# Consolidated Financial Statements
# With Independent Auditors' Report
# December 31, 2002 and 2001

# PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
**CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2002 AND 2001**

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**Independent Auditors' Report**

**Report No. RPC-00297/01**

The Shareholder and the Boards of Commissioners and Directors
**PT Bank Mandiri (Persero)**

We have audited the accompanying consolidated balance sheets of PT Bank Mandiri (Persero) (herein referred to as "Bank Mandiri") and Subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of profit and loss, changes in shareholder's equity and cash flows for each of the years ended December 31, 2002 and 2001. We were also engaged to test and report on compliance with laws and regulations and internal control. These consolidated financial statements, and the compliance with laws and regulations and internal control, are the responsibility of Bank Mandiri's management. Our responsibility is to express an opinion on these financial statements and Bank Mandiri's compliance with laws and regulations and internal control, based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Accountants and Government Auditing Standards issued by the Financial Government Supervisory Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes test on compliance with certain provision of laws, regulations, contracts and grants and compliance with internal control. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank Mandiri and its Subsidiaries as of December 31, 2002 and 2001 and the consolidated results of their operations and their cash flows for each of the years ended December 31, 2002 and 2001 in conformity with generally accepted accounting principles in Indonesia.

As discussed in Note 62 to the consolidated financial statements, accounting principles generally accepted in Indonesia vary in certain significant respects from International Accounting Standards. Application of International Accounting Standards would have affected the Bank's shareholder's equity as of December 31, 2002 and 2001 and the results of their operations for each of the years ended December 31, 2002 and 2001 to the extent summarized in Note 64 to the consolidated financial statements. As discussed in Note 63, Bank Mandiri has applied International Accounting Standard No. 39 "Financial Investment: Recognition and Measurement" prospectively from January 1, 2001.

The accompanying consolidated financial statements are not intended to present the consolidated financial position, consolidated results of operations and consolidated cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in Indonesia.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Additional Information of parent only financial statements, which statements reflect assets constituting 99.51% and 99.62% of the total consolidated assets as of December 31, 2002 and 2001, respectively, is not intended to present the financial position, results of operations and cash flows of the parent company as a separate entity. Such Additional Information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements under generally accepted accounting principles in Indonesia. Such Additional Information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Our reports on compliance with laws and regulations, and internal control are separately reported to Management in report No. RPC-00299/01 dated March 31, 2003 and No. RPC-00300/01 dated March 31, 2003, respectively.

We have previously issued independent auditors' report No. RPC-00066/01 dated March 31, 2003 in respect to the consolidated financial statements of Bank Mandiri and Subsidiaries as of December 31, 2002, 2001 and 2000 and for each of the years then ended in connection with Bank Mandiri's Debt Issuance Programme. Bank Mandiri reissued the consolidated financial statements as of December 31, 2002 and 2001 and for each of the years then ended for statutory reporting purposes.

**PRASETIO, SARWOKO AND SANDJAJA**

**Drs. Iman Sarwoko**
Public Accountant License No. 98.1.0359

March 31, 2003

The accompanying consolidated financial statements are not intended to present the consolidated financial position, consolidated results of operations and consolidated cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in Indonesia.

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
Consolidated Balance Sheets
December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Notes | 2002 | 2001 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | 2,164,651 | 1,735,258 |
| Current Accounts with Bank Indonesia | 4 | 9,607,119 | 9,895,331 |
| Current Accounts with Other Banks - net of allowance for possible losses of Rp3,726 and Rp2,461 as of December 31, 2002 and 2001, respectively | 5 | 311,765 | 265,423 |
| Placements with Other Banks - net of allowance for possible losses of Rp51,317 and Rp134,463 as of December 31, 2002 and 2001, respectively | 6 | 14,846,820 | 35,488,353 |
| Securities - net of unamortized interest, unrealized gains/(losses) from increase/(decrease) in value of securities and allowance for possible losses of Rp1,085,934 and Rp1,128,966 as of December 31, 2002 and 2001, respectively | 7 | 2,162,409 | 1,547,120 |
| Government Bonds | 8 | 148,845,927 | 153,493,218 |
| Trade Documents and Other Facilities - net of allowance for possible losses of Rp829,362 and Rp2,514,545 as of December 31, 2002 and 2001,respectively | 9 | 1,447,875 | 1,413,995 |
| Securities Purchased with Agreement to Resell - net of allowance for possible losses of Rp3,051 as of December 31, 2001 | 10 | - | 302,051 |
| Derivative Receivables - net of allowance for possible losses of Rp3,625 and Rp48 as of December 31, 2002 and 2001, respectively | 11 | 361,323 | 6,534 |
| Loans | 12 | | |
| Related parties | | 899,232 | 926,833 |
| Third parties | | 64,518,016 | 47,412,469 |
| | | 65,417,248 | 48,339,302 |
| Less: Allowance for Possible Losses | | (8,906,545) | (6,100,252) |
| Deferred Income | | (164,284) | - |
| Net | | 56,346,419 | 42,239,050 |
| Acceptances Receivable - net of allowance for possible losses of Rp127,538 and Rp215,406 as of December 31, 2002 and 2001, respectively | 13 | 2,023,071 | 1,582,979 |
| Investments in Shares of Stock - net of allowance for possible losses of Rp62,807 and Rp26,377 as of December 31, 2002 and 2001, respectively | 14 | 87,096 | 69,276 |
| Premises and Equipment - net of accumulated depreciation and amortization of Rp1,551,820 and Rp1,220,381 as of December 31, 2002 and 2001, respectively | 15 | 1,958,782 | 1,727,478 |
| Deferred Tax Assets - net | 28e | 2,594,688 | 4,817,617 |
| Other Assets | 16 | | |
| Accrued income | | 2,102,204 | 3,124,040 |
| Receivables | | 2,875,188 | 3,010,086 |
| Prepaid tax | | 365,753 | 366,614 |
| Prepaid expenses | | 150,330 | 171,262 |
| Others - net | | 2,143,269 | 1,035,310 |
| Total Other Assets | | 7,636,744 | 7,707,312 |
| **TOTAL ASSETS** | | **250,394,689** | **262,290,995** |

The accompanying notes form an integral part of
these consolidated financial statements.

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
Consolidated Balance Sheets (Continued)
December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Notes | 2002 | 2001 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Liabilities** | | | |
| Other Current Liabilities | | 70,548 | 62,065 |
| Deposits from Customers: | | | |
| Demand deposits | 17 | 32,579,923 | 37,557,461 |
| Savings deposits | 18 | 29,926,190 | 22,304,803 |
| Time deposits | 19 | 121,529,091 | 129,782,634 |
| Certificates of deposit - net of unamortized interest of Rp69 and Rp1,912 as of December 31, 2002 and 2001, respectively | | 78,883 | 800,840 |
| Total Deposits from Customers | | 184,114,087 | 190,445,738 |
| Deposits from Other Banks: | | | |
| Demand deposits | 20 | 593,431 | 586,600 |
| Inter-bank call money | 21 | 796,555 | 335,001 |
| Time deposits | 22 | 11,502,677 | 9,065,198 |
| Certificates of deposit - net of unamortized interest of RpNil and Rp172,557 as of December 31, 2002 and 2001, respectively | 22 | 30 | 2,541,043 |
| Total Deposits from Other Banks | | 12,892,693 | 12,527,842 |
| Securities Sold with Agreement to Repurchase | 23 | 735,000 | - |
| Derivative Payables | 11 | 7,434 | 11,976 |
| Acceptances Payable | 24 | 2,150,609 | 1,804,708 |
| Securities Issued - net of unamortized discount of Rp2,342 and Rp3,345 as of December 31, 2002 and 2001, respectively | 25 | 1,474,241 | 3,393,503 |
| Fund Borrowings | 26 | 13,659,536 | 18,204,233 |
| Allowance for Possible Losses on Commitments and Contingencies | 27 | 1,211,211 | 5,284,345 |
| Accrued Expenses | | 903,244 | 1,288,198 |
| Taxes Payable | 28a | 295,949 | 346,209 |
| Other Liabilities | 29 | 9,119,916 | 8,593,324 |
| Subordinated Loans | 30 | 6,358,965 | 6,390,201 |
| Loan Capital | 31 | 2,963,250 | 3,159,000 |
| **Total Liabilities** | | **235,956,683** | **251,511,342** |
| **Minority Interests in Net Assets of Consolidated Subsidiaries** | 32 | **3,496** | **2,868** |
| **Shareholder's Equity** | 33 | | |
| Share Capital - Rp1,000,000 (full amount) par value per share; authorized - 16,000,000 shares; issued and fully paid - 4,251,000 shares | | 4,251,000 | 4,251,000 |
| Additional Paid-in Capital | | 173,550,319 | 174,962,319 |
| Differences Arising from Translation of Foreign Currency Financial Statements | | 64,164 | 83,745 |
| Unrealized Losses on Securities and Government Bonds Available for Sale | | (2,138,186) | (5,047,162) |
| Premises and Equipment Revaluation Increment | | 9,788 | 9,788 |
| Accumulated Losses | | (161,302,575) | (163,482,905) |
| **Total Shareholder's Equity** | | **14,434,510** | **10,776,785** |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | | **250,394,689** | **262,290,995** |

The accompanying notes form an integral part of
these consolidated financial statements.

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
Consolidated Statements of Profit and Loss
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Notes | 2002 | 2001 |
|---|---|---|---|
| **INCOME AND EXPENSES FROM OPERATIONS** | | | |
| Interest Income | 34 | | |
| Interest income | | 31,474,381 | 31,199,234 |
| Fees and commissions on loan facilities | | 404,287 | 296,996 |
| Total Interest Income | | 31,878,668 | 31,496,230 |
| Interest Expense | | | |
| Interest expense | 35 | (24,952,253) | (24,304,232) |
| Other financing expenses | 36 | (64,326) | (82,776) |
| Total Interest Expense | | (25,016,579) | (24,387,008) |
| Net Interest Income | | 6,862,089 | 7,109,222 |
| Other Operating Income | | | |
| Foreign exchange gain - net | | - | 260,096 |
| Other fees and commissions | | 803,632 | 475,180 |
| Others | 43 | 808,243 | 720,409 |
| Total Other Operating Income | | 1,611,875 | 1,455,685 |
| Provision of Allowance for Possible Losses on Earning Assets | 37 | (4,590,643) | (6,703,896) |
| Reversal of Allowance for Possible Losses on Commitments and Contingencies | 27c | 3,364,433 | 1,913,412 |
| Reversal of Allowance for Possible Losses on Other Assets | 16 | 288,940 | 2,342,721 |
| Gain/(Loss) from Increase/(Decrease) in Value of Securities and Government Bonds - net | 38 | 1,530,413 | (1,022,862) |
| Gain from Sale of Securities and Government Bonds | 39 | 490,337 | 710,724 |
| Other Operating Expenses | | | |
| General and administrative expenses | 40 | (2,060,142) | (1,746,539) |
| Salaries and employee benefits | 41 | (1,565,951) | (1,670,186) |
| Foreign exchange loss - net | | (24,767) | - |
| Others - net | 44 | (1,334,163) | (742,831) |
| Total Other Operating Expenses | | (4,985,023) | (4,159,556) |
| **PROFIT FROM OPERATIONS** | 54 | **4,572,421** | **1,645,450** |
| NON-OPERATING INCOME - NET | 45 | 1,237,549 | 2,204,988 |
| **PROFIT BEFORE CORPORATE INCOME TAX EXPENSE AND MINORITY INTERESTS** | | **5,809,970** | **3,850,438** |
| CORPORATE INCOME TAX EXPENSE | | | |
| Current Income Tax | 28b and c | (824) | - |
| Deferred Income Tax | 28b and d | (2,222,929) | (1,104,475) |
| **PROFIT BEFORE MINORITY INTERESTS** | | 3,586,217 | 2,745,963 |
| MINORITY INTERESTS IN NET PROFIT OF CONSOLIDATED SUBSIDIARIES | | (628) | (206) |
| **NET PROFIT** | 54 | **3,585,589** | **2,745,757** |
| Earnings per share | 2.aa | 0.843 | 0.646 |

The accompanying notes form an integral part of these consolidated financial statements.

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
Consolidated Statements of Changes in Shareholder's Equity
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Notes | Issued and Fully Paid-Up Capital | Additional Paid-in-Capital | Differences Arising from Translation of Foreign Currency Financial Statements | Unrealized Losses on Securities and Government Bonds Available for Sale | Premises and Equipment Revaluation Increment | Accumulated Losses | | | Total Shareholder's Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Unappropriated | Appropriated | Total | |
| **Balance as of December 31, 2000** | | **4,251,000** | **175,092,004** | **138,024** | **(22,040)** | **9,788** | **(165,206,362)** | **-** | **(165,206,362)** | **14,262,414** |
| *2001 Movements:* | | | | | | | | | | |
| Return of additional paid-in capital relating to assets transferred to PT Pengelola Harta Tetap Mandiri ("PHTM") | 15c | | (129,685) | | | | | | | (129,685) |
| Reduction in differences arising from the translation of foreign currency financial statements | | | | (54,279) | | | | | | (54,279) |
| Unrealized losses on securities and Government Bonds available for sale | | | | | (5,025,122) | | | | | (5,025,122) |
| Dividends | 33 | | | | | | (1,011,219) | | (1,011,219) | (1,011,219) |
| Allocation for small industry or cooperative development fund ("PUKK") | 33 | | | | | | (11,081) | | (11,081) | (11,081) |
| Reserve allocated from 2000 net profit | 33 | | | | | | (159,140) | 159,140 | | |
| Net profit for 2001 | | | | | | | 2,745,757 | | 2,745,757 | 2,745,757 |
| **Balance as of December 31, 2001** | | **4,251,000** | **174,962,319** | **83,745** | **(5,047,162)** | **9,788** | **(163,642,045)** | **159,140** | **(163,482,905)** | **10,776,785** |

The accompanying notes form an integral part of these consolidated financial statements.

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
Consolidated Statements of Changes in Shareholder's Equity (Continued)
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Notes | Issued and Fully Paid-Up Capital | Additional Paid-in-Capital | Differences Arising from Translation of Foreign Currency Financial Statements | Unrealized Losses on Securities and Government Bonds Available for Sale | Premises and Equipment Revaluation Increment | Accumulated Losses | | | Total Shareholder's Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Unappropriated | Appropriated | Total | |
| **Balance as of January 1, 2002** | | **4,251,000** | **174,962,319** | **83,745** | **(5,047,162)** | **9,788** | **(163,642,045)** | **159,140** | **(163,482,905)** | **10,776,785** |
| *2002 Movements:* | | | | | | | | | | |
| Proposed return of additional paid-in capital to the Government | 33 | | (1,412,000) | | | | | | | (1,412,000) |
| Reduction in differences arising from the translation of foreign currency financial statements | | | | (19,581) | | | | | | (19,581) |
| Unrealized gain on securities and Government Bonds available for sale | | | | | 2,908,976 | | | | | 2,908,976 |
| Dividends | 33 | | | | | | (1,372,878) | | (1,372,878) | (1,372,878) |
| Allocation for small industry or cooperative development fund ("PUKK"), environmental development fund and directors' bonus (tantiem) | 33 | | | | | | (32,381) | | (32,381) | (32,381) |
| Reserve allocated from 2001 net profit | 33 | | | | | | (1,340,498) | 1,340,498 | | |
| Net profit for 2002 | | | | | | | 3,585,589 | | 3,585,589 | 3,585,589 |
| Reserve allocated from net profit for the six-month period ended June 30, 2002 | 33 | | | | | | (600,000) | 600,000 | | |
| **Balance as of December 31, 2002** | | **4,251,000** | **173,550,319** | **64,164** | **(2,138,186)** | **9,788** | **(163,402,213)** | **2,099,638** | **(161,302,575)** | **14,434,510** |

The accompanying notes form an integral part of these consolidated financial statements.

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
Consolidated Statements of Cash Flows
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Notes | 2002 | 2001 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from interest income | | 32,496,217 | 31,377,476 |
| Receipts from fees and commissions | | 1,207,919 | 772,176 |
| Payment of interest expense | | (25,337,207) | (24,632,916) |
| Payment of other financing expenses | | (64,326) | (82,776) |
| Foreign exchange losses - net | | 4,335,401 | (652,516) |
| Operating income - others | | 584,686 | 720,409 |
| Operating expenses - others | | 2,354,266 | 3,496,697 |
| Salaries and employee benefits | | (1,565,951) | (1,670,186) |
| General and administrative expenses | | (1,772,469) | (1,737,752) |
| Non-operating income - others - net | | 279,749 | 2,100,389 |
| Profit before changes in operating activities | | 12,518,285 | 9,691,001 |
| (Increase)/decrease in operating assets: | | | |
| Placements with other banks | | 20,705,663 | (24,381,959) |
| Securities - trading portfolio | | (453,537) | (410,353) |
| Sale of Government Bonds - trading portfolio | | 1,024,891 | 14,200,453 |
| Acceptances receivable | | - | (14,698) |
| Trade documents and other facilities | | 322,205 | (654,366) |
| Loans | | (16,937,933) | (14,503,663) |
| Proceeds from collection of earning assets already written-off | | 1,103,124 | 2,279,047 |
| Other assets | | (1,185,686) | 4,927,526 |
| Increase/(decrease) in operating liabilities: | | | |
| Demand deposits | | (4,970,707) | 1,844,493 |
| Savings deposits | | 7,621,387 | 4,274,656 |
| Time deposits | | (5,816,064) | 23,808,579 |
| Certificates of deposit | | (3,262,970) | 2,952,984 |
| Inter-bank call money | | 461,554 | (388,045) |
| Other current liabilities | | 8,483 | (154,550) |
| Taxes payable | | (51,084) | 10,068 |
| Other liabilities | | 422,323 | (5,746,034) |
| Allowance for possible losses on commitments and contingencies | | (3,791,082) | (3,639,338) |
| Differences arising from translation of foreign currency financial statements | | (19,581) | (54,279) |
| Net cash provided by operating activities | | 7,699,271 | 14,041,522 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Increase in securities - held to maturity portfolio | | (673,200) | (269,246) |
| Redemption of matured Government hedge bonds | | 11,552,679 | 13,100,468 |
| Replacement of matured Government hedge bonds | | (11,552,679) | (13,100,468) |
| Increase in investments in shares of stock | | (23,818) | (19,528) |
| Sale/(purchase) of securities purchased with agreement to resell | | 305,102 | (305,102) |
| Acquisition of premises and equipment | | (347,354) | (754,936) |
| Proceeds from sale of premises and equipment | | 1,472 | - |
| Net cash used in investing activities | | (737,798) | (1,348,812) |

The accompanying notes form an integral part of
these consolidated financial statements.

**PT BANK MANDIRI (PERSERO) AND SUBSIDIARIES**
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Notes | 2002 | 2001 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Decrease in minority interests in net assets of consolidated subsidiaries | | (628) | (367) |
| Decrease in securities issued | | (1,919,262) | (1,338,784) |
| Decrease in fund borrowings | | (4,544,697) | (11,373,003) |
| Increase/(decrease) in subordinated loans | | 329,780 | (88,041) |
| Decrease in loan capital | | - | (2,700) |
| Sale/(repurchase) of securities sold with agreement to repurchase | | 735,000 | (1,012,056) |
| Payment of dividends, PUKK, environmental development fund and directors' bonus (tantiem) | | (1,372,878) | (1,011,219) |
| Net cash used in financing activities | | (6,772,685) | (14,826,170) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | 188,788 | (2,133,460) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 11,898,473 | 14,031,933 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **12,087,261** | **11,898,473** |
| Cash and cash equivalents at end of year consist of: | | | |
| Cash | | 2,164,651 | 1,735,258 |
| Current accounts with Bank Indonesia | 4 | 9,607,119 | 9,895,331 |
| Current accounts with other banks | 5 | 315,491 | 267,884 |
| **Total cash and cash equivalents** | | **12,087,261** | **11,898,473** |
| **SUPPLEMENTAL NON-CASH FLOW INFORMATION** | | | |
| Activities not affecting cash flows: | | | |
| Unrealized losses on securities and Government Bonds available-for-sale | | 2,908,976 | 5,028,308 |
| Governments Bonds swapped with IBRA' s loans | | 5,422,497 | 5,214,645 |
| Proposed return of additional paid-in capital to the Government | | (1,412,000) | - |
| Government bonds reprofiling | | 103,849,017 | - |

The accompanying notes form an integral part of
these consolidated financial statements.

## 1. GENERAL

PT Bank Mandiri (Persero) (hereinafter referred to as “Bank Mandiri” or the “Bank”) was established in the Republic of Indonesia on October 2, 1998 under Government Regulation No. 75 of 1998 dated October 1, 1998 and based on notarial deed No. 10 of Sutjipto, S.H. dated October 2, 1998. The deed of establishment was approved by the Minister of Justice in decision letter No. C2-16561 HT.01.01.Th98 dated October 2, 1998 and was published in Supplement No. 6859 of State Gazette No. 97 dated December 4, 1998. Bank Mandiri was established through the transfer of almost all shares formerly owned by the Government of the Republic of Indonesia (the “Government”) in the former PT Bank Bumi Daya (Persero) (“BBD”), former PT Bank Dagang Negara (Persero) (“BDN”), former PT Bank Ekspor Impor Indonesia (Persero) (“Bank Exim”) and former PT Bank Pembangunan Indonesia (Persero) (“Bapindo”) (hereinafter collectively referred to as the “Merged Banks”), and by cash payments from the Government.

Bank Mandiri’s Articles of Association have been amended several times, most recently by notarial deed No. 48 of Sutjipto, S.H. dated July 10, 2001, concerning the distribution of net profit. This amendment was approved by the Minister of Justice and Human Rights in decision letter No. C-03458 HT.01.04.TH.2001. Amendment was also made by notarial deed No. 98 of Sutjipto, S.H., dated July 24, 1999, concerning among others, the increase in the share capital of Bank Mandiri by the Government. This amendment was approved by the Minister of Justice in decision letter No. C-13.781.HT.01.04.TH.99 dated July 29, 1999 and published in Supplement No. 252 of the State Gazette No. 77 dated September 24, 1999.

In accordance with Article 3 of the amended Articles of Association, Bank Mandiri is engaged in commercial banking activities, which it commenced on August 1, 1999.

At the Shareholder’s Extraordinary General Meeting held on July 24, 1999 and documented by notarial deeds No. 93, 94, 95, 96, 97 and 98 of Sutjipto, S.H., the shareholder of Bank Mandiri, BBD, BDN, Bank Exim and Bapindo approved the merger plan between Bank Mandiri and the Merged Banks. Based on the deed of merger No. 100 dated July 24, 1999 of Sutjipto, S.H., BBD, BDN, Bank Exim and Bapindo were merged into Bank Mandiri. The merger was declared effective by the Chief of the South Jakarta Office of the Department of Industry and Trade in decision letter No. 09031827089 dated July 31, 1999 (Note 3).

On May 28, 1999 the Government issued Government Regulation No. 52 of 1999 which provided for an increase in the Government’s capital participation in Bank Mandiri through Government Bonds to be issued by the Minister of Finance with a value of up to Rp137,800,000 within the framework of the Government’s Recapitalization Program. On December 24, 1999 the Government issued Government Regulation No. 97 of 1999 which provided for an increase in the share capital of Bank Mandiri to a maximum of Rp42,200,000 (Note 3).

Based on the results of a due diligence review conducted on behalf of the Government dated December 31, 1999 and Management Contract (IMPA) dated April 8, 2000, it was determined that there was an excess recapitalization of Rp4,069,000. The Bank returned Rp2,657,000 on July 7, 2000 in the form of Government Bonds and the remaining Rp1,412,000 is proposed to be returned in accordance with the shareholder’s resolution dated October 29, 2002.

(Expressed in millions of Rupiah, unless otherwise stated)

## 1. GENERAL (Continued)

Bank Mandiri's head office is located in Jakarta, Indonesia. As of December 31, 2002 and 2001, Bank Mandiri has the following domestic and offshore branches:

| | 2002 | 2001 |
|---|---|---|
| Domestic Regional Offices | 10 | 10 |
| Domestic Branches: | | |
| Hubs | 54 | 54 |
| Spokes | 426 | 424 |
| Cash Outlets | 207 | 157 |
| | 687 | 635 |
| Offshore Branches | 3 | 4 |
| Offshore Subsidiary | 1 | 1 |

Bank Mandiri has offshore branches located in Grand Cayman, the Cook Islands, Singapore and Hong Kong, and has one subsidiary in London, U.K., Bank Mandiri (Europe) Limited ("BMEL") as of December 31, 2001. Effective June 25, 2002 the Cook Islands branch was closed. The closure of the Cook Islands branch was approved by the Office of the Commissioner for Offshore Financial Services of the Government of the Cook Islands dated July 17, 2002. The assets and liabilities of such Branch were transferred to the Head Office and the Grand Cayman branch on September 17, 2002.

Based on the Shareholder's Extraordinary General Meeting held on May 17, 2000, E.C.W. Neloe was appointed as President Director of Bank Mandiri and, based on notarial deeds No. 76 and 77 of Sutjipto, S.H. dated November 16, 2000, the members of Bank Mandiri's Boards of Commissioners and Directors are as follows:

| | | As of December 31, 2002 | As of December 31, 2001 |
|---|---|---|---|
| Board of Commissioners | | | |
| President Commissioner | : | Binhadi | Binhadi |
| Commissioner | : | Soedarjono | Soedarjono |
| Commissioner | : | Markus Parmadi | Markus Parmadi |
| Commissioner | : | Sabana Kartasasmita | Sabana Kartasasmita |
| Board of Directors | | | |
| President Director | : | E.C.W. Neloe | E.C.W. Neloe |
| Director | : | I Wayan Pugeg | I Wayan Pugeg |
| Director | : | I Wayan Agus Mertayasa | Agus Martowardojo |

In 2001, the President Director, with the approval of the Board of Commissioners, appointed I Wayan Agus Mertayasa to replace I Wayan Pugeg as Compliance Director of the Bank. The appointment was approved by Bank Indonesia through letter No. 3/130/DGS/DPIP dated November 5, 2001. On August 1, 2002, the Minister of State-Owned Enterprises through letter No. Kep-116/MBU/2002 accepted the resignation of Agus Martowardojo as a Director, and appointed I Wayan Agus Mertayasa as a new director of the Bank.

Bank Mandiri's Audit Committee as of December 31, 2002 and 2001, is comprised of:

| | | |
|---|---|---|
| Chairman | : | Soedarjono |
| Member | : | Soejatno Soenoesoebrata |
| Member | : | Zulkifli Djaelani |

As of December 31, 2002 and 2001 Bank Mandiri has a total of 17,735 and 17,204 employees, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*a. Basis of Preparation of the Consolidated Financial Statements*

The consolidated financial statements of Bank Mandiri and its Subsidiaries have been prepared in conformity with the Statement of Financial Accounting Standards ("SFAS") No. 31 (Revised), "Accounting for the Banking Industry" and other generally accepted accounting principles established by the Indonesian Institute of Accountants and, where applicable, with prevailing banking industry practices and accounting and reporting guidelines prescribed by the Indonesian banking regulatory authority.

The consolidated financial statements have been prepared on the historical cost and accrual basis of accounting, except for trading and available-for-sale securities and Government Bonds which are stated at fair value, hedge bonds which are stated at indexed value, certain investments in shares of stock which are accounted for under the equity method, and certain premises and equipment which have been revalued.

The consolidated statements of cash flows present cash receipts and payments classified on the basis of operating, investing and financing activities. For the purpose of the consolidated statements of cash flows, cash equivalents include cash on hand, current accounts with Bank Indonesia and current accounts with other banks.

Significant Changes in Accounting Policies in 2002

*SFAS No. 5 (Revised) - "Reporting Financial Information by Segment"*

The Indonesian Institute of Accountants issued SFAS No. 5 (Revised) effective January 1, 2002 with retroactive implementation. This standard requires publicly listed-companies and companies that are going to "go public" to report financial information by primary and secondary segments, which generally consists of the industry sectors and geographical areas in which the company operates.

Industry segments are defined as the distinguishable components of an enterprise engaged in providing a different product or service, or a different group of related products or services, primarily to customers outside the company. Geographical segments are the distinguishable components of a company engaged in operations in individual countries or groups of countries within a particular geographical area.

The Bank considers the nature of business as the primary segment, and geographical areas as the secondary segment.

*b. Principles of Consolidation*

The consolidated financial statements include the financial statements of Bank Mandiri and its majority-owned or controlled Subsidiaries. Significant inter-company balances and transactions have been eliminated.

Subsidiaries included in the consolidated financial statements are as follows:

| | | | Percentage of Ownership | |
|---|---|---|---|---|
| | | | December 31, | |
| Name of Subsidiary | Nature of Business | Domicile | 2002 | 2001 |
| Bank Mandiri (Europe) Limited ("BMEL") | Commercial Banking | London | 100.00 | 100.00 |
| PT Asuransi Jiwa Mandiri | Insurance | Jakarta | 100.00 | 100.00 |
| PT Bank Syariah Mandiri | Syariah Banking | Jakarta | 99.99 | 99.99 |
| PT Usaha Gedung Bank Dagang Negara | Property Management | Jakarta | 99.00 | 99.00 |
| PT Bumi Daya Plaza | Property Management | Jakarta | 93.33 | 93.33 |
| PT Mandiri Sekuritas | Investment Banking | Jakarta | 91.87 | 28.49 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*b. Principles of Consolidation (Continued)*

BMEL was incorporated on June 22, 1999 under the Companies Act 1985 of the United Kingdom. It was established from the conversion of the Bank Exim London Branch to a subsidiary effective July 31, 1999. BMEL was mandated to act as a commercial bank to represent the interests of Bank Mandiri. The registered office of BMEL is in London, United Kingdom. In July 2002, the Bank injected an additional paid-up capital of US$22 million in BMEL.

PT Asuransi Jiwa Mandiri (previously known as PT Asuransi Jiwa Staco Raharja) was established in the Republic of Indonesia on September 30, 1991 based on notarial deed No. 179 of Muhani Salim, S.H. dated September 30, 1991. Based on the Extraordinary General Shareholder's Meeting held on January 31, 2002, the name of the Company was changed from PT Asuransi Jiwa Staco Raharja to PT Asuransi Jiwa Mandiri (Mandiri Life). In accordance with Article 3 of the Company's Articles of Association, the Company is engaged in life insurance activities. The head office is located in Jakarta. The Bank increased the paid up capital in PT Asuransi Jiwa Mandiri by Rp10 billion in September 2002 in order to strengthen the capital structure prior to a proposed joint venture with a foreign insurance company.

PT Bank Syariah Mandiri ("BSM"), formerly PT Bank Susila Bhakti, a subsidiary of ex-BDN, was established in the Republic of Indonesia, and is engaged in banking activities in accordance with "Syariah" banking principles. BSM has applied "Syariah" banking principles, and also has prepared financial statements for consolidation into the December 31, 2002 and 2001 consolidated financial statements of Bank Mandiri in accordance with the same accounting principles applied by Bank Mandiri.

PT Usaha Gedung Bank Dagang Negara was established in the Republic of Indonesia on October 29, 1971 based on notarial deed No. 104 of Abdul Latief, S.H. dated October 29, 1971. The Company is engaged in property management and office rental activities, which involve the Company and its subsidiaries' offices, and other offices. It owns 75% of the share capital of PT Pengelola Harta Tetap Mandiri ("PHTM"), a company primarily established to manage and sell the non-core fixed assets of Bank Mandiri, and 25% of the share capital of PT Pengelola Investama Mandiri ("PIM"), a company primarily established to manage the investments in shares of Bank Mandiri.

PT Bumi Daya Plaza was established in Jakarta based on notarial deed No. 33 of Ny. Subagyo Reksodipuro, S.H. dated December 22, 1978. The Company is engaged in property management and rental activities. It owns 75% of the share capital of PIM and 25% of the share capital of PHTM.

PT Mandiri Sekuritas was established on July 31, 2000 based on notarial deed No. 116 of Ny. Vita Buena, S.H. replacing Sutjipto, S.H. It was established through the merger of PT Bumi Daya Sekuritas, PT Exim Sekuritas and PT Merincorp Securindo. The merger was approved by the Minister of Laws and Regulations of the Republic of Indonesia on August 25, 2000 based on decision letter No. C-18762 HT.01.01-TH.2000. The Bank injected an additional paid-up capital of Rp300 billion in December 2002, resulting in an increase in the percentage of ownersip from 28.49% to 91.87%.

The total assets of the Subsidiaries as of December 31, 2002 and 2001 amounted to Rp3,371,193 and Rp2,653,048 or 1.35% and 1.01% of the total consolidated assets, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*b. Principles of Consolidation (Continued)*

For consolidation purposes, the financial statements of the overseas branches and overseas subsidiary of Bank Mandiri are translated into Rupiah on the following basis:

(1) Assets, liabilities, commitments and contingencies - using the middle rates as published by Bank Indonesia at the balance sheet date.

(2) Revenues, expenses, gains and losses - using the average middle rates during each month in the financial reporting period.

(3) Shareholder's equity accounts - using historical rates.

(4) Statements of cash flows - using the middle rates as published by Bank Indonesia at the balance sheet date, except for profit and loss statement balances which are translated using the average middle rates and shareholder's equity balances which are translated using historical rates.

The resulting net translation adjustment is presented as "Differences Arising from Translation of Foreign Currency Financial Statements" under the Shareholder's Equity section of the consolidated balance sheets.

*c. Foreign Currency Transactions and Balances*

Bank Mandiri maintains its accounting records in Indonesian Rupiah. Transactions in currencies other than Rupiah are recorded at the prevailing rates of exchange in effect on the date of the transactions. At the balance sheet date, all foreign currency monetary assets and liabilities are translated into Rupiah at the closing rates on that date. The resulting gains or losses are credited or charged to the current year's profit and loss.

As of December 31, 2002 and 2001, the exchange rates used against the Rupiah were as follows (amounts in full Rupiah):

| | 2002 | 2001 |
|---|---|---|
| US Dollar 1/Rp | 8,950 | 10,400 |
| Deutsche Mark 1/Rp | 4,038 | 4,704 |
| British Pound Sterling 1/Rp | 14,405 | 15,081 |
| Japanese Yen 100/Rp | 7,542 | 7,918 |
| Euro 1/Rp | 9,367 | 9,203 |

*d. Transactions with Related Parties*

Bank Mandiri and its Subsidiaries enter into transactions with related parties.

All significant transactions with related parties, whether or not conducted under similar terms and conditions as those with third parties, are disclosed in Note 57. Transactions between Bank Mandiri and its subsidiaries, with state- and region-owned/controlled entities including the Indonesian Bank Restructuring Agency ("IBRA") and entities related to and controlled by IBRA as a result of the "bank and corporate restructuring program", are not considered as transactions with related parties.

*e. Allowance for Possible Losses on Earning Assets and Commitments and Contingencies*

Earning assets consist of current accounts with other banks, placements with other banks, securities, Government Bonds, trade documents and other facilities, securities purchased with agreement to resell, derivative receivables, loans, acceptance receivables, investments in shares of stock, and commitments and contingencies with credit-related risk.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*e. Allowance for Possible Losses on Earning Assets and Commitments and Contingencies (Continued)*

Commitments and contingencies with credit-related risk consist of outstanding irrevocable letters of credit, outstanding letters of credit under Bank Indonesia's guarantee program, guarantees issued in the form of standby letters of credit, bank guarantees and risk sharing.

In accordance with Bank Indonesia ("BI") regulations, the Bank classifies our earning assets into one of five categories. Performing assets are categorized as "current" and "special mention". Non-perfoming assets are divided into three categories: "sub-standard", "doubtful", and "loss".

The classification of earning assets into current, special mention, sub-standard, doubtful and loss is determined based on an evaluation by the Management of Bank Mandiri and its Subsidiaries of each borrower's repayment performance, business prospects, financial condition and ability to repay, and consideration of the guidelines prescribed by Bank Indonesia regarding the quality of earning assets.

In accordance with Bank Indonesia guidelines, the Bank has established allowances for possible losses in the form of a "general reserve" in respect of the overall loan portfolio categorized as "current", and in the form of a "specific reserve" in respect of any specifically identified loans categorized as "special mention", "sub-standard", "doubtful", or "loss".

The determination of the minimum allowance for possible losses on earning assets of Bank Mandiri and Subsidiaries takes into consideration the guidelines prescribed by Bank Indonesia regarding the Allowances for Possible Losses on Earning Assets, which prescribe minimum rates of allowance for possible losses on earning assets and commitments and contingencies with credit-related risk. The following table shows Bank Indonesia's minimum allowance requirements:

| Classification | Rate |
|---|---|
| Current * | 1% |
| Special mention | 5% |
| Sub-standard | 15% |
| Doubtful | 50% |
| Loss | 100% |

* excluding Bank Indonesia Certificates of Indebtedness ("SBIs") and Government Bonds.

The Bank maintained allowances that in most cases exceed Bank Indonesia's minimum allowance requirements. Also, for group borrowers, the Bank provides allowances generally based on the lowest rating within a group. The above rates of allowances for possible losses are applied as a minimum, to the outstanding balances of earning assets and commitments and contingencies with credit-related risk, net of the value of cash and certain non-cash collateral, except for earning assets classified as current and special mention for which the rate is applied to the outstanding balance.

The allowance for possible losses for commitments and contingencies with credit-related risk is presented in the liabilities section of the consolidated balance sheet.

The outstanding balances of earning assets are written off against the respective allowance for possible losses when management of Bank Mandiri and its Subsidiaries believe that the earning assets are uncollectible. Recovery of earning assets previously written off is recorded as an addition to the allowance for possible losses during the period. If the recovery exceeds the principal amount, the excess will be recognized as interest income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*f. Current Accounts with Other Banks*

Current accounts with other banks are stated at the outstanding balance, net of allowance for possible losses.

*g. Placements with Other Banks*

Placements with other banks represent placements in the form of call money, "fixed-term" placements, time deposits, certificates of deposit and others.

Placements with other banks are stated at the outstanding balances, net of allowance for possible losses.

*h. Securities*

Securities consist of securities traded in the money market such as mutual fund units, Certificates of Bank Indonesia, negotiable certificates of deposit, commercial papers, money market securities, and securities traded on the stock exchanges such as shares of stocks and bonds.

Investments in mutual fund units are stated at market value, which is the net value of assets of the mutual funds at the balance sheet date. Any unrealized gains or losses at the balance sheet date are reflected in the current year's profit or loss.

The value of securities is stated based on the classification of the securities, as follows:

(1) Trading securities are stated at fair value. The unrealized gains/losses resulting from the increase/decrease in fair value are recognized in the current year's profit and loss. Upon the sale of securities in a trading portfolio, the difference between selling price and fair value per books is recognized as realized gain or loss on sale.

(2) Available-for-sale securities are stated at fair value. Unrealized gains or losses resulting from the increase/decrease in fair value are not recognized in the current year's profit and loss but are presented as a separate component of shareholder's equity. Gains or losses are recognized in profit and loss upon realization.

(3) Held-to-maturity securities are stated at cost adjusted for unamortized discounts or premiums. Management has not and do not intend to sell securities in the held-to-maturity portfolio.

For securities which are actively traded in organized financial markets, fair value is generally determined by reference to quoted market bid prices by the stock exchanges at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the assets. For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of securities. Any permanent decline in the fair value of securities held to maturity and available for sale is charged to the profit and loss in the period incurred.

Securities are stated net of allowance for possible losses and unamortized interest/premium or discount. Premiums and discounts are amortized using the straight-line method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*i. Government Bonds*

Government Bonds represent bonds issued by the Government in connection with the recapitalization of commercial banks. Government Bonds are stated at nominal value, except for bonds that have become available for trading and for sale, which are stated at fair value, and for hedge bonds which are stated at values determined by the exchange rate of the Rupiah against the US Dollar, as published by Reuters on the balance sheet date. The exchange gain or loss arising from the indexation of hedge bonds is charged to the current year's profit and loss.

For Government Bonds which are traded, fair value is generally determined by reference to quoted market bid prices by the stock exchanges at the close of business on the balance sheet date. For Government Bonds where there are no quoted market prices, a reasonable estimate of the fair value is calculated using a yield-to-maturity approach.

There are also treasury bonds issued by the Government of Republik of Indonesia, which are not related to the recapitalization, and are presented as "Securities" in the consolidated financial statements.

*j. Trade Documents and Other Facilities*

Trade documents and other facilities represent receivables resulting from contracts for trade-related facilities given to customers, which are collectible when due.

Trade documents and other facilities are presented at their outstanding balances, net of allowance for possible losses.

*k. Securities Purchased/Sold with Agreement to Resell/Repurchase*

Securities sold under repurchase agreements are presented in the consolidated balance sheets as repurchase payables at the repurchase price less unamortized interest. The difference between the selling price and the repurchase price is treated as a prepaid expense and is recognized as expense during the period from the sale of securities to the date of repurchase.

Securities purchased with agreement to resell are presented in the consolidated balance sheets as repurchase receivables at their resale price less unamortized interest. The difference between the purchase price and the selling price is treated as unrealized (unamortized) interest income and is recognized as income during the period from the purchase of securities to the date of resale.

*l. Derivative Receivables and Derivative Payables*

In the normal course of business, the Bank enters into transactions involving derivative financial instruments such as foreign currency forward contracts, foreign currency swaps and interest rate swaps.

Effective January 1, 2001 the Bank and its subsidiaries adopted SFAS No. 55, "Accounting for Derivative Instruments and Hedging Activities". Derivative instruments are recognized in the balance sheet as assets when the difference between the contract and the fair value is positive and as liabilities when the difference between the contract and the fair value is negative.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*l. Derivative Receivables and Derivative Payables (Continued)*

Under the reporting guidelines prescribed by Bank Indonesia, derivative receivables and payables are stated at the amount of the unrealized gains or losses from the derivative contracts, reduced by the allowance for possible losses for derivative receivables. The unrealized gains or losses are calculated from the differences between the contract value and the value of the derivative instruments on reporting dates. The value of foreign currency contracts under the reporting guidelines prescribed by Bank Indonesia is determined based on the Reuters spot rate at the reporting date. Gains or losses from the derivative instruments, which do not meet the hedging criteria, are recognized in profit and loss.

As required by SFAS No. 55, the change in the accounting for derivative instruments is applied prospectively.

*m. Loans*

Loans represent the provision of money or equivalent receivables under contracts with borrowers, where borrowers are required to repay their debts with interest after a specified period and matured trade finance facilities which have not been settled within 15 days.

Loans are stated at their outstanding balance less allowance for possible loan losses.

Syndicated and channeling loans are stated at their balances in proportion to the risks borne by the Bank and its Subsidiaries.

*Loans purchased from IBRA*

During 2002 the Bank purchased loans from IBRA. The accounting treatment for these loans follows Bank Indonesia Regulation No. 4/7/PBI/2002 regarding “Prudential Principles for Credits Purchased by Banks from IBRA”.

The difference between the outstanding loan principal and purchase price is booked as deferred income if the Bank does enter into a new credit agreement and as an allowance for possible losses if the Bank does not enter into a new credit agreement with the borrower. The allowance for loan losses or deferred income is only adjusted once the Bank has received the original purchase price.

Income arising from the loans purchased from IBRA is recognized on a cash basis. If the Bank does enter into a new credit agreement with the debtor, any receipts from a borrower are recognized as deduction of the outstanding principal and/or as interest income following the term condition as set out in the new credit agreement. If the Bank does not enter into a new credit agreement with the debtor, any receipts from a borrower must be recognized firstly as deduction of outstanding principal. The excess of receipts over the outstanding principal balance shall be recognized as interest income.

Bank Indonesia allows the Bank to classify all the loans purchased from IBRA as Category 1 (Current) for a period of one (1) year from the date of booking.

BI requires banks to fully recover the purchase price of the loans within 5 (five) years from the date of booking. Any unpaid amount after 5 (five) years should be written off by the banks.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*n. Loan Restructuring*

Loan restructuring may involve a modification of the terms of the loans, conversion of loans into equity or other financial instruments and/or a combination of both.

