Ikan Asap Fufu

Johni Wahyu Pratama - SME Region 4B, North Maluku

Second Place - Traditional Market Photography Ccmpetition

Management Discussion & Analysis

Management Discussion and Analysis

The banking industry posted a lower growth in lending in 2014, which reflected the declining economic growth as well as relatively higher interest rate environment. Danamon continued to improve on its Loan to Deposit Ratio and operating cost indicators, and thus was well-positioned to achieve its best performance as was possible in light of the macro economic conditions. With its extensive service network, competent human capital, and the latest in information technology, Danamon is fully ready to exploit available opportunities in line with economic developments.

Growth of Credit: Non-mass market grew

5.2%

Liquidity: Succesfully brought down LDR to

92.6%

CASA Journey: Persistent efforts to raise CASA ratio from 26% (in 2008), and by the end of 2014 reached

49%

Trade Finance : Very strong growth, in average 39%

39%

SME: SME Loans showed significant growth of

7%

and gained market share.

- On Liquidity Management: Long Term funding has shifted the reliance on joint finance, reducing market risk from customer short term deposit re-pricing.
- Adira Insurance: Strong growth of Gross Written Premium (GWP) and active policies (increased by 20% and 17% respectively).
- CASA: Dominated (60%) by Savings Accounts.
- Adira Finance: Market share of 4W motor vehicle continued to increase from quarter to quarter, reached 6.5% by end of year 2014. Market share of 2W vehicles was 13%.

Macroeconomic and Industry Review

The banking industry recorded a softer loan growth in 2014, reflecting the subdued pace of economic growth and relatively high interest rates. Danamon continued to improve its Loan to Deposit Ratio and its operating expense indicators, placing the Bank in a strong position to rebound as the macro economic conditions allow. With its wide network of services, supported by its competent human resources and its up-to-date information technology, Danamon is ready to seize the opportunity afforded by the economy.

The Indonesian economy was still under various pressures in 2014. The legislative and presidential elections did not generate as much drive for economic growth as initially expected. The economy slowed down as the impact of the rise of Bank Indonesia's rate by 175bps in the previous year. Credit growth slowed down significantly from prediction. from approximately 20% to 11.6% as of December 2014. Furthermore. the government's fiscal expansion was running very slowly due to the unfavourable political conditions.

Meanwhile. the current account deficit problem was still a significant burden for the Indonesian economy. Import was still high. especially oil imports. While the export recovery was very subdued as the global economic growth. particularly in the main trading partner countries such as China. Japan and European countries. The dissapointing global economy also encouraged the weakening of the prices of primary commodities. thus impacted negatively to Indonesian export commodities.

On the other hand. the global financial market was very volatile. driven by various fundamental and geopolitical factors. The political crisis in Ukraine and Russia triggered a war of economic sanctions between western countries and Russia. The appearance of extremist group of ISIS spreading terror in the Middle East region contributed to the market negative sentiments. Furthermore. the spread of Ebola disease in some part of Africa raised a concern over its impact on global economy. While on the fundamentals. US economy gradually displays the signs of recovery that triggers the rate hike expectations (Fed Funds Rate) this year. This leads to the global trend of rising US dollar values. especially in the light of continued softening of economic growth in China. Japan and Europe.

This caused a significant fluctuation on the Rupiah throughout the year. After rising to the level of Rp11.271/USD in April boosted optimism Jokowi's presidential candidacy. various negative sentiments drove the value of Rupiah down to Rp12.269/USD (losing 8%). before moving up finally to a level around Rp12.026/USD. following the optimism for the new government. However. toward the end of the year. the pressures depreciated Rupiah sharply to Rp12.900/USD which was its lowest rate in the last 16 years. before finally closing at Rp12.440/USD. This volatility was also reflected in the fluctuation in the capital market. where the stock price index managed to rise to 5.246 in September before it was corrected to 5.227 at the end of 2014.

In November 2014. the government decided to reduce fuel subsidy by increasing the price of premium gasoline and diesel fuel by Rp2.000. setting the price of premium gasoline at Rp8.500/liter and diesel fuel at Rp7.500/liter. BI responded to the decision by a monetary tightening policy where BI Rate was raised again by 25bps to 7.75% (as of November 2014). With the high fluctuations in the global financial markets. the exchange rate of Rupiah however was unaffected and remained at around Rp12.400/USD. Coinciding with the turn of the year. the government took an important step to secure its fiscal condition. by eliminating the subsidy for premium (RON 88) fuel. while the subsidy for diesel was fixed at Rp1.000/liter. Furthermore. the government will set the price of fuel each month aligned with the economic price.

During 2014. BI issued several macroprudential policies. In the efforts to encourage financial market deepening. BI issued revisions and improvements over its regulation on swap (hedging) transactions amongst banks and the central bank. and initiated mini agreements (MRA) between banks to increase the volume of repo transactions. In the efforts to limit the risk of corporate non-payment. BI has obligated corporates to hedge their foreign exchange liabilities. The last macroprudential policy in 2014 was issued by BI along with the increase of its benchmark interest rates in November 2014. BI will expand the definition of deposit on Loan to Deposit Ratio (LDR) for the calculation of the statutory reserve requirement (Giro Wajib Minimum/GWM) to ease the liquidity in the banking system. Previously. Financial Services Authority (OJK) had also worked to dampen the intense competition for banks' funding by applying maximum interest rates for time deposits.

The new government has raised high hopes in the election of a reformist figure. Under the leadership of Jokowi-JK. the new government will prioritize infrastuctures development. prepare more efficient government budgets and develop Indonesian maritime sector. The economic growth of Indonesia is expected to improve to 5.3% in 2015 from 5.1% in 2014. The flow of investment has the potential to rise. despite the less than conducive global economic conditions.

Inflationary pressure in 2015 is expected to moderate to around 3.9%. with the easing of inflationary pressures due to rising fuel prices in the previous year. The easing of inflation is expected to encourage BI to cut interest rates by 25-50bps in 2015. However. BI will remain vigilant to face external risks primarily of US monetary policy actions.

National Income Account

	YoY	2014E	2013	2012	2011	2010
National Income Account						
Real GDP	%YoY	5.0	5.6	6.0	6.2	6.22
GDP - Nominal	USD billion	888	911	919	892	710
GDP per Capita - Nominal	USD	3,500	3,662	3,742	3,686	2,986
External Sector						
Exports	USD billion	175.3	182.1	187.3	191.1	150.0
Imports	USD billion	168.4	176.3	178.7	157.3	119.0
Trade Balance	USD billion	6.9	5.8	8.7	33.8	31.0
International Reserves	USD billion	111.9	99.4	112.8	110.1	96.2
IDR/USD	end of period	12,440	12,189	9,670	9,068	8,991
Others						
BI Policy Rate	% end of period	7.75	7.50	5.75	6.00	6.5
Consumer Prices Indices	% end of period	8.36	8.08	3.65	3.78	6.96
Jakarta Composite Index (JCI)	end of period	5,227	4,274	4,317	3,822	3,704
S&P's Rating – FCY		BB+	BB+	BB+	BB+	BB-

DANAMON POSITION

For most of 2014. Indonesian banking industry continued to face the tightening financial conditions which started in mid 2013 following the announcement of the US Federal Reserve for "normalization" of its monetary policy that generated increasing volatility in global financial market. the rise of subsidized fuel prices and the subsequent Bank Indonesia responses of raising its benchmark interest rates. Toward the end of 2014 however. BI introduced several measures to ease the tight liquidity among others. by providing incentives for SME loans and modify the definition of deposits for a bank's Loan to Deposit Ratio to include securities issued by the bank.

Coupled with a sluggish growth of the economy. the results for the banking industry was a slowdown in the expansion of credits. The growth of credit in 2014 declined to (est) 11.6%. from 21.6% of growth in 2013. and the decline took place in every category of credits. Working capital loan. which is the largest category of credit. was down from 20.4% (yoy) growth in 2013. to 10.8% of growth in 2014. Investment loan and consumption loan growth declined from 35% and 13.2% respectively in 2013. to 13.7% (yoy) and 11.5% (yoy) in 2014.

On the funding side. the relatively high interest rates and strong competition in the banking industry has led to a slightly higher rate of growth of Third Party Fund of 12.3% (est) in 2014. compared to the growth (yoy) in 2013 of 13.6%. The higher growth of TPF occured primarily in time deposits. which has seen intense competition of its interest rates and led OJK to issue a cap on the interest rates. The current and savings account in the banking industry however. showed slower growth rates of 5.1% and 5.9% respectively in 2014 than the growth rates of 10.4% (yoy) and 12.6% (yoy) in 2013.

Despite the tight financial conditions in 2014. macroprudential policies of Bank Indonesia had enabled the banking industry to maintain its health and stability. and perform its vital roles for the economy. Capital Adequacy Ratio (CAR) of the industry had even improved to 19.6% from 18.4% in previous year. and Non-Performing Loans was slightly up. but still maintained at around 2%.

Performance of National Banking Industry

Comparison	Unit	YoY	2014	2013	2012	2011	2010
Assets	Rp trillion	13.3%	5.615	4.954	4.263	3.653	3.009
Customers Deposits	Rp trillion	12.3%	4.114	3.664	3.225	2.785	2.339
Loans	Rp trillion	11.6%	3.674	3.293	2.708	2.200	1.766
Capital	Rp trillion	20.3%	754	627	497	405	323
Operating Income	Rp trillion	9.1%	144	132	115	89	48
Net Income	Rp trillion	4.7%	112	107	93	75	57
Net Interest Margin	%	-0.66	4.23	4.89	5.49	5.91	5.73
Operating Expenses on Operating Income Ratio	%	-0.23	2.85	3.08	3.11	3.03	2.86
LDR Industry	%	-0.28	89.42	89.70	83.58	78.77	75.21
CAR Industry	%	1.44	19.57	18.13	17.43	16.05	17.18

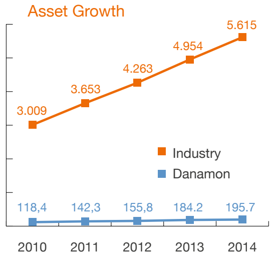
Danamon Financial Performance

Comparison	Unit	YoY	2014	2013	2012	2011	2010
Assets	Rp trillion	6.2%	195.7	184.2	155.8	142.3	118.4
DPK	Rp trillion	6.8%	118.3	110.8	91.7	88.1	81.0
Loans	Rp trillion	2.7%	139.1	135.4	116.4	101.7	82.7
Capital	Rp trillion	4.6%	33.0	31.6	28.7	25.7	18.5
Operating Income	Rp trillion	-27.5%	4.1	5.6	5.6	5.2	4.6
Net Income (reported)	Rp trillion	-35.6%	2.6	4.0	4.0	3.3	2.9
Net Income (normalized)	Rp trillion	-14.6%	3.4	4.0	4.0	3.3	2.9
Net Interest Margin	%	-1.20	8.4	9.6	10.1	9.8	11.3
ROA*	%	-1.52	1.88	3.4	3.7	3.54	3.87
LDR	%	-2.50	92.6	95.1	100.7	98.3	93.8
CAR	%	0	17.9	17.9	18.9	17.6	16.0

*) Before Tax

DANAMON

During 2014, Danamon assets experienced a 6.2% growth. It is below the average of national bank assets' growth which is equivalent to Rp195.7 trillions in comparison to Rp184.2 trillions at the end of 2013. Market share of these assets at the end of 2014 is 3.49% which represents a decrease in comparison to the position in 2013 which was 3.72%.

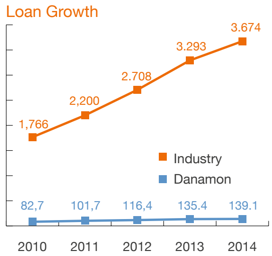


BANKING INDUSTRY

Assets of national banks experienced a 13.3% increase, from Rp4,954 trillions on December 2013 to Rp5,615 trillions at the end of December 2014.

DANAMON

Danamon Credit grows 2.7% or equivalent to Rp139.1 trillions in comparison to Rp135.4 trillions in 2013. Danamon Credit market share against the total credit industry is 3.8% which indicates a decrease in comparison to its 4.1% position in 2013.

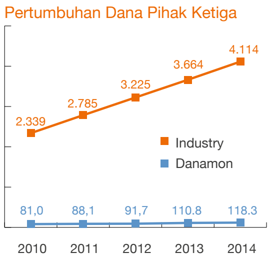


BANKING INDUSTRY

National Banking credit experienced an 11.6% growth in comparison to the position in 2013. Total credit of national banks in 2013 was Rp3,293 trillions whereas the position of 2014 was Rp3,674 trillions.

DANAMON

During 2014, Third Party Funds at Danamon experienced a 6.8% growth or equivalent to Rp118.3 trillions in comparison to Rp110.8 trillions in 2013. Market share of these Third Party Funds is equal to 2.9% at the end of 2014. This percentage reflects a slight decrease which was in a range of 3% in 2013.

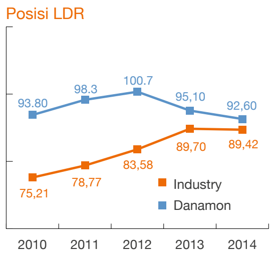


BANKING INDUSTRY

During 2014, Banking Industry experience a 12.3% growth of Third Party Fund or is equivalent with Rp4,114 trillions. Meanwhile during 2013, the Third Party Fund in Banking Industry was Rp3,664 trillions.

DANAMON

At the end of 2014, the credit position against Danamon's LDR was 92.6%, which indicated a significant increase in comparison to 2013 which was at 95.1%. This is in line with LDR growth and improved Danamon liquidity management.

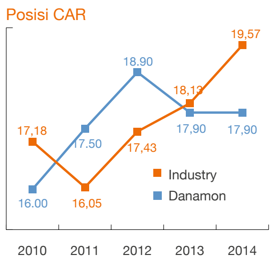


BANKING INDUSTRY

There is no significant changes in banking industries LDR, which was 89.7% in 2013 to 89.4% in 2014.

DANAMON

Danamon's CAR in 2014 remained at 17.90%, which showed no changes from the preceding year (2013).

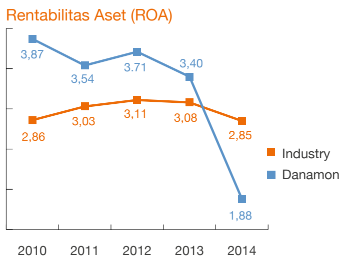


BANKING INDUSTRY

During 2014, the CAR of banking industry experienced a 19.57% increase in comparison to 18.13% back in 2013. High level of bank compliances toward the regulation have been able to maintain the soundness level of the banks in which CAR was one crucial variable.

DANAMON

Danamon's ROA during 2014 decreased to 1.88% in comparison to 3.4% in 2013. The decrease among other is due to the changes in FSA regulation in terms of accounting method toward revenues generated by motor vehicle insurance commission.



BANKING INDUSTRY

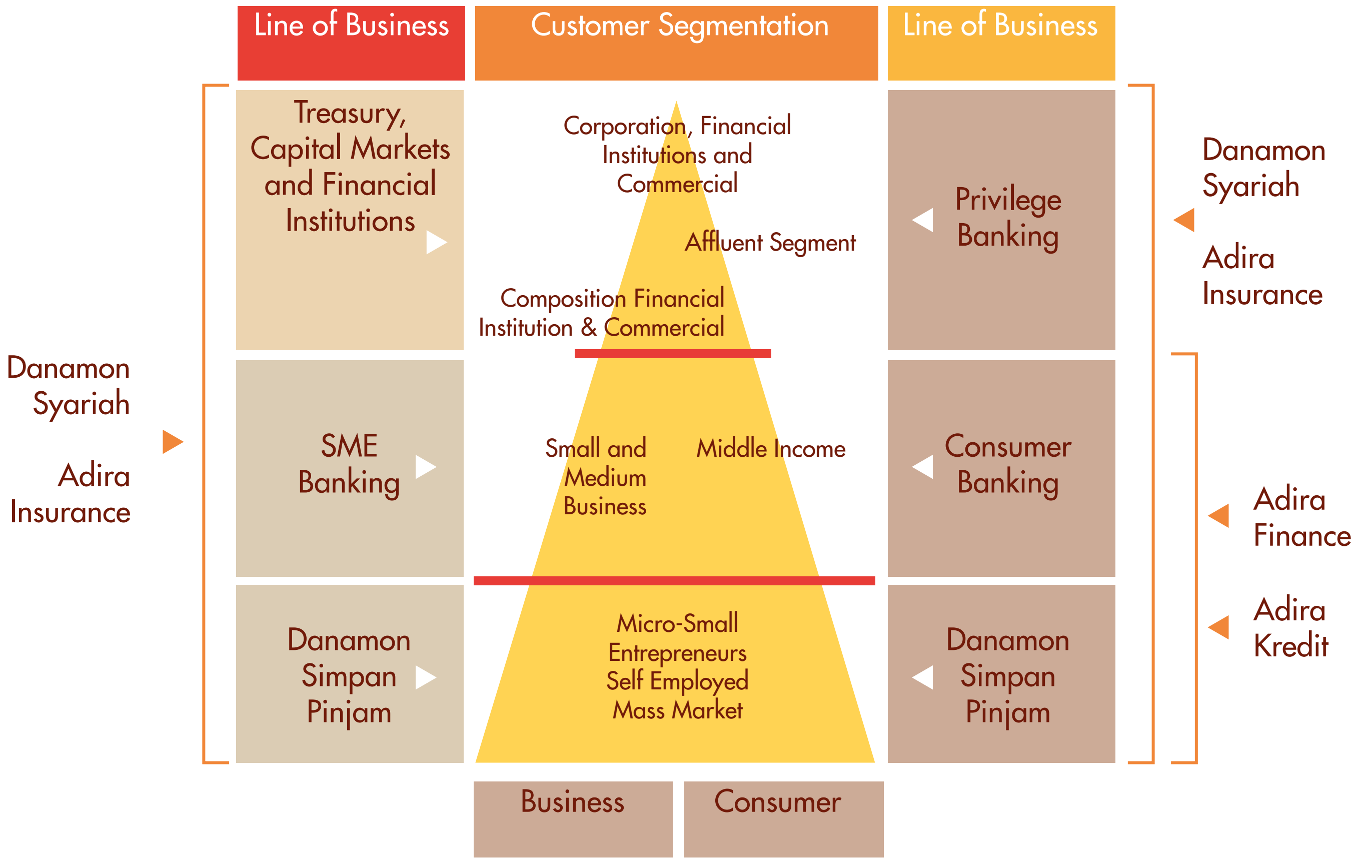
ROA of national banking decreased from 3.08% in 2013 to 2.85% at the end of December 2014.

Business Segment Review

Throughout 2014, Danamon has embarked on various initiatives to improve the Bank's competitiveness and profitability with a focus on improving productivity and services to all customer segments.

Business Segment Review

Line of Business and Customer Segmentation



Micro Banking

Rio Ramadhani, Danamon Simpan Pinjam Customer since 2004
"As businessman, the availability and the ease of securing DP200, a Danamon Simpan Pinjam business financing program has helped my micro, small to medium enterprise business. The financing terms are simple, installments are fixed and funding is secured and kept in Si Pinter account. My shop, Toko Maju located at Pasar Mayestik and provides various accessories, buttons, lace and other sewing tools, is growing every day."

Danamon micro banking, is known as Danamon Simpan Pinjam (DSP). DSP main targets are individual enterpreneurs 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.

2014 FINANCIAL PERFORMANCE

DSP provides lending and collects Third Party Funds. At the end of 2014, DSP booked credit portfolio at Rp18,967 trillion and booked Third Party Fund at Rp1,147 trillion.

As the economy of Indonesia in 2014 was confronted by serious challenges of declining commodity prices, weakening export performance and tightening of banking liquidity, the demand for micro credit in general was under a strong pressure. In 2014 DSP lending portfolio declined, particularly in the regions where primary commodities production contributes a significant part of the economy, such as Kalimantan and Sumatra. This affected the value of the third party funds as well.

2014 BUSINESS INITIATIVES

Throughout 2014, facing a moderating economic growth and softening demand for micro credits, DSP engaged in internal consolidation and focused on developing higher quality business for the coming year, through several initiatives;

- Reorganization and improvement of operational network for a more efficient operation.
- Review for improvement of DSP sales model.
- More automation through greater use of information technology to develop better and more efficient services, and greater control over business processes.
- Improvement of staff competency.
- Development of new products.

Among the improvements of operational network is the optimization of DSP network through consolidation of service units located in close distance, thus improving network efficiency. Currently DSP offices and units are found accross all parts of Indonesia in 34 provinces at 834 locations. Additionally, a more efficient and effective scheme of sales distribution is being implemented (Hub & Spoke), while alternatives of distribution scheme are being developed.

For the improvement of the loan disbursement quality process DSP sales model, sales section and loan approval section in loan processing are now separated. This policy is expected to strengthen the independency of loan applicant

Micro Banking

assessment and speed up the process. While incentives for loan customers' loyalty and punctuality of repayment is being considered

In process automation, Credit Processing Application is being implemented in all regions, in order to gain greater integration and more control over the process. The application will be developed as mobile apps, to improve the service, and provide a supervisor a greater control over sales activities of a sales person.

In 2014, DSP introduced several new products, among them are; Tabungan Danamon Lebih and Tabungan Cita-citaku to support the growth of third party funds in the micro segment, fill the need of micro customers for transactional banking and products suitable for customers long-term savings plans.

The development of human resource competency and leadership is an on going activity, intensively conducted either through formal or informal training programs. 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. Consequently, the achievements of DSP is inseparable from the quality and competency of its human resources.

Consumer Banking

Grace Christianti, Danamon Customer since 2008

"Since being Danamon FlexiMAX customer, managing finances of CH Handicraft, a women accessories shop becomes simple and beneficial for me. With free administrative fees and cash withdrawals abroad, purchases of sourcing material is easier. Danamon solution for transacting has enabled me to own and manage 3 accessories shops at Mangga Dua Trading Center."

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.

The wide scope of customer segments requires Danamon Consumer Banking to not only offers complete variant of products but also innovative products. 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 as well as asset management companies, Danamon Consumer Banking also provides bancassurance and investment products.

