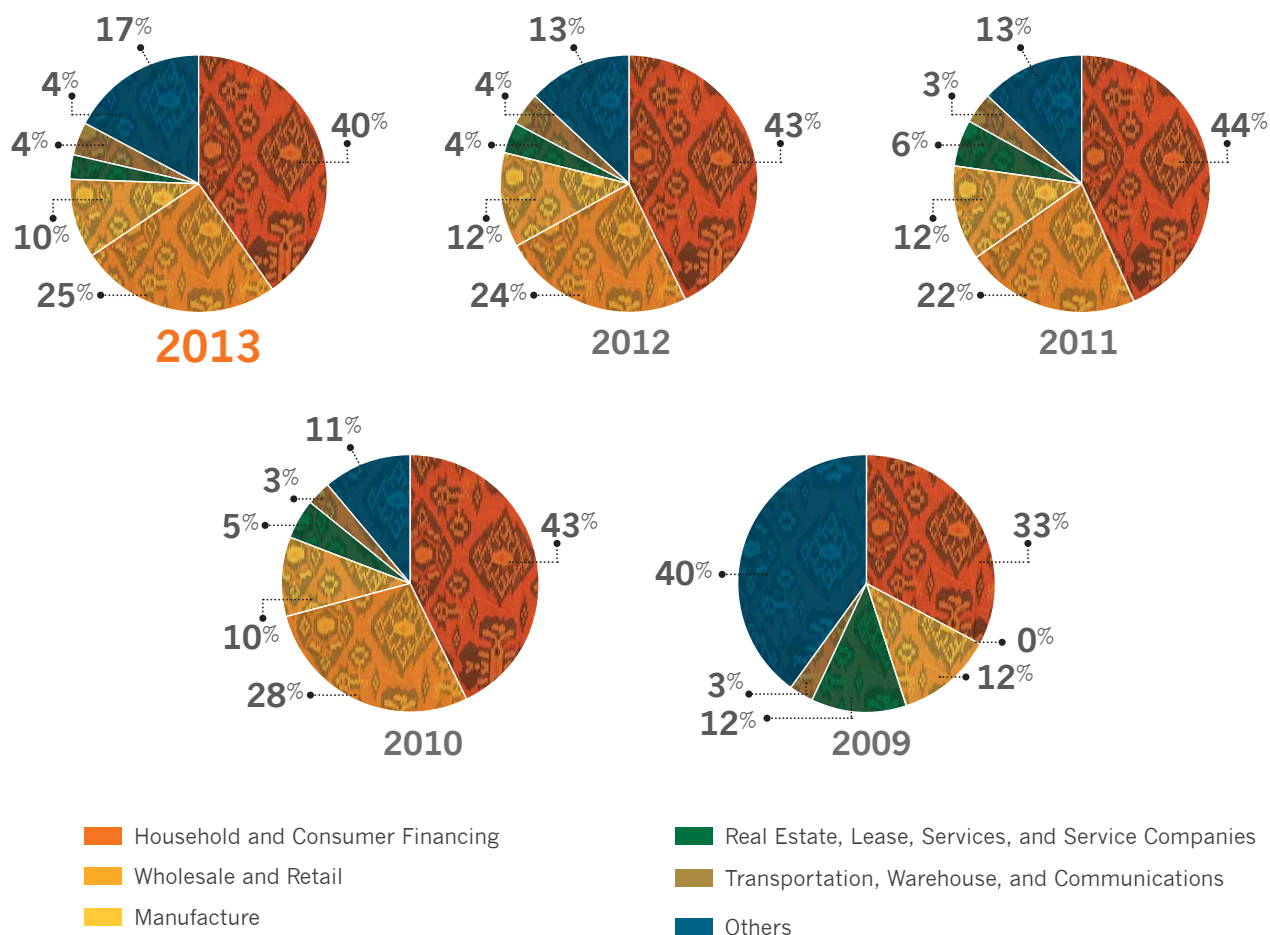
Loans by Economy Sector

Based on economy sector, Danamon's loans portfolio is evenly spread to various sectors. Household and consumer financing as well as retail and wholesale loans have constituted the majority of the loans portfolio for five consecutive years. The contributions of both sectors to Danamon's total loans in 2013 were 40% and 25%, respectively. Growth of loans in both sectors reflected the development of the middle-class population and the increase of per capital income, which boosted consumption.

Loans by Economy Sector		Full Year									
In Rp billion	YOY	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
Household and Consumer Financing	8%	54,021	40%	49,920	43%	44,352	44%	35,543	43%	20,882	33%
Wholesale and Retail	21%	33,889	25%	27,932	24%	22,369	22%	23,144	28%	-	0%
Manufacture	-6%	13,124	10%	13,966	12%	12,201	12%	8,266	10%	7,593	12%
Real Estate, Lease, Services, and Service Companies	1%	4,725	3%	4,655	4%	6,101	6%	4,133	5%	7,593	12%
Transportation, Warehouse, and Communications	36%	6,052	4%	4,450	4%	3,588	4%	2,436	3%	1,898	3%
Others	51%	23,572	17%	15,659	13%	13,248	13%	9,136	11%	25,311	40%
Total	16%	135,383	100%	116,583	100%	101,859	100%	82,658	100%	63,278	100%

Balance Sheets

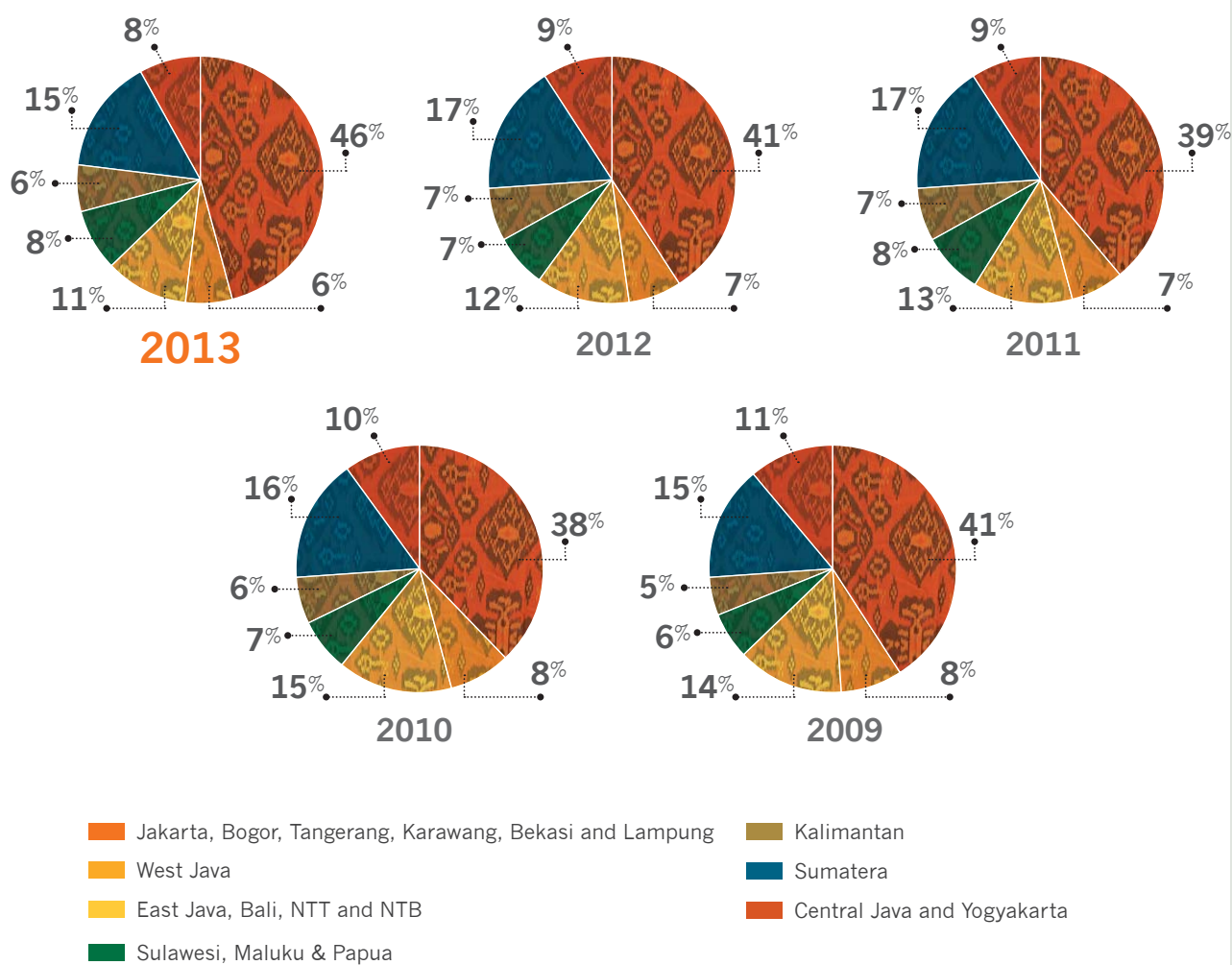
Loans by Economy Sector



Balance Sheets

Loans by Region

Loans by Region



*) Reclassification of receivables savings

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Until end of 2013, Danamon (standalone) loans portfolio remains concentrated in Jabodetabek, Karawang, and Lampung, which accounts for 46% of the portfolio. With the Bank's service expansion, Danamon will continuously strive to grow the contributions from regions outside Java, especially Eastern Indonesia that is showing promising advancement of economy.

Loans by Interest Rate and Foreign Currency

Based on interest rate, Danamon's loans are dominated by fixed-rate loans that contribute to 70% of total loans. Fixed-rate loans are mainly disbursed to Mass Market segment as the leading segment of Danamon's loans. Meanwhile, floating loans accounts for 30% of Danamon's total loans in 2013, mainly disbursed to SME, Commercial, and Wholesale segments.

Based on currency, a large part of Danamon's loans is disbursed to Mass Market customers. Therefore, Rupiah-denominated lending has higher contribution compared to foreign currency lending and in 2013 contributed to 88% and 12% to Danamon's total loans, respectively. Loans disbursed in foreign currency are largely provided to commercial and wholesale customers.

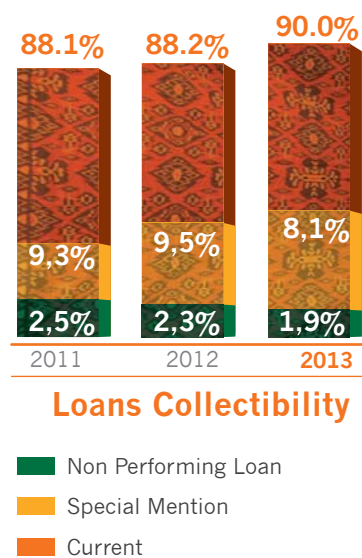
Quality of Productive Assets

Collectability of Loans

Danamon's productive assets consist of current assets, placement with other banks and Bank Indonesia, marketable securities, derivative receivables, borrowings, consumer financing receivables, acceptance receivables, and government bonds.

During 2013, Danamon managed to improve the quality of its assets. Overall, the quality of Danamon's productive assets have elevated compared to 2012, as reflected by several variables with improved performance compared to 2012, such as collectability of "current" loans in 2013 that is higher than 2012, decreased ratio of non-performing loans (NPL), and decreased Loans in Special Mention classification compared to 2012.

In terms of loans collectability, in 2013 Danamon successfully improved its "current" loans to 90% of total loans, compared to 88.2% in 2012. At the same time, Danamon was able to reduce the composition of loans classified as Special Mention and non-performing loans to 8.1% and 1.9%, respectively, from 9.5% and 2.3% in 2012.



