



Report from the President Director

Ongki Wanadjati Dana

President Director

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Dear respective shareholders and stakeholders,

Greetings, and may peace be with us all with the blessings of the Almighty God. Allow us to present you with the Company's annual report for the fiscal year ended December 31, 2019. This report is part of the Management's accountability for the running of the business for the year being reported.

The annual report hereby submitted is presented in accordance with the direction and requirements of regulators, including the Financial Services Authority Regulation (POJK) such as POJK Number 29/POJK.04./2016 on Annual Reports of Issuers or Public Listed Companies, other mandatory requirements, and best practice standards in the industry.

The contents of this annual report is in alignment with reports audited by independent auditors and submitted to regulators, comprising periodic reports such as financial statements as well as one-off reports related to corporate actions and other mandatory requirement fulfillment.

New Era for Bank BTPN

2019 is a historic milestone for PT Bank Tabungan Pensiunan Nasional Tbk, which changed its name to PT Bank BTPN Tbk ('Bank BTPN' or 'the Bank'), since February 1, 2019 as the official identity as of the merger with PT Bank Sumitomo Mitsui Indonesia (SMBCI).

The entire merger process, in terms of both legal merger as well as business integration, have been running well. There is no significant disruptions to the Bank's operational activities.

For us, the completion of the merger is important, because it becomes the birth of a new round of BTPN Bank business journey. If so far the Bank has focused more on the retail or mass market segment and Small and Medium Enterprises (SMEs), it furthermore goes into the corporate segment, which is the core business of SMBCI. The corporate business unit serves Japanese companies operating in Indonesia, multinational companies and other large local companies. The corporate business has also actively involves in structured financing and syndicated lending in the Indonesian market. Thus, Bank BTPN became a universal bank with more complete services.

After the merger, the Bank has set a new vision statement:



To become the first choice bank in Indonesia, which give significant change in the life of millions of people, mainly with the support of digital technology.



Likewise, our mission statements have been adjusted to reflect the future direction of the Bank's programs development and policies:

- To offer complete financial solutions and service to various segments of retail, micro, SME and corporate business in Indonesia, and for Indonesia nation and country as a whole;
- To provide valuable opportunities for the professional growth of the the employees of Bank BTPN;
- To create significant and sustainable values for all stakeholders, including for Indonesia society;
- To utilize technological innovations as a key differentiator to provide the best-in-class service quality and customer experience for customers and partners of Bank BTPN.

These fundamental changes reflect, among other things, the fact that the Bank has become a much bigger business entity. In terms of assets, the post-merger Bank recorded a sharp growth of 78%, from IDR101.3 trillion in 2018 to IDR181.6 trillion or increased by 79% at year-end 2019. Consequently, Bank BTPN has become one of the top 10 biggest banks in Indonesia by assets.

With the global support of its parent company, namely Sumitomo Mitsui Bank Corporation (SMBC) and digital banking capability, provides Bank BTPN has greater capability and opportunity to provide loans, to broader segments, including capabilities to provide stronger services to the customers.

Macro Conditions

As the Bank underwent a process of consolidation and integration during 2019, conditions in the global economy were less than ideal. Economic performance tended to slow down, in part due to the prolonged tension between the US and China. This situation resulted in a weakening of global economy while putting commodity prices under pressure.

Due to such uncertainties in global economic movements, the World Bank and the International Monetary Fund (IMF) both had revised downward their earlier growth targets announced at the beginning of the year. These changes were mainly attributable to the ongoing trade war between two of the world's largest economies with no end in sight. As a result, world economic growth in 2019 slowed to a growth of 2.9% yoy from 3.6% yoy the previous year

The condition of the world economy, which is still unstable and tends to slow down, puts pressure on the national economy. That, in particular, has implications for the weakening of international trade and falling commodity prices, thereby affecting the business activities of the world business.

Responding to these conditions, throughout 2019, the Central Bank of the United States of America, the Federal Reserve (The Fed) has lowered its interest rate benchmark by 75 bps to 1.50%-1.75% from 2.25%-2.50%. Bank Indonesia also made the same response by launching a number of relaxation policies. The benchmark interest rate in 2019 has fallen four times in a period of six months, from 6.00% in June to 5.00% in December.

