

Treasury, Capital Markets and Financial Institutions

The Treasury and Capital Market (TCM) Group, through four functional desks, serves several key roles. These include managing market and liquidity risk for the bank, developing and providing innovative products to support customers' needs and operating as a profit centre through its own discretionary trading and sales operations.

The Asset and Liability Management Desk (ALM) plays an instrumental role in managing the market and liquidity risks of the bank. It is also responsible for securing structural funding in keeping with the bank's strategic initiative to manage the asset liability mismatch to a prudent level. In 2006, Bank Danamon obtained a Rp 1.3 trillion or equivalent to US\$ 150 million loan facility from the International Finance Corporation (IFC), the biggest facility of its type arranged for the private sector and the first of its kind for the IFC and Indonesia, allowing the bank to tap the cost efficient swap market. In addition, a US\$100 million Floating Rate Certificate of Deposit (FRCD) was rolled over and an additional Rp 1,125 billion funding was raised through a REPO facility.

Enhancing TCM's capability in market risk and liquidity risk management for the bank, a number of refinements were carried out accommodating local market characteristics and bringing the bank into line with international best practices.

The Treasury sales desk spearheads the development of services for individual customers. In 2006, it continued to respond to the emerging trend, away from 'passive' deposit products towards more active investment needs, using a range of Treasury Investment Products (TIPS) which offer yield enhancement tailored to each customer's risk appetite and individual needs. Independent market research carried out during the year estimates Bank Danamon as having a market share in excess of 15% in the investment products market.

Treasury also participated as a selling agent and stand by buyer of the debut issue of government retail bonds (ORI: *Obligasi Retail Indonesia*).

For the more complex and sophisticated needs of the institutional market, Treasury Sales provides professional advisory services and specific strategies to accommodate both operational and investment/hedging requirements.



The Foreign Exchange and Interest Rate Trading Desk is an active player in the IDR FX and interest rate market. Access to the professional market ensures customer's benefit from competitive pricing on all treasury products. In the IDR interest rate market, Bank Danamon is among the few banks who manages its own IDR swap book risk for tenors up to 5 years. Through its participation in the US Treasury market and Interest Rate Futures, the bank is able to manage its US Dollar portfolio for both trading and hedging purposes. Access to the US Interest Rate futures market is a progressive move and Bank Danamon remains the first and **only bank** in Indonesia to participate in this market.

The Fixed Income Trading Desk is responsible for the trading and distribution of Fixed Income related products in both local and international markets. These Fixed Income products include Indonesian Sovereign bonds, US Treasury Notes, Corporate bonds and Government Retail Bonds (ORI). Bank Danamon is an active market maker in the government bond market, serving both an onshore and offshore investor base.

The TCM Group also has a Business Management desk which functionally supports the operations of TCM to ensure that proper infrastructure and internal controls are in place as well as being responsible for business planning and budgeting, and internal reporting.

In 2006, the Financial Institution (FI) Group was brought under TCM Group in line with the nature of its business and client base, to ensure better synergy between the FI client needs and TCM products and markets.

The FI Group is responsible for servicing financial institutions, managing the overall relationship for banks, both domestic and international, as well as securities companies, brokerage houses and asset management houses. The FI Group continues to build and maintain strong relationships with FI clients through a broad range of services such as correspondent banking, international remittances, Trade Finance, Custody, Cash Management as well as Treasury products and solutions.

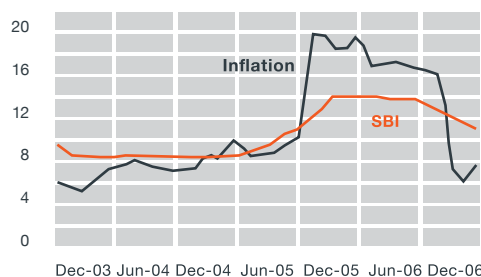
Market Highlights in 2006

After a period of adjustment to the impact of fuel price increases, the rate of inflation slowed significantly during the last quarter of 2006. Impressive growth in non-oil and gas export figures and a balance of payments surplus enabled the Government to repay US\$7.6 billion in outstanding IMF loans. Foreign reserves closed the year at a high of US\$42.6 billion and S&P upgraded Indonesia's foreign currency rating from B+ to BB-, the highest rating for Indonesia since the financial crisis in 1998.

The Rupiah rallied strongly against the US dollar with 7% year on year appreciation to a level of Rp 9,068 by December 2006, even though regional currencies weakened against the greenback. The Jakarta stock market Composite Index (JCI) reached a new record high of 1,805. The bond market was also buoyant with secondary market trading in government bonds performing strongly as Bank Indonesia steadily cut interest rates from an intra year high of 12.75% to 9.75% by year end. The long bond yield has tightened from 13% at the beginning of the year to 10.5% at the end of the year, while mid-end bond prices shifted from 12% to 10%. The bond market was more active through increased participation by offshore investors.

SBI 1 Month Interest Rate and Inflation

In %



Exchange Rate

IDR/USD