I. THIRD PARTY FUND (TPF)

2014 TPF Performance

In 2014, through hard work and constant effort to improve customer service, at the time when Indonesian economy was confronted with many challenges, such as slackening pace of growth, high inflation and tight liquidity, Consumer Banking was able to show positive results. Third Party Fund recorded 9.8% increase of funding, from Rp61.5 trillion in 2013 to Rp67.5 trillion in 2014. Among TPF funds, the inexpensive CASA (Current Account Savings Account) components recorded a growth figure higher than the average CASA growth of the industry, at 10.8% increase from Rp31.7 trillion in 2013 to Rp35 trillion in 2014. As a result, the share of CASA at the end of 2014 was 51.5%, which represents a sound achievement and in accord with the management plan.

Third Party Funds (Rp trillion)

	2014	2013
Current Accounts	3.9	3.5
Savings	31.2	28.2
Deposits	32.4	29.8
TOTAL	67.5	61.5

Consumer Banking recorded an increased in newly acquired customers for third party funding from 1.33 million in 2013 to 1.39 milion customers in 2014.

2014 DPK Business Initiatives

Danamon Consumer Banking marketing strategy toward existing and potential individual customers includes creatively and innovatively designed advertisements for Danamon products, placed on the branches, above the online media or digital media.

Consumer Banking covers also community-based marketing approach throughout Indonesia, through routine activities and events including community marketing activities at branches and other events to increase customer awareness such as Summarecon Run Bekasi, Run for Children and Manchester United community screening "I'M UNITED".

In 2014, Danamon service strategy was more focused on improving service to provide easy access to customers in banking transactions. Danamon has a complete range of digital transactions services including ATM, Internet Banking and SMS Banking. To enhance banking transactions services, in 2014 Consumer Banking launched "D-Mobile", a mobile banking application and "E-Commerce", an online transaction feature.

D-Mobile is a banking application available in several smartphone platforms, this feature enables customers to do banking transactions such as:

- Balance inquiry
- Transfer
- Payment
- Purchase

D-Mobile has also unique features compared to other similar applications for example:

- SosMed D-Cash, feature that enables user to transfer funds to Facebook friends without knowing the account number. The funds can be obtained in Danamon's ATM marked "DCash", with no need of ATM card.
- Augmented Reality, feature that provides information on the nearest locations of Danamon branches/units, ATMs, and Danamon merchant partners with special offers.
- Personalization, a feature that can change photo profiles in the application to make it more attractive.

Several initiatives which are being implemented or have been initiated in 2014 are as follows:

- Centralized Customer Complaint: for improving the quality of customer service, a web-based system, D'Connect application/system, has been implemented to record and monitor settlement over all customer complaints which are received through either Branches/LOB or Danamon Access Center (DAC). Moreover, the attainment of Service Level Agreement (SLA) from each complaint is known, and the monthly report of customer complaints is produced.

- Paperless Account Opening; for existing customers. For improving Customer Experience, Danamon implemented Paperless Account Opening. This process is very convenient and saves the customer from the hassle of filling opening account application form.

In 2014, Consumer Banking launched several bancassurance products in partnership with a number of insurance companies including;

- PT Asuransi Manulife (Proteksi Prima Rencana Optima, Proteksi Prima Ultima, Proteksi Prima Medika)
- PT Adira Insurance (Asuransi Travelin)
- ACE (Crime Guard Plus).

Consumer Banking

The products cover health insurance, travel insurance and protection against crime loss.

II. MORTGAGES (KPR) & PERSONAL LOANS (KTA)

Kredit Pemilikan Rumah (KPR) is Mortgage, offered by Danamon Consumer Banking in several kinds of mortgage loans. In addition to house ownership loan, Danamon KPR is also offered as apartment ownership loan (Kredit Pemilikan Apartemen - KPA), loan for Ready to Build Lot (Kavling Siap Bangun - KSB), Renovation & House Construction loan (Kredit Perbaikan & Pembangunan Rumah - KPPR), and Multi Purpose loan (Kredit Multi Guna). Presently, Danamon KPR is offered with flexible term of up to 20 years, and variable credit limits between Rp100 million to Rp15 billion, adjustable according to the need and financial capacity of the customer.

Danamon Personal/Unsecured Loan (Kredit Tanpa Agunan – KTA) is also referred to as Dana Instant. It is offered by Danamon Consumer Banking to individual customer who already has Credit or Mortgage facilities from any bank in Indonesia, and satisfies certain other conditions, such as having a monthly income of more than Rp2 million and age between 21 to 60 years.

2014 KPR & KTA Business Performances

Mortgage (KPR)

	YoY	2014	2013
Outstanding (Rp billion)	2.6%	3,715	3,622
NPL (%)	(10 bps)	1.1	1.0

Multi-Purpose Loan (KTA)

	YoY	2014	2013
Outstanding (Rp billion)	41%	1,856	1,316
NPL (%)	(140 bps)	3.4	2.0

KPR outstanding loan in 2014 increased by 2.6% from 3.62 trillion at the end of 2013, to Rp3.71 trillion at the end of 2014. Corresponding with the slowing-down of economic growth, rising interest rates and price level, the increase of KPR loan in 2014 showed moderation, along

with the moderation of growth of property sector. This level of growth was achieved while maintaining asset quality, as shown by Non-Performing Loan (NPL) ratio that rose only 10bps, from 1.0% in 2013 to 1.1% in 2014.

Personal Loan (KTA) figures showed a substantial increase of 41%, to reach Rp1.8 trillion at the end of 2014. Nevertheless, KTA was confronted with the challenge of maintaining the quality of its portfolio, since its NPL ratio rose significantly as well, from 2.0% at the end of 2013 to 3.4% at end of 2014.

2014 KPR & KTA Business Initiatives

Initiatives of KPR marketing strategy was implemented through increasing and strengthening partnerships with reputable developers and brokers in well-liked residential areas. As a long-term credits, mortgage consumers generally select the loan on the rational basis of cost of credit. Thus aside from offering convenient services and transactions as in KPR Lebih product, KPR initiatives were more focused on keeping Danamon KPR products at competitive cost of credit.

Marketing strategies for Danamon Personal Loan continues to be developed and implemented, as a bank that offered complete range of financial solutions for all customers' needs. In 2014, Danamon pursued various efforts to expand KTA's market, by expanding the geographical areas of marketing and adding KTA sales channel through Danamon network such as, e-channel, ATM and vast network of branches and business units.

III. CREDIT CARDS

Danamon credit card business has its target on individuals and corporates in the middle and affluent market segments. These markets are selected in accordance with Bank Indonesia 2012 regulation on Card-Based Payment Instruments requiring the card holder to have a minimum income of Rp3 million/month. Moreover, it is estimated that the middle class market in Indonesia is very large (estimated at 85 million person in 2015) and continues to grow.

Consumer Banking

Business Performance

Danamon credit card business continued to show positive growth, albeit in slower pace than previous year's growth. The number of cards in circulation rose by 13.7% from more than 702 thousand at the end of 2013, to 798 thousand at the end of 2014. At the same time, the asset value of net receivable grew from Rp1.8 trillion at the end of 2013 to Rp2 trillion at end of 2014, an increase of 11% alongside a relatively unchanged NPL ratio.

Table for Credit Card Performance

	YoY	2014	2013
End Net Receivables (ENR) (billion Rp)	11%	2,044	1,840
NPL (90 days+)	10bps	1.3%	1.3%
Transaction Volume (billion Rp)	5.9%	10.8%	10.2%
Total Card Issued	13.7%	798,386	702,488

Business Intiatives

Activities to gain new cardholder in 2014 were conducted along the line of the program initiated in 2013, which is marketing through branch sales, and telemarketing. In 2014, a new strategy for new account acquisition was conducted through promotions toward existing customers of several Danamon business lines, including banking customers, payroll services customers, and Danamon employees themselves.

For enhancing frequency and value of credit card usages, Danamon credit card offers insentive for customer loyalty, through Program 10x. The program offers cardholders to accumulate points 10x faster, to be exchanged with a variety of rewards and gifts. Danamon credit card continues to add the number of merchants who provide special offers for Danamon credit cardholder.

In addition, promotional program offering special discount and instalment program with low interest rates from a number of strategic partners are developed to attract customers into using Danamon Credit Card for shopping.

Concerning product variants, Danamon launches a number of innovative products in 2014, among others, MasterCard World Elite, a premium MasterCard, launched for the first time in Indonesia, targeting super premium segment. Furthermore, Corporate credit card is also lunched in 2014.

The business performance of Danamon credit cards will continue to be improved for acquiring new customers and increasing their loyalty. This is performed through excellent service and leveraging Danamon vast network, its good reputation as well as the wide range of its products enabling strong and positive synergy.

Small & Medium Enterprise (SME) Banking

Budi Permana, General Manager Operations, Bakmi GM
SME Danamon Customer since 2004
"With business developing at a faster pace, Bakmi GM with its 31 stores requires an effective financial management, efficient and trusted. Because of Danamon Cash Pick Up service, cash generated from all Bakmi GM stores in Jakarta, Depok, Tangerang, Bekasi can be deposited safely and timely in our current account."

Small & Medium Enterprise (SME) Banking

Statistical figures show the number of small and medium firms in Indonesia is very large, around 56 million firms. Nevertheless, only a small part–not more than 20%- who already have employed banking services to support business activities. These figures show the magnitude of challenges, as well as opportunities, confronted by the Indonesian banking industry.

Danamon SME Banking was established to provide a full range of banking services accompanied by various facilities and conveniences for this market segment. Customer addressed by SME Banking services are businesses with annual turnover between Rp2.5 billion Rp50 billion.

2014 BUSINESS PERFORMANCE

At the end of 2014, outstanding loan at Danamon SME Banking reached Rp22,448 billion, representing an increase of 7% from the figure at the end of 2013. Considering the tight liquidity and declining economic growth, the growth of SME loan portolio is satisfactory, inline with the market growth, and achieved with considerable attention to the risk profile. The credit growth came with NPL ratio at 2.5%, and the number of SME debitor at 10,148 customers. At the funding side, the balance of Third Party Fund at the end of 2014 was Rp12,617 billions.

2014 BUSINESS INITIATIVES

Throughout 2014, Danamon expanded the service network selling SME products. And implanted units for selling SME products were established at 13 Danamon branches, in addition to the existing ones.

And continuing the successful initiatives of previous years, Danamon SME Banking implemented a special strategy of using the opportunity afforded by Financial Supply Chain (FSC) business potential, which was developed through synergy with other Danamon business units. FSC adapts cash management solutions to the need of transactions between Wholesale Banking and SME Banking customers, in a comprehensive manner. This strategy gives SME Banking the opportunity for serving the need of FSC of Wholesale Banking customers.

Through this program (FSC), the number of SME customers (generally are retailers) who are referenced by Anchors, who are Danamon Wholesale customers, increased from 153 retailers in 2013 to 222 customers in 2014. The number of Anchors participated in the FSC business program had also increased from 20 anchors in 2013 to 28 anchors in 2014.

A similar strategy was jointly implemented with Danamon's business line of micro banking (DSP), by optimizing services at DSP branch offices. The result of this strategy is a significant increase in accessibility of SME services, which can be accessed now in more than 1000 locations throughout Indonesia.

Another initiative driving the growth of SME Banking is the launch of EDC Mobile for supporting collection process. Using this service, a customer can make a deposit or loan payment through EDC equipment carried by Danamon field team. In 2014, SME Banking cooperated with PT Kereta Api Indonesia (Indonesia Rail Train – PT KAI) to simplify transactions, using Danamon EDC services.

For human resource development, Danamon SME routinely conducts trainings for employees in formal and informal sessions. The number of employees who received some form of training in 2014 was 1,423 employees, and the total amount of trainings was 8,418 man-days.

PROSPECTS & PLAN FOR 2015

Danamon had targeted the growth of SME's loan portfolio in line with decline of SME's market. In addition to the existing strategy, the credit growth in 2015 will be achieved through formulation of customized programs for some particular industries, such as consumer goods, building materials, electronics, and others. SME products sales will be expanded by the method of "commodity based marketing", and promotions of trade finance products offerings for SME Banking customers.

For loan processing, the loan application and approval processes will be improved, simplified and computerized, for faster processing and ease of monitoring. SME synergy with other Danamon business lines, including its subsidiaries, will be enhanced.

Syariah Banking (Islamic Banking)

Through business transformation and optimization of Syariah Products cross-selling with products of other business units, Syariah Banking now more focused and efficient in achieving sustainable growth.

Danamon Syariah serves as an alternative banking and has shown its persistence amidst competition coming from both conventional and syariah banking. Danamon Syariah is supported by a bank that is fully committed to the country's economic development. Danamon Syariah concluded its twelve-year journey (established in 2002).

2014 BUSINESS PERFORMANCE

Financing & Funding Growth (Rp billion)

	YoY	2014	2013	2012	2011	2010
Financing	32%	2,486	1,884	1,545	998	683
Funding	70%	2,477	1,456	1,335	926	838

In its twelfth year, Danamon Syariah continues to show its commitment to the development of Syariah Banking by consistently growing in financing more than 20% annually in the last 5 years. And throughout 2014, Danamon keep its pace of progress by increasing its financing by 32% to Rp2.5 trillion, while managing the risk within an acceptable level in NPF ratio 1.6%.

On the funding side, Danamon Syariah also displayed a remarkable growth of Third Party Funding. In 2014 Danamon Syariah Third Party Fund rose significantly 70% to Rp2.5 trillion, whereas CASA ratio was 31%.

2014 BUSINESS INITIATIVES

In 2014 Danamon Syariah focused on the linkage financing model with Islamic Rural Banks (Bank Perkreditan Rakyat Syariah) and employee cooperative entities segments, which by the end of the year, the business grew 71% from end of 2013, to Rp1.8 trillion.

As for funding, Danamon put its focus on growing the Cash Management service, especially for the payment of electricity bills for business companies. The success of this effort is reflected in significant increase in funding from current accounts that rose 52% to Rp423 billion by end of 2014.

Syariah Banking (Islamic Banking)

In 2014, Danamon Syariah initiated the following new products and services:

- Asset Based Financing Ijarah Muntahiyah Bitamlik (ABF-IMBT), a financing product for the purchase of heavy equipment, secured by the financed equipment.
- Tabungan Rencana Qurban (Qurban Planned Saving), a term deposit for helping customers to be financially prepared for Qurban obligation.

These products were launched with the expectation that they will be a part of major contributors of financing and funding growth in the future.

Danamon Syariah continuously offers trade finance, cash management and electronic banking services, also Asset Based Financing (ABF) which will be develop in the future, commitment of Danamon Syariah to always provide improved services.

In its business operations, Danamon Syariah maintains its long term vision of becoming the best Syariah Bank in Indonesia. To realize the vision, Danamon Syariah is consistent in its business intensification, such as optimizing office network expanding customer base, improving performance, and integrating syariah products in its entire Syariah office network.

In 2014 Danamon Syariah undertook a business transformation, aiming for a more efficient and more focused business to attain higher business growth in the future. Danamon Syariah engagement in the transformation is through consolidating its network of offices and branches, and optimizing cross-sell of Syariah funding and financing products with other Danamon business lines. Danamon office network was consolidated to become 52 branches and 145 channeling offices at the end of 2014.

Going forward, Danamon Syariah will focus to develop small, medium and wholesale segments portfolio through trade finance, cash management, electronic banking and asset based financing, improve operational efficiency, enhance sales process, and increase the quality and productivity of its human resources.

Wholesale Banking

Wholesale Banking serves customers in 33 sectors, from trade, services to manufacturing in 15 cities all over Indonesia with a diversified portfolio which shows good risk management practices.

Wholesale Banking is the outcome of a reorganization strategy, combining commercial and corporate banking into a single line of busines that was carried out in 2012. Wholesale Banking offers banking services for commercial and corporate customers. For Wholesale Banking, commercial segment consists of business units with annual revenues between Rp40-500 billion, while corporate segment comprises business entities that generate annual revenues more than Rp500 billion.

For serving the needs of both segments, in addition to having sophisticated services supported by the latest tehcnology, Wholesale Banking offers products that address the complex needs of the customers.

In average, Wholesale loans grew by 15% in 2014. This growth was accompanied by improvement of asset quality, which is reflected by the low ratio of Non-Performing Loans (NPL). By the end of 2014, NPL of Corporate and Commercial segments were 1% and 0.7%, respectively.

On the funding side, Wholesale Banking booked total funding at the end of 2014 at Rp28.7 trillion, an increase of 5% from 2013. Furthermore, despite the adverse effects of the export ban on unprocessed mineral commodities, trade finance product managed to record a growth of 12% to Rp10.9 trillion in 2014.

Danamon Wholesale Banking business is widely spread out. Previously dominated by customers in Jakarta, Wholesale Banking has now witnessed significant growth in regions such as Sumatera, West Java, Central Java and East Java and parts in Sulawesi and Kalimantan. Wholesale Banking serves customers in 33 sectors, from trade, services to manufacturing in 15 cities all over Indonesia with a diversified portfolio which shows good risk management practices.

Throughout 2014, a series of initiatives and business strategies were conducted, continuing successful strategies and initiative implemented in the previous years. Among them;

- Through improvement of the quality of customer relationships, Danamon succeeded in implementing a special strategy that has been initiated in 2012, Financial Supply Chain Strategy. The strategy is an effort by Danamon to use the opportunity presented by existing customers, to provide more service to their business units. For example, providing services to distributors associated with a corporate customer. Basically, Financial Supply Chain is a one stop service, offering greater value added from all Danamon services to an existing customer.

- Development of Trade Financing Products. This strategy will be implemented in 2015 by adding trade financing products, to support the growth of fee based income.

Furthermore, Wholesale Banking continues to improve the synergy with other Danamon business lines, such as Retail/Consumer, Micro and SME, and using such opportunity for expanding its customer base. This strategy is also employed by other business lines for improving their performances.

Competition in wholesale segment is expected to become more intense in 2015, especially competition of loan interest rates. In anticipation, Wholesale Banking has prepared the following strategies:

CUSTOMERS

Continue to focus on the growth of third party funds, particularly the growth of Deposit, to match the growth of credits.

Focusing the growth of credits to industries that are inclined to grow and in accordance with the Bank's policies on target markets. The growth will be sought from potential borrowers who already have positive track records.

PRODUCTS

Trade finance products, particularly off-balance sheet transactions are still the leading products for Wholesale Banking to earn more fee based income for the Bank. Furthermore, the intense marketing of cash management products, financial supply chain products and the close cooperation between wholesale banking, SME banking and DSP will strengthen the appeal of Danamon.

HUMAN RESOURCES

Maintaining the professionalism and competency of human resources through strengthening the capacity dan awareness of every business unit's leader and staff to perform:

- Utilization of measurement system on performance and productivity of team members.
- Intensive observation on the follow-up on each business potential, and
- Measurement on the overall profitability.

Treasury & Capital Markets and Financial Institutions (TCM and FI)

Treasury & Capital Markets and Financial Institutions always maintain the Bank's liquidity position as a whole, as well as providing excellent banking services to wholesale and retail customers.

Treasury and Capital Market (TCM) Division is responsible for maintaining the overall liquidity of Danamon. The role of TCM is to ensure liquidity is available at any given time to support the Bank's business growth. In addition, TCM also manage interest rate risks of the Bank's balance sheet.

Financial Institution (FI) provides banking services to banks, financial securities companies, investment managers, pension funds, insurance companies, NGO and other non-bank institutions.

Credit extension, Cash management, trade and custodian services, as well as treasury products are offered by Financial Institution and play important roles in Danamon's funding.

In addition to their primary functions, TCM & FI also offers various treasury products for corporate and individual customers, while taking advantage of market opportunities through prudent trading activities.

As a product partner, TCM also 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).

TCM also actively participated in the Government and Corporate bond through primary and secondary market.

To complement the TCM Sales team, the TCM Trading team deals in the interbank markets, thus securing the most competitive prices for Danamon customers.

2014 BUSINESS ACTIVITIES

To meet the Loan to Deposit Ratio set by Bank Indonesia, Treasury initiated deposit from offshore as a source of third party funds to be accounted in the calculation of LDR ratio. TCM succeeded in acquiring 450 millions USD offshore deposits in 2014.

On a need basis, TCM participates in the Bank Indonesia swap auctions to convert Danamon's USD excess liquidity into Rupiah. By the end of 2014, TCM managed Rp6.6 trillion and USD 640 million of funds in liquid assets.

A new ALM system was implemented in 2014. With the new system, TCM is able to analyze the bank's balance sheet more efficiently and accurately. This enables TCM to maximize the balance sheet. The implementation of the new ALM system is broken into three phases, and scheduled to be fully completed by the first semester of 2015.

In 2015, TCM plan to issue NCD and MTN as an alternative source of funding for the Bank. The issuance will be determined by Bank Indonesia's plan to recognize financial securities issued as a deposit component for Bank's LDR calculation. In addition to NCD and MTN, TCM also plan to issue Danamon bonds.

FI will keep abreast of market situation and continue to implement new initiatives as new opportunities arise. In 2015, FI will leverage relationships with international and/or other nonprofit organizations in offering banking services such as cash management, trade finance and treasury products. These activities will generate additional fee based income. Cross-selling initiative is also a priority for FI to maximize the benefits from greater utilization of Danamon's operational capacity and product existence.

Going into 2015, TCM & FI will continue to maintain prudent management of liquidity to support the Bank's growth.

Transaction Banking (Trade Finance & Cash Management)

To accomodate increased transaction volume, Danamon continues to improve its service quality, features, speed and development.

2014 BUSINESS PERFORMANCE

Notwithstanding a declining trend of Indonesian export performance in 2014, Trade Finance services still recorded an increase in asset value to Rp11 trillion, alongside 16% growth of Trade Finance income from Rp358 billion in 2013 to Rp413 billion. Open Account Financing remained the most performing product in 2014, along with the growing fee based income from other Trade Finance transactions.

Meanwhile, on the Cash Management services, Danamon was able to book 20% increase in transactions volume from Rp16.9 trillion in 2013, to Rp20.2 trillion in 2014. This performance added Rp769 billion to Danamon income from Net Interest Income (NII) and fee based income, or an increase of 18%, from the 2013 value at Rp651 billion.

