Management Discussion & Analysis

of the Bank's Results of Operations & Financial Condition

02. Management Discussion & Analysis

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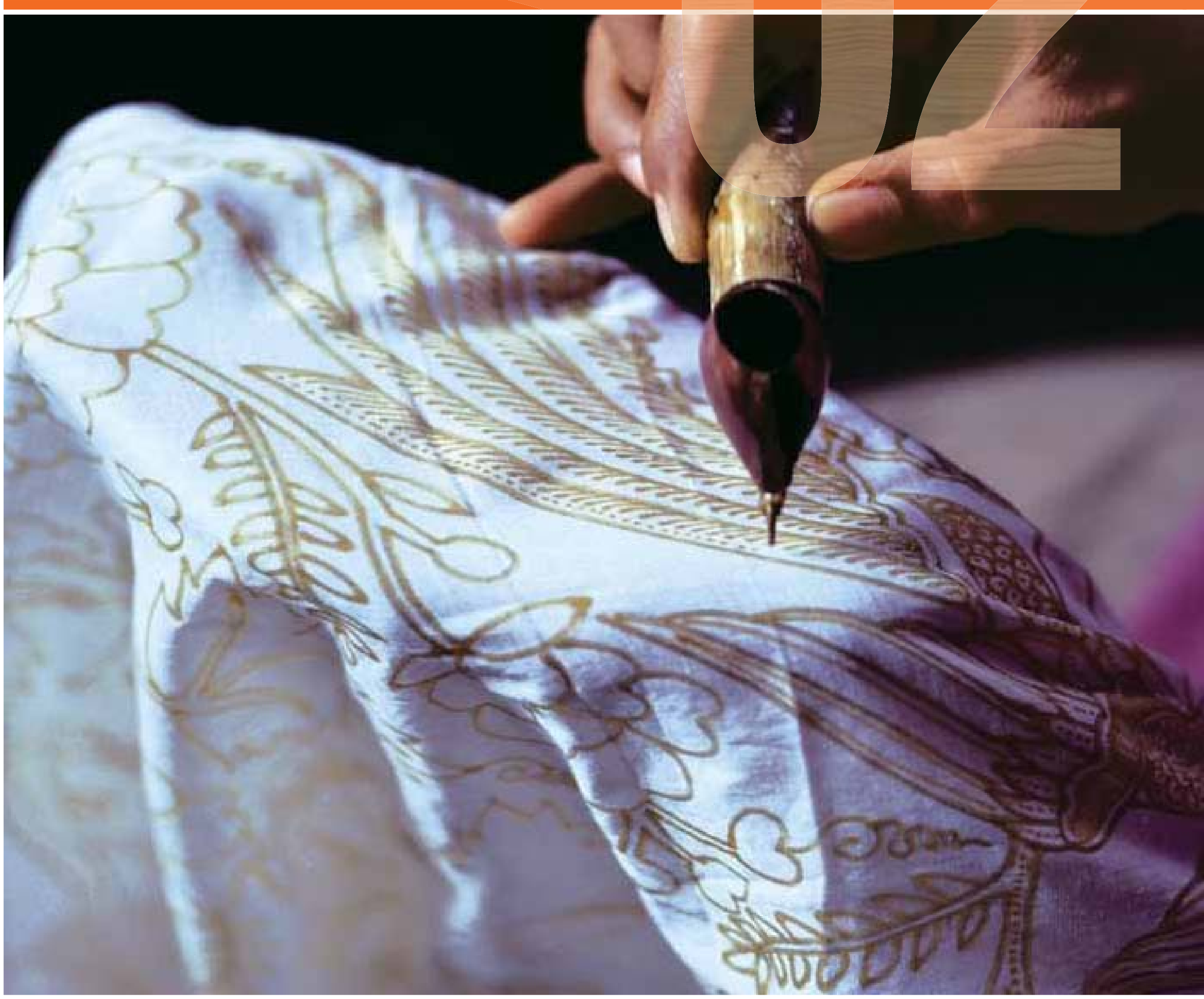


2009 Strategic Priorities

In 2009, the predicament and collapse of major financial institutions across the world prompted Danamon to pause in reflection, and take necessary measures to safeguard its businesses from the adverse effects of the global financial crisis.

As we entered the new year, Danamon's long term strategy and objectives were intact. Nevertheless, due to the global financial and economic turmoil, it was deemed appropriate for Danamon to manage any potential impact of the crisis proactively and cautiously.

To that end, a high-level Strategic Meeting, attended by all members of the Board of Directors, all Business Heads and all Supporting Unit Heads was convened. From the intense and lively discussions that ensued, the forum formulated the Danamon Strategic Priorities for 2009, which comprised of the following key focal points:

Liquidity Management and Funding Franchise

The most important factor to excel in the challenging environment was to maintain a strong liquidity position. Henceforth in 2009 Danamon had placed more emphasis on galvanising its funding activities and managing its liquidity extra prudently.

Human Capital Management

In the past two years, Danamon has grown its human capital by almost 39%. It is therefore imperative for Danamon to focus on improving productivity, in order to justify the increasing cost that comes with more personnel. A direct reference to improving human capital productivity in 2009 was the inauguration of the Danamon Corporate University and the high-level monthly meetings on human capital management presided by the Vice President Director.

2009 Strategic Priorities

Expense Management

During challenging times, expense management becomes imperative and should be the responsibility of all. In 2009 Danamon exercised rigorous cost discipline across all business lines and operations. This resulted in a discernible decline of cost-to-income ratio during the year.

Cross Selling among Customers and Across Business Lines

Acquiring new customers during tough economic times could be more costly. Hence, Danamon focused on selling products and services first to captive markets, by enticing existing customers to try out Danamon's other products and services, and by bundling more products across business lines. The results were evident in, among other things, the significant growth in the amount of third-party deposits as well as in the number of registered accounts during 2009.

Focus on Efficiency and Synergy across Business Lines and Regional Operations

In challenging times, it makes more sense to colaborate, combine resources and spread expenses among business lines and regional operations. In 2009, efforts were made to identify and eliminate work repetition or process duplication. Increased colaboration between and among different business lines had also provided Danamon with newfound synergies that were not evident before.

Managing Cost of Credit

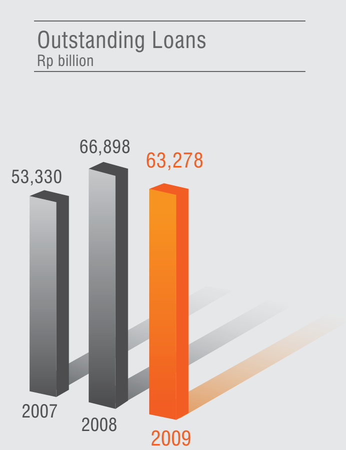
As a lending institution, our cost of credit is the cost that we incur in the extension of our credit and determines our gross profit margins. It is thus imperative that we manage the cost of credit above all else. In 2009, Danamon did so by maintaining the quality of loans portfolio. We reduced exposure in corporate and commercial segments, as well as our foreign currency exposure, and tightened our credit underwriting parameters that also kept our NPL ratio well under control.

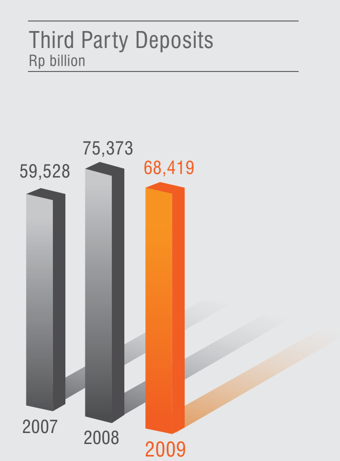
Financial Review

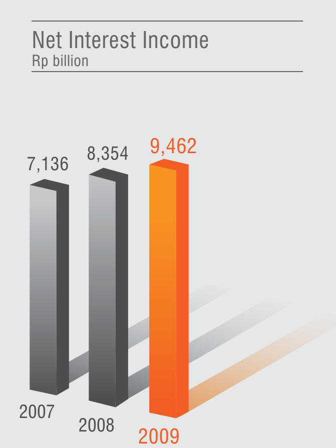
CONSOLIDATED FINANCIAL DATA

	2007	2008	2009	ΔYoY
Operating Results (Rp billion)				
Net Interest Income	7,136	8,354	9,462	13%
Fee Income	1,741	1,878	1,879	0%
Operating Income	8,877	10,232	11,341	11%
Operating Expenses	(4,255)	(5,485)	(5,685)	4%
Pre-Provision Operating Profit	4,622	4,747	5,656	19%
Cost of Credit (Normalized)	(1,240)	(1,076)	(2,340)	117%
Net Profit Before Tax	3,382	3,671	3,316	(10%)
Goodwill, Minority Interest, and Others	(222)	(261)	(311)	19%
Income Tax	(1,043)	(1,076)	(969)	(10%)
Normalized Net Profit After Tax	2,117	2,334	2,036	(13%)
Non-Recurring Items [a]	-	(804)	(504)	(37%)
Reported Net Profit After Tax	2,117	1,530	1,532	0%
Balance Sheets (Rp billion)				
Total Assets	89,410	107,268	98,598	(8%)
Total Loans (Gross) [b]	53,330	66,898	63,278	(5%)
Total Government Bonds	15,808	13,083	11,011	(16%)
Total Deposits [c]	59,528	75,373	68,419	(9%)
Total Equity	10,833	10,579	15,806	49%

a) After tax.
b) Loans include consumer financing receivables.
c) Includes deposits from other banks. Reclassification Prima Dollar from current accounts into saving accounts in 2007. Reclassification FRCD from time deposit to borrowings in 2007.







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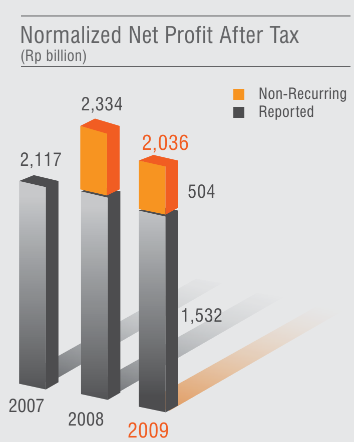
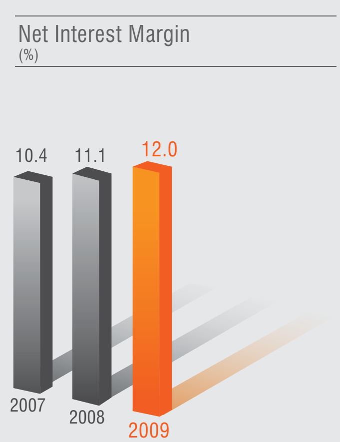
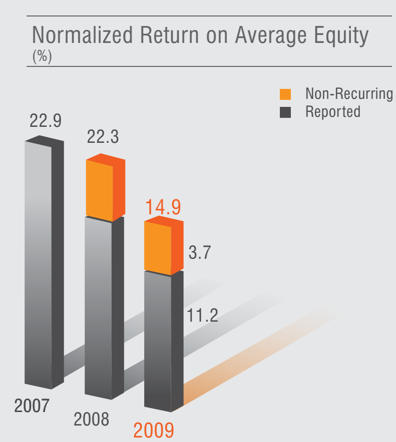
CONSOLIDATED FINANCIAL DATA (continued)

	2007	2008	2009	ΔYoY
PROFITABILITY RATIOS (%)				
Net Interest Margin	10.4	11.1	12.0	0.9
Cost to Income	47.9	53.6	50.1	(3.5)
Normalized Cost of Credit	2.3	1.6	3.5	1.9
Normalized ROAA	2.4	2.4	2.0	(0.4)
Normalized ROAE	22.9	22.3	14.9	(7.4)
Reported Cost of Credit	2.3	2.9	4.5	1.6
Reported ROAA	2.4	1.5	1.5	0.0
Reported ROAE	22.9	14.6	11.2	(3.4)
ASSET QUALITY RATIOS (%)				
Non Performing Loans/Total Loans	2.2	2.3	4.5	2.2
Loan Loss Allowance/Total Loans	2.9	2.4	3.6	1.2
Loan Loss Allowance/Non Performing Loans [d)]	161.2	136.7	93.8	(42.9)
LIABILITIES RATIOS (%)				
Loan to Deposit Ratio	88.1	86.4	88.8	2.4
Loans to Total Funding	73.6	75.8	82.4	6.6
CAPITAL RATIOS (%)				
Capital Adequacy Ratio (Consolidated) [e)]	20.3	15.4	20.7	5.3
Tier 1 Capital (Consolidated) [e)]	14.4	13.8	19.3	5.5
Equity/Assets	12.1	9.9	16.0	6.1

d) Includes collateral value.
e) Consolidated CAR after credit and market risk charge and amortization of subordinated debts.







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OPERATING ENVIRONMENT

INDONESIAN ECONOMIC INDICATORS

	Full Year			Quarterly			
	2007	2008	2009	1Q09	2Q09	3Q09	4Q09
National Account							
Real GDP (% YoY)	6.3	6.0	4.5	4.5	4.1	4.2	5.4
Real Consumption: Private (% YoY)	5.0	5.3	4.9	6.0	4.8	4.7	4.0
Real Gross Fixed Capital Formation (% YoY)	9.2	11.9	3.3	3.5	2.4	3.2	4.2
GDP (US$ bn) – nominal	432	513	544	113	131	146	153
GDP per Capita (US$) – nominal	1,915	2,245	2,351	-	-	-	-
Open Unemployment Rate (%)	9.8	8.6	7.9	-	-	-	-
External Sector							
Exports (% YoY, US$ bn)	14.0	18.3	(14.4)	(29.7)	(24.7)	(17.9)	20.7
Imports (% YoY, US$ bn)	15.4	36.8	(27.7)	(35.7)	(38.1)	(29.5)	(4.4)
Trade Balance (US$ bn)	32.8	22.9	35.2	6.9	8.4	8.5	11.5
Current Account (% of GDP)	2.4	0.0	1.9	2.2	1.9	1.5	2.2
Central Government Debt (% of GDP)	35.0	33.0	28.3	-	-	-	-
International Reserves (US$ bn)	56.9	51.6	66.1	54.8	57.6	62.3	66.1
Import Cover (Including off. Debt Repayment, months)	5.8	4.0	6.5	5.4	5.6	6.1	6.5
Rp/US$ (period, year end)	9,419	10,950	9,400	11,575	10,225	9,681	9,400
Rp/US$ (period, average)	9,136	9,678	10,399	11,630	10,532	10,002	9,470
Other							
BI Policy Rate (%, period end)	8.00	9.25	6.50	7.75	7.00	6.50	6.50
Consumer Price Index (%, period end)	6.6	11.1	2.8	7.9	3.7	2.8	3.8
Fiscal Balance (% of GDP; period end)	(1.3)	(0.1)	(1.6)	-	-	-	-
S&P's Rating – Long Term Foreign Currency	BB-	BB-	BB-	BB-	BB-	BB-	BB-

Source: Central Bureau of Statistics (BPS), CEIC Data

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THE INDONESIAN ECONOMY

Year 2009 has been an extraordinary year of challenges and changes, ranging from the continuation of the global financial crisis in the early part of the year, to the stabilization and recovery period in the last quarter. Although the overall performance of the Indonesian economy looked much better than most of other countries, there were bumpy roads in the real and financial sectors of the economy in the first half of the year.

THE GLOBAL FINANCIAL CRISIS AND RECOVERY

The Indonesian macroeconomy was still overshadowed by the global crisis, especially during the first half of 2009. Reported losses of many financial institutions, global deleveraging process, and increasing risk aversion became the backdrop of global financial markets and the world economy, impacting many export reliant and financially open economies and developing countries, including Indonesia. We can therefore characterize the global financial crisis, starting to hit Indonesia in the last quarter of 2008, with the followings:

- The collapse of financial markets all over the world
- The tightening of global liquidity due to the deleveraging process and risk aversion against Emerging Markets' financial instruments
- The wave of global recession, which was originated in major industrial countries
- The collapse of primary commodity prices, such as oil, coal, crude palm oil (CPO), rubber, iron and steel, etc.

The wave of global recession, especially in the US, European countries and Japan and the collapse of the primary commodity prices (upon which Indonesia's exports have been dependent) have drastically reduced Indonesia's exports revenues. Up to the first half of 2009, Indonesia's export and import values dropped by 29% and 37% year on year, respectively, on the back of lower external and domestic demand.

Commodity prices had collapsed in late 2008 as many nations experienced severe impact of the global economic meltdown, reducing export import activities and decreasing commodity demand as global purchasing power declined. The collapse in commodity prices was inevitably followed by period of high volatility in the prices of coal and CPO, which are two of Indonesia's key export commodities. The CPO price was US$533 per metric ton in January 2009 reflecting 50% drop from the same period in 2008. Meanwhile, the coal price moved to its lowest level for the past two years standing at US$60.2 per metric ton in March 2009, or 50% below the price a year earlier.

Although CPO prices had already bottomed in the beginning of 2009, it was not until the third quarter did the rising trend become gripped on a solid footing. The CPO prices had rebounded back to US$805 per metric ton by the end of 2009. Meanwhile, coal prices experienced higher pressure during the year as indicated by the more stagnant price movement, ranging between US$60 – 86 per metric ton.

The decline in the commodity prices, especially CPO, rubber and coal, in late 2008 up to the second quarter of 2009, has also negatively impacted on the income of those commodity producers, mostly living outside Java. This lower purchasing power had in turn slowed down the private consumption. Real private consumption growth stood at 4.9% in 2009, the lowest for the past three years.

