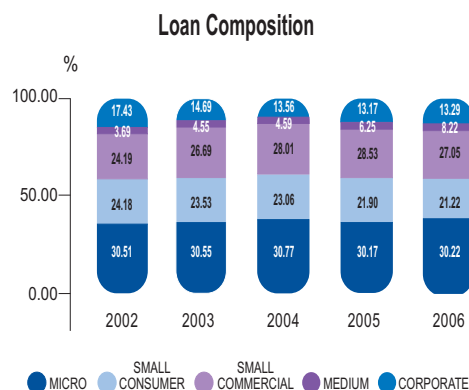
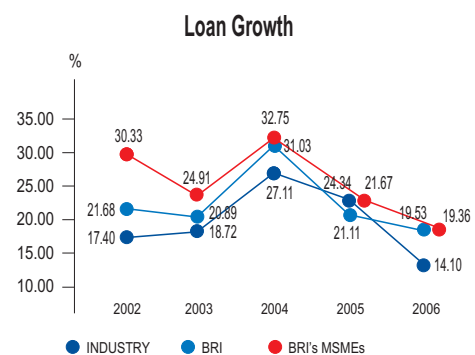




## A Sound Loan Portfolio Focusing on Micro, Small, Medium Enterprises (MSMEs)

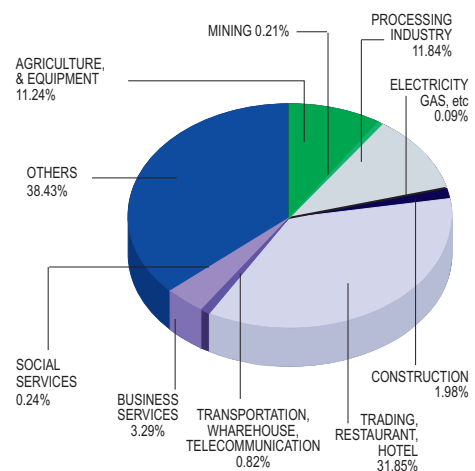
*Year of 2006 is a test case for BRI when core business competency of a bank was put to a test. The impact of inflation which was above 16% has made purchasing power weaken and BI rate was still above two digits. High interest rate and inflation environment were not a promising condition for banking because of decrease in loan demand and increase in bad debt.*

However, the strategy focusing on MSME has been yielding a satisfactory result in prevailing this adverse condition. Until in the end of 2006, BRI has extended loans amounted to Rp90.28 trillion, an increase of Rp14.74 trillion or 19.53% of loan outstanding at the end year 2005 which was Rp75.53 trillion. From total loans extension in 2006, 86.71% of them or Rp78.28 trillion for financing MSME sector.

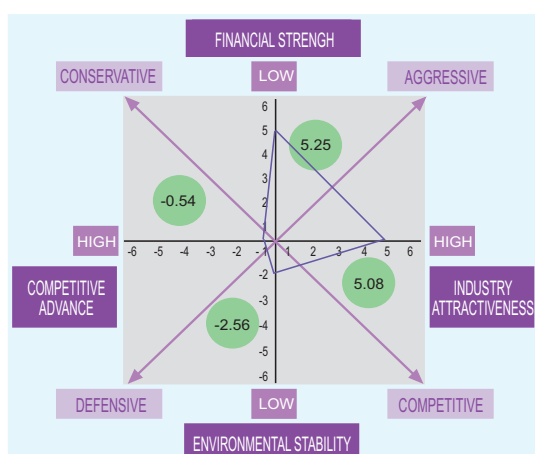


In MSMEs, the sector financed by BRI including trading, hotel and restaurant; processing industry, agriculture, services and other including consumer.

Loan growth in 2006 was pushed by loans for MSMEs as prime mover. This sector grew at Rp12.70 trillion, far above growth at Corporate which was only Rp2.05 trillion. BRI loan growth, including the MSMEs sector was higher compared to loan growth of banking industry. As of December 2006, banking industry's loan growth was only 14.10%, below BRI loan growth which was recorded at 19.53% and BRI's MSMEs loan growth at 19.36% as seen in the graph below.



One of key success of BRI to stay focus on MSMEs financing is by applying appropriate strategy resulted from comprehensive analysis. Using SPACE (Strategic Position Analysis and Action Valuation) approach, it is known that Micro and Retail Business was in 'Aggressive' quadrant with the action plan is unlimited expansion because of solid cash flow, growing industry, strong competitiveness, and favorable economic condition for MSME.



The success of loan expansions to MSME is augmented by extensive network through branch offices, sub-branch offices and BRI Unit offices spread out all over Indonesia. In 2006, BRI expanded its network by adding 4 branch offices to become 330 branch offices, 25 sub-branch offices to become 202 sub branch offices, and 117 BRI Unit offices (micro banking outlets) to become 4,229 outlets.

To provide better service quality, all branch and sub branch offices are already connected realtime online, while the number of BRI Units that are already connected realtime online are 1,033 outlets.

BRI is developing a 'linkage program' with various institutions/foundations which is not only aimed to link the bank and big corporations to micro and small businesses, but also to make the feasible micro entrepreneurs to be 'bankable' micro entrepreneurs. Through the linkage program, it is expected that the small and micro entrepreneur's resiliency in facing macro economy fluctuations will be much stronger. Linkage program which has been conducted during 2006 was granted to BPR (rural credit banks), Pasar Jaya (a holding company managing wet/traditional market) and 'Inti-Plasma' (nucleus-plasma) partnership.

The loans expansion strategy of BRI is financing business activities in productive sector which gives multiplier effects for the economy. This strategy is expected to bring positive impact to economic improvement by increasing real sector capacity, open more job opportunities and increase purchasing power. In the of December 2006, credit to productive sector reach 78.78% of total credit.

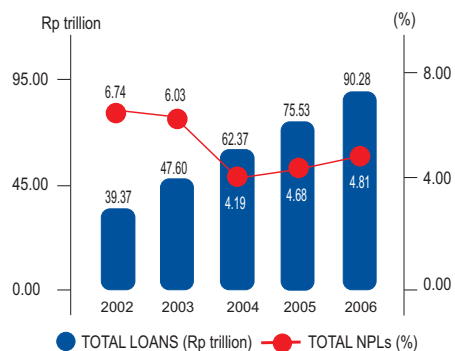
BRI consistently implements comprehensive and integrated risk management in all line of businesses accompanied by choosing proper target, and continuously monitors the loans performance.

The impact of implementing good risk management is that the ratio of Non Performing Loans (NPLs) can be minimized as reflected in the trending down of NPL in the last five years.

The highest NPLs were in December 2002 at 6.74% and had declined to 4.81% in December 2006.

BRI grouped loans to Micro, Small (Retail), Medium and Corporate Loans.