Losses on loan restructurings in respect of modification of the term of the loans is recognized only if the present value of total future cash receipts specified by the new terms of the loans, including both receipts designated as interest and those designated as loan principal, are less than the recorded loans before restructuring.

For loan restructurings which involve a conversion of loans into equity or other financial instruments in partial satisfaction of loans, a loss on loan restructuring is recognized only if the fair value of the equity or financial instruments received, reduced by estimated expenses to sell the equity or other financial instruments, is less than the designated loan's value.

Deferred interest, which is capitalized to receivables under new restructuring agreements, is recorded as deferred interest income and is amortized proportionately based on the amount of capitalized interest relative to the loan principal upon loan collections.

*o. Acceptances Receivable and Payable*

Acceptances receivable and payable are stated at the value of the letters of credit or realizable value of the letters of credit accepted by the Bank. Acceptances receivable are presented net of allowance for possible losses.

*p. Investments in Shares of Stock*

Investments in shares of stock represent long-term investments in non-publicly-listed companies and temporary investments in debtor companies arising from conversion of loans to equity.

Investments in shares representing ownership interests of 20% to 50%, except for investments in companies arising from conversion of loans to equity, are accounted for under the equity method. Under this method, investments are stated at cost and adjusted for the Bank's proportionate share in the net equity of the investees and reduced by dividends earned since the acquisition date.

Temporary investments in debtor companies arising from the conversion of loans to equity are accounted for under the cost method regardless of the percentage of ownership, less an allowance for possible losses.

All other investments are carried at cost reduced by an allowance for possible losses.

Any permanent decline in the fair value of investments is deducted from the carrying value of the investments and charged to the current year's profit and loss. The Bank provides for possible losses arising from obligations from investments in shares of stock. Such provision is presented under other liabilities.

*q. Premises and Equipment*

Premises and equipment are stated at cost, except for certain premises and equipment used in operations that were revalued in 1979 and 1982 in accordance with Government regulations, less accumulated depreciation and amortization. The corresponding revaluation increments were credited to "Premises and Equipment Revaluation Increment" under the shareholder's equity in the balance sheet.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*q. Premises and Equipment (continued)*

Premises and equipment, except land, are depreciated and amortized using the straight-line method based on the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Landrights | contract term |
| Buildings | 20 |
| Furniture, fixtures and office equipment | 5 |
| Computer/software | 5 |
| Vehicles | 5 |

Construction in progress is stated at cost and is presented as part of premises and equipment. Accumulated costs are reclassified to the appropriate premises and equipment account when the assets are substantially complete and are ready for their intended use.

The cost of repairs and maintenance is expensed as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are reflected in the current year's profit and loss.

The carrying amounts of fixed assets are reviewed as of each balance sheet date to assess whether they are recorded in excess of their recoverable amounts and, when carrying value exceeds this estimated recoverable amount, assets are written down to their recoverable amount.

*r. Repossessed Assets*

Repossessed assets represent loan collateral that has been acquired in settlement of loans and is included in "Other Assets". Repossessed assets are presented at their net realizable value. Realizable value is the fair value of the repossessed assets less estimated costs of liquidating the assets. Any excess of the loan balance over the value of the repossessed assets, which is not recoverable from the borrower, is charged to the allowance for possible losses. Differences between the estimated realizable value and the proceeds of sale of the repossessed assets are recognized in profit and loss at the time of sale.

*s. Other Assets*

Other assets include accrued income for interest, fees and commissions, receivables, advances for purchases of loans from IBRA, prepaid taxes, prepaid expenses, repossessed assets and others.

Receivables arise from the recognition of the accretion in the realizable value of zero-coupon instruments and deposits placed with highly rated foreign institutions which are attached as security to the Subordinated Undated Floating Rate Notes ("SUFRNs") issued by certain legacy banks, and the effective reduction of the principal liability related to another legacy bank's SUFRN. Due to the contracts governing the SUFRNs, Bank Mandiri continues to recognize the original fair value of the SUFRNs as a liability of the Bank (Notes 30 and 31).

Prepaid expenses are amortized over periods during which benefits are realized using the straight-line method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *t. Deposits from Customers*

Demand deposits represent deposits of customers with Bank Mandiri and banking subsidiaries that may be used as instruments of payment, and which may be withdrawn at any time by cheque, automated teller machine card or other orders of payment or transfers. These are stated at nominal value.

Savings deposits represent deposits of customers with Bank Mandiri and banking subsidiaries that may only be withdrawn over the counter, via ATMs, when certain agreed conditions are met, but may not be withdrawn by cheque or other equivalent instruments. These are stated at nominal value.

Time deposits represent deposits of customers with Bank Mandiri and banking subsidiaries that may only be withdrawn after a certain time in accordance with the agreement between the depositor and Bank Mandiri and banking subsidiaries. These are stated at the nominal amount set forth in the certificates between Bank Mandiri and banking subsidiaries and holders of time deposits.

Certificates of deposit represent time deposits with certificates that are negotiable. These are stated at nominal value reduced by unamortized interest. The difference between the present value received and the nominal value (discount) is recognized as interest paid in advance and is amortized over the time periods of the certificates of deposit.

### *u. Deposits from Other Banks*

Deposits from other banks represent liabilities to local and overseas banks, in the form of demand deposits, savings deposits, inter-bank call money with original maturities of 90 days or less, time deposits and certificates of deposit. These are stated at the amount due to the other banks.

### *v. Securities Issued*

Securities issued include floating rate notes, which are recorded at their nominal value. Premiums or discounts arising from issuance of floating rate notes are recognized as deferred expense/income and amortised over the period of the securities. Securities issued are presented net of securities, which are also held by Bank Mandiri and its Subsidiaries.

### *w. Provision for Income Tax*

The Bank and its subsidiaries apply the liability method to determine income tax expense. Under the liability method, deferred tax assets and liabilities are recognized for temporary differences between the financial and the tax bases of assets and liabilities at each reporting date. This method also requires the recognition of future tax benefits, such as the carry-forward of unused tax losses, to the extent that realization of such benefits is probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Amendments to tax obligations are recorded when an assessment is received or, if appealed against, when the result of the appeal is determined.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*w. Provision for Income Tax (Continued)*

The corporate income tax of Bank Mandiri and its Subsidiaries is computed for each company as a separate legal entity. Current tax assets and current tax liabilities for different legal entities are not offset in the consolidated financial statements. Deferred tax assets are presented net of deferred tax liabilities in the consolidated balance sheet.

*x. Interest Income and Interest Expense*

Interest income and interest expense are recognized on an accrual basis. Interest income on non-performing earning assets is not recognized, except to the extent of cash collections received. When a loan is classified as non-performing, interest income previously recognized but not yet collected is reversed against interest income. The reversed interest income is recognized as a contingent receivable.

Effective January 1, 2001 the Bank and its Subsidiaries adopted SFAS No. 31 (Revised), which requires that all receipts from credits classified as doubtful or loss must be recognized firstly as a deduction of the outstanding principal balance. The excess of receipts over the outstanding principal balance shall be recognized as interest income.

Interest receivable on non-performing assets of Bank Mandiri and its Subsidiaries is treated as off-balance sheet and disclosed in the notes to the consolidated financial statements.

*y. Fees and Commissions*

Significant fees and commissions that are directly related to lending activities and/or involving specific time periods are deferred and amortized using the straight-line method over those periods. The balances of unamortized fees and commissions relating to loans settled prior to maturity are recognized in the current year's profit and loss upon settlement. Other fees and commissions are recognized at the transaction date.

*z. Pension Plan*

Bank Mandiri established a defined contribution pension plan covering substantially all of its eligible employees from August 1, 1999, and defined benefit pension plans which were derived from each of the Merged Banks' pension plans. The assets from each defined benefit pension plan were carried forward as assets of the Merged Banks' pension plans.

Bank Mandiri recognizes a provision for employee service entitlements under the Decree of the Minister of Manpower No. KEP-150/Men/2000 dated June 20, 2000 regarding the settlement of labor dismissal and the stipulation of severance pay, gratuity and compensation in companies. Provision for employee service entitlements is accrued based on the results of an actuarial valuation.

*aa. Earnings Per Share*

Earnings per share are calculated by dividing the net profit or loss with the weighted average number of shares issued and fully paid up during the related period.

Net profit used in calculating the basic earnings per share was Rp3,585,589 and Rp2,745,757 for the years ended December 31, 2002 and 2001, respectively. The total number of outstanding shares used in computing the earnings per share in 2002 and 2001 was 4,251,000.

(Expressed in millions of Rupiah, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *ab. Segment Information*

Effective January 1, 2002 Bank Mandiri and its subsidiaries provide financial information by nature of business (primary segment) and by geographical area (secondary segment). The primary segment is divided into banking, syariah banking, securities, insurance and others, while the secondary segment is divided into Indonesia (domestic), Asia, Europe and others.

### *ac. Use of Estimates*

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions that affect the amounts reported therein. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based on amounts which differ from those estimates.

### *ad. Reclassification of Accounts*

Certain accounts in the 2001 consolidated financial statements have been reclassified to conform to the presentation of accounts in the December 31, 2002 consolidated financial statements as follows:

December 31, 2001

| Account Description | Ref. | As Previously Reported | Reclassification | Currently Reported |
|---|---|---|---|---|
| Placements with other banks - net | A.1 | 13,180,172 | 22,308,181 | 35,488,353 |
| Securities - net | A.1<br>A.2<br>A.2 | 24,007,282 | (22,308,181)<br>(153,516)<br>1,535 | 1,547,120 |
| Loans - net | A.2<br>A.2 | 42,087,069 | 153,516<br>(1,535) | 42,239,050 |
| Securities issued | A.3 | 3,276,695 | 116,808 | 3,393,503 |
| Accrued expenses | A.3 | 1,405,006 | (116,808) | 1,288,198 |

Description:

A.1 Bank Indonesia Intervention (placement with Bank Indonesia) which were previously reported under marketable securities are reclassified under placements with other banks.

A.2 Exchange offer loans and the related allowance for possible loan losses which were previously reported under marketable securities are reclassified under loans based on BI Letter No. 4/366/DPnP/IDPnP dated December 3, 2002.

A.3 Travellers cheques which were previously reported under accrued expenses are reclassified under securities issued.

## 3. BANK MANDIRI MERGER AND RECAPITALIZATION

*Merger*

At the end of February 1998, the Government announced its plan to restructure the Merged Banks.

In connection with such restructuring plan, the Government established Bank Mandiri in October 1998 through the payment of cash and the acquisition of the Government of the Republic of Indonesia's shares of stock in the Merged Banks (Note 33). Due to the impracticability of measurement, the difference between the transfer price and the book value of the shares of stock at the time of the acquisition was not determined. All losses incurred during the year of acquisition were taken into account in the Recapitalization Program.

The above-mentioned restructuring plan provided for the merger of the Merged Banks into Bank Mandiri in July 1999 and the recapitalization of Bank Mandiri. The restructuring of the Merged Banks and Bank Mandiri also covered the following:

- Restructuring of loans.
- Restructuring of non-loan assets.
- Rationalization of domestic and overseas offices.
- Rationalization of human resources.

Based on the Merger Deed No. 100 of Sutjipto, S.H. dated July 24, 1999 the Merged Banks were legally merged into Bank Mandiri. The merger deed was legalized by the Minister of Justice in decision letter No. C-13.781.HT.01.04.TH.99 dated July 29, 1999 and approved by the Governor of Bank Indonesia in decision letter No.1/9/KEP.GBI/1999 dated July 29, 1999. The merger was declared effective by the Chief of the South Jakarta Office of the Minister of Industry and Trade in decision letter No. 09031827089 dated July 31, 1999.

Effective from the date of the merger:

- All of the assets and liabilities of the Merged Banks were transferred to Bank Mandiri, the surviving bank.
- All operations and business activities of the Merged Banks were transferred to and operated by Bank Mandiri.
- Bank Mandiri received additional paid-up capital amounting to Rp1,000,000 (one million Rupiah) (full amount) or equivalent to one (1) share each representing the remaining share of the Government in the Merged Banks (Note 33).

Effective on the same date, the Merged Banks were legally dissolved without the process of liquidation and Bank Mandiri, as the surviving bank, received the rights and obligations of the Merged Banks.

(Expressed in millions of Rupiah, unless otherwise stated)

## 3. BANK MANDIRI MERGER AND RECAPITALIZATION (Continued)

*Merger (Continued)*

Below are the beginning balances of the components of shareholder's equity of the Merged Banks before and after consolidated in Bank Mandiri:

| | Before Consolidation | After Consolidation |
|---|---|---|
| Additional paid-in capital | 22,679,238 | 4 |
| Donated capital | 811,798 | - |
| Premises and equipment revaluation increment | 20,122 | - |
| Accumulated losses | (129,044,712) | (105,533,558) |

*Recapitalization*

In response to the effects of the adverse economic conditions in Indonesia on the banking sector (Note 59), on December 31, 1998, the Government issued Regulation No. 84 of 1998 concerning its Recapitalization Program for Commercial Banks, which was designed to increase the paid-up capital of commercial banks to enable them to meet the minimum required capital adequacy ratio. The eligibility of commercial banks for inclusion in the Recapitalization Program is based on requirements and procedures set forth in the Joint Decrees No. 53/KMK.017/1999 and No. 31/12/KEP/GBI dated February 8, 1999 of the Minister of Finance and the Governor of Bank Indonesia. Under the Joint Decrees, the Government, among others, shall implement the Recapitalization Program for Commercial Banks with respect to all State-Owned Banks, Regional Development Banks and Commercial Banks that have been taken over by the Indonesian Bank Restructuring Agency ("IBRA").

On May 28, 1999 the Government issued Government Regulation No. 52 of 1999 (GR No. 52/1999) that provided for the increase in the Government of the Republic of Indonesia's capital participation in Bank Mandiri through Government Bonds to be issued by the Minister of Finance with a value of up to Rp137,800,000. The implementation of GR No. 52/1999 is set forth in Joint Decrees No. 389/KMK.017/1999 and No. 1/10/KEP/GBI dated July 29, 1999 of the Minister of Finance and the Governor of Bank Indonesia.

During the period the above-mentioned bonds were not yet issued, Bank Mandiri accounted for such bonds as "Due from the Government" in its balance sheet in the amount of Rp137,800,000 in accordance with the Government's Commitment through the Minister of Finance's letter No. S-360/MK.017/1999 dated September 29, 1999 and the approval of the State Minister for Investment in State-Owned Enterprises in letter No. S-510/M-PBUMN/1999 dated September 29, 1999.

Based on Bank Indonesia Letter No. 1/1/GBI/DPIP dated October 11, 1999, concerning the issuance of Government Bonds/Debentures in connection with the Government of Republic of Indonesia's investment in Bank Mandiri, Bank Indonesia agreed that the above receivable be included in Bank Mandiri's core capital (Tier 1) for purposes of calculating its capital adequacy ratio ("CAR") as of July 31, 1999 through September 30, 1999, subject to the condition that not later than October 15, 1999 the Government Bonds/Debentures should have been received by Bank Indonesia.

(Expressed in millions of Rupiah, unless otherwise stated)

## 3. BANK MANDIRI MERGER AND RECAPITALIZATION (Continued)

*Recapitalization (Continued)*

Based on Government Regulation No. 97 of 1999 dated December 24, 1999 concerning the increase in capital of the Government of the Republic of Indonesia in Bank Mandiri within the framework of the Recapitalization Program, the Government of Republic of Indonesia increased its investment to a maximum of Rp42,200,000, such that the total maximum investment would amount to Rp180,000,000.

In connection with the implementation of the above Government Regulations No. 52 and No. 97 of 1999, in accordance with the Interim Recapitalization Agreement between the Government and Bank Mandiri and its amendment, the Government issued Government Bonds in two (2) tranches of Rp103,000,000 on October 12, 1999 and Rp75,000,000 on December 28, 1999 so that as of December 31, 1999 the total Government Bonds issued in accordance with the aforementioned Agreements amounted to Rp178,000,000 (Note 8).

Based on the Management Contract dated April 8, 2000, between Bank Mandiri and the Government, the total amount of recapitalization required by Bank Mandiri is Rp173,931,000, or less than the amount of the Government Bonds. Of such excess, Rp1,412,000 is to be retained as additional paid-in capital, and the balance of Rp2,657,000 was returned to the Government on July 7, 2000 in the form of Government Bonds equivalent to 2,657,000 (two million six hundred fifty seven thousand) units.

Based on the decision letter of the Ministry of State-Owned Enterprises No. 154/M-MBU/2002 dated October 29, 2002 and shareholder's resolution, Bank Mandiri will return the excess of Government Recapitalization Bonds, which was previously retained as additional paid-in capital amounting to Rp1,412,000, to the Government. As of December 31, 2002, the proposed return of the excess of Government Recapitalization Bonds has been recorded by the Bank as "Due to the Government arising from the return of additional paid-in capital" under Other Liabilities (Notes 29 and 33).

## 4. CURRENT ACCOUNTS WITH BANK INDONESIA

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 8,074,267 | 8,044,403 |
| United States Dollars | 1,532,852 | 1,850,928 |
| | 9,607,119 | 9,895,331 |

The current accounts with Bank Indonesia are primarily maintained to meet the minimum legal reserve requirements of Bank Indonesia of 5% and 3% of Rupiah and US Dollar deposits, respectively.

The reserve requirement ratio of the Bank for its Rupiah and US Dollar accounts as of December 31, 2002 and 2001 are 5.19% and 3.01% (unaudited) and 5.26% and 3.01% (unaudited), respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 5. CURRENT ACCOUNTS WITH OTHER BANKS

*a. By Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 2,746 | 5,095 |
| Foreign currency: | | |
| Standard Chartered Bank, New York and Hong Kong | 91,952 | 2,482 |
| American Express Bank, New York | 48,275 | 14,395 |
| Bank of California, New York | 26,288 | - |
| Commerz Bank, Frankfurt | 16,534 | - |
| Bank of New York, New York | 16,117 | 12,804 |
| United Overseas Bank, Singapore | 15,070 | 21,530 |
| Deutsche Bank, Frankfurt | 8,259 | - |
| Citibank NA, New York | 4,023 | 63,416 |
| Chase Manhattan Bank, New York | 1,658 | 7,098 |
| Sumitomo Mitsui Banking Corporation, Tokyo | 1,470 | 22,314 |
| Bank One International, New York | 1,072 | 18,300 |
| Bank of Tokyo Mitsubishi Corporation, Tokyo | - | 27,462 |
| First Union Bank International, New York | - | 1,416 |
| Others | 82,027 | 71,572 |
| Total foreign currency | 312,745 | 262,789 |
| Total | 315,491 | 267,884 |
| Less: Allowance for possible losses | (3,726) | (2,461) |
| | 311,765 | 265,423 |

*b. By Collectibility:*

As of December 31, 2002 and 2001, all current accounts with other banks are classified as current.

*c. By Related and Non-related Party:*

As of December 31, 2002 and 2001, there are no current accounts with related party banks.

*d. Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 2.35% | 1.36% |
| Foreign currency | 1.17% | 1.15% |

*e. Movements of Allowance for Possible Losses on Current Accounts with Other Banks:*

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 2,461 | 10,286 |
| Reversal during the year | (2,274) | (14,936) |
| Others (*) | 3,539 | 7,111 |
| Balance at end of year | 3,726 | 2,461 |

*(*) Includes foreign currency translation.*

(Expressed in millions of Rupiah, unless otherwise stated)

## 5. CURRENT ACCOUNTS WITH OTHER BANKS (Continued)

*e. Movements of Allowance for Possible Losses on Current Accounts with Other Banks (Continued):*

The minimum allowance for possible losses on current accounts with other banks, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp3,726 and Rp2,461, respectively.

Management believes that the allowance for possible losses on current accounts with other banks is adequate.

f. A current account with a bank amounting to Rp2,568 and Rp2,960 as of December 31, 2002 and 2001, respectively, is used as cash collateral for a bank guarantee issued in favor of a borrower of Bank Mandiri (Note 48).

## 6. PLACEMENTS WITH OTHER BANKS

*a. By Type and Currency:*

| | 2002 | 2001 |
|---|---|---|
| *Rupiah:* | | |
| *Call money*: | | |
| Bank Indonesia | 9,528,396 | 22,308,181 |
| Bank Panin, Jakarta | - | 245,000 |
| Bank Mega, Jakarta | - | 100,000 |
| Bank Bukopin, Jakarta | - | 40,000 |
| OCBC-NISP Bank, Jakarta | - | 25,000 |
| Others | - | 24,500 |
| | 9,528,396 | 22,742,681 |
| "*Fixed-term*" placements | 168 | 168 |
| Others | 14,858 | 2,672 |
| Total Rupiah | 9,543,422 | 22,745,521 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 6. PLACEMENTS WITH OTHER BANKS (Continued)

*a. By Type and Currency (continued):*

| | 2002 | 2001 |
|---|---|---|
| Foreign Currency | | |
| *Call Money:* | | |
| JP Morgan Chase, New York | 1,687,075 | - |
| ABN AMRO Bank, New York | 900,370 | - |
| Wachovia Bank N.A, New York | 891,420 | - |
| Sumitomo Bank, Singapore | 223,750 | - |
| Bank One International, London | 143,648 | 10,400 |
| Indosesische Overzeese Bank, Singapore | 68,020 | - |
| Credit Agricole Indosuez, Singapore | 53,700 | - |
| Hongkong Shanghai Bank Corporation, London | 51,135 | 76,763 |
| Banca Nazionale Del Lavoro, Singapore and London | 49,225 | 260,000 |
| Lloyds TSB Bank, London | 44,750 | 158,600 |
| Bank Internasional Indonesia, Jakarta | - | 197,600 |
| Société Généralé, Hong Kong | - | 182,000 |
| Bank Negara Indonesia, London | - | 179,430 |
| Overseas Union Bank, Singapore | - | 135,200 |
| Commerzbank, Singapore | - | 91,000 |
| Others | 232,513 | 509,977 |
| | 4,345,606 | 1,800,970 |
| "*Fixed-term*" placements: | | |
| Wachovia Bank, London | 268,500 | - |
| Den Norske Bank, Norway | 141,768 | - |
| Sumitomo Mitsui Banking Corporation, Singapore | 134,250 | - |
| BNP Paribas, Hong Kong | 134,250 | 135,328 |
| Standard Chartered Bank, Singapore | 61,925 | - |
| JP Morgan Chase Bank, New York | - | 9,667,320 |
| DBS Bank, Singapore | - | 101,826 |
| Standard Chartered Bank, Singapore | - | 25,870 |
| Others | 23,717 | 905,352 |
| | 764,410 | 10,835,696 |
| Time deposits: | | |
| United Overseas Banking, Singapore | 89,500 | - |
| Bank Negara Indonesia, Hong Kong | 62,650 | - |
| Banca Nazionale, Singapore | 53,700 | - |
| ABN Amro Bank, Hong Kong | 23,526 | - |
| Tokai Bank, Singapore | - | 145,738 |
| Indosesische Overzeese Bank, Singapore | - | 48,926 |
| Standard Chartered Bank, Singapore | - | 34,868 |
| Others | 15,323 | 10,410 |
| | 244,699 | 239,942 |
| Others | - | 687 |
| Total foreign currency | 5,354,715 | 12,877,295 |
| Total placements with other banks | 14,898,137 | 35,622,816 |
| Less: Allowance for possible losses | (51,317) | (134,463) |
| | 14,846,820 | 35,488,353 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 6. PLACEMENTS WITH OTHER BANKS (Continued)

b. *By Collectibility:*

| | 2002 | 2001 |
|---|---|---|
| Current | 14,897,969 | 35,622,648 |
| Loss | 168 | 168 |
| Total | 14,898,137 | 35,622,816 |
| Less: Allowance for possible losses | (51,317) | (134,463) |
| | 14,846,820 | 35,488,353 |

c. Bank Mandiri has no placements with related party banks.

d. Annual Average Interest Rates for the Year:

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 11.77% | 14.31% |
| Foreign currency | 2.08% | 4.29% |

e. The placements with other banks are for the periods ranging from 1 to 365 days and 1 to 180 days in 2002 and 2001, respectively.

f. A placement amounting to Rp141,768 and Rp164,736 as of December 31, 2002 and 2001, respectively is a pledge cash collateral for a bank guarantee in favor of a borrower of Bank Mandiri (Note 48).

g. Movements of Allowance for Possible Losses on Placements with Other Banks:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 134,463 | 80,597 |
| (Reversal)/provision during the year | (50,691) | 66,838 |
| Others (*) | (32,455) | (12,972) |
| Balance at end of year | 51,317 | 134,463 |

*(*) Includes foreign currency translation.*

The minimum allowances for possible losses on placements with other banks, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp51,317, and Rp134,463, respectively.

Management believes that the allowance for possible losses on placements with other banks is adequate.

(Expressed in millions of Rupiah, unless otherwise stated)

## 7. SECURITIES

*a. By Purpose:*

| | 2002 | 2001 |
|---|---|---|
| Held-to-maturity | 1,829,137 | 1,664,973 |
| Trading | 420,392 | 518,609 |
| Available-for-sale | 998,814 | 492,504 |
| | 3,248,343 | 2,676,086 |
| Less: Unamortized interest | (30,418) | (12,097) |
| Unrealized gains/(losses) from increase/ (decrease) in value of securities | 9,108 | (54,186) |
| Allowance for possible losses | (1,064,624) | (1,062,683) |
| | 2,162,409 | 1,547,120 |

*b. By Type and Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Mandatory convertible bonds | 1,018,809 | 1,018,809 |
| Bonds | 562,238 | 360,057 |
| Wadiah Certificates of Bank Indonesia | 269,000 | 196,250 |
| Investments in mutual fund units | 54,074 | 43,687 |
| Syariah Mudharabah bonds | 30,000 | - |
| Medium-term notes | 19,000 | 12,876 |
| Certificates of Bank Indonesia | - | 370,132 |
| Others | 2,181 | 19,994 |
| | 1,955,302 | 2,021,805 |
| Foreign currency: | | |
| Floating rate notes | 543,832 | 293,645 |
| Money market securities | 347,225 | 159,367 |
| Bonds | 252,093 | 161,067 |
| Credit-linked notes receivable | 39,498 | 10,252 |
| Others | 110,393 | 29,950 |
| | 1,293,041 | 654,281 |
| | 3,248,343 | 2,676,086 |
| Less: Unamortized interest | (30,418) | (12,097) |
| Unrealized gains/(losses) from increase/ (decrease) in value of securities | 9,108 | (54,186) |
| Allowance for possible losses | (1,064,624) | (1,062,683) |
| | 2,162,409 | 1,547,120 |

*c. By Collectibility:*

| | 2002 | 2001 |
|---|---|---|
| Current | 2,184,080 | 1,625,430 |
| Loss | 1,064,263 | 1,050,656 |
| | 3,248,343 | 2,676,086 |
| Less: Unamortized interest | (30,418) | (12,097) |
| Unrealized gains/(losses) from increase/ (decrease) in value of securities | 9,108 | (54,186) |
| Allowance for possible losses | (1,064,624) | (1,062,683) |
| | 2,162,409 | 1,547,120 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 7. SECURITIES (Continued)

*d. By Issuer:*

December 31, 2002

| Issuer | Type | Maturity Date | Interest Rate Per Annum | Rating*) | Value |
|---|---|---|---|---|---|
| Rupiah: | | | | | |
| ***Held-to-Maturity*** | | | | | |
| PT Garuda Indonesia | Mandatory convertible bonds | 11/02/06 | 4.00% | | 1,018,809 |
| Bank Indonesia | Wadiah Certificates of BI | various | 0.00% - 11.00% | | 269,000 |
| Reksadana Indovest Dana Obligasi | Mutual fund | undated | | | 50,061 |
| Others | Various | various | various | | 24,313 |
| | | | | | 1,362,183 |
| ***Trading*** | | | | | |
| Republic of Indonesia | Treasury bonds | 12/15/10 | 14.50% | | 249,875 |
| Bank NISP | Medium-term notes | 10/31/05 | 16.50% | idBB+ | 19,000 |
| Others | Various | various | various | | 2,181 |
| | | | | | 271,056 |
| ***Available-for-Sale*** | | | | | |
| Perusahaan Listrik Negara | Bonds | 08/08/07 | 14.35% | idBB- | 147,375 |
| Republic of Indonesia | Treasury bonds | 12/15/10 | 14.50% | | 80,960 |
| Bank DKI | Bonds | 06/18/04 | 15.00% | idBBB- | 35,434 |
| PT Indosat | Syariah Mudharabah bonds | 11/05/07 | | idAA+ | 30,000 |
| PT Telkom | Bonds | 07/16/07 | 17.00% | idAAA | 16,294 |
| PT Jasa Marga | Bonds | 12/04/10 | 16.15% | idA+ | 12,000 |
| Others | Various | various | | | - |
| | | | | | 322,063 |
| Total Rupiah | | | | | 1,955,302 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 7. SECURITIES (Continued)

*d. By Issuer (continued):*

December 31, 2002

| Issuer | Type | Maturity Date | Interest Rate Per Annum | Rating*) | Value |
|---|---|---|---|---|---|
| Foreign currency: | | | | | |
| ***Held-to-Maturity*** | | | | | |
| Republic of Indonesia | Bonds | 08/01/06 | 7.75% | | 151,754 |
| Mitra Sejati International Ltd. | Others | 6/23/03 - 12/21/05 | 3.90% | B3 | 101,455 |
| Deutsche Bank, Frankfurt | Floating rate notes | 03/02/06 | 1.53% | Aa3 | 35,800 |
| ING Bank | Credit-linked notes | 01/27/03 - 07/26/05 | 5.00% - 15.91% | B3 | 30,548 |
| Hypovereinsbank, Munich | Floating rate notes | 07/12/04 | 1.88% | A1 | 31,325 |
| Government of Singapore | Treasury bills | 03/20/03 | | | 26,800 |
| PT Perkebunan Nusantara | Promissory notes | 12/26/97 | | | 17,900 |
| Astra Overseas | Bonds | 06/30/06 | | | 17,517 |
| Others | Various | various | various | | 53,855 |
| | | | | | 466,954 |
| ***Trading*** | | | | | |
| Bank Negara Indonesia | Floating rate notes | 11/15/12 | 10.00% | B3 | 42,684 |
| Telkomsel | Floating rate notes | 04/20/07 | 9.75% | B3 | 37,635 |
| Indofood | Floating rate notes | 06/18/07 | 10.38% | B3 | 31,735 |
| Republic of Indonesia | Bonds | 08/01/06 | 7.75% | | 28,332 |
| Others | Various | various | various | | 8,950 |
| | | | | | 149,336 |
| ***Available-for-Sale*** | | | | | |
| Medco Energy | Floating rate notes | 03/19/07 | 10.00% | B+ | 256,667 |
| State Bank of Saurashtra | Commercial bills discounted | various | 2.13% - 2.74% | Ba3 | 120,044 |
| Bank Negara Indonesia | Floating rate notes | 11/15/12 | 10.00% | B3 | 97,506 |
| PT Telkom | Promissory notes | 03/15/03 - 12/15/04 | 4.47% - 4.84% | - | 80,624 |
| Dena Bank, Khargate | Commercial bills discounted | various | 2.19% - 2.41% | unrated | 52,963 |
| Telkomsel | Floating rate notes | 04/20/07 | 9.75% | B3 | 29,003 |
| Cenara Bank, Ahmedaabad | Commercial bills discounted | various | 2.53% - 2.79% | Ba3 | 16,797 |
| Bank of Baroda, Bhavnagar | Commercial bills discounted | various | 2.42% - 2.74% | Ba3 | 16,298 |
| Others | Various | various | various | | 6,849 |
| | | | | | 676,751 |
| Total foreign currency | | | | | 1,293,041 |
| Total securities | | | | | 3,248,343 |
| Less: Unamortized interest | | | | | (30,418) |
| Unrealized gains from increase in value of securities | | | | | 9,108 |
| Allowance for possible losses | | | | | (1,064,624) |
| | | | | | 2,162,409 |

*) Based on rating issued by rating agencies including Pefindo and Moody's.

(Expressed in millions of Rupiah, unless otherwise stated)

## 7. SECURITIES (Continued)

*d. By Issuer (continued):*

December 31, 2001

| Issuer | Type | Maturity Date | Interest Rate Per annum | Rating*) | Value |
|---|---|---|---|---|---|
| Rupiah: | | | | | |
| ***Held-to-Maturity*** | | | | | |
| PT Garuda Indonesia | Mandatory convertible bonds | 11/02/06 | 4.00% | | 1,018,809 |
| Bank Indonesia | Wadiah Certificates of BI | various | 12.53% | | 196,250 |
| Reksadana Indovest Dana Obligasi | Mutual fund | undated | | | 41,058 |
| PT Semen Gresik | Medium term notes | 04/29/02 | | | 12,876 |
| Others | Various | various | | | 20,517 |
| | | | | | 1,289,510 |
| ***Trading*** | | | | | |
| Bank Indonesia | Certificates of Bank Indonesia | various | 16.00 - 17.75% | | 370,132 |
| Others | Various | various | | | 9,493 |
| | | | | | 379,625 |
| ***Available-for-Sale*** | | | | | |
| Bank Tabungan Negara | Bonds | 07/18/02 | 14.15% | idBB- | 3,880 |
| Bank DKI | Bonds | 06/18/04 | 13.67% | idBB+ | 35,434 |
| Astra International | Bonds | 06/30/05 - 06/30/06 | 14.38 - 15.00% | idB+ | 30,083 |
| Duta Pertiwi | Bonds | 04/17/02 - 08/04/02 | 14.44 - 15.50% | idBBB | 54,608 |
| Perusahaan Listrik Negara | Bonds | 11/15/01 - 08/08/07 | 13.90 - 13.94% | idB | 171,937 |
| Citra Marga Nushapala Pertiwi | Bonds | 03/05/04 | 16.00% | idBB | 11,000 |
| Mayora Indah | Bonds | 07/18/04 | 14.65% | | 45,728 |
| | | | | | 352,670 |
| Total Rupiah | | | | | 2,021,805 |
| Foreign currency: | | | | | |
| ***Held-to-Maturity*** | | | | | |
| Renong Berhard | Bonds | 06/30/06 | 12.70% | | 17,733 |
| Charoen Pokphand | Floating rate notes | 12/31/02 | 4.95% | | 14,941 |
| Srithai Superware | Floating rate notes | 04/28/05 | 5.00% | | 17,475 |
| Bank Negara Indonesia | Floating rate notes | 08/22/05 | 4.25% | | 144,564 |
| PT Perkebunan Nusantara | Promissory notes | 12/26/97 | | | 20,800 |
| Hongkong and Shanghai Banking Corporation, Hong Kong | Floating rate CDs | 02/12/02 | 3.74% | Aa3 | 19,080 |
| Bank of China, Hong Kong | Floating rate notes | 07/17/02 | 2.89% | Baa1 | 19,114 |
| Deutsche Bank, Frankfurt | Floating rate notes | 03/02/06 | 2.18% | | 41,553 |
| Hypovereinsbank, Munich | Floating rate notes | 07/12/04 | 2.53% | | 36,399 |
| Others | Various | various | | | 43,804 |
| | | | | | 375,463 |
| ***Trading*** | | | | | |
| Republic of Indonesia | Bonds | 11/27/06 | 7.75% | | 98,098 |
| Bank Rakyat Indonesia | Floating rate CDs | 11/03/02 | 3.78% | | 10,967 |
| Bank Rakyat Indonesia | Floating rate notes | 03/11/02 | 7.75% | | 19,599 |
| ING, Indonesia | Credit-linked notes | 12/07/03 | | | 10,320 |
| | | | | | 138,984 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 7. SECURITIES (Continued)

*d. By Issuer (continued):*

December 31, 2001

| Issuer | Type | Maturity Date | Interest Rate Per Annum | Rating*) | Value |
|---|---|---|---|---|---|
| Foreign currency: | | | | | |
| ***Available-for-Sale*** | | | | | |
| Republic of Indonesia | Bonds | 01/08/06 | 7.75% | | 31,312 |
| Government of Singapore | Treasury bills | 01/10/02 | | | 29,162 |
| Others | Various | various | | | 79,360 |
| | | | | | 139,834 |
| Total foreign currency | | | | | 654,281 |
| Total securities | | | | | 2,676,086 |
| Less: Unamortized interest | | | | | (12,097) |
| Unrealized losses from decrease in value of securities | | | | | (54,186) |
| Allowance for possible losses | | | | | (1,062,683) |
| | | | | | 1,547,120 |

*) Based on rating issued by rating agencies including Pefindo and Moody's.

*e. By Maturity:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Less than 1 year | 269,694 | 647,872 |
| 1 - 5 years | 1,286,212 | 1,147,054 |
| Over 5 years | 399,396 | 226,879 |
| | 1,955,302 | 2,021,805 |
| Foreign currency: | | |
| Less than 1 year | 291,197 | 255,127 |
| 1 - 5 years | 702,811 | 378,354 |
| Over 5 years | 299,033 | 20,800 |
| | 1,293,041 | 654,281 |
| | 3,248,343 | 2,676,086 |
| Less: Unamortized interest | (30,418) | (12,097) |
| Unrealized gains/(losses) from increase/ (decrease) in value of securities | 9,108 | (54,186) |
| Allowance for possible losses | (1,064,624) | (1,062,683) |
| | 2,162,409 | 1,547,120 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 7. SECURITIES (Continued)

*f. By Type of Issuer:*

| | 2002 | 2001 |
|---|---|---|
| Government | 538,117 | 158,572 |
| Banks | 792,148 | 976,332 |
| Other companies | 1,918,078 | 1,541,182 |
| | 3,248,343 | 2,676,086 |
| Less: Unamortized interest | (30,418) | (12,097) |
| Unrealized gains/(losses) from increase/ (decrease) in value of securities | 9,108 | (54,186) |
| Allowance for possible losses | (1,064,624) | (1,062,683) |
| | 2,162,409 | 1,547,120 |

*g. By Related and Non-related Parties:*

| | 2002 | 2001 |
|---|---|---|
| Related parties | 511,317 | 129,410 |
| Non-related parties | 2,737,026 | 2,546,676 |
| | 3,248,343 | 2,676,086 |
| Less: Unamortized interest | (30,418) | (12,097) |
| Unrealized gains/(losses) from increase/ (decrease) in value of securities | 9,108 | (54,186) |
| Allowance for possible losses | (1,064,624) | (1,062,683) |
| | 2,162,409 | 1,547,120 |

*h. Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 14.98% | 14.13% |
| Foreign currency | 5.76% | 4.37% |

*i. Movements of Allowance for Possible Losses on Securities:*

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 1,062,683 | 727,010 |
| Provision during the year | 6,438 | 83,723 |
| Recoveries | - | 318,900 |
| Write-offs | - | (110,212) |
| Others (*) | (4,497) | 43,262 |
| Balance at end of year | 1,064,624 | 1,062,683 |

*(*) Includes foreign currency translation.*

The minimum allowances for possible losses on securities, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp1,064,624 and Rp1,062,683, respectively.

Management believes that the allowance for possible losses on securities is adequate.

(Expressed in millions of Rupiah, unless otherwise stated)

## 8. GOVERNMENT BONDS

Government Bonds consist of bonds issued by the Government to Bank Mandiri in connection with its Recapitalization Program in 1999, with details as follows:

| | 2002 | 2001 |
|---|---|---|
| Held-to-maturity, at cost | 107,971,316 | 114,307,546 |
| Available-for-sale, at fair value | 31,580,517 | 31,170,372 |
| Trading, at fair value | 9,294,094 | 8,015,300 |
| | 148,845,927 | 153,493,218 |

In the context of the Recapitalization Program as discussed in Note 3 to the consolidated financial statements, the Minister of Finance subscribed to additional paid in capital in Bank Mandiri. The subscription was paid by crediting Bank Mandiri's account in Bank Indonesia, which was simultaneously used to purchase Government Bonds issued by the Government. This recapitalization was carried out in two tranches, on October 12, 1999 for Rp103,000,000 and on December 28, 1999 for Rp75,000,000.

Per the Management Contract dated April 8, 2000 between the Government and Bank Mandiri, Government Bonds may be used by Bank Mandiri to settle obligations but may not be used to increase assets (Note 58a), except for Government Bonds classified for trading purposes based on prevailing regulations.

