

EMPOWERING

► Management Discussion & Analysis

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Macro Economy



“The global economy’s encouraging trends in 2017 lent a hand in maintaining Indonesia’s economic growth. In 2017, Indonesia recorded economic growth of 5.07%, slightly better than the 5.02% growth rate during the previous year.”

GLOBAL ECONOMY

The global economy demonstrated a positive trend in 2017. Developed countries were the main drivers of the global economy, amid moderate growth among emerging economies.

The economic recovery of the United States of America was shored up mainly by increases in consumption, accompanied by improving labor conditions. The optimism for economic growth was also reinforced by the Federal Reserve’s policy of raising its benchmark rate three times this year (March, June and December) to 1.50% from 0.75% from last year.

In the European Union, economic growth exceeded estimates with Germany, France and Italy experiencing significant gains, mainly buoyed by an upsurge in consumption. The main catalyst for the economic recovery in the EU can be observed from rising retail sales, as well as household and corporate credit growth.

This condition was the driving force of industrial and manufacturing sectors towards an expansive growth course. Along with this economic recovery, the European Central Bank (ECB) is committed to cut monetary stimulus, in the form of halving bond purchases to 30 billion euros per month starting January next year.

The improving economies of developed countries and the increasing volume of world trade have had a positive impact on China's economy. China's economic growth in 2017 was higher at 6.85% year on year. China's plan to change its economic structure from investment to consumption, has begun to demonstrate initial signs of success. This is evident from the increase in household credit and consumer confidence.

In line with the positive developments in developed and developing countries as the main motors of the world economy, the World Bank estimated that the world economy will grow by 3.1% in 2018 compared to the 3.0% growth of 2017. The strengthening of world economic growth will be sustained by the impacts of developing countries with projected GDP growth of around 4.5%, in addition to the contribution of developed economies at 2.2% GDP growth.

INDONESIAN ECONOMY

In parallel with Asian economic growth, Indonesia's economic growth was well maintained and grew slightly better in 2017 compared to that of the previous year. For the whole year, the economy anticipated to grow 5.07%, slightly better than the previous year at 5.02%.

The resurgence in exports and investment performance was able to sustain economic growth amidst slowing consumption growth. The average consumption growth reached 4.95%, lower than the same period in the previous year at 5.01%. Although tending to soften, consumption remained a driver of economic growth. There were many factors hampering consumption one of which was the decline in the purchasing power of the lower classes who were affected by the increase in electricity prices, while the upper middle class experienced a shift in consumption behavior affected by lifestyle adjustments (prefer more to eating out and recreation) and tend to reduce the consumption of other retail goods (i.e. clothing, electronic, household appliances etc).

Inflation throughout 2017 remained under control albeit depressed by the government's decision to raise the price of electricity. The government's success in sustaining ample food supply resulted in a low inflation rate, amidst the still low levels of public consumption, and was in the lower range of Bank Indonesia's target of 4% ($\pm 1\%$).

Falling inflation since mid-2017 has given room for BI to adjust its benchmark interest rate. Bank Indonesia's 7-Day Repo Rate was lowered twice in a row (August and September 2017) to 4.25% from 4.75%.

The improvement of Indonesia's economy was also supported by steady investment, both domestic investment (PMDN) and foreign investment (PMA). Investment realization in 2017 grew 13.1% to Rp692.8 trillion compared to the same period in 2016 of Rp612.8 trillion. The increase in investment was supported by the strengthening of foreign direct investment which reached Rp430.5 trillion in 2017, up 8.5% from Rp395.6 trillion in the previous year. Meanwhile, domestic investment realization recorded a 21.3% growth to Rp262.3 trillion compared to 2016's position at Rp216.2 trillion.

In addition to the encouraging proliferation in actual investment, Indonesia's economic recovery was also supported by Indonesia's improving trade balance. Amidst the challenges of the global economic slowdown, as of the end of year, Indonesia Trade Balance (NPI) posted a trade surplus of US\$18.9 billion, up from 2016 at US\$15.3 billion. The increase in the trade surplus was mainly due to the relatively better performance of exports supported by the recovery of commodity prices. Amidst the declining oil production, Indonesia export performance has consistently been boosted by significant contribution of non-oil/gas exports, at 86% of total exports, during the last five years.

The combined surplus from the increased trade and both direct and portfolio investment was a driving factor in increasing foreign exchange reserves. Indonesia's foreign exchange reserves increased by 11.9% to US \$130.2 billion compared to 2016's position at US \$ 116.4 billion. This higher reserves provides Bank Indonesia with the flexibility to intervene in the market if necessary, primarily to mitigate fluctuations of the Rupiah against other currencies amidst dynamic global financial markets, including to face the threat of tightening global liquidity with any further upsurge in the Federal Reserve's interest rate and of the European Central Bank's unwinding of the monetary policy stimulus.

The prospect for the Indonesian economy in 2018 is of an improved situation in line with the outlook for continued global economic recovery. Danamon is optimistic that Indonesia's economy will grow by 5.3%, better than this year's realization. In addition, inflation is expected to be contain at around 3.64% and the Rupiah slightly weaker at Rp13,520 per US\$. Moreover, the global economy expansion is expected to have a positive effect on exported commodity prices. The full projection of economic indicators can be seen in the following table.

Economic Indicators

Indicators	Unit	2016	2017	2018E
Real GDP	(%, yoy)	5.02	5.07	5.27
Trade Balance	USD billion	15.3	18.9	17.6
Current Account	(Rp/US\$)	-1.8	-1.7	-2.0
International Reserves	USD billion	116.4	130.2	136.8
Currency	USD year end	13,436	13,548	13,575
Currency	USD average	13,308	13,383	13,520
BI 7-Day Reverse Repo rate	% year end	4.75	4.25	4.25
Consumer Prices	% year end	3.02	3.61	3.64
Fiscal Balance	% of GDP	-2.46	-2.42	-2.52

2018 (E) Source: Danamon

The estimated improvement of the economy in 2018 is backed by increased contributions in consumption by both households and government expenditures. A controlled inflation outlook is expected to fuel a 5.0% growth in household consumption while government consumption will increase by 3.8% as the government continues spending on infrastructure development.

The infrastructure budget in 2018 is Rp 410.7 trillion, greater than that of the previous year's budget of Rp 388.3 trillion. In addition to providing basic community services, infrastructure development is directed to encourage connectivity improvements, logistics distribution, transportation, and electrification which will have further positive impacts on improving competitiveness, supporting productivity, and overall economic efficiency.

The success of economic development in Indonesia is owing in part to the confidence of foreign investors in the Indonesian economy. Indonesia's sovereign debt rating has been categorized as worthy of investment

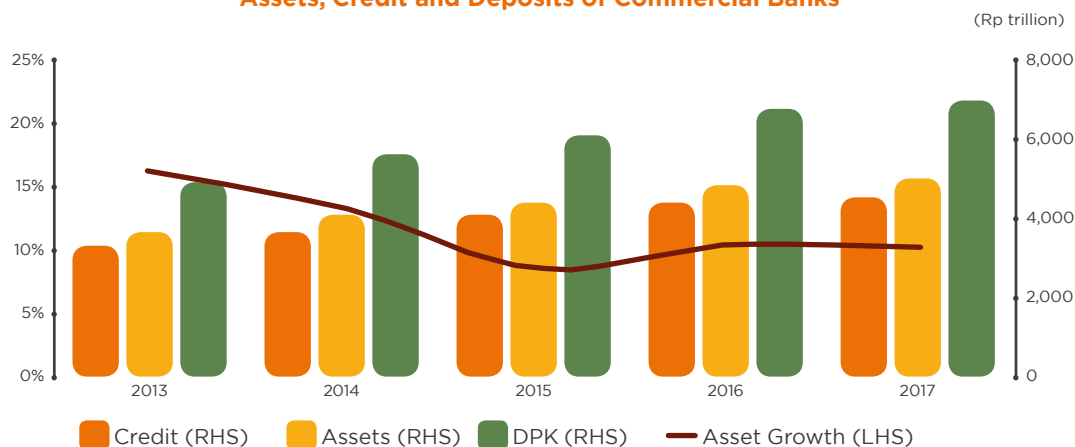
by three international rating agencies after Standard & Poor's (S&P) upgraded Indonesia's debt position to BBB- with a stable outlook on May 19, 2017. Not long after, Fitch raises Indonesia's sovereign debt rating by another notch above the lowest investment grade level (from BBB- to BBB). Meanwhile, Moody's credit rating for Indonesia is Baa3 with a positive outlook set last on February 8, 2017.

BANKING BUSINESS REVIEW

Banks intermediary function has a strong affiliation with Indonesia's economic growth. The mounting national economic activities entail the support of financing, especially by the banking sector. Conversely, slower economic growth will affect the performance of national banking intermediation. The limited growth of the economy in 2017 put pressure on growth in bank credit which grew in single digits at 7.5% (as per November 2017), although better than 2016's achievement.

Bank lending grew by 7.5% yoy to Rp4,605.1 trillion in 2017. Supported by the growth in loan portfolio, bond assets increased by 9.7% to Rp7,222.4 trillion compared to banking assets of Rp 6,729.8 trillion at the end of 2016. This is also supported by the ability of banks to collect larger third party funds. Third Party Funds (DPK) reached Rp5,199.5 trillion in 2017 or grew by 9.8%. The development of loans, assets and DPK in the last five years is explained in the following graph.

Assets, Credit and Deposits of Commercial Banks



Sources: OJK

In terms of disbursement, consumer loans posted the highest growth of 10.3% to Rp1,307.5 trillion as of November 2017. Meanwhile, working capital loans grew by 7.5% to Rp2,138.9 trillion as corporate business expansion requirements enlarged. Nevertheless, investment credit growth slowed by 4.5% to Rp1,158.8 trillion amid the challenges of Indonesia's economic slowdown. Cumulatively, working capital loans has the largest market share of 47%, followed by consumer loans (28%) and investment (25%).

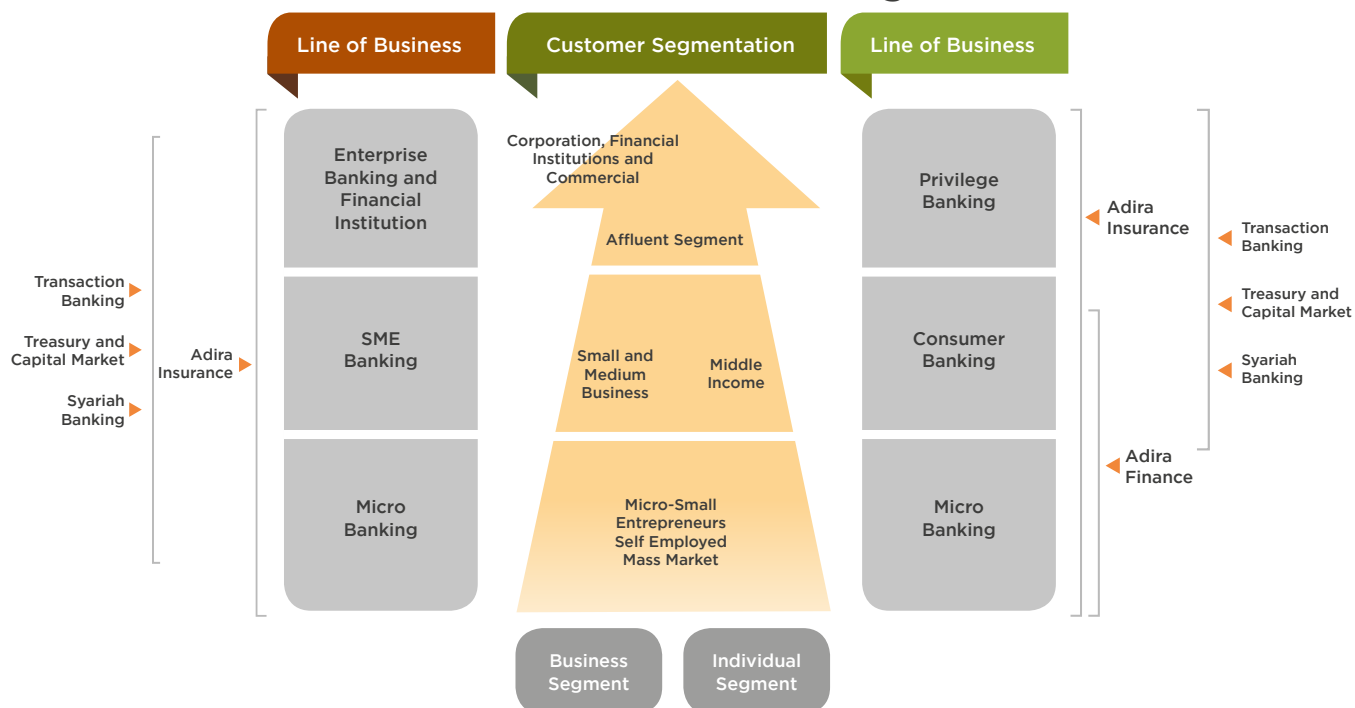
In terms of loan disbursement to third parties, there are three recipients of bank credit namely corporate business, household, and non-corporate loans. The loan portfolios for these three types of loans are relatively stable at 72%; 23%; and 5%. Loans for business expansion grew by 6.3% to Rp3,282.3 trillion primarily due to increased credit in the construction, agriculture and financial services sectors aligned with intensive infrastructure development. Household loans grew by 10.2% to Rp1,353.6 trillion primarily due to an increase in both KPR and KPA property loans.

