BANK MANDIRI

ANNUAL REPORT 2001

We want to be your trusted and preferred bank.

ATMandiri
Mandiri ATM network is one of the largest in Indonesia.

Positioning for Growth

BANK MANDIRI

contents :

Highlights
Consolidated

	2001	**2001**	2000	1999
As of and for the year ended December 31,	USD million	IDR billion	IDR billion	IDR billion
		Audited	Audited	Audited
			Restated	Restated
BALANCE SHEET				
Total Assets	25,220	**262,291**	253,355	248,358
Earning Assets (Gross)	23,707	**246,550**	238,589	239,860
Earning Assets (Net)	22,732	**236,408**	222,852	215,988
Total Gross Loans	4,633	**48,186**	43,023	44,013
Allowance for Possible Loan Losses	(586)	**(6,099)**	(12,500)	(22,132)
Total Deposits	18,312	**190,446**	163,375	146,411
Total Liabilities	24,184	**251,511**	239,089	232,710
Total Shareholder's Equity	1,036	**10,777**	14,262	15,638
INCOME STATEMENT				
Net Interest Income	684	**7,109**	6,404	(21,598)
Other Operating Income	140	**1,456**	3,942	3,455
Operating Income [1]	824	**8,565**	10,346	(18,143)
Overhead Expenses [2]	329	**3,417**	3,213	7,056
Provision/(reversal) for Possible Losses on Earning Assets and Commitments and Contingencies	461	**4,791**	(4,815)	31,999
Provision/(reversal) for Possible Losses on Other Assets	(225)	**(2,343)**	5,274	4,748
Profit (Loss) Before Provision for Income Tax and Minority Interest	370	**3,850**	2,023	(67,781)
Net Profit (Loss)	264	**2,746**	1,181	(61,033)
FINANCIAL RATIOS				
Return on Average Assets (ROA) [3]		**1.1%**	0.5%	N/A
Return on Average Equity (ROE) [4]		**21.5%**	8.1%	N/A
Net Interest Margin		**3.0%**	2.7%	N/A
Non Interest Income to Operating Income		**17.0%**	38.1%	N/A
Cost to Income Ratio		**39.9%**	31.1%	N/A
Overhead Expenses to Total Assets		**1.3%**	1.3%	2.8%
Equity to Total Assets		**4.1%**	5.6%	6.3%
Capital Adequacy Ratio (CAR) [5]		**26.4%**	31.3%	15.9%
Non-Performing Loans (NPL)		**9.8%**	19.8%	70.9%
OTHER STATISTICS				
Number of Employees		**17,204**	18,016	19,606
Number of Branch Offices		**635**	546	658
Number of ATMs (owned)		**1,184**	533	513
Number of ATMs "LINK" (access) [6]		**3,160**	N/A	N/A
Exchange rate as of December 31		**10,400**	9,595	7,100

Notes :
1) Net Interest Income + Other Operating Income
2) General and Administrative Expenses + Salaries and Employee Benefit Expenses
3) Net Profit divided by Average of the Quarterly Balances of Total Assets for the Year
4) Net Profit divided by Average of the Quarterly Balances of Total Shareholder's Equity for the Year
5) Capital Adequacy Ratio is calculated on a Non Consolidated Basis
6) Includes ATMs from Sharing Agreement with Indonesia's other state-owned Banks.

Our Vision

The Trusted and Preferred Bank

Our Mission

- To Be market oriented
- To Enhance professionalism
- To Maximize returns to stakeholders
- To Have an open management approach
- To Demonstrate concern for the community and the environment

Bank Mandiri at a Glance

Bank Mandiri is the largest bank in Indonesia in terms of total assets, loans and deposits. It has IDR262.3 trillion (US$25.2 billion) in total assets, representing 23.9% of the total assets of the Indonesian banking system. The Bank offers a broad range of banking products and services to its customers, who range from individuals and small and medium-sized enterprises (SMEs) to large corporations and Government entities.

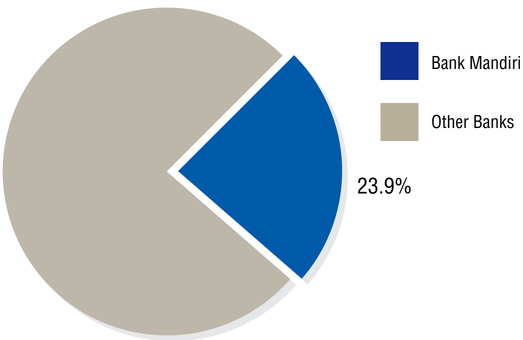
Bank Mandiri was established and acquired ownership of the share capital of four state-owned banks on October 2, 1998. The four state-owned banks legally merged on July 31, 1999 and Bank Mandiri commenced commercial operations in August 1999. The Bank serves more than six million customers, which makes it, based on number of customers, one of the largest retail banks in Indonesia. It employs 17,204 people and has 635 branches and cash outlets.

Customers also have access to their accounts through the Bank's network of 1,184 ATMs, part of over 3,000 ATMs which our customers can access through our arrangements with Indonesia's other state-owned banks via the LINK network. Bank Mandiri has one of the largest foreign exchange networks in Indonesia with 315 foreign exchange-licensed branches and four overseas branch offices and one subsidiary.

MARKET SHARE

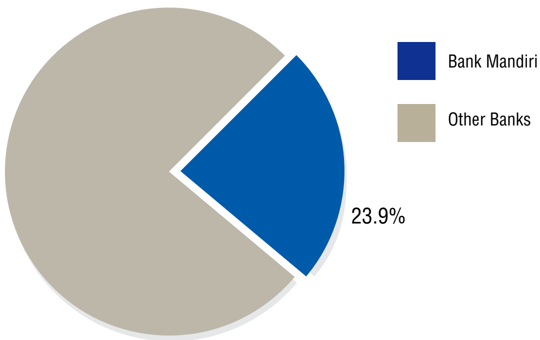
TOTAL ASSETS

(In the Indonesian banking system)
As of December 31, 2001



TOTAL DEPOSITS

(In the Indonesian banking system)
As of December 31, 2001



Achievements in 2001

Reorganization

In August 2001, Bank Mandiri implemented a new organizational structure to achieve its objective to become more market oriented and competitive.

Loan Restructuring and Growth

From 1999 to 2001, Bank Mandiri successfully restructured IDR 25.12 trillion of classified loans, which contributed to the reduction in the level of non-performing loans from 19.80% in 2000 to 9.78% in 2001.

In 2001, Bank Mandiri extended a total of IDR12.9 trillion in new loans. Total loan outstanding in 2001 reach IDR48.2 trillion or an increase of 12.0% from 2000. The Bank also acquired IDR2.9 trillion of credits from the Indonesian Bank Restructuring Agency (IBRA). In addition, through its collaboration with Bank Ekspor Indonesia, Bank Mandiri refinanced IDR 2.9 trillion of export credit to Indonesian exporters.

Business Diversification

In 2001, in order to diversify the Bank's customers and revenue base and improve the funding mix, the Bank aggressively expanded its existing corporate and retail banking franchises. Time deposits, demand deposits and savings deposits, which are the principal source of funding for the Bank, were IDR130.6 trillion, IDR37.5 trillion and IDR22.3 trillion, respectively.

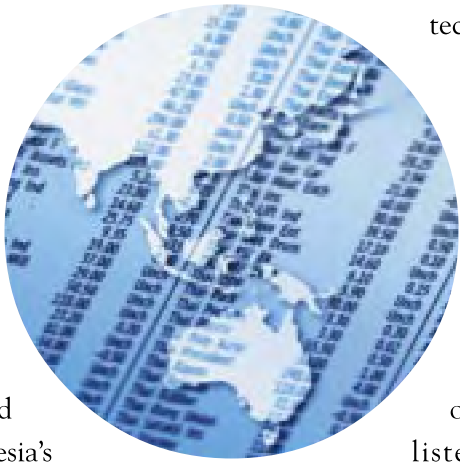
Retail Banking

After completing a comprehensive review of the Bank's retail banking strategy, the Bank implemented measures to introduce value-added services to a larger group of customers.

It introduced *Mandiri Prioritas*, a Priority Banking service for high-end customers, and opened two new priority banking centers. In 2001, Bank Mandiri extended IDR2.2 trillion of new loans to SMEs, which represented a significant segment of the Indonesian economy.

EXPANSION OF DISTRIBUTION NETWORK

Bank Mandiri enhanced its distribution reach by increasing its ATM network from 533 ATMs in 2000 to 1,184 ATMs in 2001. The Bank's distribution network is enhanced through our arrangements with Indonesia's other state-owned banks known as "LINK", resulting a total of over 3,000 ATMs which our customers can access. Bank Mandiri also enhanced branch network to 89 outlets, which brought the total branches and cash outlets as of December 31, 2001 to 635.



INTEGRATION OF TECHNOLOGY PLATFORMS

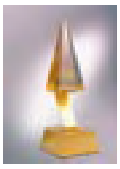
Bank Mandiri completed the integration of the four legacy banks' technology platforms in March 2001, three months ahead of schedule. The single technology platform creates a unified interface for customers and, increases the efficiency of the Bank's back office processing.

EUROBOND ISSUANCE

In December 2001, Bank Mandiri successfully issued US$125 million of floating rate notes due in 2006, listed on the Hong Kong Stock Exchange. Standard & Poor's for the first time gave a B-rating to the notes issued by an Indonesian state-owned entity, two grades higher than the sovereign rating of the Republic of Indonesia. The issuance also marked the first capital market transaction by an Indonesian state-owned entity since the economic crisis of 1997.

AWARDS

Bank Mandiri received several distinguished awards from the following international institutions for its achievements in Indonesia:



- *Visa International* for the Bank's outstanding performance in the credit card business
- *Global Finance* magazine for the Best Domestic Bank 2001
- *Global Finance* magazine for the Best Trade Finance Bank 2001
- *FinanceAsia* magazine for the Country Award for Achievement 2001
- *The Banker* (London) for Bank of the Year 2001

"Strong Progress"

OVERVIEW

In 2001, the macroeconomic indicators showed signs of weaknesses despite the peaceful transition of national leadership in August 2001. The tragic events of September 11, 2001 that sent shockwaves through the international community accelerated the global economic slowdown, while slowing the pace of Indonesia's economic recovery. In 2001, the Indonesian economy grew by 3.3% as against an initial expectation of 4.5% for the year and as compared to 4.9% growth in 2000. The exchange rate depreciated by 18% from an average of IDR8,405 in 2000 to IDR 10,256 in 2001.

Inflation reached 12.5% in 2001, higher than the Government's target of single digit inflation. While Indonesia maintained a positive trade surplus, it was below the level achieved in 2000. Indonesia's foreign debt continued to be an issue.

Despite the difficult business environment, the banking industry showed signs of recovery after a series of restructurings and consolidations. Third party funding increased 14.1% to IDR797.4 trillion. Total credits increased by 11.9% to IDR358.6 trillion and total assets increased by 6.7% to IDR1,099.7 trillion, respectively.

