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Management Discussion & Analysis





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Going into 2019, the economy is projected to grow steadily at approximately 5.1% - 5.2% range. This is expected to mainly be driven by household consumption and import management. As such, it will release some pressure on the external balance with Current Account Deficit estimated to ease to 2.8% of GDP.

Sentiments on the global financial market fluctuated rapidly during the year of 2018. What was once full of uncertainties was then calmed at the close of the year with news over trade negotiation possibilities between US and China. Flows of fund trickled back to Emerging Markets, including Indonesia, as portfolio investors' risk appetite increased.

Such timely change of event was sought as an opportunity to issue USD denominated long-term debt by both public and private sectors. Foreign fund inflow towards Indonesian securities amounted to USD 15 billion and helped curbed the currency from overshooting. The Indonesian Rupiah (Rp) exchange rate, at one point in October, hit Rp15,230/USD level before closing the year at Rp14,480/USD. Consequently, USD 10 billion worth of central bank's reserve assets had been utilized to maintain stability and closed the year at USD 121billion.

Key reason behind a weakened Rupiah fundamental was the imbalance between domestic and external demand. Indonesia's economic growth continues its gradual recovery to 5.2%, primarily on the back of fixed investment and household consumption. Yet these increases in domestic demand had triggered a need for imported goods, albeit productive in nature. Hence, Current Account Deficit widened from 1.6% of GDP in 2017 to 3.0% this year.

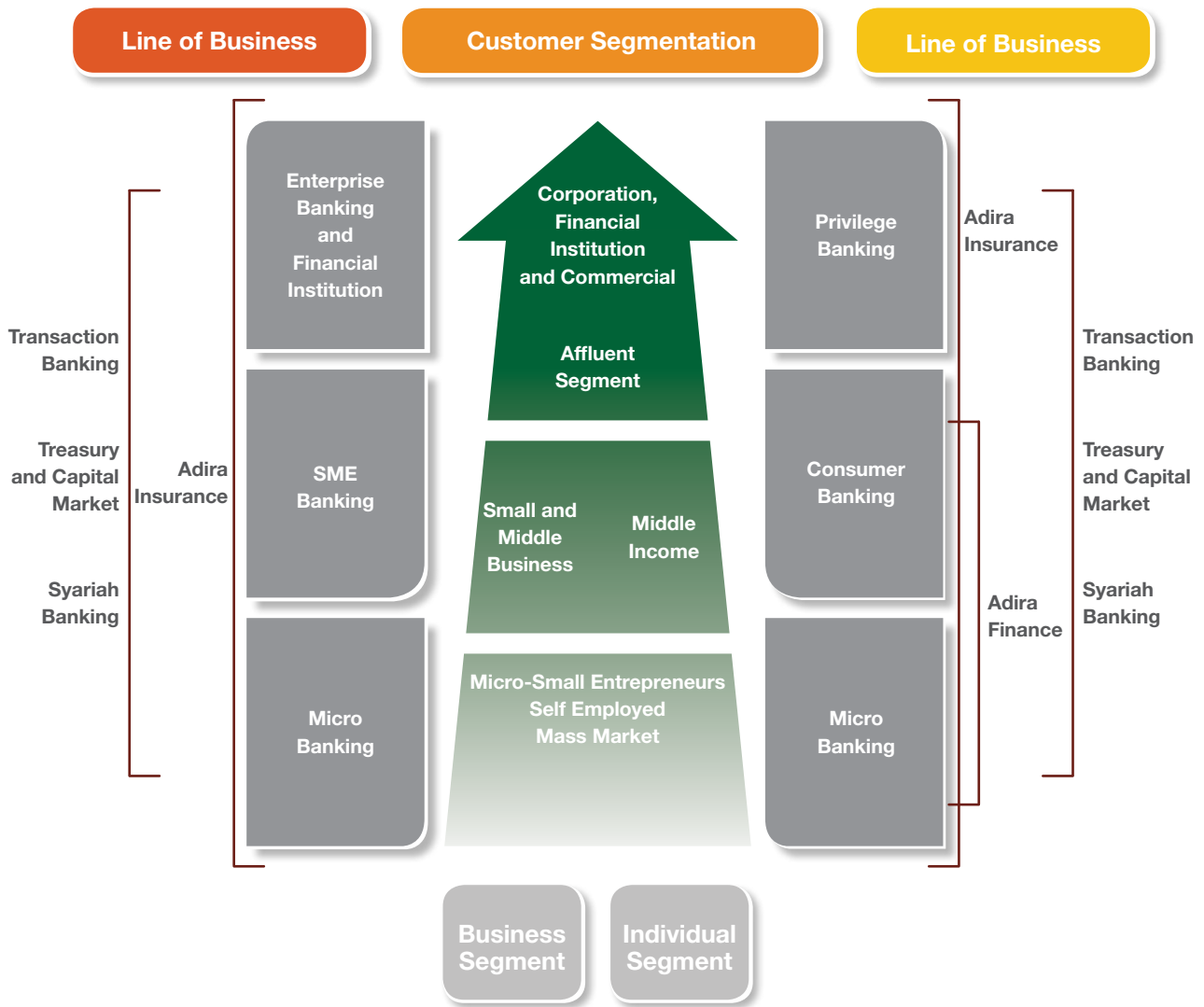
Bank Indonesia decided to tighten its monetary policy by 175bps through six separate revisions, in an effort to maintain attractiveness of Rupiah assets and manage the country's Current Account Balance, while keeping a short leash on inflation. The banking system remained resilient, with manageable and improving credit quality, while liquidity and the sector's capital adequacy ratio were adequate to cover the risks.

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Business Segment Review



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

Enterprise Banking and Financial Institution



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

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Through understanding and serving clients' needs, EB aspires to make Danamon the preferred transactional bank.

Products and Services

EB provides the following products and services:

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

Strategies and Initiatives in 2018

EB continued to focus on deepening relationships with existing clients, as well as developing its portfolio through new client acquisitions and tapping into end-to-end value chains.

As part of EB's transformation, we improved our end-to-end credit process, providing a faster turnaround time to clients, while ensuring a prudent risk culture.

EB is committed to invest in human capital by attracting and retaining the best talent, implementing extensive training programs, and driving a performance-based organization.

Performance 2018

In 2018, EB portfolio grew 11.0% to Rp41.48 trillion compare to Rp37.37 trillion last year.

Strategies and Initiatives in 2019

In 2019, EB will continue to implement the following strategies:

- Acquire new clients within our target market and capture the end-to-end value chain of existing clients.
- Collaborate with MUFG Group to tap into Japanese companies and multinational corporation value chains.
- Continue to nurture third-party funds by offering comprehensive cash management solutions.
- Invest in human capital and upskill our people through training and project assignments. Continue to attract and retain talent.

Treasury and Capital Market



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

TCM has assumed responsibility from the Assets and Liabilities Committee (ALCO) to manage the Bank's liquidity risk by ensuring 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 performing trading activities. Products offered include 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), Domestic Non-Deliverable Forward (DNDF), Government Bonds (SBN) under conventional and Sharia schemes, and Corporate Bonds.

2018 Strategies and Initiatives

In 2018, TCM continually expanded its retail, commercial and corporate customer bases. Strategies included approaching companies that perform export or import activities in accordance

to meet Industry Acceptance Criteria policy, as well as reaching out to areas with potential for performing foreign exchange and bond transactions.

As a primary dealer, TCM actively participates in supporting the government's financing needs through sales of Government Bonds, in both the primary and secondary markets.

2018 Performance

In 2018, TCM actively supported the government's funding plan by joining the auction activities especially for newly-issued Government Bonds in 2018. TCM also provided solution alternatives for customers to fulfill with foreign exchange and hedging needs by utilizing a range of treasury products. In order to strengthen the Bank's funding, TCM conducted funding activities through subordinated loan with MUFG Bank Ltd.

2019 Strategies and Initiatives

In 2019, TCM will continue to focus on increasing its customer base. TCM will also develop and offer alternative hedging and investment products suited to customer risk profiles, in accordance with the prevailing regulations, these will including Corporate Bond offerings.

In addition to raising funds from conventional third party fund, TCM will also explore fund raising from the capital market by using available instruments in line with prevailing regulations, either for short-term or long term funding. TCM will continue to support the Bank's overall strategy and remain focused on prudent risk management, as well as strong control of operational activities, costs and processes.

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



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

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

The improvement of internet banking platforms allows customers to enjoy integrated service between Cash Management, Trade Finance and the Financial Supply Chain, raising the efficiency of their business activities.

