

# Risk Management & Corporate Governance

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# Risk Management

## Balancing Risk and Reward



Danamon uses the Enterprise Risk Management Approach to manage risks. This requires a proactive, systematic and disciplined process covering all activities: Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Legal Risk, Compliance Risk, Strategic and Reputation Risks. This approach allows us to manage Risk on sound principles and values, encompassing a well-defined strategy; proper Board structures, and active working committees with clear roles, responsibilities, authorities and levels of delegation. We believe that Risk Management is the responsibility of all Business Units and not just the central Risk Management Function. The Risk Management organization sets the framework and provides checks and balances and independent oversight in line with international standards and requirements set by Bank Indonesia.

### **Risk Management Organization Structure**

Danamon's Risk Management organizational structure is based on integrated and independent principles through the Integrated Risk Management Directorate. However, all businesses are also responsible for their own risk exposures within defined parameters.

Risk oversight at the Board of Commissioners' level is conducted through the Risk Monitoring Committee, which consists of several members from the Board of Commissioners, the Integrated Risk Director and all key Risk Managers. Meeting once a month, the Committee evaluates the consistency and effectiveness of policies and their implementation.

At the management level, the overall responsibility for managing risk lies with the Risk Committee. The Risk Committee is comprised of the President Director, members of Management, including the Integrated Risk Director as the Chairman, the Legal & Compliance Director and other nominated executives. This Committee serves as the main forum through which Danamon implements risk management for all businesses and subsidiaries.

The Integrated Risk Director oversees the Integrated Risk Division, and is responsible for setting risk management policies. Under the Integrated Risk Director, there are three separate Risk Groups:

- Credit Risk Division
- Market and Liquidity Risk Division, and
- Operational Risk & Business Continuity Planning Division

In the third quarter of 2007, we established the Strategic and Reputation Risk Committee chaired by the Operational Risk Head. Members of this Committee include representatives from Market and Liquidity Risk, Credit Risk, Financial Control, Legal & Compliance and representatives from Danamon's subsidiaries.

Legal and compliance risks are managed under the Legal & Compliance Director, and presented at the Risk Committee and Risk Monitoring Committee.

Subsidiary risks are managed within the same risk framework as that of the Bank. Key Risk Heads in these subsidiaries are recruited with joint approval from the Integrated Risk Director and have a reporting line to the Integrated Risk Function.

### **Risk Management Activities**

In line with Bank Indonesia guidelines, Danamon implements monitoring and control systems for the following risk categories: credit, market, liquidity, operational, strategic, reputation, legal and compliance risks.

### **Credit Risk**

Credit risk is managed through the established policies and procedures covering credit acceptance criteria, origination, approval, pricing, and monitoring as well as loan and portfolio management.

A dual reporting credit management function allows both the Integrated Risk view and proper segregation of duties between management authorized to grant credit and the Integrated Risk Directorate, who independently assess individual credits. Subsidiary risks are also managed within the same risk framework.

Danamon also established the Credit Committee approval process responsible for the approval of credit proposals and quality of underwriting standards within the Bank's Businesses. Members of the Committee are delegated discretionary limits, based upon their skills and experience. The credit committee is responsible for the approval of credit proposals and quality of underwriting.

A comprehensive Management Information System is available to detect any adverse development at the earliest stage, allowing measures to counteract any credit quality deterioration or to minimize credit losses.

To strengthen the internal credit approval process, we are currently working with an internationally reputed credit rating agency to assist us in refining our rating models for the corporate and commercial segments. This will enable us to estimate the probability of default (PD) by obligor as well as by facility. Simultaneously, internal work has commenced on PD calculation for Danamon's entire mass market and retail portfolios.

### **Market & Liquidity Risk**

**Market Risk.** The US subprime mortgage crisis that emerged in August 2007 and increasing prices of oil have adversely affected the global economy and may have some impact on Indonesia as well, albeit to a smaller extent. The impact on Indonesia, in our view, in spite of the strong fundamentals of the country, may arise because of the repercussions at the regional and global levels. After the US Fed actions, while the global market revived briefly at the end of the year, market volatility continues to be very high and this is monitored continuously at the senior management level and at ALCO.

The Market Risk Management function within Danamon has been established along international best practice lines, covering all businesses and activities within the Bank and Subsidiaries.

We adopt a unified, centralized system covering every kind of market risk within Danamon that provides us with a bank-wide view of market risk. After completing a major change in our market risk framework in 2006, the Market Risk unit continues to incrementally improve the framework on an ongoing basis.

### **Liquidity Risk & Interest Rate Risk in Banking**

**Book.** Rigorous liquidity risk management is a crucial matter for any commercial bank. Recognizing its importance, Danamon implements a daily liquidity risk reporting mechanism. Monthly stress testing is also carried out to ensure that we have the necessary capacity in the event of liquidity stress situations.

Annually, we perform detailed reviews for all underlying assumptions of non-maturing assets and liability products.

To manage its liquidity risk, Danamon uses an Asset and Liability Committee (ALCO). The Committee is in charge of determining the policy and strategy of the bank's assets and liabilities in line with the principles of prudent risk management and applicable regulatory requirements. ALCO is also responsible for the Bank's projected balanced sheet. ALCO members are chaired by the President Director, CFO, Treasurer, Risk Director, Market Liquidity Risk Head and key Business Heads. The meetings are convened at least once a month, and more frequently, if necessary.

The management is proactively looking to position the Bank's balance sheet to minimize any adverse impact of the changing interest rate cycle. Therefore, we plan to continue increasing long term funding initiatives to deal with both liquidity and interest rate risks.

### **Operational Risk**

Operational risk is inherent within many banking activities that are conducted daily. A systematic Operational Risk management framework is in place to ensure all operational risks are properly identified and addressed. The framework also covers all Danamon's subsidiaries through the appointment of onsite Senior Officers that run the full cycle of Danamon's operation risk management at its subsidiaries.