### Total Loans and Total NPLs



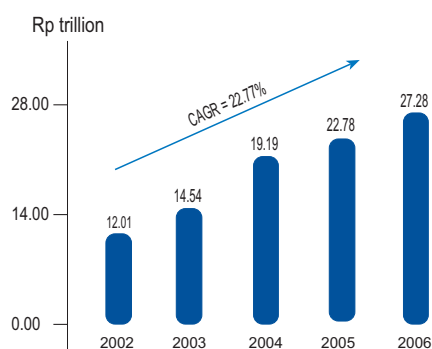
### Micro Loans

Micro loans, namely Kupedes, are loans extended through BRI Units in the amount up to Rp50 million. These loans are classified into three categories: working capital loan, fixed asset loan and loan to individuals with regular monthly income.

Kupedes had been increasing steadily, from only Rp12.01 trillion by the end of December 2002 to became Rp27.28 trillion by the end of 2006, or an annual growth of 22.77%. In the same

period, there was a significant progress in the number of costumers, from 3.05 million people in December 2002 growing into 3.44 million people by the end of December 2006.

### Kupedes Growth



Some factors attributed to the high growth of Kupedes including service improvements of BRI Unit in general, and Kupedes in particular by increasing Kupedes loan size up to Rp100 million for business, and improving human resources capacity, both in loan services and in strategy to encounter the increasing competition in micro



segment. In addition to that, the economic development and trustworthiness of micro entrepreneurs in rural has given significant contribution to Kipedes growth.

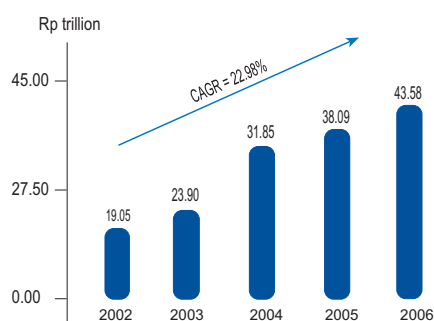
### Small/Retail Loans

Small (retail) Loans offered through Branch Offices, Sub Branch Offices and Regional Offices, in the amount of Rp50 million to up to Rp5 billion, either direct or contingent facility.

The impressive growth of small loans could be attributed to aggressive strategy of BRI in entering the small loans market. Although there is a stiff competition, BRI is still able to gain market share in small loans market because of its experiences and human resources support.

Small Loan consists of Small-scale Commercial Loans and Small-scale Consumer Loans. The portion of Small Loans towards total loans was increasing progressively, from Rp19.05 trillion as of end of December 2002 became Rp43.58 trillion as of end of December 2006 or yearly growth of 22.98%.

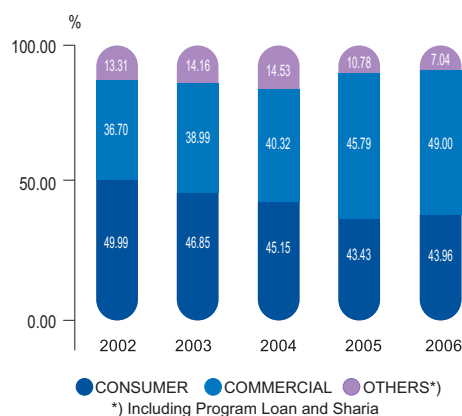
### Small-scale Loans Growth



From the purpose of loans, there had been a movement toward more productive purposes of loans in the last 5 years, reflected on the faster growth of Small-scale Commercial Loans than Small-scale Consumer Loans.

Within five year period, Small-scale Commercial loans grew 156.38%, from Rp9.53 trillion as of end of December 2002 to Rp24.42 trillion in the end of December 2006. Meanwhile, in the same period, Small-scale Consumer Loans grew 101.15%, from 9.52 trillion to Rp19.15 trillion.

### Small-scale Loans Composition



The portion of Small-scale Commercial Loans to total loans as of end of December 2006 reached 27.05% or Rp24.42 trillion. The loan outstanding increased 13.34% compared to that of in December 2005 amounted Rp21.55 trillion.

In contrast, the portion of Small scale consumer loans declined from 21.90% of total loans in the of December 2005 to 21.22% of total loans in the end December 2006.

### Small-scale Consumer Loans

Small-scale Consumer Loans are loans aimed at consumption purposes, the products offered are as follow :

#### Consumer Fixed Income Loans

This loan is extended to employees of selective private companies, state owned enterprises and government institutions, and pension loans to the pensioners and others with fixed income, for various uses. With a relatively easy procedure

and low interest, the loan scheme greatly attracts people's interests. The loan scheme is quite safe since the payment is secured by automatic deduction from consumers' salaries (payroll) every month.

As of end of December 2006, Consumer Fixed Income Loans was the biggest part of Small-scale Consumer Loans, comprised 62.36% of total Small-scale Consumer Loans or Rp11.95 trillion.

#### **Mortgage**

This type of loan is aimed at servicing the customers who are willing to buy house and home improvements, apartment units, houses-cum-shop, and houses-cum- office either new or in secondary market. The mortgage loan size is up to Rp2 billion with up to 20 year- terms of payment, The properties financed must surrendered as collateral. By end of December 2006, the amount of mortgage reached Rp1.23 trillion.



#### **Car and motorbike Loans**

The loan is aimed at motorbike and car purchase, new or used ones. The amount of automotive loan varies around 70% to 90% of the vehicles' price, in 3 to 5 years terms of payment. Besides disseminating the loan through marketing effort, BRI had also established a joint cooperation with a multi-finance company namely PT Wahana Oto Mitra (WOM) Finance since March 2004.

This cooperation has been giving a good synergy and minimizing risk, since the multi finance assumes the role of payment guarantor. Until end of December 2006, the disbursement of automotive loan reached Rp823.38 billion.

#### **Small - scale Commercial Loans**

The Small-scale Commercial Loan is a credit intended to finance business activities as working capital or investment. Including in the Small-scale Commercial Loans is the Program-based Loans

#### **Program-Based Loans**

Program-based Loans is government-supported loans extended to sustain BRI's roles as the government's agent of development. The loans are distributed through groups of farmers, cooperatives, as well as in the partnership scheme (*inti-plasma*).

Based on the funding sources and the risk size, the Program-based Loans are categorized as the Subsidized Program Loans, Commercial Program Loans and Channeling Loans. In Commercial Program Loans the funding is taken from commercial funds, while the interest rate given is at commercial rate.

#### **The Commercial Program Loans include:**

***Kredit Koperasi Primer untuk Anggotanya (KKPA) or Loans for Member of Primary Cooperatives.***

To finance KPPA, BRI had conducted a partnership program with PT Permodalan Nasional Madani (PT PNM) . KPPA is intended to finance palm oil plantations, livestock productions, sugar cane plantations, and other primary commodities. By the end of December 2006 the loans outstanding was Rp754.32 billion or 37.48 % of total Program Loans.