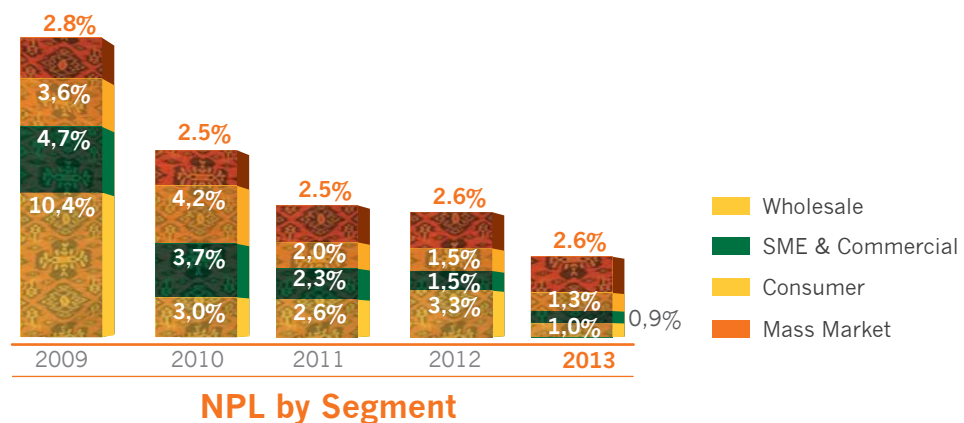
Balance Sheets

Non-Performing Loans (NPL)

As described in the above section regarding loans and quality of productive assets, the improvement of Danamon's loans portfolio has been consistently accompanied by improvement of loans quality. In carrying out its business activities, Danamon is committed to generate sustainable growth and strives to play vital role in Indonesia's economic development.

To that end, Danamon continuously observes various risks, including credit risk, and its dynamics from year to year. In disbursing loans, Danamon consistently applies prudential banking principle, without overlooking expansion efforts. As the result, Danamon was able to balance the growth in loans with improvement of asset quality, as evident in decreased gross-NPL from 2.3% in 2012 to 1.9% in 2013.

NPL by Segment	2013	2012	2011	2010	2009
Wholesale	1.0%	3.3%	2.6%	3.0%	10.4%
SME & Commercial	0.9%	1.5%	2.3%	3.7%	4.7%
Consumer	1.3%	1.5%	2.0%	4.2%	3.6%
Mass Market	2.6%	2.6%	2.5%	2.5%	2.8%
Total	1.9%	2.3%	2.5%	3.0%	4.5%



Balance Sheets

As illustrated by the table, Danamon successfully managed credit risk across nearly all segments, which led to decrease in non-performing loans.

The risk profile of corporate customers increased due to global economy turmoil during 2013. However, through intensive approach to customers, Danamon was able to reduce the ratio of non-performing loans in wholesale segment at a significant level, from 3.3% in 2012 to 1% in 2013.

Similarly, in SME & Commercial segments, non-performing loans decreased to 0.9% in 2013 from 1.5% in 2012.

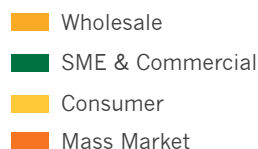
Meanwhile, high inflation as adverse impact of the fuel price hike affected the micro businesses under Mass Market segment quite substantially and the capacity for loan repayment for customers within the segment decreased. Danamon acknowledged the condition and addressed it through efforts to maintain loan quality in micro segment. Personal approach to customers conducted by DSP's collection teams was one of the initiatives implemented to curb the level of non-performing loans. As the result, at the end of 2013 Danamon was able to maintain NPL of the Mass Market segment at 2.6%, or similar to NPL of the earlier year.

Loan in Special Mention Classification

As of 31 December 2013, loans classified as Special Mention amounted to Rp10,877 billion, or decreased from Rp11,055 billion in 2012. The Mass Market segment is still the predominant segment in Danamon's Special Mention classification, with 92% contribution that was similar with the earlier year. However, in terms of nominal value, the amount of Special Mention loans from the Mass Market segment decreased from Rp10,171 billion in 2012 to Rp10,027 billion in 2013. This showed the significant improvement in quality of loan asset in Danamon's Mass Market segment, considering that growth of loan disbursement to Mass Market segment was accompanied by decrease in the Special Mention classification.



Special Mention by segments



Balance Sheets

During the same period, Special Mention loans from Consumer segment also decreased from Rp332 billion in 2012 to Rp282 billion in 2013. With the decrease of Special Mention in 2013, the composition of Consumer Loans to total Special Mention in 2013 stayed at the same level as 2012 of 3%.

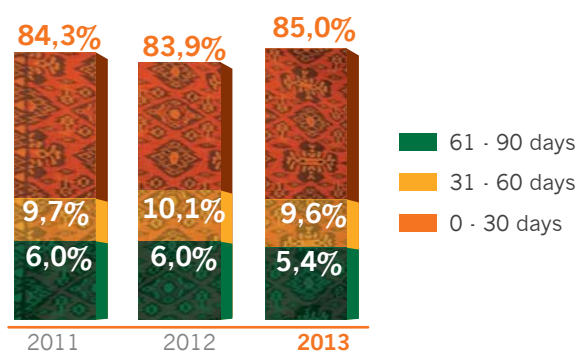
Similarly, Special Mention loans in the Wholesale segment decreased from Rp332 billion in 2012 to Rp325 billion in 2013. However, the composition to total Special Mention loans stayed at 3% as 2012.

The SME & Commercial segment was the only segment with increasing amount of Special Mention loans in 2013, up by Rp 23 billion compared to Rp221 billion in 2012 to Rp244 billion in 2013. With growth of loan disbursement in this segment and decrease of total amount of Special Mention loans in 2013, the composition of Special Mention loans from SME & Commercial segment remained at 2% as 2012.

Special Mention Loans by Aging

Danamon continuously applies precautionary steps and takes persuasive approach when handling non-performing assets, as preventive strategy to minimize the level of non-performing loans.

On the other hand, Danamon also seeks to offer resolutions that are suitable with customers' capacity when their loans are classified as Special Mention so that mitigation efforts can be taken early to prevent loans from being classified as "loss."



Special Mention Loans by Aging

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Balance Sheets

The efforts have proven effective to reduce age of Special Mention loans, where in 2013 Special Mention loans within 0-30 days increased to 85% from 83% in 2012. For Special Mention loans in this category, Danamon takes immediate prevention and resolution efforts to maintain the loans within the age bucket, aiming to reduce Special Mention loans in the 31-60 days category and 60-90 days category compared to 2012, as evident in the above table.

Supporting Ratio for Credit Quality Analysis

Ratio	Dec '13
Gross Written Off	3.2
Net Credit Losses	2.5
Loan Loss Provisioning to ENR	2.3
Loan Loss Provisioning to NPL	124.3

Supporting Ratio for Credit Quality Analysis

Gross Written Off (GWO) is ratio of loans written off to average loans. As of December 2013, the ratio was 3.2%, or relatively stable compared to the ratio of the earlier year.

Net Credit Losses (NCL) ratio represents the net credit losses to average loans. NCL is calculated by deducting the recovered income from written-off loans in the gross written off account. Until end of 2013, the NCL ratio moved to 2.5% from 2.4% a year earlier.

Percentage of loan loss provisioning to loans (LLP/ENR) was at 2.3%. It improved compared to 2.5% in 2012. Meanwhile, ratio of loan loss provisioning to NPL (NPL/LLP) increased to 124.3% compared to 107.1% in the previous year.

Allowance for Impairment Losses

With growth of loans, Danamon has calculated that allowance for impairment losses of loans until end of 2013 stood at Rp2,312 billion, or slightly increased from Rp2,279 billion in 2012.

Movements of Allowance for Impairment Losses	Amount (in million Rp) 2013
Beginning Balance - 31 Dec 12	2,279,679
Reclassification	-
Allowance	2,086,112
Recovery	831,181
Write Off	(2,810,826)
FX Difference	(73,759)
Ending Balance - 31 Dec 13	2,312,387

Prime Lending Rate

In line with Bank Indonesia's efforts to boost the performance of the economy, Danamon strives to maintain the prime lending rate at a reasonable level. Danamon continuously manages the contributing factors to interest rate, such as cost of fund, premium risk, and overhead cost.

Balance Sheets

Prime Lending Rate Rupiah

PT Bank Danamon Indonesia, Tbk 31 December 2013 (effective % per year)

	Prime Lending Rate Rupiah Based on Business Segment				
	Corporate Loans	Retail Loans	Micro Loans	Mortgage	Consumption Loans Non Mortgage
Prime Lending Rate	11.00%	12.00%	20.15%	12.00%	12.49%

Description:

- Prime lending rate is used to determine the interest rate that the Bank imposes on customers. Prime lending rate has not include the estimation of premium risk, which depends on the Bank's assessment on risk profile for each debtor or group of debtors. Therefore, the interest rate imposed on debtors may differ from prime lending rate.
- Prime lending rate excludes cash collateral loans.
- Corporate Loans include loans to corporate and commercial customers.
- Prime lending rate on micro loans is prime lending rate on loans with collateral as required by prevailing regulations.
- Prime lending rate on consumption loans for non-mortgage loans mainly represent prime lending rate for two-wheels financing that was facilitated through joint financing scheme and exclude fund appropriation through credit card and unsecured loans.
- If necessary, the Bank may at any time change the information of prime lending rate.
- Information on the current prime lending rate is accessible in the Bank's branches publication and/or on website (www.danamon.co.id)

LIABILITIES

LIABILITIES			Full Year								
In Rp Billion	YoY	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
Deposits from customers	21%	109,161	71%	89,897	71%	85,979	74%	79,643	80%	67,217	81%
Deposits from other banks	-40%	1,695	1%	2,824	2%	2,814	2%	1,937	2%	1,438	2%
Securities sold under repurchase agreements	-28%	759	0%	1,049	1%	1,140	1%	2,790	3%	3,754	5%
Bonds issued	-2%	12,102	8%	12,347	10%	11,278	10%	6,300	6%	2,051	2%
Borrowings	46%	16,069	11%	11,020	9%	6,917	6%	2,482	2%	2,394	3%
Subordinated debts	0%	-	0%	0	0%	-	0%	500	1%	500	1%
Others	30%	12,898	8%	9,921	8%	8,455	7%	6,211	6%	5,311	6%
Total	20%	152,684	100%	127,058	100%	116,583	100%	99,863	100%	82,665	100%

On 31 December 2013, total consolidated liabilities grew at 20% from Rp127,058 billion in 2012 to Rp152,684 billion. The growth was primarily driven by significant increase from borrowings, which rose by 46% to Rp16,069 billion compared to Rp11,020 billion in 2012. Customer deposits that in 2013 grew at 21% to Rp109,161 billion compared to 2012 also contributed to the growth of Danamon's liabilities. Other liabilities booked 30% growth from Rp9,921 billion in 2012 to Rp12,898 billion in 2013.

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Liabilities

Customer deposit is the largest component that occupied 71% of Danamon's total liabilities in 2013. It was followed by borrowings, which accounts for 11% of the total liabilities.

To meet funding needs for automotive financing activities, in 2013 Adira Finance issued fixed-rate Continuous Bonds II phase I amounted to Rp2 trillion and fixed-rate Continuous Bonds II phase II amounted to Rp2,1 trillion. During the same year, Adira Finance also issued Syariah/Sukuk Mudharabah Continuous Bonds I phase I amounted to Rp379 billion. These bonds were rated AA+ by rating agency. The bonds issued in 2013 amounted to an overall total of Rp12,102 billion, lower than Rp12,347 billion in 2012.

FUNDING

Funding In Rp billion	YoY	2013	Full Year			
		2012	2011	2010	2009	
Third Party Funds	21%	110,807	91,675	88,054	80,986	68,419
Long Term Borrowings	57%	15,750	10,023	6,604	7,204	3,595
Total	24%	126,557	101,698	97,658	88,190	72,014

Danamon's funding consists of third party funds (CASA and time deposit) and long-term borrowings/professional funding such as issued bonds, borrowings from IFC (International Finance Corporation) and other banks, and securities under repurchase agreement.

In 2013, total funding grew at a significant 24% to Rp126,557 billion from Rp101,698 billion in 2012. Long-term borrowings also grew significantly by 57% to Rp15,750 billion in 2013 from Rp10,023 billion in 2012. Meanwhile, third party funds as the largest component in the funding structure, occupying 88% of Danamon's total funding, recorded growth of 21% to Rp110,807 billion from Rp91,675 billion in 2012.

Funding

a. Third Party Funds

Third Party Funds In Rp billion	YoY	Full Year				
		2013	2012	2011	2010	2009
Current accounts	33%	21,132	15,854	12,994	10,972	7,398
Savings	18%	32,053	27,270	23,439	21,433	15,370
Time-deposit	19%	57,621	48,551	51,621	48,581	45,651
Total	21%	110,807	91,675	88,054	80,986	68,419

During financial year 2013, current accounts rose by 33% from Rp15,854 billion in 2012 to Rp21,132 billion. The growth resulted in increase of current accounts contribution to total third party funds from 17% in 2012 to 19% in 2013.

Savings, a component of third party funds which contributed 18% of the total third party funds of Danamon in 2013. Until end of 2013, Danamon booked 18% growth in savings from Rp27,270 billion in 2012 to Rp32,053 billion.