An online real-time Operational Risk Management System (ORMS) automates the Identification, Measurement, Monitoring and Reporting processes of operational risks. The ORMS is currently operational at most branches and units within the Bank. Ongoing works are in progress to expand the system to cover other remaining units and subsidiaries.

We continue recording not only operational losses, but also various risk events and near misses in order to enable more conservative definitions of preventive control mechanisms. Risk assessment, which is part of the risk identification processes on all products and activities, is continuously performed to prevent errors and fraud. Regular workshops and socialization programs are organized to ensure a continuous and uniform level of operational risk awareness and risk culture throughout Danamon.

Quarterly Risk-Control Self-Assessment (RCSA) exercises are also conducted across Danamon to measure the level of operational risk exposures and Unit compliance. In 2007, 2,765 Self Assessment Units participated in self-assessment exercises, a 23% increase compared to the number of participating units in the previous year.

By the end of 2007, losses from operational risks were kept below Rp 2 billion.

### **Strategic and Reputation Risks**

Strategic Risk management addresses any risk attributable to inadequate strategy formulation and implementation, while reputation risk management deals with actions to maintain the trust of customers and the public.

In Danamon, these risks are managed by the recently formed Strategic and Reputation Risk Coordination Committee chaired by the Operational Risk Management Head. The Committee oversees the Bank's strategic and reputation risks and presents them to Danamon's Board of Directors and to the Risk Committee.

### **Legal and Compliance Risks**

Legal risks stem from inadequate legal aspects, while compliance risks arise from failure to adhere with prevailing rules and regulations in Indonesia. Legal risks are managed by the Bank's Legal Group while compliance risks are managed by the Compliance Group. Key issues and findings pertaining to these risks are reported to the Bank's Board of Directors and Risk Committee.

### **Basel II**

Danamon is actively engaged with Bank Indonesia at each level of the Basel II initiative by presenting ourselves in different forums.

Danamon has formed a Basel Coordination Committee, involving key business Risk Managers, Financial Control, Information Technology and Compliance Groups. The Committee is in charge of implementing all regulations issued by Bank Indonesia and to ensure full compliance with all Basel II regulations. Our current assessment shows that we do not find any major gaps with Bank Indonesia's Basel II guidelines.

### **Business Continuity Management (BCM)**

Considerable progress has been made in improving our capability to operate in the event of disasters. Three Regional Command Centers, located in Jakarta, Surabaya and Medan, were established in 2007 to enhance our disaster handling capabilities in these major regions. We completed Danamon's BCM Manual that describes BCM philosophies and policies as well as detailed guidelines and procedures to be followed.

# Corporate Governance

## Protecting Stakeholders' Interests

The Board of Commissioners and Board of Directors believe that commitment to the principles of corporate governance is critical in obtaining and maintaining the trust of investors and in achieving the Danamon's overall goal of performance with integrity. This commitment is also vital in earning the respect from our employees, customers, suppliers, government regulators and the public.

### Key Activities in 2007

Underscoring our dedication in implementing good corporate governance (GCG), throughout 2007 the Bank completed a number of important initiatives including:

- Extending the compliance function to the Bank's subsidiaries (Adira Finance, Adira Quantum and Adira Insurance) and socializing it through monthly monitoring sessions
- Amending of the Bank's Articles of Association so it is aligned with Bank Indonesia's GCG regulation
- Appointment of independent commissioners to chair Board of Commissioners' committee as required by Bank Indonesia's GCG regulation
- Conducting Know Your Customer (KYC) training for both new and existing employees. By the end of 2007, 13,615 employees have participated in the KYC training
- Conducting GCG workshop on "The Implementation of GCG Principles and Its Challenges" with speakers from Bank Indonesia, PT Bursa Efek Indonesia (formerly PT Bursa Efek Jakarta) and other companies to raise GCG awareness campaign for all employees

### Governance Principles in Danamon

Danamon's implementation of Good Corporate Governance within Danamon is based on the following principles:

- **Transparency**, in particular disclosure of information in clear, accurate and timely manner.
- **Accountability**, in defining the roles, responsibilities and obligations between commissioners, directors and shareholders of the bank.
- **Responsibility**, in being committed as professionals to comply with all prevailing laws and regulations and to act as a good corporate citizen in the community at large.
- **Independence**, in the ability of Board members to exercise objective judgments on all matters, where an independent business judgment is advisable to avoid potential conflict of interest.
- **Fairness**, as it relates to professionalism and integrity in decision making processes to ensure that fair and equal treatments are applied to protect the rights of all shareholders.
- **Integrity** as it relates to honesty which forms the fundamental basis of conduct required to ensure that decision making processes are free from conflicts of interest and places the interest of the company above personal ones.

### Code of Conduct

As part of its commitment to good governance practices, Danamon has published its own Code of Conduct. This Code applies to the Board of Commissioners, Board of Directors and employees without exception. It serves as basic guidelines for all employees to ensure that relationships among employees, customers and stakeholders are conducted in the most ethical manner and are free from conflict of interest. All employees must sign to the effect that they accept and understand the Code and will be guided accordingly on an annual basis. The Code is supported with appropriate awareness training, reviewed periodically, and approved by the Boards.

Facilities available to ensure that all activities are conducted in the most ethical manner:

- A confidential hotline, also known as a whistleblower program, was launched allowing employees to report suspected breaches to the Code of Conduct, or cases of fraud or corruption. Awareness of the hotline is promoted through the internal website, posters and trainings.
- A Statement of Conduct is in all contracts signed with accredited suppliers to the bank. A confidential hotline is provided to report breaches of conduct by suppliers.

## **Governance Structure**

### **General Meeting of Shareholders (GMS)**

Through the GMS, shareholders have the right to appoint and dismiss Board members as well as to approve the remuneration of Board members. Proper notice is given to shareholders in calling the GMS and includes the main agenda items for the meeting. Prior shareholder approval is always sought with regard to any material changes which have any affect whatsoever on the equity, economic interests, or share ownership rights of existing shareholders. In 2007, Danamon held one Annual General Meeting of Shareholders and one Extraordinary General Meeting of Shareholders.