PRODUCTS AND SERVICES

Transaction Banking provides the following products:

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

2018 STRATEGIES AND INITIATIVES

- **Digital Capabilities**
Danamon introduced its Financial Supply Chain mobile app, D-BisMart. This is a closed-loop application for distributors and retailers. Another innovation was API Central, which enables rapid processing and provides secured data interchange between the Bank and clients. The Bank also enhanced Danamon Cash Connect, its internet banking platform, as well as virtual account payments. These innovations were recognized when Danamon was awarded Best Digital Bank for the second consecutive year at Asiamoney's Best Bank Awards.
- **Digital Development**
Danamon raised its presence in the digital ecosystem by partnering with key fintech players and retailers in online marketplaces and payment gateways. As part of the Bank's strategy to increase online transactions and brand awareness, we conducted virtual account campaigns and supported promotions such as National Online Shopping Day (Harbolnas – Hari Belanja Online Nasional).
- **Financial Supply Chain Focus**
Danamon continued to develop its FSC Direct Payment and Direct Debit services. Host-to-host (automated data transfers between the Bank and its clients) services and distributor financing were also improved. Fast-moving consumer goods (FMCG) industries were a major target in 2018. Fittingly, Danamon was honored as Best Supply Chain Provider at The Asset Triple A & Benchmark Awards.

2019 STRATEGIES AND INITIATIVES

In 2019, Transaction Banking will collaborate with MUFG Bank in Cash Management, FSC, and Trade Finance. Digital capabilities will continue to be enhanced through DCC (Danamon Cash Connect), API Central, and D-BisMart. Supplier financing will be established to provide end-to-end FSC solutions.

Small Medium Enterprise Banking (SME)

In line with the Bank's vision of "We Care and Enable Millions to Prosper", Danamon's Small Medium Enterprise (SME) Banking offers a range of comprehensive solutions designed to meet the needs of small and medium enterprises (SMEs). Danamon SME Banking focuses on individual businesses and companies with total annual sales of between Rp1 billion and Rp50 billion, and offers a loan facility of up to Rp20 billion.

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Products and Services

Danamon SME Banking offers the following loan products:

- **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 repeatedly 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 rates, such as the Term Installment – 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 home-office, warehouse, workshop, strata-titled commercial stall, 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. Related products include 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.

2018 Strategy and Initiatives

In 2018, consistent with its strategy in recent years, Danamon SME Banking focused on credit growth and third party funds in

the SME sector. Key to this strategy is encouraging the growth of quality credit distribution to smaller business groups. This is done to minimize the risk of non-performing loans, while maintaining quality and sustainable credit growth.

After implementing the Branch Network structure and improving the credit approval process, Danamon SME Banking continued to focus on sustainable development in sectors where it has a strong portfolio. Specific focus is also given to the development of Emerging SME businesses, with a loan limit of up to Rp3 billion.

The implementation of the Branch Network structure spurred the growth of Danamon SME Banking loans. Improving the credit process also resulted in a significant acceleration of credit approval. This makes Danamon's SME loan approval process one of the fastest in Indonesia.

The Branch Network structure resulted in better cross-selling opportunities, where salespersons can offer other Danamon banking products to SME customers. Customers with a multi-product relationship with Danamon are more likely to conduct additional transactions with the Bank. Cross-selling of products such as Cash Management and Bancassurance also has an impact on Danamon's fee-based income.

Furthermore, in order to anticipate increasingly challenging credit growth, Danamon SME Banking continuously develops and optimizes lead generation initiatives that focus on the "Member-Get-Member" program, Internal Referral, and Internal Analytics.

On the risk side, Danamon SME Banking adheres to the precautionary principles when dealing with business sectors vulnerable to macroeconomic change, such as mining and its supporting industries. Credit risk management is conducted in accordance with the limits set by the regulators and the Bank's internal policies. Therefore, loan allocation will take into account factors such as market conditions and collateral availability.

Responding to the market's trend toward digitalization, Danamon SME Banking began exploring and engaging in partnerships with digital loan aggregators and e-commerce and fintech companies. The push for digital loans will continue to be an important focus for Danamon SME Banking.

Danamon SME Banking also consistently pursued collaboration with the business community through its Distributor Financing (DF) and FSC programs. These offer attractive products and services, such as loans, deposits and transactions, to distributor businesses as customers of Danamon. Existing cooperation with other business lines, such as EB and Adira Group, was also enhanced.

2018 Performance

Amid challenging economic conditions in 2018, Danamon SME Banking succeeded in achieving Rp31.21 trillion in the SME loans portfolio, an increase of around 9.7% from the previous year.

Third party funds from SME customers were recorded at Rp11.08 trillion at the end of 2018, an increase of around 10.0% from the previous year.

This supported Danamon's strategy to continue focusing on portfolio diversification with a lower cost of funds (from Current and Savings Account products).

Furthermore, credit portfolio growth in 2018 was supported by a good credit process.

2019 Strategies and Initiatives

In 2019, Danamon SME Banking will continue with strategic initiatives of previous years. The focus will be on increasing market penetration in Emerging SME businesses, optimization of lead generation initiatives, and exploring collaboration with fintech companies to increase customer acquisition through digital platforms.

Danamon SME Banking will also continue to push its value proposition as a one-stop banking solution that provides integrated financing and funding solutions for SMEs through comprehensive product bundling solutions, namely loans, savings, protection, and transactional products and services. These products will be marketed through community approaches and cross-selling strategies to strengthen lead generation and increase customer loyalty.



Consumer Banking

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

Products and Services

Consumer Banking offers the following products and services:

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

Strategies and Initiatives 2018

In line with Consumer Banking's objective to empower customers in fulfilling their financial dreams, several initiatives were undertaken in 2018. One of the initiatives was a stronger focus on granular deposits, comprising current and saving accounts (CASA) and term deposits (TD). This resulted in consistent growth year-on-year.

A customer onboarding program was developed, aimed at deepening customer relationships with the Bank. This was supported by various attractive marketing programs.

Consumer Banking continued its integrated loyalty program through the D-Point rewards system, enhancing the D-Card app for credit card customers and developing more attractive marketing programs. The product suite for investment and bonds types was enriched, and credit cards were bundled with all savings accounts opened.

Consumer Banking started building a new digital interface roadmap to ensure customers enjoy easy-to-use and secure online banking apps and services.

2018 Performance

By undertaking appropriate initiatives and strategies, Danamon managed to raise its performance in Consumer Banking. Consumer banking loan grew 17.5% YoY to Rp11.12 trillion in 2018 contributed by consumer mortgages loan that grew by 29.3% YoY to Rp7.81 trillion.

2019 Strategies and Initiatives

In 2019, Consumer Banking will embark on a journey to change from being product-centric to becoming customer-centric, by focusing more on customer needs. Financial analysis will focus on customers to uncover their needs.

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

Strategy will be more segment-focused, geared toward the affluent and emerging affluent, with strong propositions for each of these segments. We will sharpen and reposition our Privilege Banking benefits for the affluent segment of customers.

Consumer Banking will offer a more complete product suite, from savings to investment, bonds, forex, bancassurance, credit cards and mortgage products, all aligned to customer needs and profiles.

Danamon will continue to build its digital capabilities for seamless processes and transactions for digital savvy customers. We will launch a completely online account-opening process to tap the digital segment that does not want to visit a branch for opening an account. At the same time, Danamon will also constantly improve its risk management to ensure sustainable business growth.

Branch Network

The implementation of the Branch Network structure has improved the capability of branch staff to provide holistic products and services to customers.

The Branch Network 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 further transactions with the Bank.

Branch Network has also delivered a positive impact toward Danamon SME Banking's loan growth, while a re-alignment of credit processes has resulted in a significantly faster credit approval process. This gives Danamon one of the fastest SME loan approval turn-around times in Indonesia.

Marketing Strategy

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Danamon innovates and customer satisfaction oriented become the main cornerstone for the company to run a variety of policies. Danamon’s focus throughout 2018 is to continue developing the organization internally and strengthen the small and medium business segments.

From time to time, customer expectations of the bank and its services are increasing with the changing trends and lifestyle which is influenced by digital technology.

This is a challenge for the Bank in order to stay relevant to the dynamics that occur.

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Operational Organization

Group Marketing plays a key role in carrying out customer-oriented marketing functions.

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 Strategy and Initiative

Throughout 2018, implemented marketing efforts were as follows:

- Continued 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), and sponsoring Kompas Travel Fair in 3 cities: Surabaya, Makassar and Yogya.

- For the second time, Danamon has its own event platform, namely: Danamon Run, which was successfully participated in by approximately 5000, runners to experience the notion of “Decide your Own Finish line” as part of the spirit of “Time to Take Control.” The Danamon Run was held at a new location, in the ICE BSD, Tangerang which resulted in high media exposure, increased participant participation from last year and received sponsorship support by 24 co-sponsors.
- To build Danamon’s “brand recognition”, the arrangement of outdoor media continues to be carried out gradually, both in choosing LED/Billboard locations, Danamon branding assets (branches/atm) or placement of other outdoor media ads that can contribute to increased Danamon’s brand awareness. In addition, Danamon did a strategic collaboration with PT. Railink in marketing and increasing public interest in using airport railroad transportation, both in the form of payment systems and train branding.

