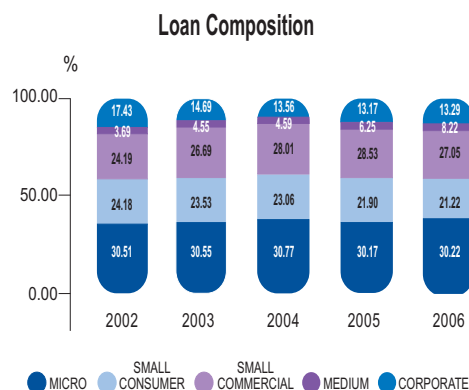
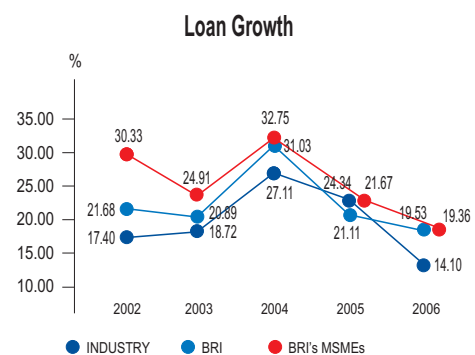




## A Sound Loan Portfolio Focusing on Micro, Small, Medium Enterprises (MSMEs)

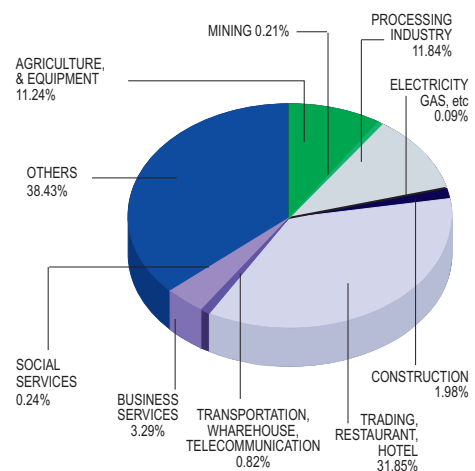
*Year of 2006 is a test case for BRI when core business competency of a bank was put to a test. The impact of inflation which was above 16% has made purchasing power weaken and BI rate was still above two digits. High interest rate and inflation environment were not a promising condition for banking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

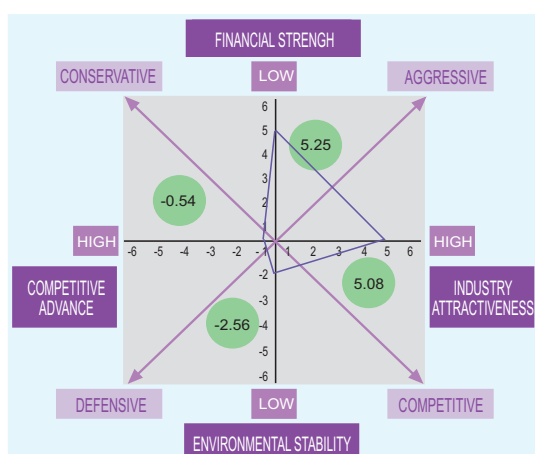


In MSMEs, the sector financed by BRI including trading, hotel and restaurant; processing industry, agriculture, services and other including consumer.

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.

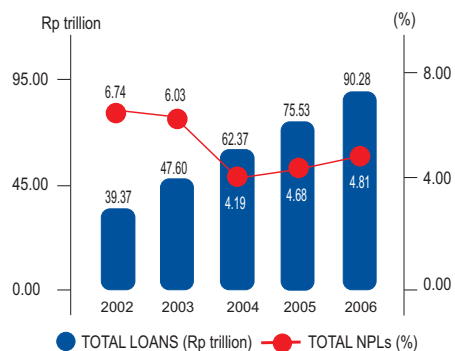
The loans expansion strategy of BRI is financing business activities in productive sector which gives multiplier effects for the economy. This strategy is expected to bring positive impact to economic improvement by increasing real sector capacity, open more job opportunities and increase purchasing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



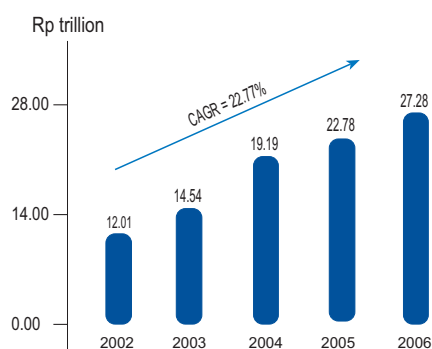
### Micro Loans

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 become 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.

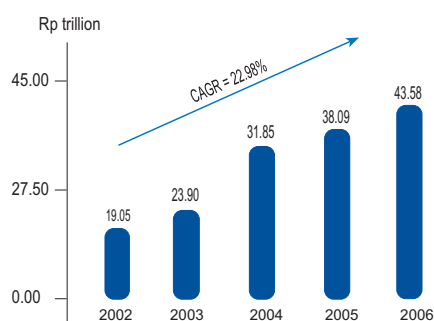
### Small/Retail Loans

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%.

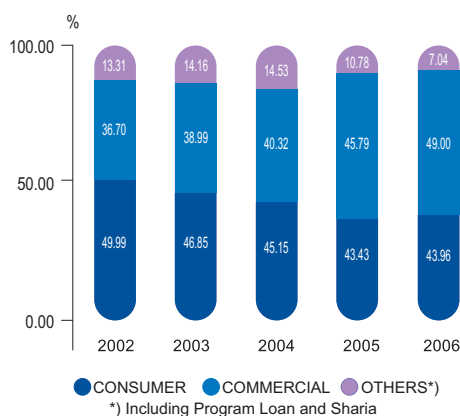
### Small-scale Loans Growth



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.

