

Financial Review

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Management Discussion and Analysis

Consolidated Financial Data

	2005	2006	2007	ΔYoY
Operating Results (Rp billion)				
Net Interest Income	4,603	5,645	7,136	26%
Fee Income	1,080	1,358	1,741	28%
Operating Income	5,683	7,003	8,877	27%
Operating Expenses	(2,909)	(3,428)	(4,255)	24%
Pre-Provision Operating Profit	2,774	3,575	4,622	29%
Cost of Credit	(814)	(1,332)	(1,240)	(7%)
Net Profit before Tax	1,960	2,243	3,382	51%
Goodwill & Minority Interest	(206)	(202)	(222)	10%
Income Tax	(559)	(652)	(1,043)	60%
Net Profit after Tax (Normalized)	1,195	1,389	2,117	52%
Non Recurring Items (after Tax)	808	(64)	-	NM
Reported NPAT	2,003	1,325	2,117	60%
Balanced Sheets (Rp billion)				
Total Assets	67,803	82,073	89,410	9%
Loans (Gross) ^{a)}	36,757	42,986	53,330	24%
Government Bonds	14,102	18,702	15,808	(15%)
Total Deposits ^{b)}	47,089	56,930	60,937	7%
Equity	8,589	9,442	10,833	15%
Profitability Ratios (%)				
Net Interest Margin	8.9	9.6	10.4	0.8
Cost / Income	48.8	48.9	47.9	(1.0)
Normalized ROAA	1.8	1.9	2.4	0.5
Normalized ROAE	15.2	16.5	22.9	6.4
Reported ROAA	3.1	1.8	2.4	0.6
Reported ROAE	24.2	15.6	22.9	7.3
Asset Quality Ratios (%)				
Non Performing Loans/Total Loans	2.6	3.3	2.3	(1.0)
Loan Loss Allowance/Total Loans	2.8	3.4	2.9	(0.5)
Loan Loss Allowance/Non Performing Loans ^{c)}	145.7	141.7	161.2	19.5
Liabilities Ratios (%)				
Loan to Deposit	80.8	75.5	88.1	12.6
Loans to Total Funding	66.6	64.9	73.7	8.8
Capital Ratios (%)				
Capital Adequacy Ratio	22.7	20.4	19.3	(1.1)
Tier 1 Capital	16.7	15.5	15.3	(0.2)
Equity/Assets	12.7	11.5	12.1	0.6

a) Loans include consumer financing receivables

b) Includes deposits from other banks

c) Includes collateral value

Overview

Danamon and its subsidiaries are an Rp 89 trillion diversified financial institution providing banking, insurance and consumer financing through branch offices, DSP units and other distribution channels to consumers, businesses and institutions throughout Indonesia. We ranked fifth and fourth in terms of assets and market capitalization, respectively, among 130 commercial banks in Indonesia.

Our net income in 2007 reached Rp 2.1 trillion, up 60% from 2006, while basic earnings per share (EPS) were up 57% to Rp 423.27. Return on average assets (ROAA) was 2.4% and return on average equity (ROAE) was 22.9% in 2007, compared with 1.8% and 15.6%, respectively in 2006.

Earning Performance

Net Interest Income

Net interest income is defined as the difference between interest income on earning assets, primarily from loans and securities, and interest expenses on interest-bearing liabilities, primarily deposits and other funding sources.

In 2007, net interest income was Rp 7,136 billion, up by 26% from Rp 5,645 billion in 2006 on the back of strong asset growth and expanded margin. Interest income rose by 11% to Rp 12,048 billion in 2007 as earning assets expanded by 7% to Rp 78.6 trillion. Loans, which made up 68% of earning assets, contributed to over 63% of interest income while government bonds brought in the additional 13% of the interest income. On the other hand, interest expenses declined by 6% to Rp 4,912 billion from Rp 5,251 billion in the previous year despite 9% increase in funding, due to lower cost of funds.

