



**Fortune always favors  
the prepared mind**  
(Louis Pasteur)



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## Management Discussion & Analysis

## ► 2016 Economic and Banking Industry Review

The Indonesian economy grew by 5.0% in 2016, a slight rebound from what appears to be the bottom in 2015. With the global environment set to pick up and international commodity prices on the rise, it is expected that the Indonesian economy will continue to grow above 5.0% level in 2017. Risks remain in that global or domestic economic performance might fall outside the range of expectations.

The subdued growth of the Indonesian economy in the last few years is largely a reflection of weak demand for primary commodities stemming from the weak global economy. While the global economy did not significantly worsen in 2016, it still faced considerable challenges. Growth softened in the G3 economies (US, EU, and Japan), while China underwent a rebalancing towards domestic and service sector consumption, as the desired engine of growth. Only India and Philippines managed to post solid GDP growth in 2016.

On the external front, Indonesia's 2016 trade surplus amounted to USD 8.8bn, which surpassed the 2015 result of USD 7.7bn. To shed light regarding the trade connection between Indonesia and US, the US is Indonesia's 2nd largest export destination with market share reaching 10.8% of total exports, and ranked 7 for imports by country of origin with 5.3% market share. The US is also the only partner that recorded a significant widening surplus since 2012. This trend may continue in 2017. Exports of manufactured apparels and furniture to the US may benefit amid the revival of consumer purchasing power.

There was a sharp uptick in global financial volatility in the 4th quarter of 2016, brought about by uncertainty surrounding the US election and rising apprehension over the magnitude of US Fed interest rate "normalization" policies. Market players responded within days by reallocating funds towards a more defensive stance. This uncertainty impacted emerging markets, especially commodity exporting countries such as Indonesia through pressure from capital outflows and significant depreciation of their currencies.

Nevertheless, throughout 2016, Indonesia experienced significant net-purchasing by non-residents in the capital market, estimated at around USD 9.6 bn, while Jakarta Stock Market Index gained 15.3% during the year to 5,297 at end 2016. The Rupiah exchange rate against the USD appreciated by 2.6% from Rp13,795 at the beginning of 2016 to Rp13,436 at the end of 2016.

### Banking Industry

The impact of a shrinking trade volume on the domestic economy can be seen through less trading activities (export and import) that led to less demand for FCY loan. It also partially explains why there has been lack of credit demand in the banking sector, with LCY loans still growing at the modest pace of 9.2%. All of this changed at the fourth quarter when prices of primary commodities jumped, which pushed demand for FCY loan out of negative territory.

As an effort to create momentum, the central bank opted to cut its policy rates by 150bps in hopes of untangling weak demand and propels banks' ability to overturn NPL issues. Also worth mentioning is that starting from 19 August 2016, Bank Indonesia had shifted its benchmark rate from "BI rate" to "BI 7-day (Reverse) Repo Rate". Aside from being transactional in nature (implying a direct effect to money market rates with a faster pace of transmission), the new benchmark instrument is also expected to influence the interbank market and reduce the cost of being illiquid.

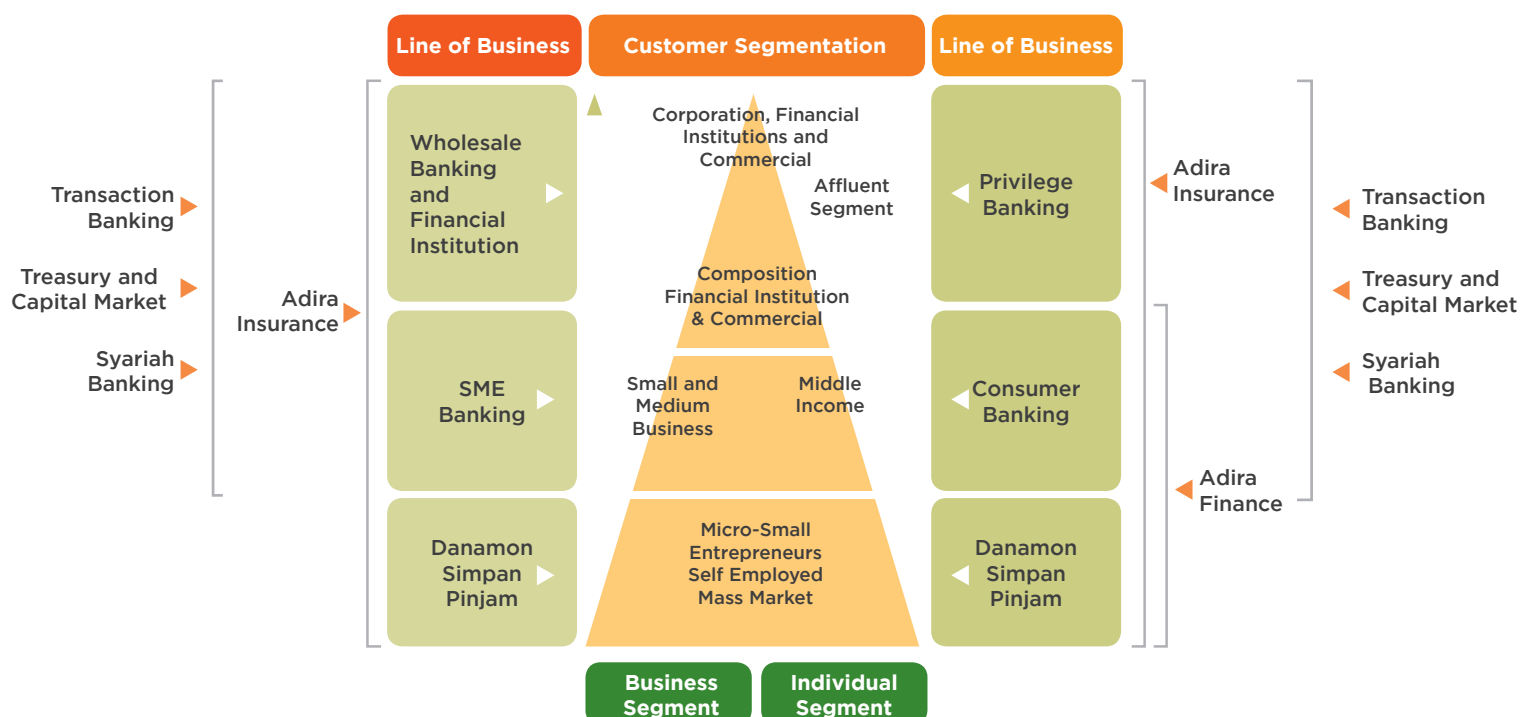
Up until December 2016, overall banking loans grew 7.9% yoy to Rp 4,377 tn, slowing down from last year's 10.4% growth. On the other hand, third party funds grew by 9.6% to Rp 4,837 tn, partly supported by the repatriated fund from the government's Tax Amnesty program. Liquidity has somewhat loosened with Loan to Deposit ratio edging down to 90.5% compared to 92.0% in 2015, but cost to income ratio has risen by 73pps to 82.2%. Nevertheless, banks were able to improve net interest margin ("NIM"). In 2016, NIM reached 5.6% compared to 5.4% in 2015.

The NPL ratio at end 2016 was 2.9%, a 44 pps increase from the end of last year, which is mostly on productive loans. Based on bank classifications, BUKU 3 banks experienced the least accelerated NPLs. Meanwhile from a breakdown by segment, NPLs were coming from wholesale. From targeted industry perspective, the highest contributors to growing NPL were from mining and logistics.



## Business Segment Review

### Lines of Business: Customer Segmentation



In 2016, Danamon reoriented its business management to be Customer-Centric through the implementation of a more effective and efficient Sales & Distribution network model to support the future growth engines of the Bank in the SME, Commercial and Consumer segments as well as help the market penetration of all business segments of Danamon.

#### Business Segments Financial Highlights

Rp billion	2016					2015				
	Retail	Mid size	Wholesale	Others	Total	Retail	Mid size	Wholesale	Others	Total
Assets	65.534	39.484	52.688	17.402	174.109	70.952	38.500	54.931	23.675	188.057
Liabilities	65.604	18.764	42.145	11.217	137.731	63.631	23.277	59.420	7.514	153.842
Net Interest Income	9.911	2.706	1.162		13.779	10.268	2.242	1.138		13.648
Non-Interest Income	3.270	378	280		3.928	3.286	423	114		3.823
Income from Operations	13.181	3.084	1.443		17.707	13.554	2.665	1.252		17.471
Operational Expenses	(7.254)	(1.075)	(121)		(8.450)	(7.429)	(1.012)	(242)		(8.683)
Loan Expenses	(3.601)	(445)	(313)		(4.358)	(4.163)	(483)	(279)		(4.924)
Non-Operational Income & Expenses	105	(1)	(81)	(529)	(506)	14	(3)	0	(593)	(583)
Profit Before Tax	2.430	1.563	928	(529)	4.393	1.976	1.167	732	(593)	3.281
Income Tax Expenses	(821)	(411)	(500)	132	(1.600)	(447)	(309)	(205)	148	(812)
Net Income (Loss) After Tax	1.609	1.152	428	(397)	2.793	1.529	858	527	(445)	2.469

\* Note:

Retail Business consists of micro, retail, credit card, insurance, consumer financing, syariah.

Midsize Business consists of SME and commercial.

Wholesale Business consists of corporate banking, financial institutions and treasury.

Others: non-allocated assets.

Transaction Banking provides services to Corporate and Commercial Banking, Retail and SME segment.



## ➤ Wholesale Banking and Financial Institution



**In 2016, Wholesale Banking focus their efforts to improve work efficiency and productivity, maintain loan portfolio quality and generate supply chain financing and cross sell opportunities with other business lines and Danamon subsidiaries.**

Danamon's Wholesale Banking focuses on Corporate, Commercial and Financial Institutions ("FI") segments, providing its customers with integrated and comprehensive financial solutions based on clients' needs, from cash management, working capital requirement, investment loan, Trade Finance, Financial Supply Chain, FX and Treasury. These financial solutions are integrated with other products

and services offered through cross-selling with other business units or with Danamon subsidiaries. Offering these integrated financial solutions are the main reason for Danamon to be the transaction bank of choice for its Wholesale Banking customers.

In line with Danamon's Bank Business Plan, Wholesale Banking has set the following strategies and major work programs:

- Focus on excellent loan quality. Members of the lending team are responsible for the proper initial selection of potential debtors, the determination of a suitable loan structure for debtor needs, and regular monitoring and review of debtors' activities and business. This is balanced with efforts to grow customer deposits and especially to increase the granular CASA portion.
- Improve efficiency and productivity through various initiatives that include selection of industry focus, streamline process, realignment of support functions which aim to improve turn around time.

- Continue to focus on Supply Chain Financing and Cross Selling with the other business lines and Danamon subsidiaries.
- Consistently upskilling our human capital through comprehensive training program and the implementation of transparent performance and productivity measurement.

### 2016 Financial Performance

Wholesale Banking loan portfolio increased by 11% to Rp37.4 trillion supported by a strong growth in Trade Finance portfolio. In line with the Bank's strategy to reduce expensive funding, Wholesale Banking third party fund declined by 5% year-on-year or amounting to Rp29.5 billion.

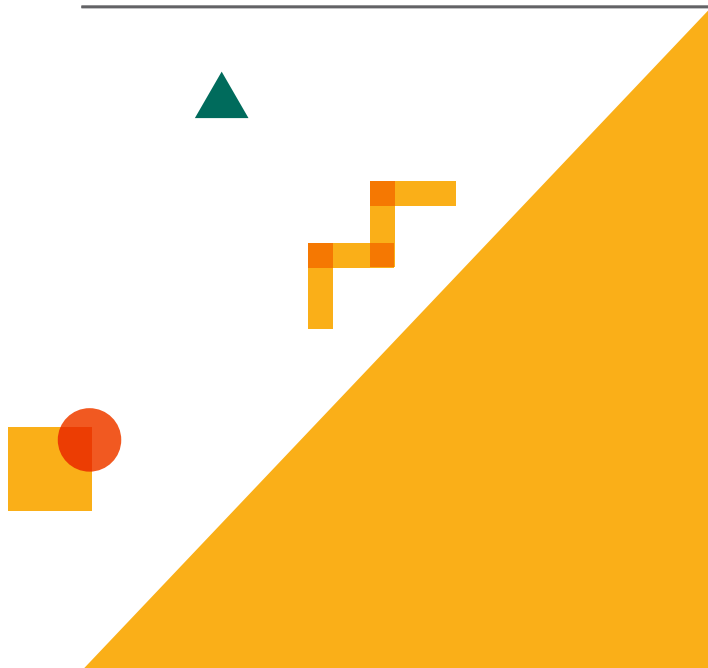
### 2017 Plans and Strategies

Wholesale Banking will continue to focus on deepening relationships with our existing customers through cross-sell and continue with acquisition of new customers along with the industry focus targets, working together with our product partners. Wholesale Banking will also continue our organization alignment and transformation initiatives aiming to improve turn-around time, reduce inefficiency and improve productivity.

Wholesale Banking recognizes that attracting and retaining talents are one of the most important focus to sustain the business growth. Danamon will continue to develop the existing talent pools through trainings, special project assignments and promote people mobility within the Bank.



## ► Treasury and Capital Market



**Treasury and Capital Market (“TCM”) is responsible to maintain the Bank’s liquidity and offer customers with solution-oriented Treasury products and services.**

The Treasury and Capital Market (“TCM”) business unit is tasked by ALCO with the management of the Bank’s liquidity risk. TCM is responsible to provide liquidity to meet business growth and prudential standards and to manage the interest rate risk on the Bank’s balance sheet.

TCM provides a variety of treasury products and services to individual and corporate customers and manages its trading activities in a prudent manner. TCM also offer various hedging products against exchange rate or interest rate risks to customers from all segments.

Its activities include trading in government bonds (“T-bills and Government Sukuk”) as well as corporate bonds in the primary and secondary markets. Danamon is currently one of several Primary Dealers designated by the Ministry of Finance.

Treasury products and services available for customers include Investment Gallery, Retail Treasury Services, Plain Vanilla FX Tod/Tom/Spot, FX Forward, FX Swap, Interest Rate Swap, Cross Currency Swap, conventional Government bonds and Government Sukuk.

### 2016 Initiatives and Performance

The Loan to Funding Ratio (LFR) is one of the criteria for the performance of TCM. In 2016, TCM collaborated closely with other units to secure funding, both onshore and offshore deposits to remain within LFR calculation requirements.

TCM also maintained adequate liquidity by diversification of money market instruments, including through inter-bank borrowings and transactions with repurchase agreement (repo) supported with swap transactions.

In 2016, the treasury system currently in use (called Summit) was updated, to be followed by further enhancements to increase the capacity of the system in anticipation of growing business volumes.

### Plans for 2017

In 2017, TCM will continue to focus on increasing activities on FX and securities transactions. In support of these objectives, TCM will implement a number of strategic initiatives including the expansion of its customer base as well as widening the distribution channels for FX and securities transactions.

TCM also plans to launch new products to complement its existing offerings as well as to satisfy the needs of retail and corporate customers. New products for retail customers will emphasize yield enhancement, while those for the corporate clients are directed more at hedging purposes.

In support of the new products, TCM will continue to enhance the capability and capacity of the Summit treasury system in order to minimize operational risks while more accurately assessing market risks.

With regard to alternative funding sources, TCM will continue to look for opportunities for bonds/marketable securities/NCDs issuance to secure sustainable long-term funding.

With these initiatives, TCM seeks to optimize its contribution to the Bank while adhering to the prudent principles and compliance with applicable regulations.

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



**Transaction Banking will continue its focus to be the solution integrator across different divisions and lead the Bank's digital strategy for Wholesale Banking and SME Banking**

Transaction Banking serves as solution integrator within the Bank, providing cross-division solutions to fulfill customer needs for Wholesale Banking and SME Banking segments.

By leveraging on our Cash Management, Trade Finance and Financial Supply Chain capabilities, we tailor our offerings to provide customers with the right working capital solutions that are competitive and efficient.

Transaction Banking also focuses on continuous development to keep up with market through technology-driven initiative such as revamping internet banking platform for the benefits of our customers. Our new internet banking platform -

Danamon Connect - aims to offer better customer's experience by integrating Cash Management, Trade Finance and Financial Supply Chain platforms and at the same time increases the efficiency in business process.

### **2016 Strategy**

Transaction Banking implemented several strategies and initiatives for Cash Management, Trade Finance and Financial Supply Chain.

In Cash Management, Danamon continued with its focus on the sourcing of low-cost funding, expanding granular deposit portfolio by providing end-to-end cash management solutions suited to the needs of the customers.

Specific initiatives have been developed to support Cash Management focus, i.e. launching of RMB-currency CASA, Time Deposit and Remittance products. In addition, Virtual Account was revitalized by enhancing its many capabilities to improve our collection services. Danamon Connect was soft-launched to replace the existing cash@work, to provide higher flexibility and more features to enhance customer's experience.



In Trade Finance, Danamon continued to improve our capabilities to serve our customer's working capital requirements. New product was introduced, such as Trade Supplier Finance which helps customers in managing their balance sheet and cash flow. Another variety of short term trade product, Open Account Financing Wesel, was also introduced to help customers manage their tight cash flow and allows them to further their business.

In Financial Supply Chain, Danamon targeted to be the bank of choice for customers. Danamon has expanded and continued to expand its market share organically by adding new principals/anchors and their related distributors/ spokes to the already growing portfolio. We leverage on the flexible internet banking platform to support principle/ distributor payment behavior. To further enhance Financial

Supply Chain experience with Danamon, our team provides various in-house reports that assist principle and/ or spoke in managing their business, allowing them to organize their cash flow more accurately.

The new internet banking platform was soft-launched in August 2016, to be fully implemented in 2017.

### 2016 Performance

Danamon won Asia Money's Cash Management Award in 2016 by Country in the following categories:

- 1) Indonesia's Best Local Cash Management Bank in the Small Size of Annual Size Turnover;
- 2) Indonesia's 3rd Best Local Cash Management Bank in the Large Size in of Annual Size Turnover;
- 3) Indonesia's 4th Best Local Cash Management Bank in the Medium Size of Annual Size Turnover

	YoY	2016	2015
Trade assets (Rp billion)	30%	12,745	9,781
Fee based income (Rp billion)	-4%	265	275
Number of Cash@work customers	24%	14,977	12,062
Number of Cash Management Transactions (cash@work)	8%	12,807,485	11,870,667
Volume of Cash Management Transactions (Rp trillion) (Cash@work)	3%	456.5	443.0

### 2017 Strategy

Transaction Banking will continue its focus to be the solution integrator across different divisions and lead the Bank's digital strategy for Wholesale Banking and SME Banking segments. Through the continuous upgrade on its internet banking platform and the launch of new initiatives, Transaction Banking is committed to offer client-centric solutions in Cash Management, Trade Finance as well as Financial Supply Chain products.

## ► Small Medium Enterprise Banking (SME)



**SME Banking succeeded in achieving Rp24 trillion in loans disbursement or 8% increase compare to previous year. Re-alignment of credit process allows credit approvals turn-around time in Danamon to be among the fastest in Indonesia.**

Danamon's SME Banking unit offers solutions in banking products and services suited to the needs of businesses in the small and medium enterprise sector. SME Banking customers is businesses with total annual sales between Rp1 billion and Rp50 billion, with total loan facility up to Rp20 billion.

### Products and Services

SME Banking offers a variety of loan products, including Overdraft Facility, a short-term loan facility for working capital purposes with option for annual renewal. This product offers high flexibility, allowing debtors to withdraw cash at any time up to the

prescribed loan limit via the debtor's current account.