Based on maturities, the Government Bonds are as follows:

| | 2002 | 2001 |
|---|---|---|
| *Held-to-maturity:* | | |
| Less than 1 year | 7,293,373 | 13,244,606 |
| 1 - 5 years | 11,497,263 | 26,342,821 |
| 5 - 10 years | 8,214,601 | 74,720,119 |
| More than 10 years | 80,966,079 | - |
| | 107,971,316 | 114,307,546 |
| *Available-for-sale:* | | |
| Less than 1 year | - | - |
| 1 - 5 years | 3,224,990 | 25,959,041 |
| 5 - 10 years | 23,000,950 | 5,211,331 |
| More than 10 years | 5,354,577 | - |
| | 31,580,517 | 31,170,372 |
| *Trading:* | | |
| Less than 1 year | - | - |
| 1 - 5 years | 4,313,283 | 1,863,511 |
| 5 - 10 years | 4,980,811 | 6,151,789 |
| | 9,294,094 | 8,015,300 |
| | 148,845,927 | 153,493,218 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 8. GOVERNMENT BONDS (Continued)

The details of Government Bonds are as follows:

**December 31, 2002**

| | Serial No. | Nominal | Interest Rate per Annum | Maturity Date | Interest Payment Frequency |
|---|---|---|---|---|---|
| **Held-to-Maturity** | | | | | |
| Fixed Rate Bonds | FR0005 | 1,950,813 | 12.25% | 7/15/2007 | 6 months |
| | FR0010 | 8,214,601 | 13.15% | 3/15/2010 | 6 months |
| | FR0019 | 6,867,791 | 14.25% | 6/15/2013 | 6 months |
| | FR0020 | 6,867,791 | 14.28% | 12/15/2013 | 6 months |
| | | 23,900,996 | | | |
| Variable Rate Bonds | VR0019 | 2,811,418 | SBI 3 months | 12/25/2014 | 3 months |
| | VR0020 | 4,491,029 | SBI 3 months | 4/25/2015 | 3 months |
| | VR0021 | 1,689,471 | SBI 3 months | 11/25/2015 | 3 months |
| | VR0022 | 6,796,813 | SBI 3 months | 3/25/2016 | 3 months |
| | VR0023 | 4,086,068 | SBI 3 months | 10/25/2016 | 3 months |
| | VR0024 | 8,210,550 | SBI 3 months | 2/25/2017 | 3 months |
| | VR0025 | 5,210,550 | SBI 3 months | 9/25/2017 | 3 months |
| | VR0026 | 3,475,267 | SBI 3 months | 1/25/2018 | 3 months |
| | VR0027 | 3,475,267 | SBI 3 months | 7/25/2018 | 3 months |
| | VR0028 | 3,475,267 | SBI 3 months | 8/25/2018 | 3 months |
| | VR0029 | 3,475,267 | SBI 3 months | 8/25/2019 | 3 months |
| | VR0030 | 8,016,765 | SBI 3 months | 12/25/2019 | 3 months |
| | VR0031 | 12,016,765 | SBI 3 months | 7/25/2020 | 3 months |
| | | 67,230,497 | | | |
| Hedge Bonds | HB0033 | 2,479,391 | SIBOR + 2% | 6/25/2003 | 3 months |
| | HB0034 | 1,943,925 | SIBOR + 2% | 3/25/2003 | 3 months |
| | HB0049 | 2,813,013 | SIBOR + 2% | 9/25/2003 | 3 months |
| | HB0036 | 1,146,233 | SIBOR + 2% | 3/25/2004 | 3 months |
| | HB0051 | 2,699,527 | SIBOR + 2% | 6/25/2004 | 3 months |
| | HB0052 | 2,813,013 | SIBOR + 2% | 12/25/2004 | 3 months |
| | HB0054 | 2,813,013 | SIBOR + 2% | 9/25/2004 | 3 months |
| Hedge bonds at nominal value | | 16,708,115 | | | |
| Add: Increase in value due to indexation of hedge bonds | | 131,708 | | | |
| Hedge bonds at indexed value | | 16,839,823 | | | |
| Total Held-to-Maturity | | 107,971,316 | | | |

(Expressed in millions of Rupiah, unless otherwise stated)

## 8. GOVERNMENT BONDS (Continued)

**December 31, 2002 (Continued)**

| | Serial No. | Nominal | Interest Rate per Annum | Fair Value | Maturity Date | Interest Payment Frequency |
|---|---|---|---|---|---|---|
| **Available-for-sale** | | | | | | |
| Fixed Rate Bonds | FR0002 | 3,000,000 | 14.00% | 2,859,600 | 6/15/2009 | 6 months |
| | FR0005 | 1,000,000 | 12.25% | 895,000 | 7/15/2007 | 6 months |
| | FR0007 | 870,315 | 10.00% | 800,690 | 9/15/2004 | 6 months |
| | FR0009 | 34,523 | 10.00% | 30,725 | 5/15/2005 | 6 months |
| | FR0010 | 2,500,000 | 13.15% | 2,252,250 | 3/15/2010 | 6 months |
| | FR0013 | 5,453,601 | 15.43% | 5,419,789 | 9/15/2010 | 6 months |
| | FR0014 | 849,947 | 15.58% | 845,697 | 11/15/2010 | 6 months |
| | FR0019 | 2,000,000 | 14.25% | 1,852,600 | 6/15/2013 | 6 months |
| | FR0020 | 2,000,000 | 14.28% | 1,863,200 | 12/15/2013 | 6 months |
| | | 17,708,386 | | 16,819,551 | | |
| Variable Rate Bonds | | | | | | |
| | VR0012 | 1,590,000 | SBI 3 months | 1,498,575 | 9/25/2007 | 3 months |
| | VR0013 | 2,750,000 | SBI 3 months | 2,572,625 | 1/25/2008 | 3 months |
| | VR0014 | 3,000,000 | SBI 3 months | 2,784,000 | 8/25/2008 | 3 months |
| | VR0015 | 4,000,000 | SBI 3 months | 3,680,000 | 12/25/2008 | 3 months |
| | VR0017 | 2,878,270 | SBI 3 months | 2,586,989 | 6/25/2011 | 3 months |
| | VR0019 | 1,864,789 | SBI 3 months | 1,638,777 | 12/25/2014 | 3 months |
| | | 16,083,059 | | 14,760,966 | | |
| | | 33,791,445 | | 31,580,517 | | |
| **Trading** | | | | | | |
| Fixed Rate Bonds | FR0002 | 4,980,000 | 14.00% | 4,746,936 | 6/15/2009 | 6 months |
| | FR0004 | 364,255 | 12.13% | 329,651 | 2/15/2006 | 6 months |
| | | 5,344,255 | | 5,076,587 | | |
| Variable Rate Bonds | VR0005 | 999 | SBI 3 months | 991 | 5/25/2004 | 3 months |
| | VR0006 | 15,000 | SBI 3 months | 14,872 | 12/25/2004 | 3 months |
| | VR0008 | 51,899 | SBI 3 months | 50,083 | 11/25/2005 | 3 months |
| | VR0010 | 2,710,745 | SBI 3 months | 2,588,761 | 10/25/2006 | 3 months |
| | VR0012 | 1,410,000 | SBI 3 months | 1,328,925 | 9/25/2007 | 3 months |
| | VR0013 | 250,000 | SBI 3 months | 233,875 | 1/25/2008 | 3 months |
| | | 4,438,643 | | 4,217,507 | | |
| | | 9,782,898 | | 9,294,094 | | |

(Expressed in millions of Rupiah, unless otherwise stated)

## 8. GOVERNMENT BONDS (Continued)

**December 31, 2001**

| | Serial No. | Nominal | Interest Rate per Annum | Maturity Date | Interest Payment Frequency |
|---|---|---|---|---|---|
| **Held-to-Maturity** | | | | | |
| Fixed Rate Bonds | FR0002 | 17,294,112 | 14.00% | 6/15/2009 | 6 months |
| | FR0005 | 2,950,813 | 12.25% | 7/15/2007 | 6 months |
| | | 20,244,925 | | | |
| Variable Rate Bonds | VR0006 | 1,676,207 | SBI 3 months | 12/25/2004 | 3 months |
| | VR0007 | 1,667,148 | SBI 3 months | 4/25/2005 | 3 months |
| | VR0008 | 3,654,948 | SBI 3 months | 11/25/2005 | 3 months |
| | VR0009 | 4,796,813 | SBI 3 months | 3/25/2006 | 3 months |
| | VR0010 | 4,796,813 | SBI 3 months | 10/25/2006 | 3 months |
| | VR0011 | 6,710,550 | SBI 3 months | 2/25/2007 | 3 months |
| | VR0012 | 6,710,550 | SBI 3 months | 9/25/2007 | 3 months |
| | VR0013 | 8,700,534 | SBI 3 months | 1/25/2008 | 3 months |
| | VR0014 | 9,320,030 | SBI 3 months | 8/25/2008 | 3 months |
| | VR0015 | 11,516,765 | SBI 3 months | 12/25/2008 | 3 months |
| | VR0016 | 11,516,765 | SBI 3 months | 7/25/2009 | 3 months |
| | | 71,067,123 | | | |
| Hedge Bonds | HB0009 | 2,220,000 | SIBOR + 2% | 3/25/2002 | 3 months |
| | HB0010 | 2,220,000 | SIBOR + 2% | 6/25/2002 | 3 months |
| | HB0011 | 2,220,000 | SIBOR + 2% | 9/25/2002 | 3 months |
| | HB0012 | 2,220,000 | SIBOR + 2% | 12/25/2002 | 3 months |
| | HB0033 | 2,903,791 | SIBOR + 2% | 6/25/2003 | 3 months |
| | HB0034 | 2,482,445 | SIBOR + 2% | 3/25/2003 | 3 months |
| | HB0036 | 1,216,582 | SIBOR + 2% | 3/25/2004 | 3 months |
| | HB0049 | 3,227,996 | SIBOR + 2% | 9/25/2003 | 3 months |
| Hedge Bonds at nominal value | | 18,710,814 | | | |
| Add: Increase in value due to indexation of hedge bonds | | 4,284,684 | | | |
| Hedge bonds at indexed value | | 22,995,498 | | | |
| Total Held-to-Maturity | | 114,307,546 | | | |

(Expressed in millions of Rupiah, unless otherwise stated)

## 8. GOVERNMENT BONDS (Continued)

**December 31, 2001 (Continued)**

| | Serial No. | Nominal | Interest Rate per Annum | Fair Value | Maturity Date | Interest Payment Frequency |
|---|---|---|---|---|---|---|
| **Available-for-sale** | | | | | | |
| Fixed Rate Bonds | FR0004 | 1,289,255 | 12.13% | 983,186 | 2/15/2006 | 6 months |
| | FR0006 | 5,417,601 | 16.50% | 4,993,945 | 9/15/2004 | 6 months |
| | FR0007 | 11,714,601 | 10.00% | 9,131,532 | 9/15/2004 | 6 months |
| | FR0008 | 849,947 | 16.50% | 772,432 | 5/15/2005 | 6 months |
| | FR0009 | 34,523 | 10.00% | 25,547 | 5/15/2005 | 6 months |
| | | 19,305,927 | | 15,906,642 | | |
| Variable Rate Bonds | VR0006 | 3,000,000 | SBI 3 months | 2,779,200 | 12/25/2004 | 3 months |
| | VR0007 | 2,000,000 | SBI 3 months | 1,840,600 | 4/25/2005 | 3 months |
| | VR0008 | 2,000,000 | SBI 3 months | 1,822,200 | 11/25/2005 | 3 months |
| | VR0009 | 2,000,000 | SBI 3 months | 1,813,200 | 3/25/2006 | 3 months |
| | VR0010 | 2,000,000 | SBI 3 months | 1,797,200 | 10/25/2006 | 3 months |
| | VR0011 | 1,500,000 | SBI 3 months | 1,342,050 | 2/25/2007 | 3 months |
| | VR0012 | 1,500,000 | SBI 3 months | 1,333,200 | 9/25/2007 | 3 months |
| | VR0013 | 1,250,000 | SBI 3 months | 1,106,250 | 1/25/2008 | 3 months |
| | VR0014 | 630,504 | SBI 3 months | 554,780 | 8/25/2008 | 3 months |
| | VR0015 | 500,000 | SBI 3 months | 438,750 | 12/25/2008 | 3 months |
| | VR0016 | 500,000 | SBI 3 months | 436,300 | 7/25/2009 | 3 months |
| | | 16,880,504 | | 15,263,730 | | |
| | | 36,186,431 | | 31,170,372 | | |
| **Trading** | | | | | | |
| Fixed Rate Bonds | FR0002 | 8,295,292 | 14.00% | 6,151,789 | 6/15/2009 | 6 months |
| | FR0006 | 36,000 | 16.50% | 33,185 | 9/15/2004 | 6 months |
| | | 8,331,292 | | 6,184,974 | | |
| Variable Rate Bonds | VR0005 | 999 | SBI 3 months | 954 | 5/25/2004 | 3 months |
| | VR0007 | 1,987,800 | SBI 3 months | 1,829,372 | 4/25/2005 | 3 months |
| | | 1,988,799 | | 1,830,326 | | |
| | | 10,320,091 | | 8,015,300 | | |

## 8. GOVERNMENT BONDS (Continued)

Significant information relating to Government Bonds follows:

2002
Based on the Ministry of Finance Decree No. S-382 /MK.01/2002 dated November 20, 2002, the Government reprofiled bonds issued to state-owned banks, by redeeming the old bonds and issuing new bonds with longer maturities. The reprofiling seeks to allow the Government to better manage its debt by extending the maturity of certain Government bonds. Accordingly, Government bonds held by Bank Mandiri amounting to Rp103,849,017 as of November 20, 2002 were reprofiled. The reprofiling did not apply to any hedge bonds. As a result of the reprofiling, the Bank has recategorized its bond portfolio without requiring to mark to market any movement from held-to-maturity.

During 2002 Bank Mandiri transferred to IBRA Government bonds with a total nominal value of Rp5,422,497 to swap with loans. The bonds swapped with loans are serial nos. FR0003, VR0006, VR0007 and VR0008. All the bonds have maturity dates prior to 2005 and annual interest rates of above 10% (Note 12.B.n).

Of the total trading portfolio, Government Bonds with serial No. FR0002 and with a nominal value of Rp980,000 were sold to Deutsche Bank for Rp735,000, with an agreement to repurchase on January 31, 2004 (Notes 11 and 23).

Receipts from sales of Government Bonds to third parties during the year ended December 31, 2002 amounted to Rp1,024,891 (nominal value: Rp1,125,000).

The outstanding Government Bonds include hedge bonds amounting to Rp16,839,823 which have a nominal value of Rp16,708,115 increased by an indexation of Rp131,708. Hedge bonds are stated at the balance sheet date based on the indexation of the exchange rate of the Rupiah to the US Dollar as published by Reuters. The original base rate of Hedge bonds serial no. HB0001 to HB0012 at the time of issuance was Rp7,200 (full amount) and it was revised by Bank Indonesia per BI Circular Letter No. 2/195/DPM dated March 6, 2000 to Rp7,008 (full amount). Hedge bonds outstanding as of December 31, 2002 were obtained as a result of conversion of Hedge bonds that matured through December 31, 2002. The indexed rate of the Hedge bonds as of December 31, 2002 and 2001 are Rp8,950 (full amount) and Rp10,400 (full amount), respectively.

In relation to the transfer of certain premises and equipment to PHTM in 1999, the shareholder, through an extraordinary general meeting on January 16, 2002, approved the plan of the Board of Directors to return Government Bonds amounting to Rp129,685 to the Government (Note 15). The Bank returned the Government Bonds with serial number FR0007 on December 30, 2002.

2001
Receipts from sales of Government Bonds to third parties during the year ended December 31, 2001 amounted to Rp14,200,453 (nominal value: Rp15,787,100). The Bank recorded a gain from the sale of Government Bonds amounting to Rp394,852 for the year ended December 31, 2001.

In September 2001 Bank Mandiri agreed to swap certain of its Government Bonds for IBRA loans totaling Rp5,214,645 (Notes 58d and 58e) .

All Government Bonds are allowed to become available for trading based on Bank Indonesia Circular Letter No. 3/6/DPM dated February 9, 2001, thus VR0006, VR0008, VR00010, VR00012, VR0014 and VR0016 bonds became available for trading. Accordingly, Government Bonds amounting to Rp3,251,180 and Rp37,686,431 were transferred from “Held-to-Maturity” to “Trading” and “Available for Sale” in 2001, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 9. TRADE DOCUMENTS AND OTHER FACILITIES

*a. By Type and Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Discounted export bills | 45,182 | 42,678 |
| Export bills | 3,035 | 696 |
| Others | 281,347 | 146,997 |
| | 329,564 | 190,371 |
| Foreign currency: | | |
| Discounted export bills | 818,935 | 1,024,304 |
| Export bills | 685,810 | 496,438 |
| Others | 442,928 | 2,217,427 |
| | 1,947,673 | 3,738,169 |
| Total | 2,277,237 | 3,928,540 |
| Less: Allowance for possible losses | (829,362) | (2,514,545) |
| | 1,447,875 | 1,413,995 |

*b. By Collectibility:*

| | 2002 | 2001 |
|---|---|---|
| Current | 1,505,899 | 1,522,565 |
| Loss | 771,338 | 2,405,975 |
| Total | 2,277,237 | 3,928,540 |
| Less: Allowance for possible losses | (829,362) | (2,514,545) |
| | 1,447,875 | 1,413,995 |

*c. By Maturity:*

| | 2002 | 2001 |
|---|---|---|
| Less than 1 month | 979,389 | 1,079,930 |
| 1 - 3 months | 300,288 | 239,432 |
| Over 3 months | 997,560 | 2,609,178 |
| Total | 2,277,237 | 3,928,540 |
| Less: Allowance for possible losses | (829,362) | (2,514,545) |
| | 1,447,875 | 1,413,995 |

*d. Movements of Allowance for Possible Losses on Trade Documents and Other Facilities:*

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 2,514,545 | 1,798,125 |
| Provision during the year | 6,170 | 323,322 |
| Write-offs | (1,230,663) | (15,002) |
| Others (*) | (460,690) | 408,100 |
| Balance at end of year | 829,362 | 2,514,545 |

*(*) Includes foreign currency translation.*

(Expressed in millions of Rupiah, unless otherwise stated)

## 9. TRADE DOCUMENTS AND OTHER FACILITIES (Continued)

d. *Movements of Allowance for Possible Losses on Trade Documents and Other Facilities (Continued):*

The minimum allowances for possible losses on trade documents and other facilities, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp786,397 and Rp2,422,736, respectively.

Management believes that the allowance for possible losses on trade documents and other facilities is adequate.

e. Discounted export facilities amounted to Rp864,117 and Rp1,066,982 as of December 31, 2002 and 2001, respectively, with average interest rates per annum of 6.60% and 5.93% for 2002 and 2001, respectively.

Write-offs in 2002 are primarily comprised of long outstanding and deemed uncollectible trade documents and other facilities of BDN.

## 10. SECURITIES PURCHASED WITH AGREEMENTS TO RESELL

**December 31, 2001**

| Type | Counterparty | Start | Maturity | Nominal value | Unrealized Interest Income | Net Value |
|---|---|---|---|---|---|---|
| GB FR0002 | PT Bank Internasional Indonesia | 12/11/01 | 01/11/02 | 198,964 | 1,188 | 200,152 |
| GB VR0009 | PT Bank Internasional Indonesia | 12/11/01 | 01/11/02 | 56,212 | 336 | 56,548 |
| GB VR0013 | PT Bank Internasional Indonesia | 12/11/01 | 01/11/02 | 48,115 | 287 | 48,402 |
| | | | | | | 305,102 |
| Less: Allowance for possible losses | | | | | | (3,051) |
| | | | | | | 302,051 |

Movements of allowance for possible losses on receivables arising from securities purchased with agreements to resell:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 3,051 | - |
| (Reversal)/provision during the year | (3,051) | 3,051 |
| Balance at end of year | - | 3,051 |

The minimum allowance for possible losses on securites purchased with agreements to resell, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 was RpNil and Rp3,051, respectively.

Management believes that the allowance for possible losses on securities purchased with agreements to resell is adequate.

(Expressed in millions of Rupiah, unless otherwise stated)

## 11. DERIVATIVE RECEIVABLES AND PAYABLES

As of December 31, 2002 and 2001, none of Bank Mandiri's derivative transactions were designated as hedging instruments for accounting purposes. Accordingly, all gains and losses resulting from these derivative transactions are recorded in the current year's profit and loss. During the years ended December 31, 2002 and 2001, the period of derivative transactions ranged from 3 - 1,675 days.

As of December 31, 2002, a summary of derivative transactions is as follows:

| Transactions | Notional Amount (Contract) | Value at spot (Note 2l) | Derivative Receivables | Derivative Payables |
|---|---|---|---|---|
| Bank only | | | | |
| *Non-related parties* | | | | |
| *Cross currency:* | | | | |
| 1. Forward - buy | | | | |
| US Dollar | 119,541 | 116,798 | 127 | 2,870 |
| Others | 9,054 | 9,147 | 93 | - |
| 2. Forward - sell | | | | |
| US Dollar | 124,162 | 121,270 | 3,007 | 115 |
| Others | 9,052 | 9,147 | - | 95 |
| 3. *Swap* - buy | | | | |
| US Dollar | 162,494 | 161,100 | 3 | 1,397 |
| 4. *Swap* - sell | | | | |
| US Dollar | 1,089,051 | 801,024 | 288,967 | 940 |
| *Others* | | | | |
| Interest Rate Swap | 1,118,750 | 70,289 | 70,289 | - |
| | | | 362,486 | 5,417 |
| Subsidiaries | | | | |
| *Non-related parties* | | | | |
| Foreign Currency: | | | | |
| 1. Forward - buy | | | | |
| US Dollar | 75,144 | 77,459 | 2,462 | 147 |
| 2. *Swap* - buy | | | | |
| US Dollar | 69,999 | 68,129 | - | 1,870 |
| | | | 2,462 | 2,017 |
| Total | | | 364,948 | |
| Less: Allowance for possible losses | | | (3,625) | |
| | | | 361,323 | 7,434 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 11. DERIVATIVE RECEIVABLES AND PAYABLES (Continued)

*Interest Rate Swap*

Bank Mandiri entered into an interest rate swap agreement with a notional amount of US$125 million with Standard Chartered Bank, Singapore in August 2002. The underlying transaction is the Bank's US$125 million fixed interest subordinated loan issued in 2002 (Note 30). Under the transaction, the Bank receives semi-annual fixed interest at the rate of 10.625% per annum and pays semi-annual floating interest at the rate of LIBOR 6 months + 6.19% per annum for a 5-year period. The LIBOR 6 months' interest is stated in arrears. While the transaction is for the purpose of hedging the fixed rate coupon payments of the subordinated loan with floating coupon payment, it does not qualify as a hedging transaction for accounting purposes.

*Cross Currency Swap*

Bank Mandiri entered into a swap transaction forward contract with Deutsche Bank, Jakarta on January 31, 2002. The contract was initiated when Bank Mandiri sold Government Bonds (nominal Rp980,000) to Deutsche Bank at Rp735,000. The proceeds of the sales were used in a cross currency swap contract. On the contract date, the Bank received US$50,000,000 (full amount) and paid Rp735,000. The contract matures on January 31, 2004 and on settlement date, the Bank will pay US$50,000,000 (full amount) and receive Rp735,000. Bank Mandiri is then obliged to use the Rp735,000 it receives from Deutsche Bank to repurchase the Government Bonds it previously sold to Deutsche Bank (Notes 8 and 23).

As of December 31, 2001, a summary of derivative transactions is as follows:

| Transactions | Notional Amount (Contract) | Value at spot (Note 2l) | Derivative Receivables | Derivative Payables |
|---|---|---|---|---|
| Bank only | | | | |
| *Non-related parties* | | | | |
| Cross currency: | | | | |
| 1. Forward - buy US Dollar | 225,018 | 217,657 | 587 | 7,948 |
| 2. Forward - sell US Dollar | 78,502 | 77,257 | 1,807 | 562 |
| 3. Swap - buy US Dollar | 186,382 | 187,200 | 1,580 | 762 |
| 4. Swap - sell US Dollar | 186,469 | 187,200 | 834 | 1,565 |
| | | | 4,808 | 10,837 |
| Subsidiary | | | | |
| *Related parties* | | | | |
| 1. Forward - buy US Dollar | 613 | 613 | - | - |
| *Non-related parties* | | | | |
| Cross currency: | | | | |
| 1. Forward - buy US Dollar | 146,762 | 147,849 | 1,774 | 687 |
| 2. Swap - buy US Dollar | 93,093 | 92,641 | - | 452 |
| | | | 1,774 | 1,139 |
| Total | | | 6,582 | 11,976 |
| Less: Allowance for possible losses | | | (48) | - |
| | | | 6,534 | 11,976 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 11. DERIVATIVE RECEIVABLES AND PAYABLES (Continued)

Movements of allowance for possible losses on derivative receivables:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 48 | - |
| Provision during the year | 3,577 | 48 |
| Balance at end of year | 3,625 | 48 |

The minimum allowance for possible losses on derivative receivables, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp3,625 and Rp48, respectively.

Management believes that the allowance for possible losses on derivative receivables is adequate.

## 12. LOANS

A. Details of loans:

*a. By Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 39,510,744 | 27,718,862 |
| Foreign currency | 25,906,504 | 20,620,440 |
| Total | 65,417,248 | 48,339,302 |
| Less: Allowance for possible losses | (8,906,545) | (6,100,252) |
| Deferred income | (164,284) | - |
| | 56,346,419 | 42,239,050 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

A. Details of loans (Continued):

*b. By Type:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Working capital | 17,959,436 | 12,219,746 |
| Investment | 11,395,818 | 9,809,750 |
| Syndicated | 3,970,712 | 872,224 |
| Export | 2,713,320 | 2,506,641 |
| Consumer | 1,652,150 | 688,850 |
| Government program (Note 12B.c) | 1,530,757 | 1,248,314 |
| Employees | 288,551 | 306,866 |
| Others | - | 66,471 |
| | 39,510,744 | 27,718,862 |
| Foreign currency: | | |
| Investment | 9,837,491 | 7,545,092 |
| Working capital | 7,830,603 | 4,615,962 |
| Syndicated | 4,278,276 | 3,797,388 |
| Export | 3,607,503 | 3,990,143 |
| Government program (Note 12B.c) | 52,268 | 57,076 |
| Consumer | 21,301 | 43,981 |
| Employees | 668 | 175 |
| Others | 278,394 | 570,623 |
| | 25,906,504 | 20,620,440 |
| Total | 65,417,248 | 48,339,302 |
| Less: Allowance for possible losses | (8,906,545) | (6,100,252) |
| Deferred income | (164,284) | - |
| | 56,346,419 | 42,239,050 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

A. Details of loans (continued):

*c. By Economic Sector:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Manufacturing | 16,941,419 | 12,153,818 |
| Agriculture | 5,984,223 | 4,504,498 |
| Trading, restaurant and hotel | 5,914,127 | 3,355,450 |
| Transportation, warehousing and communications | 3,624,707 | 1,487,152 |
| Other services | 2,390,275 | 1,622,120 |
| Construction | 1,751,713 | 1,604,290 |
| Mining | 212,362 | 95,176 |
| Electricity, gas and water | 166,254 | 135,720 |
| Social services | 161,291 | 188,137 |
| Others | 2,364,373 | 2,572,501 |
| | 39,510,744 | 27,718,862 |
| Foreign currency: | | |
| Manufacturing | 15,940,259 | 11,118,555 |
| Trading, restaurant and hotel | 2,112,997 | 2,110,727 |
| Mining | 1,722,031 | 1,316,843 |
| Agriculture | 1,588,469 | 1,080,991 |
| Other services | 1,583,105 | 1,439,446 |
| Construction | 1,423,625 | 1,255,969 |
| Transportation, warehousing and communications | 556,099 | 679,822 |
| Electricity, gas and water | 319,136 | 363,576 |
| Social services | 7,334 | 15,881 |
| Others | 653,449 | 1,238,630 |
| | 25,906,504 | 20,620,440 |
| Total | 65,417,248 | 48,339,302 |
| Less: Allowance for possible losses | (8,906,545) | (6,100,252) |
| Deferred income | (164,284) | - |
| | 56,346,419 | 42,239,050 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

A. Details of loans (continued):

*d. By Period:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Less than 1 year | 6,300,406 | 4,415,594 |
| 1 - 2 years | 2,536,594 | 2,176,475 |
| 2 - 5 years | 10,827,581 | 5,891,350 |
| Over 5 years | 19,846,163 | 15,235,443 |
| | 39,510,744 | 27,718,862 |
| Foreign currency: | | |
| Less than 1 year | 3,001,626 | 4,512,656 |
| 1 - 2 years | 1,737,010 | 1,434,651 |
| 2 - 5 years | 7,409,149 | 4,236,298 |
| Over 5 years | 13,758,719 | 10,436,835 |
| | 25,906,504 | 20,620,440 |
| Total | 65,417,248 | 48,339,302 |
| Less: Allowance for possible losses | (8,906,545) | (6,100,252) |
| Deferred income | (164,284) | - |
| | 56,346,419 | 42,239,050 |

*e. By Collectibility:*

| | 2002 | 2001 |
|---|---|---|
| Current | 44,451,924 | 30,972,027 |
| Special mention | 16,201,501 | 12,655,129 |
| Sub-standard | 1,521,643 | 2,561,479 |
| Doubtful | 1,039,787 | 966,132 |
| Loss | 2,202,393 | 1,184,535 |
| Total | 65,417,248 | 48,339,302 |
| Less: Allowance for possible losses | (8,906,545) | (6,100,252) |
| Deferred income | (164,284) | - |
| | 56,346,419 | 42,239,050 |

The non-performing loans ratio (consolidated gross basis) as of December 31, 2002 and 2001 is 7.28% and 9.75%, respectively (Bank only - 7.39% and 9.89% for 2002 and 2001, respectively). Included in loans classified as current as of December 31, 2002 are loans purchased from IBRA through “Program Penjualan Aktiva Kredit” (“PPAK”) amounting to Rp3,990,326, with an allowance for possible losses of Rp288,797, and deferred income of Rp164,284.

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

B. Significant information related to loans:

a. *The Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 17.92% | 17.80% |
| Foreign currency | 9.87% | 9.10% |

b. *Loan Collateral*

The loans are generally collateralized by registered mortgages, by powers of attorney to mortgage or sell pledged assets, time deposits or other guarantees acceptable to Bank Mandiri.

c. *Government Program Loans*

Government program loans consist of investment loans, permanent working capital loans and working capital loans which can be fully funded by the Government.

d. *Syndicated Loans*

The syndicated loans represent loans provided to customers under syndication agreements with other banks. Bank Mandiri's share as lead manager in syndicated loans ranged from 41.28% to 75.79% and 41.00% to 78.00% of the total syndicated loans in December 31, 2002 and 2001, respectively. Bank Mandiri's total participation in syndicated loans ranged from 0.41% to 75.79% and 0.43% to 78.00%, of the total syndicated loans in December 31, 2002 and 2001, respectively.

e. *Restructured Loans*

Below is the type and amount of restructured loans as of December 31, 2002 and 2001:

| | 2002 | 2001 |
|---|---|---|
| Long-term loans with option to convert debt to equity | 2,431,942 | 865,464 |
| Additional loan facilities | 557,500 | 535,224 |
| Others | 26,552,264 | 23,722,999 |
| | 29,541,706 | 25,123,687 |

Others consist of other agreed restructuring schemes mostly comprised of reduction of interest rates, rescheduling of past due interest, extension of the maturity dates and extension of the periods of payment of past due interest. During 2002 and 2001, total loans restructuring through debt-to-equity swap participations amounted to RpNil and RpNil, respectively and through conversion of loans to Mandatory Convertible Bonds ("MCBs") amounted to RpNil and Rp1,018,809, respectively.

Total restructured loans under non-performing loans ("NPL") category as of December 31, 2002 and 2001 amounted to Rp3,330,121 and Rp3,622,607, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

B. Significant information related to loans (Continued):

f. *Loans to Related Parties*

Loans to related parties amounted to Rp899,232 and Rp926,833 as of December 31, 2002, and 2001, respectively, or 0.36% and 0.35% of total assets in 2002 and 2001, respectively. Details of loans given to related parties are as follows:

| | 2002 | 2001 |
|---|---|---|
| *Related parties due to conversion of debt to equity:* | | |
| PT Semen Kupang (Persero) | 352,300 | 304,081 |
| PT Sentral Star Knitting | 49,973 | 58,162 |
| PT Kertas Padalarang | 6,000 | 6,000 |
| PT Pann Multi Finance | 4,780 | 5,417 |
| | 413,053 | 373,660 |
| *Related parties:* | | |
| Republic of Indonesia | 261,334 | 303,806 |
| PT Estika Sedaya Finance* | 67,931 | 66,042 |
| PT Stacomitra Sedaya Finance* | 66,298 | 69,843 |
| PT Staco Bosowa Finance* | 56,712 | 67,636 |
| PT Bayu Beringin Lestari | 27,600 | 37,100 |
| PT Estika Jasa Kelola * | 4,393 | 7,323 |
| Employee loans | 1,911 | 1,423 |
| | 486,179 | 553,173 |
| | 899,232 | 926,833 |

** These are subsidiaries of the Bank's pension fund.*

The loans to Bank Mandiri employees consist of interest-bearing loans at 6% - 9% per annum in 2002 and 2001, and are intended for the acquisition of vehicles, houses and other personal property, and are repayable within 1 to 20 years through monthly payroll deductions.

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

B. Significant information related to loans (Continued):

g. *Legal Lending Limit ("LLL")*

As of December 31, 2002 and 2001, Bank Mandiri has not exceeded the LLL.

h. Bank Mandiri has several loan-channeling agreements in place with several international financial institutions (Note 56).

i. Bank Mandiri does not capitalize interest in arrears. There was no capitalized interest in arrears for the years ended December 31, 2002 and 2001.

j. *Movements of Allowance for Possible Losses on Loans*

The allowance for possible loan losses is comprised of:

| | 2002 | 2001 |
|---|---|---|
| Allowance for possible loan losses | 8,617,748 | 6,100,252 |
| Allowance for possible losses on loans purchased from IBRA (Note 12.B.m) | 288,797 | - |
| | 8,906,545 | 6,100,252 |

The movements of allowance for possible loan losses (excluding allowance for possible losses on loans purchased from IBRA) are as follows:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 6,100,252 | 12,499,948 |
| Provision during the year | 4,674,192 | 6,041,703 |
| Loan recoveries (*) | 5,295,327 | 1,960,147 |
| Write-offs (**) | (6,481,462) | (12,732,638) |
| Others (***) | (970,561) | (1,668,908) |
| Balance at end of year | 8,617,748 | 6,100,252 |

*(*) Include loan full write-back to on-balance sheet of Raja Garuda Mas Group ("RGM") exposures of Rp4,170,712 in 2002.*
*(**) Write-offs in 2002 include write-off of repurchase loans written-off below Rp5,000 and prior to legal merger at repurchase price of Rp2,520,119 (Notes 12.B.l and 58.e) and partial write-off of loans to RGM amounting to Rp2,691,355 in 2002*
*(***) Includes foreign currency translation.*

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

B. Significant information related to loans (Continued):

j. *Movements of allowance for possible losses on loans (Continued)*

As explained in Note 2, an allowance for possible losses is provided based on the review and evaluation of the collectibility and realizable value of the respective loan balances at the end of the year. In determining the minimum amount of allowance for possible loan losses, Bank Mandiri takes into account Bank Indonesia regulations on allowances for possible losses on earning assets.

The minimum allowance for possible losses on loans (including those for loans purchased from IBRA), under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp3,932,065 and Rp2,997,764, respectively.

Management believes that the allowance for possible losses on loans is adequate.

k. A summary of non-performing loans based on economic sector and related minimum allowance for possible losses based on Bank Indonesia regulations, is as follows:

| December 31, 2002 | Non-performing Loans | Minimum Allowance for Possible Losses |
|---|---|---|
| Rupiah: | | |
| Manufacturing | 768,151 | 466,528 |
| Trade | 430,984 | 193,972 |
| Business services | 220,212 | 122,549 |
| Others | 979,999 | 502,117 |
| | 2,399,346 | 1,285,166 |
| Foreign currency: | | |
| Manufacturing | 1,818,233 | 1,256,376 |
| Trade | 290,632 | 160,535 |
| Business services | 63,995 | 9,599 |
| Others | 191,617 | 48,152 |
| | 2,364,477 | 1,474,662 |
| | 4,763,823 | 2,759,828 |

| December 31, 2001 | Non-performing Loans | Minimum Allowance for Possible Losses |
|---|---|---|
| Rupiah: | | |
| Manufacturing | 870,128 | 283,589 |
| Trade | 356,792 | 152,019 |
| Business services | 86,995 | 35,767 |
| Others | 1,086,060 | 479,445 |
| | 2,399,975 | 950,820 |
| Foreign currency: | | |
| Manufacturing | 642,995 | 138,658 |
| Trade | 773,948 | 345,081 |
| Business services | 475,289 | 259,150 |
| Others | 419,939 | 248,095 |
| | 2,312,171 | 990,984 |
| | 4,712,146 | 1,941,804 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

B. Significant information related to loans (Continued):

l. Bank Mandiri has *extra-komtabel* earning assets (loans, non-cash loans and other earning assets) amounting to Rp20,587,640 and Rp23,630,805 as of December 31, 2002 and 2001, respectively. *Extra-komtabel* earning assets are earning assets which have been written-off by the Bank but which continue to be pursued for collection. These earning assets are not reflected in the balance sheet of the Bank, but are maintained as off-balance sheet in the Bank's ledger system. Summary of movements of *extra-komtabel* earning assets for the years ended December 31, 2002 and 2001 are as follows:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 23,630,805 | 16,010,818 |
| Earning assets written-off (Note 12.B.j) | 6,481,462 | 13,456,222 |
| Recoveries (*) | (5,295,327) | (1,960,147) |
| Transfer to IBRA (below Rp5 billion and prior to legal merger) | (12,600,598) | (4,029,790) |
| Excess of loans repurchased from IBRA over purchase price (below Rp5 billion and prior to legal merger) (Note 58.e) | 10,080,479 | - |
| Others (**) | (1,709,181) | 153,702 |
| Balance at end of year | 20,587,640 | 23,630,805 |

*(*) Include partial write-off of loans to Raja Garuda Mas Group ("RGM") amounting to Rp2,691,355 in 2002.*
*(**) Include loan write-back to on-balance sheet of loans to RGM amounting to Rp4,170,712 in 2002*
*(***) Includes foreign currency translation.*

m. *Purchase of Loans from IBRA in 2002*

In 2002, the Bank purchased sustainable loans from IBRA amounting to Rp5,354,577 at a purchase price of Rp4,900,818 (Rp1,998,428 of the purchase price was paid by cash and Rp2,902,390 was paid by Government Bonds). Of the total outstanding principal of loans purchased from IBRA, Rp4,294,091 were purchased through a Consortium under IBRA's PPAK (Note 58.f).

Following Bank Indonesia (BI) Regulation No. 4/7/PBI/2002 dated September 27, 2002, the Bank recorded the difference between the outstanding principal and purchase price as an allowance for possible losses or deferred income depending on the existence of new loan agreements. The total allowance for possible loan losses and deferred income recorded by the Bank as of December 31, 2002 was Rp288,797 and Rp164,284, respectively. The additional allowance for loan losses, excluding the allowance for possible loan losses and deferred income resulting from the difference between the outstanding principal and purchase price, was Rp89,613 as of December 31, 2002.

Of the total outstanding principal, Rp4,973,622 is recorded under loans account, in which Rp2,686,729 or 54.02% has been covered by new credit agreements. Total additional facility extended to debtors under loans purchased from IBRA amount to Rp231,341. During 2002, the Bank received settlement of Rp84,254 of loan principal.

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

B. Significant information related to loans (Continued):

*m. Purchase of Loans from IBRA in 2002 (Continued)*

Total interest and other income received related to loans purchased from IBRA during 2002 (up-front, restructuring and provision fees) was Rp4,526 and Rp182,841, respectively (Note 34).

Total loans purchased from IBRA recorded under “other assets” amounted to Rp380,955 as of December 31, 2002 (Note 16). The cessie agreements related to these loans are still in process of finalization.

Below are the movements of loans principal, allowance for loan losses and deferred income of loans purchased from IBRA in 2002 which is recorded under loans account:

*Loans*

| | |
|---|---|
| Balance at beginning of year | - |
| Purchases from IBRA during the year | 4,973,622 |
| Repayment during the year | (84,255) |
| Foreign currency translation | (35,010) |
| Balance at end of year | 4,854,357 |

*Allowance for possible loan losses*

| | |
|---|---|
| Balance at beginning of year | - |
| Difference between purchase price and loan principal | 290,273 |
| Foreign currency translation | (1,476) |
| Balance at end of year | 288,797 |

*Deferred Income*

| | |
|---|---|
| Balance at beginning of year | - |
| Difference between purchase price and loan principal | 163,485 |
| Foreign currency translation | 799 |
| Balance at end of year | 164,284 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 12. LOANS (Continued)

*n. Transfer and Buy-back of Loans from IBRA*

Loss category loans which were transferred to IBRA as required under the recapitalization program amounted to Rp12,600,598 and Rp3,737,546 during the years ended December 31, 2002 and 2001, respectively. These loans were fully provided for and written-off prior to the transfer (Note 58.c and 58.e).

The loans transferred on September 4, 2001 amounting to Rp3,737,546 were repurchased back on the same date through Government Bonds (Notes 58.b and 58.c).

On September 6, 2001, the Bank purchased (swapped) loans which were previously transferred to IBRA in 1999 amounting to Rp1,178,370, for Government Bonds (Note 58.d).

The loans written-off below Rp5 billion and loans written-off prior to legal merger amounting to Rp12,600,598 which were transferred to IBRA on December 18, 2002, were repurchased (swapped) with Government bonds amounting to Rp2,520,119 and cash payment of Rp615,091 (full amount) on the same date of transfer (Note 58.e).

## 13. ACCEPTANCES RECEIVABLE

a. *By Currency and Related Parties and Non-related Parties:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Receivable from debtors: | | |
| Related parties | - | - |
| Non-related parties | 46,228 | 51,039 |
| Total Rupiah | 46,228 | 51,039 |
| Foreign currency: | | |
| Receivable from other banks: | | |
| Related parties | - | - |
| Non-related parties | 74,470 | - |
| Receivable from debtors: | | |
| Related parties | - | - |
| Non-related parties | 2,029,911 | 1,747,346 |
| Total Foreign Currency | 2,104,381 | 1,747,346 |
| Total | 2,150,609 | 1,798,385 |
| Less: Allowance for possible losses | (127,538) | (215,406) |
| | 2,023,071 | 1,582,979 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 13. ACCEPTANCES RECEIVABLE (Continued)

*b. By Maturity:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Less than 1 month | 16,136 | 28,318 |
| 1 - 3 months | 23,687 | 16,467 |
| 3 - 6 months | 6,405 | 6,245 |
| 6 - 12 months | - | 9 |
| Over 12 months | - | - |
| | 46,228 | 51,039 |
| Foreign currency: | | |
| Less than 1 month | 699,193 | 212,638 |
| 1 - 3 months | 990,813 | 859,577 |
| 3 - 6 months | 323,814 | 673,744 |
| 6 - 12 months | 90,561 | 1,387 |
| Over 12 months | - | - |
| | 2,104,381 | 1,747,346 |
| Total | 2,150,609 | 1,798,385 |
| Less: Allowance for possible losses | (127,538) | (215,406) |
| | 2,023,071 | 1,582,979 |

*c. By Collectibility:*

| | 2002 | 2001 |
|---|---|---|
| Current | 1,649,309 | 886,303 |
| Special Mention | 465,920 | 853,500 |
| Sub-standard | 19,609 | - |
| Doubtful | - | 58,582 |
| Loss | 15,771 | - |
| Total | 2,150,609 | 1,798,385 |
| Less: Allowance for possible losses | (127,538) | (215,406) |
| | 2,023,071 | 1,582,979 |

*d. Movements of Allowance for Possible Losses on Acceptances Receivable are as follows:*

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 215,406 | 8,538 |
| (Reversal)/provision during the year | (52,400) | 227,890 |
| Write-offs | - | (22,984) |
| Others (*) | (35,468) | 1,962 |
| Balance at end of year | 127,538 | 215,406 |

*(*) includes foreign currency translation.*

The minimum allowance for possible losses on acceptances receivable, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp57,947and Rp90,829, respectively.

Management believes that the allowance for possible losses on acceptance receivables is adequate.

(Expressed in millions of Rupiah, unless otherwise stated)

## 14. INVESTMENTS IN SHARES OF STOCK

a. The details of investments in shares of stock are as follows:

| | 2002 | 2001 |
|---|---|---|
| Equity method of accounting | 8,106 | 8,106 |
| Cost method of accounting | 141,797 | 87,547 |
| Total | 149,903 | 95,653 |
| Less: Allowance for possible losses | (62,807) | (26,377) |
| | 87,096 | 69,276 |

The details of investments in shares of stock as of December 31, 2002 are as follows:

| Investee Company | Nature of Business | Percentage of Ownership | Cost | Accumulated Equity in Retained Earnings/ (Accumulated Losses) | Carrying Value |
|---|---|---|---|---|---|
| *Equity Method of Accounting:* | | | | | |
| PT Sarana Bersama Pembiayaan Indonesia | Holding company | 34.00 | 2,278 | 2,881 | 5,159 |
| PT Bapindo Bumi Sekuritas | Securities trading | 26.19 | 2,750 | 197 | 2,947 |
| | | | | | 8,106 |
| *Cost Method of Accounting:* | | | | | |
| PT Bank Internasional Indonesia Tbk. | Banking | 2.00 | 50,400 | | 50,400 |
| PT Semen Kupang [a)] | Manufacturing | 59.70 | 45,023 | | 45,023 |
| PT Sri Thai [a)] | Manufacturing | | 23,055 | | 23,055 |
| PT Kertas Padalarang [a)] | Pulp and paper | 51.50 | 9,530 | | 9,530 |
| PT Kustodian Sentral Efek Indonesia | Security custodian | 16.00 | 4,800 | | 4,800 |
| PT Bunas Finance Internasional Tbk. [a)] | Finance | NA | 3,889 | | 3,889 |
| PT Pisita Wisata [a)] | Tourism | 16.00 | 658 | | 658 |
| PT Mega Guna Concrete [a)] | Construction | 24.00 | 200 | | 200 |
| Maskapai Pelayaran Laut | Shipping | 8.50 | 95 | | 95 |
| PT Bursa Efek Surabaya | Stock exchange | 2.22 | 75 | | 75 |
| PT Bursa Efek Jakarta | Stock exchange | 0.50 | 60 | | 60 |
| PT Pemeringkat Efek Indonesia | Security rating | 4.29 | 429 | | 429 |
| Others | | | 3,583 | | 3,583 |
| | | | | | 141,797 |
| Total | | | | | 149,903 |
| Less: Allowance for possible losses | | | | | (62,807) |
| | | | | | 87,096 |

a) These investments, regardless of percentage of ownership, represent restructured loans through debt to equity participations (Note 12). Such investments are temporary investments for up to a maximum of five (5) years based on Bank Indonesia regulations. Accordingly, such investments are accounted for using the cost method regardless of the percentage of ownership, effective January 1, 2001.