Our net interest margin continued to improve in 2007 despite declining interest rates as we managed to sustain our asset yields. This reflects our business strategies to continue growing in high margin businesses. In 2007, our asset yield stood at 15.9% compared to 16.6% in the previous year as higher growth in high margin businesses offset the decline in the yield in other earning assets, primarily marketable securities. While the cost of funds declined to 6.5% from 8.3% last year. As a result,

net interest margin widened to 10.4% as compared to 9.6% in 2006, positioning us as one of the banks with highest margin in the sector.

Non Interest Income (Fee Income)

Our fee income includes fees from loans and services, transactional banking activities as well as securities transactions from our treasury operation.

In 2007, our fee income grew strongly by 28% to Rp 1,741 billion driven by strong growth in credit related fees and treasury products. Overall, fee income contributed to 20% of our operating income in 2007 as compared to 19% in 2006.

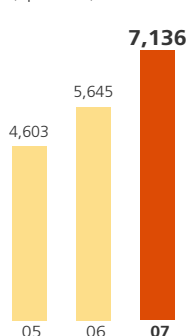
Credit related fees, which accounted for 46% of non interest income, increased by 33% to Rp 797 billion on the back of loans expansion, and strong fee growth from our card business and trade finance products. Fee income generated from loans rose by 28% to Rp 454 billion, while fees from our card business increased by 46% to Rp 264 billion supported by the acquisition of American Express's card business in Indonesia by late 2006.

Income from treasury products rose by 117% to Rp 362 billion as we managed to capitalize opportunities arising in the capital market particularly in the first half of the year by selling some of marketable securities holdings, primarily government bonds.

Adira Insurance, our subsidiary in the general insurance business, reported 47% increase in operating revenue in 2007 following strong growth in motor vehicle and non motor vehicle insurance products. It now contributed to 12% of the bank's non interest income from 10% in the previous year.

Net Interest Income

(Rp billion)



Net Interest Margin

(%)



Breakdown of Non Interest Income

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Credit Related Fees	426	39%	599	44%	797	46%	33%
Cash Management	256	24%	300	22%	288	17%	(4%)
Treasury Products	327	30%	171	13%	362	21%	117%
Adira Finance	71	7%	72	5%	72	4%	(0%)
Adira Insurance	-	-	138	10%	202	12%	46%
Others	-	-	78	6%	20	1%	(74%)
Total	1,080	100%	1,358	100%	1,741	100%	28%

Operating Expenses

Operating expenses which include manpower cost and general and administration expenses, totalled to Rp 4,255 billion, 24% higher than Rp 3,428 billion in 2006 as strong mass market business expansion drove higher expense growth. Operating expenses associated with mass market businesses, rose by 33% to Rp 1,761 billion and contributed to 53% of the increase in operating expenses in 2007.

providing some flexibility in managing our cost base. While our general and administration expenses increased by 18% to Rp 1,634 billion in part due to expansion in our distribution network. In 2007, our SEMM business added 6 DSP units, 64 mobile units and 38 sales offices, while Adira Finance and Adira Quantum opened 30 new branches and 40 point of sales, respectively.

Breakdown of Operating Expenses

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Wholesale	460	16%	562	16%	713	17%	27%
Retail & SME	1,125	39%	1,542	45%	1,781	42%	16%
Mass Market	1,324	46%	1,324	39%	1,761	41%	33%
Adira Finance	548	19%	634	19%	833	19%	31%
SEMM	338	12%	519	15%	709	17%	37%
CMM & Quantum	438	15%	171	5%	219	5%	28%
Total	2,909	100%	3,428	100%	4,255	100%	24%

Total manpower cost rose by 29% to Rp 2,621 billion as we added over 4,000 employees to support our business expansion. Moreover, we managed to reduce the portion of fixed manpower cost to 71% as compared to 76% in a year earlier,

Despite of this, we managed to bring down the cost to income ratio to 47.9% from 48.9% last year, reflecting discipline in managing expense.