***Kredit Pembinaan Peningkatan Pendapatan Petani dan Nelayan (P4K) or Rural Income Generating Loans.***

P4K is a loan extended to farmer groups, cooperated with The Ministry of Agriculture. The loan is aimed at funding productive businesses for people living below poverty line, with a loan ceiling at Rp500 thousand to Rp2 million for each member of the group. The P4K loan distribution had reached Rp147.08 billion by the end of December 2006.



***BULOG Loan or Loan for the State-Owned National Logistics Agency***

The loan is given to the National Logistic Agency in relation to securing national food production, especially to guarantee the price of un-hulled rice the government will buy from the farmers. By end of December 2006, BULOG loans stood at Rp392.28 billion or 19.49% out of the total Program-based Loans.

***The Subsidized Program - based Loans include:***

***Kredit Ketahanan Pangan (KKP)/Loans to secure food production***

KKP is a government-subsidized loans, in the form of subsidized interest rate for farmers to finance the intensification of some commodities including rice, corn, soy bean, sweet potato, cassava, sugar cane, and food production as well as livestock. By the end of December 2006, KKP loan for commodities was Rp87.84 billion, for food productions was Rp15.58 billion, for livestock was Rp58.61 billion.

***SUP Kredit Usaha Mikro dan Kecil (KUMK)***

KUMK is a loan which using the government funds in the form of government bonds (*Surat Utang Pemerintah - SUP*). In 2006 BRI obtains SUP amounting to Rp500.00 billion, which had

been withdrawn in three periods. In the first period the funds which had been withdrawn was amounting to Rp250.00 billion, the second period was Rp100.00 billion, and the third period was Rp150.00 billion. By end of December 2006 the amount of loan already distributed reached Rp421.94 billion.

***Kredit Pemberdayaan Ekonomi Masyarakat Pesisir (PEMP) or Loans to empower people's economy living in coastal areas***

PEMP loan is a loan from a joint cooperation between BRI and The Ministry of Marine and Fishery aimed at cooperatives in coastal areas. The purpose of this loan is to sustain the cooperatives' working capital. The loans expansion as of end of December 2006 was 31.94 billion.

***Channeling Loans***

BRI is appointed to channel overseas loans granted to State-owned Enterprises/Regional Government-owned Enterprises/Regional Administrative-owned enterprises, National Electricity Company, National Telecommunication Company, National Gas Company, National Shipping Company, and others. Total Channeling Loans extended until end of December 2006 reached Rp7.33 trillion



### Medium - scale Loans

Medium-scale Loans are extended through Branch Offices, Regional Offices and the Head office (General Business Division and Agribusiness Division) with loan size of above Rp5 billion up to Rp50 billion.

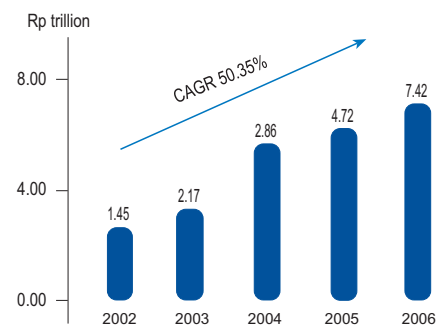
The origination of the loans may be at the Branch offices, the Regional Offices, or the Head Office. Loan decisions will be made at either Regional Office or Head Office in accordance with the loan approval authority, while the loan is administered by appointed booking branches.

Medium-scale Loans are intended to finance working capital as well as investments in various economic sectors, such as in agriculture, mining, industry, trading, and business services.

By end of December 2006, total Medium-scale Loans reached Rp7.42 trillion, or rose by 57.36% from previous year's position. Meanwhile, the portion of Medium-scale Loans to total loans was also increasing, from 6.25% by end of December 2005 to 8.22% by end of December 2006.

The growth of Medium-scale loans is supported by intensive marketing activities undertaken by General Business Division and Agribusiness Division and by optimizing marketing-arm mechanism of Regional Offices and Branch Offices in acquiring prospective borrowers in their region.

### Medium-scale Loans Growth



The loan expansion are backed up by effective and professional loan process with prudent banking practice, and the implementation of four eyes principle in loans decision.

### Corporate Loans

Corporate Loans are loans extended through the Head Office (General Business Division and Agribusiness Division) in the amount of over Rp50 billion to up to BRI's legal lending limit. The originator of Corporate Loans is General Business Division or Agribusiness Division in the Head Office. The loan decisions are made in accordance with the loan approval authority in the Head Office either Credit Committee of Directors (by 2 Directors) or Credit Committee of BRI (4 Directors and President Directors). Meanwhile, the management of the loan is administered in the appointed booking branch.

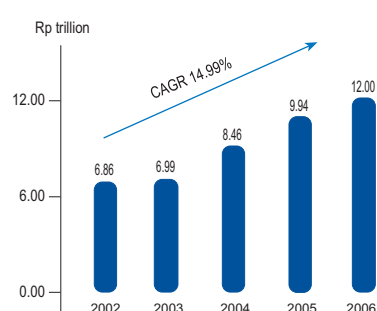
The purposes of Corporate Loans are for working capital financing as well as investment in various economic sectors, such as agriculture, mining, industry, trading, and business services.

To stay focus to the MSMEs, the portion of Corporate Loans to total loans is set to be in a maximum of 20%.

By the end of December 2006, the outstanding of Corporate Loans reached Rp12.00 trillion, or grew 20.66% from that of end of December 2005. The portion of Corporate loans as of end

of December 2006 was 13.29% of BRI total loans.

### Corporate Loans Growth



The growth of Corporate loans is supported by intensive marketing activities and more effective loan procedures. In 2006, BRI had been more active in financing State-Owned Enterprises to build a synergy between State Owned Enterprises and State-Owned Banks. The loan expansion for Corporate loans will be in the limit of 20% of total loan portfolio.

### Agribusiness Loans

Agribusiness Loans are loans for individual or corporate dealing with agribusiness in broad term, both for on-farm or off-farm activities, such as agriculture, plantation, forestry, animal husbandry, fisheries, trading and other services related to agribusiness. Besides for corporate, the financing is undertaken with the partnership mechanism, and 'nucleus-plasma' mechanism in which loan is extended to a big company (nuclei) and smallholders (plasma).

Agribusiness loans can be extended by Branch Offices, Regional Offices, and Head Office. In Head Office the Agribusiness Division is dedicated for managing agribusiness loans for medium-scale and corporate, with loan size above 5 billion up to BRI Legal Lending Limit. From the total loans, the loans that can be classified as Agribusiness Loan as of end of



December 2006 reached Rp20.13 trillion or grew 4.48% from end of December 2005's outstanding which was Rp19.26 trillion. The portion of Agribusiness loans to total loans as of end of December 2006 was 22.29%

### Agriculture Revitalization

Based on the letter of Minister of Finance No.S.9124/MK.5/2006 dated 18 December 2006, BRI was appointed as executing bank on Loan for Biofuel Developments and Agriculture Revitalization. In December 20, 2006, the Financing Agreement between the Government of Indonesia and BRI in the KPEN RP framework has been signed.