In the digital realm, Danamon Marketing has also successfully launched a new and consistent Danamon Corporate Website in developing interactive and engagement through Danamon social media (IG, FB Youtube) and utilizing social media to reduce negative comments in cyberspace.

Also run a strategy that leads to customer centric and personalized content, so that it can be closer and suitable with the needs of target audience.

In addition, in the digital realm Danamon also maximizes Danamon's digital assets to capture potential leads and follow up on them.

- For the first time, Danamon Syariah Business Unit was trusted as BPS BPIH (Recipient Bank for Hajj Delivery Services). And Danamon for the first time launched this Hajj Savings Account in 2018.
- In 2018, Danamon also launched API Central - Transaction Banking. Application Programming Interface (API) Central, an open API service that enables customers to connect directly with banks to carry out transactions, both financial and non-financial transactions. This service answers the needs in a fast and agile digital era, where banks are required to provide digital technology-based services with a fast, safe and easy implementation. With API Central, connections between Bank Danamon and customers can be established more quickly so as to support better business development and customer transactions.

Action Plan and Strategy 2019

For 2019, 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. This activity aim to encourage the acquisition of more digital savvy target segments.

To enhance added value for customers, Danamon's marketing activities will also cooperate or establish partnerships with other products or services providers at an event, the DEA (Danamon Entrepreneurship Award). Through this activity, it is expected to strengthen customer loyalty.

In 2019 Group Marketing will also continue the event for customers and general consumers with themes that are in line with the latest interest or trends, such as: Danamon Run and travel fair.



Syariah Banking

Syariah Banking is Danamon's business division based on the principles of Islamic law. It is managed by Danamon's Syariah Banking Unit (UUS).



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The Syariah banking sector in Indonesia offers tremendous growth potential, as about 80% of the country's approximately 264 million people are Muslims. The national Syariah banking market share is still relatively small, handling about 5.6% of total Indonesian banking assets. This market can be further cultivated in the future, indicated by the overall growth of Islamic banking assets reaching 19%, considerably outpacing growth in 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 Bank's infrastructure and technology.

Products and Services

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

- **Savings products**
Tabungan Bisa iB, Hajj Savings that are directly connected to SISKOHAT (RJTH) or IB Hjj Plan Savings, 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 Home Ownership Financing.

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- **Bancassurance products**
Prima Amanah Protection (PPA).
- **Services**
Cash Management, Electronic Channel, and Big Bill electricity payment service.

Strategies and Initiatives in 2018

Danamon Syariah has a variety of strategies and initiatives to continue to develop Danamon's market share the Islamic banking industry. In 2018 Danamon Syariah was appointed by the BPKH as the Hajj Deposit Recipient Bank, Placement Bank, Investment Partner Bank, and Value Benefit Management Bank; thus we can serve the needs of our customers to go Hajj to the holy land. On the side of our financing, we continued to our house, apartment, or shop houses financing.

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

Sales and distribution strategies were implemented to further augment Danamon Syariah's market share. Previously, sales and distribution had been more product-oriented, whereas there is now a more customer-centric focus.

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

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

Performance in 2018

Danamon Syariah achieved its targets for 2018, although certain aspects of Syariah products can be further improved to secure more significant growth.

- **Syariah Financing Portfolio**
In 2018, Danamon Syariah focused on the development of Syariah Leasing Financing and Employee Cooperatives Financing. Loans by the end of 2018 grew to Rp4 trillion from Rp3.6 trillion in 2017, an increase of 11%.
- **Syariah Fund Portfolio**
In 2018, deposits reached Rp4.2 trillion, an increase of 20% from Rp3.5 trillion in 2017.

This increase was due to a leveraging strategy, which expanded the Danamon Syariah branch network, leading to greater growth in the accumulation of third-party funds.

Other Achievements

In 2018, Danamon Syariah received the following awards:

- “Very Good” performance rating for a syariah business unit with assets of Rp2.5 trillion to Rp5 trillion at the Infobank Sharia Awards.
- Most Profitable Syariah Banking Unit award from Karim Consulting.
- Second Rank in Syariah Branch Service at the Banking Service Excellence Awards by Marketing Research Indonesia (MRI).
- Top 5 Customer Choice for Syariah Banking Unit by Warta Ekonomi.

Strategy and Initiatives in 2019

Danamon has conceived a number of strategic initiatives to further expand its Syariah banking services in 2019. These measures are adopted in view of evolving external conditions, as well as Danamon’s internal circumstances.

Danamon remains committed to improving the quality and performance of its Syariah product sales. In 2019, Danamon will open additional branch offices across the country and improve Syariah service quality across all branches.

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



Micro Banking

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

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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, 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 in 2018

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

By the end of 2018, DSP registered total outstanding loans stood at Rp2.28 trillion compare to Rp6.98 trillion last year. This loan reduction was due to our focus on credit quality and more selective new loan approvals.

Strategies and Initiatives in 2019

In 2019, we will continue to focus on improving credit quality, collections and recoveries as well as on streamlining our network

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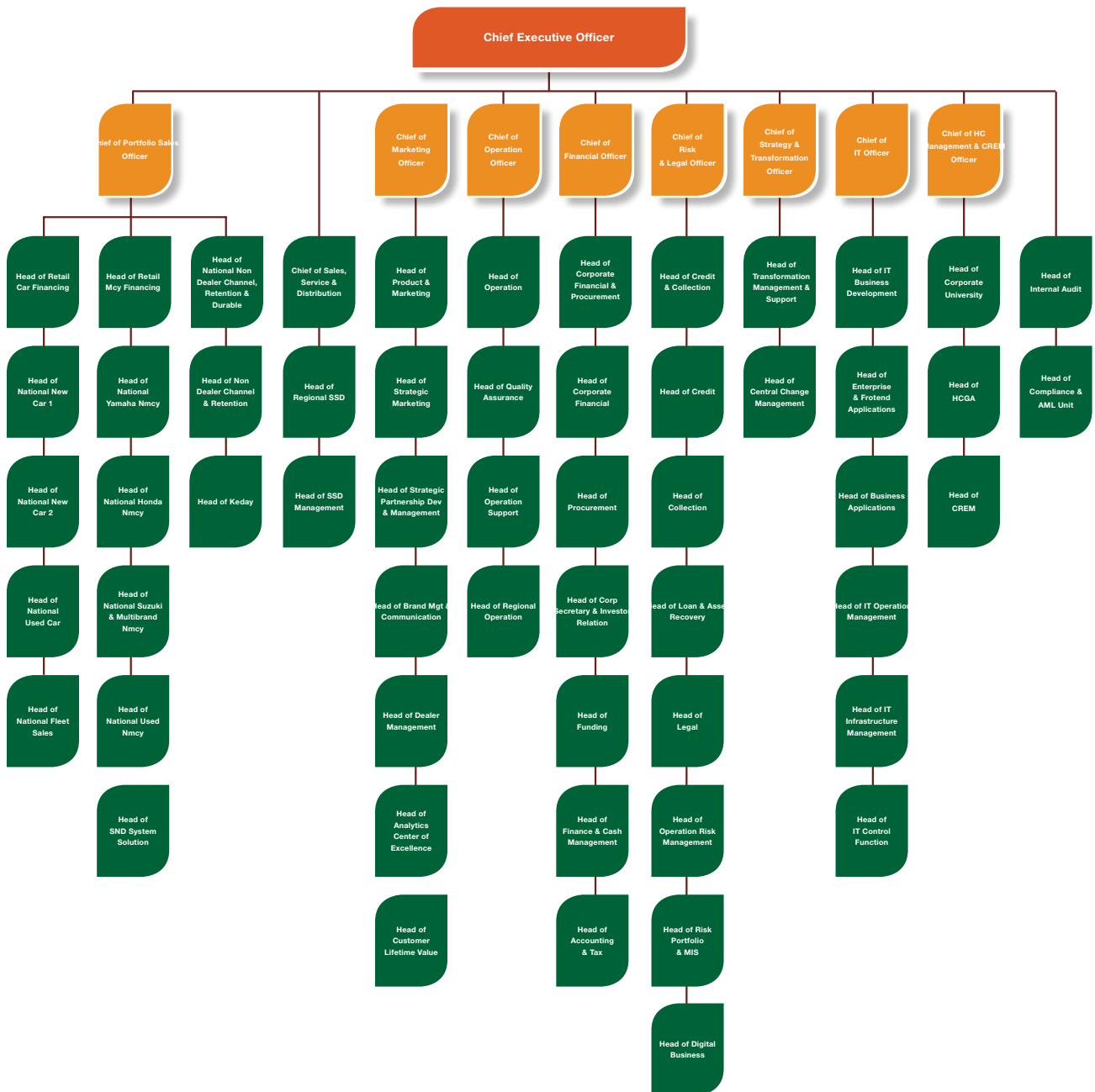
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Organization chart as of 31 December 2018

In 2018, Adira Finance loan growth increased by 13% to Rp51.29 trillion. This healthy growth was driven by Adira Finance's new financings, which grew by 15% for the two-wheelers segment and 23% for the four-wheelers segment.