Breakdown of Operating Expenses

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Manpower cost	1,778	61%	2,036	59%	2,621	62%	29%
Fixed Costs	1,308	45%	1,543	45%	1,868	44%	21%
Variable Costs	470	16%	493	14%	753	18%	53%
G&A Expenses	1,131	39%	1,392	41%	1,634	38%	17%
Total	2,909	100%	3,428	100%	4,255	100%	24%

Cost of Credit

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Provision	(210)	(26)%	1,026	77%	1,007	81%	2%
Net write off (Recoveries)	-	-	(53)	(4%)	(78)	(6%)	47%
Loss on Repossessed assets	299	37%	359	27%	311	25%	(13%)
Others	725	89%	-	-	-	-	-
Total Cost of Credit	814	100%	1,332	100%	1,240	100%	(7%)
Average Earning Assets		38,637		46,389		54,280	
Cost of Credit / Earning Assets		2.1%		2.9%		2.3%	

Cost of Credit

Cost of credit that comprises of provision expenses, loss on sale of repossessed assets and net write off declined by 7% to Rp 1,240 billion in 2007 from Rp 1,332 billion last year despite the 24% expansion in loans. Accordingly, the cost of credit over average earning assets (excluding government securities) declined to 2.3% in 2007 from 2.9% in the previous year. This performance reflected our robust risk management architecture as well as improvement in the operating environment during the year.

Credit cost in consumer auto financing declined by 7% to Rp 563 billion from Rp 606 billion in the previous year despite of 18% growth in receivables. As a result, cost of credit in this business improved to 4.6% of the average receivables as compared to

5.8% in the pervious year driven by lower losses on sale of repossessed assets as well as lower write-off.

Credit cost in SEMM business was Rp 309 billion as compared to Rp 228 billion in 2006. However, the cost of credit over average loans in this business fell to 4.2% from 5.2% in 2006 on the back of strong loan growth.

Balance Sheet Analysis

Our primary types of assets are loans and securities, which accounted for 60% and 22% of total assets respectively. In 2007, our assets expanded by 9% to Rp 89 trillion driven by 24% loan growth.

Asset Composition

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Cash	640	1%	833	1%	1,238	1%	49%
Current accounts and placements in BI	9,690	14%	8,315	10%	10,620	12%	28%
Marketable securities	2,490	4%	6,031	7%	4,129	4%	(32%)
Government bonds	14,102	21%	18,702	23%	15,808	18%	(15%)
Loan (gross)	36,757	54%	42,986	53%	53,330	60%	24%
Fixed Assets	1,480	2%	1,575	2%	1,539	2%	(2%)
Others	2,644	4%	3,631	4%	2,746	3%	(24%)
Total Assets	67,803	100%	82,073	100%	89,410	100%	9%

Outstanding Loans

Our loan growth continued to accelerate. In 2007, outstanding loans grew by 24% to Rp 53.3 trillion from Rp 43.0 trillion in the previous year, as most businesses contributed this loan growth.

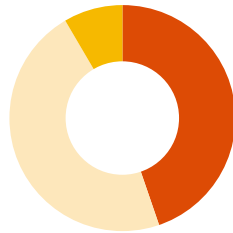
Retail loans, which accounted for 9% of the bank's loan book, grew by 41% to Rp 4.7 trillion from Rp 3.4 trillion in 2006 on the back of strong growth in mortgage, credit cards and personal loans. In 2007, mortgage and personal loans rose by 32%

Loans Composition

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Wholesale	12,084	33%	13,535	32%	16,286	30%	20%
SME & Retail	10,890	30%	11,697	27%	13,661	26%	17%
Mass Market	13,783	37%	17,754	41%	23,383	44%	32%
Total Loans	36,757	100%	42,986	100%	53,330	100%	24%

Wholesale Loans

As of 31 December 2007
(Rp billion)

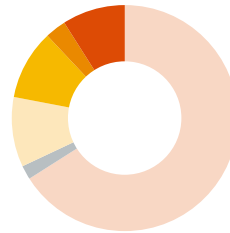


- Commercial (45%)
- JFAB (8%)
- Corporate (47%)
Include loans from Financial Institutions & Special Asset Management.