Time deposit was still the leading contributor to total third party funds (52%) and also grew by 19% to Rp57,621 billion from the year before.

In terms of funding composition, there was increase of contribution from low-cost funds in 2013, comprising Current Accounts and Savings, to total third party funds of Danamon was at 48% compared to 47% in 2012.

The management views the composition of third party funds as a sound performance considering the tight competition that resulted from stringent liquidity following the raise of benchmark interest rate (BI Rate). Coupled with the capital market performance that was relatively unstable, the consumers and investors were expected to opt for products that would generate optimum return instead of instruments with moderate to high risk profile.

To increase CASA composition in funding, especially in third party funds, Danamon consistently conducts promotional programs and enhancement of infrastructure network, which were done throughout the year especially in areas with significant potentials. In 2013, Danamon expanded its branch office network and ATM, added new features to ATM, Internet Banking, and Mobile Banking as well as launched a new product, a co-branding Debit Card Danamon-Manchester United.

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Funding

b. Long-Term Borrowings

In Rp billion						
Source of Fund	YoY	Full Year				
		2013	2012	2011	2010	2009
Danamon Bonds	0%	918	918	2,800	4,036	1,250
Adira Dinamika Multi Finance Bonds	66%	11,363	6,839	5,940	2,123	541
PT. Bank Pan Indonesia	0%	750	750	-	-	50
PT. Bank Central Asia Tbk	53%	534	348	-	-	-
Citibank NA, Cabang Jakarta		-	-	181	-	-
PT. Bank DKI	47%	373	253	-	-	-
PT. Bank BJB		-	250	-	-	-
International Finance Corporation		913	-	551	825	1,109
Wells Fargo Bank		595	-	-	-	0
PT. Bank BNI Syariah		-	25	-	-	-
PT. Panin Syariah		-	25	-	-	-
Channeling		-	-	-	1	3
PT. Permodalan Nasional Madani		-	-	-	28	41
Bankers Acceptance		-	555	-	-	-
Letter of Credit		-	-	-	178	580
The Bank Of Tokyo-Mitsubishi		-	60	132	-	-
PT Bank BNP Paribas		304	-	-	-	-
Bank Indonesia		-	-	-	13	21
Total	57%	15,750	10,023	9,604	7,204	3,595

Cash Flows

As part of its liquidity and funding strategy, Danamon also managed long-term borrowings (with maturity date of over one year) to maintain the mismatch of liquidity and interest risk. In 2013, Danamon's long-term borrowings were provided by fixed-rate Bonds Issuance from Adira Finance that comprised Continuous Bonds II phases I and II and continuous Sukuk Mudharabah I phase I, with total proceeds of Rp11,363 billion. The result grew at 66% compared to proceeds from bonds issuance in 2012 that amounted to Rp6,839 billion.

Long-term borrowings were also driven by increase of borrowings from Bank BCA and Bank DKI, each accounted for 53% and 47%, to Rp534 billion and Rp373 billion compared to 2012 as well as new borrowings of Rp304 billion from BNP Paribas.

In 2013, Danamon successfully established cooperations with international financial institutions, International Finance Corporation and Wells Fargo Bank. The relationship provided Danamon with long-term borrowings of Rp913 billion and Rp595 billion, respectively.

Consolidated Equity

At the end of 2013, total equity rose by 10% from Rp28,733 billion in 2012 to Rp31,553 billion. The increase was mainly due to growth of profit balance of 19% or Rp2,838 billion, from Rp15,231 billion in 2012 to Rp18,069 billion and 26% increase of non-controlling interests to Rp302 billion compared to Rp240 billion in 2012.

CASH FLOWS

Consolidated cash flows statements are presented using direct method by classifying cash flows into operating, investment, and funding activities.

At the end of 2013, Danamon booked Rp24,519 billion of cash and cash equivalents. The account consisted of Cash of Rp2,944 billion, current accounts with other banks of Rp5,338 billion, and placements with other banks and Bank Indonesia with 3-month maturity date from the date of acquisition of Rp6,975 billion.

The cash balance improved compared to cash balance in 2012 of Rp20,033 billion. The increase was primarily contributed by significant growth of customer deposits of 371%, or equal to Rp12,074 billion, from Rp3,259 billion in 2012 to Rp15,332 billion in 2013. The increase of cash balance at the end of 2013 was also due to 26% increase of income from consumer financing transactions from Rp21,812 billion in 2012 to Rp27,566 billion.

The following table presents comparison of Danamon's cash flows in 2013 and 2012:

Cash Flow In Rp billion	YoY	Full Year	
		2013	2012
Net Cash flows (used in) operating activities	6,711	3,533	(3,178)
Net Cash flow from (used in) investing activities	911	(2,467)	(3,378)
Net Cash Flows from financing activities	(269)	3,420	3,689
Net (decrease) increase in cash and cash equivalents	7,353	4,486	(2,867)
Cash and cash equivalents at beginning of the year	(2,868)	20,033	22,901
Cash and cash equivalents at end of the year	4,486	24,519	20,033

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Cash Flows

Net Cash Flows From (Used In) Operating Activities

The net cash flows provided by operating activities in 2013 amounted to Rp3,553 billion. In 2012, Danamon booked Rp3,178 billion of cash used in operating activities. The significant increase was due to increase of income from consumer financing of 26%, from Rp21,812 billion in 2012 to Rp27,566 billion in 2013. Growth of cash received from operating activities was also contributed by significant decrease in other operating expenses by 20% or Rp19,852 billion. In addition, cash received from operating activities was also contributed by increase of other operating income and gains from net foreign currency trading of Rp286 billion and Rp229 billion, respectively, amounted to Rp3,278 billion and Rp325 billion in 2013.

Net Cash Flows From (Used In) Investment Activities

The total net cash flows used in investment activities in 2013 grew by Rp913 billion from Rp3,378 in 2012 to Rp2,467 billion. The decrease of cash was mainly due to the decrease in the purchase of securities and government bonds held to maturity of Rp620 billion from Rp10,179 billion in 2012 to Rp9,559 billion, and decrease of purchase in securities and government bonds available for sale at 10% or Rp85 billion, from Rp832 billion in 2012 to Rp747 billion.

In addition, decrease of cash used in investment activities in 2013 was contributed by 96% decrease of placements of time deposits with other banks, or Rp387 billion, from Rp404 billion in 2012 to only Rp17 billion. This decrease was primarily led by increase of return from investments by 36% or Rp51 billion, from Rp144 billion in 2012 to Rp195 billion in 2013.

Net Cash Flows From (Used In) Funding Activities

The net cash flows from funding activities in 2013 amounted to Rp3,420 billion or decreased by 7% compared to Rp3,689 billion in 2012. This was due to increased amount of borrowings repayment under joint financing scheme of Rp2,555 billion, or 41%, from Rp6,201 billion in 2012 to Rp8,756 billion in 2013.

Further, the decrease of net cash from funding activities during 2013 was also contributed by payment of bonds principal of Rp2,055 billion, or 75%, from Rp2,732 billion in 2012 to Rp4,787 billion. The increase of cash dividend payout in 2013 of Rp199 billion, from Rp1,058 billion in 2012 to Rp1,257 billion in 2013 also led to decrease of cash flows from funding activities..

Company's Solvability and Collectability

SOLVABILITY AND COLLECTABILITY

A large part of Danamon's long-term liabilities is bonds issuance. In 2013, the composition of liabilities from bonds issuance to total long-term liabilities of Danamonw as 72%. Danamon and subsidiary, Adira Finance, were able to meet the payment schedules of issued bonds principal and interest, as presented in the table.

Danamon and subsidiary were also able to meet the various payment requirements of long-term liabilities from other banks as prescribed in the respective credit agreements.

In addition, the level of ability to serve liabilities reflected Danamon's liquidity, which is associated to robust management of liquidity risk of the Bank as a whole. The discussion on the management of liquidity risk is available on Risk Management chapter.

Danamon's ability to fulfill both short term (S/T) and long-term (L/T) obligations is considered stable and good as exemplified by its external rating (S&P Rating: Both S/T and L/T obligations have been rated B and BB respectively with stable outlook; Fitch National: AA+ for L/T). Danamon monitors daily liquidity position through liquidity gap limits (Maximum Cumulative Outflow - MCO), where Danamon's liquidity gap for different tenors are determined based on its capacity to generate funding. As of 31 Dec 2013, the Bank maintained a positive cumulative gap (Danamon has net cash inflow coming from maturing assets and liabilities) up to 1 year for both IDR at Rp12 trillion and FCY at USD283 million. Additionally, Danamon also held liquid assets (assets that can be easily liquidated – incl. cash, nostros, central bank papers, net interbank placements, AFS government bonds) of Rp37.88 trillion. Danamon's LDR stood at 95.1%, and Modified LDR (including long term assets and borrowing) was at 86.6%.

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Company's Solvability and Collectability

Rp billion

LIQUID ASSETS*	YoY	Full Year			
		2013	2012	2011	2009
Cash	20%	2,944	2,457	1,895	2,117
Current Accounts in Bank Indonesia	20%	9,261	7,718 a)	7,760 a)	3,820
Current Accounts in other Bank	44%	5,335	3,717	2,640	1,924
Other placement in other Bank and Bank Indonesia - gross	16%	7,399	6,361	13,232	4,215
Securities Held for Sale and Trading - gross	7%	7,347	6,839	4,173	4,125
Government Bonds – Held for Sale and Trading	38%	5,598	4,063	3,947	8,676
Total Liquid Assets	22%	37,884	31,155	33,647	24,877

LIQUID ASSETS*

As of 31 Dec 2013

Maximum Cumulative Outflow

IDR Book (in IDR T)

1 Year	12
--------	----

FCY book (in USD mio)

1 Year	283
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Loan Collectibility

Danamon's loan collectibility can be viewed on the following table. Danamon's Non Performing Loan (NPL) in 2013 was at 1.9% or at Rp2.5trillion. Danamon's NPL improved by declined trend in the past 5 years and was at the level of Danamon's risk appetite.

(Rp billion)

	2013	2012	2011	2010	2009
Liquid	121,971	102,671	89,615	71,946	54,817
Special Mention	10,877	11,055	9,584	8,228	5,659
NPL	2,535	2,659	2,479	2,484	2,802
% NPL	1.9%	2.3%	2.5%	3.0%	4.4%

Liquidity

LIQUIDITY

As of 31 December 2013, Danamon and subsidiaries recorded sufficient level of liquidity with improved LDR and loan-to-funding ratio of 95.1% and 86.6%, respectively, in 2013 compared to positions on 31 December 2012 of 100.7% and 89.2%, respectively.

As part of the efforts to maintain liquidity and to manage maturity mismatch and interest rate, Adira Finance sought funding from professional market, therefore allowing the overall adequate liquidity of Danamon amid tight competition for funding.