PERFORMANCE

Despite these challenging macro conditions, we made significant progress toward fulfilling our vision of becoming Indonesia's trusted and preferred bank. Bank Mandiri is today Indonesia's largest bank in terms of assets, loans and deposits. Assets reached IDR262.3 trillion (US$25.2 billion), representing 23.9% of the total assets of the Indonesian banking system.

In 2001, we undertook major initiatives that strengthened the foundations for growth. These initiatives included consolidating our technology platform, reorganizing our internal structure, undertaking several major retail banking initiatives, preparing for the Bank's privatization and completing the successful issue of US$125 million floating rate notes due in 2006.

From left to right: Sabana Kartasasmita (Commissioner), Binhadi (Chairman), Soedarjono (Commissioner), Markus Parmadi (Commissioner)

I am pleased to note the improvement in our results in 2001.

OUTLOOK

In 2002, we will begin implementing our five-year plan to become a universal bank, serving corporate and retail customers. Having laid a solid foundation, one of our priorities is the expansion of our operating platforms. I am confident that our solid foundation, clear and focused business strategy, prudent banking practices and capable management will contribute to fulfilling our objective of becoming the leading bank in Indonesia.

The Board of Commissioners wishes to express their appreciation to E.C.W. Neloe, President Director & CEO of Bank Mandiri, members of the Board of Directors, EVP Coordinators, Senior Managements and all employees at Bank Mandiri for their hard work and commitment, the result of which is the solid performance presented in this report. We especially congratulate all the staff at the Bank for the various awards received in 2001. The Board of Commissioners would also like to thank all parties who have assisted in supporting the growth and enhancing the quality of Bank Mandiri. We look forward to further accomplishments as we work together to make Bank Mandiri the trusted and preferred bank in Indonesia.

Jakarta, May 2002

BINHADI
Chairman

STRATEGIC FOCUS

Bank Mandiri aims to be a fully universal bank, trusted and preferred by a wide range of corporate and retail customers. The key components of our strategy are to:

- Maintain and enhance our corporate banking business;
- Increase market share in commercial and consumer banking;
- Strengthen our risk management processes;
- Enhance the use of technology; and
- Improve our financial strength.

I am pleased to report that, despite a difficult business environment, we have focused on enhancing our operating platform and culture to enable us to compete successfully and grow in a sound and prudent manner.

PERFORMANCE

For the year ended December 31, 2001, Bank Mandiri recorded a net profit of IDR2.7 trillion (US$264 million), an increase of 132.5% from the previous year. Operating income reached IDR8.6 trillion (US$824 million) and operating expenses decreased to IDR4.5 trillion from IDR8.2 trillion in 2000. Return on average assets and return on average equity reached 1.1% and 21.5% respectively. The Bank achieved a capital adequacy ratio of 26.4%; significantly higher than the 8% minimum standard of Bank Indonesia, based on the capital adequacy accord reached by the Basel Committee of the Bank for International Settlements standards in 1988, with some modifications.

Bank Mandiri was awarded, among others, "The Best Domestic Bank Award" by *Global Finance* magazine, and "The Country Award for Achievement 2001" by *FinanceAsia* magazine, in acknowledgement of our strong performance during 2001.

BUSINESS REVIEW

During the year under review, our key priorities were to :

- Consolidate our operating platforms;
- Improve our liquidity;
- Make further progress in credit restructuring; and
- Improve our funding mix.

CONSOLIDATION

Bank Mandiri successfully converted the nine branch information technology systems inherited from the legacy banks into a single system in March 2001, three months ahead of schedule. The Bank also successfully rolled out a new set of standard operating policies and procedures to all our branches and consolidated our asset and liability products. The consolidation enables us to operate more effectively as "one bank".

Having completed the consolidation of our operating platform, we then restructured our organization to support our five-year corporate plan to become a universal bank. The new structure consists of three main functions designed to rationalize operations and improve efficiency: business, distribution, and operations.

To support our business strategy and growth plans in the future, we initiated a three-year program to upgrade our information technology system with a budget for capital expenditure of US$200 million. The program includes significant expansion of our ATM network, the introduction of a customer and loan collection system to support the development of our consumer lending strategy, and introduction of new electronic channels to support our retail banking. As part of our information technology initiatives, we are upgrading our data center to consolidate hardware and implement best practice procedures for systems and operations management to enable us to manage our performance and risks more effectively.

IMPROVING LIQUIDITY

In early 2001, Bank Mandiri was a net borrower from the inter-bank market, resulting in the need to seek alternative external funding. By taking a number of measures to manage our liquidity, we reversed this situation and became a net lender by the third quarter of the year. This success was particularly significant in view of the profits that the Bank delivered during the year.

PROGRESS IN CREDIT RESTRUCTURING

Bank Mandiri made rigorous efforts to continue to restructure our problem loans and recover amounts overdue. In 2001, we collected IDR6.3 trillion (US$605 million) in principals and interest on non-performing loans. The level of non-performing loans at Bank Mandiri was reduced to 9.78% from a high of 70.86% in 1999 and 19.80% in 2000. Additionally, we have a policy of maintaining a conservative provision against non-performing loan exposure, maintaining aggregate loan loss allowances equivalent to 129.4% of total non-performing loans as of December 31, 2001.

ENHANCING FUNDING MIX

Throughout the year, to broaden our funding base, we launched several extensive

"Solid Foundation"

consumer banking campaigns, which generated IDR29.8 trillion in new retail funds in 2001. Retail deposits account for 54% of total funds compared to 44% in 2000. We also improved net interest margins to 3.0%, from 2.7% in the previous year.

CORPORATE BANKING

Corporate banking continues to be an important focus for Bank Mandiri. During the year, we continued to provide innovative, value-added products and services to our corporate clients, which comprises of domestic firms in key sectors such as aviation, agri-business, food and beverage, wholesale and retail trade and natural resources. We extended IDR11.6 trillion in new credits to our corporate clients in 2001, an increase of 84.1% from the previous year.

Board of Management
Standing : E.C.W. Neloe (President Director & CEO),
Seated from left to right : I Wayan Pugeg (Managing Director & SEVP), K. Keat Lee (EVP-Coordinator Information & Financial), Omar S. Anwar (EVP-Coordinator Retail Banking), I Wayan Agus Mertayasa (EVP-Coordinator Corporate Secretary and Compliance), Agus Martowardojo (Managing Director & SEVP), I. Supomo (EVP-Coordinator Distribution Network), M. Sholeh Tasripan (EVP-Coordinator Corporate & Government).

RETAIL BANKING

We undertook several notable initiatives during the year to support our aim to expand our retail banking business. These included the introduction of demand deposit and savings account products under the *Mandiri Fiesta Xtraordinary* program, the opening of Priority Banking Centers for high net-worth individuals, increased lending to SMEs, and the launch of a credit card business through a cooperation agreement with GE Finance Indonesia, an affiliate of GE Capital. The Bank was the proud winner of VISA International's "Great Achiever Award" for achieving the fastest growth in the credit card business in Indonesia in 2001.

To better serve our retail customers, we improved our distribution network of branches, cash outlets and ATMs. We currently serve more than six million retail customers through 635 branches and cash outlets and 1,184 ATMs, part of over 3,000 ATMs which our customers can access through our arrangements with Indonesia's other state-owned banks.

During 2001, our subsidiary, Bank Syariah Mandiri expanded its market reach in the specialized segment of offering Islamic banking services by increasing its customer base by 75% to 70,950 customers.

INVESTMENT BANKING

In line with our strategy to grow our fee-based income, in 2001, we offered full investment banking services through our subsidiary, Mandiri Sekuritas. We aim to expand this business through leveraging our significant corporate client base.

During the year, our priorities were to consolidate our operating platforms and address three critical business issues. These were the need to improve liquidity, credit restructuring and funding mix, to ensure that the Bank continues to deliver acceptable levels of profitability.

CORPORATE GOVERNANCE

Since the Bank's establishment three years ago, we have placed high priority on good corporate governance. We are committed to operating on strictly commercial principles including the need to be accountable, transparent and responsive to our stakeholders. Consistent implementation of good corporate governance will contribute to developing and sustaining the best operating procedures and systems for Bank Mandiri.

RISK MANAGEMENT

We believe that conservative risk management policies, procedures and controls are critical for the long-term sustainable development of our business. We are continuing to implement enhanced risk management procedures as part of our drive to meet international best practice standards. In 2001, we undertook a major reorganization to strengthen and make accountable our internal control structure including setting up an independent Risk and Capital Committee and engaging a number of internationally recognized experts on risk management to assist in enhancing the Bank's risk management policies, procedures and controls.

We also applied the "four-eye" principle to each new credit extended, whereby every credit decision is made by two persons, one from a business unit and one from our Risk Management Unit.

EUROBOND ISSUE

In December 2001, Bank Mandiri successfully launched US$125 million floating rate notes (the "Notes") which were listed on the Hong Kong Stock Exchange. Standard & Poor's for the first time since the economic crisis of 1997 gave a B-rating to notes issued by an Indonesian state-owned entity, two grades higher than the sovereign rating of the Republic of Indonesia. The issuance also marked the first capital market transaction by an Indonesian state-owned entity since the economic crisis of 1997. 60% of the Notes were placed to domestic investors and 40% of the Notes were placed to international investors.

OUTLOOK

Our priorities for 2002 are to :

- Increase the scope of our fee-based income activities;
- Expand our SME and consumer loans portfolio;
- Continue to improve our funding mix;
- Prepare for the Bank's initial public offering;
- Increase levels of efficiency and productivity within the Bank;
- Enhance our information technology platform including performance management system capability;
- Continue to improve our non-performing loans and collections efforts;
- Improve our operational risk policies, procedures and controls;
- Improve our human resources policy and framework to foster professionalism among our staff; and
- Continue to offer innovative and value-added products and services to our customers.

These initiatives will be undertaken while abiding by prudent risk management and corporate governance guidelines.

On behalf of the Board of Directors, I would like to express my appreciation to all management and staff of Bank Mandiri for their commitment and hard work in delivering another year of solid results. We will forge ahead on the road to sustained growth and profitability, in line with our vision of being the trusted and preferred bank in Indonesia.

Jakarta, May 2002

E.C.W. NELOE
President Director & CEO

Our Core Busi

We offer a broad range of banking products and services to our customers through our significant distribution network in Indonesia.

Bank Mandiri, the largest bank in Indonesia in terms of assets, loans and deposits, is gradually evolving into a universal bank. Bank Mandiri aims to be a true universal bank by maintaining and enhancing its corporate banking business while building strong commercial and consumer franchises and offering Islamic banking and investment banking services. Historically, the Bank's core businesses focused on privately owned corporations and Government-related entities. Today, Bank Mandiri offers a broad range of products and services to its privately owned corporate and Government-related entities, SMEs and retail customers.