Bank Indonesia also lowered the Mandatory Minimum Reserve requirement for banks by 50 basis point. This is expected to help ease the pressure on banks' liquidity, thus enabling banks to disburse more loans to help drive the economy.

The banking authority, namely the Financial Services Authority (OJK), is aware of the impact of economic conditions in 2019 to banks' performance. Therefore, OJK has revised downward its target for bank loan growth in 2019 from 10-12% to 9-11%, even though the initial target was lower than the actual bank loan growth achieved in the previous year of 11.8%.

Nevertheless, banking performance and stability in 2019 is, in general, still at respectable level. According to OJK data, the capital adequacy ratio of conventional banks in October was 23.4%, higher than the level at the corresponding period in the previous year of 23.0%.

Meanwhile, profit before tax as of December 2019 was recorded at IDR200.5 trillion, higher than in December 2018 which was IDR190.7 trillion. This despite the increase in the ratio of operating expenses to operating income in the same period from 79.4% on 2019, to 77.9% previous year.

Information On 2019 Business Performance

Challenges and Constraints

Since the merger, Bank BTPN was led by a new management team. The important task of the new management team is to build a new culture so that all employees can be motivated to jointly build a larger-scale of Bank BTPN with a more diverse business segment.

Externally, the Bank faces the challenge of macroeconomic conditions that are experiencing pressures that cause the global and domestic economic growth prospects to slow down as explained above. In addition, 2019 is a political year with elections including the Presidential election.

Early in 2019, Bank Indonesia benchmark interest rate remained at 6%, after experiencing an increase from 4.25% in the first Quarter 2018. This relatively high interest rate position lasted until June.

With the increase in interest rate, the cost of funds of banks also increased. Interest rates on deposits also rose. Eventually, the change will affect bank lending rates and, if it is maintained, will result on a potential decline in the net margin of banks. In addition, in order to support the merger, the Bank maintained more funds to ensure the bank's liquidity is well managed, therefore it is impacting to the higher costs of fund of the Bank.

In terms of asset growth, Bank BTPN faces the challenge from a maturing pension loan portfolio due to external factor, which thus far has played an important role in the retail banking business segment. It become an even greater concern for the Bank with its reputation as the pioneer bank in the pension business, therefore the effort to maintain it becomes very important.

The above macro conditions can also have a negative impact on the level of growth and quality of loans in the MSME segment and individual customers.

Policies and Strategies to Overcome Constraints

Ensuring smooth process of integration and synergy between the two banks runs smoothly is the first focus of management by 2019. Second, developing core businesses that have been owned by the two banks previously.

In order to create a sustainable merged bank, BTPN Bank implemented a priority strategy going forward after the merger, which could be divided into 3 stages: Stabilizing, Synergizing, and Developing (Scale up).

The Stabilization Stages was carried out in 2019 with the aim of strengthening existing capabilities and core business with a main focus, namely: Ensuring the successful integration of key processes identified during the merger assessment, implementing "stabilization" initiatives and planning "synergy" initiatives "for the next stage, and actively involving all key stakeholders, consisting of: customers, employees, business partners, regulators and shareholders.

The Synergy Phase is an advanced stage with the aim of creating synergies in all sections with the main focus being implementing and developing existing business synergy initiatives, continuing the stabilization of new post-integration processes, and preparing for the launch of new businesses.

Scale up stage is the next advanced stage which aims to build new businesses, with the main focus of increasing synergies that have been developed and launching new businesses, identifying the next S-curve growth / value creation so that the Bank can grow sustainably while still prioritizing the precautionary principle.

To that end, the focus of the Bank in 2019 which is the first year after the merger is the process of consolidation and stabilization as well as developing its business. Stabilization is the foundation to build sustainable performance for the Bank in the future because success at this stage will facilitate the Bank to implement the next stage, namely Synergize and Scale Up.

Some alignment processes have been carried out well during 2019, namely:

- Strategic alignment of the two merged banks by formulating the company's vision and mission, defining clear segments and developing strategies to serve those segments. The purpose of this joint vision, mission and strategy formulation is to have a buy-in process from all key employees who will implement the collective agreement.
- Organizational alignment in the process areas, human resources and information technology.
- Leadership and culture alignment that will have an impact on work processes and engagement among BTPN people.