In terms of third party funding, time deposits remained dominant at 46% of total deposits. Time deposits grew by 9.9% to Rp2,369.3 trillion in 2017. Meanwhile, CASA grew by 9.8% compared to the previous year's growth of only 5%.

In terms of performance, Indonesia's banking industry booked a stronger capital structure with a CAR of 23.4% in November of 2017 compared to the previous year's 22.9% CAR, buoyed by credit growth. Nevertheless, the decline in Bank Indonesia's interest rate this year impacted the industry-wide Net Interest Margin (NIM), which declined to 5.3% compared to the end of 2016 of 5.6%. On the other hand, banking operational performance became more efficient as reflected by the operating expenses to operating income (BOPO) falling to 78.4% in 2017 from 82.2% in the previous year. Supported by banks operational efficiency, the Banking Return on Assets (ROA) in 2017 improved to 2.48% compared to 2.23% in 2016.

Business Segment Review

Lines of Business and Customer Segmentation



Business Segments Financial Highlights

Rp billion	2017					2016				
	Retail ¹⁾	Mid size ²⁾	Wholesale ³⁾	Others	Total	Retail	Mid size	Wholesale	Others	Total
Assets	60,532	44,523	53,804	19,397	178,257	65,534	39,484	52,688	17,730	174,437
Liabilities	63,663	19,329	43,513	12,580	139,085	65,604	18,764	42,145	11,545	138,059
Net Interest Income	10,071	2,789	1,289		14,149	9,911	2,706	1,162		13,779
Non-Interest Income	2,847	381	282		3,510	3,270	378	280		3,928
Income from Operations	12,918	3,171	1,570		17,659	13,181	3,084	1,443		17,707
Operational Expenses	(6,998)	(1,070)	(304)		(8,371)	(7,254)	(1,075)	(121)		(8,450)
Loan Expenses	(2,478)	(619)	(368)		(3,466)	(3,601)	(445)	(313)		(4,358)
Non-Operational Income & Expenses	23	(4)	(199)	(274)	(454)	105	(1)	(81)	(529)	(506)
Profit Before Tax	3,465	1,477	699	(274)	5,367	2,430	1,563	928	(529)	4,393
Income Tax Expenses	(975)	(389)	(244)	69	(1,539)	(821)	(411)	(500)	132	(1,600)
Net Income (Loss) After Tax	2,490	1,088	455	(205)	3,828	1,609	1,152	428	(397)	2,793

* Note:

1) Include micro, credit card, syariah, insurance, consumer financing, pawnshop, and retail banking.

2) Include SME and commercial.

3) Include corporate, financial institution, and treasury.

📍 Enterprise Banking and Financial Institution



“Danamon’s Enterprise Banking performance reached the set target in 2017 and will continue to acquire new clients within our target market as well as capture the end to end value chain of our existing clients.”

Enterprise Banking serves the Corporate, Commercial, and Financial Institution segments. Enterprise Banking provides comprehensive financial solutions to help our clients. Solutions provided include lending, cash management, trade finance, and treasury services.

Through understanding our client needs, Enterprise Banking aspires to be the preferred transactional bank.

PRODUCTS AND SERVICES

To date, products and services provided through Enterprise Banking are as follows:

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

STRATEGIES AND INITIATIVES 2017

Enterprise Banking continues to focus on deepening relationship with its existing clients. Danamon will also grow Enterprise Banking portfolio through new client acquisition within our target market and tapping into end-to-end value chains.

As part of Enterprise Banking transformation, our end-to-end credit process has been improved to better serve our clients while ensuring a prudent risk culture.

Enterprise Banking is committed to investing in human capital by attracting and retaining talents, implementing extensive training programme, and driving a performance-based organization.

With regard to loans, Danamon's established strategy in 2017 was cautiously to expand through more robust clients' selection and improved loan approval process.

With regard to funding, in 2017, Enterprise Banking offers cash management solutions to assist clients with their transactional needs; focusing on facilitating their collection and payment.

PERFORMANCE 2017

Enterprise Banking Loan Portfolio (including marketable securities) reached Rp 39.3 trillion, 2% year-on-year increase. In line with the Bank's strategy to release high cost funding, third party funds grew moderately by 3.4% year-on-year, to Rp34.1 trillion.

Performance Comparison, 2017 and 2016

	YOY	2017 (Rp billion)	2016 (Rp billion)
Loans*	2.2%	39,340	38,549
Third Party Funds (DPK)	3.4%	34,179	33,053
Non-Performing Loans	-3.3%	783	810

**including marketable securities*

STRATEGIES AND INITIATIVES 2018

To prepare 2018's challenges, Enterprise Banking will implement the following strategies:

- Acquire new clients within our target market and capture the end to end value chain of our existing clients.
- Continue to nurture third party funds by offering a comprehensive cash management solution.
- Invest in human capital. Continue to attract and retain talents.

📍 Treasury and Capital Market



“As of 2017, TCM is one of the most active Government Bonds player in Indonesia.”

Treasury and Capital Market (TCM) focuses on efficient and prudent balance sheet management as well as being a product partner of Bank Danamon business lines in providing solutions, especially for customers with Treasury needs for both basic operational needs and those needing protection against foreign currency and interest rate fluctuation risks.

TCM assumes the responsibility from the Asset and Liability Committee (ALCO) to manage the Bank's liquidity risk. In this regard, TCM plays an important role to ensure that the Bank's liquidity requirements are always fulfilled to support business expansion under prudent principles. TCM is also tasked with managing interest rate risk inherent within the Bank's balance sheet.

PRODUCTS AND SERVICES

TCM offers a wide range of products and services geared to meet the needs of customers as well as undertaking trading activities by utilizing advantage of market volatility to provide optimum competitive pricing for the products offered, such as Foreign Exchange Today (FX-TOD), Foreign Exchange Tomorrow (FX-TOM), Foreign Exchange Spot (FX-SPOT), Foreign Exchange Forward (FX-FWD), Foreign Exchange Swap (FX-SWAP), Interest Rate Swap (IRS), Cross Currency Swap (CCS), and Government Securities (SBN) both under conventional and Syariah schemes.

STRATEGIES AND INITIATIVES 2017

As of 2017, TCM facilitated additional foreign currency in FX transactions as a solution to customer needs and as primary dealer also supports the government financing actions through government securities issuances. TCM is also geared for the introduction of new products to fulfill customers' financial needs.

The Treasury system utilized by the Bank was continuously updated in 2017 to minimize operational risks and to support new products to be developed by TCM.

PERFORMANCE 2017

In 2017, TCM supported the government's development plan, and was active in Government Securities auction activities, especially in the new series of Government Securities published in 2017. Other than that TCM also offers alternative solution for clients to obtain financing in reduced cost by utilizing treasury products.

STRATEGIES AND INITIATIVES 2018

In 2018, TCM will carry on expanding its retail, commercial and corporate customer bases. To achieve customer base, one of strategies is to approach companies that perform export and import activities. For offering alternative products, the strategy is to enable fulfillment of both financial objectives and risk profile of customers in accordance with applicable regulations.

With the strategies and plans to be implemented in 2018, TCM will continue to support the Bank's overall strategy and remain focused on risk management while upholding prudent principles as well as strong management of operations, costs and processes.

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



“Transaction Banking will continue to rapidly growing in digital industry as well as focus on Financial Supply Chain, Danamon Cash Connect, and Trade Connect to offer better customers experience and deliver excellent services.”

Danamon Transaction Banking has various products to cater to the needs of enterprises and entrepreneurs, whether corporate, commercial or SME clients. By leveraging Cash Management, Trade Finance and Financial Supply Chain capabilities, Danamon can provide customers with suitable, competitive and efficient transaction banking solutions.

This business service also focuses on technology-based development. This is realized through development and improvement in the internet banking platform for customers' benefit. This platform allows users to enjoy an integrated service between Cash Management, Trade Finance and Financial Supply Chain in order to improve the efficiency of business activities.

PRODUCTS AND SERVICES

Transaction Banking provides a variety of products and services to facilitate customer's needs as follows:

- Cash Management
These comprehensive cash management solutions are designed to support customers in managing cash flow,

liquidity, and daily transactions effectively and efficiently, thus maximizing customer's profitability. By utilizing "Danamon Cash Management", customer's efforts can be more strategically focused on their core business.

- Trade Finance & Services
"Danamon Trade Finance & Services" facilitates customer's needs in conducting trade transactions and trade loans, both in international trade (imports or exports), and domestic trade.
- Financial Supply Chain
Danamon "Financial Supply Chain" can improve payment cycle between distributor and principal (anchor) by providing loan facilities for distributors, including comprehensive reporting and monitoring. Supplier's Payment Financing is also a part of the financial supply chain solutions.

STRATEGIES AND INITIATIVES 2017

To enable customers to control their business in today's digital age, Danamon has launched Danamon Cash Connect in 2017, the latest generation of internet banking for business clients. Through this platform, Danamon provides up-to-date features ranging from account and information management, payment and collection services, up to liquidity management. This represents a comprehensive services for corporate and business customers.

Danamon Cash Connect was designed with highest security standards in banking industry with secured authentication and advanced encryption technology. Danamon Cash Connect is also available in Android and iOS mobile application platform for easy access.

Business strategies implemented in 2017 also include:

- Enhanced digital capabilities to support e-commerce ecosystem (Payment Gateway, Merchants, and Peer to Peer or P2P Landing).
- Focused on Financial Supply Chain as a source of funding.
- Promoted campaign programs such as BPR program and Remittance Program.
- Improved virtual account capabilities.

PERFORMANCE 2017

Through various strategies and solutions implemented in 2017, Transaction Banking has managed to record consistent performance growth. This was evident from the increase in assets by 6% to Rp 12,894 billion.

From the cash@work usage numbers, it has increased by 45% from 14,338 in 2016 to 20,828 in 2017. Details of Transaction Banking performance as follows:

Transaction Banking Performance

	YOY	2017	2016
Assets (in IDR billion)	0%	12,746	12,745
Number of Users (cash @ work)	5.0%	15,721	14,978
Amount of Cash Management Transactions (cash @ work) *	-0.9%	6,745,067	6,806,397
Volume of cash management transactions (cash @ work) *	1.9%	478,772	469,710

STRATEGY AND INITIATIVES 2018

In 2018, Transaction Banking will continue to deliver major strategic initiatives, which have been put into action in the previous years.

In line with the rapidly-growing digital industry, in 2018 Transaction Banking will continue to penetrate into online and e-commerce ecosystem.

Danamon will also focus on improving Financial Supply Chain, Danamon Cash Connect, and Trade Connect systems to offer better customer experience and to deliver excellent service.

📍 Small Medium Enterprise Banking (SME)

“Danamon SME Banking loan portfolio stood at Rp29 trillion, an increase of approximately 10% from the previous year.”

In line with the Bank's vision of “We Care and Enable Millions to Prosper”, Danamon's Small Medium Enterprise (SME) Banking offer solutions in banking products and services suited to the needs of such businesses. Danamon SME Banking focuses on SME customers with total annual sales of between annual sales of Rp 1 billion to Rp 50 billion.

PRODUCTS AND SERVICES

Danamon SME Banking offers a variety of loan products to serve the SME segment as follows:

- **Overdraft Facility**
A short-term loan for working capital purposes with an 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.
- **Demand Loan**
A short-term loan for working capital purposes of a cyclical nature. Loan withdrawals can be done at any time and repetitiously up to the prescribed loan limit using a Promissory Note, which also contains the terms of payment.

- **Installment Loan**
Financing facilities for working capital or long-term investments with competitive interest rate, such as the KAB - Business Premises Loan (KAB-KTU). KAB-KTU is a long-term investment loan for the purchase or refinancing of business premises, a shop-house, small-office home-office, warehouses, workshops, strata-titled commercial stalls, and similar facilities. Loan tenor can be up to 20 years for various types of business premises. This product can also be bundled with Danamon's CASA and e-Channel products. Other products includes KAB-Asset Based Financing facilities.
- **Other Products**
Other loan products available to SME Banking customers include the Rural Bank (BPR) Loan, Employee Cooperative Loan, Distributor Financing, and trade finance facilities.

Danamon SME Banking also provides a wide range of Funding and Transactional products such as Giro Bisa, Giro Lebih, and D-Connect to support SME customers' business growth and business operational needs.

STRATEGY AND INITIATIVES 2017

In 2017, consistent with its strategy in previous years, SME Banking continued to focus on sustainable loan growth and customer deposits from the SME segment. Key to this strategy is emphasis on disbursements of high-quality loans to smaller-sized business groups to better manage credit risk while supporting sustainable, and high quality loan growth.

In 2017 SME Banking placed strong focus on improving credit underwriting process and developing the Emerging SME business with maximum loan limit of Rp2 billion.

In terms of credit risk, SME Banking remained prudent especially in loan disbursements to sectors that are still vulnerable to changes in the global economy. Credit risk management is undertaken within the corridors set by regulators as well as internal policies. The allocation of loans consider factors such as market condition, availability of collateral, and other factors.