Another product is the Demand Loan, a short-term loan for working capital purposes of a cyclical nature. Loan withdrawals can be done at any time and repetitiously using a Promissory Note, which also contains the terms of payment.

SME Banking also offers a number of Installment Loan ("KAB") facilities, such as KAB - Business Premises Loan ("KAB-KTU"). KAB-KTU is a long-term investment loan facility for the purchase or refinancing of business premises, either a shop-house, small-office home-office, warehouses, workshops, strata-titled commercial stalls, or similar other facilities. Loan tenor can be up to 20 years for several business premises, and the product can also be bundled with Danamon's CASA and e-channel products. Similar products includes KAB-Buyer Financing Program and KAB-Asset Backed Financing facilities.

Other loan products available to SME Banking customers include the BPR Loan, Employee Cooperative Loan, Community Financing, the Dana Oto (Auto Financing) in cooperation with Adira Finance, as well as trade finance facilities.

## 2016 Strategy and Initiatives

In 2016, SME Banking engaged in a transformation program involving the implementation of S&D structure, the establishment of a special team to focus on penetration of the so-called 'emerging market SMEs' and improvement of credit underwriting processes.

The implementation of the S&D program has, among other gains, resulted in a more efficient credit cost structure at SME Banking as well as at Danamon as a whole. The re-alignment of credit processes at the SME Banking unit has resulted in a significantly faster credit approval process of a maximum five days, compared to up to 15 days previously. This makes Danamon SME Banking one of the banks with the fastest loan approval turn-around time in Indonesia.

The S&D program also resulted in better cross-selling opportunities, with sales personnel now able to offer other Danamon banking products to SME customers. For instance, SME customers who already had an SME credit account were offered other products such as a savings account, time deposit, cash management services or a bancassurance product. Upon having a multi-product relation with Danamon, these customers are more likely to remain loyal long-term customers at Danamon. The cross-sell of certain products such as cash management or bancassurance also serves to benefit Danamon's fee-based income.

In 2016, SME Banking also continued with its strategy of the previous year towards sustainable growth of loans and customer deposits, while allocating a greater portion of loan disbursements to the trading sector. SME Banking also prioritized the disbursements of smaller-sized, high-quality loans so as to better manage the credit risk while supporting sustainable overall loan growth. In terms of credit risk, SME Banking remained prudent especially in loan disbursements to sectors such as mining and minerals and their supporting industries, which are still vulnerable to changes in the global economy. The allocation of loans considers such factors as market condition, availability of collateral and other factors.

In addition, SME Banking developed financing products for the 'emerging market SME' segment, including the commercial mortgage program KAB-KTU product. These products are designed to cater to the needs of small SME customer to help them grow businesses.

SME Banking also consistently pursued cooperation with a variety of business communities through the Distributor Financing ("DF") and Financial Supply Chain ("FSC") programs, offering attractive banking products and services to businesses as distributors of customers of Danamon. Existing cooperation with other business lines such as Wholesale Banking, DSP and Adira Group was also enhanced.

## 2016 Performance

Amid challenging economic conditions through 2016, SME Banking succeeded in achieving Rp24 trillion in loans disbursement or 8% increase compared to previous year. There was a 7% decline in SME customer third-party funds to Rp9.8 trillion. However, this decline was in line with the Bank's strategy to reduce its cost of fund through portfolio diversification to a greater number of smaller-sized accounts. At the end of 2016, the number of accounts showed an increase of 2.3% to 79,824 accounts in 2016.

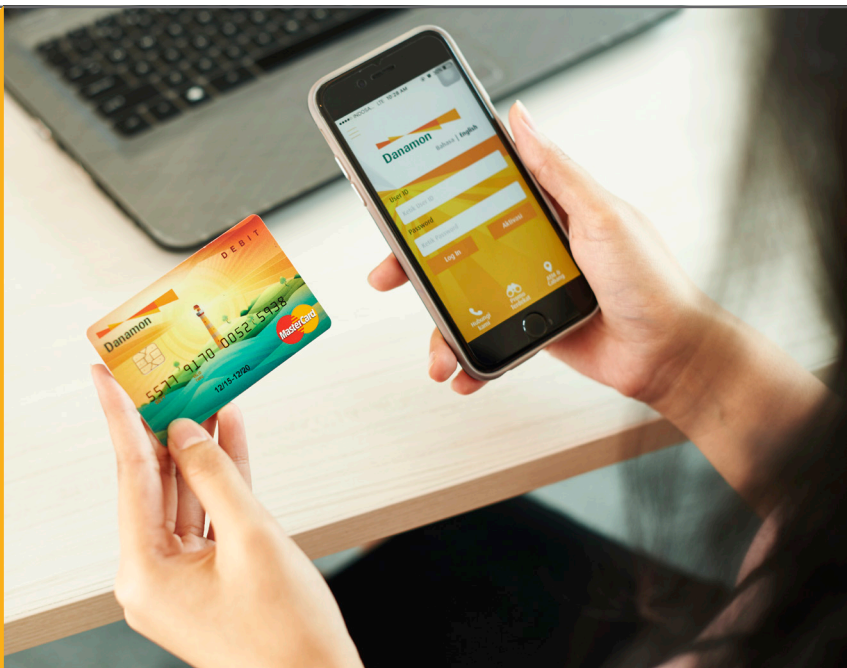
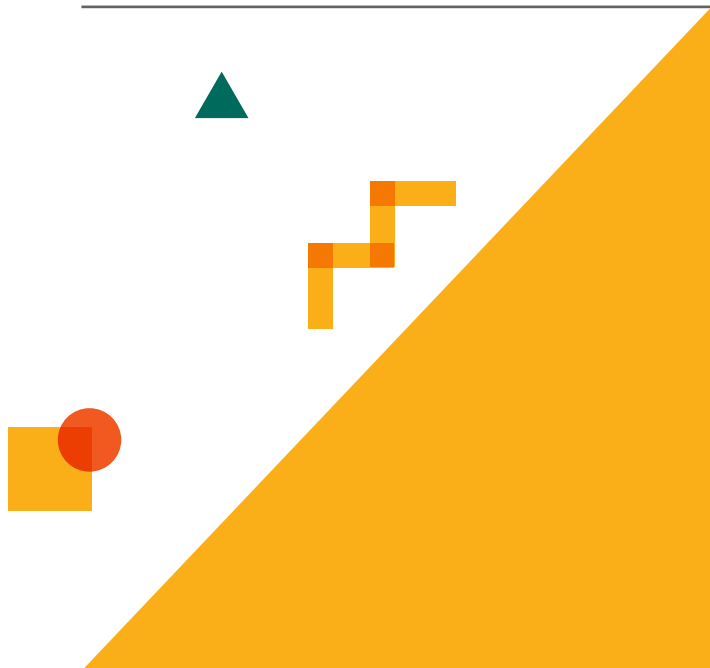
## 2017 Strategies and Initiatives

In 2017, SME Banking will largely continue with those various initiatives begun in 2016. These include the optimization of S&D network expansion to cities with business potential, aiming for selective loan growth with a priority on the trading sector. The KAB-KTU Commercial Mortgage product will be further enhanced with new features in line with the growing needs of potential customers.

SME Banking will seek to function as a one-stop banking solution providing integrated financing and funding solutions to small and medium-size businesses through the provision of comprehensive product bundling solutions. SME Banking will also continue with the cross-sell strategy as a means to improve customer loyalty.



## ➤ Consumer Banking



**Granular funding strategy has contributed to a more efficient cost of funds.**

Danamon's Consumer Banking business unit provides holistic banking services to individual customers, both self-employed and salaried employees. Consumer Banking offers variety of banking services and products, such as unique savings and current account products, time deposits, as well as financing products ranging from mortgages, credit cards, to unsecured personal loans.

For investment and bancassurance products, Consumer Banking provides its customers with a wealth of options through partnerships with some of the biggest and most reputable providers in the country. Whilst for its affluent customer segment, Consumer Banking also provides personalized service through its Privilege Banking offer.

Consumer Banking contributed around 8% to the total financing portfolio of Danamon and accounted for approximately 59% of total customer deposits. The unit also contributed significantly to Danamon's fee based income.

## 2016 Strategy

In the face of tighter competition and opportunity to provide customers with more integrated products and services, Danamon has implemented Sales & Distribution (S&D) strategy, allowing a more holistic approach of serving the customers.

With the new S&D structure, customers will receive better services through implementation of the 'single captain' approach at branches, whereby a Branch Manager is directly responsible for the performance of all business lines at the branch. Each frontliner (sales personnel) at branches has the capability to provide customers with holistic service, such as SME financing and other products to meet the needs of the customers. This capability is supported by the re-alignment of front and back office functions resulting in a faster and more efficient process. Customers thus benefit from a faster process and more consistent service quality, resulting in improved customer loyalty.

In 2016, Danamon also implemented a granular funding strategy by focusing on smaller sized deposits. This led to lower cost of funds and also a better deposit profile for the Bank. To support the granular funding strategy, Danamon implemented programs to entice new account opening by existing as well as new customers.

The S&D strategy has also contributed to the increase of Danamon's fee based income, in line with more cross-sell activities as well as the availability of more attractive product bundling tailored for specific customer segments. In 2016, fee based income from cash management services and bancassurance accounted for a significantly larger portion of the Bank's fee based income.

To improve customer access and increase the number of transactions, Danamon continued to develop its e-channel platform by adding more capabilities and features, including the launch of the DCard Mobile application for its credit card holders.

Danamon offers Classic, Gold and Platinum credit cards that allow customers to enjoy the conveniences of modern lifestyle. In 2016, Danamon implemented a promotional strategy for its flagship product, AMEX Platinum Card, a prestigious charge card product that comes with exclusive and upscale features, such as special fast-lane immigration access in airports, airport lounges, special offers of dining and accommodation at luxurious hotels, access to the most beautiful golf courses in Indonesia and many other.

Danamon's credit card business also implemented promotional strategies in collaboration with various e-commerce portals to increase card usage and transaction volume, through attractive offers, such as cash back, discounts, and interest-free installments.

In the mortgage business, Danamon continued to develop partnership with strategic partners such as property developers and brokers, and leasing companies to promote and market mortgage products. Danamon also implemented a competitive pricing strategy to secure a larger market share while maintaining the quality of the portfolio.

In the bancassurance business, Danamon's strategy in 2016 was directed at new market penetration outside Java, such as Kalimantan and Sulawesi. Cross-sell activities were also conducted through product bundling initiatives to the Bank's customer segments.

## 2016 Performance

### Third Party Funding

With the implementation of integrated strategies and initiatives in 2016, Danamon's consumer business succeeded in increasing its customer deposits by 3% to Rp 61.7 trillion, with funds in CASA accounting for 61% of total customer deposits.

Danamon continues to rely on its flagship savings products, the Danamon Lebih and Fleximax. Both products offer unique benefits to the customers, ranging from free administration fees to free interbank transfers.

### Third Party Funding (Rp billion)

	YoY	2016	2015
Current Accounts	0.30	2.9	2.6
Savings accounts	(0.30)	29.3	29.6
Time Deposit Accounts	1.70	29.4	27.7
<b>TOTAL</b>	<b>1.80</b>	<b>61.7</b>	<b>59.9</b>

### Third Party Funding Accounts

	YoY	2016 (Nov)	2015
Current Accounts	(887)	15,430	16,317
Savings accounts	50,937	1,323,054	1,272,117
Time Deposit Accounts	9,819	122,359	112,540
<b>TOTAL</b>	<b>59,869</b>	<b>1,460,843</b>	<b>1,400,974</b>

### KPR & KTA

#### KPR

	YoY	2016	2015
Outstanding (billion)	20.8%	4,451	3,686
NPL (%)	-0.5%	2.0%	1.5%

#### KTA

	YoY	2016	2015
Outstanding (billion)	-50.1%	659	1,322
NPL (%)	0.4%	5.8%	6.2%

### Credit Card

#### Credit Card

	YoY	2016	2015
Receivables			
End Net Recv'ble - Rp billion	7.2%	2,417	2,254
NPL (90 days+)	0.0%	2.5%	2.5%
Transactions Volume - Rp trillion	7.3%	7.0	7.6



### Electronic Channel

In 2016, 44% of Danamon's customers conduct their banking transactions through the Bank's e-channel. The number of e-channel transactions accounted for 55% of all transactions at the Bank, with D-Mobile transactions growing 105% year on year. These transactions contributed significantly to the Bank's fee based income.

Danamon also launched the DCard Mobile, a smartphone application targeted at its credit card customers. This application allows customers to easily manage their credit card accounts, enabling them to engage in activities ranging from converting their purchases into monthly installments to registration of bill payments.

The security of the customers' transactions is paramount. In order to provide customers' peace of mind, the Bank is continuously upgrading its security system as well as educating the customers.

### Strategy and Plans for 2017

In 2017, Danamon seeks to better serve the customers through its revamped S&D network. Initiatives such as products bundling, centralized marketing, and e-channel improvements (e-commerce, online savings account, and others) will be rolled out to improve the customers' experience.

Plans are also in hand for the launch of an integrated loyalty program that allows the customers to accumulate reward points from their transactions as well as product purchases.

Danamon will revitalize the credit card business, through initiatives such as deepening relationship with existing card holders, and building synergies with branch offices.

In the mortgage business, aside from strengthening its collaboration with traditional strategic partners, Danamon will also pursue non conventional partners to widen the marketing of its products.

With regards to bancassurance, Danamon will continue to serve the needs of its various customer segments by providing them with unique products. To meet the changing behavior of the customers, online insurance products will be offered. Collaboration with Adira Insurance and Adira Finance will be pursued to increase cross-sell opportunities.

## ► Marketing Strategy and Market Share

**Danamon's 2016 marketing strategy focused on meeting customer needs from young professionals, families and SME owners**

The overall marketing strategy in 2016 was directed at improving Danamon's brand equity through brand recognition, customer acquisition and customer loyalty initiatives, reinforcing the brand positioning of Danamon as a leading bank. A centralized marketing strategy promoted consistent messages of product and service innovations. Marketing focus highlighted meeting customers' needs from three identified segments: young professionals, families and SME owners. Danamon underscored an internal marketing campaign, using the momentum of Danamon's 60th anniversary with the theme of 'Mantap Melaju' to instil core values and motivation among Danamon employees.

Integrated marketing communication programs were carried out in 2016, from above the line to below the line. Above the line media, such as television, radio, print advertisement, and digital were effectively integrated with below the line promotions, which include outdoor media placement, event and activation at customer touch points at branch, ATM gallery, and selected merchants.

Danamon also engaged in marketing communication programs at banking-related events, as well as in direct-to-customer interactions and prospective-customer promotional events within relevant marketing communities across the regions. Danamon intensively engaged in digital marketing from the website and via the emerging effective platforms of social media.

Marketing programs discovered ways to improve employee awareness and preference for Danamon's products and services. These various programs were held at Head Office and at branches as conducted in association with the 60th Anniversary of Danamon in 2016.

Danamon regularly employs the services of independent research companies to track brand performance, brand awareness and advertising awareness so as to ensure the effectiveness of its marketing strategies. Two such marketing research projects were conducted this year.



In 2016, Danamon was in the 14<sup>th</sup> rank from out of 100 listed leading companies in Indonesia in terms of brand value (US\$413 million with brand rating AA) in a poll conducted by SWA magazine in collaboration with Brand Finance.

The marketing strategy for 2017 includes launch of new customer segmentation approach in order to understand customers better and be able to offer the right products and services. Brand presence expansion in prominent channels, both conventional and digital, as well as refreshment of its communication visual, will be the main initiatives executed to maintain consistency as ONE DANAMON.





## ► Syariah Banking



**To have sustainable growth, Danamon Syariah developed unique Syariah-based products distributed through conventional bank network and Syariah branch, as well maintain its focus in growing SME portfolio.**

Indonesia's Syariah banking sector possesses a tremendous growth potential, given that while some 80% of the population are Moslems, the market share of Syariah banking is still relatively small, at around 5%. Therefore, Danamon Syariah is striving to develop a robust customer-oriented Syariah banking service as a solution for small and medium businesses as well as the retail segment, supported by reliable infrastructure and technology.

Espousing a vision of "Helping Millions to Prosper Equitably based on Syariah Principles", Danamon Syariah in 2016 focused on the retail segment for acquisition of third-party funds, as well as the small and medium enterprises sector for the disbursement of financing facilities for productive purposes.

### **Danamon Syariah Products and Services**

Danamon Syariah offers a variety of financing and funding products as well as other banking services to cater to the needs of customers. Among its leading financing products are Leasing iB, Working Capital iB financing and Investment iB financing.

Meanwhile, the flagship funding products include the Umroh iB Savings, a term savings account that helps customers to prepare the funds for Umroh pilgrimage, the Qurban iB Savings, a term savings account that helps customers to prepare the funds for Qurban, the Bisa iB Savings that offers a variety of transaction conveniences, and the regular CASA Time Deposit account. Danamon Syariah also offers Cash Management, Syariah Trade Finance and a Syariah-compliant life insurance product, the Proteksi Prima Amanah.

## 2016 Strategy and Initiatives

As part of its business transformation strategy, Danamon Syariah implemented a number of work programs in 2016 in developing and optimizing its Syariah product distribution networks through both the Syariah branches as well as the conventional branches via office channeling. While Syariah branches consolidation continued, Danamon also developed unique Syariah-based products that can also be distributed via the conventional branch network, including cash management services to optimize the cash flow from financing activities.

In 2016, Danamon Syariah focused on growing its small and medium enterprise portfolio as well as its commercial segment through the Syariah leasing facilities. Additionally, Danamon Syariah focused on improving the competencies and productivity of its human resources.

## 2016 Performance

With the implementation of the above strategy and work programs, Danamon Syariah succeeded in amassing Rp3,693 billion of third-party funds in 2016, a growth of 22% compared to the previous year. This was achieved on the strength of distribution network expansion through the office channeling strategy.

Despite less than ideal macro-economic factors, Danamon Syariah posted Rp3,321 billion in financing, increasing by 5% from the previous year. Asset quality was well maintained with NPF of around 1.8%.

In 2016, Danamon Syariah added a couple of new products to its growing range of product suite, which were the Syariah leasing refinancing ("IMBT") facility and the Proteksi Prima Amanah product, available at all conventional branches through office channeling.

	2016	2015	Increase
Total Asset	3,921	3,573	10%

## Recognitions in 2016

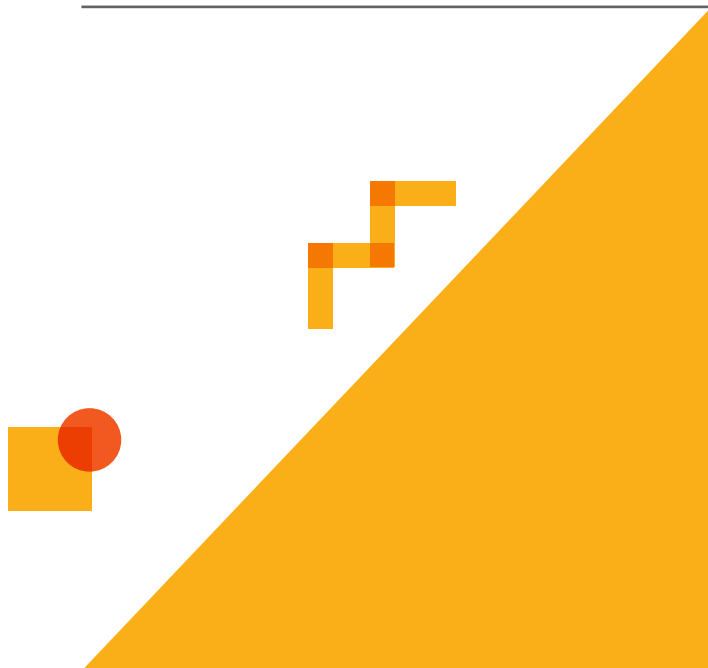
Danamon Syariah received a number of awards in 2016, most notably the award as Most Profitable Syariah Unit 2015 from Karim Consulting in May 2016, and the Indonesia Best Banking Brand Award from Warta Ekonomi in December 2016.