Agriculture Revitalization attempts to accelerate smallholder plantations' improvement by expansion, replanting, and rehabilitation of the plants. This program is supported by interest subsidy from the government for establishing the plantation, processing and marketing the products. The program also aims at growing plants as a raw material for producing alternative energy, bio fuel as a renewable energy to replace fossil fuel. The government plans to implement Revitalization program in 2006-2010 with a target of 2 million hectares, comprising palm oil for 1.5 million hectares, rubber for 300 thousand hectares, and cacao for 200 thousand hectares. BRI has committed to provide funds for KPEN-RP amounted Rp12 trillion until 2010.

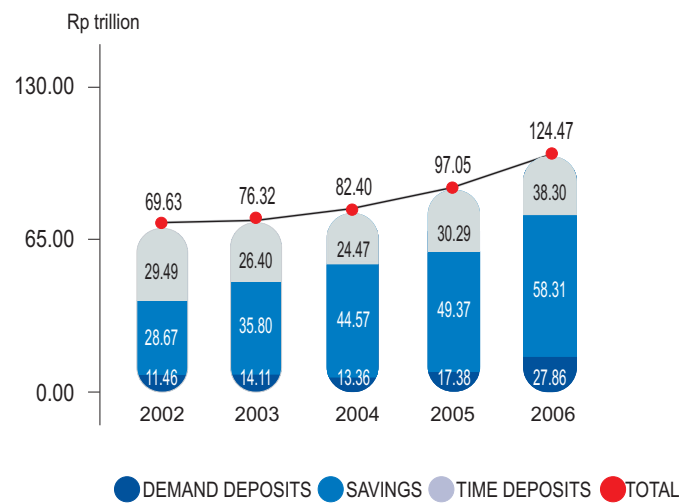


## Firmly Stand On Low Cost Funds

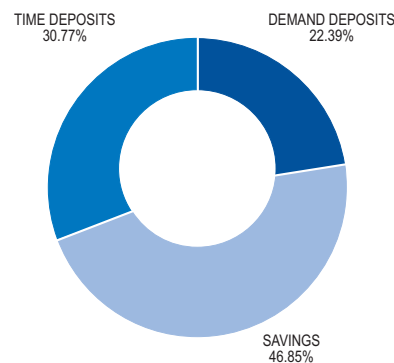
In 2006, BRI was able to successfully maintain important aspects in funding. First, the growth of Third Party Funds (TPFs) were consistently above the growth of TPFs in the banking industry. Total deposits in 2006 was Rp124.47 trillion or 28.26%, higher than that of in 2005, which was Rp97.05 trillion. The growth of deposits in banking industry in 2006 was just 8.79%.

Second, funding mix has showed a better trend as the funding was still dominated by low cost funds. In 2006, 69.23 % of total funding came from savings and demand deposits while time deposits contributed just 30.77% from total funding, a contrast compared to the banking industry which funding largely composed of time deposits which constituted 47.79% of total funding.

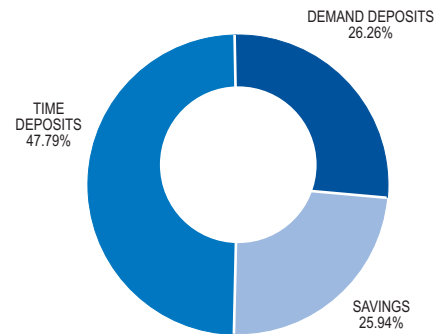
**Growth of Third Party Funds**



**TPFs COMPOSITION : BRI**



**TPFs COMPOSITION : BANKING INDUSTRY**



This funding composition kept interest expenses to be at competitive level and eased interest rate risk. Compared to time deposits, the deposits coming from savings and demand deposits are relatively insensitive to any market rate movements. Thus, funding composition dominated by demand deposits and savings will result in lower interest risk in banking book, which would give a more stable Net Interest Margin (NII). In other word, deposits from demand deposits and savings which have lower interest risk compose more ideal funding compare to time deposits.

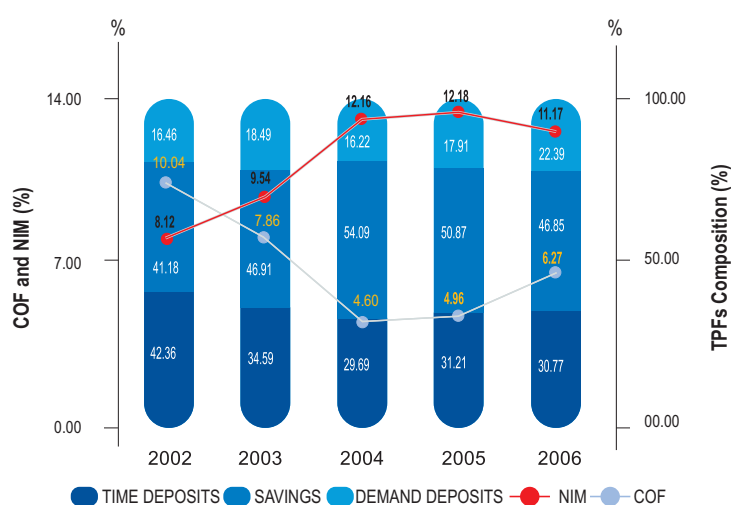
This condition was supported by the fact that BRI's savings have been being dominated by micro savings (Simpanan Pedesaan or Simpedes). For decades, BRI's micro savings have been showing a stable growth rate, low interest expenses and low sensitivity to any market rate movements. With more than 30 million savers, the micro savings provide well diversified customers for a continuous and stable growth.

With deposits composition that mainly came from low cost funding caused COF to decrease, from 10.04% by end of December 2002 to 4.96% by end of December 2005. By end of December 2006, the COF had increased to 6.27% due to the interest rates rising.

In line with COF trend, Net Interest Income (NII) had ascended from 8.12% in December 2002 to 12.18% in December 2005. However, the increase in COF in 2006 had lowered the Bank's NII to 11.17%.

In the future, this condition is expected to be more affluent due to the efforts to expand the

### COF, NIM and BRI's TPFs Composition



products and market penetration strategy. In 2007, BRI will outline consumer banking market by establishing three new divisions and restructuring the existing Consumer Division. Therefore, there are four divisions that are responsible for consumer banking performance, namely Consumer Funds and Services Division, Credit Card Division, Consumer Credit Division, and Sales & Marketing Support Division.

Through this strategic step, BRI will be more competitive in retail funding especially savings, which had not been explored maximally. The accelerated growth in savings will decrease the portion of time deposits which have higher cost of funds and higher interest rate risk. This step also enables BRI to provide higher quality and more complete banking services to the customers.