In response to rapid changes in market towards digitalization, SME Banking also started to explore and engaged in partnership with digital lending aggregators as well as major e-Commerce and Fintech players. This push toward digital lending will continue to be our focus in 2018.

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

2017 PERFORMANCE

Amid challenging economic conditions throughout 2017, SME Banking succeeded in achieving Rp29.2 trillion in the SME loans portfolio, an increase of around 10% from the previous year.

Furthermore, the growth in the loan portfolio during 2017 was also accompanied by proper credit processes, as evident in the level of Non-Performing Loans (NPL) which was maintained at around 3.2%, the same as in the previous year.

STRATEGIES AND INITIATIVES 2018

In 2018, SME Banking will largely continue with execution of key strategic initiatives from previous years, spearheaded by sales force capacity increase in the Emerging SME business, optimization of lead generation initiatives, as well as full implementation of Danamon Way to optimize the performance of S&D and Emerging SME structure.

SME Banking will continue to push its value proposition 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 i.e. lending, funding, protection, and transactional product and services.

SALES AND DISTRIBUTION (S&D)

The implementation of the S&D structure has improved branch staffs capability to provide a holistic product dan services to customers.

The S&D strategy has contributed to the increase of Danamon's fee based income, better cross-selling opportunities, with sales personnel now able to offer other Danamon banking products to customers according to their banking needs and segments. Upon having a multi-product relationship with Danamon, these customers are more likely to actively conduct transaction with the bank.

Furthermore, S&D delivers positive impact towards Danamon SME Banking's loan growth, while re-alignment of credit processes at the SME Banking unit has resulted in a significantly faster credit approval process. This makes Danamon one of the banks with the fastest SME loan approval turn-around time in Indonesia.

📍 Consumer Banking



“Danamon constantly helps customers to achieve their financial goals through scores of innovative programs, making their everyday life a great deal less complicated.”

Consumer Banking provides holistic banking services for individual customers, entrepreneurs and employees. Indonesia's rapid economic growth and large population presents a big market opportunity for Danamon Consumer Banking.

PRODUCTS AND SERVICES

To fulfill customers needs, Consumer Banking offers the following products and services:

- **Deposits**
There is a couple of variants for deposit products that are tailored to meet the needs of relevant market segments. The variants are: saving accounts, checking accounts and time deposits.
- **Loans**
Consumer Banking loans offer a variety of products both secured (mortgage) and unsecured (credit card, personal loan).

- Investment and Bancassurance

For investment and Bancassurance products, Consumer Banking provides many product options through partnerships with well-known and reputable third-party institutions in Indonesia. To meet the needs of the affluent customers, Consumer Banking also provides personalized and exclusive services.

STRATEGIES AND INITIATIVES 2017

In line with the objective of Consumer Banking to empower customers in fulfilling their financial dreams, several initiatives were undertaken in 2017.

One of the initiatives was fostering customer loyalty through holistic customer reward program. Through this program customers can accumulate reward points from various banking activities (purchases, savings, transactions, investments, and others), which customers can convert to a reward of their choice.

Enhancement in digital capability was undertaken with the launch of D-Card application and new payment features through internet and mobile banking platform.

With the credit card business, Consumer Banking has made a number of changes in the target segments, sales model, services and fees. Through this repositioning, the credit card business is expected to have a significantly higher contribution in the future.

Consumer Banking will also continuously work to improve brand image through various marketing activities.

PERFORMANCE 2017

Through the undertaking of appropriate initiatives and strategies, Danamon managed to raise its performance in Consumer Banking.

STRATEGIES AND INITIATIVES 2018

In 2018, one of Consumer Banking's main initiative is to leverage the digital infrastructure to better serve the market. Activities to acquire customers through digital platform will be launched. Digital platform will also be further enhanced with new capabilities such as mutual funds and insurance purchases.

Danamon will also continue to evaluate the shifting needs of the market segments, and make the appropriate adjustments to its products and services. Ensuring that they remain competitive in the market.

The Bank will also strengthen its relationship with customers through D-Point loyalty program and other activation programs.

Syariah products will also be further developed with the plan to introduce Haj Savings and Ijarah Muntahiya Bittamlik (IMBT) financing scheme.

At the same time, Danamon will also constantly improve its risk management to ensure sustainable business growth.

📍 Marketing Strategy

“To become the most preferred bank, Danamon’s marketing empowered consumers to take control over their financial activities.”



The level of competition in the financial industry, especially the banking sector is becoming ever tighter, driven by the on-going development in market expectations, in this case, of customer expectations. This is a challenge for Danamon to continuously adapt to relevant changes.

Cultivation of innovation in order to remain relevant and consistent with customer needs is an added value that will bring Danamon into becoming one of the banks of choice for the customers.

OPERATIONAL ORGANIZATION

Marketing is organized under the Directorate of Consumer, SME, and Branch Network. However, its role also includes “bankwide marketing” as well as business units, such as Enterprise Banking, Syariah, and SEMM.

Interrelated with the role of “bankwide marketing”, marketing aims to build Danamon’s brand image as a leading trusted bank, raise awareness and brand recognition. Business-related marketing aims to improve customer acquisition and customer loyalty, giving leverage to the positioning of Danamon products and services in achieving business targets.

The Chief Marketing Officer (CMO) heads the Marketing Group, and is directly responsible to the Director of Consumer, SME and Branch Network. Several functions undertaken by the Marketing Group are: internal and external/public communication, digital marketing, as well as being responsible for the planning of marketing strategy.

MARKETING STRATEGIES AND INITIATIVES

Throughout 2017, implemented marketing efforts were as follows:

- Rejuvenation of communication campaigns & key visuals for all Danamon products & services, aimed at realigning and reviving the spirit of “Time to Take Control.”

Some of the Danamon's accomplishments are: Danamon Lebih (partnership with Blibli for NTB), Fleximax (with special interest rates), E-Channel (partnership with Samsung to increase transactions), D-Point (earn & redeem) and SME Solutions.

At the business unit level, several new products have been promoted, such as D-Connect, Virtual Account, Syariah New Direction, and SEMM DP500.

- For the first time, Danamon has its own event platform, namely: Danamon Run, which was successfully participated in by more than 3,500 runners to experience the notion of “Decide your Own Finish line” as part of the spirit of “Time to Take Back Control.” The Danamon Run was held at an iconic location in Jakarta (Taman Impian Jaya Ancol), which resulted in high media exposure in the media and keen participation from both participants and co-sponsors.





- c. Re-mapping billboards to more strategic locations; placing brand awareness materials at Terminal 3 (T3) Soekarno-Hatta International Airport, and at several commuter train stations, as well as train wrap for Railink.
- d. Arranged the Danamon Festival as a product launch for D-Point; sponsored the Travel Fair in Yogyakarta and Surabaya.
- e. Unveiled Danamon's new Instagram format with high exposure, highlighted Danamon's presence in digital channels, and introduced the new Danamon Corporate Website.
- f. Formulated a new program to give an unforgettable experience for the customers, utilizing Danamon's partnership with Manchester United in the form of Red Match Football Camp & Kids Mascot.
- g. Generated a product bundling program in selected branches to provide a variety of product packages to suit customer needs.

- h. Designed a revamped branch offices (interior & exterior), and opened several new branches in an effort to provide services closer to customers.

ACTION PLAN AND STRATEGY 2018

For 2018, Danamon has prepared a number of marketing initiatives to support achievement of business targets, with a focus on new customer acquisition from targeted segment.

In accordance with developments in customer transaction behavior, marketing activities will also be directed toward strengthening Danamon's presence in digital channels relevant with the acquisition of the younger market segment.

To enhance added value for customers, Danamon's marketing activities will also cooperate or establish partnerships with other product providers. This venture is anticipated to strengthen customer loyalty.

Equally important, Danamon's marketing activity will also continue organizing events for customers and general consumers with appropriate themes featuring the latest trends, such as: the Danamon Run and the Travel Fair.



📍 Syariah Banking



“In 2017, Danamon Syariah’s finance portfolio reached Rp3.6 trillion, an increase of 8% or Rp254 billion compared to 2016.”

Syariah Banking is a Danamon business segment based on Syariah principles, managed by its Syariah Banking Unit (UUS) within Danamon organization.

The Syariah banking sector in Indonesia offers tremendous growth potential, bearing in mind that approximately 80% of Indonesia’s population is Muslim. The Syariah banking market share is still relatively small, being about 5.6% of total Indonesian banking assets. The Syariah banking market is an opportunity that can be further cultivated in the future. This is indicated by the overall growth of Islamic banking assets reaching 19%, considerably outpacing the growth of conventional banking.

Highlighting the vision of Helping Millions to Prosper under Syariah Principles, the goal of Danamon's Syariah Banking Unit is to build customer-oriented Islamic Banking as a solution for small and medium-sized retail businesses sustained by the infrastructure and technology of the parent Bank.

PRODUCTS AND SERVICES

The development of distinctive and creative products is the key to the success of Danamon Syariah Banking, in order to make the products and services competitive and customer oriented. Currently, Danamon Syariah has a variety of unique and competitive products and services able to meet all customers requirements, as follows;

- Financing products: Tabungan Bisa iB, Tabungan Bisa Umroh iB (Umroh savings account), Tabungan Bisa Qurban iB (Qurban savings account), Giro Bisa iB (Checking Account) and iB Deposit.
- Financing Products: Employee Cooperative Financing, Syariah Working Capital Financing, Syariah Investment Financing, Syariah Trade Financing, Syariah Leasing, and Syariah House Ownership Financing
- Bancassurance Products: Prima Amanah Protection (PPA)
- Services: Cash Management, Electronic Channel, and Big Bill Electricity Payment

STRATEGIES AND INITIATIVES 2017

Various strategies and initiatives were undertaken by Danamon Syariah to capture a larger Syariah banking market share. In 2017, Danamon Syariah developed prestigious products to meet customers' needs. Danamon Syariah encompasses financing for the retail market segment from motor vehicle and home ownership financing, to financing for apartments and shophouses.

In line with the development of innovative products, Danamon Syariah's flagship products, Syariah Leasing and Tabungan Umroh, Syariah Insurance products, namely Prima Amanah Protection and Sacrificial Savings are intensively promoted throughout Danamon's new distribution network.

To further augment Danamon Syariah's market share, sales and distribution strategies were put in place. Previously sales and distribution had been more products oriented, whereas in 2017 more focus was put on being customer centric.

Danamon Syariah has continued to improve its human resources productivity. By enhancing knowledge and capability, especially in the area of Syariah banking as well as socializing Syariah products intensively.

Danamon Syariah has continued to improve risk management and good governance. One approach was to upgrade and refine the infrastructure and technology to be more integrated, so as to improve customer service levels by manually minimizing and integrating several processes within the parent bank system.

PERFORMANCE 2017

Through implemented strategies and policies, Danamon Syariah was able to meet its set targets in 2017. Nevertheless, there are numerous aspects within Syariah products requiring further improvements in order to secure more significant growth.

- Syariah Financing portfolio
In 2017, Danamon Syariah focused on the development of Syariah Leasing Financing and Employee Cooperatives Financing. Thus, the amount of financing disbursements by the end of 2017 grew from Rp 3.3 trillion in 2016 to Rp 3.6 trillion in 2017, an increase of 8% or Rp 254 billion.

- Syariah Fund Portfolio

In 2017, the amount of deposits reached Rp 4.5 trillion, compared to 2016's figure of Rp 3.7 trillion. This represented an increase of 22% or Rp 810 billion.

The increase was due to the leveraging strategy undertaken, and as a result, the Danamon Syariah branch office network expanded, leading to greater growth in the accumulation of third party funds, in particular in the 38% growth of low cost funds.

Syariah Banking Performance (Rp billion)

	YOY	2017	2016
Financing	8%	3,575	3,321
Funding	22%	4,504	3,694

- Other Achievements

In 2017, Danamon Syariah received various awards related to bank products and services, as follows:

- Ranked second in the category of Syariah Business Unit by Infobank Digital Brand 2017 Awards
- The most efficient Syariah business unit (UUS), awarded by Karim consulting
- Ranked second in Syariah branch service category UUS in Banking Service Excellence Awards by MRI
- The most reliable Syariah business unit (UUS) awarded by Warta Ekonomi.

STRATEGY AND INITIATIVES 2018

Danamon has conceived a number of strategic initiatives to further expand its Syariah-based banking services in 2018. This policy is adopted in view of the ever changing external conditions, as well as the company's internal circumstances.

Danamon remains committed to improve and maintain the quality and performance of Syariah product sales. On the basis of these considerations, in 2018, Danamon will continue to push forward with the addition of branch offices across the country and to improve Syariah service quality across all branch offices as a frontline of services to customers.

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



📍 Micro Banking

“Through focus on asset quality, Danamon Simpan Pinjam reduced Cost of Credit from over Rp1 trillion in the previous year to Rp283 billion in 2017.”

Danamon Micro Banking, or Danamon Simpan Pinjam (DSP), provides business capital loans for micro and small businesses throughout Indonesia.

Micro and small businesses (MSMEs) are those with gross annual sales ranging from Rp300 million to Rp2.5 billion. In general, MSMEs are concentrated within traditional markets. MSMEs contribute significantly to the development of the national economy.