The Bank's business segment is divided into two, namely Growing Business and Mature Business. Growing Business is a lending business that will continue to develop in a sustainable manner, consisting of corporate businesses, small and medium business loans, consumer financing, and Sharia financing. While Mature Business is a stagnant credit distribution business with lower new Pension loan disbursements compared to previous years, micro business (Mitra Usaha Rakyat), which is indeed transformed by the Bank into a new Business Partner Business (MUR) business so that the old portfolio run down. With moderate economic growth conditions, the Bank is prudently focused on maintaining business growth with a relatively moderate growth rate with the main growth being in the Growing Business. In carrying out business growth, the Bank also continues to maintain the quality of the loan portfolio.

After the merger, the Bank has the capability to provide Trade, Cash Management and FX services to corporate customers.

And in order to get low-cost funds and at the same time encourage the development of digital customers so that more and more customers are transacting through digital services provided, the Bank continues to improve the capabilities of the existing digital banking platform, BTPN Wow! and Jenius. In addition, the Bank continues to strengthen bank business

transactions, especially by exploring opportunities for Supply Chain Financing for Principals and suppliers / distributors that are adjusted to the Bank's credit appetite, increasing cross-selling opportunities, increasing the empowerment of relationships between financial institutions (Financial Institution) and continue to develop products.

The Bank also harmonizes its infrastructure to support business development in terms of risk management, operations, information technology, platform and Power programs, and the development of human resource competencies.

Business Performance

Considering that the business merger has been effective since February 1, 2019, the business performance for the fiscal year is a consolidated performance. Thus, the report coverage is broader than the previous annual report, especially with respect to the entry of the Bank into the corporate segment.

A. Operations

In terms of operations, the business merger resulted in a Bank BTPN with more capabilities to serve its customers. Through its global network, the Bank is now capable of providing advisory services for customers wishing to expand their business overseas and able to provide more services for customers through a network owned by the Bank not only domestically, but also to overseas expansion.

In the advisory service, the Bank is able to offer business matching solutions if it is in the form of business opportunity information, including finding overseas partners. One of the strength in other operational areas is with related to development of digital banking for the retail banking segment initially for the digital savvy. The Bank has succeeded in developing branchless banking, so that banking services or transactions can be done via smartphone. Thus, operational performance can be more efficient. So in summary, Bank BTPN has succeeded in changing the way customers deal with banks, from services through physical networks to digital.

Developments in digital banking and the Internet of Things (IOT) by Bank BTPN have also transformed the way people work within the organization. The Management continues to make adjustments in this area in line with each innovation developed.

B. Financial Aspect

The impact of the business merger was also evident in the financial aspect. The merger has provided Bank BTPN with more room in terms of financial, especially since it is no longer limited to the retail segment, but also include the corporate segment.

The Management also has greater flexibility to diversify its funding sources. Whereas previously we depend heavily on time deposits, now we have access to other sources such as bond issuance or bilateral loans, with the Bank having a stronger position as a subsidiary of SMBC. Currently, the Bank has long term offshore borrowing facility limit of USD 2,8 billion. In addition, the Bank also has the potential to get lower interest rates due to better debt rating, resulting in lower cost of funds.

The Bank's performance in 2019 reflects the dynamics of the Bank's business after the merger, both in business units originating from Bank BTPN before the merger and growth in the corporate business that originated from Bank SMBCI before the merger.

Total loans extended grew by 108% YoY (corporate loans grew by 16% compared to 2018 SMBCI corporate loans before the merger, UKM 8%, TUR by 24%), while the number of mature Purna Bakti Bank business units decreased by 7%. This is also the case with microfinance because the Bank has been shifting to the SME segment since a few years ago. With this dynamic, there is a shift in Bank yields from business segments with higher yields in the retail lending to the corporate business segment.

Other dynamics that affect the financial performance of the Bank in 2019 are the increase in the benchmark interest rate since the second half of 2018, the increasing amount of funding formed by the Bank to ensure sufficient funds to support the merger and the efforts made after the merger.