The Bank's Corporate and Government Unit provides corporate banking products and services to Government-related entities as well as conglomerates and private businesses in a variety of industries. The Bank's Retail Banking Unit provides commercial banking services to SMEs and consumers. Bank Mandiri also offers Islamic banking services through its subsidiary, Bank Syariah Mandiri. Bank Mandiri also seeks to leverage its strong relationships with corporate customers and extensive distribution network to provide full investment banking services through its subsidiary, PT Mandiri Sekuritas. As of December 31, 2001, the Bank maintained correspondent relationships with more than 1,000 foreign banks world-wide as well as 61 domestic banks and more than 100 securities companies in Indonesia.

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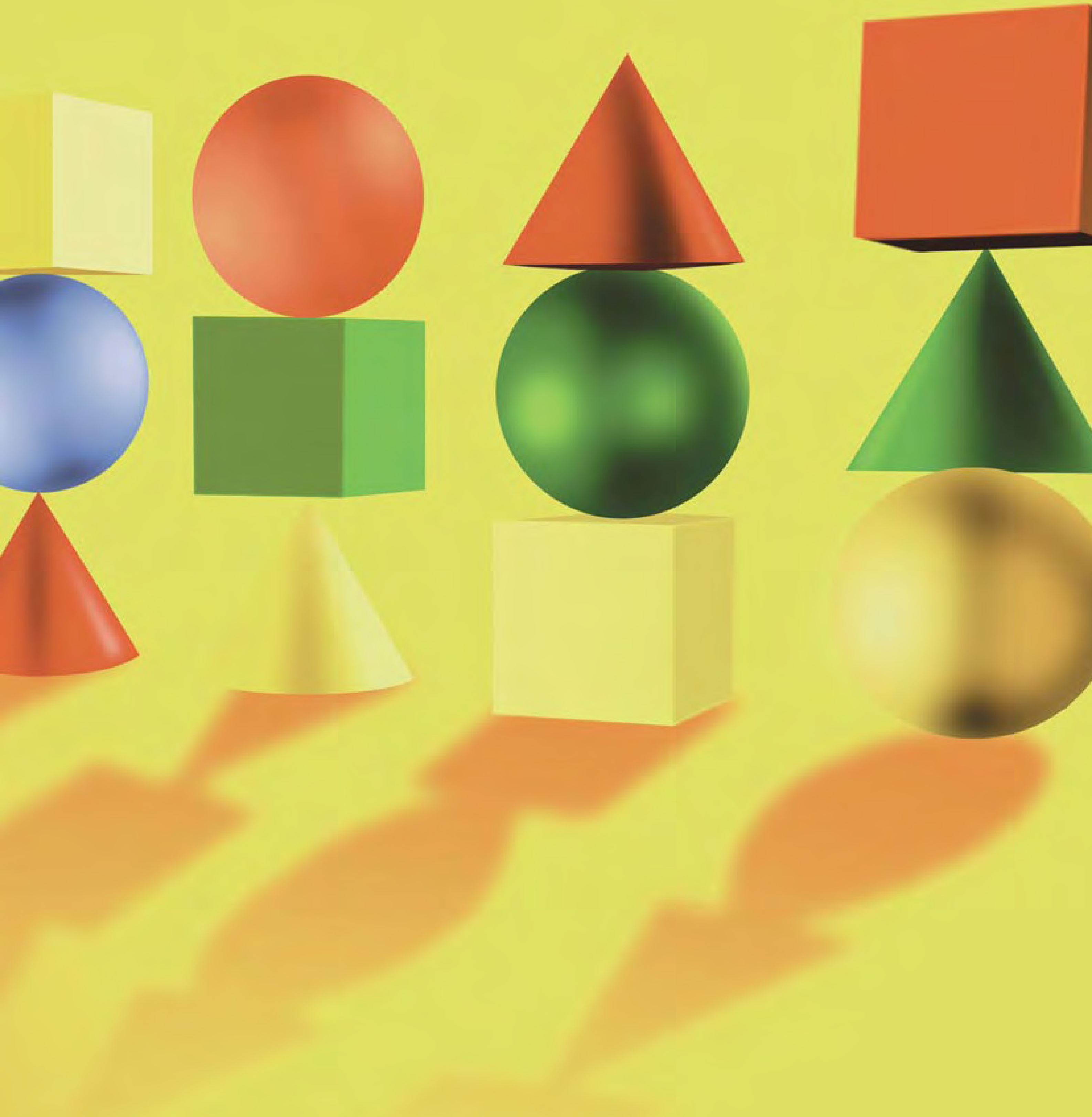


In 2001, by value, corporate customers accounted for approximately 80% of the Bank's total loan portfolio. Bank Mandiri's primary target for its corporate banking products is the top end of the corporate market in Indonesia, in addition to Government-related entities. We are actively pursuing high-quality loan growth opportunities with Government-related and corporate customers in the mining, export-oriented industry, food and beverage, wholesale and retail trade and telecommunications sectors.

Bank Mandiri extended IDR11.6 trillion of new credit to its corporate customers in 2001. In addition, the Bank acquired IDR2.9 trillion of sustained credits (cash generating loans) from IBRA. Outstanding corporate credits, defined as loans above IDR25 billion, reached IDR38.2 trillion by year-end, an increase of 11.9% from 2000.

Bank Mandiri's lending products include short-term working capital loans and long-term loans, syndicated loans, bank guarantees and letters of credit.

The Bank also cooperated with Bank Ekspor Indonesia to provide credit-refinancing facility to Indonesian exporters. In 2001, the Bank refinanced IDR2.9 trillion of export credit to a growing number of exporters in Indonesia.

Bank Mandiri was appointed by the Government to administer channelling loans in Rupiah and various foreign currencies. Channelling loans are loan commitments extended to eligible Government-related entities for the purpose of financing Government selected development projects throughout Indonesia. These loans are made available by various bilateral, multilateral and international financial institutions. As of December 31, 2001, Bank Mandiri administered approximately IDR20.1 trillion of channelling loans and generated fee revenues of approximately IDR55 billion.

The Bank also attracted third party funding from its corporate customers. As of December 31, 2001, the Bank had total deposits of IDR18.1 trillion from approximately 1,170 corporate customers and IDR69.8 trillion from approximately 400 Government-related customers. The Bank offers demand deposits, time deposits and certificates of deposit to its corporate customers.

Bank Mandiri is also one of the depository banks appointed by the Indonesian Central Securities Depository for payment settlements among securities companies on the Jakarta and Surabaya stock exchanges. In December 2001, SGS International Certification Services awarded the ISO 9001:2000 certification to the Bank's custodial, depository and trust services.

In 2002, the Bank plans to enhance its fee-based income products and services through initiatives such as trade finance, investment banking (through PT Mandiri Sekuritas), cash management and other strategic banking activities.

As the largest Bank in terms of deposit base, Bank Mandiri is well positioned to benefit from the growth of the domestic market. Its retail banking operation covers two key customer groups: consumers and SMEs.

CONSUMER BANKING

We believe that the Indonesian consumer financial services market has the potential to experience significant growth in the future as currently there is a relatively low penetration rate for consumer financial services. Indonesia has a large potential consumer base.

In 2001, the Bank raised IDR29.8 trillion in retail funding, representing a year-on-year increase of 41.3% over 2000. Total deposits grew by IDR27.1 trillion to IDR 190.4 trillion as of December 31, 2001. Retail and corporate (including Government-related entities) customers accounted for 54% and 46% of total deposits, respectively, in 2001, compared to 44% and 56% in 2000.

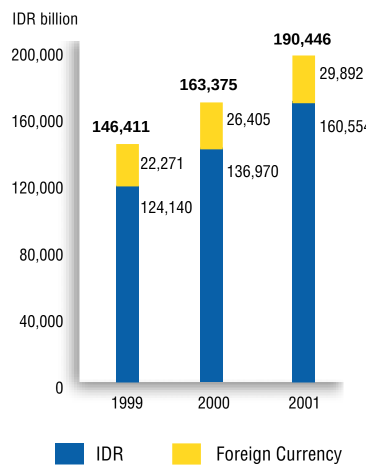
Historically, Bank Mandiri has provided limited consumer loan products for individual customers. To meet increased demand for consumer credit, in 2002, the Bank plans to introduce additional products, such as home loans.

In November 2000, the Bank began offering VISA credit cards in Indonesia through a cooperation agreement with PT GE Finance Indonesia, an affiliate of GE Capital. We signed up more than 100,000 new customers within a period of 10 months which we believe is the fastest credit card customer growth in such a time period experienced in Indonesia. In October 2001,

VISA International gave an award to Bank Mandiri for its achievement in the credit card business.

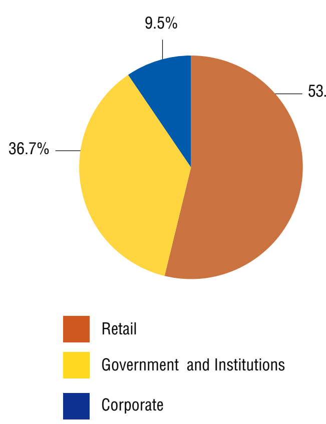
Bank Mandiri launched *Mandiri Fiesta Xtraordinary*, a promotion aimed at savings account customers, to attract lower cost and more stable saving deposits. The recent

Deposits

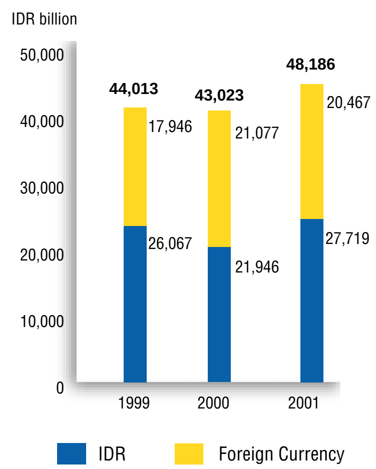


Customer Mix of Deposits Base

As of December 31, 2001



Loans

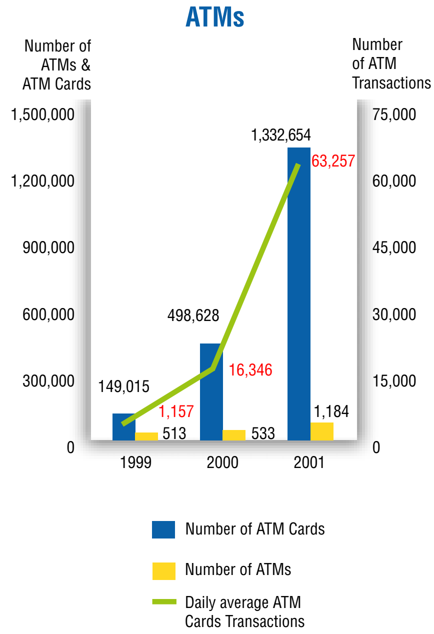


Top-of-Mind survey conducted by AC Nielsen in five large cities, which focused on brand awareness in Indonesia concerning the banking industry, placed Bank Mandiri third in 2001, a substantial improvement from the seventh place ranking Bank Mandiri achieved in 1999.