PRODUCTS AND SERVICES

In promoting its products and services, Danamon Simpan Pinjam (DSP) engages a community-based approach, highlighting a unique concept of Easy, Fast, and Convenient. In addition, DSP branch offices are located in the heart of community, right for customers to have an easy access to DSP services.

To meet customer needs, DSP offers Savings, Loans, Bancassurance products, and service as follows:

- Saving
DSP offers several types of saving products such as TabunganKu, Danamon Lebih, Sipinter, Savings Cita-Citaku, and Time Deposit.
- Loan
DSP Loan Products offers a span of services encompassing non-collateral and collateral loans ranging from Rp50 million to Rp1.5 billion, with tenures ranging from 12 months to 60 months.
- Bancassurance
Bancassurance products are offered to meet customers' specific needs
- Service
Money transfer service is provided in collaboration with Western Union

STRATEGIES AND INITIATIVES 2017

In 2017, Danamon Simpan Pinjam continued to face challenges, both from internal and external factors. Internal challenges included high cost infrastructure base, operational quality, need for personalised collections and availability of quality human resources. This has been exacerbated by the wide geographical spread of branches, with many being located in remote areas. External challenges mainly emanated from macroeconomic conditions and tight competition.

To overcome these challenges, DSP recast its strategy to focus on collections and credit quality improvement. Internal processes were reinforced to reduce fraud risk.

To strengthen fraud prevention management, DSP developed a fraud early-detection system, implemented Know-Your-Customer (KYC) principles among employees, imposed strict employee disciplinary policies and reinforced stronger internal control.

DSP also streamlined its branch network to optimize distribution capability and improve cost management. Extensive studies were undertaken, taking into account factors such as market potential, human resource availability, financial performance, and loan quality of each branch. Closure of branches was carried out in accordance with applicable laws and regulations, while maintaining effective communication with our customers.

PERFORMANCE 2017

By the end of 2017, Danamon Simpan Pinjam registered total outstanding loans at Rp6,988 trillion, a 31% reduction compared to the previous year's outstanding loans of Rp10,188 trillion. Likewise with third party fund raising, DSP logged a 27% decline to Rp447 billion, compared to Rp613.8 billion in 2016.

This loan reduction was due to our focus on credit quality and more selective new loan approvals. Whilst there was corresponding revenue decrease, these efforts helped DSP to reduce overall Cost of Credit (COC) significantly, from over Rp1 trillion in the previous year to Rp283 billion in 2017.

Micro Banking Performance

	2017	2016
Loan Portfolio	6,988	10,188
Third Party Fundraising	447	614
Main DSP contribution to the Bank in 2017, in terms of Cost of Credit Improvement (COC)	283	1,021

STRATEGY AND INITIATIVES 2018

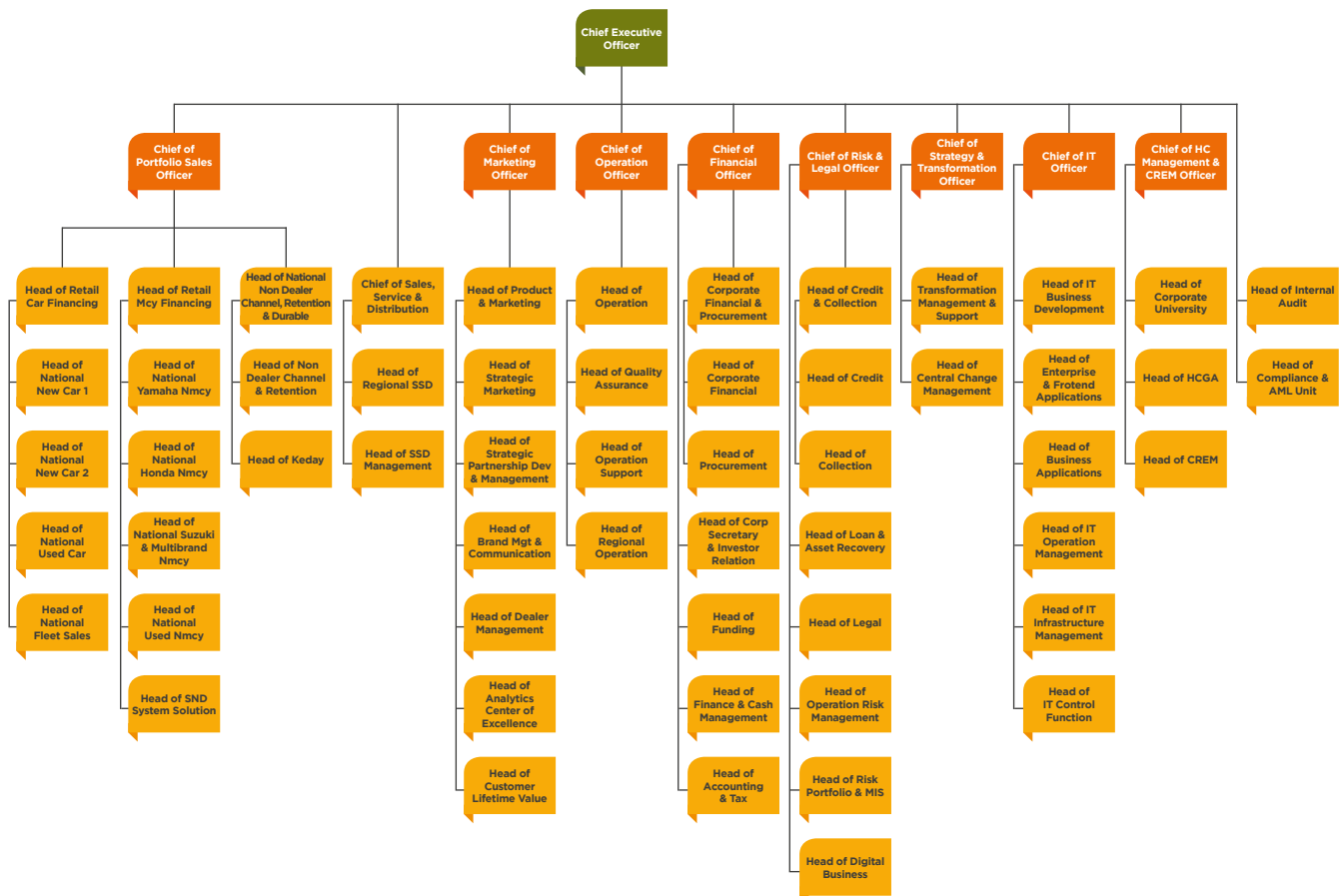
In 2018, we will continue to focus on improving credit quality, collections and recoveries as well as on streamlining our network.

● Subsidiaries Business Review

Adira Finance

“Adira Finance continues to diversify its financing focus and simplify various processes within the Company.”

ADIRA FINANCE ORGANIZATION STRUCTURE





PROFILE

PT Adira Dinamika Multi Finance Tbk (Adira Finance) was founded in 1990, commencing operations in 1991. In 2004, Adira Finance began to conduct an Initial Public Offering and Bank Danamon became the majority shareholder with 75% ownership, and, after a number of corporate actions, currently has 92.07% ownership of Adira Finance.

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



Adira Finance strives to serve customers at different stages of their life, in order to establish long-term relationships with life-long customers. In line with its “Sahabat Adira” vision, The Company hopes that its customers will look at the Company as a friend they can turn for solution. The term “Sahabat” (Companion) embodies the Company’s philosophy has a very profound meaning for the Company. It reflects the values that Adira Finance shows toward its customers: *cerdaS* (intelligence), *dipercAya* (trustworthiness), *ramaH* (friendliness), *AdirA memBerikan kemudahan* (convenience), *mAu peduli* (compassion), and *komiTmen* (commitment).

PRODUCTS AND SERVICES

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



STRATEGY AND WORK PROGRAM 2017

Adira Finance has set the strategy and work program since the beginning of the year. A part of what has been achieved throughout 2017 is as follows:

1. Continued to diversify financing focus

Motor vehicle financing remains the main business of Adira. Nevertheless, the Company endeavored to increase contribution of other products and services such as:

- Used vehicle financing, both motorcycle and car, by intensifying collaborative efforts with partner dealers and other distribution channels
- New car, principally passenger vehicle segment through competitive financing programs, insurance product bundling and straightforward credit application processes
- Durables with fast and straightforward application approval.

2. Optimum funding management

Proper funding management is attained by maintaining an adequate level of liquidity and ensuring fund availability essential for financing purposes, operations, and payment of maturing loans and bonds. In addition, Adira Finance seeks to maintain the gearing ratio to not exceed the limits set by the supervisory body under OJK Regulation No. 29/2014, which is set at a maximum

of 10 times of equity. Moreover, Adira Finance diversifies its funding sources, which are derived from bank loans, both on-shore and off-shore loan, as well as from the capital market through bond and Sukuk (Syariah “compliant” bonds) issuance, with the intention of obtaining the optimum cost of fund.

3. Increased efficiency and effectiveness of operations

The ultimate objective is to improve productivity and manage operating expenditure levels in accordance with business growth through simplification of processes within the Company, policy revision to accommodate the latest development in the business environment, and process automation, wherever possible, by means of information technology.

PERFORMANCE 2017

2017 business performance is depicted in the table below:

Detail	Y-o-Y	2017		2016
		Target	Achievement	
New Financing (Rp Trillion)	6.0	32-34	32.7	30.9
Non-Performing Financing (%)	0.1	< 2	1.6	1.5
Market Share-Motorcycles (%)	-1.0	13,9	11.3	12.3
Market Share-Car (%)	0.0	5.4	4.4	4,5

STRATEGIES 2018

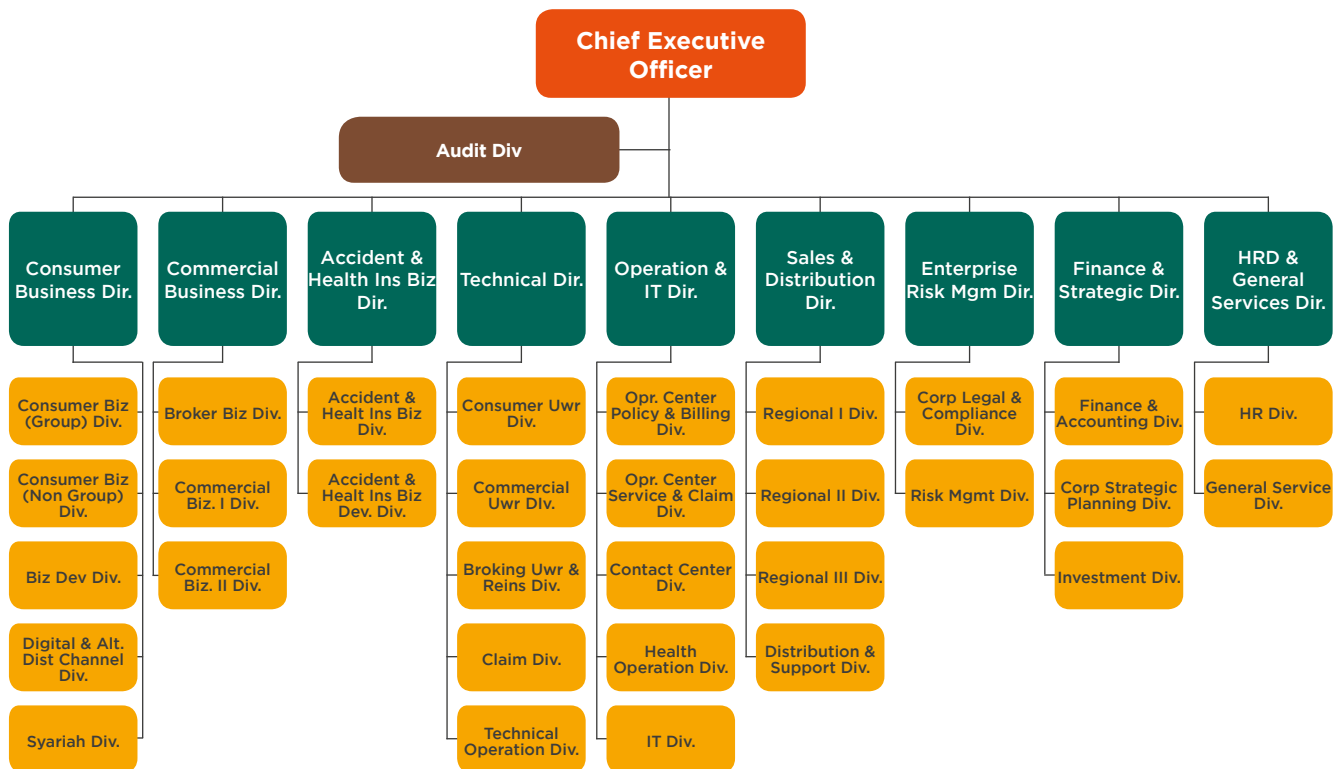
- Carry on with the Customer Relationship Management (CRM) improvement efforts, enhance customer engagement towards customer-for-life beginning with presenting products that satisfy customer needs, application procedures simplification, expedite credit approval lead time, after approval service, as well as developing supplementary products to cater consumers' other needs so as to present customer experience in every cycle of their lives as a 'one-stop solution' for all of their banking needs.
- Carry on diversifying financing business for pre-owned vehicles, electronic and home appliances (durables), and multipurpose finance.
- Build up various distribution channels in the dissemination of financing (multi-channel).
- Manage liquidity ensuring compliance between funded tenure maturities and financing assets disbursed, and optimal funding costs through diversification of funding sources.
- Carry on improving Human Resource quality in order to sustain Company's business expansion through cultural transformation and diverse training programs, internally and externally, with the ultimate goal of boosting employee productivity at the same time strengthening employee engagement.
- Improve operational efficiency and effectiveness through procedure simplification made possible by means of information technology.