The Bank always maintains liquidity and funding ratios well and optimizes the amount of third party funds. Along with lowering interest rates, the Bank adjusted interest rates and cut a number of high cost Time Deposits. Cost of fund of Rupiah time deposit declined from 7.9% in February 2019 to 6.5% in December 2019. In addition, the Bank made various efforts and initiatives to increase the amount of CASA which resulted in growth of current account saving accounts (CASA) by 173%. The liquidity coverage ratio (LCR) and the Net Stable Funding Ratio (NSFR) ratio are at healthy levels at 229.14% and 113.04%.

The decline in the benchmark interest rate in the third quarter helped to reduce the cost of the Bank's third party funds, but on the other hand, the yield from loans also experienced a decrease in interest rates,

Total customer deposits recorded by the Bank until the end of fiscal year 2019 amounted to IDR86.9 trillion. Compared to 2018 which was IDR70.8 trillion, an increase of 23%. Most of these customer deposits are in the form of time deposits, accounting for 72% of total customer deposits at the Bank. The CASA ratio has increased, from 13% in 2018 to 28% in 2019.

After the merger, the Bank has long-term funding facilities from SMBC, IFC and bilateral funding from several other institutions.

In order to diversify funding and interest rate risk management in the banking book, the Bank issues securities. In addition to MTN, NCD, and bonds that the Bank already has, in the 4th quarter of 2019 the Bank launched bonds of IDR1T. The bank previously continuously issued bonds, and the issuance of bonds in the 4th quarter was Continuous General Issuance (PUB) IV phase I of 2019.

The various dynamics above formed the Bank's NIM in 2019. With the merging of the corporate business unit (where the loans granted from this business unit consisted of Rupiah and foreign currencies) and which naturally had lower yields than the business

units of the bank BTPN prior to the merger which are retail and SME, the dynamics of growth in each business unit, changes in the benchmark interest rate and changes in the structure and funding costs explained the movement of the Bank's net interest margin (NIM) from 11,27% to 6,92% last year in 2019.

C. Profitability

In terms of profitability, the Bank managed to record a good net profit. Until the end of 2019, Bank BTPN managed to record a net profit of IDR3.0 trillion, 41% higher compared to 2018 of IDR2.1 trillion. This achievement was mainly driven by efforts at good margin management, fee acquisition and revaluation gains from foreign exchange transactions, especially from corporate business units. Operating costs are well maintained and the allowance for impairment losses (CKPN) is stable.

Overall, the Bank managed to record performance in accordance with the Bank's targets, including reflected in the achievement of the ratio of Return on Assets (ROA), Return on Equity (ROE) and Capital Adequacy Ratio (CAR), each of which was 2.2%, 9.9% and 24.2% which exceeded the target.

D. Capital

The business merger has provided Bank BTPN with a more solid and robust capital structure. As at the end of the fiscal year, our Capital Adequacy Ratio (CAR) stood at 24.2%.

That position is far above the minimum provisions set by the regulator. Thus, the Bank's capital capability is very solid and have greater ability to be able to support the customer's loan needs and national economic growth.

2020 Business Prospects

2020 will see continuing dynamics in economic conditions at the global and domestic levels. This situation, among others, has the potential to affect the performance of international trade, which ultimately becomes a challenge for the financial sector.

In addition, due to an extraordinary event related to Coronavirus Disease 2019 ("COVID-19"), in March 2020, World Health Organization has declared a pandemic, and prevention and control measures for COVID-19 have taken place in Indonesia. This situation has disrupted business activities and the global economy, including Indonesia.

The Company continues to monitor the situation related to COVID-19, assessing and responding actively to its impact on the financial position and results of operations. As of the date of these consolidated financial statements, the valuation is still ongoing. The Company will consider the impact and probability of a worsening economic scenario due to the COVID-19 related situation on the Bank's performance in 2020.

Nevertheless, Bank BTPN continues to strive to achieve its vision of becoming the first choice bank in Indonesia that can provide meaningful changes in the lives of millions of people, with the support of digital technology. BTPN Bank is believed to be a bigger and stronger bank, so that it can increase contributions to the national economy.