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.

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

The Company is committed to building long-term cooperative relationships with customers and business partners under the 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 sharia based financing principles. The scope of the Company's sharia business unit covers financing of sale and purchase, investment financing, and service financing.

Strategy and Work Program, 2018

Adira Finance has set the strategy and work program since the beginning of the year. Some that have been set throughout 2018 are:

- **Strategies in Business Development**
 - a. Increase dealer value proposition and consumer segments to increase market share
 - b. Develop new products to increase the volume of financing.
 - c. Develop new Keday distribution channels, and partnerships (Indomaret and Alfamart);
 - d. Increase synergy in the parent company / increase cross sell
 - e. Improve the operational side through digitizing the process to optimize customer and dealer services
- **Strategies in managing optimal funding**

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 10x 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 (sharia "compliant" bonds) issuance, with the intention of obtaining the optimum cost of fund.

• Strategies in HR Development

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

Performance, 2018

In 2018, Adira Finance loan growth increased by 13.4% to Rp51.29 trillion. This healthy growth was driven by Adira Finance's new financings, which grew by 15% for the two-wheelers segment and 23% for the four-wheelers segment.

Rp million	2017	2018	YoY
2W auto loans	20,277	22,776	12%
4W auto loans	23,211	26,638	15%
White goods and others	1,744	1,882	8%
Adira Finance	45,232	51,296	13%

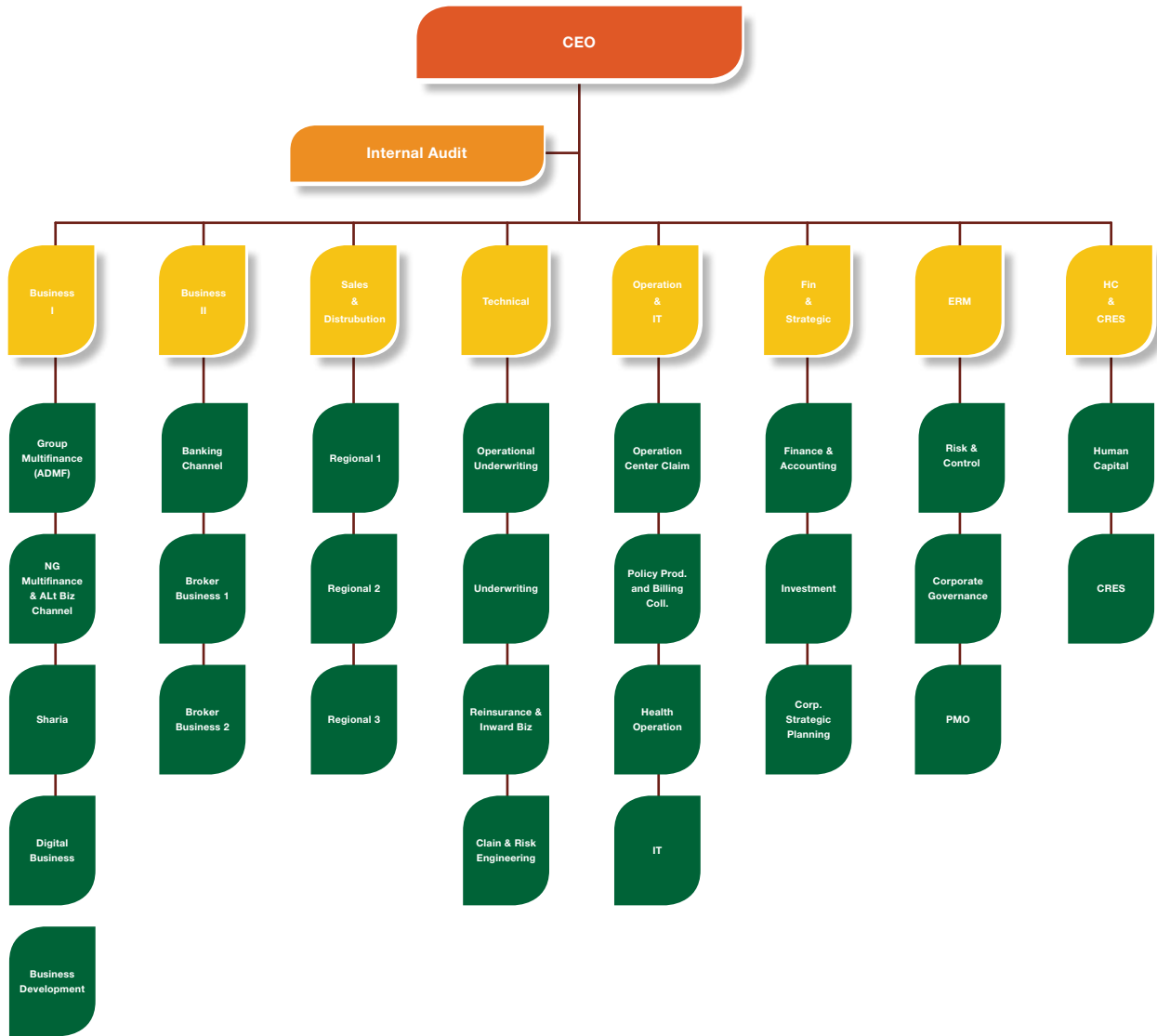
Strategy and Initiatives, 2019

Adira Finance has set the strategy and work program since the beginning of the year. Some of the strategies that will be carried out throughout 2019 are:

- Increasing sales in used vehicles financing and multipurpose loan by applying Customers Relationship Management (CRM) Next for sales prospects.
- Maintaining good relationship with dealers by offering marketing campaign and sponsor program to increase market share
- Building digital order process in order to optimize speed in credit approval.
- Increasing productivity and capacity in high growth business segment mainly in Multi Purpose Loan (MPL) segment and used vehicle.
- Continuing invest in technology and keep making improvement in Enterprise Resources Planning (ERP), Digital Marketing System (DMS) systems and digital processing.
- Optimize market place platforms through momobil and momotor platforms.
- Continue tight monitoring on asset quality and enhancing collections.
- Continue to diversify funding sources to obtain optimal cost of fund.

Subsidiaries Business Review

Adira Insurance



Organization chart as of 31 December 2018

Corporate Data
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Profile

PT Asuransi Adira Dinamika (Adira Insurance), part of the Danamon Group, is in the general insurance business. It was established on 24 January 2002. In September 2018, Danamon entered into a Conditional Sales and Subscription Agreement (CSSA) with Zurich Insurance Company Ltd ("Zurich"), for the sale of 70% share ownership in Adira Insurance. The transaction is subject to customary closing conditions, including the approval of the OJK.

In line with its vision "To be the Insurer of Choice", Adira Insurance distributes competitive products through direct and indirect distribution channels.

Direct distribution channels are branch salespersons, telemarketers, insurance agents, and also including the company's websites.

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

For a line of digital, Adira Insurance distribute the products through company's website www.asuransiadira.com, the big marketplace in Indonesia, and insurance aggregator.

Adira Insurance's website, www.asuransiadira.com, was designed with simplicity and reliability in mind. Listing products and services, it provides user-friendly browsing and purchasing of insurance policies. It also features a Premium Simulator, allowing site visitors to calculate the cost and payout for certain products.

Products and Services

Adira Insurance has 34 outlets across 31 cities in Indonesia. In 2018, Adira managed 8.4 million active policies for both conventional and sharia-based insurance products for personal and corporate clients.

Adira Insurance products include Autocillin (car insurance), Motopro (motorcycle insurance), Medicillin (health insurance) and Travellin (travel insurance). Insurance coverage is also offered 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 Adira Care call center, SMS communication, social media interaction, and Autocillin Rescue.

Adira Insurance operates a separate website for its travel insurance product, Travellin, at www.travellin.co.id. It provides fast and simple solutions to procure travel insurance from product selection to policy issuance and premium payment. The product selection covers domestic and international travel destinations for individual, family or group travelers.

For car insurance claim submissions, the Autocillin Mobile Claim Application (AMC) enables customers to submit claims online via their smartphone. The app allows customers to upload damaged vehicle photos, and a repair schedule.

Strategies and Initiatives in 2018

In 2018, Adira Insurance prudently expanded its market penetration through its existing business channels. The company retained its focus on products with high-volume, homogenous and wider risk spread characteristics, such as motor vehicles, property insurance and personal accident cover.

Adira Insurance enhanced its human resources capacity in frontline and direct support functions through its Underwriting Development and Actuary Development programs. In the banking sector, Adira Insurance developed the skills of its sales and distribution frontliners. Online services were also enhanced to meet market demands. These initiatives reflect Adira Insurance's unique value proposition: Caring, Simple and Reliable.

In 2018, Adira Insurance continued to streamline its business processes, while still enhancing service quality, especially in core processes, leading to greater cost efficiency in policy production, premium collection and claims.