● Subsidiaries Business Review

Adira Insurance

“Adira Insurance continued to optimize penetration to existing business channels, while enhancing the capacity of its human resources.”

ADIRA INSURANCE ORGANIZATION STRUCTURE





PROFILE

PT Asuransi Adira Dinamika (“Adira Insurance”) is a part of the Danamon Group, which is in the general insurance business. The Company was established on January 24, 2002.

Aligned with its vision of “To be the Insurer of Choice”, Adira Insurance distributes products through direct and indirect distribution channels. Direct distribution channel are insurance agents, telemarketers, branch’s sales person and company’s website.

Whereas indirect distribution channels are multi-finance companies, banks, other retailers and digital marketplaces.

Adira Insurance’s official website, www.asuransiadira.com, provides corporate information as well as products, and services. For some products, the website provides premium simulation feature and convenient way of procuring insurance policy (simple and reliable).

PRODUCTS AND SERVICES

Supported by 38 outlets, Adira Insurance presents in 31 cities in Indonesia. In 2017, Adira managed 8.4 million active policies from various products both conventional and Syariah-based insurance products for personal and corporate.

Adira Insurance products among others 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 hull, engineering, surety bonds, cargo, trade credit, and other insurance products.

For customer convenience, Adira Insurance provides services such as Contact Center “Adira Care”, SMS communication channel, social media interaction as well as Autocillin Rescue.

For travel insurance product “Travellin”, Adira Insurance has a specific official website www.travellin.co.id which provides a fast and simple solution to procure travel insurance from product selection, policy issuance up to premium payment. The product selection varies from domestic and international travel for both individual and family or group traveler. For car insurance claim submission, Autocillin Mobile Claim Apps is available to provide real time submission. This app allows customer to upload damaged vehicle photos, select the nearest or preferred workshop and repair schedule.

STRATEGIES AND INITIATIVES 2017

In 2017, Adira Insurance expanded its market penetration in the existing business channels prudently. The company remain its focus on products with high-volume, homogenous and spread-out characteristics, such as motor vehicles, property insurance & personal accident.

Adira Insurance also enhanced its human resources capacity on both front-liner and direct support functions, such as the Underwriting Development & Actuary Development Programs. In banking sector, Adira Insurance developed its Sales and Distribution front-liners. Digital-based services were also enhanced responding to market demands to deliver Adira Insurance’s unique value propositions: Caring, Simple and Reliable.

In 2017, Adira Insurance keep improving its business process in order to streamline while enhancing service quality prioritizing on core processes to obtain cost efficiency in policy production, premium collection and claim process.

PERFORMANCE 2017

Overall, in 2017 Adira Insurance business performance achieved the same level of premium as previous year of Rp2.34 trillion. In non-motor portfolio, the highest premium growth was in General Accident with 14% growth resulting in total of Rp287 billion and Property of 10% growth resulting in total of Rp236 billion, while the largest drop of premium income was from Health, of -23% dropped resulting in total of Rp 245 billion.

Gross Written Premium Portfolio 2017

	YOY	2017	2016
Motor Vehicle Portfolio (Rp Billion)	2%	1,391	1,366
Non Motor Vehicle Portfolio (Rp Billion)	-3%	958	982
Total	0%	2,349	2,349

At consolidated book, Adira Insurance contributed Rp535 billion compared to Rp495 billion last year. The following table illustrates the performance comparison compared to the previous year.

STRATEGY AND INITIATIVES 2018**1. Business**

Group business – optimizing 4-millions groups' customers as distribution channels, including reaching out to Adira Finance dealers as cash-buyer channels.

Product strategy

Creating products using technology tailoring to customers' needs, such as telematics based add-on products.

2. People

Developing human resource capability in analytical skills to be able to keep pace with market changes.

3. Efficiency

Efficiency can be optimized using technology and reducing manual processes to improve productivity.

4. Digital

Team up with aggregators to reach a wider customer base.

📍 Financial Review



“Danamon booked a 37% growth in net income Rp3.82 trillion. The profit growth is a result of a better funding cost, discipline in operating expenses, and improvement in asset quality.”

Bank Danamon, in 2017, was able to demonstrate a better performance compared to 2016, despite lacklustre macro environment. Danamon's assets grew by 2.2% to Rp178.26 trillion in 2017 driven by higher credit disbursement that grew 2.3% to Rp120.49 trillion with third party funding of Rp104.6 trillion. On top of that, Danamon booked a 37% growth in net income to Rp3.82 trillion. The profit growth is a result of a better funding cost, discipline in operating expenses, and improvement in asset quality.

The financial review outlined herein refers to the year-end Financial Statements as of December 31, 2017. The Financial Statements have been audited by Tanudiredja, Wibisana, Rintis, and Partners (A member firm of PwC global network) Public Accounting Firm under the Audit Standards established by the Indonesian Institute of Certified Public Accountants with the entity's financial information presented fairly in all material respects.

FINANCIAL POSITION REPORT

ASSETS

As a banking institution that disbursed loan to institutional and individual customers, loans are the largest portion of Bank Danamon's asset structure. In 2017, Danamon's total loan portfolio grew by 2.3% to Rp120.49 trillion in 2017 compared to Rp117.81 trillion last year. This has helped the bank's asset increased to Rp178.26 trillion or 2.2% growth compare to Rp174.44 trillion in 2016.

Rp billion	Full Year						% Total
	YoY	2017	% Total	2016	% Total	2015	
Cash	12.4%	2,546	1.4%	2,265	1.3%	2,728	1.4%
Current accounts with Bank Indonesia	2.8%	7,556	4.2%	7,352	4.2%	9,511	5.1%
Current accounts with other Banks	14.9%	2,032	1.1%	1,768	1.0%	3,866	2.1%
Placements with other banks and Bank Indonesia	-12.4%	5,199	2.9%	5,937	3.4%	17,983	9.5%
Marketable Securities	-7.7%	16,060	9%	17,408	10.0%	6,392	3.4%
Loans*	2.3%	120,495	67.6%	117,817	67.5%	124,891	66.3%
Government Bonds	14.8%	10,974	6.2%	9,563	5.5%	6,916	3.7%
Fixed Assets	-8.7%	2,288	1.3%	2,506	1.4%	2,559	1.4%
Others	13.1%	11,107	6.2%	9,821	5.6%	13,486	7.2%
Total	2.2%	178,257		174,437		188,332	

*Includes Danamon Loan and Consumer Receivable from Adira Finance

Current Asset

Current asset consist of cash, current account of Bank Indonesia and other banks, placement 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 good prudence and adequate levels of liquidity and in accordance with applicable regulations.

In 2017, total current asset was Rp39.5 trillions or 1% growth compare to last year.

Cash

Danamon's cash position reached Rp2.55 trillion as of December 31, 2017, an increase of 12.4% compared to its cash position of Rp2.27 trillion as of December 31, 2016. Cash position to total assets of Danamon in 2017 was 1.4% which is higher compare to 1.3% contribution last year.

Current Accounts with Bank Indonesia

Bank Danamon was able to maintain Primary Minimum Reserve Requirements (GWM) in Rupiah and Foreign Currency for Conventional Banks above Bank Indonesia's provisions of 6.5% each for Primary GWM denominated in Rupiah from third party funds in Rupiah and secondary reserve requirement of 4% of third party funds in Rupiah and 8% for Minimum Reserve Requirements (GWM) in foreign currency. Danamon's GWM ratio in Rupiah was 19.4% while the reserve requirement in foreign currency was 8.1% in 2017.

Along with the increase in third party funds raised by Danamon, current accounts with Bank Indonesia increased to Rp7.56 trillion in 2017 compared to Rp7.35 trillion in 2016.

Current Account at Other Banks

Danamon's current account portion of total assets reached 1.1% in 2017 compared to 1.0% in 2016 on the back of an increase in its asset component, which reached Rp2.03 trillion in 2017. Current accounts with other banks in 2017 grew by 14.9% compared to Rp1.77 trillion last year.

Placements with Other Banks and Bank Indonesia

As of December 2017, placements with other banks and BI reached Rp5.20 trillion, down 12.4% compared to Rp5.94 trillion in 2016. The reduction was primarily due to reduced placements with Bank Indonesia in the form of Bank Indonesia Deposit Facility (FASBI) of Rp1.53 trillion in 2017. This position was 47.9% lower than placement in FASBI of Rp2.94 trillion in 2016.

Other placement instruments in the form of deposit certificates and time deposits also declined by 21.0% and 11.6%, to Rp1.35 trillion and Rp991.13 billion respectively. Along with this decline, FASBI's portion dropped to 34.2% in 2017 from 49.5% in 2016. On the other hand, call money actually rose significantly to Rp1.08 trillion from only Rp170.00 billion in 2016. In line with this increase, the contribution of call money rose sharply to 20.9% in 2017 from only 2.9% of total placements at other banks and BI.

Danamon allocated reserves for impairment of 2017 placements with other banks and BI amounting to Rp2.51 billion, lower compared to 2016's figure of Rp2.67 billion.

Marketable Securities

Danamon booked a reduction in investment on securities by 7.7% to Rp16.06 trillion as of December 31, 2017. The decrease was primarily due to lower investment in securities especially in Bank Indonesia Certificates (SBI) of 69.7% to Rp2.05 trillion from Rp6.77 trillion in 2016. Along with the declining effect of SBI, SBI's portion of the investment of Bank Danamon's securities fell to 12.70% from 38.9% in 2016.

Meanwhile, investment in securities in the form of corporate bonds increased by 8.7% to Rp4.58 trillion. The highest growth was booked by securities investments in BI certificates of deposit, which rose sharply to Rp3.81 trillion in 2017 from only Rp647.28 billion in 2016.

Rp billion	Full Year			
	YoY	2017	2016	2015
Cash	12.4%	2,546	2,265	2,728
Current accounts with Bank Indonesia	2.8%	7,556	7,352	9,511
Current accounts with other bank	14.9%	2,032	1,768	3,866
Placements with other banks and Bank Indonesia	-12.4%	5,199	5,937	17,983
Marketable securities	-10.3%	11,197	12,486	6,176
Government Bonds	14.8%	10,974	9,563	6,916
Total Current Asset	0.7%	39,504	39,371	47,180

Loans

On a consolidated basis, loans grew by 1.9% to Rp124.77 trillion in 2017 compared to Rp122.39 trillion in 2016 mainly due to improvement on Danamon's SME and Consumer Banking loans, as well as on consumer finance portfolio from Danamon's subsidiary Adira Finance. More specific details are provided in the following paragraphs regarding consolidated loans consisting of loans granted by Bank Danamon, consumer financing, and finance lease receivables by Subsidiaries.

Danamon's Consumption loan grew by 5.1% to Rp49.15 trillion in 2017 compare to Rp46.77 trillion last year. Working capital loan also grew by 4.8% to Rp52.38 trillion compare to Rp50.01 trillion in 2016.

Rp billion	Full Year			
	YoY	2017	2016	2015
Consumption*)	5.1%	49,152	46,773	46,545
Working Capital	4.8%	52,385	50,008	52,378
Investment	-9.0%	21,670	23,807	28,073
Export	-13.2%	1,559	1,797	1,951
Loan to Commissioners and Senior Management			-	420
Total	1.9%	124,766	122,385	129,367

*) Includes consumer financing receivables from Adira Finance and finance lease receivables

Base on segment, household and consumer financing contributes to 39.4% of total Danamon loan or grew 5.3% to Rp49.15 trillion compare to last year. Additionally, grocery and retail sector that contributed to 29.0% to Danamon's total loan grew 0.9% to Rp36.22 trillion compare to 2016.

Rp billion	Full Year				
	YoY	% Total	2017	2016	2015
Household and Consumer Financing	5.3%	39.4%	49,147	46,678	46,935
Grocery and Retail	0.9%	29.0%	36,224	35,894	39,838
Manufacturing	7.7%	14.6%	18,190	16,895	17,521
Real Estate, Leasing, Services and Servicing Companies	-0.6%	2.0%	2,544	2,558	3,575
Transportation, Warehousing, Communications	26.0%	3.7%	4,643	3,684	5,582
Others	-15.9%	11.3%	14,018	16,676	15,916
Total	1.9%	100.0%	124,766	122,385	129,367

Jabodetabek area was still the main contributor of Danamon's loan followed by North Sumatra Area, East Java, Sulawesi, Maluku and Papua. In terms of growth, Jabodetabek area also grew by 6.3% to Rp47.26 trillion compare to Rp44.47 trillion in 2016.

