

Message from the President Commissioner



Bank Danamon maintained its competitive position as one of the most profitable banks in Indonesia in 2005.

Sim Kee Boon, President Commissioner

Dear Shareholder,

Sound growth and profitability in changing conditions

The year 2005 ended a period of benign inflation and declining interest rates and brought new challenges for Indonesia's banking industry. A surge in global oil prices distorted short-term macro economic fundamentals resulting in higher inflation and interest rates. Against a backdrop of decelerating loan growth and higher funding costs for the banking industry I am pleased to report Bank Danamon has not only delivered sound growth in its core business but closed the year as one of the most profitable banks in Indonesia.

Net profit after tax (NPAT) for 2005 was Rp 2,003 billion. Setting aside one-off gains on sale of Government bonds and the recovery of loans, credit provisions released and written back, normalised earnings grew 7% to Rp 1,195 billion in 2005. A final dividend for 2004 of Rp 327 billion was paid in June 2005. Dividend for 2005 will be proposed at the annual general shareholders' meeting to be held May 22, 2006.

The business model is working

For Bank Danamon as a whole, 22% loan growth compares well with 25% expansion in lending for the entire banking sector last year. More significantly, in line with the chosen theme for this report, the Bank recorded exceptional growth of 5.6 times in the micro-lending business and 40% growth in consumer automotive receivables. This has been achieved firstly, without significant deterioration in non-performing loans, and secondly, Bank Danamon has maintained a high standard of profitability evident in its net interest margin, the second highest in the sector.

In evaluating the performance of the Bank, the Board of Commissioners is satisfied that the Bank's management through its strategy and business plan, takes full account of the conditions prevailing in its markets. Two key trends are worthy of comment:

First, a spotlight was thrown on banking sector profitability in the last quarter of 2005, following tightening of reserve requirements and the second half rise in interest rates. Bank Danamon's substantial and growing high-yield micro-credit and consumer lending franchises have not only proven to be resilient, but have substantial untapped potential still to be realised. Further, these businesses represent a significant level of fixed interest lending in the total portfolio which places the Bank in an enviable position to boost earnings as interest rates start to decline, a trend expected in the latter part of 2006 and into the following year.

A second trend that has drawn attention is the differential between the rapid rate of loan expansion versus slower deposit growth and the rising cost of funds as customers switch to fixed term deposit accounts. The Bank's strategy and business model takes full account of this current trend. Alongside a high capital adequacy ratio and strong capital base, the Bank's credit rating at a level above sovereign risk, supports access to obtain long term structured funding from the market to suit its balance sheet and interest rate management. The significant high-yield asset base preserves profitability, allowing the Bank to compete in its markets with attractive and competitive deposit terms. In addition we note that considerable investment has been made during the year in new systems, in revitalising the branch network and in hiring new sales staff to further strengthen the funding franchise.

The Universal bank

In addition to a substantial lead in two very attractive high-yield segments with long term potential, backed by effective risk management, Bank Danamon is also a diversified Universal bank with thriving businesses targeted at key market segments using proven, tested business models to support treasury, corporate, commercial, SME (small and medium enterprise) consumer and Syariah customers and as such is able to generate cross selling opportunities through an extensive network.

Governance

Despite the slowdown in 2005, Indonesia's banking sector is still in a significant growth phase after the period of post recovery from the Asian financial crisis. At the same time progress continues on reform, including sector consolidation, and new standards, namely the Basel II financial risk measurement framework and the Government's planned Policy Package on Financial Sector Reform due in 2006. Both the Board of Commissioners and the Board of Directors are committed to setting high standards in governance and risk management as the means not only to meet the climate of tougher regulation but to differentiate the Bank, building security and assurance for customers and value for shareholders as the Danamon brand gains further strength and recognition.

During 2005 some extensive reorganisation to the Governance committee structure has strengthened the oversight of routine operations, further progress has been made on robust enterprise risk management and Bank Danamon's Corporate Governance Committee was active in monitoring and testing governance practice bank-wide.

Leadership

During 2005, a successful handover was completed from Francis Rozario to Sebastian Paredes. I would like to thank Francis for an invaluable contribution through a period of transformation and innovation over the last two years and wish him the best as CEO of Asia Financial Holdings of Temasek Holdings. I am delighted to welcome Sebastian Paredes who brings considerable international expertise and has been instrumental in the last six months in preparing the Bank to enter the next exciting growth phase. I am also pleased to report the appointment of Jerry Ng as Vice President Director, who has served as a Director since 2003. Jerry succeeds Emirsyah Satar who has been appointed by the Government as President Director of PT Garuda Indonesia. Our appreciation goes to them both for their contributions. Finally in line with our commitment to higher governance standards we have appointed three new Commissioners. We welcome JB Kristiadi, Manggi Habir and Phillip Eng. Their collective knowledge and experience will further strengthen and add a fresh perspective to our Board.

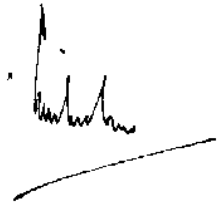
People and the Community

The pace of growth and change at Bank Danamon is relentless. Standards are high and during the year both Boards have placed further emphasis on offering performance related remuneration to reward effort, an essential measure in order for the Bank to stay competitive and attract the best as it has been recruiting significant numbers of new employees. Two-way communications are essential in any large organisation and a climate survey completed in 2005 has given invaluable feedback from our employees, as you can read later in this annual report. Good communication, thorough training and appropriate rewards are essential in order for Bank Danamon employees to realise the vision "We care and enable millions to prosper." Equally applicable, outside the workplace is the voluntary work done in the community and I am delighted to record the establishment of our social foundation, Danamon Peduli (Danamon Cares), took place in 2005, with legal status formally as a Foundation granted in early 2006, as this report is published. Our employee volunteers continued vital work in cleaning up traditional markets among other community programmes and also with ongoing support for reconstruction in Aceh. A total of 500 housing units were completed in cooperation with other institutions and a full account of all the corporate social responsibility programmes can be found in the main body of the report.

Looking ahead

Conditions for the banking industry are likely to remain challenging for at least the first half of 2006, but we believe the Bank has in place a framework and business models that remain relevant and enduring in the current period of economic slowdown and able to deliver further growth and earnings acceleration as monetary policy eases and inflation declines. Our view is that the long term growth trend has been temporarily interrupted during 2005 and as interest rates move back towards single figures, a substantial credit expansion will resume, bearing out the investment your management team has made in new systems, the branch network and people.

In closing, my fellow Commissioners and I would like to thank the management team and employees for their passion, dedication and teamwork in building the Bank as a high performance financial institution and a responsible corporate citizen. Last, but not least, we extend our appreciation to our customers and shareholders for their continued support and confidence in Bank Danamon.

A handwritten signature in black ink, appearing to read 'Sim Kee Boon', with a long horizontal line extending to the right below the signature.

Sim Kee Boon, President Commissioner

On behalf of the Board of Commissioners