CAPITAL

Capital Adequacy

CAPITALIZATION

Capital Adequacy

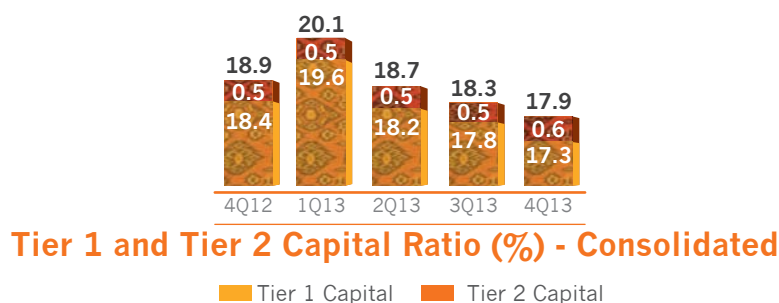
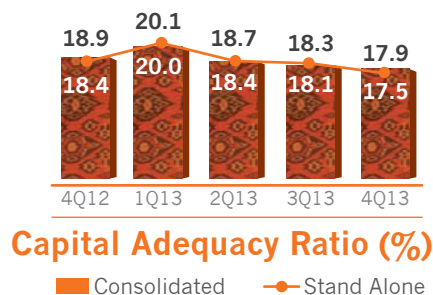
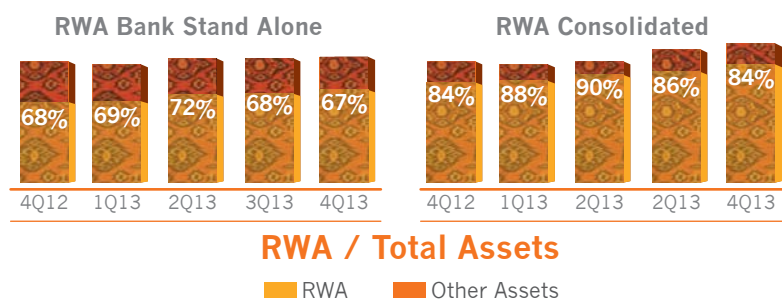
Rp Billion	Bank						Consolidated					
	YoY	2013	2012	2011	2010	2009	YoY	2013	2012	2011	2010	2009
Components Of Capital												
a. Core capital (Tier 1)	10%	23,051	21,050	19,391	13,474	12,784	12%	27,280	24,370	21,868	14,928	13,334
b. Supplementary capital (Tier 2)	20%	1,183	986	903	785	1,284	22%	1,392	1,144	1,000	1,297	1,334
Total Core Capital and Supplementary Capital (a+b)	29%	24,234	22,036	20,294	14,259	14,068	34%	28,671	25,514	22,868	16,225	14,668
Investments (-/-)		2,645	2,645	2,645	2,645	2,647		970	849	706	673	701
Total Capital	29%	21,588	19,391	17,649	11,614	11,421	34%	27,702	24,665	22,162	15,552	13,967
Risk Weighted Assets with Credit Risk, Market Risk and Operational Risk	17%	123,510	105,500	106,202	86,741	63,559	19%	155,140	130,486	126,264	96,939	67,636
CAR with Credit Risk	120%	21.0%	22.3%	19.6%	15.3%	18.2%	116.3%	22.0%	23.4%	21.3%	18.5%	20.9%
- Market Risk	-9%	3.46%	3.8%	3.0%	0.10%	0.2%	-8%	4.06%	4.40%	3.7%	0.1%	0.2%
- Operational Risk	-44%	0.06%	0.1%	0.0%	1.80%	N/A	-54%	0.05%	0.10%	0.0%	2.4%	N/A
CAR	172%	17.48%	18.4%	16.6%	13.4%	18.0%	178%	17.86%	18.9%	17.6%	16.0%	20.7%

As of December 2013, consolidated CAR was at 17.9% compared to 18.9% in 2012. As standalone, Danamon's CAR was recorded at 17.3% from 18.4% in 2012. For years ended on 31 December 2013 and 31 December 2012, CAR, both standalone of the Bank and consolidated, was well above the required level by BI of 8%.

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Liquidity

The table above showed the position of risk-weighted assets (RWA) of Rp123,510 billion after calculating the credit, market, and operational risks, reflecting a 17% from the position in 2012. With the implementation of Basel II in the calculation of RWA for credit risk using Standardized Approach (RWA CRSA), Danamon's RWA for credit risk grew by 26% to Rp397 billion from Rp315 billion. On the other hand, RWA for credit risk increased by 18% to Rp102,844 billion compared to Rp87,249 billion in the earlier year.



%	4Q12	1Q13	2Q13	3Q13	4Q13
CAR with Credit	23.4	25.6	23.5	22.8	22.0
Market Risk	0.0	0.0	0.1	0.1	0.0
Operational Risk Change	4.5	5.4	4.7	4.4	4.1
CAR Consolidated	18.9	20.1	18.7	18.3	17.9

Capital Structure

CAPITAL STRUCTURE

(Rp in billion)

CAPITAL STRUCTURE	YOY	2013	2012	2011	2010
Assets	18%	184,237	155,791	142,292	118,392
Liabilities	20%	152,684	127,058	116,583	99,863
Equity	10%	31,553	28,733	25,709	18,529
Structure					
Deposits from customers	21%	109,161	89,897	85,979	79,643
Borrowing (Short term and long term)	46%	16,068	11,020	6,917	2,482
Others Liabilities	5%	27,455	26,141	23,686	17,738
Equity	10%	31,553	28,733	25,709	18,529
Total Assets	18%	184,237	155,791	142,291	118,392
Composition					
Deposits from customers	3%	59%	58%	60%	67%
Borrowing (short term and long term)	23%	9%	7%	5%	2%
Others Liabilities	-11%	15%	17%	17%	15%
Equity	-7%	17%	18%	18%	16%
Total Assets	0%	100%	100%	100%	100%

The focus on Mass Market segment required Danamon to maintain a strong capital structure. As part of the formulated Risk Appetite Statement (RAS), Danamon has set a minimum limit of capital that needs to be maintained.

To ensure Danamon's ability to sustain amid various business pressure, following Bank Indonesia's regulation on minimum Tier I capital and total CAR, the buffer of Available Financial Resources (AFR) has determined the level of required capital buffer. Moreover, Danamon has also utilized the various sources of funding under liabilities category to meet the required working capital, other than utilizing equity to support the capital needs.

This strategy is reflected from the composition of funding on Danamon's assets in 2013, where 82.9% of Danamon's assets were funded by liabilities, while equity-backed assets contributed only 17.1%. The composition moved slightly from the positions in 2012, where the contribution of liabilities to assets was 81.6% and equity to assets was 18.4%.

- Business Segment Review
- Financial Review

Policies on Capital Structure

Further, in 2013, assets grew at 18%; liabilities grew at 20%; and equity rose by 10%. The increase of equity was driven by 19% increase of profit balance. Bonds issuance from subsidiary Adira Finance that amounted to Rp4,471 billion in 2013 led to the increased contribution of long-term borrowings to 9% compared to 7% in 2012. Meanwhile, other liabilities decreased from 17% to 15% by the end of 2013.

POLICIES ON CAPITAL STRUCTURE

Both Series A and Series B shares carry equal voting rights. Danamon's capital structure and policies concerning capital structure are presented in details in Danamon's Articles of Association No. 134, made before Meester Raden Soedja, S.H. and approved by Minister of Justice of the Republic of Indonesia by Decision Letter No.J.A.5/40/8 dated 24 April 1957, and was last amended by notarial deed No. 27 dated 30 March 2011, made before P. Sutrisno A. Tampubolon, SH, M.Kn notary in Jakarta and No.12 dated 12 October 2011, made before Fathiah Helmi SH, notary in Jakarta.

On 8 December 1989, with license from Minister of Finance No SI-066/SHM/MK.10/1989 dated 24 October 1989, Danamon conducted an Initial Public Offering (IPO) of 12,000,000 shares with par value of Rp1,000 per share (full amount). The

shares were listed at Jakarta Stock Exchange (now Indonesia Stock Exchange (IDX) after is merger with Surabaya Stock Exchange) on 8 December 1989. Subsequently, the Bank has increased its listed shares through bonus shares, Limited Public Offerings with Preemptive Rights (Rights Issue) I, II, III, IV and V, and through Employee/ Management Stock Option Program ("E/MS OP")

The following is summary of Danamon's correspondence with Bapepam-LK regarding the effectiveness of Rights Issue with Preemptive Rights

EFFECTIVE LETTER FROM BAPEPAM-LK

Rights Issue I	No. S-2196/PM/1993 dated 24 December 1993
Rights Issue II	No. S-608/PM/1996 dated 29 April 1996
Rights Issue III	No. S-429/PM/1999 dated 29 March 1999
Rights Issue IV	No. S-2093/BL/2009 dated 20 March 2009
Rights Issue V	No. S-9534/BL/2011 dated 24 August 2011.

Policies on Capital Structure

Shares Ownership Composition

As of 31 December 2013

Shares Ownership Composition			
SHAREHOLDERS	Number of shares Issued and fully paid	Percentage of ownership	Nominal Value
Series A Shares (nominal value of Rp 50,000 (full value) per share)			
Public (each ownership below 5%)	22,400,000	0.23%	1,120,000
Series B Shares (nominal value of Rp500 (full value) per share)			
Asia Financial (Indonesia) Pte. Ltd.	6,457,558,472	67.37%	3,228,779
JPMCB - Franklin Templeton Investment Funds	613,019,888	6.40%	306,509
Public (each ownership below 5%)	2,465,794,733	25.73%	1,232,899
Board Commissioners and Board of Directors :			
Ng Kee Choe	94,275	0.00%	47
Henry Ho Hon Cheong	2,161,500	0.02%	1,081
Muliadi Rahardja	6,405,515	0.07%	3,203
Ali Rukmijah/Ali Yong	5,720,726	0.06%	2,860
Herry Hykmanto	502,256	0.01%	251
Vera Eve Lim	5,020,500	0.05%	2,510
Satinder Pal Singh Ahluwalia	814,000	0.01%	407
Kanchan Keshav Nijasura	1,187,866	0.01%	594
Fransiska Oei Lan Siem	1,234,730	0.01%	617
Pradip Chhadva	1,096,500	0.01%	548
Michellina Laksmi Triwardhany	617,000	0.01%	309
Khoe Minhari Handikusuma	1,015,404	0.01%	508
Total Shares of A Series and B Series	9,584,643,365	100%	5,901,122

Capital Planning

Pursuant to BI regulation No. 14/18/PBI/2012 dated 28 November 2012 regarding Minimum Capital Adequacy Ratio (CAR) for Commercial Banks and BI Circular Letter No. 14/37/DPNP dated 27 December 2012 regarding Minimum CAR in accordance to risk profile and Fulfillment of Capital Equivalency Maintained Assets (CEMA), Danamon is required to calculate minimum CAR in accordance to its risk profile and to implement Internal Capital Adequacy Assessment Process (ICAAP).

- Business Segment Review
- Financial Review

Policies on Capital Structure

The assessment result shows that Danamon has meet the minimum CAR in accordance to its risk profile, both on standalone and consolidated basis. Based on ICAAP, Danamon will have sufficient available financial resources to meet its Pillar 1 and Pillar 2 capital demands for the next three years. As part of its capital planning, Danamon maintained dividend payout ratio of 30%, or similiar to prior year.

On 12 December 2013, with the aim to strengthen banking industry in overcoming various economic challenges, BI issued BI Regulation No.15/12/PBI concerning Minimum Capital Adequacy Requirement for Commercial Banks, which requires banks to set aside additional capital buffers, which is imposed in stages from 1 January 2016 to 1 January 2019. The regulation also stipulates changes in capital components as well as increasing the minimum Tier 1 Capital from 5% to 6% effective from 1 January 2014.

Danamon supports this BI initiative and comits to take appropriate action to meet the requirements in order to generate sustainable growth. Danamon believes in meeting the capital requirements to support the desired business growth.

To continuously strengthen its capital, Danamon takes proactive measures to maintain sound capital ratio, both on standalone and consolidated bases, at 2% above the minimum level as required based on risk profile.

Market risk

Since November 2007, Danamon has adopted the standardized approach to manage market risk in accordance with BI Regulation No. 9/13/PBI/2007 dated 1 November 2007 and BI Circular Letter No. 9/33/DPNP dated 18 December 2007 and its amendement as issued in BI Circular Letter No. 14/21/DPNP dated 18 July 2012.

Credit Risk

Pursuant to BI Circular Letter No. 13/6/DPNP dated 18 Februari 2011, Danamon adopted the standardized approach to manage credit risk as of 1 January 2012.

Operational Risk

To manage operational risk, Danamon applies basic indicator approach, as required by BI Circular Letter No. 11/3/DPNP dated 27 January 2009. In accordance with this Circular Letter, the capital charge for operational risk is required at 15% of the gross income of the last three consecutive years, and effective as of 1 January 2011.

Capital Expenditures

CAPITAL INVESTMENTS

In 2013 there was no realization of capital investment.

MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

In 2013, Danamon did not enter into material commitments for capital expenditures. Commitments to capital expenditures were only associated with purchases relating to development of infrastructure and supporting facilities of lands and constructions of new branch offices, or branch office renovation as well as vehicle purchase. The commitments were not exclusive commitments, but were done under common agreements between producers and/or distributors with customers, which in this context is represented by Danamon.

CAPITAL EXPENDITURES

Description	YoY	Capital Expenditures (Rp million)				
		2013	2012	2011	2010	2009
Land	430%	18,303	3,456	256	4,338	7,226
Buildings	47%	34,833	23,632	19,393	9,275	34,172
Office equipment	-24%	281,921	369,751	335,960	293,310	200,137
Motor vehicle	18%	288,532	244,956	232,782	320,285	17,766
Construction in progress	-61%	44,721	115,013	12,529	5,278	21,115
Total	-12%	668,310	756,808	600,920	632,486	280,416

In 2013, Danamon's capital expenditure decreased by 12% to Rp668,320 million due to significant decrease of 61% in construction in progress from Rp115,013 million in 2012 to Rp44,721 million in 2013. During the same year, Danamon and subsidiaries purchased fixed assets that consisted of lands and buildings. Expenditure on both asset categories rose by 430% and 47%, respectively.