This vision can be pursued through a number of strategies starting from the stabilization phase aimed at integrating and mitigating risks with regulatory support that has been implemented during 2019 and will be continued in 2020. Furthermore, through the Synergy phase aims to combine current assets to support stronger cross-sell, serve new segments and reduce costs and scale up stages aiming to create a new engine for growth and profitability of the combined entity.

Good Corporate Governance Practises

Since the merger took place, Bank BTPN has become part of a Global Bank Systemic International Bank – G-SIB. Therefore, in conducting business, the Bank must also refer to the policies of the holding company, namely SMBC, especially in the area of Good Corporate Governance (GCG).

Thus, the Bank complies not only with applicable regulations in Indonesia, but also adopts standards that apply internationally. As in the Compliance Function, for example, the Bank also meets the standards imposed by the authorities in Japan, namely the Japan Financial Agency. Likewise with the Foreign Corrupt Practice Act (FCPA) for anti-corruption policies that apply in the United States and the UK Bribery Act (UKBA) for those in force in the UK.

These regulations, which apply in Indonesia and internationally, become the basis and reference point for Bank BTPN in conducting business activities. Thus, the Bank is not only have become bigger and stronger in terms of capital, but also more stringent in terms of governance and risk management.

Implementation of Risk Management

In 2019, Bank BTPN implements risk management in the corporate sector as well as in the retail sector. Considering that the two business lines have different business model and segmentation, the management of risk as well as the risk appetite will also be different.

As such, the Bank requires an integrated risk management policy that covers both sectors, in the form of completeness of procedures as well as policies. The Management has successfully conducted the integration of the two different risk management cultures without any significant disruption.

Along with Management's efforts in integrating the risk management culture of two different business models, the Bank also has a commitment to fulfill the requirements of regulators. These include, among other things, the policy on the application of the standard approach of risk management and risk measurement for interest rate risk in the banking book, or the Interest Rate Risk on Banking Book (IRRBB) issued by the Financial Services Authority (OJK) in 2018 and applicable beginning in the 2019 fiscal year.

In addition, the Bank also continues to refine the system related to the requirement for net stable funding ratio (NSFR), which has been in force since 2017. Another concern is the preparation for the application of Statement for Financial Accounting Standard (SFAS) 71, which came into force in January 2020. Through the good cooperation of all work units in Bank BTPN, all these preparations were successfully completed.

In 2019, Bank BTPN has defined the risk appetite for the post-merger bank. Thus, the amount of credit, market, and operational risks that become the Bank's tolerance limit has been successfully resolved.

Changes in the Composition of the Board of Directors

In 2019, there was a change in the composition of the Board of Directors. The Extraordinary General Meeting of Shareholders held on September 11, 2019, approved the appointment of Hanna Tantani as Director of Finance.

Therefore, the composition of the Board of Directors up to December 31, 2019 are:

President Director (Independent)	: Ongki Wanadjati Dana
Deputy President Director	: Kazuhisa Miyagawa
Director of Compliance (Independent)	: Dini Herdini
Director	: Yasuhiro Daikoku
Director	: Henocho Munandar
Director	: Adrianus Dani Prabawa
Director	: Hiromichi Kubo
Director	: Merisa Darwis
Director	: Hanna Tantani

Development Of Information Technology

Digital banking has become one of the main strengths of Bank BTPN that continues to be developed on an ongoing basis. The Bank has developed a three-year master plan in each set of strategic plans.

All activities carried out in information technology (IT) development, in addition to being reported to BOD, are also reported and reviewed by a Steering Committee. The review is carried out at least once every 3 (three) months. This is part of IT governance practices that are already implemented by the Bank.

With regard to in-house system development projects, the Bank has a forum called Enterprise Management of IT (EMIT), which consists of executives related to IT. This forum provides approval of strategies and approach to use in IT development projects.

Among significant developments underway at Bank BTPN is Robotic Process Automation (RPA), which allow all repetitive business processes to be handled by system. This system has already been implemented in the pension loan termination service. The Bank will continue to develop RPAs for other business processes.

In addition, the Bank also continues to develop its IT infrastructure, both independently and in collaboration with other parties. At the same time, human resources development continues to be carried out to meet the Bank's needs.

Going forward, the Bank will still focus on digitizing all services to customers. Next comes the digitization of business processes in banking operations. Furthermore, the integration process continues as a consequence of the business merger that has occurred.