Rp billion	Full Year				
	YoY	% Total	2017	2016	2015
Jakarta, Bogor, Tangerang, Karawang, Bekasi and Lampung	6.3%	48.7%	47,260	44,476	47,636
West Java	-4.2%	6.0%	5,857	6,117	6,615
East Java	-0.5%	9.9%	9,633	9,679	10,653
Sulawesi, Maluku and Papua	-3.5%	7.4%	7,182	7,444	8,029
Kalimantan	-0.1%	5.7%	5,492	5,499	6,109
North Sumatra	8.0%	10.7%	10,387	9,618	9,838
Central Java and Yogyakarta	-8.6%	6.2%	5,974	6,538	7,218
Bali, NTT and NTB	5.6%	2.1%	2,068	1,957	1,903
South Sumatra	-19.8%	3.2%	3,116	3,887	4,842
Total	1.8%		96,969	95,215	102,843

Bank Danamon was able to manage the quality of productive assets. This was noticeable by the reduction in non performing loan (NPL) gross and net NPL ratio to 2.8% and 1.8% in 2017 from 3.1% and 1.8% in 2016, respectively. Along with the decline in both NPLs, the allowance for impairment losses on loans also declined to Rp2.92 trillion in 2017 compared to Rp3.33 trillion in 2016.

Loan Collectability

	2017	2016	2015
Non Performing Loan	2.8%	3.1%	3.0%
Special Mention	11.0%	9.9%	10.1%
Performing	86.2%	87.0%	86.9%

Loan Based on Interest Rate and Currency

Based on interest rate, Danamon loan with fixed rate contributes to 53.6% of total loan. Most of the loan with the fixed rate was disbursed to mass market. While, contribution of loan with floating rate was 46.4% from Danamon total loan. This loan was disbursed to SME Banking and Enterprise Banking customers.

Rp billion	Floating	Fixed	Total
Loan	55,891	38,154	94,045
CFR	-	26,080	26,080
Leasing	-	369	369
	55,891	64,603	120,494

Based on currency type, most of Danamon's loan was in Rupiah which contributes around 95% of total loan or around Rp118.12 trillion. While foreign currency loan only contributed to 5% of total loan or around Rp6.65 trillion.

Rp billion	Loan	CFR	Leasing	Total
IDR	90,321	27,413	384	118,119
Foreign Currency	6,647	-	-	6,647
Total	96,968	27,413	384	124,766

Non Performing Loan Based on Segment

As a total, Danamon's NPL ratio declined to 2.8% in 2017 compare to 3.1% in 2016. Mass Market NPL improved the most in 2017 to 2.8% compare to 3.4% in 2016

NPL	2017	2016	2015
Wholesale	1.9%	2.2%	1.0%
SME & Commercial	3.0%	2.8%	3.1%
Consumer	2.2%	2.7%	2.3%
Mass Market	2.8%	3.4%	3.7%
Total	2.8%	3.1%	3.0%

Consumer Financing and Lease Financing Receivables

In addition to bank loans, Danamon's loans were consolidated in the form of consumer financing receivables and finance lease receivables. Adira Finance's financing receivables grew by 4.1% to Rp26.08 trillion in 2017, compared to Rp25.06 trillion in 2016. Adira's own consumer financing had a dominant share in 2017 and reached Rp32.07 trillion, growing by 3.2% compared to 2016's position.

Consumer Financing and Lease Receivables Table

Rp billion	Full Year			
	YoY	2017	2016	2015
Joint Financing	10.5%	7.368,34	6.666,97	6.814,60
Self Financing	3.2%	32.075,11	31.086,05	29.820,03
Unearned Consumer Financing Receivables	4.8%	(12.030,34)	(11.480,64)	(11.667,75)
Allowances	10.1%	(1.333,04)	(1.210,61)	(1.080,78)
	4.1%	26.080,07	25.061,77	23.886,10

Government Bonds

Bank Danamon's investment in government bonds reached Rp10.97 trillion in 2017, up by 14.8% compared to 2016's position of Rp9.56 trillion. Danamon's government bonds in Rupiah and US Dollar denominations reached Rp6.50 trillion and Rp4.47 trillion respectively in 2017, higher than 2016's position of Rp6.05 trillion and Rp3.51 trillion.

Fixed Assets

Bank Danamon's fixed assets in 2017 decreased by 8.7% to Rp2.29 trillion compared to 2016's position of Rp2.51 trillion. The decrease was primarily due to the decline in value of motor vehicle assets to Rp459 billion in 2017 from Rp642.95 billion in 2016.

Other Assets

Bank Danamon's other assets, consisting of accounts other than those described above, amounted to Rp11.11 trillion in 2017, higher than 2016's figure of Rp9.82 trillion. The increase in other assets was mainly affected by an increase in prepaid expenses to Rp3.70 trillion in 2017 from Rp2.39 trillion in 2016.

LIABILITIES

To support credit growth, Danamon diversified Third Party Funds (DPK) derived from deposits from other banks, issued securities and borrowings received other than the main source of funding for customers' savings, especially those at lower costs such as demand deposits/current accounts and savings. Danamon was able to manage its Third Party Funds well in 2017, reflected by CASA ratio of 48.3% compared to 46.1% in 2016.

Rp billion	YoY	2017	2016	2015	Long Term Borrowing	% Total
Deposits from Customers	-1.8%	101,897	103,740	115,141		74.7%
Deposits from other banks	61.3%	4,635	2,873	1,826		1.2%
Securities sold under repurchase agreements	100.0%	10	-	-		0%
Bonds issued	21.1%	10,171	8,398	9,714	9,714	6.3%
Borrowings	-14.2%	9,794	11,415	13,086	2,297	8.5%
Subordinated debts	0.0%	-	-	-		0%
Others	8.1%	12,578	11,633	14,350		9.3%
Total	0.7%	139,085	138,059	154,117	12,011	100%

Customer Deposits

Customers deposit is a major contributor to Danamon's liabilities with a total contribution of 74.7% to total liabilities. Danamon's total amount of customer deposits reached Rp101.90 trillion, slightly lower than Rp103.74 trillion in 2016. Danamon has consistently prioritized lower cost funding sources by mounting funding derived from current accounts/demand deposits and savings. The CASA ratio in 2017 increased to 48.3% compared to 46.1% in 2016. This progress is in line with the decreasing portion of time deposits to Rp53.18 trillion in 2017 from Rp56.27 trillion in 2016, down by 5.5%.

Rp billion	Full Year			
	YoY	2017	2016	2015
Deposits from Customers				
Current Account	-2.2%	14,646	14,974	15,905
Savings	4.8%	34,073	32,499	32,853
Time Deposits	-5.5%	53,178	56,267	66,383
Total Deposit from Customers	-1.8%	101,897	103,741	115,141
Deposits from other bank	61.3%	4,634	2,873	1,826
Total Third Party Fund	-0.1%	106,531	106,613	116,967

Deposits from Other Banks

Deposits from other banks in 2017 increased by 61.3% to Rp4.63 trillion from Rp2.87 trillion in 2016. The significant increase was mainly due to the increase in rupiah demand deposits to Rp1.64 trillion in 2017 compared to only Rp888.43 billion in 2016.

Borrowing

In 2017, funding increased 0.8% compare to Rp19.97 trillion last year. This was mainly due to increased in Adira Dinamika Multi Finance bonds by 21.1% to Rp10.17 trillion.

Rp billion	Full Year			
	YoY	2017	2016	2015
Danamon Bonds	-	-	-	-
Adira Dinamika Multi Finance Bonds	21.1%	10,171	8,398	9,714
PT. Bank Pan Indonesia Tbk	-23.3%	2,300	3,000	3,500
PT. Bank Central Asia Tbk	-35.3%	932	1,440	1,614
Citibank. NA, Jakarta Branch	-100.0%	-	250	475
The Hongkong and Shanghai Banking Corporation Ltd., Indonesia	-	-	-	400
PT. Bank DKI	100.0%	400	200	100
PT Bank Victoria International Tbk	-100.0%	-	400	300
PT Bank National Nobu Tbk	-33.4%	100	150	149
PT. Bank BCA Syariah	-79.5%	38	183	10
Pinjaman dari bank/lembaga keuangan lain	0.0%	50	50	50
PT. Bank Pembangunan Daerah Jawa Barat dan Banten Tbk	100.0%	100	-	200
International Finance Corporation	-100.0%	-	445	683
Wells Fargo Bank	-	-	-	689
PT. Bank Panin Dubai Syariah Tbk	77.3%	83	47	50
PT Bank DBS Indonesia	100.0%	3,047	-	-
The Bank of Tokyo-Mitsubishi UFJ Ltd	-100.0%	-	350	-
Bank BNP Paribas (Singapura)	-51.8%	1,953	4,051	4,353
PT Bank Mega Tbk	180.8%	699	249	-
PT Bank Mandiri (Persero) Tbk	100.0%	92	-	-
PT Bank KEB Hana Indonesia	-100.0%	-	100	100
PT Bank Sumitomo Mitsui Indonesia	-100.0%	-	500	-
Australia New Zealand Banking Group Ltd., Indonesia Branch	-	-	-	413
Total	0.8%	19,965	19,813	22,800

Securities Issued

Bank Danamon, through its Subsidiary, Adira Finance, issued bonds to support the financing business. Adira Finance's total outstanding bonds, minus underwriting fee and others, amounted to Rp9.51 trillion as of December 31, 2017, up from Rp8.21 trillion for the same period in 2016. In addition, Adira Finance had unmatured Sukuk Mudharabah amounting to Rp661 billion as of December 31, 2017, higher than in Rp190 billion in 2016. Cumulatively, the issued securities amounted to Rp10.17 trillion or an increase of 21.1% compared to 2016's Rp8.40 trillion. All bonds and sukuk issued by Adira Finance were rated AAA by PT Pemeringkat Efek Indonesia (Pefindo).

Other Liabilities

Other liabilities consisting of accounts, other than those mentioned above, increased in 2017 by 8.1%

to Rp12.58 trillion. The escalation in other liabilities compared to the 2016's Rp11.63 trillion was mainly due to accrued expenses, which rose by 17.7% to Rp8.11 trillion in 2017 from 2016's Rp6.89 trillion.

EQUITY

Bank Danamon has consistently been able to improve its equities in the past three years. Danamon's equity grew by 7.7% to Rp39.17 trillion in 2017 compared to Rp36.38 trillion in 2016. The improvement in equity was mainly due to increase in its retained earnings by 11.7% to Rp25.38 trillion compared to Rp22.72 trillion last year. Retained earnings contributed 64.8% of Danamon equity in 2017. Meanwhile, the issued and paid up capital and additional paid up capital at Rp5.90 trillion and Rp7.26 trillion respectively in 2017.

Rp billion	Full Year			
	YoY	2017	2016	2015
Issued and fully paid up capital	0.0%	5,901	5,901	5,901
Additional paid up capital	0.1%	7,256	7,250	7,237
Other equity components	59.2%	121	76	65
Retained earnings	11.7%	25,382	22,716	20,729
Non-controlling interests	17.7%	512	435	283
Total Equity	7.7%	39,172	36,378	34,215

PROFIT/LOSS REPORT

Danamon was able to book a 37% increase in net income to Rp3.82 trillion in 2017 amidst lacklustre economic environment. Despite limited credit growth, Danamon's ability to manage its interest expense as well as operational cost was key factors for Danamon's profitability. Danamon's comprehensive income rose 31.6% to Rp3.57 trillion in 2017, while earning per share rose to Rp384.11 per share.

Rp billion	Full Year			
	YoY	2017	2016	2015 *)
Net Interest Income	2.7%	14,149	13,779	13,648
Net Underwriting Income	-0.9%	615	621	527
Net Interest Income and Net Underwriting Income	2.5%	14,764	14,400	14,175
Other Operating Income	-7.8%	3,755	4,071	4,082
Other Operating Expense	-4.5%	12,934	13,537	14,437
Net Operating Income	13.2%	5,585	4,934	3,820
Non Operating Income	-59.7%	218	541	538
Income Before Tax	22.2%	5,367	4,393	3,282
Income Tax Expenses	-3.8%	1,539	1,600	812
Income After Income Tax Expenses	37.0%	3,828	2,793	2,470
Net Income Attributable to Non-Controlling Interest	19.5%	147	123	76
Net Income Attributable to Equity Holders of the Parent Entity	37.9%	3,682	2,669	2,394
Basic Earnings Per Share	37.9%	384.11	278.52	250
Comprehensive Income Attributable to Equity Holders of the Parent Entity	31.6%	3,573	2,715	2,459
Comprehensive Income Attributable to Non-Controlling Interest	14.3%	136	119	78

*) Restated

Net Interest Income

Danamon's net interest income rose 2.7% to Rp14.15 trillion compare to Rp 13.8 trillion in 2016. Danamon's net interest expense was well managed and decreased by 14.2% to Rp5.90 trillion in 2017 compare to Rp6.88 trillion in the same period last year.

Net Insurance Underwriting Revenue

Danamon net underwriting reached Rp615.35 billion, a slight decrease of 0.9% from its position in 2016. This decline was due to the decrease in insurance premium income in 2017, which reached Rp1.78 trillion' lower than the Rp1.83 trillion level in 2016.