Performance in 2018

Adira Insurance in 2018 recorded total premiums of Rp2.70 trillion 15.0% increase compared to the previous year. Both non-motor and motor portfolio increased by double digits in 2018. The motor portfolio increased 14.1% to Rp1.58 trillion from Rp1.39 trillion while non-motor also grew 14.4% to Rp1.14 trillion. Adira Insurance's contributed Rp615 billion in fee income 24% increase compare to Rp495 billion last year.

Strategy and Initiatives in 2019

- Business
 - Group business – optimizing 4 million customers as distribution channels, including reaching out to Adira Finance dealers as cash-buyer channels.
 - Product strategy – creating products using technology tailored to customers' needs, such as telematics-based add-on products.
- People
 - Developing human resource capability in analytical skills to keep pace with market changes
- Efficiency
 - Efficiency can be optimized using technology and reducing manual processes to improve productivity.
- Digital
 - Teaming up with aggregators will enable Adira Insurance to reach a wider customer base.

Financial Review



Despite challenging macro environment in 2018, Danamon's performance continued to improve in 2018. NPAT improved by 6.5% to reach Rp3.92 trillion compare to 2017.

Despite challenging macro environment in 2018, Danamon's performance continued to improve in 2018. NPAT improved by 6.5% to reach Rp3.92 trillion compare to 2017. The Return on Asset (ROA) and the Return on Equity (ROE) was at 2.2% and 10.6% at the end of 2018 which both improved compare to last year of 2.1% and 10.5%. Danamon also be able to maintain its asset quality. Danamon's NPL ratio was well managed at 2.7% at the end of 2018. We also maintained prudent levels of credit cost at 2.5% compared to 2.8% last year

The financial review outlined herein refers to the year-end Financial Statements as of December 31, 2018. The Financial Statements have been audited by Tanudiredja, Wibisana, Rintis, and Partners (member of PwC Global) Public Accounting Firm under the Audit Standards established by the Indonesian Institute of Certified Public Accountants with the entity's financial information with unmodified opinion.

Consistent with its strategy in recent years, loan growth in Danamon's core segments while maintaining credit quality is the key to Danamon's performance this year.

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Segment result

(In billion rupiah)

	2018					2017				
	Retail ¹	Mid Size ²	Wholesale ³	Other	Total	Retail ¹	Mid Size ²	Wholesale ³	Other	Total
Assets	64,358	49,157	59,459	13,788	186,762	60,532	44,523	53,804	19,397	178,257
Liabilities	63,480	18,826	50,282	12,234	144,822	63,663	19,329	43,513	12,579	139,085
Net Interest Income	10,449	2,591	1,201		14,241	9,901	2,789	1,289	-	13,979
Non-Interest Income	1,617	465	357		2,439	2,181	381	282	-	2,844
Income from Operations	12,066	3,056	1,558		16,680	12,082	3,170	1,571		16,823
Operational Expenses	(6,580)	(1,109)	(378)		(8,067)	(6,650)	(1,070)	(304)		(8,024)
Loan Expenses	(2,509)	(592)	(166)		(3,267)	(2,478)	(619)	(368)		(3,465)
Non-Operational Income & Expenses	38	-	(192)	(267)	(421)	57	(4)	(199)	(274)	(420)
Profit Before Tax	3,015	1,355	822	(267)	4,925	3,011	1,477	700	(274)	4,914
Income Tax Expenses	(839)	(379)	(206)	70	(1,354)	(929)	(389)	(176)	69	(1,425)
Net Income from Continuing Operations	2,176	976	616	(197)	3,571	2,082	1,088	524	(205)	3,489
Net income from Disposal group classified as held for sale	-	-	-	536	536	-	-	-	408	408
Net Profit after taxes	2,176	976	616	339	4,107	2,082	1,088	524	203	3,897

- 1) Consisting of micro business, credit card, sharia, insurance business, consumer finance, pawnshop, and retail banking.
2) Consists of small and medium enterprises and commercial.
3) Consisting of corporate banking, financial institutions, and treasury.

FINANCIAL POSITION REPORT

Assets 2018

Danamon's total asset as of 2018 stood at Rp186.76 trillion by 4.8% increased compare to Rp178.26 trillion last year. The increase in asset was mainly due to increase in net loan which grew from Rp120.50 trillion in 2017 to Rp130.15 trillion in 2018.

(In billion rupiah)

	2018	2017	growth
			YoY
Cash	2.824	2.546	10.9%
Current accounts with Bank Indonesia	6.460	7.556	-14.5%
Current Account at Other Banks	1.387	2.032	-31.7%
Placements with Other Banks & Bank Indonesia - net	8.576	5.199	65.0%
Marketable Securities - net	9.149	16.060	-43.0%
Loans (include consumer financing receivable and lease receivable) -net	130.154	120.495	8.0%
Government Bonds	10.973	10.974	0.0%
Fixed assets- net	1.903	2.288	-16.8%
Others	15.338	11.107	38.1%
Total assets	186.762	178.257	4.8%

Cash

Danamon's cash position reached Rp2.82 trillion as of December 31, 2018, an increase of 10.9% compared to its cash position of Rp2.55 trillion as of December 31, 2017. The increase in cash due to Rupiah denominated from Rp2.35 trillion to Rp2.68 trillion. Cash contributed 1.5% to Danamon's total asset.

Current Accounts with Bank Indonesia

Danamon was able to maintain Primary Minimum Reserve Requirements (GWM) in Rupiah and Foreign Currency for Conventional Banks above Bank Indonesia's provisions of 6.5% each for Primary GWM denominated in Rupiah from third party funds in Rupiah and Macroprudential liquidity buffer (secondary GWM) of 4.0% of third party funds in Rupiah and 8.0% for Minimum Reserve Requirements (GWM) in foreign currency. Danamon's GWM ratio in Rupiah was 17.2% while the reserve requirement in foreign currency was 8.1% in 2018.

At the end of 2018, Danamon's current accounts with Bank Indonesia decreased to Rp 6.46 trillion compare to Rp7.56 trillion last year.

Current Account at Other Banks

Danamon's current account portion of total assets reached 0.7% in 2018 compared to 1.1% in 2017. Current accounts with other banks in 2018 declined by 31.7% to Rp1.39 trillion In-line with the decline in foreign currency current account which dropped from Rp1.68 trillion to Rp1.19 trillion in 2018.

Placements with Other Banks and Bank Indonesia

As of December 2018, placements with other banks and BI reached Rp8.58 trillion; increased 65.0% compared to Rp5.20 trillion in 2017. Mainly due to increase in foreign currency placements in Bank Indonesia of Rp7.33 trillion in 2018 compare to Rp678.4 billion last year. While placement to other banks declined to Rp1.24 trillion compare to Rp4.33 trillion in 2017.

Marketable Securities

Danamon booked a reduction in investment on securities by 43.0% from Rp16.06 trillion last year to Rp9.15 trillion in 2018. The decrease was primarily due to lower investment in securities especially in Bank Indonesia Certificates (SBI) to Rp798.7 billion from Rp5.86 trillion in 2017 as well as decline in Corporate bonds from Rp7.72 trillion last year to Rp6.09 trillion in FY18; while investment in Banks decline to Rp2.05 trillion from Rp2.52 trillion last year.

Loans

Net loan including lease receivables and consumer financing receivables grew by 8.0% to Rp130.15 trillion in 2018 compared to Rp120.49 trillion in 2017 mainly due to improvement on SME, consumer mortgages, and EB as well as consumer financing portfolio from Danamon's subsidiary.

In 2018, consumption loan grew 21.7% to Rp59.80 trillion from Rp49.15 trillion. Working capital slightly declined 0.6% to Rp52.09 trillion compare to Rp52.39 trillion last year.

(In billion rupiah)

Loan by type	2018	2017	growth	
			YoY	
Consumption	59,800	49,152	21.7%	
Working Capital	52,092	52,385	-0.6%	
Investment	21,033	21,670	-2.94%	
Expor	1,594	1,559	2.24%	
Total	134,519	124,766	7.82%	

Loan by economic sector

Based on economic sectors, household and consumer financing contributes 41.2% to Danamon's total loan. In 2018, this sector grew 12.8% to Rp55.46 trillion from Rp49.14 trillion last year. Real estate, leasing, services and servicing companies grew double digit in 2018.

(In billion rupiah)

Loan by Economy Sector	2018	2017	growth	
			YoY	
Household and Consumer Financing	55,460	49,147	12.8%	
Grocery and Retail	36,228	36,224	0.0%	
Manufacturing	19,233	18,190	5.7%	
Transportation, Warehousing, Communications	4,400	4,643	-5.2%	
Real Estate, Leasing, Services and Servicing Companies	3,048	2,544	19.8%	
Others	16,150	14,019	15.2%	
Total	134,519	124,766	7.8%	

Loan by geography

From the geographical standpoint, Jabodetabek, Karawang and Lampung contributed the most out of total loans disbursed by the Bank. Those areas grew 14.7% YoY to Rp54.20 trillion from Rp47.26 trillion last year due to most of the branches located in those areas.