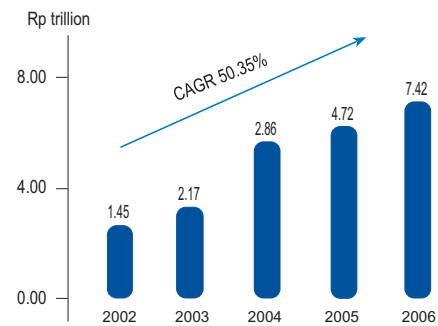
The origination of the loans may be at the Branch offices, the Regional Offices, or the Head Office. Loan decisions will be made at either Regional Office or Head Office in accordance with the loan approval authority, while the loan is administered by appointed booking branches.

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.

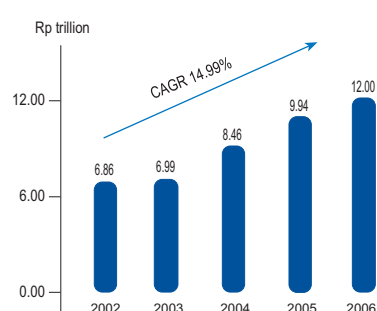
The purposes of Corporate Loans are for working capital financing as well as investment in various economic sectors, such as agriculture, mining, industry, trading, and business services.

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.

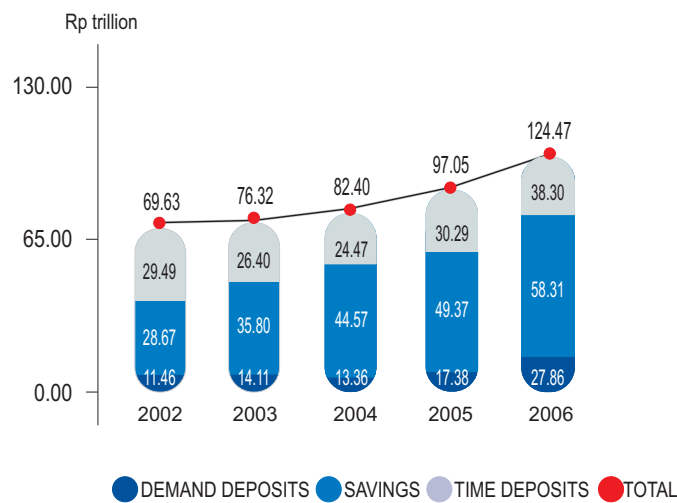


## Firmly Stand On Low Cost Funds

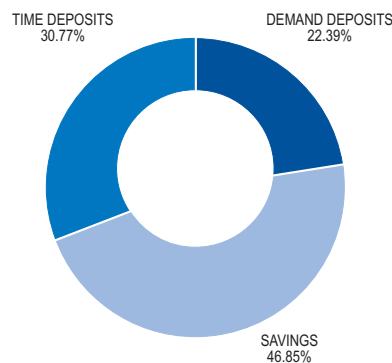
In 2006, BRI was able to successfully maintain important aspects in funding. First, the growth of Third Party Funds (TPFs) were consistently above the growth of TPFs in the banking industry. Total deposits in 2006 was Rp124.47 trillion or 28.26%, higher than that of in 2005, which was Rp97.05 trillion.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

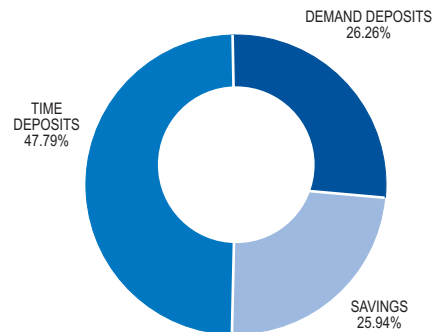
**Growth of Third Party Funds**



**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.

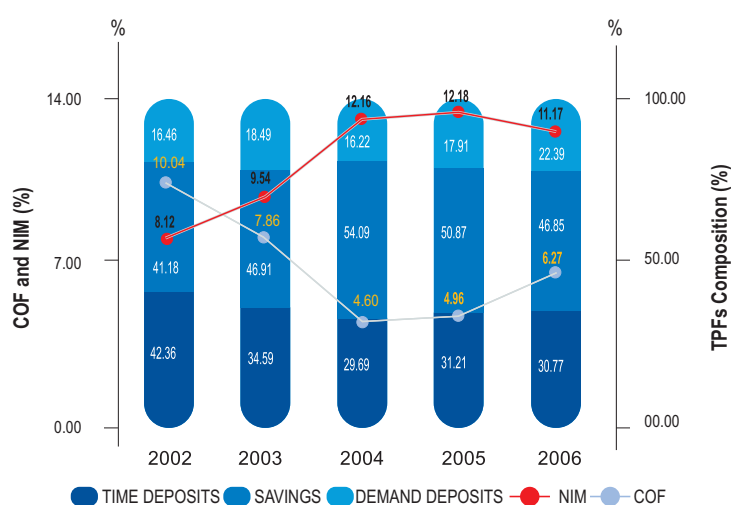
This condition was supported by the fact that BRI's savings have been being dominated by micro savings (Simpanan Pedesaan or Simpedes). For decades, BRI's micro savings have been showing a stable growth rate, low interest expenses and low sensitivity to any market rate movements. With more than 30 million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



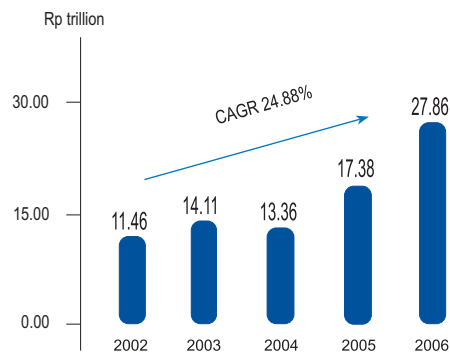
### Demand Deposits

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.