Net Interest Income and Underwriting

Supported by higher net interest income as well as net insurance underwriting income, net interest and underwriting of Danamon grew by 2.5% to Rp14.76 trillion in 2017 compare to Rp14.40 trillion in 2016.

Other Operating Income

Danamon's other operating income in 2017 fell by 7.8% to Rp3.75 trillion. The decrease was mainly influenced by the reduction in service benefits, which fell by 6.7% to Rp1.91 trillion.

Other Operating Expenses

Danamon also shown its operational excellence which decreased its other operating expenses by 4.5% to Rp12.93 trillion in 2017. The increase of 3% to Rp5.02 trillion in salaries & employee benefits was offset by lower general and administrative expenses and allowance for impairment losses. General and administrative expenses decreased by 1% to Rp2.99 trillion. Allowance for impairment losses also decline to Rp3.51 trillion compare to Rp4.44 trillion in 2016.

Net Operating Income

Danamon's net operating income increased by 13.2% to Rp5.59 trillion in 2017. The improvement was mainly due to increase in interest income and reduction in allowance for impairment losses.

Net Non-Operating Expenses

Net non-operating expenses decreased by 59.7% to Rp218.4 billion in 2017 compared to Rp541.18 billion in 2016, primarily due to lower non-operating expenses. Danamon was able to manage non-operating expenses well, which came down by Rp322.07 billion compared to Rp628.83 billion in 2016. Meanwhile, Danamon's non-operating income reached Rp103.68 billion, higher compare to Rp87.66 billion in 2016.

Income Before Income tax

Due to increase in net operating profit in 2017, Danamon posted a pre-tax profit growth of 22.2% or Rp5.37 trillion.

Income Tax Expense

Income tax expense reached Rp1.54 trillion in 2017, declining by 3.8% compare to Rp1.60 trillion in 2016.

Net Income

Danamon's net income, grew by 37% to Rp3.82 trillion after taking into account income tax expense in 2017. Danamon's earning per share increased by 37.9% to Rp384.11 per share compare to Rp278.52 per share in 2016.

Total Comprehensive Income

Danamon's comprehensive after-tax income in 2017 consisted of an actuarial loss of defined benefit plan, income tax relating to other comprehensive income, available-for-sale financial assets, and hedge cash flow. Cumulatively, other comprehensive income/ expenses amounted Rp119.14 billion in 2017. Despite the decline in other comprehensive income, total comprehensive income after tax still reached Rp3.71 trillion in 2017 compared to Rp2.83 trillion in 2016.

CASH FLOW REPORT

Rp billion	Full Year			
	YoY	2017	2016	2015
Net Cash Flows (Used in) Operating Activities	90.8%	3,749	(1,965)	7,330
Net Cash Flows (Used in) Investing Activities	74.8%	(3,189)	(12,658)	2,757
Net Cash Flows from Financing Activities	101.1%	23	(2,051)	(5,166)
Net (Decrease)/Increase in Cash and Cash Equivalents	103.5%	583	(16,674)	4,921
Net Effect on Changes in Exchange Rates on Cash and Cash Equivalents	185.2%	98	(115)	1,665
Cash and Cash Equivalents at Beginning of The Year	-52.6%	15,154	31,943	25,357
Cash and Cash Equivalents at end of The Year	4.5%	15,835	15,154	31,943

Cash Flow from Operations

Bank Danamon posted a surplus net cash flow from operations of Rp3.75 trillion in 2017, compared to a deficit of Rp1.96 trillion in 2016. This was mainly due to the increase in interest income, fees and commissions to Rp11.76 trillion compared to 2016 of Rp10.46 trillion. In addition, interest, provision and commission payments, which fell to Rp5.37 trillion from Rp6.32 trillion in 2016, contributed to a surplus net cash flow from operations. Danamon was able to reduce its total expenditure in 2017 to Rp13.43 trillion compared to Rp14.36 trillion in 2016.

Cash Flows from Investments

Net cash flows generated from investments during 2017 amounted to negative Rp3.19 trillion, primarily derived from the purchase of securities and government bonds of Rp27.81 trillion, lower than the 2016 position of Rp34.68 trillion. On the other hand, Danamon booked cash flows from marketable and matured securities and government bonds of Rp26.14 trillion in 2017, up by 18.9% from Rp21.99 trillion in 2016.

Cash Flow from Financing

Bank Danamon posted a cash flow surplus of Rp23.08 billion of funding against the deficit in its cash flow of Rp2.05 trillion in 2016. This was underpinned by loan receipts increasing to Rp27.74 trillion in 2017 compared to the 2016 position of Rp19.47 trillion. In addition, Danamon, through Adira Finance, increased its cash flow from bond issuance to Rp4.59 trillion from Rp2.86 trillion in 2016. This increase in cash flow from financing operations was able to cover an increase in loan repayments, reaching Rp28.49 trillion in 2017 up from Rp19.51 trillion in 2016.

Commitment and Contingency

Bank Danamon is committed to providing loan facilities to customers as well as contingency in the form of income from settlements and bank guarantees received. Danamon had a liability commitment of Rp2.15 trillion in 2017, higher than the Rp2.06 trillion of 2016. On the other hand, Danamon's net liability contingency amounted to Rp3.15 trillion compared to 2016's figure of Rp3.17 trillion. Cumulatively, commitment liabilities and net contingencies reached Rp5.30 trillion, compared to Rp5.23 trillion in 2016, an increase of 1.2%.

Commitment and Contingency	Full Year			
	YoY	2017	2016	2015
Unused loan facilities to - debtors	-21.3%	259	329	369
Outstanding irrevocable - letters of credit	9.4%	1,894	1,732	1,626
Total commitment payables	4.5%	2,153	2,061	1,995
Contingent Receivables				
Guarantees from other bank	-58.6%	29	70	130
Interest receivable on	-20.6%	459	578	494
Total contingent receivables	-24.7%	488	648	624
Contingent payables				
Guarantees issued in the form of Bank guarantees	-7.0%	3,469	3,731	3,357
Standby letters of credits	81.3%	165	91	86
Total contingent payables	-4.9%	3,634	3,822	3,443
Contingent payables - net	-0.9%	3,146	3,174	2,819
Commitment payables and contingent payables - net	1.2%	5,299	5,235	4,814

KEY FINANCIAL RATIOS

	2017	2016	2015
CAR	22.1	20.9	19.7
NPL	2.8	3.1	3.0
NIM	9.3	8.9	8.2
BOPO	72.1	77.3	83.4
ROA	3.0	2.3	1.7
LFR	93.3	91.0	87.5

ABILITY TO SETTLE ACCOUNTS PAYABLE AND COLLECTIBLES

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

Bank Solvency

Bank Danamon ensures the Bank's capital adequacy in order to meet the risks of fund disbursement and market risk through the Capital Adequacy Ratio (CAR), which measures solvency. Danamon's, CAR which takes into account the risk of fund disbursement, market risk and operating risk, is 22.1%. This ratio is above the 11.75% minimum limit set by OJK for 2017.

Bankability

The profitability performance of Bank Danamon is measured using Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Operating Cost to Operating Revenue (BOPO) ratios. Danamon was able to show an improvement in ROA and ROE by 3.0% and 2.3%, respectively, compared to 2016. Meanwhile, the NIM also improved to 9.3% supported by BOPO's ratio improving to 71.1%.

Bank Liquidity

Bank liquidity management is crucial because it is influenced by funding structure, asset liquidity, liabilities to counter party and commitment to provide financing to debtors. Bank Danamon measures liquidity risk in liquidity management using Loan to Funding Ratio (LFR) ratio. Danamon's LFR position by the end of 2017 was 93.3% higher than in 2016, due to lower third party funding as Danamon consistently prioritized lower cost funding sources by increasing funding from current savings or regular savings.

CAPITAL STRUCTURE

The Bank's current capital structure consists of:

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

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

- II. Tier 2 capital consists of general reserves of PPA on the required productive assets (maximum of 1.25% of the RWA for credit risk).

Details of Capital Structure

Rp billion	Bank				Consolidated			
	YoY	2017	2016	2015	YoY	2017	2016	2015
Capital Components								
a. Core Capital (Tier 1)	6.4%	28,219	26,527	25,607	7.6%	33,357	30,997	29,892
b. Complementary Capital (Tier 2)	1.7%	1,137	1,119	1,197	0.9%	1,261	1,250	1,336
Total Core and Complementary Capital (a+b)	6.2%	29,356	27,646	26,804	7.4%	34,619	32,248	31,228
Risk Weighted Assets after Calculations of Credit Risk, Market Risk and Operational Risk	1.9%	126,334	123,952	128,284	1.9%	157,002	154,090	158,766
CAR	0.9%	23.24%	22.30%	20.89%	1.1%	22.05%	20.93%	19.67%

Capital Structure Policy

According to the above BI regulation, to be able to strengthen banking industry resilience in facing various economic challenges, banks were required to increase Tier 1 core capital ratio from 5% to 6%, effective January 1, 2014 and establish additional capital as a buffer effective from January 1, 2016 to January 1, 2019. The provisions on the fulfillment of this buffer are further stipulated in Bank Indonesia Regulation No. 17/22/PBI/2015 dated December 23, 2015 regarding the Obligation of Countercyclical Buffer and POJK. 46/POJK.03/2015 dated December 23, 2015 on the Stipulation of Systemically Important Bank and Capital Surcharge.

The Basis for Management on Capital Structure Policy Stipulation

The percentage of buffer to Risk Weighted Asset (RWA) that had to be fulfilled by Danamon as of December 31, 2017 and 2016 are as follows:

- Capital Conservation Buffer 1.250% and 0.625%,
- Countercyclical Buffer 0.000% and 0.000%,
- Capital Surcharge for D-SIB 0.500% and 0.250%.

The results of the assessment demonstrated that Danamon is able to meet minimum CAR requirements in accordance with the risk profile and is able to meet additional capital (buffer) requirements for both Bank and consolidated.

The Bank supports the policies that have been issued by BI and OJK, and is prepared to meet the various provisions issued in order to achieve sustainable business growth. The Bank is optimistic in meeting the capital requirement to achieve business growth.

Capital Management Strategy

In accordance with OJK regulation No.11/POJK.03/2016 dated January 29, 2016 concerning the Minimum Capital Adequacy Requirement (KPMM) of Commercial Bank and its amendment under OJK No.34/POJK.03/2016 regulation dated September 22, 2016 and OJK Circular Letter No.26/SEOJK.03/2016 dated July 14, 2016, regarding KPMM according to Risk and Equivalency Capital Equivalency Maintained Assets ("CEMA") profile, Danamon is required to perform minimum CAR calculation based on risk profile and perform ICAAP. Danamon measures capital adequacy based on CAR requirements from OJK as well as the adequacy of internal capital to ensure sustainable capital adequacy in support of bank operations.

Internal Capital Adequacy Assessment Process

ICAAP is an assessment conducted by Danamon pursuant to Pillar 2, Basel & OJK Regulations, which not only consider capital adequacy from Pillar 1 (Credit Risk, Market & Operational) but also to cover other risks. In addition to the minimum adequacy of minimum maturity based on the Risk Profile

Rating under OJK rules, Danamon also uses internal calculations to calculate any risks from:

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

In accordance with Bank Indonesia's provisions, the implementation of ICAAP in Danamon is accompanied by the supervision of the Board of Directors and Board of Commissioners, the process of capital adequacy assessment, risk monitoring and reporting process, and adequate internal control processes. Danamon's Internal Audit Unit conducts an annual review of the ICAAP process independently.

Stress Test

Danamon conducts the Stress Test to estimate the potential impact of extreme events on income and capital. The stress test results are also integrated into the Danamon ICAAP framework. The economist team prepares several scenarios that could cause problems for Danamon at diverse severity levels. These scenarios will be formulated into parameters and approved by the Management.

Every line of business and credit risk, market, and liquidity calculations are subjected to these scenarios. The outcomes will be analyzed and reported to the Board of Directors and the Board of Commissioners.

MATERIAL RELATED TO THE INVESTMENT OF CAPITAL GOODS

The material bonds owned by Danamon are intended as a commitment to purchase capital goods that have been planned in the Bank Business Plan (RBB).

Source of Funds

The source of funds for the purchase of capital goods comes from Danamon's capital, which has been budgeted for the year.

Currency

All transactions conducted in the framework of material binding for capital expenditure are denominated in Rupiah.

Currency Risk Protection Measures

As all bonds and capital expenditure transactions are conducted in Rupiah, Danamon does not need to safeguard against currency risk.

INVESTMENT OF CAPITAL GOODS

Danamon invested in fixed assets in 2017, consisting of buildings, office equipment, motor vehicles and in-progress assets, aimed at supporting the Bank's operating efficiency. Investment in capital goods in 2017 reached Rp265.65 billion, down by 45.8%, compared to 2016, to anticipate relatively limited economic growth in Indonesia.

From 2015 to 2017, Danamon did not enter into any specific binding in capital investment, which the Company needs to disclose.

Capital Expenditures

Rp million	Full Year			
	YoY	2017	2016	2015
Land	-100.0%	-	2,082	52,104
Buildings	42.8%	32,880	23,019	33,568
Office Equipment	-9.6%	206,358	228,213	189,215
Motor Vehicles	-70.6%	12,531	42,559	220,356
Construction in Progress	-92.9%	13,878	194,522	194,734
Total	-45.8%	265,647	490,395	689,977

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

Impact of Interest Rate Changes

In all business operations, Danamon actively monitors external conditions that potentially affect the Company's overall performance.