(In billion rupiah)

Loan by Geography	2018	2017	growth	
			YoY	
Jakarta, Bogor, Tangerang, Karawang, Bekasi and Lampung	54,202	47,260	14.7%	
North Sumatra	10,882	10,387	4.8%	
East Java	9,959	9,633	3.4%	
Sulawesi, Maluku, and Papua	7,113	7,182	-1.0%	
West Java	6,291	5,857	-39.4%	
Central Java and Yogyakarta	5,843	5,974	-2.2%	
Kalimantan	5,534	5,492	0.8%	
South Sumatra	2,639	3,116	0.8%	
Bali, NTT, and NTB	2,109	2,068	2.0%	
Total	104,572	96,969	7.8%	

LOAN COLLECTABILITY

Danamon continued to manage and improve its asset quality in 2018. Danamon's NPL stood at 2.7% in 2018 Improved from 2.8% compare to last year. Its special mention improved to 6.7% from 7.5% last year due to improvement in managing delinquency across its portfolio.

Credit Based on Interest & Currency

Based on currency, 94.8% of Danamon's loan was in Rupiah. Danamon's rupiah loan grew 7.8% to Rp123.43 trillion compare to Rp114.46 trillion last year. Foreign currency loan slightly grew to Rp6.73 trillion compare to Rp6.03 trillion in 2017.

Based on interest rate, Danamon's floating loan increased 9.3% to Rp61.07 trillion compare to Rp55.89 trillion last year; while Danamon's fixed loan increase by 6.9% to Rp69.08 trillion this year.

(In billion rupiah)

By type and currency	2018	2017	growth
			YoY
Rupiah	123,425	114,462	7.8%
Foreign Currency	6,729	6,033	11.5%
Total	130,154	120,495	8.0%

(In billion rupiah)

Interest Rate	2018	2017	growth
			YoY
Floating	61,071	55,891	9.3%
Fixed	69,083	64,604	6.9%
Total	130,154	120,495	8.0%

Government Bonds

Bank Danamon's investment in government bonds reached Rp10.97 trillion in 2018 similar to last year's position.

Fixed assets

Danamon's fixed assets in 2018 decreased by 16.7% to Rp1.90 trillion from Rp2.29 trillion. The decrease was primarily due to sales of property and reclassification of Adira Insurance as disposal group classified as held-for-sale.

Other Assets

Danamon's other assets, consisting of accounts other than those described above increased 38.1% from Rp11.1 trillion last year to

Rp15.33 trillion. The increase in other asset mainly due to addition of assets of disposal group classified as held-for sale.

Liabilities

To support credit growth, Danamon gathered third party funds from deposits mainly from customer deposits but also from other banks, issued securities and borrowings received. The Bank's focus is to grow its lower cost deposits such as demand deposits / current accounts and savings. As of 2018, Danamon's CASA ratio was stood at 47.1%.

(In billion rupiah)

Liabilities	2018	2017	growth
			YoY
Deposits from customers	107,696	101,897	5.7%
Deposits from other banks	3,152	4,635	-32.0%
Securities sold under repurchase agreements	248	10	2381.5%
Securities issued	9,640	10,171	-5.2%
Borrowings	11,828	9,794	20.8%
Subordinated loan	25	-	100.0%
Others	12,233	12,578	-2.7%
Total	144,822	139,085	4.2%

Borrowing

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

Total borrowing in 2018 amounted to Rp11.83 trillion increase from Rp9.79 trillion last year. Danamon's funding diversification also came from various foreign and domestic financial institution. The increase in borrowing mainly due to increase in foreign currency borrowing that grew from Rp5.00 trillion to Rp7.83 trillion in 2018.

Securities Issued

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 Rp8.91 trillion lower than Rp9.51 trillion last year. In addition, Adira Finance had unmatured Sukuk Mudharabah amounting to Rp728.0 billion in 2018 higher compare to Rp661.0 billion in 2017. All of Adira Finance's bonds are rated idAAA by PT Pemeringkat Efek Indonesia (Pefindo).

Other Liabilities

Other liabilities consisting of accounts, other than those mentioned above, slightly declined by 2.7% to Rp12.41 trillion compared to Rp12.23 trillion last year.

(In billion rupiah)

Total Deposit from Third Party	2018	2017	growth
			YoY
Deposits from customers			
Current account	15,885	14,646	8.5%
Savings	33,945	34,073	-0.4%
Time seposit	57,865	53,178	8.8%
Total Deposits from customers	107,696	101,897	5.7%
Deposits from other banks	3,152	4,635	-32.0%
Total third party fund	110,848	106,532	4.1%

Customer Deposits

Customers deposit is a major contributor to Danamon's liabilities. Danamon's total amount of customer deposits reached Rp107.70 trillion higher than Rp101.90 trillion in 2017. Danamon has consistently prioritized lower cost funding sources by mounting funding derived from current accounts/demand deposits and savings.

Deposits from Other Banks

Deposits from other banks in 2018 decreased by 32% to Rp3.15 trillion from Rp4.63 trillion last year. The decline was mainly due to the decrease on call money from Rp1.88 trillion last year to Rp290.0 billion in 2018.

Equity

Danamon's equity continued to strengthen in 2018. Danamon's equity attributable to equity holders of the parent entity grew by 7.1% to Rp41.31 trillion compared to Rp39.17 trillion in 2017 mainly due to improvement of retained earnings from Rp25.38 trillion in 2017 to Rp28.30 trillion in 2018.

(In billion rupiah)

Description	2018	2017	growth	
			YoY	
Issued and Fully Paid Up Capital	5,901	5,901	0.0%	
Additional Paid Up Capital	7,256	7,256	0.0%	
Other Paid Up Capital	0	0	0.0%	
Other Equity Components	(154)	121	n/m	
Retained Earnings	28,308	25,382	11.5%	
Non-Controlling Interests	629	512	22.9%	
Total Equity	41,940	39,172	7.1%	

Consolidated Profit & Loss Report

(In billion rupiah)

Description	2018	2017*	growth	
			YoY	
Net interest income	14,241	13,980	1.9%	
Other operating income	3,696	3,688	0.2%	
Other operating expense	12,779	12,557	1.8%	
Net Operating Income	5,158	5,110	0.9%	
Non operating income – net	232	223	4.2%	
Income Before Tax	4,926	4,887	0.8%	
Income Tax Expenses	1,354	1,494	-9.3%	
Net Income from continuing operation	3,571	3,394	5.2%	
Net income from disposal group classified as held-for-sale	536	434	23.4%	
Income After Income Tax Expenses	4,107	3,828	7.3%	
Net Income Attributable to Equity Holders of the Parent Entity	3,922	3,682	6.5%	
Net Income Attributable to Non-controlling Interest	185	147	25.9%	
Basic Earnings Per Share-full amount	409	384	6.5%	
Comprehensive income attributable to equity holders of the parent entity	3,939	3,573	10.2%	
Comprehensive income attributable to Non controlling interest	188	136	38.1%	

*restated (PSAK58)

PROFIT/LOSS REPORT

Danamon's net interest income improved 1.9% to Rp14.24 trillion compare to Rp13.98 trillion last year; combined with the improvement of its asset quality and its operational excellence. Danamon's performance continued to improve in 2018. NPAT improved by 6.5% to reach Rp3.92 trillion compare to Rp3.68 trillion NPAT in 2017.

Net Interest Income

Danamon net interest income rose 1.9% to Rp14.24 trillion compare to Rp 13.98 trillion in 2017. The increase in net interest income was attributed to slight increase in interest income due to loan growth in Danamon's key segments.

(In billion rupiah)

Description	2018	2017*	growth	
			YoY	
Interest Income	20,172	19,883	1.5%	
Interest Expense	5,931	5,903	0.5%	
Total	14,241	13,980	1.9%	

Other operating expenses table

(In billion rupiah)

Description	2018	2017*	growth	
			YoY	
Salaries and employee benefits	4,966	4,817	3.1%	
General and administrative expenses	2,715	2,826	-3.9%	
Allowance for impairment losses	3,267	3,513	-7.0%	
Other fees and commissions expense	333	347	-4.1%	
Others	1,498	1,054	42.1%	
Total	12,779	12,557	1.8%	

*restated

Other Operating Expenses

Danamon was able to maintain its operational excellence. Danamon's general and administrative expenses declined to Rp2.71 trillion compare to Rp2.82 trillion previous year.

Danamon's allowance for impairment losses also improved to Rp3.26 trillion compare to Rp3.51 trillion due to improvement in asset quality.

Net Operating Income

Bank Danamon's net operating income grew by 0.9% to Rp5.16 trillion compare to Rp5.11 trillion last year. Net operating income due to increase net interest income.