In 2001, to improve accessibility, Bank Mandiri expanded its network of ATMs, branches and cash outlets. Bank Mandiri's ATM network is one of the largest in Indonesia with 1,184 ATMs, part of over 3,000 ATM's which our customers can access through our arrangements with Indonesia's other state-owned banks.

Bank Mandiri also has a large domestic branch and cash outlet network, with 478 domestic branches and 157 cash outlets as of December 31, 2001. The Bank intends to increase the number of branches and cash outlets in strategic geographic locations throughout the country. The Bank's domestic branches are organized into 10 geographic regions within Indonesia. In Jakarta, Bank Mandiri is in the process of reorganizing its branch network structure so that all branches will provide front office customer services with all back office administrative services provided by the Jakarta City Operations Centre. Over 50% of the Bank's branch network is located in Indonesia's four largest metropolitan areas - Jakarta, Bandung, Surabaya and Medan.

To provide an exclusive products and services for our high-end-customers, we launched *Mandiri*



PRIORITY BANKING

BANK MANDIRI PRIORITAS

To provide an exclusive products and services for our high-end-customers, we launched *Mandiri Prioritas*, a Priority Banking services. Bank Mandiri opens two priority banking centers in Jakarta in 2001, and plans to expand more of these centers throughout the country in 2002.

Prioritas, a Priority Banking services. Bank Mandiri opens two priority banking centers in Jakarta in 2001, and plans to expand more of these centers throughout the country in 2002.

In 2001, the Bank made significant progress in its plans for more value-added products and services including a full range of consumer loan products, mobile and internet banking as well as call center support, all to be introduced in 2002. The introduction of these products and services is in support of realizing the Bank's overall vision to be the trusted and preferred bank in Indonesia.

SME BANKING

The SME sector in Indonesia has grown rapidly over the past few years, largely due to the country's increased exposure to export-related and retail businesses. Based on the latest survey conducted by the Asian Development Bank Technical Assistance in 2001, around 20% of Indonesia's more than 700,000 SMEs use bank financing. This presents many opportunities for more tailored SME financing programs.

In 2001, Bank Mandiri extended IDR2.2 trillion of new credit to SMEs. This is an increase of 36% compared to the same period in 2000. In 2002, the Bank plans to expand its SMEs lending further. In support of this initiative, it has set up three new business centers in Jakarta geared to serve the financing needs of SMEs. The Bank also plans to develop tailored products such as commodity trading and receivables financing schemes targeting customers segment.

In conjunction with Yayasan Dharma Bhakti Astra, Bank Mandiri participated in a Community Development Programme for small businesses in Yogyakarta. This program provides basic business skills to small business operators to develop their business and improve their finance skills.

Bank Mandiri also developed a partnership program with a number of institutions to broaden its SMEs customer base. In 2000, the Bank, in collaboration with the Indonesian Chamber of Commerce (*KADIN*), launched the Integrated Partnership Program (*Program Kemitraan Terpadu*). The program was expanded to 23 provinces in 2001.

The Bank also established a relationship with Unilever Indonesia to support SMEs customers in the consumer product distribution business. In 2001, the Bank developed similar relationships with Tira and Arnott's.

"We are proud to have Bank Mandiri as our partner, a trusted and professionally-managed bank in a constantly changing business environment."
Robert Budi Hartono, President Director of PT Djarum, a customer of Bank Mandiri and one of the legacy bank since 1974.

"Bank Mandiri has succeeded in creating new standard in customer service, support and professionalism."
Johnson Tobing, Priority Banking Customer.

"I am proud to see the transformation at Bank Mandiri. I joined one of the legacy banks in 1948. With the evolution I have seen so far, I am confident that Bank Mandiri will continue to be a key player in Indonesia."
Nyoo Kiem Bie, former employee of a legacy bank and member of the Indonesia Thomas Cup Badminton Team (1958).

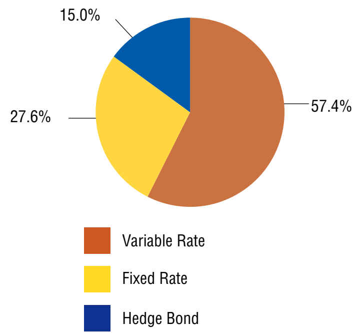
We believe that Bank Mandiri operates one of the largest and most sophisticated treasury and capital market operations in Indonesia. The Treasury and Capital Markets Unit provides a variety of treasury products and capital markets services to corporate and institutional customers and also is responsible for the Bank's liquidity as well as managing its investment portfolio. As of December 31,2001, the Unit had 242 corporate and Government-related customers, 22 financial institutions, 87 commercial customers and 384 individual and retail customers. As at the end of 2001, Bank Mandiri maintained a net lender position in the money market for Indonesian Rupiah and US dollars in contrast to being a net borrower for Indonesian Rupiah in 2000.

In 2001, the Bank had an average daily turnover of currency trades of approximately IDR842 billion (US$81 million) and in total conducted foreign exchange transactions valued at IDR208 billion (US$20 million). The total money market was IDR301.6 trillion (US$29 billion). The Unit also manages the recapitalization bonds held by Bank Mandiri. As of December 31, 2001, total recapitalization bonds at Bank Mandiri were IDR153.5 trillion, a drop of 13.2% over the same period in 2000. Bank Mandiri sold IDR15.8 trillion of the bonds and exchanged IDR5 trillion for assets held by IBRA.

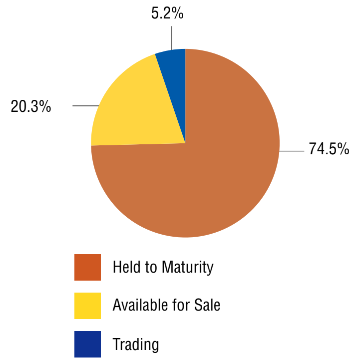
FINANCIAL INSTITUTIONS AND OVERSEAS NETWORK

To service the needs of its customers on international trade transactions and to support the Bank's business units in gaining fee-based income, Bank Mandiri currently maintains correspondent relationships with more than 1,000 foreign banks worldwide and 61 domestic banks. Since 2000, Bank Mandiri has been building its reputation in the international financial community by establishing credit lines and cooperating in trade finance with world-class banks in most OECD member countries.

Government Bonds by Type



Government Bonds by Category



Bank Mandiri also maintains its presence in selective international finance centers. Bank Mandiri is represented by a network of four overseas branch offices in Singapore, Hong Kong, Cayman Islands, Cook Islands and a subsidiary in London. These overseas offices offered a range of products and services to cater to customers' needs in conducting their international business.

BANK SYARIAH MANDIRI

Bank Syariah Mandiri, the Islamic banking arm of Bank Mandiri, conducts its operations based on sharia principles. It is a wholly owned subsidiary of Bank Mandiri and it offers product and services to meet the needs of Moslem and non-Moslem customers in the country. As of 2001, there were 23 Bank Syariah Mandiri branches in 12 provinces in Indonesia and six cash outlets.

In 2001, Bank Syariah Mandiri served 70,950 customers, an increase of 75% over the same period in 2000. It also collected IDR474.6 billion of third party funding, a substantial 168% increase over 2000. It extended IDR653.1 billion, which consisted of IDR308 billion to corporate firms and IDR345.1 billion to SME business. Bank Syariah Mandiri focuses its lending on several sectors including wholesale, agriculture, industry, retail and housing. In addition, to meet its customers' needs, Bank Syariah Mandiri also introduced new financing products in line with sharia principles including remittances (*hawalah*) and bank guarantee (*kafalah*). In 2002, Bank Syariah Mandiri plans to open 16 branches and 5 cash outlets and obtain a license as a foreign exchange bank.

MANDIRI SEKURITAS

PT Mandiri Sekuritas provides a wide-range of investment banking services, equity and debt capital markets services, as well as investment management services. Incorporated on July 31, 2000, PT Mandiri Sekuritas was created by the merger of PT Exim Securities and PT Bumi Daya Sekuritas, two of the Bank's subsidiary operations, and PT Merincorp Securities, one of the Bank's affiliates. In growing its business, Mandiri Sekuritas will leverage the strong corporate customer portfolio and extensive domestic and international network of Bank Mandiri.

In 2001, trading of equities and fixed income products contributed more than half of the firm's total revenue. Broking and investment banking activities accounted for 13.4% and 13.2% of the firm's total revenue, respectively. In 2001, Mandiri Sekuritas also launched new mutual fund products that were also offered to Bank Mandiri's customers.

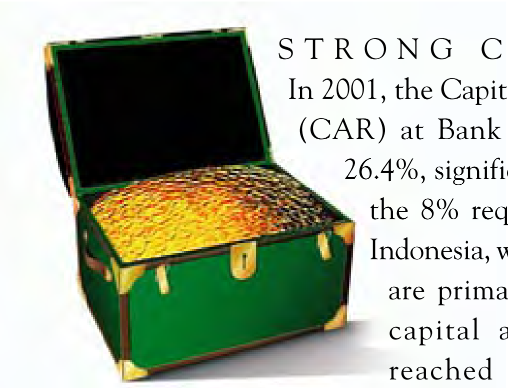
In 2002, Bank Mandiri plans to strengthen Mandiri Sekuritas by injecting additional capital and improving its organization to leverage its substantial corporate banking relationships. Mandiri Sekuritas will also strengthen its Research Division to provide a more comprehensive service to its customers.

"We have focused on enhancing our operating platform and culture to enable us to compete successfully and grow in a sound and prudent manner."

E.C.W. Neloe,
President Director & CEO

STRONG CAPITAL
SOUND TECHNOLOGY
PRUDENT BANKING
COMPETENT PEOPLE

In the short time since Bank Mandiri began operations, it has progressively built its reputation as the trusted and preferred bank in Indonesia. To ensure that it has strong foundations to support continued long-term growth, the Bank has implemented a series of initiatives centered on three key areas - strong capital, sound technology and prudent banking, with the support of professional people.



STRONG CAPITAL

In 2001, the Capital Adequacy Ratio (CAR) at Bank Mandiri reached 26.4%, significantly higher than the 8% requirement of Bank Indonesia, which requirements are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank for International Settlements standards in 1988, with some modifications.

SOUND TECHNOLOGY

A comprehensive review of the Bank's technology program was conducted in 2001 by two independent consultants: Accenture and Financial Services Volunteer Corps (FSVC). Following the review, Bank Mandiri embarked upon a three-year program to enhance its technology platform in support of the Bank's growth strategy. The Bank allocated US$200 million for its information technology capital expenditure. Of this amount, the Bank spent US$74 million in 2001. The three-year program that will be completed in 2003 will improve the Bank's information technology infrastructure, delivery systems, management information systems and core banking systems. In addition, Bank Mandiri has begun work on a system known as the Enterprise Mandiri Advanced System (eMAS) as part of the Bank's information technology strategic plan to enhance the Bank's competitive edge as a universal bank.

In March 2001, Bank Mandiri completed the integration of the nine branch technology platforms inherited from the four legacy banks into one operating platform. The single technology platform facilitated the Bank's transition to one standardized process, product, operation and accounting system. The Bank also strengthened its IT disaster recovery facilities. In 2001, the Bank commenced preparations for mobile banking and internet banking services to be introduced in 2002.