Total Rp 16,286 billion

SME & Retail Loans

As of 31 December 2007
(Rp billion)

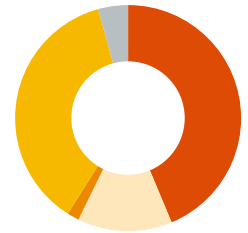


- SME (66%)
- Personal Loans (2%)
- Credit Card (10%)
- Housing (10%)
- Syariah (3%)
- Multipurpose & Others (9%)

Total Rp 13,661 billion

Mass Market Loans

As of 31 December 2007
(Rp billion)



- Motorcycles (43%)
- Cars (14%)
- SEMM (37%)
- CMM (4%)
- Hire Purchase (2%)

Total Rp 23,383 billion

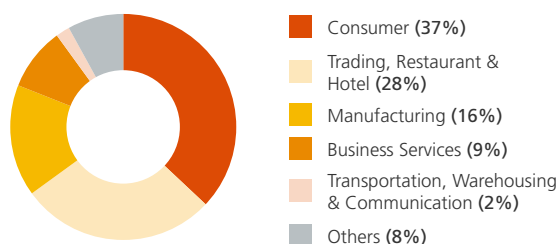
Our mass market businesses consisted of auto financing, self employed mass market, consumer mass market and white goods financing businesses. These businesses continued to exhibit a strong growth momentum. Total mass market loans grew by 32% to Rp 23.4 trillion, driven by strong growth in micro lending and auto financing businesses. During the year, micro loans to self-employed mass market (SEMM) grew strongly by 48% to Rp 8,600 billion. While personal loans extended by our Consumer Mass Market (CMM) business more than doubled to Rp 996 billion. Our auto financing business also reported a respectable growth of 18% to Rp 13.4 trillion supported by the strong growth in motorcycle financing. Overall mass market loans contributed to 44% of our loan book as compared to 41% a year earlier.

and 457%, respectively. Credit card receivables increased by 24% to Rp 1.4 trillion. Our SME loans grew by 7% to Rp 9.0 trillion and represented 17% of our loan portfolio.

Wholesale loans which are comprised of Commercial, Corporate and JFAB businesses made up another 30% of our loan book. Commercial loans, which represented another 14% of loan book, rose by 32% to Rp 7.3 trillion partly due to strong growth in asset based financing. Corporate loans rose by 25% to Rp 7.6 trillion mainly driven by trade financing. Loans from joint financing and asset buy business (JFAB) with other finance companies decreased by 27% to Rp 1.4 trillion as we are still evaluating the business due to changes in the business dynamics.

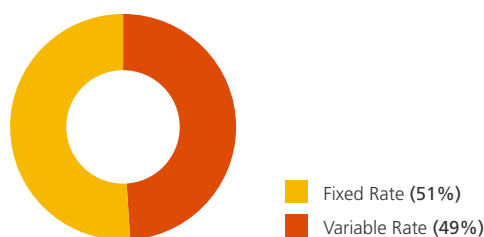
Loans by Economic Sector

As of 31 December 2007



Loans by Interest Rates

As of 31 December 2007



Non-performing loans declined by 15% to Rp 1,162 billion despite of 24% loans expansion in 2007, reflecting our robust risk management infrastructure as well as improving operating environment during the year. As such, the ratio of non-performing loans to total loans (NPL ratio) fell to 2.3% from 3.3% in the previous year. Net NPL remained zero after taking into account the collateral value; ratio of loan loss provision over non performing loans was a high 161.2% at the end of 2007.

Government Bonds

Our government bonds portfolio was Rp 15.8 trillion in 2007 as compared to Rp 18.7 trillion a year earlier. We sold some of the government bonds holdings to capitalize the opportunity in the market particularly during the first half of the year. As a result, government bonds as a percentage of the bank's assets declined to 18% from 23% a year earlier. Fixed rate bonds were Rp 9.5 trillion and accounted for 60% of the total bonds, and the remaining 40% was floating rate bonds. The average duration of the government bonds portfolio was 3.1 years at the end of 2007 as compared to 3.4 years a year earlier.