Expenditure for office equipment decreased 24% to Rp281,921 million while expenditure for motor vehicles to support operational activities, especially the activities of on field employees, increased by 18% to Rp288,532 million.

- Business Segment Review
- Financial Review

Impact of Changes on Interest Rate, Currency Value, and Regulations to Danamon's Performance

IMPACT OF CHANGES ON INTEREST RATE, CURRENCY VALUE, AND REGULATIONS TO DANAMON'S PERFORMANCE

Impact of Changes on Interest Rate

In conducting its business activities, Danamon actively monitors the external conditions that may impact the overall performance of Danamon.

In 2013, Bank Indonesia made several revisions on the benchmark interest rate (BI Rate). Danamon has conducted analysis on the impact of changes on interest rate through periodic sensitivity analysis to measure the impact of such changes.

The sensitivity analysis on increase or decrease of interest rate was done with assumption on symmetric changes on the return curve, constant financial position with behavior assumption, with impact on net assets including interest, and by increasing and decreasing the interest rate by 100 bps.

Based on the measurement, the Bank has sound capacity to anticipate the impacts of changes on interest rate to Danamon's overall performance. The increase of cost of fund can be counterbalanced by interest income, thus allowing Danamon to capture optimum margin.

Impact of Changes on Currency Value

Increased volatility of the rupiah value to foreign currency (foreign exchange), especially to USD, in 2013 was mainly due to the reaction that resulted from the Fed's plan to taper off stimulus. This situation was well anticipated by Danamon with its analysis on the impact of changes on foreign exchange as well as interest rate.

Danamon's risk management instruments, combined with risk-sensitive measurement of market risk and robust market risk control

processes, have delivered positive impact on the performance of Treasury, especially FX portfolio, despite the volatility of Rupiah value. Meanwhile, significant Rupiah depreciation against USD in 2013 had little impact on the Bank's overall FX position due to internal policy to limit the Net Foreign Exchange Position that is well below 20%, or the maximum threshold established by regulator.

Danamon has sound capability to anticipate potential losses that may arise from changes on foreign exchange. Such changes did not bear significant impacts on Danamon's overall performance, as evident in the financial performance of Danamon for financial year 2013, where Assets, Net Income and Comprehensive Income, Loans, Third Party Funds, and other variables show healthy growth of the Bank's business.

Impact of Regulations

In general, the Regulations enforced in 2013 did not have significant impact on Danamon's overall performance. Policy concerning syariah financing that was effective in 2013 only posed temporary effect that was reflected in the decrease of financing of Danamon's subsidiary, Adira Finance, especially during semester I of 2013.

Information on Comparison of Targets Established at the Start of Financial Year and the Realization

However, by the year's end, Adira Finance was able to overcome the impacts of the regulation and financing performance in 2013 grew by 5% compared to 2012.

Similarly, regulations concerning LTV and financing for indent housing, Danamon's mortgage product in 2013 grew to Rp3.5 trillion compared to the achievement in 2012 and Danamon's market share in mortgage rose by 23%.

INFORMATION ON MATERIAL INCREASE OR DECREASE FROM NET SALES/INCOME

Throughout 2013, Danamon's entire transactions were fair transactions. Increase and decrease on return of all transactions were common results of business endeavors and were not results of extraordinary circumstances that led to significant increase and/or decrease of return.

INFORMATION ON COMPARISON OF TARGETS ESTABLISHED AT THE START OF FINANCIAL YEAR AND THE REALIZATION

Comparison of 2013 Targets Realization in 2013

In line with economic developments that took place in 2013, in June 2013 Danamon requested to revise its Business Plan to BI and obtained approval by Letter No. B. 194-DIR.

Based on the letter, Danamon's targets for 2013 were revised as presented in the following table with comparison of target realization in 2013:

Loss Statements

In Million Rupiah	FY12 (A)	FY13 (A)	FY13 (P)
Net interest income	12,887	13,510	13,815
Non interest income	4,467	4,950	5,022
Operating expense	(8,809)	(9,695)	(9,858)
Allowance for losses	(2,984)	(3,184)	(3,195)

Balance Sheet

In Million Rupiah	FY12 (A)	FY13 (A)	FY13 (P)
Total assets	155,791	184,237	178,155
Loans	115,974	134,930	135,356
Total Funding	91,675	110,807	104,345

Note: Loans excluding interest receivables

Analysis on 2013 Targets and Realization

1. Net interest income in 2013 was recorded at Rp13,510 billion or 97.8% from the 2013 target of Rp13,815 billion.
2. In 2013, the realization of Non-Interest Income target achieved 98.6% from the 2013 target of Rp5,022 billion.
3. During the same year, realization of operating expense was lower than 2013 target with 98.3% of achievement.
4. Realization of allowance for losses achieved 99.7% from the target set at the beginning of the year.

Information on Comparison of Targets Established at the Start of Financial Year and the Realization

5. At the end of 2013, realization of total assets achieved 103.4% from the target established at the onset of the year of Rp178,155 billion.
6. Market optimization that was achieved through expansion initiatives to new market has boosted the growth of loans in 2013 compared to 2012. However, regulation that limit the down payment for auto and housing financing impacted the realization of Danamon's loans disbursement, which at the end only achieved 99.7% realization compared to the target set at the beginning of the year.

In line with improved quality of services, launch of new products, and implementation of cross-selling strategy conducted throughout 2013, Danamon was able to generate optimum results in third party funds, with realization of 106.2% from the target established at the beginning of the year.

MATERIAL INFORMATION AND FACTS SUBSEQUENT TO THE DATE OF ACCOUNTING REPORT

Danamon has prepared Long-Term Incentive Program (LTIP), which was a continuation of previous program that has expired in 2013. The long-term incentive plan was a recommendation of Remuneration Committee and to be granted to the Board of Directors as well as employees who are deemed eligible. LTIP has been approved by the Board of Commissioners and will commence in 2014.

BUSINESS PROSPECTS

Danamon predicts that the economy condition in 2014 will improve. Encouraging signals are seen from several countries, who previously had the most significant impact on global economy. The recovering economies of the United States, China, and Japan, are expected to restore global market condition. This would positively impacts the prices of commodities, such as mining and agribusiness, which at the beginning of the year already showed steady improvement.

As the country that produces the commodities, Indonesia will certainly gain from this positive development. The improving prices of Indonesia's leading export commodities are expected to boost the export performance and would reduce the deficit in the trade balance. Projecting the condition, Indonesia's economy has the potential to grow at 5,5+ 1 as set forth in the State Revenue and Expenditure Budget (APBN).

In the domestic front, market optimism is picking up, as evident in the increasing domestic demands in response to the 2014 upcoming election. At this level, the performance of the banking sector, especially consumption loans, is predicted to improve. On the other hand, loan growth may leads to higher LDR and as the result competition to acquire third party funds will be as robust as in 2013.

Business Prospects

To capture the potentials and overcome the challenges, Danamon has formulated a number of strategies to seize the significant opportunities in 2014, among others:

1. Credit

In 2014, Danamon targets to grow total loans at around 15%, with maintained focus on financing of the micro, small, and medium businesses, commercial, trade finance, and automotive, through the following strategies:

Mass Market Business

Intensify market penetration on Mass Market segment, continue investments including to create sustainable business model to acquire broader market share. Align growth with sustainability profitability. Focus on efficiency and productivity.

Non Mass Market Business

Continue to expand the market share in the SME, Commercial, and Corporate segments with appropriate risk adjusted return and increase fee based income.

2. Funding

To support loan growth, Danamon needs to improve long-term borrowings and third party funds. With focused and clear marketing strategy to acquire and maintain customers through leading products and optimization of existing network for funding synergy, the Bank projects 15% growth of third party funds – focusing on Current Accounts and Savings and to achieve 95% LDR by year's end.

3. Asset Quality

- a. Maintain prudence in loan disbursement and customer selection criteria.
- b. Enhance measurement of fraud prevention.
- c. Enhance the capacity of collection and receivables recovery.
- d. Initiate quantitative ranking model and establish rule-based engine to streamline loan approval process.

4. Productivity and Efficiency

- a. Increase efficiency of the number of Human Resources required by line of businesses and supporting functions.
- b. Improve business operations efficiency and increase productivity
- c. Ensure optimum use of investments in IT.

5. Customer Service Excellence

- a. Sound service management to increase sales volume and customer loyalty.
- b. Improve the performance of service offered to customers by demonstrating friendly, quick, responsive, and apt services.
- c. Create service excellence culture – to serve genuinely from the heart, ensuring customers' satisfaction and loyalty.
- d. Become the Top 3 in BSEM (Bank Service Excellence Monitor) and accomplish more than 4 index in Customer Engagement survey.

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Marketing Aspect

6. Network

In 2014, the Bank plans to expand its network by opening new branch offices, adding ATM units, and the opening of other channels that would support business expansion and upgrade of services for customers, in order to broaden the scope of its market.

Aside from network expansion, in 2014 the Bank also plans to reorganize the existing office network in order to boost productivity and sharpen the focus on loan disbursement for Micro and Small businesses under DSP as well as to improve efficiency.

7. Human Resources

Create integrated Human Resources management, among others by creating suitable capability enhancement programs to address the business' dynamics and advancements and to carry out leadership program as well as continuous talent management to nurture future leaders.

8. Governance

As the Bank that applies the principles of Good Corporate Governance, Danamon will consistently adheres to prevailing laws and regulations. The transfer of oversight authority

on banking industry from Bank Indonesia to the Financial Services Authority would create particular challenges, and therefore better coordination and awareness to comply with regulations are needed.

MARKETING ASPECT

Danamon is committed to continuously improve its financial services by implementing astute marketing strategy in order to increase and maintain customers. To support business growth, Danamon has formulated a number of marketing strategies that aim to build solid funding, expand information technology-based services, and focus on leading products as well as create positive transaction experience for customers.

As the result, at the end of 2013, transaction via ATM network increased 1,42 million, while internet banking network stood at 58% with increased by 11 million transactions. At the end of quarter 3 of 2013, Danamon officially launched Danamon SMS Banking Service with proposed target of 100 thousands customers. The effectiveness of acquisition and marketing program as well as the addition of alternative services become a strategic synergy that deliver positive results in the expansion of services users and increased efficiency of transactions costs.

Dividend Policy and Appropriation of Net Income

Overall, total transactions done through e-channels (ATM, CDM, internet banking Danamon Online Banking, and SMS Banking) grew 19% from 80,3 million transactions in 2012 to 95,8 million transactions in 2013. The most significant growth was experienced by internet banking which rose by 58% from 18,9 million transactions to 29,9 million transactions.

With its leading products and services, until end of 2013 Danamon is accessible to customers through almost 60,000 ATM units, which includes partnership with ATM Bersama and ALTO, located in 33 provinces across Indonesia.

In 2013, Danamon actively implemented marketing initiative that related directly to customers, namely advertisement campaign. Danamon's list of advertisement campaign throughout 2013 is available on page 162.

DIVIDEND POLICY AND APPROPRIATION OF NET INCOME

Danamon's dividend policy has been approved by the Board of Commissioners, Board of Directors, and shareholders. To establish dividend policy, Danamon implements certain procedure based on its organizational structure, where the Board of Directors proposes the dividend to President Director. The proposal is made based on Danamon's performance within a certain period.

The proposal is presented before the Annual General Meeting of Shareholders (AGMS) for approval, taking into account the amount of retained earnings. AGMS also deliberates on the time and method of dividend payout in accordance with regulation from Indonesia Stock Exchange (IDX), including the recording date when shareholders are entitled to dividends or to authorize the Board of Directors to do so.

With approval obtained from the meeting of Board of Directors and AGMS, Danamon may distribute interim dividend before the end of the fiscal year. In addition, AGMS also has the authority to determine appropriation of net income (including for dividends and general and legal reserves); remuneration of Board of Directors and Board of Commissioners (salaries and bonuses); appointment of public accountant; and approval of financial statements. Before 2008, bonuses were included in the appropriation of net income.

Aside from approval of AGMS, dividend policy shall also consider prevailing regulations, such as long and short-term capital requirements and Danamon's projections of income growth and market condition.