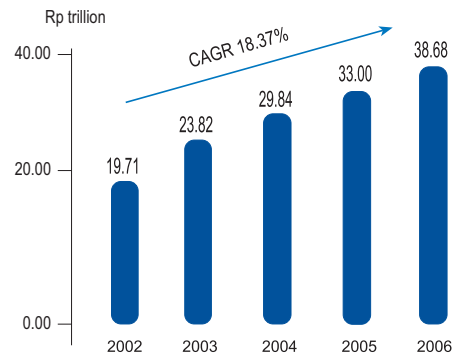
### Simpedes dan Simaskot

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



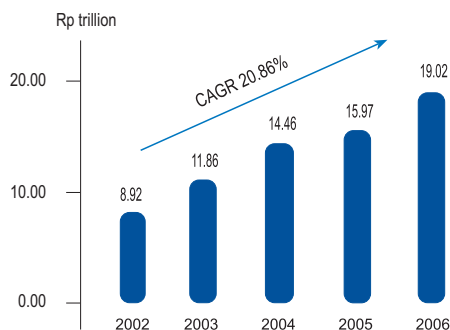


### BritAma

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



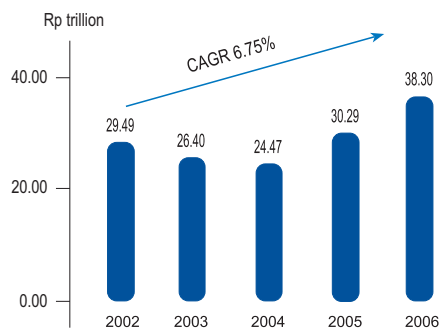
### Hajj Savings

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.

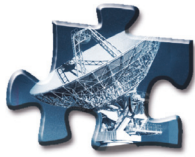
BRI had given technical assistance to the developing countries in microfinance development strengthening the social and political relationships between Indonesia and other developing countries. Therefore, the Ministry of Foreign Affairs with BRI had expanded the cooperation to provide technical assistance. 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.



## Human Resources Development

### Work Force Planning

The growth of BRI employees in 2006 was recorded for 2,370 employees or 6.31%. The number of employees can be shown in more detail as follows:

Status	Dec 2005	Dec 2006
• Permanent Employees	35,586	36,655
• Prep. Retirement	636	753
• Trainees	1,275	2,491
• Outsource	48	16
<b>Total</b>	<b>37,545</b>	<b>39,915</b>

Based on equality principle there is no gender oriented policy in Bank's operations. This is shown in the composition below:

Gender	Dec 2005	Dec 2006
Women	10,564	11,671
Men	26,981	28,244
<b>Total</b>	<b>37,545</b>	<b>39,915</b>

Based on echelon/grading, the employees composition in December 2006 was dominated by echelon 6/grade 3 – 5 for 24,548 employees

Echelon/Grade	Dec 2005	Dec 2006
1/(16-18)	59	56
2/(14-15)	140	150
3/(11-13)	845	830
4/(9-10)	1,103	1,398
5/(5-8)	13,144	12,933
6/(3-4)	22,254	24,548
<b>Total</b>	<b>37,545</b>	<b>39,915</b>

or 61.50% from total employees, an increase of 10.31% from last year which was 22,254 employees.

By age category, BRI employees are dominated by those of in 30 – 50 years old, which portion decreased from 58.77% in 2005 to 54.46% in 2006.

Age	Dec 2005	Dec 2006
<30	10,534	12,871
30 - 40	11,235	10,870
40 - 50	10,829	10,869
>50	4,947	5,305
<b>Total</b>	<b>37,545</b>	<b>39,915</b>

In 2006, new recruits was 2,465 persons consisting of 275 trainees for junior staff level and 2,190 for clerical positions.

In 2007, there will be 1,077 employees in preparatory retirement period (MPP) and 740 will retire. In order to replace and to accommodate organizational development, the employees need to be recruited to be 4,428 employees.

To support its strategic business and to fulfill Manpower Law No.13 Year 2003, BRI needs a human resource planning which can support business development more efficiently and effectively. One of the policies is through outsourcing system for non core business. Through this system, the risk such as legal problem, legal cost and administration problem can be minimized. In addition, BRI will be focusing more in core business and easily adjusting to the business environment without unnecessary workforce problem.

In order to have outstanding outsourcing company and to implement GCG principles, BRI has formed a team to select and determine the partner companies for outsourcing based on BRI's qualification.



### **Infrastructure Improvement for Career Management**

The completion of the job grading system matching with BRI's and employees needs requires an infrastructure integrated to competence based Human Resources Information Management. Together with Hay Consultant, BRI has been completing the systems which includes job description, competency profile, job requirement, and career path.

The infrastructure improvement is supported by Human Resource Management Team, Expert Panel on job requirement and career path, analysts of job description from each division in Head Office and an organizing committee for job requirement and career path from Divisions in Head Office. The result of the review will be used as the blue print of Career Development based

on Job Family. This blue print enables BRI to have comprehensive and integrated Human Resources planning and development.