(Expressed in millions of Rupiah, unless otherwise stated)

## 14. INVESTMENTS IN SHARES OF STOCK (Continued)

a. The details of investments in shares of stock as of December 31, 2001 are as follows:

| Investee Company | Nature of Business | Percentage of Ownership | Cost | Accumulated Equity in Retained Earnings/ (Accumulated Losses) | Carrying Value |
|---|---|---|---|---|---|
| *Equity Method of Accounting:* | | | | | |
| PT Sarana Bersama Pembiayaan Indonesia | Holding company | 34.00 | 2,278 | 2,881 | 5,159 |
| PT Bapindo Bumi Sekuritas | Securities trading | 26.19 | 2,750 | 197 | 2,947 |
| PT Exim SB Leasing | Financing | 50.00 | 25,000 | (25,000) | - |
| | | | | | 8,106 |
| *Cost Method of Accounting:* | | | | | |
| PT Semen Kupang [a)] | Manufacturing | 59.70 | 45,023 | | 45,023 |
| PT Sri Thai [a)] | Manufacturing | | 23,055 | | 23,055 |
| PT Kertas Padalarang [a)] | Pulp and paper | 51.50 | 9,530 | | 9,530 |
| PT Kustodian Sentral Efek Indonesia | Security custodian | 16.00 | 4,800 | | 4,800 |
| PT Pisita Wisata [a)] | Tourism | 16.00 | 658 | | 658 |
| PT Mega Guna Concrete [a)] | Construction | 24.00 | 200 | | 200 |
| Maskapai Pelayaran Laut | Shipping | 8.50 | 95 | | 95 |
| PT Bursa Efek Surabaya | Stock exchange | 2.22 | 75 | | 75 |
| PT Bursa Efek Jakarta | Stock exchange | 0.50 | 60 | | 60 |
| PT Pemeringkat Efek Indonesia | Security rating | 4.29 | 429 | | 429 |
| Others | | | 3,622 | | 3,622 |
| | | | | | 87,547 |
| Total | | | | | 95,653 |
| Less: Allowance for possible losses | | | | | (26,377) |
| | | | | | 69,276 |

a) These investments, regardless of percentage of ownership, represent restructured loans through debt to equity participations (Note 12). Such investments are temporary investments for up to a maximum of five (5) years based on Bank Indonesia regulations. Accordingly, such investments are accounted for using the cost method regardless of the percentage of ownership, effective January 1, 2001.

(Expressed in millions of Rupiah, unless otherwise stated)

## 14. INVESTMENTS IN SHARES OF STOCK (Continued)

b. Classification of investments in shares of stock by collectibility is as follows:

| | 2002 | 2001 |
|---|---|---|
| Current | 88,171 | 69,951 |
| Loss | 61,732 | 25,702 |
| Total | 149,903 | 95,653 |
| Less: Allowance for possible losses | (62,807) | (26,377) |
| | 87,096 | 69,276 |

c. Movements of allowance for possible losses on investments in shares of stocks:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 26,377 | 363,093 |
| Provision/(reversal) during the year | 8,682 | (27,743) |
| Write-offs | - | (312,479) |
| Others | 27,748 | 3,506 |
| Balance at end of year | 62,807 | 26,377 |

The minimum allowance for possible losses on investments in shares of stock, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp62,807, and Rp26,377, respectively.

Management believes that the allowance for possible losses on investments in shares of stock is adequate.

## 15. PREMISES AND EQUIPMENT

| | 2002 | 2001 |
|---|---|---|
| Cost/revaluation *) | 3,510,602 | 2,947,859 |
| Less: Accumulated depreciation and amortization | (1,551,820) | (1,220,381) |
| Net book value | 1,958,782 | 1,727,478 |

* ) revalued in 1979 and 1982

(Expressed in millions of Rupiah, unless otherwise stated)

## 15. PREMISES AND EQUIPMENT (Continued)

| Movements in 2002 | Beginning Balance | Additions | Deductions | Reclassifications | Adjustments | Ending Balance |
|---|---|---|---|---|---|---|
| *Cost /Revaluation* | | | | | | |
| Land | 328,145 | 498 | - | - | 16,874 | 345,517 |
| Buildings | 1,019,269 | 4,372 | - | - | 39,575 | 1,063,216 |
| Furniture, fixtures and office equipment | 1,409,364 | 217,268 | (1,071) | 16,369 | (9,513) | 1,632,417 |
| Vehicles | 30,388 | 6,574 | (643) | - | 337 | 36,656 |
| Construction in progress | 160,693 | 284,702 | - | (16,369) | 3,770 | 432,796 |
| Total cost | 2,947,859 | 513,414 | (1,714) | - | 51,043 | 3,510,602 |
| *Accumulated Depreciation and Amortization* | | | | | | |
| Buildings | 452,657 | 58,177 | - | - | 12,849 | 523,683 |
| Furniture, fixtures and office equipment | 745,131 | 267,328 | (705) | - | (5,788) | 1,005,966 |
| Vehicles | 22,593 | 4,227 | (467) | - | (4,182) | 22,171 |
| Total accumulated depreciation and amortization | 1,220,381 | 329,732 | (1,172) | - | 2,879 | 1,551,820 |

| 2002 | Ending Balance |
|---|---|
| *Net Book Value* | |
| Land | 345,517 |
| Buildings | 539,533 |
| Furniture, fixtures and office equipment | 626,451 |
| Vehicles | 14,485 |
| Construction in progress | 432,796 |
| | 1,958,782 |

Construction in progress as of December 31, 2002 is comprised of:

| | |
|---|---|
| License and development cost – Core Banking | 361,471 |
| Buildings | 8,367 |
| Others | 62,958 |
| | 432,796 |

The construction in progress is approximately 61% completed as of December 31, 2002.

(Expressed in millions of Rupiah, unless otherwise stated)

## 15. PREMISES AND EQUIPMENT (Continued)

| Movements in 2001 | Beginning Balance | Additions | Deductions | Reclassi- fications | Adjustments | Ending Balance |
|---|---|---|---|---|---|---|
| *Cost/Revaluation* | | | | | | |
| Land | 258,707 | - | - | 239 | 69,199 | 328,145 |
| Buildings | 983,123 | 1,514 | (1) | 2,879 | 31,754 | 1,019,269 |
| Furniture, fixtures and office equipment | 1,142,291 | 273,503 | (169) | 88,172 | (94,433) | 1,409,364 |
| Vehicles | 53,083 | 7,459 | (861) | - | (29,293) | 30,388 |
| Construction in progress | 129,698 | 263,270 | - | (91,290) | (140,985) | 160,693 |
| Total | 2,566,902 | 545,746 | (1,031) | - | (163,758) | 2,947,859 |
| Leased assets | 16,932 | - | (16,932) | - | - | - |
| Total cost | 2,583,834 | 545,746 | (17,963) | - | (163,758) | 2,947,859 |
| *Accumulated Depreciation and Amortization* | | | | | | |
| Landrights | 4,391 | - | - | - | (4,391) | - |
| Buildings | 425,620 | 44,566 | - | - | (17,529) | 452,657 |
| Furniture, fixtures and office equipment | 973,161 | 204,417 | (156) | - | (432,291) | 745,131 |
| Vehicles | 45,569 | 8,627 | (376) | - | (31,227) | 22,593 |
| Total | 1,448,741 | 257,610 | (532) | - | (485,438) | 1,220,381 |
| Leased assets | 15,650 | 1,282 | (16,932) | - | - | - |
| Total accumulated depreciation and amortization | 1,464,391 | 258,892 | (17,464) | - | (485,438) | 1,220,381 |

| December 31, 2001 | Ending Balance |
|---|---|
| *Net Book Value* | |
| Land | 328,145 |
| Buildings | 566,612 |
| Furniture, fixtures and office equipment | 664,233 |
| Vehicles | 7,795 |
| Construction in progress | 160,693 |
| Total | 1,727,478 |
| Leased assets | - |
| | 1,727,478 |

Construction in progress as of December 31, 2001 is comprised of:

| | |
|---|---|
| License and development cost – Core Banking | 147,455 |
| Software base - 24 | 11,230 |
| Others | 2,008 |
| | 160,693 |

The construction in progress is approximately 39% completed as of December 31, 2001.

## 15. PREMISES AND EQUIPMENT (Continued)

a. Depreciation and amortization of premises and equipment charged to profit and loss amounted to Rp329,732 and Rp258,892 for the years ended December 31, 2002, and 2001, respectively (Note 40).

   Management believes that there is no permanent impairment in the value of fixed assets as at December 31, 2002 and 2001.

b. During 2001, the Bank performed a complete physical check of its fixed assets. The differences resulting from the physical check have been recognized in the respective year's profit and loss.

c. The Merged Banks entered into a "Memoranda of Agreement on the Transfer of Assets" on July 29, 1999 with PT Pengelola Harta Tetap Mandiri ("PHTM"), a related company owned by PT Usaha Gedung Bank Dagang Negara and PT Bumi Daya Plaza, for the transfer of certain non-core land and buildings. As part of the restructuring of Bank Mandiri, the assets, which were mostly comprised of non-core fixed assets of the Merged Banks, were transferred to PHTM primarily to be managed and sold, consistent with the purpose of PHTM's establishment. These assets were sold to PHTM for a consideration of Rp100 (in full Rupiah amount) each or a total nominal value of Rp64,100 (in full Rupiah amount). The net book value of the land and buildings transferred to PHTM amounted to RpNil and Rp129,685, respectively.

   Based on the Shareholder's General Meeting on December 20, 2000, prior to the sale of any assets held by PHTM, approval from Bank Mandiri's shareholder is required and cash proceeds from the sale of assets held by PTHM will be placed in an escrow account and its use requires approval from Bank Mandiri's shareholder.

   The transfer of these assets to PHTM is considered as a transaction between entities under common control, under SFAS No. 38 - "Accounting for Restructuring of Entities under Common Control". Therefore, the assets have been recognised as Other Assets - Assets Available for Sale and no gain or loss is reflected in the consolidated financial statements of Bank Mandiri, as if no transfer of assets had taken place. Based on the Shareholder's General Meeting on January 16, 2002, the shareholder approved the return of additional paid-up capital through the return of Government Bonds amounting to Rp129,685 representing the loss on transfer of assets to PHTM previously recognized by Bank Mandiri at the time of recapitalization. On December 30, 2002, the Bank returned the Government Bond with serial number FR0007 (Note 8).

   Based on notarial deeds No. 212, 213, 214, 215, 216, 217, 218 and 219 of Aulia Taufani, S.H dated June 28, 2002, Bank Mandiri and PHTM agreed to terminate the Memorandum of Agreement on the Transferred Assets, and decided to transfer those assets back to Bank Mandiri as of June 30, 2002.

   The transfer of those assets back to Bank Mandiri is considered as a transaction between entities under common control. No gain or loss is reflected in the consolidated financial statements of Bank Mandiri, as if no transfer of assets had taken place.

(Expressed in millions of Rupiah, unless otherwise stated)

## 15. PREMISES AND EQUIPMENT (Continued)

d. For purposes of the planned initial public offering, the Bank has engaged PT Vigers Hagai Sejahtera, a registered appraisal company, to revalue its land and buildings as of December 31, 2002 and 2001. Based on PT Vigers Hagai Sejahtera's Valuation Report No. 007/VHS/Sw/III/03 dated March 27, 2003, the market value of the land and buildings of the Bank, and the corresponding increment in value as of December 31, 2002 are as follows:

| Land and buildings | Market Value | Book Value | Increment in Value |
|---|---|---|---|
| Land and buildings | 6,472,535 | 951,232 | 5,521,303 |
| | 6,472,535 | 951,232 | 5,521,303 |

The above amount includes land and buildings with a net book value of Rp136,946, which was recorded under Other Assets (Note 16).

Based on PT Vigers Hagai Sejahtera's appraisal report No. 022/VHS/Sw/III/02 dated March 8, 2002, the appraised value of the land and buildings of the Bank and PHTM, and corresponding increment in value as of December 31, 2001 are as follows:

| Land and buildings | Market Value | Book Value | Increment in Value |
|---|---|---|---|
| Bank | 5,140,957 | 817,764 | 4,323,193 |
| PHTM | 881,742 | 129,685 | 752,057 |
| | 6,022,699 | 947,449 | 5,075,250 |

PT Vigers Hagai Sejahtera's opinion of the market value was based on "Standar Penilaian Indonesia" issued by the Indonesian Appraisal Companies Association (GAAPI) and the Indonesian Society of Appraisers (MAPPI).

In arriving at the market values, PT Vigers Hagai Sejahtera has taken into consideration the following valuation methodologies: market data approach, cost approach, new replacement cost and income approach.

The above valuation and increment in value is stated for disclosure purposes only. The Bank has not recognized or booked the increment in value in the consolidated financial statements.

e. As of December 31, 2002, Bank Mandiri and Subsidiaries have insured their premises and equipment (excluding land rights) against physical loss/damage for a total coverage amount of Rp3,515,488. Management believes that the sum insured is adequate to cover the possibility of losses arising in relation to premises and equipment.

(Expressed in millions of Rupiah, unless otherwise stated)

## 16. OTHER ASSETS

| | 2002 | 2001 |
|---|---|---|
| Accrued income | 2,102,204 | 3,124,040 |
| Receivables | 2,875,188 | 3,010,086 |
| Prepaid tax | 365,753 | 366,614 |
| Prepaid expenses | 150,330 | 171,262 |
| Others - net | 2,143,269 | 1,035,310 |
| | 7,636,744 | 7,707,312 |

*Accrued Income*
Accrued Income is primarily comprised of accrued interest receivable from placements, securities, Government Bonds and loans, and accrued fees and commissions.

*Receivables*
Receivables from the accretion in realizable value of the zero coupon instruments and deposits placed with foreign institutions which serve as security for certain Subordinated Undated Floating Rate Notes (“SUFRNs”) which were issued by Bank Exim and BDN, and the effective reduction in the principal liability of the SUFRNs which were issued by Bapindo, are as follows:

| | 2002 | 2001 |
|---|---|---|
| SUFRNs classified as subordinated loans (Note 30) | | |
| Bank Exim SUFRNs | 950,937 | 975,000 |
| Bapindo SUFRNs | 897,238 | 982,086 |
| | 1,848,175 | 1,957,086 |
| SUFRNs classified as loan capital | | |
| BDN SUFRNs (Note 31) | 1,027,013 | 1,053,000 |
| | 2,875,188 | 3,010,086 |

*Prepaid Tax*
Prepaid tax as of December 31, 2002 and 2001 is primarily comprised of 2000 refundable corporate income tax installments.

*Prepaid Expenses*
Prepaid expenses consist of payments made in advance mostly relating to rent and insurance.

(Expressed in millions of Rupiah, unless otherwise stated)

## 16. OTHER ASSETS (Continued)

*Others*

This consists of the following:

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Deposit made to State Treasury | 1,124,194 | - |
| Assets not in use | 172,813 | 129,685 |
| Office supplies | 70,706 | 62,432 |
| Deferred charges | 38,982 | 14,000 |
| Receivables from customer transactions | 33,420 | 22,260 |
| Interest refundable by the Government | 25,267 | 24,702 |
| Inter-branch accounts - net | - | 487,211 |
| Repossessed collaterals | 77,163 | 75,947 |
| Others | 597,982 | 527,865 |
| Total Rupiah | 2,140,527 | 1,344,102 |
| Foreign currency: | | |
| Inter-branch accounts - net | 1,653,121 | 3,263,810 |
| Others | 541,076 | 834,228 |
| Total foreign currency | 2,194,197 | 4,098,038 |
| | 4,334,724 | 5,442,140 |
| Less: Allowance for possible losses | (2,191,455) | (4,406,830) |
| | 2,143,269 | 1,035,310 |

The deposit made to State Treasury of Rp1,124,194 represents a 50% payment in relation to the objection filed by the Bank against a tax assessment of the Bank's 2000 corporate income tax and related penalties totaling Rp2,248,387 (Note 28.c).

Other assets – Others as of December 31, 2002 includes advances for the loans purchased from IBRA totaling Rp380,955 whereby cessie agreements with IBRA have not been executed.

The allowance for possible losses amounting to Rp2,191,455 and Rp4,406,830 as of December 31, 2002 and 2001, respectively, is primarily to cover possible losses arising from inter-branch accounts. The inter-branch accounts consist of open items among branches and Head Office, and include certain differences in the balance of current accounts with Bank Indonesia per Bank and per Bank Indonesia. Bank Mandiri's management is of the opinion that the provision is adequate to cover possible losses arising from inter-branch open items, and for other assets.

Movements of allowance for possible losses on other assets are as follows:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 4,406,830 | 6,131,241 |
| Reversal during the year | (288,940) | (2,342,721) |
| Others | (1,926,435) | 618,310 |
| Balance at end of year | 2,191,455 | 4,406,830 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 17. DEPOSITS FROM CUSTOMERS - DEMAND DEPOSITS

a. *By Currency and Related and Non-related Parties:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Related parties | 19,215 | 23,452 |
| Non-related parties | 24,882,499 | 31,182,465 |
| | 24,901,714 | 31,205,917 |
| Foreign currency: | | |
| Related parties | 10,365 | 353 |
| Non-related parties | 7,667,844 | 6,351,191 |
| | 7,678,209 | 6,351,544 |
| | 32,579,923 | 37,557,461 |

b. *Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 4.93% | 6.69% |
| Foreign currency | 2.45% | 2.75% |

c. Demand deposits pledged by borrowers as collateral as of December 31, 2002 and 2001 amounted to Rp617,829 and Rp506,434, respectively.

## 18. DEPOSITS FROM CUSTOMERS - SAVINGS DEPOSITS

a. *By Type and Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Tabungan Mandiri | 29,581,208 | 22,038,845 |
| Tabungan Mudharabah | 336,447 | 181,889 |
| Tabungan Mapan | 8,480 | 30,349 |
| Tabungan Mandiri Haji | 55 | 45,185 |
| Others (each below Rp10,000) | - | 8,535 |
| | 29,926,190 | 22,304,803 |

b. As of December 31, 2002 and 2001, Bank Mandiri has savings deposits from related parties amounting to Rp32,823 and Rp38,172, respectively, or 0.11% and 0.17% of total savings deposits, respectively (Note 57).

c. Annual average interest rates of Rupiah savings deposits were 10.60% and 11.00% for 2002 and 2001, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 19. DEPOSITS FROM CUSTOMERS - TIME DEPOSITS

*a. By Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 100,757,884 | 106,242,554 |
| Foreign currency | 20,771,207 | 23,540,080 |
| | 121,529,091 | 129,782,634 |

*b. By Period:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| 1 month | 50,901,724 | 58,317,026 |
| 3 months | 25,766,125 | 28,120,784 |
| 6 months | 3,717,707 | 4,484,145 |
| 12 months | 8,499,995 | 2,888,886 |
| Over 12 months | 11,872,333 | 12,431,713 |
| | 100,757,884 | 106,242,554 |
| Foreign currency: | | |
| 1 month | 17,408,087 | 19,094,729 |
| 3 months | 1,889,850 | 2,302,405 |
| 6 months | 945,777 | 1,417,980 |
| 12 months | 514,429 | 689,033 |
| Over 12 months | 13,064 | 35,933 |
| | 20,771,207 | 23,540,080 |
| | 121,529,091 | 129,782,634 |

*c. By Maturity:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| 1 month | 56,613,489 | 61,575,237 |
| 3 months | 24,211,293 | 27,050,967 |
| 6 months | 5,994,421 | 3,168,154 |
| 12 months | 7,924,976 | 1,991,961 |
| Over 12 months | 6,013,705 | 12,456,235 |
| | 100,757,884 | 106,242,554 |
| Foreign currency: | | |
| 1 month | 17,230,664 | 18,728,913 |
| 3 months | 2,655,118 | 3,565,629 |
| 6 months | 599,724 | 808,908 |
| 12 months | 277,750 | 415,335 |
| Over 12 months | 7,951 | 21,295 |
| | 20,771,207 | 23,540,080 |
| | 121,529,091 | 129,782,634 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 19. DEPOSITS FROM CUSTOMERS - TIME DEPOSITS (Continued)

d. *Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 14.64% | 15.62% |
| Foreign currency | 3.24% | 5.42% |

e. As of December 31, 2002 and 2001, related part-time deposits amounted to Rp1,332,690 and Rp1,753,118, respectively, or 1.10% and 1.35% of the total time deposits, respectively (Note 57).

f. As of December 31, 2002 and 2001, time deposits which are frozen and blocked as collateral for bank guarantees and loan and working capital facilities, amounted to Rp4,625,849 and Rp4,514,260, respectively.

## 20. DEPOSITS FROM OTHER BANKS - DEMAND DEPOSITS

a. *By Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 587,942 | 533,265 |
| Foreign currency | 5,489 | 53,335 |
| | 593,431 | 586,600 |

b. *Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 4.93% | 6.69% |
| Foreign currency | 2.45% | 2.75% |

c. As of December 31, 2002 and 2001, the Bank has no demand deposits from related party banks.

d. Demand deposits pledged by borrowers as collateral as of December 31, 2002 and 2001 amounted to Rp481 and Rp22, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 21. DEPOSITS FROM OTHER BANKS - INTER-BANK CALL MONEY

a. *By Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 520,000 | 335,001 |
| Foreign currency | 276,555 | - |
| | 796,555 | 335,001 |

b. *By Maturity:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Less than 1 month | 520,000 | 335,001 |
| 1 - 2 months | - | - |
| 2 - 3 months | - | - |
| | 520,000 | 335,001 |
| Foreign currency: | | |
| Less than 1 month | 276,555 | - |
| 1 - 2 months | - | - |
| 2 - 3 months | - | - |
| | 276,555 | - |
| | 796,555 | 335,001 |

c. *Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 11.67% | 16.26% |
| Foreign currency | 1.21% | 5.72% |

d. As of December 31, 2002 and 2001, the Bank has no inter-bank call money from related party banks.

(Expressed in millions of Rupiah, unless otherwise stated)

## 22. DEPOSITS FROM OTHER BANKS - TIME DEPOSITS AND CERTIFICATES OF DEPOSIT

### Time Deposits

*a. By Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 11,296,352 | 8,973,040 |
| Foreign currency | 206,325 | 92,158 |
| | 11,502,677 | 9,065,198 |

*b. By Period:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Less than 1 month | 9,678,158 | 4,433,749 |
| 3 months | 1,615,594 | 4,121,210 |
| 6 months | 450 | 35,435 |
| 12 months | 2,150 | 368,301 |
| Over 12 months | - | 14,345 |
| | 11,296,352 | 8,973,040 |
| Foreign currency: | | |
| Less than 1 month | 67,438 | 44,436 |
| 3 months | 110,079 | 42,120 |
| 6 months | 28,808 | 5,602 |
| 12 months | - | - |
| Over 12 months | - | - |
| | 206,325 | 92,158 |
| | 11,502,677 | 9,065,198 |

*c. Annual Average Interest Rates for the Year:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah | 14.64% | 15.62% |
| Foreign currency | 3.24% | 5.42% |

(Expressed in millions of Rupiah, unless otherwise stated)

## 22. DEPOSITS FROM OTHER BANKS - TIME DEPOSITS AND CERTIFICATES OF DEPOSIT (Continued)

**Certificates of Deposit**

The annual average interest rate for certificates of deposit is 14.64% and 15.62% for 2002 and 2001, respectively. The terms are as follows:

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| 1 month | 30 | 265,050 |
| 3 months | - | 1,152,550 |
| 6 months | - | 484,000 |
| 12 months | - | 812,000 |
| Total | 30 | 2,713,600 |
| Less: Unamortized interest | - | (172,557) |
| | 30 | 2,541,043 |

d. As of December 31, 2002 and 2001, the Bank has no time deposits and certificates of deposit from related party banks.

e. As of December 31, 2002 and 2001 time deposits which are frozen and blocked as collateral for bank guarantees and loan and working capital facilities, amounted to Rp17,530 and Rp6,074, respectively.

## 23. SECURITIES SOLD WITH AGREEMENT TO REPURCHASE

December 31, 2002

| Counter-party | Commencement date | Maturity date | Nominal | Remark |
|---|---|---|---|---|
| Deutsche Bank | Jan 31, 2002 | Jan 31, 2004 | 735,000 | Government Bonds FR0002 |
| | | | 735,000 | |

The Bank sold Government Bonds with an agreement to repurchase, and entered into a swap transaction with Deutsche Bank. At the beginning of the contract, the Bank received Rupiah in the amount of Rp735,000 and at the maturity date, the Bank will repay US Dollars amounting to US$50,000,000 (full amount) to Deutsche Bank (Notes 8 and 11).

(Expressed in millions of Rupiah, unless otherwise stated)

## 24. ACCEPTANCES PAYABLE

*a. By Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Payable to other banks | | |
| Related parties | - | - |
| Non-related parties | 46,228 | 51,039 |
| Total Rupiah | 46,228 | 51,039 |
| Foreign currency: | | |
| Payable to other banks | | |
| Related parties | - | - |
| Non-related parties | 2,029,911 | 1,753,669 |
| Payable to debtors | | |
| Related parties | - | - |
| Non-related parties | 74,470 | - |
| Total Foreign Currency | 2,104,381 | 1,753,669 |
| Total | 2,150,609 | 1,804,708 |

*b. By Maturity:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Less than 1 month | 16,136 | 28,318 |
| 1 - 3 months | 23,687 | 16,467 |
| 3 - 6 months | 6,405 | 6,245 |
| 6 - 12 months | - | 9 |
| Over 12 months | - | - |
| | 46,228 | 51,039 |
| Foreign currency: | | |
| Less than 1 month | 699,193 | 218,961 |
| 1 - 3 months | 990,813 | 859,577 |
| 3 - 6 months | 323,814 | 673,744 |
| 6 - 12 months | 90,561 | 1,387 |
| Over 12 months | - | - |
| | 2,104,381 | 1,753,669 |
| | 2,150,609 | 1,804,708 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 25. SECURITIES ISSUED

*a. By Type and Currency:*

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Mandiri traveler's cheques | 240,139 | 116,808 |
| Commercial papers | 1 | 205 |
| | 240,140 | 117,013 |
| Foreign currency: | | |
| Floating Rate Notes ("FRNs") and Floating Rate Certificates of Deposit ("FRCDs") | 1,226,150 | 3,243,240 |
| Interbank call money | 10,293 | 23,920 |
| Trade facilities | - | 12,675 |
| | 1,236,443 | 3,279,835 |
| Total | 1,476,583 | 3,396,848 |
| Less: Unamortized discount | (2,342) | (3,345) |
| | 1,474,241 | 3,393,503 |

Details of FRNs and FRCDs are as follows:

December 31, 2002

| Type/ ISIN No. | Arranger | Maturity Date | Tenor (month) | Interest Rate Per Annum | Nominal Amount US$ (full amount) | Nominal Amount Rupiah equiv. |
|---|---|---|---|---|---|---|
| FRN BDN (XS0061292263) | Merryl Lynch Securities, Hongkong | Nov 10, 2005 | 120 | 2.2000% | 17,000,000 | 152,150 |
| FRN (Eurobond) (XS0139834534) | Hongkong and Shanghai Banking Corporation Ltd., Hongkong | Dec 13, 2006 | 60 | 7.3300% | 125,000,000 | 1,118,750 |
| | | | | | 142,000,000 | 1,270,900 |
| Less: Securities issued and held by Bank Mandiri and Subsidiaries | | | | | (5,000,000) | (44,750) |
| | | | | | 137,000,000 | 1,226,150 |
| Less: Unamortized discount | | | | | (261,771) | (2,342) |
| | | | | | 136,738,229 | 1,223,808 |

Bank Mandiri has exercised put options for FRN BEII and FRN BDN on September 19 and November 14, 2002, respectively. With the exercise of the options, FRN BEII was fully redeemed at its nominal amount of US$130 million, while FRN BDN were partially redeemed up to US$163 million (out of US$180 million nominal amount) due to a "sweetener scheme" offered by the Bank. Consequently, US$1,343,000 (full amount) was paid to those investors who did not exercise their option rights and the amount is recorded as other liabilities as at December 31, 2002.

During 2002, the Bank settled its liabilities for securities issued amounting to US$364,000,000 (full amount).

(Expressed in millions of Rupiah, unless otherwise stated)

## 25. SECURITIES ISSUED (Continued)

Details of FRNs and FRCDs are as follows:

December 31, 2001

| Type/ ISIN No. | Arranger | Maturity Date | Tenor (month) | Interest Rate Per Annum | Nominal Amount US$ (full amount) | Nominal Amount Rupiah equiv. |
|---|---|---|---|---|---|---|
| FRCD BEII (XS0075737402) | West LB Asia Pacific Ltd., Singapore | Apr 29, 2002 | 60 | 2.8600% | 20,000,000 | 208,000 |
| FRCD BEII (XS0075053024) | West LB Asia Pacific Ltd., Singapore | Apr 29, 2002 | 60 | 2.8600% | 45,000,000 | 468,000 |
| FRN Bapindo (XS0057274648) | London Forfaiting, Cyprus | May 17, 2002 | 84 | 3.2500% | 6,000,000 | 62,400 |
| FRN BEII (XS0059737162) | Daiwa Securities Ltd., Hongkong | Sep 14, 2005 | 120 | 3.8625% | 130,000,000 | 1,352,000 |
| FRN BDN (XS0061292263) | Merryl Lynch Securities, Hongkong | Nov 10, 2005 | 120 | 2.7900% | 180,000,000 | 1,872,000 |
| FRN (Eurobond) (XS0139834534) | Hongkong and Shanghai Banking Corporation Ltd., Hongkong | Dec 13, 2006 | 60 | 7.8300% | 125,000,000 | 1,300,000 |
| | | | | | 506,000,000 | 5,262,400 |
| Less: Securities issued and held by Bank Mandiri and Subsidiaries | | | | | (194,150,000) | (2,019,160) |
| | | | | | 311,850,000 | 3,243,240 |
| Less: Unamortized discount | | | | | (321,635) | (3,345) |
| | | | | | 311,528,365 | 3,239,895 |

## 26. FUND BORROWINGS

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Bank Indonesia (a) | 1,464,340 | 1,773,724 |
| Bank Ekspor Indonesia (b) | 1,940,392 | 1,759,183 |
| Others | 225,652 | 63,830 |
| | 3,630,384 | 3,596,737 |
| Foreign currencies: | | |
| Bank Ekspor Indonesia (b) | 1,441,681 | 1,176,402 |
| Exchange Offer Loans (c) | 8,308,195 | 11,437,225 |
| Others (d) | 279,276 | 1,993,869 |
| | 10,029,152 | 14,607,496 |
| | 13,659,536 | 18,204,233 |

The Bank has no fund borrowings from related parties.

(Expressed in millions of Rupiah, unless otherwise stated)

## 26. FUND BORROWINGS (Continued)

### (a) *Bank Indonesia*

This account represents credit facilities obtained from Bank Indonesia which are re-loaned to Bank Mandiri customers. These facilities are subject to interest at rates ranging from 3% to 10% per annum. The details of this account are as follows:

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Investment Loans (KI) | 510,814 | 802,569 |
| Small-Scale Working Capital Loans (KUK) - KKPA | 530,445 | 496,811 |
| Small-Scale Investment Loans (KIK) | 423,031 | 474,276 |
| Working Capital Loans (KMK) | 50 | 68 |
| | 1,464,340 | 1,773,724 |

Fund borrowings from Bank Indonesia will mature on various dates, the latest being in 2017.

### (b) *Bank Ekspor Indonesia*

This account represents credit facilities for export working capital obtained from Bank Ekspor Indonesia based on the facility agreement No. 064/PPF/12/2000 dated December 12, 2000 between PT Bank Ekspor Indonesia (Persero) and Bank Mandiri. The agreement is for the period from December 20, 2000 until December 19, 2001, and was extended to December 19, 2003. The facilities were re-loaned to Bank Mandiri customers and bear interest at market rates.

### (c) *Exchange Offer Loans*

In accordance with the Government's debt restructuring program for banks, Bank Mandiri exchanged certain non-Rupiah denominated obligations obtained from foreign banks for new borrowings with extended maturities, and guaranteed by Bank Indonesia pursuant to the exchange offer memorandum in the Master Loan Agreement as follows:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | US$ (in full amount) | Rp Equivalent | US$ (in full amount) | Rp Equivalent |
| *Exchange Offer Loan I* | - | - | 54,492,165 | 566,806 |
| *Exchange Offer Loan II* | 928,290,000 | 8,308,195 | 1,045,154,863 | 10,870,419 |
| | 928,290,000 | 8,308,195 | 1,099,647,028 | 11,437,225 |

Exchange Offer Loan I (with original maturities before April 1, 1999) was due and fully repaid in 2002. Exchange Offer Loan II (with original maturities before January 1, 2002) will mature in four (4) tranches every June 1 from 2002 to 2005. These borrowings bear interest calculated every six months equal to six months' LIBOR for the period plus an applicable margin determined for each maturity period.

(Expressed in millions of Rupiah, unless otherwise stated)

## 26. FUND BORROWINGS (Continued)

*(d) Others - Foreign currency*

| | 2002 | 2001 |
|---|---|---|
| Direct off-shore loans | 268,500 | 1,412,575 |
| Others | 10,776 | 581,294 |
| | 279,276 | 1,993,869 |

## 27. ALLOWANCE FOR POSSIBLE LOSSES ON COMMITMENTS AND CONTINGENCIES

a. Commitment and contingent transactions in the normal course of Bank Mandiri activities that have credit risk are as follows:

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Outstanding irrevocable letters of credit (Notes 46) | 895,933 | 185,269 |
| Bank guarantees issued (Notes 46 and 48) | 2,227,633 | 1,693,760 |
| Standby letters of credit (Notes 46 and 48) | 30,000 | 30,000 |
| | 3,153,566 | 1,909,029 |
| Foreign currency: | | |
| Outstanding irrevocable letters of credit (Notes 46) | 5,475,295 | 5,358,803 |
| Bank guarantees issued (Notes 46 and 48) | 2,658,783 | 2,902,977 |
| Standby letters of credit (Notes 46 and 48) | 3,205,189 | 3,780,309 |
| Commitment and contingent payables to a foreign branch of a local bank (Note 46) | - | 2,908,049 |
| | 11,339,267 | 14,950,138 |
| | 14,492,833 | 16,859,167 |

b. By Collectibility:

| | 2002 | 2001 |
|---|---|---|
| Current | 13,671,409 | 11,918,846 |
| Special mention | 780,360 | 796,851 |
| Sub-standard | 1,064 | 1,168,710 |
| Doubtful | 10,000 | - |
| Loss | 30,000 | 2,974,760 |
| Total | 14,492,833 | 16,859,167 |
| Less: Allowance for possible losses | (1,211,211) | (5,284,345) |
| Net commitmentsand contingencies | 13,281,622 | 11,574,822 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 27. ALLOWANCE FOR POSSIBLE ON COMMITMENTS AND CONTINGENCIES (Continued)

c. Movements of allowance for possible losses on commitments and contingencies:

| | 2002 | 2001 |
|---|---|---|
| Balance at beginning of year | 5,284,425 | 7,010,271 |
| Reversal during the year | (3,364,433) | (1,913,412) |
| Others (*) | (708,781) | 187,486 |
| Balance at end of year | 1,211,211 | 5,284,345 |

*(*) Includes foreign currency translation.*

The minimum allowance for possible losses on commitments and contingencies, under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are Rp993,468 and Rp4,826,716, respectively.

Management believes that the allowance for possible losses on commitments and contingencies is adequate.

## 28. TAXATION

### a. Taxes payable

| | 2002 | 2001 |
|---|---|---|
| Bank Mandiri | | |
| Income Taxes: | | |
| Employee income tax - Article 21 | 35,432 | 26,859 |
| Withholding tax - Article 23/26 | 214,937 | 313,147 |
| Land and building tax | 79 | 40 |
| Others | 36,304 | 2,250 |
| | 286,752 | 342,296 |
| Subsidiaries | 9,197 | 3,913 |
| | 295,949 | 346,209 |

### b. Corporate income tax expense

| | 2002 | 2001 |
|---|---|---|
| Corporate income tax expense - current: | | |
| Bank Mandiri only | - | - |
| Subsidiaries | 824 | - |
| | 824 | - |
| Corporate income tax expense - deferred: | | |
| Bank Mandiri only | 2,187,484 | 1,104,475 |
| Subsidiaries | 35,445 | - |
| | 2,222,929 | 1,104,475 |
| | 2,223,753 | 1,104,475 |

As discussed in Note 2w, corporate income tax for Bank Mandiri and its Subsidiaries is computed for each company as a separate legal entity (consolidation is not permitted for corporate income tax filing purposes).

(Expressed in millions of Rupiah, unless otherwise stated)

## 28. TAXATION (Continued)

### c. Corporate income tax expense - current

The reconciliation between profit before corporate income tax as shown in the statements of profit and loss and income tax computations and the related income tax expense for Bank Mandiri and its Subsidiaries is as follows:

| | 2002 | 2001 |
|---|---|---|
| Consolidated profit before corporate income tax expense and minority interests | 5,809,970 | 3,850,438 |
| Loss before corporate income tax of subsidiaries | (36,897) | (206) |
| Profit before corporate income tax expense and minority interest - Bank Mandiri only | 5,773,073 | 3,850,232 |
| Add/(deduct) permanent differences: | | |
| (Non-taxable income)/non-deductible expenses | (141,205) | (1,535,615) |
| Non-deductible write off of loans/(non-taxable adjustment on provision for loan losses) | (6,292,921) | 8,532,668 |
| Non-deductible provision/(non-taxable adjustment on provision) for losses on earning assets other than loans | 181,188 | (306,102) |
| Non-deductible provision/(non-taxable adjustment on provision) for estimated losses on commitments and contingencies | 423,723 | (187,566) |
| (Non-taxable Income)/non-deductible loss on investments in mutual funds | - | (8,054) |
| Non-taxable gain on investments in shares | - | (32,727) |
| Others | (213,152) | 566,064 |
| Add/(deduct) temporary differences: | | |
| Allowable tax depreciation under/(over) financial statement depreciation | 205,910 | (473,600) |
| Financial statement provision for personnel expenses over /(under) allowable tax provision | (7,577) | 314,925 |
| Financial statement provision for losses on earning assets other than loans (under)/over allowable tax provision | (1,816,005) | 983,247 |
| Financial statement provision for loans losses (under)/over allowable tax provision | 1,111,464 | (5,097,050) |
| Financial statement provision for losses on commitments and contingencies (under)/over allowable tax provision | (4,073,259) | (1,725,846) |
| Financial statement provision for losses arising from legal cases (under)/over allowable tax provision | (89,217) | 155,826 |
| Gain on increase in market value of marketable securities and Government Bonds | (1,433,001) | - |
| Others | - | (632,011) |
| Estimated (tax loss)/taxable income | (6,370,979) | 4,404,391 |
| Less: Utilization of tax loss carry forwards | - | (4,404,391) |
| Corporate income tax expense - current (Bank only) | - | - |

(Expressed in millions of Rupiah, unless otherwise stated)

## 28. TAXATION (Continued)

### c. Corporate income tax expense - current (continued)

The tax reconciliations for the years ended December 31, 2002 and 2001 were as reported in the Bank's tax returns.

| | 2002 | 2001 |
|---|---|---|
| Subsidiaries: | | |
| Estimated taxable income | 2,747 | - |
| Estimated corporate income tax expense - current | 824 | - |
| Less: Income tax payments | - | - |
| Corporate income tax payable | 824 | - |

Under the Indonesian taxation laws, Bank Mandiri and its Subsidiaries submit tax returns on the basis of self-assessment. The tax authorities may assess or amend taxes within 10 years after the date of the tax filings (5 years for tax years prior to 1995).

*Tax Assesment*

On July 5, 2002, the Bank has received tax assessment letter SKPKB No. 00028/206/00/051/02 dated July 5, 2002 for its 2000 corporate income tax. The assessment stated that the Bank has an underpayment of corporate income tax including interest and penalties totaling Rp2,248,387. The underpayment is due to fiscal positive corrections of its reported taxable income amounting to Rp15,806,521 which is comprised of provision for loan losses due to the transfer of bad loans to IBRA amounting to Rp12,242,846, provision for loan losses over allowable tax provision of Rp3,087,357 and fixed assets depreciation expense of Rp476,318.

The Bank agreed in part to the tax auditors' fiscal corrections on provision for loan losses over allowable tax provision of Rp3,087,357 and correction of the fixed assets depreciation of Rp476,318. These agreed corrections will however not result in taxable income due to the available tax loss carryforwards. In respect of the tax auditors' fiscal correction on provision for loan losses due to the transfer of bad loans to IBRA amounting to Rp12,242,846 (comprised of Rp8,505,300 transferred to IBRA in 2000 and Rp3,737,546 transferred in 2001), the Bank maintains that its claims for tax deductions for such losses is legally appropriate.

The Bank is contesting the assessment and sent a letter for reconsideration ("Peninjauan Kembali") No. DIR.CIF/215/2002 dated August 2, 2002 requesting the tax authorities to reassess the results of the tax examination. The Director of Tax Examination, Investigation and Collection, through his letter No. S-352/PJ.733/2002 dated August 21, 2002, rejected the Bank's letter for reconsideration and requested the Bank file a Letter of Objection. Bank Mandiri sent a Letter of Objection No. DIR.CIF/258/2002 on September 26, 2002.

On September 30, 2002 the Directorate General of Taxes issued letter of decision No. KEP-406/WPJ.07/BD.03/2002 rejecting all of the Bank's objections. Based on the Indonesian tax law, taxpayers can only raise applications for appeals to the tax court against tax decisions within a period of 3 (three) months from the date of the decision. In addition, the appeal letter may be submitted only if the taxpayer has paid 50% of the total tax assessment to the State Treasury.

(Expressed in millions of Rupiah, unless otherwise stated)

## 28. TAXATION (Continued)

### c. Corporate income tax expense - current (continued)

Based on the above letter of decision No. KEP-406/WPJ.07/BD.03/2002 and in view of the Management's decision to raise an appeal, Bank Mandiri appealed to tax court and paid 50% of the tax assessment or equivalent to Rp1,124,194, to the State Treasury (Kas Negara) as of December 31, 2002, which is recorded in Other Assets (Note 16).

However, on December 31, 2002, the Directorate General of Taxes issued letter of decision No. KEP-546/WPJ.07/BD.03/2002 which cancels the previous letter of decision of the Directorate General of Taxes No. KEP-406/WPJ.07/BD.03/2002. This has impacted the Bank's appeal as the previous basis of the appeal was letter of decision No. KEP-406/WPJ.07/BD.03/2002 which was not relevant anymore, until the Directorate General of Taxes issued a new letter of decision on the Bank's objections.

On March 14, 2003, the Bank received letter of decision from the Directorate General of Taxes No. KEP-106/WPJ.07/BD.03/2003, which has partially accepted the Bank's objections. The decision letter stated the reduction of the tax assessment from Rp2,248,387 to Rp2,127,144.

Again, based on the Indonesian tax law, the Bank may raise an appeal within a period of 3 (three) months after the date of the latest decision of the Bank's objection, and can only do so if the Bank has paid 50% of the total tax assessment.

The Bank refuses the decision letter and will use the 50% payment of the tax assessment amounting to Rp1,124,194 as of December 31, 2002 as required in the appeal process to the tax court.

No liability has been recognized for the potential liability arising from the 2000 tax assessment until upon finalization of the case.

*Tax loss carry forwards*

Under current Indonesian tax regulations, tax losses may be carried forward and utilized to offset taxable income for up to five (5) years after the year in which the tax loss was incurred.

Movement of tax loss carried forward from 2001 to 2002 is as follows:

| | Amount | Expiry year |
|---|---|---|
| Balance as of December 31, 2000 | 9,164,103 | 2004 |
| Utilization of tax loss carryforwards in 2001 | (4,404,391) | |
| Balance as of December 31, 2001 | 4,759,712 | 2004 |
| Additional tax loss carryforwards in 2002 | 6,370,979 | 2007 |
| Balance as of December 31, 2002 | 11,130,691 | |

(Expressed in millions of Rupiah, unless otherwise stated)

## 28. TAXATION (Continued)

### c. Corporate income tax expense - current (continued)

Based on a letter No. S-188/PJ.42/2000 of the Directorate General of Taxes to Bank Mandiri dated May 25, 2000, the Tax Office confirmed that the tax loss carry forward of Bank Mandiri for the period from August 1, 1999 to December 31, 1999 amounting to Rp26,991,916 can be utilized/applied against future taxable income of Bank Mandiri through 2004. On November 20, 2001, the Bank received the final tax assessment based on the Directorate General of Taxes letter No. 00127/406/99/051/01, indicating an adjusted tax loss carry forward of Rp21,893,726 for the year ended December 31, 1999. The estimated tax loss carry forward as of December 31, 2002 and 2001 amounted to Rp11,130,691 and Rp4,759,712, respectively.