Danamon complies with long-term borrowing agreements on restrictions on dividend payout. Danamon also ensures that the policy is in line with restriction of dividend payout as stipulated in Danamon's long-term borrowing agreements. The decision also takes into account capital planning management, income growth projection, and market condition.

Danamon continues to distribute dividends to shareholders with payout ratio of 50% for financial year ended in 2009 (paid in 2010), 35% for financial year ended in 2010 (paid in 2011), 30% for financial year ended in 2011 (paid in 2012), and 30% for financial year ended in 2012 (paid in 2013).

Following the resolution of AGMS held on 10 May 2013, Danamon's dividend payout ratio for financial year ended in 2012 was 30% from the net income, or amounted to Rp1,204 billion or Rp125.58 (full amount) per Series A and Series B

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Dividend Policy and Appropriation of Net Income

share. The dividend was paid on 19 June 2013. During the same meeting, AGMS also determined the appropriation of net income as general and legal reserves of Rp40.1 billion.

For the financial year ended on 31 December 2011, pursuant to resolution of AGMS held on 27 March 2012, Danamon distributed cash dividend for financial year ended in 2011 at a ratio of 30% from net income, or amounted to Rp1,001 billion or Rp104.43 (full amount) per share for A Series and B Series share. The dividend was paid on 8 May 2012. The meeting also determined on the appropriation of net income of financial year 2011 for the general and legal reserves of Rp33.4 billion.

General and Legal Reserve

The Law of the Republic of Indonesia No. 1/1995, replaced by Law No. 40/2007 effective as of 16 August 2007 regarding Limited Liability Company, requires companies to allow general reserves of minimum 20% from the issued and fully-paid capital.

Pursuant to the regulation, on 31 December 2013, Danamon has allocated general and legal reserves amounted to Rp236 billion, or higher than 2012 reserves of Rp196 billion.

APPROPRIATION OF NET INCOME

Profit Year	AGMS Date	% Net Profit	Dividend per Share for Series A and Series B (Rp full amount)	Total Dividend Payment (Rp million)	Cash Dividend Payment Date	General & Legal Reserves (Rp million)
2012	10 May 2013	30%	125.58	1,203,640	19 June 2013	40,118
2011	27 March 2012	30%	104.43	1,000,924	08 May 2012	33,363
2010	30 March 2011	35%	119.87	1,009,197	10 May 2011	28,836
2009	29 April 2010	50%	91.12	766,3	10 June 2010	15,324

EMPLOYEE SHARE OWNERSHIP PROGRAM (ESOP/MSOP)

The Employee Share Ownership Program (ESOP) and/or Management Share Ownership Program (MSOP) has been conducted by the Bank and can be viewed in GCG chapter in this report.

Information on Proceeds of Public Offering

INFORMATION ON PROCEEDS OF PUBLIC OFFERING

In 2013, Danamon as holding entity did not conduct any public offerings for bonds or rights issue.

In 2013, the Bank's subsidiary, Adira Finance, held public offerings for three bonds issuance amounting to Rp4,471 billion.

In 2013, the Bank's subsidiary, Adira Finance, conducted two times fixed-rate bonds issuance, namely Continuous Bonds II phase I and II.

Adira Finance also issued Continuous Sukuk Mudharabah I phase I. The total proceeds from the three issuances was Rp4,456 billion. All the proceeds from bonds issuance were utilized for Adira Finance's automotive financing activities.

MATERIAL INFORMATION ON INVESTMENT, EXPANSION, DIVESTMENT, BUSINESS MERGER/AMALGAMATION, ACQUISITION, OR RESTRUCTURING OF DEBTS/CAPITAL

On 25 February 2003, the Government of Indonesia launched a reprofiling program of Government Bonds by withdrawing and declaring settlement of certain Government Bonds. The Ministry of Finance of the Republic of Indonesia issued new Government Bonds to replace the settled Government Bonds.

Under this program, the Bank's Government Bonds amounting to Rp7,800 billion (nominal value) with original maturity between 2007 - 2009 were withdrawn and replaced by new Government Bonds, with the same type and nominal amount and maturity between 2014 - 2015. The outstanding balance of government bonds from reprofiling program as at 31 December 2013 and 2012 amounted to Rp2,935 billion (nominal value).

MATERIAL INFORMATION ON TRANSACTION WITH CONFLICT OF INTERESTS AND/OR TRANSACTION WITH RELATED PARTIES

Conflict of Interests

There was no conflict of interests transactions with related parties for the financial year ending December 31, 2013.

Transactions with Related Parties

In its business activities, Danamon performs transactions with related parties, which do not involve conflict of interest. All transactions with related parties were conducted on a fair basis and on normal commercial terms, as other transactions performed with non-related parties. The nature of relationship and transactions between Danamon and related parties are presented in the following.

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Changes of Regulations with Significant Impacts on the Company

(in Rp million)

Related parties	Nature of relationship	Nature of transaction	Realized Transactions
Standard Chartered Bank PLC	Owned by the same ultimate shareholder	Fund replacements	482,893
Standard Chartered Bank, Jakarta	Owned by the same ultimate shareholder	Fund replacements	99,900
PT Bank Permata Tbk	Owned by the same ultimate shareholder	Fund replacements and insurance agreement	71,758
PT Bank DBS Indonesia	Owned by the same ultimate shareholder	Fund placements and insurance agreement	27,105
PT Matahari Putra Prima Tbk	Owned by the same ultimate shareholder	Fund received from customer	618
Commissioners, Directors, and key management personnel	Management and key management personnel	Fund replacements, remuneration and fund received from customer	711,715

The above related parties transactions are in accordance with prevailing regulation and Danamon's internal policy number KEP:DIR.Corp.Sec-015 dated December 30, 2013 regarding policy on affiliated and related parties.

CHANGES OF REGULATIONS WITH SIGNIFICANT IMPACTS ON THE COMPANY

Danamon did not experience significant impact from changes on regulations issued throughout 2013.

BANKING REGULATIONS

No.	Regulation	Some New Banking Regulations issued by Bank Indonesia Effective in 2013 Description	Impact on Danamon
1	Bank Indonesia Circular Letter No 15/1/DPNP dated 15 January 2013 on Transparency of Information on Prime Lending Rate	<p>Key points of the regulations are:</p> <ol style="list-style-type: none"> 1. Prime Lending Rate (SBDK) is the lowest lending rate used as an indicator to be applied by the Bank to the debtor. 2. The addition of new credit segment in the report and publication of the SBDK, namely the SBDK micro credit. 3. Banks are required to publish SBDK to the public and report the table of SBDK calculation component to Bank Indonesia 4. SBDK calculation components that are calculated annually include: <ol style="list-style-type: none"> a. Cost of Funds for Credit (HPDK) b. Bank's overhead costs c. Profit margins 5. Publication of SBDK on national newspaper not later than 7 (seven) working days after the last day of March, June, September, and December for the referred month's last SBDK position. 	<p>Danamon has reported its SBDK as of December 2013, with the addition of new microcredit segment.</p> <p>Danamon has also published its SBDK to the public and reported its table of SBDK calculation component to Bank Indonesia.</p>

This Bank Indonesia Circular Letter came into force on 15 January 2013

Changes of Regulations with Significant Impacts on the Company

Some New Banking Regulations issued by Bank Indonesia Effective in 2013			
No.	Regulation	Description	Impact on Danamon
2	Bank Indonesia Circular Letter No.15/2/DPNP dated 4 February 2013 Regarding Single Presence Policy in Indonesian Bank	<p>Key points of the regulations are:</p> <ol style="list-style-type: none"> 1. There are 3 (three) options in complying to the single presence policy of Indonesian Banking, namely: <ol style="list-style-type: none"> a. Merger or consolidation of the controlled Banks b. Establish a Bank Holding Company (BHC) c. Create a Holding function. 2. For the three mentioned options, rules and deadline of implementantion, participants, tasks and responsibilities, and Bank Indonesia's authority are regulated accordingly. <p>This Bank Indonesia Circular Letter came into force on 4 February 2013</p>	<p>Bank Indonesia Circular Letter No.15/2/DPNP dated 4 February 2013 Regarding Single Ownership in Indonesian Bank: This regulation is an extension of the Bank Indonesia Regulation No. 14/24/PBI/2012 dated 13 July 2012 regarding Single Presence Policy in Indonesian Banking Industry: Single Presence is a condition where a party only becomes a Controlling Shareholder in 1 (one) Bank. This stipulation is excluded only for Controlling Shareholder in 2 (two) Banks, one of which is a Joint Venture Bank;</p> <p>Thus this rule does not apply to Danamon, given that the Bank's controlling shareholder, Temasek Holdings Private Limited only has control of PT Bank Danamon Indonesia Tbk, and PT Bank DBS Indonesia which statuses are joint venture banks.</p>

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Changes of Regulations with Significant Impacts on the Company

Some New Banking Regulations issued by Bank Indonesia Effective in 2013			
No.	Regulation	Description	Impact on Danamon
3	Bank Indonesia Circular Letter No. 15/4/DPNP dated 6 March 2013 regarding Share Ownership of Commercial Bank	<p>Further regulations which refer to the Bank Indonesia Regulation No. 14/8/PBI/2012 dated 13 July 2012 regarding Share Ownership of Commercial Bank. Specifics of the regulations are:</p> <ol style="list-style-type: none"> 1. Maximum limit of ownership for Local Government Holding Company 2. Special requirements for prospective Controlling Shareholders which is a foreigner/foreign legal entities and prospective shareholders that will have more than 40% ownership. <p>This Bank Indonesia Circular Letter came into force on 6 March 2013</p>	<p>Bank Indonesia Circular Letter No. 15/4/DPNP dated 6 March 2013 regarding Share Ownership of Commercial Bank. This regulation is an extension of PBI No. 14/8/PBI/2012 dated 13 July 2012 regarding Share Ownership of Commercial Bank: Article 12 (b) of PBI 14/8/PBI/2012 states that Bank shareholders who acquire Bank Rating and assessment of GCG with a rating of 1 (one) or 2 (two) in December 2013's valuation shall own the share amounting to the percentage of shares already owned. Article 13 of the PBI 14/8/PBI/2012 further states that the said Shareholder will be required to adjust to the maximum share ownership limit if:</p> <ul style="list-style-type: none"> • The Bank sustained a decreased valuation of Bank Rating and/or GCG assesment rank to three (3), four (4) or five (5) for 3 (three) consecutive assessment periods; or • The shareholders sells their share by theirs own decision. <p>This article has not been applied to the level of bank rating and GCG obtained as of December 2013.</p>
4	Bank Indonesia Circular Letter No. 15/6/DPNP dated 8 March 2013 Regarding Commercial Bank Activities based on Primary Capital	<p>Key points of the regulations are:</p> <ol style="list-style-type: none"> 1. Banks may conduct business activities such as issuing products or implementing activities in correspondence to the range of products and activities allowed under the BUKU system. BUKU is divided into 4 groups, BUKU 1 to 4. The higher the bank's primary capital, the higher the BUKU and the broader the range of the issued products or activities that can be conducted by the Bank. 2. Provisions regarding the issuance of new products and activities, approval procedures for new products or activities. <p>This Bank Indonesia Circular Letter came into force on 8 March 2013.</p>	<p>Danamon with a total of T1 Capital amounting to Rp21.6T as of 31 December 2013 is classified in "BUKU 3".</p>