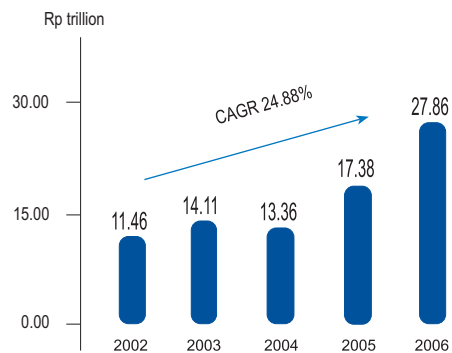
### Demand Deposits

Demand deposits are provided by all BRI operational units in Rupiah and foreign currencies. The amount of demand deposits was Rp27.86 trillion as of end of December 2006, higher than that of end of December 2002, amounted to Rp11.46 trillion. This growth was caused by the bank's participation in channeling government's Cash Subsidy Program (BLT) intended as compensation funds for poor people.

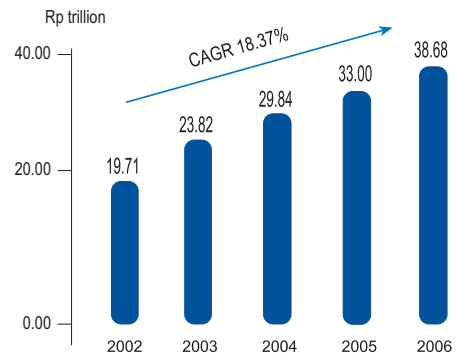
### Simpedes dan Simaskot

Simpedes and Simaskot are the bank's saving products served by BRI Unit to increase cross selling. These products has experienced growth from Rp19.71 trillion in by the end of December 2002, to Rp38.68 trillion in the end of December 2006. Since the beginning of 2006, Simaskot product had been eliminated from the bank's product.

Growth of Demand Deposits



Growth of Simpedes dan Simaskot



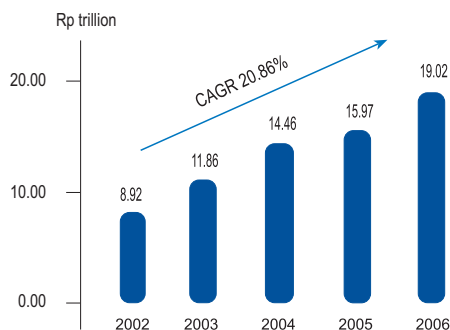


### BritAma

BritAma is a saving product offered by branches, sub branches and BRI Unit that have been integrated by real time online system networks. Every BritAma customer will receive multipurpose card, BRI Card, which functions not only as ATM card but also as debit card. BRI Card can be used for many transactions such as electricity and phone bill payment, transfer between BritAma accounts as well as other bank accounts integrated by ATM Bersama, ATM Prima network. Beside that, BRI Card also can be used for cellular voucher reload and other features. All of the features are aimed to customers' conveniences. BRI Card may also be used for payments in many merchants that have cooperation with BRI.

BritAma savings grew from Rp8.92 Trillion in December 2002 to Rp19.03 Trillion in December 2006.

### Growth of BritAma



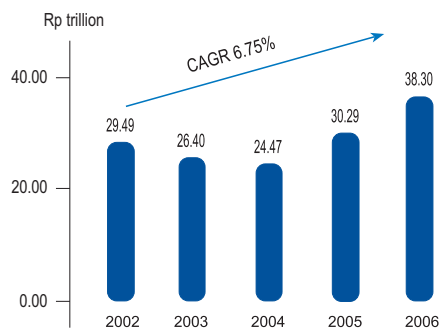
### Hajj Savings

This product is dedicated for individual who prepares for paying Hajj Pilgrim (BPIH). After having certain amount of balance, the customers can be enrolled to get seat number through SISKOHAT according to their proposed departure year. BRI Hajj Savings is being offered by the branches, sub branches and BRI Unit that have been integrated by real time online networks

### Time Deposits

Funding from Time Deposits grew from Rp29.49 trillion in the end of December 2002 to Rp38.30 trillion in the end of December 2006

### Growth of Time Deposits





## Various Services for Customer Conveniences and Satisfactions

*BRI provides many banking services and facilities to fulfill customer needs. Banking services includes general banking services, trade finance services and financial services. For those services, the bank receives revenues in form of fees and/or commissions.*

### **General Banking Services**

These services are common banking services that have been used by customer for daily financial transaction, including :

#### **Transfer**

One of services provided by the Bank is transfer to domestic and international recipients. Transfer with the amount of more than Rp100 million may be carried out by Real Time Gross Settlement (RTGS) system while for amount less than Rp100 million may be executed by wired transfer system, through telex. For transferring to and receiving transfer from abroad, BRI has a cooperation with Western Union, an international transfer service with more than 117,000 agents in 190 countries. For this service, BRI charges fee based on the amount of money to be transferred and the destination.

The Bank's customers also can transfer among BRI accounts using ATM. Currently, the customers may transfer the money from BRI accounts to other banks account that have been incorporated into ATM Bersama and ATM Prima network.

#### **Bill Payment**

The Bank provides bill payment services for

electricity and phone including cellular phones, credit cards, and loans. This bill payment can be done through the tellers of branches, sub branches and BRI Units, or through ATM BRI or by phone banking. This moment, BRI has established cooperation with Standard Chartered Bank, Citibank, ANZ Panin Bank, HSBC and BRI credit card for credit card bill payment. For loans payment, the Bank has cooperation with of Standard Chartered Bank KTA (Non Collateral Loans), HSBC Personal Loans, and Federal International Finance (FIF) motorbike loans.

#### **Debit Card**

For Debit Card, BRI has collaborated with Master Card. The card type, regular, gold or platinum card, is based on beginning balance and monthly average balance. Each card has different limit on shopping at merchant, cash withdrawal at ATM BRI and other ATM, transfer between BRI accounts and other bank accounts, credit card bill payment, loans bill payment, phone bill payment and cellular voucher reload transactions.

Adding to the bank's delivery channel, BRI has cooperated with Malaysian Electronics Payment System (MEPS). With this cooperation, ATM BRI Card holders have the ability to do banking transactions in MEPS ATM network especially in Malaysia.



### Credit Card

The soft launching of BRI's credit card, in collaboration with Master Card, had been commenced on 21 April 2004, while the grand launching was on 22 February 2006. For the first phase, the credit card target was only for BRI employees. As the next phase, the credit card marketing would be focused on existing BRI customers as a cross selling utilizing the bank's large customer base. With that strategy, credit card holders are expected to grow faster and at the same time also lower possibility of fraud and NPL because BRI already knows the customer profile. By the end of December 2006, BRI had issued 51,200 credit cards.