The Indonesian economy grew 4.3% year on year during the first half 2009, a significant slowdown compared to 6.3% growth in the previous year.

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And yet a dramatic slow down was averted on the back of election-driven stimulus and government spending, which supported the rebound of the economy in the second half towards the end of the year. For the whole of the year, Indonesia's economy expanded 4.5%, placing the country in the league of positive-growth nations along with China and India. Needless to say, the country has proven its considerable resilience in the face of the global economic crisis, due to the heavy emphasis on domestic, instead of external demand.

Lower domestic demand and trading activities during the crisis and base effect have resulted in the considerable drop of inflation rate in 2009, albeit the relatively and stubbornly high rate of processed food inflation, which in turn put pressures on rural purchasing power as well. In addition, from the supply side, crop production was relatively plentiful and imported inflation was virtually non-existent as commodity prices dropped globally and the Rupiah was on an appreciating trend. Meanwhile, from the demand side, the narrow money supply (M1) did not grow substantially and manufacturing capacity utilization dropped. Inflation expectations were also low on historical standards. The inflation rate which stood at 11.1% year on year at the end of 2008 dropped sharply to 2.8% by year end 2009. This provided the central bank with room to maintain its benchmark interest rate at accommodative levels.

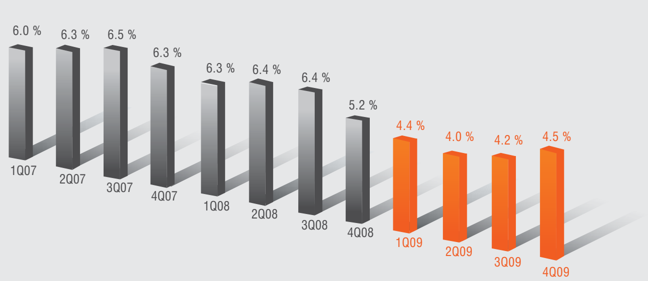
ROLLER COASTER RIDE IN THE FINANCIAL MARKETS

The global economic crisis also caused liquidity to dry up in the global financial markets. The collapse of many financial institutions in the US and Europe, as well as rising risk premium for emerging markets have triggered capital flying out of the country. At the height of the financial crisis, the Indonesia Stock Exchange Composite Index (JCI) plunged 52% to the lowest level of 1,256.1 in March 2009.

However, the index steadily rebounded as economic fundamentals improved, gaining confidence especially from local investors. Throughout 2009, the JCI was credited as the best performing market within the ASEAN region, and the second best in the Asia Pacific after China. The index advanced 87%, closing at 2,534.36 at the end of the year.

Economic Growth

Change in Quarterly Real GDP



Source: Central Bureau of Statistics (BPS), Bloomberg

Inflation Rate and Interest Rate

Source: Bank Indonesia, Bloomberg

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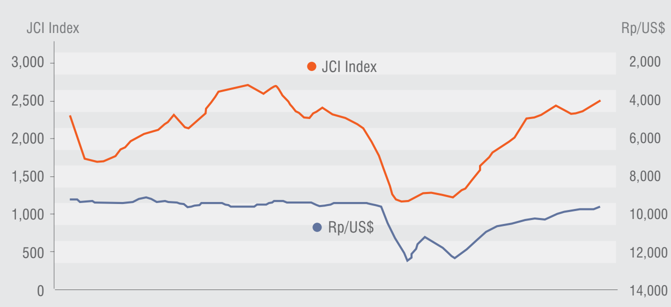
The dynamics of the global economy had inevitably affected, to a certain extent, the Indonesian economy throughout 2009. Yet, Emerging Asia has been leading the way in the global recovery; and Indonesia, being a low-leveraged country with prudent domestic macroeconomic policies, has become an attractive investment destination.

Similar situation also happened with the currency. From a low of Rp9,063 per US$ in August 2008, the exchange rate weakened rapidly in the last quarter of 2008 on the back of capital outflows from financial markets and a scare of continuing current account deficit. At the beginning of 2009, the Rupiah had shown a weakening trend as it was traded at Rp10,950 per US$. Lower overseas demand for exported products coupled with a flight to quality towards dollar assets started to affect the country's trade balance and to put pressures on the Rupiah. The currency plummeted to Rp12,065 per US$ level in March 2009 which was one of the weakest points over the past three years.

However, as the global deleveraging spree eased, capital started to flow back into the country and reversed the weakening of the currency in the second half of the year. Optimism was fueled by incoming data, which showed signs that the fall in economic activities was not as steep as many had expected. Exports of merchandise, services and income (the current account) also reverted to positive territory. By the end of 2009, foreign exchange reserves increased to US$66.1 billion, or US$14.5 billion higher compared to the beginning of the year. This balance of payments surplus drove the Rupiah to appreciate approximately 14% during the year, closing at Rp9,400 per US$ and becoming one of the best performing currencies in Asia Pacific.

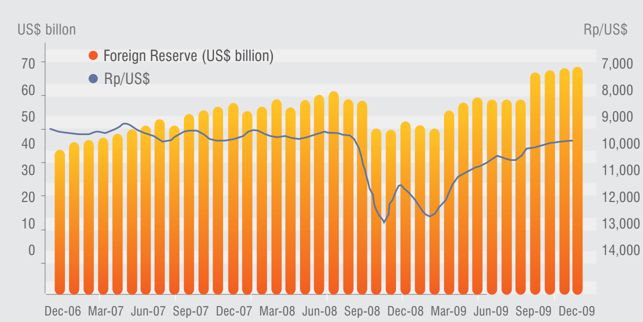
In the first quarter of 2009, the Rupiah was still volatile amid concern over imminent foreign debt obligations. Foreign ownership in government bonds (SUN) fell to a low Rp78.5 trillion in March 2009, while foreign ownership in central bank certificates (SBIs) dipped to a low of Rp8 trillion in February 2009. However, the foreign debt repayment concerns proved unfounded and foreign investor confidence quickly rebounded. Meanwhile, global deleveraging concerns had also receded. By the end of 2009, foreign ownership in SUNs rose 22% to Rp106 trillion, while foreign positions in SBIs rose from a low of Rp8 trillion to around Rp44 trillion.

JCI Performance



Source: Bloomberg

Exchange Rate



Source: Bank Indonesia, Bloomberg

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THE INDONESIAN BANKING SECTOR

THE INDONESIAN BANKING INDICATORS

Rp trillion	Full Year				Quarterly			
	2007	2008	2009	∆YoY	1Q09	2Q09	3Q09	4Q09
Assets	1,890	2,172	2,534	17%	2,213	2,353	2,389	2,534
Loans	1,004	1,314	1,447	10%	1,308	1,331	1,369	1,447
Recap. Bonds	265	254	238	(6%	264	258	247	238
Deposits	1,463	1,682	1,914	14%	1,728	1,771	1,804	1,914
Equity	202	215	267	24%	227	238	252	267
Net Interest Income	96	113	129	14%	31	32	31	35
Operating Profit	35	30	40	33%	7	11	9	13
Net Profit	35	31	49	58%	12	11	11	15
NIM (%)	5.7	5.8	5.6	(0.2)	5.8	5.6	5.5	5.6
CIR (%)	84.1	88.6	86.6	(2.0)	90.7	87.8	87.4	86.6
ROA (%)	2.8	2.3	2.6	0.3	2.8	2.7	2.6	2.6
LDR (%)	66.3	74.6	72.9	(1.7)	73.8	73.2	73.6	72.9
NPL Ratio (%)	4.1	3.2	3.3	0.1	3.9	3.9	3.8	3.3
CAR (%)	19.3	16.8	17.4	0.6	18	18.2	17.8	17.4
Number of Banks	130	124	121	(3)	123	122	122	121

Source: Bank Indonesia

OUTSTANDING LOANS OF COMMERCIAL BANKS

In the first half of the year, the Indonesian banking sector was still reeling from the global economic downturn. This resulted in slower loan growth and rising levels of problem loans in the banking system. Perceptions of a prolonged economic slowdown also brought liquidity concerns amongst industry players, which lead to banks to aggressively compete in raising deposits by offering high rates and acting more prudently in underwriting new loans.

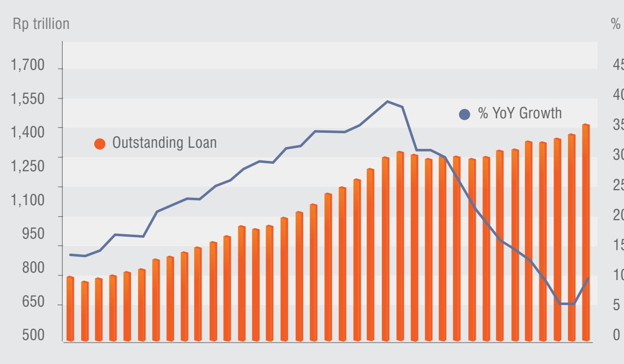
The opposite half of the year had not yet indicated significant recovery of lending activities. The decline in bank lending rates far lagged BI's aggressive easing of interest rates during the first eight months of the year. Banks were reluctant in lowering their lending rates and deposit rates since many still perceived risks associated with the shaky global economic recovery and softening domestic economic growth. State-owned banks were intensely encouraged by the Government to boost loan growth with the expectation that private banks will follow suit during the year. State-owned banks have managed to grow their loans at double digit rates, while private commercial banks' loans barely grew.

Throughout the year, commercial banks' loans only grew 10% to Rp1,447 trillion; dropped sharply from 31% in the previous year. The major driver of this loan expansion was consumption (consumer) loans that grew 19% standing at Rp448 trillion at the end of 2009. This reflected the resilience of the consumer segment amid the global economic slowdown, and the less interest rate sensitivity within the segment. As such, consumption loans made up 31% of the sector's loans, up from 29% a year earlier. Working capital loans, which accounted for 48% of the sector's total loans, only grew 3% as compared to 29% in the previous year, reflecting the softness of real sector as businesses reduced inventories in anticipation of softening demand of their products and services. Meanwhile, investment loans advanced 16% to Rp297 trillion on the back of government-sponsored infrastructure projects which were mostly financed by state-owned banks.

Private banks and foreign banks markedly slowed their lending activities during the year, while state-owned banks and regional government banks (BPD) continue to grow their balance sheets. Overall, private banks only posted a loan growth of 9% during the year to Rp593 trillion, down sharply from 28% in the prior year. Moreover, foreign banks and joint venture banks saw their loan book contracted 10% to Rp171 trillion in 2009, in contrast to a loan growth of 34% in 2008. Albeit at slower pace, state-owned banks and regional banks posted loan growths of 17% and 25%, respectively, during the year. State-owned bank loans and regional bank loans were Rp534 trillion and Rp121 trillion, respectively, while loans from rural banks (BPR) expanded 10% to Rp28 trillion.

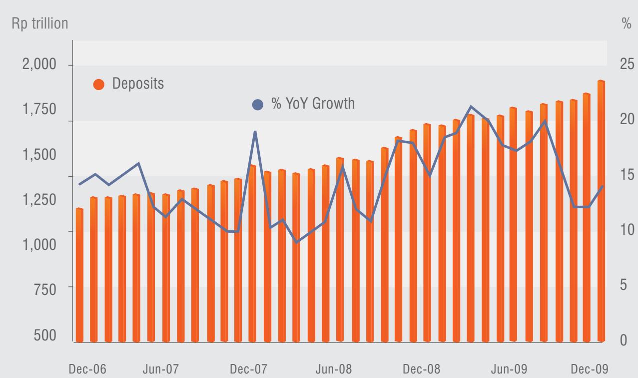
In terms of consumer segment, corporate loans (i.e. loans above Rp50 billion), only grew 8% to Rp340 trillion, significantly lower than 60% increment in the same period last year. Commercial loans, which cover loans between Rp5 to Rp50 billion, contracted 1% to Rp275 trillion during the year as compared to 21% growth in 2008. In addition, SME loans and micro loans rose 12% and 9% to Rp228 trillion and Rp156 trillion, respectively. SME loans include loans higher than Rp50 million to Rp5 billion while micro loans cover loans below Rp50 million.

Loans of Commercial Banks



Source: Bank Indonesia

Deposit of Commercial Banks



Source: Bank Indonesia

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Looking from a different perspective, the relatively low loan growth of 10% in 2009 was a result of still relatively high growth of IDR loans (at 16.5%) that was offset by the decline in the foreign currency (FCY) loans of 17.4% (in Rupiah value) or 3.8% (in US$ value). Overall, IDR loans accounted for 86% of the total loans while the remaining 14% was FCY loans. The decline in the FCY loans was mostly attributable to lower trade financing. This was in line with the fact that external trade (both exports and imports) had declined sharply in 2009.

THIRD PARTY DEPOSITS

In the first half of the year, liquidity remained a concern. Banks were competing to offer attractive deposit rates to anticipate a further deepening global crisis. Third party deposits, which comprise current accounts, savings accounts and time deposits, grew 14% to Rp1,914 trillion from Rp1,682 trillion a year earlier. The major driver of the growth came from savings accounts that increased 21% to Rp611 trillion, representing 32% of third party deposits of commercial banks. Time deposits rose 9% to Rp895 trillion at the end of the year. While current accounts rose to Rp408 trillion or 13% higher from Rp359 trillion from the previous year.

Rupiah deposits, which amounted to Rp1,613 trillion or 84% of the total third party deposits, had improved its collection during 2009 as they booked 15% increase year on year. Rupiah savings accounts noted the highest growth of 19% as compared to Rupiah current accounts and Rupiah time deposits that grew by 15% and 12%, respectively. On the other hand, foreign currency deposits only expanded 8% to Rp301 trillion compared to 30% growth in 2008 (in Rupiah value).

Although liquidity seems to be sufficient, the global economic crisis has created risk aversion, leading depositors to favour larger banks. Subsequently, smaller banks experienced liquidity shortages, and eventually lifted their deposit rates to attract and retain customers. In August 2009, Bank Indonesia invited 14 major banks and introduced caps on deposit rates to be applied. The deposit rate cap was initially 150bps above the BI rate but then lowered to 50bps to reduce the competition for funding within the banking system and to further stimulate lending.

PROFITABILITY

Despite the impact of the global downturn that engulfed economies worldwide during the year, the Indonesian banking sector still showed a solid profitability in 2009 starting from the second half of the year.

The sector generated relatively stable net interest margin, hovering around 5.6% to 5.8% for the past three years, as the downward movement of such deposit interest rates was faster compared to lending rates. By the end of the year, the average lending rates for consumption, working capital, and investment loans, were 15.81%, 13.27%, and 12.55%, respectively. Meanwhile, the average deposit rates in the sector stood at approximately 7.91%.

Operating profit rose 33% to Rp40 trillion in 2009 as compared to Rp30 trillion in the previous year, marking a considerable improvement in efficiency. Cost-to-Income Ratio (CIR) was also improved from 88.6% in 2008 to 86.6% as of December 2009, although the figures were still above the industry's ideal CIR ratio of 70% to 80%.

Another profitability indicator, such as ROA, stood at 2.6% in 2009 or increased from 2.3% in the previous year, proving the industry's endurance amid the crisis.

Overall, prudent banking practices and improvement in efficiencies had delivered Indonesian banks to a sound ground throughout the difficult times. The sector booked a substantial increase of 58% in its bottom line results to Rp49 trillion in 2009 compared to Rp31 trillion a year earlier.

ASSET QUALITY, LIQUIDITY, AND CAPITALIZATION

Although the sector was able to endure the difficult times, yet, it was not completely immune to the downturn as can be seen from the rising non-performing loans (NPL) ratio from 3.2% in 2008 to 3.9% in the first half of 2009, reflecting the increase of credit risk in the system. Moving toward the second semester of 2009, the NPL was improved to 3.3% as banks started to channel more credit on the back of improvements in the economy.

The LDR ratio of the sector stood at 72.9% by the end of the year, reflecting a reasonable price for liquidity despite the ratio was slightly lower than 74.6% a year earlier.

The capital of Indonesian banks also improved helped by solid financial results. The combined capital adequacy ratio (CAR) of Indonesian banks increased to 17.4% at the end of 2009 from 16.8% a year earlier, firmly higher than the minimum required level of 8%.

2009 FINANCIAL RESULTS

OVERVIEW

The global financial crisis escalated futher in the first half of the year, creating a period of uncertainties and extreme volatility in global capital and credit markets. During such period, our major priorities were to successfully navigate our ways to the financial crisis, and to continue promotion of our universal banking concepts. As the result, we finished the year well placed, securing our seat within Indonesia's top 10 banks. Danamon is ranked the sixth by total assets, loans, and deposits as of December 2009.

We are a renowned player in providing diversified financial services, from general banking services, insurance and multifinance, catering various segments from large-scale companies, middle-scale companies (commercial), small-medium enterprises (SME), consumer, and are especially known for our penetration in the mass market. In addition, we also offer general insurance, automotive financing, and white goods financing through our subsidiaries.

Our extensive network has been expanding firmly year by year, covering most regions within the country. At the end of 2009, our business network include 475 conventional branches (including 1 overseas branch); 1,247 mass market (DSP) outlets and mobile teams, 48 CMM point of sales, 11 Syariah branches and 846 ATMs (with more than 14,000 shared network ATMs).