At the operational level, Bank Mandiri implemented Real Time Gross Settlement and introduced Interbranch Transaction Systems that enhanced the efficiency of the back office operations at the branch level. The Bank also consolidated branch-based bills processing into 11 Bill Processing Centers, further improving efficiency.

In addition, Bank Mandiri began developing its Performance Management System (PMS) that will measure in detail the profitability of individuals and business units. The system, to be introduced in June 2002 with the assistance of Booz Allen Hamilton Consultant, will generate four types of reports that will assess the performance of business units, customer accounts, product lines and service levels. This valuable input will enhance the decision-making process of managers as they implement the Bank's strategic initiatives.

An independent IT Steering Committee has been set-up to ensure proper implementation of the IT development plan and that it remains consistent with the overall business objectives of the Bank.

As a commercially oriented entity, Bank Mandiri is committed to prudent banking based on international best practices. This includes seeking to adhere to strict corporate governance principles, comprehensive compliance and audit processes, sound risk management and effective management of non-performing loans.

CORPORATE GOVERNANCE AND COMPLIANCE

As one of the largest banks in Indonesia, Bank Mandiri is responsible for building a commercially sound institution that can perform its critical financial intermediary function in the economy. The Bank's management has acknowledged that Bank Mandiri must operate on commercial principles supported by sound corporate governance mechanisms in line with the best international practices. The application of good corporate governance requires commitment in promoting transparency and accountability to its various stakeholders.

Following the establishment of Bank Mandiri, the management has taken several important initiatives to promote good corporate governance such as new corporate governance and compliance policies, codes of conduct, Board of Directors guidelines, and management contracts relating to corporate governance milestones. These initiatives provide strong foundations for future growth at the Bank. Bank Mandiri was also one of the founders of the Indonesian Institute of Good Corporate Governance.

An office of compliance was established which adopted best practices with regard to managing risk, and this has become a benchmark for other banks in Indonesia. The Bank's Compliance Group ensures that adequate internal controls, policies and procedures are implemented by all units and at all levels within the Bank. The Bank also put in place internal control and compliance units at the branch level, accountable to the office of compliance head-office. The Bank's code of conduct serves as a guide for all employees at all levels in their relationships with the Bank's customers, business partners and vendors. The code of conduct makes it clear that the Bank's employees are not permitted to receive gifts from clients or other sources that may influence their impartiality. The code of conduct also addresses other issues such as abuse of authority and inside information.

In addition, the Bank put in place an Audit Committee to supervise and advise the Internal Audit Group and work with Bank Indonesia, the Supreme Audit Agency and external auditors to conduct regular audits of the Bank. The Internal Audit Group consists of over 200 auditors. The Internal Audit Group, located at the Bank's head office reports to the President Director & CEO. The Audit Committee reports to the Bank's Board of Commissioners and comprises a Commissioner of the Bank and two independent professionals. The Bank's Internal Audit Group consists of four Departments: General Audit, Credit Audit, Special Audit and Unit Performance, Policies and Procedures. In 2001, the Bank received ISO 9002 certification in respect to the Bank's internal audit manuals.

To emphasize its commitment to high standards of transparency, the Bank is building its capability to adopt International Accounting Standards in 2001. Bank Mandiri also publishes its financial reports on a monthly basis on Bank Indonesia's website and on a quarterly basis in the domestic newspapers. In addition, Bank Mandiri participates in parliamentary hearings on the development of the banking sector and conducts quarterly press briefings on its results.

In 2001, Bank Mandiri announced to its customers and the general public its Three No's policy: No Delays, No Errors and No Special Payments, signalling the Bank's commitment to promote high standards of professionalism and transparency throughout its operations. Moreover, the management at Bank Mandiri has adopted an open management style to allow greater staff participation in the decision-making process, which contributes to greater sense of accountability.

The good corporate governance practice in Bank Mandiri has been reviewed by independent consultants in 2000. Several improvements based on their review have been implemented in 2001.

The Bank's commitment and consistency in implementing good corporate governance has been well received by members of the investment community. We believe that Bank Mandiri's successful issuance of its Eurobond in 2001 indicates an increased level of trust of Bank Mandiri among members of the investment community. In 2002, Bank Mandiri is more committed to enhancing its corporate governance mechanisms as part of an integrated effort to strengthen the level of trust among the Bank's various stakeholders.

PROACTIVE RISK MANAGEMENT

Bank Mandiri is exposed to specific risks associated with the Bank's deposit-taking and lending businesses, the management of portfolio and the external environment. Conservative risk management policies, processes and controls are imperative for the long-term growth of Bank Mandiri. Although the Bank currently meets the standards required by Bank Indonesia, Bank Mandiri has taken steps to further strengthen internal controls as part of the Bank's ongoing commitment to adhere to international best practice standards. The goal in risk management at Bank Mandiri is to ensure that the Bank understands, measures and monitors the various risks that arise and that the Bank adheres, as far as reasonably and practically possible, to the policies and procedures which are established to address these risks.

The Bank is primarily exposed to three main risk categories: market risks (including risks associated with movements in interest and exchange rates), credit risks and operational risks (including legal risk). With regard to credit risks, the Bank implements a "four-eye" principle, which requires approval from both the business and risk management units. At the portfolio level, the Bank seeks to ensure an active portfolio management process by introducing the Risk Adjusted Performance Measurement system. We believe that the Bank maintains the concentration of risk at an acceptable level while ensuring a maximum return.

Bank Mandiri has developed an enterprise-wide Risk Management Manual to provide solid foundation and guidelines in managing the three core risk categories. The Bank employs a proactive strategy known as "risk by choice, not by chance". Bank Mandiri determines that the level of risk taken are in accordance with overall policy, risk tolerance and prudent practice as stipulated in the risk manual with the goal of achieving maximum return at a particular level of risk.

In August 2001, the Bank set up an independent and central Risk and Capital Committee to continuously review, monitor and evaluate the Bank's management of its capital, asset and liability risks. The Risk and Capital Committee replaces and consolidates the previous Risk Management Committee and the Assets and Liabilities Committee. The Risk and Capital Committee meets at least twice a month and is responsible directly to the Board of Directors. Its membership includes members of the Board of Directors and the group heads of various business units within the Bank.

Bank Mandiri is also in the process of establishing a pricing monitoring

RISK & CAPITAL COMMITTEE

CHAIRMAN
Managing Director Risk Management

MEMBERS
EVP Coordinators: Treasury & Capital Markets,
Corporate & Government, Retail Banking, Information & Financial,
Corporate Secretary & Compliance
Group Heads: Market Risk, Treasury Management,
Corporate Credit Risk Management, Retail Credit Risk Management,
Portfolio and Operational Risk Management,
Credit Recovery, Corporate Relationship Management,
Government Relationship Management, Commercial Banking,
Consumer Loan, Compliance, Internal Audit

SECRETARY
Group Head Market Risk

SUPPORT GROUPS

system called a Fund Transfer Pricing system to better gauge the performance of all business units. The Risk and Capital Committee, together with the Risk Management Unit, is responsible for establishing bank-wide risk management policies, reviewing internal limits, establishing credit policies and interest rates, monitoring the implementation of credit policies and procedures and establishing the criteria for risk identification, measurement and mitigation.

The Bank also made progress in reaching out to the SME and retail sectors to diversify its credit portfolio. To aid this process, the Retail Banking Unit in collaboration with Boston Consulting Group set up a Credit Policy and Analytics Department, in Portfolio and Operational Risk Management Group to develop and maintain scorecards for consumer loans. This Group will be responsible for developing and maintaining a bank-wide credit policy, scorecards and credit rating. The new consumer credit scorecards will replace the existing credit risk scoring sheet for consumer loans.

On October 24, 2001, Bank Mandiri began to participate in the Standard & Poor's risk management benchmark service, a major international risk management initiative to measure risk management practices among participating banks. Through the Standard & Poor's service, Bank Mandiri will be able to gauge its risk management practices as compared to other global and regional commercial banks. Moreover, the service allows for a mutual learning process among participating banks.

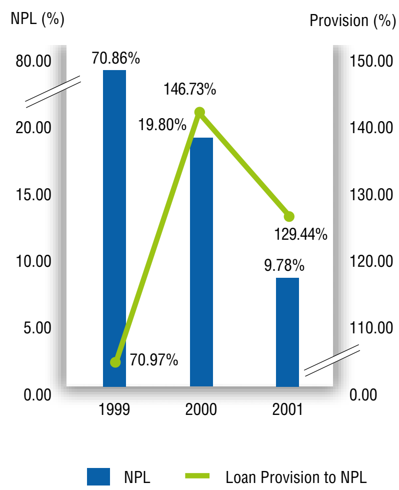
In 2002, the Bank plans to continue to lower its credit risk profile by improving the quality and diversity of the Bank's loan assets and reducing the incidence and impact of the Bank's non-performing loans. In addition, the Bank will continue to monitor the impact of slower economic growth on its loan portfolio. The Risk Management Unit has developed a bank-wide risk management system utilizing various models and tools including the risk adjusted return on capital in anticipation of the new Basle Capital Accord.

In 2002, with the assistance of the Boston Consulting Group, the Bank plans to develop a rating system for both corporate and commercial customers that will allow it to better target more credit worthy and profitable accounts.

MANAGING NON-PERFORMING LOANS

Bank Mandiri has been successful in reducing its level of non-performing loans over the past three years, and will monitor the quality of its credits on a continuous basis. As at the end of 2001, the level of non-performing loans at Bank Mandiri fell to 9.78%, compared to 70.86% and 19.80% in 1999 and 2000, respectively. Additionally, we have a policy of maintaining a conservative provision against non-performing loan exposure, maintaining aggregate loan loss allowances equivalent to 129.44% of total non-performing loans as of December 31, 2001. Bank Mandiri adopts a rigorous 19-step process for problem loan restructuring including interest rate cuts and extension of loan periods. Through its Credit Recovery Group (CRG), the Bank monitors its credit portfolio, starting from the approval process. In 2001, the Group collected IDR6.3 trillion (US$605 million) on principal and interest on non-performing loans. The Bank also maintains 10 regional CRGs across the country, responsible for monitoring the credit performance of consumer and SME clients in regional centers.

NPL and Provision Ratio



COMPETENT PEOPLE

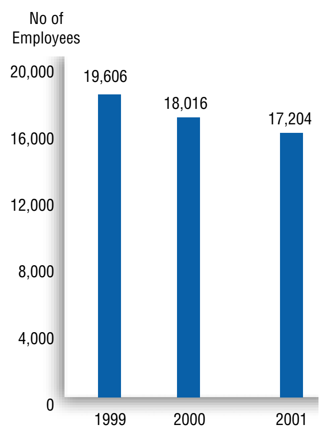
Bank Mandiri has undertaken rigorous efforts to transform the culture of the legacy banks into a culture based on integrity, teamwork and customer focus. Following an in-depth review of the Bank's corporate plan, Bank Mandiri redesigned and launched a new organizational structure in August 2001 to improve operational efficiency, strengthen internal controls and enhance risk management.