### Phone Banking

Phone Banking is one of facilities for customers to perform transaction without going to the bank's office or ATM. The customers will know their balance information and transfer among BRI accounts just by calling BRI Call Center 14017 or 021-57-987-400. In 2006, BRI had added the phone banking features, i.e. cellular phone bill payment and Citibank credit card and Citibank's personal loans bill payment and Citibank Ready Cash bill payment.

### **BRI Mobile Banking**

BRI mobile banking soft launching was on 19 December 2006 to enable customers to carry out banking transaction using cellular phone. This service temporarily limited to SMS banking for balance information, transfer between BRI accounts, PIN change, Citibank bill payment and cellular voucher reload transactions.



### **Trade Finance**

The development of the trade finance for the last five years had showed a significant growth. Based on business progress data from 2002 to 2006 period, the amount of export transaction through BRI had grown 20.38% per year and



the amount of import transaction had grown 63.44% per year. This business growth showed the bank's role as trade finance bank.

### **Export/Import Transactions**

By end of December 2006, it was recorded that export realization through BRI grew 36.93% compare to that of in 2005, from USD 641.41 million to USD 878.29 million. Import realization grew from USD 1.10 million as of end of 2005 to USD 1.29 million as of end of December 2006.

This growth was a result from the increase of trade finance transaction from small and medium enterprises activities. By end of December 2006, the fee based income coming from trade finance was approximately Rp67.58 billion.

### **Other Bank Services**

#### **BRI Pension Funds (DPLK)**

BRI DPLK was established on 9 January 2006. Currently, it manages pension program for 38,460 BRI employees with total assets of Rp556 billion. That makes BRI DPLK ranked as top four of Indonesia Financial Institution Pension Funds. On its first year of operation, BRI DPLK focused on improving services for its member by publishing bulletins, quarterly investment portfolio report, membership cards and developing investment site in to inform the member about DPLK products and balance.

For the next year's strategies, BRI DPLK will introduce and market its products actively to individual member or group member through all BRI networks in Indonesia.

### **Custodian Services**

Since 1996, Bapepam has approved BRI to conduct custodian activities based on operational permit, SK Ketua Bapepam No. 91/PM/1996 dated 11 April 1996 and BRI had been appointed as Sub Registry for Government Bonds transaction and SBI Scriptless by Bank of Indonesia.

BRI Custodian Services offer custody for marketable securities or other assets related to marketable securities, including :

- Portfolio valuation and deposit administration service
- Settlement handling
- Income collection, includes tax payments
- Corporate actions and proxy services
- Information and reporting service including web information
- Custody unit link
- BBRI stocks brokerage online services

The number of BRI custodian customers is 38 customers consisting of institutional customers, mutual funds and Funds Managing Control with total assets of Rp11.00 trillion.

The institutional customers includes pension funds, banks, mutual funds, securities and insurance companies.

Improving its services, BRI Custodian has provided investment portfolio information system that can be accessed through "Customer Information E-access" web. BRI Custodian services partnering with PT. Asuransi Jiwa Bringin Jiwa Sejahtera developed Unit Link Product. This product has been marketed through the bank's branches appointed as selling agent.

### **Trustee Services**

As a trustee, BRI represents the interest of bondholders both inside and outside court with regard to the exercise of the rights of bondholders in accordance with bonds requirements with due observance of the provision indicated in Trusteeship Agreement as well as the applicable laws and regulations.

The number of bond issuers that has appointed BRI as their Trustee as of December 2006 was 15 issuers with bond value of Rp15.13 trillion. The fee collected from this service was Rp4.99 billion, a decrease compared to that of previous year which was Rp5.20 billion.

### **Mutual Funds Selling Agent**

In 2003, BRI had been acted as Mutual Fund Selling Agent through mutual fund product selling services in the form of Collective Investments Contract. By the end of December 2006, there were five mutual funds products sold through BRI, namely *Brivestama Pasti*, *Brivestama Pasar Uang*, *Brivestama Campuran*, *IPB/Kresna* and *IPB Syariah*.

In 2006, BRI had been appointed as sub selling agent for Retail Government Bonds (Obligasi Negara Ritel, ORI). Beside that, BRI also established cooperation with PNM Investment Management to act as selling agent for its investment product.

### **Dealing Room**

Treasury Division has a strategic role in bank's assets and liabilities management to bring

optimum net interest income. Maintaining an excellent relationship with other parties, BRI develops cooperation with local and foreign counterparties for its transaction or non-transaction activities.

BRI maintains its strong position as a market leader of money market transactions in Indonesia. BRI has optimized the Bank's recapitalization bonds portfolio through Government Bonds (SUN) trading in secondary market. In 2006, Treasury Division also made transactions of Indonesian Retail Bonds (ORI) market in secondary market, providing variety of investment instruments for retail customers.

In the first Indonesian Retail Bonds (ORI I) launched in 2006, BRI was only acted as a sub selling agent in the primary market, however in the secondary market BRI was able to be the market maker by supplying up to date two way price for the customers in BRI's branches.

In 2005, BRI has appointed ABN AMRO Bank, a leader CLS (*Continuous Linked Settlement*) provider as a CLS services provider. With ABN AMRO Fast Track, the Bank has successfully

implemented CLS and since 2006 CLS had been fully implemented, there by made BRI as the first bank using CLS facility in foreign currencies transaction in Indonesia.

BRI has gained benefits from using CLS, an improvement in risk management. By using CLS, the settlement risk can be eliminated so the risk of t principal amount lost in foreign currencies transaction will not likely to happen. The bank also benefited in liquidity efficiency because the foreign currencies transactions had been settled by net basis and by using lower credit line, lead to more optimum credit line due to the increase of trading activities.

Going forward, BRI will continue in developing information system to monitor money market transaction application and foreign currencies by establishing Deal Tracker application. This application will bring benefits to management in monitoring foreign currencies and money market transaction in *real time* to pressing down the operational risk.



## BRI Sharia

*One of the BRI's Corporate Values is customer satisfaction. The needs and customer's satisfaction are always growing and improving. The opening of Sharia Banking is the respond to those needs and satisfaction.*

Sharia Business Unit (BRI Sharia) is specialized to run the banking business based on Revenue-Profit Sharing principle or Sharia principles to meet the demand in the society whose more affinity to do transaction based on sharia principles. Another consideration is the competitive advantages from the Sharia Banking products which are perceived fairer and transparent thus have high accountability. This is along with the BRI compliance to Good Corporate Governance.

BRI had established BRI Sharia on 7 December 2001 with 2 operational branches at the first time on 17 April 2002. In four years period BRI Sharia grew rapidly. Even though the market share is in the fifth place in sharia market, BRI Sharia's existence is already recognized in the industry.

The people expect the BRI Sharia to spread out the network and increase the quality of services. In 2006, BRI already owned 27 Sharia Branches and 18 Sharia Sub-Branches through out Indonesia. In the future, BRI Sharia plan to increase the number of Sharia outlets and network through office channeling.