Danamon Syariah was also recognized as 3rd Best Digital Brand award in the Syariah Business Unit category by Infobank in March 2016, and the 3rd Best Overall Banking Service Excellent in the Syariah Business Unit category by Infobank in June 2016.

## 2017 Strategy and Initiatives

Danamon Syariah will aim for an aggressive and yet high-quality growth by optimizing sales of Syariah products through the conventional distribution network. Growth of quality assets will be focused on the financing portfolio for Small and Medium enterprise segments. Danamon Syariah will also develop more products as well as improved services in line with the needs of customers and to assure Syariah-compliant products, processes and services to customers. In support of this strategy, training on Syariah product knowledge will be conducted among personnel in the relevant work units.

## ➤ Micro Banking



**In the face of challenges, Micro Banking strives for improvement of operational processes to become more effective and efficient in order to maintain its competitiveness.**

In line with Danamon's vision statement, Danamon's Micro Banking, better known as Danamon Simpan Pinjam ("DSP"), strives to help millions to prosper through the provision of business loans to the Micro and Small-scale enterprise in Indonesia (numbering some 57.8 million as of year-end 2013). Micro and Small businesses are defined as those with maximum annual turnover of Rp300 million and Rp2.5 billion, respectively.

### Products and Services

DSP offers products and services using a community-based approach, focusing on the unique value proposition of 'easy, fast and convenient' due to being located right in the communities it serves for easy access to products and services.

DSP offers liability, loan and bancassurance products. DSP loan products cover a wide range from unsecured to secured products, from as low as Rp5 million up to Rp1.5 billion in loan size, from 12 months to 60 months tenor.

On liability products, DSP provides a number of saving products (TabunganKu, SiPinter, Tabungan Cita2ku) as well as Time Deposits.

DSP also offers several bancassurance products to serve the specific needs of customers.

## 2016 Strategy and Initiatives

In accordance with Danamon's 2016 Bank Business Plan, DSP implemented a business transformation strategy towards sound and sustainable growth through distribution network alignment, development of alternative distribution network, better cooperation with strategic partners, and enhanced relations with loyal customers and communities.

DSP also focused on internal digitization towards more effective and efficient operational processes for faster customer transaction time, organizational and process alignment, optimization of shared services, and the development of alternative payment networks.

Significant automation was aimed at enabling faster, more efficient and better-controlled loan application and collection processes, including building of a rule-based engine.

Another important area was fraud management and prevention through process improvement, human resources quality improvement, and the implementation of a merit-based and accountability minded work culture.

Human resources quality was enhanced by strengthening corporate values and culture, increasing inter-divisional synergy, and improving employee competencies through e-learning programs.

## 2016 Performance

In 2016, DSP faced increasing business competition. Market penetration was challenged due to macroeconomic conditions and external competitions, eventually impacting the DSP portfolio. Internally, DSP also had to deal with declining outlet performance as well as with the need for more efficient and controlled loan processing.

The DSP loan portfolio declined by 30% to Rp10,188 billion in 2016, from Rp14,604 billion the previous year. In the same period, DSP customer deposits declined by 26% from Rp828 billion in 2015 to Rp611 billion in 2016.

## 2017 Strategy and Work Programs

In 2017, DSP will still face internal and external challenges. Internal challenges include efforts to improve outlet performance and strategic partnerships, to implement better operational, credit and collection processes, and to enhance the quality of our human resources. Challenges from external factors will still mainly come from macro-economic conditions as well as the continuing external competition.

To overcome all those challenges, DSP has formulated a number of strategies for 2017, based on repositioning and refocusing of its business and strategic partnerships. More effective and efficient processes will be pursued through automation, organization structure alignment for better services, and the development of alternative payment networks and new business models. Faster, more efficient and controlled credit and collection processes will be pursued through automation, including the implementation of a rule-based engine, human resources quality improvement, and enhancement to the supervision function. To improve management of fraud prevention, DSP will enhance the various processes for the early-warning of fraud, the application of the know-your-customer principle among employees, the imposition of clear and strict sanctions and punishment, and the strengthening of the internal control function.

In 2017, DSP plans to continue rationalize its network. Outlet closure will be based on studies that consider factors such as market potential, availability of human resources, financial performance, and loan quality of the respective outlet. This will be the main task of the Special Asset ("SA") division. Any outlet closure will be done in full compliance to the relevant regulations/laws, paired with an effective two-way communication channel between management and employees.







Espousing a vision of “Creating shared values for company sustainability and prosperity of the Indonesian society”, Adira Finance has a mission to provide a variety of products and services to serve every stage in a customer’s life cycle, to provide beneficial and friendly experiences for stakeholders and to enable communities to reach prosperity.

With a logo and tagline of “Sahabat Setia Selamanya”, Adira Finance is committed to building healthy and long-term relationships with customers and business partners in order to support a sustainable performance.

This commitment is the driving force for Adira Finance to serve the consumer in all aspects of life, leading to a long-term relationship, a ‘customer for life’. Adira Finance seeks to position itself in the mind of consumers as a friend who is capable of providing the solutions they need and seeks to work together within the “Sahabat Adira” concept. ‘Sahabat’, in the philosophy of Adira Finance, contains personalized values to be reflected to the consumers: intelligent, trustworthy, friendly, helpful, attentive, and committed.

Adira Finance primarily focuses on providing financing facilities for the purchase of two- and four-wheeled motor vehicles, new and used, in the domestic market, targeting customers in the mid and mid-to-low income levels who need motor vehicles primarily for productive purposes.

Since May 2015, Adira Finance has also diversified its product offerings with financing for household appliances.

### Products and Services

Adira Finance’s core offerings include investment financing, working capital financing, multi-finance and other types of financing as approved by OJK, as well as offering lease facilities and/or other fee-based activities within the regulatory corridor in the financial services sector. Adira Finance also provides syariah-based financing.

### 2016 Strategy and Initiatives

In line with the 2016 Bank Business Plan, Adira Finance continued with its strategy of diversification of financing disbursement. While financing for new

motor vehicles remains its core business, Adira Finance at the same time has diversified into other financing products, such as financing for used cars or used motorcycles in cooperation with partner automotive dealers. Adira Finance also strives to offer competitive, value-for-money financing by combining financing products with insurance products and financing for household appliances (durables), all while implementing a relatively fast application approval process and enhancing cooperation with principals and distributors.

This diversification of financing strategy is supported with an optimum funding strategy and adequate level of liquidity at all times, ensuring the availability of funds for financing and for operations, as well as for the settlement of maturing bank loans and debt notes.

In addition, Adira Finance strives to maintain a gearing ratio within limits as prescribed by the regulator OJK Regulation No. 29/2014 at a maximum of 10 times equity. Further, Adira Finance also diversified its funding sources, combining joint-financing, bank loans (from domestic as well as overseas banks) and the issuance of bonds and *mudharabah* bonds in order to secure an optimum funding base.

Adira Finance strives to improve productivity and to manage its operating costs at a healthy level in line with the needs for business growth. Efforts in these areas include the simplification of work processes at various functions within the company, the updating of company policies to reflect developments in the business environment and the utilization of information technology for process automation.

## 2016 Performance

Amidst the slowdown in the domestic market for new automobiles and motorcycles, Adira Finance implemented the above strategies and succeeded in maintaining its performance in 2016 compared

with the previous year. New financing disbursement amounted to Rp30.9 trillion this year, compared with Rp30.5 trillion in 2015. Non-performing financing (including off-balance sheet portion) went down from 1.7% last year to 1.6% in 2016.

Amid heavy competition, Adira Finance managed to maintain its market share for motorcycle financing at 12.3% in 2016, compared to 12.0% in the previous year. For automobile financing, Adira Finance's market share also remains manageable at 4.5% for the year, compared with 4.9% in 2015.

## 2017 Strategy

Danamon believes that Adira Finance's current strategies are still relevant to the challenges in 2017. Overall, Adira Finance's strategy is to improve productivity and efficiency. Adira Finance will continue with initiatives to improve operational efficiency, including through process simplification and investments in Information Technology in line with the current digital era. These efforts are expected to lead to higher productivity levels, better support for financial activities and increased efficiency, ultimately leading to an improved customer experience.

Adira Finance will also continue with financing product diversification. In response to the domestic market slowdown for new automobiles and motorcycles, Adira Finance is creating new opportunities by enlarging the portion of financing for used motor vehicles while assessing new opportunities in financing for durables and multi-purpose products.

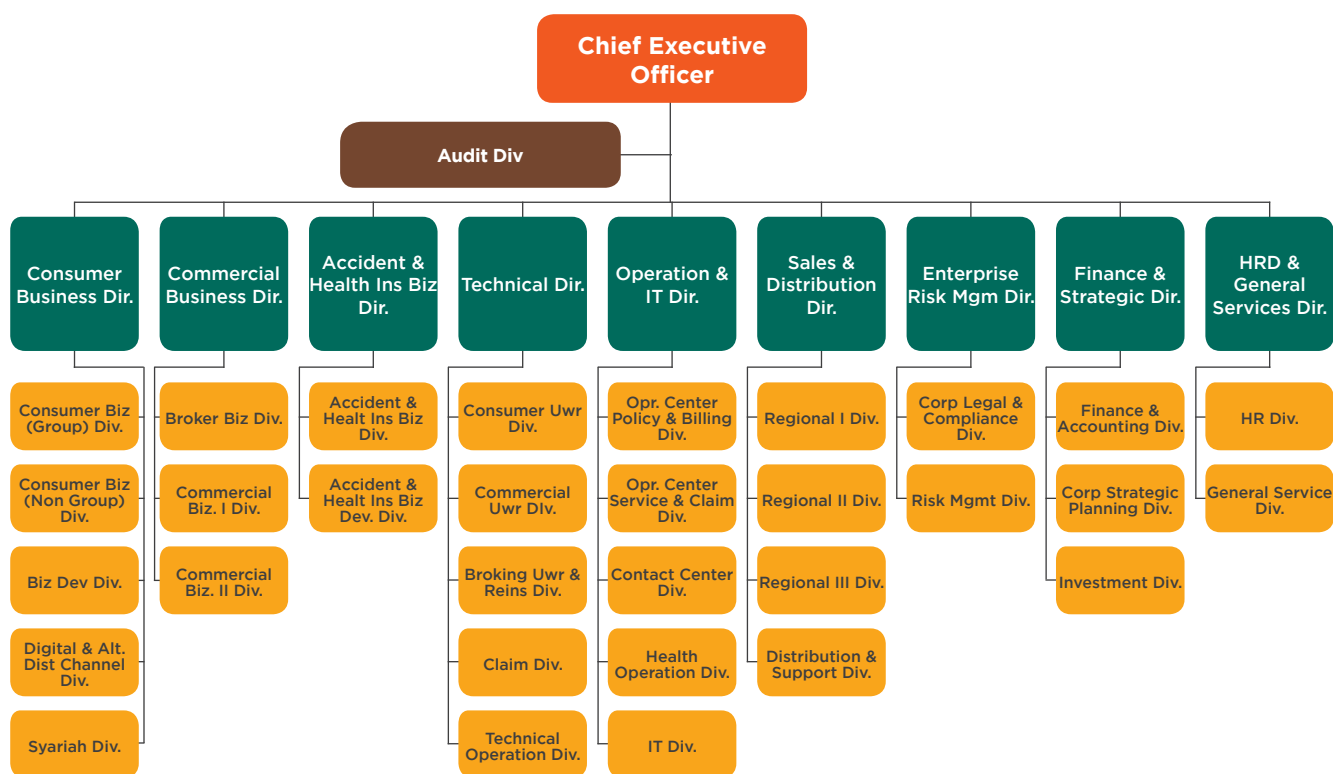
To provide optimum services to customers, Adira Finance will also continue with its strategy of building partnerships with third parties. This includes the long-standing cooperation with the Post Office, bank and retail shops such as Alfamart to act as payment points, providing convenient access for around three million active customers to make their installment payments.

## ● Subsidiaries Business Review

# Adira Insurance

Increase 10% productivity through technology advantages.

### ADIRA INSURANCE ORGANIZATION STRUCTURE



Esponsing a vision of “To be the Insurer of Choice”, Adira Insurance has become one of the preferred general insurance provider companies in Indonesia today. Adira Insurance has a portfolio of around 10 million active policies through diverse market segments including Multi-finance, Banks, Direct Corporate, Agents, Brokers and others, with the support of more than 50 outlets throughout Indonesia.

Adira Insurance provides both conventional as well as syariah-based insurance products. Among its flagship insurance products are Autocillin (car insurance), Motopro (motorcycle insurance), Medicillin (health insurance) and Travellin (travel insurance). Adira Insurance also offers insurance coverage for personal accident, property, heavy equipment, marine cargo and hull, engineering, surety bonds, and other insurance products.





To ensure customer convenience, Adira Insurance provides services such as 24 hours Call Center, SMS Channel, a wide network of Autocillin partner workshops, Autocillin Claim Spot and Autocillin Rescue services, while its official website contains features for product information and purchase, claim submission and other convenient features.

### 2016 Initiatives

Adira Insurance implemented a number of initiatives throughout 2016, involving areas of Organization & Human Resources, product and marketing, processes, information technology, distribution network and risk management. In Organization & Human Resources, Adira Insurance's initiatives include the strengthening of internal collaboration, continuing development of internal talent competencies, organization restructuring for the health insurance line of business, Sales & Distribution ("S&D") initiatives and centralized operation.

In Product and Marketing, Adira Insurance has enhanced the Autocillin car insurance product with additional value in terms of simplifying claim filings and has developed a new business line to offer Individual Health insurance products. Initiatives in processes include the development of procedures

to minimize process errors and the development of more efficient policy application and claim processes through the B2B Wholesale & Middleware project. In Information Technology, Adira Insurance is striving to utilize sophisticated digital technology to enhance both productivity and efficiency levels and is developing a digital platform towards better service quality and marketing. In terms of Network, Adira Insurance has intensified efforts to socialize the Autocillin Sales Management application system to business partners and to cross-sell Adira Insurance products at Danamon branch offices.

### 2016 Performance

Overall, Adira Insurance's business portfolios declined by 1% from Rp2,377 billion in 2015 to Rp2,343 billion in 2016. The Banking and Others segments experienced a decline, while the Leasing and Broker segments showed 6% and 1% growth, respectively.

The Banking segment declined 15% to Rp345 billion in 2016, compared with Rp405 billion in the previous year. The decline reflected premiums from industries related to commodity export such as commercial car insurance, heavy equipment, including ship frame and cargo.

GWP Source of Business	Contribution (%)	2015	2016	Growth
Multi-finance	55%	1,228	1,296	6%
Banking	15%	405	345	-15%
Direct Corporate	3%	81	79	-2%
Agent, Dealer, Biz All	5%	115	115	0%
Broker	8%	185	186	1%
Others	14%	363	323	-11%
Total	100%	2,377	2,343	

Despite the slowdown in the domestic automotive sector, Adira Insurance was able to book a 4% increase in the automotive insurance portfolio to Rp1,360 billion in 2016, compared with Rp 1,311 billion in the previous year. The growth was mainly contributed by the ADMF Syariah business line.

	YoY	2016	2015
Portfolio MV (Rp billion)	4%	1,360	1,311
Portfolio Non MV (Rp billion)	-8%	982	1,065
Total	-1%	2,343	2,377

In 2016, Adira Insurance strove to maintain growth of its business portfolios by enhancing collaboration with more than 20 national Banks, Government owned and joint venture.

## 2017 Strategy

In 2017, Adira Insurance will continue with the strategies already in place in 2016, with the following priority initiatives:

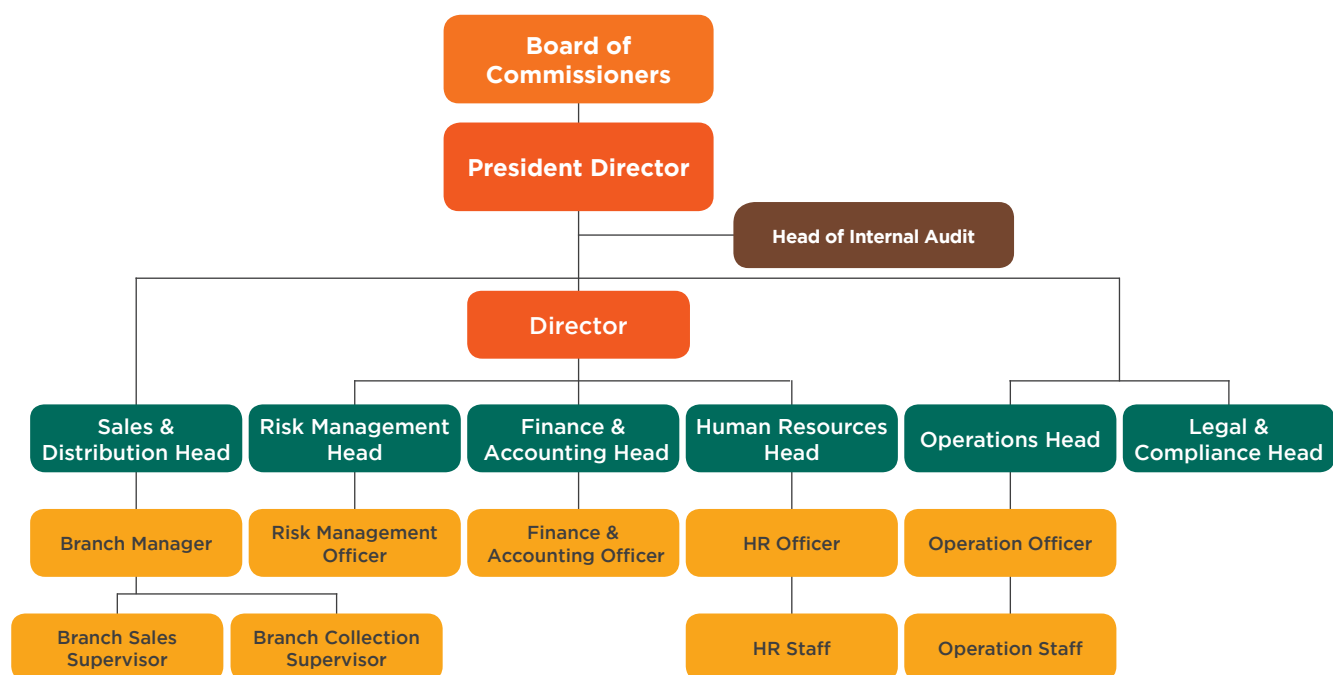
1. Business  
Group business - Cross selling within the Group, optimizing the networks, products, services and other resources available within the Group.  
  
Non-group business - Optimizing existing partnerships with a focus on the motor vehicle product line in the retail network and the property product line in the SME network, while strengthening partnerships with banks, automotive dealership and other high traffic retailers.
2. People  
Taking advantage of the current soft economy as an opportunity to develop the quality of human capital, in terms of soft skills as well as technical skills, such as capabilities in sales and distribution as well as underwriting skill, to be ready to go full speed ahead when the economy recovers.
3. Process Efficiency  
An efficient process relies mostly on utilization of technology, which in turn requires changes in the processes and the analytical capability of employees. Process efficiency already contributed to a 10% increase in productivity in 2016, compared with 2015.