2014 BUSINESS INITIATIVES

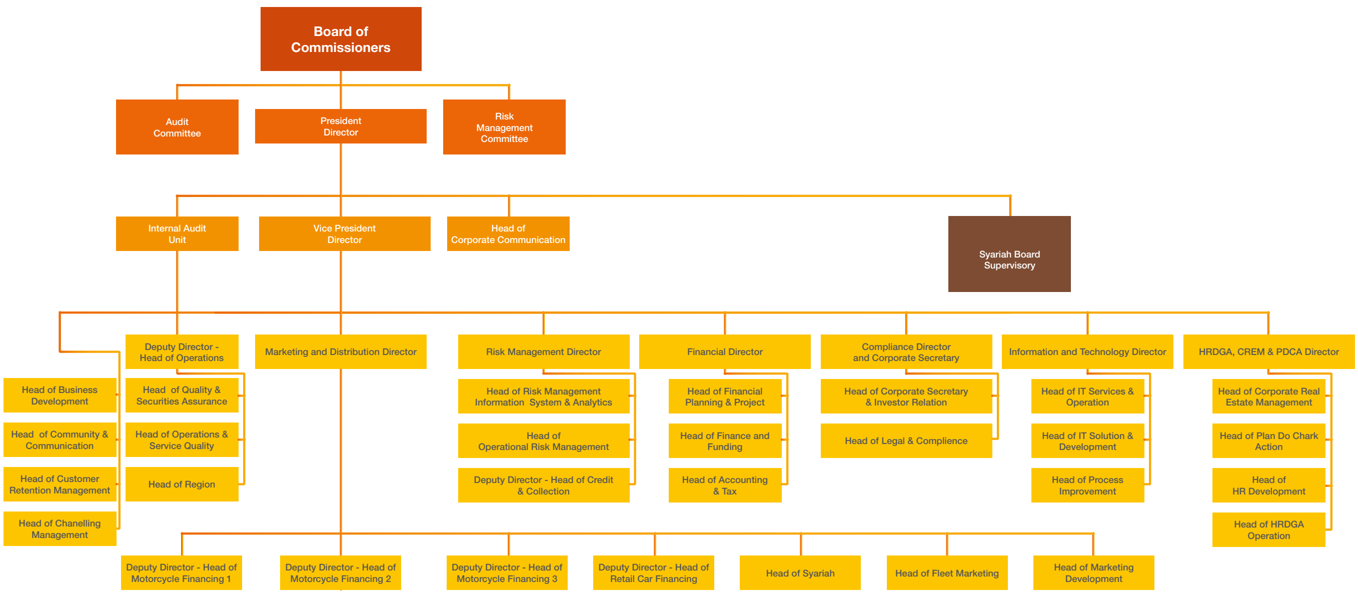
As the leading Trade Finance Bank in Indonesia, Danamon continuously improves its service quality, from product features, service level (Service Level Agreement - SLA), to the development of services. Currently Danamon is implementing the latest Trade Finance system, to accommodate a transaction volume that continues to increase from year to year, and to improve customer satisfaction.

Danamon Cash Management is strongly committed and strives to provide the best service to the customers. Accordingly, Cash Management continues to launch and offer better products that fit well with costumers' needs. Among them are Mobile EDC Collection that is provided especially for the customers with a need of highly mobile collection process, and improvement of eTax module at cash@work that supports Second Generation MPN Technology.

For strengthening the growth of Third Party Fund, Danamon Transaction Banking also launches programmes designed according to the characteristics of customer's business or industrial sector and provides product-bundling solutions through synergy with other banking Products.

Subsidiaries Business Review

ORGANIZATION STRUCTURE OF ADIRA FINANCE



Adira Finance

Market share of Four-Wheel continues to increase from quarter to quarter reaching 6.5% at year end, while Two-Wheels increased 13%.

PT Adira Dinamika Multi Finance Tbk (known as “Adira Finance”) is a subsidiary of Danamon with operations in automotive financing, car and motorcycle, and one of the biggest financing companies in Indonesia. Danamon has 95% share ownership over Adira Finance. In 2014 Adira Finance employed around 26 thousand persons and served about 3.5 million customers through 645 business offices and service outlets.

And PT Adira Quantum Multifinance (known as “Adira Kredit”) in 2014 was a subsidiary company of Danamon which provides financing for consumer 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. Supported by almost 8,500 associated merchants across Indonesia, Adira Kredit leads the consumer financing industry. In 2014 Danamon ownership of Adira Kredit was 99%.

It is part of Danamon strategic plan, that a broad synergy between Adira Finance and Adira Kredit will be formed in 2015 where the financing of consumer good will be offered by Adira Finance. Benefits of the synergy is expected to come from the wide network and the experience of Adira Finance in providing one-stop-solution services for its customers.

BUSINESS PERFORMANCE

In 2014, Adira Finance booked Rp49.6 trillion of financing receivables, which was 3% increase from Rp48.3 trillion in 2013.

Adira Finance Performance

	YoY	2014	2013	2012	2011	2010
Financing (Rp Billion)	3%	49.6	48.3	45.8	41.5	30.7
Non-Performing Loan (NPL) (%)	0.2	1.5	1.3	1.4	1.3	1.2
Market Share Motorcycle (%)	0	12.6	12.6	15.7	15.8	15.7
Market Share Car (%)	(0.1)	5.3	5.4	5.7	6.6	5.2

The performance of Adira Finance in 2014 can be regarded as stable, which was also the case for its market share that remained at 12.6% for motorcycle financing and 5.3% for car. These figures reflected a “stagnation” in the automotive market in Indonesia at 2014, which was produced by increasing subsidized fuel price, relatively high level of interest rates, and volatility in the rupiah exchange rate. The sales of car in Indonesia in 2014 did not show any increase from the previous year, as for motor cycle sales, the increase was slight at 2%.

Rising interest rates and weakening economic growth also means that banking and financial industry has to pay greater attention to loan quality. In this issue, non-performing loan ratio of Adira Finance in 2014 rose slightly to 1.5% from 1.3% in 2013.

2014 BUSINESS INITIATIVES

Other than the pressure from unfavourable macroeconomic conditions, in 2014 Adira Finance and financial service industry also confronted other challenges, such as, rising competition in the industry, continuously increasing Regional Minimum Salary which puts more pressure on operating cost and industry’s margin, and other adjustments required to ensure compliance to the newly applicable regulations.

In confronting such challenges, and as a financial service company, the strategies that were implemented by Adira Finance can be outlined as follows;

- In funding aspect; seeking a funding with the most optimum cost
- In operational aspect, improve efficiency and effectivity from the network and operation
- In marketing aspect; performing various marketing initiatives to improve services to the customers (customer relationships).

Funding

Around 40% of the value of asset portfolio managed by Adira Finance was funded by joint financing with Danamon. While the rest came from equity, bank loans and bonds. In 2014, Adira Finance issued Rp3 trillion bonds with fixed return, and Syariah/sukuk bonds valued at Rp133 billion. And in 2014, the credit ratings of Adira Finance was upgraded to idAAA (PT Pefindo), reflecting the improved credit ratings of the parent company, Danamon, and helping the market absorption of its financial securities. In 2015, Adira Finance will continue a similar funding initiatives with 2014 intiatives, which is diversifying its source of funding in order to optimize its cost of funds.

Operational Aspect

In 2014 Adira Finance continued the improvement of its information technology, among them;

a) Development of Mobile Marketing & Surveyor (M2S); an application for the handset, to be used by marketing and credit employees in the field to speed up the transfer process of financing application information, and
b) Mobile Collection System (MCS); an application for the handset, to speed up system data updating on the basis of payment and data collected by visiting employees.

Customer Relationship

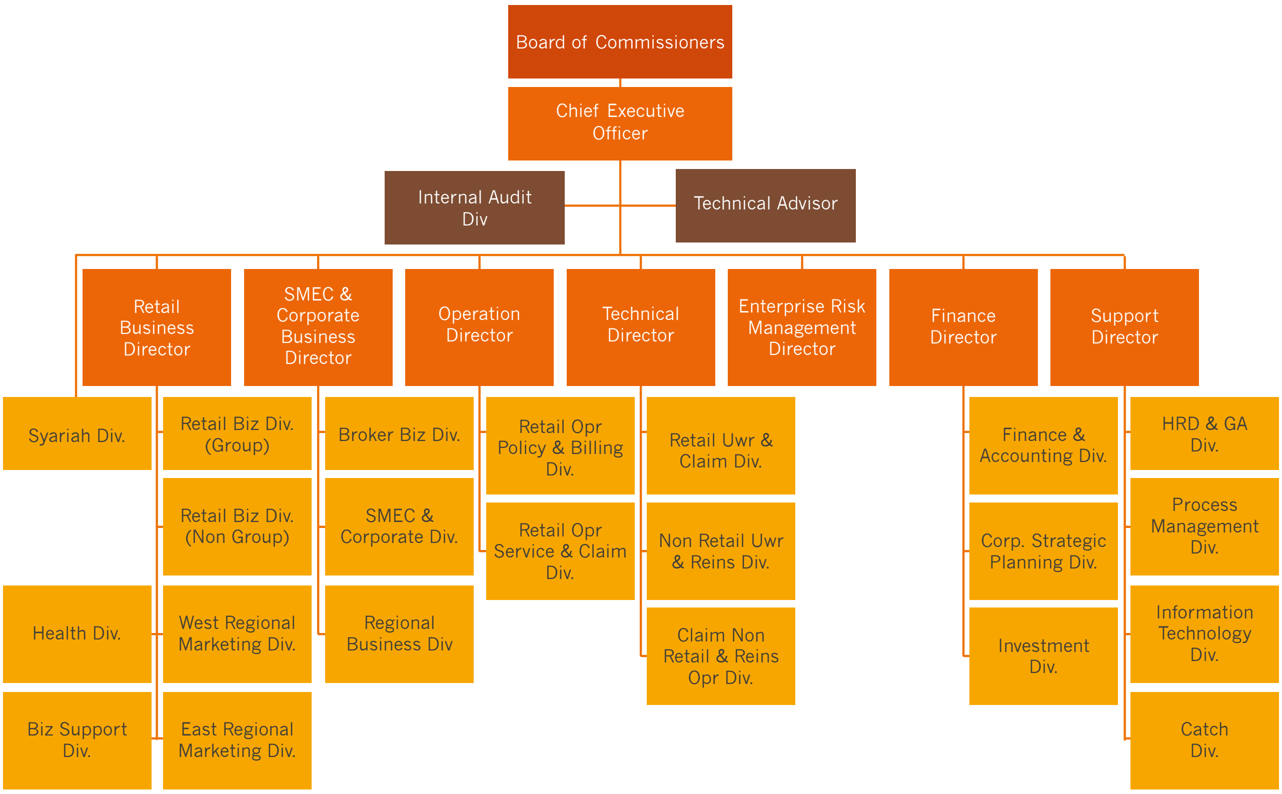
Adira Finance conducted brand strengthening to increase brand awareness in the society with the tagline of “Sahabat Setia Selamanya” (A Friend To Go To). Additionally, community approaches are utilized by formation or organizing of Adira Club.

As a subsidiary who make significant contribution for Danamon, Adira Finance is committed to widen its synergy both with the parent company and with other Danamon subsidiary, such as Adira Insurance. With the parent company, a cross-selling program was established, whereby a bank account for a dealer-partner of Adira Finance is opened at Danamon.

Whereas with other Danamon subsidiaries, the synergy was strengthened though integrated and centralized operations, and cross-sellings activities.

Subsidiaries Business Review

ORGANIZATION STRUCTURE OF ADIRA INSURANCE



Adira Insurance

Gross Premium Income and active insurance policy which grew strongly (respectively increased by 20% and 17%).

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 implementing its business, Adira Insurance offers two categories of general insurance – motor vehicle and non-motor vehicle insurance Two of our leading products on the market are motor vehicle insurances; Autocillin for car insurances and Motopro for motorcycle insurances.

In addition to motor vehicle insurances, Adira Insurance offers health insurance, travel insurance, personal accident insurance, property insurance, heavy equipment insurance, marine hull insurance, engineering insurance, surety bonds insurance, marine cargo insurance, liability insurance, and various other insurance products.

In 2014, Adira Insurance launched several new products, namely health insurance Medicilin, travel insurance Travellin, gadget and cellphone insurance, and other new products.

2014 BUSINESS PERFORMANCE

For motor vehicle insurances, the gross premium between 2013 to 2014 rose around 5%. As for non-motor vehicle insurances, their gross premium increased 45% from 2013 to 2014. The largest increase in gross premium of non-motor vehicle insurances came from health insurance, in total Gross Written Premium (GWP), Adira Insurance recorded an increase of 20% to Rp2.15 trillion (including syariah insurance) in 2014.

BUSINESS INITIATIVES

In 2014, Adira Insurance launched the latest services for its customers; Autocillin Mobile Claim Application and Medicillin Mobile Application, through which a customer can present a claim, and obtain information about Adira Insurance products. To date, Adira Insurance has established partnerships with 1,080 hospitals as care providers for Medicillin health insurance, and managed around 157,797 members.

During 2014, Adira Insurance improved brand equity, service culture, and system improvement toward supporting e-commerce.

2015 PROSPECTS

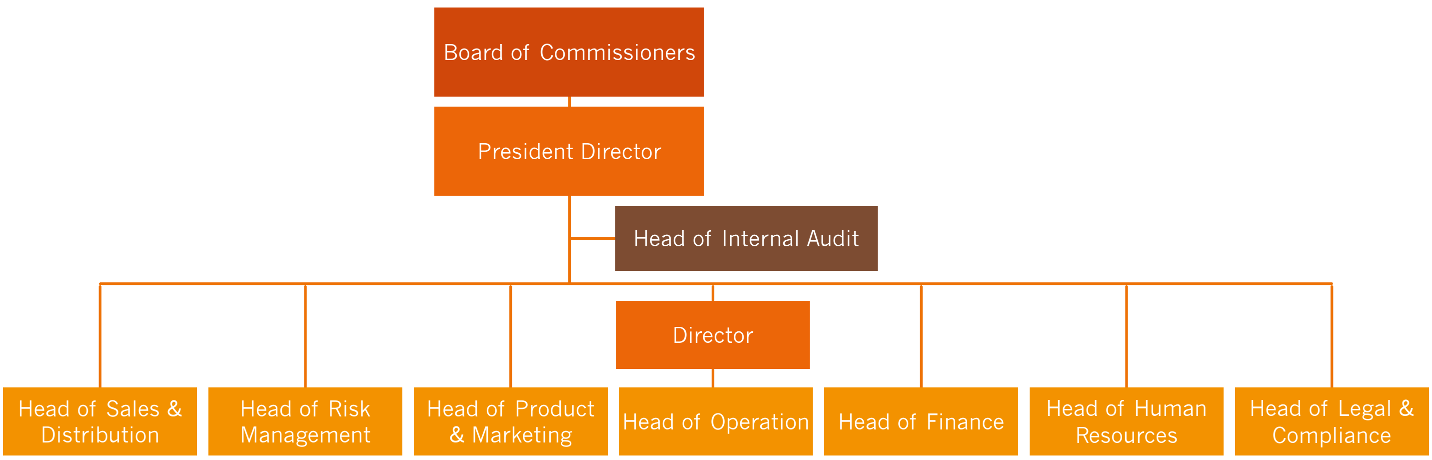
There wiill be challenges and opportunities in 2015. Among the opprtunities are low penetration rate for insurance products in Indonesia, rising society's awareness about insurance, greater utilization of mobile technology, and strong economic growth.

While the challenges are the need for improving productivity and efficiency, the changes in regulation, the changes in insurance business model and portfolio mix, and maximizing investment returns.

The outline of 2015 strategy is continuation of product development, expansion of distribution channel and infrastructure for supporting retail product sales.

Subsidiaries Business Review

ORGANIZATION STRUCTURE OF ADIRA KREDIT



Adira Kredit

Adira Kredit supported by over 200 outlets and 8,000 partner shops throughout Indonesia has generated new financing in the amount of Rp2.4 trilion in 2014.

PT Adira Quantum Multifinance (known as “Adira Kredit”) is a subsidiary company of Danamon which provides financing for consumer products such as electronics, computer, furniture, and other household appliances. Danamon ownership of Adira Kredit was 99%.

Adira Kredit aims middle and mass-market segment, with more than 100 million potential customers to grab. Supported by 205 outlets and almost 8,000 associated merchants across Indonesia, Adira Kredit was one of consumer financing industry leaders in 2014.

At the end of 2014, Adira Kredit booked its outstanding loan at Rp1.4 trillion. The new financing was recorded at Rp2.4 trillion, consisting of around 700 thousand accounts.

The financing of electronic equipments held the largest share of both of sales and loan portfolio at 36%, followed by computer 33%, furnitures 22%, and cellphones and others 9%.

Through rigorous customer selection process, Adira was able to maintain its ratio of non performing loans at the end of 2014 at 4.5%.

Consistent efforts by the company to provide the best financing services and the strong image of the company’s brand has produced outstanding outcomes, as shown by various prestigious awards and recognitions awarded to Adira Kredit, such as Indonesia Customer Satisfaction Award, Word of Mouth Marketing Award, Corporate Image Award, and Top Brand Award.

Marketing Strategy

The improvement of Danamon's performance is visible in the quantitative measures of the Bank's performance such as, the quantity and the quality improvement of its assets, the increase of third party funds, and the growth of its fee-based income. Although the improvement in quantitative performance also represents the final objective of Danamon marketing activities, nevertheless, not every marketing activity has measurable impacts on some quantitative indicators of the Bank's performance. As such, the marketing strategy implemented by Danamon differentiates between Direct Marketing and Indirect Marketing.

Direct Marketing is marketing activities which possess measureable performances in terms of targets of banking performances, such as the increase in outstanding loans, number of new customers of Bank's various products and services used. In general, the activities of Direct Marketing are performed by each Danamon's business line, Adira Finance, Adira Insurance and Adira Kredit addressing and servicing their respective market segment. Meanwhile, Indirect Marketing are activities geared more toward corporate-wide in nature, where performance is measured among others by awareness level of the Bank and its customer service satisfaction level in comparison with other banks through a survey conducted by an independent party. Danamon continues being recognized and awarded at the national as well as international level. The outcome of these various activities combined has strengthened Danamon's position as one of Indonesia's top banks.

In carrying out its business of banking and financial services, Danamon and its subsidiaries are very much concerned with measuring performance in their respective businesses.

As a service provider, Danamon and its subsidiaries recognize the customer wants and needs as their focus of business. By placing customer as the center of their attention, the marketing strategy Danamon implements, direct or indirect, have objectives, where each is correlated with one another as follows:

- Increasing the recognition of Danamon's brand (brand recognition)
- Increasing the number of potential customers who select Danamon products (customer acquisition)
- Increasing customer loyalty.

1. The recognition of Danamon's brand (brand recognition)

   Danamon as the brand is introduced to the public at large through activities that promotes Danamon "Brand Personality" namely:

   - Enabling, For You, We Can
   - Energetic, hard work and persistence
   - Proactive, take initiative and anticipate needs and challenges at all times
   - Adaptive, agile with changes in the environment
   - Capable, well trained and knowledgable
   - Genuine, convey as it is, do what is promised.

2. Increasing the Number of Customers Choosing Danamon Products (Customer Acquisition)
   The strategy to increase the number of users of Danamon services or Customer Acquisition is designed to package the product offerings as such to be emotionally more attractive and rationally provide more benefits.
   - Emotionally attractive products are products that possess "the right image" for its target market. For this reason, marketing activities are also performed through the use of advertising media well placed on branches, print media, electronic and online media. Additionally, various products are accompanied by attractive rewards.
   - One example where Danamon marketing activities were designed to create "the right image" of its products is the introduction of Manchester United credit and debit card, providing rewards in the form of opportunity to watch live games or original merchandise from one of the world's most famous and popular football club.

In developing products that offers more economic benefits to its potential corporate and business customers, Danamon and its subsidiaries utilize its competitive advantages of complete products and services variants, which can be offered to a wide range of potential customers in each segments from micro-business to corporates, and selected according to the customer needs.

In addition, Danamon and its subsidiaries provide their customers with ease of access to banking services through 2,156 branches and 1473 ATMs located throughout Indonesia's major cities. Moreover, the reach of Danamon's services extend internationally, wherein as the issuer of Visa and MasterCard credit cards enabled customers of Danamon to experience banking services through merchants spread across Indonesia and worldwide.

The wide range of its products are reinforced by an up-to-date IT supports, extensive service network, and the strength of its synergy. These enable Danamon to design services such as Financial Supply Chain, and Mobile Branches equipped with EDC, who offer more value added for business customers.

As for individual customers, the competency of Danamon IT allows the Bank to design and offer the latest service of "D-Mobile", a mobile banking application that can be used by smartphones on several platforms. In addition to facilitating online transactions currently available for computer users, D-Mobile is also equipped with new features such as, "SosMed D-Cash" for facilitating Facebook users and online retail transactions.

3. Improving Customer Loyalty
   Danamon marketing strategy for improving customers' loyalty is our efforts to continously making service imporovement, such as making customer service easier (less costly in terms of time and customer efforts) to access. These activities are implemented by:

Marketing Strategy

- Improving and adding the features offered on several service channels, such as; features on Danamon ATM services, and features on Mobile Banking applications.
- Simplifying various processes needed by a customer to obtain a Danamon service.
- Centralizing various processes conducted on Danamon service network.
- Improving the human resources capacity.

These improvement for Danamon customer service have been recognized by various awards, among others;

- Best Teller in the Banking Industry (BSEM – Survey)
- WOW Service Excellence Award 2014 (Markplus)
- Excellent Service Experience Award 2014 (ESEA)

CUSTOMER SEGMENT AND MARKET SHARE

As a bank oriented toward customers, Danamon continues to avail and offer preferred banking products and services in line with customer needs of each segment, and ensure every customer needs, which continue to change and evolve, are met accordingly.

With customers being the primary focus, Danamon continues aiming to be a “one stop shop” for its customers.

PRODUCTS AND SERVICES

Danamon’s products and services are described in the Corporate Data chapter.

MARKETING CAMPAIGN

As a bank oriented toward customer, Danamon has the ability to identify, develop and avail products and services which address certain segments, each with unique offering values aligned in accordance to risk management philosophy associated with each segment.

Given its network which expand throughout the archipelago, Danamon is able to provide comprehensive services.

Accordingly, Danamon has implemented a series of marketing campaign in response to the need of public in each target segment.

Below illustrates the form of marketing campaign conducted throughout 2014.

