

Financial Review

2004 at a glance: The Figures

Consolidated Key Financial Data

(in billion Rupiah, except for ratios and share data)

	2004	2003	2002
Operating Results			
Net Interest Income	4,018	2,551	1,737
Non Interest Income	1,279	1,812	898
Total Operating Income	5,297	4,363	2,635
Provisions	397	(1,326)	(279)
Operating Expenses	(2,118)	(1,689)	(1,367)
Net Operating Income	3,576	1,348	989
Income Before Tax	3,378	1,573	989
Net Income	2,408	1,530	948
Profitability Ratios			
Net Interest Margin	8.2%	5.5%	4.1%
Cost to Income	41.5%	45.1%	45.0%
Return on Average Assets	4.5%	3.2%	2.0%
Return on Average Equity	38.6%	30.5%	22.3%
Balance Sheets Data			
Assets & Commitments ^{a)}	65,605	58,408	50,933
Assets	58,812	52,682	46,911
Loans ^{b)}	29,416	20,849	17,695
Government Bonds	17,324	21,234	15,640
Third Party Funds ^{c)}	40,765	40,215	35,330
Equity	7,804	6,822	4,653
Assets Quality Ratios			
Non-Performing Loans/Total Loans - Gross	4.0%	6.8%	4.4%
Loan Loss Allowance/Total Loans	5.5%	10.8%	5.9%
Loan Loss Allowance/Non-Performing Loans	136.5%	159.7%	132.8%
Liabilities Ratios			
Loan to Deposit Ratio ^{c)}	72.2%	56.5%	51.5%
CASA ^{d)} to Total Deposits	40.7%	41.4%	42.0%
Capital Ratios			
Capital Adequacy Ratio ^{e)}	27.0%	26.8%	25.3%
Tier 1 Capital	19.1%	23.4%	21.7%
Equity/Assets	13.3%	12.9%	9.9%

^{a)} Net commitments and contingencies

^{b)} Loans purchased from IBRA are stated at purchase price

^{c)} Deposits include deposits from other banks

^{d)} Current accounts and savings accounts

^{e)} Without market risk charge

Income Statement

Solid growth and significant margin improvement

Net income

Net income grew 57% in 2004 to Rp 2,408 billion or Rp 490.75 basic earnings per share. The main factors behind this performance were growth of 58% in net interest income to Rp 4,018 billion in line with a substantial increase in the bank's loan portfolio and lower interest expense driven by lower prevailing interest rates and improvements in liabilities pricing and cost management. These factors produced a significant improvement in net interest margin from 5.5% to 8.2%. Despite the expansion of our branch network by 264 DSP units and about 3,000 staff, costs were well managed in line with our business expansion. The cost to income ratio fell from 45.1% in 2003 to 41.5% in 2004, and is one of the lowest among leading Indonesian banks.

Interest income

Although prevailing market rates continued to decline, interest income grew 10% indicating the extent of the expansion of our loan book and a steady improvement in asset mix. Government bonds contributed 27% of total interest income, while the higher yield loan portfolio contributed 54%. Finance company subsidiary, Adira Finance, acquired in April 2004 contributed very positively with 13% of total interest income.

Table of Interest Analysis

(Rp billion)

Interest Income	2004	% contribution	2003	% contribution
Loans	3,416	54	3,383	58
Government bonds	1,729	27	1,800	31
Marketable securities and bills	337	5	587	10
Consumer financing income	852	13	-	-
Placement with other banks	60	1	19	1
Total	6,394	100	5,789	100

Interest Expenses	2004	% contribution	2003	% contribution
Time deposits	1,198	50	1,814	56
Saving accounts	403	17	772	24
Demand deposits	89	4	155	5
Borrowings and deposits from other banks	457	19	407	12
Interest and finance charges in relation to consumer financing	128	6	-	-
Others	101	4	90	3
Total	2,376	100	3,238	100

Interest expense

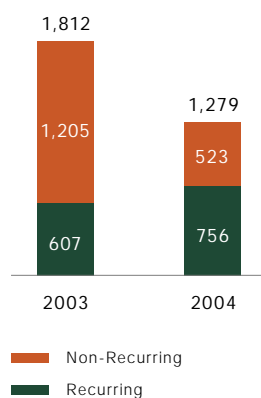
Interest expenses declined 27%, partly due to the decline of prevailing market rates through the year. Aside from the declining interest rates, the bank took an initiative to reduce deposits interest rates in middle of 2003 which has benefited the bank throughout 2004.