BRI has developed measurement for job and person as the base for reorganizing the personnel so as to optimize the match between jobs and persons for the job. The job measurement has been completed and implemented in the job grade system. The personal grade is still in progress and will be implemented next year.

## Human Resource Development

BRI regularly conducts promotions, rotations (tour of duty), demotions among its employees aiming at personnel developments, career developments, management control along with business need of BRI.

To ensure the availability of qualified human resources, BRI has conducted selection process for more than 350 employees to be assigned as Marketing Managers, Operational Managers, Micro Business Managers, Sub-Branch Managers, and Instructors through a fair and objective assessment to come up with Job-Person match. Candidates for head of business units were evaluated in their knowledge of branch operations. Furthermore, BRI has carried out assessments for employees to be promoted to echelon 3 and echelon 4 (grade 11-13 and grade 9-10).

To improve the consistency and integrity of the assessment process, BRI is drafting Standard Operating Procedure (SOP) as a guidance and will be used in the assessment center for assessors, administrators and facilitators. To optimize the assessment result for career development, BRI has integrated the data base of assessment result into SIM-SDM BRI (Management Information System for Human Resources using SAP)

The budget for training and education in 2006 was Rp140.51 billion. In order to support training activities, BRI has one Training Center (*Pusdik*) and 6 Regional Training Centers (*Sendik*) throughout Indonesia: Padang (West Sumatra), Jakarta, Bandung (West Java), Yogyakarta (Central Java), Surabaya (East Java) and Makassar (South Sulawesi).

To enhance the employee's competencies, BRI consistently performs introductory training program for new entry-level employees, development (promotional) training program to support the employees for their upcoming assignment, and application programs to support the employees in their present job.

Entry level trainings for new recruits carried out in 2006 were for Management Trainee Program, Associate Auditor, Associate Account Officer, Front Liner & Administration and Sharia Junior Officer.

Promotional training aimed to provide employees to broaden their knowledge and prepare employees to acquire competency in the new job. The program carried out externally and internally in 2006 included Sespibank (Training for Bank executives) for 6 officers, Assistant Management Development Program (AMDP) for 144 officers and Senior Supervisor Development Program (SSDP) for 208 officers. The internal promotional training program consist of 6 level, from supervisor level to Assistant Vice President Level, namely Supervisor Development Program (SDP), Senior Supervisor Development Program (SSDP), Assistant Management Development Program (AMDP), Management Development Program (MDP), Assistant Management Development Program (SMDP) and Assistant Vice President Development Program (AVPDP).

BRI's employees also have opportunities to join any development (application) training programs held by internal or external providers to support their capability in performing daily activities and responsibilities. Internal training program included Account Officer for Medium-scale business (3 classes), Branch Front liner (72 classes), Micro

outlets front liner (2 classes), Basic Risk Management (108 classes), Behavior Observation (48 classes), Internal Control for Micro (51 classes), Foreign Exchange Training for Operational Manager (3 classes), Marketing/Operational/Micro Business Managers (1 class), clearing staff (12 classes), Sub-Branch manager (1 class). External training program is carried out by sending employees to seminar and workshop. There were 1,623 officers enrolled in domestic training program and 106 officers enrolled in training program abroad.

In 2006, BRI had given the opportunity to 10 officers to pursue Master Degree abroad and 34 officers to pursue Master Degree at local Universities.

In order to optimize the utilization of BRI's training facilities, BRI collaborated with external parties like PT BSF, Bank DKI, Bank BTN, PT PER, RMCI, PT Gapura Prima Sehati, Bank Ganesha, Balai Besar PPEI, UNPAD, Wijaya Karya, Pusat Penelitian Kesehatan UI, PT Waindo Spectra, Dirjen Peternakan, 28 State High School, Islamic School Al Azhar, PT Trakindo, MQ Tour & Travel, PT Arga Bangun Bangsa, PT Miskat Alam Konsultan, PT Elnusa and PT ISS. From the training facilities utilization, BRI received fees amounted to Rp1.53 billion.

### Management Performance System (SMK)

The implementation of Management performance based on competency is conducted in sustainable and consistent manner. In the system there is regular behavior observation training to all head of business units from the supervisor level and above conducted by Educational and Training



Division. The implementation of performance system is regularly reviewed to improve the quality of the performance management system.

### Human Resources Management Information System

The clean – up process from the transition period (the migration from the old system to SAP) had been completed, yet will be conducted continuously. To acquire a more accurate report, BRI had adjusted the action matrix of appointment/assignment decision. As an attempt to achieve and maintain the quality, BRI conducts regular training for user admin of MIS HR once a year .

## Employees' Welfare

Along with job grading implementation, BRI applies a remuneration (salary) system based on individual performance, while also considering banking industry labor and company's condition. The improved salary components in 2006 were:

- An increase 5.30% for Basic salary for cost of living adjustment, performance incentive and promotion.
- An increase of 287.05% in Premium allowances

To give appreciation for employees for their performance and to stimulate better working performance, BRI gave the allowance to conduct "Haj" Pilgrimage to Moslem employees through selection process. There were 120 employees eligible to receive the rewards in 2006.

Management gives other financial or non-financial rewards to the employees every year. In 2006 BRI gave recognition to 4,326 employees



consisting of 1,246 employees for 15 years of service, 284 employees for 20 years of service, 1,630 employees for 25 years of service, 1,069 employees for 30 years of service, and 97 employees for 35 years of service.