The performance of BRI Sharia for year ended 2006 indicated a positive trend. BRI Sharia had successfully extended sharia financing in the amount of Rp1.05 billion, rising 65.54% from that

of last year's financing of Rp636.23 billion. This increase was not only in the amount of sharia financing disbursed, but also in the number of customers from 16,987 in 2005, to 21,811 in 2006.

From the financing quality, the ratio for Non Performing Financing (NPF) in 2006 was 3.11%, rising compared to previous year which was 2.80%. The increase in NPF is still below the ratio for Sharia Banking in general. Some efforts has been carried out to reduce the NPF including restructuring and provisioning.

As of end of December 2006, the sharia third party funds consisting of *wadiah* demand deposit, *mudharabah* savings, and *mudharabah* time deposit amounted to Rp360.82 billion, rose by 43.88% compared to that of 2005 Rp250.77 billion. For up coming program, BRI Sharia will run Sharia Banking communication/socialization programs, better profit sharing and office channeling to boost up the third party fund.

The increase in sharia financing improved the Sharia Business Unit's total asset which reached Rp1.14 trillion by end of December 2006. This figure is higher (rose 71.50%) compared to the total asset of the same period previous year, which stood at Rp663.92 billion. This significant increase was followed by increase in profit



amounted to Rp17.32 billion in 2006, 783.22% higher than last year which was booked at Rp1.96 billion. The driving factor which boosted the profit was because of satisfactory growth in financing and funding.

In addition to Sharia business functions, BRI Sharia also conducted social functions which are related to Tsunami disaster in Nangroe Aceh Darussalam, the earthquake in Yogyakarta and

Central Java, *qard* (revolving funds) channeling to traders/micro entrepreneur, scholarships, and mass circumcisions for the poor children. In terms of Sharia banking communication and socialization, BRI Sharia had participated in Sharia expo, socialization through mass media (newspaper, radio and TV).



## International Visitor Program (IVP)

BRI has successfully developed commercially sustainable microfinance system. Through the International Visitor Program, IVP – BRI is actively involved in international microfinance activities.

Along with The International Year of Microfinance 2005, The United Nations had formed the UN Advisor Group on Inclusive Financial Sectors with the member of 25 international prominent figures from central bank, monetary authority, bankers, business practitioners, social activists and academics. One of UN advisors is Director of Micro, Small and Medium Enterprises of BRI, Sulaiman Arif Arianto, representing microfinance practitioners because of the success of BRI in developing sustainable microfinance system. The main duty of the Advisor Group is to provide recommendation to UN and its members on global issues of inclusive finance system.

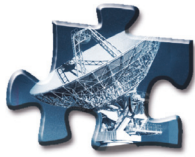
BRI had given technical assistance to the developing countries in microfinance development strengthening the social and political relationships between Indonesia and other developing countries. Therefore, the Ministry of Foreign Affairs with BRI had expanded the cooperation to provide technical assistance. In 2006, the technical assistance was given to members of Pacific Island Forum such as Vanuatu, Marshal Island, Tonga and the member of D 8 Countries.

BRI together with Central Bank (BI), Bukopin and Bogor Agricultural University (IPB) became the host for The 51<sup>st</sup> Executive Committee Meeting & CEO Policy Forum of Asia – Pacific Agricultural Credit Association (APRACA). The

CEO Policy Forum was conducted through an International Seminar with the outstanding international speakers or resource persons with main topic “ Financing Alternative Energy to Enhance Rural Development, Poverty Reduction & Energy Security”. As part of the seminar, there were visits to BRI Unit (micro banking outlet) and to alternative energy project in Bali.

In 2006, IVP – BRI had provided microfinance training to 18 representatives from 10 foreign countries. The trainings were conducted in Head Office and also field visit to Regional Offices, Branch Offices, BRI Units, Micro entrepreneurs, and some microfinance institutions such as rural banks, cooperatives and others.





## Business Development

### **NETWORK DEVELOPMENT (DELIVERY SYSTEM)**

BRI is a bank with the largest networks and operations compared to other banks in Indonesia. Currently, BRI has 4,968 working units widespread across Indonesia, either in urban areas or rural areas. The network operation includes:

- 1 Head Office
- 13 Regional Offices
- 1 Inspection Offices
- 330 Branch Offices
- 3 Branch Offices/Overseas Representatives
- 1 Special Branch Office
- 202 Conventional Sub Branches
- 27 Sharia Branches
- 18 Sharia Sub Branches
- 4,229 BRI Units
- 133 Village Service Posts

Of this vast network, as many as 1,598 working units were already connected by real-time online system by the end of December 2006, covering all divisions in the Head Office, all Regional Offices, Inspection Offices, Branch Offices, Sub Branch Offices, all Training Centers, as well as 1,033 BRI Units. In the coming years, real-time online system is planned to be implemented in all sharia-based operations working units and all BRI Units in urban areas.

As of December 2006 BRI had 982 ATM stations to support its operational activities. Customers could also take advantage of almost all ATMs across Indonesia. This is possible since BRI is the only bank cooperating with three main ATM-sharing networks in Indonesia, namely Link/Himbara, ATM Bersama, and ATM Prima. There are approximately 5,200 ATM Links, 7,600

ATM Bersama, and 7,000 ATM Prima which can be utilized. Moreover, BRI also cooperates with Cirrus and Maestro ATM networks, which enables customers to utilize this network all over the world by using BRI ATM card.

### **PROCUREMENT DEVELOPMENT**

With vast and developing networks, BRI keeps making innovations of methods and procedures related to procurement process as well as assets recording which is in line with Good Corporate Governance (GCG) practices. This responds to the demands for accurate and up-to-date data presentation and supports business better and more efficiently. Therefore, BRI continues developing Logistic Information System (SIM-LOG), which has been implemented since 2003, so that all BRI working units can make maximum use of it in the recording, controlling, and reporting of assets data properly. In the future, BRI will develop electronic procurement (e-procurement), which was technically reviewed in 2006. With e-procurement, all package of procurement in BRI can be accessed by public and related parties.

### **INFORMATION TECHNOLOGY DEVELOPMENT**

Banking is a fully-based technology business, particularly to meet the need of enhancing service quality for customers as well as generating fee-based income, optimizing the bank's operation efficiently. Information technology is a strategic enabler for the bank business. Therefore, besides keeping maintaining the existing IT operational system, BRI always develops it so as to empower business and open new business opportunities in accordance with the directions and policy of IT development in the Enterprise IT Architecture.



### **Core Banking System (CBS) BRINETS**

Core Banking System, which is centralized and integrated for BRI banking service, is continuously developed by adding new features. By the end of 2006, BRINETS has reached 5.1.0. version. Some of the new features include the payment of some credit cards (either BRI credit card or those of other banks), features for paying telephone and cell phone bills through tellers, features of cooperation with Pertamina (a State-Owned Oil and Gas Company), features for paying tuition in some universities in Indonesia, and the interface to other systems, like SAP, Trade Finance System, OPICS, CIPS. The addition of these features is expected to provide customers with a number of service options, making them convenient in doing transactions through BRI working units.