## ● Subsidiaries Business Review

# Adira Kredit

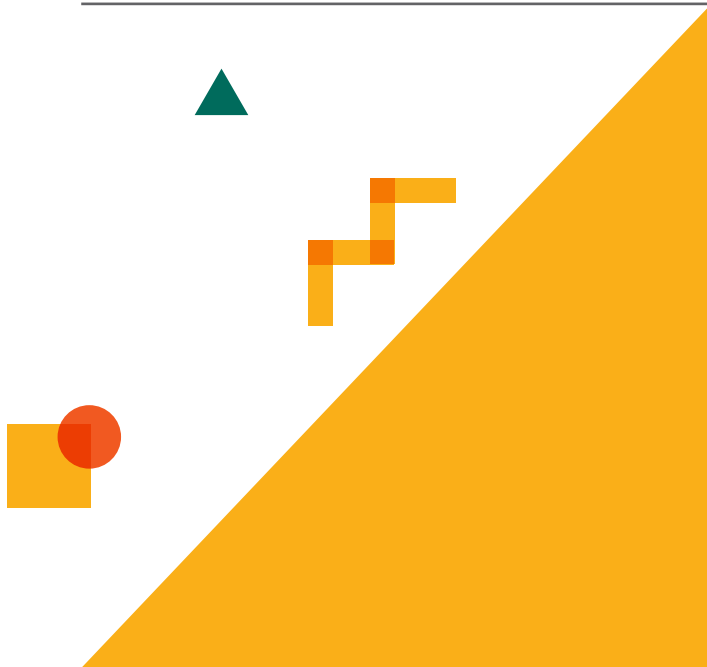
Adira Kredit serves all consumer segments and offer unique proposition based on first-class sales and services, to achieve its aspiration to be preferred multi-finance company.

### ADIRA KREDIT ORGANIZATION STRUCTURE



PT Adira Quantum Multifinance, or more popularly known as Adira Kredit, is a multi-finance company for consumer goods such as personal computers, electronics, furniture and household appliances, operating a nation-wide distribution network in Indonesia.

With a vision statement of “We Care and Enable Millions to Prosper” and a mission of becoming “A Leading Financial Institution” with a strong market presence in Indonesia, Adira Kredit offers consistent services with unique values for all consumer segments based on sales excellence and superior service. Ultimately, its



aspiration is to become a leading financial institution and the preferred employer, winning the respect of borrowers, employees, shareholders, regulators and the various communities that Adira Kredit operates.

In operation since March 23, 2003, Adira Kredit has a commitment to provide quality services to customers, improving financial performance and generating added value for all stakeholders.

### Products and Services

Adira Kredit offers financing for the purchase of consumer goods such as electronics, PCs and tablet PCs, furniture, smartphones and other household appliances. Adira Kredit provides the alternative solution to purchase products on installment, so that the consumer may immediately enjoy the benefits of the product while having a flexible payment scheme.

### 2016 Strategy and Initiatives

In line with the Bank Business Plan, Adira Kredit's strategy in 2016 included initiatives such as continuing with a limited operations strategy, development of joint-financing schemes with Adira Finance, efficiency measures in terms of workforce and physical assets,

implementation of collection and payment receipt activities through Adira Kredit outlets and existing payment points, as well as implementation of customer service activities including the handling of customer complaints and request for information on the amounts and due dates of installment payments.

The strategy for consumer financing expansion uses a merchant-based approach with specially-tailored marketing programs for a number of key merchants, while also focusing on communities of consumers and existing customers.

### 2016 Performance

With a prudent financing strategy, new financing disbursements through the joint-financing scheme amounted to Rp232 billion in 2016, while the NPL ratio was around 4.0% in this year.

### 2017 Strategy

In 2017, Adira Kredit will continue with its limited operational strategy through efficiency measures to achieve optimal financial performance.



## ➤ Financial Review



Danamon was able to improve net profit after taxes due to improvements in cost of funds, lower operating expenses and cost of credit.

### COMPREHENSIVE INCOME

#### Profit and Loss

In 2016, comprehensive income was recorded at Rp2.83 trillion, an increase compared to the comprehensive income of the last two years, which were Rp2.54 trillion and Rp2.76 trillion for 2015 and 2014, respectively. Likewise, the 2016 net profit increased to Rp2.67 trillion compared to the net profit of the last two years of Rp2.39 trillion and Rp2.60 trillion in 2015 and 2014, respectively.

#### Consolidated Income Statements

Rp billion	Full Year			
	YoY	2016	2015	2014
Net Interest Income	1%	13,779	13,648	13,680
Net Underwriting Income	18%	621	527	427
Net Interest Income and Net Underwriting Income	2%	14,400	14,175	14,107
Other Operating Income	0%	4,071	4,081	4,336
Other Operating Expense	-5%	13,537	14,437	14,380
Net Operating Income	25%	4,934	3,819	4,063
Non Operational Expense - Net	-18%	541	662	510
Income Before Tax	34%	4,393	3,281	3,553
Income Tax Expenses	97%	1,600	812	870
Income After Income Tax Expense	13%	2,793	2,469	2,683
Net Income Attributable to Non-Controlling Interest	63%	123	76	79

### Consolidated Income Statements

Rp billion	Full Year			
	YoY	2016	2015	2014
Net Income Attributable to Equity Holders of the Parent Entity	12%	2,669	2,393	2,604
Basic Earnings per Share	12%	278,52	249,70	271,69
Comprehensive Income Attributable to Equity Holder of Parent Entity	10%	2,715	2,459	2,683
Comprehensive Income Attributable to Non Controlling Interest	51%	119	78	78

As part of Tax Amnesty participation requirement, Danamon had to forgo the right to contest prior years' tax assessment. This resulted in a Rp456 billion one-time tax expense in 2016.

### Other Comprehensive Income

Rp billion	Full Year			
	YoY	2016	2015	2014
Actuarial profit (loss) on defined benefit plan	34%	47	35	(76)
Income tax related to other comprehensive income	33%	(12)	(9)	19
Foreign exchange difference from translation of financial statements in foreign currency	-	-	-	-
Available for sale financial assets:				
- Profit (Losses) in current year	-669%	-	(59)	235
- Amount Transferred to Profit or Loss in Respect of Fair Value Change	550%	52	8	(13)
Cash Flow Hedges:				
- Effective portion on fair value changes of derivative instrument for cash flow hedges	-133%	(38)	115	(85)
Income tax relating to components of other comprehensive income	-57%	(8)	(21)	(2)
Other Comprehensive Income Net of Tax	-41%	41	69	78
<b>Total Comprehensive Income</b>	<b>12%</b>	<b>2,834</b>	<b>2,538</b>	<b>2,761</b>

The increase in comprehensive income is primarily due to the 5% or Rp900 billion decreases in other operating expenses. Net interest income grew 1% or Rp131 billion, as decline in interest income was offset by a decline in interest expense. At the same time, net underwriting income from Adira Insurance increased 18% or Rp94 billion.

**Income****OPERATING INCOME**

Rp billion	Full Year			
	YoY	2016	2015	2014
Interest Income	-8%	20,655	22,421	22,991
Premium Income	4%	1,829	1,761	1,492
Other Operating Income	0%	4,071	4,082	4,336
Total Operating Income	-6%	26,555	28,264	28,819
Non Operating Income	-13%	88	101	46
<b>Total</b>	<b>-6%</b>	<b>26,643</b>	<b>28,365</b>	<b>28,865</b>

The Banks's operating income comes from interest income, premium income, other operating income, and non-operating income. Bank revenues in 2016 show a decrease of 6% to Rp26.64 trillion compared to Rp28.37 trillion in 2015, primarily due to the decrease in interest income of 8%.

**Interest Income**

Rp billion	Full Year			
	YoY	2016	2015	2014
Loans	-15%	12,571	14,797	15,335
Government bonds	6%	374	352	326
Marketable securities and other notes receivable	12%	1,140	1,019	1,019
Consumer financing income	6%	6,344	5,966	6,055
Placement with other banks and BI	-21%	226	287	256
<b>Total</b>	<b>-8%</b>	<b>20,655</b>	<b>22,421</b>	<b>22,991</b>

In 2016, interest income fell by 8% to Rp20.66 trillion compared to Rp22.42 billion in the fiscal year of 2015. Interest income from loans declined 15% to Rp12.57 trillion, primarily due to lower outstanding balance in the micro segment.

**Other Operating Income**

Rp billion	Full Year			
	YoY	2016	2015	2014
Fees and commissions income	-2%	1,595	1,621	1,775
Fees	-7%	2,049	2,213	2,642
(Loss)/gain from changes in fair value of financial instrument	-288%	(15)	8	(127)
Realized gain (loss) from derivative instruments	-6%	177	189	13
(Expense) income from foreign exchange transactions	365%	79	17	(7)
Dividend income	100%	2	1	1
Gains on sale of marketable securities and Government bonds - net	458%	184	33	39
Other	-	-	-	-
<b>Total</b>	<b>0%</b>	<b>4,071</b>	<b>4,082</b>	<b>4,336</b>

Other operating income was relatively stable at Rp4.07 trillion in 2016 compared to Rp4.08 trillion in 2015. Service fee components experienced a decrease of 7%, or Rp164 billion, compared to the previous year, but was compensated by the increase in gain on sale of securities and net government bonds of Rp151 billion.

### Non-Operating Income

Rp billion	Full Year			
	YoY	2016	2015	2014
Insurance recoveries of loans written off	0%	27	27	21,43
Gain on sale of fixed assets	0%	3	3	4
Others	-18%	58	71	21

Meanwhile non-operating income experienced a decline of Rp13 billion from Rp101 billion in 2015 to Rp88 billion in 2016 to due to the decline of income from other sources.

### EXPENSES

The Bank's strategy in 2016 to change the third-party funds portfolio's focus towards smaller and granular volume funds has lowered the Bank's funding cost and reduced the Bank's liquidity fluctuations risk. Continues efforts to improve efficiency as well as productivity resulted in the operating expenses decreasing by 11% to Rp22.25 trillion compared to Rp25.08 trillion in 2015.

### OPERATING EXPENSES

Rp billion	Full Year			
	YoY	2016	2015	2014
Interest Expense	-22%	6,876	8,772	9,312
Insurance Underwriting Expenses	-2%	1,208	1,234	1,064
Other Operating Expense	-6%	13,537	14,437	14,380
Total Operating Expense	-12%	21,621	24,443	24,756
Non-Operating Expense	-1%	629	638	555
<b>Total</b>	<b>-11%</b>	<b>22,250</b>	<b>25,081</b>	<b>25,311</b>

### Interest expense

Rp billion	Full Year			
	YoY	2016	2015	2014
Deposits from customers	-23%	4,564	5,906	6,303
Borrowings and deposits from other banks	-29%	1,109	1,559	1,646
Securities issued	-8%	986	1,068	1,132
Deposit insurance guarantee expense	-9%	217	239	231
<b>Total</b>	<b>-22%</b>	<b>6,876</b>	<b>8,772</b>	<b>9,312</b>



In March 2016, OJK lowered the upper limit (capping) interest on deposits for Banks under BUKU 3 category to 100 bps above Bank Indonesia's benchmark rate. This regulation change also helped lower interest expense in 2016 by 22% or Rp1.89 trillion to Rp6.88 trillion. Interest expense on customer deposits decreased by 23% or Rp1.34 trillion to Rp4.57 trillion in 2016 compared to Rp5.91 trillion in 2015.

The Bank's weighted average effective interest rate ("WAIR") in 2016 stood at 3.83% as compared to 4.75% in 2015. The decrease is evident from the WAIR of demand deposits decreasing to 2.34% in 2016 compared to 4.63% in the previous year, WAIR of savings fell to 3.19% in 2016 compared to 3.61% in the previous year and WAIR from deposits dropping to 6.31% in 2016 compared to 6.88% in the previous year.

#### Weighted Average Effective Interest Rate per Annum Deposits from Other Banks

	2016	2015	2014
Current Accounts	2.34%	4.63%	5.47%
Savings	3.19%	3.61%	4.30%
Deposits & Deposits on Call	6.31%	6.88%	7.16%
Call Money - Rupiah	5.30%	6.49%	6.22%
Call Money - Foreign Currencies	1.99%	2.12%	4.82%
Weighted average	3.83%	4.75%	5.59%

#### Other Operating Expenses

Rp billion	Full Year			
	YoY	2016	2015	2014
Salaries and employee benefits	1%	4,879	4,834	5,811
General and administrative expenses	-12%	3,020	3,415	3,652
Allowance for impairment losses	-13%	4,441	5,082	3,986
Fees and commissions expense	30%	364	279	347
Others	1%	833	827	584
<b>Total</b>	<b>-6%</b>	<b>13,537</b>	<b>14,437</b>	<b>14,380</b>

Other operating expenses was also reduced by 6% or Rp900 billion in 2016 to Rp13.54 trillion, mainly due to the decrease in provision for impairment losses by 13% to Rp4.44 trillion and general administration expenses falling by 12% to Rp3.02 trillion.

#### Changes in Allowance for Loan Impairment Losses

Bank impairment losses ("CKPN") Allowance in 2016 decreased to Rp3.33 trillion from Rp3.36 trillion in 2015 due to increased write-offs by the Bank amounting to Rp3.51 trillion from Rp3.43 trillion in the previous year and a decrease in allowance reserve from Rp3.47 trillion in 2015 to Rp2.93 trillion in 2016.

Movements of Allowance for impairment losses	Amount (in billion Rp) 2016	Amount (in billion Rp) 2015	Amount (in billion Rp) 2014
Beginning Balance - 1 January	3,359,933	2,800,918	2,312,387
Allowance	2,930,583	3,471,825	2,338,494
Recovery	835,055	746,945	814,004
Write Off	(3,512,772)	(3,426,298)	(2,431,278)
FX Difference	(286,168)	(233,457)	(232,689)
Ending Balance - 31 December	3,326,631	3,359,933	2,800,918

### General and Administrative Expenses

The Bank's various efficiency measures implemented since 2014 have resulted in a significant reduction of general administrative expenses of 12%, or Rp395 billion, to Rp3.02 trillion in 2016 compared Rp3.42 trillion in 2015. These efficiency measures, which include reduction in office expenses, depreciation of fixed assets, and communication expenses, have yielded more than 10% in expense reduction. Consequently, the Bank was more able to effectively allocate its financial resources for advertising/promotion and other productive activities in order to boost the Bank's performance.

Rp billion	Full Year			
	YoY	2016	2015	2014
Office Expenses	-13%	1,469	1,681	1,744
Rental	-7%	525	566	597
Depreciation of fixed assets	-10%	464	515	539
Communications	-20%	257	321	361
Advertising and promotion	5%	149	142	217
Amortization of software	-16%	117	140	136
Others	-22%	39	50	59
<b>Total</b>	<b>-12%</b>	<b>3,020</b>	<b>3,415</b>	<b>3,652</b>

### Non-Operating Expenses

Rp billion	Full Year			
	YoY	2016	2015	2014
Business transformation expense	-11%	529	593	408
Loss on disposal of foreclosed assets	NM	4	-	1
Loss on disposal of fixed assets	-43%	1	2	1
Others	-43%	95	168	146

The Bank's non-operating expenses also experienced a reduction of 18% to Rp629 billion compared to Rp763 billion in the previous year, mainly due to lower business transformation costs which were Rp529 billion in 2016 compared to Rp593 billion in 2015.

### Dupont Analysis

Rp billion	Full Year		
	2016	2015	2014
Operating Income	10.4%	9.3%	9.0%
Operating Expense	-5.1%	-4.8%	-5.0%
Cost of Credit	-2.5%	-2.6%	-1.9%
Net Operating Income	2.8%	1.9%	2.1%
Non Operating Income (Expense)	-0.3%	-0.2%	-0.3%
Taxes	-0.9%	-0.4%	-0.4%
Asset Turnover	1.5%	1.3%	1.3%
Leverage	5.3X	5.9X	6.5X
ROAE	8.0%	7.5%	8.6%

### ASSETS

Rp billion	Full Year						
	YoY	2016	% Total	2015	% Total	2014	% Total
Cash	-17%	2,265	1%	2,728	1%	2,856	1%
Current accounts with Bank Indonesia	-23%	7,352	4%	9,511	5%	10,268	5%
Current accounts with other banks	-54%	1,768	1%	3,866	2%	4,858	2%
Placements with other banks and Bank Indonesia-net	-67%	5,937	3%	17,983	10%	9,675	5%
Securities	172%	17,408	10%	6,392	3%	8,888	5%
Loans-net*	-6%	117,817	68%	124,891	66%	135,110	69%
Government bonds	38%	9,563	5%	6,916	4%	6,605	3%
Fixed assets-net	-2%	2,506	1%	2,559	1%	2,490	1%
Others	-28%	9,471	5%	13,211	7%	15,071	8%
<b>Total</b>	<b>-7%</b>	<b>174,087</b>	<b>100%</b>	<b>188,057</b>	<b>100%</b>	<b>195,821</b>	<b>100%</b>

\*) Including consumer financing receivables and finance lease receivables  
Note: All figures are presented in net amounts

The Bank's total assets amounted to Rp174.09 trillion in 2016, lower than that of 2015 which was Rp188.06 trillion. The major factor for the decline was the decrease in loan/credit segment due to weakening demand for credit from Rp124.89 trillion in 2015 to Rp117.82 trillion in 2016. Placements in other banks and Bank Indonesia was also down 67% to Rp5.94 trillion in 2016 compared to 2015. Likewise, current accounts with Bank Indonesia declined to Rp7.35 trillion in 2016 compared to Rp9.51 trillion in 2015, while government bonds experienced a 38% increase to Rp9.56 trillion compared to previous year.

## Current Assets

Current assets consist of cash, current account at Bank of Indonesia and other banks, placements at other banks and Bank Indonesia, securities available for sale and trade as well as government bonds available-for-sale and trade, which are managed with great prudence for adequate levels of liquidity and in accordance with applicable regulations.

### Current Assets

Rp billion	Full Year			
	YoY	2016	2015	2014
Cash	-17%	2,265	2,728	2,856
Current accounts with Bank Indonesia	-23%	7,352	9,511	10,268
Current accounts with other banks - gross	-54%	1,768	3,866	4,858
Placements with other banks and Bank Indonesia - gross	-67%	5,937	17,983	9,675
Marketable securities - available for sale and trading	102%	12,486	6,176	8,620
Government bonds - available for sale and trading	38%	9,563	6,916	6,605
<b>Total Current/Liquid Assets</b>	<b>-17%</b>	<b>39,371</b>	<b>47,180</b>	<b>42,882</b>

In 2016, the Bank's total current assets were recorded at Rp39.37 trillion, a reduction of 17% compared to the previous year. This is mainly due to a reduction in placements with other banks and Bank Indonesia, which was recorded at Rp5.94 trillion in 2016, down by 67% compared to Rp17.98 trillion a year before. Similarly, current account at Bank of Indonesia and current account at other banks experienced a decrease of respectively 23% and 54% in 2016 compared to previous year. Meanwhile, security portfolios, as well as government bonds available for sale and trade experienced increases of 102% and 38% respectively in 2016 compared to previous year.

## Loans

### Loans by Segment

Rp billion	Full Year						
	YoY	2016	% Total	2015	% Total	2014	% Total
Wholesale	-7%	17.308	14%	18.600	14%	18.391	13%
SME & Commercial	1%	42.914	35%	42.287	33%	39.814	29%
Consumer *)	3%	7.526	6%	7.276	6%	10.847	8%
Mass Market *)	-11%	54.637	45%	61.205	47%	70.005	50%
<b>Total</b>	<b>-5%</b>	<b>122.385</b>	<b>100%</b>	<b>129.367</b>	<b>100%</b>	<b>139.057</b>	<b>100%</b>

Note:

All amounts are gross amounts

\*) In 2014, pawnbroking classified as Consumer

\*) In 2015 and 2016, Syariah classified as SME & Commercial

As a consequence of weakened credit demand, especially in the mass market segment, the overall credit portfolio dropped by 5% to Rp122.39 trillion from Rp129.37 trillion in 2015; while credit growth in the SME, Commercial and Consumer market went up 1% and 3% respectively compared 2015.