The Annual General Meeting of Shareholders (AGMS) on 27 March 2007 approved the Annual Report of the Board of Directors and the Bank's financial statements for the 2006 financial year. The meeting provided shareholder approval for the dividend payment of Rp 663 billion or Rp 131.439 per share, which is approximately 50% of Danamon's consolidated net profit after tax (NPAT) for the 2006 financial year.

In addition to the above agenda, the meeting also granted the release and discharge (acquit et de charge) to the Board of Directors and the Board of Commissioners for the management and supervision performed in the year ending 31 December 2006. On the same day, Danamon also conducted its Extraordinary General Meeting of Shareholders (EGMS), which approved the amendment and restatement of its entire Articles of Association.

## **Board of Commissioners**

### **Duties and Composition**

The Board of Commissioners undertakes a supervisory role in monitoring the bank's performance against stated strategy and goals. It also provides oversight over the bank's risk management, its external and internal audit controls and findings and ensures the timely disclosure of information required to comply with regulatory requirements. The Board of Commissioners represents the interest of the shareholders and is responsible to the GMS.

The Board of Commissioners consists of seven Commissioners, including the President Commissioner, all of whom are competent professionals with extensive experience and a wide range of expertise, one of which being risk management.

In accordance with the definitions stated in the prevailing regulations of Bapepam, the Indonesian Capital Market authority, Bank Indonesia regulation No. 8/4/ PBI/2006 and the Jakarta Stock Exchange regulation No. IA, Danamon has appointed four Independent Commissioners who serve the interests of minority shareholders.

## **The Board of Directors**

### **Duties and Composition**

The Board of Directors is responsible for the day-to-day management of the bank, including the formulation and execution of business plans, annual budgets and policies, the monitoring and managing of risk, the prudent management of the bank's assets, resources and reputation, the recruitment and conduct of bank personnel and the formation and operation of management committees in the day-to-day governance of the bank.

The Board of Directors consists of seven Directors as of 31 December 2007 including the President Director. In accordance with Bank Indonesia's regulations, a Compliance Director is appointed with the responsibility of ensuring that all laws, regulations and requirements of regulatory bodies including Bank Indonesia, the Capital Market Authority and the Stock Exchange are met in a timely and accurate manner. The Compliance Director is also responsible for ensuring that all internal policies and procedures are adhered to at all times.

## Composition of the Board of Commissioners

Name		Term of Office Effective Since		Term Expires
		Bank Indonesia Approval	General Meeting of Shareholders	
Ng Kee Choe	President Commissioner	24 May 2006	22 May 2006	AGM 2008
JB Kristiadi	Independent Commissioner	5 December 2005	9 May 2005	AGM 2008
Gan Chee Yen	Commissioner	21 October 2003	16 June 2003	AGM 2008
Victor Liew Cheng San	Commissioner	21 July 2004	26 March 2004	AGM 2008
Milan R Shuster	Independent Commissioner	5 December 2000	9 October 2000	AGM 2008
Harry A.S. Sukadis	Independent Commissioner	10 September 2003	16 June 2003	AGM 2008
Manggi Taruna Habir	Independent Commissioner	22 July 2005	9 May 2005	AGM 2008

Note: Refer to Corporate Data section for biographical information

## Composition of the Board of Directors

Name		Term of Office Effective Since		Term Expires
		Bank Indonesia Approval	General Meeting of Shareholders	
Sebastian Paredes	President Director	9 May 2005	9 May 2005	AGM 2008
Jerry Ng*	Vice President Director	8 September 2003	16 June 2003	AGM 2008
Muliadi Rahardja	Director	21 December 1999	31 August 1999	AGM 2008
Anika Faisal	Compliance Director	2 August 2002	16 May 2002	AGM 2008
Hendarin Sukarmadji	Director	4 Juli 2005	9 May 2005	AGM 2008
Ali Yong	Director	8 May 2006	22 May 2006	AGM 2008
Vera Eve Lim	Director	26 June 2006	22 May 2006	AGM 2008
Sanjiv Malhotra	Director	26 July 2006	22 May 2006	AGM 2008

\*) Jerry Ng submitted his resignation letter as Vice President Director on 10 September 2007 and effective as of 10 October 2007

Note: Refer to Corporate Data section for biographical information

### Fit and Proper Test

As stated in Bank Indonesia regulation No. 8/14/PBI/2006, every member of both Boards must pass the fit and proper test. As of 31 December 2007, all members of both Boards have passed the fit and proper test.

### Training Programs

To keep enhancing their skills, knowledge and capabilities, members of the Board of Commissioners and Board of Directors attended various training and development programmes during 2007.

### Top 10 Training Programs

- 1 Risk Management Refreshment Course
- 2 Corporate Credit Risk Management
- 3 The 15th Asean Fed of Accountants Conference
- 4 Private Banking International Wealth Management Summit
- 5 Syariah Training
- 6 Sovereign Hotspots Asia 2007 Conference
- 7 Building & Leading High Performance Culture
- 8 HR Business Workshop 2007
- 9 Workshop Serikat Kerja (Labor Union) NIBA
- 10 International Positive Psychology Summit

### Meeting of The Board of Commissioners And The Board of Directors

To perform their duties, the Board of Commissioners and the Board of Directors hold Board of Commissioners meetings, Board of Directors meetings, and Board of Commissioners and Board of Directors joint-meetings. The minutes of each meeting are drawn up and signed by the Board of Commissioners and Board of Directors and are distributed to all members of both Boards, as well as to the meeting attendants and the members who were absent during the meetings. Dissenting opinions are also noted.