## Industrial Relations and Good Corporate Governance Implementation

### Bipartite Coordination Forum

Stipulated by Labor Act No. 13, year 2003, BRI has formed Bipartite Coordination Forum in each working unit, from level I in Branch Office, level II in Regional Office and level III in Head office. This forum serves as channel to divulge policies from the company and accommodate employees aspiration or proposal for the sake of company's future performance improvement.

### Corporate Culture

To enhance the corporate culture implementation through change agents, BRI has revitalized change agent program by enrolling 145 change agents in Jakarta in Emotional Standard Quotient (ESQ) Program.

In order to increase the service quality of BRI working units as a part of Corporate Culture implementation, BRI conducts Performance Improvement Forum activity continuously. Other programs such as mystery shopping and mystery call are also conducted by Human Resources Management Division together with other related Divisions in BRI.



To measure and maintain good quality in Good Corporate Governance (GCG), BRI perform the Central Bank Regulation No. 8/14/PBI/2006 using

Self Assessment GCG. Human Resources Management Division has set 17 actions of Code Ethics that will be implemented in 2007.



## Corporate Social Responsibilities

*BRI is committed to promote corporate social responsibilities implementation. In running the business, BRI is not only aiming mainly for profit from their operation but also strive to improve the social responsibility. Welfare is not only belong to BRI but it also belongs to the community in BRI' surroundings. What we have so far from this mother's nature must also be utilized for our future generations.*

Through a number of corporate social responsibility programs, BRI strives for assisting to lessen their burden of community surrounding BRI. When providing this assistance, BRI gives them not only the 'fish' but also the 'hook and line' so that they will be capable of living by themselves (self-sufficiency)-and becoming the backbone of their family.

In 2006, BRI has conducted a variety of social programs as the realization of our care for the community. The community-care activities that we performed are the mandates from the shareholders decided in the Annual General Meeting of Shareholders on 30 May 2006 and also our own initiatives as *Corporate Social Responsibility* programs.

### Partnerships and Environment Care Programs

As of end of December 2006, the amount of funds that was utilized for Partnerships Program is 3% from BRI's Net profit or stood at Rp114.26 billion. Furthermore, until the end of December 2006, the amount of funds disbursed through the Environment Care Program was

1% of net profit or Rp38.09 billion.

### Partnerships Program

This Partnership Programs is to provide financing assistance for micro-, small-, and medium-scale businesses, which are not bankable, with low interest and strengthen the human resources through several programs such as:

### Entrepreneurship Program

This program was conducted together with several universities and export supporting institution with the purpose to increase the capability of SME entrepreneurs in globalization era. In 2006, the program related to entrepreneurship programs were:

### Exhibition/Marketing Product

In 2006, BRI sponsored its MSME partners to participate in the exhibition to enable them to gain market locally and abroad. In the export oriented exhibition, BRI has sponsored 58 partners in 13 exhibitions through out Indonesia. BRI also sent three clients to two international exhibitions in Dubai and Peru.

Partnership Training With	Number of Class	Number of SME Participants
Program Garuda 21	10	300
PT Primakelola	6	180
Udayana Universiy	2	60
Export Supporting Institution	1	30



### Soft Loans

BRI fostered micro and small-scale borrowers to create embryo of commercial customers. In 2006, the amount of funds that was disbursed through Partnerships Program was Rp78.32 billion, an increase of 91.59% compared to last year disbursement which was Rp40.88 billion.

### Environment Care Programs

#### Several environment care programs were: BRI Cares for Education

This program is dedicated to support the education by providing aids for the programs such as:

##### a. Education Infrastructure

- BRI spent Rp2.16 billion to renovate 32 unit school buildings in Dompu, Raba Bima, Sumbawa Besar, Maros.
- The renovation of 2 libraries in The University of Indonesia for Rp1.00 billion
- BRI provided 72 operational vehicles to support the educational activity for Elementary School in Palembang,



Banjarmasin, Bandung and Makassar, which cost Rp707.94 million

##### b. Educational Equipments

- Scholarships had given to outstanding students in 23 State Universities across Indonesia for Rp2.00 billion.
- School stationeries worth Rp1.10 billion
- Funds for 32 sport halls for Rp43.05 million.

##### c. The Introduction of seaweeds cultivation to coastal area society

The workshop regarding seaweeds cultivation to coastal area society was conducted in the area of Singaraja and Amlapura, Bali with the total amount of Rp512.5 million.

### BRI Cares for Sanitary

In line with the cleanliness of the surrounding area, BRI had given the donation as follows:

- 50 carts/motor cycles to carry out the garbage worth Rp263.11 million in Banjarmasin, Makassar and Denpasar.
- 1,072 units of signs/billboards and garbage bins for Rp297.92 million.
- The City Parks and 1,463 trees plantation for Rp195.56 million in Pematang Siantar (North Sumatra) and West Java.

### Natural Disaster Care Program

The year of 2006 was a disaster year for Indonesia. BRI had helped the impacted areas by distributing food, cloths, medical help and housing for:

- The victims of earthquake in Yogyakarta and Central Java for Rp790.64 million.
- The victims of floods in Central Java, Jabodetabek (Greater Jakarta Area), West Kutai, and Sinjai for Rp391.70 million.
- The victims of earthquake and tsunami in

West Java, Central Java and Gunung Sitoli for Rp1.39 billion.

- The victims of landslide in Ruteng, East Nusa Tenggara for Rp60 million.
- The victims of hurricane in Kefamenanu, Flores for Rp12.5 million.
- The victims of fire in Kota Baru, South Kalimantan for Rp25 million.
- The victims of Lapindo Mudflow in East Java for Rp56.1 million.