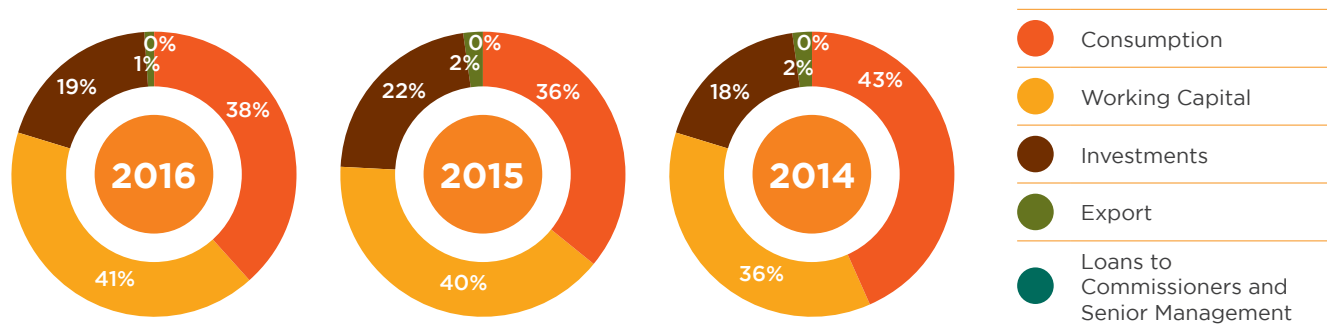
Wholesale credit decreased by 7% to Rp17.31 trillion compared to Rp18.60 trillion in 2015. Although credit seemed to have declined, some Wholesale customers have actually transformed their trade finance loans into marketable securities instruments related to trade finance.

The Bank provides loans with high degree of prudence, while being vigilant to economic trends and market developments in order to maintain good credit quality and sustainable growth in assets.

### Lending by Loan Category

Rp billion	Full Year						
	YoY	2016	% Total	2015	% Total	2014	% Total
Consumption	0%	46,773	38%	46,545	36%	59,917	43%
Working Capital	-5%	50,008	41%	52,378	40%	50,474	36%
Investments	-15%	23,807	19%	28,073	22%	25,206	18%
Export	-8%	1,797	1%	1,951	2%	3,437	2%
Loans to Commissioners and Senior Management	-100%	-	0%	420	0%	23	0%
<b>Total</b>	<b>-5%</b>	<b>122,385</b>	<b>100%</b>	<b>129,367</b>	<b>100%</b>	<b>139,057</b>	<b>100%</b>

### Lending by Loan Category



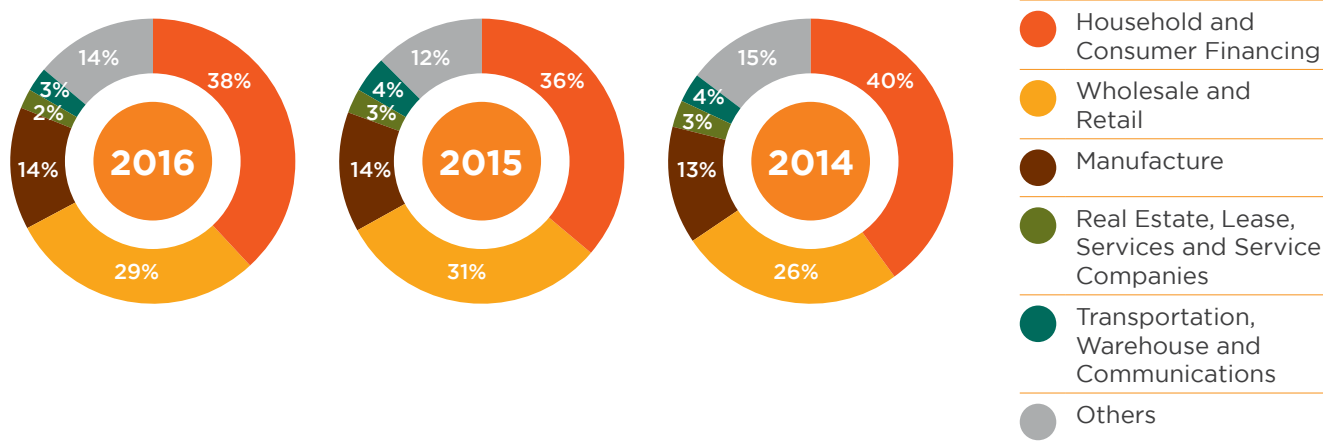
Based on its application, credit decline was mainly due to a 5% decline in working capital loans to Rp50.00 trillion. Loans for investments also dropped by 15% to Rp23.81 trillion compared to 2015. Meanwhile, consumer credit was relatively stable at Rp46.77 trillion in 2016 compared to Rp46.55 trillion in 2015.



### Loans by Economic Sector

Rp billion	Full Year						
	YoY	2016	% Total	2015	% Total	2014	% Total
Household and Consumer Financing	-1%	46,678	38%	46,935	36%	55,953	40%
Wholesale and Retail	-10%	35,894	29%	39,838	31%	35,465	26%
Manufacture	-4%	16,895	14%	17,521	14%	18,354	13%
Real Estate, Lease, Services and Service Companies	-28%	2,558	2%	3,575	3%	4,228	3%
Transportation, Warehouse and Communications	-34%	3,684	3%	5,582	4%	4,890	4%
Others	5%	16,676	14%	15,916	12%	20,167	15%
<b>Total</b>	<b>-5%</b>	<b>122,385</b>	<b>100%</b>	<b>129,367</b>	<b>100%</b>	<b>139,057</b>	<b>100%</b>

### Loans by Economic Sector

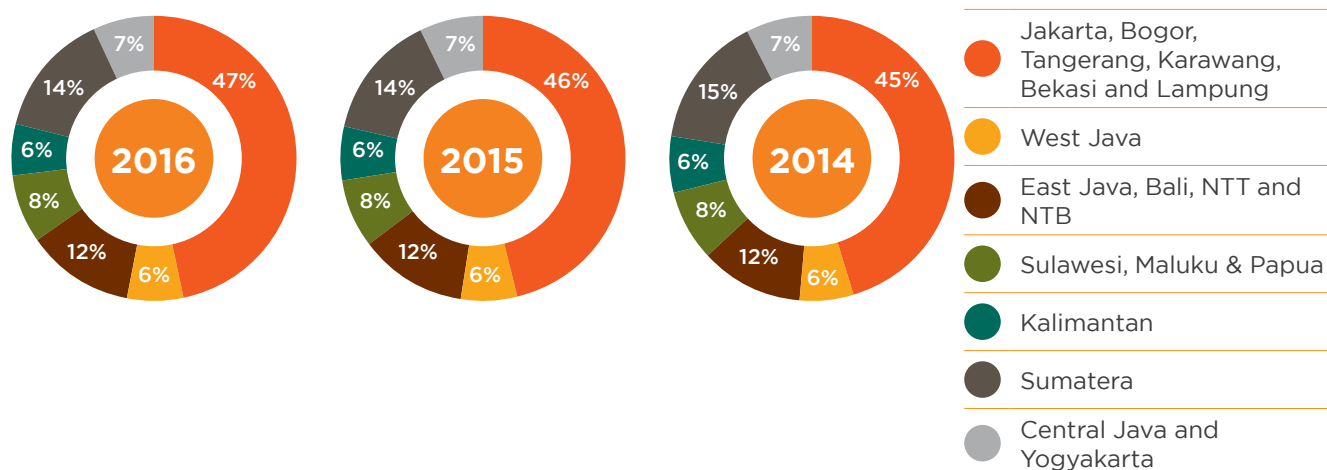


Loans for nearly all economic sectors declined, particularly the wholesale and retail sector, which dropped to Rp35.89 trillion in 2016 compared to Rp39.84 trillion in 2015. Percentage wise, the largest decline occurred in transportation, storage, and communication sector, which fell by 34% to 3.68 trillion in 2016. Meanwhile, the largest portfolio, the household and consumer financing sector, declined by 1% to Rp46.68 trillion.

## Loans by Region

Rp billion	Full Year						
	YoY	2016	% Total	2015	% Total	2014	% Total
Jakarta, Bogor, Tangerang, Karawang, Bekasi and Lampung	-7%	44,476	47%	47,636	46%	49,812	45%
West Java	-8%	6,117	6%	6,615	6%	6,710	6%
East Java, Bali, NTT and NTB	-7%	11,636	12%	12,556	12%	12,844	12%
Sulawesi, Maluku & Papua	-7%	7,444	8%	8,029	8%	8,625	8%
Kalimantan	-10%	5,499	6%	6,109	6%	7,066	6%
Sumatera	-8%	13,505	14%	14,680	14%	16,307	15%
Central Java and Yogyakarta	-9%	6,538	7%	7,218	7%	8,211	7%
<b>Total</b>	<b>-7%</b>	<b>95,215</b>	<b>100%</b>	<b>102,843</b>	<b>100%</b>	<b>109,575</b>	<b>100%</b>

## Loans by Region



Region with the largest portfolio: Jakarta, Bogor, Tangerang, Karawang, Bekasi and Lampung, experienced a drop of 7% to Rp44.48 trillion in 2016 compared to previous year. The worst percentage decline occurred in Kalimantan at a 10% drop to Rp5.49 trillion.

## Credit Based on Interest Rate and Currency

Based on interest rate type, 58% of Danamon's portfolio are fixed rate loans. Most of these loans came from the Mass Market segment. Meanwhile, floating interest rate loans contributed 42% of Danamon's total loans in 2016. These were mostly channeled to the SME, Commercial and Wholesale segments.

	Floating	Fixed	Total
Loan	50,015,129	41,873,387	91,888,516
CFR	-	25,061,766	25,061,766
Leasing	-	867,011	867,011
Jumlah	50,015,129	67,802,164	117,817,293

In term of currency, most of Danamon's loans disbursed to the mass market and SME customers are in the form of Rupiah. Contributions of loans denominated in Rupiah and foreign currencies to total loans in 2016 were respectively 94% and 6%. Loans denominated in foreign currencies are mostly channeled credit to Commercial and Wholesale customers.

### Nett

	Loan	CFR	Leasing	Total
IDR	85,327,577	25,061,766	867,011	111,256,354
Valas	6,560,939	-	-	6,560,939
Jumlah	91,888,516	25,061,766	867,011	117,817,293

### Quality of Earning Assets

#### Loans Collectibility

In 2016 the Bank experienced a slight improvement in its "performing loans" to 87.0% of total loans compared to 86.9% in 2015. The composition of loans classified as under special mention and non performing are also stable respectively at 9.9% and 3.1%, compared to 10.1% and 3.0%, respectively in 2015.

#### Loan's Collectability

	2016	2015	2014
Non Performing Loan	3.1%	3.0%	2.3%
Special Mention	9.9%	10.1%	9.3%
Current	87.0%	86.9%	-11.6%

### Non-Performing Loans

Non-performing loans increased in ratio to 3.1% in 2016, although it decreased in value by 4% to Rp3.74 billion compared to the previous year. The highest NPL ratio increase occurred in the Wholesale segment from 1.0% in 2015 to 2.2% in 2016. Meanwhile, the ratio in the Mass Market segment improved from 3.7% in 2015 to 3.4% in 2016.

#### NPL by Segment

Non-Performing Loans	2016	2015	2014
Wholesale	2.2%	1.0%	1.0%
SME & Commercial	2.8%	3.1%	1.7%
Consumer	2.7%	2.3%	1.6%
Mass Market	3.4%	3.7%	3.1%
Total	3.1%	3.0%	2.3%

### Special Mention Loans

Special mention loans decreased 7% to Rp12,1 trillion in 2016 as compared Rp13,0 trillion in the previous year. Mass Market credit which made up 85% of special mention loans decreased by Rp876 billion to Rp10,295 trillion in 2016.

### Special Mention Loan by Segment

Rp billion	2016	% Total	2015	% Total	2014	% Total
Wholesale	531	4%	599	5%	645	5%
SME & Commercial	928	8%	862	7%	729	6%
Consumer	368	3%	380	3%	389	3%
Mass Market	10,295	85%	11,171	86%	10,424	86%
<b>Total</b>	<b>12,122</b>	<b>100%</b>	<b>13,012</b>	<b>100%</b>	<b>12,187</b>	<b>100%</b>

### Fixed Assets and Other Assets

In 2016, the value of fixed assets and other assets net did not undergo significant changes, namely fixed assets fell by 2%, or Rp54 billion, to Rp2.51 trillion compared to Rp2.56 trillion during the previous year.

### Lending Rate

In line with Bank Indonesia's measures to boost economic growth, Danamon seeks to maintain the lending rates at a reasonable level. The Bank continues to seek to control the components that drive interest rate such as cost of funds, premium risk and overhead costs.

	Prime Rupiah Lending Rate Based on Business Segment				
	Corporate Loans	Retail Loans	Micro Loans	Consumption Loans	
				Mortgage	Non Mortgage
Prime Lending Rate	10.50%	11.00%	18.00%	10.50%	12.00%

Notes:

a. Lending Rate (prime lending rate) is used as the basis for determining the Bank's interest rate to be charged to its customers. SBDK has not taken into account the premium risk estimation component, which depends on the Bank's assessment of the risk for each debtor or group of debtors. Thus, the amount of lending rates charged to borrowers is not necessarily equal to the prime lending rate.

b. Corporate Loans including lending to corporate and commercial customers.

c. This prime lending interest rate does not include loans with cash collateral.

d. Micro-credit Prime lending rate is Prime lending rate provided for collateralized loans tied up in accordance with statutory laws and regulations.

e. Non-mortgage consumer loans prime lending rate mainly represent Prime lending rate for two wheeled Vehicle Loans (KKB) provided to customers through a joint financing scheme and does not include the provision of funds through credit cards and unsecured loans.

f. Prime lending rate information at any time can be accessed at every Danamon office and/ or website ([www.danamon.co.id](http://www.danamon.co.id))

g. If necessary, the Bank has the right at any time to revise this Prime lending rate information.

## LIABILITIES

### Liabilities

Rp billion	Full Year						
	YoY	2016	% Total	2015	% Total	2014	% Total
Deposits from customers	-10%	103,740	75%	115,141	75%	116,495	71%
Deposits from other banks	57%	2,873	2%	1,826	1%	2,426	1%
Securities sold under repurchase agreements	-	-	-	-	0%	750	0%
Bonds issued	-14%	8,398	6%	9,714	6%	11,893	7%
Borrowings	-13%	11,415	8%	13,086	9%	14,497	9%
Subordinated debts	-	-	-	-	0%	-	0%
Others	-20%	11,283	8%	14,076	9%	17,113	10%
Total	-10%	137,709	100%	153,843	100%	163,174	100%

The biggest component of liabilities are customer deposits with a 75% share, followed by total loans received and bonds issued by 14%.

In 2016, Bank's liabilities decreased by 10% to Rp137.71 trillion from Rp153.84 trillion in 2015. Deposits from customers fell 10% to Rp103.74 trillion compared to Rp115.14 trillion in 2015. This is in accordance with the Bank's strategy to grow granular funding.

Bonds issued decreased 14% or Rp1.32 trillion compared to previous year, while loans received fell by 13% or Rp1.67 trillion.

### Third Party Funds consist of Customer Deposits and Deposits from Other Banks

Rp billion	YoY	2016	2015	2014
Third Party Funds				
Current Accounts	-5.85%	14,974	15,905	21,827
Savings	-1.08%	32,498	32,853	34,913
Time Deposits	-15.24%	56,267	66,383	59,756
<b>Total Customer Deposits</b>	<b>-9.90%</b>	<b>103,739</b>	<b>115,141</b>	<b>116,495</b>
Deposits from Other Banks	57.34%	2,873	1,826	2,426
<b>Total Third Party Funds</b>	<b>-8.85%</b>	<b>106,612</b>	<b>116,967</b>	<b>118,921</b>

In 2016, customer deposits fell 10% to Rp103.74 trillion from Rp115.14 trillion in 2015. This was due to a decrease in Time Deposits balance by 15% or Rp10.12 trillion and decline in Current Account balances by 6%, or Rp931 billion.

This composition of third party funds generated loan to funding ratio ("LFR") of 91%, in accordance with management's target range.

In order to enhance low-cost funding such as savings and checking accounts, Danamon consistently improves customer services, products and distributions.



## Long Term Financing

Long-term financing with a maturity of more than one year is managed to maintain the Bank's ability to handle liquidity gaps and interest rate risk. In 2016, long-term funding fell 5% compared to the previous year to Rp11.40 trillion. This is mainly due to a 14%

drop in Adira Finance bond portfolio to Rp8.39 trillion. Likewise, the International Finance Corporation funding fell by 35% to Rp445 billion compared to the previous year. In the meantime portfolio of BNP Paribas Bank (Singapore) increased by 59% to Rp2.56 trillion compared to 2015.

## Long Term Borrowings

Rp billion	Full Year			
	YoY	2016	2015	2014
Danamon Bonds	-	-	-	920
Adira Dinamika Multi Finance Bonds	-14%	8,398	9,714	11,170
PT. Bank Pan Indonesia Tbk.	-	-	-	1,000
PT. Bank Central Asia Tbk.	-	-	-	41
Citibank. NA, Jakarta Branch	-	-	-	248
The Hongkong and Shanghai Banking Corporation Ltd. Indonesia	-	-	-	-
PT. Bank DKI	-	-	-	100
PT Bank Victoria International Tbk	-	-	-	-
PT Bank Commonwealth	-	-	-	-
PT Bank Nationalnobu Tbk	-	-	-	-
PT. Bank BCA Syariah	-	-	-	10
Borrowing from other banks/other financial institutions	-	-	-	-
PT. Bank Pembangunan Daerah Jawa barat dan Banten Tbk	-	-	-	-
International Finance Corporation	-35%	445	683	818
Wells Fargo Bank	-	-	-	617
PT. Bank BNI Syariah	-	-	-	-
PT. Bank Panin Syariah Tbk	-	-	-	-
Channeling Loans	-	-	-	-
PT. Permodalan Nasional Madani	-	-	-	-
Pinjaman Bankers Acceptance	-	-	-	-
Australia and New Zealand Banking Group Ltd	-	-	-	368
DBS Bank (Singapore) Ltd.	-	-	-	-
Letter of Credit	-	-	-	-
The Bank of Tokyo-Mitsubishi UFJ Ltd	-	-	-	-
Bank BNP Paribas (Singapore)	59%	2,561	1,614	3,111
Bank Indonesia	-	-	-	-
<b>Total</b>	<b>-5%</b>	<b>11,404</b>	<b>12,011</b>	<b>18,403</b>

## CASHFLOW

Rp billion	Full Year			
	YoY	2016	2015	2014
Net Cash flows from (used in) operating activities	-105%	(446)	8,995	5,501
Net Cash flow from (used in) investing activities	-559%	(12,658)	2,757	(1,966)
Net Cash Flows from (used in) financing activities	-29%	(3,685)	(5,166)	(2,697)
Net (decrease) increase in cash and cash equivalents	-355%	(16,789)	6,586	838
Cash and cash equivalents at beginning of the year	26%	31,943	25,357	24,519
Cash and cash equivalents at end of the year	-53%	15,154	31,943	25,357

In 2016, there was a reduction in cash and cash equivalents by 53% of Rp16.79 trillion due to expenditures for investment purposes of Rp12.66 trillion, for financing activities amounting to Rp3.69 trillion, and for operational purposes of Rp446 billion. End of the year cash and cash equivalents balance was Rp15.55 trillion, down 51% compared to end of 2015.