## Attendance of BoC and BoD Meetings

	BoC Committee Meetings*	BoC/BoD Meetings	BoD Meetings**
Total Meeting Frequency	30	7	27
	Attendance	Attendance	Attendance
<b>Board of Commissioners</b>			
Ng Kee Choe	4	7	-
JB Kristiadi	6	7	-
Gan Chee Yen	2	5	-
Victor Liew Cheng San	24	7	-
Milan R. Shuster	28	7	-
Harry A.S. Sukadis	26	6	-
Manggi Taruna Habir	26	7	-
<b>Board of Directors</b>			
Sebastian Paredes	-	7	22
Jerry Ng	-	6	17
Muliadi Rahardja	-	7	21
Anika Faisal	-	7	16
Hendarin Sukarmadji	-	7	23
Ali Yong	-	6	25
Vera Eve Lim	-	7	22
Sanjiv Malhotra	-	5	19

\*) Including Audit, Risk Monitoring, Nomination and Remuneration, and Good Corporate Governance Committee Meetings

\*\*\*) Excluding BoD Committee Meetings

## Performance of the Board of Commissioners and Board of Directors

The Board of Commissioners reviews the performance of the Board of Directors as a whole and individually in terms of pre-determined performance indicators. These are clearly defined in terms of specific financial criteria including targets for revenue and costs, number of customers, human resources, including targets for hiring suitably qualified personnel, training (in man-days and by content), attrition rates, and morale and general alignment as measured by the annual employee survey. Process integrity and improvement is also monitored through audit and compliance reports.

In addition to the evaluation of individual and group performances as undertaken by the Nomination and Remuneration Committee, shareholders have the right at the AGMS to review the performance of both Boards based upon the annual financial report.

## The Board of Commissioners and the Board of Directors Remuneration

During 2007, the amount of remuneration paid in the form of salaries and other benefits to the Board of Commissioners and Board of Directors was as follows:

### Remuneration of the Board of Commissioners

In Rupiah	2007	2006	2005
Salary	7,455,420,558	9,140,431,956	9,074,492,577
Allowance	2,408,841,432	2,926,502,163	2,991,334,067
Tantiem	TBD	7,800,000,000	10,500,000,000

### Remuneration of the Board of Directors

In Rupiah	2007	2006	2005
Salary	20,249,824,946	24,051,214,617	18,061,266,557
Allowance	4,071,586,607	4,148,057,135	4,931,568,232
Tantiem	TBD	28,329,791,620	35,505,079,815
Long Term Compensation Plan/Stock Option Granted	47,500,000,000	5,160,000**	15,950,000**

\* To be determine in AGMS on 3 April 2008

\*\* Number of Shares

### Committees under the Board of Commissioners

The Board of Commissioners currently has four Committees that were specifically formed to assist the Board in performing its tasks and responsibilities:

1. Audit Committee
2. Risk Monitoring Committee
3. Remuneration and Nomination Committee
4. Good Corporate Governance Committee.

### The Audit Committee

The Audit Committee monitors and evaluates audit plans, implementation and results. It is responsible for ensuring the adequacy of internal control and financial reporting processes. It also ensures the smooth implementation of follow up actions on findings by the Internal Audit Work Units, the public accountants, and BI's supervision department, and ensures that the bank's public accountants are in compliance with prevailing accounting standards.

Regarding the appointment of the public accountant, the Audit Committee recommends an accountant to the Board of Commissioners, and that recommendation is subsequently submitted to the Annual General Meeting of Shareholders for formal approval.

As of 31 December 2007, the Audit Committee consisted of six members, including Chairman of the Committee. The composition of the Audit Committee comprise of three members of the Bank's Independent Commissioners and two externally-appointed members that possess extensive audit experience and expertise. The Audit Committee held 12 meetings in 2007.

### Composition of Audit Committee

Name	Title	Member Since
Milan R. Shuster	Chairman/ Independent Commissioner	3 October 2006
Victor Liew Cheng San	Member/ Commissioner	3 October 2006
Harry A.S. Sukadis	Member/Independent Commissioner	3 October 2006
Manggi Taruna Habir	Member/Independent Commissioner	3 October 2006
Setiawan Kriswanto	External Member	3 October 2006
Hadi Indraprasta	External Member	3 October 2006

Note: Refer to Corporate Data section for biographical information

### Appointment of an External Auditor

The Audit Committee requires the external auditor to confirm that they have maintained their independence. The Company's external auditor gives assurance to the Risk and Audit Committee that they have complied with the independence standards, promulgated by local and overseas regulators and professional bodies.

The public accounting firm of Siddharta Siddharta & Widjaja, a member firm of KPMG International, was appointed as the independent auditor to audit the Bank's financial statements for the year ending 31 December 2007 at a total estimated cost of Rp 4.4 billion including 10% VAT. The appointed Independent Auditor has certified that there were no conflict of interest in their audit.

### The Risk Monitoring Committee

The Risk Monitoring Committee evaluates the consistency and adequacy between risk management policies and their implementation; and the actual implementation of those policies.

In 2007, Risk Monitoring Committee has evaluated the Bank's risk management policies and their implementation. Throughout the year, the Committee has also monitored and evaluated the tasks performed by the Risk Management Committee and the Risk Management Work Unit. As of 31 December 2007, the Risk Monitoring Committee consisted of 6 members, including Chairman of the Committee. Throughout the year, the Committee conducted 12 meetings.

### Composition of Risk Monitoring Committee

Name	Title	Member Since
Milan R. Shuster	Chairman/ Independent Commissioner	3 October 2006
Victor Liew Cheng San	Member/ Commissioner	3 October 2006
Harry A.S. Sukadis	Member/Independent Commissioner	3 October 2006
Manggi Taruna Habir	Member/Independent Commissioner	3 October 2006
Setiawan Kriswanto	External Member	3 October 2006
Hadi Indraprasta	External Member	3 October 2006

Note: Refer to Corporate Data section for biographical information

## The Remuneration and Nomination Committee

The Committee nominates potential candidates for positions in the Board of Directors. It also facilitates regular appraisals of the Board of Directors with respect to their managerial duties, and in so doing, establishes clear criteria governing the level of skills and number of Directors required, and oversees succession planning. The Committee ensures that remuneration levels are appropriate by virtue of the financial risks, demands and prerequisites of each role, and monitors remuneration policies. The Committee recommends suitable incentive programmes involving bonus payments or ownership of bank shares to the Board of Directors, and ensures information disclosure to the public fully complies with all prevailing regulations.