### d. Corporate income tax expense - deferred

The reconciliation between estimated income tax expense, calculated using a tax rate of 30% based on commercial profit before estimated income tax and estimated income tax as reported in the Statements of Profit and Loss for the years ended December 31, 2002 and 2001 are as follows:

| | 2002 | 2001 |
|---|---|---|
| Consolidated profit before corporate income tax expense and minority interests | 5,809,970 | 3,850,438 |
| Less: Income before corporate income tax expense of Subsidiaries | (36,897) | (206) |
| Profit before estimated corporate income tax and minority interest - Bank only | 5,773,073 | 3,850,232 |
| Estimated income tax expense at the tax rate of 30% | 1,731,922 | 1,155,070 |
| Tax effect of permanent differences: | | |
| (Non-taxable income)/non-deductible expenses | (42,362) | (460,686) |
| Non-deductible write-off of loans (non-taxable adjustment on provision for loan losses) | (1,887,876) | 2,559,800 |
| Non-deductible provision/(non-taxable adjustment on provision) for losses on earning assets other than loans | 54,356 | (91,831) |
| Non-deductible provision/(non-taxable adjustment on provision) for losses on commitments and contingencies | 127,117 | (56,270) |
| (Non-taxable income)/non-deductible loss on investments in mutual funds | - | (2,416) |
| Non-taxable gain on investments in shares | - | (9,818) |
| Others | (63,945) | 169,819 |
| Change in valuation allowance | 2,268,272 | (3,688,651) |
| Correction on tax losses carried forward as a result of tax assessment related to 1999 | - | 1,529,458 |
| Estimated deferred income tax expense reported in the statements of profit and loss - Bank only | 2,187,484 | 1,104,475 |
| Subsidiaries | 35,445 | - |
| Deferred tax expense -Consolidated | 2,222,929 | 1,104,475 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 28. TAXATION (CONTINUED)

### e. Deferred tax assets

The tax effects from significant temporary differences between commercial and tax bases are as follows:

| | 2002 | 2001 |
|---|---|---|
| **Bank Mandiri** | | |
| Deferred tax assets: | | |
| Allowance for estimated losses on commitments and contingencies | 363,326 | 1,585,304 |
| Allowance for possible loan losses | 1,254,966 | 921,527 |
| Allowance for possible losses on earning assets other than loans | 642,631 | 1,187,432 |
| Allowance for possible losses arising from legal cases | 477,455 | 504,221 |
| Provision for personnel expenses | 318,359 | 320,632 |
| | 3,056,737 | 4,519,116 |
| Tax losses carried forward | 3,339,207 | 2,957,371 |
| Correction on tax losses carried forward as a result of tax assessment related to 1999 | - | (1,529,458) |
| Tax losses carried forward | 3,339,207 | 1,427,913 |
| Deferred tax assets | 6,395,944 | 5,947,029 |
| Valuation allowance | (3,339,207) | (1,070,935) |
| Net deferred tax assets | 3,056,737 | 4,876,094 |
| Deferred tax liability: | | |
| Net book value of fixed assets | (32,458) | (94,230) |
| Mark to market of marketable securities | (429,900) | - |
| Net deferred tax assets - Bank Mandiri | 2,594,379 | 4,781,864 |
| Net deferred tax assets - Subsidiaries | 309 | 35,753 |
| Total net deferred tax assets | 2,594,688 | 4,817,617 |

Management believes that the valuation allowances relating to deferred tax assets as of December 31, 2002 and 2001 are adequate. Deferred tax assets arising from tax loss carry forwards that existed on December 31, 2002 and 2001 amounted to Rp3,339,207 and Rp1,427,913, respectively, prior to the valuation allowance and correction as a result of tax assessment.

(Expressed in millions of Rupiah, unless otherwise stated)

## 29. OTHER LIABILITIES

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Due to the Government arising from the required return of additional paid-in capital (Notes 33 and 15) | 1,412,000 | 129,685 |
| Provision for employee service entitlements (Note 42) | 674,062 | 793,631 |
| Accrued bonuses and incentives | 396,552 | 184,774 |
| Unearned income | 225,619 | 324,223 |
| Provision for possible losses on legal cases (Note 58k) | 147,062 | 380,610 |
| Accrued expenses for Government premium guarantees | 146,901 | 130,748 |
| Guarantee deposits | 131,583 | 116,904 |
| Provision arising from obligations from investment in stocks | 110,513 | 368,111 |
| Inter-branch accounts - net | 25,195 | - |
| Accrued merger and reorganization costs | - | 314,064 |
| Provision for employee medical benefits | - | 229,752 |
| Others | 3,121,412 | 2,634,690 |
| | 6,390,899 | 5,607,192 |
| Foreign currency: | | |
| Provision for possible losses on legal cases (Note 58k) | 1,444,455 | 1,248,000 |
| Guarantee deposits | 742,603 | 635,289 |
| Unearned income | 45,829 | 75,250 |
| Others | 496,130 | 1,027,593 |
| | 2,729,017 | 2,986,132 |
| | 9,119,916 | 8,593,324 |

Movements of certain provisions in other liabilities in 2002 follows:

| | Provision for Possible Losses on Legal Cases | Provision for Employee Service Entitlements | Accrued Merger and Reorganization Costs | Provision for Employee Medical Benefits | Provision for Negative Equity Investments |
|---|---|---|---|---|---|
| Balance at beginning of year | 1,628,610 | 793,631 | 314,064 | 229,752 | 368,111 |
| Provision/(reversal) during the year | 519,944 | (119,569) | (192,556) | (229,752) | (257,598) |
| Utilization during the year | (272,605) | - | (121,508) | - | - |
| Others (*) | (284,432) | - | - | - | - |
| Balance at end of year | 1,591,517 | 674,062 | - | - | 110,513 |

*(*) Primarily consists of foreign currency translation.*

(Expressed in millions of Rupiah, unless otherwise stated)

## 29. OTHER LIABILITIES (Continued)

Movements of certain provisions in other liabilities in 2001 follows:

| | Provision for Possible Losses on Legal Cases | Provision for Employee Service Entitlements | Accrued Merger and Reorganization Costs | Provision for Employee Medical Benefits | Provision for Negative Equity Investments |
|---|---|---|---|---|---|
| Balance at beginning of year | 1,524,908 | 553,851 | 1,653,691 | 229,752 | 1,105,061 |
| Provision/(reversal) during the year | 8,709 | 239,780 | (995,393) | - | (736,950) |
| Utilization during the year | (8,337) | - | (341,718) | - | - |
| Others (*) | 103,330 | - | (2,516) | - | - |
| Balance at end of year | 1,628,610 | 793,631 | 314,064 | 229,752 | 368,111 |

*(*) Primarily consists of foreign currency translation.*

## 30. SUBORDINATED LOANS

| | 2002 | 2001 |
|---|---|---|
| *a. By Currency* | | |
| Foreign Currency | | |
| Two-Step Loans (TSLs)-Kreditanstalt fur Wiederaufbau, Frankfurt (KfW) | 88,860 | 97,260 |
| Others | 3,279,987 | 2,414,116 |
| | 3,368,847 | 2,511,376 |
| Rupiah | | |
| Two-Step Loans (TSLs) | | |
| (a) Nordic Investment Bank (NIB) | 399,035 | 432,945 |
| (b) Export-Import Bank of Japan (EBJ) | 224,144 | 295,999 |
| (c) Asian Development Bank (ADB) | 40,471 | 69,996 |
| (d) International Bank for Reconstruction and Development (IBRD) | 54,888 | 73,320 |
| (e) ASEAN Japan Development Fund Overseas Economic Cooperation Fund (AJDF-OECF) | 130,907 | 127,828 |
| (f) ASEAN Japan Development Fund -Export-Import Bank of Japan (AJDF-EBJ) | 7,310 | 8,435 |
| | 856,755 | 1,008,523 |
| Bank Indonesia | 1,578,859 | 2,064,859 |
| Investment Fund Account (RDI) ex-Two-Step Loans | 554,504 | 805,443 |
| | 2,990,118 | 3,878,825 |
| | 6,358,965 | 6,390,201 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

| | 2002 | 2001 |
|---|---|---|
| *b. By Type* | | |
| Two-Step Loans (TSLs) | | |
| (a) Nordic Investment Bank (NIB) | 399,035 | 432,945 |
| (b) Export-Import Bank of Japan (EBJ) | 224,144 | 295,999 |
| (c) Asian Development Bank (ADB) | 40,471 | 69,996 |
| (d) International Bank for Reconstruction and Development (IBRD) | 54,888 | 73,320 |
| (e) ASEAN Japan Development Fund Overseas Economic Cooperation Fund (AJDF-OECF) | 130,907 | 127,828 |
| (f) ASEAN Japan Development Fund -Export-Import Bank of Japan (AJDF-EBJ) | 7,310 | 8,435 |
| (g) Kreditanstalt fur Wiederaufbau, Frankfurt (KfW) | 88,860 | 97,260 |
| | 945,615 | 1,105,783 |
| Bank Indonesia | 1,578,859 | 2,064,859 |
| Investment Fund Account (RDI) ex-Two-Step Loans | 554,504 | 805,443 |
| Others | 3,279,987 | 2,414,116 |
| | 6,358,965 | 6,390,201 |

*Two-Step Loans*

(a) Nordic Investment Bank (NIB)

This account represents a credit facility obtained from NIB through the Government of the Republic of Indonesia, via the Ministry of Finance of the Republic of Indonesia, which re-lent the proceeds to participating banks to finance projects in Indonesia. The details of these facilities are as follows:

| Credit Facility | Purpose | Repayment Period |
|---|---|---|
| Nordic Investment Bank I | To promote and finance high priority investments in Indonesia, primarily in the private sector, or joint Indonesian and Nordic interests. | March 23, 1988 - July 15, 2002 with the 1st installment on January 15, 1993. |
| Nordic Investment Bank II | To promote and finance high priority investments in Indonesia, primarily in the private sector, or joint Indonesian and Nordic interests. | December 10, 1990 - July 15, 2005 with the 1st installment on January 15, 1996. |
| Nordic Investment Bank III | To promote and finance high priority investments in Indonesia, primarily in the private sector, or joint Indonesian and Nordic interests. | August 4, 1993 - August 15, 2008 with the 1st installment on February 15, 1999. |
| Nordic Investment Bank IV | To promote and finance high priority investments in Indonesia, primarily in the private sector, or joint Indonesian and Nordic interests. | April 15, 1997 - February 28, 2017 with the 1st installment on August 31, 2002. |

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Two-Step Loans (Continued)*

The annual interest rate on the NIB I facility is 1.75% above the interest rate charged by NIB to the Government of the Republic of Indonesia or the interest rate charged on channeling loans to customers less 6%, whichever is higher. The NIB I facility was fully paid in July 2002.

The interest rate on the NIB II facility is based on the past six months' average interest rate for three-month Certificates of Bank Indonesia which should:

- Not be higher than the average interest rate for three-month time deposits for the past six months in the five state-owned banks.
- Not be lower than the interbank interest rate to the Government of the Republic of Indonesia plus 1.75%.

The interest rate on the NIB III facility was based on the previous six months' variable interest rate as determined by Bank Indonesia based on the prevailing average interest rates for the past six months for three-month Certificates of Bank Indonesia.

The interest rate on the NIB IV facility was based on the previous six months' variable interest rate as determined by Bank Indonesia based on the prevailing average interest rates for the past six months for three-month Certificates of Bank Indonesia.

(b) Export-Import Bank of Japan (EBJ)

This account represents credit facilities obtained from the Export-Import Bank of Japan through the Government of the Republic of Indonesia, via the Ministry of Finance of the Republic of Indonesia, which re-lent the proceeds to participating banks to finance projects in Indonesia. The details of these facilities are as follows:

| Credit Facility | Purpose | Repayment Period |
|---|---|---|
| EBJ-TSL I | To finance private sector projects included in Priority Scale List from or approved by the Investment Coordinating Board. | July 7, 1988 - January 15, 2005 with the 1st installment on July 15, 1992. |
| EBJ-TSL II | To finance private and state-owned company projects in sectors prioritized by the Government and export-oriented. | October 14, 1989 - October 1, 2004 with the 1st installment on April 1, 1993. |
| EBJ-TSL III | To finance private and state-owned company projects in sectors prioritized by the Government and which are export-oriented. | January 21, 1991 - July 15, 2005 with the 1st installment on January 15, 1994. |
| EBJ-TSL IV | To finance projects which help to increase investments in the private sector and which are export-oriented. | January 28, 1992 - January 15, 2007 with the 1st installment on July 15, 1995. |
| EBJ-TSL V | To finance small-scale industry, primarily the manufacturing sector and export-oriented. | May 27, 1992 - March 15, 2003 with the 1st installment on September 15, 1994. |

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Two-Step Loans (Continued)*

(b) Export-Import Bank of Japan (EBJ) (Continued)

The interest rate on the credit facilities from EBJ-TSL I and EBJ, TSL II is based on the weighted average interest rate for customers' deposits in the participating banks as determined by Bank Indonesia every six (6) months, less 1%.

The interest rate on the credit facilities from EBJ-TSL III, IV and V is based on the floating interest rate determined every six (6) months based on the prevailing average interest rate for the past six (6) months for three-month Certificates of Bank Indonesia, which should:

- Not be higher than the six months' average interest rate for three-month time deposits in five state-owned banks and not be lower than the interest rate on EBJ loans plus 4% for EBJ-TSL III.
- Not be higher than the six months' average interest rate for three-month time deposits in five state-owned banks for EBJ-TSL IV and V.

(c) Asian Development Bank ("ADB")

This account represents credit facilities from the ADB through the Government of the Republic of Indonesia, via the Ministry of Finance of the Republic of Indonesia, which re-lent the proceeds to participating banks to finance projects in Indonesia. The details of these facilities are as follows:

| Credit Facility | Purpose | Repayment Period |
|---|---|---|
| ADB Fishery II | Finance government projects in funding credit for fishery projects. | December 19, 1991 - September 15, 2006 with the 1st installment on March 15, 1995. |
| ADB Perkebunan Nusantara XII (formerly Nescoco Plasma) and Nescoco Inti | Finance government projects in funding credit for plantation projects. | February 15, 1989 - September 15, 2008 with the 1st installment on March 15, 1995. |
| ADB Agro Industry | Finance industrial sector. | May 13, 1988 - September 15, 2002 with the 1st installment on March 15, 1991. |
| Second Bapindo Project | Finance all industrial sectors which have high socio-economic value and which are carried out by the private sector. | December 28, 1987 - May 1, 2002 with the 1st installment on November 1, 1990. |
| Development Financing Loan Project | Finance industrial sector prioritizing manufacturing products for non-oil export, agro-based industry, employee-centred programs and earning foreign exchange. | January 10, 1990 - January 15, 2005 with the 1st installment on July 15, 1993. |

## 30. SUBORDINATED LOANS (Continued)

*Two-Step Loans (Continued)*

(c) Asian Development Bank (“ADB”) (Continued)

The interest rate on the ADB Fishery II facility shall not be lower than the annual interest rate charged by the ADB to the Government of the Republic of Indonesia plus 4% per annum.

Drawdowns of the ADB facilities are repayable within 15 years from the first drawdown (inclusive of a 4-year grace period for ADB Fishery I and a 3-year grace period for ADB Fishery II facilities) and are repayable in 22 semi-annual installments starting December 15, 1989 for ADB Fishery I and 24 semi-annual installments starting March 15, 1995 for ADB Fishery II projects.

In 2000, the ADB Nescoco Plasma loan was transferred to ADB PT Perkebunan Nusantara XII. The annual interest rates on the ADB Perkebunan Nusantara XII and ADB Nescoco Inti facilities are 9.50% and 10.00%, respectively.

The interest rate on the ADB Agro Industry facility is the interest rate charged by the ADB to the Government of the Republic of Indonesia plus 1.75% or the interest rate for depositors’ interest rate less 5.00% per annum, whichever is higher. The ADB Agro Industry credit facility was fully paid in September 2002.

The interest rate on the Second Bapindo Project facility is 1.75% per annum above the interest rate charged by ADB to the Government of the Republic of Indonesia or the interest rate for depositors less 5.00% per annum, whichever is higher. The Second Bapindo Project facility was fully paid in May 2002.

The interest rate on the Development Financing Loan Project facility is based on the variable rate determined by Bank Indonesia every six (6) months based on the weighted average interest rate for depositors in a foreign exchange bank but not lower than the interest rate charged by ADB plus 1.75% per annum.

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Two-Step Loans (Continued)*

(d) International Bank for Reconstruction and Development ("IBRD")

This account represents credit facilities obtained from IBRD through the Government of the Republic of Indonesia, via the Ministry of Finance of the Republic of Indonesia, which re-lent the proceeds to participating banks to finance projects in Indonesia. The details of these facilities are as follows:

| Credit Facility | Purpose | Repayment Period |
|---|---|---|
| Industrial Restructuring Program "(IRP") | Finance restructuring for investment projects for engineering, pulp, paper and textile sub-sector projects. | July 27, 1989 - October 1, 2003 with the 1st installment on April 1, 1992. |
| Export Development Program II ("EDP I"I) | Finance Export Development Project II. | September 20, 1988 - February 15, 2003 with the 1st installment on August 15, 1991. |
| Small and Medium Industrial Program ("SMIEP") | Finance manufacturing industrial projects, agro-based and the related industry (including transportation and cold storage). | July 27, 1989 - October 1, 2003 with the 1st installment on April 1, 1992. |
| Financial Sector Development Project ("FSDP") | Finance Financial Sector Development Projects. | February 1, 1993 - September 15, 2007 with the 1st installment on March 15, 1998. |
| Tree Crops Processing Project ("TCPP") | Finance development of Palm Oil mills. | February 23, 1989 - June 1, 2001 with the 1st installment on June 1, 1994. |
| Agricultural Financing Project ("AFP") | Finance production sector projects and agriculture, animal husbandry, fishery and forestry industries. | January 10, 1992 - December 1, 2006 with the 1st installment on June 1, 1995. |
| IBRD Loan No. 2277 V Project | Finance development projects (specific development projects). | September 29, 1983 - February 1, 2003 with the 1st installment on August 1, 1985. |

For the IRP, EDP II and SMIEP credit facilities, the principal amount is repayable to the Government of the Republic of Indonesia within 15 years inclusive of a 3-year grace period from the time the agreement becomes effective. The interest rate on the IRP, EDP II and SMIEP credit facilities is determined every six (6) months by Bank Indonesia and should not be lower than the interest rate charged by IBRD to the Government plus 1.75% per annum.

The interest rate on the FSDP credit facility is 0% per annum. The FSDP credit facility is repayable on March 15 and September 15 of every year.

The interest rate for the TCPP facilities is 10% per annum. The TCPP facility was fully paid in 2001.

The interest rate on the AFP facility is computed based on a variable interest rate for a period of six (6) months, at the lower of:

- Six-months' average interest rate for three-month Certificates of Bank Indonesia.
- Six-months' average interest rate for three-month time deposits in five state-owned banks.

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Two-Step Loans (Continued)*

(d) International Bank for Reconstruction and Development ("IBRD") (Continued)

The interest rate on the AFP facility shall not be lower than the interest rate charged by IBRD to the Government plus 2% per annum.

The interest rate on the Loan No. 2277 V Project facility is based on the interest rate charged by IBRD to the Government subject to a maximum of 11% per annum.

(e) ASEAN Japan Development Fund - Overseas Economic Cooperation Fund ("AJDF-OECF")

This account represents a credit facility obtained from AJDF-OECF through the Government of the Republic of Indonesia, via the Ministry of Finance of the Republic of Indonesia, which re-lent the proceeds to participating banks to finance projects in Indonesia. The details of these facilities are as follows:

| Credit Facility | Purpose | Repayment Period |
|---|---|---|
| Pollution Abatement Equipment Program (PAE) | Purchase of equipment to prevent pollution | August 19, 1993 - August 19, 2013, with the 1st installment on August 15, 1998 |
| Small Scale Industry (SSI) | To finance small-scale industry | August 19, 1993 - August 19, 2013, with the 1st installment on August 15, 1998 |

The drawdowns on the above AJDF-OECF facilities are repayable within 20 years after the first drawdown (inclusive of a 5-year grace period), in 30 semi-annual installments starting August 15, 1998 and ending on February 15, 2013.

The PAE facility is subject to a variable interest rate determined every six (6) months based on the prevailing average interest rate for the past six (6) months for three-month Certificates of Bank Indonesia, less 5% per annum.

The SSI facility is subject to a variable interest rate determined every six (6) months based on the prevailing average interest rate for the six (6) months for three-month Certificates of Bank Indonesia, less 2.5% per annum.

(f) ASEAN Japan Development Fund - Export-Import Bank of Japan ("AJDF-EBJ")

This account represents a credit facility obtained from the AJDF-EBJ through the Government of the Republic of Indonesia, via the Ministry of Finance of the Republic of Indonesia, which re-lent the proceeds to participating banks to finance investment projects and working capital requirements of small-scale industries. The credit facility, which amounts to Rp9,560, is repayable in 24 semi-annual installments within 15 years after the date of the first drawdown (inclusive of a 3-year grace period), with the first installment starting December 15, 1997.

The facility is subject to an interest rate determined every six (6) months based on the prevailing average interest rate for the past six (6) months for three-month Certificates of Bank Indonesia.

## 30. SUBORDINATED LOANS (Continued)

*Two-Step Loans (Continued)*

(g) Kreditanstalt fur Wiederaufbau ("KfW")

This account represents a credit facility from KfW through Bank Indonesia ("BI") to finance export contracts denominated in Deutsche Marks ("DEM") with a maximum of DEM250,000,000 (full amount) for the supply of capital goods, investments in infrastructure projects such as transportation, energy or communications projects, and transfer of new technologies to be concluded between buyers domiciled in Indonesia and exporters domiciled in the Federal Republic of Germany.

Prior to importing supplies from Germany, the buyer shall sign an Individual Loan Agreement ("ILA") with approval from BI, KfW and the Government of the Republic of Indonesia. The financing shall be limited to an amount of up to 85% of the total price in DEM of each Export Contract. In the event that the total price shall be reduced during the period of disbursement, KfW shall reduce the individual loans proportionally.

The minimum order value of an Export Contract is DEM353,000 (full amount) on which the resulting credit element would be DEM300,000 (full amount).

The terms and conditions as set out in the subordinated loan agreement No. SLA-1079/DP3/1998 dated September 24, 1998, are as follows:

- The loan tenor shall be 4 (four) years, exclusive of a 6 (six) month grace period, from the signing date of ILA, which can be renewed for up to 8 (eight) or 10 (ten) years depending upon each ILA.
- The loan principal repayment shall be made in 8 (eight) equal installments on June 15 and December 15 annually starting 6 (six) months after the grace period of each ILA.
- The interest rate is calculated at 2.5% per annum above the Commercial Interest Reference Rate including Bank Indonesia fees of 0.15%, net of tax, which shall be payable semi-annually on every June 15 and December 15.
- A commitment fee of 0.25% per annum is charged on the unused facility from the signing date of each ILA.
- A penalty of 2% per annum above the interest rate as explained in point three in the event of late payment.

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Two-Step Loans (Continued)*

(g) Kreditanstalt fur Wiederaufbau ("KfW") (Continued)

KfW through BI advanced Bank Mandiri an amount of EUR8,862,569 in line with the import of equipment for the modernization of a Hot Strip Mill, Roughing Mill Motor and Stand F4 Rear Motor Drive System and related services from Siemens AG, Erlangan, Germany, to PT Krakatau Steel which has entered into 2 (two) ILAs with BI and KfW, as follows (in full amounts):

| Loan no. | Facility | Used Facility | Unused Facility | Repayment Period |
|---|---|---|---|---|
| F3137/1 | EUR7,859,450 | EUR6,743,863 | EUR1,115,587 | January 13, 2000 - December 15, 2006 with the 1st installment on August 30, 2002, which was extended to November 30, 2003. |
| F3137/2 | EUR3,917,911 | EUR3,917,911 | EURNil | March 3, 2000 - June 15, 2006 with the 1st installment on December 15, 2001. |

*Bank Indonesia*

This account represents loans arising from the conversion of Bank Indonesia liquidity used to improve the capital structure of BBD, BDN, Bapindo and PT Bank Syariah Mandiri (a subsidiary). The details of this facility as of December 31, 2002 and 2001 are as follows:

| Bank | Repayment Period | 2002 Amount (Rupiah) | 2001 Amount (Rupiah) | Interest Rate |
|---|---|---|---|---|
| Bapindo | March 31, 1995 - March 31, 2004 with 1st installment on June 30, 2002 | 810,000 | 1,296,000 | 5% per annum |
| BDN | March 31, 1993 - March 31, 2014 | 736,859 | 736,859 | Calculated quarterly, as follows:<br>• the first 5 years at 1% per annum<br>• the second 5 years at 3% per annum<br>• the third 5 years at 6% per annum<br>• the fourth 5 years at 14% per annum |
| PT Bank Syariah Mandiri*) | January 31, 1994 - January 31, 2014 | 32,000 | 32,000 | Calculated quarterly, as follows:<br>• the first 5 years at 1% per annum<br>• the second 5 years at 3% per annum<br>• the third 5 years at 6% per annum<br>• the fourth 5 years at 14% per annum |
| Total | | 1,578,859 | 2,064,859 | |

*) The subsidiary bank has requested Bank Indonesia to convert the loan into a syariah subordinated loan with "wadiah" principles for which approval from Bank Indonesia is pending.

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (CONTINUED)

*Investment Fund Account ("RDI") ex-Two-Step Loans*

This account represents a credit facility from the Government of the Republic of Indonesia originating from the installment payments of Two-Step Loans. In relation to restructuring of former Bapindo's (one of Bank Mandiri's merged banks) capital, on October 26, 1995, and former Bapindo obtained facilities from the Government of the Republic of Indonesia. One of the facilities is that Bapindo can convert certain Two-Step Loans into an Investment Fund Account when the two-step loan matures. The amount withdrawn was limited to Rp991,000. The facility should be paid from the period of April 15, 2002 to October 15, 2004. The Bank can convert the above Two-Step Loan in full or partially as long as it is related to the above eligible Two-Step Loan and it does not exceed the limit.

| | | 2002 | 2001 |
|---|---|---|---|
| (a) | RDI Loan ex-Export-Import Bank of Japan (EBJ) | 192,483 | 278,558 |
| (b) | RDI Loan ex-International Bank for Reconstruction and Development (IBRD) | 155,274 | 229,893 |
| (c) | RDI Loan ex-Asian Development Bank (ADB) | 147,773 | 214,826 |
| (d) | RDI Loan ex-ASEAN Japan Development Fund - Overseas Economic Cooperation Fund (AJDF-OECF) | 15 | 22 |
| (e) | RDI Loan ex-Nordic Investment Bank (NIB) | 58,959 | 82,144 |
| | | 554,504 | 805,443 |

(a) RDI Loan ex-Export-Import Bank of Japan ("EBJ")

The EBJ I and EBJ II facilities are charged with administration fees based on the weighted average interest rate for debtor deposits of the participating state banks determined by Bank Indonesia every six (6) months, less 1% per annum.

The EBJ III, EBJ IV and EBJ V facilities are charged with administration fees based on a floating interest rate determined every six (6) months based on the prevailing average interest rate for the past six (6) months for three-month certificates of Bank Indonesia, which should:

- Not be higher than the six months' average interest rate for three-month time deposits in five state-owned banks and not be lower than the interest rate of Exim Bank of Japan to the Government of the Republic of Indonesia plus 4% per annum for the EBJ III facility.
- Not be higher than the six months' average interest rate for three-month time deposits in five state-owned banks for the EBJ IV facility.
- Be the lower of the interest rate for the past six months of three-month Certificates of Bank Indonesia and the six months' average interest rate for time deposits in five state-owned banks for the EBJ V facility.

## 30. SUBORDINATED LOANS (Continued)

*Investment Fund Account ("RDI") ex-Two-Step Loans (Continued)*

(b) RDI Loan ex-International Bank for Reconstruction and Development Bank ("IBRD")

The AFP facility is charged with an administration fee based on a variable interest rate determined every six (6) months based on the lower of the:

- Average interest rate for the past six (6) months of three-month certificates of Bank Indonesia.
- Average interest rate for the past six (6) months of three-month time deposits in five state-owned banks.

The administration fee for the AFP facility should not be lower than the interest rate on loans charged by IBRD to the Government of the Republic of Indonesia plus 2% per annum.

The IRP and SMIEP facilities are charged with an administration fee based on the higher of the interest rate on:

- The interest rate on credits charged by the IBRD to the Government plus 1.75% per annum.
- Weighted average interest rate on time deposits of participant banks.

The Bapindo V Project facility is charged with an administration fee based on the interest rate charged by the IBRD to the Government of the Republic of Indonesia, subject to a maximum of 11% per annum.

(c) RDI Loan ex-Asian Development Bank ("ADB")

The Second Bapindo Project ("SBP") is charged with an administration fee of 1.75% per annum above the interest rate charged by the ADB to the Government of the Republic of Indonesia or interest charged on loans to customers less 5% per annum, whichever is higher.

The Development Finance Loan Project ("DFLP") facility is charged with a variable administration fee determined by Bank Indonesia every six (6) months based on the weighted average interest rate on customer deposits in a Foreign Exchange Bank and should not be lower than the interest rate of the ADB plus 1.75% per annum.

(d) RDI Loan ex-ASEAN Japan Development Fund - Overseas Economic Cooperation Fund ("AJDF-OECF")

This facility is charged with an administration fee based on the variable interest rate for the past six (6) months for three-month Certificates of Bank Indonesia and is payable on April 15 and October 15 of every year from the disbursement of loans, less 5% per annum.

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Investment Fund Account ("RDI") ex Two-Step Loans (Continued)*

(e) RDI Loan ex-Nordic Investment Bank ("NIB")

The NIB I facility is charged with an administration fee of 1.75% per annum above the interest rate charged by the NIB to the Government of the Republic of Indonesia or interest charged on loans to customers less 6% per annum whichever is higher, and is payable on April 15 and October 15 of every year from the withdrawal of loans.

The NIB II facility is charged with an administration fee based on the average interest rate on the three-month Certificates of Bank Indonesia for six (6) months with the following conditions:

a) Not higher than the average interest rate on three-month time deposits for six (6) months in the five state-owned banks.
b) Not lower than the interest rate charged by the NIB to the Government of the Republic of Indonesia based on the loan agreement no. PIL-12/1987 dated December 21, 1987 and Addendum No. I dated November 6, 1990, plus 1.75% per annum.

The NIB III facility is charged with an administration fee based on a variable interest rate for the past six (6) months on three-month Certificates of Bank Indonesia for six (6) months and is payable on April 15 and October 15 of every year after the withdrawal of loans.

*Others*

Subordinated Loans - Others are comprised of:

| | 2002 | 2001 |
|---|---|---|
| Subordinated Undated Floating Rate Notes ("SURFNs") | 2,170,375 | 2,414,116 |
| Subordinated Notes ("SNs") | 1,109,612 | - |
| Total | 3,279,987 | 2,414,116 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Others (Continued)*

Details of SUFRNs are as follows:

| Issuer | Subscriber | Terms of Subscription | 2002 Original Amount (in full amount) | 2002 Rupiah Equivalent | 2001 Original Amount (in full amount) | 2001 Rupiah Equivalent |
|---|---|---|---|---|---|---|
| Bank Exim | Puri International Limited | July 24, 1990 - July 24, 2005 | US$125,000,000 | 1,118,750 | US$125,000,000 | 1,300,000 |
| Bapindo | Mitra Sejati International | Dec. 18, 1990 - Dec. 25, 2005 | US$125,000,000 | 1,118,750 | US$125,000,000 | 1,300,000 |
| | | | US$250,000,000 | 2,237,500 | US$250,000,000 | 2,600,000 |
| Less: Unamortized discount | | | (US$7,500,000) | (67,125) | (US$9,013,046) | (93,735) |
| | | | US$242,500,000 | 2,170,375 | US$240,986,954 | 2,506,265 |
| Less: Securities issued and held by the Bank | | | - | - | (US$8,860,565) | (92,149) |
| Total | | | US$242,500,000 | 2,170,375 | US$232,126,389 | 2,414,116 |

*Bank Exim SUFRNs*

Under a Subscription Agreement dated July 24, 1990 and Trust Deed dated July 27, 1990, Bank Exim issued SUFRNs with an aggregate nominal value of US$125,000,000 (full amount) through its Cayman Islands Branch to Puri International Limited. ("PIL"), a special purpose vehicle incorporated in the Cayman Islands, in exchange for cash of US$90,255,000 (full amount).

The aggregate nominal value of the Bank Exim SUFRNs (US$125,000,000 (full amount)) and accrued interest thereon is recognized as a liability at December 31, 2002 and 2001 because Bank Mandiri assumed all of Bank Exim's assets and liabilities from the date of the merger (Note 3). The Bank Exim SUFRNs are perpetual as they have no stated maturity date.

Interest on the Bank Exim SUFRNs is calculated based on their aggregate nominal value at 1.1% per annum above the 6 (six) month LIBOR interest rate through July 27, 2005, and following that date, interest is calculated based on their aggregate nominal value at 0.0001% per annum. While the Bank Exim SUFRNs remain outstanding, accrued interest is due and payable semi-annually in arrears at the end of each interest period in July and January.

## 30. SUBORDINATED LOANS (Continued)

*Bank Exim SUFRNs (continued)*

To fund its purchase of the Bank Exim SUFRNs, in July 1990 PIL entered into a Purchase Agreement and a Deferred Sale Agreement with investors represented by Japan Leasing (Hong Kong) Ltd. (now represented by STB Leasing Co., Ltd.) under which PIL sold and repurchased certain property on deferred payment terms, proceeds from which were used to fund the purchase of the Bank Exim SUFRNs amounting to US$90,255,000 (full amount) and to make a deposit (the "Deposit") of US$34,745,000 (full amount) with BNP Paribas (formerly Banque National de Paris) ("BNP"). The terms of the Deposit are set out in a deposit agreement dated July 24, 1990 (the "Deposit Agreement"). The Deposit Agreement provides that on maturity of the Deposit in July 2005, BNP will repay PIL US$125,000,000 (full amount) comprising the original US$34,745,000 (full amount) plus accrued interest of US$90,255,000 (full amount). The Deposit formed the collateral for the repurchase of the property by PIL under the Deferred Sale Agreement.

In September 1998 PIL entered into a Sale Agreement with ING Bank N.V., Tokyo Branch ("ING") under which PIL sold US$13,000,000 (full amount) of Bank Exim SUFRNs to ING, and additionally and together with Bank Exim and Japan Leasing (Hong Kong) Ltd., agreements were amended to transfer US$3,613,480 (full amount) of the Deposit that was placed on deposit in BNP to the account of ING with BNP (the "ING Deposit"). ING granted Bank Exim a first priority pledge over the ING Deposit.

The terms and conditions of the Bank Exim SUFRNs provide for redemption of their aggregate nominal value upon the occurrence of several events including mandatory redemption if the Republic of Indonesia ceases to beneficially own at least 51% of the issued voting capital of Bank Mandiri.

If Bank Mandiri were required to redeem the Bank Exim SUFRNs prior to the interest payment date falling in July 2005 and made repayment in full then, subject to the prior discharge by PIL of its obligations under the Purchase Agreement, the Deferred Sale Agreement and other related agreements to STB Leasing Co., Ltd. and the investors (who hold a first priority interest in the Deposit), the Bank would become entitled to the Deposit pursuant to a Second Deposit Pledge Agreement dated July 24, 1990.

The accreted value of the Deposit and the ING Deposit is recognized by Bank Mandiri as an other asset (Note 16) on the basis that Bank Mandiri has been granted a second priority pledge in respect of the Deposit held on account of PIL and has been granted a first priority pledge in respect of the ING Deposit held on account of ING under the terms of a Collateral Agreement dated July 24, 1990 and a Supplemental Agreement to the Collateral Agreement dated September 24, 1998 (the "Collateral Agreement"), in respect of the Deposit held on account of PIL, and under the terms of a Deposit Pledge Agreement dated September 24, 1998 in respect of the ING Deposit held on account of ING, Bank Mandiri has an option to purchase the Bank Exim SUFRNs for a total consideration of US$3,000 (full amount), subject to the following: Bank Mandiri's option under the Collateral Agreement is subject to the prior discharge in full by PIL of its obligations to STB Leasing Co., Ltd. and to the investors under the Purchase Agreement, the Deferred Sale Agreement and other related agreements. Bank Mandiri's option under the Deposit Pledge Agreement is subject to (i) the prior receipt by ING of an amount equal to the principal amount of the Bank Exim SUFRNs held by ING together with all accrued interest thereon, and (ii) discharge in full by Bank Exim of all costs and expenses reasonably incurred by ING in its performance of its obligations under the Deferred Pledge Agreement. As there is no legal right of offset until this option to purchase is exercised, Bank Mandiri has recognized the accreted value of the Deposit and the ING Deposit as an other asset instead of offsetting the asset against the aggregate nominal value of the Bank Exim SUFRNs.

The asset recognized by Bank Mandiri for the accreted value of the Deposit and ING Deposit amounted to Rp950,937 and Rp975,000 as of December 31, 2002 and 2001, respectively (Note 16).

## 30. SUBORDINATED LOANS (Continued)

*Bapindo SUFRNs*

Under a Subscription Agreement dated December 18, 1990 and a Trust Deed dated December 21, 1990, Bapindo issued SUFRNs with an aggregate nominal value of US$125,000,000 (full amount) through its Cook Islands Branch to Mitra Sejati International Ltd. ("MSI"), a special purpose vehicle incorporated in the Cayman Islands, in exchange for cash of US$87,500,000 (full amount). In 2002, the accounting for the transaction was transferred from the Cook Islands Branch to the Cayman Islands Branch.

The aggregate nominal value of the Bapindo SUFRNs (US$125,000,000 (full amount)) and accrued interest thereon are recognized as liabilities at December 31, 2002 and 2001 as Bank Mandiri assumed all of Bapindo's assets and liabilities from the date of the merger (Note 3). The Bapindo SUFRNs are perpetual as they have no stated maturity date. Interest on the Bapindo SUFRNs is calculated based on their aggregate nominal value at the following rates:

- Through to the interest payment reference date ("IPRD") falling in December 1995 - 1.1% per annum above the 6 (six) month LIBOR interest rate ("LIBOR").
- From the IPRD falling in December 1995 through to the IPRD falling in December 2000 - 1.0% per annum above LIBOR.
- From the IPRD falling in December 2000 through to the IPRD falling in December 2005 - 5.2% per annum plus a percentage of LIBOR declining from 23% to 19%.
- From the IPRD falling in December 2005 at 0.0001% per annum.

While the Bapindo SUFRNs remain outstanding, interest is due and payable semi-annually in arrears at the end of each interest period in June and December.

To fund its purchase of the Bapindo SUFRNs, in December 1990 MSI entered into a Purchase Agreement with investors represented by Japan Leasing (Hong Kong) Ltd. (now represented by STB Leasing Co., Ltd.) under which MSI transferred its rights to certain property to investors in exchange for US$87,500,000 (full amount). Simultaneously, MSI entered into a Deferred Sale Agreement with the investors whereby MSI immediately repurchased the rights to that same property for US$87,500,000 (full amount) to be repaid by MSI in 30 semi-annual principal installments, together with accrued interest.

The scheduled interest payments to MSI from Bank Mandiri on the Bapindo SUFRNs is to enable MSI to pay its principal and interest obligations due under the Deferred Sale Agreement. The principal payments from MSI to the investors and amortized discount on the Bapindo SUFRNs are recognized by Bank Mandiri as other assets (Note 16) on the basis that, under the terms of a Note Repurchase Letter dated December 18, 1990, Bank Mandiri has an option to purchase the Bapindo SUFRNs at anytime after making all scheduled payments due to MSI in respect of the Bapindo SUFRNs through December 2005 for a total consideration of US$3,000 (full amount) because repayments of principal by MSI to the investors under the Deferred Sale Agreement should have totaled US$87,500,000 (in full amount). As there is no legal right of offset until this option to purchase is exercised, Bank Mandiri recognized the payments from MSI to investors as another asset instead of offsetting the asset against the aggregate nominal value of the Bapindo SUFRNs.

The terms and conditions of the Bapindo SUFRNs provide for redemption of their aggregate nominal value upon the occurrence of several events including mandatory redemption if the Republic of Indonesia ceases directly to own at least 100% of the capital of Bank Mandiri or any law is enacted which provides for the Republic of Indonesia to cease to beneficially own 100% of the capital of Bank Mandiri. Based on a Supplemental Trust Deed dated May 8, 2002, such terms and conditions relating to the Republic of Indonesia ownership of the capital of Bank Mandiri have been amended to become at least 51%.

(Expressed in millions of Rupiah, unless otherwise stated)

## 30. SUBORDINATED LOANS (Continued)

*Bapindo SUFRNs (Continued)*

If the Bapindo SUFRNs are redeemed before Bank Mandiri has the right to purchase the Bapindo SURFNs, in accordance with the Note Repurchase Letter, MSI will be required to call the aggregate nominal value of the Bapindo SUFRNs of US$125,000,000 (full amount) and accrued interest thereon. Should this occur, the asset recognized by Bank Mandiri for the principal payments from MSI to the investors and amortized discount on the Bapindo SUFRNs, that amounted to Rp897,238 and Rp982,086 as of December 31, 2002 and 2001, respectively, may not be recoverable because there are no terms in the agreements requiring either MSI or the investors to repay these amounts to Bank Mandiri (Note 16).

*Subordinated Notes (SNs)*

| Issuer | Terms of Subscription | 2002 Original Amount (in full amount) | 2002 Rupiah Equivalent |
|---|---|---|---|
| Bank Mandiri | August 2, 2002 – 2012, with call option on August 2, 2007 | US$125,000,000 | 1,118,750 |
| | | US$125,000,000 | 1,118,750 |
| Less: Unamortized discount | | (US$1,020,977) | (9,138) |
| Total | | US$123,979,023 | 1,109,612 |

For purposes of increasing the Bank's Tier II Capital, refinancing the Bank's maturing subordinated debt obligations and providing funds for new US Dollar loans, on August 2, 2002 the Bank issued US$125,000,000 (full amount), 10.625% Subordinated Notes Due 2012 (the "Notes") through its Cayman Islands Branch. The Notes have been issued at 99.148% of their principal amount and are due on August 2, 2012. The Notes bear interest at the rate of 10.625% per annum from and including August 2, 2007 but excluding August 3, 2007 except that in 2007, interest will accrue from and including February 2, 2007 to but excluding August 3, 2007. Unless the Notes are previously redeemed, the interest rate from and including August 3, 2007 to but excluding August 2, 2012 will be reset at the U.S. Treasury Rate plus 11.20% per annum Interest will be payable semi-annually in arrears, commencing six months after the issue date.

The Notes are traded on the Singapore Stock Exchange in a minimum board lot size of US$200,000 (full amount). The Notes are offered and sold outside the United States to persons that are not U.S. persons (as defined in Regulations S under the Securities Act) in compliance with Regulation S (the "Unrestricted Notes"). The Notes are initially offered and sold in the United States to qualified institutional buyers (as defined in the Trust Deed) and will originally be represented by a restricted global note certificate in registered form (the "Restricted Global Notes Certificate" and, together with the Unrestricted Global Note Certificate, the "Global Note Certificates" and, either of them, a "Global Note Certificate") which will be deposited with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, Société Anonyme, Luxembourg ("Clearstream, Luxembourg").

The issuance and classification of the SNs as Subordinated Loans has been approved by Bank Indonesia (BI), through its letter No. 4/88/DPwB2/PwB23 dated July 12, 2002.