The new structure separates the distribution network from business units, allowing the Bank to focus on individual customer segments without reducing service quality to commercial and corporate customers, enhancing overall service quality. In addition, Bank Mandiri has recruited external professionals for several key management positions in the Bank, who have actively contributed to a progressive cultural change.

In 2001, Bank Mandiri established a Personnel Policy Committee to provide input to the management on all aspects related to employees including organizational structure, salary structure, training and career development plans.

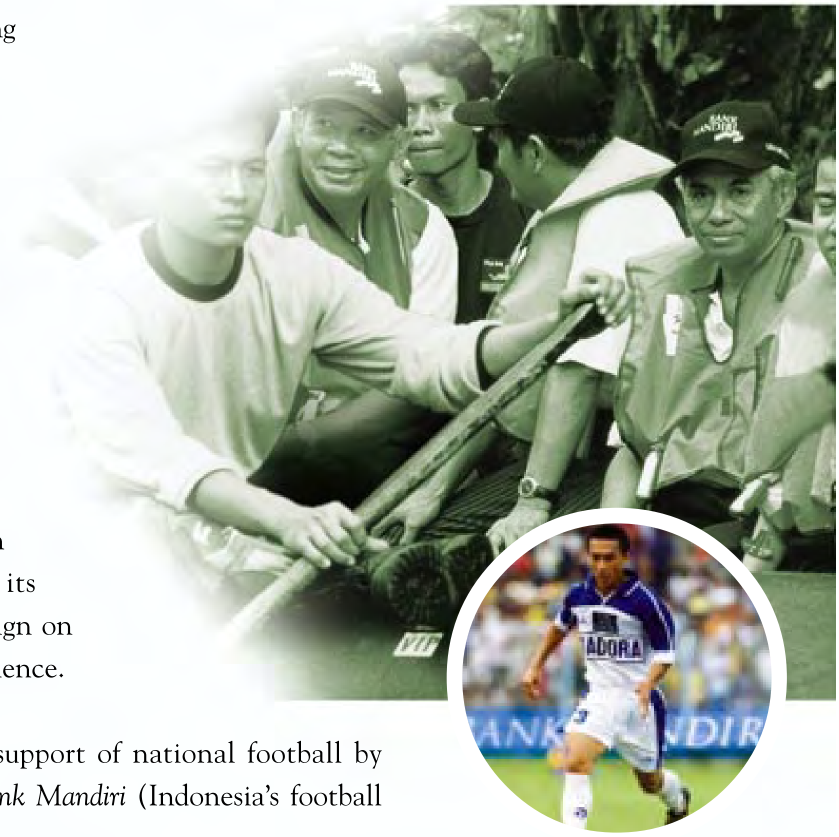
As at the end of 2001, the Bank had 17,204 employees. The Bank continued with its officer development program to nurture talent within the Bank and also launched a new training program in collaboration with Citibank to enhance the selling and service capabilities of its employees.

Number of Employees



RESPONDING TO OUR Communities

Bank Mandiri's mission as one of the leading banks in Indonesia is to be an integral part of the community and to contribute to the needs and well-being of its people and the preservation of the environment.



In 2001, Bank Mandiri participated actively in assisting victims of the natural disasters in West Sumatra, South Sulawesi, North Sumatra and Central Java. In June 2001, Bank Mandiri sponsored a clean river campaign in Jakarta. The Bank also continued its support of the UNICEF national campaign on protection of children from domestic violence.

In 2001, Bank Mandiri continued its support of national football by sponsoring *Liga Indonesia* called *Liga Bank Mandiri* (Indonesia's football league called Bank Mandiri League).

Bank Mandiri is also active in the promotion of small-scale enterprises and cooperatives through the Promotion of Small Scale and Cooperatives (*PUKK*) program. Bank Mandiri provides grants to these enterprises, which in turn creates jobs for many Indonesians. In 2001, Bank Mandiri provided a grant of IDR1.75 billion and extended IDR20.39 billion of loans to the *PUKK* program.

Financial
REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. KEY PERFORMANCE MEASURES

While there are a variety of indicators we use to measure our performance, the following are a few items we consider to be our key performance measures:

Item	As of, and for the year ended, December 31, 2001	2000
Net profit	IDR2,746 billion	IDR1,181 billion
Return on average assets (1)	1.1%	0.5%
Return on average equity (2)	21.5%	8.1%
Net interest margin	3.0%	2.7%
Cost to income ratio (3)	39.9%	31.1%
Capital adequacy ratio (4)	26.4%	31.3%
Non-performing loans ratio (5)	9.8%	19.8%

Note:

(1) Net profit divided by average of the quarterly balances of total assets for the year.

(2) Net profit divided by average of the quarterly balances of total shareholder's equity for the year.

(3) Sum of general and administrative expenses and salaries and employee benefits divided by sum of net interest income and other operating income

(4) Our capital adequacy ratio is calculated on a non-consolidated basis. The capital adequacy ratio is calculated by dividing the Bank's regulatory capital on risk weighted assets. Ratios in the table are based on Bank Indonesia regulations and methods of calculations for each of the years indicated in the table. In each of 2000 and 2001, Bank Indonesia changed the requirements for calculating the capital adequacy ratio. The most recent changes were issued in December 2001. Had we calculated the capital adequacy ratio for the Bank using the guidelines in place in 2000, our capital adequacy ratio for 2001 would have been 27.4%.

(5) Gross non-performing loans divided by total gross loans.

a) Net Profit

Our net profit for 2001 was IDR2,746 billion, 132.5% higher than in 2000. Net profit consists primarily of net interest income/(expense), other operating income and non-operating income less provisions and other operating expenses. Our net profit is affected by a number of factors including our net interest margin (discussed below), provisioning decisions for earning assets, commitments and contingencies and other assets, foreign exchange gains or losses and gain or losses from the decline in value and sale of securities (particularly Government recapitalization bonds).

b) Return on Average Assets

Our return on average assets was 1.1% compared to 0.5% in 2000. This is net profit divided by the average of the quarterly balances of total assets for the year. The improvement in this ratio was due to the percentage of increase in net profit being higher than the increase in total assets.

c) Return on Average Equity

We achieved a return on average equity of 21.5% compared to 8.1% in 2000. This represents net profit divided by the average of the quarterly balance of total shareholder's equity for the year. Shareholder's equity includes issued and fully paid share capital, additional paid-in capital, differences arising from translation of foreign currency financial statements of our offshore operations, unrealized losses on securities (principally Government bonds) available for sale and accumulated losses.

The improvement in this ratio was due to an increase in net profit and a decrease in total shareholder's equity. The decrease in shareholder's equity resulted from the redesignation of certain of our Government recapitalization bonds to our available for sale account and the marking to market of such bonds. In accordance with Indonesian GAAP, the resulting unrealized loss from marking the bonds to market has been reflected in our shareholders' equity.

d) Net Interest Margin

Our net interest margin was 3.0% compared to 2.7% in 2000. Net interest margin is net interest income divided by average interest-earning assets. Our net interest income is affected by changes in interest rates, volume and mix of interest-earning assets and interest-bearing liabilities.

Our net interest margin has continued to improve during the period from December 31, 2000 to December 31, 2001. During each of 2000 and 2001, as we successfully restructured loans which were previously non-performing, grew our loan portfolio with new loans and acquired loans from IBRA in exchange for cash and Government recapitalization bonds, the interest income from our loan portfolio has continued to increase. While interest rates abated substantially in 2000 (with a monthly average of 1-month SBI rate of 12.4%), there was a general upwards trend during 2001 (with a monthly average of 1-month SBI rate of 16.5%). The increase in interest rates in 2001 resulted in a significant increase in interest income from our Government recapitalization bond portfolio (excluding fixed rate bonds) and other earning assets as well as a significant increase in our interest expense (particularly on variable rate deposits and floating rate notes) for that year.

e) Cost to Income Ratio

Our cost to income ratio was 39.9% in 2001, compared to 31.1% in 2000. Cost to income ratio is calculated as the sum of general and administrative expenses and employee salaries and benefits divided by the sum of net interest income/(expense) and other operating income (which includes foreign exchange gains or losses). Although there was an increase in this ratio in 2001 when compared to 2000, our costs as a percentage of income remained within 50.0% (which we view as international best practice) as a result of significantly lower income from foreign exchange gains in 2001 as compared to 2000 (caused by several substantial one-time gains in 2000) and a modus increase in general and administrative expenses for 2001.

f) Capital Adequacy Ratio (Bank only)

Our capital adequacy ratio as of December 31, 2001 was 26.4% compared to 31.3% in the previous year. As we reduce our holdings of Government recapitalization bonds and increase other types of earning assets, such as loans, which carry higher risk-weightings, our capital adequacy ratio has decreased.

This ratio is calculated based on the capital adequacy requirements of Bank Indonesia. The calculation is substantially based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements in 1988. A Bank's capital adequacy ratio is calculated by dividing the sum of its Tier I and Tier II capital (as defined under Bank Indonesia regulation) by its risk-weighted assets. Risk-weighted assets consist of all the assets on a Bank's balance sheet, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of asset. Our holding of Government recapitalization bond has significant implications for our capital adequacy ratio as the risk weighting of the Government recapitalization bonds is zero.

g) Non Performing Loans Ratio

Our gross non-performing loans to gross loans at December 31, 2001 was 9.8% compared to 19.8% in 2000. This ratio is determined by dividing our gross non-performing loans by our gross loans. As of December 31, 1999, our non-performing loans ratio was 70.9% due to the Indonesian economic crisis. During each of 2000 and 2001, the quality of our loan portfolio continued to improve as we successfully restructured a significant portion of our non-performing loans and grew our loan portfolio by increasing our new loans. However, a proportion of loans which have been restructured and improved to performing loans, have returned to non-performing loans. As of December 31, 2001, 37.6% of our non-performing loans were restructured loans which had become non-performing loans after such restructuring.

After restructuring a non-performing loan, we may only return such non-performing loan to “current” or “special mention” status and accrue interest in accordance with its new terms after there has been a sustained period of repayment performance in accordance with the restructured contractual terms for at least three months or three consecutive payments, whichever is the longer. However, even where a restructured loan has satisfied this requirement, the Bank may not reclassify the loan as “current” or “special mention” if there remain concerns about the ability of the borrower to meet its payment obligations. The Bank’s policy is not to upgrade a restructured loan from “non-performing loan” to “current” or “special mention” until at least three consecutive payments have been made or six months after the restructuring, whichever is longer.

We carry a restructured loan at its nominal value. However, often after we restructure a loan we will extend the term of the loan or charge interest at a lower rate for the initial period of the loan. This means that the present value of the loan, including interest income, based on discounted cash flows, is usually less than the nominal value of the loan after restructuring. Following a restructuring, we make a provision equal to the difference between the present value of the loan and its present value after restructuring. In addition, we will also apply our usual provisioning policies to the loan (based on nominal value). Accordingly, a higher proportion of restructured loans to gross loans indicates a higher provisioning expense.