Human Resources Management

Bank BTPN considers that human resources (HR) is an important asset for the Bank in achieving its stated vision and mission. Therefore, proper HR management and development along with the development of the Bank's business activities is very important.

The merger of PT Bank Tabungan Pensiunan Nasional (BTPN) with Bank Sumitomo Mitsui Indonesia (SMBCI) on 1 February 2019 presents new challenges and opportunities in the management of human resources (HR). The Human Resources Unit plays an important role in ensuring the achievement of a harmonious integration process both in the structure and process integration, as well as the cultural integration of the banks that are combined to achieve optimal performance.

In 2019 HR management activities will focus on stabilizing the post-merger of the two banks into a new BTPN Bank. The programs carried out include:

1. Information and Communication Program, which aims to convey information in a clear, transparent and structured manner to all BTPN employees.
2. Employee Onboarding Program to the new BTPN Bank as a result of the merger. The onboarding program was given the name "Life at BTPN" and was carried out on February 20-21, 2019. From the program, it was hoped that employee's understanding of the history, achievements, and business activities carried out by the new banks resulting from the merger.
3. Post-merger strengthening program. These programs can be grouped into:
 - a. Communication program:
 - b. The programs internalize the vision, mission, and values, and increase competence
 - c. Employee motivation and engagement improvement program
4. Integration of HR management systems and processes, to ensure employees from two banks receive equal service and treatment.

In the last quarter of 2019 a new initiative began, namely the assessment and redefinition of Bank BTPN's Employee Value Proposition (EVP). This EVP study and redefinition is carried out so that BTPN can formulate appropriate steps to attract external talent, as well as retain and engage the internal talent. It is hoped that the new EVP can better reflect the strengths, ways of working and culture that BTPN currently has.

Through the EVP pillars of BTPN Bank, plans are made for activities to strengthen the identity of the BTPN Bank both inside and outside the bank. These activities will begin in 2020, to coincide with the first anniversary of the joining of BTPN and SMBCI to become the new BTPN Bank. Through this activity it is hoped that the creation of human resources can support the achievement of the Bank's BTPN strategy.

Activities In Corporate Social Responsibility

The implementation of corporate social responsibility is mainly realized through the Daya program. In principle, this program integrates Bank BTPN's business missions with its social mission or corporate shared values.



The Human Resources Unit plays an important role in ensuring the achievement of a harmonious integration process both in the structure and process integration, as well as the cultural integration of the banks that are combined to achieve optimal performance.



Since the merger took place, the Daya program, which initially had three pillars, has been refined into four pillars to make it more relevant to the Bank's business as a universal bank. First is Competence Development, relating to the development of competencies of customers.

Second, Personal Finance Help, which is an effort to develop customers' financial capabilities. Third, Sustainable Living, which is concerned with sustainability issues as related to the lives of customers and the Bank's business processes. The fourth, Capacity to Growth, empowers customers to develop entrepreneurial knowledge and skills as well as provides new business opportunities and market access.

In terms of segmentation, whereas previously Daya was managed more on a personal approach to customers in, for example, a certain region or area, it now has expanded. Among them is through cooperation with corporations to empower their employees through skills upgrading.

Throughout 2019, the Bank will provide a budget for corporate social responsibility activities. The funds are intended for activities in the field of personal capacity development, financial literacy, business capacity building and sustainable living.

Appreciation To Stakeholders

The business merger journey that, among others, has implications for the integration of two cultures from two business entities with different business focuses has been successfully carried out. All processes, from the regulatory as well as operational aspects, continue smoothly side by side between integration efforts and ongoing business processes, in order to improve business performance.

We realize that all this can happen thanks to the support of stakeholders, both the directives of regulators as well as guidance and the full confidence from shareholders. Therefore, we express our deep gratitude for everything that has been done.

Likewise, we express our highest appreciation to our employees who have devoted all their resources. This also includes other stakeholders, such as business partners who have worked well together so far, thank you for your support.

We hope that next year and the future will be better, following the opening in 2019 of new chapter in Bank BTPN's business journey to grow bigger and stronger in the future.

On behalf of the Board of Directors,



Ongki Wanadjati Dana
President Director