(Expressed in millions of Rupiah, unless otherwise stated)

## 31. LOAN CAPITAL

This account consists of the following:

| | 2002 | 2001 |
|---|---|---|
| Rupiah: | | |
| Conversion of Liquidity Credit from Bank Indonesia ("KLBI") | 1,755,000 | 1,755,000 |
| Foreign currency: | | |
| Subordinated Undated Floating Rate Notes ("BDN SUFRNs") | 1,208,250 | 1,404,000 |
| | 2,963,250 | 3,159,000 |

The conversion of liquidity credit from Bank Indonesia represents the conversion of fund borrowings from Bank Indonesia to former Bapindo with 0% interest based on the Subordinated Loan Agreement No.28/549/UKU/PMK dated November 6, 1995 and letters from the Minister of Finance of the Republic of Indonesia No. S-618/MK.017/1995 dated October 26, 1995 and No. 28/547/UKU/PMK dated November 6, 1995. Based on Legislation ("Undang-undang") No. 23/1999 dated May 17, 1999 regarding Bank Indonesia (BI), BI is not allowed to provide loans to the Government; thus, requiring Bank Mandiri to pay back this subordinated loan on demand. Negotiation is ongoing with Bank Indonesia on the terms of repayment.

*BDN SUFRNs*

Under a Subscription Agreement dated November 26, 1990 and a Trust Deed dated November 29, 1990, BDN issued SUFRNs with an aggregate nominal value of US$135,000,000 (full amount) through its Cayman Islands Branch to Badaneg Ltd. ("Badaneg"), a special purpose vehicle incorporated in the Cayman Islands, in exchange for cash of US$97,200,000 (full amount).

The aggregate nominal value of the BDN SUFRNs is recognized as loan capital as approved by Bank Indonesia in its letter No.27/295/BPBI/AdBI dated November 7, 1994, and accrued interest thereon is recognized as a liability at December 31, 2002 and 2001 because Bank Mandiri assumed all of BDN's assets and liabilities from the date of the merger (Note 3). The BDN SUFRNs are perpetual as they have no stated maturity date.

## 31. LOAN CAPITAL (Continued)

*BDN SUFRNs (Continued)*

Interest on the BDN SUFRNs is calculated based on their aggregate nominal value at 1.1% per annum above the six-month LIBOR interest rate through November 30, 2005, and following this date interest is calculated based on their aggregate nominal value at 0.001% per annum. While the BDN SUFRNs remain outstanding, accrued interest is due and payable semi-annually in arrears at the end of each interest period in May and November.

To fund its purchase of the BDN SUFRNs, in November 1990 Badaneg entered into a Purchase Agreement and a Deferred Sale Agreement with investors represented by Japan Leasing (Hong Kong) Ltd. (now represented by STB Leasing Co., Ltd.) under which Badaneg sold and repurchased certain property on deferred payment terms, proceeds from which were used to fund the purchase of the BDN SUFRNs for US$97,200,000 (full amount) and the purchase of US$135,000,000 (full amount) of zero coupon bonds issued by IMI Bank (International) unconditionally and irrevocably guaranteed as to payment of interest and principal by Istituto Mobiliare Italiano (the “Zero Coupon Bonds”) in exchange for cash of US$37,800,000 (full amount). The Zero Coupon Bonds formed the collateral for the repurchase of the property under the Deferred Sale Agreement.

The Zero Coupon Bonds bear compound interest such that, after 15 years, the maturity value of the Zero Coupon Bonds would amount to US$135,000,000 (full amount) thereby enabling Badaneg to fulfill its obligations under the Deferred Sale Agreement.

The terms and conditions of the BDN SUFRNs provide for redemption of their aggregate nominal value upon the occurrence of several events including mandatory redemption if the Republic of Indonesia ceases directly to own at least 51% of the issued voting capital of Bank Mandiri.

If Bank Mandiri were required to redeem the BDN SUFRNs prior to the interest payment date falling in November 2005 and to make repayment in full then, pursuant to the terms of a Collateral Agreement dated November 26, 1990 between BDN, acting through its Cayman Islands Branch, Badaneg and STL Investment (Panama) S.A., Badaneg is, subject to the prior discharge by Badaneg of its obligations to STB Leasing Co., Ltd. and the investors under the Purchase Agreement, the Deferred Sale Agreement and other related agreements, obliged to transfer the Zero Coupon Bonds to the Bank for no consideration.

The accreted value of the Zero Coupon Bonds is recognized by Bank Mandiri as an other asset (Note 16) on the basis that Bank Mandiri has a right to the Zero Coupon Bonds and that under the terms of the Collateral Agreement, Bank Mandiri has an option, subject to the prior discharge by Badaneg of its obligations to STB Leasing Co., Ltd. and the investors under the Purchase Agreement, the Deferred Sale Agreement and other related agreements, to purchase the BDN SUFRNs for a total consideration of US$3,000 (full amount). As there is no legal right of offset until this option to purchase is exercised, Bank Mandiri has recognized the accreted value of the zero coupon bonds as an other asset instead of offsetting the asset against the aggregate nominal value of the BDN SUFRNs.

The asset recognized by Bank Mandiri for the accreted value of Zero Coupon Bonds amounted to Rp1,027,013 and Rp1,053,000 as of December 31 2002 and 2001, respectively (Note 16).

(Expressed in millions of Rupiah, unless otherwise stated)

## 32. MINORITY INTERESTS IN NET ASSETS OF CONSOLIDATED SUBSIDIARIES

This account represents minority interests in net assets of subsidiaries as follows:

| | 2002 | 2001 |
|---|---|---|
| Yayasan Dana Pensiun Bank Dagang Negara | 773 | 676 |
| Dana Pensiun Bank Bumi Daya | 2,723 | 2,192 |
| | 3,496 | 2,868 |

## 33. SHAREHOLDER'S EQUITY

| | 2002 | 2001 |
|---|---|---|
| Share capital | 4,251,000 | 4,251,000 |
| Additional paid-in capital | 173,550,319 | 174,962,319 |
| Differences arising from translation of foreign currency financial statements | 64,164 | 83,745 |
| Unrealized losses on securities and Government Bonds available for sale | (2,138,186) | (5,047,162) |
| Premises and equipment revaluation increment | 9,788 | 9,788 |
| Accumulated losses | (161,302,575) | (163,482,905) |
| | 14,434,510 | 10,776,785 |

*Authorized and Share Capital*

Based on notarial deed No. 10 of Sutjipto, S.H., dated October 2, 1998, the authorized capital of Bank Mandiri amounts to Rp16,000,000 with a par value of Rp1,000,000 (full amount) per share. The share capital, which is comprised of issued and fully paid-up capital amounting to Rp4,251,000 as of December 31, 2002 and 2001, is wholly-owned by the Government of the Republic of Indonesia.

The establishment of issued and paid-up capital amounting to Rp4,000,000 by the Republic of Indonesia at the date of establishment of Bank Mandiri was carried out as follows:

a. Cash payment through Bank Indonesia amounting to Rp1,600,004.

b. Placements in shares of stocks recorded as investments in shares of the Merged Banks amounting to Rp599,999 each or totaling Rp2,399,996, through the transfer of shares of the Republic of Indonesia in each of the Merged Banks to Bank Mandiri, as resolved during the respective Extraordinary General Meetings of the Merged Banks. Based on the agreement ("*inbreng*") notarized by deed No. 9 of Sutjipto, S.H., dated October 2, 1998, Bank Mandiri and the Republic of Indonesia, agreed to transfer those shares (*inbreng*) as payment for new shares to be issued by Bank Mandiri.

## 33. SHAREHOLDER'S EQUITY (Continued)

*Authorized and Share Capital (Continued)*

Based on the amendments to the Articles of Association of Bank Mandiri covered by notarial deed No. 98 of Sutjipto, S.H., dated July 24, 1999, the shareholder resolved to increase the paid-up capital (share capital) of Bank Mandiri from Rp4,000,000 to Rp4,251,000 to be entirely paid for by the Republic of Indonesia. The increase of Rp251,000 was effected through the conversion of additional paid-in capital to share capital and resulted from the excess of recapitalization bonds under the 1st Recapitalization Program per Government Regulation No. 52/1999. The increase in paid-up capital (share capital) had not been supported by an approval from the Ministry of Finance. The Ministry of State-Owned Enterprise as the Bank's shareholder, through its decision letter No. KEP-154/M-MBU/2002 dated October 29, 2002 has approved to return to the Government, the excess of recapitalization bonds amounting to Rp1,412,000 which includes part of the paid-up capital in the amount of Rp251,000. The Bank through its letter No, DIR.IPO/293/2002 dated November 14, 2002 has requested The Ministry of Finance to confirm the returning of the excess recap bonds. Currently, the Bank is awaiting a decision from the Ministry of finance.

Based on Government Regulation No. 60/1998 dated May 7, 1998, the Government injected funds amounting to Rp20,000,000 to Bank Exim in the form of Government equity participation. The funds were needed to cover the foreign exchange losses incurred by Bank Exim, through the conversion of liquidity credit from Bank Indonesia (KLBI) into the Government's equity participation. This was reflected as additional paid-in capital in Bank Exim's audited financial statements as of July 31, 1999 (before merger). In view of the merger, this additional paid-in capital was eliminated against the Bank's accumulated losses as of August 1, 1999 (effective date of the merger). The elimination of the additional paid-in capital against the accumulated losses as of August 1, 1999 raised a concern by the Government as the related interest and principal obligations (Government debentures to BI) continue to be paid by the Government. The Bank, through its letter No. DIR.IPO/115/2002 dated April 17, 2002, has requested the Ministry of State-Owned Enterprises, as the Bank's Shareholder, to assist the Bank in clarifying and obtaining a decision letter from the Ministry of Finance regarding the treatment of the Rp20,000,000 equity participation of the Government in Bank Exim. Currently, the Bank is awaiting a decision from the Ministry of Finance.

Prior to the merger, the Government had placements in the four ex-legacy banks in the form of Government equity participations totaling Rp3,461,513. This was primarily from the conversion to equity participations of cash obtained from the state budget, liquidity credits from Bank Indonesia (KLBI), two-step loans and dividends. The conversion was not covered by the issuance of a Government Regulation. The equity participation of the Government was reflected in the ex-legacy banks' audited financial statements as of July 31, 1999 (before merger) as additional paid-in capital. On August 1, 1999 (effective date of the merger), the additional paid-in capital was eliminated against the Bank's accumulated losses. The Government had raised a concern as to the elimination of the additional paid-in capital as the related interest and principal obligations (Government debentures to BI) continue to be paid by the Government. The Bank through its letter No. DIR.IPO/115/2002 dated April 17, 2002, has requested the Ministry of State-Owned Enterprises, as the Bank's Shareholder, to assist the Bank in obtaining a Decision Letter and/or a Government Regulation from the Ministry of Finance regarding the elimination issues.

## 33. SHAREHOLDER'S EQUITY (Continued)

*Authorized and Share Capital (Continued)*

The Ministry of State Owned Enterprise as the Bank's Shareholder, through its Decision Letter No.KEP-154/M-MBU/2002 dated October 29, 2002 has approved the increase in the Bank's paid-up capital amounting to Rp1,000,000, which will be taken from the Reserve. As of December 31, 2002 such increasing has not been implemented as the Bank is awaiting the issuance of Government Regulations.

The Ministry of Finance through its letter No. S-360/MK.02/2002 dated November 5, 2002 has requested the State Secretary to issue Government Regulations as follows:

a. Government regulation (1) - Government equity participation in legacy bank amounting to Rp3,461,513;
b. Government regulation (2) - increase of Bank Mandiri paid-up capital by Rp1,000,000;
c. Government regulation (3) - divestment of Bank Mandiri.

Currently, these Government Regulations are being processed by the State Secretary, except for Government Regulation (3) is on hold as it awaits for Parliament approval.

*Additional Paid-In Capital*

The additional paid-in capital represents additional capital arising from the Recapitalization Program (Note 3). Pursuant to Government Regulations No. 52 of 1999 and No. 97 of 1999, the Ministry of Finance is to issue a letter as a further instruction as to the Government's additional equity participation and its divestment policy, as well as the final amount of the Government's additional equity participation. Additionally, the Ministry of Finance is to implement a procedure and its rights on the Government's additional equity participation. Up to now the Ministry of Finance has not issued the letter, therefore the additional equity participation arising from the Recapitalization Program is still recorded in additional paid-in capital account.

Moreover, the Bank through its April 17, 2002 letter, has requested the Ministry of State-Owned Enterprises, as the Bank's Shareholder, to assist the Bank in obtaining a decision letter from the Ministry of Finance clarifying the status of the recapitalized amount which is recorded as additional paid-in capital, as to whether it is paid-up capital (share capital), additional paid-in capital or paid-in capital in excess of par value. Currently, the Bank is awaiting a decision from the Ministry of Finance.

Based on the results of a due diligence review conducted on behalf of the Government dated December 31, 1999 and Management Contract ("IMPA") dated April 8, 2000, it was determined that there was excess recapitalization amounting to Rp4,069,000. The Bank returned Rp2,657,000 of Government recapitalization bonds to the Government on July 7, 2000 pursuant to the Management Contract. The balance of Rp1,412,000 will be returned to the Government as approved by the Shareholder during its meeting on October 29, 2002 and the Ministry of State-owned Enterprise Decision Letter No. KEP-154/M-MBU/2002 dated October 29, 2002.

(Expressed in millions of Rupiah, unless otherwise stated)

## 33. SHAREHOLDER'S EQUITY (Continued)

*Premises and Equipment Revaluation Increment*

Premises and equipment revaluation increment of Rp9,788 as of December 31, 2002 and 2001 relates to the revaluation increment of premises and equipment of PT Usaha Gedung BDN and PT Bumi Daya Plaza, subsidiaries of Bank Mandiri. Premises and equipment of PT Usaha Gedung BDN, which were acquired prior to September 12, 1986 were revalued on January 1, 1987 based on Government Regulation No. 45 dated October 2, 1986.

The increment in value of land and buildings based on the appraisal conducted by PT Vigers Hagai Sejahtera as of December 31, 2002 and 2001 (Notes 15.d) is not recognized in the accounts of the Bank.

*Distribution of Net Profit*

Based on the resolution of the Shareholder during its general meeting held on June 14, 2002 and June 27, 2001, the shareholder approved the distribution of the 2001 and 2000 (prior to restatement arising from changes in accounting policies) net profit as follows:

| | 2001 | 2000 | Total |
|---|---|---|---|
| Dividends | 1,372,878 | 1,011,219 | 2,384,097 |
| Small industry and cooperative development fund ("PUKK") | 15,000 | 11,081 | 26,081 |
| Environmental development fund | 12,458 | - | 12,458 |
| Directors' bonus (tantiem) | 4,923 | - | 4,923 |
| Reserve: General reserve | 350,200 | 500,000 | 850,200 |
| Special reserve | 990,298 | 500,137 | 1,490,435 |
| Total reserve | 1,340,498 | 1,000,137 | 2,340,635 |
| | 2,745,757 | 2,022,437 | 4,768,194 |

The dividends and directors' bonus (tantiem) from 2001 net profit were paid to the Shareholder and directors and executive officers of the Bank on June 26, 2002 and July 17, 2002, respectively. The allocation for PUKK and environmental development fund was paid on July 18, 2002.

Based on the Ministry of Finance letter No. S-607/MK.6/2001 dated October 18, 2001, the dividends from 2000 net profit were paid on October 30, 2001 and November 29, 2001. The allocation for PUKK of Rp11,081 was paid on April 19, 2002.

The Ministry of State-Owned Enterprise through its letter No. KEP-167/M-MBU/2002 dated December 19, 2002, decided to establish additional reserves amounting to Rp600,000 from the net profit for the six-month period from January 1 to June 30, 2002.

(Expressed in millions of Rupiah, unless otherwise stated)

## 33. SHAREHOLDER'S EQUITY (Continued)

Below is the movement of reserves during 2001 and 2002 after considering the impact of restatement of 2000 financial statements related to the implementation of SFAS No. 46 (corporate income tax) which had reduced the net profit for the year ended 2000 (prior to the restatement) by Rp840,997, as follows:

| | Total Reserve |
|---|---|
| Reserves allocated from net profit for the year ended 2000 based on General Shareholder's Meeting dated June 27, 2001 | 1,000,137 |
| Adjustments related to the restatement of the 2000 consolidated financial statements | (840,997) |
| Reserves allocated from net profit for the year ended 2000 after restatement | 159,140 |
| Reserves allocated from net profit for the year ended 2001 based on General Shareholder's Meeting dated June 14, 2002 | 1,340,498 |
| Reserves allocated from net profit for the year ended 2000 and 2001 | 1,499,638 |
| Reserves allocated from net profit for the six-month period ended June 30, 2002 based on General Shareholder's Meeting dated December 19, 2002 | 600,000 |
| Total reserve | 2,099,638 |

## 34. INTEREST INCOME

Interest income was derived from the following:

| | 2002 | 2001 |
|---|---|---|
| Government Bonds | 21,434,822 | 23,137,103 |
| Loans | 7,170,245 | 5,786,670 |
| Securities | 1,840,468 | 866,030 |
| Placements with other banks | 878,706 | 1,208,008 |
| Others | 150,140 | 201,423 |
| Total interest income | 31,474,381 | 31,199,234 |
| Fees and commission on loan facilities | 404,287 | 296,996 |
| | 31,878,668 | 31,496,230 |

## 35. INTEREST EXPENSE

This account represents interest costs incurred on the following:

| | 2002 | 2001 |
|---|---|---|
| Time deposits | 19,040,803 | 17,607,477 |
| Savings deposits | 2,585,270 | 2,158,280 |
| Demand deposits | 1,880,216 | 2,142,645 |
| Fund borrowings | 801,776 | 1,508,046 |
| Subordinated loans | 458,394 | 443,905 |
| Securities issued | 116,615 | 315,127 |
| Loan capital | 40,650 | 94,717 |
| Others | 28,529 | 34,035 |
| | 24,952,253 | 24,304,232 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 36. OTHER FINANCING EXPENSES

Other financing expenses amounting to Rp64,326 and Rp82,776 for the years ended December 31, 2002 and 2001, respectively, comprised mainly of gifts and prizes for maintaining the Bank's depositors.

## 37. PROVISION/(REVERSAL OF ALLOWANCE) FOR POSSIBLE LOSSES ON EARNING ASSETS

This account consists of the following:

| | 2002 | 2001 |
|---|---|---|
| Provision/(reversal of allowance) for possible losses on: | | |
| Current accounts with other banks (Note 5e) | (2,274) | (14,936) |
| Placements with other banks (Note 6g) | (50,691) | 66,838 |
| Securities (Note 7i) | 6,438 | 83,723 |
| Trade documents and other facilities (Note 9d) | 6,170 | 323,322 |
| Securities purchased with agreements to resell (Note 10) | (3,051) | 3,051 |
| Derivative receivables (Note 11) | 3,577 | 48 |
| Loans (Note 12.B.j) | 4,674,192 | 6,041,703 |
| Acceptances receivable (Note 13d) | (52,400) | 227,890 |
| Investments in shares of stock (Note 14c) | 8,682 | (27,743) |
| | 4,590,643 | 6,703,896 |

## 38. GAIN/(LOSS) FROM INCREASE/(DECREASE) IN VALUE OF SECURITIES AND GOVERNMENT BONDS

The gain from the increase in value of securities and Government Bonds amounting to Rp1,530,413 for the year ended December 31, 2002 arose from the mark to market of the trading portfolio.

The loss from the decline in value of securities and Government Bonds amounting to Rp1,022,862 for the year ended December 31, 2001, arose from the mark to market of the trading portfolio.

## 39. GAIN FROM SALE OF SECURITIES AND GOVERNMENT BONDS

The gain from the sale of securities and Government Bonds amounted to Rp490,337 and Rp710,724 for the years ended December 31, 2002 and 2001, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 40. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2002 | 2001 |
|---|---|---|
| Depreciation and amortization of premises and equipment (Note 15) | 329,732 | 258,892 |
| Rent | 326,811 | 328,538 |
| Communications | 305,310 | 289,789 |
| Promotions | 267,496 | 169,309 |
| Repairs and maintenance | 176,494 | 151,879 |
| Electricity, water and gas | 83,452 | 53,565 |
| Professional fees * | 278,187 | 107,125 |
| Office supplies | 72,249 | 95,132 |
| Rental of office equipment | 39,837 | 80,097 |
| Transportation | 28,825 | 96,987 |
| Research and development | 4,747 | 2,328 |
| Others | 147,002 | 112,898 |
| | 2,060,142 | 1,746,539 |

* Professional fees include audit and tax services amounting to Rp10,472 and Rp5,687 for the years ended December 31, 2002 and 2001, respectively.

In 2002, the Bank expensed all the cost of preparing for the Initial Public Offering incurred up to December 31, 2002.

## 41. SALARIES AND EMPLOYEE BENEFITS

| | 2002 | 2001 |
|---|---|---|
| Salaries, wages and pension expenses (Note 42) | 904,883 | 797,498 |
| Holidays, leave, vacations and related entitlements | 288,505 | 157,127 |
| Employee benefits in kind | 97,825 | 81,829 |
| Training and development | 86,754 | 48,968 |
| Tax allowances | 5,186 | 69,484 |
| Employee service entitlements in accordance with the Decree of the Minister of Manpower No. Kep-150/Men/2000 (Note 42) | - | 239,780 |
| Bonus and others | 182,798 | 275,500 |
| | 1,565,951 | 1,670,186 |

In accordance with the Decree of the Minister of Manpower No. Kep-150/Men/2000 dated June 20, 2000, regarding the Settlement of Labor Dismissal and the Stipulation of Severance Pay, Gratuity and Compensation in Companies, Bank Mandiri has adopted an accounting policy to recognize a provision for employee service entitlements based on actuarial valuations. The liabilities recognized as of December 31, 2002 and 2001 amounting to Rp674,062 and Rp793,631, respectively, were based on actuarial valuation reports issued by PT Dayamandiri Dharma Konsilindo and PT Jasa Aktuaria Peniun dan Asuransi, respectively. The expense recognized in the statements of profit and loss amounted to RpNil and Rp239,780 for the years ended December 31, 2002 and 2001, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 41. SALARIES AND EMPLOYEE BENEFITS (Continued)

Total gross salaries, allowances and bonus of the Boards of Directors and Commissioners, and Executive Officers amounted to Rp57,372 and Rp39,727 for the years ended December 31, 2002 and 2001, respectively. Details for 2002 are as follows:

| | Number of Members/ Officers | Salary | Allowances | Bonus | Total |
|---|---|---|---|---|---|
| Board of Commissioners | 4 | 1,988 | 728 | 1,867 | 4,583 |
| Board of Directors | 3 | 4,491 | 1,639 | 4,047 | 10,177 |
| Audit Committee | 3 | 459 | 92 | 185 | 736 |
| EVP Coordinators | 5 | 6,686 | 1,478 | 3,991 | 12,155 |
| Group Heads and Assistants to the President Director | 31 | 18,928 | 2,922 | 7,871 | 29,721 |
| | 46 | 32,552 | 6,859 | 17,961 | 57,372 |

## 42. PENSION PLAN AND EMPLOYEE SERVICE ENTITLEMENTS

Bank Mandiri has five pension plans in the form of Employer Pension Plans as follows:

a. One defined contribution pension plan or the Bank Mandiri Pension Plan, Dana Pensiun Pemberi Kerja-Program Pensiun Iuran Pasti (“DPPK-PPIP”) established on August 1, 1999. The members are active employees of Bank Mandiri. The Bank Mandiri Pension Plan Regulation was legalized based on the decision letter of the Minister of Finance of the Republic of Indonesia No. KEP/300/KM.017/1999 dated July 14, 1999 and was included in the Addendum to the State Gazette of the Republic of Indonesia No. 62 dated August 3, 1999 and Bank Mandiri’s Directors’ Resolution No. 004/KEP.DIR/1999 dated April 26, 1999.

   Bank Mandiri and the employees contribute 10% and 5% of the Base Pension Plan Employee Income, respectively.

   The President Director and the members of the Supervisory Board of Dana Pensiun Bank Mandiri (“DPBM”) are active employees of Bank Mandiri; therefore, in substance Bank Mandiri has control over DPBM. As a consequence, transactions between DPBM and Bank Mandiri are considered related party transactions. DPBM invests some of its financial resources in Bank Mandiri time deposits, whose balancess as of December 31, 2002 and 2001 are Rp150,000 and Rp139,650, respectively. The interest rates on these time deposits are similar to those of arm’s-length transactions.

   The Bank paid pension contributions totaling Rp63,294 and Rp55,127 for the years ended December 31, 2002 and 2001, respectively.

b. Four employer defined benefit pension plans, Dana Pensiun Pemberi Kerja-Program Pensiun Manfaat Pasti (“DPPK-PPMP”) are derived from the respective pension plans of the Merged Banks, namely Dana Pensiun Bank Mandiri Satu or DPBM I (BBD), DPBM II (BDN), DPBM III (Bank Exim) and DPBM IV (Bapindo). The regulations of the respective pension plans were legalized by the Minister of Finance of the Republic of Indonesia in decision letters No. KEP-394/KM.017/1999, No. KEP-395/KM.017/1999, No. KEP-396/KM.017/1999 and No. KEP-397/KM.017/1999 dated July 14, 1999. The assets of the respective pension plans were derived from the pension plan assets of the Merged Banks. The working period and the basic salary used as the basis for the computation of pension benefits represents the working period of employees in the pension plans until July 31, 1999.

(Expressed in millions of Rupiah, unless otherwise stated)

## 42. PENSION PLAN AND EMPLOYEE SERVICE ENTITLEMENTS (Continued)

As of December 31, 2002, the calculation of net asset value and pension liabilities is based on the actuarial report of PT Jasa Aktuaria Pensiun dan Asuransi. In its calculation, the actuary used the following assumptions:

| | DPBM I | DPBM II | DPBM III | DPBM IV |
|---|---|---|---|---|
| Actuarial date | December 31, 2002 | December 31, 2002 | December 31, 2002 | December 31, 2002 |
| Frequency of actuarial valuation | Annually | Annually | Annually | Annually |
| Interest rate | 9% per annum | 9% per annum | 9% per annum | 9% per annum |
| Expected rate of return on plan assets | 9% | 9% | 9% | 9% |
| Expected rates of salary increase | Nil | Nil | Nil | Nil |
| Salary and working period used | As of July 31, 1999 | As of July 31, 1999 | As of July 31, 1999 | As of July 31, 1999 |
| Mortality rate table | CSO-1958 Modified | CSO-1958 Modified | CSO-1958 Modified | CSO-1958 Modified |
| Ill-health retirement rate | 0.3% of mortality rate | 0.3% of mortality rate | 0.3% of mortality rate | 0.3% of mortality rate |
| Actuarial method | Accrued benefit method | Accrued benefit method | Accrued benefit method | Accrued benefit method |
| Normal pension age | 56/52/48 years depending on the strata | 56 years for all strata | 56 years for all strata | 56 years for all strata |
| Maximum Defined Benefit amount | 80% of latest gross pension salary (PhDP) | 80% of latest gross pension salary (PhDP) | 60% of latest gross pension salary (PhDP) | 60% of gross pension salary (PhDP) |

Based on the audited financial statements of the respective pension plans (DPBM), the pension liabilities and net assets value as of December 31, 2002 are as follows:

| | DPBM I | DPBM II | DPBM III | DPBM IV |
|---|---|---|---|---|
| Pension liabilities | 832,226 | 848,414 | 517,684 | 152,742 |
| Net assets value | 1,135,773 | 1,131,489 | 597,472 | 366,840 |
| Surplus | 303,547 | 283,075 | 79,788 | 214,098 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 42. PENSION PLAN AND EMPLOYEE SERVICE ENTITLEMENTS (Continued)

As of December 31, 2001, the calculation of net asset value and pension liabilities is based on the actuarial report of PT Jasa Aktuaria Pensiun dan Asuransi. Based on the audited financial statements of the respective pension plans (DPBM) as of December 31, 2001, the pension liabilities and net assets value as of December 31, 2001 are as follows:

| | DPBM I | DPBM II | DPBM III | DPBM IV |
|---|---|---|---|---|
| Pension liabilities | 863,722 | 853,009 | 487,678 | 154,408 |
| Net assets value | 1,054,947 | 1,036,978 | 550,466 | 318,241 |
| Surplus | 191,225 | 183,969 | 62,788 | 163,833 |

One defined contribution pension program (Program Pensiun Iuran Pasti) is for permanent employees of PT Bank Syariah Mandiri ("BSM"), a subsidiary. The members are employees under the age of 56 years. The program, which commenced in August 2000, is managed by Principal Indonesia Financial Institution Pension Fund (*"Dana Pensiun Lembaga Keuangan Principal Indonesia",* abbreviated as *DPLK-PI*). The employees' pension contribution is 5%, whilst the employer contributes 10% of the monthly employees' Gross Pension Salary (PhDP). The total cash contributions received by DPLK-PI amounted to Rp870 and Rp1,368 as of December 31, 2002 and 2001, respectively.

*Decree of the Minister of Manpower No. Kep-150/Men/2000*

As of December 31, 2002, the Bank has engaged an actuarial company, PT Dayamandiri Dharmakonsilindo, to calculate its liability for the provision of employee service entitlements. The assumptions used by the actuary were as follows:

a. The calculation is based on the Decree of the Minister of Manpower No. Kep-150/Men/2000 dated June 20, 2000 regarding "The Settlement of Labor Dismissal and the Stipulation of Severance Pay, Gratuity and Compensation in Companies".
b. Actuarial date is December 31, 2002.
c. Actuarial method is projected unit credit method.
d. Employee age is calculated as of December 31, 2002.
e. Employee working period is calculated from the employment date up to the actuarial date.
f. Normal pension age is 56 years.
g. Interest rate is 11% per annum.

Based on the actuarial report, Bank Mandiri recognized a provision amounting to Rp674,062 as of December 31, 2002.

The calculation of the provisions for employee service entitlements as of December 31, 2001 is based on the actuarial report of PT Jasa Aktuaria Pensiun dan Asuransi. In its calculation, the actuary used generally similar assumptions of the previous actuary, except that the interest rate for 2001 was assumed at 12% per annum. Based on the actuarial report, Bank Mandiri recognized a provision amounting to Rp793,631 as of December 31, 2001.

(Expressed in millions of Rupiah, unless otherwise stated)

## 43. OTHER OPERATING INCOME - OTHERS

| | 2002 | 2001 |
|---|---|---|
| Accretion in the realizable value of the security and effective reduction of principal related to SUFRNs (Notes 16, 30 and 31) | 281,691 | 327,313 |
| Administration fee | 45,075 | 44,492 |
| Others | 481,477 | 348,604 |
| | 808,243 | 720,409 |

## 44. OTHER OPERATING EXPENSES - OTHERS

| | 2002 | 2001 |
|---|---|---|
| Insurance premiums on customer guarantees | 632,853 | 515,461 |
| Provision for legal expenses | 519,944 | 8,709 |
| Others | 181,366 | 218,661 |
| | 1,334,163 | 742,831 |

## 45. NON-OPERATING INCOME/(EXPENSES) - NET

| | 2002 | 2001 |
|---|---|---|
| Reversal of over-provision for merger costs, investments and employee benefits | 1,263,605 | 1,942,404 |
| Gain/(loss) on sale of premises and equipment | 929 | 1,282 |
| Penalties | (52,893) | (97,733) |
| Others - net | 25,908 | 359,035 |
| | 1,237,549 | 2,204,988 |

Reversals of the provision related to merger costs were made in 2002 and 2001 as a result of Bank Mandiri's periodic evaluation of the estimated remaining costs related to the merger. There is no outstanding provision for merger cost as of December 31, 2002.

(Expressed in millions of Rupiah, unless otherwise stated)

## 46. COMMITMENTS AND CONTINGENCIES

| | 2002 | 2001 |
|---|---|---|
| **COMMITMENTS** | | |
| Commitment Receivables: | | |
| Unused fund borrowing facilities | - | 834 |
| Unrealized spot foreign currencies bought (Note 47) | 456,404 | 296,971 |
| Commitment receivables arising from usance letters of credit paid at sight ("UPAS") transactions | - | 1,513,162 |
| Others | 40,483 | 46,152 |
| Total Commitment Receivables | 496,887 | 1,857,119 |
| Commitment Payables: | | |
| Unused loan facilities granted | 10,403,180 | 6,562,550 |
| Outstanding irrevocable letters of credit (Note 27.a) | 6,371,228 | 5,544,072 |
| Unrealized spot foreign currencies sold (Note 47) | 524,044 | 608,711 |
| Commitment payable arising from UPAS transactions (Note 27.a) | - | 2,723,719 |
| Others | 43,119 | 94,954 |
| Total Commitment Payables | 17,341,571 | 15,534,006 |
| Commitment Payables - Net | (16,844,684) | (13,676,887) |
| **CONTINGENCIES** | | |
| Contingent Receivables: | | |
| Guarantees received from other banks (Note 48) | 1,299,216 | 1,262,660 |
| Interest receivables on non-performing assets | 2,596,205 | 3,647,261 |
| Others | 13,192 | 153,090 |
| Total Contingent Receivables | 3,908,613 | 5,063,011 |
| Contingent Payables: | | |
| Guarantees issued in the form of: | | |
| Bank guarantees issued (Notes 27.a and 48) | 4,886,416 | 4,596,737 |
| Standby letters of credit (Notes 27.a and 48) | 3,235,189 | 3,810,309 |
| Others (Note 27.a) | - | 187,775 |
| Total Contingent Payables | 8,121,605 | 8,594,821 |
| Contingent Payables - Net | (4,212,992) | (3,531,810) |
| **COMMITMENTS AND CONTINGENCIES - NET** | (21,057,676) | (17,208,697) |

(Expressed in millions of Rupiah, unless otherwise stated)

## 46. COMMITMENTS AND CONTINGENCIES (Continued)

In 1996, the Bank (BDN and Bank Exim) and other syndicated banks entered into a syndicated loan agreement with PT Semen Bosowa Maros ("SBM") to finance the construction of a cement factory. The loan draw down was executed through usance letters of credit paid at sight ("UPAS L/C") which were opened and paid by PT Bank Negara Indonesia'46 ("BNI") Singapore Branch. On October 12, 1997, Bank Mandiri ("BDN"), as syndicated agent, issued a "Debit Authorization" authorizing BNI'46 Singapore to claim irrevocably and unconditionally the payment as the UPAS L/Cs mature.

Up to August 28, 2002 and as of December 31, 2001, the balance of UPAS L/Cs (principal and interest) opened and paid by BNI Singapore amounted to US$271,394,176 (full amount) and US$261,896,075 (full amount), or equivalent to Rp2,456,118 and Rp2,723,719, respectively, of which US$68,574,959 (full amount) was due as of June 30, 2002. During the year, the Bank has paid all the amount of the UPAS L/Cs issued by BNI Singapore, which included interest up to August 28, 2002 of US$75,821,067 (full amount). Effective August 28, 2002, the loan to SBM was restructured. The restructured loan to SBM consists of the total credit limit as stated in Loan Agreement No. PK 44 of Rp526,275 (with an exchange rate of Rp2,339 per US$1) plus 63% of the total foreign currency loss derived from the Agreement's rate against the payment rate of Rp1,929,843. 37% of the foreign currency loss or equivalent to Rp715,584 was agreed to be borne by Bank Mandiri and Bank BNI amounting to Rp447,240 and Rp268,344, respectively. The portions of each of the other syndicated banks upon restructuring of the loan are based on the portions stated on the original loan agreement. The restructured loan portion of Bank Nusa and Bank Tugu of Rp23,390 and Rp11,695, respectively, were taken over by Bank Mandiri and Bank BNI with portions of 62.5% and 37.5%, respectively.

After the loan restructuring, the Bank's loan to SBM consists of the original credit limit of BDN and Bank Exim of Rp156,713 and Rp77,187, respectively; 62.5% of the SBM's portion against the foreign exchange loss and 62% of the Bank Nusa and Bank Tugu portions. In addition, the Bank also recorded a loss on foreign exchange differences of Rp447,240.

## 47. FOREIGN CURRENCY TRANSACTIONS

Effective January 1, 2001, forward and cross currency swap transactions are presented as derivatives receivables (Note 11).

Details of outstanding spot foreign currency bought and sold transactions as of December 31, 2002 are as follows:

| | Spot-Bought | | Spot-Sold | |
|---|---|---|---|---|
| Original Currency | Foreign Currency (full amount) | Rupiah Equivalent | Foreign Currency (full amount) | Rupiah Equivalent |
| United States Dollars | 49,438,329 | 442,473 | 58,195,949 | 520,854 |
| Other | - | 13,931 | | 3,190 |
| | | 456,404 | | 524,044 |

Details of outstanding spot foreign currency bought and sold transactions as of December 31, 2001 are as follows:

| | Spot-Bought | | Spot-Sold | |
|---|---|---|---|---|
| Original Currency | Foreign Currency (full amount) | Rupiah Equivalent | Foreign Currency (full amount) | Rupiah Equivalent |
| United States Dollars | 21,652,303 | 225,184 | 55,297,449 | 575,093 |
| Other | | 71,787 | | 33,618 |
| | | 296,971 | | 608,711 |

(Expressed in millions of Rupiah, unless otherwise stated)

## 47. FOREIGN CURRENCY TRANSACTIONS (Continued)

*Interest Rate Swap Option*

BDN entered into an interest rate swap option agreement with Merrill Lynch Capital Services Inc. on October 31, 1995 which generally involves the exchange of floating rate interest payment obligations without exchange of the underlying principal amounts. The agreement matures on November 11, 2002, subject to adjustment in accordance with the Modified Following Business Day Convention. There had been no actual exchange of cash flows between the counter-parties during the term of the contract, however, Merrill Lynch had the option of receiving fixed rate interest payments from Bank Mandiri. The notional principal amount, which is used to express the volume of the transaction, amounts to US$180,000,000 (full amount). The transaction relates to the FRNs issued by BDN amounting to US$180,000,000 (full amount) (Note 25).

The contract was terminated upon mutual agreement between Merrill Lynch and Bank Mandiri on March 9, 2001. Realized losses amounting to Rp23,868 were incurred by Bank Mandiri as a result of the termination of the swap option agreement on March 9, 2001.

*Cross Currency Swap*

BDN entered into a cross currency swap agreement with Merrill Lynch Capital Services Inc. on June 2, 1997 which provides for the exchange of US$4,936,240 (full amount) with Rp12,000 on April 29, 2001, the maturity date of the agreement. The contract was terminated upon mutual agreement between Merrill Lynch and Bank Mandiri on March 9, 2001. Realized gains amounting to Rp40,575 were earned by Bank Mandiri as a result of the termination of the cross currency swap agreement. The transaction underlying this contract relates to the purchase of Medium Term Notes of PT Semen Gresik.

## 48. BANK GUARANTEES RECEIVED AND ISSUED AND STANDBY LETTERS OF CREDIT

*Bank Guarantees Received*

Bank guarantees received from other banks amounting to Rp1,299,216 and Rp1,262,660 as of December 31, 2002 and 2001, respectively, are obtained from foreign banks to serve as collateral for loans, letters of credit or counter guarantees issued by Bank Mandiri.

*Bank Guarantees Issued*

Bank guarantees issued consist of the following:

| | 2002 | 2001 |
|---|---|---|
| Issued on behalf of: | | |
| PT Dirgantara Indonesia | 209,717 | 103,124 |
| PT Perusahaan Listrik Negara (Persero) | 178,460 | 207,372 |
| PT Pembangunan Perumahan (Persero) | 174,719 | 68,724 |
| PT Pelni | 141,768 | 164,736 |
| PT Adhi Karya | 129,840 | 143,057 |
| PT Wijaya Karya | 128,497 | 103,450 |
| PT Pelindo I | 86,550 | 100,573 |
| PT Gunanusa Utama Fabricator | 64,960 | 44,953 |
| PT Brantas Abipraya | 58,884 | 55,442 |
| PT Tripatra Engineers | 20,577 | - |
| PT Telkomsel (Persero) | 15,012 | 14,306 |
| Others (below Rp44,000) | 3,677,432 | 3,591,000 |
| | 4,886,416 | 4,596,737 |

## 48. BANK GUARANTEES RECEIVED AND ISSUED AND STANDBY LETTERS OF CREDIT (Continued)

*Bank Guarantees Issued (Continued)*

Bank Mandiri has not issued any bank guarantees to related parties in 2002 and 2001.

The bank guarantees issued on behalf of PT Dirgantara Indonesia (DI) mostly represent Advance Payment Bank Guarantees and Performance Bonds. The bank guarantees were issued to guarantee the advances paid by the South Korea Ministry of Defense of US$7,630,000 for the purchase of two aeroplanes (VIP and VVIP Aircraft), and advances paid by the Pakistan Air Force (PAF) of US$9,912,860 (full amount) for the purchase of four CN325 aeroplanes. The Performance Bond Issued by the Bank on behalf of DI amounted to US$545,000 (full amount). The two aeroplanes VIP Conversion Aircraft No. 7 and VVIP Conversion Aircraft No. 8 were delivered on December 26, 2002. The related guarantees in the form of Perfomance Bonds continue to be valid until 365 days after the date of shipment, and 180 days after the shipment for the Advance Payment Guarantee.

The bank guarantees issued on behalf of PT Perusahaan Listrik Negara ("PLN") (Persero) were to facilitate risk-sharing agreements with PT Bank BNI (Persero) for PT Perusahaan Listrik Negara ("PLN") (Persero) project, for construction of buildings and harbours, for the manufacturing of chemicals, and others. The bank guarantees are given for periods ranging from 3 (three) months to 3 (three) years.

The bank guarantees issued on behalf of PT Pembangunan Perumahan (Persero) represent various types of bank guarantees such as bid guarantees, performance guarantees, advance payment guarantees, etc., for various construction projects. The construction projects were from various parties both from private and government sectors. The projects include building construction, road construction, bridge construction, etc.

On March 6, 2001, the Bank issued a Counter Guarantee on behalf of PT. Pelayaran Nasional Indonesia ("PELNI") amounting to US$15,840,000 (full amount) to Den Norske Bank - Bergen, Norway. The Bank guarantee was issued to counter the bank guarantee issued by Den Norske Bank for the beneficiary Debis Financial Services. The bank guarantee was to guarantee the payment for the ship leased by PELNI. The bank guarantee issued by Den Norske Bank is collateralized by a placement of PT Bank Mandiri in Den Norske Bank amounting to Rp141,768 (Note 6.f)

The bank guarantee issued on behalf of PT Adhi Karya represent Bid Bond Guarantees, Performance Bond and Advance Payment Guarantees to support various construction projects. Most of the projects were obtained from the Government. The Projects include road construction, building construction and bridge construction.

The bank guarantees issued on behalf of PT Wijaya Karya represent Bid Bond Guarantees, Performance Bond and Advance Payment Guarantees to support the construction projects won by that company. Most of the projects were obtained by the company from the Government.

A counter guarantee amounting to US$285,895 (full amount) or equivalent to Rp2,559 as of December 31, 2002 was issued to counter a bank guarantee issued by another bank. The bank guarantee issued by the other bank is collateralized by the balance of Bank Mandiri current account for the amount of US$286,914 (full amount) or equivalent to Rp2,568 and Rp2,960 as of December 31, 2002 and 2001, respectively (Note 5.f).

(Expressed in millions of Rupiah, unless otherwise stated)

## 48. BANK GUARANTEES RECEIVED AND ISSUED AND STANDBY LETTERS OF CREDIT (Continued)

*Standby Letters of Credit ("SBLC")*

| | 2002 | 2001 |
|---|---|---|
| PT Perusahaan Listrik Negara (Persero) | 1,209,170 | 1,405,069 |
| PT Perusahaan Gas Negara | 901,637 | 706,351 |
| PT Garuda Indonesia | 895,000 | 1,040,000 |
| PT Kaltim Methanol | 150,450 | 166,296 |
| PT Citra Jimbaran Indah Hotel | 30,000 | 30,000 |
| PT Bisma Narendra | 27,465 | 37,234 |
| Pertamina | - | 411,179 |
| Others | 21,467 | 14,180 |
| | 3,235,189 | 3,810,309 |

Based on the Risk Sharing Agreement No. 11 dated February 16, 1993 that was legalized by Mr. Soedarno S.H., notary in Jakarta, Bank Mandiri, together with PT BNI (Persero) and PT BRI (Persero) agreed to issue Standby Letters of Credit on behalf of PT Perusahaan Listrik Negara (Persero) for 20 years starting April 1, 1993 until March 31, 2013. The maximum SBLC facility amounts to US$300,943,500 (full amount), of which 60.476% represents Bank Mandiri's portion. The amount utilized as of December 31, 2002 and 2001 amounted to US$223,399,000 (full amount) and US$223,399,000 (full amount), respectively, of which Bank Mandiri's portion amounts to US$135,102,815 (full amount) and US$135,102,815 (full amount), respectively.