Changes of Regulations with Significant Impacts on the Company

No.	Regulation	Some New Banking Regulations issued by Bank Indonesia Effective in 2013	Impact on Danamon
5	<p>Circular Letter Bank Indonesia No. 15/7/DPNP dated 8 March 2013 Regarding The Establishment of Office Networks by Commercial Banks based on Primary Capital</p> <p>and</p> <p>Circular Letter Bank Indonesia No. 15/8/DPbS dated 27 March 2013 Regarding The Establishment of Office networks by Commercial Syariah Bank and Syariah Business Unit Based on Primary Capital</p>	<p>Key points of the regulation:</p> <ol style="list-style-type: none"> 1. Delivery channels and syariah services are not considered as part of Commercial Bank Network Establishment 2. The establishment of branch offices must be supported with an adequate financial capability, reflected with the Bank's availability of Primary Capital allocation according to the types of Bank representatives (Theoretical Capital). BI classifies all provinces in Indonesia into 6 (six) zones, whereas zone 1 indicates the most saturated zone and zone 6 indicated the least saturated zone. 3. Bank Indonesia has set the investment cost for the establishment of office network based on the types of bank offices for each classification of Bank based on Business Activity (BUKU). Whereas for UUS, it is classified according to the classification of its parent company's BUKU. 4. BI's regulation on the establishment of office networks: <ol style="list-style-type: none"> a. Banks are required to comply with the Bank soundness requirements and has a sufficient Prime Capital allocation. In calculating the prime capital allocation, a Bank must taking into account the number of existing offices (has existed for at least 2 years) and for the planning of new Establishment of Offices Network. b. Banks that comply with the required soundness level but do not have sufficient allocation of prime capital, will be able to establish Office Network by financing to the MSMEs at least 20% or at least 10% for SME from the total of its financing portfolio, and by performing capital accumulation. c. BI considers the achievement of the Bank's level of efficiency which is measured by, among others, Operating Expenses to Operating Revenues (BOPO) and NIM ratios. For UUS, this ratio follows the Conventional Bank's ratio as the parent company. d. A Bank can receive additional incentives of the number of Network Office Establishment when it finances a minimum 20% and/or 10% to SME from the total financing portfolio. The assesment of financing achievement of MSME or SME for UUS are calculated using the amount of financing conducted by UUS and its consolidated parent company of Conventional Commercial Bank. 5. In submitting application for Office Network establishment, a Bank is required to include its Prime Capital sufficiency calculation in the Bank Business Plan (RBB) by referring to the Bank's end of September Primary Capital position. 6. Provisions concerning the establishment of Bank's Office Networks by Banks in BUKU 3 or BUKU 4 are set as follows: <ol style="list-style-type: none"> a. Establishment of 3 (three) Branch Offices in Zone 1 or Zone 2, must be followed with the establishment of 1 (one) Branch Office (conventional or syariah) in Zone 5 or Zone 6; and/or b. Establishment of 3 (three) Sub-branch Offices (KCP) in Zone 1 or Zone 2, must be followed with the establishment of 1 (one) Sub-branch Office (conventional or syariah) or 1 (one) Branch Office (conventional or syariah) in Zone 5 or Zone 6. 7. The obligation for the opening of Branch Office or Sub-branch Office in Zone 5 or Zone 6 for Conventional Commercial Bank with UUS are regulated with the following provisions: <ol style="list-style-type: none"> a. Establishment of 3 (three) Conventional Branch Offices or Sub-branch Offices in Zone 1 or Zone 2 must be followed with the establishment of 1 (one) conventional or syariah Branch Office or Sub-branch Office in Zone 5 atau Zone 6; b. Establishment of 3 (three) Syariah Branch Offices or Sub-branch Offices in Zone 1 or Zone 2 must be followed with the establishment of 1 (one) syariah Branch Office or Sub-branch Office in Zone 5 atau Zone 6; 8. The 3 (three) Branch Offices or 3 (three) Sub-branch Offices in Zone 1 or Zone 2 are calculated cummulatively from the application of this regulation. Any Bank which has not complied with the requirement of Branch Office and/or Sub-branch Office establishment in Zone 5 or Zone 6 may not establish any Branch Office or Sub-branch Office in Zone 1, Zone 2, Zone 3 and Zone 4. 9. Exception in fulfilling AMI requirements for the Syariah Business Unit (UUS) office network which has existed more than 2 years and conventional Bank's functional offices which conducts operational activities of SME loans. 	<p>Danamon has conducted analysis of primary capital allocation as required by Bank Indonesia</p>

The calculation for Primary Capital allocation sufficiency for the first time is based on the Primary Capital position as of the end of December 2012.

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Changes of Regulations with Significant Impacts on the Company

No.	Regulation	Description	Impact on Danamon
Some New Banking Regulations issued by Bank Indonesia Effective in 2013			
6	Circular Letter Bank Indonesia No.15/11/DPNP dated 8 April 2013 Regarding Short-Term Funding Facilities for Commercial Banks	<p>This Circular Letter sets forth submission procedures and requirements, collateral value calculation, approval procedures, collateral execution, and the supervision of the funding facilities (FPJP) utilization, among other matters</p> <p>In general, Banks that are authorized to submit application for FPJP are those which:</p> <ol style="list-style-type: none"> 1. Having difficulties in Short Term Funding 2. Own high quality collateral with adequate collateral value 3. Have not less than 8% of CAR ratio and has sufficient capital to comply with the Bank's risk profile, in accordance with Bank Indonesia's calculation. <p>The period for FPJP is not longer than 14 calendar days and may be extended consecutively to the total FPJP period of not more than 90 calendar days.</p> <p>This Bank Indonesia Circular Letter Bank Indonesia came into force on 10 April 2013.</p>	FPJP is a liquidity support provided by BI for Banks with liquidity difficulties (under stress). With above 8% CAR ratio, Danamon currently complies with the FPJP application requirements at any time necessary.
7	Bank Indonesia Circular Letter No. 15/15/DPNP dated 29 April 2013 Regarding Implementation of Good Corporate Governance for Commercial Banks	<p>Key points of the regulation are:</p> <ol style="list-style-type: none"> 1. The self assessment of GCG implementation is conducted at least in each semester for end of June's position and end of December's position. 2. Implementation of GCG is conducted in a comprehensive and structured manner by integrating the three (3) aspects of governance, governance structure, governance process, and governance outcome. 3. There are 11 factors of GCG implementation for Banks both as individual entity or as consolidated entity. 4. The GCG factor ranking is set on 5 (five) ranks, whereas smaller rank reflects better GCG implementation <p>This Bank Indonesia Circular Letter came into force on 29 April 2013.</p>	PT Bank Danamon Indonesia, Tbk. has applied this regulation
8	Bank Indonesia Circular Letter No. 15/26/DPbS Regarding the Implementation of Indonesian Syariah Banking Accounting Guidelines	<p>Key points of the regulation are:</p> <ol style="list-style-type: none"> 1. Statement of murabahah revenue may be conducted using annuity or proportional method. 2. When using the annuity method, then the murabahah transactional record must apply the SFAS (Indonesian Financial Accounting Standards) 50, SFAS 55, SFAS 60, and other relevant SFAS. This revenue recognition must be amortized over the agreement period using the effective rate method. 3. When using the proportional method, the murabahah transactional records must apply the SFAS 102. 4. The establishment of the Impairment Loss Provision (CKPN) on financial assets and non-financial assets in compliance with the applicable accounting standards. 5. In case of a deficit between the established CKPN with the establishment of Impairment Loss Provision required by BI, the deficit will be accounted as a deduction factor for the primary capital in the CAR ratio calculation. 6. In its collective CKPN calculation, should the Syariah Bank does not have specific financing loss data, a collective estimate on the impairment of financing can be applied instead until no later than 31 December 2014. 7. As of 1 January 2015, Bank Syariah must measure its impairment of financing value and establish a CKPN for its collective financing by using data on the experience of specific loss or historical loss from peer group or collective financing. 8. Bank Syariah is required to compile and provide collective estimate on the impairment of financing in the Annual Financial Report in the Notes of Financial Statements and for this to be the reference for the Public Accountant in the auditing process. <p>This Bank Indonesia Circular Letter came into force on 1 August 2013.</p>	The Bank has analyzed the 2013 Indonesian Syariah Banking Accounting Guidelines which implementation is in line with the Syariah SFAS applied in Indonesia.

Changes of Regulations with Significant Impacts on the Company

Some New Banking Regulations issued by Bank Indonesia Effective in 2013			
No.	Regulation	Description	Impact on Danamon
9	Bank Indonesia Regulation No. 15/6/PBI/2013 dated 30 August 2013 regarding Third Amendment to Bank Indonesia Regulation No. 7/1/PBI/2005 regarding Bank Offshore Loan	<p>This amendment to the Bank Indonesia Regulation is in the form of additional types for the exception of Short Term Offshore Loan in the form of current account owned by non-residents which holds divestment funds of direct investment, purchase of stock, purchase of Indonesian Corporate Bonds, and/or purchase of Government Bonds (SBN).</p> <p>This Bank Indonesia Circular Letter came into force on 30 August 2013.</p>	This PBI amendment provides leniency by adding an exception clause. The Bank needs to conduct further assessment to ensure that the exception clause can be in compliance with the applicable rules and regulation.
10	Bank Indonesia External Circular Letter No.: 15/27/DPNP dated 19 July 2013 Regarding the Requirements for Commercial Banks to Conduct Foreign Currency Business Activities	<p>With the issuance of PBI No.14/26/PBI/2012 regarding Bank's Business Activities and Office Network Based on Primary Capital, the key points of the regulations on Foreign Currency Business Activities are:</p> <ol style="list-style-type: none"> 1. Can be conducted by Banks categorized under BUKU 2, BUKU 3, and BUKU 4 which has received approval from Bank Indonesia. 2. Banks with Soundness level of composite 1 (one) or 2 (two) for the last 18 (eighteen) months. 3. With primary capital of at least Rp.1.000.000.000.000,00 (one trillion Rupiah). 4. Fulfills the CAR ratio consistent to the last Risk Profile for CAR assesment as referred to the Bank Indonesia regulation which regulates CAR with certain requirements. 5. Provisions concerning general requirements for foreign currency business activities 6. Any Bank which experiences decrement of Primary Capital so that it fails to meet the aforementioned requirements for 3 (three) consecutive months, is required to submit action plan for: <ol style="list-style-type: none"> a. fulfillment of primary capital; or b. adjustments for business activities <p>This Bank Indonesia Circular Letter came into force on 19 Juli 2013.</p>	Danamon has fulfilled the requirements for conducting foreign currency business activities (BUKU 3, TKS 2, and with capital of more than One Trillion Rupiah).
11	Circular Letter Bank Indonesia Nomor 15/28/DPNP dated 31 July 2013 Regarding the Assessment of Commercial Bank Assets	<p>Key points of the regulations are:</p> <ol style="list-style-type: none"> 1. Securities with more than one ranking obtained from different institutions to use the lowest ranking. 2. Investment on the Government is deemed as Current in quality for throughout the year, whereas Government refers to Central Government. 3. Quality Assessment of credit facilities that have not been withdrawn is conducted on both committed or uncommitted facilities (only required to establish special reserves). 4. SBLC Prime Bank can be recognized as cash collateral with Prime Bank AA- on S&P and Fitch ranking, and Aa3 on Moody's ranking. 5. Provision on non-productive assets is calculated as a deducing factor in the CAR calculation without affecting the Income Statement in Accounting. 6. The arrangement of Restructured Loans follows the Accounting Standards and repeals the offline reporting of loan restructuring. The reporting of credit restructuring is conducted periodically through Periodic Reports of Commercial Banks system. <p>This Bank Indonesia Circular Letter came into force on 1 August 2013.</p>	In calculating the Asset Quality Rating for Commercial Banks, Danamon has fulfilled the criteria set out in this regulation.

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Changes of Regulations with Significant Impacts on the Company

No.	Regulation	Some New Banking Regulations issued by Bank Indonesia Effective in 2013	Impact on Danamon
12	Bank Indonesia Circular Letter No. 15/35 /DPAU Dated 29 August 2013 Regarding Credit Lending or Financing by Commercial Banks and Technical Assistance for the Development of Micro, Small, and Medium Enterprises.	<p>Key points of regulation:</p> <ol style="list-style-type: none"> 1. Banks must prepare and deliver plan of credit lending for MSMEs in the Bank Business Plan (RBB) with the determined ratio of: <ul style="list-style-type: none"> - year 2013 and 2014: subject to the bank's capability; - year 2015: no less than 5% (five percent); - year 2016: no less than 10% (ten percent); - year 2017: no less than 15% (fifteen percent); and - year 2018 and so forth: no less than 20% (twenty percent). 2. The cooperation pattern in credit lending can be implemented through the patterns of executing, channeling, dan joint-financing (syndication). 3. The technical assistance provided by Bank Indonesia includes research, training, provision of information and/or facilitation. The cost of technical assistance for the Commercial Bank is a minimum of 50% in accordance with the agreement of the parties. 4. BI publishes the achievement ratio of MSME loans to total loans by commercial banks in the BI website periodically to reward commercial banks that succeeds in channeling loans or financing of SMEs that meet the specified criteria. 5. Commercial Banks that fail to actualize MSME credit according to the specified ratio, are required to organize trainings to MSMEs funded from a minimum allocation of 2% fund from the difference between MSME Credit ratio achievement with the actual achievement of MSME Credit ratio at the end of every current year or to the maximum of ten billion rupiah. This requirement is applied for the achievement of Credit lending ratio or MSME Financing on 2015. <p>This Bank Indonesia Circular Letter came into force on 29 August 2013.</p>	This regulation has been applied by the Bank
13	Bank Indonesia Circular Letter No. 15/40/DKMP dated 24 September 2013 Regarding Application of Risk Management on Banks that Provide Property Credit of Financing, Property-Backed Consumer Credit or Financing, as well as Automotive Credit and Financing.	<p>The key points of this Circular Letter are:</p> <ol style="list-style-type: none"> 1. Loan to Value (LTV)/Financing to Value (FTV) applicable for: <ol style="list-style-type: none"> a. Property Credit/Financing (KPP/KPP iB), which covers KPR/KPR iB, KPRS/KPRS iB, KPRukan/KPRukan iB, and KPRuko/KPRuko iB; and b. Property-Backed Consumer Credit or Financing (KKBP/KKBP iB). 2. Determination of the order for credit/financing facilities in LTV/FTV calculation must factor in all facilities of KPP/KPP iB and KKBP/KKBP iB which have been received by debtors/customers in the same bank or from other banks. 3. Regulating the minimum down payment (DP) for automotive credit and financing. 4. Application of the precautionary principle by ruling out the provision of credit/financing for down payment. <p>This Bank Indonesia Circular Letter came into force on 24 September 2013.</p>	PT Bank Danamon Indonesia, Tbk. has implemented it through the B.16/CRM/09.2013 memorandum dated 27 September 2013. Its impact on BDI (and to the general Indonesian Banking industry) is the deceleration of credit for property and automotive consumption.