Breakdown of Non Performing Loans

	2005		2006		2007		ΔYoY
	Rp bn	% Loans	Rp bn	% Loans	Rp bn	% Loans	
Wholesale	291	2.4%	423	3.1%	271	1.7%	(36%)
Retail & SME	405	5.4%	634	7.6%	458	5.1%	(28%)
Mass Market	233	1.8%	308	1.9%	433	2.0%	41%
Total	929	2.6%	1,365	3.3%	1,162	2.3%	(15%)

Government Bonds Portfolio

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Trading	162	1%	957	5%	1,214	7%	27%
Fixed rate	138	1%	909	5%	1,214	7%	34%
Variable rate	24	0%	48	0%	-	-	(100%)
Available for Sale	6,060	43%	11,058	59%	10,369	66%	(6%)
Fixed rate	3,382	24%	8,103	43%	7,371	47%	(9%)
Variable rate	2,678	19%	2,955	16%	2,998	19%	1%
Held to Maturity	7,880	56%	6,687	36%	4,225	27%	(37%)
Fixed rate	1,955	14%	1,887	10%	925	6%	(51%)
Variable rate	5,925	42%	4,800	26%	3,300	21%	(31%)
Total	14,102	100%	18,702	100%	15,808	100%	(15%)

Funding Composition

	2005		2006		2007		ΔYoY
	Rp bn	% Total	Rp bn	% Total	Rp bn	% Total	
Current Account	4,536	8%	5,337	8%	6,728	9%	26%
Rupiah	2,644	5%	3,525	5%	4,056	6%	15%
Foreign currency	1,892	3%	1,812	3%	2,672	3%	47%
Saving	8,552	16%	9,712	15%	11,395	16%	17%
Rupiah	8,552	16%	9,712	15%	11,395	16%	17%
Time Deposit	32,952	61%	41,881	63%	42,814	59%	2%
Rupiah	28,079	52%	35,310	53%	34,014	47%	(4%)
Foreign currency	4,873	9%	6,571	10%	8,800	12%	18%
Long-term Funding	7,302	13%	9,351	14%	11,450	16%	33%
Rupiah	3,370	6%	5,503	8%	6,378	9%	16%
Foreign currency	3,932	7%	3,848	6%	4,072	7%	13%
Total Funding	53,342	100%	66,281	100%	72,387	100%	9%

Total Funding

In 2007, our interest-bearing funding grew by 9% to Rp 72.4 trillion from Rp 66.3 trillion in the previous year supported by growth in both low cost deposits and long-term funding.

Current account and savings account rose by 26% and 17% to Rp 6.7 trillion and Rp 11.4 trillion, respectively, and both accounted for 25% of total funding. While time deposit was Rp 42.8 trillion as compared to Rp 41.9 trillion in the previous year, representing 59% of total funding. As a result, our loan to deposit ratio (LDR) stood at 88% at the end of 2007 as compared to 76% last year.

Long-term funding, which includes senior bonds, subordinated debts, securities sold under repurchase agreements and other borrowings, rose by 22% to Rp 11.5 trillion, following the successful issuance

of Rp 1.5 trillion senior bonds in May 2007. Long-term funding now contributed to 16% of our total funding, as compared to 14% a year earlier. This initiative is part of our strategy to minimize asset liability maturity mismatch as well as to diversify our funding sources. Moreover, including this long-term funding, our loan to funding ratio was 74% at the end of 2007, as compared to 65% a year earlier.

Capitalization

Our capitalization remained solid with a capital adequacy ratio (CAR) of 19.3% at the end of 2007. Tier-1 and Tier-2 capital ratio stood at 15.3% and 6.4% as compared to 15.5% and 6.9% a year earlier. Moreover, equity to asset ratio increased to a high 12.1% as compared to 11.5% a year earlier, reflecting our strong operating results.

Capitalization

Rp billion	2005	2006	2007	ΔYoY
Tier 1 Capital	7,933	8,370	9,769	17%
Tier 2 Capital	3,976	3,702	4,088	10%
Investment	(1,144)	(1,095)	(1,562)	43%
Total Capital after Investment	10,765	10,977	12,295	12%
Risk Weighted Assets (inc. market risk)	47,466	53,825	63,820	19%
Capital Adequacy Ratio	22.7%	20.4%	19.3%	1.1%
Tier 1 Ratio	16.7%	15.5%	15.3%	(0.2%)
Tier 2 Ratio	8.4%	6.9%	6.4%	(0.5%)