The Bank issued an Irrevocable Transferable Letter of Credit on behalf of "Perusahaan Gas Negara" ("PGN") for a maximum amount of US$91,051,582 (full amount) to support PGNs obligation under the Sales and Purchase Agreement between Pertamina and PGN for the gas produced by PGN at Muara Karang and Surabaya. As of December 31, 2002 the total limit has been utilized by the issuance of two SBLCs amounting to US$48,937,500 and US$42,114,082 (full amount). In 2002 the Bank also issued an Irrevocable Standby Letters of Credit of behalf of PGN amounting to US$9,400,000 and US$290,000 (full amount) to support the payment under the Sales and Purchase Agreement between PGN and Daewoo International Corporation.

Based on the Issuance Agreement of Standby Letters of Credit ("SBLC") dated September 14, 2001 which was legalized by Imas Fatimah S.H., notary in Jakarta, Bank Mandiri agreed to issue a SBLC of US$100,000,000 (full amount) on behalf of PT Garuda Indonesia (Persero) for 3 (three) years commencing November 2, 2001 through to November 2, 2004 (with annual extensions). The issuance of the SBLC is in connection with the agreed loan restructuring schemes between Bank Mandiri and PT Garuda Indonesia (Persero) on September 14, 2001. The restructuring agreement also provides for the conversion of loans equivalent to US$103,000,000 (full amount) into 5-year Mandatory Convertible Bonds ("MCBs") (Note 12.B.g). The issuance of the SBLC and conversion of loans into MCBs was approved and guaranteed by the Committee on Financial Sector Policy (KKSK) through Decision Letter No. Kep.02/K.KKSK/11/2000 dated November 3, 2000 and the Minister of Finance through Decision Letter No. SR-653/MK.05/2001 dated July 20, 2001.

## 49. RISK MANAGEMENT

The Bank is exposed to specific risks in connection with the deposit-taking and lending businesses, the management of the investment portfolio, and the environment within which the Bank operates. The Bank's goal in risk management is to ensure that the Bank understands, measures and monitors the various risks that arise, and that the Bank's organization adheres, as far as reasonably and practically possible, to the policies and procedures which are established to address these risks. The Bank has only recently implemented new risk management procedures and produced its risk management manual. The Bank is also in the process of improving the policies and procedures to meet international best practices.

The Bank is primarily exposed to credit risk, market risk (including liquidity risk, interest rate risk, trading risk, foreign exchange risk and derivative instrument risk), and operational and legal risks. Historically, the Bank focused on credit risk through the Risk Management Committee, while the management of market risk was undertaken by the Assets and Liabilities Committee, the Treasury and Global Markets Division and the Market Operations and Legal Risk Division. However, the Bank instituted a major internal reorganization to establish a centralized and independent risk management structure, which is able to focus on strengthening the internal risk management policies and procedures.

Accordingly, on August 1, 2001 the Bank established a central Risk Management Directorate to identify, assess, monitor and manage all principal risks in accordance with defined policies and procedures. The Risk Management Directorate is divided into a number of groups relating to credit risk, market risk, portfolio and operating risk and credit recovery. This Directorate is managed by a director of the Board in charge of risk management, and supports the Risk and Capital Committee.

The Risk and Capital Committee reports directly to the Board of Directors and the Board of Commissioners. The committee is comprised of members of the Board of Directors and group heads of various business units within the Bank, including the Risk Management Directorate, and is chaired by the director in charge of risk management. The Risk and Capital Committee, together with the Risk Management Directorate, is responsible for establishing bank-wide risk management policies, reviewing internal limits, establishing the 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 has engaged in the past, and continue to engage, the services of international consultants to assist in this process.

## 49. RISK MANAGEMENT (Continued)

*Credit Risk*

The Bank has written credit policies and guidelines which specify the procedures for credit analysis, credit approval, monitoring and supervision, and credit restructuring. Through the credit policies the Bank attempts to maintain the asset quality. The policies involve credit analysis and periodic review of credit status, portfolio diversification, and sufficient collateral and internal controls.

No credit decision can be made unless it is approved by a minimum of two persons: a duly authorized officer within the relevant business unit, whether at branch, regional or headquarters level; and a duly authorized officer of one of the Credit Approval Groups, depending on the size and type of the proposed credit product.

Since the most credit risk in its loan portfolio is taken during the loan origination and still exists until the loan closing, the Bank realizes the importance of monitoring and supervision. All loans are monitored on a regular basis by the responsible business unit. Consumer and commercial loans are monitored by the relevant branch and regional offices, depending on the credit approval level of the office, while corporate loans and Government-related loans with gross annual sales above Rp300,000 are monitored by the head office.

The Bank pursues diversification in the credit portfolio among a variety of industry or economic sectors, loan types and debtors to minimize credit risk. Industry limits are based on the Bank's strategic plan, target sectors, current economic conditions, government policy, funding sources and growth projections. Exceptions to the certain industry or borrower's exposure limits are reported to the Board of Directors and an action plan is devised to reduce the concentration.

Bank Mandiri's credit policy also satisfactorily establishes the authority standards and framework for managing, operating, monitoring and administering the loan portfolio. The policy is reviewed and approved by the Board of Directors on an annual basis, and it is amended as needed to incorporate changes in the Bank's policy and new banking regulations.

In order to be Basel compliant, the Bank is currently developing an initial model to measure customer risk. For corporate and commercial loans, the Bank has developed a customer rating and consumer scorecard models for consumer loan products. The customer rating model incorporates customer financial variables, payment history variables and industry rating variables. In addition, the Bank is developing a method to calculate transaction loss based on customer's probability of default (PD), loss given default (LGD) and its facility for corporate and commercial borrowers. The scorecard model incorporates demographic data, customer-bank relationship data and customer characteristics data. In developing the customer rating and consumer scorecard models, the Bank has engaged a well-known international consulting firm.

## 49. RISK MANAGEMENT (Continued)

*Market Risk*

Market risk is the risk of loss to future earnings, to fair values, or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. The exposure to market risk is a function of the asset and liability management activities, the trading activities for own account and for the customers, and the role as a financial intermediary in customer-related transactions. The objective of market risk management is to avoid excessive exposure from the open positions that potentially impact earnings and equity, and to manage the volatility inherent in financial instruments.

The asset and liability management process begins with an assessment of current economic parameters affecting the Bank, which are primarily inflation, money supply, SBI rates, the US Dollar-Rupiah exchange rate and other macroeconomic factors. Liquidity, foreign currency and interest rate risks are reported on a monthly basis to the Risk and Capital Committee which then decides on pricing strategy for deposits and loans after taking into account current circumstances and competition. Market risk mainly comprises liquidity risk, interest rate risk, trading risk, foreign exchange risk, and derivative instrument risk.

a. *Liquidity Risk*

Liquidity risk arises in the funding of lending activities, the repayment of deposits, and in the management of working capital needs. It includes both the risk of unexpected increases in the cost of funding the asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner at a reasonable price. The goal of liquidity management is for the Bank to be able, even under adverse conditions, to meet all the contractual and regulatory financial obligations.

The Bank places an emphasis on maintaining adequate liquidity to meet commitments to the customers and counterparties, both in terms of loan demand and repayment of deposits and in terms of satisfying operational liquidity requirements. The function of managing these liquidity requirements is carried out by the Treasury Group.

The Bank has an internal policy that 10% of its assets should be liquid assets.

b. *Interest Rate Risk*

The principal interest rate sensitive liabilities are deposits and the principal interest rate sensitive assets are the Government recapitalization bonds and loans. As mentioned above, the Bank holds Government recapitalization bonds amounting to Rp148,845,927 and out of that amount, Rp45,797,134 bear fixed interest rates. Therefore, the Bank is liable to face significant interest rate risks from the fixed rate recapitalization bonds.

The Risk and Capital Committee monitors interest rate movements and makes adjustments to deposit and loan rates to account for interest rate movements.

## 49. RISK MANAGEMENT (Continued)

*Market Risk (Continued)*

*b. Interest Rate Risk (Continued)*

The Bank seeks to maintain interest rates paid on deposits at or below the maximum rate set for which the Government Guarantee Program is applicable. This Government Guarantee Program rate is announced monthly by Bank Indonesia and is the maximum rate that may be paid on deposits guaranteed by Bank Indonesia under the Government Guarantee Program. Otherwise, the rates the Bank offers generally vary according to market and competitive conditions, the maturity, size and currency of the deposit.

The Bank determines interest rates for the lending products using a base lending rate plus a risk premium. The base lending rate is reviewed at least monthly by the Risk and Capital Committee. The base lending rate consists of the cost of funds (including reserve requirements and fees for the Government Guarantee Program) and overhead costs. The risk premium applied to a particular loan is dependent on a number of factors including the creditworthiness of the borrower, the collateral provided to secure the loan and the proposed use of the loan.

As the interest rates on the Government recapitalization bonds, which currently comprise the majority of the assets, are beyond its control, the Bank is limited in its ability to adjust weighted average interest rates on its assets. In order to gain more control over the return rates on assets, the Bank is seeking to diversify its fixed rate Government recapitalization bonds portfolio to other higher yielding assets.

The primary means of measuring the exposure to fluctuations in interest rates is gap analysis, which provides a static view of the maturity and re-pricing characteristics of balance sheet positions. An interest rate gap report is prepared by scheduling all assets and liabilities according to stated or anticipated re-pricing dates, or maturity dates. To the extent that there is a difference in the amount of assets and liabilities maturing or being re-priced at a particular date, the Bank is exposed to the risk that the margins on new or re-priced assets and liabilities may change.

Beside the static gap analyis, the Bank also prepares dynamic gap analysis which takes into account various workplans that could influence future balance sheet position. By considering repricing gap position (the net total assets and liabilities which are re-priced on certain dates) and predicting interest rate fluctuations, the Bank may estimate the effects of the future changes in net interest income.

*c. Trading Risk*

In monitoring the Treasury trading activities, the Bank produces daily, weekly and monthly value at risk reports for all the financial products traded by the Bank. The value at risk reports are intended to provide measures of the risk of losses arising from potential adverse movements in interest rates, foreign exchange rates and other volatilities which could affect values of financial instruments. To manage abnormal market behavior, the Bank has implemented stress testing methodologies to quantify financial risk arising from low probability and abnormal market movements on a quarterly basis.

## 49. RISK MANAGEMENT (Continued)

*Market Risk (Continued)*

d. *Foreign Exchange Risk*

The Bank has centralized the operational management of the foreign exchange position within the Treasury Group, which is required to follow the policies and procedures set by the Risk Management Group, and the overall net open position limit set by Bank Indonesia regulations. The Bank complies with the Bank Indonesia requirement that the consolidated (domestic and overseas) net open position in all foreign currencies be no more than 20% of the Tier I and Tier II capital. The Bank has also set an internal Net Open Position limit of 15% of such capital. As of December 31, 2002 the net open position ratio was 5.64% of the total Tier I and II capital.

e. *Derivative Instruments Risk*

The Bank provides limited derivative services to selected major corporate customers and other domestic and international financial institutions, including foreign currency forward transactions and foreign currency and interest rate swaps. The derivative transactions are subject to counter-party risk to the extent that particular obligors are unable to make payment on contracts when due. The Bank manages the derivative instruments risk through reports, analysis and various policies. The Bank has in the past, and expects to continue in the future, to enter into derivative instruments with the customers in order to hedge the Bank's position. The Bank has established limits on these derivative instruments, which are monitored periodically.

*Operational and Legal Risks*

As a financial institution, the Bank is exposed to many types of operational risks, which can generally be classified under business risk and event risk. As typical in a post merger situation, potential exposure to operational risk could increase. Business risk arises from the uncertainties in the Bank's general business environment, which may disturb business operations and impair the attainment of the implementation of the Bank's strategy. Event risk, on the other hand, results from non-economic events such as process error, system malfunction, control breakdown, theft, fraud, and man-made or natural disasters.

The Bank is currently reviewing its existing methodology, assessment and measurement policies which are focused on establishing a framework for effectively managing operational risks so that the banking operations will conform to expected Bank Indonesia's regulatory requirements. The Bank has retained major internationally bank to provide advisory services on the development of a framework to properly manage operational risks. Meanwhile, the Bank seeks to reduce legal risk by using appropriate legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting internal and external legal advisors.

(Expressed in millions of Rupiah, unless otherwise stated)

## 50. MATURITY PROFILE

The maturity profile of the Bank's assets and liabilities is as follows:

Note: This profile is based on contractual terms. Historically, a significant proportion of deposits are rolled-over on maturity. Also, Government bonds (trading and available for sale) could be liquidated through sale or used as collateral in the interbank market should the need for liquidity arise.

December 31, 2002

| Description | Total | < 1 mth | 1 mth - 3 mths | >3 mths < 6 mths | >6 mths < 12 mths | >12 mths |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 2,164,651 | 2,164,651 | - | - | - | - |
| Current accounts with Bank Indonesia | 9,607,119 | 9,607,119 | - | - | - | - |
| Current accounts with other banks - net | 311,765 | 311,765 | - | - | - | - |
| Placements with other banks - net | 14,846,820 | 14,617,367 | 78,751 | 140,350 | 10,352 | - |
| Securities - net | 2,162,409 | 269,000 | 75,643 | 189,715 | 16,443 | 1,611,608 |
| Government Bonds | 148,845,927 | - | 1,959,249 | 2,498,936 | 2,835,188 | 141,552,554 |
| Trade documents - net | 1,447,875 | 953,917 | 283,440 | 208,644 | 1,874 | - |
| Derivative receivables - net | 361,323 | 3,045 | 2,180 | 775 | 1,112 | 354,211 |
| Loans - net | 56,346,419 | 4,373,705 | 4,930,751 | 5,790,062 | 8,263,181 | 32,988,720 |
| Acceptances receivable - net | 2,023,071 | 677,241 | 953,372 | 304,755 | 87,703 | - |
| Investments in shares - net | 87,096 | - | - | - | - | 87,096 |
| Premises and equipment - net | 1,958,782 | - | - | - | - | 1,958,782 |
| Deferred tax assets - net | 2,594,688 | - | - | - | - | 2,594,688 |
| Accrued income | 2,102,204 | 2,102,204 | - | - | - | - |
| Receivables | 2,875,188 | - | - | - | - | 2,875,188 |
| Prepaid tax | 365,753 | - | - | - | - | 365,753 |
| Prepaid expenses | 150,330 | - | - | - | - | 150,330 |
| Others - net | 2,143,269 | - | - | - | - | 2,143,269 |
| **Total** | **250,394,689** | **35,080,014** | **8,283,386** | **9,133,237** | **11,215,853** | **186,682,199** |
| **Liabilities** | | | | | | |
| Other current liabilities | 70,548 | 70,548 | - | - | - | - |
| Demand deposits | 32,579,923 | 32,579,923 | - | - | - | - |
| Savings | 29,926,190 | 29,926,190 | - | - | - | - |
| Time deposits | 121,529,091 | 73,844,153 | 26,866,411 | 6,594,145 | 8,202,726 | 6,021,656 |
| Certificates of deposit | 78,883 | 12,833 | 65,550 | 500 | - | - |
| Deposits from other banks | | | | | | |
| - Demand deposits | 593,431 | 593,431 | - | - | - | - |
| - Time deposits | 12,299,232 | 10,512,569 | 1,753,837 | 28,808 | 4,018 | - |
| - Certificates of deposit | 30 | 30 | - | - | - | - |
| Securities sold with agreement to repurchase | 735,000 | - | - | - | - | 735,000 |
| Derivative payables | 7,434 | 4,462 | 2,884 | 88 | - | - |
| Acceptances payable | 2,150,609 | 715,329 | 1,014,500 | 330,219 | 90,561 | - |
| Securities issued | 1,474,241 | 240,140 | - | - | 10,293 | 1,223,808 |
| Fund borrowings | 13,659,536 | 301,312 | 842,774 | 4,432,727 | 1,210,721 | 6,872,002 |
| Estimated losses on commitments and contingencies | 1,211,211 | 731,374 | 272,330 | 41,307 | 120,377 | 45,823 |
| Accrued expenses | 903,244 | 903,244 | - | - | - | - |
| Taxes payable | 295,949 | 295,949 | - | - | - | - |
| Other liabilities | 9,119,916 | - | - | - | - | 9,119,916 |
| Subordinated loans | 6,358,965 | - | 945 | 138,626 | 145,892 | 6,073,502 |
| Loan capital | 2,963,250 | - | - | - | - | 2,963,250 |
| **Total** | **235,956,683** | **150,731,487** | **30,819,231** | **11,566,420** | **9,784,588** | **33,054,957** |

(Expressed in millions of Rupiah, unless otherwise stated)

## 50. MATURITY PROFILE (Continued)

December 31, 2001

| Description | Total | < 1 mth | 1 mth - 3 mths | >3 mths < 6 mths | >6 mths < 12 mths | >12 mths |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 1,735,258 | 1,735,258 | - | - | - | - |
| Current accounts with Bank Indonesia | 9,895,331 | 9,895,331 | - | - | - | - |
| Current accounts with other banks - net | 265,423 | 265,423 | - | - | - | - |
| Placements with other banks - net | 35,488,353 | 35,295,954 | 163,372 | 29,027 | - | - |
| Securities - net | 1,699,101 | 598,371 | 66,860 | 114,190 | 129,828 | 789,852 |
| Government Bonds | 153,493,218 | - | 6,589,041 | - | 6,589,041 | 140,315,136 |
| Trade documents - net | 1,413,995 | 1,058,331 | 234,643 | 121,021 | - | - |
| Receivables arising from securities purchased with agreement to resell - net | 302,051 | 302,051 | - | - | - | - |
| Derivative receivables - net | 6,534 | 4,760 | 1,774 | - | - | - |
| Loans - net | 42,087,069 | 2,442,866 | 3,621,266 | 6,064,424 | 7,263,063 | 22,695,450 |
| Acceptances receivable - net | 1,582,979 | 218,057 | 774,951 | 588,583 | 1,388 | - |
| Investments in shares - net | 69,276 | - | - | - | - | 69,276 |
| Premises and equipment - net | 1,727,478 | - | - | - | - | 1,727,478 |
| Deferred tax assets - net | 4,817,617 | - | - | - | - | 4,817,617 |
| Accrued income | 3,124,040 | 3,124,040 | - | - | - | - |
| Receivables | 3,010,086 | - | - | - | - | 3,010,086 |
| Prepaid tax | 366,614 | - | - | - | - | 366,614 |
| Prepaid expenses | 171,262 | - | - | - | - | 171,262 |
| Others - net | 1,035,310 | - | - | - | - | 1,035,310 |
| **Total** | **262,290,995** | **54,940,442** | **11,451,907** | **6,917,245** | **13,983,320** | **174,998,081** |
| **Liabilities** | | | | | | |
| Other current liabilities | 62,065 | 62,065 | - | - | - | - |
| Demand deposits | 37,557,461 | 37,557,461 | - | - | - | - |
| Savings | 22,304,803 | 22,304,803 | - | - | - | - |
| Time deposits | 129,782,634 | 80,304,150 | 30,616,596 | 3,977,062 | 2,407,296 | 12,477,530 |
| Certificates of deposit | 800,840 | 391,540 | 260,075 | 60,475 | 87,600 | 1,150 |
| Deposits from other banks | | | | | | |
| - Demand deposits | 586,600 | 586,600 | - | - | - | - |
| - Interbank call money | 335,001 | 335,001 | - | - | - | - |
| - Time deposits | 9,065,198 | 4,478,185 | 4,163,330 | 41,037 | 368,301 | 14,345 |
| - Certificates of deposit | 2,541,043 | 252,243 | 961,800 | 515,000 | 812,000 | - |
| Derivatives payable | 11,976 | 11,976 | - | - | - | - |
| Acceptances payable | 1,804,708 | 247,279 | 876,044 | 679,989 | 1,396 | - |
| Securities issued | 3,276,695 | - | - | 520,312 | - | 2,756,383 |
| Fund borrowings | 18,204,233 | 1,382,002 | 418,112 | 2,121,519 | 1,661,444 | 12,621,156 |
| Estimated losses on commitments and contingencies | 5,284,345 | - | - | - | - | 5,284,345 |
| Accrued expenses | 1,405,006 | 1,405,006 | - | - | - | - |
| Taxes payable | 346,209 | 346,209 | - | - | - | - |
| Other liabilities | 8,593,324 | - | - | - | - | 8,593,324 |
| Subordinated loans | 6,390,201 | - | 4,507 | 220,738 | 409,602 | 5,755,354 |
| Loan capital | 3,159,000 | - | - | - | - | 3,159,000 |
| **Total** | **251,511,342** | **149,664,520** | **37,300,464** | **8,136,132** | **5,747,639** | **50,662,587** |

(Expressed in millions of Rupiah, unless otherwise stated)

## 51. NET OPEN POSITION

The Net Open Position ("NOP") ratio of Bank Mandiri (Bank only) is 5.64% and 19.38% as of December 31, 2002 and 2001, respectively. The NOP ratio is defined as the total absolute amount of each of the foreign currency open position divided by the Bank's total Tier I and II capital in accordance with Bank Indonesia's guidelines. The maximum NOP ratio allowed under Bank Indonesia guidelines is 20%.

The Net Open Position by currency of Bank Mandiri (Bank only) as of December 31, 2002 is as follows:

| | Assets and Administrative Asset Accounts | Liabilities and Administrative Liability Accounts | Net Open Position |
|---|---|---|---|
| United States Dollars | 70,301,868 *) | 69,668,664 | 633,204 |
| Singapore Dollars | 1,576,513 | 1,559,552 | 16,961 |
| Japanese Yen | 1,230,105 | 1,325,906 | (95,801) |
| Euros | 360,797 | 449,937 | (89,140) |
| Australian Dollars | 76,288 | 72,509 | 3,779 |
| British Pounds Sterling | 40,395 | 35,863 | 4,532 |
| Malaysian Ringgit | 9,709 | 75,469 | (65,760) |
| Swiss Francs | 9,699 | 12,082 | (2,383) |
| Others | 52,007 | 6,480 | 45,527 |
| Total net open position | | | 450,919 |
| Total absolute open position | | | 957,087 |
| Total Tier I and II capital (Note 52) | | | 16,958,163 |
| NOP Ratio | | | 5.64% |

*) Including hedge bonds amounting to Rp16,839,823 (Note 8).

The Net Open Position by currency of Bank Mandiri (Bank only) as of December 31, 2001 is as follows:

| | Assets and Administrative Asset Accounts | Liabilities and Administrative Liability Accounts | Net Open Position |
|---|---|---|---|
| United States Dollars | 155,676,365*) | 155,283,771 | 392,594 |
| Singapore Dollars | 2,355,156 | 1,565,079 | 790,077 |
| Euros | 1,603,465 | 1,608,002 | (4,537) |
| Japanese Yen | 1,044,413 | 1,679,675 | (635,262) |
| British Pounds Sterling | 408,008 | 312,932 | 95,076 |
| Deutsche Marks | 386,222 | 601,562 | (215,340) |
| French Francs | 113,265 | 89,768 | 23,497 |
| Hongkong Dollars | - | 560,539 | (560,539) |
| Malaysian Ringgit | - | 190,447 | (190,447) |
| Australian Dollars | 99,287 | 106,666 | (7,379) |
| Netherland Guilders | 63,878 | 56,383 | 7,495 |
| Swiss Francs | 51,355 | 24,681 | 26,674 |
| Others | 71,041 | 44,211 | 26,830 |
| Total net open position | | | (251,261) |
| Total absolute open position | | | 2,975,747 |
| Total Tier I and II capital (Note 52) | | | 15,353,693 |
| NOP Ratio | | | 19.38% |

*) Including hedge bonds amounting to Rp22,995,498 (Note 8).

(Expressed in millions of Rupiah, unless otherwise stated)

## 52. CAPITAL ADEQUACY RATIO

Capital Adequacy Ratio ("CAR") is the ratio of the Bank's capital over its Risk-Weighted Assets ("RWA"), Under Bank Indonesia regulations, total capital includes both core ("Tier I") capital and supplementary ("Tier II") capital. The CAR of Bank Mandiri (Bank only) as of December 31, 2002 and 2001 is 23.39% and 26.44%, respectively, and is calculated as follows:

| | 2002 | 2001 |
|---|---|---|
| Capital: | | |
| Tier I (*) | 11,016,295 | 8,849,943 |
| Tier II | 7,321,435 | 7,256,966 |
| Less: | | |
| Investments in subsidiaries (**) | (1,379,567) | (753,216) |
| Total capital | 16,958,163 | 15,353,693 |
| Total Risk-Weighted Assets | 72,512,586 | 58,079,575 |
| CAR | 23.39% | 26.44% |
| Minimum CAR | 8% | 8% |

(*) Excludes the impact of deferred tax assets of Rp2,594,688 and Rp4,817,617 and unrealized losses on securities and Government Bonds available for sale of Rp2,138,186 and Rp5,047,162, respectively, as of December 31, 2002 and 2001.

(**) Based on Bank Indonesia regulation No. 3/21/PBI/2001 dated December 13, 2001, Bank Indonesia revised the calculation of CAR effective from the issuance date of the regulation to exclude investments in subsidiaries from the bank's capital.

Bank Indonesia requires banks in Indonesia to have a minimum CAR of 8% effective as of December 31, 2001.

## 53. NON-PERFORMING EARNINGS ASSETS RATIO AND SMALL SCALE LOANS RATIO

Non-performing earning assets to total earning assets are 2.67% and 4.71% as of December 31, 2002 and 2001, respectively. Note 12.A.e provides the Bank's NPL ratio.

The total allowance for possible losses on earnings assets provided by Bank Mandiri compared to the minimum allowance for possible losses on earning assets under the guidelines prescribed by Bank Indonesia, as of December 31, 2002 and 2001 are 176% and 133%, respectively.

Small scale loans to total loans are 4.51% and 5.39% as of December 31, 2002 and 2001, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

## 54. SEGMENT INFORMATION

Pursuant to the retroactive implementation of SFAS No. 5 (Revised) - "Reporting Financial Information by Segment" which is effective January 1, 2002, previously issued segment information has been restated.

The Bank considers the nature of business as the primary segment, and geographical area as the secondary segment. The business activities of the Bank and its Subsidiaries and its geographical location are as follows:

| Name of Company | Nature of Business | Location |
|---|---|---|
| PT Bank Mandiri (Persero) (parent) | Banking | Indonesia, Singapore, Hong Kong, Grand Cayman and Cook Islands |
| PT Bank Syariah Mandiri (subsidiary) | Syariah banking | Indonesia |
| Bank Mandiri (Europe) Limited (subsidiary) | Banking | United Kingdom |
| PT Mandiri Sekuritas (subsidiary) | Securities | Indonesia |
| PT Asuransi Jiwa Mandiri (subsidiary) | Insurance | Indonesia |
| Others | | |
| PT Bumi Daya Plaza (subsidiary) and its subsidiaries | Property management | Indonesia |
| PT Usaha Gedung Bank Dagang Negara (subisidiary) and its subisidiaries | Property management | Indonesia |

Inter-segment transactions are made under the same terms and conditions as with other parties.

*Primary Segment Information as of and for the Year Ended December 31, 2002*

| | Banking | 'Syariah' Banking | Securities | Insurance | Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| Operating income | 33,189,278 | 196,853 | 17,660 | 13,338 | 73,414 | - | 33,490,543 |
| Inter-segment operating Income | 3,001 | - | - | - | - | (3,001) | - |
| Operating income including Inter-segment operating income | 33,192,279 | 196,853 | 17,660 | 13,338 | 73,414 | (3,001) | 33,490,543 |
| Operating expenses | 29,734,416 | 163,930 | 16,498 | 23,709 | 63,049 | - | 30,001,602 |
| Inter-segment operating expenses | 3,001 | - | - | - | - | (3,001) | - |
| Operating expenses including inter-segment operating expenses | 29,737,417 | 163,930 | 16,498 | 23,709 | 63,049 | (3,001) | 30,001,602 |
| Profit from Operations | 4,529,241 | 42,023 | 1,162 | (10,370) | 10,365 | - | 4,572,421 |
| Net Profit | 3,614,867 | 29,404 | 2,092 | (10,461) | 11,082 | (61,395) | 3,585,589 |
| Total Assets | 250,257,847 | 1,618,060 | 381,554 | 17,976 | 265,565 | (2,146,313) | 250,394,689 |
| Total assets (as a percentage of total consolidated assets prior to elimination) | 99.10% | 0.64% | 0.15% | 0.01% | 0.10% | | |

(Expressed in millions of Rupiah, unless otherwise stated)

## 54. SEGMENT INFORMATION (Continued)

*Secondary Segment Information as of and for the Year Ended December 31, 2002*

| | Indonesia (Domestic) | Asia | Europe | Other | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| Operating income | 32,243,040 | 169,682 | 85,591 | 992,230 | - | 33,490,543 |
| Inter-segment operating Income | 3,001 | - | - | - | (3,001) | - |
| Operating income including inter-segment operating income | 32,246,041 | 169,682 | 85,591 | 992,230 | (3,001) | 33,490,543 |
| Operating expenses | 29,105,546 | 85,746 | 67,926 | 742,384 | - | 30,001,602 |
| Inter-segment operating expenses | 3,001 | - | - | - | (3,001) | - |
| Operating expenses including Inter-segment operating expenses | 29,108,547 | 85,746 | 67,926 | 742,384 | (3,001) | 30,001,602 |
| Profit from Operations | 4,285,055 | 22,157 | 15,799 | 249,410 | - | 4,572,421 |
| Net Profit | 3,296,787 | 71,509 | 29,278 | 249,410 | (61,395) | 3,585,589 |
| Total Assets | 234,916,481 | 4,251,687 | 1,088,038 | 12,284,796 | (2,146,313) | 250,394,689 |
| Total assets (as a percentage of total consolidated assets prior to elimination) | 93.02% | 1.68% | 0.43% | 4,87% | | |

*Primary Segment Information as of and for the Year Ended December 31, 2001*

| | Banking | 'Syariah' Banking | Securities | Insurance | Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| Operating income | 32,746,031 | 113,647 | 12,744 | 15,524 | 63,969 | - | 32,951,915 |
| Inter-segment operating income | 42,584 | - | - | - | - | (42,584) | - |
| Operating income including inter-segment operating income | 32,788,615 | 113,647 | 12,744 | 15,524 | 63,969 | (42,584) | 32,951,915 |
| Operating expenses | 28,359,739 | 99,592 | 12,796 | 13,623 | 60,814 | - | 28,546,564 |
| Inter-segment operating expenses | (18,902) | - | - | - | - | 18,902 | - |
| Operating expenses including inter-segment operating expenses | 28,340,837 | 99,592 | 12,796 | 13,623 | 60,814 | 18,902 | 28,546,564 |
| Profit from Operations | 1,687,877 | 14,054 | (52) | 1,901 | 3,155 | (61,485) | 1,645,450 |
| Net Profit | 2,771,230 | 16,744 | 5,521 | 1,901 | 11,662 | (61,301) | 2,745,757 |
| Total Assets | 262,553,991 | 951,629 | 62,475 | 16,584 | 369,240 | (1,662,924) | 262,290,995 |
| Total assets (as a percentage of total consolidated assets prior to elimination) | 99.47% | 0.36% | 0.02% | 0.01% | 0.14% | | |

(Expressed in millions of Rupiah, unless otherwise stated)

## 54. SEGMENT INFORMATION (Continued)

*Secondary Segment Information as of and for the Year Ended December 31, 2001*

| | Indonesia (Domestic) | Asia | Europe | Other | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| Operating income | 30,424,579 | 573,995 | 119,666 | 1,833,675 | - | 32,951,915 |
| Inter-segment operating income | 42,584 | - | - | - | (42,584) | - |
| Operating income including inter-segment operating income | 30,467,163 | 573,995 | 119,666 | 1,833,675 | (42,584) | 32,951,915 |
| Operating expenses | 26,519,414 | 475,208 | 92,987 | 1,458,955 | - | 28,546,564 |
| Inter-segment operating expenses | (18,902) | - | - | - | 18,902 | - |
| Operating expenses including inter-segment operating expenses | 26,500,512 | 475,208 | 92,987 | 1,458,955 | 18,902 | 28,546,564 |
| Profit from Operations | 1,210,595 | 108,361 | 25,519 | 362,460 | (61,485) | 1,645,450 |
| Net Profit | 2,313,644 | 105,481 | 25,473 | 362,460 | (61,301) | 2,745,757 |
| Total Assets | 243,071,918 | 5,848,110 | 1,253,121 | 13,780,770 | (1,662,924) | 262,290,995 |
| Total assets (as a percentage of total consolidated assets prior to elimination) | 92.09% | 2.22% | 0.47% | 5.22% | | |

## 55. CUSTODIAL AND TRUST OPERATIONS

*Custodial Operations*

Bank Mandiri has rendered custodial services since 1959 (legacy banks: BDN, BEII, BBD and Bapindo). As a result of the merger, the operating license for custodial services was renewed and re-issued based on BAPEPAM Decision Letter No. KEP.01/PM/Kstd/1999 dated October 4, 1999. The Custodial Services Business ("CSB"), which is part of the Securities Services Department (the "SSD") of Bank Mandiri, provides a full range of custodial services such as:

a. Settlement and handling services for scrip and scripless trading transactions.
b. Registration of securities to Biro Administrasi Efek, and splitting and merging of securities.
c. Safekeeping of securities and other valuable assets.
d. Corporate action services related to the rights on the securities.
e. Proxy services for its customers' shareholders' meetings and obligation holders' meetings.
f. International services i.e. American Depository Receipts ("ADR") and Global Depository Receipts ("GDRs"), which are required by entities listed on the domestic and overseas exchanges (dual listing).
g. Sub-registry services for settlement of transactions of Indonesian recapitalization bonds ("Government Bonds") as well as SBI's.
h. Escrow Agent.

Bank Mandiri has 238 and 144 custodial customers as of December 31, 2002 and 2001, respectively. The customers are primarily pension funds, insurance companies, banks, securities and other private companies.

As of December 31, 2002 and 2001, CSB has 26 and 24 permanent employees, respectively.

Total custodial fees and commissions earned for the years ended December 31, 2002 and 2001 amounted to Rp6,411and Rp6,791, respectively.

Bank Mandiri carries insurance on custodial services against safekeeping and transit loss under blanket policies amounting to approximately Rp175,000,000,000 (full amount). Management is of the opinion that the insurance coverage is adequate to cover possible losses from safekeeping and transit risks.

*Trust Operations*

Bank Mandiri has been rendering trustee services since 1983 (legacy banks: Bank Exim, BDN, BBD and Bapindo). The operating license for trustee services was renewed and re-registered with BAPEPAM as stipulated in No. 17/STTD-WA/PM/1999 dated October 27, 1999. The Trustee Services Business ("TSB"), which is part of the Securities Services Department ("SSD") of Bank Mandiri, provides a full range of the following services:

a. Preparing documentation support to bond issuers in complying with required documents for issuance.
b. Signing the trustee agreement and other relevant document together with bond issuers and other related institutions.
c. Monitoring performance of issuers and compliance against required documentation as stipulated in trustee agreements on behalf of bond holders.
d. Facilitating bond holder meetings.
e. Following up and executing the results of bond holder meetings as required and necessary.
f. Providing information on issuer's performance as requested by BAPEPAM or bond holders.
g. Managing the sinking fund and other collateral as required by the bond's issuance and terms and conditions.
h. Paying agent for dividend and selected coupon payment.
i. Escrow agent and security agent.

(Expressed in millions of Rupiah, unless otherwise stated)

## 55. CUSTODIAL AND TRUST OPERATIONS (Continued)

*Trust Operations (continued)*

Bank Mandiri has 24 and 21 trustee customers as of December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001 the total value of bonds issued amounted to Rp5,116,300 and Rp5,140,350, respectively, while the sinking funds managed on behalf of bond issuers amounted to Rp91,480 and Rp39,780, respectively.

Fees earned from trust operations amounted to Rp3,367 and Rp5,925 for the years ended December 31, 2002 and 2001, respectively.

## 56. CHANNELING LOANS

Channeling loans based on sources of funds and economic sectors are as follows:

| | 2002 | 2001 |
|---|---|---|
| Government: | | |
| Electricity, gas and water | 9,383,357 | 10,810,036 |
| Transportation and communications | 7,259,986 | 8,034,952 |
| Agriculture | 1,559,491 | 285,209 |
| Industry | 635,527 | 633,735 |
| Mining | 134,434 | 190,506 |
| Construction | 20,919 | 22,265 |
| Others | 121,102 | 124,996 |
| | 19,114,816 | 20,101,699 |

Bank Mandiri has been appointed to administer channeling loans in various foreign currencies received by the Government of Indonesia from various bilateral and multilateral financing institutions, such as, The Export Import Bank of Japan, ASEAN Japan Development Fund, Overseas Economic Cooperation Fund, International Bank for Reconstruction and Development, Nordiska Investeringbanken, Kreditanstalt Fur Wiederaufbau, Sumitomo, US AID, Barclays Bank, Bank of China, CN Lyonnais, Unibank, Bank of Austria, Ryobhin Hong Kong, Export Finance and Insurance Cooperation - Australia, Mitsubishi Corporation, Chartered West LB, Banque Indosuez, Hitachi Zosen, NEC Corporation, Banque Francais du Comm, US Exim Bank, and Banque Paribas for financing projects in Indonesia.

Channeling loans are not recognized in the consolidated balance sheets as the credit risk is not borne by the Bank or its Subsidiaries. Bank Mandiri's responsibilities under the above arrangement include, among others, the collection from borrowers and the payment to the Government of principal, interest and other charges and the maintenance of loan documentation. As compensation, Bank Mandiri receives an annual administration fee which varies from 0.15% - 0.4% of the loan balances.

(Expressed in millions of Rupiah, unless otherwise stated)

## 57. RELATED PARTY TRANSACTIONS

*a. Banking Activities in the Ordinary Course of Business*

In the ordinary course of its business, Bank Mandiri engages in significant transactions with related parties as follows:

| | 2002 | 2001 |
|---|---|---|
| Securities (Note 7.g) | 511,317 | 129,410 |
| Government Bonds (Note 8) | 148,845,927 | 153,493,218 |
| Loans (Note 12.B.f) | 899,232 | 926,833 |
| Deposit for tax appeal (Note 16) | 1,124,194 | - |
| Interest refundable by the Government (Note 16) | 25,267 | 24,702 |
| Total assets from related parties | 151,405,937 | 154,574,163 |
| Total assets | 250,394,689 | 262,290,995 |
| Percentage of assets from related parties to total assets | 60.47% | 58.93% |

| | 2002 | 2001 |
|---|---|---|
| Deposits - demand deposits (Note 17.a) | 29,580 | 23,805 |
| Deposits - savings deposits (Note 18.b) | 32,823 | 38,172 |
| Deposits - time deposits (Note 19.e) | 1,332,690 | 1,753,118 |
| Due to the Government arising from the return of additional paid-in capital (Note 29) | 1,412,000 | 129,685 |
| Total liabilities to related parties | 2,807,093 | 1,944,780 |
| Total liabilities | 235,956,683 | 251,511,342 |
| Percentage of liabilities to related parties to total liabilities | 1.19% | 0.77% |
| Salary, allowances and bonuses of the Boards of Directors and Commissioners and Executive Officers (Note 41) | 57,372 | 39,727 |

## 57. RELATED PARTY TRANSACTIONS (Continued)

*b. Significant transactions with the Government of the Republic of Indonesia*

- The Committee on Financial Sector Policy (KKSK) and the Minister of Finance approved and guaranteed the issuance of standby letters of credit and conversion of loans of PT Garuda Indonesia to Mandatory Convertible Bonds (Notes 48 and 12B.g).
- Government bonds held by the Bank amounting to Rp103,849,017 were reprofiled by the Government on November 20, 2002 (Note 8).
- The Bank paid Rp1,124,194 to the State Treasury representing 50% deposit in relation to an objection regarding the Bank's 2000 corporate income tax assessment (Notes 16 and 28c).
- Return of additional paid-in capital of Rp129,685 (Notes 8) and proposed return of Rp1,412,000 representing a portion of the excess of recapitalization (Notes 33).

*c. Transfer of Certain Investments and Non-core Fixed Assets*

In 1999 certain investments in shares of stock and certain non-core fixed assets of Bank Mandiri were transferred to PT PIM and PT PHTM, related companies, respectively (Notes 14 and 15). In 2002, the fixed assets of PHTM were transferred back to the Bank based on the shareholder's resolution of PHTM dated June 14, 2002.

## 58. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

*a. Management Contract*

On April 8, 2000, a Management Contract was signed between the Government and Bank Mandiri in connection with the recapitalization of Bank Mandiri as described in Note 3. The Management Contract provides for, among others, the requirements and milestones to be fulfilled by Bank Mandiri in accordance with its Business Plan for the period to end of 2001, which include, the following:

1. Obligations to be fulfilled by Bank Mandiri, among others:
    - To use the Government Bonds to settle liabilities only and not for use in acquiring assets, except for Government Bonds classified as trading based on prevailing regulations.
    - To reduce overhead costs.
    - To settle unreconciled/open items and reconcile inter-branch transactions derived from the Merged Banks.
    - To conduct special audit of high risk and material un-reconciled open items.
    - To implement an automated monitoring system over the use of funds and liquidity of Bank Mandiri.
    - To implement a policy of reporting according to Bank Indonesia regulations.

## 58. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (Continued)

*a. Management Contract (Continued)*

- To take any action as required in respect of the Credit Portfolio to comply with Bank Indonesia's requirements, especially for Legal Lending Limit (LLL).

- To agree to syndicate the current outstanding corporate loans that exceed Legal Lending Limit (LLL) and participate in syndication activities to support other banks in resolving Legal Lending Limit (LLL) problems.

1. Obligations to be fulfilled by Bank Mandiri, among others (continued):

   - To agree to improve its Net Open Position based on the prevailing regulations and prepare a plan to acquire assets denominated in US Dollars.

   - To follow the agreement with the Minister of Finance to undertake actions needed to accelerate the privatization process of Bank Mandiri itself by issuing shares to the public.

   If Bank Mandiri defaults on its commitments as stipulated in the management contract, the consequences are:

   - Replacement of the Boards of Directors and Commissioners.
   - Adjustment of the milestones if the reasons for non-achievement are beyond the control of Bank Mandiri.

2. Management and Performance of Bank Mandiri, among others:

   - The Boards of Directors and Commissioners are required to perform their tasks conscientiously in line with the requirements prescribed in the Business Plan, Performance Plan and Performance Milestones.

   - The Compliance Director is required to undertake actions needed for Bank Mandiri to fully comply with Bank Indonesia regulations, prevailing laws, agreements, and commitments with Bank Indonesia and monitor the success of the implementation of the Bank Recapitalization Program based on the agreed Business Plan, without prejudice to the responsibilities of the Boards of Directors and Commissioners of Bank Mandiri. The results of this function's activities should be submitted quarterly to the Minister of Finance not later than two (2) weeks after the end of each quarter.

3. Corporate Governance for Bank Mandiri, among others:

   - The Governance of Bank Mandiri is to be conducted by its Boards of Directors and Commissioners in accordance with the Articles of Association of Bank Mandiri and prevailing laws.

   - The members of the Boards of Directors and Commissioners must not have conflicts of interest in the decision making process involved in governing Bank Mandiri.

