

## Report of the President Commissioner

# Well prepared for the next cycle

Dear Shareholder,

After a challenging year, your bank has emerged well prepared for the future. Despite tightening credit conditions and a period of interest rate volatility, your bank achieved satisfactory growth in lending in 2006, with higher margins and without significant deterioration in credit quality. At the same time improvement in liquidity has been achieved through deposit growth and additional long-term funding. As a result, Bank Danamon is well positioned for growth and expansion.

We envisage a positive economic outlook for 2007: year on year inflation for 2006 was well contained at 6.6%, oil prices today are considerably below the peaks recorded during 2006, public debt has been reduced and stability in the exchange rate achieved. The improvement in the economy and stronger domestic demand represent encouraging conditions in which Bank Danamon can continue to enable and empower its customers to grow and prosper.

### The results

Normalised operating income grew 23% to Rp7,003 billion, excluding one-off items. Net profit after tax (NPAT) for 2006 was Rp1,325 billion. Earnings per share were Rp268.91 for the year and, following shareholder approval at the Annual General Meeting of Shareholders (AGMS) held on May 22, 2006, a final dividend for 2005 of Rp203.50 per share, representing 50% of total 2005 profit, was declared and paid in July 2006. Subject to shareholder approval, a proposed dividend from 2006 earnings will be declared at the AGMS to be held in March 2007.

### Empowerment

For many customers across Indonesia, 2006 was a tough year. By official estimates the number of people below the poverty line grew by 4.5 million. Natural disasters, in particular the Central Java earthquake, continued to plague businesses and slow progress towards higher living standards. As this report is published, flooding and landslides are affecting hundreds of thousands of families. Bank Danamon together with customers have





responded with assistance, through the excellent work being undertaken by the Danamon Peduli Foundation and our volunteer staff, not only during the immediate aftermath of the emergency but in the period of restoration of the markets and communities affected.

Considerable work has gone into raising awareness of the need to enable those less well off to break out of the cycle of poverty. Celebrating the 50th year of the bank, we created the first nation-wide Danamon Awards to recognise the efforts of individuals and institutions engaged in empowering others. In the spirit of our vision of "We care and enable millions to prosper", we presented the Danamon Awards to six individuals and also held a series of empowerment seminars across the country featuring panel discussions with prominent government officials and economists. The series culminated in a talk by world-renowned economist, Hernando de Soto and an audience with President Susilo Bambang Yudhoyono.

### Positioned for growth

A closer evaluation of the bank's performance during 2006 demonstrated the relevance of universal banking and highly segmented models aligned to specific targeted markets, not least from the viewpoint of sustaining a diverse source of earnings and a prudent spread of risk. In mass markets, DSP has continued expansive growth while a more sagacious view has been sensible for Adira Finance, in the form of selective growth in motorcycle finance while building consumer finance and insurance businesses. Slower growth in the corporate market, particularly sensitive to higher costs, has prompted a re-evaluation of the approach to this sector. Innovation in product

development and training initiatives have been undertaken for future growth in consumer banking including Syariah banking, credit cards, commercial and SME banking. A highlight of the year was the bank becoming the sole issuer and manager of the American Express card in Indonesia. These developments together with further progress in investing in IT systems, the ATM and branch network and risk management, will sustain the bank's performance going forward and enhance its reputation as a leading financial institution and a customer-centric organisation.

### Governance, integrity and compliance

Both the Board of Commissioners and the Board of Directors remain committed to setting high standards in governance and risk management. Close attention to strengthen the processes of monitoring, collection and remedial management of the credit portfolio has ensured that credit costs were contained and a steady improvement in the level of non performing loans in the second half of the year. Our risk management team is making satisfactory progress to ensure that we are Basel II compliant ahead of 2008.

### People

In 2006, the bank recruited 4,067 new employees. We have also put in place a balanced mix of medium and long term compensation, to reward performance and to attract and retain talent. For the second year in a row, the Danamon Employee Opinion Survey (DEOS) has provided a very valuable tool in securing feedback from our staff on the progress

the bank is making towards its goal to become an Employer of Choice. The results show, once again, the bank to be above its peers on all key aspects of human resources management and people motivation. The establishment of a 'Danamon University' curriculum is a bold step to build a commitment to excellence across the Bank Danamon franchise.

### Appreciation

At the last shareholders' meeting, a number of changes to both Boards were approved. I take this opportunity to thank my predecessor Mr Sim Kee Boon, for his guidance and contributions as President Commissioner during an exciting phase in the bank's development. My thanks also go to Tejpal Singh Hora for his contributions as a Director during the last two years. We welcome Ali Yong, Vera Eve Lim, Sanjiv Malhotra, and Rene Burger to the Board of Directors, all of whom were appointed in 2006.

On behalf of the Board of Commissioners I would like to thank the management team and staff for their passion, dedication and teamwork over the course of the year and to extend our appreciation to our customers and shareholders for their continued support and confidence.

For and on behalf of the Board of Commissioners,



**Ng Kee Choe**  
President Commissioner