#### **BRI Cares for Religious Activities**

BRI had given aids for the religious buildings and infrastructures programs as follows:

- Mosque and church renovations for Rp1.22 billion.
- Infrastructure improvement (for *Wudlu* place) for Rp42.61 million
- Praying tools for Rp21.2 million
- Holy Books for Rp3.10 million

#### **BRI Cares for Public Facilities**

The facilities to support the public needs are:

- 4 units of bus stop in Bitung and Manado for Rp93.75 million
- 12 units of Public toilets for Rp20.59 million
- 12 units of sanitary/lamp/security post/pedestrian way for Rp88.29 million.

#### **BRI Cares for Public Health**

- BRI had dedicated 2 ventilators and 2 monitors to Sulianti Saroso Hospital and Persahabatan Hospital as BRI cared to Bird flu epidemic for Rp1.52 billion.
- Donation had given to 341 health care units for children and baby (Posyandu) for Rp253.52 million.
- BRI provided Rp393.37 million for mass circumcision for 1,066 children and blood donor program.



#### **Social Care Program**

This program aimed to give charity to orphanages and poor children through BRI care program for Rp112.59 million.

#### **BRI Cares for the Small-scale Economic Society**

BRI cared for the micro, small and medium entrepreneur that is affected by the earthquake by renovating traditional market as their centers for daily economic activities. There were 15 markets in Yogyakarta, Bantul, Sleman, Wates and Klaten.

As of December 2006, the total funds distributed to the poor through environment care program are Rp21.55 billion.

In addition to the Partnership and Environmental Program which source of funds as a part of BRI net income, BRI is actively participated in corporate social responsibility program using corporate funds. The program includes:



### Welfare Improvement Program

The main purpose of this program is to enhance the welfare, social and religious comfort and public health quality improvement in the programs like:

- Helping the flood victims in Jember, Banjarnegara and starvation in NTB
- Rehabilitation and development of mosque and church.
- Free medical services in DKI Jakarta Area
- Vehicles support for Rp875 million, which had dedicated to overcome the traffic and felony problem.



### Educational and Sports Care Programs

The purpose of these programs is to assist the education by giving rewards to outstanding students and improve achievements in sports in Indonesia. Some programs that have been run are as follows:

- The establishment and development of Elementary School Libraries.
- Undertaking the problem in education and health for the poor, the disables, the homeless children in the low social and income societies.
- The Development of the Library in the Psychology Faculty of the University of Indonesia.
- The training for Indonesian sightless
- In Sports, for four consecutive years BRI has become the main sponsor of Satria Muda BritAma Men Basketball Team and Mahaputri BritAma Women Basketball

Team. Both of these teams are currently superior teams in Indonesia with a number of prestigious National Titles. Moreover, BRI has become the main sponsor for Proliga Volley.

### Living Environment and Culture Care Program

This program is meant to help improve the quality of environment and national culture. Among other things that BRI did through this program are as follows:

- Taking care of plants in the surrounding environment
- Performing Cultural Show, such as the all-night-long *wayang kulit* (leather puppets) show at the Beringharjo Market, Yogyakarta on 23 December 2006.
- Home-coming traveling in relation to the 2006 *Lebaran*. This activity was dedicated for micro entrepreneurs in Jakarta, Bogor, Tangerang and Bekasi (Jabotabek/Greater Jakarta Area).

### Customer Developments Program

This program is intended to promote BRI's customers of micro entrepreneurs so as to enable them to have wider access to the market and information. Programs which had been conducted include:

- Inviting some micro entrepreneurs to be the participants in some national expos (such as InaCraft, national handicraft expo)
- Conducting some training in seaweeds and castor oil plants cultivations.





## Information for the Shareholders

*Throughout 2006, Indonesian capital market, represented in large by Jakarta Stock Exchange (JSX) showed a bullish trend. At the end of 2006, the Jakarta Composite Index (JCI) closed strengthened 642.89 point to reach 1,805.52 or increased 55.30% from 2005 year end position of 1,162.64. Globally, the JSX was the third best performer after Shanghai Composite Index which increased 1,514 point or 130.43% to reach 2,675.47 and Shenzhen Composite Index with its 243.48 point increase or grew 79.28% to reach 550.59*

The performance of JCI was the reflection of improving macro economic condition which started in the second semester 2006, which can be seen from :

1. Declining inflation from 15.98% by end of 2005 to 6.41% by end of 2006, with average monthly inflation decline from 1.33% to 0.53%
2. Declining BI Rate (Indonesian interest rate benchmark) from 12.75% by the end of 2005 to 9.75% by end of 2006
3. Stable foreign exchange, hovering at Rp9,000 – Rp9,500 per US Dollar
4. Significant increase of exports, from USD85.30 million by end of 2005 to USD100.50 million by end of 2006, or grew by 19.16%. The increase was largely caused by jumps in the price of Indonesia's export commodities.
5. Increasing Gross Domestic Products (GDP) from Rp439.05 in the fourth quarter of 2005 to Rp465.86 in 2006 of the same period, or in percentage, the GDP was rising from 3.00% in 2005 to 6.11% in 2006
6. Declining oil price in the second semester of 2006, from USD77/barrel to USD61/barrel

Compare to 2005, the JSX liquidity was also improving, reflected in the increasing volume of stocks being traded daily. The volume was increasing from an average of 1.64 billion per

day in 2005 to an average of 1.80 billion per day in 2006.