In 2007, the Committee has reviewed the remuneration policies for members of the Board of Commissioners and Board of Directors and submitted its recommendation to the GMS. The Committee also reviewed the remuneration policies for Senior Executives and employees, and submitted its recommendation to the Board of Directors. Related to its duties, the Committee has developed nomination procedure for members of both Boards to be submitted to the GMS.

As of 31 December 2007, the Committee consisted of 4 members including Chairman of the Committee. The Remuneration and Nomination Committee held 4 meetings in 2007.

## Composition of Remuneration and Nomination Committee

Name	Title	Member Since
JB Kristiadi	Chairman/ Independent Commissioner	16 January 2007
Ng Kee Choe	Member/ Commissioner	16 January 2007
Milan R. Shuster	Member/Independent Commissioner	16 January 2007
Harry A.S. Sukadis	Member/Independent Commissioner	16 January 2007
Maria Theodora	Executive Member	16 January 2007

Note: Refer to Corporate Data section for biographical information

## The Good Corporate Governance Committee

The Committee's main role and responsibility is to oversee the Bank's governance, which includes ensuring sufficient disclosure and transparency as well as fairness on information to ensure equitable treatment to all shareholders. It also reviews the Code of Ethics for executives, employees and directors. As of 31 December 2007, the Good Corporate Governance Committee consisted of 3 members including chairman of the committee. In 2007, the Committee conducted 2 meetings.

## Composition of Good Corporate Governance Committee

Name	Title	Member Since
Manggi Taruna Habir	Chairman/ Independent Commissioner	16 January 2007
Gan Chee Yen	Member/ Commissioner	16 January 2007
JB Kristiadi	Member/Independent Commissioner	16 January 2007

Note: Refer to Corporate Data section for biographical information

## Summary of Meeting Attendance in 2007

	Audit Committee	Risk Monitoring Committee	Nomination and Remuneration Committee	Corporate Governance Committee
	Attendance	Attendance	Attendance	Attendance
Meeting Frequency	12	12	4	2
<b>Commissioners</b>				
Ng Kee Choe	-	-	4	-
JB Kristiadi	-	-	4	2
Gan Chee Yen	-	-	-	2
Victor Liew Cheng San	12	12	-	-
Milan R. Shuster	12	12	4	-
Harry A.S. Sukadis	11	12	4	-
Manggi Taruna Habir	12	12	-	2
<b>External Members</b>				
Setiawan Kriswanto	12	12	-	-
Hadi Indraprasta	12	12	-	-
Maria T. Kurniawati	-	-	3	-

The agenda or topics discussed in the Committee Meetings under the Board of Commissioners meetings in 2007:

#### Audit Committee Meeting Agenda

Date	Routine Agenda	Special Topics
15 January 2007	<ul style="list-style-type: none"> <li>Monthly review of Internal Audit (SKAI) results</li> <li>Discuss unacceptable rated entities by SKAI</li> <li>Review fraud cases</li> <li>After appointment of new External Auditor, monthly update of audit results</li> <li>Adira Insurance audit results</li> <li>Selection, decision and appointment of External Auditor, Siddharta Siddharta &amp; Widjaja</li> <li>Internal Audit 2008 annual plan</li> </ul>	<ul style="list-style-type: none"> <li>Adira Insurance audit results</li> <li>Selection, decision and appointment of External Auditor, Siddharta Siddharta &amp; Widjaja</li> <li>Internal Audit 2008 annual plan</li> </ul>
27 February 2007		
26 March 2007		
26 April 2007		
29 May 2007		
21 June 2007		
30 July 2007		
22 August 2007		
27 September 2007		
30 October 2007		
29 November 2007		
18 December 2007		

#### Risk Monitoring Committee Meeting Agenda

Date	Routine Agenda	Special Topics
15 January 2007	<ul style="list-style-type: none"> <li>Related party transactions</li> <li>Regulatory Compliance Parameters</li> <li>Treasury and Capital Markets</li> <li>Market and Liquidity Risk</li> <li>Portfolio and Integrated Risk updates</li> </ul>	<ul style="list-style-type: none"> <li>Bancassurance</li> <li>Basel II Update</li> <li>SME/Commercial Update</li> <li>Adira Quantum</li> <li>Adira Collection</li> <li>Credit Card Collection</li> <li>SMEC profile</li> <li>NCBS IT Project Update</li> <li>DUS collection</li> <li>Corporate Target Market</li> <li>Consumer Affluent</li> <li>Mortgage Portfolio</li> <li>Unsecured Personal Loans</li> <li>Operational Risk Update</li> <li>Asset-Based Finance</li> <li>Jakarta Flood Update</li> </ul>
27 February 2007		
26 March 2007		
26 April 2007		
29 May 2007		
21 June 2007		
30 July 2007		
22 August 2007		
27 September 2007		
30 October 2007		
29 November 2007		
18 December 2007		

#### Remuneration and Nomination Committee Meeting Agenda

Date	Agenda
16 January 2007	<ul style="list-style-type: none"> <li>Appointment of chairman, members and secretary of the Nomination &amp; Remuneration Committee</li> </ul>
26 March 2007	<ul style="list-style-type: none"> <li>Approval of the Charter of Nomination &amp; Remuneration Committee</li> <li>Resignation of Corporate Banking Director</li> <li>Nomination of Corporate Banking Business Head candidates</li> <li>Discussion of Tantieme and New Salary (BoD,BoC,BoM)</li> <li>Discuss proposal of Long Term Compensation Plan</li> </ul>
21 June 2007	<ul style="list-style-type: none"> <li>Discuss bank's reward system</li> <li>Long Term Compensation Plan (LTCP)</li> <li>Talent Management Model, Succession Planning and Bench Strength Assessment</li> </ul>
23 August 2007	<ul style="list-style-type: none"> <li>Long Term Compensation Plan proposal for BoD and BoM* Members</li> </ul>
9 November 2007	<ul style="list-style-type: none"> <li>Discuss BoC Composition compliance with BI regulations</li> <li>Appointment of Audit Committee Chairman and Risk Monitoring Committee Chairman</li> <li>Discuss key BoD positions and terms of office</li> <li>Discuss key senior management compensation and incentive schemes</li> <li>Vice President Director resignation and approval to search new Vice President Director</li> </ul>