### Net Cash Obtained from/(Used for) Operating Activities

Total net cash from operating activities fell significantly by 105% to Rp-446 billion in 2016 compared to Rp8.995 billion in 2015. In 2016, Danamon reduced time deposits so that time deposit cash flow decreased from Rp5.03 billion in 2015 to Rp-9.78 billion in 2016. In addition, revenues from consumer financing transactions fell by 15% from Rp32.69 billion in 2015 to Rp27.95 in 2016.

### Net Cash Obtained from/(Used For) Investment Activities

Total net cash flows from investment activities fell 559% to Rp-12.66 billion in 2016 compared to Rp2.76 billion in 2015 due to escalation in procurement of securities and government bonds that are held to maturity and available for sale.

### Net Cash Obtained from/(Used for) Financing Activities

Total net cash flow from financing activities increased by 29% or Rp1.481 billion to Rp-3.69 billion in 2016

compared to Rp-5.17 billion in 2015. This is mainly due to borrowing increase for joint-financing loans of 50% from Rp12.94 billion in 2015 to Rp19.47 billion in 2016. The increase in borrowing above was offset by increase in repayment of borrowings for joint-financing of 31% from Rp-14.34 billion in 2015 to Rp18.79 billion in 2016.

## FINANCIAL RATIOS

### LONG TERM LOAN PAYMENT ABILITY (SOLVENCY) & COLLECTIBLES

The Bank's ability to repay its debts depends on several factors such as liquidity, solvency, and profitability.

In 2016, 74% or Rp8.40 billion of Danamon's total long-term debt originated from Adira Finance.

Danamon and its subsidiary Adira Finance were able to meet scheduled principal and interest payments of bonds issued, and able to meet the various requirements of long-term debt payments in the form of loans from other banks such as those contained in the credit agreement respectively.

The Bank has successfully managed its cashflow to remain liquid, for both short term and long term debt maturity. Cash flow is monitored by the Market & Liquidity Risk Division through MCO (Maximum Cumulative Outflow) parameter and monitored daily to ensure the availability of cash under normal

and stressed conditions. On December 31, 2016, the Bank's MCO showed positive cash flow both in normal and stressed conditions.

Danamon was able to meet its short-term and long-term liabilities, as reflected by the credit ratings received from external rating agencies. Pefindo gave Danamon idAAA corporate rating. Meanwhile, Fitch gave the Bank viability rating bb+ with Long-Term IDR Rating and Short-Term IDR Rating of BB+ and B, respectively. Similarly, Moody's provided a rating of Baa3/P-3 for Bank Deposits and Baa3 and Baa2 ( cr)/P-2 ( cr), respectively for the Adjusted Baseline Credit Assessment and Counterparty Risk Assessment. The three rating agencies gave Danamon a Stable Outlook.

Adira Finance also possessed strong ability to fulfill its obligations. Pefindo has given Adira Finance idAAA rating with stable outlook; idAAA and idAAA (sy) respectively for the Company's rating, bonds and sukuk mudaraba.

### Loans Collectibility

Non-performing loans increased in ratio to 3.1% in 2016, although it decreased in value by 4% to Rp3.74 billion compared to the previous year. The highest NPL ratio increase occurred in the Wholesale segment from 1.0% in 2015 to 2.2% in 2016. Meanwhile, the ratio in the Mass Market segment improved from 3.7% in 2015 to 3.4% in 2016.

### Profitability

Consolidated Ratios	2016	2015	2014
CAR			
Capital Adequacy Ratio (CAR)	20.9%	19.7%	17.8%
Profitability			
1 Return on Average Assets (ROAA)	1.5%	1.2%	1.4%
2 Return on Average Equity (ROAE)	8.0%	7.5%	8.6%
3 Net Interest Margin (NIM)	8.9%	8.3%	8.4%
4 Cost to Income	48.8%	52.0%	55.7%

### Liquidity

An important liquidity ratio to monitor the Bank's liquidity risk is the LFR. Based on BI regulation No. 17/11/PBI/2015 dated June 25, 2015, the regulator changed the indicators used to monitor bank liquidity. Loan to Deposit Ratio ("LDR") was replaced by LFR from August 2015. In the calculation of LFR, the definition of funding is now deposits plus securities issued by the bank, so the bank can more freely absorb public funds in the form of securities. The Bank measures and monitors daily LFR in accordance with regulations and to meet internally defined limits. To get a better oversight, internal LFR also differentiates between LFR denominated in Rupiah (IDR) and LFR denominated in foreign currency (FCY) in order to obtain a better balance between liquidity in Rupiah and that of foreign currency.

On December 31, 2016, the Bank's liquidity level had improved with LFR of 91.0% compared to 87.5% in December 31, 2015. Average LFR in 2016 was 90.42%. These indicators are within the requirements determined by the regulator.

## CAPITALIZATION

### Capital Adequacy

Rp billion	Bank				Consolidated			
	YoY	2016	2015 <sup>*)</sup>	2014 <sup>*)</sup>	YoY	2016	2015	2014
Capital Components								
a. Core Capital (Tier 1)	3.59%	26,527	25,607	25,065	3.70%	30,997	29,892	28,636
b. Complementary Capital (Tier 2)	-6.55%	1,119	1,197	-	-6.41%	1,250	1,336	935
Total Core and Complementary Capital (a+b)	3.14%	27,646	26,804	25,065	3.26%	32,248	31,228	29,572
Risk Weighted Assets after Calculations of Credit Risk, Market Risk and Operational Risk	-3.38%	123,952	128,284	135,015	-2.95%	154,090	158,766	166,294
CAR	1.41%	22.30%	20.89%	18.56%	1.26%	20.93%	19.67%	17.78%

\*) Restated

As of December 2016, the consolidated Capital Adequacy Ratio ("CAR") stood at 20.93%, an increase from 19.67% at end of 2015. Bank only CAR increased to 22.30% compared to 20.89% in 2015. Over the last 5 years, up to December 31, 2016, both Bank-only and consolidated CAR are well above the minimum level required by Bank Indonesia of 9% -10% (for Bank BUKU 3).

The Capital Structure in the table above shows the position of risk-weighted assets ("RWA") by taking into account credit risk, market risk and operational risk for bank only of Rp123.95 trillion in 2016, down 3.38% from 2015.

### Capitalization Policy

To ensure the Bank's ability to handle stresses arising from the business, and in accordance with the provisions made by Bank Indonesia in relation to minimum capital adequacy of Tier I capital and total CAR, the Available Financial Resources ("AFR") sets the level of the required capital buffer. In addition, the Bank also utilizes various liabilities funding sources, especially to fulfill working capital requirements. Nevertheless, the Bank also takes full advantage of equity if need be.

Danamon's main objective in capital management is to ensure that the Bank has adequate capital to backup its business strategy and operations, and to

comply with capital adequacy limit stipulated by the authorities. For that reason, it takes a strong capital structure in order to cushion against potential losses caused by both internal and external factors.

### Bank Capital Structure

In accordance with the OJK Regulations (POJK) No. 11/POJK.03/2016 dated January 29, 2016 on the Capital Adequacy Ratio of Commercial Bank and its amendment pursuant to OJK Regulation (POJK) 34/POJK.03/2016 dated September 22, 2016, capital consists of:

#### Core capital (Tier 1)

Consists of additional paid up capital and capital reserves minus deferred tax, intangible assets and investments in its subsidiaries. Additional capital reserves consist of premium share, general reserves, and profit from previous years, profit for the year, other comprehensive income, net less difference between the PPA and the allowance for impairment losses on productive assets, and PPA on non-productive assets that must be calculated.

#### Supplementary capital (Tier 2)

Consists of PPA general reserves on assets which must be created (a maximum of 1.25% of risk weighted assets for credit risk).

Until 2016, the risk profile based CAR that must be fulfilled by Danamon amounted to 9% - <10%. Starting in 2016 the following factors were added to minimum CAR:

- Capital Conservation Buffer
- Countercyclical Buffer
- Domestic SIB

### Capital Management Strategies

In accordance with the OJK Regulation (POJK) 11/POJK.03/2016 dated January 29, 2016 concerning the Capital Adequacy Ratio of Commercial Banks and its amendment pursuant to OJK Regulation (POJK) 34/POJK.03/2016 dated September 22, 2016 and OJK Circular Letter No.26/SEOJK.03/2016 dated July 14, 2016, concerning appropriate CAR risk profile and Compliance Equivalency Maintained Capital Assets ("CEMA"), the Bank is required to perform a minimum CAR calculation based on the risk profile and conduct the Internal Capital Adequacy Assessment Process ("ICAAP"). The Bank measures capital adequacy based on OJK's CAR regulations and internal capital requirement to ensure adequate capital to support the ongoing operations of the Bank.

### Internal Assessment of Capital Adequacy Process

ICAAP is Danamon's self assessment in accordance to Danamon Pillar 2 of Basel and OJK regulations, which not only consider the capital adequacy of Pillar 1 (Credit Risk, Market & Operations), but also consider other types of risks. In addition to minimum capital adequacy calculation based on Risk Profile Rating in accordance with OJK regulations. The Bank also utilizes its own internal calculation to calculate the risks of:

- Credit concentration risk
- Interest Rate Risk in Bank book
- Liquidity Risk
- Impact of Stress Test

In accordance with Bank Indonesia's regulation, the implementation of ICAAP in Danamon is carried out under active supervision of the Board of Directors and the Board of Commissioners, including the capital adequacy assessment process, the process of monitoring and reporting risk profile, as well as adequate internal control processes. Danamon's Internal Audit conducts an annual review on ICAAP process independently.

### Stress Test

Danamon carries out stress tests to estimate the impact of extreme events on income and capital. The results of the stress tests are also integrated into the framework of the ICAAP at the Bank.

Economist teams prepare several scenarios that can set off problems for the Bank at several severity levels. These scenarios will be formulated into parameters and approved by management.

Each line of business ("LOB") and credit, market and liquidity risks will utilize such scenarios. The stress test results will be analyzed and reported to the Boards of Directors and Commissioners.

### Danamon's Composition of Assets Funding

In 2016, 79% of Danamon assets were funded by liabilities. Asset funding from equity was only 21%. This composition remained almost unchanged, where in 2015 the contribution of liabilities to assets was 82%. However, the composition of liabilities were different due to declining customer deposits and other liabilities.

In 2016, the assets and liabilities respectively fell by 7% and 10%, while equity increased 6%. The increase in equity was primarily due to an increase in retained earnings (total retained earnings).



## Composition Of Funding On Danamon's Assets

Rp billion	YoY	2016	2015	2014
<b>Assets</b>	<b>-7%</b>	<b>174,087</b>	<b>188,057</b>	<b>195,821</b>
Liabilities	-10%	137,709	153,842	163,174
Equity	6%	36,378	34,215	32,647
<b>Structure</b>				
Deposits from customers	-10%	103,740	115,141	116,495
Borrowing (Short term and long term)	-13%	11,415	13,086	14,497
Others Liabilities	-12%	22,554	25,615	32,182
Equity	-6%	36,378	34,215	32,647
<b>Total Assets</b>	<b>-7%</b>	<b>174,087</b>	<b>188,057</b>	<b>195,821</b>
<b>Composition</b>				
Deposits from customers	-3%	60%	61%	60%
Borrowing (short term and long term)	-6%	7%	7%	7%
Others Liabilities	-5%	12%	14%	16%
Equity	15%	21%	18%	17%
<b>Total Assets</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Shareholders' Composition

### Share ownership composition as of 31 December 2016:

Share Ownership Composition			
Shareholders	Number of Shares Issued and Fully Paid	Percentage of Ownership	Nominal Value
<b>A Series shares ( Nominal value Rp. 50.000 (full amount) per share)</b>			
Public (ownership interest below 5% each)	22.400.000	0,23%	1.120.000
<b>B Series shares ( Nominal Value Rp. 500 (full amount) per share)</b>			
Asia Financial (Indonesia) Pte. Ltd.	6.457.558.472	67,37%	3.228.779
JPMCB - Franklin Templeton Invesment Funds	630.219.323	6,58%	315.109
Public (ownership interest below 5% each)	2.459.129.124	25,66%	1.229.565
Commissioners and Directors:			
Ng Kee Choe	94.275	0,00%	47
Sng Seow Wah	1.896.100	0,01%	948
Muliadi Rahardja	6.405.515	0,07%	3.203
Herry Hykmanto	131.856	0,00%	66
Vera Eve Lim	5.411.200	0,06%	2.706
Satinder Pal Singh Ahluwalia	389.800	0,01%	195
Michellina Laksmi Triwardhany	1.007.700	0,01%	504
<b>Total</b>	<b>9.584.643.365</b>	<b>100%</b>	<b>5.901.122</b>

Both A Series and B Series have equal voting rights. The capital structure of the Bank and policies related to capital structure is also detailed in the Articles of Association of the Bank, in Notarial Deed No.134 made before Meester Raden Soedja, SH which has been approved by the Ministry of Justice of the Republic of Indonesia in Letter No.J.A.5/40/8 on April 24, 1957, with the latest changes by Notarial Deed No. 27 on March 30, 2011, made in the presence of P. Sutrisno A. Tampubolon, SH, notary in Jakarta M.Kn and on October 12, 2011, drawn up before Fathiah Helmi SH, notary in Jakarta.

On December 8, 1989, by permission of the Minister of Finance No. SI-066/SHM/MK.10/1989 on October 24, 1989, the Bank held an Initial Public Offering (IPO) of 12,000,000 shares with a par value of Rp1,000 per share ( full value). All shares have been listed on the Jakarta Stock Exchange (now the Indonesia Stock Exchange (IDX) after merging with the Surabaya Stock Exchange) on December 8, 1989. After which, the Bank increased the number of listed shares through bonus shares, the Limited Public Offering Pre-emptive rights (rights Issue) I, II, III, IV and V and also in the context of Employee/Management Stock (E/MSOP).

Here is a summary of Danamon correspondence with Bapepam-LK regarding the statement of the effectiveness of Limited Public Offering with Pre-emptive Rights:

#### Effective Letter of Bapepam-LK

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

#### Capital planning

Based on the regulation of BI 15/12/PBI/2013 dated December 12, 2013 on the Capital Adequacy Ratio of Banks and Circular Letter No. 14/37/DPNP dated December 27, 2012, regarding the appropriate CAR Risk Profile and CEMA, Danamon is required to perform a minimum CAR calculation based on the risk profile and conduct an ICAAP.

The outcome of the assessment demonstrated that Danamon was able to comply with the minimum CAR according to the risk profile, both for Bank-only and consolidated. Based on the ICAAP, Danamon has the financial resources capability to meet the capital requirements for both Pillar 1 and Pillar 2 for the next three years.

Furthermore, POJK also required banks to increase the minimum Tier 1 Capital from 5% to 6% Effective from 1 January 2014 , and provide additional capital buffers which are imposed in stages from 1 January 2016 to 1 Januari 2019. Buffer requirement is further regulated in BI regulation No. 17/22/PBI/2015 dated 23 December 2015 about Countercyclical Buffer Requirement and OJK Regulation No. 46/POJK.03/2015 dated 23 December 2015 about Stipulation of Systemically Important Bank and Capial Surcharge. Buffer percentage (from RWA) that Danamon should meet at 31 December 2016 are:

- Capital Conservation Buffer 0.625%
- Countercyclical Buffer 0.000%
- Capital Surcharge for D-SIB 0.250%

The assesment result shows that Danamon has met the minimum CAR in accordance to its risk profile, and met additional capital buffer requirement, both on stand alone and consolidated basis.

Danamon supports all policies issued by Bank Indonesia and strive to comply with all prevailing regulations and, at the same time, achieves sustainable business growth. Danamon will always abide to all regulations set forth in regard to capital that promote business growth, both for Danamon as an entity as well as at the consolidated level.

### Market risk

Danamon has adopted standardized approach for market risk management in accordance with BI Circular Letter No.9/33/DPND dated 18 December 2007 which has been revoked and replaced with OJK Circular Letter No. 38/SEOJK.03/2016 dated 8 September 2016.

### Credit Risk

Danamon manages its credit risk based on Circular Letter No. 13/6/DPNP dated February 18, 2011, and has implemented a standard approach to manage credit risk starting on January 1, 2012. Since January 1, 2015, the Bank has also implemented a standard

approach in managing credit risk in Syariah based on OJK Regulation No. 21/POJK.03/2014 which regulates the approach in managing credit risk according to syariah principles.

### Operasional Risk

For operational risk management, Danamon applies the basic indicator approach in accordance with the Circular Letter (SE) BI No. 11/3/DPNP January 27, 2009. Based on this SE, capital charges for operational risk at 15% of average gross income over the the last three years, became effective January 1, 2011.

### MATERIAL TIES FOR INVESTMENT OF CAPITAL GOODS

Danamon makes investments in fixed assets as an effort to increase the operational efficiency of the company. In 2016, capital investments on goods were recorded at Rp490.39 billion, a reduction of 29% compared to the previous year. This decline was mainly from the motor vehicles segment, a reduction of 81%, because of efficiency measures carried out to the micro-businesses sector.

### Capital Expenditures

Rp million	Full Year			
	YoY	2016	2015	2014
Land	-96%	2,082	52,104	148,518
Buildings	-31%	23,019	33,568	98,655
Office Equipment	21%	228,213	189,215	204,570
Motor Vehicles	-81%	42,559	220,356	175,305
Construction in Progress	0%	194,522	194,734	100,102
<b>Total</b>	<b>-29%</b>	<b>490,395</b>	<b>689,977</b>	<b>727,150</b>

During the years 2016, 2015 and 2014, Danamon did not enter into a special engagement in capital goods investment that requires disclosure.

### IMPACT OF INTEREST RATES CHANGES, FOREIGN CURRENCY RATE CHANGES, AND REGULATIONS CHANGES AGAINST DANAMON'S PERFORMANCE

#### Impact of Changes in Interest Rates

In carrying out any business activity, Danamon actively monitors external conditions that could potentially affect the overall performance of the Bank.

Danamon periodically undertakes sensitivity analysis to measure the impact of interest rate changes by calculating the interest rate gap from the perspective of income (earnings perspective) as well as economic value perspective (economic value perspective). The calculations are based on assumptions and scenarios, both under normal and stressed conditions, which have gone through an evaluation process conducted by the management of the Bank.

Based on the results of these measurements, Danamon and its subsidiaries possess good capability to anticipate the impact of interest rate changes on the overall performance.

Interest rate risk management strategy in the banking book and trading book are well managed through the process of measuring, monitoring and control of internal limits by taking into account Danamon's business plan and its subsidiaries as a whole.

#### Impact of Exchange Rates Changes

Changes in the exchange rate of the Rupiah against other foreign currencies, especially against the US\$ in 2016, were still within the limits tolerated by Danamon. Danamon actively performs sensitivity analysis to determine the impact of exchange rate changes on the profitability of the Bank.

Foreign exchange risk control system is equipped with a measurement of risk tool that is sensitive to changes in exchange rates in the market and is supported by market risk control process that has worked well within Danamon. Measurement of internal parameters and regulatory requirements are monitored regularly both in the trading book and the banking book.

Monitoring and control of the exchange rate risk on a regular basis has given positive result to the achievement of the Treasury's performance, particularly with respect to the foreign currency portfolio. The level of volatility of Rupiah in 2016 was relatively lower compared to other Asian currencies. Strengthening of the Rupiah against the US dollar has had a positive impact on Danamon's foreign exchange position (Bank-wide). Danamon's foreign exchange net open position ("NOP") is well below 20%, which is the maximum limit according to the regulation.