Net Income from Continuing Operation

Net income from continuing operation increased by 5.2% in 2018 to Rp3.57 trillion compare to Rp3.39 trillion last year. The increase was mainly due to improvement in loan growth as well as Danamon's

ability to maintain its operational excellence and improvement in asset quality. In September 2018, Danamon announced the divestment of Adira Insurance to Zurich. As a result, the income from Adira Insurance was booked under net income from disposal group classified as for sale. Net income from Adira Insurance stood at Rp536 billion 23.4% growth compare to last year.

Income Before Income tax

Due to increase in net operating profit in 2018, Danamon posted a pre-taxation profit growth of Rp4.11 trillion, 7.3% increase compare to Rp3.83 trillion last year.

Net Income attributable to equity holders of the parent entity

Danamon's net income, attributable to the equity holders of the Parent entity, grew by 6.5% to Rp3.92 trillion after taking into account income tax expense in 2018. Danamon's earning per share reached Rp409 per share (full amount) compare to Rp384 per share (full amount) in 2017.

CASH FLOW REPORT

(In billion rupiah)

Description	2018	2017	growth
			YoY
Net Cash flows from operating activities	4,445	3,749	18.6%
Net Cash flow from/(used in) investing activities	3,387	(3,189)	n/m
Net Cash Flows from financing activities	(4,382)	23	n/m
Net decrease in cash and cash equivalents from disposal group classified as held for sale	(344)	0	100.0%
Net (decrease)/increase in cash and cash equivalents	3,106	583	432.8%
Net effect on changes in exchange rates on cash and cash equivalent	89	98	-9.2%
Cash and cash equivalents at beginning of the year	15,834	15,154	4.5%
Cash and cash equivalents at end of the year	19,029	15,834	20.2%

Cash Flow from Operations

Bank Danamon posted a surplus net cash flow from operations of Rp4.44 trillion in 2018, an increased of 18.6% from Rp3.75 trillion in 2017.

Cash Flows from Investments

Danamon's net cash provided from investing activities stood at Rp3.38 trillion surplus compared to deficit of Rp3.19 trillion last year. This was due to less acquisition of marketable securities and government securities.

Cash Flow from Financing

Net cash provided from financing activities was deficit by Rp4.38 trillion compared to Rp23.0 billion surplus last year. At the end of 2018, Danamon's total cash and cash equivalents increased to Rp19.03 trillion from Rp15.83 trillion in 2017. These was mainly due to increased in operating activities and investing activities.

Commitment and Contingency

Danamon is committed to providing loan facilities to customers as well as contingency in the form of income from settlements and bank guarantees received. Total net commitment payables and contingent payables in 2018 stood at Rp5.82 trillion 10% higher compared to Rp5.29 trillion last year.

(In billion rupiah)

Commitment payables	2018	2017	growth
			YoY
Unused loan facilities to - debtors	45	259	-82.4%
Outstanding irrevocable - letters of credit	1,932	1,894	2.0%
Total commitment payables	1,977	2,153	-8.2%
Contingent receivables			
Guarantee from other banks -Interest receivable on - non-performing assets	66	29	127.6%
Total contingent receivables	597	488	22.4%
Contingent payables			
Guarantees issued in the form of Bank guarantees - Standby letters of credit -	4,206	3,468	21.3%
Total contingent payables	4,446	3,633	22.4%
Contingent payables - net	3,850	3,146	22.4%
Commitment payables and Contingent payables - net	5,827	5,299	10.0%

KEY FINANCIAL RATIOS

Bank Danamon consistently conducts business with prudence and complies with BankIndonesia regulations, the Financial Services Authority, and all applicable legislation. Danamon was able to meet the financial ratios stipulated by the regulators while pushing for loan expansion. Danamon continued to maintain its strong capital with consolidated CAR stood at 22.2% in 2018. Danamon also was able

to maintain its operation efficiency in 2018 as its BOPO improved to 70.9% compare to 72.1% last year. Danamon's focus in maintaining its asset quality also drove Danamon's NPL ratio stood at 2.7%. Danamon's NIM declined by 30 bps to 8.9% as Central Bank of Indonesia hike its 7 days repo-rate 6 times. In terms of profitability, Danamon's ROA stood at 2.2% improved compare to 2.1% last year.

(In billion rupiah)

in %	2018	2017	growth
			YoY
CAR - Consolidated	22.2	22.1	0.1
NPL	2.7	2.8	-0.1
NIM	8.9	9.3	-0.3
BOPO	70.9	72.1	-1.2
ROA	2.2	2.1	0.1
RIM	97.2	n/a	n/m

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 as reflected in the Minimum Capital Adequacy Requirement (KPMM) in measuring solvency through bank capital ratios. Danamon's consolidated CAR at 2018 stood at 22.2% an improvement compares to 22.1% last year.

Bankability

The profitability performance of Bank Danamon is measured using the ratio of Return on Assets (ROA), Return on Equity (ROE), Net Income Margin (NIM), and Operating Cost to Operating Revenue (BOPO). Danamon's NIM stood at 8.9% slightly decline compare to 9.3% last year due to increase in cost of fund. However, Danamon's ROA improved to 2.2% from 2.1% last year due to improvement in net profit. ROE also improved to 10.6% compared to 10.5% last year.

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 Macroprudential Intermediation Ratio (RIM). Danamon's RIM stood at 97.2% in FY 2018.

CAPITAL STRUCTURE

The Bank's current capital structure consists of:

- i. The core capital (tier 1) comprises of paid-up capital and disclosed reserves less deductions for deferred tax, intangible assets and investments in subsidiaries.

Disclosed reserve consist of additional paid up capital, general reserve, prior year profit, current year profit, other comprehensive income less shortage in regulatory provision on allowance for impairment loss for productive assets and non-productive assets.

- ii. Supplementary capital (tier 2) compromises the regulatory provision general reserve on productive assets (maximum 1.25% from RWA for credit risk) and subordinated loan which is qualified as capital instrument in tier 2.

Capital Management

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

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

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

(In billion rupiah)

Rp Billion	Bank Only			Consolidated		
	2018	2017	YoY	2018	2017	YoY
Common Equity (Tier-1)	28,496	28,219	1.0%	35,193	33,357	5.5%
Supplemental Capital (Tier-2)	1,223	1,137	7.6%	1,368	1,261	8.5%
Total Core and Supplemental Capital	29,720	29,356	1.2%	36,561	34,619	5.6%
Risk Weighted Asset based on Credit Risk, Market Risk, Operational Risk)	130,387	126,334	3.2%	164,394	157,002	4.7%
Total CAR ratio	22.8%	23.2%	-0.4%	22.2%	22.1%	0.1%

INVESTMENT OF CAPITAL GOODS

Danamon invested in fixed assets in 2018, consisting of buildings, office equipment, motor vehicles and in-progress assets. Investment of capital goods in 2018 reached Rp272.1 billion 2.4% increased compare to last year.

Rp Million	2018	2017	YoY growth
	Land	-	-
Buildings	36,200	32,880	10.1%
Office Equipment	204,915	206,358	-0.7%
Motor Vehicle	31,001	12,531	147.4%
Construction in Progress	2	13,878	-100.0%
Total	272,118	265,647	2.4%

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

Impact of Interest Rate Changes

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

Impact of Exchange Rate Fluctuations

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

TARGET VERSUS ACHIEVEMENT COMPARISON

In 2018, Danamon successfully achieved its target. Danamon's bank only loan stood at Rp104.57 trillion higher than Rp102.73 trillion target that we set last year. Danamon's NPAT profit stood at Rp3.92 trillion in line with last year target.

MATERIAL INFORMATION AND FACTS OCCURRING AFTER DATE OF ACCOUNTANT AUDIT REPORTS

On 22 January 2019, the Bank along with PT Bank Nusantara Parahyangan Tbk, has signed and submitted the merger plan to OJK. The Plan outlines details of the proposed merger, among others, that the surviving entity will be the Bank and headquartered in Jakarta.

The merger plan is subject to approval by the relevant regulatory authorities, both banks' shareholders, and the completion of other formal requirements necessary for such transactions.

OTHER IMPORTANT TRANSACTIONS OF A SIGNIFICANT AMOUNT

During 2018, 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 (AGM). In 2018, Bank Danamon paid a cash dividend of Rp1.29 trillion or 35% of its net profit for fiscal year 2017.

*(In billion rupiah)

Profit for the Year	Date of AGM	% Net profit	Dividend per Share for Series A and Series B (Rp full amount)	Dividend Payment Amount *	Payment date	General & Mandatory Reserves *
2017	20-Mar-18	35%	134.44	1,288.5	18-Apr-18	36.8
2016	12-Apr-17	35%	97.48	934.3	12-May-17	26.7
2015	28-Apr-16	30%	74.9	717.9	27-May-16	23.9

SHARE OWNERSHIP PROGRAM FOR MANAGEMENT AND EMPLOYEES

In 2018, 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 2018

No significant changes occurred in the Bank and the Bank's business group up to the period ending December 2018 affecting Danamon's financial position.

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

In 2018, the Bank did not undertake any investment proceedings.