#### Good Corporate Governance Committee Meeting Agenda

Date	Agenda
18 June 2007	<ul style="list-style-type: none"> <li>Review of Danamon compliance with Bank Indonesia GCG regulations</li> <li>GCG Committee 2007 plan</li> </ul>
25 October 2007	<ul style="list-style-type: none"> <li>Preparation for 2008 AGM of Shareholders</li> <li>Suggestions for improved disclosure in 2007 Annual Report</li> </ul>

### Committees under the Board of Directors

The Board of Directors is assisted by several executive committees, each of which has the responsibility to provide assistance and recommendation pertaining to certain matters related to the duties of the Board of Directors.

**Operating Committee** is tasked to monitor Danamon and subsidiaries' operating performance, key performance indicator results and trends, and any significant incidents or events. The Committee is chaired by the President Director.

**Risk Committee** determines the overall risk management policies, strategies and tolerant level of the bank and its subsidiaries; as well as credit policies, the credit strategy and the credit limits that the bank and subsidiaries, imposes on certain borrowers, industries and market segments. Risk Committee is chaired by the Integrated Risk Director.

**Information Technology Steering Committee** periodically reviews Danamon and subsidiaries' IT strategy, blueprint, priorities and roadmap. The Committee is chaired by the Bank's Chief Technology Officer.

**Business Executive Committee** is chaired by the CFO and is responsible for monitoring the Group's business and financial performance.

**Human Resources Committee** is principally tasked to provide strategic direction and to determine key policies in human resources area. Human Resources Committee is chaired by Danamon's Vice President Director.

**Asset and Liability Management Committee** (ALCO) determines the policy and strategy of the bank's assets and liabilities in line with the principles of prudent risk management and applicable regulatory requirements. The focus of ALCO is to ensure that the bank will, at all times, have adequate liquidity and capital to support the operations and development of the bank's franchises. The Committee comprises the Head of Treasury & Capital Markets and other senior management.

### Syariah Supervisory Board

Syariah Supervisory Board supervises Syariah Banking activities. Members of the Board serve as advisors and counsellors to the Board of Directors, the Head of the Syariah Banking Unit and the Manager of the Syariah Branch Office in all matters pertaining to Syariah banking products and precepts. This is an independent Board, formed by and responsible to the National Syariah Board (NSB) which operates under the Indonesian Council of Ulama, and seconded to banks which provide banking services on the basis of Syariah principles with certain rules and regulations provided by the NSB.

The Syariah Supervisory Board of Danamon was formed on 1 February 2002, comprising of:

**Prof. Dr. H.M. Din Syamsuddin** (Chairman)

**Drs. Hasanudin, M. Ag** (Member)

**Ir. H. Adiwarmanto A. Karim, SE, MBA** (Member)

### Internal Audit

Internal Audit is an independent function reporting directly to the President Director and to the Board of Commissioners through the Audit Committee. Their objective is to provide independent and objective findings and recommendations to improve the bank's operations. Internal Audit's systematic and disciplined approach assists the bank with the evaluation and improvement of effective risk management, control, and governance processes. In doing so, Internal Audit works closely with the Compliance, Risk Management, and Financial Control departments. Internal Audit also works with the External Auditor on matters of mutual interest and coordinates audit efforts.

Internal Audit encompasses all lines of business, product groups and support functions in Head Office, the regional offices and the branches. There are seven regional audit heads, all of whom report directly to Head Office – Internal Audit. Internal Audit has unrestricted access to all functions, records, property and personnel of the bank and its subsidiaries (as per the approved Internal Audit Charter by the President Director and

Board of Commissioners). Internal Audit works in compliance with Bank Indonesia (BI) standard for implementation of Internal Audit Functions (SPFAIB) as per BI Regulation No. 1/6/ PBI/1999 dated 20 September 1999 and International Standards for the Professional Practice of Internal Auditing from The Institute of Internal Auditors.

Audit results will be distributed through an audit report to relevant parties including the President Director, the Integrated Risk Head and the Compliance Director. On a monthly basis, a summary of all audit issues is presented to the Operating Committee and Audit Committee on separate occasions for constructive discussion. On a separate basis, Internal Audit also holds monthly meetings with the Audit Committee.

To achieve better audit quality in 2007, Internal Audit implemented 2 new audit methodologies:

(1) **Integrated Audit approach** (for major Head Office audit entities)

The specialized audit team (Credit Audit, Product Audit, Support Audit) on integrated basis with IT Audit perform the audit review on risk based auditing platform to audit the major Head Office audit entities. The improvements to the audit methodology will enable a more comprehensive review of the critical processes being audited by the integrated audit team.

(2) **Process Control Oversight** (for Danamon Simpan Pinjam audit entities)

The scope of the review encompasses auditing effectiveness of Credit Control and Operations Control. The Process Control Oversight (called as Cluster Audit Approach) have brought some benefits, such as review and strengthening the control functions while assessing the adequacy of control in each Cluster.

**Internal Audit Activities in 2006-2007**

<b>Audit Focus</b>	<b>2007</b>	<b>2006</b>
Head Office (incl. Adira Group)	71	84
Conventional Branches	186	279
Regional Processing & Services	25	15
SEMM – Cluster	113	344
CMM – Credit Processing Center	15	38
Syariah	9	8
<b>Total</b>	<b>419</b>	<b>768</b>

**Communication with the Stakeholders**

**The Corporate Secretary**

The Corporate Secretary also serves as Compliance Director and is responsible for the dissemination and disclosure of all information relating to the performance of the bank in a timely, accurate and transparent manner, and in compliance with standing regulations applicable to the bank as a publicly listed company.