Danamon Lebih

Danamon savings with 5 additional benefits:

1. Free Administration Fee
2. Cash Back 5%
3. Low transfer fee and free cash withdrawal
4. Free Life Insurance

Tabungan FlexiMAX

Provide ease of transactions and financial benefits.

Passbook savings Fleximax earns special interest rate. Benefits include:

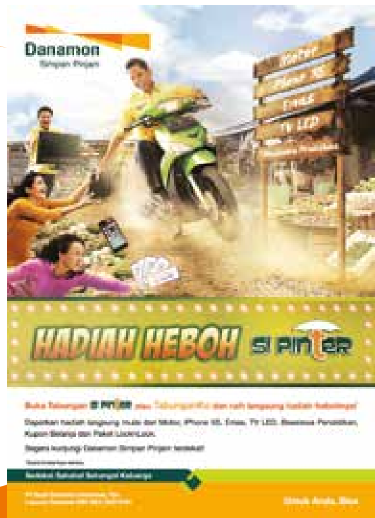
- Free transfer fee RTGS/LLG/clearing
- Free administration fee
- Free cash withdrawal fee when abroad
- High interest rate (progressive in line with balance)
- Free access to Airport Lounge
- Free daily statement via Fax
- Free from quieing at branch

Giro Bisa

GiroBisa is our flagship current account which gives you more benefits over an ordinary current account, which can be customized to the needs of clients in Small to Medium Enterprise (SME) segment.

SiPinter Saving Account

A saving account product with a low initial deposit which is suitable for customers at micro segment. Customers with certain criteria will receive additional services, which include among others the benefit of insurance protection with free premium payment, ATM facilities and bank transfer, free facilities of electricity and telephone bills payment and Cash Deposit Pickup Services.



Marketing Strategy

Business Loan for Small to Medium Enterprises

Danamon Savings and Loans provides a financing (DP 500) for your business loan, business development, or investments for the owners of Small to Medium Enterprises with a loan terms starting from 6 (six) months and up to 60 (sixty) months with loan nominals between Rp500 millions and up to Rp1.5 billions. Protected by Life and Fire Insurances, competitive interest rate and administrative fees, and monthly loan payment amount which may be adjusted to the ability of the customers.

Bisa iB (Islamic Banking) Saving Account

Discover simplicity and freedom at Bisa iB Saving Account which ENABLE you complete the transactions at any time.

Bisa Qurban Saving Account

There is a compassion in each of your qurban. A saving account which ALLOW you to prepare for the fund of your Qurban act of worship.

D-MOBILE

D-Mobile, Danamon Mobile Banking

A product of banking services from Danamon which gives you the ease and convenient in completing your transactions through your smartphone. Enjoy the benefits in using D-Mobile, which include:

Easy and Flexible

Simply download D-Mobile application through AppStore, GooglePlay, and Blackberry World. Activate your account directly on your D-Mobile Application without the need to visit Danamon Branch/ATM. Use your User ID and Password DOB or your Debit Card/ATM for activation.

Dynamic, Simple, and Personalized

With D-Mobile a range of transactions such as balance checking, interbank fund transfer, bill payments, and a variety of purchases now can be completed through your smartphone. Enjoy its top-of-the line features such as Augmented Reality (an exciting way to search for Danamon's merchants promotion) and Sos-Med D Cash (a new way of sending money to your Facebook friend). Additionally, D-Mobile lets you replace your Display Picture/Avatar according to your preferences.

Broad and Fast Services

The network data access (GPRS/3G, EVDO-CDMA, WiFi) which is secure with international standards EV SSL Certificate and HTTPS Host Security. Banking transactions become more practical, fast and convenient with D-Mobile.

Extensive and Fast Coverage

A secure data network access (GPRS/3G, EVDO-CDMA, WiFi) using international standard of security, namely International EV SSL Certificate and HTTPS Hist Security. Render more practical, fast, secured, and convenient banking transaction anywhere using D-Mobile.

DANAMON ONLINE BANKING

Internet banking services in conjunction with banking transactions such as balance checking, domestic and foreign exchange fund transfer, bill payment, purchases, and online checking account. This service is further equipped with SMS notification and e-mail to further customer's convenient and security.

KARTU DANAMON

Extraordinary credit card which gives you shopping convenience and let you fulfill your modern lifestyle. Additionally, this card also offers a variety of exciting programs in thousands of places which collaborate with Danamon.

CASH MANAGEMENT

For Commercial Customers, customers with annual turnover of between Rp40 to Rp500 billion will be served by Banking Commercial Unit.

CASH@WORK

Internet banking services for cash management purposes where customers may perform various banking transactions directly and easily at the customers' office through internet network.

For Corporate Clients, with an annual turnover of more than Rp500 billion and Financial Institution will be served by Coporate Banking Unit.

TRADE COMMODITY FINANCING

Designed with Specific Financing Scheme where the structure is customized according to customers' business types and their commodities.

Financial Review

In 2014, Asset of Danamon increased 6.2% to Rp195,709 billion from Rp184,237 billion in 2013. Danamon's Capital Adequacy Ratio (CAR) remained at 17.9% level. While Net Profit in 2014 decreased 35% to Rp2,683 billion compare to Rp4,159 billion in 2013.

PROFIT/LOSS

Rp (in billion)

Consolidated Statements of Income	YoY	Full Year 2014	2013	2012	2011	2010
Net Interest Income	1%	13,680	13,531	12,922	10,849	9,908
Net Underwriting Income	-12%	427	487	464	392	373
Net Interest Income and Net Underwriting Income	1%	14,107	14,018	13,386	11,241	10,281
Other Operating Income	-16%	4,336	5,156	4,649	4,213	3,584
Other Operating Expense	6%	14,380	13,569	12,464	10,280	9,235
Net Operating Income	-28%	4,063	5,605	5,571	5,174	4,630
Non Operating Income - net	580%	510	75	84	623	628
Income Before Tax	-36%	3,553	5,530	5,487	4,551	4,002
Income Tax Expenses	-37%	870	1,371	1,370	1,149	1,018
Income After Income Tax Expense	-35%	2,683	4,159	4,117	3,402	2,984
Net Income Attributable to Non - Controlling Interest	-33%	79	118	105	108	101
Net Income Attributable to Equity Holders of the Parent Entity	-36%	2,604	4,041	4,012	3,294	2,883
Basic Earning per Share	-36%	271.69	421.68	418.57	373.99	342.92
Comprehensive Income Attributable to Equity Holder of Parent Entity	-31%	2,741	3,961	3,978	3,260	3,285
Comprehensive Income Attributable to Non Controlling Interest	-32%	78	115	103	113	99

Other Comprehensive Income	YoY	Full Year 2014	2013	2012	2011	2010
Foreign Exchange Different from Translation of Financial Statement in Foreign Currency	-	-	-	-	(2)	-
Avalaible for sale Financial Assets :						
-Losses in Current Year	-290%	235	(124)	(16)	(65)	765
-Amount Transferred to Profit or Loss in Respect of Fair Value Change	18%	(13)	(11)	(4)	(31)	(237)
Cash Flow Hedges:						
-Effective portion on fair value changes of derivative instrument for cash flow hedges	-572%	(85)	18	(17)	(2)	-
Income tax relating to components of other comprehensive income	-106%	(2)	35	2	24	(128)
Other Comprehensive Income Net of Tax	-265%	135	(82)	(35)	(76)	400
Total Comprehensive Income	-31%	2,818	4,077	4,082	3,326	3,384

* 2011 is restated due to the first time adoption of SFAS62, SFAS28 (R2012) and SFAS36(R2012) in subsidiary

Financial Review

Comprehensive Income

In 2014, comprehensive income experienced Rp1,259 billion decrease to Rp2,818 billion compared to Rp4,077 billion in 2013. The decrease was mainly driven by decrease of net consolidated income in 2014.

The decline in commodity prices and the weak export has lended a limited space for business expansion. Consequently, the demand for credit was decreased and hence banking industry scored a conservative growth.

In addition, decline in the contribution of comprehensive income was also influenced by the changes in the new FSA rules, especially the Circular No. SE-06/D.05/2013 on Vehicle Insurance, which is in effect in 2014.

Consolidated Net Income

In 2014, in accordance with the new ruling (No SE-06/D.05/2013) from the Financial Services Authority (OJK), which change the method of income recognition for commission on motor-vehicle insurance, Danamon reported its income statements which significantly impacted the reported consolidated net income.

Under the method used in previous years, before the OJK ruling was applied, Danamon consolidated NPAT in 2014 would be described as “normalized” Net Profit After Tax (NPAT), which is useful for analyzing the performance of Danamon from the previous years. Whereas if the income was calculated in accordance with the OJK ruling, the reported 2014 profit or loss would be described as “reported” NPAT, which is the legally recognized profit or loss of Danamon.

The normalized consolidated net income declined 15% to Rp3,453 billion in 2014, compared to Rp4,041 billion in 2013. This decline can be regarded as the result of weakening economic growth and high interest rates, which caused a decrease in Danamon Net Interest Margin from 9.6% in 2013 to 8.4% in 2014 and resulting a limited increase of net interest income and increasing cost of credit. Additionally, there was a non recurring expense from Danamon restructuring activities in 2014.

The “reported” consolidated net income showed a significant decrease from Rp4,041 billion in 2013 to Rp2,604 billion in 2014. This decline came mainly from a 16% decline of other operating income from Rp5,156 billion in 2013 to Rp4,336 billion in 2014, which is a decrease of Rp820 billion in nominal value, and a 580% jump of non-operating expense from Rp75 billion in 2014 to Rp510 billion in 2014.

As of end of 2014, the Return on Average Assets (ROAA) was 1.4%, while the Return of Average Equity (ROAE) was 8.6%. These ratios however, are not comparable to same ratios calculated in the previous years since there are a significant changes in the calculation of Danamon’s income.

INCOME

Rp billion	Full Year					
	YoY	2014	2013	2012	2011	2010
Interest Income	14%	22,991	20,131	18,858	16,882	14,418
Premium Income	19%	1,492	1,258	1,152	958	768
Other Operating Income	-16%	4,336	5,156	4,649	4,213	3,584
Total Operating Income	9%	28,819	26,545	24,659	22,053	18,770
Non Operating Income	-49%	46	43	84	100	55
Total	7%	28,865	26,588	24,743	22,153	18,825

In 2014, the total income rose by 7% to Rp28,865 billion compared to Rp26,588 billion in 2013. The growth was contributed mainly by operating income, specifically interest income, which increased by Rp2,860 billion and amounted to Rp22,991 billion compared to 2013 of Rp20,131 billion.

Interest Income

Interest income is income from the interest from lendings and other financial investment instruments, as follows:

Interest Income

Rp billion	Full Year		
	YoY	2014	2013
Loans	13%	15,335	13,581
Government bonds	41%	326	232
Marketable securities and other bills receivable	42%	1,019	718
Consumer financing income	12%	6,055	5,428
Placement with other banks and BI	49%	256	172
Total	14%	22,991	20,131

Interest income from loans is the main component of Danamon's interest income. In 2014, interest income from loans rose by 13% to Rp15,335 billion compared to 2013.

Interest income from consumer financing grew by 12% from Rp5,428 billion in 2013 to Rp6,055 billion in 2014. 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 since 2013, impacted the growth of interest income from consumer financing since 2013.

Despite its relatively small amount, income from funds placement in other banks and Bank Indonesia experienced significant gowth of 49% from Rp172 billion in 2013 to Rp256 billion in 2014. One of the main drivers were increase of BI rate by 25bps from 7.5% to 7.75% in December 2014.

Financial Review

Net Interest Income

Rp billion	YoY	Full Year 2014	2013	2012	2011	2010
Interest Income*	14%	22,991	20,131	18,858	16,882	14,418
Interest Expense	41%	9,312	6,600	5,936	6,033	4,510
Total	1%	13,679	13,531	12,922	10,849	9,908

*) 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 reported as a deduction to interest income from previously recognized as part of provision & commission expense and other operating expense.

In 2014, net interest income increased by 1% from Rp13,531 billion in 2013 to Rp13,679 billion. The increase was lower than the growth of net interest income in 2013 and 2012, which rose by 5% and 19% respectively. The decreased growth of net interest income in these years was due to loan growth 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 more than 41% in 2014.

Other Operating Income

Rp billion	YoY	Full Year 2014	2013	2012	2011	2010
Fees and commissions income	3%	1,775	1,728	1,536	1,323	1,205
Fees	-19%	2,642	3,271	2,992	2,844	2,125
(Loss)/gain from changes in fair value of financial instrument	-259%	(127)	80	41	22	(12)
Realized gain (loss) from derivative instruments	-94%	13	208	(44)	(47)	20
(Expense) income from foreign exchange transaction	-95%	(7)	(139)	106	42	1
Dividend income	-80%	1	5	5	5	2
Gains on sale of marketable securities and Government bonds – net	1200%	39	3	13	24	242
Others	-	-	-	-	-	1
Total	-16%	4,336	5,156	4,649	4,213	3,584

At the end of 2014, other operating income declined by 16% to Rp4,336 billion compared to Rp5,156 billion in 2013. This was largely driven by the growth of fee-based income from administrative fees and credit card transactions of Rp629 billion. As for percentage, the largest decline came from loss from changes in fair value of financial instrument.

Fees and Commission Income

Provision and commission income increased by 3% from Rp1,728 billion to Rp1,775 billion in 2014. Fees and commission income represents the provision income from credit activities, amounting to Rp1,203 billion provided to customers and commissions for services performed amounting to Rp190 billion.

Fees

In 2014, fees declined by 19% to Rp2,642 billion compared to Rp3,271 billion in 2013. Income from fees derived from banking transactions such as administration fees from loans, which amounted to Rp2,052 billion, income from credit cards that amounted to Rp210 billion, and other fees of Rp380 billion.

Gains from Sales of Securities and Government Bonds

In 2014, gains from sales of securities and government bonds increased by 1200% to Rp39 billion, compared to Rp3 billion in 2013.

EXPENSES

Rp billion		Full Year				
	YoY	2014	2013	2012	2011	2010
Interest Expense	41%	9,312	6,600	5,936	6,033	4,510
Insurance Underwriting Expenses	38%	1,064	771	689	566	395
Other Operating Expense	6%	14,380	13,569	12,464 a)	10,280	9,235
Total Operating Expense	18%	24,756	20,940	19,089	16,879	14,140
Non Operating Expense	370%	555	118	168 a)	723	683
Total	9%	25,311	21,058	19,257	17,602	14,823

Notes: Reclasification Other Receivables Allowance for Impairment Losses & Loss on sale of repo

In 2014, the total amount of expenses rose by 9% to Rp25,311 billion compared to Rp21,058 billion in 2013. The increase was due largely to 41% or Rp2,712 billion increase of interest expenses, a significantly greater rise than the increase of Rp664 billion in the previous year. Other operating expense grew at 6%, or an increase of Rp811 billion from Rp13,569 billion of the expense in 2013, which is lower than 9% increase in the earlier year.

As for non operating expense, 2014 saw a jump of 370% or Rp437 billion, which came primarily from a one-time expense of business transformation expense of Rp408 billion brought by restructuring policy implemented by Danamon in 2014 toward its network of branches and employees.

Interest Expense

Rp billion		Full Year				
	YoY	2014	2013	2012	2011	2010
Deposits from customers	54%	6,303	4,099	3,951	4,485	3,469
Borrowings and deposits from other banks	46%	1,646	1,124	744	591	631
Securities issued	-5%	1,132	1,187	1,060	785	272
Deposit insurance guarantee expense	22%	231	189	181	172	138
Total	41%	9,312	6,600	5,936	6,033	4,510

Financial Review

In 2014, interest expense rose significantly by 41% to Rp9,312 billion compared to Rp6,600 billion in 2013. In terms of both of percentage and nominal values, the increase was driven by the increase of interest expense of deposits from customers and other banks, and borrowings. The interest expense of customer deposits rose 54%, from Rp4,099 billion in 2013 to Rp6,303 billion in 2014, while the interest expense from other banks deposits and borrowings rose Rp522 billion from Rp1,124 billion in 2013 to Rp1,646 billion in 2014.

The increase of FASBI interest rate and BI Rate in 2013 and 2014, and stiff competition among banks in offering time deposit's interest rates in the period up to 3rd quarter of 2014, led to rising interest rates of deposits in the banking industry. Danamon was no exception, when in 2014 it experienced increase of interest rate on its entire funding instruments.

The following table presents details of weighted average effective interest rate per annum for deposits from other banks and borrowings in 2012-2014:

The weighted average effective interest rate per annum from other banks	2014	2013	2012
Current Accounts	5.47%	4.75%	4.08%
Savings	4.30%	3.51%	3.99%
Deposits and on call deposits	7.16%	5.57%	5.87%
Call money-Rupiah	6.22%	5.21%	4.57%
Call money-foreign currecy	4.82%	2.00%	1.99%

Other Operating Expense

Rp billion	Full Year					
	YoY	2014	2013	2012	2011	2010
Fees and commissions expense	-2%	347	354	309	241	329
General and administrative expenses	-1%	3,652	3,689	3,388	3,080	2,545
Salaries and employee benefits	2%	5,811	5,713	5,163	4,413	3,839
Allowance for impairment losses	19%	3,986	3,348	3,151 a)	2,183	2,134
Addition of possible losses on commitments and contingencies		-	-	-	-	-
Others	26%	584	465	454 a)	363	388
Total	**6%**	**14,380**	**13,569**	**12,465**	**10,280**	**9,235**

a) Reclasification allowance for impairment losses of other receivable & Loss on sale of repo

In 2014, other operating expenses increased by 6% to Rp14,380 billion from Rp13,569 billion in 2013. In terms of both percentage and nominal value, the increase was mainly due to increase in Allowance for impairment losses, which rose 19% or Rp638 billion, from Rp3,348 billion in 2013 to Rp3,986 billion.

As for Salaries and employee benefit in 2014 only increased by 2% from earlier year, or in nominal value, it increased by Rp98 billion to Rp5,811 billion from Rp5,713 billion in 2013. General and administrative expenses have even declined by 1% from Rp3,689 billion in 2013 to Rp3,652 billion in 2014.

These changes in employees and administrative expenses represent strategic steps implemented by Danamon in 2014 by consolidation and restructuring service network, centralizing various business processes, and strengthening synergy between business units and subsidiaries of Danamon. These steps aim for improvement of efficiency and productivity in Danamon service network, while maintaining efficient cost structure.

Fees and Commission Expense

In 2014, fees and commission expense was down by 2% to Rp347 billion compared to Rp354 billion in 2013. Fees and commission expense is expenses from loan administration. The decrease of this expense was in line with moderate increase of fees and commission during 2014, which rose by only 3%.

General and Administration Expense

One of the significant component of other operating expense, General and administrative expenses, have even declined by 1% from Rp3,689 billion in 2013 to Rp3,652 billion in 2014. The decrease occurred mainly in the office expenses, which declined by Rp93 billion to Rp1,744 billion in 2014, and a decrease in advertising and promotion expenses of Rp49 billion to Rp217 billion in 2014. The decreasing amounts of both of these components was in line with the steps to improve operation efficiency implemented in 2014.

Salaries and Employee Benefits

The largest component in other operating expenses, Salaries and employee benefits, in 2014 only rose by 2% from the earlier year. In nominal value, it increased by Rp89 billion to Rp5,811 billion from Rp5,713 billion in 2013. This increase came only from 12.5% salary increases of Rp313 billion to Rp2,815 billion. As for other components: Benefits, Education and Training, and other expenses for employees, they declined by Rp215 billion to Rp2.996 billion.

Allowance for Impairment Losses

With growth of loans, Danamon has calculated that allowance for impairment losses of loans until end of 2014 stood at Rp2,801 billion, or significantly increased from Rp2,312 billion in 2013.

Financial Review

Movements of Allowance for Impaiment Losses	Amount (in billion Rp) 2014
Beginning Balance - 31 Dec 2013	2,312
Reclassification	-
Allowance	2,338
Recovery	814
Write Off	(2,431)
FX Difference	(233)
Ending Balance - 31 Dec 2014	2,801

Non-operating Income and Expense

In 2014, the total amount of non-operating income increased only by Rp2 billion to Rp45,6 billion. As for the non-operating expense, it increased almost by five fold from Rp118.1 billion in 2013 to Rp555.5 billiion in 2014. This substantial jump was brought by a non-recurrent expense of business transformation amounted to Rp408 billion in 2014. This expense was part of branches and employees consolidation steps implemented by Danamon.

Dupont Analysis

Dupont analysis identifies characteristics of an industry, wherein the main characteristic of banking industry is the high leverage/debts. Investors need to be aware of the bank debt ratio, as such banks would be vulnerable to volatility due to economic condition.

Dupont analysis table suggests that Danamon's overall financial performance enabled the Bank to maintain its debt ratio at over 6.5, a slight drop from 6.6 in 2013. However, ROAE of Danamon in 2014 reduced to 8.6% from 14.5% in the previous year mainly driven by lower operating income from 10.0% to 9.0%.