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In 2009, Danamon had placed a high priority in strenghtening our balance sheet, ensuring plenty of liquidity and to continue providing services of excellence to our customers. This include a successfully Rights Issue of Rp4 trillion in the first half of the year, to solidify its capital position in anticipation of lagging economic recovery and to carry a much higher level of liquidity as a buffer for unexpected shocks. We also successfully completed another strategic initiatives of growing high margin business by increasing our ownership in one of our subsidiaries, Adira Finance, from 75% to 95% to enhance our presence in the country's attractive consumer automotive financing industry.

FINANCIAL PERFORMANCE

Our results of operations and the comparability of our financials results during successive periods have been and will continue to be affected by a number of factors, including economic conditions in Indonesia, competition among banks, changes in government policies and regulations regarding the banking sector, and taxation.

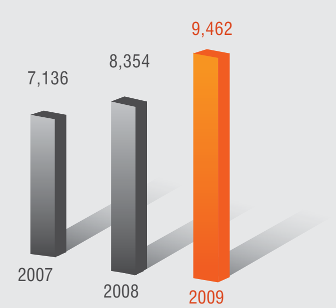
Net Interest Income

Net interest income is defined as the spread between interest income on earning assets, primarily loans and securities, and interest expense on interest-bearing liabilities, primarily deposits and other fundings.

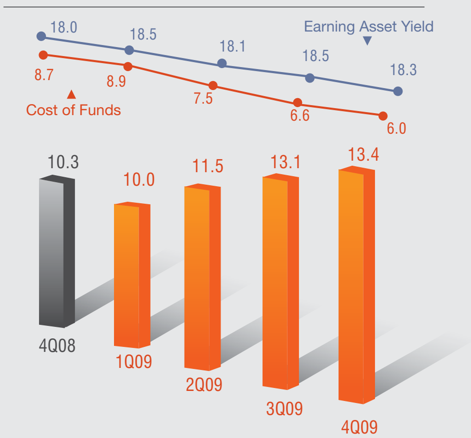
Our net interest income rose 13% to Rp9,462 billion in 2009 driven by margin expansion as well as higher average earnings assets. Interest income rose 11% to Rp15,683 billion due to an increase in average earning assets and higher asset yield. Our average earning assets rose 2% to Rp84,747 billion from Rp83,445 billion last year supported by growing mass market loans. In 2009, asset yield improved to 18.3% from 16.8% in the previous year partly due to higher contribution of mass market loans.

Meanwhile, interest expenses rose 7% to Rp6,221 billion in 2009 due to higher average interest-bearing funding as well as increased cost of funds. Our average funding increased 5% to Rp82,129 billion as we strengthen our liquidity

Net Interest Income
(Rp billion)



Net Interest Margin
(%)



position in the face of global financial crisis particularly during the first half of the year. Moreover, our cost of funds rose to 7.3% in 2009 from 7.0% last year on the back of tighter liquidity in the market. However, cost of funds started to decline since the second quarter to 6.0% in the fourth quarter on the back of improved liquidity in the market as well as declining interest rates.

Taking all together, our net interest margin expanded to 12.0% as compared to 11.1% in the previous year. Further, our net interest margin reached 13.4% in the fourth quarter, underscoring the unique and strategic positioning of Danamon in the financial sector in Indonesia.

Non-Interest Income

Non-interest income totaled Rp1,879 billion in 2009 as compared to Rp1,878 billion in the previous year on the back of lower credit related fees. Credit related fees, which accounted for 50% of non-interest income, declined 23% to Rp937 billion due to lower new loan disbursements as we tigthened underwriting standards during times of global uncertainty. On the other hand, in 2009 we booked Rp38 billion gains on sale of marketable

BREAKDOWN OF NON-INTEREST INCOME

	Full Year				Quarterly			
Rp billion	2007	2008	2009	ΔYoY	1Q09	2Q09	3Q09	4Q09
Fee Income	**1,330**	**2,030**	**1,841**	**(9%)**	**423**	**486**	**519**	**413**
Credit Related Fees	869	1,213	937	(23%)	207	243	258	229
Transaction Services	288	237	282	19%	63	66	78	75
Treasury Products	(49)	274	240	(12%)	78	86	54	22
General Insurance	202	242	296	22%	52	78	103	63
Others	20	64	86	34%	23	13	26	24
Gain / (Loss) on sale of marketable Securities	**411**	**(152)**	**38**	**125%**	**(12)**	**16**	**27**	**7**
Total Non-Interest Income	**1,741**	**1,878**	**1,879**	**0%**	**411**	**502**	**546**	**420**

Financial Review

securities, mainly government bonds, as opposed to Rp152 billion losses in the previous year. As such, non-interest income contributed to 17% of our operating income as compared to 18% in the same period last year. Overall, total operating income increased 11% to Rp11,341 billion in 2009.

Operating Expenses

Operating expenses amounted to Rp5,685 billion in 2009, 4% higher than Rp5,485 billion in the previous year, reflecting our dicipline in expense management during tough times. Moreover, operating expenses associated with mass market businesses increased 8% to Rp2,818 billion in 2009 on the back of growing businesses and represented 50% of the total operating expenses.

Our manpower cost only increased 2% to Rp3,436 billion in 2009 as compared to Rp3,365 billion in the previous year as we step up our efficiency drives in anticipation of challenging operating enviroment. During 2009, the total number of employees within the bank and its subsidiaries was 41,615 personnel, a slight decline from 41,617 in the previous year. Furthermore, we also managed to curb the increase in general and adminsitrative expenses through a number of efficiency drives. Hence, our general and administrative expenses only increased 6% to Rp2,249 billion despite the fact that our network expanded from 2,338 outlets to 2,349.

As a result of all expense initiatives, we managed to bring down our cost to income ratio to 50.1% as compared to 53.6% in 2008.

BREAKDOWN OF OPERATING EXPENSE

Rp billion	Full Year				Quarterly			
	2007	2008	2009	∆YoY	1Q09	2Q09	3Q09	4Q09
Manpower cost	2,621	3,365	3,436	2%	784	845	881	926
Fixed Costs	1,868	2,356	2,376	1%	602	585	580	609
Variable Costs	753	1,009	1,060	5%	182	260	301	317
General and Administrative expenses	1,634	2,120	2,249	6%	524	552	569	604
Total	**4,255**	**5,485**	**5,685**	**4%**	**1,308**	**1,397**	**1,450**	**1,530**

Cost of Credit

Excluding non recurring items, our normalized cost of credit amounted to Rp2,340 billion as compared to Rp1,076 billion in the same period last year. The global financial crisis has impacted emerging markets, including Indonesia, and in turn weakened the creditworthiness of nearly all customer segments, especially the segments in the mass market which are more sensitive to real sector decline, causing an increase in problem loans. Hence, normalized cost of credit over average earning assets (excluding government securities) rose to 3.5% in 2009 as compared to 1.6% of last year. Further cost of credit in our consumer auto financing business slightly increased to 3.4% as compared to 3.0% in the same period last year. While the cost of credit in the micro lending business stood at 4.7% in 2009 as compared to 3.2% in the previous year.

The rapid collapse of commodity prices combined with a sudden devaluation of Rupiah in late 2008 led to dramatic cash flow impact of exporters, leading to default of derivative contracts. As a result, we incurred extraordinary losses of Rp504 billion as we set aside a final provisioning for receivables arising from the unwound foreign exchange forward contracts with customers. Including these extraordinary items, our reported cost of credit stood at 4.5% in this year as compared to 2.9% in the same period last year.

BREAKDOWN OF COST OF CREDIT

Rp billion	Full Year				Quarterly			
	2007	2008	2009	∆YoY	1Q09	2Q09	3Q09	4Q09
Provision	1,007	971	2,194	126%	470	368	592	764
Net write off (After Recoveries)	(78)	(125)	(147)	18%	(32)	(41)	(36)	(38)
Loss on Repossessed Assets	311	230	293	27%	8	165	104	16
Normalized Cost of Credit	**1,240**	**1,076**	**2,340**	**117%**	**446**	**492**	**660**	**742**
Non recurring item	-	878	743	(15%)	69	174	194	306
Reported Cost of Credit	**1,240**	**1,954**	**3,083**	**58%**	**515**	**666**	**854**	**1,048**
Average Earning Assets	54,280	66,352	68,160	3%	70,812	67,893	66,476	67,460
Normalized CoC/Earning Assets	2.3%	1.6%	3.5%	1.9%	2.6%	3.0%	4.1%	4.5%
Reported CoC/Earning Assets	2.3%	2.9%	4.5%	1.6%	3.0%	3.9%	5.1%	6.2%

Financial Review

Net Income

Danamon ended the year on a positive note with total pre-provision operating profit of Rp5,656 billion, reflecting resilience of core business and successful cost efficiency drive. Taking all together, Danamon reported a consolidated net profit after tax of Rp1,532 billion this year as compared to Rp1,530 billion in the previous year. Hence, Basic Earning per Share (EPS) was Rp186.36 in 2009. Meanwhile, Reported ROAA and ROAE stood at 1.5% and 11.2%.

However, excluding the impact of these extraordinary items, our Normalized NPAT amounted to Rp2,036 billion in 2009, reflecting a solid performance of core businesses. Accordingly, Normalized ROAA and ROAE stood at 2.0% and 14.9%, which is quite respectable considering we increased 40% of capital in 2009.

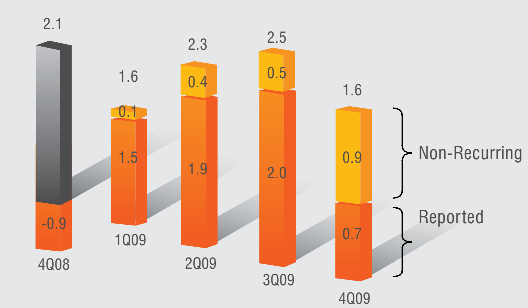
Balance Sheet Analysis

Our consolidated assets totalled Rp98,598 billion at the end of the year as compared to Rp107,268 billion a year earlier, positioning us as the sixth largest bank in the country from the fifth position in 2008. This decline was primarily driven by lower outstanding loans as well as government bonds holding. At the end of 2009, over 64% of our assets comprised loans, while government bonds and current accounts & placements in central bank represented 11% and 10% of the total assets, respectively.

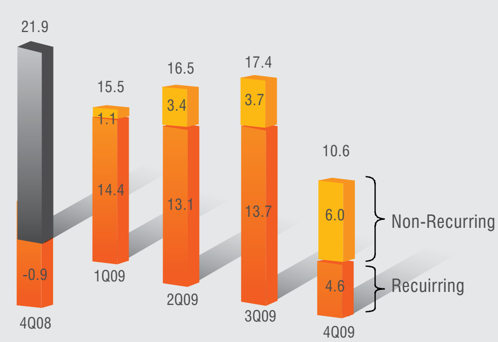
Earning Assets Composition

Our earning assets reached Rp90,132 billion at the end of 2009, a 7% decline compared to Rp97,371 billion in the previous year due to a decline in loans as well as government bonds. Our

Normalized ROAA
(% Annualized)



Normalized ROAE
(% Annualized)



loan portfolio, which accounted for 70% of earning assets, reduced 5% to Rp63 trillion. While government bonds declined 16% to Rp11,011 billion and represented 12% of earning assets. Derivative receivables were 86% lower compared to Rp2,412 billion in 2008 as we discontinued selling complex derivative products and only offer plain vanilla products instead.

Outstanding loans stood at Rp63,278 billion at the end of 2009, a 5% decline from Rp66,898 billion a year earlier as a reduction in wholesale and commercial loans was offset by an increase in mass market loans. Further, our loan growth continued to decelerate in the first half of 2009 as we tightened credit underwriting standards in the face of global financial crisis.

ASSETS COMPOSITION

	2007		2008		2009		∆YoY
	Rp billion	%Total	Rp billion	%Total	Rp billion	%Total	
Cash	1,238	1%	4,162	4%	2,117	2%	(49%)
Current account and placement with BI [1]	9,576	11%	9,966	9%	9,959	10%	0%
Marketable securities (gross)	4,129	4%	4,146	4%	4,438	5%	7%
Government bonds	15,808	18%	13,083	12%	11,011	11%	(16%)
Loans (gross) [2]	53,330	60%	66,898	62%	63,278	64%	(5%)
Fixed Assets	1,539	2%	1,905	2%	1,802	2%	(5%)
Others	3,790	4%	7,108	7%	5,993	6%	(16%)
Total Assets	**89,410**	**100%**	**107,268**	**100%**	**98,598**	**100%**	**(8%)**

1) Excluding Certificates of Bank Indonesia (SBI) and represents gross figures
2) Including consumer financing

EARNING ASSETS COMPOSITION

	2007		2008		2009		∆YoY
	Rp billion	%Total	Rp billion	%Total	Rp billion	%Total	
Current account & placement with BI	9,576	11%	9,966	10%	9,959	11%	0%
Marketable securities	4,129	5%	4,146	4%	4,438	5%	7%
Government bonds	15,808	19%	13,083	13%	11,011	12%	(16%)
Loans[1]	53,330	64%	66,898	69%	63,278	70%	(5%)
Derivative receivables	336	NM	2,412	3%	326	NM	(86%)
Acceptance receivables	685	1%	866	1%	1,120	2%	29%
Total Earning Assets	**83,864**	**100%**	**97,371**	**100%**	**90,132**	**100%**	**(7%)**

1) Including consumer financing
Note: All presented in gross amount

Financial Review

However, we continued to grow our mass market businesses during the year. Mass market loans expanded 10% to Rp34,084 billion driven by micro lending and consumer auto financing businesses. Hence, mass market loans accounted for 54% of our loan book at the end of 2009 as compared to 46% a year earlier. DSP, which serves micro and small scale enterprises, booked a loan growth of 12% to Rp12,289 billion at the end of year. As such, micro loans contributed 19% of total loan book from 16% a year earlier. Our consumer auto financing business reported a 13% growth in receivables despite the industry's sales of new motorcycles and new cars slid 6% and 20%, respectively, during the year. As such, our automotive loans reached Rp19,134 billion at the end of 2009 and contributed 30% of total loan book. Further, our white goods financing business managed to grow receivables to Rp882 billion at the end of 2009. While personal loans extended by our Consumer Mass Market (CMM) business was Rp1,779 billion, representing the remaining 5% of the mass market loans.

Our retail loans, which comprise of housing loans, credit card receivables and personal loans, declined 13% to Rp4,924 billion and contributed 8% of total loan book. This is largely attributable to a decline in personal loans and mortgage loans that reduced by 40% and 22%, respectively, on the back of sluggish demand.

BREAKDOWN OUTSTANDING LOANS BY SEGMENT

	Full Year				Quarterly			
Rp billion	2007	2008	2009	ΔYoY	1Q09	2Q09	3Q09	4Q09
Wholesale	9,000	11,518	7,789	(32%)	9,726	8,187	7,755	7,789
Retail	4,710	5,659	4,924	(13%)	5,607	5,553	5,242	4,924
SME & Commercial	16,237	18,678	16,481	(12%)	17,217	16,532	16,377	16,481
Mass Market	23,383	31,043	34,084	10%	30,766	31,314	32,770	34,084
Total	**53,330**	**66,898**	**63,278**	**(5%)**	**63,316**	**61,586**	**62,144**	**63,278**

BREAKDOWN OF MASS MARKET LOANS

	Full Year				Quarterly			
Rp billion	2007	2008	2009	ΔYoY	1Q09	2Q09	3Q09	4Q09
Auto loans	13,385	17,007	19,134	13%	16,801	16,862	17,945	19,134
Micro loans	8,600	10,965	12,289	12%	10,958	11,466	11,852	12,289
Hire Purchase	402	767	882	15%	771	819	857	882
CMM	996	2,304	1,779	(23%)	2,236	2,167	2,116	1,779
Total	**23,383**	**31,043**	**34,084**	**10%**	**30,766**	**31,314**	**32,770**	**34,084**

Mid-size loans that consist of commercial and SME loans accounted for 26% of our loan book at the end of 2009. Commercial loans declined 18% to Rp7,361 billion on the back of lower asset based financing, trade financing as well as investment loans as slower economic activities, collapse of commodity prices and high interest rates during the year dampened demand for financing. While Small and Medium Enterprises (SME) loans declined slightly 5% to Rp9,120 billion largely due to lower demand for asset-based financing and investment loans.

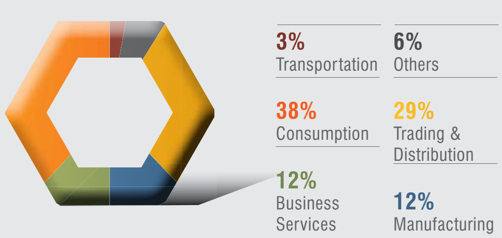
Wholesale loans, which comprise corporate banking and Joint Financing and Asset Buy (JFAB), declined 32% to Rp7,789 billion from Rp11,518 billion a year earlier. As such, the share of wholesale loans reduced to 12% of total loans as of December 2009 from 17% a year earlier. Corporate loans shrunk 32% to Rp6,500 billion largely due to a 56% drop in trade financing as the collapse of commodities prices and decline in trade activities have reduced markedly the demand for trade financing. While loans originated from JFAB with other finance companies also declined 32% to Rp1,265 billion.

Our loan portfolio is well diversified across economic sectors. As of December 31, 2009, loans to consumer sector accounted for 38% of total loan followed by trading and distribution sector, which accounted for another 29%.

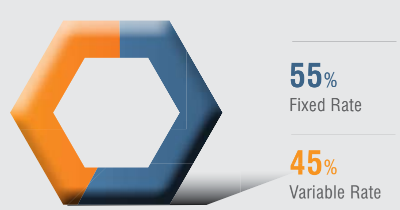
BREAKDOWN OF NON-PERFORMING LOANS BY SEGMENT

Rp billion	Full Year				Quarterly			
	2007	2008	2009	ΔYoY	1Q09	2Q09	3Q09	4Q09
Wholesale	114	126	865	587%	230	308	449	865
Retail	88	116	198	71%	167	222	222	198
SME & Commercial	528	623	796	28%	638	714	799	796
Mass Market	433	669	943	41%	790	888	980	943
Total	**1,163**	**1,534**	**2,802**	**83%**	**1,825**	**2,132**	**2,450**	**2,802**

Loans by Economic Sector As of December 31, 2009



Loans by Interest Rate As of December 31, 2009



Financial Review

While manufacturing sector and business services sector each contributed 12% and transportation sector 3%. Further, 55% of our loans were fixed rate loans, which mainly comprised mass market loans. While, the remaining 45% are variable rate loans, which are primarily chanelled to SME, commercial and wholesale customers.

Total non-performing loans rose to Rp2,802 billion as compared to Rp1,534 billion a year earlier, reflecting deteriorated operating environment during the year. Slower economic activities, collapse of commodity prices, increased volatility of currency and tightened liquidity have in turn impacted unfavourably the credit quality of customers across all segments. Hence, the ratio of non-performing loans (NPL) rose to 4.5% from 2.3% a year earlier. NPL ratio in micro lending business stood at 4.7% as compared to 3.8% in the previous year. While NPL ratio in auto financing business was maintained at below 1% level. Net NPL stood at 2.5% after taking into account the collateral value of some loans, particularly for corporate, commercial, SME and mortgage loans. Further, the ratio of loan loss provision to total loans improved to 3.6% from 2.4% a year earlier.

Government Bonds

We reduced our government bonds portfolio to Rp11,011 billion at the end of 2009 from Rp13,083 billion last year as we sold some government bonds to capitalize market opportunity particularly in the last two quarters. As such, we booked Rp37 billion gain from the sale of government bonds as compared to a loss of Rp172 billion in the previous year. Accordingly, government bonds only accounted for 11% of assets as of December 2009 as compared to 12% a year earlier.

In term of interest rate, 44% of our government bonds holding were fixed rate bonds while the remaining 56% were floating rate bonds. Over 21% of these government bonds are classified as a Held to Maturity and 2% are in Trading account. The remaining 77% are in Available for Sale account.

BREAKDOWN OF GOVERNMENT BONDS BY MATURITY

	Full Year				Quarterly			
Rp billion	2007	2008	2009	∆YoY	1Q09	2Q09	3Q09	4Q09
Less than 1 year	483	-	743	NM	3	4	189	743
1 - 5 years	2,314	2,037	2,506	23%	9,167	10,466	9,294	2,506
5 - 10 years	10,283	9,780	7,301	(25%)	2,996	1,406	1,329	7,301
More than 10 years	2,728	1,266	461	(64%)	1,253	1,299	931	461
Total	**15,808**	**13,083**	**11,011**	**(16%)**	**13,419**	**13,175**	**11,743**	**11,011**

Expenditure on Fixed Assets

Most of our expenditure on fixed assets were utilized for activities related to the expansion of business operations in the form of renovation of branch offices and representative offices, purchase of office equipments and office furnitures. The purpose of this expenditure on fixed assets is to support the business performance of the company by improving the business network. Overall, total expenditure on fixed assets amounted to Rp356 billion in 2009.

BREAKDOWN OF GOVERNMENT BONDS PORTFOLIO

Rp billion	Full Year				Quarterly			
	2007	2008	2009	∆YoY	1Q09	2Q09	3Q09	4Q09
Trading	1,214	438	216	(51%)	598	472	214	216
Fixed rate	1,214	438	216	(51%)	598	472	214	216
Available for Sale	10,369	10,168	8,461	(17%)	10,279	10,290	9,170	8,461
Fixed rate	7,371	3,984	2,292	(42%)	4,092	4,102	2,982	2,292
Variable rate	2,998	6,184	6,169	0%	6,187	6,188	6,188	6,169
Held to Maturity	4,225	2,478	2,334	(6%)	2,542	2,413	2,359	2,334
Fixed rate	925	2,478	2,334	(6%)	2,542	2,413	2,359	2,334
Variable rate	3,300	-	-	0%	-	-	-	-
Total	**15,808**	**13,083**	**11,011**	**(16%)**	**13,419**	**13,175**	**11,743**	**11,011**
Fixed rate	9,510	6,900	4,842	(30%)	7,232	6,987	5,555	4,842
Variable rate	6,298	6,183	6,169	0%	6,187	6,188	6,188	6,169

EXPENDITURE ON FIXED ASSETS

Rp million	Full Year			
	2007	2008	2009	∆YoY
Land	595	3,129	7,226	131%
Building	41,604	63,314	50,825	(20%)
Office equipment	145,944	440,149	280,638	(36%)
Motor vehicle	93,338	277,641	17,766	(94%)
Total Expenditure	**281,481**	**784,233**	**356,455**	**(55%)**

Financial Review

Funding

Our funding comprised third party (customer) deposits and long-term funding. We raised long-term funding to address asset and liability miss-match as we continue to grow long-term mass market loans. Our customer deposits reached Rp68,419 billion at the end of 2009, accounting for 89% of our total funding. Customer deposits were 9% lower than the previous year's deposits of Rp75,373 billion as we released some expensive time deposits in the second quarter on the back of improved liquidity position. We raised approximately Rp4 trillion from the rights issues in the second quarter and curb loan growth in the first half of the year, significantly improving our liqudity position as well as capital. As such, time deposits, which made up 60% of total funding, declined 18% to Rp45,651 billion at the end of the year.

While we continue to grow low cost deposits, current accounts and savings accounts (CASA) increased 4% and 20% to Rp7,398 billion and Rp15,370 billion, respectively, reflecting the improvement in our deposit franchise. As such, CASA contributed to 33% of customer deposits as of December 2009 as compared to 26% a year earlier. Meanwhile, our loan to deposit ratio (LDR) stood at 88.8% as of December 2009 from 86.4% a year earlier.

The remaining 11% of funding comprised of long-term funding, which includes senior bonds, securities sold under repurchase agreements (REPO) and other long-term borrowings. Long-term funding reduced 35% to Rp8,194 billion compared to Rp12,656 billion of last year due to the repayment of US$300 million sub-debt in March 2009.

Taken all together, our total funding decreased 13% to Rp76,613 billion. However, our loan to total funding ratio stood at 82.4% as of December 2009, still reflecting a liquid balance sheet.

FUNDING COMPOSITION

Rp billion	Full Year				Quarterly			
	2007	2008	2009	∆YoY	1Q09	2Q09	3Q09	4Q09
Current Accounts	5,920	7,103	7,398	4%	6,567	6,993	7,078	7,398
Rupiah	4,056	4,888	5,214	7%	4,219	4,928	4,690	5,214
Foreign currency	1,864	2,215	2,185	(1%)	2,348	2,065	2,387	2,185
Savings	12,203	12,847	15,370	20%	12,470	13,189	14,473	15,370
Rupiah	12,203	11,938	13,806	16%	11,356	12,023	13,137	13,806
Foreign currency	0	909	1,564	72%	1,114	1,166	1,336	1,564
Time Deposits	41,405	55,423	45,651	(18%)	55,575	47,514	47,634	45,651
Rupiah	34,014	47,985	41,372	(14%)	47,879	41,904	42,439	41,372
Foreign currency	7,391	7,438	4,278	(42%)	7,696	5,610	5,195	4,278
Long-term funding	11,448	12,655	8,194	(35%)	10,715	9,126	8,773	8,194
Rupiah	6,377	8,221	6,803	(17%)	8,222	7,023	7,024	6,803
Foreign currency	5,071	4,434	1,390	(69%)	2,493	2,103	1,749	1,390
Total Funding	**70,976**	**88,029**	**76,613**	**(13%)**	**85,327**	**76,822**	**77,957**	**76,613**

Capitalization

Consolidated capital adequacy ratio (CAR) improved to 20.7% as of December 2009 from 15.4% a year earlier, reflecting a strong capital base and one of the highest in the country. We raised approximately Rp4 trillion from rights issue, which strengthened our Tier 1 Capital to 19.3% as of December 2009 from 13.8% a year earlier. While Tier 2 Capital declined to 1.4% as of December 2009 from 1.6% a year earlier due to the repayment of sub-debt in March 2009. Furthermore, our equity to asset ratio stood at a high 16.0% as of December 2009 as compared to 9.9% in the previous year, enabling continued business growth.

Financial Review

CAPITALIZATION (CONSOLIDATED)

Rp billion	Full Year				Quarterly			
	2007	2008	2009	ΔYoY	1Q09	2Q09	3Q09	4Q09
Tier 1 Capital	9,769	10,438	14,616	40%	10,976	14,384	14,573	14,616
Tier 2 Capital	4,116	1,405	1,256	(11%)	1,267	1,240	1,246	1,256
Investments	(300)	(389)	(1,905)	390%	(654)	(711)	(1,918)	(1,905)
Total Capital after Investments	**13,585**	**11,454**	**13,967**	**22%**	**11,589**	**14,913**	**13,901**	**13,967**
Risk Weighted Assets (inc. market risk)	66,882	74,234	67,636	(9%)	68,585	66,054	66,629	67,636
Capital Adequacy Ratio	**20.3%**	**15.4%**	**20.7%**	**5.3%**	**16.9%**	**22.6%**	**20.9%**	**20.7%**
Tier 1 Ratio	14.4%	13.8%	19.3%	5.5%	15.4%	21.1%	19.4%	19.3%
Tier 2 Ratio	5.9%	1.6%	1.4%	(0.2%)	1.5%	1.5%	1.4%	1.4%

Latest Update

Dividend Payment

In compliance with the covenants as stipulated in the credit agreement between Danamon and International Finance Corporation, we plan to pay a minimum cash dividend amount of 10% of net profit after tax, subject to approval at the General Meeting of Shareholders, our financial condition, profit level and future capital needs.

The Annual General Meeting of Shareholders, which was held at 25 May 2009, resolved the cash dividend distribution for the year 2008 by 50% of the net profit or in amount of Rp765,012 million or Rp90.82 (full amount) per share for series A and series B shares, management bonus (tantiem) of Rp36,365 million and allocation for general and legal reserves of Rp15,300 million.

Financial Information Pertaining to Extraordinary Circumstances

There was no financial information pertaining to extraordinary circumstances in 2009 report.

Subsequent Events to Date of Auditors Financial Report

- PT Esa Kertas Nusantara

  Danamon is facing a litigation case in the South Jakarta District Court with PT Esa Kertas Nusantara (EKN) related to derivative transactions. This litigation process was continued in the State Court Jakarta Selatan after both parties were unable to reach an agreement during the mediation process.

On 27 January 2010, the South Jakarta District Court granted EKN's claims partially and required Danamon to pay loss (material damages) of Rp63 billion. In relation to the above, Danamon has stated to file an appeal on that decision.

Meanwhile, Danamon has also filed a bankruptcy petition against EKN on default of their L/C facility obligation through the Central Jakarta Commercial Court. Danamon has appealed for the Commercial Court's decision that refused the request for EKN's bankruptcy. Up to the date of this report, Danamon has not received any official announcement from the Commercial Court regarding the Supreme Court's decision on EKN's bankruptcy lawsuit filed by the Bank.

- Yayasan Supersemar, Dakab and Dharmais

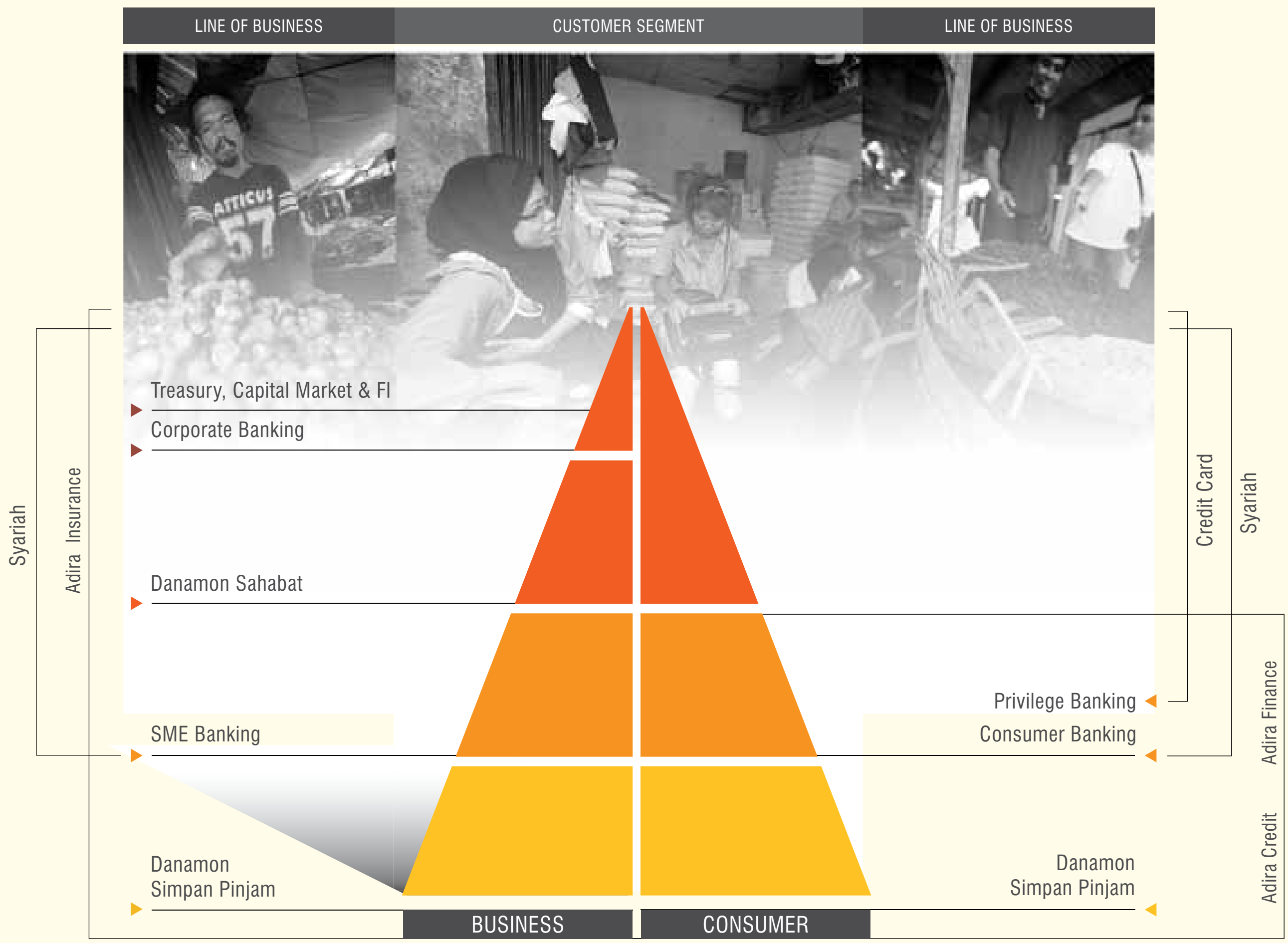
On 5 March 2009, Yayasan Supersemar, Dakab and Dharmais have submitted their claim to Danamon through South Jakarta District Court for Unlawful Act with regard to a pre-merger related account.

Meanwhile, on 23 July 2009, the Ministry of Finance has filed an Intervention Suit to request to be included as a party in this case with the basis that the object of the case (Rp124 billion) which had been transferred to Bendahara Umum Negara account at Bank Indonesia is legally owned by the Government of Republic of Indonesia as these subordinated loans were considered as excess of recapitalization.

On 28 January 2010, South Jakarta District Court has decided to reject the Yayasan Supersemar, Dakab and Dharmais' claims to Danamon. Up to date of this report, Danamon has not received any official announcement from the South Jakarta District Court regarding submission of appeal from Yayasan Supersemar, Dakab and Dharmais.

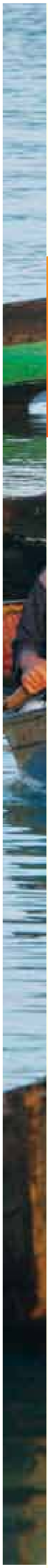
Danamon : **a Customer Centric Organization**

Danamon's willingness to undertake rigorous research, identify opportunity for new ideas, and listen to both existing and prospective customers has, in a remarkably short period of time, transformed the Bank into a customer centric and differentiated financial services provider. At the heart of our strategy is the ability of Danamon to identify, develop and deliver customized services and products that suit targeted customer segments, each with a unique value proposition and risk management philosophy. In this way Danamon ensures that customer needs are properly supported and inherent risks fully considered.



Corporation & Financial Institution	Affluent
Commercial	Affluent
Small & Medium Scale Business	Middle Income
Mass Self-Employed	Mass Employed

Business Review



140,000 Self Employed Mass Market (Mass Self Employed)

new customers were registered by DSP in 2009

Self Employed Mass Market (DSP)

The Danamon Simpan Pinjam (DSP) franchise has arisen from Danamon's willingness to listen and respond to customer needs in the micro banking segment. Conceived initially in response to an insightful market study that had shown the huge potential of a particularly underserved market segment, DSP has focused exclusively on the self-employed mass-market segment since its inception in 2003. The study was proven right, and our highly targeted and disciplined execution of DSP over the past five years have paid off handsomely.

Today, DSP is a living, breathing and thriving enterprise in its own right, with more than 1,000 service outlets and selling points across Indonesia, more than 11,000 employees, and total outstanding loan assets of Rp12.3 trillion in 2009, and growing.

The DSP target market comprises mainly of the small-business owners or mom-and-pop stores whose bank borrowings do not exceed Rp500 million. At present, the SEMM segment constitutes a major growth engine for Danamon, accounting for more than 19% of our total loan portfolio and 33% of our profitability.

In 2009, the DSP franchise grew 12.1% year on year in terms of loan assets, and 4.5% in terms of net interest income to Rp2.2 trillion. Meanwhile, net profit was Rp504 billion. Despite its robust growth, DSP has retained a non-performing loan (NPL) ratio of under 5%, contributing also to the overall loan assets quality of Danamon.

Business Review

"Competing in the market is tough in itself without having to worry about finances on a daily basis. Now that part of my problem is covered by DSP, and all I have to worry about is how to sell my merchandise."

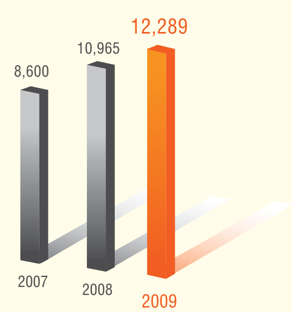
Both the increase in net interest income and the relatively stable NPL were also attributed to rigorous risk mitigation and tight control over the cost of credit. Anticipating an increase in the level of NPL in 2009 due to challenging economic conditions, DSP initiated several improvements to credit and collection policies throughout the year. Potential debtors are given greater scrutiny, while collection systems are implemented more rigorously and timely across DSP borrowers. As a result of which the ratio of credit cost to average earning assets for the DSP loan portfolio was still manageable.

The DSP market includes sellers and stall owners in more than 1,500 wet markets in 32 provinces across Indonesia, small-scale traders and home industries, food hawkers, garages and workshops, and other small businesses. All told, they made up into more than 590 thousand DSP customers in 2009, and growing. A renewed drive by DSP to expand its customer base within the so-called informal sector that still accounts for a significant portion of Indonesia's economy was instrumental in adding new accounts to DSP's business portfolio. A total of 140 thousand new customers were registered by DSP in 2009, many of whom come from hitherto underserved segments such as cell-phone voucher retailers and sidewalk hawker food stalls that number in the millions across the country.

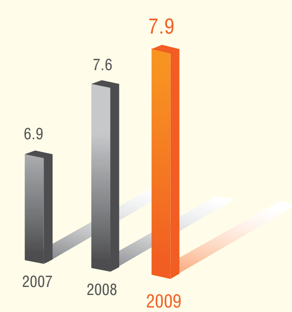
In 2009, DSP continued to leverage on the strong market position in micro-financing that it has built over the past five years. Its initiative to segregate the market into two distinct distribution channels in 2008 – that of Unsecured Product Distribution for loans up to Rp30 million and Secured Product Distribution for loans above Rp30 million – had proved effective in 2009 as DSP was able to focus more on the two segments separately and modify its value proposition accordingly to meet different market needs.

Overall, DSP's simple and clear promise of Speed, Simplicity and Convenience for loan processing, approval and repayment represents an attractive value proposition to millions of small businesses and self-employed individuals, many of whom had no previous access to banking services. DSP's loan approval turnaround of three days on average is widely seen as a testament to this promise, while the DSP mobile team – numbering 200

Outstanding Loans
(Rp billion)



Loans Market Share
(%)



Business Review

"When they first offered me loan, I thought they were just another loan sharker, dressed in fancy clothes. How very wrong of me to judge DSP before I even got to know them."

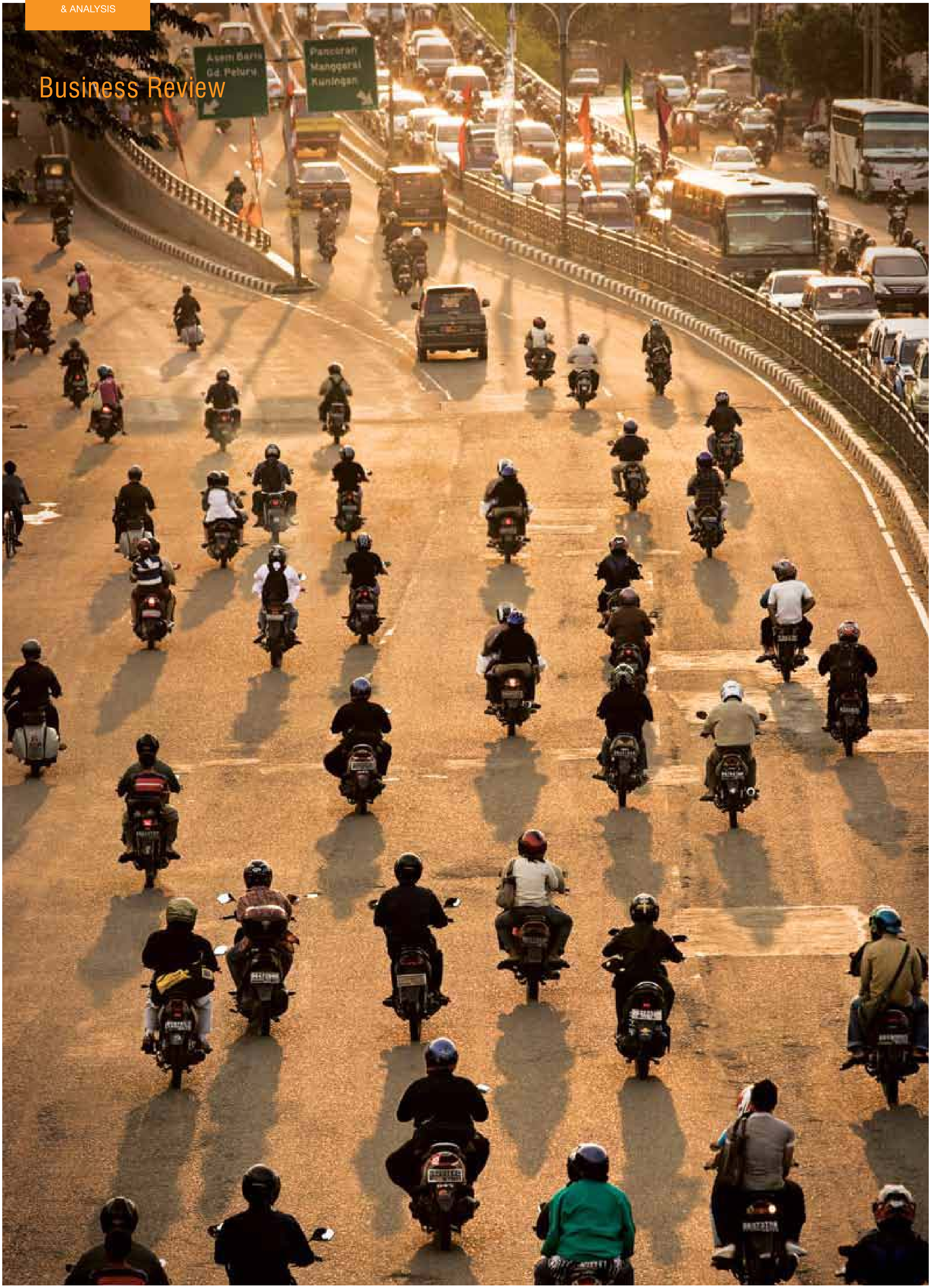
units as at year-end 2009 - are proof of DSP's commitments to serve the micro-banking customer first and foremost.

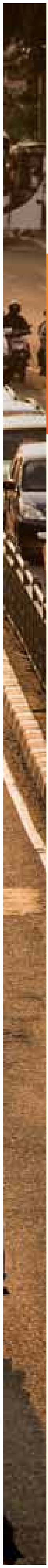
Furthermore, the combination between a solid business model, strong leadership and effective execution in the market place has transformed DSP into a unique franchise that is much more than just a successful business model. Indeed, the real strength of DSP lies in the strong bonds that it has been able to forge with communities that form the markets it serves. Working closely with the Danamon Foundation that oversees the corporate social responsibility programs of Danamon, DSP has become a truly empowering entity, combining bank lending and savings services with community development initiatives. This has truly set DSP apart from other micro banking business and services in the market today.

Going forward, Danamon will continue to maximize the significant leverage that we have gained in the micro-banking segment with the success of our DSP business model. Our initiatives at identifying potential new target markets within the broad and growing informal sector of the Indonesian economy will provide additional momentum to DSP's sustainable growth in 2010 and beyond. And there is no doubt that improving market and economic conditions in 2010 will lend themselves favorably to the continuing growth of DSP, and the markets it serves.

"Although this is not my first experience dealing with lenders, I can feel the difference with DSP. These young people visit me regularly and befriended me. They genuinely care about my business, and that makes all the difference to me."

Business Review





2.2 million customers are served by Adira in 260 cities across Indonesia

Consumer Auto Financing (Adira Finance)

In 2009, Danamon increased its stake in Adira Finance from 75% to 95%, underscoring the great importance that Danamon attaches to Adira Finance, and its strategic hold of the huge and growing automotive financing market in Indonesia.

Adira Finance has grown phenomenally over the past decade to become one of the largest automotive financing companies in Indonesia. In 2009 alone, Adira Finance booked approximately Rp14.5 trillion of new financing, while the total outstanding receivables for the year reached more than Rp19.1 trillion, accounting for a market share of approximately 13.2% for new motorcycle and 3.4% for new car.

It owes its success to a strong a strategic business focus on the motorcycle market in the late 1990s, at a time when the collapse of the Rupiah following the Asian financial crisis of 1997, made the price of cars beyond the reach of the large majority of Indonesians. Aa a result, many individuals then turned to motorcycles to meet their transportation needs.

When the market for these motorcycles eventually boomed in 2000 onwards, Adira Finance was in position to reap the growth: The right company in the right place for the perfect financing solution.

A series of strategic management initiatives undertaken in 2005 further solidified the positioning of Adira Finance among major motorcycle and automobile brands, and with that, Adira Finance's financing of these brands began to grow phenomenally. In 2004, Adira Finance turned to a potential shareholder with the financial means to support its exponential growth – and Danamon came into the picture: The right bank with the right vision for the perfect growth opportunity.

Five years on, in 2009, the growth of Adira Finance has remained strong. Still keenly focused on the fast growing automotive sector, Adira Finance serves more than 2.2 million customers through more than 300 outlets in over 260 cities in the country.

Business Review

The global financial crisis of 2008 had barely dented the sales of Adira Finance in 2009. Although the company, like all other Danamon business units, had taken precautionary measures in anticipation of a difficult year, Adira Finance's growth and productivity in 2009 were just as strong, if not stronger, than those of the previous years.

Total sales booking increased 3.8% year on year. Total outstanding receivables increased 13% to Rp19.1 trillion in 2009. Adira Finance loans portfolio comprised 75% motorcycle financing, where the bulk of the industry's growth is centered, and 25% car financing.

Net interest income rose 11% from Rp2.7 trillion in 2008 to Rp3.0 trillion in 2009, accounting for approximately 31% of Danamon's total net interest income. While cost of credit was maintained at around 3.4% of average receivables, a continuing reflection of Adira Finance's prudent business practices particularly in the face of global economic uncertainties.

With its sharp business focus, Adira Finance continues to deliver cutting-edge automotive financing products along with service excellence that few in the market can match. Over the years, Adira Finance has built a unique value proposition through customer relationship programs that center on community involvements and personal interactions with customers. The ADIRA CARE platform, for instance, builds upon this interaction with customers by going beyond the fulfillment of formal business contracts to generate trust and good will among customers. At the same time, Adira Finance never ceases to find better solutions, innovate and improve on service convenience and customer satisfaction.

To date, customers have access to Adira Finance financing in more than 8,500 automotive dealers across the country. They also have multipoint access to credit payment facilities from the postal office to ATM to Danamon and Adira Finance branches throughout Indonesia. In addition, trade in programs that offer attractive repurchase value not only offer peace of mind to customers, but also increase customer retention and recurring businesses.

For those and other achievements during 2009, Adira Finance continues to garner accolades and recognitions from leading media houses and institutions, as follow:

- Third position in Financial Private Listed category in Annual Report Award 2008, which was organized by Bapepam-LK, Directorate General of Income Tax, State Ministry for State Owned Enterprises, Bank Indonesia (BI), Indonesia Stock Exchange (IDX), the National Committee on Governance (NCG) and the Indonesian Institute of Accountants (IAI).
- Top Brand Award for Two and Four

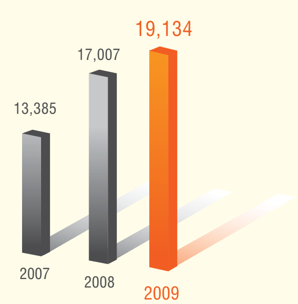
"Without my motorcycle, I won't have a livelihood to care for my family. I somehow felt that Adira Finance understood this when I applied for, and got the credit for my new motorbike."

Wheels Automotive Leasing Company, organized by Marketing Magazine.
- Winner of GCG Award for Best Individual Indicators Responsibility of the Board category in Anugerah GCG Award 2009 organized by IICD (Indonesian Institute for Corporate Directorship).
- Service Quality Golden Award for Achieving Excellent Total Service Quality Satisfaction Based on Customer Perception Survey ISSI 2009 for Two and Four Wheels category organized by Marketing Magazine and Carre-CCSL (Center for Customer Satisfaction & Loyalty).
- Automotive Finance Company of The Year in Asia Pacific Automotive Award organized by Frost and Sullivan.
- Best Overall Engagement category in HR Excellent Award 2009 organized by University of Indonesia Faculty of Economics Management Institute, SWA Magazine and HR Indonesia.
- The first position for Multifinance category in Bisnis Indonesia Award 2009 organized by Bisnis Indonesia Daily Newspaper.
- ICSA (Indonesia Customer Satisfaction Award) for two wheels and four wheels categories.
- Multifinance Golden Trophy 2009 for the "Very Good" financial performance in Infobank Award.
- The Best Finance Company Year 2009 under category of assets above Rp500 billion in Malam Penghargaan Anugerah Asosiasi Perusahaan Pembiayaan Indonesia (APPI) 2009.
- Employee Engagement on Financial Industry and Human Capital Management System category in 2009 Indonesian Human Capital Study organized by Human Capital Magazine and Dunamis Consulting.

Going forward, Adira Finance expects to tap into robust growth opportunity in 2010 as markets and economic indicators improved. On the other hand, stringent risk management practices that have been put in place in 2009 in anticipation of a downturn year will be maintained and even strengthened. IT operations for risk management intelligence will be enhanced. Adira Finance will also continue to focus intensely on cost efficiency in its operations, while improving the productivity of its resources.

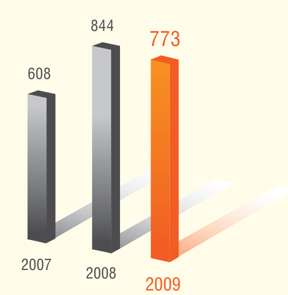
As in 2009, greater analytical tools will be applied to scrutinize Key Performance Indicators, productivity, human resources and other areas of development as part of the Company's strategy to be a productive enterprise. Last but not least, the Adira Finance brand equity will continue to be enhanced through increased customer care and loyalty programs.

Outstanding Receivables
(Rp billion)



New Financing
(Rp billion)

New Motorcycle Financing Units
(thousand)



Business Review

163

Adira Kredit

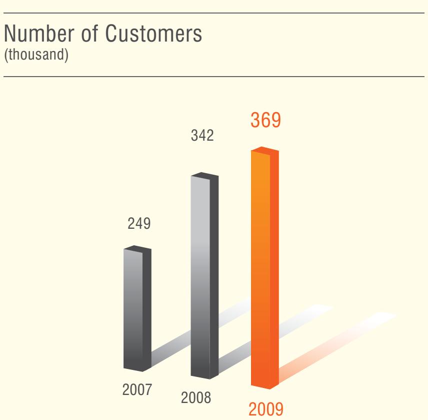
branches, representative offices and points of sales (POS) of Adira Kredit nationwide

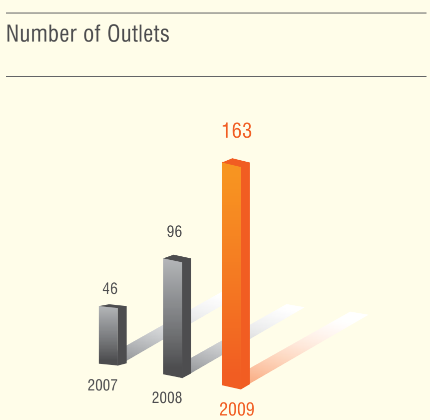
Adira Kredit

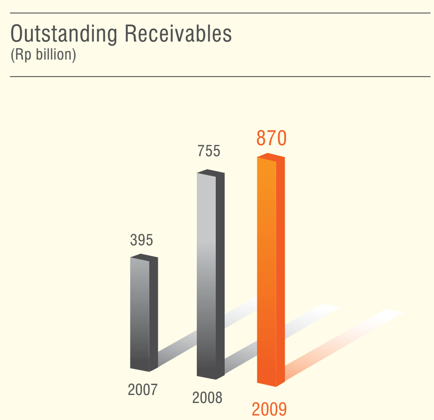
PT Adira Quantum Multifinance, or commonly known as Adira Kredit, is one of the leading consumer goods financing companies in Indonesia which provides installment loan particularly for durable goods such as electronics, computers, furniture, and home appliances. Adira Kredit completes the value chain of Danamon's entire consumer financing businesses, which also includes of automotive financing from Adira Finance, unsecured personal loan and card financing from Danamon, and consumer goods financing from Adira Kredit.

Over the past several years, with the rapidly expanding middle-class consumers in Indonesia, the need for convenient and affordable financing to purchase consumer electronics, home appliances, furniture and other household fixtures has grown tremendously. While credit cards may provide such financing to middle and upper-income consumers, Adira Kredit offers the middle to lower-income consumers the convenience of consumer goods installment loan. This differentiates the market of Adira Kredit from that of credit cards, enabling Adira Kredit to grow its particular market segment significantly since its establishment in 2002.

Business Review





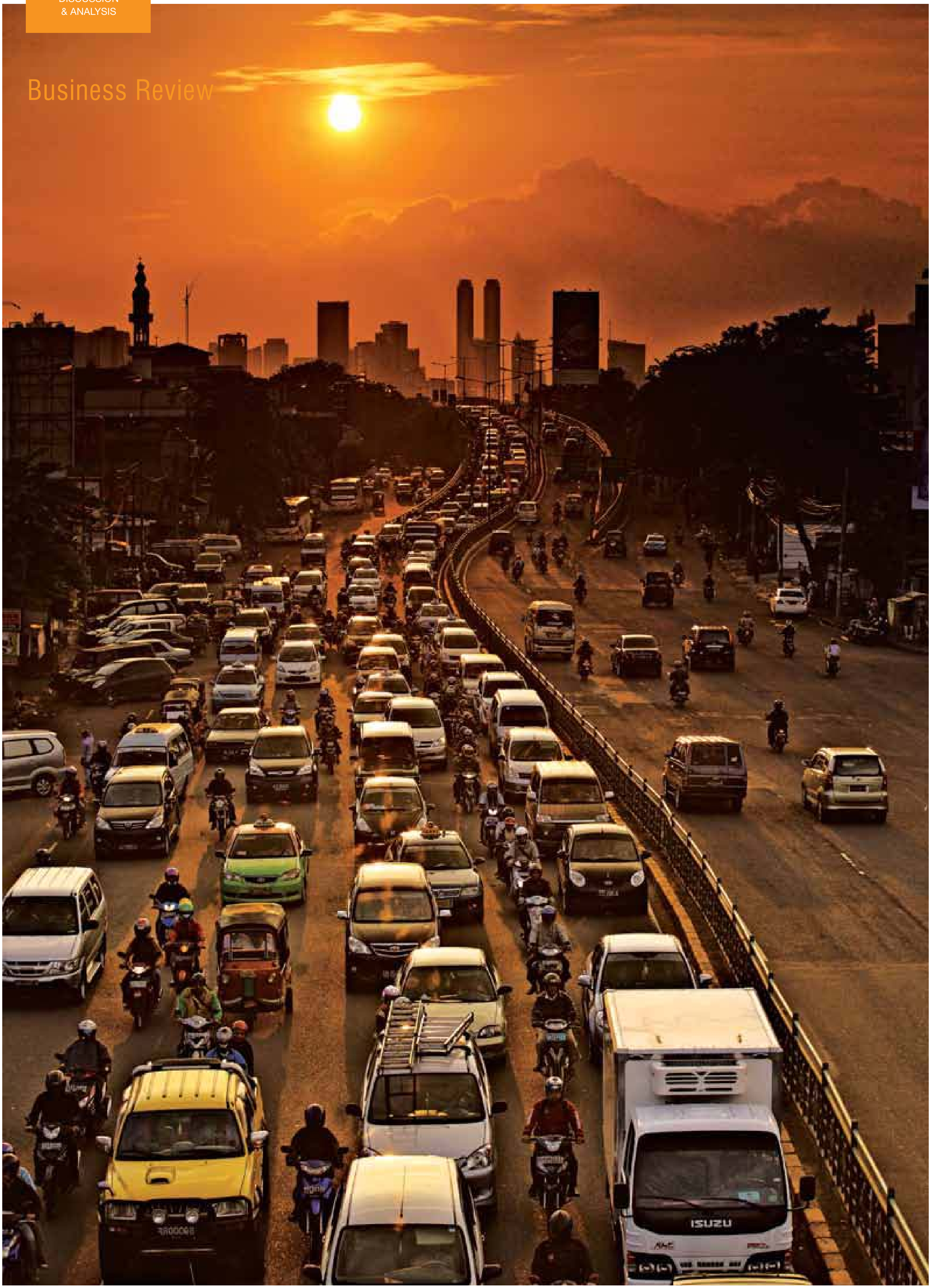


In 2008, foreseeing the opportunities in the durables financing market, the business strategy was revamped to bring Adira Kredit to the next level in the consumer financing business. The key growth plans are to focus on the distribution expansion, customer and merchant loyalty, as well as risk management and operations efficiencies. In the same year, the new brand of Adira Kredit (from the previous Adira Finance/Quantum) is introduced to make Adira Kredit a solid consumer financing brand.

Despite the global economic recession in 2009, the consumer market segment in Indonesia remained buoyant, owing to the nation's large domestic market. Industry figures cited that the aggregate sales of consumer durables goods such as electronics, furniture, computers, hand phone, etc. reached a figure of Rp33.3 trillion. This also fueled the growth of Adira Kredit and was able to reach sales volume of Rp1.23 trillion in 2009. From 2008 to 2009, net interest income grew by 34%. Total assets increased by 15%, with ROA and ROE posted at 2.4% and 16.1%, respectively. NPL ratio was maintained at 2.5%, reflecting the effective loan origination process and collection systems.

As of December 2009, Adira Kredit had served more than 369,000 customers from over 163 outlets: 45 branches and representative offices, plus 118 points of sales (POS).

Business Review



14.6% General Insurance (Adira Insurance)

increase in Gross Written Premiums in 2009

General Insurance (Adira Insurance)

As a major player in the insurance business in Indonesia today, Adira Insurance is one of the few names in the industry that command strong product and service brands with distinctive features and benefits that are widely recognized in the market.

As one of the trinity that forms the Adira financial service group within the Danamon franchise, Adira Insurance offers a wide array of general insurance products and services, providing liability coverage for motor vehicle and non motor vehicles assets alike. The latter category includes liability coverage for personal accident, heavy equipment, marine cargo, and marine hull as well as those for damages due to fires, earthquakes or other natural disasters.

Adira's motor vehicle insurance product, generated no less than Rp525 billion in total Gross Written Premiums (GWP) in 2009 alone. Autocillin, the car insurance product, remains one of the most widely recognized insurance brands in the market today. Autocillin is supported by an extensive service centre network across the country as well as round-the-clock access to a service centre that allows customers to ask for assistance wherever and whenever required.

By the end of 2009, motor vehicle insurance accounted for slightly below 70% of the business portfolio of Adira Insurance. While the balance still tilts overwhelmingly on the side of motor vehicle insurance, the above figure has actually fallen significantly from around 95% in 2006 to its present rate. This is another way of saying that the non motor-vehicle insurance category has grown tremendously by more than 30% over the past three years.

Business Review

Those figures accurately portray the situation in which Adira Insurance now finds itself. While the business of motor vehicle insurance continues to grow in line with the robust growth of the automotive sector in Indonesia today, Adira Insurance is exerting all efforts to grow the non motor-vehicle insurance category at a higher rate than that of motor vehicle.

These efforts continued to show significant results for non motor vehicle insurance in 2009, despite the fact that it remained in the shadows of motor vehicle insurance. While GWP for motor vehicle insurance grew 5.5% in 2009 to the afore-mentioned figure, GWP for non motor vehicle insurance rose 36.5% to Rp283 billion. This brought the total GWP growth of Adira Insurance to 14.6% year on year, rising from Rp705 billion in 2008 to Rp808 billion in 2009.

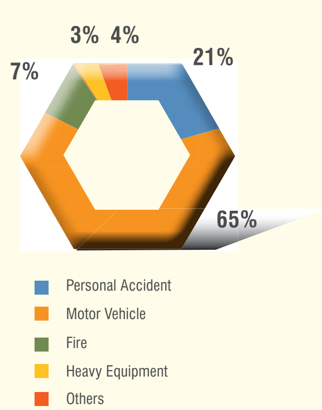
Adira Insurance's growth in 2009 was beyond initial expectation. With the global financial crisis in full rage by the end of 2008, and global economic recession looming large in 2009, the company had taken a cautious view on its 2009 outlook, in line with that of the Danamon Group as a whole. Consequently, it did not foresee growth in the double-digit range and set its business targets accordingly. However, the market was not short of underwriting opportunities in 2009. Indeed, it would seem that in times of crisis and uncertainties, companies turned more towards insurance as a means of protection and risk mitigation.

Thus, without casting prudence aside, Adira Insurance underwrote more policies in 2009 than in 2008. Many of these new underwritings came from the non motor vehicle insurance category, which offers significant growth opportunity for Adira Insurance in the future. A considerable part of this growth will be driven by significant cross-selling opportunities within the Danamon Group. As such, Adira Insurance has developed and will continue to develop insurance products that can be tied in with Danamon's own growing range of banking products and services in micro-banking, retail banking, the mass-market segment and even as diverse as corporate banking and privilege banking for the affluent market.

Measures continue to be taken in order to improve business process and efficiency across the board. A key objective was to enhance customer experience and this has shown to have an effect on customer satisfaction in 2009, which was evident from the company's robust business growth during the year.

Gross Written Premium (GWP)
(Rp billion)

Gross Written Premium by Products
(%)



"As parents we put aside a substantial portion of our income in a nest egg to look after the future of our son. It's comforting to know that Adira Insurance is also looking after that nest egg of ours."

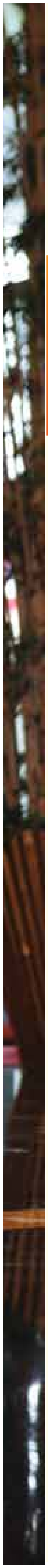
As part of this efficiency drive, Adira Insurance formed the Underwriting Committee to work in tandem with the Service Committee. These two committees have allowed Management to better access to key information related to both the market and the customer when dealing with major underwriting and/or customer service issues. This enables the company to not only take a more holistic view to problem solving and risk mitigation, but also find flexible solutions especially where customer satisfaction issues are concerned.

More awards were received during the year, including "Best Brand 2009" for Motopro, in motorcycle insurance category from SWA Sembada Magazine; "2nd Top Brand Award" for car insurance category from Marketing Magazine; "2nd Best General Insurance Company" from Media Asuransi Magazine and Investor Magazine; "Insurance Golden Trophy" for a 5 years in a-row; "Very Good" financial performance (2004-2008) from InfoBank magazine; "Gold Service Quality Award" from Marketing Magazine; "Call Center Award" rated "Good" from Marketing Magazine; "2nd Best Islamic General Insurance 2009" for Adira Insurance Syariah from Karim Business Consulting; and "2nd Most Admired General Insurance Company in Indonesia" from Business Week Magazine.

Looking ahead, Danamon expects Adira Insurance to grow even more robustly in 2010 as the global economy recovers from its recession, and the pace of the Indonesian economy grows in momentum.

With that in mind, Adira Insurance will pursue its growth opportunities in 2010 with sound policies and strong risk management in place to maximize these opportunities.

Business Review



24% Retail Banking

increase in Retail Banking's average volume of CASA in 2009

Retail Banking

Danamon's Retail Banking continued to consolidate its role in serving individuals in the mass affluent segments with a comprehensive range of deposit, loan, investment and bancassurance products, while being the principal source of funding for all Danamon lending engines.

The year 2009 marked a key milestone for Retail Banking, being the culminating year of Danamon's initial three-year investment program to bring our retail banking platform to competitive levels. At the same time we begun implementation of our new business model and unique value proposition (UVP), which combined with previous investments, will take our business to the next level. This UVP which commits to provide "lifetime financial support…anytime, anywhere", is sure to provide the required differentiation to grow our business on a sustainable basis.

As part of the comprehensive transformation, Retail Banking developed and implemented a new strategy to generate low cost deposits, targeting different customer segments with different value propositions. The initiative succeeded in growing savings volume for ten consecutive months since March 2009 when the strategy was introduced. Along the way in 2009, Danamon's Retail Banking registered 258,000 new savings accounts and increased the average CASA volume by an unprecedented 24%. Savings accounts now totaling 1.1 million provide an outstanding base for cross-sell as we move forward. Total funding costs were reduced by 365 basis points while providing 65% of total third party deposits generated by all Danamon funding units.

Business Review

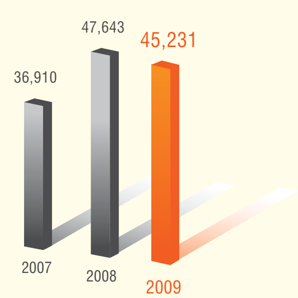
Activities in other consumer products were equally exciting. Our Bancassurance business reached a record number of policies and insurance premiums, increasing fee income by 48%. Our Remittance business also gained a strong momentum leveraging the Western Union brand and creative promotions, achieving more than 7,000 transactions per month. Our ATMs became the first of its kind in Indonesia to offer promotional linkages with other consumer products like Kentucky Fried Chicken (KFC) and the popular BlackBerry. As a result ATM fees increased 81%, attracted new customers and defied the notion that this channel is simply a cost center.

We invested considerable efforts to streamline our lending and investment products and processes, which we expect to grow in 2010, as the economic environment becomes more favorable.

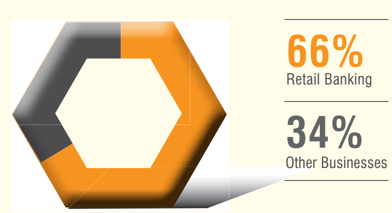
Our advertising and promotional support for key products was present year around and our TV creative with aggressive positioning for our flagship product Danamon Lebih was ubiquitous. These efforts combined with our successful re-branding in the past two years, enabled Danamon to increase its top of mind consumer awareness from 40% to 70%, the highest growth of any major banks in Indonesia.

On the technical front, much was accomplished to facilitate access to our customers delivering on the "anytime… anywhere" aspect of our UVP. We successfully launched a distinctive internet banking platform in mid 2009, and it has already been recognized in Asia Pacific because of its feature innovation. We expanded our ATM network to 846 locations, added 18 new branches to reach 475. We implemented world class technology in our Contact Center which is now used both for service and for marketing campaigns, which are generating important fee income for this unit. Significant work was also done to enhance our mobile banking platform to be launched in 2010.

Retail Banking's Total Deposits
(Rp billion)



Composition of Retail Deposits
(%)



"The new Danamon ATMs offer much more transaction features than before, and attractive offerings to boot. I'm glad I stay on board with Danamon."

While we were running our business we were also transforming. Our new business model begun to materialize with the implementation of 15 task forces under a Program Management Office (PMO) and Steering Committee populated with BOD members to highlight the importance of this change. As part of this initiative, we tested our new "Winning Branch Model" which essentially transforms our branch from a service point to a "retail store" where products are actively sold to provide solutions to our customers, while service levels are enhanced. The new model will be rolled out to the network during 2010.

As part of this transformation, we also combined our two distribution networks into one creating the Retail Bank network and a Privilege Banking proposition to serve the needs of our more affluent customers. This offer will reach our entire network with better trained wealth management professionals and benefits not readily found in other institutions.

We are very proud of these accomplishments, but also cognizant that more work needs to be done to maintain our momentum and to deliver on our challenging promise of "lifetime financial support…anytime, anywhere". Our teams are ready and committed.

Business Review

469,000 Credit Cards

credit cards issued by the end of 2009

Credit Card

Danamon's card business offering remains the broadest in Indonesia with VISA, MasterCard and American Express, ranging from regular and affinity lifestyle credit cards to the prestigious Platinum Card from American Express.

We continue to apply the time tested strategy of Danamon to grow our card business, which is to provide highly customized products and services to different market segments. This includes a variety of utility bills from electricity to fixed-line telephone, mobile phone and internet; special cash back offering on spending; and a host of privileges and special offers for dining, travel and entertainment.

Danamon's affinity cards continue to draw the enthusiasm of followers of the English Premier Football League with the Manchester United, Arsenal and Liverpool cards all providing highly distinctive and attractive features to their respective fans.

Business Review

The American Express range of products – The Gold Credit Card, The Gold Card, The Platinum Card and The Corporate Card – remain as the pre-eminent card services in the country, catering to selected groups of individuals and offering Membership Rewards program benefits that are truly in a class of their own. The Platinum Card remains to be the most premium card in the country as it comes by invitation only, extended to the super premium segment, and offering one-of-a-kind benefits such as special price on business class tickets on many regional airlines, one for one special golf privileges in some of the best golf courses in the country, complimentary Saphire membership, which enables card holders to fast track through immigration lines and unmatched Premium Concierge Services.

We continued to grow our merchant network through a unique value proposition that allows merchants to charge three different cards - American Express, MasterCard and VISA - through a single electronic data capture (EDC) terminal. That was how we were able to grow our American Express merchant

"Owning a credit card has never been more convenient for me until I can fill up my car with petrol purchased with my Danamon Card - the cash back offer, too, is just fantastic."

network significantly over the past two years in major cities across Indonesia.

We intensified our cross-selling efforts in the branches, offering pre-approved cards to qualified banking customers. This has since grown into a major acquisition channel for cards while cementing our relationships with customers by increasing share of wallet.

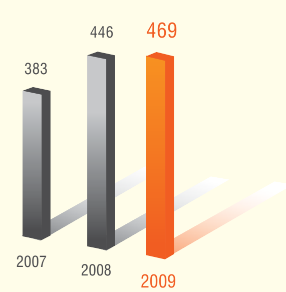
We have also completed the migration of magnetic cards to chip card (EMV) to comply with Bank Indonesia regulation.

The migration includes the replacement of electronic data capture EDC terminals spread out in thousands of merchants across Indonesia.

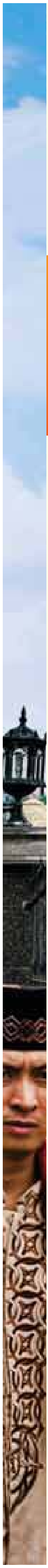
Going forward, we will continue to manage our portfolio quality, selectively target the premium segments, expand our cross selling initiatives, and extend our merchant network to new categories.

Credit Card Receivables
(Rp billion)

Number of Cards Issued
(thousand)



Business Review



Syariah Banking / Islamic Banking

32% CASA ratio to total deposits at the end of 2009, up from 27% in the previous year

Syariah Banking / Islamic Banking

The syariah banking market in Indonesia continues to grow robustly despite the global financial crisis. The syariah banking market is particularly resilient towards most financial crisis simply because the size of the market, currently at less than 5% of the size of the conventional banking market, is still relatively too small to feel any real effects of the global financial turmoil. The growth of syariah banking market has direct implications to the growth of Danamon Syariah.

Danamon Syariah total financing reached Rp747 billion in 2009. The bulk of this financing occurred mainly came from small business and co-operatives segments.

On the funding side, total third party funds increased 4.1% from Rp708 billion in 2008 to Rp737 billion in 2009. In 2009, CASA ratio to total deposits increased 500bps to 32% compared to 27% a year earlier.

The significant growth in funding composition in 2009 was consistent with the priorities set by Danamon in the face of a challenging year, which was to focus on funding activities and managing liquidity prudently.

Another key achievement of Danamon Syariah in 2009 was in maintaining the quality of financing portfolio. In spite of the considerable growth in total financing, the non-performing financing (NPF) ratio to total financing was maintained at around 0.8%. Danamon Syariah continued to provide a comprehensive range of syariah banking products and services that offer seamless solutions to customers. Our products and

Business Review

services encompass Tabungan Danamon Syariah iB (syariah savings account), Giro Danamon Syariah iB (Syariah current account), Deposito Danamon Syariah iB (syariah term deposits), Investasi Harian Danamon Syariah iB (syariah investment product) and RencanaKu Syariah iB (syariah retirement plan).

In addition to a comprehensive range of savings, investment and retirement products, Danamon Syariah pioneered the issuance of the first Credit Card product for syariah banking in Indonesia. Called the Dirham Card, it provides the benefits of a conventional credit card albeit without the interest charging component that is against the syariah principles.

Since its launch in 2008, the Dirham Card has grown steadily to amass a total of 19,000 cardholders in 2009, and growing. The card is used as a mean to a variety of financial transactions, including for the payment of alms.

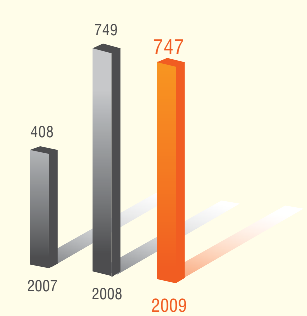
Aside from introducing the first syariah-based credit card to the market, Danamon Syariah also developed the syariah-based cash management services, making good on our promise to deliver seamless, end to end syariah banking products and services to our customers.

With Danamon Syariah, customers have access to Danamon's comprehensive electronic delivery channels that comprise more than 14,000 ATM units within the Danamon and ATM Bersama networks; the Danamon Access Center; as well as Danamon's e-Banking, mobile phone banking and Internet banking facilities.

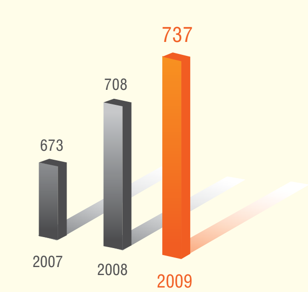
Even as we continue to leverage on Danamon's vast branch-banking and electronic networks, Danamon Syariah has opened 137 new syariah channeling offices across Danamon's branch offices throughout Sumatra, Java, Bali, Kalimantan and Sulawesi, making a total of 148 Danamon Syariah service outlets in 2009.

Going forward, Danamon Syariah will focus its attention on building the

Total Financing
(Rp billion)



Total Funding
(Rp billion)



"My experience with syariah banking, including that of Danamon's, is that when economic conditions become challenging, like they did in 2009, the syariah bank can truly act as a partner, finding common solutions with mutual benefits."

Danamon Syariah brand as a quality mark in its own right, and leveraging more on the strengths of Danamon Syariah as a fully fledged syariah-based banking operations, rather than merely being the syariah-arm extension of a conventional bank.

In 2010, we will replicate the success of our fully operational stand-alone syariah retail branch in Bandung elsewhere. Danamon Syariah open similar syariah branches in major cities across Indonesia, mainly as a means to establish real brand presence in the market. For the most part, however, we believe that our customers will be better served through the Danamon banking network system, which remains key to future successes and growth of the Danamon Syariah banking franchise.

Business Review

20%

SME & Commercial Banking

growth in SMEC's low-cost funding in 2009

SME & Commercial Banking

In 2009, SME and Commercial Banking (SMEC) accounted for approximately 26% of Danamon's total loan and 22% of its funding book.

In many ways, 2009 proved to be an even more difficult year than 2008. The first half of the year was particularly challenging as the impact of the financial crisis in the US in last quarter of 2008 began to reverberate across the globe. This led SMEC to rationalize lending in anticipation of worsening credit risk in face of the depreciation of Rupiah and the increase of interest rates in the last quarter of 2008, as well as falling commodity prices that could affect the economy at large.

Given limited opportunities to grow our loan book in 2009, we refocused our efforts to funding activities, prudent cost management, and process improvements. These initiatives were consistent with the overall strategy of Danamon – to enhance liquidity and retain profitability despite the challenging conditions in the market.

We were rewarded by our efforts. In 2009 SMEC increased third party CASA (low cost funds) by nearly 20% to Rp4.8 trillion, while also improving overall performance to post a healthy level of profitability that exceeded all our financial targets for the year considerably. Significant improvements to the loan origination and pipeline tracking systems as well as credit process turn-around time made loan processing faster, simpler and more reliable.

Business Review

Another key development during 2009 was the establishment of Anti Fraud Unit within SMEC. Comprised of specially chosen and trained personnel, the unit is tasked with the responsibility of creating awareness for fraud, proactively mitigating, detecting, and reporting fraudulent activities. We believe that only by addressing fraud issues head on, in a transparent and responsible atmosphere, can we hope to reduce and limit the possibility of fraud to occur.

SME Banking

Small and Medium Enterprises Banking (SME) encompasses businesses with annual turnovers of Rp2 billion to Rp40 billion, loan sizes ranging from Rp500 million to Rp7 billion, representing the higher end of the mass market segment.

Over the years, SME has shown great resilience in economic uncertainty, and this was also true in 2009. In line with our cautious loan growth strategy, loan volume only decreased marginally to reach Rp9.1 trillion.

On the other hand, despite the competitive environment, our SME business succeeded in maintaining funding volume and increasing low-cost funds (CASA) by about 19% to reach Rp3.1 trillion. Dedicated funding teams, which were formed in 2008, were instrumental in intensifying SME funding activities throughout the year. The business also championed the Promo Giro BerKado marketing program, which provided attractive benefits for current account customers. Results of the program have been encouraging, and the beneficial effects of the program will continue in 2010.

Another key aspect of SME Banking was the utmost care and attention to customer needs and expectations. Regular surveys revealed that SME customers value fast, flexible, and simple credit decision process. We continued to enhance process efficiency, refine credit approval flows, and streamline our end to end credit process, leading to significant improvement in process times. Our goal is to achieve the ideal turn-around time (TAT) of 5 days.

SME Banking continued to show strong commitment in channeling loans to rural credit banks (BPR) through the Linkage Program established by Bank Indonesia, yet maintaining credit prudence by disbursing loans only to strong rural credit banks. The business still managed to achieve total loan volume of Rp593 billion to BPRs in 2009 and retained its position as the fourth

"The company that we work for is neither large nor glamorous, but there are quite a few of us who've spent a lifetime in this company. Our boss always tells us to believe in our company. He says that's the only way to have others believe in our company, including the banks that will lend us their money - believing that we can make it happen."

largest provider of financing to this critical sector.

The overall NPL ratio of SME loans declined from 4.0% in 2008 to 3.7% in 2009, reflecting our strong credit processes and good understanding of market dynamics.

Commercial Banking

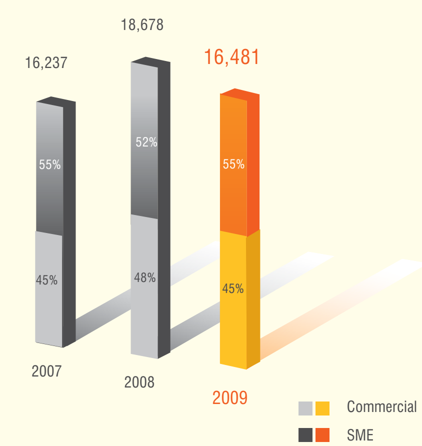
Our Commercial Banking segment consists of businesses with annual sales turnovers of Rp40 billion to Rp500 billion, and loan sizes ranging from Rp7 billion to Rp100 billion. We continue to reaffirm our commitment to being a reliable business partner in line with the bank's proposition, "Untuk Anda, Bisa", by meeting customers' financial needs under our 'full relationship' banking approach and offering One-Stop Solutions to our customers. Our objective is to deliver value added solutions at competitive prices and to position ourselves as a loyal and reliable Sahabat to our customers, standing by them in good times and bad times.

Commercial Banking consciously slowed down its lending growth in 2009, which was a reflection of the uncertain market conditions during the year, especially in the first half of the year, in which trade activities were significantly curtailed and credit risks increased as a result of slower business activities. However, in the second semester, loan growth started picking up, and the momentum carries to 2010. Commercial loans volume declined to reach Rp7.4 trillion at the end of 2009. On the funding side, low cost funds (CASA) increased nearly 18% to Rp1.7 trillion.

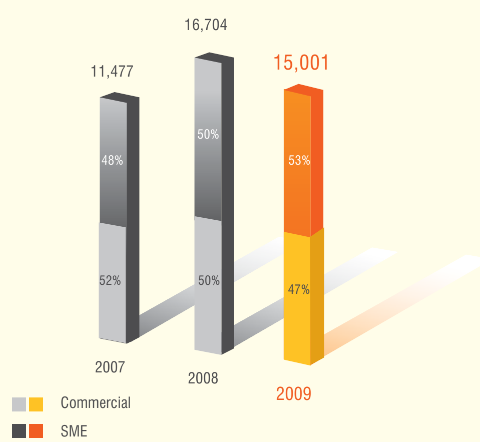
Looking Forward

Given the improving economic conditions in 2010, SMEC intends to grow both lending and funding at full speed. A sizeable portion of loan growth will come from cross-selling to non-borrowing customers, supplemented by deepening relationship with existing debtors and adding new customers. SMEC will continue to grow its franchise through motivated sales teams, comprehensive offerings in cash management, trade, and treasury, attractive promotional programs, and efficient processes to deliver simple, fast, and flexible solution to our customers in the Sahabat style. For our customers: "Untuk Anda, Bisa!"

Outstanding Loans
(Rp billion)



Total Funding
(Rp billion)



Business Review

6.4% Corporate Banking

of Danamon's total funding is contributed by deposits through Corporate Banking

Corporate Banking

Danamon's corporate banking including Joint Finance & Asset Buy (JFAB) business continues to focus on selected large corporations with annual sales turnover above Rp300 billion. Our portfolio consists of major corporations in industries that are vital to the growth of the national economy.

As is common with major financial crisis, the first to feel the adverse impact of these crisis is the corporate sector; the larger the corporation, the more likely that it could be exposed to currency exchange risk, interest rate risk, market price risk, liquidity risk and simple supply-demand risk, all or any one of which would be magnified during a crisis.

During 1997 Asian financial crisis, corporate banking suffered tremendous losses. Since then, major corporations in Indonesia have had much stronger fundamentals and have become more resilient to crisis.

Nevertheless, although there has not been a widespread credit collapse in corporate banking, the major global financial crisis of 2008 did have a resonating impact on corporate loans in Indonesia throughout 2009.

Business Review

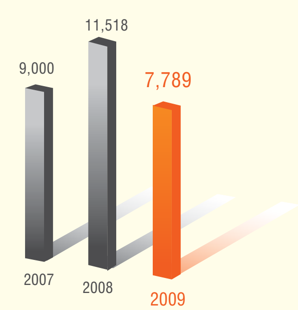
Those that are exposed to declining export markets suffered the most. Falling commodity prices also impacted companies that produce or sell these commodities. Whereas industries that rely heavily on term financing, such as construction, would have suffered from the liquidity crunch in the banking system.

This was the general picture that prevailed in 2009 for Corporate Banking. For the most part, our corporate credit portfolio remained intact, with an NPL ratio at 1.4%.

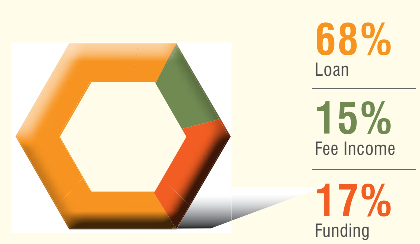
In terms of size, however, total corporate loans declined 32% to Rp7.8 trillion in 2009 from Rp11.5 trillion a year earlier. These loans are spread more or less evenly across diverse industries where Indonesia has clear comparative advantages for exports or where the products of these industries can be absorbed within the country's large domestic markets. In 2009, corporate loans accounted for 10% of Danamon's total loans portfolio, compared to 14% in 2008.

On the funding side, Corporate Banking contributed 6.4% share of Danamon's total third party deposits by the end of 2009. The considerable funding share of Corporate Banking is augmented by the fact that a large majority of

Corporate Loans including JFAB
(Rp billion)



Revenue Composition of Corporate Banking
(%)



"Our company relies on Danamon for a whole range of banking services from trade finance to cross-currency swap to working capital loans and syndicated financing."
Hendra Setiabudi, Director of Finance, PT Solusindo Kreasi Pratama (indonesiantower).

current account funding comes from corporations, contributing significantly to maintaining an overall healthy CASA ratio.

Going forward, Danamon will review the strategic value proposition of its Corporate Banking franchise, in light of the fact that Danamon has become a major player in the mass market and retail banking segment.

A strategic role for Corporate Banking would be to provide an auxiliary mix to Danamon's Commercial and Retail lending programs, providing seamless lending across the entire value chain of an industry, or facilitating the One Stop Solution platform that differentiates the large universal financial services provider such as Danamon.

Business Review

13% growth in cash management fees in 2009

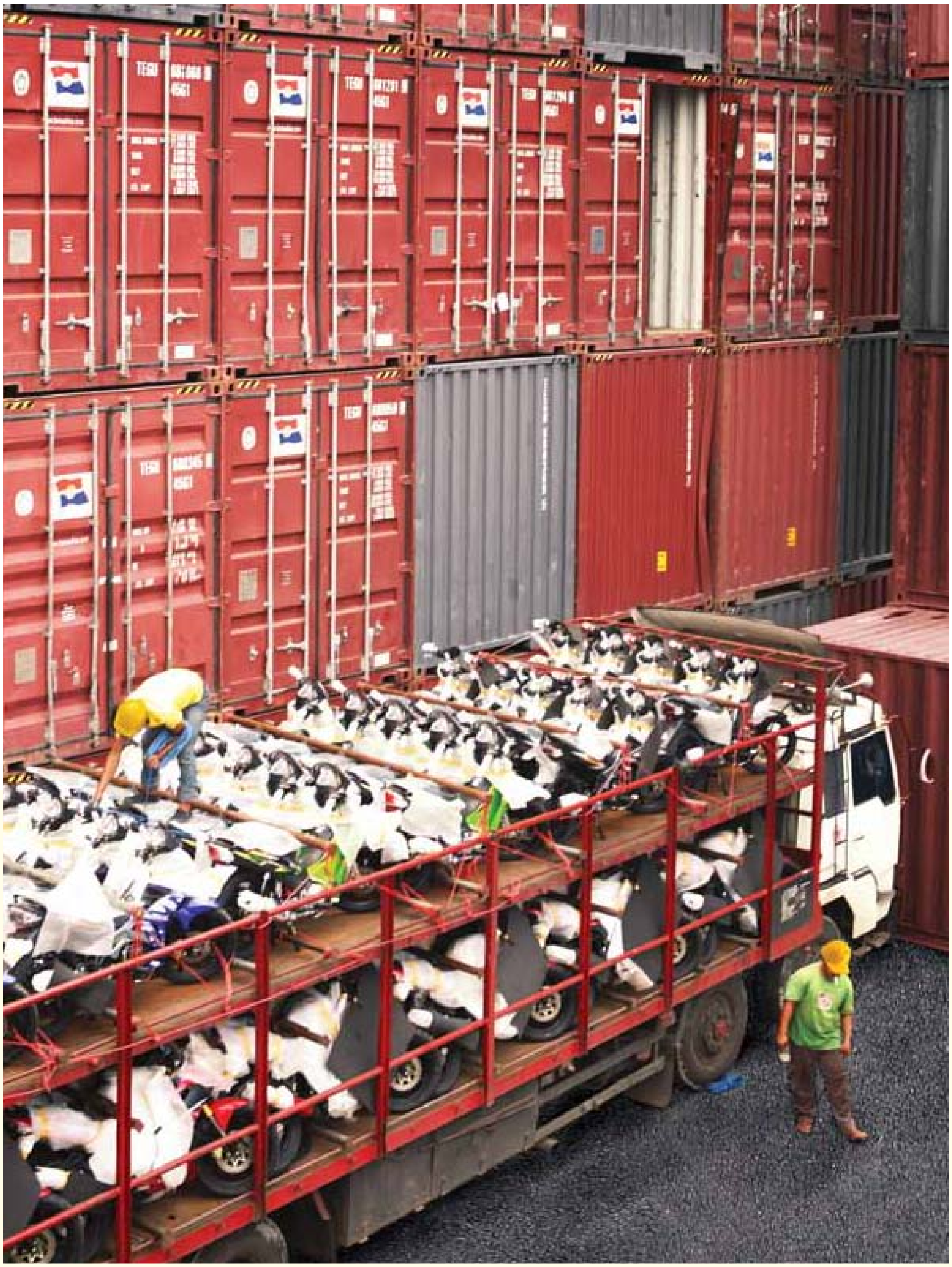
Trade Finance, Cash Management and Transactional Services

Since 2004 Danamon has succeeded in building a formidable franchise in trade finance, cash management and transactional banking services. In fact, Danamon's trade finance service has been recognized internationally by garnering the coveted award of Best Trade Finance Bank in Indonesia by Global Finance for the years 2004, 2005, 2006, 2007 and from Finance Asia for the year 2008-2009.

In the challenging conditions of 2009, Danamon was able to achieve modest growth in the trade finance business. Total trade portfolio reached Rp6.5 trillion in 2009, generating total income of Rp183 billion for the year.

Throughout 2009, with much of the trading world in the throes of financial and economic uncertainties, Danamon became the only bank in Indonesia whose Letter of Credits (L/Cs) are fully accepted throughout the world without the need for reconfirmations. This was an evidence of trust and confidence for Danamon brand, as well as in our ability to conform to and meet the expectations of our international counterparties.

Business Review



“Our people work round-the-clock because global trade is a continuous, never ending cycle. That’s why we’re glad to have Danamon Trade Finance behind us all the way. These guys at Danamon hardly sleep too, you know...”

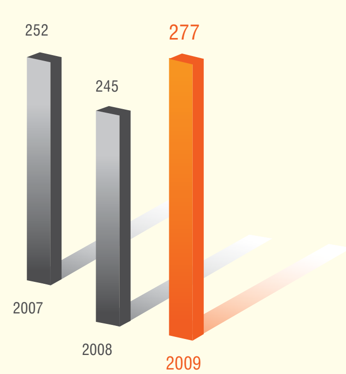
Being the first Indonesian bank to run the Trade Service Utility, we are also one of the few banks in Indonesia that is equipped to undertake the standard protocol for international trade finance via the SWIFT system. This greatly increases the recognition factor among international banks for Danamon’s trade finance capacity, in addition to offering peace of mind to international traders who need to be assured that their trade financing is being handled in accordance with international protocols of best practice standards.

In cash management and other transactional banking services, Danamon continued to forge long lasting ties with corporations who benefit from entrusting their cash management requirements to Danamon. These corporations also entrust Danamon to undertake their general banking transactions from payroll to scheduled payments. Total fees earned on cash management amounted to Rp277 billion in 2009, up by 13% from Rp245 billion in 2008.

Going forward, we will continue to enhance our trade finance and cash management services to be at par with the best in the world. Within Indonesia itself, with the world’s fourth largest domestic market in terms of population, trade finance service has nowhere to go but up. And as general rule, the more industrialized the economy, the more trade finance will be required in facilitating the shipment of raw materials and goods cross country.

The future looks extremely promising for trade finance, cash management and other transactional banking services, and Danamon is ready to serve in the customer’s best interest.

Fees earned on Cash Management
(Rp billion)



Business Review

Treasury, Capital Markets and Financial Institutions

Bank Danamon's Treasury, Capital Markets and Financial Institutions (TCM & FI) Division is primarily responsible for managing Danamon's liquidity and interest rate risks. Furthermore, the division is also in charge of generating revenues through financial and capital markets dealing activities, on behalf of the customer's needs and the Bank's own proprietary accounts.

In managing the risks in balance sheet and serving customer business, TCM consists of four teams working closely among each other and with various functions within the bank. Balance Sheet Management, supported by robust risk management framework and control, continually manages liquidity and interest rate risks based on Asset & Liability Committee (ALCO) decisions within approved risk parameters.

The Treasury Sales, Treasury Trading and Business Management teams are responsible for servicing Danamon's customer business units (LOB) as well as to provide financial products and services. Over the years, Danamon has won international acclaims for its treasury services including "Best Domestic Provider of FX Services in Indonesia"; and its comprehensive treasury products include the full complement of currency and interest rate hedging facilities allowed by Bank Indonesia.

Business Review

Throughout the first half of 2009, during the global banking and liquidity crisis that started in late 2008, Danamon was fully prepared to anticipate any threat to our liquidity situation. A series of interest rate decisions and innovative approaches in our customer funding drive were able to keep Danamon safe from liquidity pressure, as reflected in our Loan to Deposit Ratio (LDR) that was below 90% level for most of 2009.

Thanks to our strong liquidity condition, Danamon was able to exercise the option to early redeem its US$300 million of Subordinated Bond in March 2009. The decision, and more importantly the ability to execute, was valuable in its contribution to allay concerns over perceived negative liquidity situation in the Indonesian banking industry at the time.

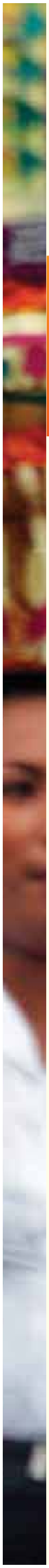
Subsequently, the bond redemption would prove to be beneficial in paving the way for a successful rights issue in April 2009 that raised Rp4 trillion of fresh equity. This further strengthened Danamon's considerable liquidity, and positioned the Bank solidly to pursue growth opportunities in the coming years.

Going forward, Danamon will continue to treat its TCM & FI Division as the proverbial 'heart' of the Bank, pumping and circulating funds, as it were, throughout the entire Danamon businesses.

As financial and capital markets around the world will continue to evolve with cautious progress in the aftermath of recent economic and political episodes, the roles of TCM & FI will undoubtedly grow in importance as well.

Anticipating such a development, Danamon has seen fit to elevate it's TCM & FI Division into a full-fledged Directorate to be led by a Director, in place of a Business Group Head. Along with the appointment of a Director with more than 25 years of Treasury experience with global banks, Danamon will also strengthen its TCM & FI organization by adding more qualified personnel in 2010.

Business Review



Risk Management

Danamon's philosophy on the management of risk is to find the right balance between risk and reward in order to create sustainable long-term shareholder value growth. Danamon applies a holistic approach to manage the eight categories of risk as defined by Bank Indonesia, namely: credit, market, liquidity, operational, strategic, reputation, legal and compliance.

Pursuant to Bank Indonesia regulations on the management of risks at subsidiary operations, Danamon has placed senior risk officers in most subsidiary companies to ensure equally comprehensive risk management functions.

Danamon has developed a risk management structure that comprises number of risk committees and risk divisions at different levels of responsibilities.

The Risk Monitoring Committee is the highest risk authority operating at the Board of Commissioners' level. The Committee approves risk management policies and framework of the Bank and its subsidiaries, and monitors their implementation across the Group. The Committee authorizes the President Director, the Board of Directors and the Integrated Risk Director to carry out their respective roles in managing risks. The Committee meets every month to assess the performance of the respective credit portfolios and discuss risk issues.

Business Review

The Risk Management Committee is established at the Board of Directors/ Senior Management level and is responsible for managing risk throughout the Bank and its subsidiaries. The Committee oversees risk strategy and policy developments as well as reviews the risk strategy and policy annually. This Committee acts as the main forum in which Danamon ensures that activities across all businesses and subsidiaries are in compliance with the Bank's risk management policies. The Committee comprises all members of the Board of Directors and senior management executives. It is chaired by the Integrated Risk Director and meets once a month.

To undertake an integrated risk management function within the framework of the Basel II recommendations, Danamon has formed the Integrated Risk Group that acts as an umbrella oversight to credit risk, market and liquidity risk and operational risk.

The Group operates under the Risk Management Committee and is a centralized and independent function, set apart from lines of businesses.

The Group approves risk management policies and limits for all lines of business and establishes policies and procedures at a higher level. It promotes risk strategy and policies to all relevant business units and ensures that a strong risk culture and awareness is built throughout the Bank and its subsidiaries.

Credit Risk

Credit risk is a risk inherent in the banking business and involves the risk of loss arising from the diminution in the credit quality of a borrower or counterparty, and the risk that the borrower or counter-party will default on contractual repayments.

Credit risk is managed through established policies and procedures covering credit acceptance criteria, origination, approval, pricing, and monitoring as well as loan and portfolio management. The specific policies and procedures are proposed by each business unit and approved by the Integrated Risk Group.

Credit Risk Management function is in place for each Line of Business (LoB) and in most of its subsidiaries. Each LoB has its own specific risk management function and the integrated risk function from the Head Office provides an oversight function for the respective risk portfolios.

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

Danamon has strengthened its internal credit approval processes, by enhancing internal rating models for the corporate, commercial, retail and mass market segments. The models allow Danamon to estimate the probability of default by an obligor or segment.

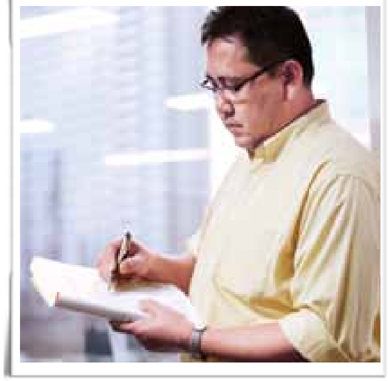
Market Risk

The Market and Liquidity Risk Division (MLR) is responsible for managing Danamon's market risk. It works closely with the Asset and Liability Committee (ALCO), which is led by the President Director. ALCO members including the CFO, Treasurer, the Integrated Risk Director, Market and Liquidity Risk Head and other key business heads. The committee meets once a month and more frequently if necessary. In Danamon, the MLR function has been established along international best practice lines.

Danamon manages market risk by monitoring its trading activities. The Bank sets up risk sensitivity limits (loss from 1 basis point change) and reviews those limits on a semi-annual and ad hoc basis. MLR also measures and monitors interest rate risk to protect the sensitivity of Danamon's current and future earnings against interest rate risk exposure. Danamon conducts periodic simulation analysis to measure the sensitivity of net interest income. On top of simulation analysis, Danamon performs repricing gap analysis and duration gap analysis for interest rate risk management.

Liquidity Risk

Danamon employs a centralized approach to maximize liquidity access and minimize funding costs. In Danamon, the Market and Liquidity Risk Division addresses the liquidity risks. Its key role is to identify and measure liquidity risk and establish policies and procedures for



"Most businesses would fail to recognise a black swan even when they see one. That's because businessmen see opportunities first and never last. This underscores the primary importance of risk management."

liquidity risk management. In consultation with ALCO, it carries out scenario planning for liquidity. Danamon develops and maintains contingency funding plans to evaluate liquidity position under various operating circumstances and to ensure that it could operate when access to normal sources of funding is limited.

Danamon manages liquidity risk through, amongst others, liquidity gap analysis. Liquidity gap analysis projects liquidity surplus or deficit based on Danamon's asset and liability maturity profile. The Bank has developed an early warning system to increase the speed and accuracy of the monitoring process.

Danamon uses a funding concentration limit and liquidity stress test to monitor liquidity risk. The funding concentration limit is monitored by ALCO every month and the liquidity stress test, conducted monthly, is also reviewed by ALCO during their monthly meetings.

The Bank, through its Asset and Liability Committee (ALCO), establishes and monitors liquidity guidelines to ensure liquidity is sufficient to cover potential funding requirements. ALCO is responsible for determining the policy and strategy of the Bank's assets and liabilities in line with the principles of prudent risk management and regulatory requirements. ALCO is also responsible for Danamon's balance sheet projections.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

Danamon's approach to operational risk management is to define the best mitigation strategy to get optimum balance between Operational risk exposure, effectiveness of control mechanism and bank risk appetite by a consistent implementation of a comprehensive Operational Risk Management Framework (ORMF) that is risk-specific to the nature of each business process.

Danamon nurtures operation risk awareness and culture across all levels and designates all parties within their respective roles in the management of operational risk. The Board of Directors and the Board of Commissioners perform supervisory roles while the Operational Risk Management Division facilitates the operational risk management practices. Each Line of Businesses and their respective Internal Control units are actively involved in the day-to-day enforcement of the ORM cycle.

Danamon's Operational Risk Management Framework (ORMF) is put into practice through an integrated cycle, which ensures that control mechanism is adequate and risks are identified, assessed/measured, controlled/mitigated, and monitored/reported. Such ORM Cycle is supported by Operational Risk Management System (ORMS); an on-line real-time Operational Risk Management tool that integrates individual components of ORMF into a large unified picture.

Measurement of operational risks is consistently conducted through a quarterly Risk Control Self Assessment (RCSA) exercise, performed by all working units including the subsidiaries. It aims to map risk exposures and measure sufficiency of control on risky key processes. Subsequent corrective actions are immediately identified and implemented to rectify the processes that contain control weakness.

Danamon takes a conservative approach in collecting operational risk events by consistently recording near misses in addition to loss events occurred in daily operations of its LoBs, functions, and subsidiaries into a risk/loss event database within the ORMS. This database continuously produces analysis of risk events based on root causes, likelihood to occur and significance of consequent losses.

Alignments of Operational Risk Management with Internal Control functions and Internal Audit are conducted on a regular basis to ensure the effectiveness of layered controls. Accordingly, in order to further reduce the exposure of future operating losses and strengthen early detection of unlawful activities, a National Fraud Management will be established.

Business Review

Danamon regularly performs simulations over Internal Capital Adequacy Assessment Process (ICAAP) for operational risk by using the Basic Indicator Approach. This ICAAP calculation is ready for its effective implementation starting Q1-2010 as per Bank Indonesia timeline. Preparation towards the adoption of the next stage ICAAP of Standardized Approach has been started and will concur to Bank Indonesia timetable.

In light of new Bank Indonesia regulation on IT Risk Management, Danamon has also conducted a gap analysis with the assistance of independent consultants, and has achieved full compliance since March 2009 in line with Bank Indonesia timeframe guideline.

To antipate operational risks which might arise from crisis conditions such as extended system failure, flood, earthquake or fire, and non disaster condition such as conducive business environment, Danamon and its subsidiaries have implemented effective Business Continuity Management (BCM) programs which include Business Continuity Plans, Operational Plans such as Disaster Recovery Plans and Bank-wide Command Centers. The main objectives of this BCM program are to ensure uniterrupted services and to resume normal business operation within the acceptable recovery time. Due diligence conducted on the BCM framework and practices by Business Continuity Institute (BCI) are in line with International standards and best practices.

Danamon's Operational Risk Management is maintained in accordance with Bank Indonesia regulation and Basel Committee on Banking Supervision.

Strategic and Reputation Risk

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 that of the general public.

Such risks are managed by the Strategic and Reputation Risk Working Group chaired by the Operational Risk Management Head and comprising representatives from Integrated Risk Management, the CFO's Office, Legal, Litigation and Compliance as well as from Danamon's subsidiaries. The group analyzes and oversees Danamon's strategic and reputation risks and presents them to the Bank's Operating Committee.

Legal and Compliance Risk

Legal risk stems from inadequate legal protection while compliance risks arise from failure to adhere to applicable prevailing rules and regulations. Legal risks are managed by the Legal Division, whereas compliance risks are managed by the Compliance Group. Key issues and findings pertaining to these risks are reported to the Board of Directors and the Risk Management Committee.

In 2009, Danamon and its subsidiaries faced a fair number of litigation cases in the judicial courts, as is common with a business operations of Danamon's scale and size. All of these cases, regardless of their outcome, do not pose any material risk that would impair the continuity of Danamon's business as well as those of its subsidiaries.

Danamon did not encounter any major issue pertaining to compliance risk in 2009.

Basel II implementation

Danamon is actively engaged with Bank Indonesia at every level of Basel II implementation in Indonesia, taking the opportunity to attend and participate in various consultative forums. Danamon has formed a Basel II Coordination Committee, involving key business Risk Managers, the CFO Office, the Information Technology Division and the Compliance Group. The Basel II Coordination Committee oversees the implementation of all regulations issued by Bank Indonesia pertaining to Basel II, and ensures compliance with all Basel II regulations.

Risk Profile

Danamon's self-assessed risk profile in 2009 was Moderate to Low with a classification score of 2, based on Bank Indonesia criteria.