II. PROFIT AND LOSS

Our profit and loss comprised the following key items :

Description	For the year ended December 31, 2001 (IDR billion)	2000 (IDR billion)	% Change
Net interest income	7,109	6,404	11.0%
Other operating income	1,456	3,942	(63.1)%
Total operating income	**8,565**	**10,346**	**(17.2)%**
Provision / (reversal) for possible losses on earning assets and commitments and contingencies	4,791	(4,815)	199.5%
Provision / (reversal) for possible losses on other assets	(2,343)	5,274	(144.4)%
Net provision / (reversal)	**2,448**	**459**	**433.3%**
(Gain) / loss from decline in value and sale of securities and Government bonds	312	3,589	(91.3)%
General and administrative expenses	1,747	1,350	29.4%
Salaries and employee benefits	1,670	1,863	(10.4)%
Overhead expenses	**3,417**	**3,213**	**6.3%**
Other expenses	743	1,401	(47.0)%
Total other operating expenses	**4,472**	**8,203**	**(45.5)%**
Net non-operating income (expense)	2,205	339	550.4%
Profit before provision for income tax and minority interest	**3,850**	**2,023**	**90.3%**
Provision for income tax	1,104	841	31.3%
Profit before minority interest	**2,746**	**1,182**	**132.3%**
Minority interests in net profit of consolidated subsidiaries	-	1	(100.0)%
Net profit	2,746	1,181	132.5%

a) Net Interest Income

Our net interest income increased by 11.0% to IDR7,109 billion in 2001 from IDR6,404 billion in 2000. The increase in net interest income was principally a result of an increase of 16.9% in total interest income to IDR31,496 billion in 2001 from IDR26,942 billion in 2000, offset by an increase in total interest expenses of 18.7% to IDR24,387 billion in 2001 from IDR20,538 billion in 2000.

Total interest income increased primarily due to an increase in both the interest income generated by Government recapitalization bonds and other securities and the interest income generated by the loan portfolio and other earning assets.

Interest income generated from Government recapitalization bonds increased by 14.1% to IDR23,137 billion in 2001 from IDR20,286 billion in 2000. This increase was primarily due to the increase in SBI rates which increased the interest rates paid on variable rate Government recapitalization bonds. However, interest income from Government recapitalization bonds was not sufficient to cover the Bank's total interest expenses and the proportion of interest income from Government recapitalization bonds decreased from 75.3% of total interest income in 2000 to 73.5% in 2001.

Interest income from loans and other earning assets (excluding Government bonds) increased by 25.4% to IDR8,062 billion in 2001 from IDR6,429 billion in 2000. This increase was principally due to an improved yield on loans and an increase in the volume of loans and placements with Bank Indonesia.

The increase in interest expenses resulted primarily from the increase in volume of deposits and increased interest rates paid on deposits, especially on time deposits, in part offset by decreasing interest expense on fund borrowings, securities issued and subordinated loans. In 2001, interest paid on fund borrowings decreased by 28.7% primarily as a result of the decrease in volume of fund borrowings and interest rate paid on foreign currency fund borrowings. The volume of fund borrowings decreased due to the repayment of fund borrowings, as our deposits increased and we received proceeds from the sale of some of our Government recapitalization bonds.

Interest expense on deposits increased by 28.6% to IDR21,908 billion in 2001 from IDR17,040 billion in 2000 principally as a result of the increase in the volume of deposits and an increase in the interest rate paid on deposits. Total deposits (including deposits from other banks) increased by 19.1% to IDR202,974 billion as of December 31, 2001 from IDR170,481 billion as of December 31, 2000 primarily due to our marketing campaign to attract deposits as well as competitive interest rates on our deposit products. The average cost of deposits increased to 12.1% in 2001 from 10.9% in 2000 primarily as a result of an increase in interest rates on time deposits, in line with the increase on the monthly average of 1-month SBI interest rate to 16.5% in 2001 from 12.4% in 2000.

b) Other Operating Income

Other operating income (comprised of gains on foreign exchange, other fees and commissions and others) amounted to IDR1,456 billion in 2001 compared to IDR3,942 billion in 2000. The decrease was primarily a result of a decrease in the net gain on foreign exchange, partially offset by an increase in other fees and commissions.

The net gain on foreign exchange decreased by 91.7% from a net gain of IDR3,118 billion in 2000 to a net gain of IDR260 billion in 2001. In 2001, the net gain was due principally to the translation of our foreign exchange position reflecting the depreciation of IDR against the USD. In 2000, the net gain was due principally to a net foreign exchange gain of IDR1,454 billion relating to our open foreign exchange position, reversal of provision for foreign exchange losses of IDR907 billion (originally provided for in 1999) and recognition of one-time gain of IDR593 billion from the translation of foreign exchange account receivables related to accreted value of the collateral and effective reduction of principal related to our Subordinated Undated Floating Rate Notes (SUFRNs).

Other fees and commissions increased by 55.2% to IDR475 billion in 2001 from IDR306 billion in 2000 principally due to an increase in fees from foreign currency related services.

Other operating income - others increased by 39.2% to IDR721 billion in 2001 from IDR518 billion in 2000. The primary component of other operating income - others was the accreted value of the collateral and effective reduction of principal related to our SUFRNs, which was IDR327 billion for 2001 and IDR182 billion for 2000.

c) Provision/(Reversal) for Possible Losses on Earning Assets and Commitments and Contingencies

In 2001, net provision for possible losses on earning assets and commitments and contingencies was IDR4,791 billion, principally due to the additional provisions for losses on loans of IDR6,042 billion, offset in part by the reversal of allowance for possible losses on commitments and contingencies of IDR1,913 billion.

These additional provisions were required to cover a total of IDR8,994 billion written-off loans in 2001, offset in part by IDR1,960 billion from loan recoveries on written-off loans. The written-off loans of IDR8,994 billion excludes IDR3,738 billion relating to loans which were transferred to IBRA as part of a recapitalization program based on a Memorandum of Understanding and subsequently repurchased by the Bank through a swap agreement in exchange for Government recapitalization bonds.

In 2000, we made a net reversal of provisions for possible losses on earning assets and commitments and contingencies of IDR4,815 billion, principally due to the Bank's determination following the successful restructuring of certain non-performing loans, the quality of the Bank's loan portfolio as of that date had improved and the level of provisions we had made was in excess of required to adequately and prudently provide for potential losses on the Bank's loan portfolio.

d) Provision/(Reversal) for Possible Losses on Other Assets

In 2000, provision for possible losses on other assets amounted to IDR5,274 billion mainly due to inter-branch open items. For 2001, we made a reversal of provisions for possible losses on other assets of IDR2,343 billion because of the resolution of a significant number of inter-branch open items.

e) (Gain)/Loss from Decline in Value and Sale of Securities and Government Bonds

Loss from the decline in value and sale of securities and Government recapitalization bonds amounted to IDR312 billion in 2001 compared to IDR3,589 billion in 2000.

Loss from the decline in value of securities and Government recapitalization bonds decreased to IDR1,023 billion in 2001 from a loss of IDR3,351 billion in 2000. The loss reflected the requirement to mark to market the Government recapitalization bonds transferred from our held to maturity account to our trading account. We transferred from our held to maturity account to our trading account Government recapitalization bonds amounting to IDR25.1 trillion in 2000 and IDR3.3 trillion in 2001, as part of the Bank's strategy to improve the Bank's mix of interest earning assets and in order to help provide needed liquidity.

In 2001, gain from sale of securities amounted to IDR 711 billion, whereas in 2000, the Bank had a loss from sale of securities (primarily Government recapitalization bonds) of IDR238 billion reflecting a fall in market prices for such securities in 2000. In 2001, the gain of IDR711 billion was largely due to the sales price of the securities we sold being higher than the marked to market value of such securities.

f) Overhead Expenses

Overhead expenses, comprised of general and administrative expenses and salaries and employee benefits, increased by 6.3% to IDR3,417 billion in 2001 from IDR3,213 billion in 2000.

General and administrative expenses increased by 29.4% to IDR1,747 billion in 2001 from IDR1,350 billion in 2000 principally due to increases in communication expenses such as for leased lines, professional fees for consultants and promotion expenses to increase the Bank's deposit base and to increase the level of awareness of the Bank's brand in Indonesia.

Salaries and employee benefits amounted to IDR1,670 billion in 2001 compared to IDR1,863 billion in 2000 primarily due to provision for employee service entitlements in accordance with a decree issued by the Minister of Manpower, amounting to IDR554 billion and IDR240 billion in 2000 and 2001, respectively. Excluding this provision, salaries and employee benefits increased by 9.2% to IDR1,430 billion in 2001 from IDR1,309 billion in 2000.

g) Other Expenses

Other expenses decreased by 47.0% to IDR743 billion in 2001 from IDR1,401 billion in 2000 due to reduced provision expense in 2001 relating to litigation. In 2000, our additional provision for litigation expenses amounted to IDR742 billion. We made a relatively small additional provision for litigation expenses of IDR9 billion in 2001, reflecting our belief that our provisions were sufficient to cover possible litigation expenses as of December 31, 2001.

h) Net Non-Operating Income (Expense)

Net non-operating income (expense) amounted to IDR2,205 billion in 2001, compared to IDR339 billion in 2000. This increase was primarily due to the reversal of surplus provisions for employee voluntary separation schemes and merger costs due to our ability to keep these costs lower than our original estimate and the reversal of a surplus provision for negative equity in subsidiaries.

III. LIQUIDITY

Our business over the last three years has been financed principally from a combination of receipts from interest income, the sale of Government recapitalization bonds and increases in deposits. In addition, we have made use of the inter-bank money market and borrowings from third parties in 2000 and 1999 and raised finance by issuing debt securities. We also maintain liquid reserves, which generally exceed the minimum requirements of Bank Indonesia, in order to manage significant withdrawals of deposits by our customers.

We have principally used the Bank's funds for the expansion of our loan portfolio, the repayment of fund borrowings, the payment of interest expenses and other banking activities.

We manage our liquidity by various means. We seek to generate liquidity by offering competitive interest rates on our deposit accounts to attract further deposits, borrowing from the inter-bank market or through fund borrowings, withdrawing placements with other banks or Bank Indonesia or by selling securities such as SBIs or Government recapitalization bonds.

We also use our Government recapitalization bond portfolio to generate liquidity and improve the balance of our interest earning assets through collateral fund borrowing, sale and repurchase transactions and outright sales. We occasionally exchanged bonds with IBRA for higher yielding assets.

An increase in deposits had a significant impact in our liquidity position in 2001, particularly in the last quarter of that year. Total deposits increased by IDR32.5 trillion, of which IDR5.4 trillion came from other banks. Accordingly, as of December 31, 2001, we had significant excess liquidity, which we placed out into the inter-bank money market and with Bank Indonesia.

The following table sets forth information with respect to the Bank's liquidity position as of December 31, 2001 and 2000.