Danamon carries out periodic sensitivity analysis to measure the impact of changes in interest rates by calculating the interest rate gap from the earnings perspective and the economic value perspective. The calculations are based on assumptions and scenarios, both under normal and stress conditions, which have undergone evaluations by Danamon's Management.

Based on the result of measurements, Danamon and its subsidiaries are more able to anticipate the impact of interest rates changes on overall Bank's performance.

The interest rate risk management strategy in the banking book and trading book is managed well through measurement, supervision and internal limit control by taking into account Danamon's and its subsidiaries' business plan as a whole.

Impact of Exchange Rate Fluctuations

The Rupiah exchange rate against foreign currencies is subject to change especially against the USD in 2017, and was within the tolerable limits acceptable by Danamon. Danamon regularly conducts sensitivity analysis to observe the impact of exchange rate changes on Danamon's profitability.

The exchange rate risk control instrument is complemented by the measurement of risk sensitivity to exchange rate changes in the market and backed by a well-established market risk control system in Danamon. Measurement of internal parameters and regulatory requirements are monitored periodically in both the trading book and banking book.

Regular exchange rate monitoring and control has provided positive support on Treasury performance, particularly related to foreign currency portfolio. The volatility of the Rupiah in 2017 was relatively low compared to other Asian currencies.

TARGET ACHIEVEMENT IN 2017

Although not all of Danamon's financial target were achieved, the performance remained satisfactory. The challenge of limited economic growth have affected not only Danamon, but also the banking industry in general. Largely due to the decline in Micro loans, Danamon booked lower than target loan growth. In line with the low growth, Bank Danamon also gathered lower than target total funding balance.

Nonetheless, Danamon was able to book a better than target net interest income. At the same time, Danamon's achievement in fee income was in line with target, amidst banks' intense competition for fee income.

Even though operational expenses slightly increased, the Bank was able to achieve better net profit after tax than target. This is largely the result of reduction in cost of credit, as asset quality improved.

MATERIAL INFORMATION AND FACTS OCCURRING AFTER DATE OF ACCOUNTANT AUDIT REPORTS

No material subsequent event after reporting date.

SIGNIFICANT EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

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

OTHER IMPORTANT TRANSACTIONS OF SIGNIFICANT AMOUNT

During 2017, there were no significant transactions conducted by Bank Danamon.

DIVIDEND POLICY

The dividend policy is determined annually through the approval of the Annual General Meeting of Shareholders (AGMS). In 2017, Bank Danamon paid a cash dividend of Rp934.32 billion or 35% of its net profit for fiscal year 2016.

Profits from Year	Date of AGMS	% Net Income	Dividend per Share for Series A and Series B (Rp full amount)	Total Dividend Payment*	Date of Cash Dividend Payment	General & Statutory Reserves*
2014	7 April 2015	30%	81.50	781.15	8 May 2015	26.04
2015	28 April 2016	30%	74.90	717.89	27 May 2016	23.93
2016	12 April 2017	35%	97.48	934.32	12 May 2017	26.70

* In billion Rupiah

SHARE OWNERSHIP PROGRAM FOR MANAGEMENT AND EMPLOYEES

In 2017, Danamon did not have a stock option program for the Board of Directors, Board of Commissioners or employees.

SIGNIFICANT CHANGES OCCURRING IN THE BANK AND BANK'S BUSINESS GROUP IN 2017

No significant changes occurred in the Bank and the Bank's business group up to the period ending December 2017 affecting Danamon's financial position.

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

In 2017, Danamon did not undertake any investment, expansion, divestation, acquisition nor restructuring of payment and capital

REALIZATION OF PUBLIC OFFERING PROCEEDS

In 2017, Danamon as a parent company did not conduct any public offering neither bond nor stock issuance.

MATERIAL TRANSACTION INFORMATION CONTAINING CONFLICTS OF INTEREST

In 2017, Danamon did not undertake any material transactions containing conflicts of interest policy with Affiliated Parties Transaction.

DISCLOSURE OF TRANSACTIONS WITH RELATED PARTIES

Danamon conducts various transactions with related parties in the conduct of its business activities which do not cause any conflict of interest transactions. Such transactions are carried out according to normal commercial terms such as transactions conducted with non-related parties. More details related to transactions with related parties can be seen in the notes of the 2017 audited financial statements of PT Bank Danamon Tbk (note No. 45).

Related Parties

No	Parties with Special Relations with the Bank	Relationship with the Bank	Type of Transaction	Value of Transaction Danamon (in billion Rupiah)*
1	Standard Chartered Bank PLC	Owned by the same shareholders	Placement	193,13
2	Standard Chartered Bank, Singapore	Owned by the same shareholders	Derivative Acceptance	0,41
3	PT Bank DBS Indonesia	Owned by the same shareholders	Marketable securities	5,59
4	PT Bank Permata Tbk	Owned by the same shareholders	Marketable securities	14,36
5	PT Bank Permata Tbk	Owned by the same shareholders	Placement	15,76
6	PT Bank DBS Indonesia	Owned by the same shareholders	Premium Receivables	1,47
7	PT Bank DBS Indonesia	Owned by the same shareholders	Placement	1,65
8	PT Bank Permata Tbk	Owned by the same shareholders	Bill Acceptance	2,35
9	PT Bank DBS Indonesia	Owned by the same shareholders	Bill Acceptance	0,12
10	Development Bank of Singapore, Ltd	Owned by the same shareholders	Placement	10,54
11	Board of Commissioners, Board of Directors, and Key Employees	Key Executives and Employees	Loan Disbursed	27,20
12	PT Matahari Putra Prima Tbk	Owned by the same shareholders	Loan Disbursed	45
Total				317,57

*) The above figures are presented before the established PPAP is deducted.

CHANGES IN LEGISLATION HAVING A SIGNIFICANT EFFECT ON THE BANK

Some of the new banking regulations issued by the Financial Services Authority and Bank Indonesia in 2017 and their impact on Bank Danamon are outlined in the following table:

Regulations	Description	Impact on Bank Danamon Indonesia
Bank Indonesia Regulation No.19/6/PBI/2017 Concerning the Fifth Amendment to Bank Indonesia Regulation No.15/15/PBI/2013 About Minimum Reserve Requirement for Commercial Banks in Rupiah and Foreign Currency for Conventional Commercial Banks.	<p>Amendments to PBI 19/6/PBI/2017 against previous PBIs are PBI 18/14/PBI/2016 are as follows:</p> <ol style="list-style-type: none"> 1. Obligation of Primary Statutory Reserves - Rupiah for an average of 6.5% (six point five percent) of Deposits in rupiahs for a specified 2 weeks: <ol style="list-style-type: none"> a. daily by 5% (five percent); b. on average for a given reporting period of 1.5% (one point five percent). 2. The period of calculation of Third Party Funds in the fulfillment of the Primary Statutory Reserves and Secondary Reserve Requirement (in Rupiah) at Bank Indonesia previously in 1 (one) reporting period into 2 (two) reporting periods. 3. In the case of Primary Statutory Reserves and Secondary Statutory Reserves (in Rupiah), the Bank shall compile the position of the balance of the Rupiah Account of the Bank at Bank Indonesia at the end of each day within 2 (two) reporting periods against the daily average number of DPK in rupiah at 4 (four) of the previous reporting period. 4. Excess reserve is not treated in the secondary reserve requirement - Rupiah. <p>This Bank Indonesia Regulation came into force on 1 July 2017</p>	This GWM calculation provides more flexibility for the Bank in managing the liquidity of the Rupiah. Banks may meet Rupiah Statutory Reserves of 1.5% on average in a given period. To fulfill the Rupiah Statutory Reserves of 5% is still done everyday.
Regulation of the Financial Services Authority No. 14/POJK.03/2017 on the Plan of Action (Bank Recovery Plan)	<p>Scope of Dispositions:</p> <ol style="list-style-type: none"> 1. Systemic Bank Obligation in preparing and submitting an action plan (Recovery Plan). 2. The Recovery Plan contains at least the following: 3. Executive summary; 4. Systemic Overview of Systemic Banks; 5. Recovery Options; and 6. Disclosure of the Plan of Action (Recovery Plan). 7. Submission of Recovery Plan to OJK shall be no later than 6 (six) months since its establishment as a Systemic Bank. For banks designated as Systemic Banks, the first submission shall be no later than 29 Dec 2017. 8. Provision of sanctions on the Recovery Plan. <p>This Regulation of the Financial Services Authority was enforced on 7 April 2017</p>	The Bank has established and delivered a recovery plan to OJK in accordance with the provisions of this regulation.

Regulations	Description	Impact on Bank Danamon Indonesia
Regulation of the Minister of Finance No.73/PMK.03/2017 on Amendment to Regulation of the Minister of Finance No.70/PMK.03/2017 About Technical Guide Regarding Access to Financial Information for Tax Interests	<p>This Regulation is issued under Government Regulation no.1 of 2017 which allows the Directorate General of Taxation (“DGT”) to access financial information from financial institutions for tax purposes and to comply with Indonesia’s commitments in international agreements relating to Automatic Exchange of Financial Account Information (“AEol”).</p> <ol style="list-style-type: none"> 1. Access financial information for tax purposes <ol style="list-style-type: none"> a. The Bank shall report the financial information of the customers to the DGT on a regular basis or on request. In addition, the DGT may request other financial information within the framework of inspection/collection/tax disputes. b. Threshold Routine Report on customer’s financial information as of December 31 of each year: <ol style="list-style-type: none"> 1) Individual Customer (minimum balance Rp 1 billion); or 2) Non-Individual Customer (without any balance limitation). c. Financial information reported in the Routine Report includes: d. The Routine Report shall be submitted no later than 30 April from the end of the reporting period. 2. Access to Aeol- related financial information <ol style="list-style-type: none"> a. Financial information reported to the Financial Services Authority (“OJK”) includes: b. Reports are submitted by 1 August from the end of the reporting period. c. From 1 July 2017, Banks are required to perform identification procedures related to the account holder’s tax residency and ensure that account holders, financial and controlling accounts of such accounts need to be reported on the basis of international tax treaty standards. d. Financial accounts held by Non-Individuals and opened before 1 July 2017 whose balances do not exceed USD 250,000 are exempt from this reporting. <p>This rule is valid from 2 June 2017.</p>	The Bank will apply these terms starting from the December 31, 2017 reporting period.

Regulations	Description	Impact on Bank Danamon Indonesia
Regulation of the Financial Services Authority No.50/POJK.03/2017 on Obligation of Fulfillment of Net Stable Funding Ratio for Commercial Banks	<p>Scope of Dispositions:</p> <ol style="list-style-type: none"> Liabilities of banks BOOK 3 and BOOK 4 in conveying liquidity risk in the form of obligations to meet the Net Stable Funding Ratio (NSFR) aimed at reducing liquidity risk related to funding sources for a longer period by requiring the Bank to fund activities with sources' sufficient funds to mitigate future financial hardship risks. $NSFR = ASF / RSF \geq 100\%$ $ASF = \text{total liabilities and equity are stable for a period of 1 (one) year.}$ $RSF = \text{total assets and off-balance sheet transactions that need to be funded by stable funding.}$ Banks are required to monitor NSFR compliance and submit NSFR reports, either individually or consolidatively, to the Financial Services Authority. Monitoring of the NSFR report is made monthly, which takes effect for the position of the final report of January 2018. Submission of NSFR Report and Bank NSFR Working Paper to OJK shall be conducted every 3 months, which come into effect for the position of report of March 31, 2018. In addition, Banks are required to publish NSFR Reports every 3 months, which come into effect for the position of report of March 31, 2018, through: <ol style="list-style-type: none"> Bank website for NSFR Report end of report quarter; and At least 1 (one) daily broad-sheet print newspaper published in the Indonesian language, Bank website, and online for the NSFR percentage value of the end position of the quarterly report included in the quarterly publication report. Provisions on sanctions for Banks that do not meet this provision. <p>This Regulation of the Financial Services Authority came into force on 17 July 2017</p>	Currently, there was no impact on FY 2017. However, this regulation will take in place as of 2018

CHANGES IN ACCOUNTING POLICIES

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

Effective on or after 1 January 2017:

- SFAS No. 1 (Amendment), "Presentation of Financial Statements."
- SFAS No. 3 (Amendment), "Interim Reports".
- SFAS No. 24 (Annual Improvement 2016), "Employee Benefits".
- SFAS No. 58 (Annual Improvements 2016), "Impairment of Assets".

- SFAS No. 60 (Annual Improvement 2016), "Financial Instruments: Disclosures".
- SFAS No. 102 (Amendment), "Murabahah Accounting".
- SFAS No. 103 (Amendment), "Salam Accounting".
- SFAS No. 104 (Amendment), "Istishna Accounting".
- SFAS No. 107 (Amendment), "Ijarah Accounting".
- SFAS No. 108 (Amendment), "Syariah Insurance Transactions Accounting".
- ISFAS No. 32, "Interpretation on Definition and Hierarchy of Financial Accounting Standard".

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



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