

Corporate Banking

In a difficult market, the loan portfolio grew by 18% accompanied by an impressive 43% increase in current account customer balances and 68% increase in trade volume. The business has successfully increased cross-sell of other products so that 68% of operating income is contributed by non loan products.

Corporate banking is focused on the 1,500 largest companies in sectors in which Indonesia is globally competitive, and in industries critical to the ongoing development of the domestic economy and employment.

Two clear challenges were faced by the Corporate banking team during 2006, and to an extent these will continue for some time in 2007. Firstly, a slowdown in the economy impacted the lending environment. Fuel price hikes, high inflation, higher interest rates and reduced consumer demand affected corporate cash flows and thus the ability to service debt. Under these conditions a more prudent stance was appropriate for existing relationships as well as new lending opportunities with some provision increases deemed necessary.

Secondly, competition intensified, particularly from large local and foreign banks with ample liquidity, all vying for relatively scarce, high quality lending opportunities and all viewing the higher interest rates in Indonesia, the stability of the Rupiah, and improved sovereign debt ratings as very attractive opportunities. This combination of factors has resulted in downward pressure on margins at a time when, in general, costs were rising.

Corporate banking adapted to the changing dynamics by focusing on fee and transaction service areas, with some encouraging results in expanding fees earned from cash management and trade finance services, as well as a doubling of low cost current account balances. The level of time deposits raised virtually tripled, year on year. In specialist areas, we continued to gain recognition: as 'Best Trade Finance Bank,' by Global Finance magazine for the third consecutive year, and for second place in the Asiamoney Awards for Cash Management services.

2006 Transactions Highlights

Client's Sector	Bank Danamon Financing
Steel Manufacturing	Structured receivables financing for one of the largest steel manufacturing companies in the country.
Coal Mining	Provided guarantee facility for the largest coal producer in the country.
Oil & Gas	Provided guarantee facility for the largest local private oil and gas company.
Plantations	Co-lead arranger for a Term and Working Capital club deal.
Food and Beverage Manufacturing	Participated in a syndicated term loan facility.
Finance Company	Participated as the major lender in a syndicated facility.
Advisory	Corporate finance advisory for a coal mine acquisition.

Outlook

As better economic conditions, single digit inflation and more robust domestic demand augur well for our customers, such improvements will also ensure that competition remains fierce for the year ahead, not only from rival banks, but also from the local bond market as an alternate source of financing. We have responded by reorganizing

our approach to the corporate market. We will intensify our efforts in the sectors in which we have expertise and experience, with dedicated industry teams and specific corporate analysts. Our advisory, project finance and loan syndications skills are key areas of opportunity as we seek to deepen existing relationships as well as develop cross referrals with other parts of the bank.