The bank's Corporate Secretary plays a key role in helping the bank adhere to capital market laws, by providing Commissioners and Directors with ongoing guidance on issues such as corporate governance, the bank's Article of Association and the law.

The Corporate Secretary is also strongly involved in ensuring the quality and accuracy of information and advice to Commissioners and Directors on applicable laws and regulation also in achieving the highest standards in the organization of shareholder meetings and meetings of the Boards.

**Investor Relations**

Investor Relations' (IR) central effort is to sustain and improve communications with investors. During 2007, Danamon was active in conducting regular dialogue and exchanges with shareholders, the institutional investment community, and the stock broking community. A variety of communication events were held including formal group and individual meetings, investment conferences, conference calls, the internet and the timely publication of results and material events via press releases, bulletins, and the company's web site.

**Information Dissemination Activities**

<b>Number of Activities</b>	<b>2007</b>	<b>2006</b>
Analyst Briefings/Public Exposes	4 times	4 times
Non Deal Roadshows	20 days	13 days
Company visits/meetings	85 times	35 times

## Public Affairs

The Bank's relationship with its internal and external stakeholders is also managed through the Public Affairs division. The division maintains a dedicated web portal to serve employees with information relating to their welfare and benefit as well as providing required information to support their daily work.

The Bank supplies information to external parties through its website: [www.danamon.co.id](http://www.danamon.co.id) and carries out activities to build and maintain relationship with the press through workshops, conferences, briefings and media visits. The division also provides support and coordination in the execution of external and internal events, as well as corporate branding guidelines.

## Regulatory Compliance

Item	Status	Note
Capital Adequacy Ratio (CAR)	in compliance	Danamon's CAR stood at 19.3% (with market risk charge) as of 31 December 2007, which is above the 8% minimum requirement set by Bank Indonesia.
Minimum Reserve Requirements	in compliance	The Bank's Minimum Reserve Requirements (Rupiah) was 8.29%.
Non Performing Loans (NPL)	in compliance	The gross NPL ratio as of 31 December 2007 was 2.27%. Net NPL is zero.
Net Open Position (NOP)	in compliance	The bank's NOP as of 31 December 2007 was 1.64% compared to the regulation of Bank Indonesia which stipulates a maximum of 20% equity.
Legal Lending Limit (LLL)	in compliance	As of 31 December 2007 there were no loans to any individual debtors or group of debtors that did not comply with the LLL requirements of Bank Indonesia.
Anti Money Laundering	in compliance	Danamon is in compliance with money laundering legislation and Bank Indonesia regulations. Specific training courses are carried out to ensure all business and support units are properly briefed and trained on the prevention and recognition of money laundering.

## Corporate Social Responsibility

Through its social foundation Danamon Peduli, Danamon continues to actively participate in various community development programs. A complete description on the Bank's corporate social responsibility is available in the Corporate Social Responsibility section of this annual report.

## Other Material Good Corporate Governance Information

### Investment Policy

Danamon has implemented an investment policy governing the personal investment activity of its employees. One stipulation of this policy is the imposition of a black out period in the trading of the bank's securities, 10 working days prior to and two working days after the release of the bank's results to the public.

## Related Party Transaction Policy

Danamon has implemented a related party transaction policy which serves as a guideline for related party transactions. The policy ensures transactions are conducted in a reasonable manner and are based on commercial and market terms. All bank related party transactions are reported to the Compliance Director, who then reviews and carries out a compliance test on those transactions prior to seeking Commissioner approval.

## The Proprietary and Confidential Information Policy

In the normal performance of their duties, employees receive and deal with information which, if improperly used or disclosed, may directly or indirectly expose Danamon to unfavorable risks. To

prevent this risk, the proprietary and confidential information policy was established, focusing on the proper way of handling proprietary and non-public information by employees. This policy applies to employees of Danamon and its subsidiaries.

## Aligning Employee & Shareholder Interests

The Banking industry in Indonesia is becoming very competitive and in order to support their growth, many banks are aggressively hiring the best talents in the market. In order to retain and engage the talents, the Bank implement a financial retention plan, which not only helps to commit the employees to long term commitment, but also align the interests of shareholders and management.

Long Term Compensation Plan is introduced in 2007 for the Board of Directors and employees as part of retention strategy to replace the Employees Management Stock Option Plan which was launched in 2004 and ended in 2006. The principle objective is to retain talent whose contribution is critical to the success and sustainable growth of the Bank through alignment of individual reward and company performance.

Long Term Compensation Plan consists of cash-based deferred payment and run for three years. Payment under the Plan is triggered by corporate-

level parameters, which are ROE and NPAT, and individual-level parameter, which is Performance Appraisal result. The payment is also structured such that it is linked to NPAT target and Share Price Index. The selection criteria and target payout for each individual depend on level, performance/potential matrix, critically to the organization.

### Litigation Cases

Following are significant litigation cases in which Danamon serves as a defendant and have been settled in 2007.