Non-interest Income

A reduction of non-interest income from Rp 1,812 billion to Rp 1,279 billion hid an improvement in recurring non-interest income. Non-recurring income reduced year on year: there was a reduction in one off gains on sales of marketable securities as we continued to reduce the level of Government bonds in the balance sheet and there were no further contributions to fee income from the Prima Investa mutual fund which we terminated toward the end of 2003. Recurring income grew year on year: within the total of Rp 756 billion in fees for 2004 was a significant increase in recurring income in the form of fees relating to cash management and trade finance. Credit related fees and commissions were up 14% to Rp 567 billion.

Non-Interest Income

Rp billion



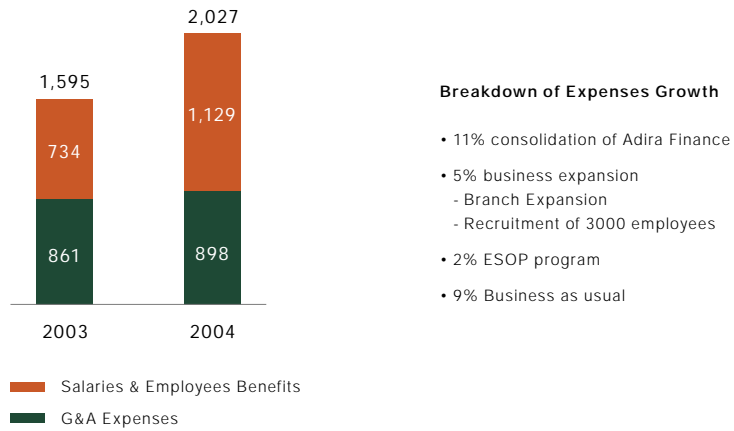
(Rp billion)	2003	2004	Change
Non-Recurring	1,205	523	(57%)
Gain on sale of mark. securities and bond	796	430	(46%)
Non-Recurring fees	282	47	(83%)
Others	127	46	(64%)
Recurring	607	756	25%
Credit related fees & commission	498	567	14%
Other fee income	109	189	73%
Total	1,812	1,279	(29%)

Other Operating Expenses

General and administrative expenses were just under 4% higher in 2004. Office expenses, communication and depreciation were higher by about a third in view of the premises expansion while advertising and promotions costs were lower: a timing issue as we prepare to support the Bank Danamon brand across a much enlarged franchise in 2005. Salaries were adjusted in line with market rates and a further 3,000 staff were recruited and trained. In addition, a number of senior professionals with specialist expertise were put in place as part of our ongoing strategy to boost fee income and relationship management in our targeted market segments.

Operating Expenses

Rp billion



Provisions

There was a noticeable reduction in allowances for possible losses on income earning assets in 2004. Following our decision in 2003 to downgrade and fully provide for selected loans, one year later we were able to record a number of recoveries, primarily on loans purchased from IBRA which amounted to Rp 432 billion at year end. As the bank's loan book has increased, the quality of the portfolio has been raised through improvements in risk assessment. Our more targeted new business strategy has proven to be effective.

Net operating income

Primarily a function of the significant rise in net interest and a 42% reduction of operating expenses and provisions, net operating income rose 165% to Rp 3,576 billion.

Income before tax

After adjustments for non-operating income and expenses, a mix of losses on disposal of foreclosed assets and amortisation of goodwill relating to the acquisition of Adira Finance, we recorded an increase of 115% in profit before tax, to Rp 3,378 billion.

Net income

After several years of carrying forward tax losses incurred in connection with the recapitalisation of the bank, a substantial provision for tax has been set aside in 2004. Net income was 58% higher at Rp 2,408 billion or Rp 490.75 basic earnings per share.