(Expressed in millions of Rupiah, unless otherwise stated)

## 58. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (Continued)

*b. Earning Assets Transfer Agreement*

In 1999 Bank Mandiri entered into an Earning Assets Transfer Agreement with IBRA based on the Decree of Ministry of Finance No. 53/KMK.017/1999 and Governor of Bank Indonesia No. 31/12/KEP.GBI/1999 dated February 8, 1999. Under the agreement, Bank Mandiri agreed to transfer to IBRA its loss category earning assets for RpNil consideration.

Bank Mandiri transferred its loss category earning assets to IBRA as follows:

- *September 4, 2001*

  Following discussions between Bank Mandiri and IBRA regarding the transfer and repurchase of certain non-performing loans on January 26, 2001, based on notarial deed No. 6 dated September 4, 2001 of Mr. Teddy Anwar, S.H., SpN. and in accordance with the Decree of the Minister of Finance No. S-25/MK.01/2000 dated February 1, 2000 and joint decision letter of the Committee of Policy and Finance Sector (KKSK) No. KEP.02/K.KKSK/02/2001 dated February 15, 2001 and the Decree of the Minister of Finance No. SR-110/MK.06/2001 dated May 4, 2001, Bank Mandiri transferred certain of its non-performing loans amounting to Rp4,587,313 to IBRA for RpNil value (assets rated as loss under Bank Indonesia criteria) together with the related interest, penalties and claims that may be received by the Bank in the future. In accordance with the agreement, Bank Mandiri is liable to bear the cost of liabilities which may arise in the future relating to the transferred assets.

  Details of assets transferred to IBRA on September 4, 2001 are as follows:

| | |
|---|---|
| Loans | 3,737,546 |
| Commercial papers | 15,625 |
| Off-balance sheet accounts | 262,747 |
| Participation | 20,357 |
| Interest and penalties | 551,038 |
| | 4,587,313 |

  No Temporary Assets Administration Agreement was signed in respect of the above assets.

## 58. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (Continued)

c. *Swap Agreement for Earning Assets Transferred on September 4, 2001 and Government Bonds with IBRA*

Based on notarial deeds No. 7 and 8 dated September 4, 2001 of Mr. Teddy Anwar, S.H., SpN. and in accordance with Bank Mandiri's letter to IBRA No. Dir.CRU/044/II/2001 dated February 28, 2001, and joint decision letter of Committee of Policy and Finance Sector (KKSK) No. KEP.02/K.KKSK/02/2001 dated February 15, 2001 and Decree of the Minister of Finance No. SR-110/MK.06/2001 dated May 4, 2001, Bank Mandiri purchased (swapped) all the assets previously transferred (including the related penalties and interest) on September 4, 2001 to IBRA for Government Bonds totaling Rp4,036,275 (Seri FR0007 of Rp2,458,417 and Seri FR0009 of Rp1,577,858).

d. *Swap Agreement for Loan Purchase and Government Bonds with IBRA*

Based on notarial deeds No. 17 and 18 dated September 6, 2001 of Mr. Teddy Anwar, S.H., SpN., Bank Mandiri has purchased (swapped) loans of Rp2,129,391 (including penalties and interest of Rp951,021) for Government Bonds totaling Rp1,178,370 (Government Bonds Seri FR0007).

e. *Transfer of Loans Below Rp5 billion and Loans Written-off Prior to Legal Merger and Related Recoveries to IBRA*

Prior to the transfer of earning assets to IBRA as discussed in Note 58.c, there was a joint decision dated March 31, 1999 between the Ministry of Finance, IBRA and other directors of the legacy banks agreeing to transfer only the loans with principal balance above Rp5 billion and supported by Article 2.1 of the Asset Transfer Agreement between the legacy banks and IBRA dated March 31, 1999, and Article 3.2 of the Addendum on Temporary Recapitalization Agreement dated December 28, 1999 agreing to transfer only the loans with principal balance above Rp5 billion.

The total of loans written-off below Rp5 billion and loans written-off prior to the legal merger as of October 31, 1999 and July 31, 1999 supposed to be transferred to IBRA amounted to Rp1,631,633 and Rp11,326,295, respectively. A part of loans written-off below Rp5 billion amounting to Rp357,000 were transferred to IBRA in 1999, 2000 and 2001.

In 2001 and 2002, there were several meetings between Supreme Audit Board ("BPK"), the Ministry of Finance, the Ministry of State-Owned Enterprises, Bank Indonesia (BI) and several State-Owned Banks, including the Bank, to discuss the status of loans written-off below Rp5 billion and loans written-off prior to legal merger and related recoveries. BPK in its preliminary report requires the Bank to return all recoveries before and after legal merger up to December 31, 2001 amounting to Rp2,385,791 to the Government.

The Committee on Financial Sector Policy (Komite Kebijakan Sektor Keuangan (KKSK)) issued decree No. Kep.01/K.KKSK/11/2002 dated November 26, 2002 stipulating the following:

- All loans written-off below Rp5 billion and loans written-off prior to legal merger should be transferred to IBRA in 2002.
- IBRA would exchange the loans with recapitalization bonds (*Assets Bond Swap*) as stipulated by KKSK decision letter No. 01/K.KKSK/07/2002 dated July 11, 2002 with a recovery rate of 20%. By executing the Assets Bond Swap, all recoveries related to the loans written-off below Rp5 billion and loans written-off prior to legal merger, belonged to the Bank.

## 58. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (Continued)

*e. Transfer of Loans Below Rp5 billion and Loans Written-off Prior to Legal Merger and Related Recoveries to IBRA (Continued)*

Following the KKSK Decree, the Bank entered into Sell-Purchase and Cessie Agreement No. 7252/L/XII/2002 and Exchange Agreement No. 7253/L/XII/2002 dated December 18, 2002 notarized by DR.H. Teddy Anwar, SH.SpN, with IBRA in relation to the settlement of the Bank's obligation to transfer the loans written-off below Rp5 billion and loans written-off prior to legal merger to IBRA.

On December 18, 2002, based on that agreement, the Bank transferred written-off loans amounting to Rp12,600,598 and then repurchased (swapped) the loans with Government Bonds amounting to Rp2,520,119 (at nominal value) and cash payment of Rp615,091 (full amount) (Note 12.B.n)

*f. Consortium Agreements Related to the Purchase of Loans from IBRA in 2002*

In July 2002, the Bank participated in an auction during which IBRA offered loans with a nominal value of Rp135,400,000 due from some 2,500 debtors. The loans offered by IBRA were classified according to whether the debtor was a corporate or a commercial debtor. Commercial loans were sold in single-debtor packages whereas corporate loans were sold in packages of loans from different debtors.

The Bank entered into 11 (eleven) consortium agreements with securities companies to participate in the auction. Each of the consortium agreed to various terms including the amount of contributions, portion of loan assets obtained by the consortium partners and amount of fees paid by the other consortium partner to the Bank.

The consortia are allowed to conduct due diligence on the loans offered for auction before any bid was submitted. The Bank and the consortium partners agreed that any loans purchased would be divided into "sustainable debt" (net present value of expected cash flows) and "unsustainable debt" (difference between outstanding principal and sustainable debt), whereby sustainable debt would be obtained by the Bank and the unsustainable debt would be obtained by the consortium partners which would subsequently be swapped into equity.

Ten out of eleven consortia won loans with outstanding principal of approximately Rp23,196,348, consisting of sustainable and unsustainable debt of Rp4,294,091 and Rp18,902,257, respectively, with purchase price of Rp4,472,576. The purchase price represents approximately 19.28% of the total outstanding principal. Rp3,840,697 of the purchase price was contributed by the Bank, and Rp631,879 was contributed by the consortium members (including top up of Rp604,731).

Those ten consortia are: PT Mahanusa Securities, PT Batavia Properindo Securities, PT Mandari Securities Indonesia, PT Jasabanda Garta, PT Prime Capital, PT Bhineka Makmur Investama, PT PT Woka International, PT Dougsuh Kolibindo Securities, PT Trust Securities and PT Anugra Cipta Sentosa.

In addition during 2002, the Bank acquired without prior arrangement, portions of IBRA loans totaling Rp915,925 from the following unrelated companies: PT Optix Limited, PT Danatama Makmur Securities, PT Woka International and PT Mandari Securities Indonesia.

## 58. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (Continued)

g. *Total Integrated Banking System Agreement with PT Silverlake Informatikama*

On July 20, 2001, Bank Mandiri entered into a Total Integrated Banking System Agreement with PT Silverlake Informatikama for procurement of software and installation services for a total integrated banking system, which is called *e-MAS*, for a total contract value of US$61,820,219 (full amount). The project is expected to be completed by the end of 2003. Prior to completion, the assets are recorded under Construction In Progress ("CIP").

h. *Agreement on Procurement and Installation of Automatic Teller Machines ("ATMs")*

On August 7, 2002, Bank Mandiri entered into an agreement with PT Multipolar Corporation for the procurement and installation of 357 units of the ATMs for a total contract value of US$6,987,977 (full amount) and Rp4,079. As of December 31, 2002, all ATMs have been received but none have been installed. Prior to installation and usage, the assets are recorded under Construction In Progress ("CIP"), with 184 units installed and operated subsequently until January 27, 2003.

On August 7, 2002, Bank Mandiri entered into an agreement with PT Mitra Integrasi Komputindo for the procurement and installation of 156 units of the ATMs for a total contract value of US$2,955,082 (full amount) and Rp1,802. Up to December 31, 2002, all ATMs have been received but only 78 were installed and operated. The remaining 78 ATMs are recorded under Construction In Progress ("CIP").

i. *Share Sale and Purchase Agreement with National Mutual Fund International Pty Ltd., a member of AXA Group*

On December 2, 2002 Bank Mandiri entered into a Share Sale and Purchase Agreement with National Mutual Fund International Pty Ltd., a member of AXA Group, whereby the Bank agreed to jointly develop and market bancaassurance products and services in Indonesia. As part of the agreement, the Bank agreed to sell to National Mutual Fund International Pty Ltd, 51.00% of the issued shares in PT Mandiri Life. On the completion of the sale, PT Mandiri Life will then act as the joint venture vehicles for the development, marketing and sale of life, helath, accident insurance and pension products for groups and individuals through Bank Mandiri banking network.

Bank Mandiri will receive from the joint venture certain fees in conjuction with the business of the joint venture determined upon consultation between the Bank and the joint venture, including a percentage of premium and certain commissions for new customers referred by the Bank to the joint venture. Certain service fee will also paid by the joint venture to as service company to be established in Indonesia and managed by AXA.

j. *Agreement on Development and Operation for National Development of Information System ("SIPNAS")*

On December 24, 2002 Bank Mandiri entered into an agreement with Indonesian State of Secretary, Government Representative, to develop and operate a national development of information system ("SIPNAS"). SIPNAS is a system developed by the Indonesian Government to collect data and information for government's decision for integrated planning and national development.

Based on agreement, the State of Secretary will utilize the existing Bank's network communication to develop and operate a national development of information system (SIPNAS), while the Bank, subject to approval from the State of Secretary, will utilize the data and information of SIPNAS for commercial purposes.

## 58. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (Continued)

*k. Contingent Liabilities*

In the ordinary course of business, the Bank is a defendant in various litigation actions and claims with respect to matters such as contractual compliance, government regulations and taxes. Although there can be no assurances, Bank Mandiri believes that based on information currently available, the ultimate resolution of these legal proceedings will not likely have a material adverse effect on the results of its operations, financial position or liquidity. As of December 31, 2002 and 2001, Bank Mandiri has provided a provision (included in “Other Liabilities”) for several pending lawsuits filed against Bank Mandiri amounting to Rp1,591,517 and Rp1,628,610, respectively (Note 29). The Bank’s total potential exposure arising from outstanding lawsuits as of December 31, 2002 and 2001 amounted to Rp2,244,374 and Rp4,105,485, respectively. Management believes that the provision is adequate to cover possible losses arising from pending litigation, or litigation cases currently in progress.

## 59. ECONOMIC CONDITIONS

The adverse economic conditions in Indonesia, which started in the second half of 1997, have been characterized by volatile foreign currency exchange rates, high interest rates, tight liquidity and lack of public confidence in the country’s banking system. These conditions, combined with political instability, have significantly affected the banking services sector, including the operations of Bank Mandiri and its Subsidiaries. The adverse economic conditions have also involved declining prices in shares listed on the Indonesian stock exchanges, tightening of available credit and reduced economic activity. Also, the liquidation and suspension of operations of numerous domestic banks in Indonesia has resulted in a decline in public confidence in the country’s banking system, placing more pressure on the liquidity and survival of the banking sector.

To regain public confidence in the banking system, the Indonesian Government has guaranteed certain obligations of domestic banks as discussed in Note 60. Moreover, on December 31, 1998, the Government issued Regulation No. 84 of 1998 concerning the Recapitalization of Commercial Banks. By virtue of the Joint Decrees No. 53/KMK.017/1999 and No. 31/12/KEP/GBI dated February 8, 1999 of the Minister of Finance and the Governor of Bank Indonesia, concerning the implementation of the recapitalization program for commercial banks and the decision letter of the Steering Committee for the Recapitalization Program of Commercial Banks dated March 12, 1999, Bank Mandiri was included in the recapitalization program. In addition, the implementation of the recapitalization program is one of the commitments of the Government of the Republic of Indonesia in its Letters of Intent with the International Monetary Fund.

There can be no assurance as to whether the Indonesian Government will continue to implement these reforms or whether regulations or reforms will be modified, revoked, diluted or strengthened. The strategies and policies of the Government are uncertain.

The adverse economic and political conditions have resulted in uncertainty with respect to the ability of Bank Mandiri’s and its Subsidiaries’ customers to fulfill their obligations when they mature, and may significantly increase the credit risks inherent in their lending portfolios. Furthermore, the adverse economic conditions have affected Bank Mandiri’s and its Subsidiaries’ cost of funds. While the economy has shown signs of recovery as reflected in a general decline in interest rates and lower inflation rates, uncertainties as to the ongoing economic situation still exist. Such uncertainties may affect future operations, the recoverability of Bank Mandiri’s and its Subsidiaries’ assets and their ability to pay their obligations when they mature.

**59. ECONOMIC CONDITIONS (Continued)**

In response to these conditions, the measures which Bank Mandiri and its Subsidiaries have implemented, or plan to implement include:

- As discussed in Note 58 to the consolidated financial statements, in 2002 and 2001 Bank Mandiri transferred earning assets classified as loss to IBRA based on Asset Transfer Agreements. Such assets have been written off prior to their transfer to IBRA.
- In connection with the recapitalization, Bank Mandiri and its Subsidiaries have prepared a business plan that is regularly reviewed and re-assessed by Management. Currently, Bank Mandiri plans to focus its business primarily on improving the funding mix and product mix of its retail activity funding; focus on export oriented and natural resources-based businesses; improve the composition of loans between corporate and small and medium enterprises; and provide trade finance, cash management and investment banking services to increase fee-based income.

During 2002 and 2001, Bank Mandiri has implemented and continued to implement the provisions of the business plan, which include:

a. Implementing an Initial Public Offering.
b. Implementing Enterprise Mandiri Advance System (e-MAS).
c. Improving the extended and various channels of distribution.
d. Improving various product features.
e. Improving source of funds, including issuing bonds and increasing interest income from reprofiling government bonds.
f. Restructuring of non-performing loans for debtors.
g. Overcoming liquidity risk by rolling over offshore borrowings, increasing retail funding and maintaining major customers by offering competitive interest rates and services.
h. Efficiency improvement measures, as follows:
   (i) Rationalizing the number of employees.
   (ii) Optimizing office networking and extending retail credits.
   (iii) Redesigning branch operations.
   (iv) Controlling overhead costs through improved monitoring mechanisms.
   (v) Designing an effective organizational structure.
i. Improvement of products and service quality to meet customers' needs.

The assets are concentrated in certain sectors, industries, business and in the Government and, if any large assets become non-performing or if there are any financial difficulties encountered in sectors, industries, business or by the Government in which the assets are concentrated, the quality of the total asset portfolio could be materially adversely affected, which could have a material adverse effect on the financial condition and results of operations.

As of December 31, 2002 and 2001, Government Bonds represented the majority of the Bank's total assets and interest payments received on our Government Bonds accounted for the majority of the Bank's revenues for the years then ended. Any delay or default in the payment of interest or principal when due will have a material adverse effect on the financial condition and results of operations.

## 59. ECONOMIC CONDITIONS (Continued)

The accompanying consolidated financial statements include the effects of the adverse economic conditions to the extent they can be determined and estimated. Recovery of the economy depends on the monetary, fiscal and other measures that have been and will be undertaken by the Indonesian Government to achieve economic recovery, which actions are beyond the control of Bank Mandiri and its Subsidiaries. It is not possible to determine the future effects a continuation of the adverse economic conditions may have on Bank Mandiri's and its Subsidiaries' liquidity, earnings and realization of their earning assets, including the effects from their customers, creditors, shareholder and other stakeholders. The ultimate effect of these uncertainties on the stated amounts of assets and liabilities at the balance sheet date cannot presently be determined. Related effects will be reported in the consolidated financial statements as they become known and can be estimated.

## 60. GOVERNMENT GUARANTEE OF OBLIGATIONS OF LOCALLY INCORPORATED BANKS

Based on the Decree of the Minister of Finance No. 26/KMK.017/1998 dated January 28, 1998, which was replaced by Minister of Finance's Decree No. 179/KMK.017/2000 dated May 26, 2000, the Government of the Republic of Indonesia is guaranteeing certain obligations of locally incorporated banks namely demand deposits, savings, time deposits and deposits on call, bonds, marketable securities, inter-bank placements, fund borrowings, swaps/hedges/futures, derivative and contingent liabilities such as bank guarantees, standby letters of credit and other liabilities, excluding subordinated loans and due to directors, commissioners and related parties.

Based on Joint Decrees of the Directors of Bank Indonesia and Head of IBRA No. 32/46/KEP/DIR and No. 181/BPPN/0599 dated May 14, 1999, the guarantee period is automatically extended, unless otherwise decided upon by IBRA within six months from the maturity of this guarantee. In 2001, the joint decrees of the Directors of Bank Indonesia and the Head of IBRA were replaced by BI regulation No. 3/7/PBI/2001 and Decree of the Head of IBRA No. 1035/BPPN/0401.

The Head of IBRA issued Decree No. SK-1036/BPPN/0401 in 2001 that provides for specific operational guidance in respect of the Government of the Republic of Indonesia's Guarantee of obligations of locally incorporated banks.

## 61. SUBSEQUENT EVENTS

*a. Initial Public Offering (IPO) Plan*

The Bank's plan for a local and international Initial Public Offering (IPO) has been postponed due to the outstanding Government decisions to divest its ownership in the Bank through an IPO. According to the decision of the Privatization Policy Team of the Government dated May 3, 2002, Bank Mandiri will offer shares up to 30%, which will consist of 15% divestment and 15% primary issues. Upon resolution of these issues, the Bank will finalize the filing and registration of the public offering. To support the IPO Plan, the Bank has engaged ABN AMRO Rotschild as an underwriter, in addition to Credit Suisse First Boston and PT Danareksa Sekuritas.

*b. Prospective Accounting Pronouncement*

In 2002, the Indonesian Institute of Accountants (IAI) issued SFAS 59 regarding "Accounting for Syariah Based Banks" which will become effective from January 1, 2003. The Management of the Bank's subsidiary, Bank Syariah Mandiri, is in the process of evaluating the effect of implementation of this new accounting standard.

*c. New Organizational Structure*

Based on Board of Directors' Decision Letter No. KEP.DIR/002/2003 dated January 11, 2003, the Directors approved a new Bank Organizational Structure effective as of January 13, 2003. Under the new organizational structure, the President Director and Chief Executive Officer are assisted by 8 (eight) Senior Executive Vice Presidents.

## 62. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE BANK ("INDONESIAN GAAP") AND INTERNATIONAL ACCOUNTING STANDARDS ("IAS")

The accompanying consolidated financial statements have been prepared in accordance with Indonesian GAAP, which varies in certain significant respects from IAS. The significant differences relate to the items in the following paragraphs:

*a. Investments Held-to-Maturity*

As of September 30, 2001, the Bank had reclassified certain of its Government Bonds and other investments from its held-to-maturity portfolio to its trading or available-for-sale portfolios that are outlined in SFAS No. 50 – "Accounting for Specific Securities." In accordance with its application of Indonesian GAAP, the Bank did not mark-to-market the remaining held-to-maturity portfolio as a result of these transactions.

Under IAS No. 39 – "Financial Instruments: Recognition and Measurement", the Bank made these reclassifications from its held-to-maturity portfolio as of January 1, 2001.

## 62. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE BANK ("INDONESIAN GAAP") AND INTERNATIONAL ACCOUNTING STANDARDS ("IAS") (Continued)

b. *Allowance for Possible Losses on Earning Assets*

Under Indonesian GAAP, the Bank records allowances for possible losses on earning assets using a general and specific allowance based on management's estimates and using the guidelines prescribed by Bank Indonesia.

Under IAS, the Bank records allowances for possible losses on earning assets that are not considered impaired using general and specific allowances in accordance with the provisions of IAS No. 37 – "Estimated Liabilities, Contingent Liabilities and Contingent Assets" from January 1, 2000.

Under IAS No. 39 – "Financial Instruments: Recognition and Measurement", from January 1, 2001, the Bank calculates allowances for possible losses on earning assets based on the net present value of earning assets that are impaired and based on the expected collection of other earning assets. An earning asset is considered impaired when it becomes probable that the Bank will be unable to collect all amounts due according to contractual terms.

c. *Derivative instruments*

Under Indonesian GAAP, the Bank adopted SFAS No. 55 – "Accounting for Derivative Instruments and Hedging Activities" that is effective from January 1, 2001 which requires that derivative instruments be measured and recognized at their fair values. Such values for Indonesian Banks are further defined under the reporting guidelines prescribed by Bank Indonesia and are based on the value of derivative instruments determined based on the Reuters spot rate at reporting date.

Under IAS No. 39 – "Financial Instruments: Recognition and Measurement", from January 1, 2001 the Bank calculates the fair values of derivative instruments based on forward rates of exchange.

The Bank classifies Government bonds (Note 8) as originated loans under IAS and therefore no separate measurement and recognition is required for indexation derivatives that are embedded in the hedge bonds. Originated loans are characterized by assets for which the Bank provided the original funding and are not determined by the form of the instrument that results from the loan origination.

d. *Employee Benefits*

In accordance with the Decree of the Minister of Manpower No.Kep-150/Men/2000 ("KEPMEN 150") dated June 20, 2000, regarding the "Settlement of Labour Dismissal and the Stipulation of Severance Pay, Gratuity and Compensation in Companies", the Bank recognizes a provision for employee entitlements based on actuarial reports. In accordance with SFAS No. 57 – "Provisions, Contingent Liabilities and Contingent Assets", no specific actuarial method is mandated. The Bank however applies the projected unit credit valuation method and the simplified actuarial valuation method as of December 31, 2002 and 2001, respectively.

Under IAS, KEPMEN 150 is accounted for as a defined benefit plan and as such it requires the actuary to use the projected unit credit method of actuarial valuation as mandated by IAS 19 – "Employee Benefits". Further, changes in the amount of the actuarially determined provision for KEPMEN 150 does not require recognition, unless the change is more than a 10% corridor range of variation.

## 62. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE BANK ("INDONESIAN GAAP") AND INTERNATIONAL ACCOUNTING STANDARDS ("IAS") (Continued)

e. *Provisions*

Under Indonesian GAAP, the Bank recognized provisions for merger as of January 1, 2000. Upon adoption of SFAS No. 57 – "Provisions, Contingent Liabilities and Contingent Assets", effective January 1, 2001, certain of the provisions for merger did not meet this standard's recognition criteria and were derecognised accordingly.

Under IAS, the Bank did not recognize certain of the provisions for merger as of January 1, 2000 in accordance with the provisions of IAS No. 37-"Estimated Liabilities, Contingent Liabilities and Contingent Assets" that have been reflected as an adjustment to accumulated losses as of that date.

f. *Allowance for Possible Losses on Commitments and Contingencies*

Under Indonesian GAAP, the Bank records allowances for possible losses on commitments and contingencies using a general and specific allowance based on management's estimates and using the guidelines prescribed by Bank Indonesia.

Under IAS, the Bank did not recognize certain of the allowance for possible losses on commitments and contingencies in accordance with the provisions of IAS No. 37-"Estimated Liabilities, Contingent Liabilities and Contingent Assets" from January 1, 2000.

g. *Deferred Income Taxes*

The impact on deferred income taxes of the IAS adjustments has been recognized in accordance with IAS 12 – "Income Taxes". An effective tax rate of 30% has been applied.

## 63. COMPARABILITY OF IAS AS OF DECEMBER 31, 2002 AND 2001 AND FOR THE YEARS THEN ENDED

In 1998, the Standing Interpretations Committee issued SIC-8 "First-time Application of IAS as the Primary Accounting Basis" that allows application of IAS based on transitional provisions of each standard. The Bank has followed this guidance in the preparation of its reconciliation of net income and shareholders' equity to the amounts determined under IAS (Note 64). This may result in comparability differences between years for accounting standards that are not electively applied retroactively or do not permit retroactive application.

In December 1998, the International Accounting Standards Setting Committee issued IAS No. 39 – "Financial Instruments: Recognition and Measurement" that, for the Bank, is effective on a prospective basis only. The adoption of IAS No. 39 has a material impact on certain financial assets and liabilities. The transition adjustment comprised of adjustments to investments held to maturity, allowances for possible losses on earning assets and derivative instruments, and the related corporate income tax, that is reflected as an adjustment to accumulated losses as of January 1, 2001.

(Expressed in millions of Rupiah, unless otherwise stated)

## 64. RECONCILATION OF NET INCOME AND SHAREHOLDER'S EQUITY TO THE AMOUNTS DETERMINED UNDER IAS

The following is a summary of the adjustments to shareholder's equity as of December 31, 2002 and 2001 and net profit for the years then ended, which would be required if IAS had been applied by Bank Mandiri instead of Indonesian GAAP in the preparation of its consolidated financial statements.

| | 2002 | 2001 |
|---|---|---|
| Net profit as reported in the consolidated financial statements prepared under Indonesian GAAP | 3,585,589 | 2,745,757 |
| IAS adjustments – increase (decrease) due to: | | |
| Allowance for possible losses on earning assets | 215,445 | 955,627 |
| Allowance for possible losses on commitments and contingencies | (77,277) | 351,232 |
| Employee benefits | (94,096) | 10,437 |
| Change in fair value of derivatives | (52,333) | - |
| Securities and government bonds reclassified to trading | - | 293,303 |
| De-recognition of provisions | - | (995,393) |
| Deferred income taxes | 2,478 | (184,562) |
| Net (decrease) increase in reported net profit | (5,783) | 430,644 |
| Net profit in accordance with IAS | 3,579,806 | 3,176,401 |
| Net earnings per share | 0.842 | 0.747 |

| | 2002 | 2001 |
|---|---|---|
| Shareholder's equity as reported in the consolidated financial statements prepared under Indonesian GAAP | 14,434,510 | 10,776,785 |
| IAS adjustments – increase (decrease) due to: | | |
| Allowance for possible losses on earning assets | 2,480,984 | 2,265,539 |
| Allowance for possible losses on commitments and contingencies | 387,174 | 464,451 |
| Employee benefits | (3,955) | 90,141 |
| Change in fair value of derivatives | (52,333) | - |
| Deferred income taxes | (843,561) | (846,039) |
| Net increase in reported shareholder's equity | 1,968,309 | 1,974,092 |
| Shareholder's equity in accordance with IAS | 16,402,819 | 12,750,877 |

**PT BANK MANDIRI (PERSERO)**
**INDEX TO ADDITIONAL INFORMATION**
**DECEMBER 31, 2002 AND 2001**



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**PT BANK MANDIRI (PERSERO) - PARENT COMPANY ONLY**
Balance Sheets
December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| Cash | 2,135,280 | 1,711,812 |
| Current Accounts with Bank Indonesia | 9,553,963 | 9,871,164 |
| Current Accounts with Other Banks - net of allowance for possible losses of Rp3,280 and Rp2,461 as of December 31, 2002 and 2001, respectively | 301,798 | 246,043 |
| Placements with Other Banks - net of allowance for possible losses of Rp51,179 and Rp134,462 as of December 31, 2002 and 2001, respectively | 14,828,869 | 35,603,263 |
| Securities - net of unamortized interest, unrealized gains/(losses) from increase/(decrease) in value of securities and allowance for possible losses of Rp1,069,969 and Rp1,062,683 as of December 31, 2002 and 2001, respectively | 1,435,876 | 1,116,369 |
| Government Bonds | 148,845,927 | 153,493,218 |
| Trade Documents and Other Facilities - net of allowance for possible losses of Rp829,350 and Rp2,514,545 as of December 31, 2002 and 2001, respectively | 1,446,696 | 1,413,996 |
| Securities Purchased with Agreements to Resell - net of allowance for possible losses of Rp3,051 as of December 31, 2001 | - | 302,051 |
| Derivative Receivables - net of allowance for possible losses of Rp3,624 and Rp48 as of December 31, 2002 and 2001, respectively | 358,862 | 4,760 |
| Loans | | |
| Related parties | 898,922 | 926,833 |
| Third parties | 63,041,695 | 46,426,198 |
| | 63,940,617 | 47,353,031 |
| Less: Allowance for Possible Losses | (8,852,557) | (6,036,185) |
| Deferred Income | (164,284) | - |
| Net | 54,923,776 | 41,316,846 |
| Acceptances Receivable - net of allowance for possible losses of Rp127,538 and Rp215,406 as of December 31, 2002 and 2001, respectively | 2,021,657 | 1,581,217 |
| Investments in Shares of Stock - net of allowance for possible losses of Rp62,807 and Rp26,377 as of December 31, 2002 and 2001, respectively | 1,399,519 | 841,059 |
| Premises and Equipment - net of accumulated depreciation and amortization of Rp1,404,032 and Rp1,086,515 as of December 31, 2002 and 2001, respectively | 1,843,201 | 1,617,731 |
| Deferred Tax Assets - net | 2,594,379 | 4,781,863 |
| Other Assets | | |
| Accrued income | 2,099,865 | 3,113,413 |
| Receivables | 2,875,188 | 3,010,086 |
| Prepaid tax | 363,559 | 363,516 |
| Prepaid expenses | 134,652 | 158,592 |
| Others - net | 2,006,742 | 753,871 |
| Total Other Assets | 7,480,006 | 7,399,478 |
| **TOTAL ASSETS** | **249,169,809** | **261,300,870** |

**PT BANK MANDIRI (PERSERO) - PARENT COMPANY ONLY**
Balance Sheets (Continued)
December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | 2002 | 2001 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| **Liabilities** | | |
| Other Current Liabilities | 32,058 | 25,488 |
| Deposits from Customers: | | |
| Demand deposits | 32,404,862 | 37,401,359 |
| Savings deposits | 29,589,743 | 22,118,081 |
| Time deposits | 121,198,340 | 129,508,207 |
| Certificates of deposit - net of unamortized interest of Rp23 and Rp30,894 as of December 31, 2002 and 2001, respectively | 78,883 | 800,840 |
| Total Deposits from Customers | 183,271,828 | 189,828,487 |
| Deposits from Other Banks: | | |
| Demand deposits | 596,319 | 586,600 |
| Inter-bank call money | 796,555 | 335,001 |
| Time deposits | 11,462,944 | 9,063,998 |
| Certificates of deposit - net of unamortized interest of RpNil and Rp172,557 as of December 31, 2002 and 2001, respectively | 30 | 2,541,043 |
| Total Deposits From Other Banks | 12,855,848 | 12,526,642 |
| Securities Sold with Agreement to Repurchase | 735,000 | - |
| Derivative Payables | 5,417 | 10,837 |
| Acceptances Payable | 2,149,195 | 1,802,946 |
| Securities Issued - net of unamortized discount of Rp2,342 and Rp3,345 as of December 31, 2002 and 2001, respectively | 1,518,990 | 3,435,103 |
| Fund Borrowings | 13,659,536 | 18,249,580 |
| Allowance for Possible Losses on Commitments and Contingencies | 1,211,086 | 5,284,345 |
| Accrued Expenses | 882,972 | 1,277,876 |
| Taxes Payable | 286,752 | 342,296 |
| Other Liabilities | 8,895,243 | 8,362,404 |
| Subordinated Loans | 6,326,965 | 6,450,351 |
| Loan Capital | 2,963,250 | 3,159,000 |
| **Total Liabilities** | **234,794,140** | **250,755,355** |
| **Shareholder's Equity** | | |
| Share Capital - Rp1,000,000 (full amount) par value per share; authorized - 16,000,000 shares; issued and fully paid - 4,251,000 shares | 4,251,000 | 4,251,000 |
| Additional Paid-in Capital | 173,550,319 | 174,962,319 |
| Differences Arising from Translation of Foreign Currency Financial Statements | 16,498 | (8,052) |
| Unrealized Losses on Securities and Government Bonds Available for Sale | (2,139,573) | (5,047,162) |
| Differences Arising from Transactions Between Entities Under Common Control | - | (129,685) |
| Accumulated Losses | (161,302,575) | (163,482,905) |
| **Total Shareholder's Equity** | **14,375,669** | **10,545,515** |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | **249,169,809** | **261,300,870** |

**PT BANK MANDIRI (PERSERO) - PARENT COMPANY ONLY** **APPENDIX 2**

Statements of Profit and Loss

Years Ended December 31, 2002 and 2001

(Expressed in millions of Rupiah, unless otherwise stated)

| | | 2002 | 2001 |
|---|---|---|---|
| **INCOME AND EXPENSES FROM OPERATIONS** | | | |
| Interest Income | | | |
| Interest income | | 31,251,646 | 30,974,190 |
| Fees and commissions on loan facilities | | 356,758 | 269,032 |
| Total Interest Income | | 31,608,404 | 31,243,222 |
| Interest Expense | | | |
| Interest expense | | (24,858,194) | (24,205,737) |
| Other financing expenses | | (64,326) | (81,944) |
| Total Interest Expense | | (24,922,520) | (24,287,681) |
| Net Interest Income | | 6,685,884 | 6,955,541 |
| Other Operating Income | | | |
| Foreign exchange gain - net | | - | 258,558 |
| Other fees and commissions | | 791,595 | 470,624 |
| Others | | 706,689 | 696,544 |
| Total Other Operating Income | | 1,498,284 | 1,425,726 |
| Provision of Allowance for Possible Losses on Earning Assets | | (4,597,879) | (6,702,736) |
| Reversal of Allowance for Possible Losses on Commitments and Contingencies | | 3,364,433 | 1,913,412 |
| Reversal of Allowance for Possible Losses on Other Assets | 288,940 | 2,342,721 | |
| Gain/(Loss) from Increase/(Decrease) in Value of Securities and Government Bonds - net | | 1,530,413 | (1,022,862) |
| Gain from Sale of Securities and Government Bonds | | 490,337 | 710,724 |
| Other Operating Expenses | | | |
| General and administrative expenses | | (1,947,671) | (1,672,355) |
| Salaries and employee benefits | | (1,473,385) | (1,594,802) |
| Foreign exchange loss - net | | (23,652) | - |
| Others - net | | (1,302,262) | (693,012) |
| Total Other Operating Expenses | | (4,746,970) | (3,960,169) |
| **PROFIT FROM OPERATIONS** | | **4,513,442** | **1,662,357** |
| NON-OPERATING INCOME - NET | | 1,259,631 | 2,187,875 |
| **PROFIT BEFORE CORPORATE INCOME TAX EXPENSE** | **5,773,073** | **3,850,232** | |
| CORPORATE INCOME TAX EXPENSE | | | |
| Current Income Tax | | - | - |
| Deferred Income Tax | | (2,187,484) | (1,104,475) |
| **NET PROFIT** | | **3,585,589** | **2,745,757** |

**PT BANK MANDIRI (PERSERO) – PARENT COMPANY ONLY**
Statements of Changes in Shareholder's Equity
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

**APPENDIX 3**

| | Issued and Fully Paid-Up Capital | Additional Paid-in-Capital | Differences Arising from Translation of Foreign Currency Financial Statements | Unrealized Losses on Securities and Government Bonds Available for Sale | Differences Arising from Transactions between Entities under Common Control | Accumulated Losses | | | Total Shareholder's Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Unappropriated | Appropriated | Total | |
| **Balance as of December 31, 2000** | **4,251,000** | **175,092,004** | **70,659** | **(22,040)** | **(129,685)** | **(165,206,362)** | **-** | **(165,206,362)** | **14,055,576** |
| *2001 Movements:* | | | | | | | | | |
| Return of additional paid-in capital relating to assets transferred to PT Pengelola Harta Tetap Mandiri ("PHTM") | | (129,685) | | | | | | | (129,685) |
| Reduction in differences arising from the translation of foreign currency financial statements | | | (78,711) | | | | | | (78,711) |
| Unrealized losses on securities and Government Bonds available for sale | | | | (5,025,122) | | | | | (5,025,122) |
| Dividends | | | | | | (1,011,219) | | (1,011,219) | (1,011,219) |
| Allocation for small industry or cooperative development fund ("PUKK") | | | | | | (11,081) | | (11,081) | (11,081) |
| Reserve allocated from 2000 net profit | | | | | | (159,140) | 159,140 | | |
| Net profit for 2001 | | | | | | 2,745,757 | | 2,745,757 | 2,745,757 |
| **Balance as of December 31, 2001** | **4,251,000** | **174,962,319** | **(8,052)** | **(5,047,162)** | **(129,685)** | **(163,642,045)** | **159,140** | **(163,482,905)** | **10,545,515** |

**PT BANK MANDIRI (PERSERO) - PARENT COMPANY ONLY**
Statements of Changes in Shareholder's Equity (Continued)
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | Issued and Fully Paid-Up Capital | Additional Paid-in-Capital | Differences Arising from Translation of Foreign Currency Financial Statements | Unrealized Losses on Securities and Government Bonds Available for Sale | Differences Arising from Transactions between Entities under Common Control | Accumulated Losses | | | Total Shareholder's Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Unappropriated | Appropriated | Total | |
| **Balance as of December 31, 2001** | **4,251,000** | **174,962,319** | **(8,052)** | **(5,047,162)** | **(129,685)** | **(163,642,045)** | **159,140** | **(163,482,905)** | **10,545,515** |
| *2002 Movements:* | | | | | | | | | |
| Proposed return of additional paid-in capital to the Government | | (1,412,000) | | | | | | | (1,412,000) |
| Reduction in differences arising from the translation of foreign currency financial statements | | | 24,550 | | | | | | 24,550 |
| Unrealized gain on securities and Government Bonds available for sale | | | | 2,907,589 | | | | | 2,907,589 |
| Dividends | | | | | | (1,372,878) | | (1,372,878) | (1,372,878) |
| Reduction in differences arising from transactions between entities under common control | | | | | 129,685 | | | | 129,685 |
| Allocation for small industry and cooperative development fund ("PUKK"), environmental development fund and directors' bonus (tantiem) | | | | | | (32,381) | | (32,381) | (32,381) |
| Reserve allocated from 2001 net profit | | | | | | (1,340,498) | 1,340,498 | | |
| Net profit for 2002 | | | | | | 3,585,589 | | 3,585,589 | 3,585,589 |
| Reserve allocated from net profit for the six-month period ended June 30, 2002 | | | | | | (600,000) | 600,000 | | |
| **Balance as of December 31, 2002** | **4,251,000** | **173,550,319** | **16,498** | **(2,139,573)** | **-** | **(163,402,213)** | **2,099,638** | **(161,302,575)** | **14,375,669** |

**PT BANK MANDIRI (PERSERO) - PARENT COMPANY ONLY** **APPENDIX 4**

Statements of Cash Flows
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | 2002 | 2001 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from interest income | 32,265,194 | 31,163,485 |
| Receipts from fees and commissions | 1,148,353 | 739,656 |
| Payment of interest expense | (25,253,098) | (24,726,743) |
| Payment of other financing expenses | (64,326) | (81,943) |
| Foreign exchange losses - net | 4,336,325 | (653,420) |
| Operating income - others | 483,131 | 696,544 |
| Operating expenses - others | 2,377,407 | 3,547,968 |
| Salaries and employee benefits | (1,473,385) | (1,594,802) |
| General and administrative expenses | (1,659,998) | (1,502,826) |
| Non-operating income/(expense) - others | 301,830 | 2,083,276 |
| Profit before changes in operating activities | 12,461,433 | 9,671,195 |
| (Increase)/decrease in operating assets: | | |
| Placements with other banks | 20,838,663 | (24,502,100) |
| Securities - trading portfolio | (452,415) | (424,671) |
| Sale of Government Bonds - trading portfolio | 1,024,891 | 14,200,453 |
| Acceptances receivable | - | (14,544) |
| Trade documents and other facilities | 323,398 | (654,367) |
| Loans | (16,437,494) | (14,162,699) |
| Proceeds from collection of earning assets already written-off | 1,103,124 | 2,279,047 |
| Other assets | (1,322,661) | 4,951,544 |
| Increase/(decrease) in operating liabilities: | | |
| Demand deposits | (4,986,778) | 1,720,037 |
| Savings deposits | 7,471,662 | 4,159,743 |
| Time deposits | (5,910,921) | 23,793,236 |
| Certificates of deposit | (3,262,970) | 2,952,984 |
| Inter-bank call money | 461,554 | (388,045) |
| Other current liabilities | 6,570 | (145,574) |
| Taxes payable | (55,544) | 10,864 |
| Other liabilities | 558,254 | (5,875,985) |
| Allowance for possible losses on commitments and contingencies | (3,791,207) | (3,639,413) |
| Differences arising from translation of foreign currency financial statements | 24,550 | (78,711) |
| Net cash provided by operating activities | 8,054,109 | 13,852,994 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Increase in securities - held to maturity portfolio | (379,626) | (320,644) |
| Redemption of matured Government hedge bonds | 11,552,679 | 13,100,468 |
| Replacement of matured Government hedge bonds | (11,552,679) | (13,100,468) |
| Increase in investments in shares of stock | (564,457) | (60,651) |
| Sale/(purchase) of securities purchased with agreement to resell | 305,102 | (305,102) |
| Acquisition of premises and equipment | (347,354) | (748,522) |
| Proceeds from sale of premises and equipment | 1,472 | - |
| Net cash used in investing activities | (984,863) | (1,434,919) |

**PT BANK MANDIRI (PERSERO) – PARENT COMPANY ONLY**
Statements of Cash Flows (Continued)
Years Ended December 31, 2002 and 2001
(Expressed in millions of Rupiah, unless otherwise stated)

| | 2002 | 2001 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Decrease in securities issued | (1,916,113) | (1,211,960) |
| Decrease in fund borrowings | (4,590,044) | (11,355,875) |
| Increase in subordinated loans | 237,630 | 4,109 |
| Sale of securities sold with agreement to repurchase | 735,000 | (1,012,056) |
| Payment of dividends, PUKK, environmental development fund and tantiem | (1,372,878) | (1,011,219) |
| Net cash used in financing activities | (6,906,405) | (14,587,001) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | 162,841 | (2,168,926) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **11,831,480** | **14,000,406** |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 11,994,321 | 11,831,480 |

Cash and cash equivalents at end of year consist of:

| | 2002 | 2001 |
|---|---|---|
| Cash | 2,135,280 | 1,711,812 |
| Current accounts with Bank Indonesia | 9,553,963 | 9,871,164 |
| Current accounts with other banks | 305,078 | 248,504 |
| **Total cash and cash equivalents** | **11,994,321** | **11,831,480** |

| | 2002 | 2001 |
|---|---|---|
| **SUPPLEMENTAL NON-CASH FLOW INFORMATION** | | |
| Activities not affecting cash flows: | | |
| Unrealized losses on securities and Government Bonds available-for-sale | 2,907,589 | 5,028,308 |
| Governments Bonds swapped with IBRA' s loans | 5,422,497 | 5,214,645 |
| Proposed return of additional paid in capital to the Government | (1,412,000) | - |
| Government bonds reprofiling | 103,849,017 | - |