By sector, the best performer was agriculture sector, with an increase of 146.92% from 493.45 in 2005 to 1,218.45 in 2006. The second best was Property and Real Estate which increased from 64.12 in 2005 to 122.92 in 2006, or grew by 91.70%. The financial sector was the fourth best performer, with an increase of 75.09 points or 57.11%, from 131.48 to 206.57

Indicators	2006	2005
• JCI	1,805.52	1,162.64
• Number of new listed companies	11	9
• Agriculture Sector Index	1,218.45	493.45
• Properti & Real EstateSector Index	122.92	64.12
• Infrastructure, Utilities and Transportation Sector Index	771.64	472.87
• Financial Sector Index	207.82	131.48

### The Performance of BRI's Stock (BBRI)

The price of BBRI was opened at Rp3,025 in the early 2006 and was closed strengthened at Rp5,150 at the end of 2006. Nominally, the return given by BBRI was higher than other blue chip stock of banks in the JSX, but by percentage it was lower than those of Bank Mandiri's.

## The Price of Blue Chips Stock in Baking Industry in 2006

Stock	Opening	Highest	Lowest	Closing	Return Rp	Return %
BBRI	3,025	5,750	3,000	5,150	2,125	70.25%
BMRI	1,640	2,950	1,500	2,900	1,260	76.83%
BBCA	3,400	5,550	3,350	5,200	1,800	52.94%
BDMN	4,750	6,500	3,875	6,750	2,000	42.11%

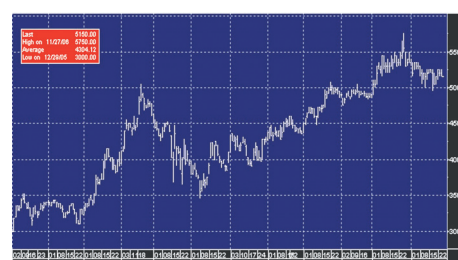
The performance of all blue chip stock of banks can be seen in the table.

Throughout 2006, the price of BBRI was fluctuated, with the highest price at Rp5,750 reached on 27 November 2006, and the lowest was at Rp3,000, reached on 13 January 2006. In the first 4 (four) months of 2006, the trend was strengthening, with the price moved upward, from Rp3,025 to Rp5,050 reached on 20 April 2006. The price started to go down at the end of April 2006, and touched the lowest price at Rp3,450 on 8 July 2006, with a narrow price movements of between Rp3,600 to Rp4,100 up to end of July 2006.

### Performance of BBRI in 2006

	Opening	Highest	Lowest	Closing
Quarter 1	3,025	4,150	3,000	3,900
Quarter 2	3,900	5,050	3,450	4,100
Quarter 3	4,100	5,075	3,900	4,900
Quarter 4	4,900	5,750	4,750	5,150

### Trend of BRI Stock Price in 2006



Source: Bloomberg

### Data of BRI Stock in 2006 - 2005

Data	2006	2005
• Number of share end of year	12,864,421,500	12,035,700,500
• Transaction Volume (share, in one year)	4,020,284,000	5,441,599,400
• Frequency (in on year)	111,833	95,893
• Transaction (Rp billion/day)	15.69	11.51
• Market Capitalization (Rp trillion) end of year	41.28	39.90
• Price Earning Ratio (PER) end of year *	16.01	9.40
• Price to Book Value (PBV) end of year *	4.64	2.73

\* Sources: Bloomberg

## The Composition of Shareholders

In 2006, the number of BRI's listed shares increased, to reach 12.86 billion shares, up from 12.04 billion shares listed in 2005. The increase was caused by new shares listed from Management Stock Option Program (MSOP). The listing of new shares from MSOP had diluted Government's ownership from 58.16% in 2005 to 56.97% in 2006. Domestic investor's ownership was also declining by 9.14%, from 632.44 million shares in 2005 to 579.50 million shares in 2006. In the other hand foreign ownership was increasing, from 4.40 billion shares in 2005 to 4.71 billion shares in 2006 or up 6.90%. Institutions were the majority of public shareholders.

## Composition of Shareholders

Shareholders Category	Number of Shareholders		Number of Shares		% to Total Shares	
	2006	2005	2006	2005	2006	2005
Government of Indonesia	1	1	7,000,000,000	7,000,000,000	56.97%	58.16%
Public	11,605	13,914	5,286,421,500	5,035,700,500	43.03%	41.84%
Domestic	11,108	13,615	579,498,823	632,445,853	4.72%	5.25%
- Individual	2,147	1,868	54,246,650	59,627,650	0.44%	0.50%
- Employees	8,622	11,536	145,676,500	161,177,500	1.19%	1.34%
- Institution	339	211	379,575,673	411,640,703	3.09%	3.42%
Foreign	497	299	4,706,922,677	4,403,254,647	38.31%	36.58%
- Individual	13	13	517,500	1,570,000	0.00%	0.01%
- Institution	484	286	4,706,405,177	4,401,684,647	38.31%	36.57%
<b>Total</b>	<b>11,606</b>	<b>13,915</b>	<b>12,286,421,500</b>	<b>12,035,700,500</b>	<b>100.00%</b>	<b>100.00%</b>

## Management Stock Option Program (MSOP)

Extra Ordinary General Meeting of Shareholders (EGMS) decided for the Bank to give MSOP of another 588,235,250 shares. The MSOP had been commenced in 3 (three) phases : MSOP I, MSOP II and MSOP III. The commencement of MSOP I and MSOP II were based on previous Bapepam's and JSX' regulations while MSOP III was based on Bapepam's regulation No. IX D 4 and regulation on securities listing procedure No.1-A Lamp Keputusan Direksi BEJ No.Kep-305/BEJ/07-2004. The vesting period for all MSOPs were up to 1 year after the commencement date. MSOP I and MSOP II can be exercised at any times after the vesting period, up until the maturity date of each MSOP.