Financial Position

Overview

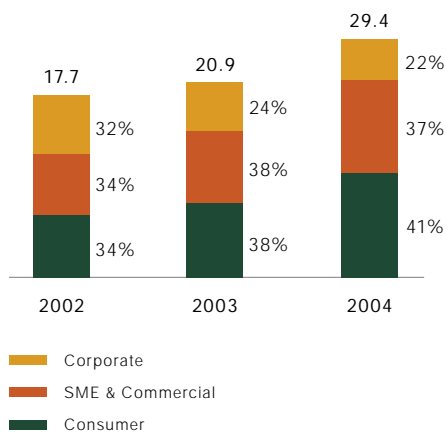
The total balance sheet grew by 12% year to year and was strengthened through an improvement in asset mix, stability in the third party deposit base and the re-investment of net profit to increase shareholders' funds.

Assets: Credit growth

The main features to note are an increase of 41% in outstanding loans, now representing 50% of total assets and a reduction in the level of Government bonds to less than 30% of total assets. Non-performing loans (NPL)-gross expressed as a percentage of total loans reduced from 6.8% to 4.0% and the bank's loan loss allowance remains prudent at 137% of total non-performing loans. A full analysis is set out below:

Outstanding Loans, in trillion Rupiah

Loans continue to grow strongly across all major segments. Gains in SME and consumer loans resulted in a change of overall mix in the loan portfolio with improved earnings.



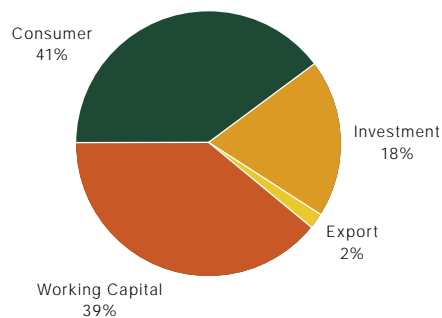
2004 Loan Growth	Rp billion	Change
Corporate	1,559	32%
SME & Commercial	2,882	36%
Consumer	4,125	52%
Total	8,567	41%

Breakdown of Loans

Loans are well distributed across major sectors of the economy

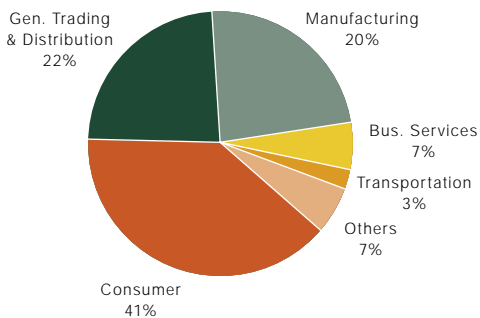
By Type

as of 31 Dec, 2004



By Economic Sectors

as of 31 Dec, 2004



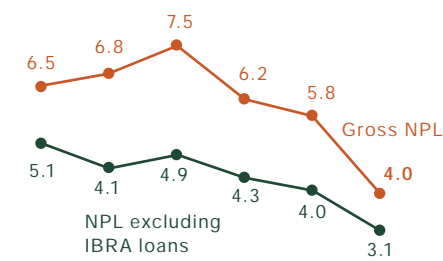
Non-Performing Loans (NPL), in billion Rupiah

Loan quality remains prudently managed with adequate provisions

	2004		2003		2002	
Pass	26,110	88.8%	18,363	88.1%	15,981	90.3%
Special Mention	2,054	7.0%	864	4.2%	909	5.2%
Sub Standard	456	1.5%	1,089	5.2%	696	3.9%
Doubtful	565	1.9%	422	2.0%	109	0.6%
Loss	231	0.8%	111	0.5%	0	0.0%
Total Outstanding Loans	29,416	100.0%	20,849	100%	17,695	100%
Non Performing Loans	1,176	4.0%	1,537	6.8%	805	4.4%

