

## Report of the President Director

# Staying the course, emerging stronger.

**In 2006, Bank Danamon celebrated its 50th anniversary and emerged stronger at the end of a challenging year for the economy of Indonesia.**

The first half of 2006 was a testing period for the banking sector in general. We faced high inflation and interest rates, tightening monetary policy and liquidity, a significant deterioration in purchasing power across the entire consumer sector and the ensuing impact on personal and business credit worthiness and growth. We faced a number of regulatory changes and, in characteristic fashion, we rapidly responded to the needs of customers, employees and the communities affected by natural disasters in the country. Despite these multiple challenges, I am pleased to report good progress on all fronts, with a positive outlook for the year ahead.

Reported net profit for the year was Rp 1,325 billion compared to Rp 2,003 billion in 2005, a year in which we recorded Rp 808 billion of extraordinary and non recurring items. Moreover, on a normalised basis our core earnings showed an NPAT growth of 16% in 2006, from Rp 1,195 billion to Rp 1,389 billion. Despite the tough economic climate, our core results for 2006 underline the durability of our business models.

**We achieved superior business growth and profitability.** Total deposits grew 23% representing a gain in market share, and despite the general slowdown in credit demand, we attained an increase of 17% in lending. Net interest income grew 23% and net interest margin, one of our key performance indicators, increased for the fifth successive year, to 9.3%, indicative of the robustness of our high yielding businesses, notwithstanding a higher cost of funds. Fee income in 2006 grew 26% and credit related fees rose 40%.



**Despite high inflation, we showed discipline in managing expenses.**

Operating expenses increased 18% partly due to new business expansions. Notwithstanding, our normalised cost to income ratio was reduced to 48.9% compared to 51.1% in 2005.

**We tested the robustness of our risk architecture.**

Non-performing loans as a percentage of total lending was 3.3% despite the challenging operating environment, and our provision coverage reached over 140% after taking into account the collateral value. The cost of credit was contained to a level of 2.9% of our earning assets compared to a level of 3.1% in 2005. The bank's sound capital base (CAR of 20.4%) and strong funding in place give us comfort for the support of our business expansion initiatives. In addition to customer deposit growth we were successful in securing long term, structured funding from local and international markets, with no exchange risk. It is worth noting that the facility totalling US\$150 million provided by the IFC set a new record among Indonesian private sector borrowers.

**We have stayed the course.** In the face of turbulence and change we have maintained our focus on five strategic priorities. First, to continue to invest in high yielding businesses; second, to enhance our funding franchise; third to strengthen our operational efficiency; fourth to upgrade our technology base; and fifth to pursue our long-term ambition of becoming an employer of choice. Let me examine each of these in turn.

Our high-yield businesses produced solid growth and contributed 44% of our total loan portfolio. Danamon Simpan Pinjam delivered 71% loan volume growth in 2006 and already accounted for 14% of total lending. Adira Finance, the automotive finance subsidiary, maintained its market leadership in difficult conditions growing by 12% in motorcycle lending and 7% in car financing, despite a sharp drop in demand across the automotive sector through the year.

Our credit and charge card activities were boosted by the acquisition of the sole rights to operate the American Express card in Indonesia and the launch of co-branded cards, like the Manchester United MasterCard. As one of our growing sources of fee income, our cards business represents the most complete range in the market operated by a strong management team and a new IT platform to provide us with the capability to manage large scale growth in the future.

We consolidated our shareholding in Adira Quantum, the non-auto consumer finance business and in Adira Insurance, the general insurance business. Both these subsidiaries have considerable cross-marketing potential to meet customer needs throughout the bank as well as build their own client base.

Backing our commitment to enhance the funding franchise, we have strengthened our retail banking platform by adding 1,800 sales staff, invested in 17,600 man days of training to improve skills, added and refreshed deposit and asset products, as well as upgraded our ATM network. We have also completed a number of successful promotions that have raised our profile as a full service bank offering innovative ideas. Total deposit growth quarter to quarter gained momentum and we achieved low cost current and savings account growth of 18% and 14% respectively for the year.

Improvements in operating efficiency were wide-ranging. A new Operational Excellence unit has been established across the organization to implement appropriate best international practices with the aim of reducing transaction cycle time, cutting out waste and focusing on further improvements to the customer experience. The temporary lull in the automotive market gave us a timely opportunity to strengthen the internal infrastructure in Adira Finance from deal origination, through repossessed inventory management.

The difficult economic environment did not deter our investment plans for upgrading our technology infrastructure. In addition to completing new processing systems for the credit card business in record time, key pricing and profitability systems were installed and a new loan processing system is being implemented in stages through to the end of 2007. Vital preparations were completed to evaluate a new core banking system to be rolled out in the next two years.

For the second year running, Bank Danamon conducted an employee climate survey, part of our ongoing efforts towards the goal of becoming an employer of choice. And for the second time, our scores surpassed the national benchmark and positioned the bank very strongly against peers in the region. Considerable work has gone into leadership development and management programmes, including the completion of a University curriculum. These measures and a considerable investment in training are essential to differentiate Bank Danamon as the first choice for those seeking an exciting and rewarding career.

**We celebrated five decades of existence with a spirit of Empowerment.**

Bank Danamon is committed to deliver on the vision “to care and enable millions to prosper.” We continue to build customers’ confidence, help them gain better control over their personal or business needs and meet their objectives: perhaps working capital to grow a business or a mortgage to house a growing family. It may be the convenience of a credit card on an overseas trip or the support to help a market trader rebuild after a fire damage. Whatever the case, it is important that we understand the needs of our customers.

In 2006 we took the opportunity to commemorate Bank Danamon’s 50th anniversary by establishing a collaborative framework towards shared empowerment, between the bank and its many stakeholders. Under this initiative we launched a series of external seminars with distinguished local and international speakers and held the inaugural Danamon Awards, an annual event that we hope will be a source of inspiration and a stimulus for responsible community development for many years to come.

Economic trends indicate that 2007 will be a year toward more conducive operating conditions, with single digit inflation and lower interest rates favouring a resumption of more robust credit expansion. GDP growth between 6%-7% will be key to address the long term objectives of meeting employment and poverty alleviation. Under these conditions we look forward to continuing our drive for progress from existing business models. Our ability to manage during testing periods, as experienced in the early part of 2006, has demonstrated that we are prepared for the new challenges and opportunities ahead.

For and on behalf of the Board of Directors



**Sebastian Paredes,**  
President Director  
March 2007

## The Board of Management

(from left to right)

Rene Burger

Sanjiv Malhotra

Ali Yong

Kanchan Nijasure

Anika Faisal

Sebastian Paredes

Jerry Ng

Vera Eve Lim

Djemi Suhenda

Hendarin Sukarmadji

Muliadi Rahardja