1. MSOP I was commenced on 10 November 2003 with exercise price of 110% above IPO's price or Rp962.50 per share with maturity date of 9 November 2008
2. MSOP II was commenced on 10 November 2004, with exercise price of Rp1,750 per share and maturity date of 9 November 2009.

Exercise price was based on the average closing price of consecutive 25 working days of regular market before the announcement on the commencement of Annual General Meeting of Shareholders for the year of 2004.

3. MSOP III was commenced on 10 November 2005 and the maturity date of 9 November 2010. The exercise price complied to Bapepam's regulation No. IX.D.4 and JSX regulation on the listing procedure No. 1-A Lamp Keputusan Direksi BEJ No.Kep.-305/BEJ/07-2004, which rule that exercise price of any MSOP was at least 90% of the average closing price of consecutive 25 working days of regular market before the date of the report on the commencement of the MSOP to JSX. The regulations also rule that MSOP can only be exercised twice in a year as a maximum.

Shares from MSOPs which had been exercised up until the end of 2006 were as follow :

MSOP I was 229.72 million shares  
 MSOP II was 215.52 million shares  
 MSOP III was 56.48 million shares

MSOP Phase	Number of MSOP	Percentage	Issuing Date of Option	Excercise Price	AGM Decision Underlying the issuance of MSOP
Phase I	235,294,100	40%	10 November 2003	Rp. 962,50	RUPS 2003
Phase II	235,294,100	40%	10 November 2004	Rp. 1,750,00	RUPS 2004
Phase III	117,647,050	20%	10 November 2005	Rp. 4,450,00	RUPS 2005
<b>Total</b>	<b>588,235,250</b>				

### Dividend Policy

Annual General Shareholders Meeting (AGSM) for the year 2006 had stipulated for BRI to pay cash dividend for the accounting year of 2005 at Rp1.90 trillion or Rp156.18 per share, which had been paid to the shareholders on 10 July 2006. The 2005 cash dividend was an increase of Rp3.26 per share or 2.13% compare to the 2004 cash dividend which was at Rp152.93 per share.

Dividend pay out ratio for the accounting year of 2006 was decided to be 50% of net profit. This decision was in line with BRI's management intention to maintain a 50% dividend pay out ratio over the years prerequisite to the Bank's financial condition and performance and agreement from the AGSM. The Management plans to pay the dividend for the accounting year of 2006 after the agreement from the AGSM for the year of 2007.

Dividends had been paid out are as follow:

Year	Net Income (Rp billion)	Dividend (Rp billion)	Composition (%)
2002	1,525	762.47	50.00 %
2003	2,502	990.47	39.59 %
2004	3,633	1,816.61	50.00%
2005	3,808	1,904.29	50.00%

The 2003 dividend composition was smaller due to quasi-reorganization in which 2003 first half profits were capitalized into equity.

### IPO Fund Utilization

As stated in the IPO prospectus, the utilization of funds generated from IPO in the amount of Rp1.47 trillion are as follows:

- 60% or approximately Rp883.27 billion is allocated for upgrading the information reporting system and the application of core banking.
- 30% or approximately Rp441.43 billion is allocated for extending the branches and micro units networking
- 10% or approximately Rp147.21 billion is allocated for funding the future growth, research and development, loan distribution and other financings.


Up to December 2006, in the amount of Rp1.24 trillion or 83.95% of IPO fund had been successfully utilized and the realizations are as follow:


- The upgrading of information reporting system for Rp646.96 billion
- The extension of branch and micro unit networks for Rp441.63 billion
- Future growth for Rp147.21 billion.

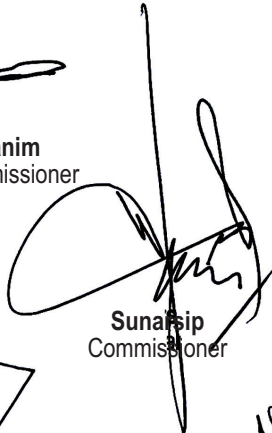
## Responsibility for Financial Reporting


This Annual Report and the accompanying financial statements and related information, are the responsibility of the Management of PT Bank Rakyat Indonesia (Persero) Tbk., and have been approved by members of the Board of Commissioners and the Board of Directors whose signatures appear below:


### Board of Commissioners


  
**Bunasor Sanim**  
President Commissioner

  
**Agus Pakpahan**  
Commissioner

  
**Sunarsip**  
Commissioner

  
**B.S. Kusmuljono**  
Independent Commissioner

  
**Baridjussalam Hadi**  
Independent Commissioner

  
**Aviliani**  
Independent Commissioner

### Board of Directors

  
**Sofyan Basir**  
President Director

  
**Sarwono Sudarto**  
Director

  
**Abdul Salam**  
Director

  
**Sudaryanto Sudargo**  
Director

  
**Sulaiman A. Arianto**  
Director

  
**A. Toni Soetirto**  
Director

  
**Lenny Sugihat**  
Director

  
**Bambang Soepeno**  
Director

ASSURANCE AND ADVISORY  
BUSINESS SERVICES

**Financial Report  
With Independent Auditors' Report  
December 31, 2006  
With Comparative Figures for 2005**

**PT BANK RAKYAT INDONESIA (PERSERO) Tbk.**

 **ERNST & YOUNG**