	Full Year				
	2014	2013	2012	2011	2010
Operating Income	9.0%	10.0%	11.1%	10.5%	11.2%
Operating Expense	-5.0%	-5.3%	-5.7%	-5.4%	-5.6%
Cost of Credit	-1.9%	-1.7%	-1.9%	-1.9%	-2.1%
Net Operating Income	2.1%	3.0%	3.6%	3.2%	3.6%
Non Operating Income (Expense)	-0.3%	-0.1%	-0.1%	-0.1%	-0.3%
Taxes	-0.4%	-0.7%	-0.9%	-0.8%	-0.9%
Asset Turnover	1.3%	2.2%	2.6%	2.3%	2.4%
Leverage	6.5X	6.6X	6.3X	7.4X	7.6X
ROAE	8.6%	14.5%	16.2%	17.2%	18.5%

BALANCE SHEET

Assets

Rp billion	Full Year										
	YoY	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Cash	-3%	2,856	1%	2,944	2%	2,457	2%	1,895	1%	1,985	2%
Current accounts with Bank Indonesia	11%	10,268	5%	9,261	5%	7,718 a)	5%	7,760 a)	5%	5,275	4%
Current accounts with other banks	-9%	4,858	2%	5,335	3%	3,717	2%	2,640	2%	1,658	1%
Placements with other banks and Bank Indonesia – net	31%	9,675	5%	7,399	4%	6,361	4%	13,232	9%	9,257	8%
Securities	15%	8,888	5%	7,727	4%	7,307	5%	4,820	3%	5,324	4%
Loans – net	2%	133,193	68%	130,646	71%	113,289 b)	73%	98,984 b)	70%	79,931	68%
Government bonds	18%	6,605	3%	5,598	3%	4,063	3%	3,947	3%	6,138	5%
Fixed assets – net	4%	2,490	1%	2,384 d)	1%	2,096	1%	1,899	1%	1,771	1%
Others	30%	16,876	9%	12,943 d)	7%	8,783 c)	6%	7,115 c)	5%	7,053	6%
Total	6%	195,709	100%	184,237	100%	155,791	100%	142,292	100%	118,392	100%

*) Including consumer financing receivables
Note: All figures are presented in net amount
Note:
a) Reclasification Prefund clearing BI
b) Reclasification other receivable
c) Reclasification other receivable & Prefund clearing BI
d) Reclasification fixed Assets to others

In 2014, total assets increased by 6% to Rp195,709 billion compared to Rp184,237 billion in 2013. The largest percentage increase was mainly due to increase of Placements with other banks and Bank Indonesia by 31% or Rp2,276 billion in nominal value to Rp9.675 billion in 2014. Loans, which is a component of assets with the most significant contribution of 68% from total assets in 2014, increased only by 2% or Rp2,547 billion from Rp130,646 billion in 2013 to Rp133,193 billion in 2014. The limited increase of Loans in 2014 (whereas Loans in 2013 increased by 15%), was part of Bank's strategy to maintain the qualilty of assets amid the weakness in economic growth and the relatively high interest rates.

Also contributing to the increase of assets was 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 30% or Rp3,933 billion, from Rp12,943 billion in 2013 to Rp16,876 billion in 2014.

Financial Review

Current Assets

As part of its prudent liquidity management, Danamon always strives to maintain the liquidity of its assets at its optimum level. 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.

Rp billion	Full Year					
	YoY	2014	2013	2012	2011	2010
Cash	-3%	2,856	2,944	2,457	1,895	1,985
Current accounts with Bank Indonesia	11%	10,268	9,261	7,718 a)	7,760 a)	5,275
Current accounts with other banks - gross	-9%	4,858	5,335	3,717	2,640	1,658
Placements with other banks and Bank Indonesia – gross	31%	9,675	7,399	6,361	13,232	9,257
Marketable securities – available for sale and trading	17%	8,620	7,347	6,811	4,173	9,572
Government bonds – available for sale and trading	18%	6,605	5,598	4,063	3,947	6,138
Total Current/Liquid Assets	38%	42,882	37,884	31,127	33,647	33,885

Note: a) Reclasification Prefund clearing BI

In 2014, current assets increased by 38% to Rp42,882 billlion compared to Rp37,884 billion in 2013. Increase of current assets was mainly due to significant increase of current accounts with Bank Indonesia, placements with other banks and Bank Indonesia, and the increase in Marketable securities and Government bonds available for sale and trading.

Loans

Rp billion	Full Year									
	YoY	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Wholesale	-2%	18,391	13%	18,828	14%	12,663	11%	12,532	12%	10,689	13%
SME&Commercial	6%	39,814	29%	37,606	28%	30,544	26%	24,241	24%	19,639	24%
Consumer *)	18%	10,847	8%	9,178	7%	7,371	6%	5,692	6%	5,150	6%
Mass Market *)	0%	70,005	50%	69,771	52%	66,005	57%	59,394	58%	47,180	57%
Total	3%	139,057	100%	135,383	100%	116,583	100%	101,859	100%	82,658	100%

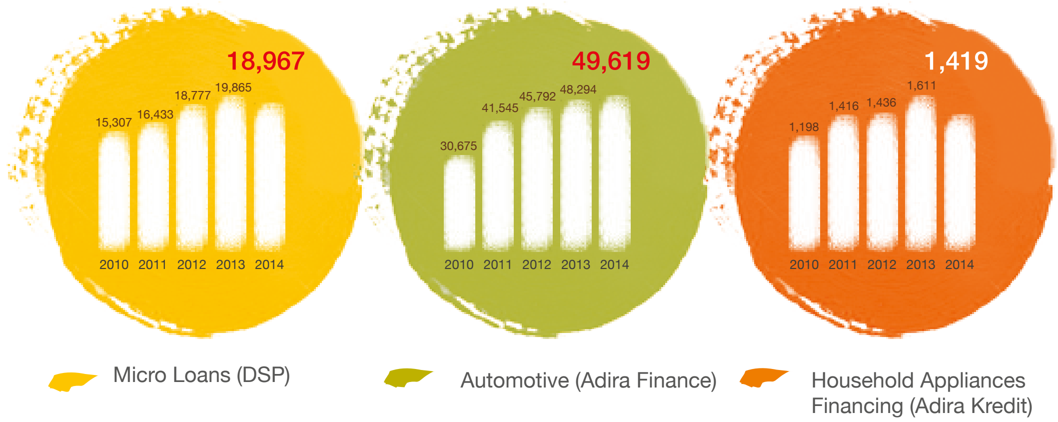
Catatan:
all amounts are gross amounts
*) Previously Pawnbroking classified as Mass Market, in 2014 classified as Consumer

In 2014, balance of gross loans rose by 3% from Rp135,383 billion in 2013 to Rp139,057 billion.

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 50% of Danamon's overall lending portfolio.

Mass Market Loans
Rp billion



In 2014, loan balance on this segment can be regarded as constant, as it rose by only 0.34%, or Rp234 billion, from Rp69,771 billion in 2013 to Rp70,005 billion. The increment of loans in the Mass Market segment was mainly driven by the increase of automotive financing (Adira Finance) of 3%, from Rp48,294 billion in 2013 to Rp49,619 billion in 2014. As for micro loans, which were disbursed through DSP and Adire Kredit (household and electronic goods financing), they experienced some declines. The contributions of automotive financing and micro loans to the total loans of Mass Market segment are 71% and 27% respectively.

Loans in the medium-scale business (SME & Commercial) grew by 6% to Rp39,814 billion compared to Rp37,606 billion in 2013. With this growth, contribution of SME & Commercial loans to Danamon's total loans increased from 28% in 2013 to 29% in 2014. Meanwhile, wholesale loans declined 2% from Rp18,828 in 2013 to Rp18,391 in 2014.

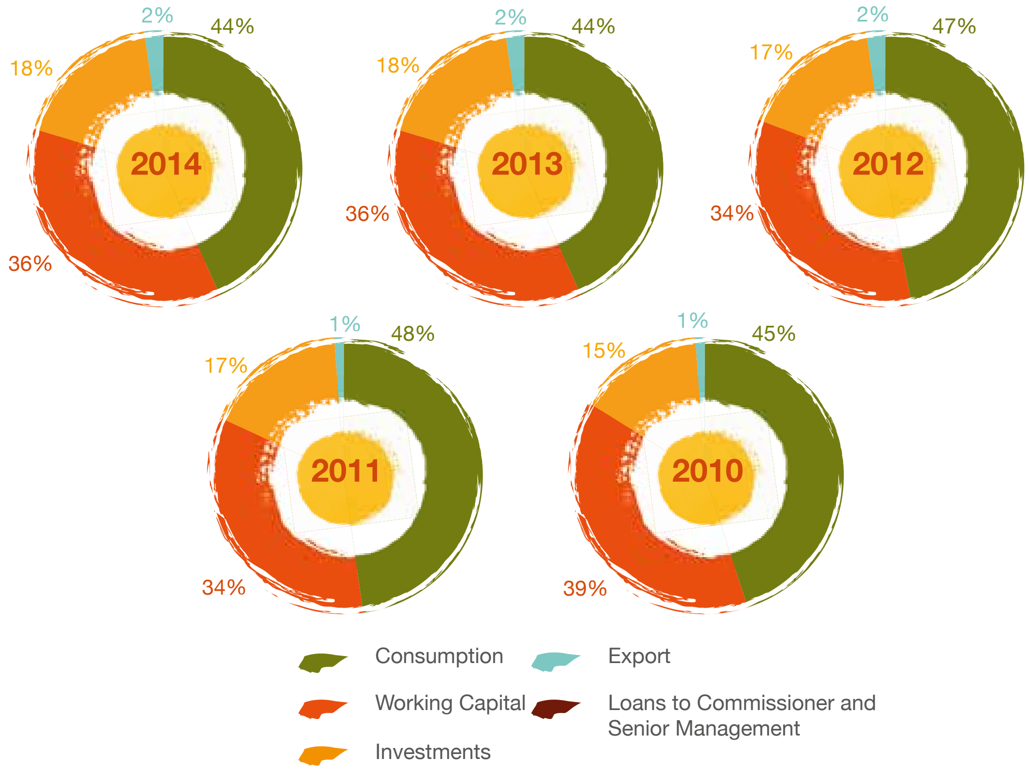
Integration of services carried out at all of Danamon branches; investments in information technology, especially infrastructure that supports loan disbursement; intensive marketing of credit cards and personal loans were strategies that succesfully contributed to 18% growth of consumer loans, from Rp9,178 billion in 2013 to Rp10,847 bilion in 2014.

Financial Review

Lending by Loan Category Rp billion	Full Year										
	YOY	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Consumption*	2%	59,917	44%	58,506	44%	54,811 a)	47%	48,634 b)	48%	36,834	45%
Working Capital	2%	50,474	36%	49,288	36%	39,718	34%	34,737	34%	32,127	39%
Investments	4%	25,206	18%	24,314	18%	20,238	17%	17,152	17%	12,530	15%
Export	6%	3,437	2%	3,248	2%	1,801	2%	1,323	1%	1,156	1%
Loans to Commissioner and Senior Management	-15%	23	0%	27	0%	15	0%	13	0%	11	0%
Total	3%	139,057	100%	135,383	100%	116,583	100%	101,859	100%	82,658	100%

*) Including consumer financing receivables and leasing for customers of Adira Finance
Note:
a) Reclasification other receivable
b) Reclasification other receivable & Leasing

Lending by Loan Category



Based on the category of use, Danamon's lending is dominated by consumption loans. Lending composition according to the category of use in 2014 is as follows; consumption loans accounts for 44% of the total portfolio, followed by working capital at 36%, investment loans at 18%, and export loans at 2%.

In 2014, consumption loans increased by 2% from Rp58,506 billion in 2013 to Rp59,917 billion. The largest share of this category of loans comes from automotive loans (Adira Finance), which grew 3% in 2014, or Rp1.325 billion in the previous year. Danamon's working capital loans were mainly absorbed by SME and micro businesses.

In 2014, this loan category experienced only 2% growth from Rp49,288 billion to Rp50,474 billion, while investment loans increased by higher growth of 4% to Rp25,206 billion. The low absorption of global market resulted on adverse impact on pricing, which led to decreasing prices of commodities and reduction of national exports. Although Indonesian exports went through a decline, Danamon was able to maintain its financing performance in this market and increase its export loans in 2014 by 6% compared to 2013, in line with the increase of activities in trade finance.

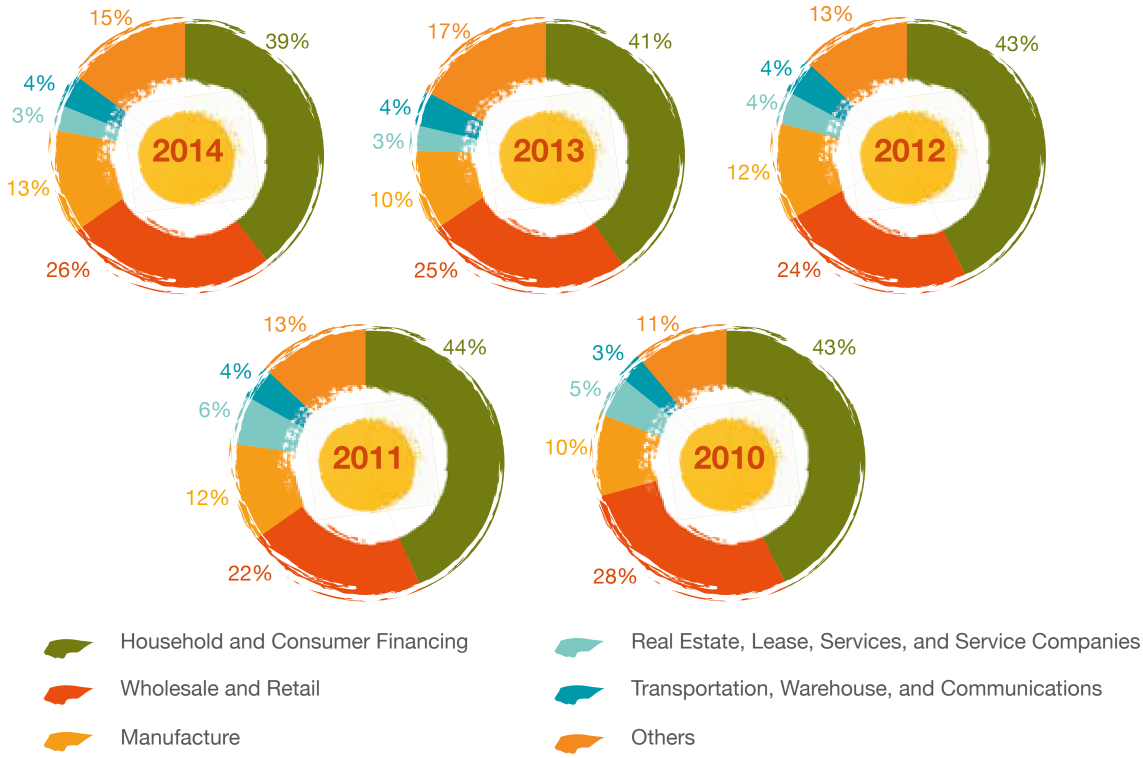
Loans by Economic Sector Rpbillion	Full Year										
	YOY	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Household and Consumer Financing	4%	55,953	39%	54,021	41%	49,920 a)	43%	44,352 a)	44%	35,543	43%
Wholesale and Retail	5%	35,465	26%	33,889	25%	27,932	24%	22,369	22%	23,144	28%
Manufacture	40%	18,354	13%	13,124	10%	13,966	12%	12,201	12%	8,266	10%
Real Estate, Lease, Services, and Service Companies	-11%	4,228	3%	4,725	3%	4,655	4%	6,101	6%	4,133	5%
Transportation, Warehouse, and Communications	-19%	4,890	4%	6,052	4%	4,450	4%	3,588	4%	2,436	3%
Others	-14%	20,167	15%	23,572	17%	15,659	13%	13,248	13%	9,136	11%
Total	3%	139,057	100%	135,383	100%	116,583	100%	101,859	100%	82,658	100%

Note: a) Reclasification other receivable & Leasing

Based on economic sector, Danamon's loans portfolio is evenly spread to various sectors. Household and consumer financing as well as wholesale and retail loans have constituted the majority of the loans portfolio for five consecutive years. The contributions of both sectors to Danamon's total loans in 2014 were 40% and 26%, 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.

Financial Review

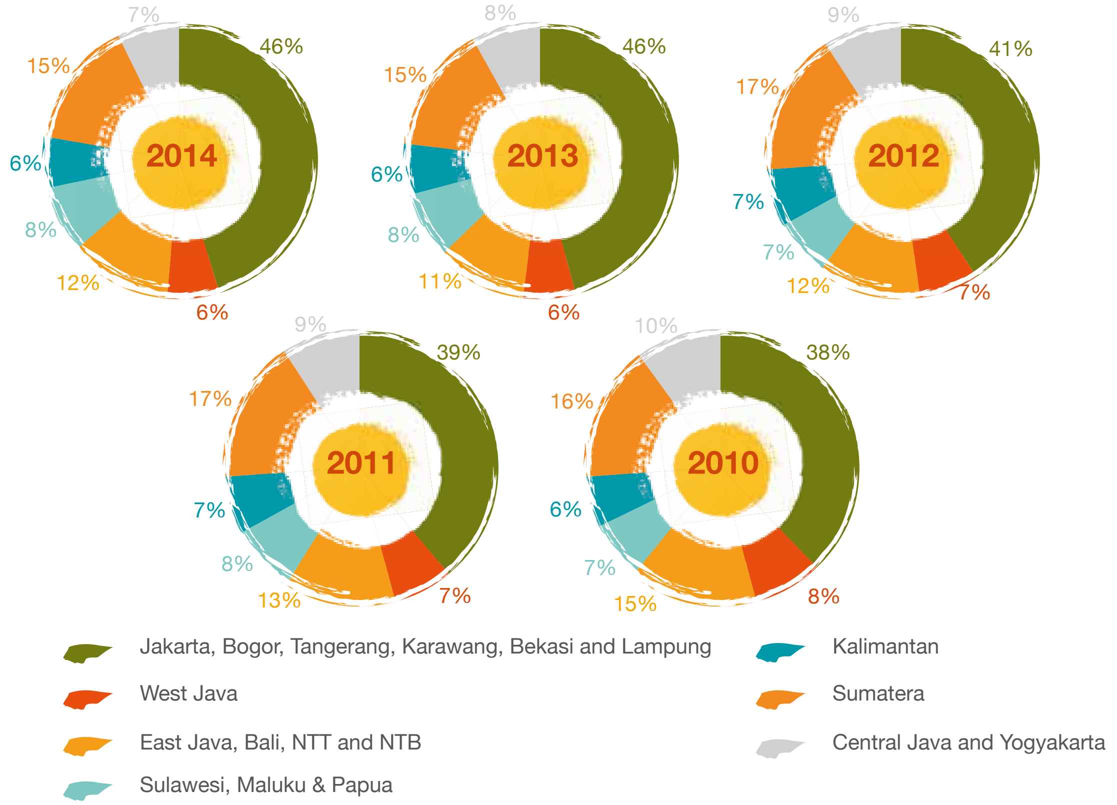
Loans by Economic Sector



Loans by Region Rp billion	Full Year										
	YOY	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Jakarta, Bogor, Tangerang, Karawang, Bekasi and Lampung	3%	49,812	46%	48,505	46%	38,479 a)	41%	34,295 a)	39%	28,794	38%
West Java	4%	6,710	6%	6,459	6%	6,066	7%	6,139	7%	6,062	8%
East Java, Bali, NTT and NTB	9%	12,844	12%	11,748	11%	10,914	12%	11,401	13%	11,366	15%
Sulawesi, Maluku & Papua	6%	8,625	8%	8,139	8%	7,656	7%	7,016	8%	5,304	7%
Kalimantan	5%	7,066	6%	6,727	6%	6,400	7%	6,139	7%	4,546	6%
Sumatera	1%	16,307	15%	16,121	15%	15,459	17%	14,909	17%	12,124	16%
Central Java and Yogyakarta	2%	8,211	7%	8,082	8%	8,207	9%	7,893	9%	7,577	10%
Total	4%	109,575	100%	105,781	100%	93,181	100%	87,793	100%	75,773	100%

Note: Exclude CFR (Consumer Financing Receivable)
a) Reclassification of receivables savings

Loans by Region



Until end of 2014, Danamon (stand alone) loans portfolio remains concentrated in Jabodetabek, Karawang, and Lampung, which accounts for 46% of the portfolio. Danamon will continue striving to grow the contributions from regions outside Java, especially Eastern Indonesia that is showing promising advancement of economy.

Loans by Interest Rate and Currency

Based on interest rate, Danamon's loans are dominated by fixed-rate loans that contribute to 55% 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 45% of Danamon's total loans in 2014, 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 2014 contributed to 92% and 8% to Danamon's total loans, respectively. Loans disbursed in foreign currency are largely provided to Commercial and Wholesale customers.

Financial Review

Quality of Productive Assets

Collectibility of Loans

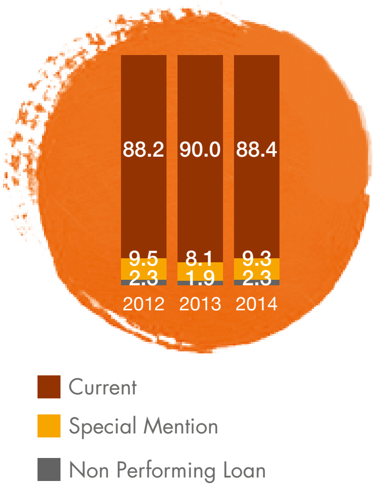
Danamon's productive assets consist of current assets, placement with other banks and Bank Indonesia, marketable securities, derivative receivables, loans, consumer financing receivables, acceptance receivables, and government bonds.

Throughout 2014, the slowing down of Indonesian economic growth and high interest rates generated strong pressures against asset quality of the banking industry. NPL (gross) ratio of the banking industry rose from 1.8% in 2013, to 2.2% in 2014, albeit NPL ratio of around 2% is still considered as relatively low and still far from the upper limit of 5% set by Bank Indonesia.

This pressure was also faced by Danamon in 2014, as the quality of Danamon productive assets were slightly down compared to 2013. This decline is indicated by several variables, among them are the loans in category of Current in loan collectibility in 2014 was slightly less than 2013, and the nominal value of Loans in the category of Special Mention was larger than the earlier year.

In terms of loans collectability, in 2014 Danamon experienced a decline in its "current" loans to 88.4% of total loans, compared to 90.0% in 2013. Meanwhile the composition of loans classified as Special Mention and non-performing loans had increased to 9.3% and 2.3%, respectively, from 8.1% and 1.9% in 2013.

Loans Collectibility (%)



Non-Performing Loan (NPL)

The present continuing slow down of global economic growth has pushed upward the risk profile of corporate customers segment. Nevertheless, through intensive approach to its customers, Danamon maintained its 2014 NPL ratio in the wholesale banking segment at the same level of 2013, which was 1%.

The same thing can not be said about SME & Commercial banking segment, where the NPL ratio rose to 1.7% in 2014, from 0.9% in 2013.

Inflation rate, which rose as a consequence of the rise in subsidized fuel prices had a significant impact on micro business in the mass-market segment, which in turn reduced their capacity to meet their debt obligations.