### Significant Litigation Cases

Plaintiff	Total Claims	Case
PT Dharmapala Usaha Sukses	Rp 208 billion	<ul style="list-style-type: none"> <li>PT Dharmapala Usaha Sukses filed a countersuit against the bank at the South Jakarta District Court to postpone the execution of the loan collateral, to restructure the loan and also claim material damages of Rp 108 billion and immaterial damages of Rp 100 billion. However as of 8 March 2007, the District Court order has approved Bank Danamon to continue with the execution of the loan collateral.</li> <li>The countersuit was triggered after the bank submitted to the court to execute the collateral of DUS's loans as it defaulted under the loan agreement. The principal of the loans amounted to Rp 165 billion with Rp 55 billion accrued interest and the loans have been fully provided for.</li> <li>The case was closed as both parties have entered into a settlement agreement on 27 November 2007. The bank has received payment and both parties have revoked all legal cases.</li> </ul>
Ny. Purna Omsa Hutagalung	Rp 22 billion	<ul style="list-style-type: none"> <li>The case is a dispute about the legal ownership of the bank's property in Bogor Branch by Ms. Purna Omsa Hutagalung.</li> <li>The bank won the case at the High Court Level and the case has been at the Supreme Court as of 31 December 2006.</li> <li>The case was closed as the bank reached a settlement amicably on 22 August 2007. The bank compensated the plaintiff Rp 5 billion and the plaintiff has dropped the case.</li> </ul>
Tansri Benui	Rp 4.7 billion	<ul style="list-style-type: none"> <li>Mr. Tansri Benui filed a countersuit against the bank for the execution of his loan collateral. He had defaulted under the loan agreement. The claim was filed against the bank as a consequence of the merger between the bank with PT Bank Tiara.</li> <li>The case has been at the Supreme Court Level as of 31 December 2006.</li> <li>Danamon has won the case at the Supreme Court on 27 April 2007.</li> </ul>
Vannessa	Rp 1.2 billion	<ul style="list-style-type: none"> <li>The plaintiff filed a lawsuit against the bank for unlawful act for executing the plaintiff's collateral through auction.</li> <li>The case was closed as the plaintiff has revoked the case.</li> </ul>



## Highlights of top outstanding litigation cases as of 31 December 2007

Plaintiff	Total Claims	Case
Petani Plasma	Rp 650 billion	<ul style="list-style-type: none"> <li>Some members of Korporasi KUD Karya Makmur filed a lawsuit against PT Bangun Nusa Lampung (PT BNIL), PT KUD and PT Bank Danamon for the perceived loss incurred in regard to the non payment from KUD and the holding of land collateral by Danamon. This case is related to the credit facility provided to KKPA ( Kredit Koperasi Kepada Anggota) where Danamon acts as a creditor and PT Bangun Nusa Lampung as the Guarantor.</li> <li>The bank, along with other defendants, has won the case at the district court and the plaintiff has brought the case to Lampung High Court currently.</li> <li>Additionally a second case was filed by a fraction of the above plaintiff with regard to the same issue. The total claim of the second case is Rp 74 billion.</li> </ul>
PT Cendrawasih Kencana Tour & Travel Service Pekanbaru	Rp 191 billion	<ul style="list-style-type: none"> <li>PT Cendrawasih Kencana filed a lawsuit against Danamon for the payment of a forfeited checking account.</li> <li>The bank has won the case in all court level, including the Supreme Court. The plaintiff filed for a review in the Supreme Court.</li> </ul>
PT Triojaya Indah Andalas	Rp 8.7 billion	<ul style="list-style-type: none"> <li>PT. Triojaya Indah Andalas filed a lawsuit against the bank for unlawful act for refusing to execute their fund transfer order.</li> <li>The bank appealed at the Padang High Court and loose the case. The case is currently brought to the Supreme Court.</li> </ul>
Koperasi Taxi Indonesia	Rp 5.1 billion	<ul style="list-style-type: none"> <li>Koperasi Taxi Indonesia filed a lawsuit against the bank for non payment of their deposit. The claim was filed against the bank as a consequence of the merger between the bank with PT Bank Nusa Nasional (BNN).</li> <li>The bank won the case at the District Court level.</li> <li>KTI appealed the court's decision at the Jakarta High Court.</li> <li>The High Court has yet to issue the final judgement.</li> </ul>
Sri Krisnawati	Rp 4.5 billion	<ul style="list-style-type: none"> <li>Ms. Sri Krisnawati filed a claim against the bank for an investment loss from a mutual fund managed by PT Platinum Investment.</li> <li>The case is currently in process in Bandung District Court.</li> </ul>

## Board Member's Interest in Shares

As of 31 December 2007, the total shareholdings held by members of both Boards were less than 0.07% of the bank's ordinary shares during the year.

## Share Ownership

Shareholder Name	Number of Shares	Percent of total shares issued
Ng Khee Choe	50,000	0.0010%
Sebastian Paredes	477,000	0.0095%
Muliadi Rahardja	2,114,000	0.0420%
Anika Faisal	812,200	0.0161%

## Credit Ratings of Danamon

Agency	Rating / Outlook	
<b>Standard &amp; Poor's</b>	Long-term / Short-term Local Currency	BB- / Stable / B
	Long-term / Short-term Foreign Currency	BB- / Stable / B
	Subordinated Debt	B / Stable
<b>Moody's</b>	Global Local Currency Deposit	Baa3 / Stable
	Foreign Currency Long-term / Short-term Bank Deposit	B1 / Stable / Not Prime
	Subordinated Debt	Ba2 / Stable
	National Scale Rating	Aaa.id
<b>Fitch Ratings</b>	Long-term / Short-term Foreign Currency	BB- / Positive / B
	National Long-term	AA (idn) / Stable
<b>PEFINDO</b>	Corporate Rating	idAA- / Stable
	Bond Rating	idAA- / Stable

### Credit Ratings

Danamon is rated by both local and international rating agencies. The above are Danamon's credit ratings as of 31 December 2007.

### Risks

As a commercial bank, Danamon has to deal with various kinds of risks and is required to conduct various activities to monitor and mitigate these risks. Details of activities held by the Bank to mitigate risks are available in Note 44-45 of the Bank's consolidated financial statements.

### Subsequent Events

On 25 February 2008, Danamon announced that its majority shareholder, Fullerton Financial Holdings Pte. Ltd (FFH) has informed the Bank's Board of Directors and Board of Commissioners that after careful evaluation, it has decided not to pursue the option of a merger between Danamon and Bank Internasional Indonesia (BII) as previously conveyed in FFH's ownership structure adjustment plan in line with the Single Presence Policy in Indonesian Banking.

The option of a sale of its interest in BII will result in FFH being the controlling shareholder of Danamon only. FFH expects to complete the sale before the deadline of end December 2010 as set out in the Single Presence Policy.

Danamon's complete Good Corporate Governance report can be accessed via [www.danamon.co.id](http://www.danamon.co.id).