### **Regulatory Reporting**

In order to meet the regulatory framework, BRI has developed several applications for reporting

to Bank Indonesia (BI). Some of the applications include Debtors Information System (DIS), Daily, Weekly, and Monthly General Bank Reports (GBR), and General Bank Headquarter Report (GBHR). These applications are capable of providing information making it easy for BI to monitor BRI. In 2006, BRI developed data warehouse (DWH) for the purpose of reporting and analysis, for both decision-making and operation. Regulatory reports, such as DIS, GBR, and GBHR, are meant to download data from data warehouse (DWH), and so do Risk Management applications, Business Intelligence, and Customer Relationship Management (CRM), which download data from DWH.

### **HelpDesk System**

Daily operations of IT in BRI working units are not free from troubles. To deal with them, BRI has developed an HelpDesk System integrated in terms of its infrastructure, application system, and human resources. The problems and their solutions can be addressed through varied means of communication, like telephone, facsimile, e-mail, or website. HelpDesk System is meant to provide solutions and become a single point of contact for all IT problems faced by the entire BRI working units throughout Indonesia.

### **Project Management Office (PMO) Tools**

Throughout the years, investment made by BRI is very big in value. Hence, this investment project must be properly and accurately managed in accordance with project management principles. Therefore, in 2006 BRI developed Project Management (PMO) Tools. With this PMO Tools, projects in BRI particularly the IT ones are expected to be managed more effectively and efficiently so that they can be conducted successfully.

### IT Security Improvement

Bank business is run on the basis of trust. In order to maintain and improve customers' and stakeholders' trust, BRI IT system, which is the backbone of the bank operation, must be protected from either external or internal threats and disturbances. Thus, periodically BRI always strengthens its existing IT Security.

## CONSUMER BANKING BUSINESS DEVELOPMENT

### Electronic Banking



### ATM

To serve customers 24 hours a day and seven days a week, BRI provides self-service alternative service media through electronic banking, i.e. by means of ATM, Phone Banking, SMS Banking, and Cash Management. ATM features are also added, such as the payment of BRI and other banks' credit cards, the payment of mobile phone's bills and vouchers, the payment of car loan installment, and the tuition payment of some universities. To ensure the security of customers' transactions through ATM or other electronic devices, BRI is the first bank which has implemented the changing of customers PIN from 4 digits to 6 digits.



### SMS Banking

SMS Banking is BRI new service for mobile banking, which was launched at the end of December 2006. For the initial stage, BRI made a joint cooperation with Telkomsel, the biggest cellular telecommunication operator in Indonesia. BRI SMS banking service uses mobile number 3300. With this service, BRI customers have a number of easy options in transactions, wherever and whenever. In the future, BRI will make a joint cooperation with some other major cellular operators in Indonesia.

## ORGANIZATIONAL STRUCTURE DEVELOPMENT

The increasing growth and business targets need to be facilitated by supporting organization. An open market opportunity, demands for serving customers in consumer banking, and strategic alliances with State-Owned Enterprises /Department/other Government institutions, which is in line with BRI 2007-2009 Business Plan, have made it necessary for BRI to establish a special working unit dealing with consumer banking and State-Owned Enterprises /Department/other Government institutions. This is done in funding side as well as financing one which can support the achievement of BRI long

run business targets and profits. Related to this development, BRI has set up a new organizational structure.

## **SMALL (RETAIL) BUSINESS DEVELOPMENT**

### **Cash Management**

Cash Management is an internet banking service for corporate customers. With this service, corporate customers find it easy to perform banking transactions from their respective offices and manage their finance. In 2006, some features of cash management were developed and matched with customers' needs.

### **BRI Credit Card**

BRI Credit Card was launched in February 2006. Due to the tightening competition in credit card business, in the future BRI will keep developing the system and features of its credit card.

## **TRADE FINANCE DEVELOPMENT**

For the purpose of developing its wholesale banking, BRI continues to develop the features of wholesale banking. BRI is in the process of selection to replace the existing trade finance application with the modern one, which is more reliable, integrated, and adjustable to the present and future needs of BRI.

### **Development of Export and Import Transactions**

In accordance with BRI business focus prioritizing financing service to SME sector, in banking service for export and import transactions BRI still has the same focus. Approximately 70% of BRI current exporting customers fall into SME



industry, which is mass employment in nature, traditional, and widespread in varied rural areas throughout Indonesia.

BRI focus in developing service and product in export and import to SME is carried out in the forms of vertical and horizontal business development.

- Vertical development is done through the provision of service for SME industry possessing competitive commodities and potential to go international by themselves.
- Horizontal development is done through the expansion of BRI export-import service to SME exporters which have existed and widely spread throughout Indonesia.

The two forms of development have been run intensively by BRI for the last three years and have supported export services of SME sector. This is proven by the increasing number of BRI Branch Offices in rural areas which serve trade finance transactions.

### **Development of Remittance Transactions Service**

In accordance with the government mission to increase national foreign exchange gain through the development of Indonesian Migrant Workers placement overseas, BRI in addition to providing financing facility for migrant workers has actively developed special products and services in remittance, specifically dedicated for migrant-workers. This remittance service is particularly designed for Indonesian Migrant Workers by providing ease, speed, and security in foreign exchange transfer, which is the results of their hard work, to family members widespread throughout the nation. Supported by the largest network in Indonesia, BRI is the main option for those migrant workers for transferring their wages to their families in Indonesia.

For the purpose of providing those services, up to now BRI has established a joint cooperation with 20 remittance companies widely spread in several countries becoming Indonesian Migrant Workers' overseas destination, such as in Middle East, Hong Kong, Malaysia, Singapore, etc.



In the future, this cooperation will be expanded to develop BRI service outreach in the Indonesian Migrant Workers' target countries overseas. This will be done by establishing cooperation with banking/remittance institution companies or by establishing remittance outlets.

Furthermore, BRI has developed a joint cooperation with a number of Indonesian Migrant Workers Provider companies in an effort to prepare Indonesian Migrant Workers prior to their departure.

### **State Income Module (*Modul Penerimaan Negara/MPN*)**

State Income Module (MPN) is an integrated application system for the Nation Income, either from taxes or non-taxes/customs. This system is mandatory from Indonesia Finance Department, replacing the former separated system. The soft-launching of this system was carried out in October 2006 and will be effective on 2 January 2007 in BRI Branch Offices throughout Indonesia. With this module, BRI has made it easy for general public, both BRI customers and non-customers, to pay a variety of taxes, non taxes, and customs through all BRI branch offices. BRI is also a collecting bank for those payments. Thus, BRI has made significant contribution to the management of the country's income. In the future, the State Income Module application will continuously be developed.