NPL by Segment	2014	2013	2012	2011	2010
Wholesale	1.0%	1.0%	3.3%	2.6%	3.0%
SME & Commercial	1.7%	0.9%	1.5%	2.3%	3.7%
Consumer	1.6%	1.3%	1.5%	2.0%	4.2%
Mass Market	3.1%	2.6%	2.6%	2.5%	2.5%
Consolidated	2.3%	1.9%	2.3%	2.5%	3.0%

Special Mention Loan by Segment

Special Mention Loan by Segments Rp billion	%	%	%	%
Wholesale	5%	3%	3%	4%
SME & Commercial	6%	2%	2%	2%
Consumer	3%	3%	3%	2%
Mass Market	86%	92%	92%	92%
Total	100%	100%	100%	100%

As of 31 December 2014, loans classified as Special Mention amounted to Rp12,187 billion, or increased from Rp10,877 billion in 2013. The Mass Market segment is still the predominant segment in Danamon's Special Mention classification, albeit with decreasing contribution from 92% of loans in the category in 2013 to 86% in 2014. However, in terms of nominal value, the amount of Special Mention loans from the Mass Market segment decreased from Rp10,027 billion in 2013 to Rp10,424 billion in 2014.

Unlike mass market segment, in 2014 other segments showed rising loans in special mentions both in terms of their share in the loans in this category and nominal values.

Prime Lending Rates

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.

Financial Review

Prime Lending Rate Rupiah
31 December 2014 (effective % per year)

	Prime Lending Rate Rupiah Based on Business Segment				
	Corporate Loans	Retail Loans	Micro Loans	Consumption Loans	
				Mortgage	Non Mortgage
Prime Lending Rate	12.30%	13.25%	21.01%	12.25%	17.50%

Description:
a. 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.
b. Prime lending rate excludes cash collateral loans
c. Corporate Loans include loans to corporate and commercial customers.
d. Prime lending rate on micro loans is prime lending rate on loans with collateral as required by prevailing regulations.
e. 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.
f. If necessary, the Bank may at any time change the information of prime lending rate.
g. 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 Rp billion	Full Year										
	YoY	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Deposits from customers	7%	116,495	72%	109,161	71%	89,897	71%	85,979	74%	79,643	80%
Deposits from other banks	43%	2,426	1%	1,695	1%	2,824	2%	2,814	2%	1,937	2%
Securities sold under repurchase agreements	-1%	750	0%	759	0%	1,049	1%	1,140	1%	2,790	3%
Bonds issued	-2%	11,893	7%	12,112	8%	12,347	10%	11,278	10%	6,300	6%
Borrowings	-10%	14,497	9%	16,069	11%	11,020	9%	6,917	6%	2,482	2%
Subordinated debts	0%	-	0%	-	0%	0	0%	-	0%	500	1%
Others	29%	16,630	10%	12,888	8%	9,921	8%	8,455	7%	6,211	6%
Total	7%	162,691	100%	152,684	100%	127,058	100%	116,583	100%	99,863	100%

On 31 December 2014, total consolidated liabilities grew at 7% from Rp152,684 billion in 2013 to Rp162,691 billion. The growth was primarily driven by significant increase from deposits from other banks, which rose by 43% to Rp2,426 billion at end of 2014. In nominal values, Customer deposits had the largest increase of Rp7,334 billion, increasing its contribution to Danamon's liabilities to 72%. Other liabilities booked 29% growth from Rp12,888 billion in 2013 to Rp16,630 billion in 2014.

Customer deposit is the largest component that occupied on average 73.6% of Danamon's total liabilities in the last 5 years. It was followed by Bonds issued, which on the annual average for the last 5 years accounts for 8% of the total liabilities.

To meet funding needs for automotive financing activities, in 2014 Adira Finance issued fixed-rate Continuous Bonds II phase III and IV, each amounted to Rp1.5 trillion. During the same year, Adira Finance also issued Syariah/Sukuk Mudharabah Continuous Bonds I phase II amounted to Rp133 billion. These bonds were rated AAA by PT Pefindo rating agency.

FUNDING

Rp billion	Full Year					
	YoY	2014	2013	2012	2011	2010
Third Party Funds	7%	118,325	110,807	91,675	88,054	80,986
Long Term Borrowings	17%	18,403	15,750	10,023	9,604	7,204
Total	8%	136,728	126,557	101,698	97,658	88,190

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.

During 2014, total funding grew by 8% to Rp136,728 billion in 2014 while it was Rp126,557 billion in 2013. Long-term borrowings grew significantly by 17% to Rp18,403 billion in 2014 while it was Rp15,750 billion in 2013. Meanwhile, third party funds as the largest component in the funding structure which represent 86.5% of Danamon's total funding, reported a 7% growth or Rp118,325 billion from Rp110,807 billion in 2013.

a. Third Party Funds

Rp billion	Full Year					
	YoY	2014	2013	2012	2011	2010
Current accounts	10%	23,157	21,132	15,854	12,994	10,972
Savings	10%	35,100	32,053	27,270	23,439	21,433
Time-deposit	4%	60,068	57,621	48,551	51,621	48,581
Total	7%	118,325	110,807	91,675	88,054	80,986

During financial year 2014, current accounts rose by 10% from Rp21,132 billion in 2013 to Rp 23,157 billions. The growth slightly add the current account contribution to the total third party accounts from 19% in 2013 to 20% in 2014.

Savings as one of the component of third party funds contribute 30% of Danamon's total Third Party Funds in 2014. Up to the end of 2013, Danamon booked a 10% growth in savings from Rp32,053 billion in 2013 to Rp35,100 billion.

Meanwhile, Time Deposit remains the leading contributor against the total Third Party Funds (51%), a slight 4% increase or equivalent to Rp60,068 billion in comparison to the preceding year. In terms of funding composition, there was an increase of contribution from low-cost funds in 2013 comprising

Financial Review

Current Accounts and Savings to Total Danamon's Third Party Funds at 49% in comparison to 2013 which was at 48%.

The management views the composition of Third Party Funds as a fairly sound performance considering the increasingly tighter competition resulting from stringent liquidity followed by the raise of benchmark interest rate (BI Rate). Coupled with the capital market performance which was relatively unstable, the consumers and investors were expected to opt for products which would generate optimum return instead rather than instruments with moderate to high risk profile.

In order to increase CASA composition in funding, especially in third party funds, Danamon consistently engage in promotional programs and enhancement of infrastructure network by adding features of the ATM, internet banking, and mobile banking, including the launch of D-Mobile application which are compatible with devices on Blackberry, Android, and iOS platforms which enable the consumers to access the existing banking services, as well as the addition of innovative mobile banking services.

b. Long-Term Borrowings

Rp billion	Full Year					
	YoY	2014	2013	2012	2011	2010
Danamon Bonds	0%	920	918	918	2,800	4,036
Adira Dinamika Multi Finance Bonds	-2%	11,170	11,363	6,839	5,940	2,123
PT Bank Pan Indonesia	33%	1,000	750	750	-	-
PT Bank Central Asia Tbk	-92%	41	534	348	-	-
Citibank NA, Jakarta Branch	-	248	-	-	181	-
The Hongkong and Shanghai Banking Corporation Ltd., Indonesia	-		-	-	-	-
PT Bank DKI	-73%	100	373	253	-	-
PT Bank Victoria International Tbk	-		-	-	-	-
PT Bank Commonwealth	-		-	-	-	-
PT Bank Nationalnobu Tbk	-		-	-	-	-
PT Bank BCA Syariah	-	10	-	-	-	-
Borrowing from other bank/ other financial institution	-		-	-	-	-
PT Bank BJB	-		-	250	-	-
International Finanace Corporation	-10%	818	913	-	551	825
Wells Fargo Bank	4%	617	595	-	-	-
PT Bank BNI Syariah	-		-	25	-	-
PT Panin Syariah	-		-	25	-	-
Chanelling	-		-	-	-	1
PT Permodalan Nasional Madani	-		-	-	-	28
Bankers Acceptance	-		-	555	-	-
Australia and New Zealand Banking Group Ltd	-	368	-	-	-	-
DBS Bank (Singapore) Ltd.	-		-	-	-	-
Letter of Credit	-		-	-	-	178
The Bank of Tokyo-Mitsubishi UFJ Ltd	-		-	60	132	-
PT Bank BNP Paribas (Singapura)	923%	3,111	304	-	-	-
Bank Indonesia	-	-	-	-	-	13
Total	17%	18,403	15,750	10,023	9,604	7,204

Financial Review

As part of its liquidity and funding strategy, Danamon has also managed long-term borrowings (with maturity date of over one year) to maintain the mismatch of liquidity and interest risks more appropriately. In 2014, Danamon's long-term borrowings were provided by fixed-rate bonds issuance from Adira Finance, comprising of Continuous Bonds II phases III and IV as well as continuous Sukuk Mudharabah I phase II, with total proceeds of Rp11,170 billion which represents a 2% decrease in the proceeds of the bonds issuance in comparison to 2013 bonds issuance which was at Rp11,363 billion.

Long-term borrowing throughout 2014 were also driven by various banking institutions, with Bank BNP Paribas (Singapore) as the primary source with a nominal increase of Rp2,807 billions, which represents a 923% increase in comparison to the preceding year. Additionally, there are also new borrowings from ANZ Banking Group Ltd and Citibank, NA (Jakarta Branch), with Rp368 billion and Rp248 billion respectively.

Consolidated Equity

At the end of 2014, total equity rose by 4.6% from Rp31,553 billion in 2013 to Rp33,018 billion. Similar to the preceding year, mainly due to the growth of profit balance of 7.7% or Rp1.392 billion, from Rp18,069 billion in 2013 to Rp19,461 billion.

However, unlike the previous year, the non-controlling interest experienced a 21% decline or equivalent to Rp238 billion in comparison with 2013 which was at Rp302 billion.

CASH FLOW

Rp billion	Full Year		
	YoY	2014	2013
Net Cash flows from (used in) operating activities	50%	5,501	3,672 *)
Net Cash flow from (used in) investing activities	-25%	(1,966)	(2,607) *)
Net Cash Flows from (used in) financing activities	-179%	(2,697)	3,420
Net (decrease) increase in cash and cash equivalents	-81%	838	4,485
Cash and cash equivalents at beginning of the year	22%	24,519	20,033
Cash and cash equivalents at end of the year	3%	25,357	24,519

Reclassification from other assets to construction in progress

The table above presents the comparative data on Danamon cashflow for the years of 2013 and 2014. Consolidated cashflow statements and tables are presented using direct method by classifying cashflow into operating, investment, and funding activities.

At the end of 2014, Danamon booked Rp25,357 billion of cash and cash equivalents. The account consisted of Cash of Rp2,856 billion, Current Account at Bank Indonesia of Rp10,268 billions, Current Accounts at other banks of Rp4,861 billion, and Placement at other banks and Bank Indonesia with 3 month maturity date effective from the date of acquisition of Rp7,372 billions. The cash balance slightly improved at 3% in comparison to the cash balance at the end of 2013 which was at Rp24,519 billion.

Net Cash Flows From (Used In) Operating Activities

The total net cash flow generated by operating activities during 2014 is Rp5,501 billion, while during 2013 Danamon generated cash flow for operating activities at Rp3,672 billion. Significant increase (20%) was due to the rise of income from consumer financing of 14%, from Rp27,566 billion in 2013 to Rp31,420 billion in 2014, and very significant decrease on the expenses for new consumer financing transactions at 28%, or equivalent to Rp7,841 billion, from the expenses during 2013 at Rp27,728 billion.

Net Cash Flows From (Used In) Investment Activities

During 2014, total cash flow (consolidated) used by Bank Danamon is greater than the cash flow (consolidated) generated by investment activities. Similar condition took place during 2013, however Net Cash Flow Used for Investment during 2014 decreased from Rp2,607 billion in 2013 to Rp1,966 billion during 2014, or a total decrease of Rp641 billion. Net Cash Flow Used during 2014 is contributed primarily for investments in effects and Government Bonds as well as Placement on Time Deposit.

As of the securities and Government Bonds, the Net Cash Flow Used decreased from Rp1,965 billion at the end of 2013, to Rp1,161 billion at the end of 2014, or a Rp809 billion decrease. As for the Cash Used on Placement on Time Deposit increased to Rp301 billion, from Rp17 billion at the end of 2013, to Rp318 billion at the end of 2014.

Net Cash Flow From (Used in) Funding Activities

The Total Net Cash Flow Used in funding activities during 2014 was Rp2,697 billion, which represented a Rp6.117 billion decrease in comparison to the position at the end of 2013, where the Net Cash generated was Rp3,420 billion.

The Net Cash Flows from funding activities in 2013 beginning from Cash From in 2013, to the Cash Used in 2014, is primarily due to the increased amount of borrowings repayment under joint financing scheme as well as movements in new borrowings. Borrowings repayment in conjunction with joint financing experienced an increase of Rp1,832 billion, from Rp8,756 billion to Rp10,588 billion, meanwhile there was a decrease of Rp2,981 billion in the new borrowings.

SOLVABILITY AND COLLECTABILITY

A large part of Danamon's long-term liabilities is bonds issuance, while during 2014, the composition of liabilities from bonds issuance (in which 92% of them are Adira Finance bonds) contribute to 66% of total Danamon's long-term liabilities.

Danamon and its subsidiary, Adira Finance, were able to meet the various principal and bonds' interests payment schedule requirements. Danamon and its subsidiary were also able to meet various payment requirements of long-term liabilities in the forms of loans from other banks as prescribed on each respective credit agreements. In addition, the level of ability to serve liabilities reflect Danamon's level of liquidity which is associated with the Bank's overall robust management of liquidity risk.

Financial Review

Danamon's ability to fulfill both short term (S/T) and long-term (L/T) obligations is considered fairly stable and good as exemplified by both internal as well as external rating agencies.

At the end of 2014, Danamon held liquid assets (assets that can be easily liquidated – incl. cash, nostro, central bank papers, net interbank placements, AFS Government Bonds) of Rp42.9 billions. Danamon's LDR ratio stood at 92.6% while Loan to Funding was at 85.9%.

Rp billion	Full Year					
	YoY	2014	2013	2012	2011	2010
Cash	-3%	2,856	2,944	2,457	1,895	1,985
Current Accounts in Bank Indonesia	11%	10,268	9,261	7,718 a)	7,760 a)	5,275
Current Accounts in other Bank	-9%	4,858	5,335	3,717	2,640	1,658
Other placement in other Bank and Bank Indonesia - gross	31%	9,675	7,399	6,361	13,232	9,257
Securities Held for Sale and Trading - gross	17%	8,620	7,347	6,811	4,173	9,572
Government Bonds – Held for Sale and Trading	18%	6,605	5,598	4,063	3,947	6,138
Total Liquid Assets	38%	42,882	37,884	31,127	33,647	33,885

Note:
a) Reclassification Prefund Clearing BI

Loan Collectability

Loan Collectability	2014	2013	2012	2011
NPL	2.3%	1.9%	2.3%	2.5%
Special Mention	9.3%	8.1%	9.5%	9.3%
Current	88.4%	90.0%	88.2%	88.1%

Danamon's Loan Collectability may be viewed at the above table. Danamon's Non-Performing Loan (NPL) during 2014 was at 2.3% or equivalent to Rp3.2 billion.

LIQUIDITY

As of 31 December 2014, Danamon and its subsidiaries reported sufficient level of liquidity with improved level of LDR and loan-to-funding ratio of 92.6% and 85.9% respectively at the end of 2014 in comparison to the positions of 31 December 2013 of 95.1% and 87.4% respectively.

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

CAPITAL

Capital Structure

Rp billion	Bank						Consolidated					
	YoY	2014	2013	2012	2011	2010	YoY	2014	2013	2012	2011	2010
Components Of Capital												
a. Core capital (Tier 1)	11%	25,556	23,051	21,050	19,391	13,474	8%	29,355	27,280	24,370	21,868	14,928
b. Supplementary capital (Tier 2)	12%	1,319	1,183	986	903	785	9%	1,523	1,392	1,144	1,000	1,297
Total Core Capital and Supplementary Capital (a+b)	22%	26,876	24,234	22,036	20,294	14,259	17%	30,878	28,671	25,514	22,868	16,225
Invesments (-/-)		2,645	2,645	2,645	2,645	2,645		1,175	970	849	706	673
Total Care Capital and Supplementary Capital (a+b)	22%	24,230	21,588	19,391	17,649	11,614	17%	29,703	27,702	24,665	22,162	15,552
Risk Weighted Assets with Credit Risk, Market Risk and Operational Risk	8%	133,354	123,510	105,500	106,202	86,741	7%	166,294	155,140	130,486	126,264	96,939
CAR with Credit Risk	3	21.9%	21.0%	22.3%	19.6%	15.3%	229.5%	22.2%	22.0%	23.4%	21.3%	18.5%
-Market Risk	6%	3.65%	3.46%	3.8%	3.0%	0.10%	6%	4.29%	4.06%	4.40%	3.7%	0.1%
-Operational Risk	-10%	0.05%	0.06%	0.1%	0.0%	1.80%	-13%	0.04%	0.05%	0.10%	0.0%	2.4%
CAR	282%	18.17%	17.48%	18.4%	16.6%	13.4%	237%	17.86%	17.86%	18.9%	17.6%	16.0%

Market Risk

Danamon has implemented a standardized approach to manage risk market pursuant to BI Regulation No. 9/13/PBI/2007 dated November 1, 2007 and Circular Letter No. 9/33/DPnP dated December 18, 2007 and its amendment the Circular Letter No. 14/21/DPnP dated July 18, 2012 since November 2007.

Credit Risk

In accordance with BI Circular Letter No. 13/6/DPnP dated February 18, 2011, Danamon adopted the standardized approach to manage its credit risk began from January 1, 2012. On November 18, 2014, FSA issued FSA Regulation No. 21/POJK.03/2014 which regulates the application of the approach in managing credit risk in Syariah business. Referring to the said regulation, Danamon will apply a standardized approach to managing credit risk in Syariah Division began January 1, 2015.

Operational Risk

In managing operational risk, Danamon applies basic indicator approach in accordance with BI Circular (SE) No. 11/3/DPnP dated January 27, 2009. Based on the aforementioned SE, capital charges for operational risk equal to 15% of the average gross income in the last three years, effective January 1, 2011.

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Capital Adequacy

As of December 2014, the consolidated CAR was reported at 17.9% level, the same level with the position at the end of 2013. As a standalone, Danamon's CAR rose to 18.2% from 17.5% on December 2013. During the last 5 years, CAR, both standalone of the Bank as well as consolidated, were well above BI's required level of 9%-10% (for BUKU 3 Banks).

The table above showed the position of risk-weighted assets (RWA) by calculating the credit, market, and operational risks were at Rp133,354 billions, or an 8% increase from those in 2013.

CAPITAL POLICY

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 liabiities category to meet the required working capital, other than utilizing equity to support the capital needs.

Funding Composition

Rp billion	YOY	2014	2013	2012	2011	2010
Assets	6%	195,709	184,237	155,791	142,292	118,392
Liabilities	7%	162,691	152,684	127,058	116,583	99,863
Equity	5%	33,018	31,553	28,733	25,709	18,529
Structure						
Deposits from customers	7%	116,495	109,161	89,897	85,979	79,643
Borrowing (Short term and long term)	-10%	14,497	16,068	11,020	6,917	2,482
Others Liabilities	15%	31,699	27,455	26,141	23,686	17,738
Equity	5%	33,018	31,553	28,733	25,709	18,529
Total Assets	**6%**	**195,709**	**184,237**	**155,791**	**142,292**	**118,392**
in (%)	**YOY**	**2014**	**2013**	**2012**	**2011**	**2010**
Composition						
Deposits from customers	0%	60%	59%	58%	60%	67%
Borrowing (short term and long term)	-15%	7%	9%	7%	5%	2%
Others Liabilities	9%	16%	15%	17%	17%	15%
Equity	-1%	17%	17%	18%	18%	16%
Total Assets	**0%**	**100%**	**100%**	**100%**	**100%**	**100%**

This strategy is reflected from the composition of funding on Danamon's assets in 2014, where 83% of Danamon's assets were funded by liabilities. Equity-backed assets contributed only 17%. The composition moved slightly from the positions in 2013, where the contribution of liabilities to assets was 83% but the lialibilities composition was slightly different, due to the decreasing role of short and long term borrowings.

Further, in 2014, assets grew at 6%; liabilities grew at 7%; and equity rose by 5%. The increase of equity was driven by 7.7% increase of retained earning balance. Meanwhile, other liabilties composition increased from 15% to 16% by the end of 2014.

SHARE OWNERSHIP COMPOSITION

SHAREHOLDERS	Number of Shares Issued and Fully Paid	Percentage of Ownership	Nominal Value
A Series shares (par value of Rp50,000 (full amount) per share			
Public (ownership interest below 5% each)	22,400,000	0.23%	1,120,000
B Series shares (par value of Rp500 (full amount) per share			
Asia Financial (Indonesia) Pte. Ltd.	6,457,558,472	67.37%	3,228,779
JPMCB - Franklin Templeton Invesment Funds	650,279,488	6.79%	325,140
Public (ownership interest below 5% each)	2,437,181,763	25.43%	1,218,591
Commissioners and 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
Herry Hykmanto	502,256	0.01%	251
Vera Eve Lim	5,020,500	0.05%	2,510
Kanchan Keshav Nijasure	1,187,866	0.01%	594
Fransiska Oei Lan Siem	1,234,730	0.01%	617
Michellina Laksmi Triwardhany	617,000	0.01%	309
Total of Shares Series A dan Series B	**9,584,643,365**	**100%**	**5,901,122**

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, SH and approved by the Minister of Justice of the Republic of Indonesia's Decree 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 the P. Sutrisno A. Tampubolon, SH, M.Kn a notary in Jakarta and No. 12 dated 12 October 2011, made before Fathiah Helmi SH, a notary in Jakarta.

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On December 8, 1989, with license from Minister of Finance No SI-066/SHM/MK.10/1989 dated October 24, 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 its merger with Surabaya Stock Exchange) on December 8, 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/MSOP").

Following is summary of Danamon's correspondence with Bapepam-LK regarding the effectivenes of Rights Issue with Preempetive Rights:

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

Capital Planning

Pursuant to the BI Regulation No. 14/18/PBI/2012 dated November 28, 2012 regarding Minimum Capital Adequacy Requirement For Commercial Bank and BI Circular Letter No. 14/37/DPNP dated December 27, 2012, Concerning the Minimum Capital Requirement based on Risk Profile and fulfilment of Capital Equivalency Maintained Assets, Danamon is required to have a minimum CAR calculated based on risk profile and to conduct Internal Capital Adequacy Assessment Process (ICAAP).