Changes of Regulations with Significant Impacts on the Company

No.	Some New Banking Regulations issued by Bank Indonesia Effective in 2013			
	Regulation	Description	Impact on Danamon	
14	Bank Indonesia Circular Letter No. 15/ 41 /DKMP Dated 1 October 2013 Regarding the Calculation of Secondary Statutory Minimum Reserves and Statutory Minimum Reserves Based on Loan-to-Deposit Ratio in Rupiah.	<p>The key points of this regulation:</p> <ol style="list-style-type: none">1. Fulfilment of secondary GWM (Statutory Minimum Reserve) in 4 stages, where the last one dated 2 Dec 2013 amounted to 4% of DPK (Third Party Funds).2. The secondary GWM component is SBI (Bank Indonesia Certificate), SDBI (Bank Indonesia Deposit Certificate), SBN (government securities) and/or Excess Reserve.3. Stipulation of GWM LDR in Rupiah to be as follows:<ul style="list-style-type: none">- The lower limit for the LDR Target is set for 78% and the upper limit to be 92%- Banks with LDR in the range of LDR Target is not subject to disincentives- Banks with LDR less than the lower limit of Target LDR Target is subject to GWM LDR disincentives amounting to the multiplication of the Lower Disincentives Parameter (currently 0,1), the difference between lower limit of LDR Target and Bank's LDR, and Third Party Fund (DPK) in Rupiah.- Banks with LDR more than the upper limit of LDR Target and has lower CAR than the Incentive CAR (currently set at 14%) will be subject to disincentive of GWM LDR amounting to the multiplication of Upper disincentive parameter (currently 0,2), the difference between Bank's LDR and the LDR Target upper limit, and the DPK in Rupiah.- Banks with LDR exceeding the LDR Target upper limit, yet has equal or higher CAR compared to the Incentive CAR (currently set at 14%), has the GWM LDR fulfillment requirement of 0%- Banks that violate the GWM fulfillment requirements are subject to a financial penalty of 125% from the average 1 (one) day (overnight) interest rate from JIBOR in Rupiah on the day the violation occurs, towards the deficit of GWM in Rupiah, for each working day the violation occurs. <p>This Bank Indonesia Circular Letter came into force on 1 October 2013.</p>	Danamon in reporting the GWM position has complied with this BI Regulation.	
15	Bank Indonesia Regulation No.15/12/ PBI/2013 dated 12 December 2013 regarding Minimum Capital Requirements of Commercial Banks	<p>Key points of regulations:</p> <ol style="list-style-type: none">1. Adjustments to the capital components, including:<ol style="list-style-type: none">a. Primary Capital (Tier 1):<ul style="list-style-type: none">• Main Primary Capital (Common Equity Tier 1)• Additional Primary Capital (Additional Tier 1)b. Supplementary Component (Tier 2)2. Banks are required to provide for Tier 1 at least 6% from ATMR (Risk Weighted Assets) and for Common Equity Tier 1 at least 4,5% from ATMR both for individual or consolidated with Subsidiaries.<ol style="list-style-type: none">a. Banks are required to establish additional capital as a buffer in the form of:<ul style="list-style-type: none">• Capital Conservation Buffer, amounting to 2.5% from ATMR for Banks categorized as under BUKU 3 and BUKU 4. This will be implemented in stages starting from 1 Jan 2016 to 1 Jan 2019.• Countercyclical Buffer, amounting to a maximum 2.5% from ATMR for all Banks. This buffer will be implemented from 1 Jan 2016, and• Capital Surcharge, stipulated to be in the range of 1% - 2,5% from ATMR for Banks with systemic impact.3. Adjustments for capital ratios <p>This Bank Indonesia regulation came into force on 1 January 2014.</p>	<ul style="list-style-type: none">- For 2014, BDI is not impacted in capital fulfillment. Currently, the Bank's CAR has Tier 1 ratio at $\pm 17\%$.- For 2016, the Bank shall provide capital buffer in accordance to this circular.	

- Business Segment Review
- Financial Review

Changes on Accounting Policies

CHANGES ON ACCOUNTING POLICIES

Changes on Accounting Standards Which Have Become Effective

The following table presents changes of accounting policies and their impacts on the performance of Danamon and subsidiaries.

No	Accounting Standard	Transitional Rules	Prior Rules	Changes	Potential Impacts on Danamon	Potential Impacts on Danamon and Subsidiary
1	SFAS No. 38 (2012 Revision), "Business Combination Under Common Control"	Retrospective application in accordance with SFAS No. 25	<ol style="list-style-type: none"> 1. Stipulates only entity who release its business. 2. Business combination from the initial phase of presentation period. 3. Do not regulate on entity who release its business. 	<ol style="list-style-type: none"> 1. Stipulates entity who receiving and releasing business. 2. Business combination at the start of common control. 3. Entity who release its business shall use disposal method as recognized in equity. 	No financial impact since the Bank does not enter into business combination under common control transaction.	No financial impact since the Bank and Subsidiaries do not enter into business combination under common control transaction.
2	Improvement of SFAS No. 60, "Financial Instrument: Disclosure"	-	Qualitative and quantitative disclosures regarding risks arising from financial instruments, including minimum disclosures on credit, liquidity and market risks.	The improvements mainly relate to the qualitative information as an essential part in completing quantitative information, removal of the requirement to disclose fair value of collateral held as security and the carrying amount of financial assets that would be otherwise be past due or impaired whose terms have been renegotiated.	No financial impact to the Bank other than impact on financial instruments disclosure.	No financial impact to the Bank and Subsidiaries other than impact on financial instruments disclosure.

Changes on Accounting Policies

Accounting Standards Issued But Not Yet Effective

The following summarizes the Statements of Financial Accounting Standards (SFAS) and Interpretation of Financial Accounting Standards (ISAK) issued by the Indonesian Accounting Standards Board (DSAK) and Syariah Accounting Standards Board (DSAS), which are not yet effective for the consolidated financial statements for the year ended 31 December 2013.

The following table presents accounting standards issued and will be effective on or after 1 January 2014:

No	Accounting Standard	Transitional Rules	Prior Rules	Changes	Potential Impacts on Danamon	Potential Impacts on Danamon and Subsidiary
1	IFAS No. 27, "Transfers of Assets from Customers"	Applied prospectively for transfers of assets from customers on or after 1 January 2014			No financial impact as there is no kind of business transactions which creating transfers of assets from customers to the Bank in return for connection to a network or ongoing access to goods or services.	No financial impact as there is no kind of business transactions which creating transfers of assets from customers to the Bank and Subsidiaries in return for connection to a network or ongoing access to goods or services.
2	IFAS No. 28, "Extinguishing Financial Liabilities with Equity Instruments"	Retrospective application based on SFAS No. 25 from the beginning of the earliest comparative period presented			No financial impact since there is no debt to equity swap transactions entered by the Bank.	No financial impact since there is no debt to equity swap transactions entered by the Bank and Subsidiaries.
3	SFAS No. 102, "Murabahah"	Prospective application on or after 1 January 2014	Did not stipulate murabahah criteria based on risk of inventory ownership	Stipulate murabahah criteria as regular selling & purchase transaction or financing transaction based on risk of inventory ownership	The Bank has performed assessment and preparation related to implementation of this SFAS.	The Bank and Subsidiaries have performed assessment and preparation related to implementation of this SFAS.

- Business Segment Review
- Financial Review

Changes on Accounting Policies

Accounting Standards issued and will be effective on and or after 1 January 2015 are:

- SFAS No. 1 (Revised 2013), "Presentation of Financial Statements", adopted from IAS 1, specifies changes of the grouping of items presented in other comprehensive income. Items to be reclassified to profit or loss would be presented separately from items that will never be reclassified to profit or loss.
- SFAS No. 4 (Revised 2013), "Separate Financial Statements", adopted from IAS 4, specifies accounting requirements when parent entity presents separate financial statements as supplementary information.
- SFAS No. 15 (Revised 2013), "Investments in Associates and Joint Ventures", adopted from IAS 28, specifies the implementation of equity method for investments in joint ventures as well in associates.
- SFAS No. 24 (Revised 2013), "Employee Benefits", adopted from IAS 19, which removes the corridor mechanism and contingent liability disclosure to simplify clarification and disclosure.
- SFAS No. 65, "Consolidated Financial Statements", adopted from IFRS 10, replaces part of SFAS No. 4 (Revised 2009) related to accounting for consolidated financial statements, determines principles of preparation and presentation of consolidated financial statements when an entity controls one or more of other entities.
- SFAS No. 66, "Joint Arrangements", adopted from IFRS 11, replaces SFAS No. 12 (Revised 2009) and ISAK No. 12. The SFAS removes the proportional consolidation method option to record joint venture.

- PSAK No. 67, "Disclosure of Interests in Other Entities", adopted from IFRS 12, covers all disclosures previously regulated in SFAS No. 4 (Revised 2009), SFAS No. 12 (Revised 2009) and SFAS No. 15 (Revised 2009). The disclosures relate to an entity's interest in other entities
- PSAK No. 68, "Fair Value Measurement", adopted from IFRS 13, provides guidance in measuring fair value when fair value is required or permitted.

The Bank and Subsidiaries are currently evaluating and have not yet determined the effects of these Standards and Interpretation on the consolidated financial statements.

CHANGES OF TAX REGULATIONS IN 2013

There were no significant impacts on Danamon from changes in tax regulations in 2013.

DESCRIPTION OF BASEL III

Learning from the economic crises of 2008, which resulted in the decline of the banking sector in a number of countries, the banking industry requires an instrument to recover the capital framework, namely Basel II. Through discussions held at global level, Basel II was refined into Basel III.

In principle, the purpose of Basel III is to address banking issues, among others:

- a. Improve the capacity of banking sector to absorb risk potential that may arises from financial and economic crisis and to prevent crisis breakout from the financial to economic sectors;

Description of Basel III

- b. Improve the quality of risk management, governance, transparency, and disclosure, and
- c. Provide the best resolution for systemically important cross border banking

Basel III is expected to strengthen the microprudential management, in order to increase the robustness and resiliency of the bank during crisis.

In the context of microprudential, Basel III framework requires higher standards of capital quality and level, focusing mainly on common equity and adequacy of capital buffer managed by individual banks by requiring allowance for conservation buffer.

Basel III also covers macroprudential aspect by developing indicators to monitor the level of procyclicality of financial system and requires banks, especially systemically important banks/financial institutions, to prepare capital buffer during boom period of the economy in order to absorb losses during crisis (boom period), namely countercyclical capital buffer and capital surcharge for the systemically important financial institutions. The micro and macro aspects are very closely interrelated and requires sustainable monitoring.

To prepare for Basel III implementation, Regulator has issued regulation concerning Minimum Capital Adequacy Requirement for Commercial Banks. Danamon supports the preparation process towards Basel III implementation, considering that the framework is vital in ensuring robust developments of national banking industry and would enable Indonesia's banking industry to take part in the global level industri banking.

The following illustrates Danamon's phases in preparation of Basel III:

