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Investor Newsletter

October 2003

First Nine Months 2003 Results

- Net Profit increased to Rp. 1,043 billion from Rp. 725 billion in the first nine months of 2002
- Loans grew to Rp. 22.9 trillion in September 2003 from Rp. 16.3 trillion a year earlier
- Government Bonds reduced to Rp. 14.4 trillion from Rp 20.1 trillion a year earlier
- The Board has approved to pay an interim dividend of Rp. 417 billion

	9M 2002	9M 2003	Chg (%)
Income Statement (Rp. bn)			
Net Interest Income	1,342	1,823	35.8
Other Operating Income	549	1,129	105.5
Provision for Possible Losses	66	755	1,043.9
Other Operating Expense	1,090	1,140	4.6
Net Income	725	1,043	43.9
Earnings per Share (Rp) ¹	147.7	212.6	64.9
Balance Sheet (Rp. bn)			
Total Assets	54,297	45,010	-17.1
Total Loans ²	16,309	22,952	40.7
Total Government Bonds	20,123	14,392	-28.5
Total Liabilities	49,402	39,394	-20.3
Third Party Funds	40,162	32,065	-20.2
Total Equity	4,896	5,616	14.7
Key Financial Ratios (%)			
Net Interest Margin	4.1	5.3	1.2
Return on Average Assets	2.0	3.1	1.1
Return on Average Equity	23.1	29.6	6.5
Loan to Deposits Ratio ²	40.6	71.4	30.8
NPL / Total Loans ²	3.5	5.1	1.6
NPL / Total Loans ³	3.5	5.5	2.0
Loan Loss Allowance / NPL ⁴	169.1	154.3	-14.8
Net Open Position	0.9	0.5	-0.4
Capital Adequacy Ratio	27.4	25.3	-2.1
Tier 1 Capital	23.5	21.9	-1.6

¹EPS for 2002 adjusted for reverse stock split in January 2003

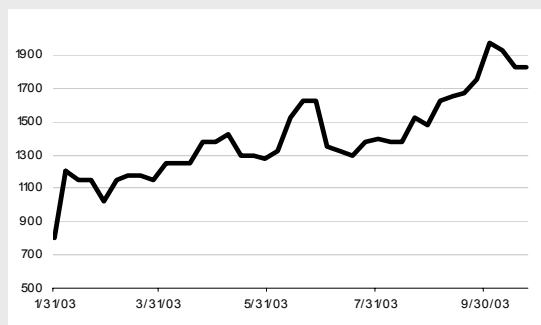
²loans for 2003 include loans purchased from IBRA (Rp. 2,818 billion)

³loans for 2003 exclude loans purchased from IBRA (Rp. 2,818 billion)

⁴allowances for 2003 exclude loans purchased from IBRA (Rp. 2,030 billion)

Shareholders	Sep 2002	Sep 2003	Change
Asia Financial (Indonesia) Pte Ltd	-	61.88%	61.9%
IBRA	99.35%	28.36%	-71.0%
Public	0.65%	9.76%	9.1%

Share Price (Quote: BDMN IJ)



Source: Bloomberg

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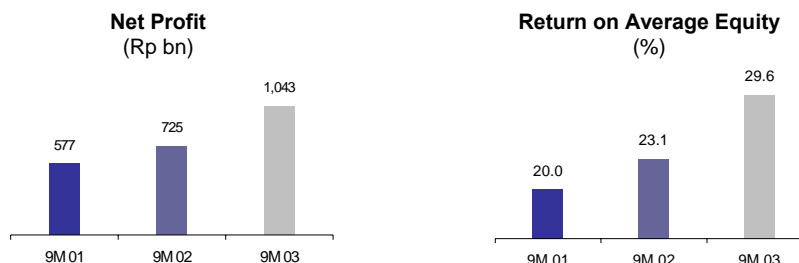
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FIRST NINE MONTHS 2003 FINANCIAL RESULTS

Danamon posted a net profit of Rp. 1,043 billion in the first nine months of 2003, up 43.9% from last year's corresponding period. This upsurge was mainly derived from a significant increase in net interest income and other operating income. The Bank's improving profitability hence resulted in an increase in both its ROAA and ROAE to 3.1% and 29.6%, as compared to 2.0% and 23.1%, respectively, in the prior year's period.

...Net profit up 44% compared to last year's period...

Exhibit I. Profitability



Danamon has managed to improve its net interest income by 35.8% to Rp. 1,823 billion and net interest margin increased by 120 basis points to 5.3%. This was the result of management's initiative to decrease funding costs by 100-200bp in July 2003. Consequently, cost of funds declined considerably to 8.8%. The improvement in net interest margin was achieved despite a declining interest rate environment.

...Net interest margin improved to 5.3%...

Other operating income increased by 105.5% to Rp. 1,129 billion mainly due to a significant gain on sales of marketable securities as well as increase in fee-based income. Benefiting from declining interest rates, the Bank recorded a Rp. 237 billion gain on its portfolio of marketable securities. Fee-based income rose 90.5% mainly derived from its mutual fund product, Prima Investa as well as recurring fee-based income (credit-related and transactional-related fees).

For the nine months to September 30, 2003, the Bank has set aside Rp. 753 billion in provision for possible losses on earning assets. This is a reflection of the Bank's conservatism in managing credit risk especially in view of the current Indonesian economic condition.

...Cost-to-Income ratio maintained at 45%...

Danamon has managed to hold its cost-to-income ratio at 45%. Other operating expenses increased slightly to Rp. 1,140 billion. General and administrative expenses increased 26.8% to Rp. 508 billion. While salaries and employee benefits increased 22.1% to Rp. 485 billion as a result of the Bank's effort to improve the quality of its personnel by offering competitive salaries and benefits, training programs and a productive working environment.

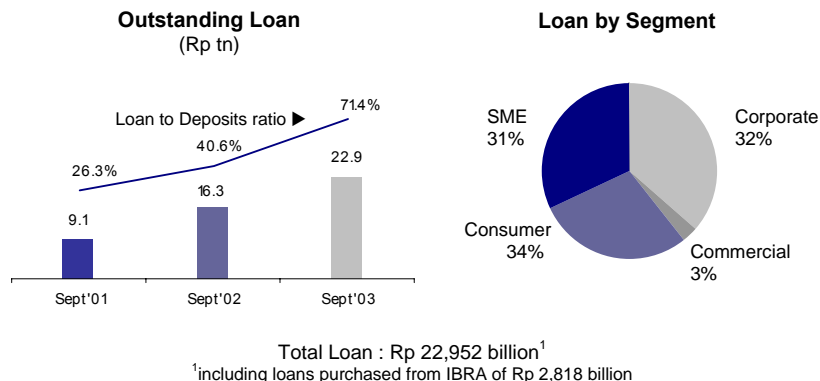
...Loan to Deposits ratio improved to 71%...

The Bank's outstanding loans grew by 40.7% to Rp. 22,952 billion. This growth was sourced from both organic growth, mainly in consumer and SMEs loans as well as from the loans purchased from IBRA of Rp. 2,818 billion. This loan expansion has led the Bank's loan-to-deposits ratio (LDR) to improve to 71.4%.

The Bank remains committed to realize its vision to be the nationwide bank of choice in the consumer and SMEs sectors which accounted for 34.2% and 30.8% of the Bank's loan portfolio, respectively.

Exhibit II. Breakdown of Loan Portfolio

(September 30, 2003)



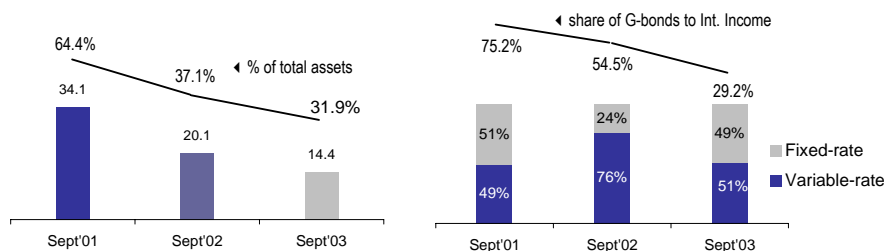
...Over 60% of the loans ex. IBRA has been worked out through loan settlements and write offs

Danamon has worked out over 60% of Rp 7,719 billion loans purchased from IBRA in 2002 through loan settlements and write offs. As a result, loans purchased from IBRA has been reduced to Rp. 2,818 billion with a purchase price of Rp. 788 billion as of September 30, 2003. Up to September 2003, the recovery of the loans purchased from IBRA was approximately 105% of the loan purchase price.

...NPL ratio went up, mainly due to the downgrade of the collectibility rating of Rp. 485 billion loans

Non-performing loans (NPLs) amounted Rp. 1,440 billion, against Rp. 570 billion a year earlier. The increase in NPLs was a consequence of the Bank's decision to downgrade the collectibility rating of Rp. 485 billion loans to category 3, 4 and 5 as the Bank taking into account the business risk profile of the debtors aside from their payment record in determining the loan collectibility. Consequently, NPL ratio increased to 5.1%. However, loan loss allowances were also increased considerably to Rp. 3,817 billion. As such, NPL coverage stood at 154.3%. The Bank shall continue to monitor its non-performing loans and maintain a prudent coverage ratio.

Exhibit III. Government Bonds (Rp bn)



...Government bonds now account for 32% assets...

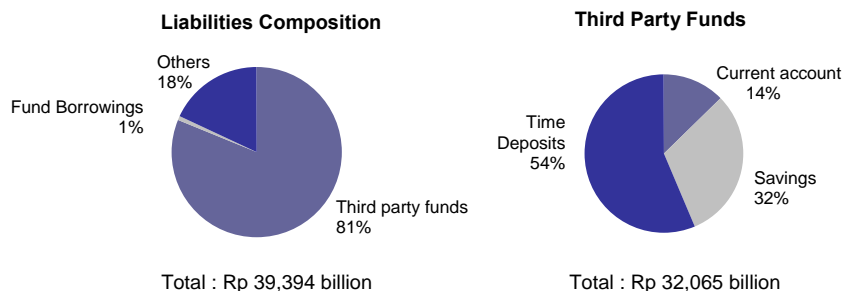
Government bonds have been reduced to Rp. 14,392 billion. This was primarily due to the sales of such bonds to the public in the form of mutual fund products. Government bonds now account for 31.9% of the Bank's assets and their contribution to interest income has declined considerably to 29.2% as of September 2003.

Total liabilities decreased slightly to Rp. 39,394 billion. This was mainly due to a decrease in consumer deposits as a result of the Bank's interest cut in July 2003. This initiative was taken in line with the declining SBI rates environment as well as the Bank's strategy to reduce costs of funds. Meanwhile, the Bank's total third party funds were Rp. 32,065 billion, against last year's period of Rp. 40,162 billion, reflecting the success of the off balance sheet mutual fund product, Prima Investa.

As a part of its effort to reduce cost of funds, Danamon strives to improve its deposit mix by increasing the portion of lower cost current accounts and saving deposits (CASA). CASA accounted for 45.9% of third party funds in September 2003. Time deposits declined by 33.9% to Rp. 17,361 billion, resulting from both the shifting of high-cost time deposits to mutual fund products and the interest cut initiatives in July 2003.

Exhibit IV. Liabilities Composition and Third Party Funds

(September 30, 2003)



...CAR remained strong at 25%...

Danamon’s capitalization, as measured by equity to asset ratio, improved to 12.4% as the Bank continues to record improved earning results and retained part of its earnings. The Bank’s capital adequacy ratio (CAR) remained strong at 25.3%, more than three times the BIS minimum requirements of 8.0%. Tier 1 and Tier 2 capital ratio stood at 21.9% and 3.6%, respectively. There was a reduction in the Bank’s CAR from September 2002 position of 27.4% mainly due to loan expansion. Furthermore, calculated based on the Bassel II Simulation Model which also accounted for market and operating risk, the Bank’s CAR is estimated to stay at a 23.9% level.

UPDATES

■ **Interim Dividend.** The Board has approved to pay an interim dividend of Rp. 417.2 billion, representing 40% of the Bank's earnings in the first nine months of 2003. The Bank is currently seeking for IBRA's approval in relation to the blanket guarantee scheme.

■ **Ratings Upgrade.** PEFINDO upgraded the Company rating of Danamon from ^{id}BBB+ to ^{id}A- in September 2003. This upgrade reflects an improvement in the Bank's financial performance. **FitchRatings** also raised the Bank's Long-term National rating to BBB+ from BBB, and its Support rating from "5" to "4" in October 2003. According to Fitch, the Bank has continued to improve in terms of balance sheet strength, profitability and operational development and is expected to continue going forward under the Bank's new controlling shareholder.

■ **Awards and Accolades.** Reflecting the Bank's emphasis on strong corporate governance, Danamon received an **Annual Report Award 2003** in October 2003, in which Danamon was named the second best for "listed company" category. This award is conducted by The National Committee of Corporate Governance, along with The Ministry of State-Owned Enterprise, Directorate General of Taxes, Capital Market Supervisory Board, Jakarta Stock Exchange and The Indonesian Institute of Accountants. During the same period, the Bank received **Capital Banking Award 2003** for Total Customer's Fund, Deposits and Savings. The Bank also received several awards from **ICSA 2003** (Indonesian Customer Satisfaction Awards), conducted by Frontier and SWA magazine for categories in Deposit Products, Credit Cards and Danamon Savings.

■ **Self Evaluation Initiative.** During July – August 2003, the Bank conducted a Self Evaluation Initiative to identify any potential issues that might have immediate financial impact on the Bank. This exercise covers major areas of the Bank, including loan portfolios, operations, IT, etc. As part of the result of this exercise, Danamon downgraded the collectibility rating of some loans to better reflect the credit risk of these assets.

■ **Strategy Evaluation Initiative.** Danamon is currently undertaking a strategy evaluation project to review the Bank's overall business strategy. This exercise is aimed to redefine and sharpen the Bank's business strategy as well as the business model and financial model of each business segment the Bank chooses. ☞