Expansion

In 2018, the Bank did not undertake any expansion proceedings.

Divestment

On September 27, 2018, the Bank has signed Conditional Sale and Subscription Agreement ("CSSA") with Zurich Insurance Company Ltd. related to the plan to sell the Bank's ownership stake in PT Asuransi Adira Dinamika ("AI") of 70% of the shares issued by AI. Upon completion of the transaction, the Bank will retain 20% ownership in AI. Subject to certain pre-conditions, including obtaining relevant regulatory approval, the transaction is expected to be completed no later than nine months from the date of signing of CSSA. Concurrently, AI has entered into long-term strategic partnership agreements with the Bank and PT Adira Dinamika Multi Finance Tbk ("ADMF")

Acquisitions

In 2018, the Bank did not undertake any acquisition proceedings.

Debt and Capital Restructuring

In 2018, the Bank did not undertake any debt or capital restructuring proceedings.

REALIZATION OF PUBLIC OFFERING PROCEEDS

In 2018, Danamon as a parent company did not conduct any public offering neither bond nor stock issuance.

MATERIAL TRANSACTION INFORMATION CONTAINING CONFLICTS OF INTEREST

In 2018, the Bank 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 2018 audited financial statements of PT Bank Danamon Tbk (note No. 48).

*(In billion rupiah)

No	Parties with special relation with the Bank	Relationship with the Bank	Type of Transaction	Value of Transaction*
1	Standard Chartered Bank PLC	Owned by the same shareholders	Placement	38.23
2	MUFG Bank, Ltd.	Owned by the same shareholders	Placement	1.75
3	PT Bank DBS Indonesia	Owned by the same shareholders	Placement	0.02
4	Development Bank of Singapore, Ltd	Owned by the same shareholders	Placement	72.28
5	PT Bank DBS Indonesia	Owned by the same shareholders	Marketable Securities	0.77
6	Standard Chartered Bank, London	Owned by the same shareholders	Derivative Acceptance	0.01
7	MUFG Bank, Ltd.	Owned by the same shareholders	Derivative Acceptance	54.55
8	PT Mitra Pinasthika Mustika Finance	Owned by the same shareholders	Loan disbursed	65.99
9	PT General Integreted Company (GIC)	Owned by the same shareholders	Loan disbursed	1.73
10	Board of Commissioners, Board of Directors and key Employees	Key Executive and employees	Loan disbursed	30.77
11	Board of Commissioners, Board of Directors and key Employees	Key Executive and employees	Loan disbursed	0.54

CHANGES IN REGULATION THAT HAVE SIGNIFICANT EFFECT ON THE BANK

Some of the new banking regulations issued by the Financial Services Authority and Bank Indonesia in 2018 and their impact on Bank Danamon are outlined in the following table:

Regulations	Descriptions	Impact on BDI
PBI No. 20/3 / PBI / 2018 dated March 29, 2018 and PADG No. 20/30 / PADG / 2018 dated November 30, 2018 regarding Minimum Reserve Requirement in Rupiah and Foreign Currency for Conventional Commercial Banks (BUK), Sharia Commercial Banks (BUS) and Sharia Business Units (UUS)	<ol style="list-style-type: none"> 1. Minimum Reserve Requirement for BUK <ol style="list-style-type: none"> a. Primary Statutory Reserves - Rupiah : 6.5% of biweekly average BUK deposits in Rupiah, effective on December 1, 2018: <ul style="list-style-type: none"> - Must be fulfilled on a daily basis of 3.5%; - Must be fulfilled on a biweekly average of 3%. b. Primary Statutory Reserves - Foreign Currency : 8% of biweekly average BUK deposits in Foreign Currency, effective on October 1, 2018: <ul style="list-style-type: none"> - Must be fulfilled on a daily basis of 6%; - Must be fulfilled on a biweekly average of 2%. 2. Minimum Reserve Requirement for UUS and BUS <ol style="list-style-type: none"> a. Primary Statutory Reserves – Rupiah : 5% of biweekly average BUS/ UUS Deposits in Rupiah, effective on December 1,2018: <ul style="list-style-type: none"> - Must be fulfilled on a daily basis of 2%; - Must be fulfilled on a biweekly average of 3%. b. Primary Statutory Reserves - Foreign Currency : 1% of BUS/UUS deposits in Foreign Currency, must be fulfilled on a daily basis, effective on April 3,2018. 	The implementation of this average GWM has a positive impact to Bank's daily liquidity management.
PBI No. 20/4 / PBI / 2018 regarding Macroprudential Intermediation Ratio (RIM) and Macroprudential Liquidity Buffer (PLM) for Conventional Commercial Banks (BUK), Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) Issued date: Mar 29, 2018	<ol style="list-style-type: none"> 1. Macroprudential Intermediation Ratio (RIM) is a substitute for the Loan to Funding Ratio (LFR),with the additional of Bank's corporate securities The limits are: <ol style="list-style-type: none"> a. Lower limit: 80% b. Upper limit: 92% The limit requirement is not applicable if CAR\geq 14%. The RIM for BUK is effective on July 16, 2018, while the Sharia RIM is effective on October 1, 2018. 2. Macroprudential Liquidity Buffer (PLM) is a substitute for Secondary Statutory Reserves, set at 4% of BUK deposit in Rupiah. PLM must be fulfilled with the Securities in Rupiah, which can be used in monetary operations. The PLM is effective on July 16, 2018. 	With this regulation, with BI approval half of PLM can be used to fulfill liquidity if necessary
PBI No. 20/8 / PBI / 2018 regarding Loan To Value Ratios for Property Loans (KP), Financing To Value Ratios for Property Financing (PP), and Advance for Motor Vehicle Loans (KKB) or Motor Vehicle Financing (PKB) Issued date: 30 Jul 2018	<ol style="list-style-type: none"> 1. LTV ratio for KP and FTV ratio for PP is determined based on the Bank's policy, for: <ol style="list-style-type: none"> a. KP or PP for the first facility; and b. KP or PP for the second facility and thereafter for Site Houses with a building area up to 21m². Other than mentioned above, the LTV ratio for KP and the FTV ratio for PP are determined by Bank Indonesia. 2. Regulations on the disbursement stages for KP or PP and changes in requirements for ownership of indent property. 3. Maximum ownership of indent property is 5 KP/PP facilities. 4. Adjustment of the KP/PP collateral limit valuation by an independent appraiser, previously above Rp5 billion to above Rp10 billion. <p>This regulation effective on August 1, 2018</p>	Support the bank business growth of KP/PP, where one of the target segments of Bank credit growth is Property Loan/Property Financing.
SEOJK No. 12 /SEOJK.03/2018 regarding the Implementation of Risk Management and Risk Measurement in the Standard Approach for Interest Rate Risk in the Banking Book (Interest Rate Risk in The Banking Book) for Commercial Banks Issued date : August 21, 2018	<ol style="list-style-type: none"> 1. IRRBB (Interest Rate Risk in Banking Books) is a risk from the interest rate movement in the market which differ to the position of banking book which has current and future potential losses towards profitability and bank capital. 2. There are two (2) Risk Measurement methods for IRRBB, which are based on changes in Economic Value of Equity (EVE) and based on changes in net interest income (NII). 3. This regulation sets the guideline of calculating IRRBB & capital adequacy for IRRBB. 4. IRRBB Reporting and Publication is effective in June 2019. 	<p>This new measurement method will enrich the bank's monitoring and control process in market risk, allowing the Bank to fulfill business plans inline with the Risk Appetite Statement.</p> <p>Currently, the Bank has been implementing the method internally. In order to comply with OJK regulations, the Bank will adjust the related methods and policies as well as improve the ALM system's capabilities, allowing for more detailed calculations and more dynamic simulations.</p>

CHANGES IN ACCOUNTING POLICIES

The following standards, amendments and interpretations became effective since 1 January 2018 and are relevant to the Bank and Subsidiaries:

- a. Amendments to PSAK No. 2: Statement of Cash Flows on the Disclosures Initiative. This amendment requires entities to provide disclosures that enable the financial statements users to evaluate the changes in liabilities arising from financing activities, including changes from cash flow and non-cash.
- b. Amendments to PSAK No. 46: Incomes Taxes on the Recognition of Deferred Tax assets for Unrealized Losses. These amendments clarifies whether taxable profit will be available so that the deductible temporary differences can be utilized; estimates to the most likely future taxable income can include recovery of certain assets of the entity exceeds its carrying amount.
- c. Amendments to PSAK 13: Investment Property regarding Transfers of Investment Property. The amendment clarifies the requirements on transfers to, or from, investment property.
- d. Amendments to PSAK 53: Share-based Payment regarding Classification and Measurement of Share-based Payment Transactions. The amendment clarifies the accounting treatment related to classification and measurement for share based transactions.
- e. PSAK 111: Accounting for Wa'd Relation with recognition of Wa'd Sharia marketable securities classification and forex hedging recognition.

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

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