The assessment results show that Danamon is able to comply with the minimum CAR based on risk profile, for the Bank as well as for the consolidated. Based on the internal capital adequacy assessment process (ICAAP), Danamon will have the availability of financial resources to meet the capital needs of both Pillar 1 and Pillar 2 for the next three years.

In addition to these provisions, in order to strengthen the resilience of banking industry against the backdrop of unfavourable economic situation, on December 12, 2013, BI issued PBI 15/12/PBI regarding Mandatory Minimum Capital Requirements for Commercial Banks, requiring banks to have additional capital as buffer, applicable gradually began January 1, 2016 until January 1, 2019. The said regulation also set the adjustment of component of capital and increase the minimum ratio of core capital (Tier 1) of 5% to 6%, effective from January 1, 2014.

Danamon supports policies issued by BI and seeks to prepare itself to meet the newly issued provisions in order to realize a sustainable business growth. Danamon will always strive to fulfill all the provisions related to capital to support its business growth, both Danamon as an entity, as well as at the consolidated level.

CAPITAL INVESTMENT

In 2014 there was no realization of capital investment.

MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

In 2014, Danamon had no 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

Capital Expenditure Rp million	Full Year					
	YoY	2014	2013	2012	2011	2010
Land	711%	148,519	18,303	3,456	256	4,338
Buildings	183%	98,655	34,833	23,632	19,393	9,275
Office Equipment	-27%	204,570	281,921	369,751	335,960	293,310
Motor Vehicle	-39%	175,305	288,532	244,956	232,782	320,285
Contruction in Progress	-46%	100,102	184,101 *)	115,013	12,529	5,278
Total	-10%	727,150	807,690	756,808	600,920	632,486

Note: *) Reclassification from other assets to construction in progress

In 2014, Danamon's capital expenditure decreased by 10% to Rp727,150 million due to significant decrease of 46% in construction in progress from Rp184,101 million in 2013 to Rp100,102 after reclassification from other assets to assets in progress in 2014. During the same year, Danamon and its subsidiaries purchased fixed assets comprising lands and buildings thus investments on both asset categories rose by 711% and 183%, respectively.

Expenditure for office equipment decreased to 27% or Rp204,570 million, while expenditure for motor vehicles to support operational activities, especially the activities of field employees, decreased significantly by 39% to Rp175,305 million.

IMPACT OF CHANGES ON INTEREST RATES, CURRENCY VALUES, AND REGULATIONS TO DANAMON'S PERFORMANCE

Impact on Changes on Interest Rates

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

In 2014, Bank Indonesia made several revisions on the benchmark interest rate (BI Rate) from 7.5% to 7.75%. Danamon has conducted analysis on the impact of changes on interest rate through periodic sensitivity analysis to measure the impact of such changes.

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The sensitivity analysis on increase or decrease of interest rate was done with assumption on interest rate gap from the earnings perspective, as well as through economic value perspective. Assumptions and scenarios have also been included on such calculations both under normal and stress conditions.

Based on the measurement, the Bank and its subsidiaries capacity are sound to anticipate the impact of changes on interest rate to Danamon's overall performance. The strategies on managing the risks of interest rates at the banking book can be managed accordingly.

In terms of credit risks, the Bank and its subsidiaries have also performed sensitivity/ stress test to learn about the overall impacts of the rise of interest rates against the credit portfolio. The Bank and its subsidiaries also monitor the credit portfolio continuously in order to anticipate the impacts of the rising interest rates.

Impact of Changes on Currency Value

Increased volatility of the Rupiah value to foreign currencies (foreign exchange), especially to USD, in 2014 has been anticipated by Danamon through sensitivity analysis.

The risk control mechanism comes with market risk measurement which is sensitive to changes in the exchange rate, supported by market risk control process that has performed well in Danamon. The measurement of internal parameters and regulatory requirements is monitored periodically, both in the banking book and the trading book positions.

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 2014 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 the regulator.

In terms of credit risks, the Bank and its subsidiaries performed sensitivity analysis/ stress test against the credit portfolion presented in foreign currencies in order to learn the impact against foreign exchange volatility. Active monitoring have been imposed on credit portfolios presented on foreign currencies.

Impact of Regulations

By the end of 2014, Financial Services Authority (FSA) has issued several FSA regulations related to Banking Industries, in which some of those regulations include The Application of Integrated Risk Management for Financial Conglomerates, Asset Quality for Syariah-based Banks and Syariah Business Units, The Management of Financing Institutions and so forth. Several adjustments have and will be implemented on the Bank and its subsidiaries with regard to such FSA regulations, however, in general it shall not significantly affect the overall performance of Danamon.

Effective February 1, 2014, FSA Circular Letter No. SE-06/D.05/2013 on Stipulation of Premium Tariff and Provision on Acquisition Costs of Vehicle and Property Insurance, has been officially enacted. The said regulations has impacted Danamon's subsidiary (PT Adira Multi Finance Tbk), engaged in financing business, due to changes in the recording of commission, which conducted not in the same time. Given its considerably large contribution to Danamon's total revenue, the new regulation also impacted the Bank's Comprehensive Income.

INFORMATION ON MATERIAL INCREASE OR DECREASE FROM NET SALES/INCOME

Throughout 2014, Danamon's entire transactions were fair transactions. Increase and decrease on return of all transactions were common results of business endeavors and were not the impacts of extraordinary circumstances that led to significant increase and/or decrease of return excluding the following, there was a non recurring expense from Danamon restructuring activity in 2014.

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

Comparison of 2014 Targets Realization in 2014

Profit and Loss Statement

Rp billion	FY14 (Realization)	FY14 (Targets)
Net Interest Income	13,677	13,652
Non Interest Income	3,959	4,225
Operating Expense	(9,821)	(9,961)
Allowance for Losses	(3,798)	(3,589)

Balance Sheet and CAR

Rp billion	FY14 (Realization)	FY14 (Targets)
Total Assets	195,709	203,265
Loans*	138,544	148,315
Total Funding	118,325	122,987
Consolidated CAR	17.86%	17.07%

* Loans excluding interest receivables

Analysis on 2014 Target and Realization

- Net Interest Income in 2014 is Rp13,677 billion which exceeds the 2014 target of Rp13,652 billions.
- During 2014, the realization of Non-Interest Income achieved 93.7% of 2014 target which is Rp4,225 billions.
- During the same year, realization of operating expense was slightly lower than 2014 target with a 98.6% of achievement.
- Realization of allowance for losses exceeds the 105.8% target set at the beginning of the year.
- At the end of 2014, realization of total assets achieved 96.3% from the target established at the onset of the year of Rp203,265 billions.
- Realization of consolidated CAR exceeds the 104.6% target set at the beginning of the year.

MATERIAL INFORMATION AND FACTS SUBSEQUENT TO THE DATE OF AUDITOR'S REPORT

In early January 2015, Danamon has submitted notice to the Financial Services Authority (FSA) regarding the plan to hold Extraordinary General Meeting of the Shareholders (EGM) on February 27, 2015, with the agenda of the amendment of Articles of Association, on the change in the nomenclature of the post of Vice President Director and change in the composition of the Board of Directors relating to the nomination Sng Seow Wah as President Director replacing

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Henry Ho Hon Cheong who will retire, and Muliadi Rahardja as Vice President Director. The nomination of Sng Seow Wah and Muliadi Rahardja have been approved by the Financial Services Authority, respectively, on November 20 and December 12, 2014.

BUSINESS PROSPECTS

The Indonesian economic growth in 2014 took place at a slower pace than the earlier year, there is however optimism that the economic performance will improve in 2015. Bank Indonesia has estimated that Indonesian economic growth will be attained at the level between 5.4%-5.8%, while Danamon expects that the 2015 economic growth will reach at least 5.3%.

Externally, the challenges confronted by Indonesian economy in 2015 will likely be similar with the global conditions in 2014, which are; continuing softening pace of growth in the main destination countries of Indonesian export commodities, and uncertainty over normalization of US monetary policies. Nevertheless, the US economic recovery will likely continue and its upward momentum will support improvement in Indonesian export. Indeed, export performance has shown signs of improvement in the last quarter of 2014, as indicated by the increase in manufacturing exports and the recovery of mineral exports.

In the domestic side, household consumption will remain strong as inflationary pressures from subsidized fuel prices has receded. The main factor for improvement in Indonesia economic growth however, is the election of a reformist president who has shown strong commitment to accelerate Indonesian economic development through several policies, among other; prioritize infrastructure development (including maritime infrastructures), greater efficiency on government budget and bureaucracy, and improvement in licencing process for capital investment.

These are opportunities and challenges that will be confronted by the Indonesia banking industry. For strengthening its business structures for confronting challenges and opportunities in the coming years, Danamon has prepared several strategies, which some of them are as follows;

STRATEGIC FOCUS:

We have identified a number of initiatives to improve the Bank profitability and ensure sustainable business growth. The initiatives are as follows:

I.MICRO BUSINESS WITH NEW TARGET OPERATING MODEL

Through impementation of the following policies:

a) Focus on increasing efficiency and productivity by remodeling the business operations of Danamon's micro lending unit, Danamon Simpan Pinjam (DSP).
b) Implement a new Target Operating Model, which is more focus on customers as opposed to products.
c) Automation for manual processes, such as document administration and especially in disbursing loans.

II.SYNERGY BETWEEN ADIRA FINANCE AND ADIRA KREDIT

Through impementation of the following policies.

a) The synergy between two of Danamon's financing subsidiaries, PT Adira Dinamika

Multi Finance (Adira Finance) and PT Adira Quantum Multi Finance (Adira Kredit) is implemented to leverage on Adira Finance's extensive network and its experience as the leading multifinance company.

b) As for efficiency, it is implemented within Adira Kredit operations through integration of business and operational network with Adira Finance.

III.CENTRALIZED FINANCE AND HUMAN RESOURCE FUNCTION THROUGH SHARED SERVICE

Through the implementation of the shared service model, finance and human resources functions that are spread in Danamon's lines of businesses will be combined into the head office's finance and human resource function.

IV.ENTERPRISE DATA WAREHOUSE

Implement an enterprise data warehouse (EDW) application that would integrate data from IT and IT functions in lines of business.

MARKETING ASPECTS

Danamon is implementing astute marketing strategy by continuously improve its financial services in order to increase and maintain its customers. To support business growth, Danamon has formulated Direct Marketing and Indirect Marketing strategies to build solid funding and healthy lending by expanding information technology-based services, focus on leading products as well as create positive transation experience for customers.

Direct Marketing is our marketing actitivies which possess measureable performances in terms of targets of banking performances, such as the increase in outstanding loans. In general, the activities of Direct Marketing are performed by each Danamon's business line and addressing its own market segment. As for Indirect Marketing activities, they can not be evaluated in terms of a bank's quantitative performance, but they can be performed the head office or parent company addressing all market and business segments.

One type of activities of Indirect Marketing is the continuous improvement of customer services performed by Danamon. In 2014, among these activities are as follows;

- Improving and adding the features offered on several service channels, such as; features on Danamon ATM services, features on Mobile Banking applications, and D-Mobile smartphone application which was launched in 2014
- Simplifying various processes needed by a customer to obtain a Danamon service.
- Centralizing various processes conducted on Danamon service network.
- Improving the human resources capacity.

With its leading products and services, until end of 2014 Danamon services is accessible to customers through 2,349 branches (including DSP, Syariah and Adira branches), and almost 60,000 ATM units, which includes partnership with ATM Bersama and ALTO, located in 33 provinces across Indonesia, and through its electronic and online service channels.

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In 2014, Danamon actively implemented marketing initiative that related directly to customers, namely advertisement campaign. Danamon's list of advertisement campaign throughout 2014 is available in the Marketing Strategy section of this Report.

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 dividend payout ratio, date of payout and general and mandatory reserve for 2009-2013 period as indicated in the table below.

Following the resolution of AGMS held on May 7, 2014, Danamon's dividend payout ratio for financial year ended in 2013 was 30% from the net income, or amounted to Rp1,212 billion or Rp126.5 (full amount) per Series A and Series B share and general and legal reserve amounting Rp40,417 billion has been formed.

Based on the List of Shareholders dated June 4, 2014 which is the date of registration of the list of shareholders entitled to the dividend, the number of shares outstanding on June 4, 2014 is 9,584,643,365 shares, accordingly the dividend per share to be distributed on June 18, 2014 amounted to Rp126.50 (full amount) per share of series A and series B or the amount of cash dividends is Rp1,212,457.

General and Legal Reserve

On December 31, 2014, the Bank has established a general and legal reserve and mandatory of Rp276,578 million (2013:

Rp236,161 million). General and legal reserve was formed in accordance to the Law of the Republic of Indonesia No. 1/1995 which has been replaced by Act No. 40/2007 effective August 16, 2007 regarding Limited Liability Company, which requires companies to establish provision for general reserve amounting to at least 20 % of the issued and fully paid capital. The law does not set the duration of which to establish such reserves.

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)
2013	7 May 2014	30%	126.50	1,212,457	18 June 2014	40,417
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 OR MANAGEMENT SHARE OWNERSHIP PROGRAM (ESOP/MSOP)

Danamon provides a Long-Term Compensation Program to Directors and Employees of the Bank and its Subsidiaries who meet the determined criteria. This program is part of the Bank's and its Subsidiaries compensation strategy aimed to relate overall performance of the Bank and its Subsidiaries to the compensation received by the employees and Directors as well as to ensure continuous growth of the Bank and its Subsidiaries.

This program consists of cash and shares, wherein employees who meet the criteria will receive cash of pre-determined amount to be used to purchase Bank shares. The shares are purchased under each employee's name and to be retained and under the custody of an independent custodian. The shares will be handed over after retention period of 3 (three) or 6 (six) years. The date for providing compensation under this program is July 1, 2010.

INFORMATION ON PROCEEDS OF PUBLIC OFFERING

In 2014, Danamon as holding entity did not conduct any public offerings for bonds or rights issue.

In 2014, the Bank's subsidiary, Adira Finance, held public offerings for three bonds issuance amounting to Rp3,136 billion.

- Two times fixed-rate bonds issuance, namely Continuous Bonds II phase I and II.
- Sukuk Mudharabah I phase II.

The total proceeds from the three issuances was Rp3,125 billion. All the proceeds from bonds issuance were utilized for Adira Finance's automotive financing activities.

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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 of 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 Interest

There was no conflict of interests transactions with related parties for the financial year ending December 31, 2014. Conflict of Interest transactions are regulated by the internal policy on Affiliated transaction, Affiliated Parties and Conflict of Interests which is detailed in the Danamon's GCG report and part of this annual report.

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:

RELATED PARTIES

No.	Related parties	Nature of relationship	Nature of transaction	Realized Transactions 1)
1	Standard Chartered Bank PLC	Owned by the same ultimate shareholder	Fund replacements	254,615
2	Standard Chartered Bank PLC	Owned by the same ultimate shareholder	Fund replacements	270,903
3	PT Bank Permata Tbk	Owned by the same ultimate shareholder	Fund replacements and insurance agreement	53,267
4	Development Bank of Singapore	Owned by the same ultimate shareholder	Fund replacements and insurance agreement	31,302
5	PT Bank DBS Indonesia	Owned by the same ultimate shareholder	Fund received from customer	2,096
6	Commissioners, Directors, and key management personnel	Management and key management personnel	Fund replacements, remuneration and fund received from customer	464,565
			Total	1,076,748

1) Prior to Allowance for Impairment Losses.

CHANGES OF REGULATIONS WITH SIGNIFICANT IMPACTS ON THE COMPANY

REGULATION CHANGES

New Banking Regulations issued by Bank Indonesia Effective in 2014		
Regulation	**Description**	**Impact on Danamon**
Regulation on Consumer Protection of Payment System Services in Indonesia: • Bank Indonesia Regulation No.16/1/PBI dated January 16, 2014 concerning Consumer Protection of Payment System Services • Bank Indonesia Circular Letter No. 16/16/DKSP dated September 30, 2014 concerning Procedure for the Implementation of Consumer Protection of Payment System Services in Indonesia	This Bank Indonesia Regulation (PBI) was issued to complement regulations on consumer protection of payment system services. The regulation is based on the principles of: 1. Fairness and competency; 2. Transparency; 3. Protection of data and/or consumer information; and 4. Effective handling and settlement of customer complaint. This Bank Indonesia Regulation (PBI) stipulates rights, obligations, and prohibitions for the Implementer in conducting Payment System activities. Consumers can convey complaints to the implementer and Bank Indonesia as long as they meet the requirements. Additionally, the Implementer is required to provide reports on treatment and settlements of consumer complaints to Bank Indonesia according to the relevant requirements. This Bank Indonesia Regulation (PBI) came into effect on Januari 16, 2014. Major provisions on the Bank Indonesia Circular Letter (SE BI) are: 1. The implementers are required to: a. Implement consumer protections that meet the principles in the PBI provisions. b. Conduction publications on the means of complaints. c. Displaying written announcements/information in the office sites of the Implementer on the procedures of consumer complaints of the payment system services. d. Informing the existence of work units or functions which conducts the handling and settlements of consumer complaint. e. Accepting, handling and providing settlement for every complaint of Consumer and/or Consumer Representative related to the activities of Payment System services. f. Possessing written documents on mechanism and procedures for handling consumer cmplaints. 2. Procedures for imposition of sanctions. 3. Procedures for conveying complaints to and correspondence with Bank Indonesia. This Bank Indonesia Circular Letter came into effect on September 30, 2014.	Alignment of various Danamon's legal documents and internal policies
Financial Service Authority (OJK) Circular Letter No. 2/SEOJK.07/2014 dated February 14, 2014 on Services and the Settlement of Complaints from Consumers of Financial Services Businesses.	The Circular Letter (SE) of OJK regulates the mechanims of Services and the Settlement of Complaints from Consumers of Financial Services Businesses (PUJK). PUJK are mandated to: 1. In possession of procedures for services and settlements of complaints. 2. Provide services and settlements of complaints. 3. Prohibited to collect fees on services and settlements of complaints. 4. Administer services and settlements of complaints. 5. Provide the status of Customer complaint. Additionally, the SE OJK regulates the complaint settlements in terms of; delivering statements of apology, offering redress/remedy to the Consumer, procedures of complaint settlements through Alternative Dispute Resolution (ADR) institutions recognized by OJK. The OJK Circular Letter came into force on August 6, 2014.	Danamon has made improvements on procedures, policies and the adequacy of documents.
The regulation on Collection of Levy charged by Financial Service Authority (OJK): 1. Government Regulation No.11/2014 dated February 12, 2014 2. OJK Regulation No 3/POJK.02/2014 dated April 1, 2014 3. OJK Circular Letter No. 4/SEOJK.02/2014 dated April 1, 2014 on Mechanism of OJK Levy Payment.	The Regulations regulate OJK levy collection from financial service sector, including the Bank Types of OJK Levies: a. Licensing cost, approval cost, registration cost, validation cost, and corporate action plan reviews or registration cost. b. Annual fee for regulaton, supervision, inspection and research. c. Administrative sanctions in the form of fine. The payment of annual fees began on February 12, 2014. The annual fee must be paid in 4 phases, each payment amounting to 25% of total annual fees. The percentage of annual fees determined by OJK for Commercial Banks is 0.045% of total assets. For 2014, the collection of payment was applied at 2/3 of OJK rates (applicable to all rates). In the case of payment failure of obligatory annual fees by a Bank until the limits as stipulated, OJK will issue a Warning Letter (in two stages), and impose penalty amounting to 2%-48%. OJK Levy Administration System (SIPO), is the system used to receive, and administer OJK Levies in transparent and accountable manner. Therefore, the Bank is obligated to register at SIPO.	Danamon has made payment to the OJK in accordance with the Regulations.

Financial Review

New Banking Regulations issued by Bank Indonesia Effective in 2014		
Regulation	**Description**	**Impact on Danamon**
OJK Circular Letter No. 1/SEOJK.07/2014 dated February 14, 2014 concerning Implementation of Education to Improve Financial Literacy of Consumers and/or the Public.	Financial Literacy is a series of processes or activities to improve the knowledge, trust and skills of consumers and the public at large, enabling them to better manage their finance. The objectives of improving Financial Literacy consist of two parts: 1. Improving a person's literacy from less literate or not literate to become well literate; and 2. Raising the number of users of financial products and services. The Bank, as one Financial Services Businesses (PUJK) has the obligation to organize educations for improving Financial Literacy of Consumers and/or the Public, according to the principles of "Inclusive, Systematic and Measurable, Ease of Access, and Collaboration." The Bank is obligated to provide education plan for the first time at the latest on August 31, 2014, which includes the implementation of education from January 1, 2014 to December 31, 2014. The OJK Circular Letter came into effect on August 6, 2014.	Danamon has conducted activities of financial literacy in the regions according to the schedule set by the OJK.

Regulation of Financial Services Authority No. 8/ POJK.03/2014 dated on June 11, 2014 on Levels of Bank Soundness for Syariah Commercial Bank and Syariah Business Unit	• The Financaial Services Authority performs a semiannual assessment on the levels of Bank Soundness for the position of months ending on June and December and performs updates anytime on a necessity basis. The Bank is also required to perform self-assessment which shall be performed at the latest every six month for the months ending on June and December and shall perform updates anytime on a necessity basis.
	• In case of discrepancies between the assessment results on the Level of Bank Soundness performed by the Financial Services Authority and the results of self-assessment, then the Financial Services Authority is required to conduct prudential meeting with the respective bank. In case the discrepancies remain, then the assessment results of the Financial Services Authority shall be used as the reference.
	• Syariah-based Commercial Bank shall perform a Level of Bank Soundness on an individual as well as consolidated manners in which the scopes of the assessment shall include the following factors: Risk Profile, Good Corporate Governance, Earning, and Capital. As for Syariah Business Unit the scope shall include the Risk Profile only.
	  • Composite Ranking for Bank Soundness Level is categorized as follow:
	  • Composite Rank 1 (PK-1): Bank which is categorized as having superior soundness
	  • Composite Rank 2 (PK-2): Bank which is categorized as sound
	  • Composite Rank 3 (PK-3): Bank which is categorized as performing
	  • Composite Rank 4 (PK-4): Bank which is categorized as below peer group
	  • Composite Rank 5 (PK-5): Bank which is categorized as lowest rated
	  • Bank is required to submit an action plan at the latest 10 business days following the deadline and/ or 10 business days after the month's end and shall be performed on a monthly basis in the event of significant issues which will disrupt the completion of the action plan on a timely fashion.
	• Bank deemed as having violated the regulation shall be subjected to administrative penalty in the form of:
	  • Written Warning
	  • Demoting Bank Soundness Level
	  • Freezing certain business activities; and/or
	  • Listing the Bank Management and/or Shareholders in the list of parties failing the fit and proper test.
	  The effective date of this Financial Services Authority is 1 July 2014 for the assessment of Bank Soundness Level for the position of month end of June 2014.
		The Bank has submitted the Report on Syariah Business Unit Soundness Level based on the Risk Profile of the Syariah Business Unit in accordance with the regulation.