#### INFORMATION ON RISING OR DECLINING OF SALES/NET INCOME

During 2016, all of Danamon's transactions were considered fair transactions. The rise and decline of all transactions that took place were normal business achievements and not caused by any specific conditions which resulted in significant increase or decrease, except the cost of one-off restructuring efforts undertaken by Danamon in 2015 and 2016.

### TARGET ACHIEVEMENT IN 2016

#### Comparison of Targets and Actual Achievement in 2015

In billion Rupiah	2016		Actual vs Target
	Actual	Target	
Total Assets	174,108	187,165	-7%
Loans	122,385	129,868	-6%
Total Funding	105,492	113,847	-7%
CAR	20,9%	20,2%	3%
Net Interest Income	13,779	13,570	2%
Non Interest Income	4,071	4,027	1%
Operating Expenses	(7,899)	(9,181)	14%
Loss Provisioning Expenses	(4,441)	(4,439)	0%

Loan portfolio achievement in 2016 compared to the set target was 6% or Rp7,483 billion lower. While net interest income in 2016 reached Rp13,779 billion, or 2% higher than the set target of Rp13,570 billion. In 2016, the Bank managed to offset the decline in interest income by reducing interest expense.

Non-interest income of Rp4,071 billion was higher than the set target of Rp4,027 billion. Furthermore, the operational expenses of Rp1,282 billion were 14% below the target of Rp9,181 billion.

The Bank's Capital Adequacy Ratio in 2016 amounted to 20.9% and is above the minimum requirement set by the regulator.

### **INFORMATION AND IMPORTANT MATTERS SUBSEQUENT TO THE DATE OF ACCOUNTANT'S REPORT**

There was no material events subsequent to the date of accountant' report.

### **SIGNIFICANT EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS**

There was no material events subsequent to the date of accountant' report.

### **DIVIDEND POLICY AND USE OF NET INCOME**

Danamon's dividend policy has been approved by the Board of Commissioners, Board of Directors and shareholders. The procedure for constructing Danamon's dividend policy is based on organizational structure, in which the Board of Directors submits a dividend distribution proposal to the President Director. The proposal is based on Danamon's performance during a certain period.

The proposal is then brought to the Annual General Meeting of Shareholders ("AGMS") to seek approval after considering the adequacy of retained earnings. During the Annual General Meeting of Shareholders, the time and method of payment is agreed in accordance with the regulations of the Indonesian Stock Exchange ("BEI"), including the dates the shareholders are entitled to the dividends and when it authorizes the Board of Directors to do so.

Based on the approval of the Board of Directors Meeting and Annual General Meeting of Shareholders, Danamon may pay interim dividends before the end of the fiscal year.

In addition, the Annual General Meeting of Shareholders also authorized to determine the use of net profit (including dividend distribution and general reserve and mandatory), determination of the remuneration of the Board of Directors and Board of Commissioners (salary and bonus), the appointment of public accountants, as well as the approval of the financial statements. Prior to 2008, the bonus was part of the net profit.

In addition to the Annual General Meeting of Shareholders approval, the dividend policy making takes into account prevailing regulations, such as long-term and short term capital requirements, as well as Danamon's growth earnings expectations and market conditions.

Danamon has complied with a long-term loan agreement on limitations on the distribution of dividends. Danamon also ensures that policy in accordance with the dividend distribution restrictions as set forth in Danamon's long-term agreements. The decision also takes into account the management of capital planning, earnings growth expectations and market conditions.

The Annual General Meeting of Shareholders held on 28 April 2016 decided on the distribution of dividends for the fiscal year of 2015 amounting 30% of net income or approximately Rp717,991 million or Rp74.90 (full amount) per share Series A and Series B, and the establishment of common and mandatory reserves amounting to Rp23,933 million.

Based on the Shareholders Register dated May 12, 2016, which is the registration date of shareholders entitled for dividends, the number of shares outstanding on the date of May 12, 2016 was 9,584,643,365 shares, so therefore the dividend per share to be distributed on May 27, 2016 was Rp74.90 (full amount) per share of series A and series B or Rp717,890 million in total.

The Annual General Meeting of Shareholders held on 7 April 2015, had decided to distribute cash dividends for the fiscal year of 2014 at 30% of net income or approximately Rp781,205 million or Rp81.50 (full amount) per shares of Series A and Series B, and the establishment of common and mandatory reserves amounting Rp26,040 million.



### General and Mandatory Reserves

On December 31, 2016, the Bank established a general reserve and mandatory reserves amounting to Rp326.7 billion. These General and mandatory reserves were formed in connection with the Law of the Republic of Indonesia No. 1/1995 that was amended by Law No. 40/2007 effective on August 16, 2007 regarding Limited Liability Companies, which requires companies to make provision for general reserve amounting to at least 20% of the issued and fully paid. The law does not regulate the period to establish that reserve.

### APPROPRIATION OF NET INCOME

Based on the Shareholders Register dated April 5, 2016, which is the registration date of shareholders entitled for dividends, the number of shares outstanding on the date of 5 April 2016 was 9,584,643,365 shares. Therefore the dividend per share to be distributed on May 27, 2016 was Rp74.90 (full amount) per share of series A and series B or Rp717,890 million in total.

Profits from Year	Date of AGMS	% Net Income	Dividend per Share for Series A and Series B (Rp full amount)	Total Dividend Payment (Rp million)	Date of Cash Dividend Payment	General & Statutory Reserves (Rp million)
2015	28 April 2016	30%	74.90	717,890	27 May 2016	23,933
2014	7 April 2015	30%	81.50	781,149	8 April 2015	26,040
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

### EMPLOYEE SHARE OWNERSHIP PROGRAM (ESOP/MSOP)

The Bank has launched an employee share ownership program selectively granted to Directors and Senior Executive on September 10, 2015 with the number of shares as per December 31, 2016 of 8,035,800 shares.

### INFORMATION THE RESULT OF THE USE OF PUBLIC OFFERING

In 2016, Danamon as holding/parent company did not conduct any public offering, neither bond nor stock deals.

In 2016, Adira Finance, a subsidiary of the Bank, held a public offering for the issuance of 2 bonds worth Rp2.80 billion and 1 mudaraba sukuk worth Rp86 billion as follows:

- Two issuances of bonds with a fixed interest rate, ie Sustainable Bond III Adira Finance Phase III 2016 and Sustainable Bond III Adira Finance Phase IV 2016; and
- Adira Finance Sustainable Mudharabah Sukuk II Phase II 2016.

Reporting date to Financial Services Authority	Effective Date	Type of Public Offering	Amount of Public Offering (in million IDR)	Net results of Public Offering (in million IDR)	Plan uses of funds (in million IDR)	Realization of uses of funds (in million IDR)	Remaining amount of Public Offering result (in million IDR)	Report to AGMS
29 March 2016	25 June 2015	Sustainable Bond III Adira Finance Phase III 2016	1.101.000	1.097.741	1.097.741	1.097.741	0	Reported to AGMS in 18 May 2016
14 December 2016	25 June 2015	Sustainable Bond III Adira Finance Phase IV 2016	1.700.000	1.694.795	1.694.795	1.694.795	0	Plan for AGMS to be held in 19 May 2017
13 December 2016	25 June 2015	Adira Finance Sustainable Mudharabah Sukuk II Phase II 2016	86.000	85.587	85.587	85.587	0	

## MATERIAL INFORMATION REGARDING INVESTMENTS, EXPANSION, DIVESTMENT, MERGER OF BUSINESS, ACQUISITION OR DEBT CAPITAL RESTRUCTURING

On February 25, 2003, the Government of Indonesia implemented a reprofiling program of Government Bonds and declared fully paid for certain government bonds. As a substitute for repaid government bonds, the Indonesian Ministry of Finance issued new government bonds.

Under the program, government bonds held by the Bank amounted to Rp7,800 billion (nominal value) with a maturity date initially ranged between 2007-2009 had been withdrawn and replaced with the new Government Bonds, that has the same type and same nominal value and maturities between 2014-2015. The balance of government bonds generated by the reprofiling of the dates December 31, 2016 and 2015 amounted to Rp Nil.

## INFORMATION ON MATERIAL TRANSACTIONS THAT CONFLICT OF INTEREST AND/OR AFFILIATED PARTY TRANSACTIONS

For the fiscal year ending December 31, 2016, there were no conflict of interest transactions with related parties. Transaction mechanism stipulated in the conflict of interest policy with Affiliated Parties Transactions, Related Parties Transactions, and Conflict of Interest Transactions as provided in GCG Report Danamon which is part of this Annual Report.

### Transactions with Related Parties

In its business practice, Danamon conducts various transactions with related parties that are not conflict of interest transactions. All transactions with related parties are carried out fairly in accordance normal commercial terms, as per transactions with unrelated parties.

The nature of the relationship between the Bank and the nature of transactions with related parties is shown in the table below:

### Related Parties

No.	Parties with Special Relations with the Bank	Relationship with the Bank	Type of Transaction	Value of Transaction
1	Standard Chartered Bank PLC	Owned by the same shareholders	Placement	183.660
2	PT Bank Permata Tbk	Owned by the same shareholders	Placement	7.235
3	PT Bank Permata Tbk	Owned by the same shareholders	Marketable securities	14.100
4	PT Bank DBS Indonesia	Owned by the same shareholders	Placement	392
5	PT Bank DBS Indonesia	Owned by the same shareholders	Premium Receivables	1.635
6	PT Bank Permata Tbk	Owned by the same shareholders	Bill Acceptance	1.802
7	PT Bank DBS Indonesia	Owned by the same shareholders	Bill Acceptance	759
8	Development Bank of Singapore, Ltd	Owned by the same shareholders	Placement	9.595
9	Development Bank of Singapore, Ltd	Owned by the same shareholders	Marketable securities	126
10	Board of Commissioners, Board of Directors and Key Employees	Key Executives and Employees	Loan Disbursed	20.937
11	Standard Chartered Bank, Singapore	Owned by the same shareholders	Marketable securities	4.124
12	PT Matahari Putra Prima Tbk	Owned by the same shareholders	Loan Disbursed	260.000
			<b>Total</b>	<b>504.365</b>

<sup>1)</sup> The above figures are presented before the established PPAP is deducted.

## REGULATION/LEGISLATION CHANGES THAT SIGNIFICANTLY AFFECT THE COMPANY

### BANKING REGULATION

#### New Banking Regulations Issued in 2016 by the Financial Services Authority, Bank Indonesia, and the Minister of Finance

Regulation	Description	Impact on Danamon																																																																																																	
<p>Regulations related to Branch Network Based on Core Capital of Banks:</p> <ul style="list-style-type: none"><li>Financial Services Authority Regulation (POJK) Number 6/POJK.03/2016 dated January 26, 2016, regarding Business Activity and Branch Network Based on Core Capital of Banks (replacing PBI Number 14/26/PBI/2012 dated December 27, 2012)</li><li>Financial Services Authority Circular Letter (SEOJK) Number 14 / SEOJK.03/2016 dated April 29, 2016, regarding Opening of Branch Network of Commercial Banks Based on Core Capital (replacing SEBI Number 15/7/DPNP dated March 8, 2013)</li><li>Financial Services Authority Circular Letter (SEOJK) Number 28/ SEOJK.03/2016 dated July 21, 2016, regarding Opening of Branch Network of Commercial Syariah Bank Based on Core Capital (replacing SEBI Number 15/8/DPBS dated March 27, 2013)</li></ul>	<p>Changes from the regulations:</p> <p>1. An incentive of a reduction in Core Capital Allocation (AMI) of banks depending on the efficiency level of the banks measured in BOPO and NIM. An example of incentive for BUKU III banks is illustrated below:</p> <table><tr><th rowspan="3">NIM (%)</th><th colspan="5">BOPO (%)</th><th rowspan="3">Supervisory Action</th></tr><tr><th>&lt;70</th><th>≥70-&lt;75</th><th>≥75-&lt;80</th><th>≥80-&lt;85</th><th>≥85</th></tr><tr><th colspan="5">Supervisory Action</th></tr><tr><td>≥5</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>≥4,5-&lt;5</td><td>AMI Deduction 0%</td><td>AMI Deduction 0%</td><td>AMI Deduction 0%</td><td>AMI Deduction 0%</td><td></td><td></td></tr><tr><td>≥4-&lt;4,5</td><td>AMI Deduction 50%</td><td>AMI Deduction 40%</td><td>AMI Deduction 0%</td><td>AMI Deduction 0%</td><td></td><td></td></tr><tr><td>≥3,5-&lt;4</td><td>AMI Deduction 60%</td><td>AMI Deduction 50%</td><td>AMI Deduction 0%</td><td>AMI Deduction 0%</td><td></td><td></td></tr><tr><td>≥3-&lt;3,5</td><td>AMI Deduction 80%</td><td>AMI Deduction 60%</td><td>AMI Deduction 0%</td><td>AMI Deduction 0%</td><td></td><td></td></tr><tr><td>&lt;3</td><td>AMI Deduction 100%</td><td>AMI Deduction 80%</td><td>AMI Deduction 0%</td><td>AMI Deduction 0%</td><td></td><td></td></tr></table> <p>For a Syariah Business Unit (UUS), efficiency assessment is based on the efficiency level of the parent Conventional Bank in which the UUS is consolidated</p> <p>2. An incentive of additional office network based on amount of loan disbursement to the MSME and MSM</p> <table><tr><th rowspan="2">MSME Ratio</th><th colspan="2">Additional Branch Network*)</th></tr><tr><th>Conventional</th><th>UUS**)</th></tr><tr><td>≥ 80%</td><td>25%</td><td>35%</td></tr><tr><td>≥ 65% up to 80%</td><td>20%</td><td>30%</td></tr><tr><td>≥ 50% up to 65%</td><td>15%</td><td>25%</td></tr><tr><td>≥ 35% up to 50%</td><td>10%</td><td>20%</td></tr><tr><td>≥ 20% up to 35%</td><td>5%</td><td>15%</td></tr><tr><td><b>SME Ratio</b></td><td></td><td></td></tr><tr><td>≥ 70%</td><td>25%</td><td>35%</td></tr><tr><td>≥ 55% up to 70%</td><td>20%</td><td>30%</td></tr><tr><td>≥ 40% up to 55%</td><td>15%</td><td>25%</td></tr><tr><td>≥ 25% up to 40%</td><td>10%</td><td>20%</td></tr><tr><td>≥ 10% up to 25%</td><td>5%</td><td>15%</td></tr></table> <p>*) from the planned opening of office network allowed by AMI **) calculated from the efficiency ratio of parent Conventional Bank in which the UUS is consolidated</p> <p>3. Update of the current list of AMI zoning by provinces</p> <p>These regulations are effective as of:</p> <ul style="list-style-type: none"><li>POJK Number 6/POJK.03/2016 dated January 27, 2016.</li><li>SE OJK Number 14/SEOJK.03/2016 dated April 29, 2016.</li><li>SE OJK Number 28/SEOJK.03/2016 dated July 21, 2016.</li></ul>	NIM (%)	BOPO (%)					Supervisory Action	<70	≥70-<75	≥75-<80	≥80-<85	≥85	Supervisory Action					≥5							≥4,5-<5	AMI Deduction 0%	AMI Deduction 0%	AMI Deduction 0%	AMI Deduction 0%			≥4-<4,5	AMI Deduction 50%	AMI Deduction 40%	AMI Deduction 0%	AMI Deduction 0%			≥3,5-<4	AMI Deduction 60%	AMI Deduction 50%	AMI Deduction 0%	AMI Deduction 0%			≥3-<3,5	AMI Deduction 80%	AMI Deduction 60%	AMI Deduction 0%	AMI Deduction 0%			<3	AMI Deduction 100%	AMI Deduction 80%	AMI Deduction 0%	AMI Deduction 0%			MSME Ratio	Additional Branch Network*)		Conventional	UUS**)	≥ 80%	25%	35%	≥ 65% up to 80%	20%	30%	≥ 50% up to 65%	15%	25%	≥ 35% up to 50%	10%	20%	≥ 20% up to 35%	5%	15%	<b>SME Ratio</b>			≥ 70%	25%	35%	≥ 55% up to 70%	20%	30%	≥ 40% up to 55%	15%	25%	≥ 25% up to 40%	10%	20%	≥ 10% up to 25%	5%	15%	<p>Based on relevant ratios of BOPO, NIM and MSME, the Bank is eligible for incentive related to the MSME and MSM loans disbursement, but not eligible for incentive related to efficiency</p>
NIM (%)	BOPO (%)					Supervisory Action																																																																																													
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<p>Financial Services Authority Regulation (POJK) Number 2/POJK.03/2016 dated January 21, 2016, regarding Expansion Branch Network of Syariah Bank as Stimulant for the National Economy</p>	<p>The regulation covers:</p> <ol style="list-style-type: none"><li>Conventional Bank (BUK) that provide support for the expansion of syariah Banking network is eligible for incentive in the form of reduction in the Core Capital Allocation (AMI) in the calculation of Branch Network Opening related to existing and planned office network as well as the spread of office network.</li><li>Syariah banking refers to:<ul style="list-style-type: none"><li>Syariah Bank Services (LSB) for Syariah Commercial Bank (BUS)</li><li>Syariah Services (LS) for Syariah Business Unit (UUS)</li></ul></li><li>A reduction in AMI is granted based on the achievement of a certain ratio between the assets of BUS/UUS to BUK, BUKU classification of the BUK, and the ratio of LSB/LS to the branch network of the BUK.</li><li>To apply for the facility, the BUK shall provide a calculation for AMI reduction in the Bank Business Plan (RBB).</li><li>The BUS and UUS is allowed to establish a mobile cash office in order to acquire new customer savings accounts for the Hajj or Umroh pilgrimage. The AMI requirements do not include mobile cash offices.</li></ol> <p>The POJK is in force between January 27, 2016, up until January 31, 2019</p>	<p>Danamon is eligible for the reduction incentive as outlined in POJK calculation, and the calculation has been included in the RBB.</p>																																																																																																	
<p>Minister of Finance Decree Number 600./KMK03/2016 dated July 18, 2016, regarding Designated of Perception that serve as Recipient of Tax Redemptions in the Tax Amnesty Program</p>	<p>This Regulation contains a list of Perception Bank in Indonesia that have been designated to receive the redemption funds in the Tax Amnesty program.</p> <p>Bank Danamon is one of the designated Perception Bank</p> <p>The Minister of Finance Decree is came into force on July 18, 2016</p>	<p>Danamon has been designated as a Perception Bank to receive the redemption funds from the Tax Amnesty program.</p>																																																																																																	

## BANKING REGULATION

### New Banking Regulations Issued in 2016 by the Financial Services Authority, Bank Indonesia, and the Minister of Finance