NPL / Total Loans

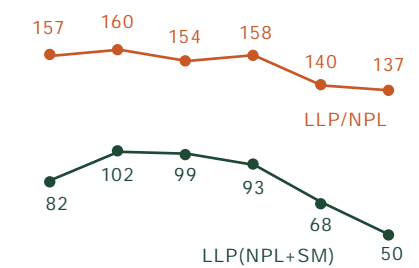
%



Sep03 Dec03 Mar04 Jun04 Sep04 Dec04

NPL Coverage

%



Sep03 Dec03 Mar04 Jun04 Sep04 Dec04

LLP: Loan Loss Provision

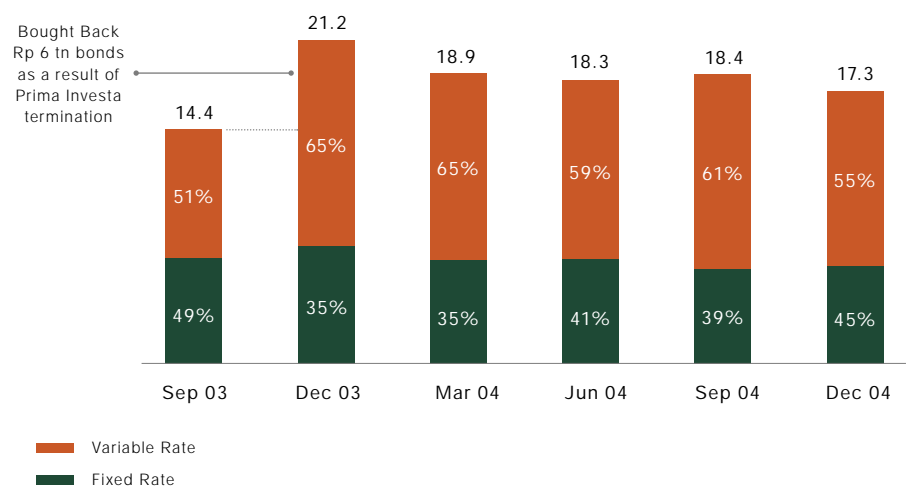
SM: Special Mention Loan

Government Bonds

Exposure to Government bonds has been gradually reduced. The level of Government bonds was reduced by Rp 3.9 trillion in 2004, accounting for just 29% of total assets. At balance sheet date 69.1% are classified as held to maturity and the bank will retain Government bonds as a normal instrument for liquidity purposes.

Government Bonds Portfolio

Rp trillion

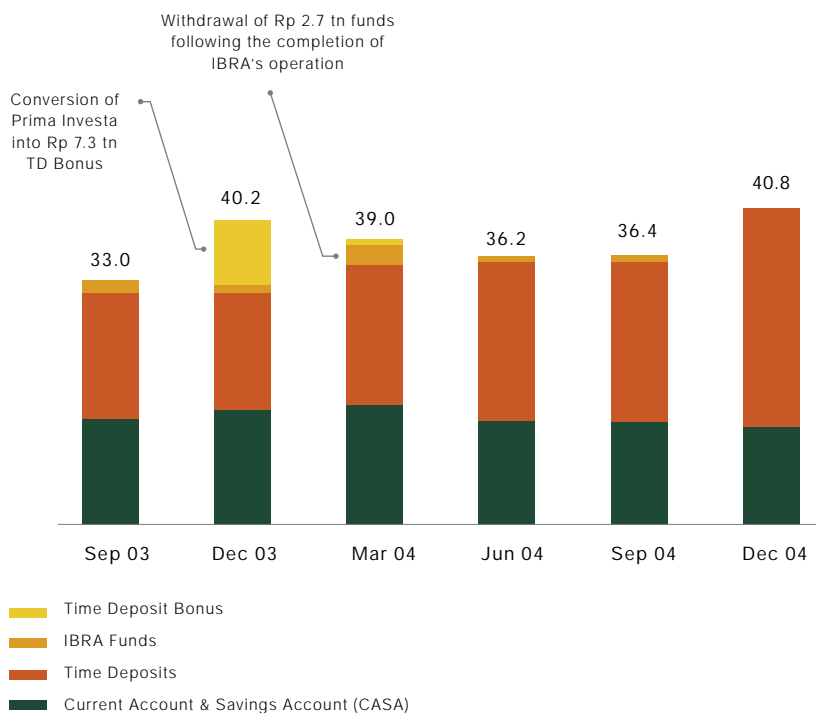


Liabilities: reduction in interest paid

Total deposits grew 1%, however setting aside an amount of Rp 7.3 trillion included in total time deposits from the conversion of a discontinued mutual fund in the last quarter of 2003, the underlying volume of third party funds actually grew by 24% year on year. The chart below illustrates deposits growth on a quarter by quarter basis from September 2003 to year end 2004 and the major changes in the constituent elements of our total deposits base.

Third Party Funds

Rp trillion



While the loan to deposit ratio increased to 72% in 2004, in line with the expansion of the bank's lending activities, one of the ongoing challenges is the extent to which the third party funding base will grow. As explained in our commentary accompanying the income statement, there was encouraging growth in underlying commercial deposits in 2004 to Rp 40.8 trillion representing 80% of total liabilities. Low cost funds, in the form of current accounts and savings accounts accounted for 41% of total third party funds raised.