Circular Letter of Financial Services Authority No. 12/ SEOJK.07/2014 pertaining to the Presentation of Information in conjunction with Product Marketing or Financial Services	This Circular Letter of Financial Services Authority is issued in order to regulate the transparency of information presentation to the general public in conjunction with product marketing and/or financial services. The conditions stipulated on this circular letter comprise the following points: 1. Financial Services Provider is entitled to ensure the good will of the consumers and obtain accurate, transparent, clear, and truthful information and/or documents. 2. Financial Services Provider is required to supply and/or present information on a product/ services in an accurate, honest, clear, and truthful manners based on a comprehensive information with regard to the benefit, costs, and risks. 3. Financial Services Provider is required to provide easily accessible means of communication media for the consumers and/or general public and constantly updates such means of communication. 4. Financial Services Provider is responsible to the Consumer for any action conducted by a third party acting on behalf of the interest of Financial Services Provider. The effective date of this Circular Letter of the Financial Services Authority is August 6, 2014.	Danamon has refined its policies, procedures, and provide complete documents in order to comply with this regulation

<table>
<tr><th colspan="3">New Banking Regulations issued by Bank Indonesia Effective in 2014</th></tr>
<tr><th>Regulation</th><th>Description</th><th>Impact on Danamon</th></tr>
<tr><td>This Circular Letter of the Financial Services Authority No. 13/ SEOJK.07/2014 dated on August 20, 2014 on Standard Agreement</td><td>This regulation of Financial Services Authority contains the conditions of implementation guidance to adjust the clauses on Standard Agreement as a Protection of Consumers in the Sector of Financial Services.

The points of this Regulation of Financial Services include the following:
1. Financial Services Providers are required to meet the balance, fairness, and decency in preparing an agreement with Consumers.
2. The following clauses on a Standard Agreement may not contain the following items:
• Exoneration/exemption clauses in which the content add the rights and/or reduce the obligations of Financial Services Provider, or reduce the rights and/or add the obligations of Consumers.
• Mistreating a condition which is a condition in a Standard Agreement which holds an indication of mistreating a condition.
3. Standard Agreement which contains rights and obligations of Consumers which legally bind the Consumer shall use highly legible typeface, writing, symbols, diagrams, marks, terminologies, and phrases, and/or simple statement in Bahasa Indonesia which is easily understandable by the Consumers.
4. In case of the effectivenes of the Circular Letter of the Financial Services Authority, where Financial Services Provider make adjustments to the clauses in the Standard Agreement as stipulated in Article 54 of the Regulation of the Financial Services Authority No. 1/POJK.7/2013 on Protection of Financial Services Consumers, therefore the Financial Services Provider shall notify the Consumer.
The effective date of this regulation is August 20, 2014.</td><td>Alignment of documents with standardized clauses</td></tr>
<tr><td>Regulation of Financial Services Authority No. 21/POJK.03/2014 on Minimum Capital Adequacy Requirement for Syariah Commercial Bank</td><td>This regulation contains conditions made in order to create a sound Syariah banking system which is capable to develop by improving the quality and quantity of the capital.

The conditions of minimum capital adequacy requirement for Syariah commercial banking are as follow:
1. 8% of Risk Weighted Assets (RWA) for Banks with Rank 1 Risk Profiles.
2. 9% and up to less than 10% of RWA for Banks with Rank 2 Risk Profiles.
3. 10% and up to less than 11% of RWA for Banks with Rank 3 Risk Profiles.
4. 11% and up to 14% of RWA for Banks with Rank 4 or 5 Risk Profiles.
It is mandatory for Syariah Commercial Bank to build up additional capital as a buffer in the forms of:
a. Capital Conservation Buffer, is set forth at 2.5% of the RWA for Banks categorized as BUKU 3 and BUKU 4. The implementation process is carried out gradually starting from January 1, 2016 and up to January 1, 2019.
b. Countercyclical Buffer, is set forth at a maximum of 2.5% of the RWA for all Bank categories. This buffer starts at January 1, 2016.
c. Capital Surcharge, is set forth in a range of 1%-2.5% of the RWA for Banks classified as potentially may trigger a systemic impact.
In terms of capital assessment, it is mandatory for Syariah Commercial Bank to calculate the RWA which includes the RWA for Credit Risk, Operational Risk, and Market Risk.

RWA Assessment Methods:
<table><tr><th>TYPES OF RWA</th><th>APPROACHES</th></tr><tr><td>Credit</td><td>1. Standardized Approach.
2. Internal Rating-based Approach</td></tr><tr><td>Operational</td><td>1. Basic Indicator Approach.
2. Standardized Approach.
3. Advanced Measurement Approach</td></tr><tr><td>Market</td><td>1. Standard Method.
2. Internal Model</td></tr></table>
The effective date of this Financial Services Authority regulation is January 1, 2015.</td><td>Adjustment to minimum capital of UUS in line with the required minimum capital</td></tr>
</table>

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<table>
<tr><th colspan="3">New Banking Regulations issued by Bank Indonesia Effective in 2014</th></tr>
<tr><th>Regulation</th><th>Description</th><th>Impact on Danamon</th></tr>
<tr><td>Regulation of Financial Services Authority No. 16/ POJK.03/2014 on the Assessement of Asset Quality of Syariah Commercial Bank and Syariah Business Unit</td><td>
Syariah Commercial Bank and Syariah Business Unit are under obligation to conduct an assessment on the quality of Productive and Non-Productive Assets on a monthly basis. Additionally the Bank is required to establish the lowest quality over several of the Productive Asset accounts used to finance 1 (one) customer at 1 (one) Bank with an equal quality including those of joint/syndicated financing.
The assessment of Productive Asset quality in the form of Financing and is based on the following factors:
a. Business Prospect.
b. Customer Performance.
c. Ability to Repay.
The quality of Productive Assets in the form of investment at Bank Indonesia and with the Government of Indonesia, based on the Syariah principles, have been classified as “Pass.”
The Bank is under obligation to form Allowance for Uncollectible Account Receivables, in which such calculation shall include the conditions over the collateral. Additionally, the Bank is also required to consider the assessment results of Allowance for Uncollectible Account Receivables over Non-Productive Assets.
The quality of Productive Assets in the form of Financing has been set forth as follow:
<table>
<tr><th>Quality</th><th>Percentage of Allowance for Uncollectible Account Receivables</th></tr>
<tr><td>Pass</td><td>Min 1%</td></tr>
<tr><td>Special Mention</td><td>Min 5%</td></tr>
<tr><td>Substandard</td><td>Min 15%</td></tr>
<tr><td>Doubtful</td><td>Min 50%</td></tr>
<tr><td>Loss</td><td>Min 100%</td></tr>
</table>
Additionally, the Bank is required to form an Impairment of Assets. The effect of Allowance for Uncollectible Account Receivables over the ratio of Minimum Capital Adequacy Requirements are as follow:
a. Mandatory Allowance for Uncollectible Account Receivables > Impairment of Assets, then the Bank shall consider the discrepancies on the calculation of Allowance for Uncollectible Account Receivables and Impairment of Assets as capital deduction in the calculation of Minimum Capital Adequacy Requirements.
b. Mandatory Allowance for Uncollectible Account Receivables ≤ Impairment of Assets, then the Bank is not required to calculate the excess of Allowance for Uncollectible Account Receivables in the ratio of Minimum Capital Adequacy Requirement.
This regulation also stipulates the conditions of financial restructuring and report on financial restructuring. A bank is required to keep written policies and procedures with regard to ‘haircut’ and ‘write-off.’ One of the condition of ‘haircut’ and ‘write-off’ is that it is applicable only for Productive Assets supported by a 100% of Impairment of Assets and the quality has been classified as ‘loss.’
The effective date of this Financial Services Authority Regulation is 1 January 2015.
</td><td>Bank performs changes on policies, procedures/Syariah assets quality assessment method based on this regulation</td></tr>
<tr><td>FSA/OJK regulation No. 17/POJK.03/2014 dated November 18, 2014 regarding implementation of integrated risk management for financial conglomerate</td><td>
Financial conglomerate is an organization of Financial Services (LJK) under a single group due to related ownership, management and control.
Financial conglomerate covers financial services of banks, insurance and reinsurance companies, securities and finance companies.In addition, the regulation sets out:
1. Structure of the financial conglomerate
2. Scope of integrated risk management and risks that must be managed
3. Supervision of Directors and commissioners of the primary entity
4. Formulation of policies, procedures and limits of integrated risk management
5. Obligations of the primary entity to submit financial services report to the FSA/OJK
6. Sanctions on financial conglomerates violating the provisions of this regulation
The Financial Services Authority regulations is effective on November 18, 2014.
</td><td> Adjustments to the Corporate Governance and Integrated Risk Management structures and infrastructures Appointment of Main entity and members of the Conglomeration </td></tr>
<tr><td>FSA/OJK regulation No. 18/POJK.03/2014 dated November 18, 2014 regarding implementation of financial conglomerate good corporate governance</td><td>
This Regulation promotes financial system stability to grow in a sustainable manner, so as to increase the competitiveness at the national level. Financial conglomerates are required to implement integrated, comprehensive and effective governance. Moreover, the regulates governs:
1. Candidates of Board of Directors, Commissioners, Syariah Supervisory Board of the primary entity in the financial conglomerate.
2. Duties and responsibilities of the primary entity Board of Directors, Commissioners, Syariah Supervisory Board of a financial conglomerate.
3. Composition of integrated governance committee
4. Obligation to have an independent and Integrated Compliance unit
5. Obligation to implement an integrated risk management
6. Integrated Governance Guidelines
7. Obligation of primary entity to report on LJK to FSA/OJK.
8. Sanctions for financial conglomerates for violation to the FSA/OJK regulation.
The Financial Services Authority regulations is effective November 18, 2014.
</td><td> Adjustments to the Corporate Governance and Integrated Risk Management structures and infrastructures Appointment of Main entity and members of the Conglomeration </td></tr>
</table>

New Banking Regulations issued by Bank Indonesia Effective in 2014		
Regulation	**Description**	**Impact on Danamon**
FSA/OJK regulation No 32/ POJK.04/2014 dated Desember 8, 2014 regarding the management of public companies General Meeting of Shareholders	This Regulation is made with reference to the need for improving the implementation of the principles of good corporate governance to better protect the rights of shareholders in administering the General Meeting of Shareholders. The provisions of planning and implementing General Meeting of Shareholders of public companies require alignment with capital market industry needs for a good corporate governance. Principal - principal FSA regulations regarding the AGM are : 1. The procedure for the implementation of the GMS ; 2. The rights of shareholders and other parties in the presence of GMS ; 3. Decisions, Decisions Quorum, Quorum presence and GMS ; 4. Terms treatise AGM and summary minutes of the AGM. This regulation is effective 8 December 2014	Alignment of the implementation and mechanism of Shareholder's meeting.
FSA/OJK regulation No 33/ POJK.04/2014 dated December 2014 regarding Board of Directors and Commissioners of public companies	This regulation is made to enhance the implementation of good corporate governance principles for public companies with reference to the duties and responsibilities of Board of Directors and Commisssioners. The key items of the regulation set by FSA/OJK on the Board of Directors and Commissioners are: Board of Directors and Commissioners membership Duties, responsibilities and authorities of the Baord of Directors and Commissioners Provision of Board of Directors and Commissioners meetings Provision of guidelines and code of ethics formulated by the Board of Directors and Commissioners This regulation is effective 8 December 2014	Adjustments to the Board of Commissioners and Board of Directors' charters
FSA/OJK regulation No 34/ POJK.04/2014 dated December 8, 2014 regarding public company remuneration and nomination committee	The Nomination and Remuneration Committee formed by the Board of Commissioners and is responsible for assisting and carrying out the Board of Commissioners functions related to the nomination and remuneration of members of the Board of Directors and Commissioners. In addition, the regulation also set: • Nomination and Remuneration Committee membership • Duties and Responsibilities of the Nomination and Remuneration Committee • Committee meeting • Nomination and Remuneration Committee obligation to formulate guidelines binding for every Committee member This regulation is effective 8 December 2014	Adjustments to the Nomination and Remuneration charters
Bank Indonesia Circular No 16/ 25/DKSP dated December 31, 2014 regarding the management on the use of card as payment tools	This BI circular sets the second changes to the BI circular No 11/10/DASP dated 13 April 2009 regarding the credit card usage as payment tools Key changes in this BI circular among others: 1. The implementation deadline of requiring the use of 6 digit PIN technology on new and renewal credit card and requiring the acquirer to adjust the entire Electronic Data Capture (EDC) and the back end system has been deferred to 30 June 2015 from 31 December 2015. 2. Issuers are required to implement the on-line 6 -digit PIN technology no later than June 30, 2020. 3. Effective June 30, 2020, credit card transactions in Indonesia are processed using on-line 6 -digit PIN or signature as a means of verification and authentication This BI circular is made effective 31 December 2014.	Bank is ready with the system in relation with the 6 digit PIN project

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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 2014.

The following table presents accounting standards issued and will be effective on or after 1 January 2015:

No	Accounting Standard	Transitional Rules	Previous Rules	Changes	Potential Impact to Danamon	Potential Impact to Danamon and its Subsidiaries
1	IFAS No. 1 "Presentation of Financial Statements"	Prospective application on or after 1 January 2015	Changes in presenting entries of other comprehensive income	Regulate changes in presenting items of other comprehensive income. These items can be reclassified to profit and loss and presented separate to non-reclassified items of profit and loss.	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.
2	IFAS No. 4 "Separate Financial Statements"	Prospective application on or after 1 January 2015	Regulate consolidated financial statement on its own as additional information.	Regulate separate financial statement as additional information.	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.
4	IFAS No. 24 "Employee Benefit"	Prospective application on or after 1 January 2015 with retrospective condition	Actuarial profit and loss can be recognized in profit and loss or as other comprehensive income or deferred through corridor approach.	Rewards from writing off option of recognizing actuarial measurement using corridor approach and in turn requires immediate recognition through other comprehensive income. The additional changes on net interest on liabilities (assets) of net defined benefit net, service cost, and modifying disclosure, short-term benefits and severance	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.

No	Accounting Standard	Transitional Rules	Previous Rules	Changes	Potential Impact to Danamon	Potential Impact to Danamon and its Subsidiaries
6	IFAS No. 48 "Impairment"	Prospective application on or after 1 January 2015	Setting of fair value and value not regulated	Provide additional explanation on the differences in fair value and value in use and additional disclosure required for each individual asset or cash-generating unit which impairment losses have been recognized or reversed during the period.	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.
7	IFAS No. 50 " Financial Instrument: Presentation"	Prospective application on or after 1 January 2015, except paragraph 07, 26 and PA41.	No application guidance, criteria for closure, disclosure and income tax regulation	The additional disclosures for offsetting financial instruments, guidelines for offsetting application, additional criteria for net settlement and adjustment of income tax related to distributing to equity holders.	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.
8	IFAS No. 55 "Financial Instrument: Recognition and Measurement"	Retrospective application on or after 1 January 2015, except certain paragraph.	No room for deviation on scope of long term contract	Additional exceptions covering futures contracts, changes in hedging, changes in embedded derivatives and additional regulation on value adjustment of financial instruments.	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.

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No	Accounting Standard	Transitional Rules	Previous Rules	Changes	Potential Impact to Danamon	Potential Impact to Danamon and its Subsidiaries
9	IFAS No. 60 "Financial Instrument Disclosure"	Retrospective application on or after 1 January 2015,except paragraph 03, 28, 30, 31, 32 and Attachment A prospective application.	Provide disclosure requirement for entities which recognition of its transferred financial assets continue as a whole	Provide different disclosure requirements for entities that transfer financial assets recognized partially and additional disclosures for entities that meet the requirements for offsetting in IAS 50 or entity that is subject to the master agreement for settlement on a net basis.	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.
10	IFAS No. 65 "Consolidated Financial Statement"	Prospective application on or after 1 January 2015	Investor, investment entity Principles in PSAK (IFAS) 4 "Consolidated Financial Statement and stand alone Financial Statement".	Investor, investment entity Principles in PSAK (IFAS) 65, "Consolidated Financial Statement".	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.
12	IFAS No. 67 "Disclosure of Interests in Oter Entities".	Prospective application on or after 1 January 2015	No regulation on disclosure requirement of other entities	Provide regulation on new disclosure for investment of subsidiaries, joint venture and associated entities	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.
13	IFAS No. 68 "Fair Value"	Prospective application on or after 1 January 2015	No regulation regarding measurement of fair value	Provide regulation on measurement framework and disclosure of fair value	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.
14	ISAK No 26, reassessment of embedded derivative	Retrospective application on or after 1 January 2015	No deviation in ISAK	Adding exceptions to derivatives embedded in contracts of controlling business entities, formation of a joint venture and possible re-assessment date.	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.

No	Accounting Standard	Transitional Rules	Previous Rules	Changes	Potential Impact to Danamon	Potential Impact to Danamon and its Subsidiaries
15	IFAS No. 101 "Syariah Presentation Financial Statements"	Prospective application on or after 1 January 2015	Changes in presenting group items of other comprehensive income	Regulate changes in presenting items in other comprehensive income. Reclassified Items of profit or loss is presented separately from items to be reclassified to profit or loss.	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.

CHANGES OF TAX REGULATIONS IN 2014

There were no significant impacts on Danamon from changes in tax regulations in 2014.

DESCRIPTION OF BASEL III

Learning from the economic crisis of 2008, which resulted in the decline of the banking sector in a number of countries, the banking industry requires an instrument to refine the capital framework, namely Basel II. Through various discussions held at global level, Basel II had then been further refined into Basel III.

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

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

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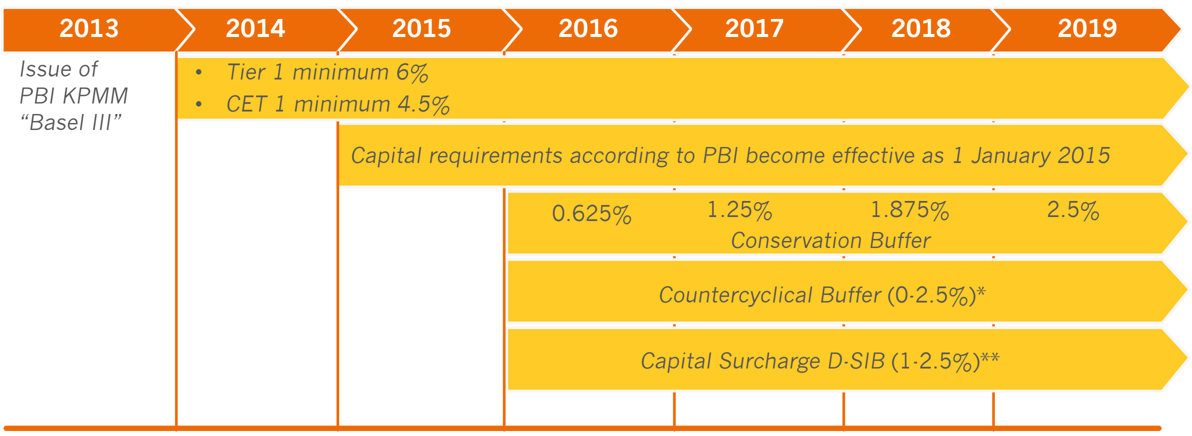
Basel III is expected to strengthen the micro-prudential management, in order to increase the robustness and resiliency of the bank during crisis.

In the context of micro-prudential, 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 (boost period), namely countercyclical capital buffer and capital surcharge for the systemically important financial institutions. The micro and macro aspects are very closely interrelated and require 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 in conjunction with the management of the Capital aspects:



The following stages of the Bank in preparing the Basel III:

In terms of the management of banking liquidity, Basel Committee on Banking Supervision (BCBS) on January 2013 has published the final document of calculation framework for Liquidity Coverage Ratio (LCR) as part of Basel III. The purpose of such LCR calculation framework is to enforce the short term security based on the risk profile of the bank by ensuring that a bank holds an adequate HQLA (High Quality Liquid Asset) in order to survive under such a significant crisis condition scenario with a 30-calendar day period.

Indonesia is committed to adopt Basel III framework, including LCR framework, while maintaining to consider the impacts toward national banking industries. Hence, the implementation of LCR in Indonesia will be carried out cautiously by making several adjustments in order to adapt with the domestic conditions. In terms of supporting the preparation of Indonesian banking in implementing the framework of such Liquidity Coverage ratio calculation, the Financial Services Authority has issued Consultative Paper (CP) of Basel III Framework Liquidity Coverage Ratio (LCR) in 2014.

Referring to the Financial Services Authority CP, the implementation of LCR framework will be implemented gradually. As a Bank which belongs to BUKU 3 Group, Danamon shall be included on a Second Phase scheme period. The trial period will commence on July 2015 by using the data of June 2015 on a tri-monthly basis in which the minimum LCR ratio is 60%.

The effective implementation period is 30 June 2016 with the initial ratio of 70% and consistently rising at the year end to 100% starting 31 December 2018. Nevertheless, considering the discussion on LCR is limited to Financial Services Authority CP, hence LCR aspects related to the calculation, implementation period, reporting, publication, and others are pending to the conditions and final arrangement by the regulator.

In addition to LCR, BASEL also introduces additional ratio which is leverage ratio as a supplement to the capital ratio. Introduction of ratio leverage is provided as capital ratio backstop in according with risk profiles in order to avoid the deleveraging process which may undermine finance and economic systems.

Danamon supports the preparation of LCR implementation and leverage ratio by participating in Basel III Working Group by carrying out calculation and report LCR calculation and leverage ratio to the regulator. LCR calculation and leverage ratio performed shall refer to Basel III as well as FSA CP.