Regulation	Description	Impact on Danamon
<p>Regulations related to Minimum Reserve Requirement (GWM):</p> <ul style="list-style-type: none"> <li>Bank Indonesia Regulation (PBI) Number 18/3/PBI/2016 dated March 10, 2016, regarding the 3rd Amendment to PBI Number 15/15/PBI/2013 concerning the Minimum Reserve Requirement in Rupiah and Foreign Currency for Conventional Banks</li> <li>Bank Indonesia Regulation (PBI) Number 18/14/PBI/2016 dated August 18, 2016, regarding the 4th Amendment to PBI Number 15/15/PBI/2013 concerning the Minimum Reserve Requirement in Rupiah and Foreign Currency for Conventional Banks</li> <li>Bank Indonesia Circular Letter (SEBI) Number 18/3/DKEM dated March 15, 2016, regarding the 2nd Amendment to SEBI Number 17/17/DKMP dated June 26, 2015</li> <li>Bank Indonesia Circular Letter (SEBI) Number 18/18/DKMP dated August 22, 2016, regarding the 3rd Amendment to SEBI Number 17/17/DKMP dated June 26, 2015</li> </ul>	<p>These regulations contain the following changes:</p> <ol style="list-style-type: none"> <li>Reduction of Primary GWM in Rupiah from 7.5% to 6.5% of third party funds (DPK) in Rupiah.</li> <li>After the reduction, the portion of Primary GWM in Rupiah that are eligible to receive interest is 1.5% of the DPK in Rupiah</li> <li>For banks being merged or consolidated, the Primary GWM in Rupiah is 5.5% of the DPK in Rupiah, for a period of 1 (one) year following the effective date of the merger/consolidation</li> <li>The change in the lower limit of Loan to Funding Ratio (LFR) Target from 78% to 80%.</li> </ol> <p>These regulations are effective as of:</p> <ul style="list-style-type: none"> <li>PBI Number 18/3/PBI/2016 and SE BI No. 18/3/DKEM on March 16, 2016.</li> <li>PBI Number 18/14/PBI/2016 and SE BI No. 18/18/DKMP on August 24, 2016.</li> </ul>	<p>The regulations on GWM are an easing for Danamon which has implemented the GWM level and LFR as per the regulations.</p>
<p>Regulations related to Transparency and Publication Report of Bank:</p> <ul style="list-style-type: none"> <li>Financial Services Authority Regulation (POJK) Number 32/POJK.03/2016 dated August 8, 2016 regarding Amendment to POJK Number 6/POJK.03/2015 on Transparency and Publication Report of Bank</li> <li>Financial Services Authority Circular Letter (SEOJK) Number 43/SEOJK.03/2016 dated September 28, 2016, regarding Transparency and Publication Report of Bank</li> </ul>	<p>Changes in the regulations:</p> <p>A. Quarterly Publication Report</p> <ol style="list-style-type: none"> <li>Additional disclosure of quantitative information on risk exposure (credit, market, liquidity, operational) for the June position of Quarterly Report Publication published in the banks' website. This include quantitative disclosure of Interest Rate Risk in Banking Book (IRRBB) in market risk. Will be effective for the first time in June 2017.</li> <li>Additional quarterly disclosure of risk related with prone to rapid changes at the banks' website</li> <li>Additional quarterly quantitative disclosure of Liquidity Coverage Ratio (LCR) in liquidity risk at the banks' website. Effective for the first time for the period September 2016.</li> <li>Changes in the format for capital disclosure in accordance with Basel III at the banks' website.</li> </ol> <p>B. Annual Publication Report</p> <ol style="list-style-type: none"> <li>Additional qualitative disclosure of Counterparty Credit Risk (CCR) in credit risk</li> <li>Conformation to the format for quantitative disclosure of credit risk related to the RWA for Credit Risk Using the Standard Approach</li> <li>Additional quantitative and qualitative disclosure of Interest Rate Risk in Banking Book (IRRBB) in market risk. Deletion of the requirement for disclosure of market risk calculation using the internal method.</li> <li>Additional quantitative and qualitative disclosure of Liquidity Coverage Ratio (LCR) in liquidity risk.</li> <li>Additional disclosure on prohibition, limitation and/or other significant obstacles regarding the transfer of funds or in the interest of regulatory capital fulfillment between a bank and another entity in a business group.</li> </ol> <p>C. Other Report Publication</p> <ol style="list-style-type: none"> <li>Additional Report of Material Facts and/or Information displayed on the bank's website, and submitted to the OJK at the latest within 2 (two) working days after the material fact and/or information occurred.</li> </ol> <p>The POJK is in force since August 12, 2016, while the SE OJK is in force since September 28, 2016.</p>	<p>Danamon has disclosed and submitted its Bank Publication Report in accordance with the new regulations.</p>



## BANKING REGULATION

### New Banking Regulations Issued in 2016 by the Financial Services Authority, Bank Indonesia, and the Minister of Finance

Regulation	Description	Impact on Danamon																																																																																																															
<p>Regulations regarding the Loan to Value (LTV) Ratio for Property Loan, the Financing to Value (FTV) Ratio for Property Financing, and the Down Payment for Motor Vehicle Loans or Financing:</p> <ul style="list-style-type: none"><li>Bank Indonesia Regulation (PBI) Number 18/16/PBI/2016 dated August 26, 2016</li><li>Bank Indonesia Circular Letter (SEBI) Number 18/19/DKMP dated September 6, 2016</li></ul>	<p>Changes in the regulations:</p> <ol style="list-style-type: none"><li>Changes of LTV ratio for Property Loans of Commercial Banks and FTV ratio for Property Financing of Commercial Syariah Bank or Syariah Business Unit are presented in the following table:</li></ol> <table><tr><th rowspan="2">Property Type</th><th colspan="3">NPL/NPF ratio &lt;5%</th><th colspan="3">NPL/NPF ratio ≥5%</th></tr><tr><th>KP/PP I</th><th>KP/PP II</th><th>KP/PP III</th><th>KP/PP I</th><th>KP/PP II</th><th>KP/PP III</th></tr><tr><td colspan="7"><b>For Conventional Loan and Syariah Financing with Murabahah and Istishna Contracts</b></td></tr><tr><td>House Type &gt; 70</td><td>85%</td><td>80%</td><td>75%</td><td>80%</td><td>70%</td><td>60%</td></tr><tr><td>Flat Type &gt; 70</td><td>85%</td><td>80%</td><td>75%</td><td>80%</td><td>70%</td><td>60%</td></tr><tr><td>House Type 22-70</td><td>*)</td><td>85%</td><td>80%</td><td>*)</td><td>80%</td><td>70%</td></tr><tr><td>Flat Type 22-70</td><td>90%</td><td>85%</td><td>80%</td><td>90%</td><td>80%</td><td>70%</td></tr><tr><td>Flat Type ≤ 21</td><td>*)</td><td>85%</td><td>80%</td><td>*)</td><td>80%</td><td>70%</td></tr><tr><td>Home Shop/Home Office</td><td>*)</td><td>85%</td><td>80%</td><td>*)</td><td>80%</td><td>70%</td></tr><tr><td colspan="7"><b>Syariah Financing with MMQ and IMBT Contracts</b></td></tr><tr><td>House Type &gt; 70</td><td>90%</td><td>85%</td><td>80%</td><td>85%</td><td>75%</td><td>65%</td></tr><tr><td>Flat Type &gt; 70</td><td>90%</td><td>85%</td><td>80%</td><td>85%</td><td>75%</td><td>65%</td></tr><tr><td>House Type 22-70</td><td>*)</td><td>90%</td><td>85%</td><td>*)</td><td>80%</td><td>70%</td></tr><tr><td>Flat Type 22-70</td><td>90%</td><td>85%</td><td>80%</td><td>90%</td><td>80%</td><td>70%</td></tr><tr><td>Flat Type ≤ 21</td><td>*)</td><td>85%</td><td>80%</td><td>*)</td><td>80%</td><td>70%</td></tr><tr><td>Home Shop/Home Office</td><td>*)</td><td>85%</td><td>80%</td><td>*)</td><td>80%</td><td>70%</td></tr></table> <p>*) Not regulated</p> <ol style="list-style-type: none"><li>The NPL or NPF ratio is calculated based on:<ol style="list-style-type: none"><li>The ratio of non-performing loan or non-performing financing to total loan or total financing, net of the value of impairment provision</li><li>The ratio of non-performing property loan to total property loan or non-performing property financing to total property financing, gross</li></ol></li><li>Loan or Financing top-up using the same LTV/FTV ratio, as long as the quality of Property Loan or Financing is current.</li><li>Property Loan and Financing for incomplete property are permitted up to the second facility with phased disbursement.</li></ol>	Property Type	NPL/NPF ratio <5%			NPL/NPF ratio ≥5%			KP/PP I	KP/PP II	KP/PP III	KP/PP I	KP/PP II	KP/PP III	<b>For Conventional Loan and Syariah Financing with Murabahah and Istishna Contracts</b>							House Type > 70	85%	80%	75%	80%	70%	60%	Flat Type > 70	85%	80%	75%	80%	70%	60%	House Type 22-70	*)	85%	80%	*)	80%	70%	Flat Type 22-70	90%	85%	80%	90%	80%	70%	Flat Type ≤ 21	*)	85%	80%	*)	80%	70%	Home Shop/Home Office	*)	85%	80%	*)	80%	70%	<b>Syariah Financing with MMQ and IMBT Contracts</b>							House Type > 70	90%	85%	80%	85%	75%	65%	Flat Type > 70	90%	85%	80%	85%	75%	65%	House Type 22-70	*)	90%	85%	*)	80%	70%	Flat Type 22-70	90%	85%	80%	90%	80%	70%	Flat Type ≤ 21	*)	85%	80%	*)	80%	70%	Home Shop/Home Office	*)	85%	80%	*)	80%	70%	Danamon has implemented the LTV ratio for Property Loan and FTV for Property Financing in accordance to the regulation.
Property Type	NPL/NPF ratio <5%			NPL/NPF ratio ≥5%																																																																																																													
	KP/PP I	KP/PP II	KP/PP III	KP/PP I	KP/PP II	KP/PP III																																																																																																											
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<p>Regulations related to Minimum Capital Adequacy Requirements for Commercial Banks:</p> <ul style="list-style-type: none"><li>Financial Services Authority Regulation (POJK) Number 11/POJK.03/2016 dated January 29, 2016, regarding the Minimum Capital Adequacy Requirements for Commercial Banks (replacing PBI Number 15/12/PBI/2013 dated December 12, 2013)</li><li>Financial Services Authority Regulation (POJK) Number 34/POJK.03/2016 dated September 22, 2016, regarding Amendment to POJK Number 11 / POJK.03/2016 dated January 29, 2016, regarding Minimum Capital Adequacy Requirements for Commercial Banks</li><li>Financial Services Authority Circular Letter (SEOJK) Number 20/SEOJK.03/2016 dated June 21, 2016, regarding Feature on Conversion to Common Stock or Write Down to Instruments for Additional Core Capital and Supplementary Capital</li></ul>	<p>Changes in the regulations are as follows:</p> <ol style="list-style-type: none"><li>Changes in the additional items to core capital - disclosed reserve<ul style="list-style-type: none"><li>Deletion of donated capital</li><li>Deletion of share warrant and options</li></ul></li><li>Changes in the deduction items to core capital - disclosed reserve<ul style="list-style-type: none"><li>Deletion of other comprehensive income in the form of losses on revaluation of defined benefit pension program</li><li>Calculation of deferred tax not to include deferred tax liabilities related to goodwill and other intangible assets</li><li>Goodwill deducted from the main core capital is equivalent to the carrying value of the goodwill less deferred tax liability related to goodwill</li><li>Other intangible assets deducted from main core capital is equivalent to the carrying value of the intangible assets less deferred tax liability on the intangible assets.</li></ul></li><li>Additional description of additional Tier-1 capital</li><li>Changes to supplementary capital<ul style="list-style-type: none"><li>Deletion of appropriated reserves</li></ul></li><li>Conversion to common stock or write-down to instruments of additional Tier-1 capital and/or supplementary capital (Tier-2) is undertaken in cases of :<ul style="list-style-type: none"><li>The ratio of Common Equity Tier 1/CET 1 ≤ 5.125% of RWA</li><li>Plans of the authority for equity participation in a bank with possible disruption of business continuity</li><li>By order of the OJK to conduct a conversion to common stock or write-down.</li></ul></li></ol> <p>These regulations are effective as of:</p> <ul style="list-style-type: none"><li>POJK Number 11/POJK.03/2016 dated February 2, 2016.</li><li>POJK Number 34/POJK.03/2016 dated September 26, 2016.</li><li>SE OJK Number 20/SEOJK.03/2016 dated June 21, 2016.</li></ul>	Danamon has implemented the regulations. There are no significant impact to the Bank's capital ratio calculation																																																																																																															

## BANKING REGULATION

### New Banking Regulations Issued in 2016 by the Financial Services Authority, Bank Indonesia, and the Minister of Finance

Regulation	Description	Impact on Danamon
Financial Services Authority Circular Letter (SEOJK) Number 42/SEOJK.03/2016 dated September 28, 2016, regarding Guideline for Calculation of Risk Weighted Assets for Credit Risk Using the Standard Approach (replacing SE BI Number 13/6/DPNP dated February 18, 2011)	<p>Changes in the regulations are as follows:</p> <ol style="list-style-type: none"> <li>1. Calculation of exposure to Counterparty Credit Risk takes into consideration the Credit Valuation Adjustment risk weighted assets, to be submitted to OJK starting from the period January 2017.</li> <li>2. Changes in the portfolio category of Lembaga Pembiayaan Ekspor Indonesia from previously Receivables from Banks to Receivables from Public Sector Entity</li> <li>3. Risk weight for Mortgage Loans with maximum LTV ratio of 95% is set at 35%.</li> <li>4. Requirements for "aggregate exposures" and "one counterpart" as well as exception for "past due loan" in the criteria for loans to Micro and Small business and retail portfolio.</li> <li>5. The value of collateral used in calculation of Credit Risk Mitigation - Collateral with Simple Method shall be deducted with a 20% haircut of the market value of collateral comprising of SUN, SBSN, SBI, and/or SBIS instruments.</li> <li>6. Collateral in the form of gold used in the calculation of Credit Risk Mitigation - Collateral with comprehensive approach shall be deducted with a 15% haircut.</li> <li>7. Changes in the definition of Net Receivables for Asset exposures in the balance sheets</li> <li>8. Changes in the reporting format</li> </ol>	Danamon has calculated the RWA for credit risk using the standard approach in accordance with the new regulations.

The SEOJK is effective since September 28, 2016

## CHANGES IN TAX REGULATION 2016

Changes in tax laws that have significant impacts on of Danamon's performance in 2016 are as follows:

### 1. Income tax 21 ("PPh 21")

Minister of Finance of the Republic of Indonesia Regulation ("PMK") No. 101/PMK.010/2016 dated June 27, 2016 ("PMK 101"), in connection with a change of "taxable income" (PTKP) and the determination of the income of employees. PMK 101 sets a new personal exemption that becomes effective on January 1, 2017 (applies retroactively). This increased PTKP reduces the amount of taxable income PPh21 employees who had to be cut and remitted to the government by the company.

### 2. Tax Amnesty ("TA")

Law No. 11 2016 regarding the Tax Amnesty ("Law 11/2016"), that regulate appointed Bank's Perception and Gateway.

Danamon is one of the Banks appointed and entrusted by the Ministry of Finance as a Gateway bank for the placement and management of taxpayers' funds repatriation in the implementation of the Amnesty Tax Act, with a maturity of at least 3 years after the date of the transfer of assets into the territory of the Republic of Indonesia.

In addition, Danamon as Gateway Bank is obliged to provide information to its customer in regard to Tax Amnesty Law. Therefore, the Bank is expected to be familiar with and understand the TA laws, are including participation procedures.

As Bank Gateway, the Bank also provides financial services as an investment vehicle for funds repatriation in the form of: cash accounts, deposits, Protected Fund, Secondary Bond Trading, Open Ended Mutual Fund, loan with TA account as collateral, as well as investments on property and direct investment.

As of December 31, 2016, Fund Repatriation entrusted by the client to be placed and managed by Danamon as a Bank Gateway is Rp 3.6 trillion.

### 3. Documentation regarding Transactions with Special Related Parties

PMK No. 213/PMK.03/2016 dated December 30, 2016 regarding the types of documents and/or additional information compulsory to be kept by taxpayers that conduct transactions with special related parties, and the procedures for its management. This regulation provides most recent documentation regarding special related parties transactions which will be effective starting from the tax year ended December 30, 2016.

### Ratified Accounting Standards That Has Yet To Be Made Effective

The following are Statement of Financial Accounting Standards (SFAS) approved by the Financial Accounting Standards Board (DSAK) that had an impact on Danamon's performance in 2016.

The following table discloses the accounting standards impacting Danamon's performance in 2016:

No	IFAS/Amendments to IAS (PSAK 1)	Brief Overview	Ratification Date	Effective date
1	Amendments to IAS 1 (PSAK 1): Presentation of Financial Statements of Disclosure Initiative.	Exposure Draft Amendment to IAS 1 (PSAK 1): Presentation of Financial Statements of Disclosure Initiative was passed into Amendment IAS 1: Presentation of Financial Statements of Disclosure Initiative  Amendments to IAS 1 provide clarification related to the application of the requirements of materiality, flexibility systematic sequence of notes to the financial statements and the identification of significant accounting policies.	October 28, 2016	Is effective for the period beginning on or after January 1, 2017 and earlier application is permitted.
2	Amendments to IAS 2: Cash Flow Statement of Disclosure Initiative	Amendments to IAS (PSAK) 2 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flow and changes in noncash.	September 28, 2016	January 1, 2018 with earlier application permitted
3	Amendments to IAS (PSAK) 46: Income Tax on the Recognition of Deferred Tax Assets Unrealized Losses.	Amendments to IAS (PSAK) 46: 1. Adding illustrative examples to clarify that the temporary differences are deductible arise when the carrying amount of asset debt instruments measured at fair value and the fair value is less than the taxable base, regardless of whether the entity estimates to recover the carrying amount of a debt instrument through sale or use of, for example, has and receives contractual cash flows, or a combination of both. 2. Clarification to determine whether the taxable income will be available so that the deductible temporary differences can be utilized, the valuation deductible temporary differences would be in line with tax regulations. 3. Adding that the tax reduction from the reversal of deferred tax assets is excluded from the estimate of future taxable income. Then compare the entity deductible temporary differences to the estimated future taxable income that does not include tax reduction resulting from the reversal of deferred tax assets is to assess whether the entity has a sufficient future taxable income. 4. Estimation on the most likely future taxable income can include recovery of certain assets of the entity exceeds its carrying amount if there is sufficient evidence that it is likely that the entity will achieve.	September 28, 2016	January 1, 2018 with earlier application permitted
4	PSAK 24 (adjustment 2016):	IAS (PSAK) 24 (Adjustment 2016) clarifies that the market of high quality corporate bonds rated by denominated bonds and not based on the country in which the bonds are.	September 28, 2016	January 1, 2017 with earlier application permitted
5	IAS (PSAK) 58 (2016 adjustment): Non-current Assets Held for Sale and Discontinued Operations	IAS (PSAK) 58 (adjustment 2016) clarifies that a change from one disengagement method to the other disengagement methods are considered as the beginning of a sustainable plan and not as a new disengagement plan. This adjustment also clarifies that the change in this disengagement method does not change the date of classification as an asset or disengagement group.	September 28, 2016	January 1, 2017 with earlier application permitted
6	IAS (PSAK) 60 (adjustment 2016): Financial Instruments: Disclosures	IAS (PSAK) 60 (adjustment 2016) clarifies that an entity must assess the nature of the contract in exchange for services as provided in paragraph PP30 and paragraphs 42C to determine whether the entity has a continuing involvement in financial assets and whether the disclosure requirements related to continuing involvement are met.	September 28, 2016	January 1, 2017 with earlier application permitted

### DESCRIPTION OF THE BASEL III

Based POJK No. 6/POJK.03/2015 on Transparency and Publication Reports of Bank and its amendment POJK No. 32/POJK.03/2016, Bank BUKU 3 and 4 are required to make capital disclosures in accordance with the Basel III framework on a quarterly basis on the Bank's website. To comply with these POJK, Danamon has made disclosure of capital in accordance with Basel III framework which is shown on Danamon's website on a quarterly basis since December 31, 2015.