A total of Rp 2.7 trillion subordinated debt (US\$300 million) was raised in the first quarter of the year to fund the bank's expansion plans. The capital adequacy ratio (without market risk charge) as at year-end was 27%, a level that is well in excess of the 8% minimum requirement of Bank of International Settlements (BIS) and Bank Indonesia. Tier 1 capital ratio was 19.1% (2003: 23.4%) and Tier 2 was 10.6% (2003: 3.6%). The Board of Directors is confident that this level of capital positions the bank well for prudent growth as the economy improves. A full analysis of the bank's regulatory capital position is set out below.

Regulatory Capital

(in billion Rupiah)	2004	2003	2002
Tier 1 Capital	6,400	5,366	4,464
Paid-in Capital	3,600	3,562	3,562
Disclosed Reserves			
Additional Paid-in Capital (premium)	25	25	25
General Reserves	25	10	0
Retained Earnings	1,884	979	611
Prior Year Losses (100%)	-	-	-
Profit During the Year Net of Taxes (50%)	863	787	263
Difference in Foreign Currency Translation of Overseas			
Branch	3	3	3
Deferred Taxes	-	-	-
Difference from Restructuring Transaction of Entities under Common Control - Merger Banks	-	-	-
Tier 2 Capital	3,547	832	795
Reserves from Revaluation of Fixed Assets	-	-	-
General Allowance for Productive Assets (max. 1.25% of RWA)	347	257	213
Subordinated Loan (max. 50% of Tier 1 Capital)	3,200	575	582
Tier 1 + 2 Capital	9,947	6,198	5,259
Long Term Investment	889	50	56
Total Capital	9,058	6,148	5,203
Risk Weighted-Based Assets	33,541	22,906	20,540
Capital Adequacy Ratio (without market risk charge)	27.0%	26.8%	25.3%
Tier 1 Ratio	19.1%	23.4%	21.7%

Equity and Dividend

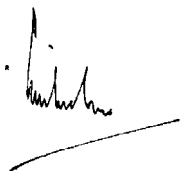
The bank returned Rp 877 billion to shareholders through a cash dividend of Rp 178.7 per share or 50% of of the bank's first nine months profits in 2004. Shareholders' equity through retained earnings increased to Rp 7.8 trillion. Bank Danamon was able to deliver a significant improvement in return on average equity (ROAE) up from 31% to 39% in 2004. Among leading Indonesian banks, Bank Danamon has the highest return on average assets at 4.5% (2003: 3.2%).

Disclosures

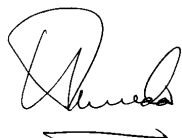
At year end the bank's net open position (NOP) was 1.03% (2003: 1.04%) well below the 20% minimum stipulated by Bank Indonesia.

Responsibility for Financial Reporting

This Annual Report and the accompanying financial statements and related financial information, are the responsibility of the Management of Bank Danamon and have been approved by members of the Board of Directors and the Board of Commissioners whose signatures appear below:



Sim Kee Boon
President Commissioner



I Nyoman Sender
Vice President Commissioner



Sumarno Surono
Commissioner



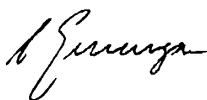
Sri Adiningsih
Commissioner



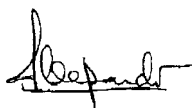
Milan Robert Shuster
Commissioner



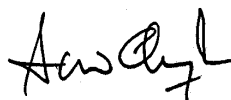
Gan Chee Yen
Commissioner



Edwin Gerungan
Commissioner



Harry Arief Soepardi Sukadis
Commissioner



Liew Cheng San Victor
Commissioner



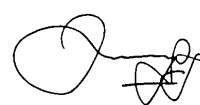
Ng Kee Choe
Commissioner



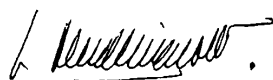
Francis Andrew Rozario
President Director



Emirsyah Satar
Vice President Director



Jerry Ng
Director



Gatot Mudiantoro Suwondo
Director



Anika Faisal
Director



Muliadi Rahardja
Director



Tejpal Singh Hora
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