Description	as of December 31, 2001	2000
Liquid assets (1)	IDR48,565 billion	IDR25,881 billion
Government recapitalization bonds held for trading and available for sale	IDR39,185 billion	IDR21,549 billion
Loan to deposit ratio (2)	25.3%	26.3%
Liquid assets as a percentage of total assets	18.5%	10.2%
Liquid assets as a percentage of deposits (2)	25.5%	15.8%

Note:

(1) Liquid assets consist of cash, current accounts with Bank Indonesia, current accounts with other banks, placements with Bank Indonesia, other banks and financial institutions and securities (excluding Government recapitalization bonds) held in the trading and available for sale portfolio.

(2) Deposits excludes deposits from other banks.

a) Cash Flows from Operating Activities

Our operations generated net cash inflows of IDR29,279 billion and IDR6,303 billion in the years ended December 31, 2001, and 2000, respectively. Bank Mandiri's cash inflow from receipts from interest income increased from 2000 to 2001 reflecting increases in cash receipts from interest payments on our Government recapitalization bonds and interest - earning assets in particular loan, and an improved recovery on our outstanding non performing loan (including written-off loans). In the same period, we experienced an increase in our cash outflow for interest payments reflecting an increase in total volume and interests rate of deposits over this period and an increase in the cash used for the expansion of our loan portfolio.

Net cash inflow from operating activities in 2001 of IDR29,279 billion resulted primarily from cash inflows arising from interest income of IDR31,377 billion and an increase in deposits of IDR32,881 billion. This was partly offset by cash outflows relating to interest expense of IDR24,633 billion and the increase in loans and placements with other banks of IDR14,352 billion and IDR9,224 billion, respectively.

b) Cash Flows from Investing Activities

Our net cash outflow from investing activities in 2001 was IDR17,633 billion compared to net cash outflows from investing activities of IDR14,073 billion in the year ended December 31, 2000. Net cash outflow from investing activities in 2001 of IDR17,633 billion was primarily due to the purchase of securities of IDR15,541 billion, largely relating to the purchase of SBIs from, and placements with, Bank Indonesia.

c) Cash Flows from Financing Activities

In 2001, net cash used to reduce financing obligations was IDR13,779 billion. We generated cash from financing activities of IDR7,019 billion in the year ended December 31, 2000. Net cash used in financing activities in 2001 was primarily used to repay fund borrowings of IDR11,373 billion and to redeem securities of IDR1,304 billion.

For further detail, please refer to our statement of cash flow in our consolidated Financial Statement

IV. FINANCIAL CONDITION

Description	as of December 31, 2001 (IDR billion)	2000 (IDR billion)	% Change
Total Assets	262,291	253,355	3.5%
Total Gross Loans	48,186	43,023	12.0%
Total Deposits [1]	190,446	163,375	16.6%
Total Liabilities	251,511	239,089	5.2%
Total Shareholder's equity	10,777	14,262	(24.4)%

1) *Excluding deposits from other banks*

Our total assets increased by 3.5% to IDR262,291 billion as of December 31, 2001 from IDR253,355 billion as of December 31, 2000 principally as a result of an increase in net loans, securities and placements with other banks, partially offset by a decrease in Government bonds.

a) Securities

Securities, which comprised of placements with Bank Indonesia, SBIs and other securities, increased to IDR24,007 billion as of December 31, 2001 from IDR8,430 billion as of December 31, 2000 primarily due to our need to invest excess liquidity generated by an increase of deposits and our receipt of sale proceeds of Government recapitalization bonds.

b) Government Bonds

Government bonds decreased to IDR153,493 billion as of December 31, 2001 from IDR176,895 billion as of December 31, 2000. The decrease was primarily due to the sale of IDR15,787 billion of Government recapitalization bonds to generate liquidity and marking to market of IDR37,686 billion of Government recapitalization bonds transferred to the available for sale account. As of December 31, 2001 the unrealized loss from marking to market of our Government Recapitalization bonds in our available for sale account amounted to IDR5,016 billion.

The following table sets forth the composition of our Government recapitalization bonds as of December 31, 2001 and 2000.

Type of Bonds	as of December 31, 2001 (IDR billion)	2000 (IDR billion)	% Change
Variable rate bonds	88,161	101,099	(12.8)%
Fixed rate bonds	42,337	51,277	(17.43)%
Hedge bonds	22,995	24,519	(6.2)%
Total Government bonds	153,493	176,895	(13.2)%

c) Loan

Total Loans outstanding as of December 31, 2001 (Bank only) amounted to IDR47,200 billion, an increase of 11.4% from IDR42,388 billion as of December 31, 2000. In 2001, Bank Mandiri extended IDR12,882 billion of new loans, acquired loans from IBRA of IDR2,907 billion and had a foreign currency translation of IDR1,741 billion. During the same period, the Bank received loan repayments of IDR3,724 billion, wrote off loans of IDR8,994 billion and transferred loans to IBRA of IDR3,738 billion. We repurchased the transferred loans through a swap agreement in exchange for Government recapitalization bonds.

d) Liabilities

Total liabilities increased by 5.2% to IDR251,511 billion as of December 31, 2001 from IDR239,089 billion as of December 31, 2000 principally as a result of an increase in total deposits and deposits from other banks. This increase was partially offset by a decrease in fund borrowings, other liabilities, securities issued, estimated losses on commitments and contingencies and subordinated loans.

e) Deposits

Total deposits increased to IDR190,446 billion as of December 31, 2001 from IDR163,375 billion as of December 31, 2000 and deposits from other banks increased to IDR12,528 billion as of December 31, 2001 from IDR7,106 billion as of December 31, 2000. Such increases were due to our competitive interest rates on our deposit products and the success of our marketing campaigns. The increase in volume of total deposits was derived from our corporate, commercial and consumer customers.

The following table sets forth the composition of our deposits (excluding deposits from other banks) as of December 31, 2001 and 2000.

Type of Deposits	as of December 31, 2001 (IDR billion)	2000 (IDR billion)	% Change
Demand deposits	37,557	35,751	5.1%
Savings	22,305	18,030	23.7%
Time deposits	129,783	109,205	18.8%
Certificate of deposits	801	389	105.9%
Total Deposits	190,446	163,375	16.6%

f) Fund Borrowings

Fund borrowings decreased to IDR18,204 billion as of December 31, 2001 from IDR28,650 billion as of December 31, 2000 primarily due to repayments of IDR fund borrowing of IDR10,455 billion and foreign currency borrowing of IDR 918 billion and partly offset by foreign currency translation of IDR927 billion. This was due to our ability to obtain additional funds from deposits.

g) Shareholder's Equity

Shareholder's equity decreased to IDR10,777 billion as of December 31, 2001 from IDR14,262 billion as of December 31, 2000. This decrease was primarily due to the recognition of unrealized losses on securities available for sale as of December 31, 2001 of IDR5,047 billion up from IDR22 billion as of December 31, 2000. The recognition primarily related to our reclassification of IDR37,686 billion of Government recapitalization bonds from our held to maturity account to our available for sale account as of September 30, 2001. This was partially offset by a decrease in accumulated losses due to our net profit in 2001. The decrease in shareholder's equity due to unrealized losses on Government recapitalization bonds available for sale had no effect on our Tier I capital.

For further detail, please refer to our balance sheet in our consolidated Financial Statement.

V. CAPITAL ADEQUACY RATIO (BANK ONLY)

As of December 31, 2001, the Bank's capital adequacy ratio (CAR) was 26.4% compared to 31.3% as of December 31, 2000. The decrease was primarily due to the increase of risk-weighted assets. Bank Indonesia's new regulation in 2001 requiring investments in shares of stock (excluding debt to equity swaps) to be deducted when determining total capital contributed to the decrease of CAR.

The following table summarizes the Bank's capital adequacy ratios as measured in accordance with Bank Indonesia regulations, on a non-consolidated basis, as of December 31, 2001 and 2000.

Description	as of December 31, 2001 (IDR billion, except percentages)	2000	% Change
Tier I Capital	8,850	7,122	24.3%
Tier II Capital	7,257	6,210	16.9%
Investments in shares of stock (1)	(753)	-	-
Total Capital	15,354	13,332	15.2%
Total risk-weighted assets	58,080	42,608	36.3%
Capital Adequacy Ratios:			
Tier I capital adequacy ratio	**15.2%**	**16.7%**	
Total capital adequacy ratio (2)	**26.4%**	**31.3%**	
Minimum capital adequacy ratios required by Bank Indonesia :			
Total Capital	8.0%	4.0%	

Notes:

(1) For 2001, Bank Indonesia regulations require investments in securities (excluding debt to equity swaps) to be deducted when determining the Bank's total capital. For 2000, such requirements were not in force.

(2) Bank Indonesia changed the requirements for calculating the capital adequacy ratio. The most recent changes were issued in December 2001. Had we calculated the capital adequacy ratio for the Bank using the guidelines in place prior to December 2001, and as were used to calculate the bank's capital adequacy ratio for 2000, the ratio for 2001 would have been 27.4%.

VI. OTHER FINANCIAL RATIOS (BANK ONLY)

The following table sets other financial ratios as measured in accordance with Bank Indonesia regulations :

Ratio	as of December 31, 2001	2000
Premises and Equipment to Capital	10.54%	7.62%
Non-Performing Earning Assets	4.71%	5.67%
Allowance for Losses on Earning Assets to Earning Assets	5.82%	8.97%
Compliance for Allowance for Losses on Earning Assets	132.53%	202.22%
Operating Expenses to Operating Income (1)	94.91%	94.46%
Percentage of Lending in Excess of Legal Lending Limit :		
- related party	0.00%	0.00%
- third party	0.00%	3.83%
Percentage Violation of Legal Lending Limit :		
- related party	0.00%	0.00%
- third party	0.00%	0.00%
Reserve Requirement (Rupiah)	5.26%	6.78%
Net Open Position	19.38%	7.56%
Percentage of Small Scale Business Credit to Total Loans	6.26%	6.96%
Percentage of Small Scale Business Credit Debtors to Total Debtors	88.98%	60.05%

(1) (Interest expense + other operating expenses + provision for possible losses on earning assets, commitment and contingencies and other assets) / (interest income + other operating income)

This Annual Report and the accompanying financial statements and related financial information, are the responsibility of the management of PT Bank Mandiri (Persero).

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BINHADI
Chairman

SOEDARJONO
Commissioner

MARKUS PARMADI
Commissioner

SABANA KARTASASMITA
Commissioner

BOARD OF DIRECTORS

E.C.W. NELOE
President Director and CEO

I WAYAN PUGEG
Managing Director & SEVP

AGUS MARTOWARDOJO
Managing Director & SEVP

EVP COORDINATORS

I WAYAN AGUS MERTAYASA
EVP Coordinator Corporate Secretary and Compliance

K. KEAT LEE
EVP Coordinator Information & Financial

I. SUPOMO
EVP Coordinator Distribution Network

M. SHOLEH TASRIPAN
EVP Coordinator Corporate & Government

OMAR S. ANWAR
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